
Committee Meeting

of

SENATE WAGERING, TOURISM AND HISTORIC PRESERVATION COMMITTEE

“Testimony on the potential impact on Atlantic City of emergent competition from slot machines in New York and Pennsylvania, and how Atlantic City has responded and will respond to this competitive challenge”

LOCATION: Joseph P. Lordi Public Meeting Room
New Jersey Casino Control Commission
Atlantic City, New Jersey

DATE: August 2, 2004
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Barbara Buono, Chair
Senator Nicholas Asselta
Senator William L. Gormley



ALSO PRESENT:

Karlis Povisils
Office of Legislative Services

Patrick M. Gillespie
Senate Majority

John Hutchison
Senate Republic

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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submitted by
Eugene Martin Christiansen
Chief Executive Officer
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SENATOR BARBARA BUONO (Chair): Good morning, everyone, and welcome to the Senate Wagering, Tourism and Historic Preservation Committee. I want to thank everyone, first of all, who assisted the Committee in preparations for today's hearing. In particular, I'd like to thank Curtis Bashaw and the CRDA staff, as well as Linda Kassekert and the Casino Control Commission staff.

For our consideration today is a topic that is both timely and critically important in many ways for the economic future of the State of New Jersey. In 1978, the people of New Jersey approved the use of casino gambling in Atlantic City to revive one of the greatest resorts in our nation. The intent was simple -- to use it as a tool to supplement the other great, natural assets of Atlantic City as a vacation destination. Well, we all know that the impact on the state has been profound, and the spinoff economic activity has been intense. As you all know, in this room, the casino hotels now employ nearly 45,000 people, with wages that exceed \$1 billion per year. And the casino hotels purchase \$2.5 billion worth of goods and services every year.

Now, when casino gaming was -- and Atlantic City was first approved, in '78, the legalized gambling spectrum was pretty limited. It was just Atlantic City and Las Vegas. But those days are long gone. And gambling options for the American consumer have literally exploded in the last decade. Atlantic City now finds itself in a highly competitive marketplace. In particular, the addition -- or the prospect of slot machines, video lottery terminals and tribal gaming in New York and Pennsylvania pose a substantial threat to gambling revenues in Atlantic City. More than just the racinos, these two states have also proposed the introduction of gambling at resort venues. Two venues

have been authorized in Pennsylvania and, more importantly, New York state is planning to license three tribal gaming casinos in the Catskills. Industry analysts claim that the combined effect of the new gambling venues in New York and Pennsylvania could be a 35 percent gambling revenue loss to Atlantic City casinos.

So the question before us today is: How will New Jersey respond? What will State government and the industry do to respond to direct competition in our neighboring states? I think there are some obvious answers to this question -- more hotel rooms, more convention trade show business, more non-gaming entertainment alternatives. And I think I'd like to, at least, recognize the work that the State Legislature has done in that regard, if I may. We recently took several actions to directly benefit the casino industry -- the phased-out repeal on the tax on comps, the creation of a \$62 million fund for hotel rooms, and the expansion of the sales tax subsidies for retail entertainment districts provide a significant level of public subsidy for continued private investment in Atlantic City. In essence, we've provided the carrot.

But let's face it, gaming companies that operate in New Jersey have gone global. They compete for new licenses in other states, in other countries, and vie for contracts to operate the tribal gaming casinos across the country. We simply cannot allow their diversified interests to divert investment away from Atlantic City.

Now, there are other questions on this topic that I'm sure we will discuss today, and the answers aren't as clear. For example, how to more aggressively market the city. Las Vegas has now largely abandoned the idea, that they held a few years ago, that they're a family resort. And what does that

experience mean for Atlantic City? The other question is, where will the next generation of visitors to Atlantic City come from? I understand that Las Vegas is exploring China as their next great tourist feeder. Should Atlantic City also look at emerging markets in Eastern Europe and South American as its next great tourist feeder? And if so, should there be a public subsidy; and if so, what level of public subsidy would be appropriate and necessary to make the transportation and infrastructure improvements necessary to support such activity?

In what other ways can Atlantic City redefine its market to make up for those gamblers who inevitably will be lost or diverted to New York and Pennsylvania? These are complex questions. I hope that some of them will be discussed and answered, or at least shed some light on them, today.

We have a fine panel of experts with us today, prepared to offer us their views on these and other issues. And for those of you who will testify, please speak into-- In addition to these mikes (indicating recording microphones), these are the important mikes. I shouldn't say that. This is for transcription purposes. And this (indicating PA microphones) will enable everyone to hear you.

We've made arrangements to see some of the new retail projects firsthand, so I envision the testimony concluding around noon. Please be advised that the Office of Legislative Services is recording the hearings and will prepare a written transcript of the proceedings. And more importantly, if there are other witnesses who do not get the opportunity to speak today and would like to submit written testimony, we'll accept those submissions and make them part of the official record.

At this time, before we begin testimony, I would like to recognize either Senator Gormley or Senator Asselta, if they desire to make any brief opening remarks.

SENATOR GORMLEY: You go first.

SENATOR ASSELTA: Thank you, Chairwoman, and thank you for taking the opportunity to come down here this summer, while we're on a little bit of a break, and trying to clearly understand the industry here and how important a component it is of the tourism industry in the State of New Jersey. And I think today's array of testimony and the people that will come before us will give us some insight as to the successes and to some of the challenges that will come before us in the next few years. So I'm looking forward to that testimony.

And thank you again, Chairwoman, for having this Wagering and Tourism Committee down here. Thank you.

SENATOR BUONO: Thank you.

Senator Gormley.

SENATOR GORMLEY: Well, I want to thank the Chairperson for bringing the Committee meeting to Atlantic City. I think we -- in a -- uniquely positioned, better than any other jurisdiction now in the country, as a result of the efforts of this Committee, the Governor's office, and the bipartisan approach that has been fostered in Atlantic City. So we're very excited about the future. The actions taken in a nonpartisan fashion, by the Legislature at the end of June, caused optimism in Atlantic City in the same week that Governor Rendell signed a bill for 61,000 slot machines. If you would have ever told me that would have been the circumstances in Atlantic City, I think anybody would

have reacted that that could not have been the case. But I think, as we get into the hearing today, we'll find that we owe a debt to Governor McGreevey for supporting the legislation. We owe a debt to Governor Rendell, because if ever there was a piece of legislation that, shall we say, does not foster jobs and does not foster economic development, it's Pennsylvania's. So we were very lucky on both counts.

Thank you.

SENATOR BUONO: Thank you, Senator Gormley. And thanks to both of you, with regard to your leadership on this issue. It has certainly been a very interesting and exciting learning experience for me, particularly the month of June. (laughter)

With that, I'd like to begin with Linda Kassekert, Chair of the New Jersey Casino Control Commission.

Welcome.

LINDA M. KASSEKERT: Thank you.

Thank you and good morning, Senator Buono, members of the Committee. Welcome to Atlantic City and to the Casino Control Commission. It's a pleasure to have you here with us today.

Let me just begin by introducing my fellow Commissioners that are here with me this morning: Vice Chair Bill Sommeling, Commissioner Mike Fedorko, Commissioner Michael Epps, and Commissioner Ralph Frulio.

We're pleased that you're here today to talk about the potential impact on Atlantic City of emerging competition from slot machines in New York and Pennsylvania and Maryland, and how Atlantic City has responded and will respond to this competitive challenge. Let me begin by addressing the

impact the casinos in Connecticut and Delaware have had on casino revenue here in Atlantic City, since this will be a good starting point for the discussions we will have here today. It's important to note that Atlantic City's casinos have seen an increase in casino revenues every year since 1978. That first year alone, our lone casino collected \$134 million. Last year, the casinos collected almost \$4.5 billion here in revenue, making it, after Las Vegas, the second largest gaming market in the world.

While new casino gambling revenues had a slight impact on Atlantic City, casino revenue still grew a healthy \$500 million from 1990 to 1994, with revenue growing from \$2.9 billion to \$3.4 billion. In 1995, slots were introduced to Delaware Park. And while these new slots did have a slight effect on the growth of Atlantic City's revenue, the overall revenue continued its unprecedented yearly growth. And to this day, they continue to climb even with the added competition.

In order to compete with these new markets and to continue Atlantic City's growth and expansion, the city and its casinos have enhanced its appeal with the addition of non-casino attractions. By this time next year, the city will have three brand-new shopping districts, with The Walk in the center part of the city, the Corridor at Tropicana, and The Pier at Caesars, which will allow visitors to enjoy the full experience of a destination resort.

I know that the speakers that follow will better articulate and provide you with more information regarding these initiatives. And I think I can safely say that we believe, as I believe the industry does as a whole, that these new attractions, plus future hotel/casino expansion, will better position Atlantic City for whatever competition the future holds.

Again, thank you for the opportunity to appear before you today, and welcome to Atlantic City.

SENATOR BUONO: Thank you.

Any questions? (no response)

Thank you.

I'd like to call up, in tandem, Curtis Bashaw, Director of the CRDA, and Jeff Vasser, Director of the Atlantic City Convention and Visitors Authority.

Mr. Bashaw, could you begin?

CURTIS BASHAW: Certainly.

Thank you, Senator Buono and other members of the Senate Committee. It's good to be here today, and we appreciate your being here.

I'd like to answer the questions that you brought up as the context of our discussion today, and talk about three things, basically. One is that Atlantic City is part of a larger destination, and it's the destination as a whole that is important. It's an advantage that we have here that other gaming destinations in the U.S. don't have. You see, Atlantic City is part of the Jersey shore. And the Jersey shore is one of the country's oldest resort destinations. And because of the diversity of this destination, we have the ability, if anyone does, to attract people from overseas and open up new markets. That's an important thing.

One of the initiatives this year that we've been working on is the Summit on the Shore. We had our first one in June. The second one will be in October, in Wildwood. And we're just about to undertake our summertime -- we call it Summit on the Shore Survey '04 -- where we have 100 volunteer

organizations, companies, private businesses, each committed to getting 100 surveys. We are going to survey 10,000 of our consumers over the next two-and-a-half weeks, all the way from Sandy Hook to Cape May.

Now, why is that important to Atlantic City and gaming proper? Because the destination as a whole is a context that will lead to non-gaming activities and attractions, which diversify this marketplace and will give us strength going forward. Atlantic City, as you know, started as a resort destination. Gaming was brought here a number of years ago to help revive this resort. And now the resort is in mid-stride of, sort of, going back to its resort roots and looking at all other sorts of attractions to get people here to diversify the economic base.

When you look at how to stay competitive and what we should do, it's both not only the product itself, but it's also the communication. You can communicate, but if your product isn't any good, you're going to lose your consumers after they get here. If you have a great product and no one knows about it, that's also a bad thing. And so, working with Jeff, and part of this initiative, or the Summit on the Shore, is to really look at the resources that we have in New Jersey and see how we're doing with our competitors in terms of promoting and managing tourism as a whole.

Certainly, the shore is a subset of the larger tourism picture in the state, and Atlantic City is the anchor to the Jersey shore. But contextually, we spend \$12 million a year in New Jersey promoting tourism. And that's about 20 percent of what our competitors spend. And so, looking ahead at how to better promote ourselves is an important part of the communication. We're taxing the hotel industry now through an occupancy tax. And one suggestion is

that over time, going forward, perhaps more of those revenues could be put directly to promoting tourism.

Secondly, the product initiatives: We need to make sure that we are looking at improving our products. The legislation that was passed this year will be inordinately helpful to Atlantic City. Building on the retail entertainment districts, as Chairwoman Kassekert mentioned, we are now currently seeing over a million square feet of retail, dining, and entertainment being developed in this town. That's amazing. We expect to see openings over the next 12 to 15 months. The new legislation, which provides for additional districts, will help us partner with the casino industry to really, hopefully, finish the work that's been started here over the next five to 10 years.

Every single industry executive that we've met with are talking about expansion. And the one contextual point I would make is that there are two things that have happened in the last year or two that have helped to push this forward. One is the Borgata opening -- has shown and proven to all of us that there are new demographics available to Atlantic City. That's a very important thing. Secondly, the threat of gaming regionally and the encroachment of gaming regionally has really been a burr under the saddle to the industry here in Atlantic City saying, "You know what? We've got to look at the Vegas model." We need to become a destination that's more than just gaming. And to that end, as you probably all heard the numbers -- but Vegas and Atlantic City are about on par in terms of gaming revenues; but in terms of non-gaming revenues, Vegas is \$5 billion and we're not even a billion.

So that's where Atlantic City needs to be focused. And these trends, especially the gaming trend regionally, I think should be used as a spur to help

us to move forward. We've got a 25-year advantage over our competitors regionally. I'd like to point out, also, that in Nevada there are slot machines all over the state, but there's only one Las Vegas. And in our viewpoint here, there can be other gaming happening around the region, but there's only one Atlantic City. We need to reinforce the steps that the Legislature is taking, that the industry is taking, to make sure that, in fact, there is only one Atlantic City, and that we are the queen and the prize destination along the Jersey shore and for gaming on the East Coast.

SENATOR BUONO: Thank you.

It's interesting. You anticipated my question, as I was listening to your testimony, when you were talking about the Las Vegas model. Because 20-some-odd years ago, when Las Vegas responded to the fact that Atlantic City was the second jurisdiction in the country to allow gambling by diversifying, they built hotels and non-gaming sources of revenue. So that my understanding is, I think it's over half, or at least half, of their revenue in Las Vegas comes from non-gambling sources like hotel stays and restaurants. And in Atlantic City, as you alluded, non-gambling activity generates less than 10 percent of revenue. So it sounds like we're going in the right direction. You gave a five-- Did you say-- I mean, I wasn't listening entirely. I was writing some notes. What was your five-to-10-year target date for?

MR. BASHAW: We see, between the retail entertainment districts that exist and the new ones that have just been legislated, that over the next five-to-10 years, we see a real opportunity to finish the infrastructure work that's been started in this town.

When gaming started, the casinos came into town. They created their beachheads. They were all islands unto themselves, and they thrived and grew. And the city has stabilized over the last 20 years. That being said, we still don't have an iconic image that resonates in the mind of the country as a whole, or even on the world stage. You know, if you go to a faraway place, you say to somebody, "I'm from New York." They can shut their eyes; they have an image of New York City. The same with Vegas. You can get these images. Atlantic City doesn't quite have that. So one of the tasks on our side at the CRDA, working with the casino industry, is to make sure that we connect the dots, that there's an attraction -- that that boardwalk is a symbol of this town that pulls from its history, and that it is a true visual iconic image that people have of this place. And so the industry is all looking at expansion on the boardwalk. We've worked up design guidelines. We're working in partnership with the industry to make sure that the next raft of development, which will be in the billions of dollars over the next two, three, five, 10 years, is done in such a way that we really put an exclamation point to all the work that's been done here, and we are clearly a world-class destination.

SENATOR BUONO: I was reading in preparation for this Committee meeting -- I was thinking what would draw me to a destination to vacation? And I was thinking -- do you have tennis courts here?

SENATOR GORMLEY: Yes.

SENATOR BUONO: There are tennis courts? Oh, yes. Because I've been here so many times, and I didn't -- I just assumed that there weren't. That is a draw to a lot of people that go on vacation. Obviously, the

boardwalk. Obviously, the ocean and the beach. I know that the Borgata has a spa, which is -- I think that's very important.

This is one thing that does concern me. I'd like to hear your opinion. Some industry analysts are suggesting that the market has topped out, that it's a mature market and that any additional casino or casinos in additional states will divide an already existing market. Do you agree with that? People point to the Borgata as an example of that. What do you think?

MR. BASHAW: I don't agree with that at all. And I think that the Borgata has completely blown that myth out of the water, because they have brought a new demographic patron to Atlantic City -- a younger clientele, people that aren't long-time gamers. I mean, there are people in their 20s and 30s that are here not only to have fun and learn about gaming and participate in that, but also to take advantage of all the other activities and entertainment and programs that are going on here.

JEFFREY VASSER: Senator, I agree with Curtis.

In our research, both from the leisure market as well as the convention market, we have yet to penetrate the drive market -- which we define as a 300-mile radius -- fully, where we can say that we've tapped out. Curtis said, and the Borgata has demonstrated, that they've gone after a completely new market that either has not been to Atlantic City ever or has not been here in recent years. And those that have come back after not being here for many years have been surprised and astonished at the tremendous strides that we've made.

But getting to your point of not knowing about tennis courts, we have, as part as my agency's mission -- is to market the area on a more regional

basis. For instance, the tennis courts and golfing. A lot of people don't realize what tremendous golf courses we have here -- almost 20 championship-level courses. And we need to do a better job of marketing those other attractions, to give people a reason to come, to give people a reason to stay longer. So I don't think we've tapped out this market at all.

SENATOR BUONO: Before you offer your testimony, did anyone else want to ask Mr. Bashaw--

Yes, Senator Asselta.

SENATOR ASSELTA: Just a couple things. And I think, Curtis, first off, thank you, Director, for your leadership on tourism in general. And I think it's -- the job before us here is to really build our industry and allow this industry to grow as it has its capabilities to grow. And the question I have for you is: the supportiveness of an overall tourism, cabinet-level position that really is what we should be talking about, to then enhance -- create a stable source of funding to get to the level of commitment, resourcewise, annually. Instead of 12 million, we should be probably somewhere around 50 million to be able to enhance the communication. You mentioned that key word -- *communication* in this industry is critical. Do you see support brewing for this cabinet-level position of the director of tourism?

MR. BASHAW: Absolutely, we do. When the Governor asked us to host the Summit on the Shore, we had over 600 people attend. In his speech to the shore summit, he basically asked us the question, as stakeholders up and down the Jersey shore -- look at how tourism is structured in New Jersey, look at what the other states are doing, and come back to us with the report. So we are actually going through, right now, as part of our summer research in advance

of the Wildwood Summit in October, and surveying all the states, making charts, seeing what they do, and seeing how we stack up.

There's definitely bipartisan support to say that, for after government and health care, tourism is the number one industry in the State of New Jersey. Seventy percent of that, 72 percent of that is in the four counties along the Jersey shore.

We need to make sure that tourism is elevated and that there is real brand management of the brands that we own. They're powerful brands. I point out-- Years ago, I remember seven or eight years ago, the Walt Disney Company surveyed our shoreline, drew up pictures of our buildings, and they built a fake boardwalk in Disneyland, because they understood the power of the brands and the images that we have here. We have the real thing -- lots of them up and down the shoreline. The biggest and best is right here in Atlantic City.

So it's incumbent upon us to make sure that we're taking tourism seriously, taking seriously what it means for jobs, what it means for the economy of the state, and really investing in it, both from the government level and also from the private sector. And if we work together to manage this asset, it's going to come back to us. The fact that there is now a dedicated funding source, through the Hotel Occupancy Tax, is a good thing. Most of it, however, doesn't go right now to supporting tourism. Three points of the seven are still helping out the State budget. And perhaps one thing to look at in the future is to bring some of that back, over time, to enable us to be competitive with the states around us in promoting our tourism products.

SENATOR ASSELTA: Madam Chair, just to note, there is legislation currently in the Senate and General Assembly, with bipartisan support, creating this department -- creating a public/private commission to then decide on how to create that stable source of funding, and make those marketing decisions very quickly that need to be made in this industry to adapt to certain situations of the marketplace. So I just want to make note of that.

Thank you.

SENATOR BUONO: Thank you. It's good to know.

And I'll certainly be looking forward to the results of your research over the summer. I think it's just unacceptable that we spend 20 percent of what our competitors do on advancing tourism. I think it's just -- it simply can't continue. However it's accomplished, we need to increase our investment in tourism.

Mr. Vasser, would you like to testify?

SENATOR GORMLEY: Could I ask Curtis a question?

SENATOR BUONO: Oh, I'm sorry.

Senator Gormley.

SENATOR GORMLEY: Jobs. The jobs created, which is a core issue in all these matters, and the types of jobs and opportunities that are offered to those people -- we've talked about this, the Governor has talked about this -- who would be in that same category, who would be subject to outsourcing were it any other industry. What, in terms of projected jobs, as you've talked to the casino CEOs, do you see in terms of growth in this region, as opposed to what you probably think will happen in Pennsylvania as a result

of their methodology, in terms of how they've approached this? How do you see it?

MR. BASHAW: Well, there's jobs on two layers. Number one, I drove into town today and I counted four cranes on the skyline right now. The legislation that's been passed, and I'm sure you'll hear it from the industry, the plans that are in the works and the announcements that will be made over the next 12 months -- we're going to see four times that many cranes on this skyline in the next 12 to 18 months. And that's very good, full-employment construction jobs. The construction industry is going to be very busy down here, in our view, over the next 10 years.

In terms of the permanent jobs that are created as the expansion takes place, these are jobs that can't be outsourced, Senator, because they're tied to bricks and mortar. In other words, when you work in a casino, when you work in a hotel, when you work in a restaurant, when you work in an attraction, you're tied to that place. You can't be shipped overseas. So they're permanent jobs in a very real and tangible way. And these are jobs that aren't insignificant jobs. They come with health benefits. They come with all the different benefits that good jobs have. So, as this industry grows and takes hold, we could see probably a 30- to 40- to 50-percent expansion in the employment base here, as this expansion takes place over the next few years.

SENATOR GORMLEY: And one final question. And because that then makes us the equivalent -- or maybe even better in many ways than Las Vegas -- the one other thing cited by those CEOs, that ensures this rosy picture, is obviously tax stability, isn't it?

MR. BASHAW: Well, obviously, a year ago when things were a little in flux in Trenton, there was certainly a concern among the industry that if there's not a predictable regulatory environment, it makes it tough for them to plan projects that take three to five years to execute. You have to know how you can predict your market when you finish and open your hotel tower. And hotel towers just don't land on a site, they take years of planning in the construction effort. So that is an important signal to send to reenforce the development desire that the industry has.

SENATOR GORMLEY: Thank you very much.

MR. BASHAW: Thank you.

SENATOR BUONO: And one last question, before Mr. Vasser speaks.

You had mentioned the Borgata. And I know that they have really appealed to a younger crowd. And as a result, they've not only been a catalyst for the building industry, but also for a resurgence of table games. And I know that slot machines account for -- what -- 73 percent, something like that, of all gaming revenue. Are you looking to increase -- grow that gaming market by appealing to -- or do you envision that as part of the overall plan, as we build more hotel rooms, casino rooms?

MR. BASHAW: Absolutely. I mean, that's a trend that the industry can speak to more than I can. But anecdotally, I certainly-- It's coming back in vogue: that, sort of -- the sexy, cool, young thing to do, to sit around and play some blackjack or go to a roulette table, and the brat pack thing. Just the announcements that are going to take place in the next few months about new attractions and partnerships that existing casinos have, and

are finalizing negotiations of, will turn heads nationwide. It's a very exciting time in Atlantic City. And the Borgata is truly the tip of the iceberg. So you're going to see younger people coming to Atlantic City for a weekend. You're going to see the day-trip market becoming less important as we have more overnight stays. And again, the legislation, that is the hotel expansion funding that was also passed this year, is going to be useful in helping to stimulate the development of more hotel rooms. But it seems to be a trend, and I would probe the industry folks a little on that as well.

SENATOR BUONO: Thank you.

Mr. Vasser.

MR. VASSER: Thank you, Chairwoman Buono and distinguished Committee members. Thank you for the opportunity to address you today, particularly regarding the issue of slots in Pennsylvania and how they could impact Atlantic City's tourism business, as well as the economy of the state. I'm pleased to be able to bring to you today new, reliable, and quantifiable information.

As part of the Atlantic City Convention and Visitors Authority's marketing mission, we are in the process of conducting a survey to determine the current profile of the typical Atlantic City visitor. One of the items we are seeking to measure is the potential impact of a slot parlor, or casino, in a neighboring area. With a survey approximately 60 percent complete, the interim report issued by White Sand Consulting, an experienced and respected consultant in the gaming and hospitality fields, indicates that an overwhelming majority -- about 85 percent -- of current visitors who gamble would still come to Atlantic City the same number of times, even if a basic or a full-service

gambling facility were closer to their home. Only 3 percent said they would stop coming to Atlantic City altogether, while 12 percent said they would come less frequently, but they would still come. Even the prospect of a full, feature-rich facility would not deter current Atlantic City visitors who gamble from coming to Atlantic City. More significantly, 87 percent of our visitors from southeastern Pennsylvania would continue to come to Atlantic City with the same frequency that they now come.

Of particular interest is the finding that our most loyal current visitors are those who live in the great plains in the West -- visitors who have easy access to other gaming jurisdictions such as Las Vegas. A vast majority of them say they will still come to Atlantic City with the same frequency.

The survey has so far sampled approximately 1,800 visitors, using intercept interviews of adults who do not live within 20 miles of Atlantic City, nor work in Atlantic City. The final results will be approximately 25 percent more accurate than the interim results I am reporting today. But the overwhelming numbers currently available are good predictors of the emerging trend. And while the numbers are not final, they do point to some significant findings: That Atlantic City's visitors are loyal, that Atlantic City is growingly perceived as a full-service resort that offers a broad spectrum of entertainment and vacation options, and that new gaming facilities closer to the gamblers' homes will have only marginal impact. Essentially, we should see the same effect that Connecticut's casinos and Delaware racinos had on the Atlantic City market -- a small temporary blip on our radar.

But we cannot be complacent or take our current market share for granted. Atlantic City's tourism entities have done an admirable job of

preempting the potential loss of visitors. In the past few years, they have expanded the market's product offerings drastically and invested in updating their properties. This State has also done its part by investing in the transportation infrastructure and transforming Boardwalk Hall into a world-class entertainment venue. By all the indications, that expansion will continue for many more years, especially with the current business climate and government incentives that exist.

As a marketing entity, the Atlantic City Convention and Visitors Authority has also been proactive. Last October, after extensive research and development, we launched our new marketing theme aimed at changing a dowdy image and attracting new and younger visitors to the greater Atlantic City area. This is a necessary step to ensure a broader visitor base and to develop new younger, repeat visitors in advance of gaming in Pennsylvania, New York, and other markets from which the bulk of Atlantic City's visitors come.

We are aggressively marketing to attract sporting events and filmmakers to the area, which will generate additional economic impact. Recently, we won the bid to host Skate America in 2005 -- an annual competition featuring the world's best figure skaters. We are also working to bring in NCAA and Olympic trial events to Atlantic City. And last week, a major professional surfing and snowboarding events announced that it will move to Atlantic City. And we envision similar events calling Atlantic City its home in the future.

Our convention development department brought several new public shows to Atlantic City Convention Center this year that appealed to a younger market, and the popularity of Atlantic City as a destination has helped

attract new conventions for future years. In addition to our broader public relations and marketing outreach, we are also embarking on a marketing program, in partnership with the South Jersey Transportation Authority, that will target and develop that Pennsylvania-visitor market through a focused investment in advertising. Developing top-of-mind awareness and the desire to visit Atlantic City region will further solidify our visitor base in advance of slot parlors in Pennsylvania. Complementing the ACCVA's visitor service initiatives, the Atlantic County Tourism Advisory Committee has launched a courtesy and hospitality campaign to ensure that visitors receive a quality experience, and various award and incentive programs are conducted by a wide range of entities to encourage quality customer service. These factors play a large part in encouraging repeat visits and positive word of mouth.

Maintaining and expanding all of these programs into the future, and solidifying Atlantic City's role as the only viable gaming and destination resort combination in the region, is crucial to ensuring a reliable economic driver for our region and the state.

Thank you very much.

SENATOR BUONO: Any questions?

SENATOR GORMLEY: I have one question?

SENATOR BUONO: Yes.

SENATOR GORMLEY: A common marketing plan for the coast, in terms of merging the natural resources that Atlantic City has, at an income level and advantages over other tourism destinations-- Have you looked at-- I know there's cooperation. There's a lot of good will. But have we actually focused on-- Everybody has a -- we all do. From New Jersey, you all have a

place that you went to as a childhood site that you want to see come back, whether it be Asbury Park or what's occurred in Wildwood, or whatever. Is there a focus on how we blend these advantages we've had in Atlantic City? One of the best things for Atlantic City to do is to share its advantages right now. Come on, it would make the legislative process a lot easier, (laughter) a lot friendlier, and we've come through it very well over the years. But we do have some other great sites in New Jersey that don't have those advantages of water. How are we focusing on really making sure that we help them out?

MR. BASHAW: Well, I'll give two examples. One that's already taking place is simply just cooperation regionally between existing organizations. And the ACCVA, and the Southern Shore Regional Council, and the Greater Atlantic City Tourism Council have all cooperated and created a joint publication, regionally, that's been a useful tool as what I would call an interim step and a starting point.

On the larger scale, we've been addressing this through the summit process. It doesn't do us a lot of good if you have the Outer Banks, and Cape Cod, and Napa Valley, and Tuscany, and Provence all talking about their regions, and here from New Jersey we have this cacophony of little peeps of "Cape May, Wildwood, Ocean City, Atlantic City." We've got to make sure that we get a message out there that resonates competitively with the other competition. And so part of the brainstorming that we're doing, that would probably involve some of the legislative initiatives that we need to talk about in September, is-- You know, the way the State Arts Council works, there's a good model. There's a grant process for Arts Council funds that go up the pike. We need to make sure that what individual communities are doing blends in

and resonates with the whole, so that there's an element of brand management. And so, if we are able to get some of the hotel occupancy dollars into a more competitive pot of tourism dollars for New Jersey, and then if there's a region like the shore or a municipality like Atlantic City that want to apply for grant funding to augment communications, there would be a vetting process through the Tourism Advisory Commission, for instance, that will make sure that the communications dovetail with each other and we're not miscommunicating, but that we're putting forth one significant brand image.

When you look at the impact -- and Jeff can speak to this more than I can -- of what Vegas has done with the "What happens here, stays here" campaign, isn't that great?

SENATOR BUONO: It's a great slogan.

MR. BASHAW: It's cheeky. It gets you going. And, yes, they probably have moved off the family thing a little bit, because it didn't quite work for them. (laughter)

SENATOR GORMLEY: Oh, was that a family theme? Oh, I thought it was a family thing. I'm sorry.

MR. BASHAW: But that's okay. It's worked well. But they spend probably \$70 to \$80 million a year on that campaign. We all know it, because they're investing the money.

In reality, the Jersey shore as a whole is a destination that resonates all kinds of traditional values and, you know, make family memories. At the same time, not every particular sub-brand along that shoreline has to have the exact niche. Cape May's got its Victorian thing. Wildwood is developing the '50s doo-wop thing. Hopefully, Asbury Park will pull into its rock-and-roll

heritage and use that as a springboard for itself. And Atlantic City is exciting. It's got gaming. It's always turned on. Here we are -- this town that's got the lights and the action and the entertainment. So that's all fine in the context of how we communicate. But we definitely need to invest more, and we need to do it in a way that packs a punch, so that top of mind we're out there, not just these little peeping chicks in a nest -- but that we can play with the big boys nationally.

SENATOR GORMLEY: Well, if we have to do a-- This Committee will work in a tireless manner, if we have to make field hearings to Tuscany, or whatever, to-- (laughter)

SENATOR BUONO: Somebody's got to do it.

SENATOR GORMLEY: If someone, and our Chairperson will be there, if it's good for the district, we'll do that two months survey of Tuscany and come back with the information.

Thank you very much.

SENATOR BUONO: Mr. Vasser, did you want to add to that, or no?

MR. VASSER: Well, just to say that although we didn't feel we wanted to go as far as, "What happens here, stays here," we did need to change the message that would get through -- just to use Curtis's term -- a cacophony of marketing themes that are out there, whether it's another destination or deodorant. There's so many messages that the consumer receives, and we had to do something that changed that top-of-mind awareness of Atlantic City. And we used, "Always Turned On," which we felt was a good platform to market anything the city has to offer. Whatever turns you on, whether it's golfing,

gaming, or dining, you'll find it here. And I'm thrilled that this summer -- if measuring top-of-mind awareness is what we're trying to get to -- when *hotels.com* ranked Atlantic City as the number one driving destination for 4th of July weekend, that's huge for us. Because, maybe, they all didn't come 4th of July weekend, but we're top of mind, so they may come another weekend. And this was a national survey, because destinations in California, in Florida, in Chicago, some of our other big cities were in the top 10, and Atlantic City was number one. And we didn't even have to buy any ad space to get that. So that was good.

SENATOR BUONO: How long has, "Always Turned On," been your slogan?

MR. VASSER: We introduced that in October, so less than a year. But after about a year's worth of research. "America's Favorite Playground" was the previous marketing theme that we had used for decades, in a different form or another. And what we found in our research is that people didn't find it accurate. They didn't find it appealing. And most importantly, they didn't find it motivating to come to Atlantic City. "Always Turned On" did, because it tells them something new. It reflects energy and excitement. And that's what the new Atlantic City is about. We needed a change with the destination, and that's what we're trying to do.

SENATOR BUONO: Now, you had mentioned something about attracting more conventions. My understanding is that analysts -- I think it's a minimum of 20,000 rooms, they estimate, that-- I know we've made progress. We're up to -- what -- 15,000. But Las Vegas has 120,000. What should we be shooting for in terms of room growth?

MR. VASSER: Well, we'll always take more rooms. And I think that 20,000 number is what the airlines throw out as what's going to attract new air service. We were thrilled that Delta Airlines introduced direct service from Cincinnati last fall, and they're exceeding their projections and are already talking about expanding into another market. However, I think the reality is, is for a while we are not an international destination. We need to focus on being the strongest regional destination there is. And because of that, we're going after more of the drive market.

SENATOR BUONO: But isn't it true that we don't attract as many big name conventions as we could? If we had more rooms, we would be able to attract more, correct?

MR. VASSER: That is absolutely true. The number one reason why we don't get larger and more frequent conventions is because of lack of rooms. And you have to keep in mind where you say typically it's 20,000, our number may be higher, because they're not always committable by the casinos. Frequently, they need to reserve, rightfully so, a fair amount for their guests and their players. And in the summer months, getting rooms committed for conventions is tough, because the rates are going to be that much higher.

But I will tell you that I had a meeting with an executive at Bally's this morning that talked about the importance of the convention market to their business plan. Last year, they were working under a 70/30 comp/cash business split. And this year they're going to more a 60/40. And they expect to see 50/50 in the next few years. So cash business is definitely -- and that's conventions -- is very important to the industry right now.

SENATOR BUONO: As we're talking, I was just thinking, the Democratic National Convention -- the last time it was here was in '64, and that was before casinos. I wonder if, because there are casinos, that would not -- that would preclude a political convention from being held here. But I think it would be an interesting thing to explore. I know there probably aren't enough rooms at this point.

MR. VASSER: That's right. I think what will preclude a national convention like that now is room commitment. Boston took up 18,000 rooms. And as you said, right now we have-- When the Tropicana opens, we'll still have just under 16,000. And that makes an assumption that they would all be committable. And in the summer months, that just doesn't happen in this market.

SENATOR BUONO: Right.

Okay, well thank you.

No other questions?

SENATOR ASSELTA: Yes, just one question.

SENATOR BUONO: One more, Senator.

SENATOR ASSELTA: I'd vote for -- or support, kind of, transferring the New York convention to Atlantic City right away, personally.
(laughter)

Real quick, Atlantic City Convention, old Boardwalk Hall, the new Convention Center-- Is there a partnership relationship between those two buildings and yourself, and the Wildwood Convention Center, which is another large convention facility in the region?

MR. VASSER: Yes, all three buildings are, first of all, owned by the New Jersey Sports and Exposition Authority. My authority has a management agreement with the Sports Authority to operate the Convention Center and Boardwalk Hall. We are not involved in the Wildwood Convention Center. However, SMG, which is a private convention center operator, does manage all three properties for the Sports Authority. So we do work together very well.

SENATOR ASSELTA: Is there a cooperative effort to-- Let's say you get a call from a particular opportunity out there for a convention that maybe you cannot handle, whether it's too small, whatever the venue is. Do you then shift it over to Wildwood?

MR. VASSER: Yes, we do.

SENATOR ASSELTA: So there is that type of relationship?

MR. VASSER: Yes, there is. The Wildwood Convention Center is about 70,000 square feet. Atlantic City's is 500,000 square feet. Right now, it's larger than Philadelphia, it was larger than Boston before their expansion, so there is a certain convention that we can take that Wildwood can't, and the other way around. Additionally, our room rates are much higher, as opposed to Wildwood. So we're on the phone, typically, with John Lynch down at the Wildwood Convention Center, who's in sales; and John Siciliano, their Executive Director, in exchanging business and exchanging leads. And we frequently travel with them to some trade shows where we market South Jersey and our convention business, yes.

SENATOR ASSELTA: Thank you.

SENATOR BUONO: Okay, thank you very much. We appreciate your testimony.

MR. VASSER: Thank you.

SENATOR BUONO: Next, I'd like to call both Audrey Oswell -- is she with us? Audrey -- is she with us? Yes. Resorts Inc. (*sic*), on behalf of the Casino Association. And Mark Sandson -- I know Mark is here, on behalf of the Casino Association, to testify.

Good morning.

MARK SANDSON, ESQ.: Good morning.

AUDREY OSWELL: Good morning, and thank you for the opportunity to appear before you today.

I've been employed in Atlantic City in the gaming industry for over 25 years now. And over the last 25 years, it's been an exciting time, as I've watched the changes not only take place in Atlantic City, but take place in the gaming industry throughout the United States. However, with all the changes that have taken place over the years, I've never seen the excitement and the momentum in Atlantic City as I do in the past few years, especially in the past year.

There's energy and excitement among casino workers and among casino patrons, but more importantly, among visitors to Atlantic City that have returned to Atlantic City for the first time in many years; people who never chose Atlantic City as an option for entertainment, but now, because of all the expansion and growth that's taken place in the last few years, consider Atlantic City a cool and fun place, and an acceptable place to come and play and have some fun. All of a sudden, Atlantic City is open to a whole new demographic segment, the under-40 segment, which we never really saw in the past.

In the last two-and-a-half years, over \$2 billion has been invested in Atlantic City. The arrival of the first new casino in more than 12 years, combined with major expansions at four casinos, has not only changed the marketplace in the business, but definitely has changed our outlook and our opportunities for business going forward.

Although, with all the growth that's taken place in the past few years, we've still not reached our full potential. I meet with a lot of gaming analysts on a regular basis, and they all ask the same questions that are being asked today: What's going to be the impact on Atlantic City with gaming in neighboring states? And we talked a little bit about -- or you talked a little bit about Las Vegas; and Curtis and some previous people spoke about Las Vegas. I'm going to make some comparisons.

The impact of gaming in neighboring states on Atlantic City should be no different than the impact of gaming in California on Las Vegas and the rest of Nevada. Atlantic City should continue to grow and prosper. We should reinvent ourselves, just like Las Vegas did, not only with gaming in neighboring California, but with the proliferation of gaming throughout the United States.

In 1991, there were 14 casinos on the Las Vegas strip. Today, there's 23, and one under construction. In 1991, there were 12 casinos in Atlantic City. And if I count them by name, and not by license, today there's only 13.

Much of the growth in Las Vegas has really been tied to growth in non-gaming revenue, generated through rooms, retail shops, restaurants, night clubs, spas, lounges, and entertainment -- forms of entertainment that take place outside of actual gaming.

Las Vegas has emerged as the second largest live entertainment market in North America, second only after New York. And of the Las Vegas strip properties, annual non-gaming revenue in 1991, while only accounting for 40 percent, today accounts for over 58 percent of total revenue. That is for every dollar spent at a Las Vegas strip casino, less than 50 cents of it is spent on actual gaming. Even with this shift, gaming revenue and total revenue continue to grow. People aren't spending less money on gaming in Las Vegas, they're just spending more money on non-gaming forms of entertainment.

By comparison, in 2003, less than 20 percent of total revenue in Atlantic City casinos was generated through non-gaming sources. Yet, in 2003, the annual revenue in the casinos for the Las Vegas strip casinos and Atlantic City casinos were very close: \$4.6 billion in Las Vegas strip casinos, and \$4.4 billion in Atlantic City casinos.

Although I'm not a proponent of the build-it-and-they-will-come type marketing, if you look at the Las Vegas model, you have to believe that if you build it right, not only will they come, but they'll come and they'll spend more money.

So what makes Atlantic City so different than Las Vegas? Really, not that much, with the exception of the weather and the 30-year head start that they had on gaming in Las Vegas. Atlantic City's demographics and geographics are actually more favorable. What we need in Atlantic City is more capital investment. Our future growth and our ability to compete with gaming in neighboring states is contingent upon it. We have to continue to transform ourselves into a full entertainment experience so that there's forms of

entertainment and opportunities for customers outside of gaming when they visit Atlantic City.

And although that's started to change, we're not where we need to be yet. We need to develop our non-gaming infrastructure. It's crucial, and it presents the greatest opportunity for continued growth -- for continuing to grow our revenue base, our tax base, and to continue to grow jobs -- and to be able to compete with gaming in neighboring states.

Recent trends in Atlantic City indicate that there's a tremendous demand for this type of entertainment, entertainment beyond actual gaming. Borgata evidenced that. Their revenue streams are nontypical for Atlantic City. Other Atlantic City casinos are starting to see the same shift in revenues -- that there's opportunities to grow non-gaming revenue if the opportunities for our customers to spend their money in other places becomes available.

We're also seeing, with the new demographics, people that are looking for forms of entertainment outside of actual gaming. We're at a threshold right now, and we can compete as a regional destination of choice for the hundred-million people that live within a three-hour driving distance. There's no reason for us not to.

Because of the past investment in improvements that have taken place over the years, Atlantic City is much more inviting to visitors. People that visit us today are surprised at how nice Atlantic City is, they're surprised at what there is to do in Atlantic City, and they're surprised at the positive changes that have taken place over the years.

We have a world-class convention facility with a competitive cost structure. We have additional rooms. We just talked about, our room

inventory is a little over 15,000 rooms, which allows us to open our doors to the leisure transient market.

When you run over 90 percent occupancy year-round, it's difficult to develop new business. It's difficult to make rooms available for convention business. It's difficult to accommodate and track the leisure transient market. That's the opportunity for Atlantic City. But we need continued growth, we need more rooms, we need to continue to build our non-gaming infrastructure.

Building in Atlantic City, though, is a significant investment. It can't be compared to what's going to take place in Pennsylvania to build a racino. But that's okay, because Atlantic City's not trying to offer a racino experience. The number of jobs that are created by racinos in Pennsylvania will pale in comparison to the number of jobs that can be created in Atlantic City if we have continued growth, investment, and development.

The recent stability in the State tax rate has made the city more attractive to new investment, but it's still a significant commitment. This is why continued CRDA incentives to further growth are important. This is why we must be assured of a stable tax rate going forward. We must maintain a stable and favorable relationship with the government that understands our business and understands the needs of our business. We need continued regulatory reform. Although there's been a lot of progress made in that area, the regulatory costs for Atlantic City are still more than double those of the entire state of Nevada. New technology that offers improvement in operational efficiencies and customer service -- approvals for that technology can still lag up to 18 to 24 months behind other jurisdictions.

We're ready to compete with gaming in neighboring properties. We're ready for more expansion, and ready for more development. That's what we need to continue to compete with gaming competitors throughout the U.S. and, certainly, in Pennsylvania and New York.

Thank you.

SENATOR BUONO: I had a question. I've asked the previous speakers the same question -- the whole issue of whether or not the industry has topped out, whether addition of other casinos or casinos in other states will just divide an already existing market. What do you-- Do you agree with that? Do you think that's not accurate?

MS. OSWELL: I think that we have not topped out, and Borgata is great evidence of that. I think that the market continues to expand. We continue to attract different segments that have not visited Atlantic City in the past. We need other forms of entertainment. We need options for customers once they're done gaming.

A recent article in *Time* magazine stated that the average stay in Las Vegas is four days, but the average visitor only spends four hours gambling. They spend the rest of the time, and the rest of their money on--

SENATOR BUONO: Shopping.

MS. OSWELL: --non-gaming forms of entertainment: in shopping, restaurants, lounges, night clubs, spas. They're looking for other things to do. That's what we need in Atlantic City. There's a whole market -- we have not penetrated anywhere near the potential of this market -- just within the driving distance, within a three-hours driving distance. And in order to do that, we need just a broader opportunity and form of entertainment.

SENATOR BUONO: Don't take this as a criticism, but I guess in a way it is. We really have to reach out and get better entertainers than Cher and Frankie Valli. I mean, I'm not going to come here to see Cher and Frankie Valli. How do we change that? How do you attract them? Is it a money issue? Is it just the lack of interest?

MS. OSWELL: With all due respect, I think it already has started to change. Obviously, we're not advertising in places that reach you, but we've had-- At our Convention Center, we've recently-- In the past year and a half, Paul McCartney has appeared, Rod Stewart just appeared, Elton John, Bruce Springstein, Simon and Garfunkel. And at some of the private properties, Jerry Seinfeld is appearing, Sting has appeared. So there's a lot of-- Entertainment really has expanded. And I will give you that it really has been in the last few years. It's been since we've had the renovation of Boardwalk Hall, making it an acceptable music venue for groups like Bruce Springstein, for Fleetwood Mac to want to appear there. And there's also, with its shift in demographics coming into Atlantic City, all of the casinos have started to change and broaden their offering of music.

SENATOR BUONO: Yes. Because if you want younger people-- Those groups that you just mentioned will, maybe, appeal to my age group, but not the younger group that you're looking to attract, I don't think.

Another issue comes to mind -- the whole increase in -- I don't know what we can really do about it -- Internet gambling. I don't know. Is that impacting on the stability of Atlantic City, as well?

MS. OSWELL: We don't see Internet gambling -- I personally don't see it as a threat to Atlantic City. Visitors to Atlantic City are looking for

a full entertainment experience, whether it's just gaming, or gaming and other forms of entertainment. And Internet gambling does not appear to be the threat that everybody once thought it would be.

SENATOR BUONO: Anyone else?

SENATOR ASSELTA: Through the Chair, what does that mean? It's not a threat? Do you mean you're supportive of it?

MS. OSWELL: I'm not necessarily supportive of it. I don't know that it can be appropriately controlled. When I say that it's not a threat, I think that visitors to Atlantic City are not turning to the Internet as an option for a form of gaming. If they want a gaming experience, they're coming to Atlantic City or they're going to Las Vegas. I think that the people that are gaming on the Internet are not our Atlantic City visitors.

SENATOR ASSELTA: Through the Chair, does it create a new marketplace of people that don't want to come here, don't like the glitz, don't want to drive; they want to gamble in their home in their little den? Does it create a new marketplace?

MS. OSWELL: I'll tell you what I believe creates a new marketplace -- is gaming in Pennsylvania. Gaming in Pennsylvania is going to be convenient and introduce gaming to people that, right now, would not make the drive to come to Atlantic City. And once it's introduced, not that I'm a proponent of gaming in Pennsylvania -- but since it looks like it's inevitable -- I think that in the long term, we'll see the same flow of business that we did when gaming was introduced in Delaware. That, initially, it will have a slight impact, but it will ultimately introduce gaming to people, because it's much

more convenient, it's in their own backyard; and eventually, they'll want a full gaming experience.

SENATOR ASSELTA: Through the Chair, let me just finish up, Senator, and I'll be finished in a minute.

SENATOR BUONO: No, don't hurry.

SENATOR ASSELTA: You had mentioned-- I'm very unclear as to -- are you saying that you have enough visitors, you want to extract more resource from them for a longer period of time by offering new opportunities, entertainmentwise? Or are you saying you need a new marketplace and more visitors? I was unclear whether you're satisfied with the visitor component right now or not.

MS. OSWELL: As an operator, I'm never satisfied with the number of visitors. We always need more visitors. What I'm saying is, there's an opportunity for both. There's an opportunity to extract more spending from our existing visitors in the forms of non-gaming entertainment. What I'm also saying is that we're seeing the market segments that never used to visit Atlantic City before now express interest in Atlantic City, because of some of the new forms of non-gaming entertainment that have recently been developed in Atlantic City -- some at the Borgata, some expansion of name brand restaurants, retail that's come on board in Atlantic City. So I'm saying that there's also the opportunity to attract new visitors to Atlantic City that haven't been here before.

SENATOR ASSELTA: And, you also mentioned, under-40 demographic. Now, that under-40 demographic brings a whole new set of interests, entertainmentwise and gamingwise. Is part of that interest,

gamingwise, a different form of gaming rather than the traditional gaming: for instance, sports betting?

MS. OSWELL: The under-40 crowd expresses more interest in table games versus slots. They express some interest in poker, recently, because Celebrity Poker has, all of a sudden, gotten a lot of notoriety. But we've definitely seen that their interest is more on table games, not necessarily in-- They do express an interest in sports betting, but it's difficult to monitor since it's not available in New Jersey.

SENATOR BUONO: Thank you.

And, quite frankly, I know there's been a lot of talk, recently -- at least in the Assembly -- the New Jersey General Assembly -- there was a hearing on sports betting. But in Nevada, last year, sports wagering amounted to 1 percent of all of the money wagered in that state. And I understand that there is the allure of sports betting -- is the fact that it can draw larger crowds during the Super Bowl or whatever. But I think that we have too many hurdles to overcome to even consider that a reasonable alternative.

Senator Gormley.

SENATOR GORMLEY: Just a point of fact before I ask a question.

Senator Asselta's cousin is Mr. Valli, the entertainer. (laughter)

MR. SANDSON: Rudy or Frankie? (laughter)

SENATOR GORMLEY: Rudy. Oh, that's good.

I'm just trying to keep everybody calm up here, okay.

Considering your particular experience-- Now, you've just had a major expansion.

MS. OSWELL: Yes.

SENATOR GORMLEY: How many rooms?

MS. OSWELL: We've added 400 rooms.

SENATOR GORMLEY: Okay. And how is it doing?

MS. OSWELL: It's doing great, thank you. It's definitely a dramatic shift in the business. We're seeing, because of the style of the rooms and the new lobby that we built, we're seeing a younger demographic also visiting the casino and enjoying it, looking for-- Although our amenity package that we're adding is not complete yet -- it will be complete in the fall -- we're looking for people -- we're seeing people looking for entertainment once they're done gaming. They're coming in, they're spending some time in the casino, but they're looking for different signature restaurants, they're looking for bars, they're looking for night clubs, they're looking for spa experiences, they're looking for other forms of entertainment.

SENATOR GORMLEY: Obviously, I don't want you to talk about certain things you might or might not be able to talk about in terms of what you're considering, but in terms of your company's interaction with Wall Street and the potential to look at other expansions for investments, what's the mood as a result of the regulatory and tax environment now, and the incentives that are available?

MS. OSWELL: The mood is very positive, especially with the recent changes that have taken place. And I will tell you that we are very close to-- We have been looking very closely for a long time, and we're very close to putting together a project to develop land that we have acquired adjacent to our existing property. Our expansion project, although it's only been open a little bit over a month, has been so positively received and had such a positive impact

on our revenue base that we're looking to expand and announce something very quickly.

SENATOR GORMLEY: Okay. Thank you.

SENATOR BUONO: I just had a question, since you represent Resorts also. I know the impact of the recent consolidation -- Harrah's and MGM -- has been talked about. I know it really has to go through approvals from the State and Federal regulatory authorities, but are you concerned about it? I know that I've read in some journals that this can actually, potentially, open opportunities for smaller owners, licensees.

MS. OSWELL: It's been said that in certain jurisdictions these companies will have to sell a few properties to meet regulatory approval. So certainly that opens up an opportunity to quickly enter the marketplace for companies that are not presently in Atlantic City or in some of those other jurisdictions, and certainly opens up opportunities for other companies to add additional casinos. At Resorts, we're not really overly concerned with it. I think that as long as it's done properly and managed properly, any competition is healthy competition, as far as we're concerned.

SENATOR BUONO: Do you think that it will have any overall impact on business or on gamblers -- the recent consolidation?

MS. OSWELL: I think, from a marketing perspective, it probably will have some impact on gamblers. I don't think -- with the consolidation that's already taken place, there's some larger companies speaking for Atlantic City that, kind of, have more impact on the market, in terms of competition, than some of the smaller properties like Resorts. I don't see that changing much than it already is.

SENATOR BUONO: Okay. Thank you.

If no one else has any questions, Mr. Sandson. How are you today?

MR. SANDSON: Yes. How are you? Thank you for this opportunity to speak, Senator Buono.

SENATOR BUONO: Nice tie.

MR. SANDSON: Thank you very much. (laughter) I appreciate it.

Before I begin, Mr. Vasser has -- well, tied anyway (laughter) -- wanted me to respond to you, Senator Buono, that Boardwalk Hall, in terms of the entertainment issue -- Boardwalk Hall, which is a venue in Atlantic City, which just underwent about a \$90 million renovation, was ranked number one last year by *Billboard* magazine as the top grossing venue for any venue of the size of 12,000 people. So it's used quite a bit. It's used successfully, and the shows are all sell-outs. So we do very well. I think everybody is aware of this increasing need to, basically, lower the demographic.

Although, interestingly enough -- and I'm no expert in entertainment -- whenever you show these people, like Cher, you can sell out that hall for Cher every night for the next year. She's very popular.

SENATOR BUONO: I thought she retired.

MR. SANDSON: Well, I think she's retired several times.

SENATOR GORMLEY: She's got six more farewell tours lined up.
(laughter)

MR. SANDSON: She's back. She's back.

She's also related to Nick Asselta, so we'll ask him, and we'll see.

SENATOR GORMLEY: They're all related to Nick. It's the entertainment industry.

MR. SANDSON: Yeah, right.

Just a couple of points. I'm in total agreement of Audrey's comments. I think that what we are now at -- after finally going through some birth pains in terms of changing Atlantic City -- getting to the point where there is tax stability, which is a key issue for us that cannot be overstated. And when you talk to the analysts, I think you're going to understand that the Atlantic City model of highly intensive capital development only works in an area of relatively low taxation and relatively low changing of that situation. Because whenever you change, you make the people, who supply us with the money to do the capital expansion, nervous. When they get nervous, they don't lend us money or they lend us money at higher interest rates, both of which thwart our ability to grow. So that is very key.

But really what I wanted to state and to tell you is, you've heard the testimony of Jeff and Chair Kassekert and Audrey, and Curtis as well -- let me give you a concrete example of what's happening out in Atlantic City, and why we're able to say we're kind of on the threshold now of the next great leap forward. There's a guy by the name of Sheldon Gordon. Sheldon Gordon, essentially -- if you would ask anybody who is knowledgeable about the history of Las Vegas-- Sheldon Gordon was the shopping center developer who came to Las Vegas in 1988, when Las Vegas was a gambling town. If you think Atlantic City is a gambling town, it is far less of a gambling town than Las Vegas was before 1988.

Two things happened, in around 1988, in Las Vegas. One was the Mirage, which was created by Steve Wynn, which changed the paradigm of gaming into more of an entertainment experience. But the second thing was Sheldon Gordon's development of a mall called the Forum Shops in Las Vegas. The Forum Shops changed the nature of Las Vegas. And there is something like -- and I don't want to misstate this number -- but I think it's in excess of 10 million square feet of shopping opportunities in Las Vegas at this point in time. It's an enormous business. There are people who go to Las Vegas for the purpose of shopping, as opposed to do any gaming whatsoever.

Sheldon Gordon is an extremely successful guy. Many, many properties in Atlantic City were trying to interest him in Atlantic City for many years, but he did not believe that the opportunity was right. If you go to the middle of the Boardwalk, which I think you're going to do today on a little tour, you will see that Ocean One, which is a relatively -- and I hate to say a highly unsuccessful shopping experience, which has been on the Atlantic City Boardwalk since about 1980 -- is now being converted into a new mall. And the mall is being operated by Sheldon Gordon. Sheldon Gordon is putting approximately \$130 million of his own money into -- it's called The Pier at Caesars'. It is going to be a very upscale new shopping experience, approximately 350 square feet. And basically restating something that Curtis has said, it's going to have billboards on both sides recreating some of the iconic feeling of the look of Atlantic City in the old days. So it's going to look for an identity.

But Sheldon is here. He is the first one who is here. He knows Las Vegas. He compares Atlantic City of today to the Las Vegas of the late-1980s.

And I think we're going to see him as the vanguard of many new shopping retail -- they're called RDE, retail dining and entertainment -- opportunities to come. The Tropicana is another RDE, which I think, as I understand it, you're going to see today.

So I think we're at the beginning of a recognition by this industry, spurred on probably by, to a certain extent, competitiveness from other jurisdictions, spurred on by the fact that we now have a phenomenal relationship with the State. We have assurances of tax stability. All of these things spur us on.

The other thing I want you to understand very clearly is the position of the CRDA and its importance to the industry and the growth of this industry. Curtis Bashaw has followed on the heels of many other executive directors of that agency who have done an excellent job in incentivizing the growth of Atlantic City. But Curtis has, in a very rapidly -- really caught on to what is going to make us jump to the next level. Because much of the legislation places resources in the hands of the CRDA-- It's casino resources; it's not a dollar of State or taxpayer resources. But these resources are in Curtis's hands and his board's hands, and he has been, since he started a mere, several months ago -- met with every single casino in town, is working with this. It is absolutely critical that Curtis, at the helm, continues this process of incentivizing the expansion and growth of Atlantic City. It's very important for you to understand that many of the developments you see, and you'll see today, would not have happened were it not for CRDA assistance, and that Curtis is continuing his role in doing this. And so the Committee has to understand the

importance of that State agency, which has really been of inestimable assistance to the growth of Atlantic City.

Thank you.

SENATOR BUONO: That's what happens when you hire the right person for the right job. He's been doing a great job.

Any questions? (no response)

I had a question. I recollect that during a hearing earlier this year, before this Committee, we had a special hearing on VLTs, or video lottery terminals, at racetracks. And I believe that the association testified that the slot machines would devastate the market, but gambling in New York and Pennsylvania would not. Do you still believe that, or have you changed your position?

MR. SANDSON: Well, the -- she's looking at me to answer this one.

MS. OSWELL: No. I'll answer it.

MR. SANDSON: Well, go ahead, go ahead.

MS. OSWELL: I still believe that slots at the Meadowlands would be difficult and create a bad environment for Atlantic City. The reason that I see the difference between the slots at the Meadowlands versus gaming in Pennsylvania and New York is, with the exception of gaming in center city Philadelphia, gaming in Pennsylvania is not that close to Atlantic City. Most of it takes place in the western part of the state, with the exception of Philadelphia Park in Bucks County. That's not a major market for Atlantic City. North Jersey is a major feeder market for Atlantic City, and there's a big difference there. The same thing with gaming in New York. A lot of it is taking

place upstate New York. It's equal distance between Atlantic City and -- to get to upstate New York from people living in North Jersey or in New York, which are our main feeder markets.

MR. SANDSON: Yes. My only response is, there are various questions. This is something we worked long and hard to review. We've reached an agreement, which I think was a very amicable agreement with the Governor's office and with the horse racing industry, that we would-- When the horse racing industry needed help, we stepped up with approximately \$86 million. We have assisted the purses of the horse racing industry, which tells us that's what they need in order to be competitive. So we've assisted them. And as a result of that, we received a four-year window where this issue can be more studied. But clearly, I would think it would be fair to say that many of the people in the casino association do see it as a significantly greater threat than they do see with reference to looking at New York or Pennsylvania.

SENATOR BUONO: Thank you.

Any other questions? (no response)

Well, thank you both.

MR. SANDSON: Thank you.

SENATOR BUONO: Our last panel is our academic/financial and market-perspective panel. I'd like to call Richard Perniciaro, Director of the Center For Regional and Business Research at Atlantic Cape Community College; Michael Pollock, Editor of *Gaming Industry Observer*, who will testify first; and Eric Hausler, casino analyst, Susquehanna Financial.

Good morning.

Mr. Pollock.

MICHAEL POLLOCK: Good morning.

Thank you, Senator Buono, members of the Committee.

When New Jersey pioneered east coast gaming, we could count on many expectations and a few certainties. One of these certainties was that if Atlantic City could successfully build a casino industry and rebuild its tourism infrastructure, other states in the Northeast would follow. The only surprise is that the inevitable competition has taken so long. But another certainty was that Atlantic City could withstand competition, and even thrive in the face of such competition, if it could rebuild its convention and tourism industries and become what, or had been for so long, a regional entertainment destination. That goal was viewed as laughably naïvé through the 1980s and the early 1990s, but it has been resurrected into more than a goal. It's a necessary business strategy.

Gaming destinations can and should follow the natural evolutionary path blazed by Las Vegas over the past 15 years. A concentration of full-service casino/hotels in one location must evolve into an entertainment destination in which gaming becomes one of many metaphorical cash registers.

Now properties from the Borgata to Resorts to Tropicana, and Caesars and others are investing significant sums in Atlantic City, in the face of this expected competition. Wall Street largely maintains an optimistic, long-term outlook. Why? What do they know that others don't? For one, they know that gaming facilities, not full-service casino resorts, are being planned in Pennsylvania and New York, and ultimately in Maryland and beyond. The notable exception would be the three casino resorts planned for the Catskills, but that's not troublesome either, because the eastern United States will never

see another concentration of gaming resorts in one location as we have in Atlantic City.

Most important, the size of Atlantic City's future market is much larger than the size of the present market. For every adult who now visits Atlantic City, we estimate there are at least six within reasonable driving distance who do not. In other words, the potential market dwarfs the existing market. Now we project that eastern Pennsylvania alone could quickly bite off, perhaps, 5 and 8 percent of Atlantic City's gaming revenue at present levels. That's potentially a lot of money that could cause some significant pain to some Atlantic City properties in the short term. But it is revenue that could easily be replaced by attracting new visitors who are affluent, who have time and disposable income, and who do not presently visit Atlantic City. That market is reachable. Similarly, new attractions that keep existing visitors in town longer or that encourage them to visit more frequently will also generate new high-margin business that easily replaces the relatively low-margin business lost to neighboring states.

Now, this optimism rests on a crucial premise: that the State of New Jersey will continue to play the role of principle investor in Atlantic City's future. Now, we've performed numerous studies in recent years on Atlantic City's potential, and they all reached one conclusion: The State benefits most when it invests in Atlantic City's future, either through direct investment or through tax incentives and when it promotes a stable investment climate. The investments already made by the State in Atlantic City, along with those in the pipeline, represent major fortifications that will allow the city to withstand

competition. And these investments range from the Convention Center to incentives for the development of more hotel rooms and non-gaming amenities.

State officials must also recognize that a stable regulatory and tax environment is also crucial to Atlantic City's future. Much of Wall Street's optimism is predicated on the belief that Atlantic City will not face other higher taxes or in-state competition from VLTs. We studied the potential impact of higher taxes, and--

SENATOR BUONO: Can I just interject?

MR. POLLOCK: Sure.

SENATOR BUONO: You have an awful lot to say. It's very interesting, but I just want to ask you a question or I'll lose it. You said a stable tax and regulatory environment. So I know other people have testified that the current regulatory environment was overly burdensome. Do you agree with that, or is it just a matter of stability?

MR. POLLOCK: I think that, if you look at the progress of the regulatory environment over the past 15-plus years -- and for the record, I worked for the Casino Control Commission for some of that time -- it has clearly, clearly, moved in the right direction. And I think that regulators in general-- They have a mission, obviously, from the Legislature that -- certain functions they have to perform, and do perform. But I think clearly--

SENATOR BUONO: Well, the Legislature is not always right. Most of the time.

MR. POLLOCK: Within the boundaries of that mission, I think they're clearly -- I would say they're on the right track.

SENATOR BUONO: Okay, thank you.

MR. POLLOCK: Now a very important point, though. Because of the impact of higher taxes in in-state VLTs on Atlantic City, when we studied that, the core conclusion was that the possibility of such threats would rattle Wall Street, thus adding a new higher level of risk to any future investment in Atlantic City. Now, additional risk, by definition, adds to the cost of capital. And the higher cost of capital would lower the potential returns on additional investment in Atlantic City, and that could choke off such additional investment, depriving Atlantic City of the capital it needs to continue its evolution.

In my view, the role of the State is quite clear. The well-planned investment of State resources in Atlantic City would yield new dividends in the form of increased revenue from gaming taxes, corporate incomes taxes, sales taxes, payroll taxes, and other sources. And most important, such investment would ensure that Atlantic City's future will ultimately reclaim its past as a regional entertainment destination.

Thank you.

SENATOR BUONO: I just wanted to just ask you one question. You had said that the current -- the prospect of VLTs, and I'm not sure what the other incident--

MR. POLLOCK: Higher taxes.

SENATOR BUONO: --higher taxes would rattle Wall Street and, perhaps, choke off private investment. Do you believe that the current state of affairs in our neighboring states has had that impact, or any impact, on Wall Street?

MR. POLLOCK: Well, Eric can answer that in more detail, but I think that they have discounted -- they have already taken that into account and have discounted it.

The key difference between VLTs in New Jersey and gaming in other states is that: one, allowing in-state competition changes the ground rules and sends a message to Wall Street that the regulatory environment is not as stable as they once had thought. That adds risk. When you add risk, you add to the cost of capital.

The other finding is that, right now, the State of New Jersey and the casino industry have, essentially, parallel interests. When the industry does well, in terms of revenue, jobs, and so forth, the State benefits. Introducing in-state VLTs would, essentially, take the State off a parallel track. And you would have, in effect, competing interests with the State and the casino industry.

SENATOR BUONO: Okay, thank you.

No other questions.

I'm going to ask who wants to go next?

RICHARD C. PERNICIARO Ph.D.: Thank you.

Richard Perniciaro. I'm Director of the Center for Regional and Business Research, which -- we conduct research projects, research studies on the impacts of gaming, both on the region, and also fiscal analysis for the impacts.

Before I say anything, I'd like to add an anecdote that might help you. I wouldn't go across the hall to listen to Cher sing, to tell you the truth. But my 18-year-old comes in to Atlantic City far more than I do to listen to bands at small venues. One's -- and I'll get the names wrong -- but Nickelback,

and Incubus, and folks like that -- comes in on a regular basis. She, of course, does not gamble.

I'll make three observations and then three recommendations, which were actually asked for, on how to meet some of this competition. Slot machines have become common commodities, as we know. And as other people have said, they're becoming convenience markets at locations. If Delaware is any indication, this market itself has limited appeal, and so we should, (*sic*) I don't think, be so nervous about the competition that's occurring. And if we talk about amenities, some people in Delaware insist that just the right or the ability to smoke has made people shift back to Atlantic City from Delaware, where smoking was banned.

SENATOR BUONO: Oh, say that again.

DR. PERNICIARO: Smoking was banned in Delaware.

SENATOR BUONO: So that inability has shifted them--

DR. PERNICIARO: Their revenues took a dive and have not come back, actually -- or just came back to about where they were.

So the amenity package of smoking, as an example, has a lot to do with it.

In any case, the slot market is not a monolith. There's people that want to do slots in parlors that will go to convenience places, and some will look for an overall experience that can only take place in places like Atlantic City.

Secondly, as more states turn to gaming for revenue, the overall impacts in each state will be lessened, and that's because you're spending in-state dollars instead of out-of-state dollars, so the economic impact is less.

And second of all, because you simply have a smaller market. In any case, this will, one would think, increase competition in the future and may, in fact, increase competition -- full-service casino hotels instead of slot parlors.

Third point is: The initial advantage gained over the past 25 years by Atlantic City has added name recognition, critical massive investment of facilities, and some customer loyalty to the marketplace. All of these need to be exploited by proper marketing, with budgets that far exceed the ones that are presently allocated.

Some recommendations: In the short term -- I say this guardedly, because I've worked for the tourism councils, and I want to make sure this is taken properly. Atlantic City is a gaming destination, it's not a tourism destination. Atlantic City -- the people that come for gaming are different than those that come to the Jersey Shore for tourism. The markets need to be separated in how they're advertised, where they're advertised, and the message that appeals to folks.

Now, this does not mean that tourism should be ignored. It's simply, as Curtis called them, different brands. You don't advertise skiing and beaches the same way. You don't advertise gaming and tourism at the Jersey shore the same way.

For the long-term viability of the marketplace, this is important. The competition, in fact, is Las Vegas, Connecticut, and the gulf states. It is not Miami Beach and Myrtle Beach.

Secondly, the portion of the slot market can be retained by advertising the benefits that we have. The oceanfront and nongaming amenities will not be available in slot parlors. This advertising needs to occur in the

markets where the slot parlors will be -- are coming to be. So that, again, argues for more advertising dollars.

And, lastly, the Atlantic City region needs to increase its public investment infrastructure if it wishes to compete with existing and new full-service casino hotels and gaming destinations. While hotel rooms are needed, the amount of public dollars will always be limited. As such, public investment should be used to attract more private investment in new and expanded facilities.

The consolidation that's occurring in the gaming industry is driven by the need for large capital requirements to enter markets in a world-wide industry and to protect market share. This capital will be invested where the climate is most appealing and least risky, which argues against changes in tax policy.

As a consequence, this region needs to make gaming more accessible, more convenient, and more attractive. Some examples of areas that have been under-invested in over the past 25 years include a way for consumers to move around, once in the city. People-movers and even one-way streets have eluded this city for 25 years, despite a lot of people's efforts to change those patterns. The tying together of the marina district and the boardwalk, parking and shopping, convention centers, and the hotels is needed and has not been accomplished.

The parking problem, in general, and the broader issue of moving customers from the airport to the city remains. Tying a rail link with the airport, parking, and shuttle alternatives will be even more necessary as the number of hotel rooms expands.

The boardwalk, itself, needs to be improved, made safer, cleaner, and adapted to four-season use. This will also help the convention industry, which by the way -- a lot of the suffering of the convention industry is the seasons which you can get hotel rooms, in the seasons which people want to go to conventions. Climate matters. And the boardwalk -- that would help both the casino hotels, as well as the convention industry.

And, finally, regional needs which influence the cost of living for current and future employees should be addressed. Competition for housing between employees of the gaming industry and retirees from baby boomers have bid up property to very high levels in the region. The supply of labor will become more constrained as time goes on, and solutions need to be considered to attract the employees and allow them to live here at costs that are tolerable, given the salary structures of the casinos.

That's all. Thank you.

SENATOR BUONO: Thank you.

Any questions?

SENATOR GORMLEY: Just on your last point.

We have talked with Commissioner Susan Bass Levin in terms of Smart Growth, and whatever. And one of the issues that she's very positive about is looking at certain areas of Atlantic County that wanted that development, where the costs are lower -- such as Egg Harbor City, that is on the rail line -- which would be a great outlet for some of the development and some of the potential housing. So they've been very-- The Department of Community Affairs has been very positive about looking at those types of needs because of the cost of housing.

SENATOR BUONO: Thank you, Senator Gormley.

DR. PERNICIARO: And a lot of those are infrastructure issues, as you know: water, sewer, and issues like that.

SENATOR GORMLEY: And that's the advantage with Egg Harbor City. It's an existing community that has the water and sewer, but it's also a town that has suffered in recent years and has been looking for economic development. So there's the potential that that could serve as an avenue for some of the needed development that, shall we say, is causing a problem in other areas where they're suffering from overdevelopment.

SENATOR BUONO: Thank you, gentlemen.

Mr. Hausler.

ERIC L. HAUSLER: Good morning.

Thank you for inviting me to testify this morning.

For regulatory compliance purposes, I need to give our standard disclosure -- standard Wall Street disclosure. Susquehanna Investment Group is not an investment bank. We do not perform any investment banking services at all. We are a trading, market-making firm. We may, at times, maintain a position at any of the securities or companies that I may mention in this testimony this morning. We do not own more than 1 percent of any of the securities of the companies I may mention. And we are not, by our nature, into holding stocks. We may own them on the desk for a quick position trade-through.

SENATOR BUONO: So you're a strictly research entity.

MR. HAUSLER: We're a research and trading entity. And, obviously, part of our research is paid for through trading commissions. But we

are not paid through investment banking fees. I do not own any of the securities or companies that I'm going to talk about today, and neither does my family.

With that out of the way, let me begin. (laughter)

SENATOR GORMLEY: Fun business to be in, I'll tell you that.

MR. HAUSLER: I think it's almost as bad as--

SENATOR GORMLEY: Do you do this before you say good morning? (laughter)

MR. HAUSLER: It's almost as bad as holding a casino license these days.

I'm going to touch briefly on what's passed in the neighboring states and what our proprietary analysis indicates, and also what Atlantic City's advantages and disadvantages are in this environment.

By frame of reference, I cover, on the platform -- myself and a few others -- we cover most of the publicly traded gaming companies. And in the past, I've covered up to 24 companies. And so our exposure is nearly every gaming market in the country, as well as the world. So our job is to understand the regulatory and tax environment, the competitive environment in all of these markets.

First, our expectations on the impact of gaming in Pennsylvania: With the prospect somewhere between 36,000 to 50,000 slots, we think it would be foolish to assume there would be little or no impact. More than 20 percent of Atlantic City's customers come from Pennsylvania. Similarly, eventually New York is also likely to roll out slots at Aqueduct, in Yonkers, providing additional gaming supply through one of the key markets, which is

that New York City-Long Island market, which we estimate is around 24 percent of customers.

I think the key difference in the gaming being created on the borders of New Jersey and the underlying purpose of the New Jersey Casino Control Act, at least to my interpretation, is the primary purpose of gaming in New York and Pennsylvania is to create tax revenues. While the primary purpose of the New Jersey Casino Control Act, at least again to my interpretation, is to foster economic development in this region, with providing tax revenues secondary to that benefit.

The key difference between these states and New Jersey is the tax rates. In New York, the slot parlors retain less than 30 percent of the revenues, while in Pennsylvania they will retain less than 50 percent. New Jersey's-- Obviously, we're all aware of New Jersey's-- Casino Revenue and CRDA tax amount to something that's less than 10 percent. And the way we think about this on Wall Street is, expected returns move inversely to tax rates. And we can see that in every single market across the country, where the amount of capital flowing into those markets moves inversely to how high the tax rate is. And I'll talk about a few examples.

Let's assume the required return on investment is stable at 15 percent for a publicly traded gaming company. And the level of, obviously, capital going in will move inversely to that rate. Since most of these companies are publicly traded, as I mentioned, they'll alter that capital investment, depending on what the tax and regulatory environment is.

For example, Boyd and MGM spent a little over a billion dollars to build the Borgata, while Penn National is currently budgeting 125 million to

150 for its slots facility in Harrisburg, Pennsylvania, including the \$50 million license fees. So we're talking about \$75 million, roughly, all in capital investment. The Penn facility is likely to be highly profitable for Penn and generate returns that Wall Street likes. Nevertheless, it's not likely to be a big economic engine, nor is it going to create ancillary economic benefits to the scale of what Borgata has created in this market, and throughout New Jersey and surrounding regions.

Second, a favorable tax and regulatory environment -- one conducive to capital investment -- fosters the development of nongaming amenities, as well. Because the casino department is typically the most profitable, or at least the highest cash flow level, for nearly every casino in the country, that cash flow is recycled through the business to reinvest in other amenities. And what I mean by that is, typically, when you open a casino -- and if you look here, or Las Vegas, or any other market -- you open the casino first, and then you build the casino over time. You add the hotel rooms, the amenities, the entertainment, the food and beverage. But you don't typically open the food and beverage first if you have a limited capital budget. You'd want to open the casino, because that's going to throw off the most cash.

In a situation like New York or Pennsylvania, the tax rate will eat up the -- call it the *discretionary economic profits* over and above the return on capital. So the reflow into the business is going to be lower than what it would be here. It's important to know, and certainly something to note, as far as talking about stability of taxes and regulatory environment here in New Jersey.

I do think, under that premise, the tax environment in New York and Pennsylvania is likely to result in a minimal level of capital investment. Nevertheless, I still think they're going to hurt Atlantic City's business.

SENATOR BUONO: By how much, what percent?

MR. HAUSLER: I'll talk about that in just a second.

As Atlantic City still generates the vast majority of revenues from the casino, as opposed to, as we've mentioned, Las Vegas, which is less than 50 percent from the casinos--

Let's talk briefly about the impact of Pennsylvania. We recently completed an analysis of the seven properties in our coverage universe -- which is technically really what we're able to speak about. For the most part, it covers a good chunk of Atlantic City. That's the two Harrah's properties, the three Caesars' properties, Borgata, and the AC Tropicana. That accounts for about 3 billion of the 4.7 billion in revenues here in Atlantic City. We projected a 5 percent net revenue decline and a 10 percent EBITDA, or what we consider cash flow decline, for those properties, versus our base-case scenario. That, overall -- so 5 percent of revenues on 4.7 probably translates to the other properties. But since I don't actually cover them, I'm not able to--

SENATOR BUONO: Can you slow down? Five percent -- what's the 5 and 10 percent, again?

MR. HAUSLER: Five percent of net revenues.

SENATOR BUONO: Okay.

MR. HAUSLER: And then what-- We really measure -- not necessarily the net revenues -- the EBITDA, Earnings Before Interest Depreciation of Taxes and Amortization--

SENATOR BUONO: Okay.

MR. HAUSLER: --primarily as a source of profitability. In the casino industry, it's as close to cash flow as it would be.

SENATOR BUONO: That's the 10 percent, okay.

MR. HAUSLER: And that's primarily because of the negative flow-through of that revenue. You don't want to cut a whole lot of cost into that.

That is not set in stone, but that is a preliminary cut. Part of our job is to bound the risk for investors and say, "Here's what we think the initial take is." In general, we found that hotel rooms win the battle. The properties with smaller hotel room bases are likely to be disadvantaged, given their higher reliance on bus and driving visitors. So hotel rooms, in offering incentives to gamblers to stay overnight, or diversifying business in the convention market in the mid-week segment or the seasonally slower segments, is going to be particularly important.

Finally, the tax structure for Pennsylvania doesn't leave much room for comping of customers; nor does New York's tax structure, for that matter. In the end, Atlantic City is what we consider a customer entitlement program -- may be a great benefit. Casino's typically comp something that's north of 20 percent of their revenues -- certainly the casino revenues -- to their customers, including a high value of comped rooms, food, and beverage. I expect that will continue. But at a 55 percent marginal tax rate in Pennsylvania, you're really unable to comp much, because the operating margin for the facility is probably 30 percent. So you're now down to 15 percent before you start comping.

That said, what -- the business they will draw is, likely, the bus business, which still accounts, by our estimates, something that looks like 10

percent of revenues here. They'll draw a good chunk of that. And then the drive-in visitors who are here aren't necessarily in the player loyalty programs, but would be drawn into a Pennsylvania facility because it's a closer, a more convenient destination.

Finally, I can't underestimate the soft attributes of Atlantic City, including the beach, as well as the critical mass of gaming properties. There's really only a couple other markets in the country, including Las Vegas, that have that kind of critical mass within walking distance, where you can walk to five or six properties.

That said, I don't necessarily-- As I said, I don't think that this is set in stone. What do we think Atlantic City should do, since we're talking more about solutions than problems -- and I think I'm not going to say anything that's unique or new: more hotel rooms, without a doubt. The market's underserved. When you run, consistently, 90 percent occupancy year-round-- Las Vegas runs about 88 percent year-round, on 130,000 hotel rooms at this point. And Atlantic City is running north of 90 on its base of hotel rooms, which I would argue is still far too low. And 20,000 may be too low. I think you can keep adding hotel rooms until occupancy goes down. And that may be for the foreseeable future. I don't see a real diminish in occupancy. You didn't see a bump down in occupancy when Borgata opened. You haven't seen one at Resorts with the Showboat tower. You're not likely to see one when the Tropicana opens.

High-end food, beverage, and entertainment. The customers, that are going to be going to New York facilities and are going to Monticello now -- are your more lower-end customers. And one of the reasons we're seeing win per

unit in New York currently -- win per unit being the amount of revenue generated at each machine -- is below, in most cases is below \$150 a day. And part of that is the location of some of those facilities, and also because the facilities are slots under the grandstand, or slots in the back room, or slots in a tent. The customers in this area, they're used to coming here and getting a full package of amenities. And I think that argues that the more amenities you offer, the higher end customer you draw, and the more they're willing to spend across different revenue segments.

Retail: I lived here. I worked at Casino Control. And I can tell you that, from my own personal experience, the amount of retail here is -- especially compared to places like Las Vegas, or Chicago, or New York, or any of the other areas that we travel to -- or Orlando -- destination resorts like Orlando -- the amount of retail here has, historically, been deplorable.

For a place where you expect people to spend the night and leave the casino floor-- The number one thing Americans do when they vacation -- I just read it in the paper yesterday -- is shop.

SENATOR BUONO: I read the same thing. I bet it was the editorial on -- was it Elizabeth? They're trying to make Exit 13A on the Turnpike a shopping destination.

MR. HAUSLER: Yes. And I thought that was very apropos to this discussion today.

SENATOR BUONO: I thought of that, that Atlantic City really needs to improve that.

MR. HAUSLER: And we're seeing that. The Gordon Group development, the outlet malls here, The Quarter. I don't think you can add

enough retail food and beverage. I think it's one of those things-- Las Vegas, for instance -- Caesars' Forum Shops are about to double in size. And the more retail you add in high visitation markets like Las Vegas, and Orlando, or here, I think the more you draw customers in.

Finally, the mid-week convention, cash-gain trade show convention business-- And a lot of that-- And we've had this debate before on panels that Mike has sponsored. It's the chicken or the egg argument. Do you build more hotel rooms to draw conventioners? Do you build amenities? I think, as you build out the hotel rooms and you run out of casino gamblers to comp them to, and the profitability equation shifts ever so slightly, then the mid-week convention business starts looking a lot better, especially in the peak convention periods -- which are January, February, March, October, November, and December, which are very slow periods in this town. So I think the influx of hotel rooms and amenities helps draw the convention business.

That said, the size of the Atlantic City Convention Center, itself, with 500,000 square feet, is about half of what Las Vegas has. So you'll only draw the regional trade shows. But there's still plenty of them around that are in that size range. I mean, you're not going to draw a World Shoe here or something with 75,000 attendees, but you will draw a fair number of those regional conventions and mid-week business. It's just not economically profitable for the casinos to do that now without the hotel room base.

And, finally, I think some of the broader things that we've talked about, including -- branding Atlantic City is key. And I don't have any opinions on that. That's not my specialty. But I can tell you that everybody out there knows the Las Vegas brand. And I think that's important, because everybody

knows, whether they go or not. And I think that's important for Atlantic City to brand the city, itself. And a lot of what goes on in the future, which dictates the success of this city, isn't necessarily going to be just the casino response, but the city-wide response. The boardwalk is still-- I was walking it this morning. There are sections of the boardwalk that look great, there's sections that aren't. But would you want all of your customers -- would you be proud to show them all of the boardwalk? And I think those are important things for the future of Atlantic City, to help leverage the assets here.

That said, thank you very much.

SENATOR BUONO: Did you mention the impact that tribal gaming in the Catskills might have?

MR. HAUSLER: We did not analyze that, specifically. The closest facility up there, at this point, to development is the Mohawk Casino, which is a managed property with Caesars. It's still probably several years off. The earliest I think that would open would be '07. But it certainly would have an impact. But, again, the critical mass in Atlantic City of being able to walk from one property to another-- The Catskills casinos would likely be located several miles apart. But there would be an impact. And because you're, essentially, equidistant from downtown Manhattan to Atlantic City. And so there's absolutely an impact.

SENATOR BUONO: Thank you. It was excellent testimony, very interesting.

Senator Gormley first.

SENATOR GORMLEY: Mr. Hausler, in terms of the boardwalk-- I know it's hard to, shall we say, come up with a formula in terms of value

added. But looking at the value of the boardwalk, in terms of what is the signature properties of Atlantic City, what emphasis should the public place on, shall we say, cleaning it up or condemning eyesores, or getting rid of fortune-tellers in former restrooms, and things that are a public disgrace? In other words--

SENATOR BUONO: I know some people that like fortune-tellers.
(laughter)

SENATOR GORMLEY: Well, it's, shall we say-- In terms of cleaning up the boardwalk, what level of emphasis do you see, and how does it translate into creating that brand, or creating the value of the city that we want to see it get to?

MR. HAUSLER: It's hard to necessarily put a real value on that, but it's certainly-- I think it should be a high priority in bringing some sort of cohesive image to the boardwalk, and bringing across-- It is what Atlantic City is most associated with, aside from the casinos and gambling.

It's always a more subjective than objective analysis, in the sense that you don't necessarily know what the economic benefits would be until you put it in place. But you can pretty much intuitively say that people would -- people who won't come to Atlantic City because their association is with the boardwalk -- would come to Atlantic City with a cleaner, fresher boardwalk with-- Obviously, they have access to the beaches now. And it's one of the few free beaches in New Jersey, and yet the beaches are still fairly quiet on the weekend. And I think that somewhat shows what people's image is.

I don't know if that adequately answers the question.

SENATOR GORMLEY: Thank you. Yes, it does. That's fine.

SENATOR BUONO: Just to tie up some loose ends, I'm going to ask Mr. Hausler the same question I asked the other two groups, and that is the issue as to your opinion on whether or not the market is a mature market, and whether-- And I know I've read articles that suggest that Borgata did steal from -- business from the existing casinos. Do you-- What is your opinion? Do you have an opinion on that?

MR. HAUSLER: Our analysis is that-- Before Borgata opened, we looked at what other markets had done in the new property openings. There's only one or two markets in the country that haven't experienced some sort of cannibalization of existing properties when a new property opens. I think that's normal.

SENATOR BUONO: Is it temporary?

MR. HAUSLER: It's usually temporary, and typically what we consider the bounce-back-- If you look at the revenues for the same store operators, they go down until the one-year anniversary, which was July 2, or whenever Borgata opened. And then they start to trend back up. And it usually takes 18 to 24 months from the time the property opened to bring the existing casinos back to the level they were prior to the opening of that new property. And then the market resumes its growth.

That doesn't necessarily mean the market's not growing. There's a shock of adding 3,000 slots and a hundred-and-something tables to the market, and a reallocation of the customer base. And, certainly, I think Borgata has brought in a lot of new customers to the market. It's fared a lot better than Wall Street estimated, I can assure you that. I think the property generated \$157 million in EBITDA in the first 12 months. The average Wall Street

estimate was somewhere around 135 for first year out of the box. So it significantly exceeded expectations.

SENATOR BUONO: Anything else? (no response)

Before we conclude the meeting, Mr. Bashaw, did you have anything else you wanted to-- I saw you taking notes. Did you want to respond to anything that was raised here, given your position?

MR. BASHAW: (speaking from audience) No, I thought it was a great hearing, and I just was writing down new information.

SENATOR BUONO: And Mrs. Kassekert as well.

I think they're going to have to--

SENATOR GORMLEY: I have a question. Do you like the fortune-teller? (laughter)

MR. BASHAW: Well, I mean, the theme of making the boardwalk a destination from one end to the other that's clean, and nice, and--

SENATOR BUONO: Can you sit at the table, they want to record your testimony.

And Mrs. Kassekert.

MR. BASHAW: The point of making sure that the boardwalk, as a whole, is the singular attraction of Atlantic City -- and being a place, from one end to the other, that has an image that's appropriate -- is incredibly important. And that was interesting to hear the investment perspective on that. That's been our instinct, that's been the feedback we've gotten from most of the casino executives.

And to that end, the incentives -- the emphasis on hotel rooms-- I would say, in talking with the industry, if you're looking at the regulatory

programs that there are at our disposal to help work with the industry, a couple things that are important are: to enable us, at CRDA, to be able to marry programs. And I think in this spring's legislation there was a little bit of a concern about that. But it's important to be able to build, use the Casino Construction Fund for hotel expansion, in partnership with the retail entertainment district. Because when you think about the cost of a hotel tower of a thousand rooms, it's hundreds of millions of dollars. The incentive that we're able to provide is a sliver of that. That, by itself -- that sliver isn't going to be a go or no-go to an industry decision. But in partnership with other programs, we get a package put together that will really create a development that's a critical mass, that moves it forward.

SENATOR BUONO: Thank you.

MS. KASSEKERT: And I just want to touch upon a little bit about the overregulation, because I heard Audrey Oswell mention that. I want to set the record straight about that, because there's always a lot of contention that New Jersey overregulates.

The major difference between Nevada's regulation of their industry and New Jersey's rests upon two very important areas. The first is: We have inspectors in the casinos 24 hours a day, seven days a week. And I think that that's very important, because in New Jersey, we have a dedicated -- our taxes in New Jersey -- the gross revenue tax, which is the major tax that we collect and audit -- goes for programs for seniors and the disabled. So I think it's very important and appropriate that we have inspectors there to ensure that the revenue and the taxes are being collected, audited, accounted for so that there isn't any problem. That was the one major difference when Brendan Byrne

came down and signed the Casino Control Act -- wanted to make sure that the mob kept out of Atlantic City. And I would say that that's one very important aspect.

The second thing that we do differently than they do in Las Vegas is that that we regulate CSIs. And the CSI is the Casino Service Industry. And that includes both gaming CSIs, the people that make cards and dice; and non-gaming CSIs, the people that provide linens to the casinos, the people that provide food. We regulate that. And I think that's an important thing that also should be continued. Because if there was any discussion about mob infiltration, it's not going to be in the casino industry, because we've been regulating them, regulating them well, for 27 years. But we could see it come in, and we have seen it come in, through the back door, through other industries.

So I would contend that even though the casinos and the industry talk about the cost of regulations, those are two very important areas that I would not abandon if we are looking at regulatory reform.

SENATOR BUONO: Thank you very much.

Senator Gormley.

SENATOR GORMLEY: The inspectors on the floor have nothing to do with the mob.

MS. KASSEKERT: No.

SENATOR GORMLEY: No -- at all.

MS. KASSEKERT: No, but they account for the revenue.

SENATOR GORMLEY: They account for-- The budget for Nevada versus the budget -- overall regulatory budget for the State of New Jersey -- what is it, two to one?

MS. KASSEKERT: About that. But you know, of course there's not any accounting for-- In Nevada, they have individuals, they have police officers with guns wandering on the casino floors. We don't have that in New Jersey. So while there might be other resources dedicated, there's probably not a complete accounting. And I would say that it's very important to have those inspectors there.

SENATOR GORMLEY: I think it's--

MS. KASSEKERT: You, obviously, don't agree with me, Senator.

SENATOR GORMLEY: No, no, no. The reality of it is, I would prefer the money go to a greater police presence in the city of Atlantic City on the streets, which I think we all would agree would be better for everyone. But it doesn't go-- The inspectors, I truly don't believe -- given the integrity of the industry -- the executives, the people, the key people -- that has nothing to do with their integrity, or the monitoring by the industry.

MS. KASSEKERT: We want to make sure those taxes are collected.

SENATOR GORMLEY: Believe me, they collect them in Nevada with all the police. It's a union issue, that's what it is.

SENATOR BUONO: And we think you're doing a great job.

MS. KASSEKERT: Thank you, Senator.

SENATOR BUONO: And with that, I want to thank all of you for coming today. I think that this has been a very interesting Committee meeting, a lot of food for thought. I think, at the very least, it underscores the importance of the continued economic viability and growth of Atlantic City, both for strengthening the economy, creating jobs, and maintaining or increasing State revenue to fund important programs.

At the very least, I think that one thing that came out of this Committee is that we need to seriously increase our investment in promoting Atlantic City and what it has to offer.

With that, I want to thank you, once again.

This meeting is adjourned. (applause)

(MEETING CONCLUDED)