
Update Report of Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment

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Message from the Chairman

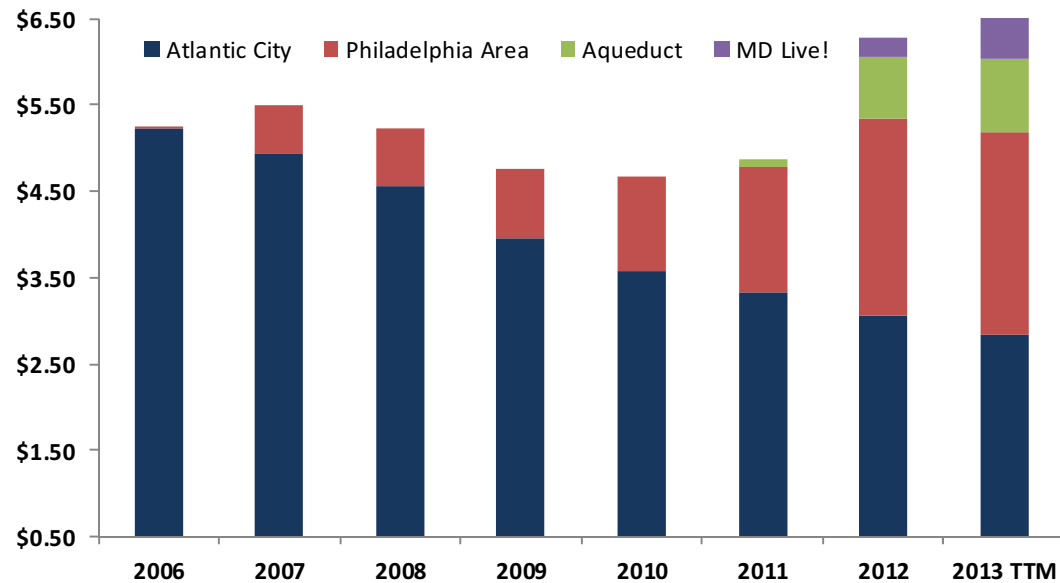
Atlantic City faces an economic and budgetary crisis despite recent capital improvements

- Atlantic City casinos continue to lose share of the regional gaming industry to newer venues located closer to major urban hubs. From a peak of \$5.2 billion, total Atlantic City casino revenues fell to just \$2.9 billion in 2013 and are projected at approximately \$2.5 billion in 2014
- The significant decline in casino revenues over the last several years has manifested devastating effects on the Atlantic City tax base (total assessed property values have fallen 45% since 2008, while the municipal tax rate jumped 101% over the same period). Property taxes represent 81% of all municipal revenues in 2014
- Meanwhile, Atlantic City has continued to issue bonds largely to cover tax appeals and deficit spending in budgets which have grown by 40% since 2006. The City will have issued \$345 million of bonds since 2010 and debt service now represents 15% of the 2014 budget
- Extraordinary state and local support is required in the transition phase of the Atlantic City revitalization strategy focusing on immediate activities with a high probability of success, including balancing the municipal and school cost structure toward “new normal”
- An “Emergency Manager” should be appointed immediately with extraordinary supervisory powers under the Local Government Supervision Act (legislative action may be required to augment the existing Statute). Other options were also considered, but rejected (see Appendix D)
- Initial recommendations include: (i) tax reform; (ii) school reform; (iii) pension reform; (iv) regionalization or privatization / reduction of certain public services; and, (v) redirecting ACA funding
- A mechanism – new Not-For-Profit Development Company, ACDevCo (“Atlantic City Development Corp”) - needs to be created to coordinate the revitalization effort among the various shareholders and anchor institutions
- Revitalization efforts should be concentrated, not scattered within Tourism District, which should be extended to include entire City
- The *Atlantic* needs to be put back into Atlantic City’s appeal as city pivots away from reliance on gaming industry

Impact of Regional Competition

- The overall regional gaming industry's recovery began in 2011 and strengthened in 2012 and 2013
- Despite improvements, Atlantic City continues to lose share to newer gaming venues more proximal to major urban areas

Regional Gaming Industry Gross Gaming Revenues

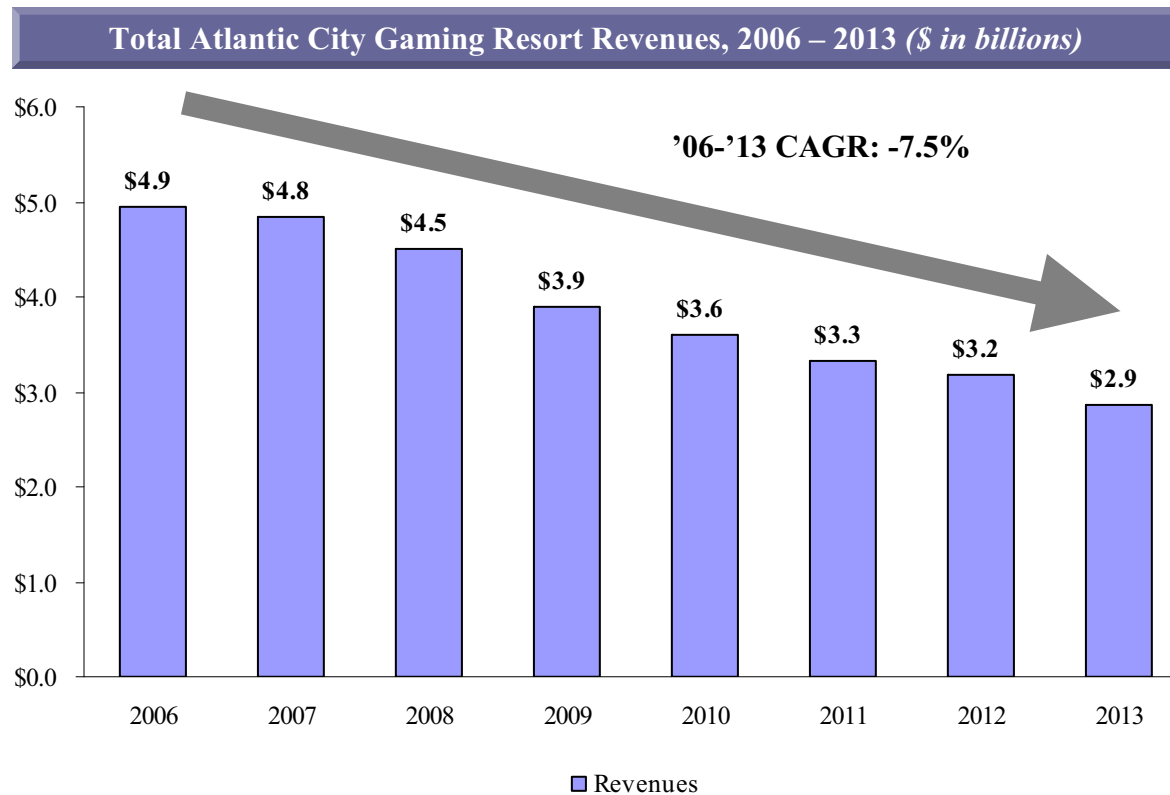


Atlantic City Resort Hotels

Period	Occupancy
2011	83%
2012	80%
2013	74%

Atlantic City Gaming Industry Today

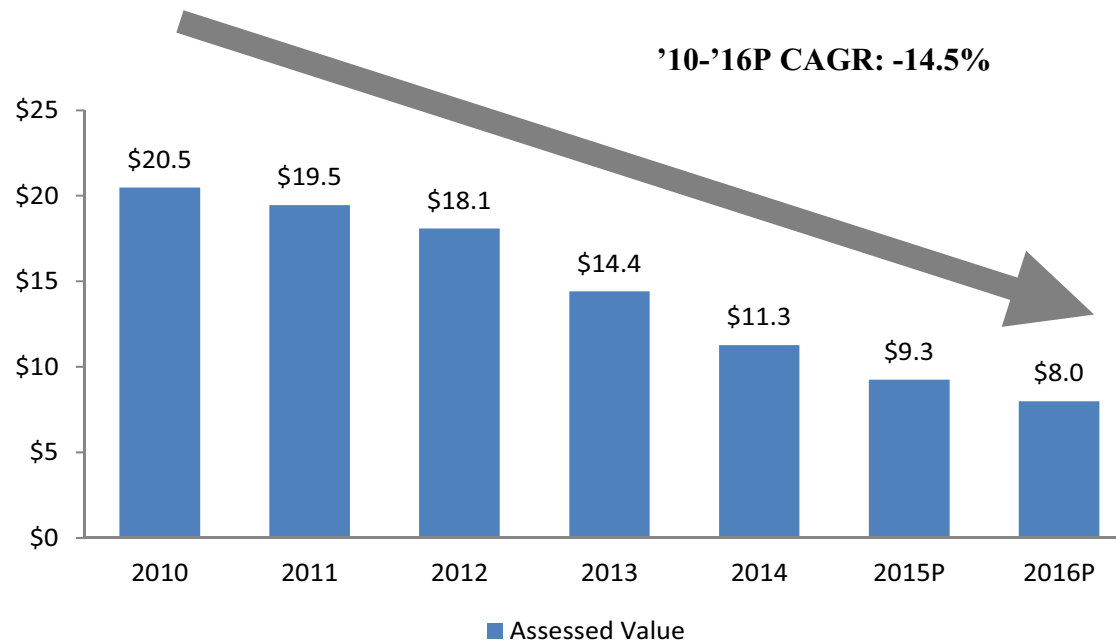
- Total Atlantic City gaming resort revenues have fallen by a CAGR of -7.5% since 2006. Borgata, the best performer during this period, saw revenues decline by a CAGR of -2.4%
- Four properties (Atlantic Club, Showboat, Revel, Trump Plaza) shuttered in 2014



Atlantic City Property Tax Base

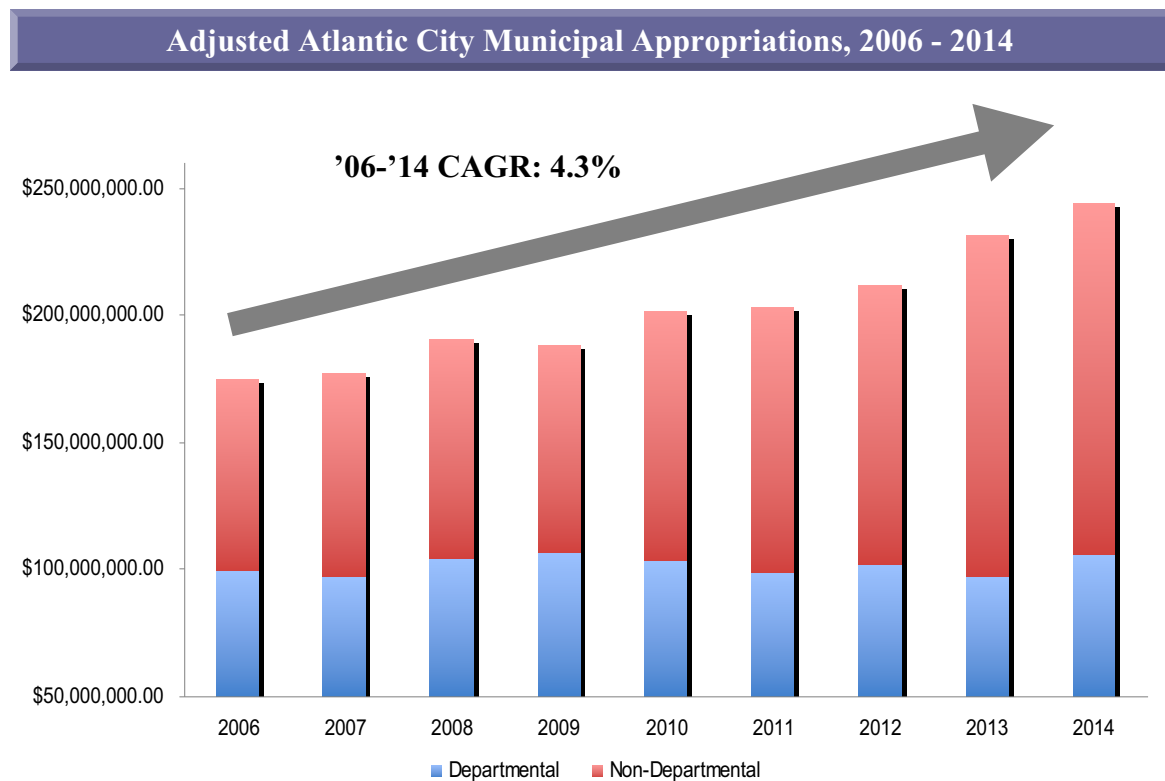
- As the gaming industry declines, Atlantic City's property values have also suffered
- Property taxes represent over 81% of Atlantic City revenues in FY 2014
- Municipal tax rate is 1.75%, over 100 bps higher than the statewide average
- Total Property Assessment could be as low as \$6.5 billion according to data from recent tax appeal rulings
- Trend burdens residents as well as the gaming industry (see Appendix C)

Total Atlantic City Assessed Property Values, 2010 – 2016P (\$ in billions)



Meanwhile...

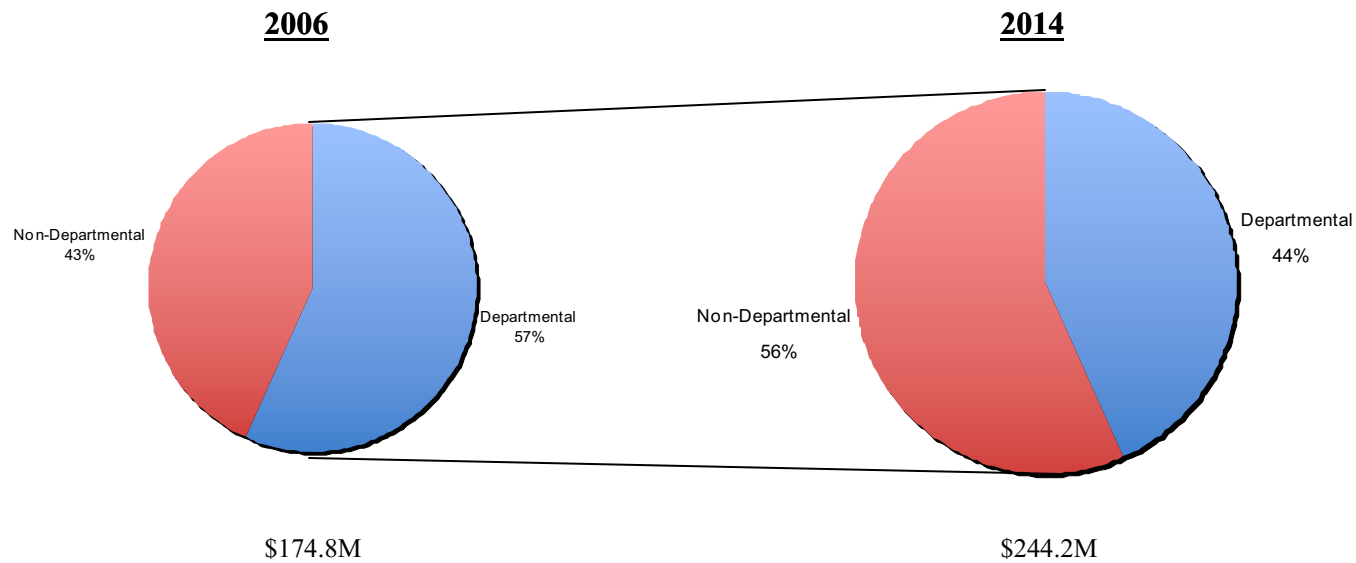
- Atlantic City municipal appropriations, less grants and the dedicated library tax levy, grew by a CAGR of 4.3% from 2006 – 2014. Departmental Appropriations (Police, Fire, Health and Human Services) grew by a CAGR of 0.8%, while non-departmental (pension, healthcare, debt service, bulk purchases, etc.) appropriations grew by a staggering 7.9% CAGR over this period



Municipal Appropriations

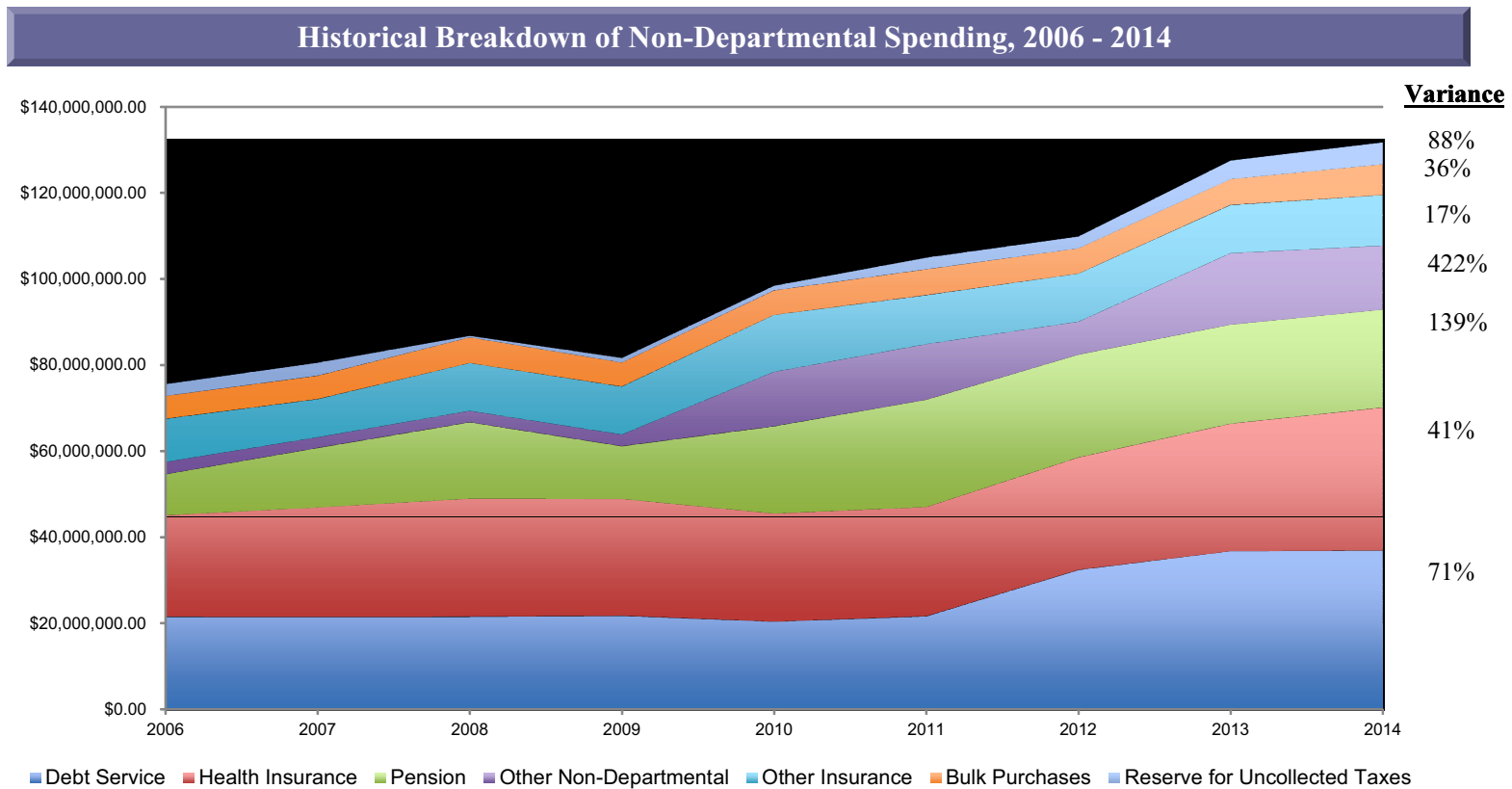
- While the entire municipal budget should be reviewed toward a “new normal” reflective of Atlantic City’s current environment, non-departmental appropriations in particular have grown unsustainably

Departmental vs. Non-Departmental Spending, 2006 and 2014



Non-Departmental Spending

- Debt service represents 28% of all non-departmental spending and has grown by 71% in the last eight years
- Pension payments have increased by 139% over the same period



Atlantic City Revitalization *Phase II*

To address these challenges, we need to recalibrate our efforts and focus on the next phase of the revitalization plan:

- **Emergency Manager:** *Appoint an “Emergency Manager” with extraordinary supervisory powers under the Local Government Supervision Act to implement our Plan (Section 52:27BB)*

 - **Government Support:** *State and local efforts to address challenges underlying the revitalization efforts*
 - **Five Step Plan:**
 1. **Property Tax Reform** – improve the economic viability of Atlantic City and end the debilitating cycle of tax appeals by establishing a “fair and equitable” distribution of property taxes and a “stable” environment for economic development
 2. **School Reform** – allow for increased disbursement of state aid contingent upon reductions in school operating costs toward appropriate benchmarks
 3. **Pension Reform** – balance the budget while implementing other reforms with temporary pension payment deferrals under State supervisory powers
 4. **Regionalization / Reductions** – consolidate municipal services where there are appropriate opportunities
 5. **Reduce ACA & CRDA IAT Funding** – Atlantic City Alliance (“ACA”) funding should be redirected and Casino Reinvestment Development Authority (“CRDA”) Investment Alternative Tax (“IAT”) funds should be reallocated and loaned to support the city’s urgent needs

 - **New Not-For-Profit Development Company:** *Build on successes to strengthen and expand partnership with new Atlantic City Development Corp (“ACDevCo”)*

 - **Focused Efforts:** *Revitalization efforts focused, not scattered within Tourism District*
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1. Atlantic City Property Tax Reform

Stabilizing the Tax Base. Regularizing Tax Payments. Broader Tax Reform.

- High effective rates and a rapidly declining tax base have created an immense financial burden for residents, local businesses and the casino industry
- Entire Atlantic City gaming industry is at risk as each incremental casino closure results in a greater tax increase than revenue increase for the surviving casinos
- Atlantic City needs to reassure industry by establishing a measure of predictability for the gaming industry's property tax payments and abetting the cycle of tax appeals which disproportionately affect the City
 - When City loses a tax appeal case, despite the fact that the appeal award is meant to cover the appellant's total tax payment – i.e. City, School, County, Library and Open Space – the City picks up the vast majority of the refund, with the County contributing some amount through credits. The School, despite receiving ~36% of the tax levy, pays nothing
- A seven – ten year Alternative Tax Payment (“ATP”) system for the gaming industry could significantly limit tax appeals and a further deterioration of property tax revenues, recognizing that any additional revenues will be negligible in the short term
- ATP program would require an adjustment to prevent a gross destabilization of various other aid formulas calibrated by the aggregate assessed value (i.e. School aid, County Tax Apportionment, CMPTRA)
- Revel, Trump Plaza and Taj Mahal are delinquent on 2014 taxes (~\$30 million due combined). Every property should have to be current on tax liabilities to qualify for ATP
- Non-gaming properties should also receive a tax freeze for the next three years

ATP program could establish predictability for the City, casinos and the overall economy

2. Atlantic City School Reform

Allowing for Conditional, Increased State Aid Accompanied by Reduced Operating Costs.

- City is eligible under the School Funding Reform Act to receive significantly more Equalization Aid due to the City's significantly depressed assessments and "district income" levels
 - Two caveats are the level of funding the State puts into the SFRA formula which may not cover a more expansive Atlantic City aid disbursement and the "cap" of a 20% aid increase on an annual basis
- Granting of such Aid, especially if the cap is to be waived, must be tied to the supposition that it decrease the property tax burden and accompanies a significant reduction in School operating costs in line with benchmarks
- New Emergency Manager should be tasked with reducing total per pupil costs from approximately \$26,000 (as of 2012-2013 school year) down to target statewide average of approximately \$18,000 (actual cost in 2014-2015 will be higher)

Overview of Atlantic City School District, 2012-2013 Actual

Category/Topic	Data
Enrollment	6,684
No. School Buildings	11 (1 Pre-K, 9 Elementary, 1 HS, 1 Alt. HS)
Staffing	746 Certificated 568 Non-Certificated
Total Spending	\$183,301,283
Local Tax Levy	\$118,426,947
Total Per Pupil Cost	\$25,676

Comparability to similar districts

District (Enrollment)	Total Spending	Per Pupil Cost
Atlantic City (6,684)	\$183,301,283	\$25,676
Irvington (7,131)	\$171,895,811	\$22,440
West New York (7,145)	\$155,079,232	\$17,620

Note: Total Spending Per Pupil includes the Budgetary Per Pupil Cost as well as: (i) pensions and social security payments made by the State on behalf of districts; (ii) transportation costs; (iii) food service expenditures; (iv) debt service; (v) judgements against the school district; (vi) capital outlay budgeted by the general fund; and, (vii) payments by the district to other districts.

3. Atlantic City Pension Reform

Limiting Debt Issuances to Fund Non-Operating Municipal Appropriations in the Near Term.

- Several opportunities may be available to the City pursuant to the extraordinary powers granted under supervision (State Statute 52:27BB-53 et seq.), including: (i) redefinition of tax assessments (see pg. 10); (ii) limitations on spending, including School (see pg. 11); (iii) deferral or waiver of large payments, excluding debt; and, (iv) continued oversight
- Atlantic City has upcoming pension payments of \$22.8M in 2014, \$23.2M in 2015 and \$25.1M in 2016 and is currently relying on unsustainable bond issuances in part to fund these pension payments
- State should defer these payments for a period of up to three years to help balance the budget in the short term while other recommendations are being implemented
- The upcoming pension payments include approximately \$1M per annum in life guard pension contributions, which should be waived indefinitely

“The board may require that any or all expenditures and appropriations of a municipality subject to this article and sections 20 and 21 of this amendatory and supplementary act be expressly authorized by the director.”

(Section: 52:27BB-58: Limitation upon appropriations and expenditures)

Temporary pension payment deferrals will help lead to long term economic health

4. Regionalization / Reductions

Consolidating Municipal Services Regionally to Create Efficiencies.

- Consolidating services can facilitate more efficient delivery and cost savings
- Camden County proved precedent with Camden City's police force, resulting in significant cost savings and lower crime rates
- While there is no County regionalized fire model, precedent exists for the privatization of fire services as an alternative (Rural / Metro Corp in AZ)
- Atlantic City also currently provides services, such as the public health department, that are traditionally provided by county governments
- Upon implementation, total projected cost savings would be in excess of \$25 million annually

Atlantic City Police Department

Cost of Current Atlantic City Police Department ("ACPD") as budgeted in 2014 with 330 uniformed officers and 35 part-time SLEO's (Special Law Enforcement Officers):

Annual Cost = \$54,720,000

Cost of "Right-Sized" ACPD for 2015 with 285 uniformed officers and 60 part-time SLEO's under existing CBA:

Annual Cost = \$47,000,000

Cost of a "Right-Sized" ACPD for 2015 with 285 uniformed officers and 60 SLEO's under regionalized model similar to Camden Metro:

Annual Cost = \$39,500,000

Atlantic City Fire Department

Cost of Current Atlantic City Fire Department ("ACFD") as budgeted in 2014 with 261 uniformed personnel:

Annual Cost = \$34,468,860

Cost of "Right-Sized" ACFD for 2015 with 180 uniformed personnel under existing CBA:

Annual Cost = \$25,000,000

Unlike Police, there is no County regionalized fire model to benchmark against, but a re-negotiated CBA with similar modifications to the Police recommendations would suggest a cost as follows:

Annual Cost = \$24,000,000

5. Redirect ACA & CRDA IAT Funding

Transitioning Resources to Urgent Needs and More Effective Public Private Partnerships.

- Atlantic City Alliance (“ACA”) marketing has increased awareness and interest in Atlantic City, but return on investment is below expectations and does little to affect urgent structural needs of the City
- With the 2014 casino closures, the financial responsibility to fund the statutory amount has now fallen on remaining casinos causing incremental financial burdens
- Casino Reinvestment Development Authority (“CRDA”) Investment Alternative Tax (“IAT”) funds could also be repurposed
- State should reappropriate these funds to help ease the burden of property taxes and fund a new Not-For-Profit Development Company, Atlantic City Development Corp (“ACDevCo”), with a mission more representative of the City’s pressing needs
- Any funds reappropriated toward balancing the municipal budget should be treated as a loan to the City, rather than a grant or new tax. These loans could be paid back by the City through different monetization opportunities discussed on page 16
- CRDA should also take over the Redevelopment Authority and assume responsibility for Zoning, Planning and Code Enforcement from the City

New Not-For-Profit Development Company

- A new Not-For-Profit Development Company, ACDevCo, should be created to plan, finance and develop mixed-use redevelopment projects by initiating public-private partnerships to address critical public policy goals
- The success of New Brunswick Development Corporation has proven the concept
- Initial funding could come from the reallocated ACA funds or CRDA IAT (\$10 million per year for three years)
 - ACA contributions will insure private sector participation
- ACDevCo would also function as a Land Bank, acquiring certain blighted properties and demolishing existing structures. These parcels could then be sold to approved developers as the market strengthens with the proceeds reinvested in Atlantic City
- Demolition of certain failed casinos to create greenscapes providing convenient access to the Boardwalk and ocean by non-gambling visitors could help re-orient the “new” Atlantic City
- Stockton College (New University Park) and Medical District could provide additional immediate opportunities

Additional Opportunities

Focused Public Support and a New Not-For-Profit Development Company Will Attract New Investment.

- A long term lease of the Municipal Utilities Authority (“MUA”) would allow the City to receive a significant and immediate lump-sum payment or structure a revenue sharing agreement over time. Proceeds could be used to pay back existing debt or new loans from State and/or casinos
 - Bayonne is a precedent, entering into a similar arrangement with United Water and receiving a \$150 million lump-sum payment for a 40-year management contract and a structured rate increase
 - Additional City holdings, notably Bader Field, should also be explored as monetization opportunities for the City
 - The Tourism District should be extended to include the entire City
 - New Jersey Division of Gaming Enforcement (“DGE”) and the Casino Control Commission (“CCC”) should be consolidated in Las Vegas model to promote efficiencies
 - Atlantic City Social Services should be consolidated (e.g. City currently has 11 methadone treatment facilities)
 - City should endeavour to promote entertainment around the boardwalk (e.g. establishing permanent venues for music groups) and gaming licenses should be considered for boutique hotel properties
 - New investment should concentrate along certain development sites: (i) Marina – yachting and gaming, anchored by Borgata; (ii) North Boardwalk – nightlife and gaming, anchored by new Revel; (iii) The Walk – city center, anchored by new healthcare center, existing retail and convention center (iv) Albany Avenue – southern access, anchored by New Utility; and, (v) Gardner’s Basin – family-oriented waterfront, anchored by existing Atlantic City Aquarium
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Tourism District Improvements

- The legislative body has supported measurable capital and environmental reforms within the Tourism District since inception
- ACA marketing efforts have increased the awareness of Atlantic City strengthening its positioning as a tourist destination

Capital Improvements



The Walk
Phase III



The Wave
parking garage



Bass Pro Shop



Harrah's Meeting Room
Facility



The Steel Pier
Revitalization



Margaritaville
at Resorts

Environmental Improvements



Initiated lighting
improvements



Clean and operable public
restrooms



More Ambassadors
patrolling the District



Initiated rolling chair
improvements



Deployment of additional
Class II Officers



New bus and Jitney
shelters

Diligence Overview

Our Team Interfaced With:

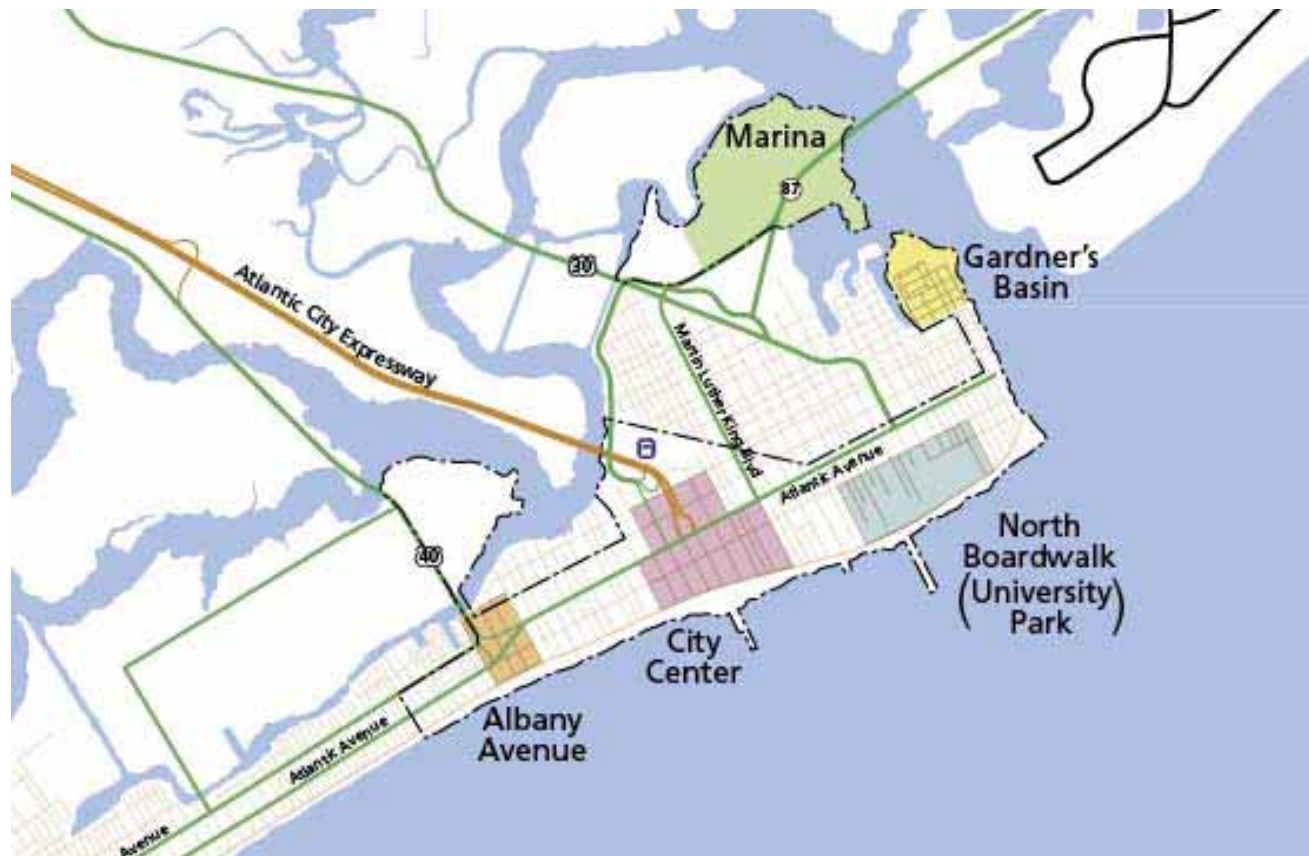
- Casino Owners
- Elected Officials and Advisors
- Medical Leaders
- Education Leaders
- Union Leaders
- Entertainment and Amusement Owners
- Community Voices
- Third Party Consultants, especially HJA Strategies

APPENDICES

APPENDIX A

Atlantic City Map

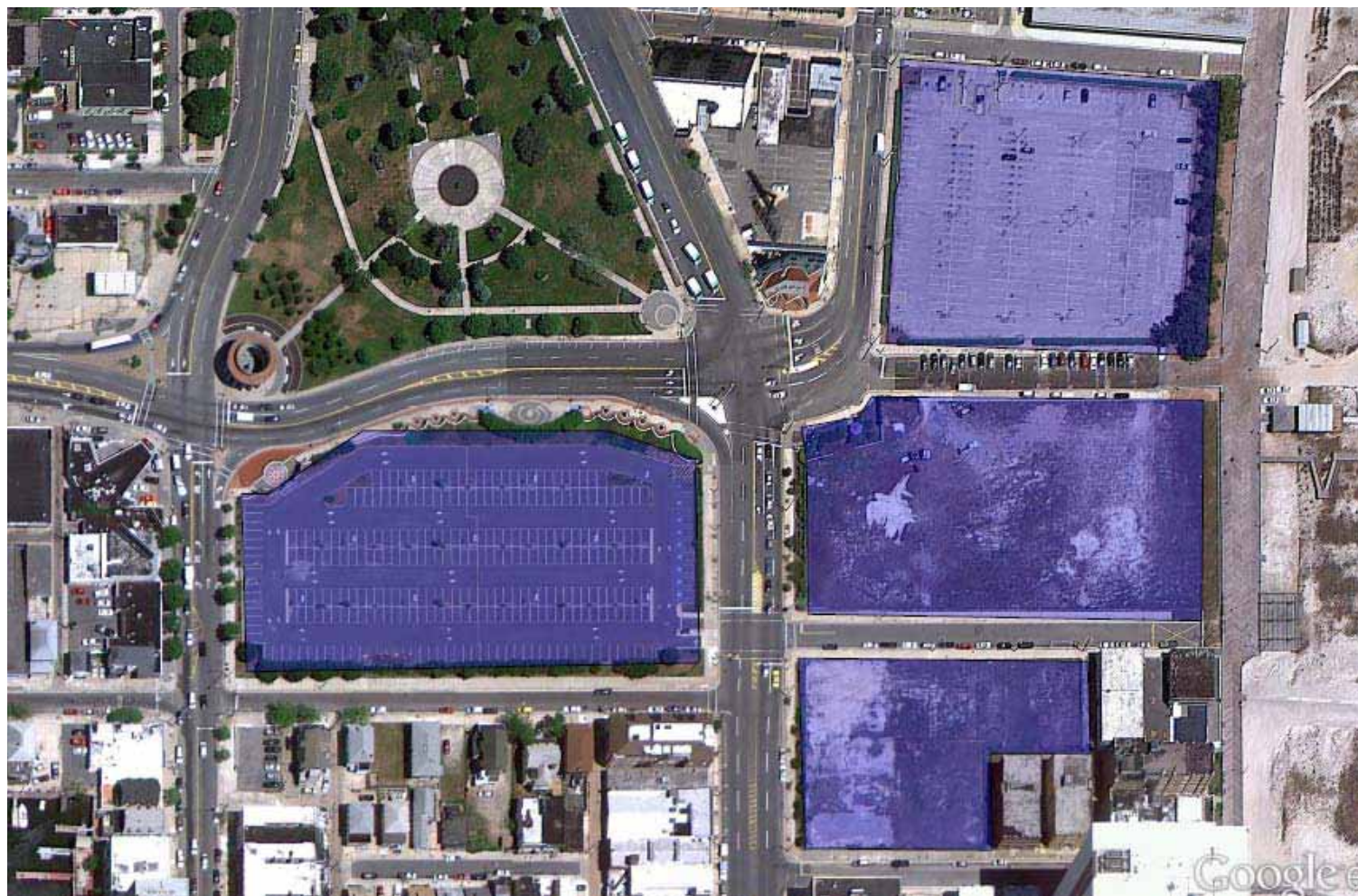
Atlantic City Tourism District – Investment Focus Areas



APPENDIX B

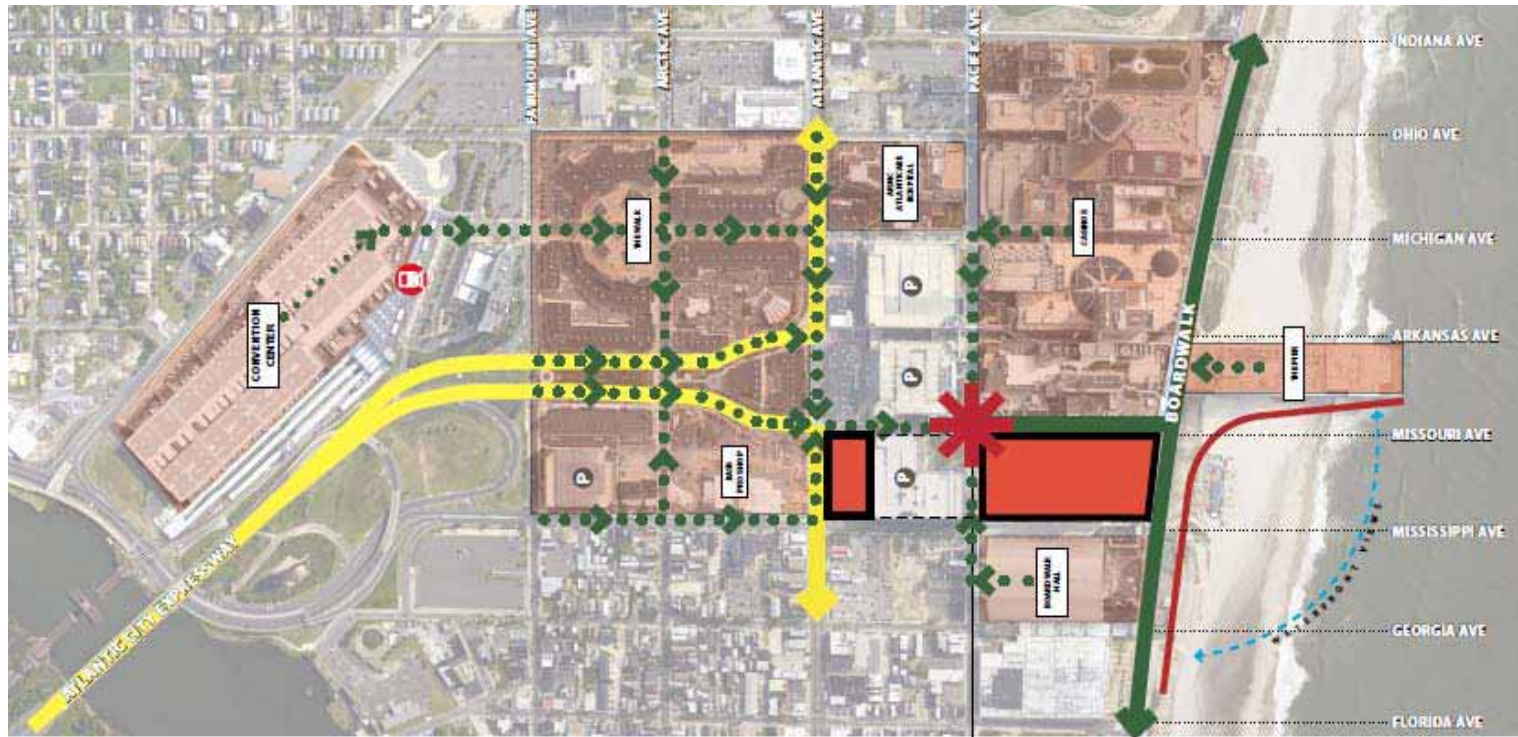
Atlantic City Aerials

Albany Avenue



Atlantic City Aerials

City Center

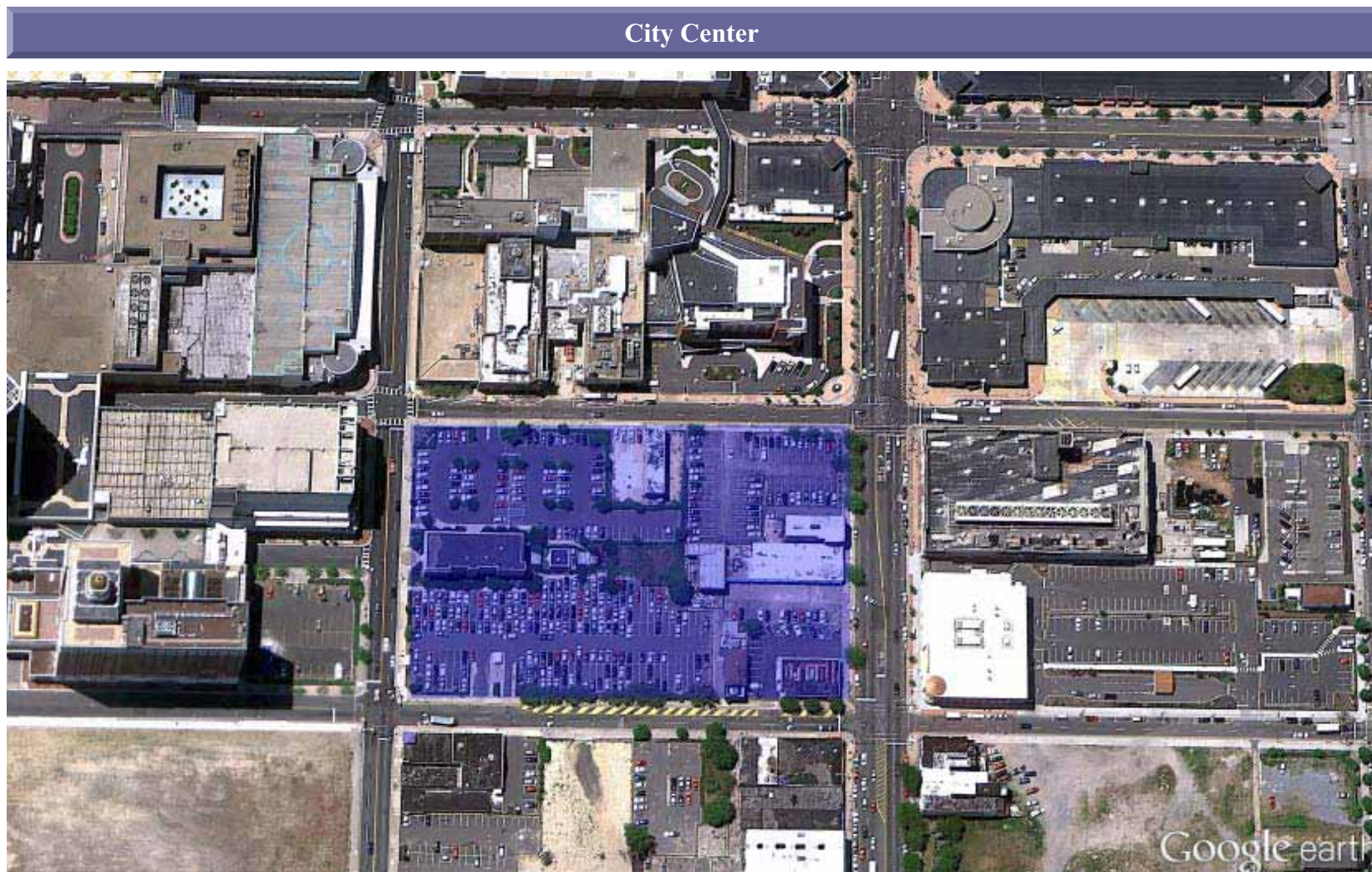


- DEVELOPMENT OPPORTUNITY
- CITY / REGIONAL DESTINATIONS
- VEHICULAR TRAFFIC
- PEDESTRIAN TRAFFIC
- MTA TRANSIT / AMTRAK
- PARKING

REINFORCE CITY GATEWAY
 CONVENIENT PARKING
 PEDESTRIAN-FRIENDLY ENVIRONMENT
 BRING BOARDWALK TO CITY
 EXTEND RETAIL TO WATERFRONT



Atlantic City Aerials



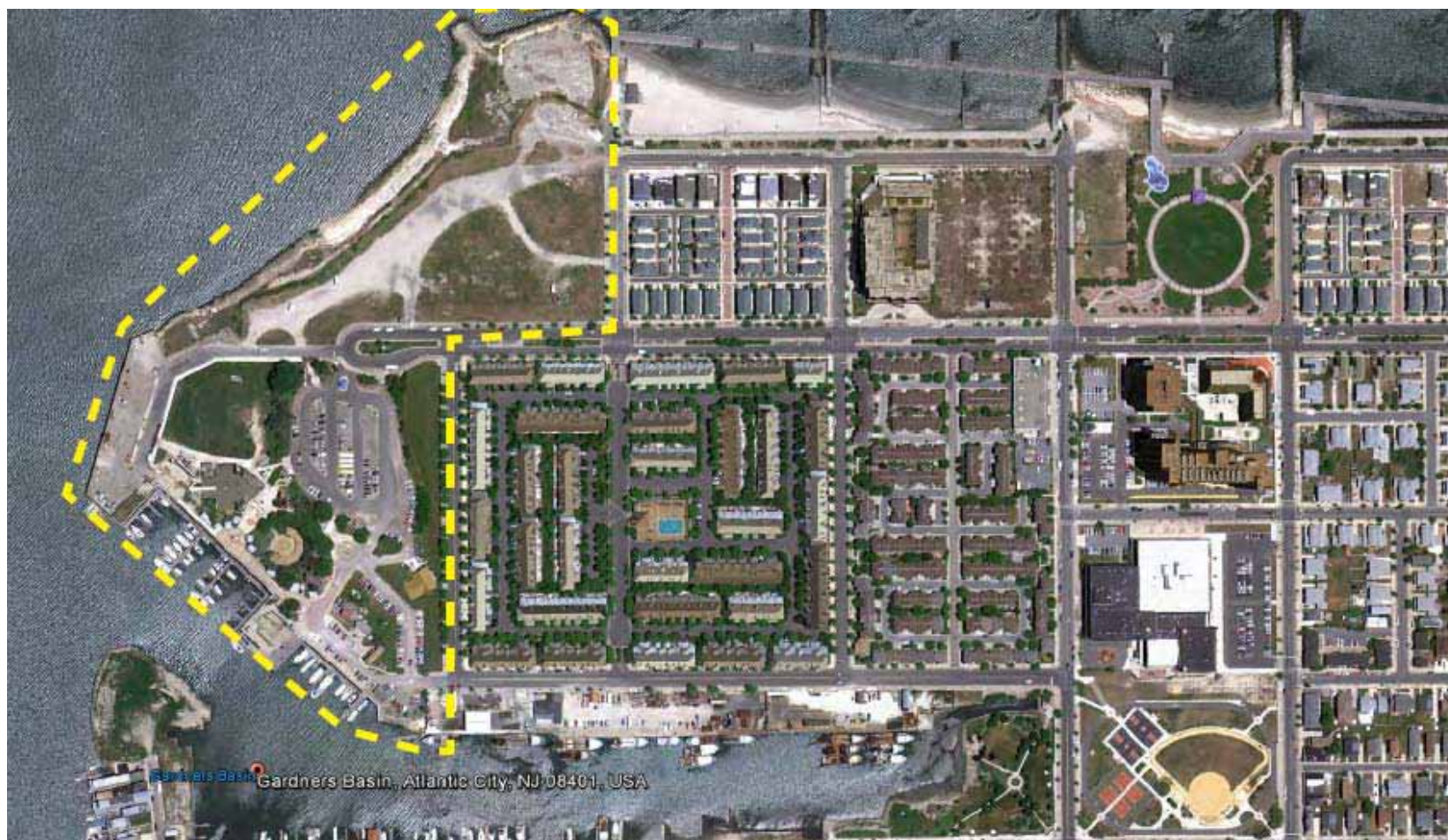
Atlantic City Aerials

North Boardwalk, University Park & Gardner's Basin



Atlantic City Aerials

Gardner's Basin



APPENDIX C

APPENDIX D
