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PUBLIC HEARING

before

SENATE JUDICIARY COMMITTEE

on

(Land speculation and access to computerized records)

July 29, 1985
Arcade Building
Atlantic City, New Jersey

New Jersey State Library

MEMBERS OF COMMITTEE PRESENT,

Senator John A. Lynch, Chairman
Senator John F. Russo, Vice Chairman
Senator Donald T. DiFrancesco
Senator William L. Gormley

ALSO PRESENT,

John J. Tumulty
Office of Legislative Services
Aide, Senate Judiciary Committee

TABLE OF CONTENTS

	<u>Page</u>
Honorable James Usry Mayor of Atlantic City	1
John McAvaddy Atlantic City Housing Authority	12
Richard E. Squires Atlantic County Executive	27
Commissioner Valerie Armstrong New Jersey Casino Control Commission	32
David G. Sciarra Department of the Public Advocate	42
Cora Boggs, President Atlantic City Congress of Community Organizations	54
Robert Gross Atlantic County Improvement Authority	58
Dr. Jack Eisenstein Superintendent of Schools Atlantic City	60
Thomas D. Carver, President Atlantic City Casino Association	64
Jack Bertaglio, Developer	71
Joel Sterns, Esq. Attorney for Resorts International, Inc.	75
John Donnelly, Esq. Corporate Counsel for Resorts International, Inc.	80
Patrick McGahn, Esq. Attorney for Resorts International, Inc.	92
Jacob Himmelstein Incentive Taxation League	106

TABLE OF CONTENTS (continued)

	<u>Page</u>
Sid Crane, President Best of Life Park, Senior Citizen Housing	109
Anthony Consalvo Anthony Consalvo Real Estate, Ltd.	111
Frances Ginnetti Concerned Resident	113
Herod E. McCloud Concerned Resident	115
Irving Gindes Concerned Resident and Member, Atlantic City Housing Authority	119
Nora Gindes Concerned Resident	121
Sam Rabinowitz Derby Associates	122
Arlene Groch, Esq. Attorney for ACLU	124

APPENDIX

Statement submitted by Resorts International, Inc.	1x
Analysis submitted by Edward Joseph Dodson	22x

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SENATOR JOHN A. LYNCH (Chairman): Good morning, everyone. We have a rather long witness list, so I would like to ask the witnesses to be as concise as possible.

I would like to thank the Commission for its hospitality and the use of this facility.

We have two issues on the agenda today. The first is the land speculation issue, and the second is the computer access issue. From the witness list we have, the second issue will probably be reached late, and we will not be spending a great deal of time on it. If there are some concerns that arise as a result of the information we receive this afternoon, we will continue this session sometime in September.

Let's get started. The first witness we have today who will open this proceeding and give us a little bit of background is James Usry, the Mayor of Atlantic City. Jim? Mayor, I want to thank you for coming this morning.

MAYOR JAMES USRY: Thank you.

SENATOR LYNCH: We are happy to be here in your non-controversial community.

MAYOR USRY: Thank you so much, Senator Lynch. We are very pleased that you are here.

Senator Lynch, Senator Gormley, and John, good morning. Senator Lynch and members of this Committee, welcome to Atlantic City. Senator, I am very happy that you chair these hearings because serving as Mayor of New Brunswick, you bring your special understanding of the problems facing our State's urban areas.

I appreciate this opportunity to come before you to discuss my views on land speculation by casinos. This speculation has inhibited this City from redeveloping beyond the 11 individual gaming halls which now exist. The voters of the State of New Jersey and the State Legislature approved licensed casino gambling in Atlantic City as a unique tool to redevelop the City. However, land speculation by casino licensees is the greatest impediment to our effort to redevelop Atlantic City.

I want to thank you for this opportunity to speak here, appreciating that the Committee considers this to be such a pressing issue that you are holding these hearings here in Atlantic City.

As I begin, I ask you to keep these two things in mind. First, the Legislature has taken steps in the past to help curtail land speculation and displacement of families in Atlantic City. Shortly after the Casino Control Act was passed, former State Senator Steven Perskie introduced and enacted special legislation for Atlantic City. This legislation required that if an apartment building owner desired to dislocate tenants from a building, relocation benefits under the General Public Relocation Assistance Law must be provided to the displaced persons at the cost of the landlord. This legislation includes a three-year sunset provision, which has already been extended twice, most recently by Senator Gormley and Assemblywoman Cooper last November.

My second point is, although Atlantic City suffers the most serious land speculation problem in the State, the concern for land speculation goes beyond Atlantic City to include such areas as the Route 1 Corridor between Trenton and New Brunswick and the Route 287 Corridor in Morris County.

You will also hear testimony from the Atlantic City Housing Authority and Redevelopment Agency and the Atlantic County Improvement Authority concerning the economic impact of this land speculation on Atlantic City.

I would like to take this opportunity to identify speculation in broader terms; then look at who is responsible for the problem; and then suggest a few broad policy recommendations.

Some individuals would like to identify land speculation in Atlantic City as a problem associated with one specific casino licensee which has assembled large parcels of land through the City with little or no intention of developing the holdings in the foreseeable future. The truth is that land speculation has gone well beyond one casino, and currently includes a number of gaming houses.

One does not need to own acres and acres of land in order to speculate or impede development in Atlantic City.

There is the case of the casino licensee who does not wish to disclose land holdings to the Casino Control Commission or the Division of Gaming Enforcement. What does this licensee have to hide? I see no reason why a casino should not disclose its land holdings.

There is the case where the neighborhood housing stock is rapidly depleted because of purchases by a casino. Residents are forced out of the City, thus confronting the municipality with a lack of adequate housing units for people who want to live and work there.

And, then there is the case of the casino that purchases, thereby depleting the available housing stock. The failure of casinos to replenish the housing stock has destroyed the social fabric of that community.

These are problems that are easily identified. What is more difficult is the identification of the parties responsible for these troubles and taking appropriate corrective action.

I believe there are a number of us here today with that responsibility. The City has a responsibility to ensure that redevelopment occurs both in a significant way and on a timely schedule. The Casino Control Commission and the Division of Gaming Enforcement have a responsibility to uphold the Casino Control Act, especially as it applied to negative impacts of gambling under Section 84(e) of the Act. Casinos, individually and as an association, must be the partner, not the impediment, to redevelopment.

When you point fingers at others as I have just done, you must be willing to look at your own deficiencies and make your own recommendations. The City has recently hired a firm to update the City's Master Plan and Land Use Ordinance. You know the major deficiencies of the original Master Plan. The updated Master Plan can help address speculation by down-zoning sections of the City, in particular the North Inlet. Down-zoning of the Inlet is the key to redeveloping the Inlet as a balanced residential community. The City, in cooperation with the Inlet Community Development Corporation and the local Redevelopment Authority, can then begin to "land bank" in order to build the American Cities Plan.

The City has been criticized for failing to implement a new property tax reevaluation which would have resulted in an increase in taxes paid on vacant land. I would like nothing more than to have speculators pay increased real estate taxes. This evaluation has been delayed by the City and the State Legislature for other reasons.

The issue of condemnation comes to mind when discussing land speculation. Condemnation is a last resort that can be used to acquire property for public purposes. However, it alone does not stop or solve the speculation problem.

As I said earlier, the other public agencies that have a responsibility to address the problem of land speculation in Atlantic City are the Casino Control Commission and the Division of Gaming Enforcement. As far back as July, 1981, the Commission was petitioned by the Atlantic City Congress of Community Organizations through the State Public Advocate to take action under Section 84(e) of the Act to alleviate the negative impact of casino gambling. This petition is still pending. The Advocate's office should pursue this matter further because the Commission, under present law, has the power to regulate and control land transactions of casino licensees. The Legislature need not act to give the Commission additional powers, yet legislative initiative must be applauded, as it emphasizes the urgency with which immediate action is needed.

The responsibility of the casino industry is to ensure that a few casinos do not continue to speculate using the Casino Association as a protective wall. The Casino Association must use all of its influence so that the long-term economic viability of Atlantic City becomes the focal point of land development. This industry constantly complains about over-regulation. Industry members, not just one casino, should change their policies before it becomes necessary to have additional legislation and regulatory requirements enacted, if needed over-regulation is a true concern.

I say this because in one ear, I hear the casino industry voicing these complaints of over-regulation, while in the other ear, I hear them asking these same agencies to intervene in the marketplace in order to make it more difficult for new casinos to enter Atlantic

City. Certain casino executives would like the Master Plan Update to require future casinos to demonstrate to the City's Planning Board that the casino market can absorb the additional casinos. Atlantic City should not and will not get involved in this issue.

I often speak of Atlantic City in terms of "The Tale of Two Cities." The conflict between rapid economic development has caused land speculation and the need to redevelop Atlantic City as a balanced community.

Senator Lynch, as Mayor of New Brunswick, you have experience with this issue. Yours was the first municipality in the State to develop a Lease/Purchase Homeownership Program for middle-income families. I can fully appreciate the problems you have had trying to find sites to locate middle-income housing development in New Brunswick.

As long as speculation continues, it is virtually impossible to create a balanced residential community in Atlantic City.

Public agencies -- the City, the Redevelopment Authority, the Improvement Authority, the Commission, and the Division of Gaming Enforcement -- must address the land speculation issue head on in order for Atlantic City's redevelopment to become a reality rather than just a dream.

Thank you for the opportunity to speak to you, Senator.

SENATOR LYNCH: Are there any questions from members of the Committee? Mayor, with regard to the heart of the issue, you have a priority agenda for Atlantic City of some things you think need to be done almost immediately to bring about significant redevelopment. Correct?

MAYOR USRY: Yes.

SENATOR LYNCH: I take it, from your testimony this morning and other things I have read that came from your office, that housing development is one of the more significant areas of need in the redevelopment of Atlantic City.

MAYOR USRY: Yes, it is, sir.

SENATOR LYNCH: Also, I've read -- maybe you can help me with this -- that in order to assemble land anywhere at or near the core of

Atlantic City today, you are talking somewhere in the vicinity of \$1.5 million per acre and up. Is that correct?

MAYOR USRY: I'm sure it is \$1 million.

SENATOR LYNCH: You're sure it is a million, okay. Whenever you get into the area of housing development, unless you are talking high-rise, you are talking about land acquisition costs of \$1 million per acre. It makes middle-income housing development literally impossible.

MAYOR USRY: It makes it impossible and extremely difficult without very, very deep subsidies. We are gradually depleting the fiscal basis for that in the City of Atlantic City. Without that, it is almost an impossibility.

SENATOR LYNCH: I guess you are saying that the value of this land is where it is because of speculation by the casino industry. That is why your values are so inflated.

MAYOR USRY: The values are extremely inflated, and it has gone beyond any estimable proportion. It is extremely difficult to not only assemble the land, but, as you said, to purchase the land. We have a plan we call American Cities Plan, where after three years of working-- To assemble that package, even with the moneys that have been set aside as a result of the newly revised Casino Redevelopment Act, which gives us the authority -- the discretion -- to utilize those moneys, we still have a problem because it becomes seed money. There must be a partnership between those moneys and private capital in order to implement that program. It is extremely difficult, Senator.

SENATOR LYNCH: Mayor, Senator DiFrancesco from Union/Essex just arrived in your fair city. I don't think he has had the opportunity to talk to you.

MAYOR USRY: Senator, let me welcome you and Senator Russo, who I did not have an opportunity to speak to when he came in.

SENATOR LYNCH: Are there any other questions?

SENATOR GORMLEY: If I may, Jim, just for the record, to go beyond housing, the problems also obviously relate to such issues as supermarkets and the amenities that go with housing, which are equally burdened by the cost of land in the municipality.

MAYOR USRY: Because of the cost of land, Senator, I need not say it to you, because I am sure you are aware, and I sincerely hope all of the Senators are aware -- we have said it often enough -- that there is one supermarket here in Atlantic City. That is all. There are no theaters anymore in Atlantic City. With the advent of gaming, we have not been able to build one school in Atlantic City. We have not built one new church since we started. Most of our businesses have fallen by the wayside.

I am not over-exaggerating or over-extending the situation. It is extremely difficult.

SENATOR GORMLEY: In going one step further, we had the new Reinvestment Fund, but the predicament is that the Reinvestment Fund is only an investment. It is not a grant.

MAYOR USRY: That is true. It is not a grant. Those moneys are to be repaid at two-thirds of the bond market value. We are probably talking in the neighborhood of 7%. We certainly welcome that, but it is not a gift.

SENATOR GORMLEY: The point is that that allows money for construction, but it doesn't allow enough capital to offset the ground cost.

MAYOR USRY: That is right.

SENATOR GORMLEY: Thank you.

SENATOR LYNCH: Mayor, thank you very much.

MAYOR USRY: Thank you for the opportunity, sir.

SENATOR LYNCH: Senator Gormley, now that we have heard from the Mayor who kind of set the tone for the hearing, do you have any opening remarks you would like to make? Do you want to give us an outline of the problem as you perceive it, and what brought about the introduction of the bill that you brought to the Senate this year?

SENATOR GORMLEY: Thank you. First of all, I would like to thank Senator Lynch, Carmen Orechio, President of the Senate, who is not here today, and the members of the Committee for having this hearing in Atlantic City to address this issue.

Obviously, the issue of land goes beyond Atlantic City to the nexus of the State because of the revenues generated for the fund for

the seniors and handicapped. The ability or inability to build more casino properties has a direct effect on that fund, which is a State fund.

The issue of land speculation in Atlantic City is not unique to this era. Atlantic City was founded in 1854, and it was founded for one reason -- land speculation. When the railroads initially came to the area, the reason for the siting of Atlantic City was so that they could have a site at the end of the rail line in order to sell. The owners of the railroad owned Atlantic City and sold it. So, you have an island that, unfortunately, was founded on the premise of land speculation.

We all realize the sensitivity when you talk about one's right to own property, whether it be an individual or a corporation. But, I think in the case of Atlantic City, government can honestly address the issue of land ownership because it has come about as a result of an artificial situation. When I say "artificial," I mean because of special legislation -- the Casino Control Act, a constitutional amendment -- the value of land in Atlantic City has gone to such extremes. Also, because of the leverage it has provided investors and individual casinos, there is a great opportunity for them to amass large amounts of property.

This is not to say that anything done by any one casino or other casinos was not permissible, but the point is, there is a major public policy question to be addressed. If we, by our action through government in the State of New Jersey, allow this land speculation situation to exist, then I think we can adjust it by special legislation.

The reason for the bill I introduced, using the Casino Control Act as the vehicle, quite honestly, was because I felt that it could sustain a legal challenge. This is not to say that I wouldn't like to see a broad-based piece of legislation dealing with land speculation, not just singling out the casinos. In this particular case, the bill, as I see it, will be attendant to the relicensing of a casino. Consequently, a casino, in order to be relicensed, could have their participation and land holdings in Atlantic City reviewed. It is

not for the purpose of hurting the particular casino, but the reality is, the reason we had the casinos come was for redevelopment of Atlantic City.

If their land holdings are not concomitant with that goal, then there has to be something done about it. The best way to do it and the best leverage to use is the relicensing of the casino.

This is a very difficult issue, but if we are going to deal with it, we must make use of the vehicle that is the most effective. Obviously, a casino holder's license is the most effective way to deal with the issue.

I am very pleased that we are able to review the issue. As I said, it started in 1854, and we are going to try to change it now. I think this is good because I have found in the last few months that local government -- let's say the last 90 to 120 days -- on the city, county, and State level is coming together as I have never seen before. We can easily point the finger at government, and to a degree, we should have possibly been more vigilant. The reality is that Atlantic City does need help, and Atlantic City is not looking for money. They are looking for the State, which has been the architect of this unique legislation -- casino gaming -- to also be the architect of a unique piece of legislation that will help to offset a phenomenon, which as the Mayor pointed out, is depleting the City of those assets that make a town a community.

There are no movie theaters. There is one supermarket. There have been no new churches. Obviously, it is impossible to build middle-income housing with the average cost per acre. I think the time has come to address it, and maybe it is overdue. I think we can have an effect, and I am very pleased that this Committee, of which I am a member and which I am very partial to as being one of the most excellent committees in the State Legislature, is down here looking at this issue.

Again, Senator Lynch, I want to thank you and Senate President Carmen Orechio for making this hearing possible.

SENATOR LYNCH: Senator, while you are discussing the issue generally, there is a collateral issue that Mayor Usry referred to,

namely the problem of reevaluation that your assessor has to go through here in Atlantic City. To some extent, it ties a little bit to the issue that we are here to discuss because it has a great deal of negatives.

Since we are here for an informational session, to start with, would you give the members of the Committee your thoughts on what has brought about the need for legislation to delay the implementation of reevaluations in Atlantic City and what some of the negatives have been there? Also, would you give us your thoughts on what you expect to occur as we move down the line, and why there are the constitutional proscriptions that sort of tie the assessors' hands when dealing with vacant land that has been bought for speculative purposes which has increased in value?

SENATOR GORMLEY: Well, there have been suggestions that we bifurcate, that we deal with the vacant land at a different value ratio than improved property. Obviously, this would require some form of constitutional amendment in order to accomplish that. It is something that is obviously worth reviewing, but at the same time, it would require a constitutional amendment and a fairly lengthy time of study.

With regard to the question of reevaluation, we have put in bills to delay the reevaluation in Atlantic City. The request had been made by the administration. The basis of it was, although certain properties -- "speculators" -- might not have been reevaluated, we were dealing with the problem of trying to preserve the community. There was a shift of the tax burden, which adversely affected residents who were currently staying here.

You see, we have a twofold problem, not just to bring the people in and redevelop the City with new residences, but a holding action to maintain the residents who are still here. The predicament that they have been faced with is obviously rising property taxes. People who lived here before casino gaming were interested in living here as a town and not for profit, if you will.

Consequently, the delay bill went through, was signed by the Governor, and the premise for it -- the reason for me putting it in, along with encouragement from the Mayor -- was not to give a loophole

to speculators, but in the alternative, to protect those residents who were going to be adversely affected by the reevaluation.

Atlantic City is unique. I must say this to everybody -- to the Senators who are here today -- that through the years, it seems that every other month we have had special legislation for Atlantic City. That has been the predicament we faced. The phenomenon of casino gaming-- The property value of Atlantic City has multiplied at a rate that I don't think any city on a per capita basis has ever had. It tests the reevaluation system that we have in New Jersey because it is just so unique.

That is the problem we face in all of these situations. That is why the legislation today-- Unless we have something to curb the inflation in the City, you are not going to have a community left. That is the predicament you have. If we don't do something about it, then everything we said as the justification for casino gaming -- the redevelopment of the City -- will not come true.

SENATOR LYNCH: So, if you did a full reevaluation, you would find an inordinate shift on to the one- and two-family owner occupied properties.

SENATOR GORMLEY: That was the information which was provided by the City. That is the problem we are faced with.

We are talking about the shift. As I remember it, the percentage which shifted was approximately 7% or 8% from the casinos to the residential property owners.

Could there be speculators in the midst of those residential property owners? Yes. That is the problem we face. You have certain good people who we really want to help, but when we pass a general piece of legislation, it has to go across the board and it affects all of the property. That is a quandary you face when you go through this, and that is part of the reason for what we are doing today, which is to hopefully try to draft something -- maybe my bill or maybe another bill -- that could more specifically address the peculiar situations in Atlantic City.

SENATOR GORMLEY: Senator Russo?

SENATOR RUSSO: This is really an aside from today's hearing, but apropos to the discussion you were just having. The thought just occurred to me that maybe there is another way we ought to be thinking as we go down the line, particularly in an area such as this, but it would apply generally. It seems as though the problem with reevaluation in Atlantic City is that you would have dramatic increases in taxes. People aren't selling because the value of their land has gone up.

Yet, on the other hand, by not reevaluating, you penalize -- for example, the County tax rate, etc. -- other parts of the County. Maybe there ought to be a hybrid idea proposed. It just occurs to me now that you don't affect the taxes until the time of sale. Then they are taxed retroactively.

It is also unfair to someone who has a piece of property that is worth \$50,000. Then it goes up in value to \$500,000. He is living in it, so we don't want to tax him until we drive him out of the City. On the other hand, if he sells it, he reaps a profit of \$450,000 and he never has to pay the taxes on its true value. That might be another thought to tuck away and ask staff to take a look at as a possible way of handling the reevaluation.

SENATOR GORMLEY: Coincidentally, because I represent 19 other towns in the district, the other taxes didn't go up as a result of that.

SENATOR RUSSO: You represent 19 other towns?

SENATOR GORMLEY: Yes. Aren't they lucky, John?

SENATOR RUSSO: That reminds me of the way Ocean County used to be. That is very good.

SENATOR LYNCH: All right. Thank you, Senator Gormley. Our next witness is John McAvaddy, Atlantic City Housing Authority. John? Good morning, John?

JOHN McAVADDY: Good morning.

SENATOR LYNCH: Senator Russo was trying to imply that Senator Gormley's law firm represented 19 towns in the district.

MR. McAVADDY: Gentlemen, thank you very much for this opportunity to appear before you. To start, I would like to tell you

that my remarks are not meant in any way to conflict with those of the Mayor of Atlantic City, nor do they represent the policy or the general consensus of the Board of our Housing Authority and Redevelopment Agency, but rather are a personal and professional opinion. I have been with the Agency since 1973 and I have tracked real estate occurrences in Atlantic City since the advent of casino gaming. We would like to talk a little bit about a method that we see as a tool which would assist Atlantic City in regaining its own destiny for the future and allowing us to circumvent spoilers, if you will, that, in our opinion, are taking away from the ability to build housing in Atlantic City.

In 1976, the people of New Jersey approved casino gaming for Atlantic City as a unique tool for urban redevelopment. Unfortunately, casino gaming has fostered the unintended consequences of land speculation which, to a large extent, has stalled redevelopment. We submit to you for your consideration the following:

In the two areas of the City most in need of redevelopment, the North and South Inlets, the average price per square foot for improved property in 1983 was five times that of 1976. Correspondingly, the price for improved property increased seven times over the same period.

In the central business district, another area in dire need of rehabilitation and redevelopment, prices for unimproved and improved property rose five times and six times respectively. Those familiar with the Atlantic City scene can recall a number of stories about the extravagant prices some individual property owners or holdouts, if you will, are demanding. These holdouts make private assemblage, and thus redevelopment, nearly impossible for all but luxury condominiums or casino projects.

A recent Philadelphia Inquirer article has detailed some of the many forces at work which have prevented meaningful development opportunities, and although the picture portrayed by this series is not a pretty one, we would suggest that it is nonetheless a realistic assessment of the circumstances which now confront us. I will display this for you graphically in a few moments.

We could go on and on with a number of statistics and horror stories about the Atlantic City circumstances, yet we appear today not to lament our situation, but rather to offer a solution to the problem.

In our judgment, the only feasible and practical means to initiate meaningful development and affordable housing is through public intervention and, more specifically, for the governing body to direct the Planning Board to investigate specifically defined areas to determine if said areas qualify as areas in need of redevelopment as defined in the appropriate State statutes. I might add that this is presently under way in our central business district at this point in time.

By following the redevelopment process and using local public agencies, the local public agency must -- we emphasize "must" -- obtain specific legal approvals from the local government before each major step of a redevelopment project. The investigated area must be declared legally blighted by the municipality. This plan incorporating the desired reuse also addresses the appropriate relocation needs and legal assurances for project residences and businesses.

In addition to the requisite administrative and financing powers needed to carry out or assist in the redevelopment project, the local public agency also has the power of condemnation of any land or buildings which are necessary to carry out the activities of a redevelopment project. Although the term "condemnation" or "eminent domain" sends shivers through many people, the Redevelopment Agency's law and Relocation Assistance laws in New Jersey protect the rights of the citizen and guarantee fair and just settlements of all reasonable claims. We emphasize "reasonable claims."

The logic of using the redevelopment process and the local public agency to assist in bringing about needed revitalization -- in our case, housing -- is simply to facilitate the aggregation of land so that the required uses are possible. The fact is, land use is frozen by multiple ownership and obsolete planning, which break land into too many fragments, each too small for contemporary demand.

Since redevelopment requires assembly of many plots, the private redeveloper alone is at the mercy of the holdouts. Without

public intervention and the exercise of eminent domain condemnation, the speculators and holdouts will forever hold the future of Atlantic City hostage. It will forever delay the meaningful redevelopment and will forever prevent affordable housing and revitalization of our downtown. We will never be able to control our own destiny in Atlantic City.

We take this opportunity to remind this body of the excerpt from the Declaration of Policy of the New Jersey Redevelopment Agency's law,

"Therefore, as a matter of legislative determination, it is hereby declared to be the policy of this State to promote the health, safety, morals, and welfare of the citizens thereof by the creation of the redevelopment agencies, which are declared to be governmental agencies and instrumentalities of the public for the public purpose of acquiring and replanning of such areas and the holding, redeveloping, and disposing of them in such a manner that they shall become available for economically and socially sound development by private or public enterprises or by a combination of both."

We suggest that unless there is public intervention, as we suggest today, and that it is instituted, economically and socially sound development by private and/or public enterprise will not progress, and casino gaming, rather than being a unique tool of urban development, will remain an ineffective tool. For those who have dreamed of a rebirth of Atlantic City, they will be destined to dream on because the dream will continue to be beyond reach and never come to full fruition.

If I might take a moment, I would like to show you on one of our charts what I am talking about. (Witness moves to chart)

What we have here is one particular area of Atlantic City, roughly the South Inlet area. This would be the urban renewal tract that is under agreement to Resorts International. This would be going to the Absecon Inlet, up as far as Grammarcy Avenue, one block above Atlantic Avenue.

The areas that are in yellow, which pretty much stand out, are what we refer to as "spoiler pieces" where a speculator has picked

up a property to do no more than hold out. The areas where you see larger assemblages, in our opinion, would be where a person or a company is acquiring land for some future development.

We are not as much concerned with the areas that are zoned as resort or commercial in Atlantic City as we are with those areas that are primarily residential in nature. These particular developers or spoilers have compromised development in the residential areas, which are the areas we direct your attention to.

The only reference and immediate concern I can direct you to as a particular reference would be that of the Metropolitan Plaza Apartments. They were delayed by the same fellow or group that is represented here in yellow. They elected to build around him. They could do that only because of the fact that they were townhouse developers.

SENATOR DiFRANCESCO: Excuse me. You just said something about-- Could you point to me what you are talking about right now? You said there is a section in there--

MR. McAVADDY: The Metropolitan Plaza?

SENATOR DiFRANCESCO: I'm not familiar at all with that.

MR. McAVADDY: The property in black is a property that was developed by Dave Zarin for the Lighthouse Project and the Metropolitan Plaza Apartments. The yellow represents the spoiler piece. They were unable to acquire that property because of the price that they were asking, which was far in excess of the fair market value at that time. They elected to-- This doesn't completely show the project as it is now, but they elected to acquire the land exclusive of the particular spoiler.

SENATOR LYNCH: You couldn't have blighted that?

MR. McAVADDY: Pardon me?

SENATOR LYNCH: You couldn't have blighted that and taken it by eminent domain?

MR. McAVADDY: It was not a redevelopment project. Had a redevelopment project been initiated before that, chances are it could have been, but the developer elected to--

SENATOR LYNCH: But, you can do that with almost any one of these blocks that you are talking about.

MR. McAVADDY: If, in fact, we had gone through the--

SENATOR LYNCH: Except for the fact that the bottom line may not work because the values may be too high.

MR. McAVADDY: In this case, the developer acquired the properties at the fair market value and could not acquire that particular piece in that block because of the excessive amount of money that was asked for the parcel.

SENATOR LYNCH: But, had you gone through the redevelopment process on that block, certainly that type of development could have qualified or blighted and made it a to-be-acquired area. You could have exercised eminent domain, and you could have bought it at, and I quote, "fair market value," whatever that turns out to be through the condemnation process.

MR. McAVADDY: Yes, the benefit of that would--

SENATOR LYNCH: With what has taken place, that number is probably significantly more than what you and I might think fair market value is.

MR. McAVADDY: Yes, sir. The benefit of that would have been that we could have moved ahead or the project itself would have moved ahead while the fair market value was argued in the proper court. It would not have held up development.

I will leave this with you also. It is roughly the area we were talking about, the North and South Inlet area. The red dots indicate the same individual who was depicted in yellow in the larger map. You can see the predominance of the areas in which he had been able to acquire property and remain as a spoiler. They are all in the residential areas which will, in our opinion, seriously compromise any private developer without governmental assistance coming in to provide affordable housing in Atlantic City.

SENATOR LYNCH: Are you saying as a policy matter that you don't want to have governmental assistance? You don't want to go through the redevelopment process? You don't want to have eminent domain?

MR. McAVADDY: No, sir. I'm saying that we should.

SENATOR LYNCH: Okay. So, these so-called spoilers are not really spoilers if you utilize the redevelopment process and make it to be acquired, and so forth. However, your bottom line is affected by your values that are being generated and fueled by something else, I guess, namely the casino industry.

MR. McAVADDY: Well, as an example, back in 1977 and 1978 when we--

SENATOR LYNCH: Well, what is your biggest impediment to develop housing in the City right now?

MR. McAVADDY: Presently, we are getting under way in conjunction with the City Administration to provide development plans for the designated areas, those specifically in need. The North Inlet is where the American Cities plan has been authorized and approved by both the City and the Casino Control Commission. It is a study implemented by them.

We are suggesting that in an effort to get the American Cities concept under way, a public entity should join with a private developer to assure that we can move ahead with the housing development in that area without being concerned about a developer being stopped by a spoiler, which we think, in many cases, would seriously compromise the total adequate replanning of those areas.

SENATOR LYNCH: Who controls most of the land in the North Inlet?

MR. McAVADDY: Pardon me?

SENATOR LYNCH: Who controls most of the land in the North Inlet?

MR. McAVADDY: In the North Inlet, I guess it is somewhere in the area of 50% that is controlled by the City.

SENATOR LYNCH: So, you don't have any great impediment to redevelop there for housing.

MR. McAVADDY: This particular spoiler has managed to take one or two properties in every block.

SENATOR LYNCH: But, I'm not sure I understand why that is a problem because you can take it by eminent domain.

MR. McAVADDY: The eminent domain can only be used if there is an approved redevelopment plan. Okay?

SENATOR LYNCH: Sure.

MR. McAVADDY: What we are suggesting to you is, back in 1979 when we attempted to acquire some properties also in the North Inlet -- the particular area was Block G-1, which was north of Melrose Avenue -- the infamous ordinance of 1979 was passed by the then Commission form of government, which asked specifically that the local agencies not use eminent domain to acquire property. Since 1979, nothing has occurred as far as development in the North Inlet is concerned.

SENATOR LYNCH: Are you saying that as a result of that ordinance, there is a policy not to utilize eminent domain?

MR. McAVADDY: There was under the past administrations. I cannot speak for Mayor Usry.

SENATOR LYNCH: So, you haven't really exercised the use of eminent domain through the City or any of its agencies in the recent past for any major development.

MR. McAVADDY: I believe the first step in a change, as far as the City's view of that is concerned, has taken place in the past week when the City Council asked the Planning Department to investigate the central business district area to determine if a designated area can be designated as a redevelopment area, and more specifically, a general area in need of rehabilitation.

Once the Planning Department reviews that area and brings its findings back to the City, hopefully the next step will be to prepare a redevelopment plan which would allow us to use those powers, should we need them. We have not done so since then.

SENATOR LYNCH: Aren't we really getting afield here? I mean, whether the City and its agencies have a policy or not in utilizing eminent domain, and Lord knows, if you are going to do redevelopment in a City like this, you are going to have to use eminent domain to some extent. I think that is a little bit extraneous to the issue at hand.

I think from your perspective, we are talking about how do you develop balanced housing for low, moderate, middle, and upper income in Atlantic City given the value of land here today, and why are those values so high? Why is it so difficult to acquire legitimate

parcels for significant housing development? Isn't that what we are really talking about? Are you saying, in effect, that you are having difficulty creating housing starts because you can't assemble land?

MR. McAVADDY: Yes, sir.

SENATOR LYNCH: The fact that you can't assemble land is primarily due to the value of that land rather than the fact that there are spoilers out there because you have another method of taking a spoiler out as long as the price or fair market value, as you and I might understand it, is not some falsely inflated number.

MR. McAVADDY: Well, what the speculators or spoilers have done since 1976 that we have been more or less able to ascertain is, in the early part from 1977 through 1979, they began to sell parcels back and forth amongst themselves to artificially drive up the value of the land to the point now where, in many residential areas of the community, the asking price is far greater than what the fair market price is.

SENATOR LYNCH: So, they are using their own sales as comparables whenever there are negotiations for taking, or even if you had the threat of eminent domain.

MR. McAVADDY: Yes, sir. The second area is, Atlantic City is a defined land mass. It is 48 blocks long, and 10 blocks wide at its widest point. We only have so much land to be developed, and when select groups -- in most cases, out-of-town groups -- begin to tie up the particular land, that drives the value up also, which makes it very difficult for affordable housing to be constructed without the City subsidizing it greatly by various forms -- either tax abatement, or whatever means to make it work.

SENATOR LYNCH: You can't subsidize affordable housing if you are paying \$75,000 per unit for the land. Someone has been saying that your assemblages are roughing out at somewhere near \$1.5 million an acre. Is that true?

MR. McAVADDY: Subsidy in the form of land on behalf of the City, or whatever agency is acquiring the property, subsidy in the form of a graduated property tax--

SENATOR LYNCH: How are you going to subsidize? If it is costing you \$75,000 a unit for the land, how do you subsidize that?

MR. McAVADDY: Well, if you--

SENATOR LYNCH: You are certainly not going to subsidize \$75,000 per unit.

MR. McAVADDY: If you're talking about a government agency being involved in it, part of the redevelopment process is that the land, in order to make development work-- That would be the method we would suggest to the City.

As an example, in the redevelopment project, the intent is not to get as much money as you can for the land, but to bring in ratables and to provide jobs for the future, and if the need be, bring the land cost down to zero. That would be the method in which the City could participate to help in bringing about affordable housing in Atlantic City.

SENATOR GORMLEY: But, if it came from the City, it would come from property tax.

MR. McAVADDY: That is correct.

SENATOR GORMLEY: In other words, somewhere someone is going to have to pay for the land, and they are going to have to pay the speculative value of the land.

MR. McAVADDY: That is right.

SENATOR LYNCH: I don't understand how you can even think about doing housing if the numbers are what you are saying. If you are saying it is \$1 million or \$1.5 million an acre to assemble the ground in Atlantic City for housing, and you are going to build 20 units to an acre of lower mid-rise townhouses, condominiums, or affordable housing apartments, you are talking \$50,000 to \$75,000 per unit for the cost of the land. You are not going to provide affordable housing with that as a given. Certainly, you are not going to be able to subsidize it from the municipal coffers to write down the cost of that land to something which would make it realistic to develop it for moderate or middle-income housing.

How do you get around your problem in developing housing in Atlantic City, and how does the issue of land speculation affect you and frustrate you from developing affordable housing?

MR. McAVADDY: What we are hoping is that the local administration, the Housing Authority and Redevelopment Agency, the Atlantic County Improvement Authority, and hopefully, the Reinvestment Credit Authority will come together and provide some methods of-- Again, it would have to be a subsidy to write down the costs of the land.

The alternative to that is, construct no residential units in Atlantic City.

SENATOR GORMLEY: Excuse me, if I may. What Mr. McAvaddy is saying is, we have all the agencies working together now, but there is a shortfall. The cash to buy the land at these values is not there. The reinvestment bill is an investment. There has to be a return on the investment. There are no large grants coming from the Federal government, and obviously, unless you get the value down for the City to redevelop, you would be placing the burden back on the existing property taxpayers, which is something you couldn't do or shouldn't do, in order to buy the land. That is the vicious circle you are in.

We have the agencies in line. They are moving along now at the best pace they have ever moved along. With the bottom line for the base price of land, we can do some things, but the volume you would want to do is inhibited because the assets they have could be eaten up in purchasing the land.

SENATOR LYNCH: But, Senator, you indicated you wanted to get the values down. Obviously, that is not going to happen. One thing we are not going to see is values going down, so you are talking about how you are going to develop housing in the face of high values and in the face of entities and individuals who control a great deal of property. The latter, however, doesn't seem to be a great problem if you exercise the use of eminent domain. The former -- how much it costs you -- is the problem.

John, my question to you again is, what impediment do land speculators bring to bear upon you in the development of housing in Atlantic City as a result of their having acquired properties, sitting on them, and waiting for the goose that laid the golden egg, or whatever? How does that frustrate you from developing housing, forgetting the values for a moment?

MR. McAVADDY: It doesn't frustrate us directly. It frustrates the developers who we have invited in an attempt to get housing--

SENATOR LYNCH: Why does it frustrate them if you can use eminent domain?

MR. McAVADDY: It is because the developers we have invited in -- not as part of a redevelopment plan, but as private developers in an attempt to develop on their own -- have been frustrated because they can acquire only so much property at the fair market value, whatever that value is determined to be. But, in most of the residential areas, there are always one or two blocks that are being held by particular individuals.

SENATOR LYNCH: But, you can take them out by eminent domain. You can do a redevelopment block. You can blight the area; you can enter into an agreement; and you can go forward and take it by eminent domain.

We are here to discuss how land speculation, in effect, is negatively impacting Atlantic City.

MR. McAVADDY: I'm saying that without the use of eminent domain, as a private developer coming into Atlantic City, it is impossible for me to assemble a large enough tract to provide land. As an example, anyone--

SENATOR LYNCH: Are you saying that the problem is that we are not using eminent domain, or is the problem spoilers, or both?

MR. McAVADDY: Both.

SENATOR LYNCH: Okay, thank you. Are there any questions from any member of the Committee? Senator DiFrancesco?

SENATOR DiFRANCESCO: You talk about spoilers. Are we talking about a number of different individuals and corporations? Are we talking about one or two people -- two individuals -- or two corporations?

MR. McAVADDY: There are three defined groups that we have followed since 1976. One in particular is the one that has assembled the most properties and the largest number of blocks throughout the City. When I say the largest number, I am talking about one or two

parcels in every block that we would be targeting for residential development in Atlantic City. They have consistently acquired property by that method since the latter part of 1977 or 1978.

SENATOR LYNCH: Who was that?

SENATOR DiFRANCESCO: Who was that?

MR. McAVADDY: The Committee for Human Behavior out of Philadelphia. There are two or three different names they use, but it is the same company. There is Joseph Zole, and a fellow by the name of Rolf.

SENATOR DiFRANCESCO: Do the yellow parcels indicate the spoilers that you referred to?

MR. McAVADDY: Yes, sir.

SENATOR DiFRANCESCO: Are some of those spoilers individuals who just happen to own property?

MR. McAVADDY: The yellow ones are all Zole or Wozzo. They are the same people.

SENATOR DiFRANCESCO: Are all of those yellow parcels in residential zones?

MR. McAVADDY: On the map where the Zole parcels are indicated in red, they are predominantly in residential zones.

SENATOR DiFRANCESCO: Do you mean the red dots?

MR. McAVADDY: On the larger one, the area south of Atlantic Avenue would be zoned as resort/commercial.

SENATOR DiFRANCESCO: So that I understand it -- I know you have been through this with Senator Lynch, but I want to try to get a grasp of your point -- land speculators, or spoilers, as you referred to them, are people who have purchased land recently in the City, within the last 10 years?

MR. McAVADDY: Yes.

UNIDENTIFIED PERSON FROM AUDIENCE: We can't hear you.

SENATOR DiFRANCESCO: (turns on microphone) Spoilers are land speculators-- At least in your opinion, spoilers are land speculators who have purchased property within the last 10 years, or since 1976 or 1977, and you feel they are jeopardizing the redevelopment of the City through what mechanism? How are they doing that?

MR. McAVADDY: On the larger map, the ones that are marked in yellow, that individual has acquired one or two parcels in every block throughout the North and South Inlet area -- just about every block.

The ones that are in black and green are assemblages that are taking place. In some cases, those assemblages -- in the case of the Zarin Development Company -- have moved forward in the form of development.

The others ones are simply assembling land with the hope of some future sale to another developer in an attempt to garner a higher price for the land. The individual who acquires one or two parcels in every block is not acquiring that land as an assemblage, but simply to be a holdout or a spoiler whereby should a developer go into that area in an attempt to build housing, as an example, he would have to come to grips with that individual. He could ask any price he would like for that, and that would make it impossible to assemble the entire block.

SENATOR GORMLEY: Don, if I may add, one of the reasons for encouraging a developer to do it is, we would like the developer to pay for the out parcel, because even if you condemn it, the public is going to have to come up with the cash to pay for the out parcel.

SENATOR DiFRANCESCO: You, as an authority who seeks private development in the City, see this as a stumbling block because you are a conduit more or less trying to encourage private development, and the private developer cannot acquire that particular parcel you are referring to. Therefore, the project cannot go forward. Is that your point?

MR. McAVADDY: That is correct. We feel that if the City follows through on the concept for the North Inlet, which I believe they are committed to -- basically the American Cities concept -- then hopefully a government agency would be involved, whether it be the Housing Authority, the Improvement Authority, or the Reinvestment Credit Authority -- all three or any combination thereof. Then we would be able, hopefully, to move into that area and assure acquisition of the land in an orderly fashion and preserve the benefits of the residents and the businesses in that area to assure them of relocation benefits. It would also assure that there would be no holdouts because

the fair market value would be paid to that particular individual; the title would be taken by the acquiring agency; and the value would be argued in another court -- not stopping development.

SENATOR DiFRANCESCO: What action have you taken to prevent this from happening? Do you have any possible alternatives yourselves?

MR. McAVADDY: I'm not sure I understand what you mean.

SENATOR DiFRANCESCO: What alternatives do you have to prevent what you say is the spoiling process?

MR. McAVADDY: By the use of a local public agency to assist in the acquisition of the land, for the City to come out and definitely strike out for a particular area that they want to acquire for housing, to prepare the necessary redevelopment plan, go through the government process, and attempt to acquire the property in that manner.

SENATOR DiFRANCESCO: Okay. If we were to -- I assume you are speaking to the problem and possibly to a proposed solution legislatively today; perhaps you are not -- legislatively mandate that, or permit the Casino Control Commission to use its discretion in determining whether or not certain licensees should divest their holdings, would that help you in any way?

MR. McAVADDY: It would certainly help the development of the South Inlet. We know that there is a large assemblage going on in the South Inlet area. There has been no definitive development plans to the best of our knowledge for that land, and without definitive development plans, the public perception is that the land is just being held for the sake of holding it.

SENATOR DiFRANCESCO: If that particular whomever were to divest itself of some of its property as mandated by the Casino Control Commission, I assume they would be selling it at the fair market value. Wouldn't you make that same assumption?

MR. McAVADDY: Yes.

SENATOR DiFRANCESCO: Might not that also prevent you from seeing development at that-- You make reference to a particular location.

MR. McAVADDY: My concern is more for residential as opposed to resort/commercial. I'm very much concerned about us being able to provide the needed residential units in Atlantic City.

My appearing before you today is not to ask you to do anything legislatively, but rather to bring to light what we see as the primary problems in that area, and that we do have the agencies available to do those things ourselves in-house. We just want to bring the problems to your attention.

SENATOR DiFRANCESCO: Thank you very much.

SENATOR LYNCH: Thank you, John. Our next witness is Atlantic County Executive, Richard Squires. Good morning.

RICHARD E. SQUIRES: Good morning. Welcome to Atlantic County, Senator Lynch and all of the other Senators in attendance. I certainly do appreciate a full Committee in place.

I might be coming from a different angle, but I would like to suggest to you that I put these facts together, and after hearing the first couple of moments of testimony, I think they might be on target.

My purpose in coming before you here today is simple. I want to ensure that the Judiciary Committee recognizes that the damaging consequences of rampant land speculation in Atlantic City are not only felt in the City, but all over Atlantic County. They have countywide impact, and I feel the issue should be addressed in a county-wide manner.

I want to stress that my comments are based on my interest in the well-being of every community in the County and on more than 22 years as a licensed tax official, both Tax Collector and a licensed New Jersey Tax Assessor.

Land speculation certainly isn't new, and it certainly isn't unique to Atlantic City. It is going on everywhere there is an opportunity for a dollar to be made. What is different about Atlantic City is that property with little value 10 years ago is now very valuable, and the free-spending image of the casino industry has only served to fuel the fire.

A land speculator has only one interest -- to buy land at the lowest possible price, hold it for as little time possible, and then sell it at the highest price he can get.

He generally has no interest in improving the land. That will only reduce his profit. In Atlantic City, it has been more a case

where speculators have been motivated to "un-improve" their property. Tenants have been forced out of their homes, stable properties left to deteriorate, and store leases not renewed -- all for a very practical reason: to lower property taxes and to make it easier to sell the property.

It has been estimated that 300 parcels of vacant and undeveloped land in Atlantic City are being held for purely speculative purposes by investors whose only contribution to Atlantic City thus far has been ragweed.

The municipality and County are not receiving the tax dollars they should from these properties. Governments still have to meet their budgets, so someone else pays the bill. That means not just the taxpayers of Atlantic City, but the taxpayers of every community in Atlantic County.

We will never realize the benefits of all the casino era construction in and around Atlantic City until taxes are tied to current realistic property values. I believe that a proper, current assessment of real estate values throughout Atlantic County will serve to limit speculation.

Consider that Atlantic City has not had a complete city-wide reevaluation since 1962, which is 23 years ago. Neither have at least two other municipalities in Atlantic County.

I have strongly urged in the past that legislation be enacted to single out Atlantic County requiring all 23 municipalities to do a complete revaluation for the same base year. For those of you who do not understand, that means to prepare, give proper notice, and put it on the books in the same year. Many municipalities -- in a sense, the casinos -- have come to Atlantic City and have done at least one. Some of them have done two revaluations or reassessments at the local level. In such cases, it doesn't give the same effect.

Every town in the County should have a chance to meet a deadline, let's say 1988, to prepare up-to-date valuations. Each community would have the opportunity to start off even by paying its fair share.

This may seem like an extreme step. It is. But Atlantic City and Atlantic County find themselves in extreme circumstances, and it has been done before.

Back in the early 1960s, the State ordered all 567 municipalities to reevaluate by 1964. Millions and millions of taxpayers' dollars were spent to accomplish this. The idea was that subsequent 10-year periods would be set as target dates to repeat the process.

There are many reasons why land speculation exists, and there is no single, simple answer to the problem. But, I think we all know that if current fair market values are not assessed to all parcels of land, whether vacant or improved, speculators will never pay their fair share in taxes.

As soon as a revaluation goes on the books, you will see some fast real estate transactions occurring -- this always has, by the way -- as speculators move to avoid paying higher taxes.

Realistic tax assessments will serve as a disincentive to speculate, making it more costly to hold onto land without making use of it.

Special legislation to protect residential areas, especially in Atlantic City, I feel, can be instituted in a fashion similar to many years ago when the farmers were hit with the same kind of problem. It would be a roll-back type of assessment, a roll-back tax that would be done after an approval of a property, such as a residential property that found itself next to a casino. Until such time as that residential property, which did exist right next to, we'll say, a casino area development-- Until it actually got a Planning Board approval -- we go back in taxation until zoning gets changed -- then, of course, that would be the date to start to recognize the full current value of its neighbor. In this case, it is whatever the best use of the immediate area would be.

I really think this is something we should be looking at because in Atlantic City and Atlantic County, many areas have been picked off by the ability of others who come in and see just where they want development. Many innocent people have been caught in this,

especially in cities like Atlantic City where many of our long-standing residents have lived here all their lives, and their families have been here ahead of them. I think they should have the prerogative of making their decision at the time they wish to get involved in the big ball of wax. If they do, they should certainly have the opportunity to plan their future as to where they would be moving.

To conclude, let me repeat that land speculation in Atlantic City is an immediate and pervasive problem, not just for the City, but for every one of Atlantic County's 23 municipalities.

By reassessing county-wide, we will also ensure that no one pays more or less than his fair share. Thank you very much.

SENATOR LYNCH: I don't disagree with the need for revaluations across the board, or at least through some new methodology whereby you achieve legitimate revaluations, but if you did the revaluation in Atlantic City eight years ago, you probably would have needed one four years ago and one today.

MR. SQUIRES: Yes, sir.

SENATOR LYNCH: It is a constantly changing thing. Also, we are here to discuss, in effect, the possibility that a licensed casino establishment might be contributing to land speculation in Atlantic City, therefore, having a possible detrimental effect on the redevelopment of Atlantic City. You're not telling us that licensed casinos are going to be afraid of a reevaluation that is going to bring about some limited increase in the land taxes that they have bought to inventory for short and long-term purposes, are you?

MR. SQUIRES: Not at all. In fact, some of the names that were mentioned were not familiar to me, but I would only suggest that when ownership changes. The licensing committee could certainly recognize whether they were licensed casinos, and automatically recognize that their purchase was not for whatever the immediate neighborhood had been designed for. I'm only suggesting that the time of the transaction is a perfect time to make a review of the transaction. It would be a perfect time to enact the change in taxation.

SENATOR LYNCH: Are there any questions?

SENATOR GORMLEY: Just simplistically, the other issue as it relates to the county level is the fact that as long as there are no capital improvements on these properties, the obvious ratable tax benefit to both the municipality and the County is lost.

MR. SQUIRES: There is no question about that. If you and your Committee were to go back, Senator Lynch, to the day the first casino was built and what everybody in Atlantic County envisioned would do to the assessed roles, not only of the County, but of the City, and if you were to compare the cost of any one of the casinos and then look at the assessment that is on the books today, you may also find you have another problem involving the manner in which casinos should be assessed. I'm not really prepared to go into that today, except there are three approaches to the value of a commercial establishment. One of them is known as the income approach, which you certainly can't use as far as the amount of money the casinos transact day in and day out. They have their overhead; they have their mortgages; they have their construction costs.

I think there is a real problem that was created way back when the construction boom hit Atlantic City. Unfortunately, the ones who suffer the most will be those who have not changed their particular lifestyle or their residences from anything they had prior to that. That means that the total dollars put into casinos-- Of course, some of it is gingerbread, but there are other things that have been lost at State appeal hearings to bring the assessments down much lower than what the average lay person indicated he felt Atlantic City would be benefiting from.

SENATOR LYNCH: How about the County? Is the County benefiting from the casinos in terms of the property tax?

MR. SQUIRES: Definitely from the real estate aspect, but at the same time--

SENATOR LYNCH: How much money do you get from the casinos -- just from the hotel/casinos?

MR. SQUIRES: I don't have that available at the moment, Senator, but I can get it for you. Keep in mind also that when they put some of the assessments on the roles, they win a further appeal

when it gets to the State Division of Taxation in some cases because of these approaches. The values, I think, are just as interesting as the reasons we are here for today.

SENATOR LYNCH: Have there been casino/hotels that have taken property tax appeals to the State Division of Taxation?

MR. SQUIRES: Yes, sir, many of them.

SENATOR LYNCH: Successfully?

MR. SQUIRES: Yes, sir.

SENATOR LYNCH: Are there any other questions? (negative response) Thank you very much.

MR. SQUIRES: Thank you very much.

SENATOR LYNCH: The next witness is Commissioner Valerie Armstrong. Good morning. I want to introduce you to Senator DiFrancesco, the cause of all of our past problems. (laughter)

COMMISSIONER VALERIE ARMSTRONG: I think we have already met.

SENATOR DiFRANCESCO: There are no past problems with me. (laughter)

SENATOR LYNCH: Thanks for coming here this morning.

COMMISSIONER ARMSTRONG: Thank you. Good morning, Senator Lynch and members of the Committee. I am Valerie Armstrong, and I am a member of the New Jersey Casino Control Commission. On behalf of the Commission, I welcome all of you to Atlantic City and to our Commission offices.

The Commission appreciates the interest you have demonstrated by your presence today on the important issues facing Atlantic City. It is most encouraging to note your concern about the causes and effects of land speculation on the patterns of development in Atlantic City.

In many ways, the development of Atlantic City represents a classic example of the causes and effects of land speculation. Land speculation in the City almost had to be expected as a consequence of the passage of the Casino Gaming Referendum.

The casino industry, through land acquisition for its casino facilities, very quickly set the pace. Site assembly, which often occurred in record time and at record prices, coupled with the large

number of casinos originally proposed -- at one point, this was as many as 25 to 30 -- touched off a spiral of land prices.

Use variances which accommodated casino proposals in non-casino zones, density variances which justified high land prices and provided a greater return on investment, inflated "boom-town" growth projections, combined with the restricted geographic boundaries of an island community, all served to sustain artificially high land prices and create a climate which nurtured land speculation. A continuing pattern of casino industry land acquisition in all parts of the City, questions as to the appropriateness of property reevaluation, and whether or not eminent domain should be used as a tool of urban redevelopment, appear also to have enhanced this climate of land speculation.

Consequently, Atlantic City has experienced an overheated real estate economy which has created land values that are now too high to support any kind of development to save casino/hotels, luxury residential and commercial ventures, and deeply subsidized housing projects.

The Commission has been concerned with this issue and has, over the years, worked within its powers to ameliorate the causes and effects of land speculation.

In 1979, in response to use variances granted to developers for casino facilities in non-casino zones, the Commission issued a public policy statement placing developers on notice that despite municipal actions to the contrary, the Commission would approve only those casino facilities located in designated casino zones. The Commission subsequently worked with the Legislature to amend the Casino Control Act to bar such use variances for casino/hotel facilities.

In 1980, the Commission, which was concerned about the land acquisition activities of Resorts International, Inc., insisted that the casino/hotel invest \$5 million in housing in the City and region. At the Commission's insistence, after the casino/hotel had spent \$4 million on housing in suburban areas, the pledge was amended to address specifically the housing needs within Atlantic City. Resorts then joined forces with the Atlantic City Housing Authority to create a \$3

million low-interest mortgage pool. To date, 23 low- and moderate-income housing units have been built or rehabilitated, and 23 more are planned for construction under this program.

Subsequently, in an attempt to deal comprehensively with the impact of the casino industry on housing resources in the City, the Commission established a standard condition for all casino licensees which required the industry to "cooperate with the Commission in investigating the housing market conditions in the Atlantic City region, and, if so required, participate further in providing a reasonable share of support, including financial support, for housing in the City and the region, with the specific nature and extent of such participation to be determined."

In establishing this condition, the Commission sought guidance from other cities. One important model was the work the American Cities Corporation performed for the City of New Brunswick and the City's highly successful implementation of that plan in cooperation with the private sector. The Commission retained the American Cities Corporation, which prepared the Inlet Community Development Program, which called for several thousand new and rehabilitated units of housing with emphasis on preserving the place of present residents in their Atlantic City communities and creating a stable, exciting neighborhood for nearly 15,000 people in working families. The Casino Control Commission continues to encourage this bold program to house and redevelop Atlantic City.

It is also significant to note that today's hearing follows the first meeting of the new Casino Reinvestment Development Authority by only one week. The Commission is pledged to move ahead in cooperation with Mayor Usry, city officials, and the CRDA to work to implement both the policy and the goals for the redevelopment of Atlantic City as established in the Casino Control Act and the New Casino Reinvestment Development Authority statute.

The Commission remains committed to a continuing pursuit of any and all activities within its powers that will reduce or eliminate both the causes and effects of land speculation in Atlantic City.

Atlantic City is just beginning the process of revising its Master Plan and Zoning Ordinance. The City needs to resist any call to expand beyond present limit zoning districts allocated to casino/hotel development. This is a position which the Commission espoused several years ago and still feels is in the best interest of Atlantic City.

Obviously, property revaluation plays a role in any pattern of land acquisition and development. In Atlantic City, the development of casino/hotels has had a profound impact on that pattern. A 1982 city-wide property revaluation has now been legally embargoed for two years. In fact, as this Committee knows, it was just upheld last week in the Appellate Division.

Revaluation is not a simple issue. It has the potential for causing severe economic hardship for some homeowners in the form of heavy tax increases. Conversely, the revaluation could result in substantial tax increases on vacant land which would dampen speculation fever.

After two years of intramural squabbling, it would appear the time has come for some type of action. It may be that some way can be found to make injured property owners whole. It may be necessary to adopt a land incentive tax plan which would penalize land banking in specified sections of the City by private interest. Or it may be time to bite the bullet and adopt the 1982 revaluation.

Whatever course of action is adopted should be determined by the proper authorities. Our only position is that the solution be adopted without further delay so that the people of Atlantic City can begin to enjoy the fruits of casino gambling through better living conditions.

In conclusion, the Commission believes that speculation is not unique to Atlantic City and its municipal zoning powers. Taxing abilities and the right of eminent domain give every municipality the ultimate means to control land speculation.

Atlantic City is a social experiment. Everything that takes place here is magnified. Every action is observed, analyzed, and debated. And, that is as it should be because casino gambling is a unique experience. But, after all the probing is completed, after all

the examinations are over, and after all the rhetoric is stripped away, there are two things to remember;

Number one, the tools are there to make this experiment a success, and it behooves those in authority to use them and number two, because the people of this State in 1976 mandated that we make Atlantic City a better place to live.

Thank you.

SENATOR LYNCH: Thank you very much. I take it, Valerie, that you feel the Commission, through its charge of responsibility and probably through the Omnibus Clause, already has the power to analyze that which we are doing today and to bring about some movement on the part of the industry, if it so chooses, and the relicensing, etc., namely that you could determine that land speculation was going on by the industry, and it was detrimental to the redevelopment of Atlantic City. Therefore, they would have to divest in order to be relicensed. Do you think you have that power now?

COMMISSIONER ARMSTRONG: First of all, before I answer, let me indicate that I am responding as one member, as a commissioned member.

SENATOR LYNCH: I understand.

COMMISSIONER ARMSTRONG: I wouldn't want there to be any misunderstanding about that fact. I think we certainly have the ability to realize and observe that land speculation is occurring, and maybe it is playing on the part of the casino industry.

The question of divestiture, I personally think, is interesting in terms of what the Casino Control Act may permit the Commission to do.

First of all, the words "land speculation" are not found anywhere within the Casino Control Act. I think that is significant. The Act itself does not specifically authorize the Commission to order a casino to divest itself of land, or to even impose any necessary financial sanctions.

There are portions of the Act which deal with competition in casino operations being desirable and necessary. It also talks about the prevention of economic concentration in casino operations and encouraging the preservation of competition.

We have Section 84(e) of the Act, which requires an applicant to demonstrate that a casino proposal will not adversely affect casino operations or overall environmental conditions. They are required to submit an analysis of the effect of the casino proposal on the overall environment, which includes economic, social, demographic, and competitive conditions.

There is one other section of the Act, which I have to note, and that is Section 82(e), which says that no person can hold more than three casino licenses.

Those sections, while they may give some direction, do not specifically state that we have the authority to order divestiture. It may be possible that at some point the Commission perhaps will take that position, but I don't think we can sit here and necessarily say that the Act specifically authorizes us to give that--

SENATOR LYNCH: I'm not saying we don't need the bill.

COMMISSIONER ARMSTRONG: Right.

SENATOR LYNCH: I'm saying that some people think that the Commission already has the power to do that which the bill is seeking to do, but obviously if it is a desirable result in the bill, we should make it clear that the Commission does have the power.

COMMISSIONER ARMSTRONG: The intent and time of the bill are good because I think it would certainly clarify the question of divestiture. When you talk about the Commission being able to divest a casino of certain land holdings without the Act explicitly stating that-- I'm not saying that it would be impossible to work it under the Act, but it would have to be looked at very carefully, based on unique facts of circumstances before the Commission, and a very complex analysis would be involved. I think the bill would certainly clarify that authority if that is the intent of the Legislature.

SENATOR LYNCH: Has the Commission ever done any work to analyze if the industry, in acquiring properties for short- and long-term planning purposes, is, in effect, in the land speculation business, and to some extent is impeding the progress in Atlantic City towards redevelopment?

COMMISSIONER ARMSTRONG: When the various casinos come up for relicensing, there is a great deal of information which is submitted to the Commission, some of which involves land holdings, etc. I'm not aware of any one specific study that has been done on the overall problem.

What has been happening is that the Commission, over a period of time, has begun an evolutionary process. I'm going to relate this specifically to land speculation. The Commission has been developing a pattern of expertise, and it has been gathering substantial information concerning seeing patterns developed with regard to the land acquisitions, patterns developed with economic concentration, and observing trends developed. I think the Commission and its staff are at the point where we can see certain trends and patterns. That is something that has taken a considerable period of time to do.

As I know you are aware, land acquisition is something that is constantly changing. Sometimes land acquisition is going on, and it is done in the name of straw parties. It is not always easy to know who is acquiring what.

But, I think we are at a point-- We were delighted to know that these hearings were going to take place. The Commission has developed substantial information which I think is going to be very helpful in terms of addressing specific issues that may come up during relicensing.

SENATOR LYNCH: From your own vantage point, do you see a need for the bill?

COMMISSIONER ARMSTRONG: For Senator Gormley's proposed bill?

SENATOR LYNCH: Yes.

COMMISSIONER ARMSTRONG: Personally, and speaking as one Commissioner, yes. I think that kind of bill would be helpful, and I'll tell you why. Number one, it would clarify from both standpoints the authority of the Commission. It would certainly give notice to the casino industry as to what that authority is. In the long run, it might substantially cut down on the scope of litigation which might arise out of any divestiture that would occur, if we did it now under the Act as it stands.

SENATOR LYNCH: Senator Gormley?

SENATOR GORMLEY: Valerie, you mentioned three casino licenses. Is that something that the Commission has looked at -- now that they are building up this expertise on speculation land -- with regard to the holding of more than three casino sites by a licensee? Has that ever been looked at by the Commission?

COMMISSIONER ARMSTRONG: As I mentioned, the Commission has several evolutionary processes. Now we are in the position where we are seeing several entities holding more than one license.

One of the issues I have spoken about and have been concerned about relates to exactly what you are saying. That is an issue that I think conceivably may arise in time. That is whether there is an adverse impact for relicensing -- only holding three licenses, for casinos to own property which would exceed what would be necessary for this relicensing. I think that is a valid issue which probably at some point may be purview to look at.

SENATOR GORMLEY: Have any of the other Commissioners expressed an opinion on this particular legislation that you would be able to relate today? Has there been a consensus taken on the legislation, the concept, or the need for the concept, beyond your individual opinion?

COMMISSIONER ARMSTRONG: My understanding is that several of the Commissioners would support the concept and intent of the legislation.

SENATOR LYNCH: Are there any other questions? Senator DiFrancesco?

SENATOR DiFRANCESCO: Commissioner Armstrong, when you made your opening statement, were you speaking on behalf of the Casino Control Commission?

COMMISSIONER ARMSTRONG: My opening statement?

SENATOR DiFRANCESCO: Yes.

COMMISSIONER ARMSTRONG: My opening statement was. My answers to questions were my personal opinion because I did not know specifically what questions would be asked.

SENATOR DiFRANCESCO: I think Senator Lynch asked you whether or not the Commission has done any studies or has examined this in any

detail to determine whether or not there is a problem with any casino licensee viewing land speculation which would result in detriment to the redevelopment of the City. I don't know what your answer to that question was.

COMMISSIONER ARMSTRONG: I am not aware of a specific study which was directly oriented to that particular issue. I am aware that there has been an accumulation of information with regard to each casino concerning land acquisitions.

SENATOR DiFRANCESCO: Well, is it likely that the Casino Control Commission will now do such a study to determine whether or not there is a need for the legislation in the first place, since the Casino Control Commission, in fact, extends their powers? Would you take a full position on it one way or the other before you have examined it or have had your staff examine it? Isn't it likely that that should occur now?

COMMISSIONER ARMSTRONG: Are you talking in terms of some kind of investigatory hearing on the issue industry-wide, or with regard to each specific house itself? In other words, at the time of relicensing there is a hearing at which a large amount of information is presented concerning the relicensing application. I'm not sure if your question is directed to that.

SENATOR DiFRANCESCO: My question is directed to the legislation. We have a piece of legislation which has been proposed to extend your powers. Senator Gormley made it very clear that this could be rewritten; this could be expanded; this could be modified. It is a concept as you just referred to a little while ago. Now that there is a piece of legislation, and you and the full Commission are aware of it, are you going to do anything about it to determine whether or not you should support it, not support it, or take no position at all? Is there going to be a definitive study now to determine if we need this?

COMMISSIONER ARMSTRONG: Certainly. I would think there would have to be substantial discussion with regard to the specific legislation or what form it might ultimately take.

SENATOR DiFRANCESCO: Is that going to--

COMMISSIONER ARMSTRONG: Senator, to be perfectly honest with you, I can't tell you right now precisely what form it would take, whether it would take the form of a hearing or informal discussion or a study. I don't know at this point.

SENATOR LYNCH: Senator, I thought that one of the points of the bill that Senator Gormley made fairly clear was that the Commission probably should have been charged with this responsibility in the first place. Regardless of whether or not there is a determination now that any individual member of the industry was involved in land speculation which was detrimental to the development of Atlantic City, the power should be there in the first place and should be reviewed from time to time, regardless of whether there were any violations.

SENATOR GORMLEY: There is a presumption among some, and I think justifiably, that the power exists already without the legislation. Of course, it never hurts to write it out and be specific about it, but there is a school of thought that it obviously is already under their control, the control of a land-zoned casino, whether it is by volume or by individual site. That obviously affects casino gaming in the State of New Jersey. That is a charge, as was the fact that the concept of the Casino Control Act was to aid in the redevelopment of Atlantic City, which is something that the Commission has always been concerned with.

The fact that it didn't specifically say "land speculation" does not mean that there isn't a nexus there that would, quite honestly, justify the argument without the bill being present. You can't bifurcate the two. Land is the name of the game in Atlantic City, whether it be for housing or for casinos. The amassing of that land or the small out parcels which are in the middle of the block all relate to the one overall problem.

COMMISSIONER ARMSTRONG: Senator, I think the word "nexus" is a very critical word. That is my personal viewpoint.

SENATOR LYNCH: Thank you very much.

COMMISSIONER ARMSTRONG: Thank you.

SENATOR LYNCH: The next witnesses are going to be David Sciarra from the Department of the Public Advocate and Cora Boggs, President of the Atlantic City Congress of Community Organizations.

DAVID G. SCIARRA: Senator, Mrs. Boggs is here. She will follow me.

SENATOR LYNCH: Okay. We were led to believe to understand that you were going to be overlapping in your testimony.

MR. SCIARRA: I think I'll go first. Senator and members of the Committee, my name is David Sciarra. I am an Assistant Deputy Public Advocate with the Department of the Public Advocate.

I appreciate the opportunity to present the views of the Department of the Public Advocate on land speculation in Atlantic City to this Committee. I also wish to express our Department's appreciation on behalf of the public interest of Atlantic City residents for the Legislature's willingness to inquire into this important issue affecting the future of Atlantic City and the quality of life in the City.

I appear before you today because our Department, in the last five years, has been committed to the goal of ensuring that licensed casino/hotels satisfy their legal and moral obligation to redevelop blighted areas in Atlantic City, especially in those areas where Atlantic City's poor, elderly, and minority residents reside.

Most notably, our Department has instituted and intervened in numerous actions before the Casino Control Commission on behalf of low- and moderate-income residents of Atlantic City. These actions have sought to require casinos to satisfy conditions of licensure which mandate the provision of safe, decent, and affordable housing in Atlantic City and to directly invest in the redevelopment of blighted areas in Atlantic City under Section 144(b) of the Casino Reinvestment Law.

Furthermore, our Department was actively involved with the Legislature in ensuring that the recent amendments to the Casino Reinvestment Law would directly and unambiguously require casinos to invest in the development of low- and moderate-income housing in Atlantic City.

In addressing the issue of land speculation in Atlantic City -- over seven years since the first casino opened its doors -- we begin by acknowledging certain known and undisputed facts.

First, it cannot be disputed that Atlantic City has experienced land speculation at levels which are unprecedented in New Jersey or in any other comparable city in the country. Further, speculation in property in Atlantic City has been a continuing phenomenon since 1978, although the real estate market has fallen somewhat from the lofty peak reached during the frenzied days of 1981 and 1982. Consider the following facts, for they provide statistical background for our concern about the nature and extent of land speculation in Atlantic City:

From 1977 to 1983, Atlantic City's total assessed valuation climbed 402%.

Atlantic City's equalized property base, as well as its total assessed valuation is now higher than the City of Newark, a City with nearly eight times more residents than Atlantic City.

Land prices throughout Atlantic City's neighborhoods have skyrocketed. For example, from 1976 to 1981, the price per square foot of land in the South Inlet jumped 3200%, from \$1.10 per square foot in 1976 to a high of \$34.73 per square foot in 1980. By 1983, the price had decreased to \$16.37 per square foot, still 1390% higher than in 1976.

In Lower Chelsea, prices for unimproved lots rose over 2700%, from \$2.22 per square foot in 1976 to \$61.88 in 1981.

By 1983, developed parcels in the central business district were \$33.98 per square foot; Upper Chelsea was \$36.65 per square foot; and Lower Chelsea was \$35.88 per square foot. It was more costly per square foot than land for office space in downtown Manhattan, currently priced at \$30.71.

Second, no one can dispute that land speculation has had negative and indeed tragic consequences on the ability of the residents of Atlantic City to obtain safe, decent, and affordable housing. Most importantly, land speculation has substantially decreased the availability of housing units in the City.

Between 1977 and 1982, 3859 dwelling units were demolished in Atlantic City, representing nearly 20% of the housing stock. From 1978 to 1982, over eight residential demolition permits were issued for every permit allowing new residential construction.

Furthermore, in 1977, vacant land represented 4% of Atlantic City's assessed valuation of real property. By 1980, the percentage had jumped to nearly 18%. By comparison, in 1980 vacant land represented only 1.3% of the assessed valuation in Camden and 2.2% in Newark.

In addition, land speculation has resulted in the deterioration of the housing stock which remains in the City. According to the 1980 census, 1054 housing units suffered from inadequate plumbing, heating, or overcrowding. Indeed, in 1979 nearly one out of every four housing units received a substandard rating from the Atlantic City Housing Authority.

Land speculation has had negative effects on property owners at all income levels. The recent property revaluation resulted in an average proposed tax increase of 16% to 100% to homeowners throughout the City. In the last several months of 1980, the County Board of Taxation heard over 1000 appeals, a number by residents whose assessments increased by as much as 500%.

Third, no one can dispute that a major land speculator since 1976 is a licensed casino hotel, Resorts International Hotel. Consider these facts about the impact of Resorts speculative activities on Atlantic City real estate, some of which were recently described in The Philadelphia Inquirer:

Resorts presently owns, or has under option, land that is worth \$700 million, or 14% of all the assessed property in the City.

Resorts owns nearly half of all of large, vacant, developable tracts in the City.

Resorts controls the 56-acre urban renewal tract, nearly all 576 acres of Great Island, and the 174-acre Rum Point Island.

In addition to its larger tracts, Resorts or its subsidiaries own a total of 234 smaller properties throughout the City, especially in the Inlet.

Other than its casino hotel and the recent activity on a small portion of the urban renewal tract, Resorts has failed to develop any of the property it owns or controls in Atlantic City. As a result, this land basically lies fallow, and it is not available to provide housing and other improvements to the City.

Against this backdrop of undisputed facts, there can be no doubt that speculation in land in Atlantic City has had, and is continuing to have, a serious negative impact on the stability of Atlantic City's existing residential neighborhoods. Land speculation has impeded, if not wholly prevented, any sensible or meaningful effort to rebuild already blighted neighborhoods, especially those neighborhoods in which the City's lower-income population resides.

The question we face today and in the future is how to properly control land speculation so that the redevelopment of blighted areas in the City, as envisioned by the Legislature in the Casino Control Act, and as promised by the casinos when they sought the privilege of conducting legalized gambling in our State, can be speedily accomplished. To this end, we offer the following proposals:

First, we recommend that the Casino Control Commission, through either licensing procedures for individual casinos or through appropriate regulations governing the entire industry, restrain or limit casino licensees, such as Resorts, from speculating in non-casino property and in nonessential casino property. Indeed, action by the Commission to control land speculation activities of licensees is necessary because this activity constitutes a direct violation of both the important public policy of casino gambling and the express provisions of the Casino Control Act.

The Legislature, through the Casino Control Act, clearly intended that gambling serve as "a unique tool of urban redevelopment" and facilitate the redevelopment of blighted areas. The Act expressly provides that each applicant for a casino license or for renewal of a casino license must demonstrate good character, honesty, and integrity as it relates not only to criminal activity, but also to business activities and financial affairs. Further, the Act provides that an applicant must demonstrate that its casino facility "will not adversely affect casino operations or overall environmental conditions." This includes a consideration by the Commission of the casinos' effect on, "without limitation, economic, social, demographic, and competitive conditions, as well as the natural resources of Atlantic City."

Based on these policies and provisions, I believe that the Commission possesses the authority to prohibit or limit licensees from engaging in an activity such as land speculation, which so clearly has a negative effect on the redevelopment of blighted areas in Atlantic and on social and economic conditions in the City.

Furthermore, regulation of the land speculation activities of licensees is entirely consistent with the Commission's review and consideration of the impact which casinos have on other areas, such as housing, relocation, traffic, sewerage, and air quality.

To appropriately control the land speculation activities of casino licensees, and to prevent further increases in land prices which result from uncontrolled speculation by licensees, we strongly recommend that the Commission take appropriate action in individual license proceedings or adopt regulations which treat the entire casino industry on a uniform basis. Any regulations or actions should include the following requirements:

All casino licensees be required to disclose to the Commission all land in Atlantic City which is owned or controlled by the licensee. In listing these land holdings, licensees should be required to inform the Commission, at a minimum, of the identification of any property purchased, the date of the purchase, and the purpose for purchasing the property. In addition, the licensee should be required to disclose plans for utilizing and developing the property, if any. All information provided pursuant to these property disclosure requirements should be available to the public.

The Commission should make a determination whether the developable property in Atlantic City owned or controlled by the licensee adversely affects the redevelopment of Atlantic City or the social and economic conditions in Atlantic City. If the Commission makes such a determination, the Commission can take appropriate action, including issuing an order requiring the licensee to sell or develop excess land within a specified period to further the redevelopment goals of the Casino Control Act or the Casino Reinvestment Development Authority Act.

Casino licensees should be limited to owning or controlling not more than three separate sites within casino zones in Atlantic City. Casinos are already prohibited from operating more than three casinos under the Casino Control Act and a limitation on owning casino sites would ensure that casinos do not possess land holdings greater than those needed to develop casino hotels.

If there is any doubt that the Commission can act in this area, especially to order the sale of land, then we urge the Legislature to amend the Casino Control Act, as Senator Gormley has recommended, to expressly grant the Commission this authority.

Second, the City of Atlantic City must rededicate itself to utilizing its zoning powers as a means to control land speculation and reduce the price of land, especially in residential areas. The preparation of a new master plan by the City, set to begin shortly, is an ideal opportunity for the City to reduce zoning densities in many of the residential areas of the City, especially in the North and South Inlet, which were re-zoned upward in 1981.

The City must also reduce the amount of casino zoned land in the City. Presently, there are 600 acres of developable land zoned for casinos in Atlantic City. At the current usage of just over five acres per casino, City zoning could accommodate the development of over 100 casinos. Obviously, this is unnecessary and unwarranted. Therefore, we would further recommend, as an immediate measure, that the City change the zoning from casino to residential in those existing casino zones, such as the South Inlet, where there has been no obvious activity directed at building casinos in the last seven years. Also, the Casino Control Commission should discourage applications through an expansion of its housing policy on variances, as articulated by Commissioner Armstrong previously. The Commission should expand that policy to discourage applications for a casino license in specific casino zones where there has been little or no casino development activity.

Additionally, it is well-known that zones in Atlantic City have been continuously eroded through the granting of use variances under the Municipal Land Use Law since 1976. Accordingly, we recommend

that the City commit itself to requiring strict adherence to the provisions of the Land Use Law pertaining to use variances. Specifically, we urge that the Zoning Board and Planning Board not grant use variances unless an applicant can demonstrate that the use will not contribute towards land speculation or increased land prices in the zone. If the Zoning and Planning Boards continue to loosely apply the statutory criteria for variances, then the Legislature should consider imposing specific requirements in the Land Use Law to minimize or prevent the impact of use variances on land speculation in the City. The Legislature has already recognized that Atlantic City's unique circumstances warrant special provisions in laws of statewide applicability, such as the special eviction protections for Atlantic City contained in the Anti-Eviction Act.

Finally, one alternative which might be considered is utilizing taxes as a means to control land speculation in Atlantic City. With appropriate enabling legislation, an anti-speculation tax would serve to discourage speculation, while simultaneously generating additional revenue. Further, receipts from an anti-speculation tax might be earmarked for rebates to homeowners whose tax bills are scheduled to skyrocket when the property reassessments become effective in Atlantic City or to minimize the adverse impacts resulting from land speculation.

Clearly, the development of such tax proposals require additional data and further study. The critical issue here is to respond to the strong need for tax measures that would serve to control land speculation and ameliorate its negative impacts on the residents of the City.

I conclude by recognizing that these ideas require further consideration and development. However, they do represent the broad outlines of a program which will address, in a comprehensive way and for the first time since legalized gambling was introduced in Atlantic City, the devastating effects of land speculation on the social and economic fabric of Atlantic City and its residents. We are eager to work with you, other members of the Legislature, and other officials at the State and local levels to translate these broad objections into a realistic program that contributes to the redevelopment of this City.

Thank you.

SENATOR LYNCH: Thank you, David. Sticking to ~~the~~ issue we are here for, I don't understand -- maybe I do-- In effect, you are saying that the fact that a single casino owner owns many parcels of land throughout the community is driving up the values of those lands, thus making redevelopment projects nigh unto impossible.

MR. SCIARRA: That is part of it.

SENATOR LYNCH: The reason I say that is this: We went through this with John before. Eminent domain is available. We are talking about blighted areas, areas that could be placed in the to-be-acquired zones and considered to be blighted, what have you. If you are going to do urban redevelopment, you almost have to use eminent domain because you are going to find land speculation or spoilers, or whatever else you want to call them, somewhere along the line on every block.

The real question with regard to the subject matter at hand today is, how does the fact that an individual member of the industry, or several -- in this case, the one you referred to -- owns all of this land stop the redevelopment of Atlantic City when you have the power of eminent domain? Is there a connection with values? The fact that they are being held, is that driving values up, thus making acquisition by eminent domain nigh unto impossible because the bottom line doesn't work?

MR. SCIARRA: I think it is both. You have to recognize, I think, that casinos are different. Casinos are--

SENATOR LYNCH: You say you think it is both. Do you have anything to show that because they are holding lands, it is contributing to the increase in the value of those lands, thus making them not acquirable by the local government or a local agency?

MR. SCIARRA: There is no question that the-- Let me state that there is no question that the activity of casino licensees has had a negative effect on the ability to use eminent domain and the ability to properly redevelop certain areas.

SENATOR LYNCH: Why does it inhibit the use of eminent domain?

MR. SCIARRA: Well, it makes the planning process and redevelopment process harder at the local level. Clearly the authority is there. We have the authorities in place. We have had them in place since gambling came here. These things could have been done earlier, but you have to recognize that at the local level, the decision to plan or redevelop a comprehensive area becomes difficult if you have a casino licensee which wields enormous economic power in that community.

Let me give you an example. The American Cities Corporation's study, which has been referred to here earlier, in effect, did not plan for a certain portion of the South Inlet simply because most of the property owned in that area was owned by a particular casino licensee. In this case, it was Resorts. They simply left it out of its plan because they wanted to wait to see what Resorts was going to do.

I think the same would be true for any other casino licensee. Their very activity in the market creates a situation where it makes all the needed components. The Senator is well aware of all the different components at the local level that have to be meshed to make the redevelopment process go forward to the point where we can use the eminent domain power. I think that is an important thing to understand. Everyone who is familiar with Atlantic City knows how difficult it has been to bring those powers to bear in particular areas.

Secondly, I don't think there is any question that casino licensees, as well as other speculative activity by non-casino licensees, have driven up the price of land. I've laid out the kinds of increases in prices in areas, some of which casino licensees are actively involved.

The question becomes, though, that the Commission has to make a determination. It has to look at all the facts. It has to look at the areas involved. It has to look at the redevelopment goals that this City is talking about. It has to look at the activity of the particular casino licensee in that area, and make a determination. Is their owning or controlling land in that particular area, and not redeveloping it or not moving forward on it, having a negative effect

on the redevelopment process in that community? Also, is it having a negative effect on land prices?

I just want to add, Senator, that I think the land price problem is a problem that-- It would have been great to be here in 1979 or 1978 to deal with that. The speculation boom in Atlantic City, as you all know, really occurred from the period of 1978 or 1979 to 1982. It has gone down somewhat to a lower level, so prices have gone down in Atlantic City. They are still unrealistically high in many residential areas of the City, so we are somewhat beyond the fact.

What I think we have to try to do to keep casino licensees out of that market so that we can, if not bring down the price of land-- I think land prices can be brought down in Atlantic City. They have come down in the last couple of years, and they can go down further because the prices were so unrealistically high. We also have to prevent another land speculation wave from occurring.

Given the fact that the casinos are unique, that they are here pledged to achieve certain public policy goals, the Commission can at least make sure that casinos licensees don't participate in that. They can't control private speculators. The City is going to have to do that, as I mentioned, through its zoning powers -- a real firm commitment to its zoning powers. We also have to explore some of these tax measures.

SENATOR LYNCH: It might take some constitutional amendments.

MR. SCIARRA: It may.

SENATOR LYNCH: Senator Gormley?

SENATOR GORMLEY: That was the first point I was going to make. It is something we are going to look at. Obviously, it is easy to say anti-speculation tax, but you are dealing with something that enters into the constitutional realm. That is why the particular nature of this bill relates to licensing, and that is why other measures of this nature have related through the condominium law. We went through other avenues.

I have a few questions. You are saying in non-casino zoned areas that you would want the Commission to provide a regulation that either the casino entity -- the casino licensee -- provide a site plan

and show they are going to go ahead and build something that is in line with the City master plan or the American Cities plan, or divest the property. Is that your opinion on the non-casino zoned property?

MR. SCIARRA: No, it was really a two-step process. The first requirement that I think is needed across the board is the disclosure requirements.

SENATOR GORMLEY: Yes.

MR. SCIARRA: The information has to be provided so that we can get a clear sense. Particularly, the City Housing Authority and the Redevelopment Agency can get a clear sense of where the casinos are and where they are in terms of the land they own or control and what their intention is. I think that is important.

I am suggesting that the Commission adopt -- I think by regulation, although I don't want to limit them -- an across-the-board property disclosure requirement as a first step. On the basis of that, the Commission can -- I should say, in conjunction with that, the Commission can either -- I don't want to limit their authority -- through a regulation or through individual license proceedings deal with specific casinos and specific casino licensee activities, both in the City as a whole and in particular neighborhoods.

SENATOR GORMLEY: You related the question of variances, local variances given by the local zoning board. There have been situations in the past where even if a variance had been given, the Commission reacted negatively towards a variance given for another casino property. The Commission really already has that prerogative; I don't think they question their prerogative in that area in order to say "no" even if a variance is given.

MR. SCIARRA: The Casino Control Act prohibits a license -- If Commissioner Armstrong's analysis, or historical analysis of that, was correct, it started out as a housing policy or zoning policy that the Commission adopted, which was then transformed into an amendment to the Act.

At this point, the Act effectively prohibits the issuance of a casino license on a site for which there has been a use variance issued.

What I suggested earlier was that the Commission consider taking that housing policy or that zoning policy a little bit further and try to look at those areas where there has been no negligible or no serious development activity of casinos in casino zones and at least strongly discourage applicants and licensees from coming in for applications. That is all the Commission can do.

What we really need though is for the City to act to reduce the amount of casino-zoned land in the City. That is an absolute prerequisite in my view.

SENATOR LYNCH: But, they are in the throes of developing a new master plan now.

MR. SCIARRA: That is right.

SENATOR GORMLEY: The other point is, you mentioned is the limitation of licensing to three licenses for a particular casino, and that the number of casino parcels be limited to the same number, either by statute or regulation.

MR. SCIARRA: I think that given the Section 84(e) mandates and the public policies in the Act, it can be done by regulation now. Again, this is another one of those issues, and I simply refer to what Commissioner Armstrong said earlier. I agree with her that to order a sale or development of land -- to order a casino to do that -- if there is found a negative impact or a violation of the Act, it would be preferable to have that clarified by the Legislature. That would also help in the area of limiting control or ownership of casino sites.

I say that though just to emphasize that I think it would clarify the issue for the Commission's sake in moving forward. That is not to say that the Commission doesn't have -- I believe; this is my own judgment in dealing with the Commission these areas for a fairly long period time -- the authority to deal with these issues now, and it should.

SENATOR GORMLEY: Well, obviously, the bill would eliminate that potential debate. It would make it quite clear that the authority be there.

MR. SCIARRA: That is right. Clearly that would be helpful, and we would urge that that be done.

SENATOR LYNCH: Thank you very much, David.

MR. SCIARRA: Thank you.

SENATOR LYNCH: Cora Boggs, President of the Atlantic City Congress of Community Organizations, please? Good morning, Mrs. Boggs.

CORA BOGGS: Good morning, gentlemen. Good afternoon rather. My name is Cora Boggs, and I am the President of the Atlantic City Congress of Community Organizations.

You in State government and others who are far removed from close proximity to Atlantic City have seen or imagined only the glamour and financial gains of this great experiment called casino gaming. We who live here have witnessed the slow strangulation of a city and its people.

I don't want take up your time by reiterating the horror stories of crime, air and noise pollution, roller coaster streets, cracked walls, and shaky foundations due to the unending streams of trucks and buses, the sleepless nights from the drone of airplanes and helicopters overhead, nor will I dwell upon the traumatic experiences of the displaced or homeless among us, all omegas of this great experiment.

You are here to listen to testimony about casino land speculation and its possible detrimental effects upon the rebuilding of Atlantic City. The most casual observer cannot help but notice the contrasting differences in the City. It reminds me of a badly assembled submarine sandwich, with freshly baked mouth-watering crust on either side, representing the glittering casinos on the boardwalk and in the marina area, with spoiled meat and vegetables in-between, representing the rest of the town.

Although it has been seven years since the first casino opened its doors, the inside of the sandwich has still not changed, and will not change, unless something is done to lower the artificially induced high cost of land fueled by speculation.

Although every casino here has taken advantage of a less than sophisticated government and its planning and zoning departments, none has displayed the cold-blooded avarice that Resorts International has in its efforts to buy and control this City.

I have in the past referred to Resorts as a land-grabbing octopus. However, that term seems grossly inadequate when one witnesses the cancer-like tentacles of this casino spreading throughout this community and beyond.

It has always been my contention that Resorts came here with the express purpose of building a resort within a resort. From the beginning, they started purchasing properties far removed from their home base, the Chalfonte/Haddon Hall Hotel. They threw money around like drunken sailors on pay day. If their plan from the beginning was not to dictate and control the development of this City, why would they pay many times over its value to secure a given property? I can assure you that they were nobody's guardian angel: It was all a part of a well-thought-out scheme.

The plan from the very beginning was to force the poor and moderate-income people from this City. The scenario was primed and ready to buy strategic properties for outrageous sums, thus causing taxes of surrounding properties to skyrocket. Property owners sell for a fraction of what the first property sold for; therefore, another block falls.

They now own properties in such diverse areas as the Steel Pier and Great Island, Massachusetts Avenue and Indiana Avenue, and all points in-between. If you have not seen their land holdings, I would be happy to show you mine.

Resorts tried to fulfill its housing obligations by developing houses far removed from Atlantic City, while buying and holding hostage over 35% of its available land and nearly 15% of the entire City. Resorts International is in the driver's seat when it comes to the redevelopment of this City. They will demand top dollar for their land, as has recently happened in the New Jersey Grammarcy Park construction, even when that demand substantially exceeds fair market value.

For many months, the City and the local Board of Education have been negotiating the purchase of Resorts' Great Island property for the construction of a new high school. No casino can be built on this property, not only because of CCC rulings, but mainly because the pilings cannot be sunk deep enough.

Although I am not privy to the negotiations, I am certain that Resorts is demanding the impossible in trade. You must be wondering how a single corporation and its subsidiaries were able to hog-tie a City of supposedly intelligent people. The reason is not laudable.

When Resorts International came to town, some people thought the floodgates of heaven had opened. The City Commissioners at that time forgot about the residents of this City. Whatever Resorts wanted, Resorts got. The City sided with the land speculators. One Commissioner went so far as to say that the speculators should be allowed to make as much money as they could. They totally ignored the fact that these inflated land costs would eliminate the possibility of affordable homes being built for the low- and middle-income people who work for us.

Resorts came with an open purse to buy properties at astronomical figures, creating almost mob hysteria in the Inlet area to the point where everyone was convinced that they could sell their 18-foot by 25-foot properties for a million dollars. Paid agitators flooded the public meetings. Those of us who were still sane were abused and ridiculed when we attempted to show the Commissioners the pattern that was forming. All of the subsequent events proved us correct. Even we were not prepared for the almost total destruction of the Inlet.

Speculators from Hong Kong to Hawaii bought properties and allowed them to deteriorate until they were no longer fit for human habitation. Properties were torn down and people forced out. With no buildings and taxes next to nothing, speculators are able to hold land indefinitely, waiting for a desperate developer or the City to wake up to the plight of its people and to pay through the nose for the land.

Several years ago, I asked a former State legislator to try to engender some movement in Trenton to address the land speculation problem here. If land was undeveloped for three years, it should be taxed at the same rate as the surrounding developed areas. That went over like a lead balloon.

The present Administration is the first to show serious interest in solving the problems of insufficient housing and a fair business climate. It appears that at long last our local officials are attempting to address the problems connected with forcing this great experiment to fulfill its obligations and become that unique tool for urban redevelopment that was promised.

The big stumbling block is land speculation. Resorts International, in particular, has to give back some of that which it has taken. The people of this City did not vote for legal gaming to enjoy the headaches and frustrations that came with it, nor did they intend for casinos to indulge in profiteering at their expense.

Every tool at the disposal of local government and the State of New Jersey must be utilized to assure that no casino can engage in profiteering, or ever again be in a position to make millions of dollars of profit as Resorts International is presently able to accomplish from former public lands in the urban renewal tract.

The use of eminent domain will be helpful in some situations, I am certain. In the case of Resorts International, I feel that they would be ruthless enough to tie up the courts and fighting its use wherein their properties are involved.

I agree with Mr. Sciarra and Senator Gormley that the proper entity to handle the situation is the Casino Control Commission. If there is a conflict wherein casino ownership prohibits the development of land for the public good, that casino should be mandated to divest itself of said property in an equitable manner or risk forfeiture of its license to do business in this State.

No casino should be permitted to block that for which it was granted a license to insure. If this City is not allowed a chance of rebirth now, all of us -- the casinos included -- will be losers.

Thank you.

SENATOR LYNCH: Thank you very much. Do your community or neighborhood organizations have any direct linkage or dialogue with the casino industry?

MRS. BOGGS: Not with the casino industry, but we have had much dialogue with the Casino Control Commission.

SENATOR LYNCH: But, you don't have any direct communication with the industry itself?

MRS. BOGGS: No. We are a group of--

SENATOR LYNCH: Nor neighborhood concerns and problems with development?

MRS. BOGGS: No. We are a group of community organizations that had to band together and go out to a State agency -- in this case, the Public Advocate -- in order to have them address the problems in Atlantic City because at that particular time, we had a government here that could care less about what was happening.

SENATOR LYNCH: How many individual community and neighborhood organizations do you represent?

MRS. BOGGS: Right now, we have 33 organizations. We were up to 36, but now we have 33.

SENATOR LYNCH: Thank you. Are there any questions?
(negative response)

MRS. BOGGS: You're welcome.

SENATOR LYNCH: Robert Gross, Atlantic County Improvement Authority? Good afternoon.

ROBERT GROSS: Good afternoon. The Atlantic County Improvement Authority is an agency whose primary goal over the past five years has been to produce housing in Atlantic City. In order to facilitate the development of housing, the Improvement Authority utilizes the luxury tax funds generated from taxes levied on hotel rooms, entertainment, and alcoholic beverages. The total amount of luxury taxes available for housing was \$32 million. These funds provided needed subsidies to make possible the production of some 1200 units of housing.

The purpose of our being here today is to describe, from our experience in the developing of that housing, the effects of speculation. In Atlantic City, where available land for all purposes, including gaming-related commercial housing is limited, the effects of speculation are dramatically felt.

Over the past, the Authority has experienced either firsthand or through its developers the negative effects of speculation. Unrealistically high prices and property owners holding

out for even higher prices have affected the ultimate cost of the Authority-produced housing for both renters and purchasers by 15% to 20%. This trend of higher land costs has caused the Authority to either subsidize these costs via luxury tax grants or loans.

Our experience with one particular project -- Grammarcy Park -- may provide some insight into this speculative process. Grammarcy Park is a 47-unit townhouse sales housing project located in the North Inlet. The project required approximately three acres of ground. In order to assemble a site of that required size, the Authority has explored potential sites throughout the North Inlet. The site chosen for the project worked only because of four factors coming together:

- 1) The City of Atlantic City donating City-owned ground and authorizing the vacation of a street.

- 2) The major land holder in the block, Resorts International, was willing to sell that major portion of land.

- 3) A \$300,000 grant from Ocean Club in satisfaction of the CAFRA permit.

- 4) With the City's approval and consent -- both the Mayor's office and counsel -- the use of eminent domain to get a couple of the remaining parcels in that particular block.

It should be noted that given all of the above, the Grammarcy Park project will still require a subsidy for the project to be affordable to the moderate-income families, those making perhaps between \$20,000 and \$35,000 per year.

The net effect of what I've just mentioned brought a \$1.9 million land cost down to \$730,000.

A second benefit of the project is a commitment to moderate-income housing in the North Inlet and, hopefully, that will set a trend for that area.

In summary, it is clear to us that either major subsidies need to be allocated to housing or projects, or a number of policies encouraging the development of vacant land will be necessary for affordable housing to become a reality. The Improvement Authority believes that consistent zoning, a master plan update, and the judicial use of eminent domain are policies that will encourage the development

of vacant land and are necessary to stabilize land prices for a balanced community to develop.

Thank you.

SENATOR LYNCH: Thank you very much. Are there any questions? (negative response) Thanks a lot.

Our next witness is Dr. Jack Eisenstein, Superintendent of Schools of Atlantic City. Dr. Eisenstein?

DR. JACK EISENSTEIN: Senator Lynch and members of your Committee, thank you for giving me the opportunity to read into the record the impact of land speculation on the Atlantic City public schools.

An impact statement describing the effect of casinos upon the public schools of Atlantic City is, of necessity, a description of a complex set of forces which, as of this date, presents a picture unclear at best.

Planning for casino development began with the generation of a master plan for the City that was completed in 1978, which omitted any consideration of the public schools. Fortunately, the Board of Education, in compliance with the New Jersey State Department's requirement, completed its Master Plan for Educational Facilities in 1979. This plan was subsequently updated in 1982 and again in 1985. Our educational master plan set forth a comprehensive set of needs for closing and rehabilitating some existing facilities and for the construction of a new plant.

A major program of new construction was completed in 1978 with the opening of two kindergarten through grade 6 community education complexes: West Side and Uptown. Both complexes have been highly successful. The West Side complex with its unusual design and program has received national and international acclaim.

Functional inadequacy of many other buildings located on small sites has been a concern of long-standing; this problem has been more seriously aggravated by the encroachment of one or more casinos located within a city block from the Central Junior High School at Ohio and Pacific Avenues and from the Atlantic City High School at Albany Avenue. Traffic volumes and air quality combine to make these two locations increasingly undesirable. The educational program has become virtually unmanageable, and safety risks are numerous.

Perhaps the major constraint facing the Board of Education's implementation of some of the plan's recommendations is the steady decrease of available sites for school purposes. The most desirable sites are either owned by casinos, restricted by environmental considerations, or earmarked for housing. The resulting rise in land costs aggravates the poor availability even further.

Another aspect of the impact has been a diverting of the community's and government's energies to the solution of problems such as housing, transportation, zoning, taxes, and other growth-related issues. The development of new housing has been slow and far behind projections made several years ago. Declining enrollments, rather than educational quality, had created the attitude in some quarters that new or rehabilitated facilities may be low priority or even unnecessary. The new City administration has made a concerted effort to reverse this point of view.

The school district is beginning to gain the attention of policy makers with the renewed warning by the Middle States Association's Evaluation Report that, for the second time in 11 years, it recommended a new high school to replace the 62-year-old existing structure. In March of this year, we have been placed on a warning status which threatens the revocation of the high school accreditation. Another rationale which seems to be fathering respect is the need to provide improved educational facilities and programs as part of the housing development plan to stem the exodus of residents from the City. Middle-income families with a wider range of choices will be especially attracted by the quality of the educational program, as evidenced by facilities and programming.

The Board of Education approved a school improvement plan in 1983 which calls for the closing of two junior high schools, construction of several new facilities, and a restructuring of the elementary program into a kindergarten through grade 8 organization.

One positive aspect of the overall impact, which is of no small consequence, is financial. Equalized ratable wealth has gone from \$310 million in 1978 to \$2.2 billion in 1984, and could escalate shortly to over \$5.2 billion when the anticipated revaluation takes

place. Per pupil wealth is now at \$586,000; it could reach \$800,000 by 1987. The absence of any bonded indebtedness would give the school district a level of bonding capacity unmatched by any school district in the State of New Jersey. The current bonding capacity of the school district is in excess of \$115 million. This community is experiencing the most dramatic increase in equalized value probably in the history of New Jersey.

The effect of the impact is clear; it continues to challenge planning competencies as attempts are made to comprehend its complexities. As a clearer understanding of the impact evolves, there is a need to also continue adjusting and revising plans to respond to a rapidly changing and dynamic period of time in the history of Atlantic City and its public schools.

Against this background of events, the Board of Education continues to be frustrated in solving these problems. The City Planning Department just completed a study in an attempt to identify a suitable site to replace the aging Indiana Avenue School. A replacement of this school is a must if the Board of Education is to implement a new kindergarten through grade 8 reorganization program. In all, the Planning Board looked at eight different possibilities ranging from 2.73 acres to 6.01 acres and a cost of approximately \$1.5 million to \$3.4 million. The site that seems to be the most desirable consists of two city blocks, 3.76 acres, and has a land value of \$1.473 million. In 1976, the year of the casino referendum, the same land value for the 3.76 acres was \$250,000, a rise of almost six-fold.

The Board of Education, in the quest to secure a new high school site, has scaled down State Department recommendations from a 55-acre site to a minimum of 35 acres. The Board has identified the Great Island area as the only remaining site within city limits on which a new high school could be built. In 1977, a year before Resorts International Corporation became Atlantic City's first casino, this corporation -- Resorts International -- bought approximately 90 up-land acres on this island in varying amounts from \$6,300 to \$25,000 an acre.

Resorts' officials have indicated the value of each acre of land it owns on this island to now be worth \$1 million an acre. The Board of Education recently hired an appraiser in an attempt to establish a more realistic price figure and his estimate indicates a worth varying from \$293,0000 to \$470,000 an acre depending upon the location of the land on the island.

Even if the Board would exercise its right of eminent domain and claim 35 acres of land for a new high school, the estimated cost figure could still be about \$400,000 per acre for a total of \$14 million just for the land site, exclusive of site preparation, landfill, and possible bulkheads, let alone the building cost.

If Resorts International wanted to, they could donate 35 acres to the City to build a new school, sell the remaining 55 acres of up-land, and still make a profit in excess of 40 times greater per acre than they paid for the land, even selling at fair market value. I calculate it at somewhere around \$22 million.

Land speculation and land speculators have impeded what many people in the Atlantic City environs had hoped would be a new way of life, the rebuilding of Atlantic City. These speculative activities must not be permitted to continue. If this community is to respond to a rapidly changing and dynamic period in its history, its public schools must share in that redevelopment.

To that end, we ask this Committee to render whatever assistance it can on behalf of the Atlantic City Public School system.

I'll leave my statement with you.

SENATOR LYNCH: Thank you very much. If anyone else has prepared statements, we would appreciate it if you would drop off a copy at the hearing reporters' table. It will assist quite a bit in the transcription process.

Are there any questions from any member of the Committee?

SENATOR GORMLEY: Excuse me for missing the beginning, Jack. Just for the record, I think it is important to note that there has been another unique problem as a result of the increased land values in Atlantic City, which Jack is most concerned about. The State aid formula is obviously based on your property tax value. What has been the drop?

SENATOR LYNCH: They don't have any equalization aid right now.

DR. EISENSTEIN: We're down to a minimum.

SENATOR LYNCH: You're a minimim-aid town now.

SENATOR GORMLEY: We're worried. You were at the max before.

DR. EISENSTEIN: We were at the max, but we went from a maximum-aid district to the lowest possible. That is probably less than 8%.

SENATOR LYNCH: So, you find the industry to be a two-edged sword.

DR. EISENSTEIN: That is correct.

SENATOR LYNCH: On the one hand it has been good, but on the other hand--

DR. EISENSTEIN: On the other hand, it hasn't been. Our problem before was, we didn't have money to do the many things that were needed. Now we have the money or the ratables behind us, and we can't get land to build new facilities that are needed. That is basically it.

SENATOR LYNCH: That is a problem. Thank you very much. We are going to break for 20 minutes to a half an hour. We'll resume promptly at 25 minutes to two.

(RECESS)

AFTER RECESS:

SENATOR LYNCH: We are going to continue with the hearing. The next witness is Thomas Carver, Executive Director of the Atlantic City Casino Association. Tom, how are you this afternoon?

THOMAS D. CARVER: Good, Senator.

SENATOR LYNCH: Do you want to give us a little bit of insight into how you see this problem from your vantage point?

MR. CARVER: We'll try, Senator. By the way, I won't go through it now, but afterwards, I would like to leave this with you. It is a fact sheet that we put out every month. I think it answers

some of the questions that you raised with certain parties this morning. I thought you had gotten it already, but I'll leave it with you.

Good afternoon. My name is Thomas D. Carver. I am President of the Atlantic City Casino Association, which represents the City's 11 operating casinos. With me is Peter G. Sheridan, our general counsel and Vice President of Legal Affairs.

I appreciate your granting me the opportunity of appearing here this morning, and we welcome your involvement in the process of redeveloping this great City. We believe that Atlantic City is a New Jersey treasure, and its return to prominence to be a matter of State, as well as local, concern.

Our Association is committed to this process. Its membership came individually to New Jersey, but collectively has worked for the betterment of this community and the greater Atlantic City region. We believe quite strongly that we have and will continue to play a major role in returning pride, purpose, and a sense of identity to this once and future great resort.

While the process has begun, it is a long way from completion. Much work remains, and some very critical, politically difficult decisions lie ahead. Perhaps one of the most difficult concerns is the topic of your session today -- land speculation.

There is virtual unanimity of opinion that speculation in Atlantic City real property has been a major roadblock to the goal of a redeveloped city. Many observers believe that the City's outdated rate valuation is the primary cause, as well as the major stumbling block, in resolving the situation. This view is shared by many, including our Association and the City's Tax Assessor, William Ferry.

At present, City tax assessments vary dramatically, with some properties assessed at 1962 rates, while others have been reassessed on a piecemeal basis, some up to present value. For the most part, it is our understanding that unimproved property is assessed at far below market value. It was for this reason that our Association last year brought suit to redress this situation. We asked the New Jersey Superior Court to order Atlantic City to institute a previously

court-ordered tax revaluation plan. The plan had been delayed by a 1984 moratorium bill enacted by the Legislature. We challenged the moratorium on various legal and constitutional grounds. The Tax Court found in our favor, but the Appellate Division reversed two to one several weeks ago. We have since appealed to the Supreme Court, which has scheduled argument for early September.

Based on figures compiled by the City's Tax Assessor, if the revaluation had been instituted for 1984, about \$4.2 million in additional taxation would have been realized from the reassessed value of undeveloped, unimproved property in the City. We believe this would help end land speculation and encourage the development of land to its best use. Properties within the central business district would have realized a savings of about \$3 million annually. The casino industry, which pays slightly more than 60% of the City's property tax in the municipal budget, which, by the way, this year is \$86 million for a city of 38,000 people, would also have received a measurable decrease.

Conversely, some owner occupants of residential properties within the City would have had their properties assessed at higher values. To offset this, the industry offered to provide a one-time, \$1 million fund to be distributed by the City on an equitable basis to individual owner/occupants. Rules for the distribution would have been developed by the City. Our offer was rejected.

Whatever the outcome--

SENATOR LYNCH: What did that translate into? What savings you would have experienced in the industry, had you been successful in getting a revaluation? What do you project the savings to industry would be on your property taxes?

MR. CARVER: Approximately \$2 million, I believe, Senator.

SENATOR LYNCH: So, you're going to get half of that back on a one-shot deal.

MR. CARVER: Well, we felt-- There is no question that there was some hardship involved on the individual property owners. Despite the fact that their property was valued higher, they certainly would have been hit with the various sums. We felt that based on our investigation, \$1 million for 1985 would have been enough to carry it

over until the new assessments came through later in the year. Based on new construction, we thought there would be a washer.

Whatever the outcome in the Supreme Court, it is our continued belief that land speculation, fueled by an unfair valuation, will continue to block revitalization of the City. We believe that revaluation is inevitable and should be delayed no longer.

Although we disagree most strongly with the City on the revaluation, we would be remiss not to mention positive changes that are taking place. Under the leadership of Mayor Usry, the restoration of responsible, responsive government has begun. Mayor Usry and the City Council have sought the support and assistance of the State, County, and industry in this process. The casino industry has pledged its full support. We have agreed, for example, to be a major funding source for a management and operation audit of City government. Requests have already been forwarded to major accounting firms. The City also is updating its master plan.

Another major step has been the formation of the Casino Reinvestment Development Authority. This agency, which has the power of eminent domain in Atlantic City, will distribute more than \$1.6 billion in casino funds for public projects throughout the State over the next 25 years. The first three years of revenue will be directed towards the redevelopment of Atlantic City.

We believe reasonable use of powers of eminent domain, revaluation of tax ratables, and CRDA investments are the tools to redevelop Atlantic City, and that additional legislation could be counterproductive at this point.

In summary, therefore, we would urge your Committee to address not only the results of land speculation, but its causes. We also are hopeful that you will assist the City and other agencies in addressing new and innovative approaches to taxation and overall development. Our industry is publicly committed to assist in any way to assure that a new, exciting, safe, and clean Atlantic City is created.

We appreciate the opportunity to appear, and Mr. Sheridan and I would be very happy to answer any question you may have.

SENATOR LYNCH: Are you indicating that the primary cause of land speculation is the failure to have a revaluation?

MR. CARVER: We think that over a period time, Senator, that was a major contributing force. Yes, sir.

SENATOR LYNCH: Let's take away the balance of the speculators out there, and let's call it -- whatever you want to call it -- land banking, land speculation, whatever from the industry itself. Certainly, the fact that you haven't had revaluations in some period of time in Atlantic City does not contribute one way or another to whether or not the industry is land banking. Correct?

MR. CARVER: I don't see the nexus. No, sir, I agree with you.

SENATOR LYNCH: The subject of this hearing today is the casinos and whether they are land banking, land speculating, or what have you. So, revaluation has nothing to do with that. As a matter of fact, they would be in a better position to invest more money into land banking or land speculating if you had revaluation because you would be paying less taxes.

MR. CARVER: I've heard you ask this question several times today, and I agreed with it every time you asked it. I'm not so sure I understand at this time what it-- I think there is a nexus, frankly, between speculation and a lack of revaluation. If we may--

SENATOR LYNCH: Well, certainly, if you are talking raw land somewhere and it is under-assessed, and it can be bought and held and you are not paying anything for it each year by way of taxes, certainly. But, the subject matter at hand today doesn't really bear on that. It is not going to affect the industry one way or the other. Maybe positively, but--

Do you think that the properties that have been acquired outside the casino sites by members of the industry are a form of land banking for future development, or do you think they are more in the speculative area?

MR. CARVER: Senator, we have been in business about eight months. A lot of the property has been acquired over the years. I think there have been many assumptions made about the purposes of

acquiring land on the part of casinos. I submit that the answer to that question would be appropriately given by the respective casino/hotels, but that the first part of the statement could very well be the fact that -- in this very limited land mass that we have here in Atlantic City with 11 competing hotel/casinos -- some of the land could have been purchased for future development and for land banking.

SENATOR LYNCH: A lot of communities around there are doing redevelopment. They have had the Redevelopment Agency or the private nonprofits that are fueled through combinations of factors doing land banking for the purposes of development. When the values start to increase rapidly like they did here, they have already made some acquisitions. You don't see this in exactly that same context, do you?

MR. CARVER: Well, again, Senator, while we represent the industry in terms of common interests, we are not privy to their individual development, marketing, or business plans. So, to be truthful with you, I cannot answer that question in terms of the individual motive.

SENATOR LYNCH: If members of the industry own significant portions of the vacant land in the community -- a community that is struggling to redevelop and build a balanced housing stock and various types of commercial amenities, etc. -- do you see that as posing a problem and a roadblock towards redevelopment, unless that industry is going forward and telling the people, the Commission, and whomever what their short- and long-term plans are for all of that property?

MR. CARVER: I think, quite obviously, if there was a proven pattern of not negligence, but certainly reluctance on the part of the industry or even individual members to discuss their ultimate development plans with the appropriate authorities, I suspect such a case could be made, yes. I don't believe that that is the case here though. I think there has been a willingness -- at least as far as I've seen during my short time here in Atlantic City -- evidenced collectively on the part of the membership to deal with whatever appropriate authority is available to discuss the development of Atlantic City, including its housing needs.

I think there has been an agreement on the part of a great many people, including City officials, that the Master Plan has to be redone.

Really, what I am saying is, I think there have been a lot of missing parts to this whole puzzle, which may, in fact, have been laying on the table, but haven't been put in place yet. We are suggesting at this point that those pieces are coming together. We are also requesting that there not be a rush to judgment with respect to the motivation or the purpose in terms of what has happened in the past.

SENATOR LYNCH: I have just one last question. Do you agree that the Casino Control Commission ought to be charged with the responsibility to ensure that the industry is not involved in long-term land banking, land speculation, or whatever you want to call it that may be detrimental to the redevelopment of Atlantic City?

MR. CARVER: I am going to try to answer that question as best I can. It has been alleged on occasion that we are opposed to increasing regulation on the part of the Casino Control Commission. That is probably a misnomer.

In all seriousness, again, I feel that the Commission has an appropriate role, and it probably has the authority to address some of these questions already. If I'm not mistaken -- I don't think I am -- in terms of the development of Atlantic City, the Legislature has directed that role now specifically to the Casino Reinvestment Development Authority, with some degree of advice and consent in certain areas from the Commission. I think the Commission will continue to play a role in this area, but I do not necessarily see the nexus between the divestiture of the real property on the part of the casinos and development. That is really where my problem comes in.

SENATOR LYNCH: Value.

MR. CARVER: Yes, sir.

SENATOR LYNCH: If you control in land banking 50% of your undeveloped property in the City, you are obviously going to affect the market, aren't you?

MR. CARVER: That is true, yes.

SENATOR LYNCH: And, it is value that controls, to a great extent, what it is going to cost you at the bottom line, and how and what you are going to develop. Certainly, if you are going to be developing housing, the cost of that land is critical to the ability to develop low-, moderate-, and middle-income housing.

MR. CARVER: I agree, Senator.

SENATOR LYNCH: Senator Gormley?

SENATOR GORMLEY: I have no questions.

SENATOR LYNCH: Thank you very much.

MR. CARVER: I appreciate it.

SENATOR LYNCH: Someone has a time problem, so we going to go out of turn. Jack Bertaglio? Good afternoon.

JACK BERTAGLIO: Thank you, Senator. I appreciate you working me into your schedule. I am a developer from Florida. My interest in appearing here today came about as a result of my becoming aware of the bill.

As a developer, I am concerned, of course, with interfacing with your controls or agencies, and interfacing with them effectively. More importantly, I am concerned with the integrity it places on developments that we may be involved with.

We are currently very far along in the development and are at the threshold of announcement -- because the preliminary plans, specifications, rendering store plans, cost estimates, and meetings with our current lenders have all been held -- of a \$125 million project to go on the Resorts' site. It was called to my attention that this bill was pending, and two of the lenders have made an indication that they are withdrawing from their participation in the financing pending some clarification of this bill and its impact on future development in Atlantic City. There have been months and months of reassurances by us that financial lending and integrity of development in Atlantic City was being provoked by the State and local authorities in order to enhance the tax base on the future development of the City.

You can tell people where to develop. I guess by zoning, you can tell people how to develop. But, you cannot tell lenders where to

put their money and under what conditions they can expose it, other than the value of the concrete. You can induce investors and developers by lender incentives. You can induce people by creating a marketplace which needs to be satisfied. In the process of that, we find that much land that may be termed "speculative" may be, in fact, bought for protection.

If I may, I am going to hand you a copy of a project that one of the companies I am involved with is doing in Miami, Florida. This was a sandpit that was not income-producing, and had become an eyesore to the community. We were able to convince the community that by having a unified effort and control of an organized development, we could create a development integrity that would cause investors to invest in that project. There will probably be \$200 million to \$300 million worth of-- The Hilton Hotel is currently physically operating some 500 rooms. We have a hotel under construction, about a half a million square feet of office space completed, and another 300 under construction.

Absent our ability to give the lender the protection that that development plan would be followed to its complete outline, we would have been totally unsuccessful in raising financing. The result of that is that we would have been unsuccessful in converting a non-income-producing tax base for the city to what is going to be one of the third or fourth largest privately-financed tax bases that they will have.

I am, I guess, a multi-city developer. My primary background used to be in residential until I moved to Florida. We used to build through incentive programs, zoning controls, and planning boards. As a developer, the thing we look for is somebody to wink at us and tell us we are welcome. We are often enticed into developing land by incentive offer, tax rebates, valuated bonds, and fixed street development programs. We develop atmospheres by helping to solicit other developers in order to bring additional financial clout to large developments. Above all, we and the lenders are very solicitous of a single-source control for architectural and economic stability of a development.

In fact, I built a \$125 million hotel. If somebody had told me the next morning that I would now, because it was on their leased ground or in a joint venture with a casino, be under the restrictions of the Casino Control Commission, it would completely change the impact of our environment. It would change our investment criterion and, it creates an economic liability that I do not think we would be able to satisfy the lenders. This is really more my concern than anything.

SENATOR LYNCH: How does this legislation affect that?

MR. BERTAGLIO: As I read the proposed bill, it says that the gaming board would have the right to take control of any sites that are owned or leased by a casino. The site that we are currently developing would be leased from Resorts International. Had it not been for their overwhelming plea for us to be involved with several other developers that we had meetings with in the development of the Atlantic City sites, we would not be here.

SENATOR LYNCH: You indicated that in a lot of areas you get a wink, they lay out the welcome mat, and they give you this and that. Apparently, what happened here is, they gave them gaming. That is probably as significant an entree as there has been in the history of the State of New Jersey

I'm not sure I understand how the empowerment of the Casino Control Commission to review land holding or land banking would affect your development and its impact on the redevelopment of Atlantic City since that review would be limited to the casino industry. Once your development is done, once you have your financing, it receives the imprimatur of the community and its agencies. Then this would no longer, obviously, come into play. So, I don't know how it could disturb a lender because they can't pull something out from a computer.

MR. BERTAGLIO: Three ways, as I read the bill. Please believe me. I am not a lawyer, and I may not have been totally observant into the intent of the bill, but I didn't see any reference to it only involving vacant ground. It said "land leased or held," and I assumed if you own a piece of ground that has a leased hotel on it, whether it is a new hotel or an old hotel, as I perceive the bill as it is written, it would certainly encompass that authority.

Secondly, if I build a hotel and for some reason somebody decides to divest and it interrupts their contemplated development plan, it would then put the concept under which I committed our company to the development plan in jeopardy.

As an example, the very fact that we were willing to make the capital commitment on our project was because, in Resorts case, their stated objectives, their physical drawings, their development plan, the overall criterion for quality, and their -- excuse me for what may be a cliché -- putting their money where their mouth was, it made development plans available for us to assist us in researching the economic studies. They made financial records available to us as to what the marketplace was and cost analyses as to what their costs were. They made inducements to us by offering us leased land at costs that we could not acquire the land for.

In my opinion, the incentives we have been given in their case are probably 50% less than a true market value as a developer's incentive to participate in that particular development. I can only speak for the ones we are involved in, of course.

I think these are some of the areas that create some of the problems for us in this bill, and certainly to the financial community.

SENATOR LYNCH: I don't read the bill that way. I don't see the intent of the bill covering the area you are concerned with. Possibly it needs to be tightened up to ensure--

SENATOR GORMLEY: When is the development going to be announced?

MR. BERTAGLIO: Excuse me?

SENATOR GORMLEY: When is the project going to be announced? Obviously, you can't go into specifics of site right now; I assume that from what you are saying. Is that correct?

MR. BERTAGLIO: Is the fact that we are not prepared to announce the development--

SENATOR GORMLEY: That you are not able to announce the development today.

MR. BERTAGLIO: We would be delighted to announce it. Frankly, we have deliberately tried to put all production in order

before we-- I know a lot of times people prematurely announce projects to cause flurries, but we have the drawings, floor plans, and architectural design, etc. completed.

SENATOR GORMLEY: Could you tell me the nature? Is it housing or a non-casino/hotel?

MR. BERTAGLIO: Oh, it is a non-casino/hotel. I'm sorry. I probably was not very clear on that.

Our studies led us to believe that a non-casino/hotel was a very high priority item in the community. Our research and market studies supported that. In our endeavor to find sites and locations to accomplish that development objective, we found sites near the Resorts complex, and we were impressed by their encouragements to follow a development plan. So were our lenders. We have been told that this bill is very disruptive from a credibility standpoint for financing.

SENATOR GORMLEY: No, if anything, we want the non-casino/hotels built. This was designed as an inducement to do that.

MR. BERTAGLIO: Unfortunately -- I have this written down on my outline -- it is contrary to the goals it seeks, as it is written, as it is perceived by me as a developer, and by our lenders who have read it.

I thank you all very much for your time.

SENATOR GORMLEY: Thank you. Is this on the urban renewal site?

MR. BERTAGLIO: No.

SENATOR LYNCH: Thank you very much. We have representing Resorts Richard Weinroth, Joel Sterns, and John Donnelly. Joel, are you going to do this?

JOEL STERNS: Yes, we will try to combine. Mr. Chairman and Committee members, my name is Joel Sterns of the firm of Sterns, Herbert, and Weinroth. We have been attorneys for Resorts International since about November of 1976. John Donnelly is the corporate counsel for Resorts, and Patrick McGahn is the Atlantic City counsel.

I first want to apologize for a medical problem that has kept Mr. Crosby, who was most anxious to be here, from coming today. The

statement which we have submitted to you, and which is a lengthy statement, is, of course, the company's statement and his statement. Given the time you have devoted to this and from the number of witnesses you have, obviously, I am not going to read the entire statement. But, I hope, and I'm sure the Committee will have the opportunity to read that statement in its entirety.

SENATOR LYNCH: Have you distributed copies of it?

MR. STERNS: We will if we haven't. What we are going to try to do in capsule form, of course, is to review that statement and to review some of the things that have happened today. I would like to make some overview statements, and then Mr. Donnelly would like to go into some detail. Of course, we will be happy to answer any questions, and Mr. McGahn may be able to shed some light on one or two of the local issues.

I think it is important in the context of this hearing today to say, first of all, really with the exception of only one or two wild and baseless allegations, I think this has been a very productive hearing and one which I, on behalf of Resorts, welcome because it has shed some light. I think one of the things we ought to get right down to the basis of, and nobody has done it today, is speculation. We haven't defined what speculation is and what it is we are trying to get at.

Mr. McAvaddy, the Housing Authority Director, probably came close to it when he talked about spoilers. Why I say we were happy and delighted is because I think the Committee, the public, and whomever was here got the knowledge--

What is a spoiler? First of all, I should define that. A spoiler is a person who buys because he wants to hold up whoever is going to develop. That is not what Resorts is doing, nor is it what Resorts is accused of doing. I think the chart he put out and the names he mentioned should once and for all get rid of that idea.

Now, what is Resorts doing, and can Resorts be defined as a speculator? Resorts came to this community in 1976, prior to the referendum in 1976, and made commitments for over 70% of the land it now holds. Was that speculation? Yes, to a certain extent. They

speculated that the referendum would pass, and that Atlantic City would become once again one of the great tourists destinations on the East Coast.

It was not speculation in the sense that they said, "If that happens, we're going to sell this property. We are going to make a big profit, and we're going to get of town."

The most important thing I would like to leave with you is, Resorts International is more entwined with the future of Atlantic City than anybody else, except perhaps the municipal government. Only the municipal government owns more land, and Resorts is not entwined with this community because it intends to put that land up for sale and lease. If other jurisdictions allowed casino gambling, with ease other licensees who are here -- and I'm not suggesting they would do it -- could leave. They have their productive investments; they have their casino licenses; they have them functioning; and, they could go. Resorts also could go, but Resorts primary investment as a corporation is in this community, and it has always tried to conduct itself in that way.

We come here today at a moment of frustration, and I think we have to have some perspective on that frustration. I think you who are involved in government at all levels, both sections that are here, and myself, who has been both in and out of government, can bring a little bit of perspective to that development process. The frustration is that we cannot brag about a completely redeveloped Atlantic City. We cannot brag that this is a destination for the American Medical Association, the American Bar Association, thousands of hotel rooms, and shopping and housing areas. That is what we want, but remember, we started from a November, 1976 referendum, and in Resorts' case, a specific date. The clear title to the urban renewal land did not come until one year ago -- March 25, 1984 -- because of lawsuits in Federal courts, and because of riparian claims by the State of New Jersey, both of which were baseless and both of which were dismissed.

In one year, you've got development, which before you leave town, I invite you -- I know Senator Gormley has been there and probably you have too, Senator -- to walk five minutes down the

boardwalk and see what the action is on an urban renewal site, which has had clear title for only one year.

I am fully familiar, both in government days and just as an interested citizen of the State, with the time frame for urban renewal projects. In fact, that was my responsibility for seven years, and I know of the highly successful urban renewal project in New Brunswick.

The average time for an urban renewal project to reach completion -- and half of those in the United States have never reached completion -- is 15 to 20 years. Now, we're talking about the perspective of one year of clear title, and we're talking about an entire time frame of some eight years since the passage of the casino legislation. This is not meant to be an excuse or a crutch; it is meant to be a fact -- that Resorts has been frustrated, along with municipal government, the State government, the State Legislature, and the Casino Control Commission. Resorts has done some things about it.

I think Resorts has been more active in both volunteering commitments for housing, in seeking developers, and offering land at below market rates -- and I say below market rates to perspective developers -- than anybody in this community. That stands for all of Resorts' land. That is a categorical statement. To a bona fide developer who will add to the housing, hotel, etc. stock of this community, Resorts stands prepared not for the market rate, but for the below market rate, because that development will inure to our benefit. What it seeks to do is to revitalize Atlantic City, not only philanthropically, or not at all philanthropically, if you will, but because that is where the corporate dollars are placed, and that is where the payoff is for Resorts International.

It is fine to talk about who will buy these acres and who will buy those acres. I assure you, and Mr. Donnelly will give you chapter and verse in just a moment, that Resorts has been in the forefront of trying to get people to this community.

You know that there are housing projects a block from Resorts that did not take off. You know that there are major condominiums that are not even 50% occupied in this City, and you know that there are 20 casino sites or more that are dormant right now in the City. In fact,

the only two active ones today are the two on the urban renewal sites -- Resorts II and the Showboat. The Showboat would not have been able to build without the financing mechanism that Resorts offered it. These are their words, not ours. It is a long-term lease which, in effect, is a financing mechanism.

We have the same goal. This community is going through frustration because it is not being realized fast enough. I'm afraid that some of the suggestions that are being made are more an impediment than they are a benefit, but that doesn't mean that we shouldn't sit down together and try to work out the absolute essential necessities for further development in this community.

I, for one, have lived since the day of its creation with the Casino Control Commission. I want to assure the members of this Committee that Resorts has never withheld one inch of land or its information or use from the Casino Control Commission, or from the Division of Gaming Enforcement. They know every bit of land and every bit of our plans for it. I mention that because I heard this morning reference to someone or some entity that didn't disclose it, and I want you to know that it is not Resorts.

I want you to know that despite the fact that Resorts is the largest land holder and will, therefore, pay the most proportionately, Resorts has been 100% for revaluation immediately, and continues to be. As has been testified to amply today, this is not the nature of a speculator to want to have his own taxes go up. What we are looking for, and I know that sometimes these things get misidentified, is any kind of help that we can get to move forward with this development. That is the reason why the land was bought in 1976.

With regard to that, we have made a number of offers, and I will ask Mr. Donnelly in a moment to be specific with regard to that.

I want to conclude by saying two things. First of all, if it is a question of Casino Control Commission regulation, we live by that regulation. We have not always agreed, but we have had a fair hearing. As far as the Commission's control of a licensee, we live with it. It is a fact, and we are perfectly willing to have that happen. What we don't want to happen is to have the world at large

feel that this is an unsettled community and that they cannot make investments.

So, therefore, the perception is sometimes as important as the reality. We are, as much as anybody in this room, seeking to get that investment and development, because that is the way out for the company.

The second thing I want to say to you is to emphasize the commitment of Resorts to development, which Mr. Donnelly will speak about. You know that Resorts Board is being enlarged, and one of the new members of the Board of Resorts is probably the preeminent person in the United States with regard to development and land and community action. That is Mr. Mike Sverdoff, who was the head of the first Forward Gray Areas project in New Haven. He was the Commissioner of Human Resources in New York City for Mayor Lindsay, and for a number of years, he was the Vice President for National Affairs of the Ford Foundation. Among other things, he funded the local Initiative Support Corporation, which I believe, Senator Lynch, was one of the major factors in the redevelopment of New Brunswick. Incidentally, it was an effort that we tried to get off the ground here in Atlantic City, with his help.

I'm proud to announce that Mr. Sverdoff will be joining the Board at the invitation of Mr. Crosby and Mr. Davidson, and that his special knowledge and expertise may help all of us to cut through and prove to the public at large the development goals which we have.

I'll be happy to answer any questions, but perhaps to get a complete presentation, you will permit Mr. Donnelly to go into some specifics.

SENATOR LYNCH: Sure.

JOHN DONNELLY: Mr. Chairman, thank you. Let me just address one thing, first of all, and that is the housing issue. Obviously, when we saw Senator Gormley's bill coming up, knowing that we are significant landholders in town, and knowing about the Philadelphia press article, we sat down and started to evaluate our situation.

We welcome this opportunity to tell the Committee, and perhaps the world at large, that the Commission has very minutely

examined us, through the course of two hearings -- perhaps three hearings -- and our landholdings and our efforts in the housing area in Atlantic City to determine whether or not this casino or other casinos were retarding housing.

Just to set the record straight, Mr. Chairman and Senator Gormley, we have invested or caused to be invested in this region \$35 million in housing. That is \$3 million worth of housing investment that we have caused in the City of Atlantic City by virtue of a \$1 million grant giveaway to the Atlantic City Housing Authority, which, in turn, has leveraged that money into a \$3 million mortgage pool. That will ultimately make 80 housing units available. I think there was testimony earlier today by Commissioner Armstrong that 28 housing units are finished. This, I might add, is a tripartite group. It is our efforts, together with private industry banks, together with the Housing Authority, and together with the Atlantic City Rehabilitation Program to rehabilitate housing units that were on the tax rolls and had been taken back for taxes.

We essentially subsidized this. It is going to go for low- and moderate-income housing, solely for low- and moderate-income housing. The housing that we have put on the market already have been sold. The Housing Authority made 12 houses available to families. They sold at \$40,000, with 8.5% mortgages. The rehabilitated houses will probably cost something like \$25,000.

As you heard Mr. Gross from the Improvement Authority say today, when the Improvement Authority asked us if we could provide land for housing, we made that land available to them. You, Senator Gormley, were helpful with that, so I know you are aware of that. We made it available to them at no profit whatsoever to us; indeed, it was a loss. We sold the land to them at what it would cost us without regard to our caring and assemblage charges. The Improvement Authority quite readily recognized that there is a 10% to 20% profit that we forewent by giving that away.

We just recently made arrangements to give them four more lots. The reason we did this was to develop housing. This will be a median-income housing project, precisely the issue Mr. Gross and Mr.

McAvaddy were speaking about, to service them in the problem that they have been having in acquiring private land -- that is, spoilers and holdouts. We made the land available to them. By the way, they had to use eminent domain to take some of those spoilers out, not us.

In the region -- in Wrangleboro, in Country Place, in two unsuccessful developments in Sea Pines, and in Lake Lenape -- we made available what I would term median-income housing in the range of \$50,000, which to date cost about \$32 million worth of investment. None of this has been luxury or expensive housing.

Let me turn from housing to the speculation problem. As Mr. Sterns pointed out, no one has defined it. I think perhaps there were a couple of definitions. County Executive Squires said that speculators buy as cheaply as they can, hold short, and sell. There is no development. That is the key. Speculators don't develop property. They buy it for a flip to make an enormous profit, or they act as spoilers.

In preparations for these hearings, we calculated the amount of investment that Resorts International has been responsible for bringing to Atlantic City since 1976, and I would like to present this chart to the Committee. (Gives chart to Committee and explains) Not all of this is our money, but is the money we have caused to be brought into Atlantic City, although most of it is our money.

Resorts I represents approximately a \$217 million investment. Resorts II, which is a development under way on the uptown renewal tract, became available on March 25, 1984. It is going to be approximately a \$400 million investment when billed out. We are now up to the 16th floor.

The Steel Pier, which is now undergoing renovations, will represent a \$60 million investment when completed.

Housing, as I noted earlier, represents \$35 million worth of investments. Warehouses, gas stations, etc. in Atlantic City represent approximately \$10 million worth of investments.

The Showboat, which is now under way, with a 537-room hotel-room development on the uptown urban renewal tract, is estimated by the Casino Hotel Association to represent \$220 million worth of

investment when billed out. In a recent brief to the Casino Control Commission, Showboat stated quite emphatically that had it not been for the 99-year lease vehicle which we provided to them, which is essentially a method of financing the land and amortizing it over 99 years, they couldn't have brought in that development.

There has been almost \$1 billion since 1976 of this company's money, or money that we were responsible for bringing in. By the way, we have paid commissions to real estate finders who brought in Showboat. We brought Showboat into this town from Nevada, just as we tried to entertain Mr. Bertaglio when we brought him in.

By the way, we have had conversations with what we, I think, can fairly say is every casino/hotel developer, but more important to this City, every non-casino developer that we are aware of. That includes Marriott, Howard Johnson, Sheraton, Gold Crown, Royce, Grand Metropolitan, Americana, Union Plaza, Aspenola Holdings, etc. This is just to name the ones we were able to prepare for this morning.

Our land is for sale and for development. It is not for holding or for speculation. We are trying to develop the City, and I think \$1 billion worth of investment shows it. By comparison, \$1 billion means very little to me or to anyone else in this room. Knowing Senator Lynch's interest in New Brunswick, we talked to the people at Johnson and Johnson. I think Johnson and Johnson's development in New Brunswick has been heralded as a very strong effort and a useful effort in redeveloping that City. By comparison, on the basis of discussion with Johnson and Johnson, that project has been under way almost 20 years. That project, according to Johnson and Johnson, took them eight years to assemble the land. The investment they have put in, including the Hyatt Regency Hotel, is \$125 million compared to the \$1 billion we have put in since 1976. They, too, have experienced enormous delays and difficulties in developing, as any developer does.

As Mr. Bertaglio spoke, we offering this land, not at profits to casino developers and casino/hotel developers, but in many cases to non-casino developers, and in many cases at below our cost as a subsidy

in order to get tax ratables, valuable, high-use land developed in the City.

As this Committee, I think, knows -- I'm sure the Casino Control Commission and other people in the City know -- there is not a clamor among developers, either casino or non-casino, to come into this City. It is not there. We are actively out there seeking it, and I think as Mr. Sterns pointed out, we are the sole concern that is actively out there seeking it, perhaps for reasons that may ultimately help us. But, we are also doing it for reasons that will only help the City. We are out seeking developers on a daily basis.

Perhaps this Committee's hearings can make that clear. We want development; we welcome it. We will aid developers. We will aid them with site-plan development, and we will aid them with property that they can develop, as Mr. Bertaglio testified. I think Showboat can testify to that.

We have also not neglected the other problems of the City. We are intertwined in the City. We have an investment in this City like no other casino/hotel has, and that is why we are here and perhaps why the others aren't here.

We have made other efforts in housing. We have made efforts in Rum Point. We have made them in conjunction with the developer who the Senator knows for a HODAG grant. Unfortunately, it was not granted to us. With the Senator's help, we covered at least 12 or 15 hurdles in bringing forth a railroad to the City. It took us a year and a half, and the Senator knows because he was actively involved in that. But, he knows that it took a year and a half of our Chairman's direct interest to bring that in.

We have brought in a helicopter airline -- a privately owned airline -- that is using approximately \$30 million per year to add to the transportation matrix of this City.

We are actively interested, and as Mr. Bertaglio stated, and we have put our money where our mouth is in this City. We have done it to the tune of almost \$1 billion to date.

I thank this Committee for the opportunity to address you. We will be ready and prepared for answers, but I would just like to address the legislation specifically in conclusion.

We are opposed to the legislation. We believe the legislation will be counterproductive. That is not to say there aren't problems in here, and we know the Senator has recognized those problems. We realize that it is important for this Committee to come here and address them. We're glad you came.

We were delighted when Mr. McAvaddy presented his chart and could tell this Committee that it was not us who are the spoilers. The impression you would get from the papers is that we are the spoilers, but we are not. We have to do something about those spoilers. They affect us, just as they affect others.

The land we have made available to Mr. Bertaglio, we assembled parcel by parcel. In many cases, in hundreds of cases, we have been frustrated by those same speculators that frustrate housing in this area. They treat us just like they treat anyone else. In fact, more so, because they believe they have an effort to put more pressure on us.

We would invite legislation that would do something about speculators. As Mr. Sterns testified, we have supported the revaluation although it would hurt us. We do not object to the use of--

SENATOR LYNCH: How does it hurt you?

MR. DONNELLY: It would hurt us. Our evaluation shows it would cost us more if the land were redeveloped. It would cost us more in taxes.

SENATOR LYNCH: It has to be negligible.

MR. DONNELLY: I'm sorry?

SENATOR LYNCH: It has to be negligible once you have a second--

MR. DONNELLY: There would not be an enormous difference, but it would cost us more. Nonetheless, we supported the litigation and paid our share of the litigation fees to reevaluate. We think it is important. I would cost us more money. I don't have the numbers at hand, but it would cost. Whether or not it would be significant, I can't tell you, Mr. Chairman, but our evaluation shows us that it would cost us more.

We supported that, and we support the use of eminent domain. We have discussed this with--

SENATOR LYNCH: The reason it would cost you would be because you had a lot of under-utilized properties that you have purchased.

MR. DONNELLY: I think it would cost us because some of the land is under-valued and under-appraised, given the land values.

SENATOR LYNCH: You say with regard to the bill that you oppose it. Supposing that Resorts or any casino/hotel owned 80% of the unoccupied, undeveloped lands in Atlantic City, and that it controlled 90% of the boardwalk sites that are undeveloped as casino/hotels. Do you think there would be a need for the legislation then?

MR. DONNELLY: There perhaps could be under those circumstances, Mr. Chairman.

SENATOR LYNCH: Where do you draw the line?

MR. DONNELLY: There are 20 casino sites that I could name right now that are sitting vacant. I could tick them off for the Committee. They are sites that there is no interest in to our knowledge, and that does not include our sites. I'll give them to you.

There is the Dunes site; the Golden Nugget site adjacent to the Dunes; the closed Holiday Inn Hotel, which is controlled by Penthouse; the Mayflower Hotel site, which is controlled by Penthouse; the Sheraton DeVaux site owned by Tropicana; the site next to Ritz Condominium; the 4.4-acre Chalfonte site next to us, which by the way, we sold, together with plans -- we sold our architectural plans or construction plans -- to a casino developer with the belief that that would be developed; the Camelot site in the marina; the Atlantis Elsinor site, which is approximately eight acres at the foot of the Expressway; the Trans Expo site, which is currently controlled by Lou Walters & Associates; the Golden Nugget marina site; the Shelbourne site; some City casino-zoned property in the marina; and, Captain Starn's site in the Inlet.

We have some sites also, but those are sites that we don't control, which are available for development. I understand that they are not being developed, and the market is not there. That is not to mention non-casino sites.

We think the proposed legislation would be counterproductive, and that is not to criticize an approach. We have to have an approach obviously, but it is counterproductive because it is very difficult to entice people into this area to put in \$100 million worth of investment in non-casino hotels or any other quality investment if they don't believe and think that the land and the development around that area will be consistent with their plan.

Quite frankly, I think one of the reasons -- I think Mr. Bertaglio said it -- that he is here is because of that \$1 billion that is going up next door to him. He believes, as a businessman, that that will attract investment and will fill his hotel rooms. He desires that we -- Resorts -- have a developer who has a big financial commitment and has some control to do that development.

SENATOR LYNCH: But, the Casino Control Commission is charged with a much greater responsibility. Not unlike the Mayor, they have to answer every day of the week to, "What is in it for the people of Atlantic City?" not just, "What is in it for hotel and casino development?" If one casino/hotel or a combination of them are able to control all of the land mass in the town and really control the market itself, then you make things such as affordable housing opportunities literally impossible. Those are the concerns that I think the Commission has to face. Those are the concerns that the Mayor and the governing body have to face here.

To say that the Commission should not have the responsibility to ensure that a casino/hotel or a combination of casino/hotels should not be able to be in a position where they control the market and control the land mass, it seems to me to be forgetting what the whole structure was in the beginning.

I'm not saying that anyone is doing anything wrong. Certainly we haven't gone into anything today to get to that point. The question is, should the Casino Control Commission be charged with that responsibility?

MR. STERNS: Mr. Chairman, if I could come in on that a little bit, as a representative of a casino, there is no question of the life-and-death power over a licensee that the Casino Commission has

and should have. There is no question that the Casino Commission has a variety of reasons and a variety of powers that it exercises. It can exercise the powers far more than a lot of the public realizes.

I don't for a moment think that the Casino Commission isn't going to say to a licensee, "We want to know what you are doing with this land." They have already done that to us. They have already elicited a "voluntary commitment" that has gotten to \$30 million in housing. So, I don't think there is any question about our recognizing that.

I think what we are saying, and I hope we are not saying it in a negative way, is that there is the rest of the world that doesn't understand us. The rest of the world can say, "We know that Resorts International or Golden Nugget or Playboy or whatever has to do whatever they have to do to get a license." But, now you are putting another wrinkle in that and saying, "In addition to that, they can force land sales." I suppose what I am saying is, you can force land sales in a subtle way. You can say, "Hey, your license is coming up for renewal, and we want you to divest in housing in Atlantic City." That is exactly what happened to Resorts International.

Or, you can say in your legislation, "You've got the right to do this." Then somebody in California reads it and say, "Hey, what does this mean? What are they saying here?" That, I think, is the refinement we are talking about.

SENATOR LYNCH: Well, it is never going to be easy, but obviously, if you are perceived by the bulk of the people and the leadership of the community as being a working partner in redevelopment, then obviously you are not going to have a great deal of difficulty with the Commission or the lenders. If you are perceived as doing your own planning for your own purposes, and you are not worrying about the day-to-day what's in it for me in the community, whether it be new schools, new churches, new shopping centers, or all of those amenities, then it is a different story.

Incidentally, with New Brunswick the planning didn't start until 1975. There was no hardware until 1978 or 1979. The Johnson and Johnson investment was what you said, but there have been new schools,

new transportation centers, new cultural centers, and a lot of new housing in the works. Still it is not perfect. Still we have a lot of people upset every day of the week.

I can see where Mayor Usry has a great deal of concerns about being able to plan for the future of this City when you are talking about acquisition prices and what is going on here. To put together a site in downtown New Brunswick costs \$1.25 million an acre to assemble. We can't make the bottom line work. That is the UDAGs, etc. Those days are passing by.

To try to do that with housing for moderate-income, or low- or middle-income, is impossible. The question is, can you be in a position to control the market? The answer is, you can be.

MR. STERNS: You can, Senator, but I--

SENATOR LYNCH: But, where do you draw the line? Who makes the decision? Do you?

MR. STERNS: Well, obviously, we don't because obviously it will be the--

SENATOR LYNCH: But, you don't want anyone else to make it for you.

MR. STERNS: We would like to be able to come up with what we consider a rational development over an ample space to do it. As was pointed out, you can't do this piecemeal. I think Mr. McAvaddy of the Housing Authority said that, and we echo that. You have to take this City from the ground up. Unfortunately, the cycles of urban renewal, you know, you've got an area which is declining, so you call it a blighted area. That makes it decline even more rapidly. Then you demolish it and start again. Well, we are in the midst of that cycle. That doesn't mean we are the end-all, the be-all, or that we see it all.

I did want to emphasize though, suppose there hadn't been Resorts? Suppose Resorts hadn't done this in 1976. The situation is endemic. It wouldn't have been any different. The reason why the values went up so much is because first of all, they were so low that there was no question that Atlantic City values in 1976 were significantly below any other shore community in New Jersey. So, they had farther to climb.

As was pointed out to me, the values of neighboring cities, which have had nothing to do with Resorts' ownership or nothing to do with casinos -- Margate and Ventnor -- have declined just as rapidly. So, I don't think--

SENATOR LYNCH: But, you had anticipated that.

MR. STERNS: Yes, of course, we anticipated. But, what I am saying is, I don't think it is because Resorts owns the land. Someone would own it, and whoever owned the land -- whether it is Resorts, Golden Nugget, or a combination of them, or Mr. Trump, or whomever you name -- the same situation which we are trying to meet would exist.

SENATOR LYNCH: Whether you want to or not, you are perceived as the big boy in town.

MR. STERNS: We are, and we want to be. We want to be in the proper light.

SENATOR LYNCH: It is not easy, obviously, the day you are perceived as being a working partner--

MR. STERNS: Right.

SENATOR LYNCH: If it is a balanced developed plan, it becomes a lot easier.

MR. STERNS: Well, that is why we tried to emphasize some of the things we have done, including the \$30 million to the railroad and including the offer of free land. I think we offered one-fourth or one-third of the urban renewal land free for the Convention Center. Sure, it is to our advantage to have the Convention Center closer to us, but we--

SENATOR LYNCH: How do you build housing?

MR. STERNS: What?

SENATOR LYNCH: How do you build housing?

MR. STERNS: Well, we have a commitment to build housing on that urban renewal tract, and a lot of our land is for that purpose, but--

SENATOR LYNCH: What kind of housing?

SENATOR GORMLEY: That is 10 years away though.

SENATOR LYNCH: What kind of housing?

MR. STERNS: Well, that is the problem. What you have to do is, you cannot-- Even if you assume that the profits are sealed and never-ending, there is not enough profit in the Resorts Casino or another casino to build low-income housing. There has to be-- You know, you can do part of it, and we're trying to do part of it, but there has to be some other--

SENATOR LYNCH: Low-income needs subsidies.

MR. STERNS: That is correct.

SENATOR LYNCH: Moderate and middle may not if the land were available at reasonable rates.

MR. STERNS: Yes, but you've got to look at what-- If you took those land prices and cut them in half -- the fair market value -- you still wouldn't have reasonable prices in Atlantic City proper. That is one of the things we have to work on. What is the market we are looking for? I'll just cite a name; I don't know a lot about it, and I don't know what the prices were, but the Tannen Towers development couldn't get off the ground. I don't know what they were aiming for. In terms of price, it was probably too high, but it was a market value price. Wasn't it a market value price?

SENATOR GORMLEY: Well, it was some luxury. It was over \$100,000 for some of the units.

MR. STERNS: I suppose so.

SENATOR GORMLEY: What was the average price? Does anyone know?

MR. STERNS: I don't know. It was probably over \$100,000.

SENATOR GORMLEY: They weren't--

MR. STERNS: But, what I am saying is, that is market value, and there is no way you are going to get below that without some kind of subsidization of programs.

MR. DONNELLY: The point is, Senator, as you know, there has been a huge debate going on for several years as to what kind of housing to put in this City. We've put low and moderate in because we were asked specifically to do that by a number of people. We have been severely criticized by one group, and if we put moderate in, we'll be criticized by another group.

SENATOR LYNCH: That is why it has be balanced.

MR. DONNELLY: Yes, sir.

MR. STERNS: Exactly.

SENATOR LYNCH: There is something in it for everybody.

MR. DONNELLY: Absolutely. I would just like to dispel one notion, that we somehow own the entire City. I heard the calculations from Mr. Sciarra. That includes 600 acres of wetlands that the Senator knows well, because in attempting to get a school site, he went out there. We can't build on that.

SENATOR GORMLEY: I remember when you offered it.

MR. DONNELLY: That land is--

SENATOR GORMLEY: The actual high school, I remember that.
(laughter)

MR. DONNELLY: It also includes the urban rural tract, which we don't own. It is far less than 10% of the buildable land in the City.

MR. STERNS: If I might have your deference -- we have taken a long time -- but, Mr. McGahn has some comments with regard to the school site which he has been handling.

SENATOR LYNCH: Okay. We thought you had a deed. (laughter)
PATRICK MCGAHN: Mr. Chairman, I guess in a way I am responsible for this hearing indirectly because unlike Joel and John Donnelly, I was here from the very beginning. One of my responsibilities was, under the direction of our Chairman, to purchase the land in question. It should be noted, and it is very important, that in excess of 80% of this land was purchased prior to November 2, 1976. In other words, the land that Resorts purchased was prior to the passage of the casino referendum.

It is also interesting to note that at that time in 1976, there was no such thing as a casino zone. In fact, we didn't even have an interim zoning plan until 1977. That was the Master Plan, and our Superintendent of Schools put it out very clearly that in the Master Plan -- even the interim plan that was proposed -- there was no emphasis given at all to schools. When the final plan was approved in 1979, there was no emphasis whatsoever or thoughts of the school, even on the Master Plan.

The school developed their Master Plan subsequent to the Master Plan that you see there. Mr. Eisenstein talked about the programs with regard to developing the new schools, but they have been in the development stage since 1979. All of this land that Resorts had or still maintains was purchased prior to the referendum.

We have been meeting rather often with the Board of School Estimates, the members of the Council, the Mayor, the Superintendent, and the Board of Education to try to determine exactly what is needed. They started out needing 12 or 14 acres; then it went up to 20 acres; now I hear it is 35 acres. The last I heard, it was 34 acres, and there was a plan which I proposed and gave to them under the direction of our Chairman who met with them in January. It was agreed at that time that we would go out and get our own independent evaluation of the land, as we must do, and that the City would likewise. Then we would attempt to work out some sort of swap in the City, land for land, because as he has indicated to you, if the valuation that the Board of Education has now placed on the land with their own appraiser-- This is the first time I knew that their appraisal was completed; our appraisal is just about completed too. But, even as they indicated, for the 34 or 35 acres in question, it would be \$14 million. That is by their own standards.

Naturally, for the City to do something feasible with the land, they would have to swap land in other areas. That is what we have attempted to do. In other words, go out and appraise land in other areas, and also the Great Island land.

As he indicated, the \$1 million was not set by Resorts. That was set by Golden Nugget when they entered into an option with Grenado for \$1 million an acre. So, again, Resorts seems to pick up the blame for a lot of things that just don't happen.

As John Donnelly and Jack McAvaddy indicated to you, I think they made the most salient statement concerning blockbusting and everything else, because none of the blocks in question has Resorts ever been involved in where they were involved for purpose of blockbusting.

In addition to that, Resorts, unlike other casino developers here, has never evicted a single person or a single tenant from a property. That is something else that should be known. I also handle the tenant problems and the various other problems here. We have never had that problem; we have never evicted a single person.

It is very interesting that here Resorts is the main culprit in the situation when, in fact, within the last year one of our competitors has purchased almost 400% more land surrounding their property -- three full blocks of land -- and have evicted people from their property. In fact, they are even going to tear down a building generally adjacent to their property that has been rehabilitated within the last five years.

It isn't Resorts, and the focus today seems that, "Resorts is this and that."

When we talked about the schools--

SENATOR LYNCH: I don't think anyone here is trying to say that Resorts is the culprit. I don't think that is the purpose of this hearing at all.

What we are really saying is, shouldn't someone be charged with the responsibility to ensure that a casino/hotel, or a combination of casino/hotels can control the marketplace to the point where you can do legitimate redevelopment? Shouldn't someone be charged with the responsibility of overseeing that?

SENATOR GORMLEY: I think the instance you just brought up about the eviction and the tearing down of a rehabilitated building could possibly be something that under licensing-- You know, they would look at that as the competitor doing it. That is a very salient point that you brought up. That is a predicament.

Suppose the person only owns the one parcel, and is holding up a situation like Mr. McAvaddy brought up? Suppose it were a casino licensee owning the single parcel, if that were to happen? Heaven knows, that could very well happen in a beach block.

MR. McGAHN: As the Senators well know, I am involved in a piece in which owners wanted to sell their property, or at least let their families stay in the property, and they asked for a large sum.

As a result of that, the Legislature passed an act reducing the number of people who had to vote on a condominium from 100% to 80%. I think you are well familiar with that. The matter is presently in litigation, and I don't think I should discuss it any further. But, that is an example where a casino has moved in and done something in that area.

It should also be pointed out that the other two sites -- again, back to the schools -- that the Superintendent spoke about, namely around the junior high school, has nothing to do with Resorts. That is another casino. The area around Atlantic City High School has nothing to do with Resorts.

I just wanted to point out that negotiations are continuing, and Resorts is a responsible citizen within this community in trying to work out a situation, not only with the schools, but with housing and everything else. When fingers are pointed--

I'm sure a lot of people didn't know that we have purchased in excess of 80% of that property prior to the November referendum in 1976. I think that is very important.

MR. STERNS: This completes our presentation. As lengthy as it has been, it still doesn't cover everything that is in the statement we have given you, so please look at that as well. Of course, we would be happy to answer any questions.

MR. McGAHN: I might indicate too, Mr. Chairman, that I have spoken with members of the Council within the last week, and quite a few of them are very concerned that we don't need new schools in this area. There has been no proven need according to members of the Council that--

SENATOR LYNCH: Apparently the State Department of Education thinks that the high school needs to be replaced.

MR. McGAHN: Or brought up to whatever--

SENATOR LYNCH: It is not easy with a 65-year-old building.

SENATOR GORMLEY: In the conversations I have had, they are, let's say dissatisfied. I don't want to say they are going to close it. I'll let them say that. Okay?

MR. McGAHN: Are you talking about the State Board of Education?

SENATOR GORMLEY: Yes, the State Board of Education and their certification, which is necessary.

I would like to make a couple of comments and ask a couple of questions. First of all, with regard to the acreage that was made available for the Convention Center, that was at the request of government. Obviously, you can go back and forth on things like this, but that was a request that I made and a request of the County to make the land available at the urban renewal tract for the Convention Center, and Mr. Crosby was most cooperative by making it available.

I think on the sales housing project for the 50 units -- the land swap in that particular circumstance -- he was most cooperative. In fact, the information, hopefully, from that project will serve as a basis for the American Cities' sales program, so we can get base data of actual sales.

The reason for the bill, quite honestly, is so that we don't go back and forth at this hearing as to whether or not Resorts or any other casino has fulfilled or not fulfilled their obligation. However, Mr. McGahn brought up a point which is a predicament. In assessing the land -- the value of the high school -- the City has to go back and look to a land swap with Resorts.

By the way, the negotiations I have had with Resorts regarding the train terminal and the Convention Center have been at the highest level. I think that is important to note for the record. I don't want this to be a circumstance where you are made the whipping boy because the negotiations I have had for the County have been of a very high level.

But, the predicament is this. In order for Jim Usry and Atlantic City to get a high school site, they have two alternatives. They can raise the property taxes to a substantial degree in order to raise \$14 million, or they can swap the one asset they can least afford to give away -- other property. That is the predicament they are in. I'm not saying in a traditional mode that that is not the way this is done in an arm's length--

MR. MCGAHN: Well, I would disagree with you because swapping the property could be very beneficial to the City. It could be

property that Resorts could then develop, so they would get a double dip on it. They would get the property, plus the tax ratables, which might, within years, be able to pay for the school. It would work out very well.

SENATOR GORMLEY: Well, my feeling is that in the long term, the City is best to be the bank. In other words, we are talking about a lot measures on the State level -- infrastructure banks, environmental banks, or whatever -- and I think the long-term interest of Atlantic City is that they have a bank of property for Atlantic City and the development of Atlantic City.

I would like to ask a question about the chart. Is there any land cost on the chart?

MR. DONNELLY: Yes.

SENATOR GORMLEY: Approximately what portion is land cost, just out of curiosity?

MR. DONNELLY: I can't give you that number. It differs because, of course, the initial building was inexpensive -- Resorts I -- but the expansion was very expensive. Resorts II is on the urban renewal tract, which was inexpensive land, but it is on land west of Pennsylvania Avenues, which was extremely expensive, and we had a problem with the holdout, as you know. They all go like that. It is difficult to say. Some of the land was reasonable; some of it was extremely expensive.

The point that we were going to make, and we firmly believe this, is, it really doesn't matter. For example, Showboat or any of these developers -- Mr. Bertaglio or others-- It is how much of a ratable you are going to put in. If we have to spend more for land, then it is less building.

SENATOR GORMLEY: To get to the particular that you just brought up, you have developers coming in, and you are going to provide the land -- correct me if I am wrong -- at cost.

MR. DONNELLY: In some cases, we have, but not in all cases. Certainly, we have made that offer to Mr. Bertaglio, and he is considering other people in that area too.

SENATOR GORMLEY: Would you make the same offer for a high school?

MR. DONNELLY: For a development where?

SENATOR GORMLEY: For a high school, at cost.

MR. DONNELLY: You're asking the wrong person, Senator. You would have to ask the Board. We're a public company. I think Mr. Lynch has seen-- This is an extraordinary and unique situation. I don't think there is any other business -- private company -- in the State that would be asked to give away millions and millions of dollars worth of land to do anything along those lines.

We have offered to try to make a situation available. As Mr. McGahn pointed out, it may not be a big point, but that is a controversial issue. Some people in the community want a new school; some people in the community come to us and say they don't want a new school. We get caught in this situation, as with housing, all the time. Some people want low-cost housing; some people want moderate. It is a highly political issue, and the answer to that question would have to be decided by the Board.

MR. MCGAHN: One of the things too that I think you really have to be worried about is the compensation of land, the taking of land. Otherwise, you turn yourself into sort of a banana republic. That is why people will not invest in various areas in the islands. It is because they are afraid the government will come in and confiscate their property.

It is the same way here. You find yourself in a position, as Mr. Bertaglio pointed out, where if there is a fear among the banking community that something like this could take place, you are not going to get a first position on a first mortgage when they know there is a chance that some agency -- even as fine as the Casino Control Commission -- would oversee the matter. That is another impediment.

SENATOR LYNCH: That has been improved.

SENATOR GORMLEY: Not to go into the particular project, but assuming they got financing, how soon would they break ground?

MR. DONNELLY: I'm sorry?

SENATOR GORMLEY: How soon would they break ground if they got financing? I'm talking about a project that is ready to go.

MR. DONNELLY: The Gold Crown?

MR. MCGAHN: The one that Mr. Bertaglio--

MR. DONNELLY: Oh, you would have to speak to him about that. I'm not involved in developments.

SENATOR GORMLEY: Is it imminent?

MR. STERNS: It is imminent as I understand it.

SENATOR GORMLEY: Well, if, in fact, there would be any fears, I would be more than happy to meet with the particular financial institution.

I have one other question. I do appreciate the fact that you came here today. Obviously, you are always going to be in the hardest spot because you are the primary example.

MR. MCGAHN: I don't make many public appearances.
(laughter)

SENATOR GORMLEY: I was complimenting John. (laughter) The situation is this: Philosophically, just so you know where I'm coming from, Joel, you remember in 1978 when we went through two months of hearings on a temporary licensing bill. That was right for New Jersey at that time, and the point was, you were going to be the beneficiary. But, the concept was right to get gaming going. The fact that you might appear to be singled out today in all of these situations doesn't get away from the fact that we have to look at the overall situation of land control in the City. Licensing, as you well know, is the very best lever you have to effectuate that. That is the problem.

This is a unique situation based upon a unique set of laws that are not found anywhere else on the Eastern seaboard. That is why they have to be looked at that way.

If I may -- I am curious, and this is something that has been brought up, so I think we should discuss it -- why isn't, because I know you will say it isn't, the Showboat lease speculative considering the ground cost of the urban renewal tract?

MR. DONNELLY: Can I address that?

SENATOR GORMLEY: Sure.

MR. DONNELLY: That is one of the reasons why we are glad to be here. I'll do a little speaking for them because they may not say it. They may say this is not really correct, but in my opinion, Showboat would not be here with the absence of this lease. Showboat,

in our opinion again, did not have the financial wherewithal to put together a project of the magnitude that they are building and to obtain the financing and hold on to it in order to do that.

There are only two ways you do it. You either buy land or you lease land. If you buy land, you cannot amortize it over a period of time and you can't take a deduction for it. You can't depreciate it, and you also have to pay for it right up front. We offered a vehicle to them that would allow them to come in with a 99-year lease. All that means is that we are financing their land cost for them. We are allowing them to amortize it over a 99-year period. They can take a deduction on their taxes for the payment they make to us, and they don't have the initial land cost.

We would much rather sell that land. Had we sold that land, I don't think anyone would be saying a word about speculation. It would be gone, and it would be over.

More importantly, Senator, let's look at the concept. This urban renewal project concept was started in 1956. The concept was very simple. It said, "Let's take blighted areas. Let's turn them over to government. Let government use urban renewal and level the property. And, then let them hand it over to a private developer, with the carrot being that the private developer may make money on it. He may lose, but do we care? Does Congress care?" No. If he makes money or loses money, that is not the concern. The concern is to redevelop the property, put on a tax ratable, and return the property to its highest and best use.

The first developer on that tract, Barco, lost money, left town, left the tract, and the tract languished. The tract languished from 1966 to 1976. There are quotes, and you have seen them, by William Downey in 1976 in response to HUD on this very issue. He said, "We have been trying to sell this for 10 years and have no bona fide purchaser."

The fact that the company may -- "may," I say. This is a 99-year lease, and the company hasn't realized one dime on that property today. That is exactly the way the legislation was aimed, exactly the intent of the Urban Renewal Program, and precisely what the

whole program is for. If we lose, there will be no one having hearings to find out that we lost money.

MR. DONNELLY: I might indicate too, Senator, that on November 5, 1976, the same William Downey who was then the Director of the Housing Authority urged Resorts. "It is our belief that Resorts might give some thought to their acquisition of the All Wars Memorial Building and the Beth Israel Synagogue, which are located on the south side of Pacific Avenue. It is my belief that all of these properties could be acquired if it is deemed necessary."

Another thought would be to entertain the possible acquisition of Garden Pier.

MR. DONNELLY: I want to indicate that we're in a Catch 22 situation. The thinking in 1976 was completely different from what it is today. In other words, acquire the property and put it together so that you will have a contiguous piece. Then people like Mr. Bertaglio will come in and won't find Joe's Pizza down the street from him or some other undesirable property. That is one of the reasons why he is coming in.

SENATOR GORMLEY: But, I think the point is, whether it be 1976 or 1966, the concept as I read it or I understand it -- I don't purport to be an expert, but I think it is somewhat accurate -- is that when you are dealing with an urban renewal tract, you are not talking about that until the tract is totally built out and all the ratable are built. At that time you would realize a profit on the ground. Obviously that is not the case with the urban renewal tract. It is not built out at this time. Whether it be 1976 or 1966--

I appreciate the fact that there are a lot of deals that would have been made in 1975 and 1976, obviously because it was a disastrous situation. But, the point to be made is, yes, a lease is a vehicle to get financing. For a lower lease, it would have even been easier to get the financing. Okay? Just so there was a lease and the ground was tied up. It is not the dollar amount that made it more attractive to the bank.

If, in fact, you paid \$5.6 million for the tract, which is \$100,000 per acre, there is at least a question of an enormous profit

ratio. What would you capitalize a \$6 million a year lease at? Fifty million?

MR. STERNS: But, that is the point, Senator. We didn't pay \$5.6 million. That is why you have to consider what you pay for the land and what you put in the building. When we bought that land and made our commitment, the commitment was to build a 1000-room hotel. There wasn't any casino gambling. It was estimated that the cost would be \$50 million. We're putting a \$400 million ratable in there.

You name the price of the land. It doesn't make any difference. The more the cost of the land, the less the price of the building. The ratable is what you should be interested in.

That land is costing us because Resorts is making a--

SENATOR GORMLEY: That is what I am interested in, but the point I am making is, if, in fact-- I don't want to take advantage of the situation -- you are probably undergoing negotiations constantly on the rest of the tract -- but, by this one situation, it would appear that the leases or other deals you would be seeking for the tract of land would have, or might have, provided a large profit on the ground. That would discourage the-- I am trying to be fair, really.

MR. STERNS: I know. I'm listening.

SENATOR GORMLEY: This would discourage the construction of those ratables. Let us assume that was a \$1 million a year lease. Hypothetically it would seem to me that maybe someone could have come on sooner or built more hotel rooms than just 500.

MR. STERNS: But that is not the case. Most respectfully, that is the problem with this kind of legislation. Showboat would not be there if we weren't next door. We are at the end of the boardwalk. Showboat -- I hate to be talking for them since they are not here -- is very concerned that they are way at the end of the boardwalk. They want our development there.

So, the fact that we're putting \$400 million into that tract is what is making that land valuable. If we weren't putting \$400 million into that tract, that land would be worth perhaps-- It may be worth more because of casino gambling, but we are the ones who are developing and making that land attractive. It is for the same reason

that Mr. Bertaglio is coming in. It is because we are willing to put an enormous amount of money -- \$1 billion -- in the south end of the town, which is the oldest and the most blighted area that needs development.

If I may, with all due respect, I'm no great expert, but that is the problem with this bill. Although the aims are correct and the desire is correct, whenever a developer like us has put this money into the ground and then it is suggested that, "Well, you profited, and maybe we should be concerned about that," that takes away the whole plan of urban renewal development, which was to try to bring in developers and make them secure so they could put \$400 million in the ground. Then they could continue that and keep that development--

SENATOR LYNCH: I don't read the bill that way. I don't know how you relate that to the bill. Obviously, it could be tightened up to suit, if you have worries about having the imprimatur on a particular development that is non-casino. There is no problem with keeping that in this legislation. This legislation is obviously designed at under-utilized property.

MR. STERNS: I guess what we worried about, Senator, is not--

SENATOR LYNCH: And controlling the marketplace so that other things cannot be achieved that are necessary for the redevelopment of Atlantic City.

MR. STERNS: I guess what we are worried about is, we recognize-- I don't think there is any difference between the Committee, Senator Gormley, and ourselves with the intent. He has already said that if the issue is a non-casino hotel, I'll go and tell them that. I'm sure you would.

The point is that the non-casino hotel is going to be looking. As you said, we are at the beginning of the urban renewal project now. We have a lot to go, and he wants to know what is going to be next door to him. That is where the concern is. We can't say to him, "Well, that is still vacant land." We still have hopes that that is going to be luxury housing, a shopping center, or another non-casino hotel. But, that vacant land is the land that is susceptible to the Commission under your bill saying, "Well, you've got enough. We're going to take it away from you. We're going to do something else."

It is the certainty question that we're--

SENATOR LYNCH: You want to be in a position where it appears that you dictate what goes anywhere.

MR. STERNS: Well, that--

SENATOR LYNCH: Then the Mayor has a problem, the town has a problem, and certainly you do.

MR. DONNELLY: But, it still has a chilling effect upon the person who is going to give you the mortgage or the businessman coming in.

MR. STERNS: I want to get away--

SENATOR GORMLEY: Quite honestly, and I don't mean to be facetious, the licensing procedure that everyone goes through and has to sweat out every year, and it is the law-- They have been able to overcome the fear of the licensing procedure every year that every casino has to go through.

MR. DONNELLY: I wouldn't say that everyone has overcome the fear. (laughter)

SENATOR GORMLEY: Well, you're going to have to go through it every year. (laughter)

That becomes a part of it so, yes, there are those regulatory requirements that have to be met, but I see this as being less significant or less onerous to a bank or an institution than the overall ability to license or not license that is currently in effect.

MR. STERNS: I just want to add one other thing, Senator. It is really a misnomer to think in terms of the urban renewal tract costing \$5.6 million. That was for openers. Remember all of the infrastructure costs that must be borne by Resorts. All of these other costs are going to go up. So, \$5.6 million is just to get in the door.

As Mr. Donnelly pointed out, neither Showboat, Mr. Bertaglio, or anyone else is going to be interested unless there is a \$400 million anchor and the mini Convention Center we are talking about.

The last point I want to make is, I really feel we are on the same wave length. I don't think there are that many differences. I think you have been very fair -- the Committee and you in particular -- with regard to the hearing today. I think you have given us an

opportunity to demonstrate some of the things we have been unable to say.

In conclusion, we are not afraid of the Casino Control Commission looking at us as a licensee each year, which they do. What we want to do is try to achieve the end in such a way that the City, yourselves, and the Commission will feel that they can get the end, can see our development, and at the same time, will not scare anyone off.

SENATOR GORMLEY: Just so you realize, I think the bill is the appropriate vehicle because instead of a legislator coming in with a dogmatic--

SENATOR LYNCH: Speak for yourself. (laughter)

SENATOR GORMLEY: Well, I know you are not that way. But, instead of a member of the Legislature coming in and writing something in stone that "there shall be," I think leaving the discretion to a public entity that you have dealt with in the past, and that I think has dealt very fairly with enormous and very difficult issues, is the best way to handle it.

It would be impossible to draft, in statutory form, how you would handle this, or what the triggering mechanism would be. When you take a step back, I think it would probably be in the best interest of an entity such as Resorts. You could say, "Listen, we were subject to review. They looked at us; they had the right to do it; and, they said we were up to snuff on it." If anything, it would be a cushion for Resorts because as it stands right now, if, as you say, you are doing the things you say you are doing, and you think you can prove that criteria, then I think having the Commission on your side endorsing your program with land, if they relicense you, would enure to your benefit.

MR. DONNELLY: Well, that is the answer as far as the licensee is concerned; that is not the answer as to the developer coming. The developer is another layer over and above that. To determine that someone can take the property, and that someone has the right to say, "We're going to take it,"--

SENATOR GORMLEY: If they have a commitment, and they are breaking ground, they would be fulfilling the intent of what the bill is trying to accomplish. I think that can be accommodated.

SENATOR LYNCH: We're going to conclude the remarks now. We have a lot of people who want to be heard. We appreciate your time and effort.

MR. STERNS: Thank you for your patience.

MR. DONNELLY: Thank you.

MR. McGAHN: Thank you.

SENATOR LYNCH: The next witness is Gary Sutley from the Atlantic City Arson Squad. (not present) We'll move right along. Jose Parilla from the Henry George School? (not present) Jacob Himmelstein from the Incentive Taxation League? Thank you for your patience today.

JACOB B. HIMMELSTEIN: I came here not really knowing what the legislation was that you proposed. I understood that the hearing was on land speculation, which is my basic interest.

In listening to the various testimony this morning, I really don't think this bill will be effective because it will only change the ownership of the land. It doesn't prevent land speculation. You are making the assumption that the only land speculators are the casinos. My understanding is that only one casino owns any considerable amount of land.

SENATOR LYNCH: Jake, there is no assumption that they are the only speculators. They are a regulated industry, however, and they have been blessed with the gaming establishments. Other speculators obviously fall into a category. I don't know how you would go about frustrating other speculators.

MR. HIMMELSTEIN: Well, I believe that you don't get to the basic heart of the problem. I think a few of the others speakers have spoken around the issue, which is the property tax.

At present, the property tax in New Jersey and other states as well has the wrong legislative incentives and disincentives. The property tax system and the assessment system have created an artificial scarcity of land. Such a system has brought about a disincentive for investment and improvement. We have set up an economy of scarcity rather than an economy of abundance.

I heard the gentlemen from Resorts International mention the fact that there are 20 sites for casinos, and there is no market for them, yet we have this high price of land in Atlantic City. It would seem to be a paradox that we have a high price for land, yet no takers.

The real estate tax system, as presently structured, is the single most disruptive and destructive bundle of wrong incentives on the law books. The real estate tax should be top priority for legislative study and reform. The members of this--

SENATOR LYNCH: There is a commission known as the Feldman Commission that is working on that right now.

MR. HIMMELSTEIN: I understand there is, but I just reemphasize it. Very frankly, I'm from Pennsylvania, and I'm not real familiar with the situation in New Jersey, except from my sources here.

SENATOR LYNCH: We have the worst property tax system in the United States. I think only New Hampshire and Montana pay more money in property tax, and one of them doesn't have any broad-based tax.

MR. HIMMELSTEIN: You know, everybody brags about how bad their property tax system is. I was in St. Louis, Missouri, and they made that claim.

SENATOR LYNCH: This is not a claim.

MR. HIMMELSTEIN: This is a fact.

SENATOR LYNCH: These are Federal stats coming out. There is a percentage of the tax dollar that you raise in New Jersey. We have the highest in the country other than an agricultural state and a small state that has no sales tax, nor income tax.

MR. HIMMELSTEIN: You're speaking about the percentage of tax revenue raised from real estate taxes.

SENATOR LYNCH: No, of all of your taxes. That percentage which represents real estate -- out of that pie -- out of that total tax pie is higher in New Jersey than it is in any other state, other than the two I mentioned.

MR. HIMMELSTEIN: Well, I'm speaking of the system, which, of course, would--

SENATOR LYNCH: That is why people chase ratables. Towns chase ratables because that is the way they fill their coffers, and we are all in a ratable chase.

MR. HIMMELSTEIN: I feel that you probably have more reason for study if that is the case.

As I said, the members of the Committee should understand fully and change it in ways that will create an incentive to provide housing and employment in Atlantic City, as well as in the other cities and municipalities in the State.

I would suggest that this Committee view a 26-minute film entitled, "A Tale of Five Cities," which tells what is happening in seven Pennsylvania cities where the tax rate is two to six times as much on the site as it is on the improvement value. It was five cities; in the last year two more cities in Pennsylvania have adopted this tax. Among the cities in Pennsylvania using this type of system are Pittsburgh and Scranton.

Down-taxing improvements and up-taxing land create a leverage that contributes significantly to the economic growth in the cities. This tax is under investigation in New York, Iowa, Missouri, and Indiana, plus other cities in Pennsylvania.

Shifting property tax from improvement values to site values provides good incentives and disincentives in land use and building investment. High taxes on sites encourage owners to use them well. In fact, the more you tax sites, the better they are used. Owners not wanting to use them sell out to others who want to, which brings more land into use. It becomes too expensive to hold sites out of use for speculative gain or whimsical and capricious reasons. Land values go up, but land prices go down, and more opportunities to work and invest become available in the community. Workers and investors thrive on their new opportunities.

Concurrently, lowering taxes on improvements encourages more intensive use of sites by removing the penalties that property taxes now impose on those who build and maintain their improvements well. Workers and investors are less penalized for working and investing in site improvement when taxes on their work and investments are lowered.

With tax incentives minimized or removed, construction and related industries pick up, so material, utility, and service suppliers prosper too. More jobs and better jobs are created. Rents for housing

and business use come down, making it easier for others to live cheaper and better. They can start to develop business more easily too because there are more places available in the community.

There is a better balance between vertical and horizontal development in the community. This means more efficient and economical use of in-place utilities and facilities. Residents get better and less costly services for any purpose they have. Better jobs, business opportunities, and homes appear at lower costs in every area.

In summary, up-taxing site values and down-taxing improvement values predictably enhance positive incentives and reduce negative disincentives. The results are more and better homes and work places, more and better jobs and entrepreneurial opportunities, more numerous and better income-producing investment outlets, better and more efficient use of public and private services and community activities, with less sprawl and less congestion than characterize current one-rate property tax cities such as Atlantic City.

That is the end of my statement.

SENATOR LYNCH: Jake, thank you very much. Our next witness is Sid Crane, President of Best of Life Park, Senior Citizen Housing. Good afternoon.

SID CRANE: Good afternoon. I would like to give you this (referring to written testimony). It may save a lot of your time.

SENATOR LYNCH: Sure. That would be great. I appreciate that. I'll make sure the other members of the Committee receive it.

MR. CRANE: Thank you for the opportunity to appear at this forum. My name is Sid Crane. I am President of the Best of Life Park, a 208-unit senior citizen development that will be entirely surrounded by Resorts' new construction.

The booklet that I gave the Committee is divided into two sections. The rear portion is a presentation that was made in Congressman Hughes' office on March 28 of this year. The front portion is correspondence since that time, which documents our position. Incidentally, it shows the true picture of a number of misquotes.

I would like to address three items of particular interest to this panel with respect to improper intervention by a governmental

agency to private industry to the detriment of the senior citizens who are not in a position to defend themselves.

Number one is HUD's position that they have oversight. They misquoted that to us. It put us in a remarkable position where Resorts is going to entirely surround us. Over a period of time, we negotiated a program with Resorts that provided magnificent accouterments to enhance the value of the life of our people. Of course, we are in a position where we are going to be entirely surrounded.

HUD said that they couldn't do that, and HUD had oversight. The front leaflet in the booklet I gave you has two pages from a statement by Nancy Christopher, an attorney from HUD in Washington. She says that they have has oversight. Then there is a vertical fold in that booklet, which is a letter from John McAvaddy from the Atlantic City Housing Authority. In this letter, he says that HUD does not have oversight. This is a misstatement.

Number two, HUD's alleged concern was their security to us. They said it in a newspaper. There are numerous articles in there. There are three fold-overs of letters to President Reagan, Silvio DeBartolomeis, the number two man in HUD, and Secretary Pierce of HUD which show that we have offered to pay off 90% now, and over a 30-year period, we will pay off our mortgage. It would ensure that HUD would have control, but the government would get its money back.

The articles in the newspaper are false because they said they are concerned with their security.

Number three, HUD's statement that Best of Life tenants were given a ballot with two choices of either moving or accepting the deal with Resorts is a blatant misstatement of fact. You have a copy of the ballot presented to our residents; that is the fourth fold-over. As a matter of fact, there are four choices.

We also provided tenants with the option of casting their ballots directly to the Secretary of HUD or to Congressman William Hughes. We would pay for the postage and would send it directly to them so there would be no question of any fear of intimidation.

I would be happy to answer any questions you may have. I appreciate the opportunity to appear before you.

SENATOR LYNCH: Do you support this legislation?

MR. CRANE, Sir, I believe it ultimately has to be.

SENATOR LYNCH, Thank you very much.

MR. CRANE, Thank you, sir.

SENATOR LYNCH, Mr. Herman Lazaar? (not present) Mr. Edward Dodson of the Federal Home Loan Banking Board? (not present) Anthony Consalvo?

ANTHONY CONSALVO, May I put up this map?

SENATOR LYNCH, Sure.

MR. CONSALVO, Good afternoon, gentlemen. I have come before you to address the question of eminent domain. I arrived in Atlantic City--

SENATOR LYNCH, Please give us your business address.

MR. CONSALVO, I will give you that in just a minute. I arrived in Atlantic City prior to the referendum being passed in 1976. Today I am a real estate broker, with my office located at 819 Atlantic Avenue.

In the past nine years, I have seen a tremendous change in the inlet. Streets that were once tree lined with flowers and freshly painted homes are now just a memory.

Clients come to me and ask why this area hasn't been developed. The standard answer by our local government and Housing Authority is that the land cost is too high. I would have gone along with that argument in 1979 and 1980, but not today. Yes, there was rampant speculation back then, but not today.

Today, properties that used to sell for \$65 to \$75 per square foot are now selling for less than \$20 per square foot. I have read statements made by the Housing Authority that \$20 per square foot is too expensive. I find it hard to believe that a beach-block building lot is not worth \$40,000 or \$50,000. The same size lot in Lower Chelsea, Ventnor, or Margate would easily command twice as much. There is one big difference when comparing the South Inlet with the other down-beach communities. I don't mean to say one is blighted and the others are not. The big difference is that a building lot in the South Inlet has higher density zoning. This translates to a builder being about to place three, four, or five units on that \$50,000 lot. This, in effect, brings the land cost--

SENATOR LYNCH: At \$20 a square foot?

MR. CONSALVO: Excuse me?

SENATOR LYNCH: At \$20 a square foot?

MR. CONSALVO: Yes, or less. This, in effect, brings the land cost per unit under \$17,000. Is that too much money?

How cheap does this prime real estate with the best water views in the most exciting city have to be?

The Housing Authority states that speculators are holding up the redevelopment of the inlet. That is hogwash. If you wonder where the speculators are, just look at the legal section of our local paper or go to a sheriff's sale. The foreclosures outnumber the sales in this section of town.

If the Housing Authority wishes to grab some land, then look towards the two powers that control the destiny of this area: Resorts International and the City of Atlantic City. Remember one thing: When you condemn their property, you will not be displacing one family, one child, nor one dog or cat.

Gentlemen, I brought a map today, and I would like you to look at it. The highlighted areas represent one of the problems I just mentioned. Take a look at this map. Can any of you guess how many beach-front blocks this represents? Resorts International holds title to 14 out of 18 total blocks. This is between North Carolina Avenue and Pacific Avenue. They literally control the boardwalk in the South Inlet, so, in effect, they control the redevelopment.

Resorts International has purchased land for \$100,000 per acre. This translates to \$2.30 per square foot. Obviously, \$2.30 per square foot is still too much money to build housing on because, to date, the only building I see under construction are two casino hotels. The problem with the Housing Authority is that they refuse to say they made a mistake. And, if that isn't bad enough, they want to try it again. This Authority has proven to everyone that it cannot handle this type of responsibility and power.

Eminent domain is to be used for the good of the masses and not to assist a few special interest groups. The Housing Authority wants to take taxpayers' property and do what they feel is right with it. I say no. Not again.

The other culprit is the City of Atlantic City. This City refuses to sell vacant row houses that were foreclosed on for delinquent taxes. These buildings could be sold to young pioneers who would rehabilitate under programs in cities like Philadelphia and Baltimore.

This City refuses to sell vacant lots with the contingency that they must be built on. Also, to date, this City has not even repaired the boardwalk that the storm in March of 1984 destroyed sections of.

The Housing Authority should think creatively to cure these ills. They should be lobbying the City to abolish rent control laws. It is a proven fact that rent control depletes and destroys the housing stock. This is the main reason why small builders have committed themselves to every other surrounding community except Atlantic City.

I truly believe that if you set the right conditions, hundreds of small investors and homeowners will rehabilitate the inlet in no time at all. It is not necessary to own an entire city block to rehabilitate and develop that block. Sencit Corporation proved my theory. When they found that some owners wanted more than they were willing to pay, they altered their plans and built around the hold-out owners. For some owners, their property lost value. People are waking up and realizing they must lower their expectations.

I ask this Committee to consider the impact that eminent domain will have on an already damaged community.

SENATOR LYNCH: Thank you very much.

MR. CONSALVO: Gentlemen, I also have an actual photograph taken about a year. I have placed stars on the property owned by Resorts International.

SENATOR LYNCH: Thank you very much. The next witness is Frances Ginnetti. Frances, we're getting down to the end of the road, and we have several people who still want to testify. I don't want to push you, but do you have any written material you can leave with us?

FRANCES GINETTI: No.

SENATOR LYNCH: That is okay.

MS. GINNETTI: Senator Lynch and members of the Committee, my name is Frances Ginnetti. Let me tell you what land speculation has done to a business entity.

My family, my late husband, and myself have been in business in Atlantic City for over 55 years. I am the owner/operator of two parking facilities located at Sovereign Avenue, Pacific Avenue, and Sovereign Avenue near the boardwalk.

The Golden Nugget Casino has purchased two full city blocks from Boston to Sovereign Avenues, across Sovereign Avenue to Montpelier, and from Pacific Avenue to Atlantic Avenue.

On July 3, 1985, they were successful in obtaining waivers from the City Planning Board to operate flat parking facilities on both streets. Our City ordinances permit 35% density in this consolidated zone. The Golden Nugget now has 74%. This is over double the density permitted. They are also tearing down rehabilitated housing, a vital necessity in Atlantic City.

The purpose of the exclusive gambling privileges given to the casino industry by the voters of the State of New Jersey was for the revitalization of Atlantic City. Instead, we find the casino operators infringing on our businesses by all their giveaways. Who can compete with "free"?

While I realize, having been in the motel business for years, the need for parking for casino guests, the law has given them that privilege. When they exceed the law by more than double, the purpose of the law has been eliminated and the protection of the public is gone. How can Atlantic City attract other businesses? How can those of us who have been in business for years operate our businesses under this unfair competition and restraint of trade? How can Atlantic City become a town of diversified endeavors under these conditions?

Through a straw name, E.F.D. Investments, two parcels have been purchased in the middle of the beach block between Sovereign and Montpelier Avenues. One property was sold for \$500 a square foot. By acquisition of these two parcels, the entire beach block has been severed and cannot be assembled as a complete package.

I know that if such practices are allowed to continue, Atlantic City will never be called the "world's playground" again. We will just be a casino town, and the purpose of the referendum will be defeated.

I am trying to instill in my grandchildren that the free enterprise system that made this country great -- that our right to pursue that under the Constitution -- and that laws enacted for the protection of the public are alive and well. But, in Atlantic City that becomes increasingly difficult.

Thank you.

SENATOR LYNCH: Thank you very much. Mr. Herod McCloud? Thank you for your patience.

HEROD E. McCLOUD: Thank you, Mr. Chairman. I will be very brief. I am Herod E. McCloud. I will be 91 in August. I am a senior citizen, and I represent 30 million private one- and two-family homes in the United States.

In an action in the Federal courts, the State of New Jersey took my private property and used it for illicit purposes. I want to be explicit; I want to be sharp and to the point.

I have here a pamphlet stating "Vote No," which was introduced by a councilman. Number 7 on this circular reads, "A yes vote is for eminent domain. This may cause you to lose your home or property at an unfair price or against your will." I want to put that into the record because that is part of a complaint that has gone from the local courts, to the county courts, to the State courts, to the District Federal Court, to the Appellate Division, to the Third Circuit Court of Appeals, and now to the United States Supreme Court.

I can conclude right now because of the fact that you are trying to get information on speculation. I'll read to you part of a settlement sheet. I owned property since 1927. I have been married 44 or 45 years, and my wife is a local teacher in the public schools. The property was occupied by a \$29,500 a year employee of Resorts International. That particular occupant bought 10 or 12 occupancies, was charged with distressing the property, and then moved out. I don't know if you consider that speculation or not, but that is what happened.

My private property was put up for sale. I entered into a written contract under the UCC. The contract called for certain payments over a period of time, guaranteed by Anchor Savings and Loan Association. The party defaulted on the grounds that he had rent free occupancy as long as he wanted.

Thereafter, the Atlantic City Electric Company took my 45-year contract and turned it into a contract for the occupant. The property was distressed to the point that I was literally and figuratively thrown out of the property in 1978. But, the State charged me with destroying my own property and fined me \$20,000. Of course, that was overturned by the State Supreme Court.

After the property was distressed and frozen up, the Atlantic City Electric Company took over, in writing, and gave it to the occupants. The occupants refused to pay the electric bill, and the Atlantic City Electric Company turned off the electric, which froze up the property.

Through the Public Advocate's office or through Legal Services, the courts found that the property was uninhabitable. Therefore, the \$20,000, \$30,000, or \$50,000 that I had in the bank was seized, and it is still seized.

I offered the property for \$40,000. The property was sold for \$30,000 because of it being uninhabitable or inhabitable, whichever you want to call it.

The first day after settlement, my title company--

SENATOR LYNCH: Mr. McCloud, you are getting a little far afield.

MR. McCLOUD: (continuing) --sold it for \$60,000.

SENATOR LYNCH: I think you are getting--

MR. McCLOUD: The first day after the settlement, that property sold for \$60,000. Two weeks after that--

SENATOR LYNCH: Mr. McCloud, you started out by telling us that you were going to be brief, but now you are getting into a subject matter that is a little far afield from where we started in today's agenda.

MR. McCLOUD: Two weeks after that--

SENATOR LYNCH: Mr. McCloud, are you almost--

MR. McCLOUD: Are you going to allow me to--

SENATOR LYNCH: I'm going to allow you to stick to the agenda. I don't want to frustrate you, but there are a couple of other people who are here to speak, and we are going to conclude this session in about 10 minutes. You are talking about something that has nothing to do with the agenda right now.

MR. McCLOUD: The agenda is what? Will you please express to me what the agenda is? Is it speculation?

SENATOR LYNCH: It has to do with charging the responsibility of the Casino Control Commission to see to it that the casino hotels are not involved in land speculation.

MR. McCLOUD: All right. Resorts Hotel is a casino. The occupant was an employee of Resorts. Therefore, under the Federal rules and regulations put out by the Third Circuit Court of Appeals, the electric company, Resorts International, the employee, and the State of New Jersey were the defendants, and are the defendants, because of the conspiracy to defraud the landlord.

Finally -- I said before -- the day after settlement, the property was sold for \$30,000, minus all the other charges. The next day, it was sold for \$60,000, and two weeks after that, it was subdivided into eight 100-foot by 120-foot lots and sold for \$8,000 per lot. During the course of six weeks, the property that my wife and I owned for the past 60 or 70 years sold for \$70,000.

In conclusion, I want to ask you, what are you seeking to cause the Casino Control Commission to do? To build houses? Are you seeking to cause the casinos themselves to build houses? Are you trying to cause the Reinvestment Council to build houses? I just want to know that, and then I'll be finished.

SENATOR LYNCH: Senator Gormley will give you a copy of his bill so you can take it with you and study it. That is what he is seeking to do, and that is what this hearing is about.

Mr. McCloud, we thank you very much for your remarks.

MR. McCLOUD: I thank you very much.

SENATOR LYNCH: All right. Mr. and Mrs. Gindes?

MR. McCLOUD: I have waited 10 years for this. I have been in litigation for 10 years. I am broke, and now I am ready--

SENATOR LYNCH: That makes two of us.

MR. McCLOUD: (continuing) --to leave Atlantic City because of what Congress has written. It is racketeering under a court of law.

SENATOR LYNCH: Thank you, Mr. McCloud.

MR. McCLOUD: And, what has happened is, every judge in the State of New Jersey is causing racketeering under a court of law. Your assignment judge who took over this case and granted the lower court, which was a county court--

SENATOR LYNCH: Mr. McCloud, you don't want to filibuster and stop these people from having an opportunity to testify--

MR. McCLOUD: Look. Wait a minute.

SENATOR LYNCH: (continuing) --because we are going to close in 10 minutes, and they are not going to have a chance to testify. Now you are talking about something that is totally far into this agenda today.

MR. McCLOUD: It is all relative to what you think is speculation.

SENATOR LYNCH: Mr. McCloud, I don't want to argue with you.

MR. McCLOUD: I hope you won't.

SENATOR LYNCH: I think we have been patient with you.

MR. McCLOUD: If I'm not heard--

SENATOR LYNCH: You've made your points clear. It will be part of the transcript, and all of the members of the Committee will have a chance to review it. If you want to, why don't you send us copies of whatever else you have, so we can conclude this hearing today?

MR. McCLOUD: Every--

SENATOR LYNCH: Mr. McCloud, please.

MR. McCLOUD: (continuing) --elected official in the State of New Jersey has received a copy. The United States Supreme Court has also received a copy. So has the Organized Crime Strike Force.

At this point, we are now ready for indictments of every judge, every lawyer--

SENATOR LYNCH: Now, that would be good. (laughter)

MR. McCLOUD: (continuing) --every person.

SENATOR GORMLEY: Well, John and I had better leave then.
(laughter)

MR. McCLOUD: Wait just a minute. You're not going to get away with this. Every judge, beginning with Judge Gruccio, a very fine man-- Every person who occupied that property illegally, by and with Legal Services and by the courts-- I am sorry. I am not a lawyer. I have not been in a position to prosecute my case because I cannot get \$100,000 for the civil part of the case, or \$100,000 for the criminal costs.

With that, I appreciate your consideration, and I hope you won't try to cut me off because of the fact that I am not represented by a lawyer and I speak slowly. The whole State of New Jersey is charged with racketeering under a court of law. I have opposed the appointment of the Honorable Judge Gruccio to be an Appellate Court Judge.

I wanted you, particularly Mr. Gormley because he has copies of everything, to hear this, and I want every person in authority to hear it, whether you want to or not. This is a very, very serious case for one individual who after 65 years, lost his entire savings overnight.

I appreciate your consideration, and I hope when the time comes that the court settles this case, all of you here today will be called on to make depositions or whatever complaints you want to make. I would appreciate that very much.

SENATOR LYNCH: Thank you very much, Mr. McCloud. (applause)
Next is Irving and Nora Gindes. Mr. and Mrs. Gindes, we are going to conclude in about 10 minutes, so if you could be brief, I would appreciate it. I realize you have been here all day.

IRVING GINDES: Okay. I'm going to make it very quick, sir. My name is Irv Gindes. I am on the Housing Authority, and I am a presiding member of the Civic Association.

I am having a serious problem. You referred to speculators; you referred to spoilers, but you have missed the most important entity in the whole group -- those of us who have lived and suffered in the host city, the property owners. What is going to happen to us? What

happened in New Brunswick to those people who were in the way of the tremendous development? People who have been paying taxes for 30, 40, and 50 years on their properties. How about us? Don't we have a say? After all, we are the host. What is going to happen when Resorts International, as big as they are, and the State of New Jersey, as big as they are, clash? Are we going to be the people who really suffer, the ones that lose our homes, homes where we have raised two, three, and four generations of children? Can you tell me, Mr. Chairman?

We are very concerned. We have been under the hammer of eminent domain since 1979. What is to happen to us? I'm looking for an answer, sir.

SENATOR LYNCH: First of all, that is not the subject of this hearing. But, I'll tell you what is going to happen to you. If they are going to exercise eminent domain, you are going to have an opportunity to achieve what everyone else is talking about here today. It is fair market value for your home, only after you have an approved regional plan that you have had an opportunity to have input into, and only after the City Council -- the governing body -- has acted to declare it to be a to-be-acquired area, or, in the language of some of the earlier witnesses, a blighted area, and only with an approved redevelopment plan and a developer.

You would have the opportunity to have input at every stage of those proceedings, and an opportunity to achieve fair market value for your home. Hopefully, your home will not be one of those to be acquired if you want to stay there.

MR. GINDES: Oh, I'm in a hot spot. It is not just me.

SENATOR LYNCH: If you're in a hot spot--

MR. GINDES: It is not just me; it is all of those people in the inlet.

My voice is loud enough not to need this microphone. (moves to map) The talk is taking the inlet and, of course, it is the inland waterway -- the finest piece of property in Atlantic City, without any doubt, supposedly for housing. There are 80 acres, not 54 acres. The 80 acres of the urban renewal site were supposed to be the same thing, but it went for casino interests. The same thing will definitely

happen here. In five years, we will have no developers for housing, sorry about that, and it is going to go 42 stories into the air after we have been driven out.

I don't give a damn about anybody else. My concern is myself and my neighbors. We have no need for housing here. On Huron Avenue, we have a landfill for which the moneys have already been offered -- \$6 million -- to clear that landfill and build housing on it -- at least 6000, 7000, or 8000 units. There is plenty of room for supermarkets and everything. Why isn't the American Cities plan operating way up here where the little babies don't have to play in the casino traffic? Tell me, please, why that huge piece of land? Senator Gormley, we have been kids in the street together, pal. Why?

SENATOR GORMLEY: We were kids together at the same time?
(laughter)

MR. GINDES: Why in the hell are these people down here building four-bedroom units right next to \$1 billion worth of casinos for children to play in traffic? The whole thing stinks of fish.

That is the statement from Gindes.

SENATOR LYNCH: Thank you very much, sir.

NORA GINDES: Excuse me. I'll be more than brief. I am very concerned, not for myself because I am still young enough to make a move and survive, but I am very concerned for my neighbors who are senior citizens and on fixed incomes. If you don't eminent domain them-- You people use the words "eminent domain" like it is a hot dog on the boardwalk. It is a very serious thing you are talking about here today, and it can destroy many, many people, particularly the senior citizens of this City who are on fixed incomes.

If you don't take their property and tell them it is worth 18 cents a square foot, then you are going to tax them out anyhow. I think a lot of consideration and, I won't ask you for an answer on this-- But, please, in your decision, give them a lot of consideration because they are very important to our City.

Thank you.

SENATOR LYNCH: Thank you very much. The last witness on the witness list is Sam Rabinowitz. Good afternoon, Mr. Rabinowitz.

SAM RABINOWITZ: Senator Lynch and members of the Committee, I am one of the principals of Derby Associates. We have made a lot of news in the newspapers over the last six months.

In 1979, we owned three apartment buildings at the corner of Pacific Avenue, right across from the Golden Nugget. At the time, the Golden Nugget was being built. Steve Wynn, Chairman of the Board of the Golden Nugget, who at that point none of us knew, personally came to Dr. Weiss' office -- Dr. Weiss is one of the partners of Derby Associates -- introduced himself, and said, "I'm not going to bargain with you fellows. I'm offering you \$3 million for these three properties, and that is it. Take it or leave it."

We discussed it. We called him and we said, "We accept." At that point, I assume they had second thoughts, and they probably thought they had over-paid. We were told by Mr. Wynn that Martin Greenberg, the Golden Nugget's attorney, would draw up the legal documents. Two weeks later, nothing happened, so we called him, and Mr. Greenberg said, "He is not interested."

We were naive. We thought that Steve Wynn was a man of his words. Now we know a lot better.

In February of 1984, we purchased a condominium in front of the Golden Nugget Hotel for \$59,000, a good three months before the hotel offered to buy all 100 units for \$100,000 per unit. We had no idea this was going to happen, nor did the couple who sold us the unit know that this was going to happen. The condominium association that has the first right of refusal didn't know it either.

Up until this point, the Golden Nugget had stated that they were not interested in expanding their existing facility because they were going to build a new one in the marina area.

When the Golden Nugget was faced with over 60 holdouts of their initial \$100,000 offer, the Vice President of the Golden Nugget, Al Luciani, sent each owner a letter stating, "Golden Nugget will never permit the development of the Seashore Club East property unless it is a Golden Nugget development, or unless they approve of the proposal. To be honest, it is not likely that we would approve another's development. In short, there will be no competition for units at the price offered by Golden Nugget." End of quote.

This is the same Golden Nugget that is telling the media that Derby Associates is both a blackmailer and a land speculator. We offered to sell the condo that we own to the Golden Nugget at the fair market price, once the Golden Nugget would complete the original deal that they brought to us, plus the interest over the five or six years that we would have earned on the \$3 million they offered in tax-free bonds.

Instead, Golden Nugget, through their attorney, Martin Greenberg, a former State Senator and a former President of Golden Nugget, approached former Democratic Gubernatorial Candidate, Senator John Russo, who I am sorry is not here now, to pass special legislation for them, changing the condominium law and creating a retroactive law. Who ever heard of a retroactive law for property owners?

We questioned why this action hasn't been investigated by the Attorney General's office or the Casino Control Commission. Thus, Golden Nugget, with the help of Senator Russo, is responsible for initiating retroactive legislation needed to attempt to steal our property. We questioned whether the Legislature would have ever passed such a law had they known the purpose was for the sole benefit of an Atlantic City casino hotel.

In the meantime, we must continuously read fallacious stories about us in the press. We must continue an expensive legal uphill battle against a corporation with unlimited funds and political connections. However, we are prepared to appeal this through the court system, and we are confident that this law will ultimately be declared unconstitutional due to its retroactive provision.

Thank you.

SENATOR LYNCH: Thank you very much. That concludes our hearing with regard to the land speculation issue. Senator Gormley, do you wish to proceed further on the computer access question? I know Valerie has been waiting around all day. You are very anxious to testify again, aren't you, Valerie?

SENATOR GORMLEY: I think we only have two witnesses on the computer access issue.

SENATOR LYNCH: Who do you want to hear from first?

SENATOR GORMLEY: We'll hear from Valerie first and then the ACLU. I think that will cover it.

SENATOR LYNCH: Valerie, do you want to give us a little overview on the computer access question? We have read from the Appellate Division, and they quote you very favorably.

COMMISSIONER ARMSTRONG: Actually, what the Commission had prepared was simply a statement setting forth the procedural history to inform the Committee where the cases came from. We, of course, cannot comment on the merits of the case because it has been remanded back to us. In the interest of time, we can provide copies to the Committee so you can read it. It is pretty straightforward. It simply explains how the case originated and where it is today.

SENATOR LYNCH: Some of us have received most of the information. We'll see that the rest of the Committee gets it.

COMMISSIONER ARMSTRONG: That is fine. There is no need for me to read it into the record.

SENATOR LYNCH: It is an interesting issue.

COMMISSIONER ARMSTRONG: Very interesting.

SENATOR LYNCH: Okay. Thank you very much.

ARLENE GROCH (speaking from audience): How do you do, Senator Lynch.

SENATOR LYNCH: Thank you for your patience.

MS. GROCH: My name is Arlene Groch. I am the attorney who represented ACLU in the Martin case. The ACLU's interest in the right of privacy of guests, as well as employees is, of course, of long standing.

When we learned about the hearing today on this issue, I was asked to speak on behalf of the State ACLU. I assure you I will be very brief.

Essentially, when I received this proposed regulation, what the government is saying is, "Give us access to whatever we want, but we assure you, we will only want what is appropriate. We, however, will decide what is appropriate. We have no obligation to tell you, and you have no opportunity to learn if we have gained access to something which you might deem inappropriate, but we deem appropriate."

To me, that reeks to me of an attitude that places too much reliance on the discretion of the State.

In the concluding words of the Martin case, the Supreme Court said that power of government must be used sensitively and wisely. With all due respect to government as it is represented by the Division of Gaming Enforcement, I do not think this has always been so.

I would like to give to the members of the Committee copies of a very brief portion of the transcript. I won't read any of it to you. This is the transcript of the hearing on the Martin case into the investigation of the guidelines of the Division of Gaming Enforcement. What it is limited to is excerpts from the testimony of Detective Hoogan, who at that time in 1980 was in charge of that investigation.

The testimony I am offering to the Committee to read shows that the Division of Gaming Enforcement's chief investigator set the scope of investigations into what he deemed appropriate, and that is why we think it is very relevant today. What he deemed appropriate was anything that he and his own personal background deemed to be in the mainstream of American life. If there was anything he felt wasn't in the American mainstream, then that would be of bad character, and thus subject to further investigations. That, therefore, included in his estimation homosexuality, adultery, and other such topics.

I think in order to have a definition of good character and the State's interpretation of what is appropriate, we need to make sure that our legislative guidelines preclude that kind of discretion being placed in government.

Thank you very much.

SENATOR LYNCH: Thank you very much. Does the Division of Gaming Enforcement wish to be heard on this?

UNIDENTIFIED PERSON FROM AUDIENCE: Mr. Chairman, our Director had to return to Trenton.

SENATOR LYNCH: Yes. He said there was no reason for him to stay.

UNIDENTIFIED PERSON FROM AUDIENCE: He has a prepared statement that we could enter into the record. If you have any specific questions, I can answer them. If not, we can provide written responses.

SENATOR LYNCH: This is going to be the subject of a plenary hearing soon, right?

UNIDENTIFIED PERSON FROM AUDIENCE: Yes, before the Commission.

SENATOR LYNCH: As a result of scheduling the session, I think we received a great deal of information that we otherwise would not have received. We'll see that is it placed in the right hands. We appreciate your consideration.

UNIDENTIFIED PERSON FROM AUDIENCE: Thank you.

SENATOR LYNCH: That concludes our agenda for the day. We thank you all for your patience.

(HEARING CONCLUDED)

APPENDIX

STATEMENT OF RESORTS INTERNATIONAL, INC. TO THE NEW JERSEY STATE
SENATE COMMITTEE OF THE JUDICIARY DELIVERED JULY 29, 1985

This statement is offered to aid the Committee in obtaining information concerning the status of real property in Atlantic City. It is also offered in response to the several newspaper articles that have preceded this hearing. The media coverage has suggested that the hearing concerns development of the Atlantic City Uptown Urban Renewal Project, casino hotel development generally, Resorts International, Inc's development of properties in Atlantic City and the published topic, land speculation in Atlantic City. The last subject is the most direct and as it is the subject of this hearing it will be addressed first.

That Resorts is not a land speculator is evident. Land speculators buy land in an attempt to sell or "flip" it over a short period to make a profit. They do not engage in the time consuming and costly process of assembling small parcels of land into developable tracts; nor do they develop land as Resorts has and does.

The land speculators in this city at least, buy small parcels and act as "spoilers" for developers or hold out for huge profits as the return for making a development work. Some others buy larger tracts in the hope that they will shortly be made more valuable. In any event the goal is the same, buy the land and sell it at a profit quickly without regard for development.

Resorts' actions have been quite different. First, we

have never acted as spoilers to retard development. Second, we have developed our property or arranged for its development through partners or through leases or sales.

A chart to be introduced at the hearing will demonstrate the development Resorts has generated in this City since 1976. Almost \$1 billion of existing or ongoing investment has been caused by Resorts' efforts. On the basis of our knowledge of comparable developing urban areas, this is the largest and most capital intensive project in any comparable city.

Our reason for attending today is, therefore, not to address the land speculating issue only, but to emphatically rebut the media creating suggestions that Resorts is in any way retarding the development of Atlantic City and to recite the actual development that has been caused by Resorts. It is also to put this development in perspective. The irrefutable facts, we believe, may help this Committee to appreciate the current development process in Atlantic City.

As the Uptown Urban Renewal Tract has been cited by the media as an example of delays in development, that development deserves examination.

URBAN RENEWAL TRACT

Anyone familiar with the facts must necessarily conclude that the delay in the development of the Uptown Tract was wholly beyond the control of either Resorts or the Housing Authority and Urban Redevelopment Agency of the City of Atlantic City which owns the tract. In fact, it can be directly traced to litigation.

instituted by a Philadelphia company, Barco Urban Renewal Corporation (Barco), and riparian rights claims asserted by the State of New Jersey -- both of which, in the final analysis, proved baseless. The following is a brief review of the history of the Urban Renewal Project.

In 1966, the Housing and Redevelopment Authority of the City of Atlantic City (Housing Authority) acquired approximately sixty acres of land bordered by the Boardwalk on the south, Virginia and Connecticut Avenues on the west and east and Atlantic Avenue on the north. The property was cleared and made available for redevelopment under a redevelopment plan adopted by the Housing Authority and approved by the Department of Housing and Urban Development (HUD).

Near the time the redevelopment plan was initiated, the Housing Authority entered into a Cooperation Agreement with the City of Atlantic City whereunder the City and the Housing Authority agreed to supply at no cost to the redeveloper (whoever he was) the infrastructure necessary for the redevelopment of the Tract. This infrastructure included the relocation and installation of utilities, sewage lines, roads, sidewalks, lighting, fire protection and the like at a then estimated cost of approximately \$7,000,000. (Currently estimated to be over \$15 million).

Despite monumental efforts on the part of the Housing Authority, no progress was made with redevelopment until April 1969 when the Housing Authority entered into a redevelopment contract with Barco. Barco was designated the redeveloper of the entire

Tract with a commitment to build a specified number of housing units on a small portion thereof. The agreement had a timetable for further development on the part of Barco following completion of its initial construction. Barco failed to meet this timetable and, after many extensions, on February 4, 1972, the Housing Authority terminated Barco as the redeveloper for the balance of the Tract.

It was not until May of 1976, ten years after the initiation of the program, that another redeveloper was located. On May 20 of that year, Resorts was designated the redeveloper of the Urban Renewal Tract subject to the approval of HUD. On October 22, 1976, with HUD approval, Resorts entered into a commitment to purchase and redevelop the property by building a 1,000 room hotel on a 16.5 acre portion of the tract, a \$50 million investment at that time.

Prior to that agreement, in July of 1976, Resorts entered into negotiations with John Portman Associates, the noted hotel designers, for architectural services in connection with the design and construction of a 1000 room hotel and with Edward Stone Associates, equally noted planners, for a plan for the entire tract. The contract was eventually consummated between Resorts and Portman and over a period of three and one half years, Resorts paid out in excess of \$4,500,000 under such contract. It is here worth noting that this action took place before the referendum permitting casino gambling in Atlantic City was approved in November 1976.

Thus, Resorts was proceeding well ahead of schedule under its contract with the Housing Authority when, in April of 1977,

Resorts and the Authority were advised by Barco of its purported claim to first refusal rights with respect to the development of the Uptown Renewal Tract. Although the Housing Authority records demonstrated that the Barco claims were without merit, nevertheless, Barco filed a Notice of Lis Pendens thus placing a cloud on title and preventing the Housing Authority from transferring clear title to the property. On June 23, 1977, three weeks following the effective date of the Casino Control Act, Barco filed suit against Resorts and the Housing Authority in the United States District Court for the District of New Jersey.

In 1979 while the Barco suit was pending, another blow came; the State asserted riparian claims against some other casino related land, and indicated that it had similar claims along the entire beach front in Atlantic City. Resorts, nevertheless, during the periods 1978 and 1979, made every effort to settle the Barco suit and to get on with the development of the property. In December of 1979 following almost two years of effort and negotiation, Resorts had reached what it believed was a settlement of the Barco suit. The settlement would have put Resorts at risk to the extent of \$19,000,000 as a fund to settle claims and would have provided Barco with substantial land. This offer demonstrates the extent that the Company was willing to go to release a baseless claim and to avoid the inflationary cost of further delay of construction.

During this period, the Company and the Housing Authority had been carrying on negotiations with the State in an effort to

resolve the State's inchoate riparian claims, the chronology of which is set forth below. Primarily because of the State's riparian claims, it was not possible to resolve the Barco suit which went to trial in March of 1981 before the Honorable Judge Ann Thompson in the Federal Court. The trial ended on April 16, 1981, and a judgement in favor of the Housing Authority and Resorts was rendered on May 26, 1981. On June 19, 1981, Barco appealed to the United States Third Circuit Court of Appeals. In March of 1982, after briefs and arguments, the Court of Appeals affirmed the opinion of the lower court and on April 5, 1982 issued its Judgment thereon. By the time it was resolved by the third circuit, the Barco suit had consumed over five and one half years - a period during which it was impossible for the Authority to issue clear title to the land and for Resorts to begin development.

Although the precise figure is unavailable to us, the Company expended in excess of a half million in professional fees in defending against the Barco claim. At this point, the land became free of private claims of ownership; the State's riparian claim, however, remained a cloud on the title.

As noted earlier, the Attorney General's office of the State of New Jersey in 1979 asserted theories and claims that riparian grants relied upon for over a 100 year period were invalid; one of the theories was that "gores" had been created due to a failure of the ancient upland property owners to properly identify the high water mark from which such land owner's riparian claim was to be measured. The State initially took the position that the high

water mark to be used as a base for riparian claims was a high water line of 1852. It subsequently was forced to change its position to the high water mark of 1876.

Resorts and the Housing Authority had a multitude of meetings with representatives of the Attorney General's Office in an effort to resolve the matter. By January of 1981, the Housing Authority and Resorts believed that they had reached an understanding with the Attorney General's Office that the procedure to be followed in an effort to settle the State's claims was to determine a single payment for all claims asserted by the State against the Housing Authority properties to be acquired by Resorts based upon an assessment of the value of the State's putative claim. In short, it was to be a two-step process. First, to determine the nature and extent of the property subject to claims by the State and have the value of the property determined by an agreed upon appraisal; and, second, to arrive at a settlement figure based upon a determination of the merits of the State's claim. All the legal negotiations at that time had been on this basis and therefore, Resorts and the Housing Authority were surprised to learn in January 1981 that the State had changed its position and sought to force Resorts to make a non-refundable per acre deposit with an estimated balance to be placed in escrow pending litigation or other resolution of the State's claim.

During the period 1979 to 1981, Resorts, at its expense, hired Jackson-Cross, a leading appraisal organization, to make an appraisal of the disputed property. This was obtained in April of

1980. The appraisal was the subject of a critique by a Mr. Robert M. Sapio, an expert retained by the State at the expense of Resorts. There were three parcels in question relating to the Urban Renewal Tract which as of January 16, 1981 were appraised by Jackson-Cross at a value for Parcel A \$4,935,000, Parcel B \$4,000,000, Parcel C \$1,700,000. Mr. Sapio's critique on behalf of the State initially valued these parcels at \$9,900,000, \$12,000,000 and \$2,850,000 respectively - a total of approximately \$25 million, however, on April 28, 1981, Mr. Sapio wrote to Deputy Attorney General Abelson and counsel to the Housing Authority Charles Lee Harp, Esq. and stated the following: "It is my opinion, based upon a preliminary value estimate, the value of the subject parcels is as follows:

Parcel A	\$35,000,000
Parcel B	\$35,000,000
Parcel C	<u>\$10,000,000</u>
	\$80,000,000"

As can be seen, the State's position was so unrealistic as to make any settlement unlikely.

On June 27, 1981, Resorts and the Housing Authority learned from an article published in the Atlantic City Press that riparian maps of Atlantic City had been in the hands of the State Department of Environmental Protection since September of 1980. The article reported that the DEP scientists had turned the maps over to the Tidelands Resource Council on September 5, 1980. The article

quoted Mr. Roland Youngmans, the chief DEP scientist who had been working on the project for more than ten years as noting that "it is frustrating to us that nothing has happened and that the maps haven't been promulgated."

As noted earlier, Resorts and the Housing Authority had been negotiating with the Attorney General's Office on the basis of the Attorney General's claim that the 1852 high water mark was the determining factor as to whether "gores" existed which defeated riparian grants thereafter issued by the State to upland owners. This notwithstanding the fact that apparently since September of 1980 (nine months) the Attorney General's Office knew that maps indicating the correct status of the State's claim were in existence which showed substantially different high water mark all of which adversely affected the state's claim. In short, in this interim period, the Attorney General's Office was making claim to lands which its own maps showed to be without merit. It was, thus, on July 1, 1981 that the Counsel for Resorts wrote to a First Assistant Attorney General referring to and requesting the right to review the maps:

As you know, the basis for the ongoing negotiations have been the acceptance by the Housing Authority and Resorts International of what we believed to be a good faith representation by the State that there existed sufficient hard information upon which to predicate a theory that the State may, in fact, have a claim to said property. We were told that maps delineating potential State claims were 'being prepared' and would not be available for at least twelve months.'....

It is fair to state that up until this time we have been led to believe that the maps have not been prepared. We believe that now in the interest of fairness and good faith, we should have the opportunity to review the maps in question to verify whether the State has even a potential claim. Because of the significance of this issue, we would request an immediate response.

Following this letter no further progress was made in settling the dispute with the Attorney General's Office and, as a consequence, suit was instituted by the Housing Authority in 1981 to Quiet Title to the property and, thus, clear the State's claim. A decision in favor of the Housing Authority denying the State's claims was issued on December 14, 1982. The State appealed and it was not until March 5, 1984 that the Appellate Division of the Superior Court affirmed the lower court's decision denying the State's claims. On March 25, 1984 - only one year ago - the State advised that no further appeals would be taken. Thus, it was March 25, 1984, before clear title to the property to be developed by Resorts on the Urban Renewal Tract, could be delivered by the Housing Authority. Eight years had elapsed since Resorts entered into its agreement to develop the Urban Renewal Tract. In the meantime, Resorts has paid over \$4,500,000 to the Portman firm for work it could no longer use. Since, by its terms, that agreement had to be terminated or renegotiated by 1980. Since, at that time the title issue was still up in the air, Resorts had no choice but to cancel and take a loss on the \$4,500,000 it had invested in

development plans. We have not calculated the total legal and administrative costs associated with the above delays, but it is safe to state that they too are in the millions. The inflationary increases in the cost of construction during this eight years delay alone is staggering.

It had also expended additional millions in professional fees and alternative development plans which were put forward as the Urban Renewal land appeared unavailable. There plans called for development of an approximately 1000 room hotel on land between the Urban Renewal Tract and the existing hotel. Those plans were very far advanced with most agency approvals in hand when the Urban Renewal project became available. The company then returned to its original plans to fulfill its obligation to create a 1000 room hotel on the Urban Renewal property.

As noted, notwithstanding the ongoing claims by the State, which were not resolved until March of 1984, Resorts went forward with a development program for the 16.5 acres. By agreement with the Housing Authority in October of 1983., Resorts assumed the risk in the riparian litigation in order to get redevelopment underway. If the State had won a reversal on appeal, Resorts would have been faced with paying whatever was necessary to clear the State's riparian claim with regards to the 16.5 acres it was acquiring from the Housing Authority. To understand the nature of the risk Resorts took it must be known that under the then policy of the Tide Land Council, any claim would have included not only the total vacant area but the value of any buildings Resorts had placed thereon in

the interim.

Fortunately, the state's claim was rejected and the Company could then move forward with the redevelopment of the Urban Renewal Tract. That progress consists of not only the 1000 room hotel called for by the agreement with the Housing Authority but a project consisting of over 1200 rooms, a casino and a parking garage on the Urban Renewal site, at a cost of \$350 million over our commitment to the Housing Authority, which in turn will be integrated with the development of the Steel Pier estimated at (\$60 million) and eventually with additional hotels and facilities in the area bounded by Pennsylvania and Virginia Avenue.

Resorts has also been successful in inducing an additional developer to undertake the creation of a hotel casino on a seven acre Urban Renewal tract adjacent to that being constructed by Resorts, thereby accelerating by several years the contractual time within which the development of the Urban Renewal Tract is to be accomplished and, bringing additional investment to the City of approximately \$220,000,000.

As noted at the outset, the new Resorts' hotel at \$400 million, the Steel Pier at \$60 million, Showboat at \$220 million, all of which are now in construction, when added to our investment in Resorts' hotel casino, housing and other City developments, our contribution to development in this area is over \$942 million; close to a billion dollars of actual development completed or under way!

The delays noted above were extremely costly for the company, both in terms of dollars and the time, effort and energy of

its officers and employees. Such delays are not, however, unusual in Urban Renewal projects. The Urban Renewal Program was authorized by the Housing Act of 1949. By 1974, when the program was terminated, almost half of the projects were incomplete. A 1973 study commissioned by HUD, Real Estate Research Corporation Report by Anthony Downs, concluded that in more than half of the projects studied factors such as state highway plans, tidelands program and other governmental actions had caused project development to lapse and chilled further site development.

When measured against the progress of other projects, the Atlantic City Urban Renewal Project and Resorts' development compares quite favorably. For example; the highly regarded Charles Center in Baltimore was begun in 1958, and is scheduled for completion in 1986 -- a period of 28 years. The 39 acre project has generated \$180 million of investment -- less than 1/3 of the private investment dollars already under construction and/or adjacent to the Urban Renewal Tract. Similarly, the Baltimore Inner Harbor project lingered for more than 10 years before it could attract significant investment; and it took over twenty-one years to develop the first phase. Again private investment, at approximately \$500,000 per acre, is well below that now under way on the Urban Renewal Tract.

The above, of course, does not include the hundreds of projects that were never built at all.

Turning from the disappointments and frustrations on the development of the Urban Renewal Project. The companys action in the remainder of the City should be reviewed. Simply put, Resorts is the single most productive developer in the City as presently situated and as contemplated in the future. The following is a brief report on those developments.

Resorts purchased Haddon Hall and Chalfonte Hotel and began renovations on those properties in September 1976, before the casino referendum. Both hotels had been for sale for some years but were unsuccessful in finding a purchaser.

The Haddon Hall was completed remodeled into the existing Resorts. Development was not limited, however, to that building. The Company also acquired and renovated the 1960-style Ramada motel, and adjacent property. That project placed 168 vitally needed first class hotel rooms on the Atlantic City market; rooms for which Resorts attained absolutely no additional casino space or qualifying credit under the Casino Control Act.

The Chalfonte site was sold to Holiday Inn for a casino hotel development. Indeed, plans for a casino hotel development were sold as part of the transaction. So certain was Resorts that development would take place on that site, it constructed a bridge linking Haddon Hall and the site. That development has not yet taken place.

Resorts also acquired the Bradway Building, a deteriorated office building located on the Boardwalk. That building was demolished and the area was totally renovated, adding a swimming pool, a ballroom and the largest private convention center in Atlantic City at that

time. These properties and improvements , together with the property between Resorts and the Urban Renewal Tract, which is, under construction as a link between the two properties that constitute an investment in excess of \$217 million.

The Urban Renewal development, although frustrated as noted above, is now also moving apace. Construction of a 1200 plus room hotel, the largest in Atlantic City, a casino, a parking garage and various amenities associated with that project is well under way.

As noted earlier, in October of 1983, Resorts entered into an agreement with Showboat, Inc. for the development of a 10 acre site located on the Urban Renewal site. Showboat is currently constructing a 537 room casino hotel complex on that site with a projected opening of January of 1987. The Showboat construction, we understand, will constitute approximately \$220 million.

Noting the cost of Ocean Showboat's project development, I should comment on Resorts'. The current hotel/casino complex under construction, is estimated to constitute over \$400 million dollars of investment. As noted earlier, that figure represents \$350 million of added investment over and above our contractual commitment to the Housing Authority when we contracted to purchase the Urban Renewal land. And, that figure does not include renovations currently under way on the Steel Pier which exceed \$11 million and which will ultimately constitute \$60 million. Resorts currently has agency approval for the first stage of redevelopment of the Steel Pier and is in construction of the first 90 ft. of the Pier which was destroyed in a fire in 1982 and was partially reconstructed as an airline heliport.

As an aside, RIA helicopter airline is an experimental effort by Resorts to add to the transportation matrix of the City. The airline has regularly scheduled helicopter flights for the public from the Pier to New York City and is an attempt by Resorts to provide additional transportation opportunities to the City. This experimental helicopter service is without question one of the bolder efforts made to make Atlantic City a full fledged resort destination. As it is losing substantial money, it is just one example of the companys' commitment to the citys redevelopment.

These developments have also resulted in a revitalization of the antiquated Atlantic City infrastructure. As just one example, Resorts expended almost \$2 million in the replacement of over one mile of circa 1930's sewerage lines from the Boardwalk to Baltic Avenue. The sewerage lines constructed at Resorts expense serve the entire drainage system of this eastern section of the City.

As part of a tax settlement agreement with the City of Atlantic City and the Housing Authority, Resorts also agreed to pay back taxes on the Urban Renewal Tract which the Housing Authority could not pay, and to assume the already noted obligation of the City and the Housing Authority to supply infrastructure to the Urban Renewal Tract. All of this was in consideration of the City agreeing to a five year limit in taxes becoming due from the Housing Authority thru 1989. Although this matter is currently under a cloud because the City has assessed taxes higher than agreed to in the settlement, the potential cost for the development of infrastructure to service the UURT is in excess of \$17 million, as compared with an estimated \$7 million in

1966. In this connection, Resorts will, if the settlement is honored, be underwriting the reconstruction of new streets, the development of electricity grids to service the City and Uptown Urban Renewal Tract, and the development of water, gas and telephone lines, not to mention streets, sidewalks, lighting and other improvements typical to development of this magnitude - all of which were the responsibility of the City and the Housing Authority under its agreement with Resorts, as is customary under HUD's Urban Renewal agreements with developers.

We should also dispell any media-created belief that Resorts has somehow failed to pay its fair share of taxes on its properties. Resorts has fully paid all taxes assessed against it, including the tax obligation of the Housing Authority, which, because of its lack of funds, it could not practicably meet and would have effectively bankrupted the agency. Indeed, the Company has paid over thirty (\$30) million in real estate taxes to the City since 1976 - about the same as the City's entire budget in that year. Additionally, the Atlantic City Casino Association, of which Resorts is a member, has supported the recent litigation seeking a revaluation; support for revaluation is the anthesis of land speculation.

Nor has Resorts ignored the housing problem in the City of Atlantic City. Resorts is the largest casino developer of housing in Atlantic County and the only casino that has actually developed housing in Atlantic City.

Resorts has generated in excess of \$32 million of housing investment within the Atlantic City area. Over \$3 million dollars has been generated for housing for low and moderate-income residents of the

City of Atlantic City. Just this month a lottery was held to allow seven additional residents of subsidized housing to break those bonds and obtain the benefits of home ownership. When the project is built out, the company, in conjunction with the Housing Authority, will have brought \$3 million worth of low and moderate income housing investment to the City of Atlantic City and will have made in excess of 80 housing opportunities available to families of the City of Atlantic City.

In addition to the 80 City housing opportunities, the company has caused to be constructed 311 units in Atlantic County. These are not luxury condominiums but affordable units selling for, in some cases, below \$50,000 per unit.

Resorts challenges any casino hotel operator in the City to approach this record. Indeed, the Company could safely challenge any non-housing developer in the state to match such a record. There are none.

But all of that is in the past. As to the future, it should be clear to anyone that Resorts' future is entwined with that of the City of Atlantic City. Unlike any other casino in the City, the Company is vitally interested in the future development of the City of Atlantic City, as a whole, as opposed to just the casino hotel operation. Thus the interest in airline helicopter service to the City, which is currently losing in excess of \$3 million a year; efforts to restore rail service to the City; development of non-casino ventures, such as the Steel Pier; the solicitation of competitive casino operators; offers to the Convention Authority to provide land for a convention hall at our cost; and, the continuing effort to

recruit non-casino hotels to the City.

The Company is uniquely and singularly interested in the addition of both casino and non-casino hotels to Atlantic City. Unlike competitors who may see a short-term benefit in limiting the number of casino/hotels in the City, Resorts is vitally interested in attractive casino hotels. To that end, it has engaged in discussion with virtually every qualified non casino and casino hotel developer in the United States and abroad. Resorts has vigorously attempted to induce those entities to invest in the City and to engage in development, even to the extent of making property available to developers at less than cost in some instances. To date those efforts have resulted in one new casino hotel, Showboat, and the attendant investment and jobs. Resorts helped finance that venture by the grant of a 99 year lease to Showboat. As Showboat recently noted in commenting on the matter:

A ninety-nine (99) year lease of this type is essentially a financing vehicle. Resorts' willingness to lease this property to Showboat made it easier for Showboat to acquire the property necessary for the construction of a hotel casino, resulting in the introduction of a proposed new operator into the Atlantic City market, and potentially increasing the number of competitors and hotel casino facilities.

Resorts is also extremely active in drawing non-casino hotel operators to the City. The Company is currently in negotiations with six such entities. The construction of non-casino hotel rooms, in the Company's opinion, is vital to the development of the City and it will continue to pursue that goal. To date, the company has solicited every major hotel chain in the country and many in Europe

As noted earlier, Resorts is quite concerned with the media portrayal that somehow its development has been lacking. Anyone can always ask for "more", but to put these charges in perspective, some of the heralded projects in New Jersey should be considered for comparison. This Committee will certainly agree that Johnson and Johnson's efforts to aid in the renewal of New Brunswick have won state wide praise. Indeed, the Chairman of this Committee can claim much credit for aiding and encouraging the private investment efforts in New Brunswick. By way of comparison, that praiseworthy effort began over twenty years ago; it took Johnson & Johnson over eight years to acquire the land for their project and, the total private investment including the Hyatt Regency Hotel and world wide headquarters is \$125 million. Compare that to the almost \$1 billion of investment Resorts is engaged upon. The extensive delays experienced on the Harbor City project in Jersey City, the Barry Creek Center in Rutherford and the Hartz's projects in the Meadowlands demonstrate with clarity the relative speed with which Resorts is proceeding.

This committee and the legislature is quite naturally concerned with what has been put forward as a land speculation problem in the City of Atlantic City. Resorts has experienced and continues to experience that problem in attempting to assemble parcels of property for development. The City is plagued with small land holders who act as "spoilers" in order to seek huge profits to frustrate desirable development. However, as noted above, Resorts cannot be considered a speculator. The company has none of those indicia of speculation. It does not buy land for a quick flip; it does not hold parcels out to

frustrate development; it does not act as "spoilers". Rather it develops and acquires property for development.

Resorts is unique among the casino hotels in Atlantic City in that it is actively attempting to bring in additional development to the City, both casino and non-casino hotels. Resorts property is for sale or lease to any legitimate, qualified developer. The company will entertain all proposals from qualified persons. It seeks and desire those contacts, and perhaps this forum can serve to spotlight that desire.

EDWARD JOSEPH DODSON206 PEARLCROFT ROAD
CHERRY HILL, NEW JERSEY 08034

Attached for inclusion into the record of testimony presented before those assembled today to discuss the problems created by land speculation in Atlantic City is an analysis I have prepared of the issues involved. Other responsibilities prevent me from personally appearing before this committee.

My concerns go beyond that of residency and citizenship in the state of New Jersey. The problems of housing, development and displacement in Atlantic City are shared in some degree in every community. These are social, economic and political issues with which I have long been concerned.

I offer this analysis with the hope that my experience as a member of the real estate finance community and my academic background in this area will benefit the dialogue taking place. The views expressed are, of course, my own and in no way represent the views of any business or professional organization with which I am associated.

Sincerely,

Edward J. Dodson
July 29, 1985

LAND SPECULATION

ITS CAUSES, EFFECTS AND RECOMMENDATION FOR A SOLUTION

The term "land speculation" has attached to it a very negative connotation in our society. The land speculator is generally thought to have only one motive -- tremendous profit. And yet, all those who purchase homes, other buildings or vacant lots are part of market dynamics that encourage land speculation. Gains experienced by those who acquired land for speculative purposes occur under conditions of increasing demand for a commodity (land) which cannot be manufactured and is finite in supply. Location of a given site close to the center of business activity or its specialized zoning (as for casino gambling) also makes the site more unique and attractive for speculative ownership.

As with any form of investment, there are risks associated with purchasing land for speculation. Development might not occur as contemplated in the surrounding area. Government expenditure of funds for public works and infrastructure might not be realized because of external factors (such as cutbacks in federal and state programs or a general economic recession). Regardless of whether the individual investor profits or not, however, the impact of land speculation on the community as a whole is always a serious problem. Such is the case with Atlantic City.

The legislation which permitted casino gambling in Atlantic

City dramatically changed what urban economists would call the "highest and best potential use" for a large part of the city. Subsequent to the legislation, many people sought to acquire sites eligible for future casino locations. Because there are a limited number of such sites, the property owners received a windfall (i.e., they did nothing individually to produce the increased land value). Actual casino developers competed with each other for available sites, bidding up the prices of land even further. The rising land prices brought even more speculators into the market.

What happened in Atlantic City is that land speculation eventually raised the asking price of land to such a point that no development other than for casino gambling could profitably take place. At such prices housing construction is out of the question, particularly low-rise, single family housing and any housing affordable to low and moderate income groups.

Another result is that housing units rented to low income groups are systematically subjected to disinvestment. An empty property, or one where the improvement has been demolished, is much easier to market. In most cases, the net rental income derived from leasing such houses to lower income families barely covers the cost of maintenance. If the property has been fully depreciated and is encumbered by no mortgage, the tax shelter benefits are nonexistent; all the investment incentives are on the side of demolition and speculative holding for casino or luxury condominium/hotel development. Meanwhile, the housing

stock within the community suffers from increasing deferred maintenance and boarded-up properties. Outside the casinos, business activity declines and unemployment rises. Concerned civic and government leaders must develop a strategy designed to promote a more competitive land market, lower (without the need for government subsidy) site costs to housing and industry, and allow the natural attractiveness of Atlantic City to achieve widespread economic growth.

The solutions to many of Atlantic City's problems are to be found in a restructuring of its tax system. Part of the necessary changes are within the City's legislative domain; others are dependent upon action at the state level. Most important is the modernization of the system of property taxation.

One of the primary reasons why investment in land for speculative purposes is so attractive is the very low carrying costs to the investor. Reassessment rarely keeps pace with the changes in market values, allowing landownership to legally escape increases in taxation. Business and individual income, on the other hand, cannot be easily hidden for most taxpayers. Landowners, therefore, start out with a built-in advantage over those actually involved in productive activities. There is no excuse for this to occur in an age of computerized data base tracking. Each parcel of land (independent of improvement) should be valued and adjusted at annually to reflect changes in market conditions. Real estate appraisers possess the skills and

techniques to provide support for this process. Annual reassessment is one strategy that would effectively reduce speculative investment in land.

A second strategy available (with legislative support from state government) is to gradually increase the rate of taxation applied to assessed land values, while simultaneously reducing the rate of taxation applied to property improvements. It is a fundamental principle of tax economics that higher taxes paid on land values are capitalized into LOWER LAND PRICES. The reason this occurs can be shown in a straightforward example:

Suppose an investor purchases for speculation a site in Atlantic City for \$500,000, knowing that the demand for similar sites is pushing up prices at a rate of 20% per year. At the end of one year the land will be worth \$600,000 and the owner will have an unrealized gain of \$100,000. Because the assessment for tax purposes was made years ago and the rate of taxation is low, very little of this increase (which is attributable to conditions granted by the citizens as a whole and not by anything the investor did) is captured as tax revenue.

After reassessing the property as proposed above, the taxable value becomes \$600,000. A tax rate of 16.6% would result in a property tax of around \$100,000, thereby removing the incentive to speculatively invest in land. Competition for sites would now be between actual developers who would have a greater selection of sites to choose from in a more competitive land market. Those who owned unimproved or underimproved land would be driven by financial pressures to either develop their properties to secure an income stream (partially to cover the higher tax on land value), or be forced to put their land on the market to someone who could develop the site profitably.

For the most part, implementation of the above two strategies

should be very effective. However, a final step also has strong support in economic theory. To the extent permitted by budgetary considerations, the tax rate on improvements, personal property and wages should be greatly reduced. These measures would give Atlantic City an even greater competitive advantage in the attraction of skilled workers, entrepreneurs and investment resources.

The members of this factfinding committee are referred to a July 1980 report titled "Compact Cities: Energy Saving Strategies For The Eighties," prepared by the Subcommittee On The City of the Committee On Banking, Finance And Urban Affairs of the U.S. House of Representatives.

An additional recommendation is to solicit the expertise of two economists recognized nationally for their expertise in urban problems: Mason Gaffney of the University of California, Riverside; and Dick Netzer at New York University.

Edward J. Dodson July 1985



IT'S UP TO THE CITIES TO SAVE THEMSELVES

Some of the shrinkage in our old metropolises is unavoidable, but they have aggravated their problems by giving people the wrong incentives.

by Gurney Breckenfeld

The upside-down property tax

Among disincentive taxes, the property tax by a wide margin has the largest and most pernicious effect on cities. It accounts for 82 percent of the \$61 billion localities raise from their own taxpayers, but the trouble is not what it is commonly perceived to be: soaring tax bills that burden hard-pressed homeowners. The real problem is the basic structure of the tax—a confusing and little understood fusion of two separate levies, one on the building and one on the value of the location.

Most cities collect two or three times as much tax from buildings as from the site value of land. The low taxation of land rewards speculators; they can easily afford to keep idle or underutilized sites off the market until urban growth drives the price up enough for a fat profit (which then qualifies for concessionary treatment as a capital gain on their federal income taxes). The high tax on buildings (or improvements to them) discourages both construction of new buildings and maintenance of aging ones. Recognizing this, city after city has offered tax exemption in order to get new buildings put up, but the arrangement reduces the growth of the revenue base and forces other taxpayers to make up the difference.

The remedy is to turn the property tax upside down so it hitches the profit motive to the right objective. States should adopt legislation allowing localities to lighten or abolish the levy on buildings and impose a corresponding increase in the tax on land. The total tax take need not be affected. Most homeowners, several studies have found, would pay less; owners of valuable but well-developed downtown property would pay about the same;

owners of valuable but vacant or underutilized property would pay more. More important, the incentive for private investment in really good buildings would increase while the lure of land speculation would diminish. By raising carrying costs for land, site-value taxation might well drive down inflated land prices, which are a major reason why costs are so high in many big cities.

Such a change should be phased in gradually to avoid disruptions, for it would be potent economic medicine. In a study a few years ago, economist Mason Gaffney found that if property taxes had been based entirely on land, downtown Milwaukee would have been rebuilt after World War II without a penny of subsidy for urban renewal. More recently, Philip Finkelstein, director of the Manhattan-based Center for Local Tax Research, concluded that if New York City continues its present arrangement, taxing buildings twice as much as land, "we will accomplish the apparent goal of New York's critics—breaking it off and letting it sink."

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Relationship Between Economic Activity and Critical Community Dimensions—*B. E. Munson* 225

~~Economic Development in Latin America—*R. J. Morrison* 267~~
Tax Tool for Meeting Urban Fiscal Crisis—*M. M. Gaffney* 253

Carey, Classical Rent, and Economic Development—*R. J. Morrison* 267

Growth of Agriculture and Industry: Balanced Investment in Both Economic Sectors—*E. R. Harris, Jr.* 277

Jewish Agricultural Colonization in Entre Rios, Argentina I—*M. D. Winsberg* 285

Latin American Way of Life, III—*R. E. Crist* 297

Land Question in History—*R. E. Morris* 313

Pollack on Populism (Review)—*H. Shapiro* 321

Labor and Politics in Argentina (Review)—*R. J. Alexander* 335

Contributors 336

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A Tax Tool for Meeting Urban Fiscal Crisis*

By M. MASON GAFFNEY†

MOST OF OUR CENTRAL CITIES, as is now well known, are threatened by a vicious circle which is related to property taxation.

As buildings become older, they tend to become fiscal deficits requiring more in cost than they return in taxes. As the central cities age, the buildings become old and fiscal-deficit generators. This requires the central city to increase its tax rate.

The higher tax rate in cities drives investors elsewhere, both home builders and industry, because whoever puts up a new building under this state of affairs tends to become a fiscal surplus generator, and no one really wants to be that: it means you pay more in taxes than you get back in services.

Since there are many competing jurisdictions, investors do not have to be fiscal surplus generators. They can find a warm welcome in outer communities at lower tax rates.

So, as the central cities move into the downspin of this unfortunate circle, they tend to lose industry and, as a result, lose employment opportunities. At the same time they tend to gain old dwellings which attract people with low incomes who increase welfare costs. They are left with a high percentage of old buildings, which generate fiscal deficits, and fewer and fewer surplus generators with which to meet them.

Now if, to solve this problem, cities slash services in order to lower tax rates, they find cutting services and reducing the quality of schools also drive away population and income and industry.

What the cities need are more revenues without increasing the burden of taxation.

One way to go about this is to reapportion the state legislatures and get back more [tax money] from the state, which cities richly deserve. I am sure we all applaud the recent tendencies in that direction, weak and halting though they may be. Reduced Federal farm and military and "moondoggle" programs would also help.

The second way is for cities to get more of their taxes from the land base rather than the building base.

* Excerpts from testimony at a hearing of the President's Commission on Urban Problems, Pittsburgh, Pa., June 11, 1967, former Senator Paul H. Douglas presiding.

† Professor of Economics, University of Wisconsin—Milwaukee.

In that manner it is possible for a city to get as much tax revenue as it wants without driving away the capital it must attract and hold. If land becomes the tax base rather than buildings, the conflict which we think we see today between the low taxes necessary to attract capital and public services themselves is no longer a conflict. It is possible to raise services and still make a tax environment attractive to capital.

Some people fear that by exempting buildings from taxation a city would reduce its tax base. I do not believe that is so.

The tax on buildings ultimately is borne by the landowner in the form of lower land values. Nominally the tax appears to fall on capital. However, since capital is migratory, investors don't have to accept a lower rate of return in the jurisdiction that taxes them. Therefore they can and do shift the tax.

Now, as I used to see it, they shift it to the tenants; and, indeed, some of that occurs. Anything that reduces the supply of a commodity increases the price. If you reduce the supply of buildings, you can raise the rent. However, tenants are also migratory—less than investors who move through well-paved ways in search of higher returns—but in the long run they also are migratory, and increasingly so in this age of automobility.

If taxes are not shifted forward to tenants in higher rents, that leaves the non-migratory element, the land, to absorb the tax.

So the effect of the tax on buildings is to lower the value of land on which those buildings might be placed. Conversely, to remove the tax on buildings is to create a benefit to the landowner which should be capitalized into higher land values.

Therefore, when you remove the tax from buildings and shift it to land, you do not reduce the tax base. You are basically taxing the same real estate, just differently. The tax is no longer contingent on the owner putting up a structure. The tax is determined by potential value—if the assessor does his job well—and not on actual use.

I go further and say as a result of removing the tax from buildings and levying the property tax on site value alone, the tax base actually should increase.

One reason is what economists like to call the "excess burden of indirect taxation."

Suppose I own a piece of land and erect a 30-story building on it. The fact that my tax bill rises when I put up the building makes the upper stories submarginal. Land is space, and space has a third dimension. Think of urban space as being subdivided into strata. On

every site, however high its value, there is a marginal stratum. The top story of a high-rise building occupies the marginal stratum of space.

The top story which would be just marginal without taxes becomes submarginal in the presence of a tax on buildings. Several layers below, a story which would be better than marginal in the absence of taxes becomes just marginal. Those stories in between, which are better than marginal in the absence of taxes, are destroyed before they are built, *i.e.*, not built at all, because of the threat of taxes. These would have yielded a surplus above cost, adding to ground rent and land value.

To remove taxes on buildings therefore is to permit each site to be developed more intensively and generate additional rents over and above what it does under the threat of taxes on buildings.

A good way to look at this is to think of there being two equities in land, a public one asserted by taxes and a private one taking what remains. The best use of land, from a social viewpoint, is the use that maximizes the sum of the public and private equities.

But the decision-maker is the private owner, whose motive, of course, is to maximize the private equity alone. A good tax is one so structured that the private decision-maker, in maximizing his own equity, also maximizes the sum of the private and public equity.

The building tax is a bad one because the private income taxes is maximized at a much lesser intensity than would maximize the sum of private and public income. Thus it creates an artificial conflict between private interest and public interest. The site-value tax, in contrast, is free of this fault.

A second aspect of "excess burden" has to do with the timing of urban renewal. You can think of the margin of land use in terms of time, as well as space: *i.e.*, in the fourth dimension as well as the third. Advancing the date of site renewal toward the present by ten years is moving into a reach of time that is made submarginal by imposition of a tax on new buildings.

Of course, when you put up a new building, your property tax bill goes up by a very large factor. That tends to retard the optimum date of site renewal from the viewpoint of the landowner who, of course, is interested in maximizing his equity after taxes.

Untaxing buildings will also make it possible to lower certain public costs, making the tax base go further. As one example of this, consider vertical transportation. Vertical transportation is a substitute for horizontal transportation—not that it gets you to the same place, any more than lateral streets get you to the same places as longitudinal ones, but

it taps new strata of space that can be linked into the urban nexus with much less increase of load on streets in the first two dimensions than if more horizontal space were tapped. That is self-evident geometry.

We hear a lot these days about "intermodal bias," referring to the public subsidy in auto transport. We should also be thinking about interdimensional bias. We subsidize horizontal transport, but we tax vertical transport by the building tax. Vertical transport is almost always supplied privately. Something like one-third of the cost of a high-rise building consists of the elevators, utility core, stairways, and other elements that come under "vertical transportation." Private builders supply this at their own expense and then we tax it besides. If there were more of it, we should need less public outlay on streets and utilities.

Untaxing buildings should also reduce welfare cost. A tax system which accelerates renewal causes old buildings to be replaced by new ones. The inhabitants of new buildings throw less of a load on the welfare rolls than the inhabitants of the old. From a purely local point of view the benefit is obvious and the argument overwhelming.

From a national viewpoint the argument requires more thought but is equally compelling.

You frequently run into opposition to urban renewal from those who don't want to displace the people in the area being renewed. It sometimes seems the city is dumping welfare problems on the rest of the world.

I don't believe that is a correct analysis. There is no solution to the housing problem for poor people without building more buildings. The ultimate thing that will improve the housing conditions of the poor, and everyone else, is to increase the supply of quality buildings, which in the main means new buildings, the idolaters and collectors of antiquity notwithstanding. In the process you frequently tear down old ones and replace them with new, better and at higher density. The net result is increased supply. This lowers the price, making better housing available for poor and rich and middling alike, and creating new employment opportunities in building, and operating buildings once built, to pull people off welfare.

It is a fair criticism of the present Federal Urban Renewal Program that it chronically clears and sterilizes more land than it renews, adding something to its bombed-out inventory each year. That really does dump welfare problems and reduces net housing supply. The criticism and resentment generated by that problem should not, however, be directed against a proposal to untax new buildings. For this, the present proposal,

stimulates demolition only by increasing the positive incentive of builders to salvage derelict lands for immediate renewal.

Another general reason why the land tax base would be greater than the present property tax base is really a set of reasons, which may be summed up in such expressions as "the economics of urban agglomeration," or urban "linkages," or Adam Smith's dictum that "The division of labor is limited by the extent of the market."

My conclusion follows in four steps: 1) Cities exist to bring people together—for cooperation, mutual aid, sociability, cost-sharing, specialization, diversification and stability, exchange, etc.; 2) These collective benefits are captured in the rent of urban land and capitalized into land values; 3) Each new building not only develops the potential rent of its own site, but on balance adds to the potential rent of neighboring sites, whose development in turn feeds back an added potential rent on the first site; 4) Taxing buildings inhibits new buildings and quality building and intensive building and so prevents full realization of an enormous urban potentiality above and beyond the simpler "excess burden" I described earlier.

For example, in a large market most facilities enjoy high "load factors," the ratio of mean load to peak load capacity. Facilities get used around the clock and the calendar, so capital need not be dead most of the time as it is in small towns and remote suburbs. For the other, almost everyone observes it is usually better to have a new building as your neighbor than an old one. New buildings not only generate fiscal surpluses themselves but radiate external economics which bolster the value of nearby property.

For those general reasons, then, I don't believe there is any danger of losing the tax base by exempting buildings. And if I should be wrong, an additional advantage is that you can go right ahead and increase the tax rate as much as needed without doing any damage whatever to the profit motive.

You can go all out in taxing a piece of land and it will never get up and walk out of town; whereas, if you do the same thing to buildings placed on the land, they won't walk out of town today, but as they get old the sinking funds to replace them will be reinvested elsewhere, leaving your city with the fiscal deficits while the surplus generators are off taking the sun in California or overseas.

The site value tax automatically solves certain perplexing problems of distributive equity. When you grant the favor of intensive zoning to one land owner and deny it to another, you are redistributing wealth in

a very heavy-handed manner. Under the site value system, favorable zoning would also be favored with the equipoise of heavier taxation because the right to develop land more intensively makes land more valuable.

The rent surpluses of the central cities, which are capitalized into the highest land values per square foot in the world, would also be tapped and spread around, and in a manner compatible with economic efficiency.

Please don't tell me this is unjust to vested interests, because we already do a good deal of this sort of thing today through our utility pricing practice which charges everybody the same rate no matter where he is located, even though by this means the rich central territory is carrying the lean, low-density peripheral areas of urban sprawl. The site-value tax achieves the same distributive goal as our utility pricing practices, that is, it taps central rents to benefit everyone, spreading the rent thin. But it does the job in a way that is compatible with economic efficiency, while our uneconomical utility pricing practices destroy half the pie in the process of sharing it.

Another advantage of the site value system at the national level, and also at the local level, would be to increase employment opportunity: in the construction business first, and through reverberating effects in all businesses. By removing taxes from buildings you would encourage more frequent renewal. The effect is somewhat the same as lowering the interest rate paid by builders when they borrow. Thereby you would increase employment opportunities, and that lowers welfare costs.

Yet another advantage of the site value system is the advantage it offers to small business. This may best be understood through the phenomenon of credit rationing. Under the present system, when we put up a new building, we are immediately hit with our heaviest taxes which add greatly to the risk and credit requirement. This helps to ration out those firms which have a particularly hard time raising money. These tend to be the small firms, the competitive cutting edge of our economy which makes the free market work the way we like to preach that it does.

A tax on site values, by contrast, begins at a low level and does not go up at the moment of greatest capital need. It remains at the same level it was before. It might be construed as a loan from the city treasury to the builder—a loan which he pays back in the later years of the building. Thus it favors the credit-weak over the giant corporations which have had such a big piece of the little action in urban renewal we have had thus far.

University of Wisconsin—Milwaukee

