
Committee Meeting

of

SENATE LEGISLATIVE OVERSIGHT COMMITTEE

"Testimony from invited guests regarding the history, mission, and vision for the New Jersey Sports and Exposition Authority and the New Jersey Meadowlands Sports Complex"

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: March 3, 2010
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Barbara Buono, Chair
Senator Teresa M. Ruiz, Vice Chair
Senator Sandra B. Cunningham
Senator Paul A. Sarlo
Senator Thomas H. Kean Jr.



ALSO PRESENT:

Carrie Anne Calvo-Hahn
Office of Legislative Services
Committee Aide

Jason Redd
Senate Majority
Committee Aide

Frank Dominguez
Senate Republican
Committee Aide

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SENATOR BARBARA BUONO (Chair): Good morning, everyone. I'm Senator Barbara Buono; I'm the Chair of the Senate Legislative Oversight Committee.

I normally don't do a roll call, but since this is the first meeting, we will do that. And I'd also like to introduce Senator Ruiz, Teresa Ruiz, who is the Vice Chair.

If you would call the roll. Senator Kean will be here -- he's a little bit delayed. We do expect him.

MS. CALVO-HAHN (Committee Aide): Thank you. Senator Kean will be here shortly.

Senator Sarlo.

SENATOR SARLO: Here.

MS. CALVO-HAHN: Senator Cunningham.

SENATOR CUNNINGHAM: Here.

MS. CALVO-HAHN: Senator Ruiz.

SENATOR RUIZ: Here.

MS. CALVO-HAHN: Senator Buono.

SENATOR BUONO: Here.

MS. CALVO-HAHN: Thank you.

SENATOR BUONO: Thank you.

I would just like to begin by setting the tone -- setting the stage for this hearing. I'd like to thank everyone, first of all, who assisted the Committee with preparations for today's hearing. In particular, I would like to thank the staff, Linda Schwimmer, Jason Redd, Carrie Calvo-Hahn, David Rosen, Frank Haines; and, of course, all of the witnesses, both interested parties with a great deal of institutional knowledge, as well as

some world-class experts that we will hear from, later on, on urban planning and land use.

My interest in the Sports and Exposition Authority really began when I was Chair of the Senate Budget -- sorry, I'm in the Budget room, and, sorry, Senator Sarlo, I know I'm not Chair anymore -- of the Senate Wagering, Tourism, and Historic Preservation Committee a number of years back. And it was in that capacity that I gained some insight into the workings, and the purpose, and the origin of the Sports and Exposition Authority and its impact on the state as a whole.

But before we get to the panelists, as I said, I wanted to set the stage for our discussion by detailing the changing dynamics surrounding the Authority since its inception.

When the Legislature adopted the New Jersey Sports and Exposition Authority law in 1971, the agency was tasked with the specific mission of overseeing the construction, operation, and maintenance of the Sports Complex in the Hackensack Meadowlands. At the time, it was meant to be -- the Authority was meant to be a financially self-sustaining public -- and I emphasize public -- entity with the power to issue bonds, or notes, to finance the costs of construction. And the key to the Authority's financial operation was the establishment, at the time, of a horseracing track. The revenues from the track, as I'm sure the audience members are aware, as well from the total Complex, its construction, were meant to be used for the operation and maintenance expenses of the track, the entire Complex, and the payment of interest and principal on the bonds or notes, and certain payments to municipalities whose land was acquired for the Complex. Additionally, the legislation stated that any balance remaining

was to be deposited into the State's General Fund, and 40 percent of that was appropriated to the Meadowlands Commission. At the time, the supporters of the Complex, at its inception, believed that its completion would make New Jersey the Sports Capital of the World, and, indeed, it was a great success for a time. But since 1993, the Sports Authority has actually cost the State dollars.

Which leads me to the key question that this Committee will be discussing: What should be done with the NJSEA and its assets? The viability of many of these sites that the Authority oversees is now being called into question, as we all know from news reports and discussions online and in the media. With the new Giants and Jets stadium opening this fall, the teams will be paying the Sports Authority less than half of what they once did annually. And we will get more into detail on the franchise agreement, because it does have implications on our State budget going forward. The Meadowlands Racetrack is a shell of its former self; it operates in the red -- as does Monmouth Park -- losing a combined \$21 million annually. And we will discuss that, and we know that there are offsets to that as well, which we will go into in detail.

The viability of the IZOD Center is threatened by other local competition and, of course, the fate of Xanadu is still unclear.

An agency that once funded the construction of major Sports and Exposition venues around the state, operated with a healthy surplus, now carries hundreds of millions of dollars in outstanding debt. Some may question some of the choices that have been made in the past, many of which came from outside the Sports Authority management. That, coupled with increased competition in gaming, diversion from the original mission,

and changing economic times, have left the Authority in a precarious financial situation. In any economic situation, in any economic climate, this would warrant action. But when you couple that with the international global recession that has had disastrous effects on our State's finances, this situation demands our attention now.

We can no longer afford to operate precariously without a sound blueprint for the future. To that end, we are fortunate to have Dennis Robinson, the CEO of the Sports Authority, who I met with at length yesterday or the day before, and he will discuss their current economic status and their future plans.

Our guests also include representatives of the local communities surrounding the New Jersey Sports Authority sites, and our last panel will include a number of planning experts -- we call this the *vision panel* -- who will examine the potential future of the Authority's assets and how to best reposition them. These members will discuss the characteristics of the Authority's assets and help identify and discuss today the highest and best use for the state.

And then, after each panel concludes, I invite members, Committee members, to ask questions.

So without further ado, I'd like to begin by asking Robert Ceberio, Executive Director of the New Jersey Meadowlands Commission, to come up to the microphone and testify to the Committee.

Hi, how are you?

ROBERT R. CEBERIO: Good morning, Senator.

SENATOR BUONO: You are a wealth of institutional knowledge, and we're eagerly anticipating your remarks today.

MR. CEBERIO: Senator, you know you're around a long time in government when they ask you to testify on historical perspectives, so I guess I've been around for awhile. (laughter)

I've had the pleasure--

SENATOR BUONO: Can you press-- The red light has to be-- That's it.

MR. CEBERIO: We got it? Okay. Thank you.

I've had the pleasure and the honor of either living or working in the Meadowlands or surrounding communities for the last 46 years of my 56-year life. As a boy growing up in North Arlington, the one thing I can tell you, prior to 1968, was when you went to look at the Meadowlands, you looked at it as an industrial wasteland: 51 landfills, consisting of almost 2,000 acres of almost 10 percent of the entire Meadowlands District, was collecting garbage from New York and a good part of many other areas of New Jersey. Common underground fires, dumping of chemicals and industrial wastes. The river was, in fact -- the Hackensack River was indeed a discharge point for raw sewage; heavy metals being dumped in, chemicals, and power plants taking in water and discharging hotter water.

But fortunately, fortunately, there were visionaries who didn't share what was happening in the Meadowlands: Governor Richard Hughes, Farleigh Dickinson Jr., Richard DeCort, Frank Orini (phonetic spelling) had a different vision. They saw the fact that this strategic location, no more than eight miles outside of Times Square, New York, had the ability to be developed into an economic engine for northern New Jersey and, in fact,

not only as an economic engine, but at the same time, clean up the environment that was being slowly killed off and degraded.

In 1968, the Legislature passed the Hackensack-Meadowlands Reclamation and Development Act. This legislation-- If you look at the tools and documents for land-use planning within this document today, it probably could never have been ever passed during these times, considering the authorities and powers that were taken away from some of our municipalities; and we all know how strong home rule is in the State of New Jersey. This legislation is your typical urban renewal legislation, which has an infinite amount of powers of development, redevelopment, bonding, financing, and leasing, for the purposes of development.

Governor Hughes signed the bill January 13, 1969. And it should be noted that the Meadowlands Commission, its existence, its creation, was prior to the U.S. EPA coming on as an agency; the State New Jersey DEP being an agency; even before the national Environmental Policy Act came into play in 1970 -- Clean Water Act, Clean Air Act, and many, many other environmental legislations. So we were there first.

Now, let me just give you an idea-- I brought some maps with us today, and I know I distributed to members of the Committee smaller maps -- just to give you an idea of what this 20,000-acre, 31-square miles looks like. Just to give you some -- for those that may be from the area, but maybe you know something of the area -- very simply, our boundaries are Route 46, near Teterboro Airport, where we don't have planes shooting across it; Tonelle Avenue, Route 1 and 9, on the eastern boundary; Pulaski Skyway as the southern boundary; and the old Harrison-Kingsley line, or running parallel to that is Route 17.

The legislation basically takes control -- land-use control away from parts of 10 communities in Bergen; and four communities in Hudson, including the City of Jersey City. The Commission consists of seven individuals, four who must be members of the communities within those 14 towns, and two members -- one from Bergen and one from Hudson County; and the Chair is the Commissioner of the Department of Community Affairs. Specifically, if you look at the legislation, we were given three mandates, and sometimes when you look at the mandates it seems schizophrenic: economic development, solid waste management, and protecting and enhancing the environment, all at the same time. But, somehow, over the last 40 years, we've made it work.

Just to give you an idea: Under our statute, the Meadowlands Commission is the zoning board and the planning board for those parts of those communities. In 1970, a Master Plan -- I'm sorry, 1972 -- a Master Plan was created for the area, along with a series of land-use regulations, as to how things could be developed and in what specific locations. And you have, in that color map, the existing Master Plan map that was redone in 2004. One unique feature of this legislation is an item called "Intermunicipal Tax Sharing." One, it's a very interesting financial tool for the purposes of eliminating ratable chases within the core area of those 14 towns, but also allows us to plan for open space areas, and, if we develop or redevelop parkland, open spaces, and a municipality loses out on the ratables, they receive compensation from the growth centers. In essence, it's a very complex, challenging -- at times, legally -- program, but it has been very effective and upheld by the New Jersey Supreme Court.

Now in 1971, when the Sports Authority was created, the 750 acres that you see in that purple color right there, which we have in the plan, was carved out of our jurisdiction. The Meadowlands Commission has no zoning jurisdiction over the Sports Complex. I will tell you how we do intersect in several areas: first, the Commissioner of the Department of Community Affairs sits as an ex-officio member of the Sports Complex. Two, there are provisions within the statute that requires an advisory by the Sports Complex to tell us what they're doing -- and it's only an advisory process. Three, when the Sports Complex was first created, many of the environmental groups, at that time, and home-rule folks filed suit that went up to the Supreme Court. And within that Supreme Court case came out a process called the Hearing Officer's Process. And what the courts stated -- what we, the Meadowlands Commission, would do, and what DEP would do, is act as hearing officers to review the environmental impact statement of any development that occurred on the Sports Complex site, and to provide a series of recommendations as to how best mitigate any impacts to the local ecology.

That process has been used several times, including the construction of the racetrack and stadium, as one hearing officer's process; the second one was the arena; the third one was the Xanadu site. And we even had a hearing officer's process as related to the rail station and the rail line going into the site.

As you said, Senator, there were also provisions in the Sports Authority Act that said that the Commission would receive the amount of a net profit -- definition of net profit, which somehow we never got really what the definition of net profit was -- from the Sports Authority. The

Meadowlands Commission statute does not have any provisions regarding financing of its operations. As a matter of fact, the first 10 years of our existence we worked off borrowing money from the State Treasurer; and when we received our first check from the Sports Authority that first year, we paid the Treasury off, with interest, for those 10 years. I think we received one more payment, and at that time Treasurer Biederman indicated -- came to us and said, "You're no longer going to get the money from the Sports Complex; they need to make sure that their maintenance reserve accounts and their surpluses are used specifically for that particular site." That's when we entered (*sic*) up going on State approps up until 1992. And the best thing that ever happened to my agency was getting off State appropriations, and we haven't been on state appropriations since 1992. And, fortunately for us, unless we work our business very well, we create our own financial wherewithal to do the mandates that we've received.

There is no question that both the Sports Authority and the Meadowlands Commission, as you pointed out, went through what I'll call it's *golden economic development period* from the time it opened (indiscernible) the Sports Authority, and our development of a lot of the Hartz Mountain development, to about the early 1990s. It was a basic mirror of how Governor Hughes' vision of this economic engine did, in fact -- was working, and was working quite well. I had the privilege, among many other things that I've done in my life, to work at the racetrack. I worked in the Legislature during the day, and at night I worked at the racetrack, for almost five or six years. And as you pointed out--

SENATOR BUONO: Wouldn't be able to do that now.
(laughter)

MR. CEBERIO: No, no. But you know, the Legislature in those days paid their aides \$5,000 a year. (laughter) So those were the days where there was 30,000, 40,000 people on a Saturday night at the racetrack, and almost \$3 million worth of handle. So we moved very, very well.

There had been a lot of discussions at the Sports Authority in the late 1980s and the early 1990s about looking at some of the land uses at the site, in some of the consultation that occurred with the Meadowlands Commission. We looked about changing our Master Plan during that time period, but that hit a buzz saw as it related to the environmental community, as it related to some of our municipalities, and to the development community that felt that there should have been more development at that site. It was almost 14 years later that we changed our Master Plan to the 2004 Master Plan that is now in existence. That Master Plan takes into consideration -- I will say this, and here's the intersection, again, with the Sports Authority: What we did in order to sell this Master Plan is, we took all the impacts from the Master Plan and plugged it into all of our models, including a fiscal impact statement that was prepared for us by the Bloustein School. We felt, for land-use purposes, that a fiscal impact statement was important to our communities to show them that this new approach of no wetlands fill and use of redevelopment can get them the economic gain that they were looking for; looking at traffic analysis; and, with Senator Sarlo's help, passing legislation that created a transportation planning district, which gave us more authorities. So we integrated all our

studies with the Sports Complex then, but again, in fact, we still do not have any jurisdiction except for the items that I pointed out to you.

The one big challenge I think that we did see, in fact, towards the end, was the Mills Project, that was supposed to be built on a wetlands site in Carlstadt, New Jersey; which caused a significant amount of controversy, which ultimately was shifted over to the Sports Complex when the Sports Complex opened up a redevelopment process of their site. And they received a significant amount -- well, I think five proposals -- anything from a NASCAR track, to a convention center, to moving the Mills out of the wetlands and into an uplands site. And the availability of the uplands site pretty much was a key component of the decision by the Army Corps of Engineers -- that has control over the Clean Water Act in the Meadowlands District for permitting -- that, in fact, it would be a better site on an uplands site. And therefore, when the Sports Authority reviewed the Complex taking on a venue like a Mills, that it was put on that site and they were awarded the lease for that site.

I will tell you that in the event that any part of the-- Under our regulations, any part of the Sports Complex which may go into private ownership -- the actual ground where the Sports Authority would move itself as an owner of a particular section -- that is the only provision that we have in our regulations that then puts that particular piece of property under the zoning jurisdiction of the New Jersey Meadowlands Commission. In the case of the Mills and in the case of the Giants, the Sports Authority is still property owners, and, in fact, are leasing the site. So therefore the exemption still exists, even with leases as the one I've just mentioned.

Now, in conclusion, I will say this to you, Senator: You probably -- I'm speaking to the choir -- this is probably the most valuable piece of property in the Meadowlands area. It has, from a land-use perspective, it has all the assets you can ever want, in terms of road access -- matter of fact, improved road access, as we speak; it now has a rail facility; it has the infrastructure in place in terms of water and sewer, which is a big issue. As a matter of fact, one of the things -- and part of, sometimes, the friction between the Meadowlands Commission and what the Sports Authority does is, while they are in charge of their 750, we, the Meadowlands Commission, are in charge of the 20,000-acre site. So we have to make sure that all the capacity is not taken up by just one particular entity. That economic development over a 20,000-acre site has to be-- We have to be vigilant that we have the sewer lines in so that everyone can share in economic growth.

Other than that, we, as a staff, are now monitoring what's happening at the Sports Authority. We have offered our assistance wherever necessary, in terms of if they ever need it. My staff is completely -- a staff of 122 people -- I have all kinds of civil engineers; I have transportation engineers; we have wetlands specialists; we have planners on our board. So if there's anything that they would want us to do or ask us to do -- and they have -- we would be ready to assist them on that site.

One thing, on a personal note, you know I think -- just in like, concluding -- I think, as I said, this is a very valuable piece of property. If you were a developer, you would want to get your hands on this particular site. I think the viability of the Sports Complex as a destination area can, in fact, happen. The big hurdle, obviously, with the Xanadu project.

Hopefully there are some people out there interested -- that might be interested in taking over it. The whole concept of Xanadu was a phrase coined by Mills called *shoppertainment*. It's just not a mall; there are many different activities that were suggested and built into that site, so that people can, a la Mall of America, come and spend a time here. With the new stadium -- which I also have to point out that, under that hearing officer's process that we conducted on the stadium, they have requested another 500,000 square feet of retail and accessory use to the stadium, and commercial use. So that has to be taken into consideration as well.

But we were very pleased to see that the IZOD is now still going to be open as it related to family shows and concerts, which I think is a good venue for them; and that the Prudential Center is, in fact, going to be involved with a lot more of the sports venues. Because what I have seen in the past is, some of the contracts that were given to the teams that were at the IZOD Center -- it did cost the Sports Authority a significant amount of money to keep those teams there; where, in fact, shows and entertainment can be a good shot in the arm, financially, because it opens up more dates for family shows and so forth.

So that gives you a very quick 40-year review of the Sports Complex, and the Meadowlands Commission's efforts within this particular area.

SENATOR BUONO: Thank you very much.

I had a few questions based on some of your testimony, but I just wanted to start out by underscoring how innovative this concept was -- you did touch on that, the fact that we created this model -- regional land-use planning, economic development entity -- that really ran afoul of the

very sacred, almost, belief in New Jersey of home rule. And so you took 14 municipalities and you took their land-use control away from them, right?

MR. CEBERIO: Yes, that's true.

SENATOR BUONO: There was a lot of objection at the time, and I think that it's important to note that.

MR. CEBERIO: Senator, we in the Meadowlands, in the early years, probably have made a tremendous amount of money for a lot of attorneys. (laughter) Some of our cases -- the tax-sharing case, the constitutionality of the Act itself, the ability of moving tax dollars between communities -- have all gone through Supreme Court. One thing that has made the difference, I think, with this whole idea of home rule is the fact that we have made a significant change in our outlook and approach -- that we, in fact, look at the municipalities -- the mayors, the council, the freeholders -- as customers. That when we change regulations, we sit with the development community, we sit with the environmental community, and we sit with every mayor and council. That has been the key to our success over the last couple of years, where the process that we tried to do in 1986 fell into disaster where-- And then we have now the full support of all our mayors. What we've also done is provide them a tremendous amount of services to try and offset property taxes as a result of some of the development. So we've given them grants over the last five or six years; we helped them doing solar projects these last couple of years; and we also provide services like -- that their DPWs can't afford these pieces of equipment, that we give them 24/7 service.

SENATOR BUONO: And some of those solar projects that you had mentioned-- Is that one of the ways that you are self-sustaining? You generate revenues from-- Can you elaborate a little bit more on that?

MR. CEBERIO: Senator, one of the best things that was occurring -- I'm starting to feel like Tony Soprano in some respects -- but solid waste was a good business to be in. (laughter). And what happened is that we had significant revenues generated from our solid waste operations. And we became not only self-sufficient, but we were able to take those revenues and buy almost 3,000 acres of wetlands. We are doing flood control projects, so forth and so on. Solid waste business has diminished quite a bit with this economic time. The Commission is in the throes of changing its business model, where we see solar opportunities and the selling of this solar removal energy credit, or SRECs, as an opportunity as another stream of cash coming into the Commission to support us. So solar is one objective that we have that we will be looking to generate revenue, and we're actually looking at other possibilities. Because in the economic market, if we don't change our economic model, our business model constantly. We're going to fall behind. And I'm even proud to say that we have no debt. We pay all our projects in cash.

SENATOR BUONO: You are a treasure. (laughter)

I did want to talk a little bit more-- You kind of glossed over the nexus between the Commission and the Sports Authority. Now, I read Cliff Goldman's dissertation--

MR. CEBERIO: Yes.

SENATOR BUONO: --because I was referred to it by somebody when I was talking about the Commission and the Authority. As

you all know, Cliff Goldman was Treasurer under Governor Hughes; he was the first ED of your Commission.

MR. CEBERIO: Yes.

SENATOR BUONO: And he-- I just want to read something that he said, and then ask for your reaction. He said that "Under Governor Cahill, who followed Governor Hughes, the fundamental character of the Commission changed. Its comprehensive plan became constrained by its dependency on the State, and therefore became a statement of intentions rather than a plan of action as originally intended. The Commission's main opportunity to use its development powers and to generate its own revenues was lost when the Administration, the Cahill Administration, decided to create a separate Authority -- the Sports Authority, in this case -- to build a Sports Complex in the Meadowlands. In fact, at the time the State Treasurer first presented the idea, the thought was that the Meadowlands Commission would develop the Complex."

So what happened? Can you shed some light on what happened there?

MR. CEBERIO: I think the situation that you had was one that had more to do with financing, where Governor Cahill found himself not being able to get the banks in New York. That, in fact, you had to create another entity that had the bond capacity other than the Sports Complex.

SENATOR BUONO: And they could have done that for the Commission; they could have done that.

MR. CEBERIO: We could have done that. So--

SENATOR BUONO: I mean, you were really rendered ineffective, in a way, because you know, you were independent in name, but dependent on the State budget, as you had said, for everything: legal services, planning, development--

MR. CEBERIO: Yes, which Mr. Hughes was absolutely correct -- that one of the crippling effects on the Commission over that first 20 years was our lack of a source of revenue. And we understood that we needed, after they cut the State appropriations, that we needed to-- And we've done that. We've done that significantly. As a matter of fact, in some ways we did it too well, because what we did was collect \$142 million for closure -- post-closure of the landfills we operated, and that money was taken away when there was a budget shortfall. So in essence, the State owns our landfills right now.

SENATOR BUONO: But I think it's interesting, because when you were created, you were intended to be outside of politics -- your Commission. Do you think that that has succeeded?

MR. CEBERIO: That has held true to this day.

SENATOR BUONO: To what do you attribute that, if you can isolate any reason?

MR. CEBERIO: Senator, it's a common vision that it doesn't matter what town you're from, you're looking at it from a regional perspective; that your vote is dependent on not one town, but 14.

SENATOR BUONO: Yes.

MR. CEBERIO: And I could tell you, I've served -- this is my ninth Governor -- and I could tell you decisions have never been made at the Meadowlands Commission based on Democrat or Republican.

Whether you are a Democratic mayor, under a Republican governor or a Republican governor, Democratic mayor (*sic*) -- all mayors have been treated equally. and with a tremendous amount of respect, and listened to. And I think that has been the key. I can tell you that I have never received a call from anyone about any votes on any issue.

SENATOR BUONO: So maybe the lesson to be learned from this is it's more important to have gubernatorial support than political independence, in terms of being able to be able to accomplish your original mission. It seems as though you have been-- For all of the good you've done, it seems to me, from what I read, that you have been constrained from fulfilling your original mission, and much of what you do is more regulatory in nature than being an economic engine.

MR. CEBERIO: Which, at this particular point in time, we're also recognizing that as an economic engine-- And this is something else that we just started -- is green business, green technologies, where we've actually created a green business accelerator, which we have 14 companies in there right now. We believe, Senator, that you have to almost seize the moment as to what the economic potentials are. The other thing that we've also believed in -- and we've changed the philosophy -- is the fact that economic development is just not brick and mortar. It has all to do with job training, having the right workforce, and keeping what you have -- trying to attract new, but making sure that that infrastructure of employees and personnel is there.

SENATOR BUONO: How many people do you have working for you? You said 122, or is that just planners and--

MR. CEBERIO: That's everybody; 122.

SENATOR BUONO: That's everybody; okay. And you had mentioned that, in the past -- or that you have offered your planners and engineers services to the Sports Authority to collaborate with them, and have some sort of meaningful dialogue, say to coordinate-- I mean, you each have your own Master Plan, separate Master Plan--

MR. CEBERIO: Yes.

SENATOR BUONO: Is there any coordination between them? Do you plan--

MR. CEBERIO: I will tell you that-- I think one of the stumbling blocks that we've seen, where the Sports Authority doesn't utilize us -- maybe a little bit more on major projects -- is the fact that my agency is one of two hearing officers on the process. So I think some of the legal folks are thinking that if you get too much involved, how are you going to have-- How can you be a hearing officer on a project that you might be deeply involved in planning? I will say this, though: Having seen the hearing officers' process, and being a hearing officer on many occasions, I don't believe the process works anymore, to be honest with you. And I believe that primarily because the hearing officers' process was done during a period of time -- or created during a period of time where there was very little environmental regulations. There is no reason for us to look at an EIS when today you have the DEP and all their regulations, or the Army Corps and their regulations, looking at the same things. So if that has been a stumbling block of us helping them more, I would suggest to you that the hearing officers' process really doesn't work anymore.

SENATOR BUONO: Hmm.

MR. CEBERIO: Because they are only a series of recommendations, and it's up to the Sports Authority whether they want to accept it or not.

SENATOR BUONO: Okay; thank you very much.

Senator Cunningham has some questions.

SENATOR CUNNINGHAM: Good morning.

MR. CEBERIO: Good morning.

SENATOR CUNNINGHAM: You know, anyone riding up or down Route 3 has to ask the same question every day: What is Xanadu? It certainly stands out, and I don't know if it stands out for the right reason. Was it designed to look like a pile of steel, or a container building on purpose, or--

MR. CEBERIO: Senator, as a hearing officer I can suggest to you that the designs that we saw as hearing officers did not have those colors.

SENATOR CUNNINGHAM: Okay.

The other thing-- What happened with Xanadu? I mean, could you just-- You briefly talked about it, but could you just give me a little bit more information on what went wrong with this project, and what your vision is for it in the future?

MR. CEBERIO: Well, from -- again from the hearing officers perspective -- and I'm not in the details, as the folks from the Sports Authority are involved -- but they were delayed I don't know how many years as a result of the litigation that occurred between one of the prospective bidders on the site, which held them up almost two years, maybe three years. Which meant that when they were ready to come out of

that process, the economy started going down. And as a result, I think that the leases from the people who were there-- A lot of people pulled out; some of those companies went bankrupt. So they just were delayed; they lost their economic cycle. And we ended up with one of the worst depressions, and banks failing, and a lot of the people who supported the financing behind that backing -- some of them failed. So some of the monies to finish the site were gone.

I believe that Xanadu -- if completed, when completed -- can add that piece to the Sports Complex site that Jim Kirkos -- and I -- from the Chamber of Commerce, have been working over the last five years on this vision of creating a convention and visitors bureau, and I'm sure he's going to discuss it. You have that component in place, and you have the new stadium in place, and a couple of -- and the IZOD. You can actually create a destination for a couple of days. We are blessed being so close to Manhattan, where our hotel rates are a fraction of what they are in Manhattan, so a lot of people stay on the Jersey side of the Hudson River; and it's incumbent upon us to pull them in and keep them there. So I believe-- I still have some hope for the Xanadu project. I believe, in this respect, that it can bring the Complex back to some extent, and tie that in with convention or visitors' bureau dynamic. Because, I'll tell you, we are getting a tremendous amount of people now in the Meadowlands. I refer to this-- I give you picture of 1969 and 1968, of the smells and the burning and everything else. I now refer to it: This is not your father's Meadowlands anymore. I mean, people are on that river with ski jets and everything else. That river has come back like you can't believe. The fish that are in there -- striped bass. Kids are fishing in that river. It's catch and

release, but they're fishing in that river. Just to show you in that short 40-year period: You have some of the old timers who won't let go of the crabs, and still eat them, and they can tell you that they're 90 years old, and "look at me. So what, there's some mercury in there." (laughter)

SENATOR SARLO: You're giving us too much information, Bob.

SENATOR BUONO: Yes. (laughter)

SENATOR SARLO: We don't want to know what their ailments are at 90. (laughter)

MR. CEBERIO: Just don't eat the blue claw crabs in New York; they might be one of ours.

SENATOR CUNNINGHAM: All right, thank you.

MR. CEBERIO: You're welcome.

SENATOR BUONO: Thank you, Senator Cunningham.
Senator Sarlo.

SENATOR SARLO: Thank you, Madam Chair.

Just three quick questions, and perhaps this question should be posed to Mr. Robinson, and not to you: On the Xanadu project -- and I think it will help the Committee also just to fully understand -- from what we've read in reports, about \$1.5 billion has been put into the infrastructure, and the shell of the building, and the common areas. The balance of the money -- the other \$500 million that's needed for financing would come through potential tenants for the fit-out, which is a project labor agreement, all union -- so it's an expensive fit-out. Unfortunately, in today's market and in the difficulty of banks loaning the money, potential tenants are unable to get a line of credit for the fit-out. So essentially what

the master developer and the folks who are behind the financing are trying to do is provide the \$500 million for the fit-out and, instead of the tenants paying for the fit-out, they would pay for the fit-out; and then the fit-out costs would be passed on to them through the rent. So that's really, I think, for the people out there who don't understand it -- that really is the shortfall. Am I correct in saying that?

MR. CEBERIO: That is absolutely correct, because if you go into the building today, the main areas and the concourses are all done. The only thing that needs to be fitted out and sized are, in fact, the store fronts.

SENATOR SARLO: And in a good market, the "retail components, entertainment components" would be able to get their own lines of credit, and they wouldn't need the master developer to get those lines of credit.

MR. CEBERIO: That's correct.

SENATOR SARLO: Okay.

Next, with regards to-- We talk a lot about what has worked at the Meadowlands Commission, and I have to say this publicly to the people who are here: Bob Ceberio has really been a gem for us. This is not as easy as he's making it sound -- 14 towns, 14 mayors from different political parties, most of them in my Legislative District -- it, at times, is a nightmare. But you were making it sound much easier than it really is. And you have done a tremendous job in keeping everybody focused on what the mission of the Meadowlands Commission is, and I just have to say that.

MR. CEBERIO: Thank you, Senator.

SENATOR SARLO: And to survive through various Republican and Democratic governors is truly a testament to you.

MR. CEBERIO: I just want you to know that I am really 26; it's a hard job.

SENETAOR SARLO: You're 26.

One thing I'm concerned about that perhaps is not working, and we're getting-- I hear it from Senator Sacco, I hear it from Senator Cunningham, I hear it from the various senators -- is the sharing of dollars. There's \$4.2 million -- I think it's up to \$6 million -- that certain towns have to pay in, and the other towns are receivers. That has always caused a little bit of concern, especially for Senator Sacco and a couple of his towns. Is that working, or is that something we could work with the Treasurer to try to fix that, collectively, going forward?

MR. CEBERIO: We have been trying, with the Bloustein School. I think we've come forward with three reports over the last 10 years. Some of the recommendations on the payments-- Basically, I'll refer to them as putting in shock absorbers for some of the municipalities, where we have averaged out impact so that in this town it may be having to pay \$1 million, but because of tax appeals, next year has to pay \$2 million. So we're using a moving average. In addition to that, the Meadowlands Commission, through its own financing, has offset some of the payments that have to be made from the growth areas. There are some, within the context of the last report-- I will tell you the report -- the last report from Bloustein could never pass this Legislature or be approved by the Governor, which called for surcharges on the Sports Complex and tickets, so that the payers don't have to pay and the receivers would continue to receive the

money. So that issue, I think, is dead, at least that proposal. There might be other provisions in there that need to be tweaked, and maybe we can sit down and discuss what needs to be fixed.

SENATOR SARLO: Final question, and I think Senator Buono alluded to some of the issues and concerns that everybody has. In the State, in the region, it's difficult economic times. The horseracing industry is suffering; the entertainment world, as a whole, is suffering across the country. Regardless of what ultimately happens there, or what the future is, you had mentioned that this is one of the most valuable pieces of real estate in the Meadowlands area. I'm going to correct you, because from what I read, and have heard, and read the lawsuits from Hartz Mountain -- this is probably one of the most valuable pieces of real estate in the entire Northeast. Am I correct in saying that -- in this part of the country?

MR. CEBERIO: Well, I didn't want to inflate the price, in case somebody, you know, wants to develop it. (laughter) Yes, it is.

SENATOR SARLO: Regardless of what-- We can not lose sight, as stakeholders here in the State of New Jersey, that regardless of what happens in the future, we are talking about probably one of the most prime, valuable pieces of real estate we have in the northeast part of this country.

MR. CEBERIO: Senator, as I pointed out: You are eight miles from Times Square, New York. You have a rail line now going into that site which can take you to Midtown in 15-20 minutes. You have the eastern spur, you have the western spur of the Turnpike; 3, 46 -- that's a developer's dream to have that kind of infrastructure within a site, and that is exactly what gives it value.

SENATOR SARLO: Thank you.

SENATOR BUONO: Thank you. And I just had one, and then we have to move on. I know that there are a lot of people who want to speak and leave, so there are very important people here. But I did just want to understand-- And I know we tried to talk a little bit about how the formula -- the revenue sharing formula -- works.

MR. CEBERIO: Yes.

SENATOR BUONO: And you said it's extremely complex. But in the context of the stadium deal, where the teams had been paying a pilot of about \$6 million, and now, under the stadium deal -- and I know that's-- I just want to understand how they interplay with one another. Now, under the new stadium deal, they're paying \$1.3 million. How does that impact on the revenue that is distributed, and does that -- how does it work? How is the revenue distributed? For example, to East Rutherford, they get \$6 million now. Does that -- does that revenue come through you, and then do you distribute it? How does that work?

MR. CEBERIO: The tax-sharing formula is such that the Meadowlands-- Each town collects their own money.

SENATOR BUONO: Okay.

MR. CEBERIO: The formula is calculated, and it's sent to local Government Services, and a bill is sent to be paid on a quarterly basis: either you're going to have to pay X dollars on a quarterly basis, or you're going to be receiving this amount. And that's how municipalities will set up their budgets.

SENATOR BUONO: And it is sent to you?

MR. CEBERIO: So we are just a clearinghouse. The money comes in, and it goes back out. We make no revenue from that operation at all.

SENATOR BUONO: Okay.

MR. CEBERIO: Any pilot is calculated to go into the tax-sharing formula.

SENATOR BUONO: So it offsets what they would otherwise--

MR. CEBERIO: So what happens is, is that we take those dollars and we handle it as if East Rutherford is receiving \$6 million in tax revenue. So we list it as an asset, and that number then is plugged into the formula and could be distributed out to other municipalities. So any pilot, anywhere in the Meadowlands District, and, in particular, the biggest one being at Sports Complex, is calculated into municipal tax-sharing formula.

SENATOR BUONO: So if -- and I just use East Rutherford as an example, because I happen to know that they get \$6 million -- they will continue to get that \$6 million even though the pilot that the teams are paying has been significantly reduced from about \$6 million to \$1.3 million. How will that impact on--

MR. CEBERIO: Senator, the way I understood it is that it's staying at \$6 million; that, in fact, the discussions between the Mayor and the Sports Complex -- and maybe Mr. Robinson can address this better, because he's directly involved with the negotiation -- is that East Rutherford believes it should be getting more than \$6 million, because now the stadium is privately owned. That, in essence, should almost be treated as a complete ratable, and not a pilot.

SENATOR BUONO: Even though the agreement says that it isn't.

MR. CEBERIO: Correct.

SENATOR BUONO: That it doesn't have any property tax; okay. Okay, I think I understand. Thank you.

Anyone else? (no response)

Thank you so much; you've been very, very helpful.

MR. CEBERIO: Thank you.

SENATOR BUONO: Our next-- David Rosen and Frank Haines. David, as we all know, is the Legislative Budget and Finance Officer with the Office of Legislative Services. Frank Haines is the Assistant Legislative Budget and Finance Officer. And members of the Committee should have received about a four- or five-page report along with charts, from Frank and David, to go along with their testimony.

Gentlemen.

DAVID J. ROSEN: Good morning.

SENATOR BUONO: Good morning.

MR. ROSEN: Thank you for inviting us to assist the Committee in this effort that you're undergoing.

Our focus is, I think, a limited one, only part of what you're looking at today, and that is to answer the question as to what are the direct linkages between the Sports Authority and the State budget, and to put that into historical perspective. We've tried to pull together some information to help make that clear.

Having said that, I'm now going to pass the baton to my colleague, Frank Haines, who's done most of the work on this, and who is

going to explain the materials that you have in your packet. You have a series of figures that Frank put together I think that presents this picture fairly clearly.

FRANK W. HAINES III: Thank you, David.

Madam Chair, Senators, good morning. The linkage, the formal linkage, between Sports Authority finances and the State budget started in 1973. The original Sports Authority authorizing legislation at that time was amended such that the Sports Authority debt would become a moral obligation of the State of New Jersey. The text of that amendment provided for State appropriations to fully fund a mandatory debt-service reserve fund held by the Authority at a level to equal the maximum annual debt service on Authority bonds. So that's our first time when we linked State budget to Authority budget.

In 1978, after the Authority had issued about \$317 million in revenue bonds to finance the Sports Complex project, legislation was approved and submitted to the voters that provided a State unconditional guarantee of Sports Authority bonds, up to that \$317 million amount, bonds that would be issued to refinance the original outstanding indebtedness.

SENATOR BUONO: What year is that?

MR. HAINES: 1978.

SENATOR BUONO: Okay. So just to -- because this is a little complicated, and we want to make sure we understand as we go along -- so just go through that one more time. They were contract bonds that had to be put before the voters?

MR. HAINES: The original statute for an unconditional guarantee was a statutory guarantee, and didn't, therefore, carry the full faith and credit of the State of New Jersey behind it, and therefore was couched as a moral obligation, okay? But subsequent to that, a bond issue was put before -- a question, in effect, a bond issue -- was put before the voters that would go beyond a moral obligation and create an unconditional guarantee on the part of the State, specific to certain bonds -- specific to a maximum \$317 million of bonds issued to refinance the Authority's original indebtedness for the Sports Complex. That referendum passed, and I would paraphrase from the legislative findings that were part of the Act, at that time, that refinancing with State-guaranteed bonds could result in a substantial interest costs savings, and that statement estimated that funds of the Authority would then be paid into the General State Fund on a substantially increased basis. And, at that point, there really hadn't been any transfer to the General Fund.

SENATOR BUONO: And less of a cost because the interest rate would have been lower, because it was less of a risk, because the State backed them.

MR. HAINES: Yes, that's correct.

As I said, the voters approved that guarantee, refunding bonds were issued, and in 1979 a transfer of Sports Authority revenues to the State budget began. And I would call your attention now to Figure 1 in the packet that we've provided to you, showing that in State Fiscal Year 1979, the State realized about \$19.8 million in payments from the Sports Authority; and shows the subsequent years when the Sports Authority

payments were received, in declining amounts, through 1984. Those payments totaled about \$57 million over that time period.

SENATOR BUONO: Can I stop you one more time, just to make sure I understand? So those revenues that came from the Sports Authority to the State Treasury-- This does not include revenue from taxes paid, for example: income, sales, anything?

MR. HAINES: That's correct, Senator. This is purely a transfer of Sports Authority resources to the State. It does not incorporate any other--

SENATOR BUONO: Okay.

MR. HAINES: --economic impact of the Authority.

After 1984, where this chart ends, the budget shows no revenues received from the Sports Authority, and for about the next decade little trace of interchange of funds between the Authority and the State -- with the exception of some State Capital appropriations that were made to construct the State Aquarium in Camden that went to the Sports Authority, but then went on ahead for the construction of that facility.

The next pivotal point in State-Sports Authority fiscal relations came in 1992, with the enactment of legislation that I would say had three major effects: first, that legislation granted the Sports Authority and the Treasurer powers to issue State contract bonds. And that power would serve to restructure the Authority's outstanding debt for debt service savings. That power would serve to pay for major repairs and improvements at Sports Authority facilities. The Act also allowed the Sports Authority to get into the convention center business -- outside the

Meadowlands District, specifically in Atlantic City -- to acquire and renovate and reconstruct the existing Atlantic City Convention Center.

SENATOR BUONO: So to your knowledge, was the purpose of issuing those contract bonds and restructuring to pay for these capital projects?

MR. HAINES: Yes, yes.

SENATOR BUONO: Okay. That's why it was done?

MR. HAINES: Not only to allow the Sports Authority to refinance existing debt for debt service savings, to improve its revenue profile; but also to provide State contract bond assistance to the Authority for its facilities, to embark on the Convention Center upgrades in Atlantic City, and third to authorize the Authority to finance sports facility projects at Rutgers University and other institutions of higher education -- and that also to be financed through State contract bonds.

SENATOR BUONO: So this would represent -- or would it -- would this represent the first time that the Sports Authority went somewhat further afield from its original capital investment, in other parts of the state?

MR. HAINES: Yes, other than the acquisition of Monmouth Track, which you could argue was perfectly within its profile of being involved in the horseracing industry; yes, that's correct.

SENATOR BUONO: Okay.

MR. ROSEN: Let me just-- I think there are two things that go on in this 1992 Act which is really, really pivotal, as Frank said: one, is that the State is now getting directly involved in picking up costs associated with the Sports Authority Meadowlands activity; that the state is now

becoming the payer of this debt for refinancing the existing Sports Authority debt and for the enhancements they are trying to do at the Meadowlands. The same legislation-- And I don't know that the other parts of this legislation were things that the Sports Authority was advocating, so much as what the Legislature added to the process, as part of agreeing to financing of these projects in the Meadowlands, was the inclusion of the other projects that Frank has enumerated in Atlantic City, in Rutgers, and elsewhere.

SENATOR BUONO: And Seton Hall, I think, too, right?

MR. ROSEN: Yes, that's correct; although it's not mentioned in the bill, but that's where the money went.

So I think there are two things: One, is the State is now becoming the financier of capital projects in the Meadowlands. And also -- and perhaps as the *quid pro quo* for doing that, is they are now expanding the Meadowlands mission to do these other projects that are also of interest to various folks around the state.

SENATOR BUONO: Can't say *quid pro quo* lightly. (laughter)

Okay; thank you. Put it in its proper context; thank you, David.

MR. HAINES: Thanks, David. Very briefly, I'm going to focus on the significance of the difference between revenue bonds and state contract bonds. Again, the Sports Authority had issued bonds in the credit markets that, in part, were supported solely by the revenues that the Sports Authority was able to generate -- and that changed a little bit over time -- but revenue bonds were still part of their profile. State contract bonds are, in essence, bonds with State appropriations behind them -- not the full faith

and credit of the State of New Jersey. But the agreement between the Authority -- or the Authority as the issuer of those bonds and the Treasurer --that appropriations, if made by the Legislature to finance the debt service on these bonds, would be paid over promptly and correctly by the Treasurer for that reason, and for no other reason. And revenues of the facilities that those bonds might finance are not involved in the pledge to redeem those bonds.

SENATOR BUONO: So this -- just to make sure we all understand the impact of the 1992 legislation -- it was a major departure from how the Sports Authority financed their capital projects, in that the State-- Well, two ways: *a)* the State, most importantly, was on the hook then, where they hadn't been before, for paying the debt. And *b)* it expanded the projects well beyond the original mission of the Sports Authority to other areas of the state and-- Is that accurate?

MR. HAINES: Yes, Senator, remember that there was a State backing of certain bonds in the Sports Authority prior to that time. But the backing, the unconditional backing that the voters approved in 1978 was limited-- Only the bonds that refinanced, let's say, the original investment--

SENATOR BUONO: I see.

MR. HAINES: --in the Sports Complex. And if the Sports Complex needed to upgrade the arena, expand the stadium, whatever -- reinvest in the racetrack to keep it in good working order -- those things weren't covered by the original unconditional guarantee.

SENATOR BUONO: And so the 1992 departure from past practices was not a ballot question. It was passed by legislation only.

MR. HAINES: That's correct. And that's why they're State contract/appropriations bonds, and not general obligation bonds of the State.

SENATOR BUONO: But regardless, the State is on the hook either way, correct?

MR. HAINES: The State has faithfully appropriated the amount of money required to pay the debt service on those bonds, yes.

SENATOR BUONO: All right, thanks.

MR. HAINES: So exercising those new powers, the Sports Authority embarked on several bond financings and refinancings in 1992 and 1993. They actually did sell some revenue-backed bonds at that time, but most of the bonds that were sold were State contract bonds. And as a consequence, appropriations from the State budget to the Sports Authority to pay debt service commenced in Fiscal Year 1993 and, in fact, have been an element of each State budget in every year thereafter. I would call your attention now to Figure 2 and Figure 3 in your packet. Figure 2 is a graphical representation of the bonding activity of the Sports and Exposition Authority, to the extent that that bonding activity resulted in outstanding indebtedness at the close of each of its fiscal years. And I've graphed the history here of revenue-backed bonds and State contract bonds. You can see that from 1976 through 1992 the only types of Sports Authority bonds were revenue-backed bonds; remembering that there are -- some of those bonds did have the State's pledge behind it. Beginning after 1992, with the light shaded part of the bar, in each year State contract debt becomes part of the outstanding indebtedness and, in fact, the size of that bar -- the dollar value of State contract debt begins to grow from that time

and to become the -- from about a half-share of total outstanding indebtedness, to two-thirds and up of the outstanding indebtedness of the Authority. And Figure 3 shows the dollar values of that outstanding debt, and again shows the same thing: that contract bonds outstanding commenced at the end of 1992, about \$450 million or about half, just under half, of the total outstanding indebtedness of the Authority. At the close of Calendar Year 2008, State contract bonds outstanding are about \$700 million, and about 84 percent of outstanding Authority indebtedness at that time.

The impact on the State budget of providing debt service support to the Authority is shown in Figures 4 and 5 of your packet. Figure 4 is, again, a graphical representation of annual State appropriations to the Sports Authority beginning in 1993, going through the current Fiscal Year 2010. The dollar values of that graphical representation are in Figure 5, and you can see a steady -- largely steady -- and certainly significant growth in the size of those State appropriations, starting at about \$13 million in 1993 and ultimately growing to that \$82 million in this current Fiscal Year.

There are a couple of years on that chart that show that the budget actually provided operating aid to the Authority as well as debt service aid, but that's more the exception than the rule over this time period, so that data are there before you.

To look ahead, I would ask that you refer to Figure 6, showing again the outstanding amount of contract bond indebtedness. We have a slightly different period of ending here, but at \$671 million June 30, 2009, with debt service requirements on those outstanding bonds extending through Fiscal Year 2025, peaking at around \$90 million or so and then

gradually declining to about \$20 million or \$30 million before those bonds would finally be redeemed absent any changes to restructure, or to advance refund--

SENATOR BUONO: So even though that -- on Figure 6 -- even though that shows that the debt service will-- We're paying down the principal, so we're going to have less interest, so that's why the debt service payments are going down. But the chart before, it indicates the State expenditures will be increasing. Does that chart -- chart 5 -- include operating and debt? I'm trying to figure out why one goes in--

MR. HAINES: Figure 5 does capture the State expenditures for whichever purpose -- operating--

SENATOR BUONO: Okay.

MR. HAINES: --assistance and debt service.

SENATOR BUONO: All right.

MR. HAINES: In the most recent years, I'm not aware that there's any explicit operating assistance going to the Authority. I believe that this is all debt service appropriations. The fact that the State fiscal year appropriation and the calendar year representation on previous pages might be a little bit off is because we're on different fiscal years. But again, those debt service or other expenditures from the State to the Authority have significantly grown since 1993. They're pretty much at their peak based on only outstanding indebtedness and the retirement of State contract bonds, going forward. So they'll peak for the next couple of fiscal years at about \$90 million. And, again, as Figure 6 shows, if State budget expenditures do nothing other than pay off contract bonds, this is the debt

service schedule, in Figure 6, that will generate State appropriations for that purpose.

SENATOR BUONO: Okay. So it seems as though the 1992 legislation set in motion, if you will, a downhill trajectory in terms of the fiscal stability or the impact that -- in terms of the negative impact this had on the State. How do we dig our way out of this? I mean, is there-- The options are limited: either you pay off the debt, you sell assets, or you start generating more revenue from the assets that you have.

MR. HAINES: That's basically your three-legged stool for this kind of thing, yes. Again, if nothing happens at all, and no further contract bonds are issued, the State will pay decreasing amounts of money after 2025 to retire that outstanding debt.

SENATOR BUONO: For debt service only?

MR. HAINES: For debt service only.

SENATOR BUONO: Right; okay.

MR. ROSEN: Again, underscore-- I mean, the reason that the 1992 legislation was adopted was because the Sports Authority had gotten to a point at which its revenues were insufficient to cover these capital needs, and they turned to the State for those. I mean, prior to that point, the capital needs were being essentially met by the revenues of the Sports Authority. So that was, I guess, the crossover point from the State's perspective as well.

SENATOR BUONO: And is that a result of declining revenues from -- not horseracing, at that point yet, correct?

MR. HAINES: Yes.

SENATOR BUONO: Or do you not want to speak to that?

MR. ROSEN: I'm not sure we've looked enough at their internal to know that. It would be something you could ask the Sports Authority folks.

SENATOR BUONO: And then the other half of that question is, or as a result of expanding the capital expenditures-- I mean, they expanded projects into other areas of the State where they hadn't ventured prior to 1992 either. So I assume that contributed to it.

MR. ROSEN: Well, that certainly contributes to the magnitude of what the State has contributed since then. The fact that the State is contributing would have happened anyway, because--

SENATOR BUONO: Right, I understand.

MR. ROSEN: --of the way the Sports Authority was. But the size of that debt is obviously affected by the projects outside of the Meadowlands that were added in 1992.

SENATOR BUONO: But it would have happened anyway, is what you're saying, even if they hadn't expanded.

MR. ROSEN: Even if they hadn't added the extra projects--

SENATOR BUONO: Okay.

MR. ROSEN: --outside, yes.

SENATOR BUONO: Thank you.

Anyone on the Committee? (no response)

Thank you very much. Oh, okay, Senator Ruiz has a question.

SENATOR RUIZ: Madam Chairman, thank you.

Thank you for your presentation. I just have a question, and I don't know if you can really answer this. In 1992, when they went, via legislation, to come to the State for the fiscal responsibility, the EDA, I

believe, was open. Would you have any kind of opinion as to why they wouldn't have gone through the Development Authority for this type of financing and fiscal support as opposed to coming to the State?

MR. ROSEN: I'll take a shot at that. I mean, I did actually work on that bill. There are advantages to having been here for a long time. But I don't recall EDA coming up. And I think the principal reason here was the EDA can't print its own money. I mean, EDA's projects are financed by some mechanism, and the preference in 1992, or the necessity in the eyes of the people making the decisions, was for the State Treasury to back this. So, I mean, you could have had the money flow through EDA, but you'd still need contract bonds, essentially, a contract by the Treasurer - between the Treasurer and some entity -- that the money would be annually furnished. And the decision was to go directly through the Sports Authority.

SENATOR RUIZ: And I apologize if I kind of got lost in the numbers. So as of today, according to your figures, how much outstanding debt exists?

MR. HAINES: As of December 31, 2008, which is the last date we have from Sports Authority financial statements, total indebtedness of the Sports Authority is \$830.2 million. Again, that's a look-back in time. About \$700 million of that is contract bonds. The remainder of that is Sports Authority bonds, principally in the form of Convention Center debt, backed by luxury tax revenues.

SENATOR RUIZ: Thank you very much.

I'm going to call the next panel up; thank you David and Frank for your presentation.

NJSEA's current economic status and future plans in perspective. And that presentation will be made by Dennis Robinson, President and CEO. If you'll come before the--

SENATOR CUNNINGHAM: Yes, he's coming.

SENATOR RUIZ: Thank you.

SENATOR BUONO: I'd also like to welcome Senator Tom Kean Jr.; I know he just walked in.

And, welcome, Dennis. Good to see you again.

DENNIS R. ROBINSON: It's nice seeing you. Am I on?

Thank you. First, let me clear the air on an issue: Much to the chagrin of some, the rumor is not true that I've become the Athletic Director at Georgetown; so just to clear the air there. I know there may be a lot of joyous Hoya fans, but that's not actually the case. So I just wanted to make that clear.

First and foremost I want to thank the Chair, Senator Buono, for this opportunity to address your Committee. A number of members of your Committee, including Senator Sarlo and Senator Kyrillos, are very familiar with the challenges facing the Authority. We are certainly pleased with your interest in the future of the sports, racing, and entertainment industries, as the assets of the NJSEA are very vital to the State's quality of life, economic well being, and State revenues for the matter to be left to glib editorials.

The Meadowlands Sports Complex is, arguably, the state's most positive, well-known, worldwide brand. Over the years, it has been heralded by many as the one visionary State project that instills a sense of pride in its citizens and gave the state a sense of self, rather than its reputation as a

New York City or Philadelphia afterthought. The Sports Complex was an immediate international success, and continues, to this day, to outperform its peers on an annual basis. In fact, the Meadowlands Sports Complex is still home to the world's most popular harness track; the number one-ranked stadium in the world; and the IZOD Center, which ranked number four in sales in the last decade among large arenas in North America by *Billboard* magazine, a well-respected industry publication. And I want to say that those rankings are based upon hard metrics, not a popularity contest.

Most importantly, while serious revenue challenges face the Sports Authority due to a series of State policy decisions, nonetheless, core businesses of the Authority are generating returns to the State Treasury. It's critical when focusing on the fiscal situation to look at the entire statewide picture, and not necessarily the bottom line of any one facility, or one industry, or one part of the state.

Unfortunately, the current financial structure in place since the early 1970s can no longer support the financial operating capital and contractual requirements of the Authority, due to those policy decisions and changing business conditions. These issues have existed for years. In fact, when I began my initial employment -- my first round with the Authority back in 1990 -- we were dealing with this very issue. That was over 20 years ago, and I think the gentleman prior to my sitting here gave a pretty succinct review of what took place. I will make some clarifications, however.

When you take the declining racing revenues, due to the proliferation of gaming options in the state and the region, many of which are on our borders, and combine it with the State's decision to approve the

finance of the new stadium -- the private financing of the new stadium, which will impact our bottom line in 2010 by over \$15 million -- it's clear we have some important decisions in front of us. Toward that end, we are working closely with the Governor's Advisory Commission on Sports, Entertainment, and Gaming (*sic*) to address short- and long-term solutions. I can't tell you how happy we are that these issues are being looked at on a strategic, statewide basis as to what is in the best interest of the entire state.

In this whole debate, we collectively need to continuously ask three questions, in my mind: What is in the best interest of the State? What is the right thing to do? And how can we, as a State, work together to compromise, to in fact make the right policy decision?

As we just noted, the current financial dilemma was long in the making, and has been an issue of concern to the Authority's management team, its board members, and administration since the late 1980s as racetrack revenues began declining immediately after the opening of the racetrack in 1976. Senator, you asked that question -- racetrack revenues couldn't have been declining then, could they? The fact of the matter is, in real dollars, racetrack revenues have been declining since 1977, the first full year of operations of the racetrack, on a declining basis. In fact, in 1977, which is the first full year the track operated -- of course, it opened in the fall of 1976 along with the stadium -- but in 1977, the racing industry in New Jersey -- which included a racetrack in Atlantic City, Garden State, Freehold, Monmouth and the Meadowlands -- had an 81 percent market share of legalized gambling in the State of New Jersey. It virtually had a monopoly on legalized gaming, and that's why it was an initial brilliant strategy. And how do you finance, you know, a sports complex as a

development project, and bring professional sports and entertainment to New Jersey without taxpayer monies? Well, let's give a license to conduct legalized gaming in North Jersey. And sure enough, the Sports Complex was created on the back of racehorses; it's that simple. However, in real dollars, that revenue has been declining since 1977. In 1978 the first casino opened, and it's been downhill, on a real basis, since then. In fact, the operating margins for the Sports Authority were 56 percent. Now I don't know how many of you are in the business world, but if you have operating margins of 56 percent, you're producing some big time revenue. That big time revenue is necessary because of the capital structure. It was a highly leveraged capital structure which required high cash flow business to support it, plain and simple.

All of a sudden that high cash-flow revenue stream starts to decline, you have those high-fixed debt service costs, and you've got yourself a problem, right? That problem has been in the making since 1977 -- don't make any mistake about that, okay? And this was inevitable. So you say, "What happened?" Well, when you take an industry that competes in the gaming world that's subject to the competitive forces that exist within a certain industry market, and then you make policy decisions whereby you add to that competition, then you kind of have this yin and yang thing, in terms of its impact on one line of business for the benefit of another line of business. And so that revenue is declining. The market share today for racing in New Jersey is less than 2 percent. So we've gone from 81 percent market share and a 56 percent operating margin, to a less than a 2 percent market share and actually a negative margin now, because

overall racing loses money. And I'll go on and explain the competitive forces at work here within the gaming industry as a whole.

Again, as I said, this steady decline of monopoly-like profits is due to gaming competition from in state and out of state; and this increased competition for the gaming dollar again put the Authority on its path over 30 years ago.

Let's take a quick look now at how the gaming industry has evolved, and I'm going to sort of-- I'm not going to go back to 1970. I'm going to give a little history lesson here, sort of Gaming Economics 101 -- but I'm only going to go back to 1990, because in 1990 casino gaming in New Jersey still had sort of a monopoly -- there was very little external competition. So I'm going to put a couple of boards up, and I think this will illustrate not only-- And I'm sharing this not to advocate a solution; that I'm not going to do today. That's a policy decision that's above my pay grade, that's really up to the Legislature and certainly the Governor to decide how we're going to tackle this problem. But I think what it's going to show is exactly what racing is being confronted with within the region from a competitive standpoint; and it is certainly going to point out the competition relative to the gaming industry, which is very important to the State of New Jersey as well. So John, if you would put the boards up.

If you take a look at this board, okay, what we've done is we've isolated a five-state region, okay? Which is -- the reason I decided to go in this direction was simply because, when we compete in the racing industry for horses, horse stock, for purses and so forth, we're really competing primarily within a five-state region. This is the New Jersey gaming industry in 1990, and basically what you see is casino gaming in Atlantic City. And

in 1990, the gaming industry in the United States, for that matter, was primarily a bi-coastal business: it was a Vegas and Atlantic City. So you could go either place. And virtually it was a monopoly on casino gaming in the marketplace at the time.

So then we're going to fast forward 10 years, okay? We're going to look at the year 2000 and see what's happening in this region now, okay, from a gaming standpoint. And remember, this proliferation of gaming has really caused the decline of the racing industry and the monopoly like cash flow that was needed to support the high debt services Sports Complex. So here we are in 2009 and what do we begin to see? We begin to see the regionalization of the gaming industry, okay? Just the beginning of the regionalization of the gaming industry. You have the racinos opened in Delaware; you've got some Indian gaming in New York State and Connecticut. And so you begin to see the regionalization of this industry, okay?

Now we're going to fast forward to 2009, okay? And what do we see. We've gone from, in basically 20 years, we've gone from a bi-coastal monopoly-like industry in 1990, to a regional industry in 2000, to what I would consider to be a localized gaming market in 2009. And so when you look at the reasons for the declining revenues at racing and, in fact, the declining market share in Atlantic City, this is the reason for it. There are, I believe, something like 37 competing casino-type racino destinations in 2009. Now you say, "Well, how the heck did that happen so quickly?" Well, in Pennsylvania, which has really had a tremendous impact both in the racing industry -- particularly with their new purse structure -- and greeting industry and so forth, but also in casino gaming, they basically took

existing gaming locations, i.e. racetracks, and re-purposed them. They re-purposed the existing gaming infrastructure to be able to really impact the gaming industry in New Jersey. And I say the gaming industry because, as far as I'm concerned, whether it's the lottery, or the casino industry, or the racing industry, we're all in the same business, okay? We just happen to have different product lines. But we're all in the gaming business, and it's impacted all of us in a negative sense.

So you'd say, "Okay" -- you know, somebody would say, "Gee whiz, what's happening? This is just a shuffling of the dollars on the board. There's really no real growth, we're just exchanging dollars." Well, the fact of the matter is, if you look at this compounded annual growth rate of the gaming industry since 1990, I tell you what -- I'll take this business any day. A compounded annual growth rate of almost 7 percent per year since 1990 in the five-state region. So what does that tell you? That tells you that it's not simply a shifting of the dollars on the chessboard. We're talking about meeting primary demand for the gaming product. There's real growth here, because if it was just a matter of shifting the dollars on the board, you'd have a flat line, right? Right now, you've seen a tremendous growth. And so the fact of the matter is, the market is meeting the demand for localized gaming -- that's what that chart says. And, of course, with Philadelphia table games, and also what's going in Aqueduct, that growth curve is going to continue. So then you'd say, "Well, what happened to the gaming market share in the five-state region?" The last board I'll show, and then I'll move on, is basically what's happened to Atlantic City's gaming market share over this period of time: and it's gone from, in essence, 100 percent market share to less than 50 percent over a very short period of time, okay?

So I point this out because we're talking about competing in a very complex, highly competitive gaming industry in the State of New Jersey that's impacted both health and welfare of the casinos industry, and certainly has impacted the health and welfare of the racing industry in the State of New Jersey.

So I think that will give you a little sense of, if people want to know why we are where we are, and if you want to know why the debt service or State contract bonds have increased, all you have to do is look at that chart and you have your answer.

So thanks. John, you can grab those now, if you will.

SENATOR KEAN: If I may.

MR. ROBINSON: Sure.

SENATOR KEAN: I'm sorry, Madam Chair.

On these two charts, where are the real dollars, though? You're talking -- down the left-hand chart we've got the growth of the overall industry, and you're talking about percentage change from 1990 at 100 down to just shy of 50 percent in 2008--

MR. ROBINSON: Yes, I can tell you--

SENATOR KEAN: --percentage of share. But I don't see in the five-state region, what's the overall amount over from a 1990 to a 2008 number over that exact same period of time?

MR. ROBINSON: Well, I don't have it off the top-- I do have it; I do not have it with me, Senator. However, I will tell you that obviously the total dollar value has grown exponentially simply by the compounding growth rate of where we were in 1990 to where we are today. I will tell you, unfortunately, Atlantic City's win has declined. I think it's been reported

by the Casino Control Commission, I think it peaked over \$5 billion, and now it's less than \$4 billion.

SENATOR KEAN: If I may, through the Chair-- I think it's very important-- I mean that 100 percent is a shifting number in real life, because it's off a different base, off of a different focus. If we can get-- Through the Chair, if I may request--

SENATOR BUONO: Sure.

SENATOR KEAN: --hard numbers--

MR. ROBINSON: Sure.

SENATOR KEAN: --to back up both of these charts, so we can have a real-time annualized basis on both aspects, as well as-- And second question is, why wasn't Maryland included in these charts going back to 2002 (indiscernible) 1990?

MR. ROBINSON: I just elected the five states. It wasn't any particular strategic reason. It probably should have included it.

SENATOR KEAN: If we include Maryland in that analysis, because the drive-time focus is I think a similar issue. If we include Connecticut, we should also include Maryland within the focus of the chart.

MR. ROBINSON: Sure.

SENATOR BUONO: So if you could provide that through the Chair, and then I'll distribute it. Thank you.

MR. ROBINSON: Sure; be glad to.

SENATOR KEAN: Thank you, Madame Chair; I'm sorry to interrupt.

MR. ROBINSON: Oh, no, thanks. That was a good question.

Let me go on here. Over the years, with the support and direction of various administrations, the Authority has taken many steps to stem the financial tide, from implementing simulcasting in the early 1990s -- and let me explain a little bit about that. You know, back in the heyday of the Sports Complex, racing would operate five days a week, from 7 p.m. to 11 p.m. Today, to generate the same revenue streams, we have to operate from 11 a.m. to about 11 p.m., six and seven days a week, okay? So obviously your operating costs to generate the same dollars is substantially higher over time. We significantly increased stadium revenues. We obviously refinanced debt on numerous occasions. We utilized State contract bond financing, expending reserve funds to actual State appropriation. The last State appropriation that took place, in fact, took place in 2002.

During this period, the Authority has continued to cut costs dramatically, reducing total labor costs over the last seven years -- it's actually less now than it was seven years ago, despite increases in union wages -- to reducing full-time salaried staff from 280 in 2002 to 176 today, which is a 37 percent decrease in our staff. And we've decreased our staff some 17 percent since 2007. We did this while also opening two profitable lines of business: an off-track wagering facility in Woodbridge and online account wagering, that's also profitable. And we've been able to do this and still meet the core objectives while adding these two new profitable lines of business.

As you know, the Authority will exist at both ends of the financial spectrum. On one side, the Sports Authority will set a new standard for direct and, I said, indirect revenue generated for the State from

its facilities, events, and statewide economic development efforts. The recently privately financed renaissance of the Sports Complex, upon the opening of Xanadu entertainment and retail complex and the new stadium, will potentially generate over \$100 million a year in new tax revenue, create thousands of jobs for New Jersey families, and bring hundreds of world-class events. In concurring, it leaves the Sports Authority to soften an unsustainable financial position.

So what's at stake? If New Jersey has an internationally known brand, it's the Meadowlands. For sports fans, the Complex is an icon that represents the only site to two National Football league franchises; the site of a litany of great soccer, college, sporting events at Giants Stadium, the IZOD Center, and the track. For those who seek concert and family entertainment, Giants Stadium and IZOD consistently outrank their peers nationally and internationally with the best in family entertainment.

And I want to point out the issue with the brand, too. You know, we operate -- we try to operate the Sports Complex and the Authority like a real business. And in a retail business, brand is everything. Protecting the brand is everything, whether you're Nike, or Coca-Cola, or the National Football League -- or Madison Square Garden, for that matter -- the brand is everything. And I don't want to lose sight of the power of that brand, okay, for the benefit of New Jersey. You know, you can go to Sweden and you want to talk harness racing -- people know the Meadowlands. You go to Italy on a trip, and you want to talk international soccer? They talk about the Meadowlands. You want to talk about major college football games? They talk about the Meadowlands. College basketball -- the Meadowlands; and so forth.

It's also important, I think, to look at the future development in the Sports Complex with how you protect that brand and what's compatible with that brand, not unlike when you develop a Disney World. The Meadowlands and Monmouth Park are still considered two of the top racetrack operations in the country, and the operations are the lynchpin of the State's billion-dollar equine industry that supports over 10,000 jobs, 178,000 acres of open space, and a \$4 billion industry. Clearly, the quality of life in the state is better with the attractions of the Sports Complex and facilities around the state. By way of example -- and I think it's important to keep in mind: In 2007, the Authority hosted the Breeders Cup in Monmouth Park, considered the most important weekend in thoroughbred racing in the world. The cost to host such events is astronomical, and it's increasing. And while the Sports Authority actually lost \$2 million on an operating basis on the Breeders Cup in 2007, the State of New Jersey made an estimated \$16 million. So while the NJSEA lost money on the event, the State was a huge beneficiary. The question before us: if we had the same opportunity to host this event again, should we do it if the NJSEA, a State entity, loses money? If we were a private entity, and we were not given public resources to host such an event, you can be sure it wouldn't be held in New Jersey and the State would have foregone the revenue. So it is perhaps in this light that we need to evaluate the horseracing industry and our operations in general. For example, in Texas, when the racetrack in Dallas hosted the Breeders Cup, they actually went to the state and said, "State, it's going to cost us X dollars, and we can't afford to lose money. Do you want this event in the State to generate tax dollars, and economic impact, and tourism, and so forth, or do you want us to forego it? It's your

choice.” The state made its choice to support it, the event went on, and the state was the beneficiary and much better off.

Currently, the racing business is operating at a combined loss of approximately \$10 million annually, excluding capital replacement. Now, this \$19 million loss on track is offset by the profitable Woodbridge off-track wagering facility and the profitable account wagering business. These losses have been absorbed by the Authority since 2007 through the utilization of Xanadu prepaid rent, and these funds are no longer available going forward. Racing, as currently configured, can no longer compete in the modern gaming marketplace as a result of legislative constraints preventing the diversification of our gaming law rights. Now, I want to expound on this a little bit. What do you mean by the diversification of our gaming law rights? The bottom line is this -- I’m going to use two examples: I’m going to use Coca-Cola and I’m going to use IBM, and I’m going to start with IBM. IBM, when I was a kid growing up in the 1950s and the 1960s, was basically a mainframe computer company, right? Remember that, when mainframes were as big as this room?

SENATOR RUIZ: I was too young, I don’t remember.

MR. ROBINSON: What, you don’t remember that?

SENATOR BUONO: She wasn’t born.

MR. ROBINSON: This I know; I’m dating myself, but anyway--

They were a mainframe computer company. If they were legislatively restrained or not allowed to diversify and morph their business from a mainframe company to a technological services company, IBM would have been out of business, okay? Racing has not been allowed to

actually change its business model to compete in the gaming marketplace. The same thing is true for Coca-Cola. If Coca-Cola was only in the cola business, rather than in the beverage business -- and I make that analogy: If you're in the gaming business, you're in the gaming business. If you're in the beverage business, you're in the beverage business. And if you could only sell Coke, you couldn't sell Fanta, and you couldn't sell Minute Maid, and you couldn't sell Powerade, root beer, or whatever -- water, Dasani water, etc. -- you lose all the efficiencies in terms of marketing, manufacturing, distribution, advertising, and now you're competing in the cola business, where you should be competing in the beverage business.

And unfortunately, racing today is competing as manufacturers of mainframe computers or one line of soft drink.

Racing, as we've pointed out, has been at a crossroads for a long time, and I think it's important to really think about the impact that racing has in the State -- \$4 billion industry, \$1 billion a year of economic impact, supports 10,000 jobs, and fully one-fifth of the state's agricultural acreage. In addition, the East Rutherford, Meadowlands, and Oceanport Monmouth regional economies rely heavily on the economic impacts, including, but not limited to, pilot payments. We pay \$6 million a year in pilot at East Rutherford, and almost \$42 million a year at Monmouth Park. And I want to point out -- this is an important distinction as well -- there's virtually, and maybe not any, public assembly facility in this state, and perhaps the country, including Madison Square Garden, that pays either property tax or pilot, okay? We are the only, only -- to the best of my knowledge, except for a small restaurant, perhaps, at the PNC Arts Center -- that actually pays

some form of property or pilot, okay? And listen, you know what? We're happy to do so. We're happy to do so. But I wanted to point out that fact.

But the impact on property tax payments and jobs, spending into local businesses by racing customers, horsemen, employees -- these areas would sustain a devastating blow should the tracks discontinue operations. The racing industry throughout the country is struggling with the changing environment, which we illustrated. For years, the sport has advocated a new business model for racing in the state, and its own financial structure for that matter, due to the expansion of alternative forms of gaming both in state and out-of-state. To offset the racing industry's decline in late 2007, the Authority opened its first luxury off-track wagering facility -- Favorites at Woodbridge makes about \$45 million a year, as well as account wagering which produced about \$44 million of operating income per year. And we're building our second flagship OTW in Bayonne, and internet account wagering is growing as well. Operationally, the Meadowlands and Monmouth Park outperformed their industry on a national level. Monmouth actually saw 6 percent attendance growth despite the sagging economy; 2008 saw record attendance and handle at the Meadowlands Thoroughbred Meet; and obviously the Haskell Invitational at Monmouth Park -- we did over 37,000 people for Rachel Alexandra. And had we not had a hurricane that day, we would have broken a track record of over 50,000 people to watch the filly win the Haskell Invitational.

Today, and recently, we have taken one of the most dramatic and farsighted steps in thoroughbred racing in the country in decades. We have agreed, in principle, with the horsemen -- both the standard bred

horsemen as well as the thoroughbred horsemen -- to run a 50-day core summer meet at Monmouth Park with the highest purses in the nation, which we believe will attract the finest horses and stables in our history; dramatically increase handle, and interest, and attendance; and perhaps, more importantly, tourism. It is certainly an experiment that is worth trying.

The new stadium, when placed-- I want to talk a little about the new stadium. When you take the new stadium at 100 percent privately financed, \$1.6 billion, and you put that in a national context-- You know, I've got a background in professional sports, so I went to eight years of owners' meetings and I hear what's going on with leases, and new buildings, and who's moving where, and whatever it is. And I can tell you, the last 11 stadium deals, according to a good colleague of mine who's in the sports investing banking business, said that the last 11 stadium deals involve 54 percent public-financed facility -- 54 percent, including over \$300 million in Dallas; there's a new arena going up in Orlando that's being 100 percent paid on the public; there was going to be a \$200 million expansion to Dolphin Stadium, utilizing additional tax revenues. So the use of taxpayer dollars and public funds to fund these facilities across this country is not an unusual situation. However, the fact that the new stadium reduces our revenue by over \$15 million in 2010 puts additional pressure on our finances, as you might imagine. The Sports Authority's engineering of the Jets move from Long Island to Florheim Park is an enormous financial win for the state, where they moved their whole operation and payroll to New Jersey. And the new stadium and practice operations will generate over \$66

million of annual state revenues -- and the fact that now we're really home to two pro football teams.

On a positive note, due to the Authority's track record in management operating expertise, the Sports Authority was awarded a five-year contract by New Meadowlands Stadium, which is basically a joint venture of the teams to provide game-day staffing and event marketing services, in addition to security, emergency management, fire, and medical services. This arrangement gave the New Meadowlands Stadium an opportunity to leverage existing NJSEA infrastructure, expertise, and allow their employees to work at the new stadium in addition to the 150 events at the IZOD Center. It's a win-win for both the Sports Authority and New Meadowlands Stadium.

Lastly, I want to talk a little bit about the renaissance of the Sports Complex. Right now, we're in the finishing end of \$4 billion of private investment at the Sports Complex -- \$4 billion. So when people say, "Well, what's the Master Plan?" There is a Master Plan -- it was the creation of the new stadium, it was the implementation of the rail link, it was the Xanadu Sports and Entertainment Center. And you know, right now we're putting Humpty Dumpty back together again. The question we have is not so much what the Master Plan of the Sports Authority is, it's what is the future of the racetrack at the Meadowlands.

Again, you all talked about the value of the rail link that opens up the Sports Complex to the entire northeast corridor, takes thousands of cars off the road, reduces energy consumption and pollution. Let me tell you a little bit about the results of the rail link: On an average Sunday, we did over 6,000 rail riders for an average football game. And considering the

tailgate culture for both teams, 6,000 people on the rail is pretty high. For the Springsteen concerts, we did 14,000 in a night, and for the two U2 concerts we did over 21,000. So the future is bright for that investment.

Obviously, you know, we're hoping that -- and look forward to Xanadu opening up. There was over \$100 million of sales tax generated just on the construction alone of Xanadu and the new stadium. And again, the IZOD Center and Giants Stadium were the top-grossing facilities of the decade.

I guess what I'll do, lastly, I just want to address a couple of things about our non-sports Complex business. Back in the 1990s, we talked about -- the Sports Authority was asked to become involved in finance, through the request of the various administrations, to build an aquarium and finance an aquarium in Camden. That was completed. We were asked to finance, and construct, and create the operation of the Atlantic City Convention Center -- a \$266 million project. We did that on time and on budget. We renovated the beautiful historic Boardwalk Hall -- \$100 million renovation. It was our vision that wanted to diversify the entertainment product mix in Atlantic City, from just sort of -- move it outside the walls of the casino. It's turned out to be the highest grossing facility of its size in the country. We were asked to finance and help construct the Rutgers Stadium, which was the first sort of step in Rutgers' growth as an elite football program in this country. We were asked to finance, and build, and help operate the Wildwood Convention Center, which has been a tremendous impact on Wildwood. Of course, all of the projects were done with State contract bonds, and that is the case. And yes, the State is on the hook for those bonds, but we were asked to do it, we did

it, we did it on time, and we did it well. And we're very proud of our work there.

I'll open it up-- Lastly, we look forward to working with your Committee, Senator, the Legislature, the Christie Administration, and the Governor's Advisory Commission to identify solutions to the racing industry, the gaming industry, and certainly the Sports Complex's financial challenges.

Thank you very much.

SENATOR BUONO: Thank you very much.

I just wanted to start out with, I guess you'd say the global question here, and then go into some details. In order to understand what the State stands to gain, we really need to know what we're losing. And this year, we're losing \$38 million -- we know that because of the continued existence of the Sports Authority. It's run up a debt, according to David Rosen and Frank Haines, that has become a State responsibility since 1992. So we have a growing responsibility to shoulder the debt. In the Governor's transition report, and I quote -- they state: "With a horseracing industry losing tens of millions of dollars, the Devils gone, the Nets leaving, and a poor deal with the Jets and Giants with their new stadium, the entire mission and future of the NJSEA must be entirely rethought and not simply tweaked."

And we had this discussion when we met. I think that, in view of that, we have to seriously question whose interest we're serving by continuing to have the taxpayers subsidize an entity which may have outlived its original mission. Horseracing, as you said, used to be the cash cow. And assuming, just assuming -- that's a big assumption -- that we

could restructure the debt and sell off enough assets, generate enough revenue to have the Sports Authority at least revenue neutral: Is there a role for the Sports Authority to continue to play, and what would your model be for going forward? I know you said you don't want-- But it's in general terms, given that there will not be a sports franchise in the area that will be generating revenue for the Sports Authority.

MR. ROBINSON: Well, first of all, I think you have to look back on-- Well, first of all, these facilities, whether it's in-state or out-of-state -- and we're not just talking Sports Authority facilities, we're talking facilities all over the state -- none of them are really designed to or built to, or even do, produce an operating profit, okay? I mean, whether we like it or not, and if you're a landlord to a professional sports franchise these days, most of them are getting very good sweetheart deals to locate their teams within certain states and municipalities, and there's tremendous competition for that. As far as, you know -- and everyone recognized when the Sports Authority was created that they need an ancillary revenue stream, and that was racing -- to build, to finance, operate these facilities. It turns out, again, all these decisions that are putting us in this financial situation we find ourselves in were basically policy decisions that were made by the State.

SENATOR BUONO: And I want to emphasize that. We're certainly not blaming you, the management of the Sports Authority, for decisions that were not yours.

MR. ROBINSON: Here's how I envision it, going down. Again, one of the things I'm not-- I'm not advocating and can't advocate for the expansion of gaming in this state -- that's the Legislature's and the

Governor's decision. Plus the purse enhancement provision that we're under right now prevents me from doing so. So I'm not going to talk about that. All I talked about is the challenges at that time dealing with competing in a complex industry with one game of chance, and not being able to really compete in the gaming industry of today; and I'll leave it at that. Certainly, from the IZOD Center's point of view, we did squeak out a \$1 million dollar profit last year -- operating profit. This year is about a half a million dollars. Again, the future of off-track wagering facilities are very, very profitable and we're building another one. We were unfortunately turned down in two additional locations over the last year and a half. We continue to expand that business. We have a profitable relationship with the stadium as a service provider. So I do think there's a long-term future of the Sports Authority. And again, there's a lot of complexities to the State's contractual obligations and the Authority's contractual obligations to both the new Meadowlands Stadium, as well as (indiscernible) capital in the Xanadu project.

SENATOR BUONO: Thank you. Gee, I don't know where to go from here -- you raised some other issues. I'm just going to--

MR. ROBINSON: Can I talk a little bit more--

SENATOR BUONO: Let me-- I'm sure you'll have an opportunity to touch on everything. I think to really understand what's happened to the Sports Authority -- and you alluded to this -- you have to understand the lease agreements and the franchise agreements.

MR. ROBINSON: Yes.

SENATOR BUONO: They're, in large measure, what enable you to turn profit. And in the Governor's transition report, they concluded

that the new Giants/Jets Stadium will not be a financial contributor for the NJSEA over time; it will be a drain. We know that, for example -- and I think you may have stated this under the new lease agreement -- the Sports Authority is going to receive \$5 million annually in ground lease from the two teams; an additional \$1.3 million annually in pilot payment. Where, under the previous agreement with the Giants and Jets, the Sports Authority received \$420 million annually in net income from the stadium, and approximately \$6 million annually in the pilot payments. Additionally-- And I was looking over the franchise agreement -- it's extremely comprehensive -- but it talks-- I mean, there's some real gems in there. If there's any new local property tax, or use taxes, or tax changes that come into effect, Sports Authority will pay 100 percent. If there's any new rebate on taxes, the tenant gets it. If New Jersey creates any new sales or ticket taxes that are targeted at the stadium, like luxury boxes, the amount of the tax will come off the tenants' payments to the Authority. And I know-- Maybe I just don't get it. But you had said-- And I mean that seriously, because you said, "Well, but, given all that, what do we have to show for it? We have (indiscernible). We have two professional football teams." I just don't get it. This is something-- Maybe it's just something about our value-- To me, it says something about our values and priorities that we're willing to have these so-called sweetheart deals at any costs to the taxpayers. And I submit to you, if the taxpayers knew about this franchise deal they would not support that in exchange for what we got.

MR. ROBINSON: Well, I think they're, you know-- First of all, I wasn't here when the deal was struck.

SENATOR BUONO: I know that--

MR. ROBINSON: Which is neither here nor there, actually. I think you've got to look-- Again, you've got to look at the broad-- There are two sides to the story: one is there's virtually -- one side to the story is, there's virtually no other stadium in the country that is being built 100 percent privately. There was a baseball stadium in San Francisco and maybe one other, and I can't remember which one that is. This baseball stadium in Washington, D.C., was \$500 million completely taxpayer, and so on, and I gave some other examples. The teams have stepped up to the plate to say, 'We're going to finance-- Unlike our colleagues around the league, we're going to finance \$1.6 billion. That's one side. The other side is, the Sports Authority went from having \$20 million net income this year -- which, by the way, was our fourth highest net income in the 34-year history of the stadium, this year--

SENATOR BUONO: But that's all part of the same equation. You can't view those in isolation.

MR. ROBINSON: But the State -- the estimated benefit to the State with all the player payroll, executive payrolls -- is something in the order and magnitude of \$66 million a year. Now, that's the give-and-take here, you know? How you weigh the pros and cons of that decision-- Again, there was a \$1.6 billion stadium; it probably produced \$50 million to \$60 million in just sales tax revenue on the construction alone, never mind the fact that they're going to increase staffing in the new stadium by a third, just because of its size, so there's going to be more payroll taxes, and so forth. I'm not justifying it; I'm just giving you the other side of the equation.

SENATOR BUONO: So given all that you just said, would you characterize this as a sweetheart deal for the franchises?

MR. ROBINSON: No, not when you compare it to what's going on in the industry as a whole -- the sports industry as a whole.

SENATOR BUONO: Therein lies the problem -- we differ on that. That's a major point of contention; but to have to--

MR. ROBINSON: Well, again, you know, like I said, I spent eight years in professional sports, you know, hearing what kind of deals are out there, and what kind of competition there is for franchises around the country, and who's moving from here to there and relocating and getting new stadiums and arenas, so certainly my perspective is a little different. However, obviously, I'm not happy with the fact that it put the Sports Authority in a really difficult financial position that I'm trying to grapple with right now.

SENATOR BUONO: Right.

MR. ROBINSON: That part, I'll tell you, it doesn't make me happy.

SENATOR BUONO: I mean, the whole purpose of this hearing was not to cast blame or point fingers.

MR. ROBINSON: I agree.

SENATOR BUONO: But the purpose of the hearing is to view the Sports Authority through the lens of finance--

MR. ROBINSON: Sure.

SENATOR BUONO: --to figure out what it cost to run a different entity, what the budget is, what goes in and goes out, the history of subsidies. And, unfortunately, neither do we have a 2010, nor the 2009,

operating budget -- neither of those were made available to us. And I need to know why, because you're also asking for a \$30 million -- I think it's an operating subsidy, correct?

MR. ROBINSON: I'll tell you where we are. The 2009 year-end financials are actually posted online currently, about a week ago. So if you want to see them, they're there.

SENATOR BUONO: We checked; they're not. Maybe as of today, but we've been checking.

MR. ROBINSON: No? All right, well, I just talked to our CFO to make sure that they were posted.

SENATOR BUONO: 2008 is online; in fact I have some questions about 2008, because that's all I have.

MR. ROBINSON: Okay; well, I'll double check. Anyway, we are waiting for the auditors to finish their audit. As far as the 2010 budget is concerned, you know, we're required to present the budget to the Treasurer--

SENATOR BUONO: Right.

MR. ROBINSON: --in advance of bringing it to our board, and it's currently under review by the Treasurer.

SENATOR BUONO: So the 2010 budget is on the Treasurer's desk, so we can ask the Treasurer for that or maybe do an OPRA, I don't know -- hopefully we won't have to do that.

MR. ROBINSON: Well, I-- Hopefully it will get released, and we'll simply get it posted up on our board, and take action on it and deal with it.

SENATOR BUONO: And could you submit to the Committee, through the Chair, the 2009 operating budget? We'd really like to have that to be able to have more of an informed discussion.

MR. ROBINSON: Sure.

SENATOR BUONO: But not having that right now, looking at your operating budget for 2008, which--

MR. ROBINSON: You should--

SENATOR BUONO: No, I'm just going to talk about general stuff; you don't have to have--

MR. ROBINSON: No, no, I'm just saying, you should have the 2009 operating budget because it was approved by the board last December. So why you don't have the budget, I don't know. I can tell you we exceeded our budget by about \$3.5 million, but you should have the budget.

SENATOR BUONO: What I'm talking about is the audited financials.

MR. ROBINSON: Oh, that's different, that's different. Audited financials are-- That's correct. You don't have those.

SENATOR BUONO: Okay. And it was just an eye-opener for me. It says at the bottom of the first page that it's "based on accounting principles that differ in some respects from accounting principles that are generally accepted in the United State of America," which I found sort of interesting. And some have accused -- not myself -- the Sports Authority of using some creative accounting techniques to mask some of their losses. But it just makes it-- I'll tell you, this is-- And I thought I knew how to read a budget. This is much more difficult to comprehend. In fact, it's

incomprehensible, compared to the State budget. And I do have some experience-- I may not have your experience in sports and entertainment, but I do have budget experience, and, you know, what it means-- It seems like you randomly allocate expenditures and revenues. I'm unable to figure out or extrapolate what the current operating budget is, or the current projections for 2010. I mean, we need to know what the current operations are in order to shed some light on how plausible your projections are. We don't have that.

MR. ROBINSON: Sure, well there are two things: There's the audited financial report, which are basically generally accepted accounting principles that merge the various entities that exist under the Sports Complex, which includes Atlantic City, Wildwood, and so forth. So when you look at gap accounting and you basically merge all the entities together, it's very difficult to identify the Sports Complex. However, in our annual operating budget that's approved by the State every year, and that is the year-end financials that are given to the State -- are very clear. And it's the same accounting principles -- it's basically bond resolution accounting. And they've been doing it the same way every year for 34 years.

SENATOR BUONO: Well, maybe we shouldn't do it that way. Because I have to tell you, I like to use every tool at my disposal to be able to delve into this and figure out how we got to the situation that we're in today. And it doesn't make any sense to me to rely on these accounting methods or whatever if it doesn't-- It's incomprehensible to the public, and you are a public entity.

MR. ROBINSON: I understand. And we submit these same financials to the public and the Board every year, and all I can tell you is

the way it has worked on a cash basis; I can tell you in 2008 we generated an excess profit, before distributions, of \$6.6 million. This is 2008 -- we had extraordinary income of \$20 million, which was the Xanadu money. We paid a pilot payment of taxes, \$72.2 million. We had a maintenance reserve budget, you know, capital budget of \$11.8 million; and we booked an extraordinary expense item, which was Workman's Compensation -- we netted out with a loss of \$3.3 million. So, I mean, that's how it works. It's really on a cash basis, and it's all there, and it's been reported the same way for 34 years.

SENATOR BUONO: Well I think-- Who makes that decision, as to whether it--

MR. ROBINSON: Well, for years we were required by bond resolution purposes, because the bond resolutions required debt service coverage when we had revenue-supported debt of whatever it is -- two times, three times; and that was how we were required to report our financials. And so, you know, rather-- We just don't have any revenue-supported debt any longer, but we still report the same way we have for 34 years.

SENATOR BUONO: But the objective of doing the audit-- I mean, as I said, you're a public entity -- is to inform and be accountable to the public.

MR. ROBINSON: Well--

SENATOR BUONO: This doesn't succeed at doing that.

MR. ROBINSON: Well, that's just the way the external auditors-- It's not, you know -- required us to present these results. We don't include depreciation expense in here because it's all done on a cash

basis, with the debt service, which basically was in lieu of depreciation expense. And since we're a non-taxable entity, there's no tax benefit for recording depreciation expenses in expense. So all I can tell you is it's been very consistent. The Treasurer has been on our Board for 34 years. We have a finance and audit committee. It's all there.

SENATOR BUONO: Well, for example, I know what you're saying, but if you go down and get into specifics, for example with Xanadu, okay? It's impossible to discern how you classify certain expenditures, non-cash as well as cash. Xanadu revenue from rent has been spent, or nearly spent, is my understanding. You show it accruing in equal amounts over 15 years. Why is that?

MR. ROBINSON: Well, that's -- again -- a gap accounting principle where you take any revenue with a contract and spread it over the life of the contract.

SENATOR BUONO: Okay, what about for IZOD, for example? You allocate only \$500,000 for overhead? But the overhead costs, actually, \$1.5 million when you include legal, financing, etc.

MR. ROBINSON: That I'm not sure what you're referring to.

SENATOR BUONO: Well, that was based on our conversation. You told me that. I wouldn't have known that. (laughter)

MR. ROBINSON: Well, no-- No, what we do here is, each of our profit centers -- whether it's the stadium, the racetrack, account wagering, the arena -- all of those make a net operating profit or loss, whatever the case may be. And that income or profit is used to offset any overhead, which is our overhead department. So I don't allocate any specific-- To me it would be just an allocation exercise, allocate any specific

overhead in our finance-- Well, one finance guy is working on this, and this person's working on racing -- it becomes a big allocation exercise. They make a contribution to that overhead and our capital needs.

SENATOR BUONO: Can we talk a little bit about the-- Just getting back to our budget, the State budget. You're asking us to subsidize you by another \$30 million in the upcoming fiscal year. Can you tell us, is that an operating subsidy? Is it some combination?

MR. ROBINSON: It's-- Let me explain to you part of the New Meadowlands Stadium agreement, if I might.

SENATOR BUONO: Okay. The 6.10 costs.

MR. ROBINSON: The 6.10 costs, okay? When this contract was negotiated, both the teams and the administration understood the -- I'm sure understood the impact it would have on our operating income. It was pretty obvious. The teams asked, and in essence required, and the State agreed, that the Sports Authority is contractually required to apply for 50 percent of the total project fiscal benefit beginning in 2010, to ensure that in essence the \$1.6 billion investment is protected so that the Authority could carry out its obligations under the lease, which include any environmental issues, roadway infrastructure, all of our electrical systems, 24/7 security, medical, etc., our whole wastewater program. You know, there's a lot that goes into maintaining 750 acres. And that was actually put in the lease and executed and approved by the State. So given that we were contractually required to make that application, I made that application both under the Corzine Administration and I made the same presentation to the Treasurer.

SENATOR BUONO: So the \$30 million is part of you invoking said clause 6.10 of the Stadium--

MR. ROBINSON: That is correct, and it would be both utilized for operations and capital.

SENATOR BUONO: Well, that's where I'm a little confused, because the Governor's Transition Report provides that 50 percent of what is estimated to be the economic benefit which would be returned to you would be 50 percent of \$34 million annually.

MR. ROBINSON: Okay, that's actually a wrong number. The amount is \$66.5 million, and for some reason, and I can't explain why, you know, that was the current stadium's-- I believe current fiscal benefit. And the new stadium is estimated at \$66.5 million per year.

SENATOR BUONO: All right, I'm not going to dominate. I know we're going to switch the next panel, so that we have the vision panel next. I know that some of the experts we have need to leave to do their own private business as well. So I'm going to turn it over to any other people -- Senator Cunningham, and then Senator Ruiz. And then Senator Sarlo.

SENATOR CUNNINGHAM: I just wanted to know-- Other than rent from Xanadu, what other revenues are you expecting to receive from that project?

MR. ROBINSON: From Xanadu?

SENATOR CUNNINGHAM: Yes, other than the rent.

MR. ROBINSON: None, directly. You know, the prepaid rent, I believe, goes for a 15-year period, and then, what I recall, a normal

annual rent would kick in, after the 15th year, which would be basically equivalent to the current rent.

SENATOR CUNNINGHAM: And that's it.

MR. ROBINSON: Yes.

SENATOR CUNNINGHAM: Okay. The IZOD Center has been doing pretty well, but is that also because the Nets were there?

MR. ROBINSON: No.

SENATOR CUNNINGHAM: What's going to happen now--

MR. ROBINSON: No.

SENATOR CUNNINGHAM: --that the Nets are leaving?

MR. ROBINSON: Again, there's not a lot of money in being a landlord to a professional sports team, unless you own and operate the building or control the building. Because then you can determine where money goes, you know? Does it go to the franchise, does it go to the building, how does it all work? You control, you get all the (indiscernible) revenue, etc. We made very, very little money, actual net income, on the Nets. It's great to have a professional team, it's great to have 41 dates, to have your people work, and so forth. But as far as the actual net income over 41 dates, it was really a very small amount. You know, we can replace that with less than a handful of other, more profitable events to make up for that income. So from a purely revenue standpoint, I think you'll see better returns in the short term.

SENATOR CUNNINGHAM: And how much money are you planning on putting into the IZOD to keep it?

MR. ROBINSON: Again, we do put a lot of money into it over the years. Every year there's a capital budget, whether it be replace all the

lighting, the sound systems, we've renovated the suites, we've renovated all the suite bathrooms. Last year, we just put a new suppression system in for health and safety. This year-- So, you know, we try to have a regular maintenance program to keep it on the cutting edge, technologically and so forth. So, you know, I mean, they're capital intensive facilities, they're used a lot, but I don't know if you've been to the IZOD Center recently--

SENATOR CUNNINGHAM: I have.

MR. ROBINSON: --but it's clean, it's bright, the floors shine, it's very efficient to operate. It's a one-concourse building, which is much less expensive to operate than a multi-concourse building. It's easy to get shows in and out. You know, it's very, very conducive to concerts and family shows.

SENATOR RUIZ: Thank you. I was going to start in a different direction, but I guess I'll follow up with some of Senator Cunningham's-- So she said the IZOD Center is doing pretty well. I want to know, based on revenue from the events, how much of that revenue is covering operating costs at that specific site?

MR. ROBINSON: Sure. Well actually 100 percent of all of the operating expenses from the IZOD Center are covered by revenue and, in fact, like I said, it produced close to a half a million dollars of net operating income last year, after expenses.

SENATOR RUIZ: So that entity by itself is self-sustaining?

MR. ROBINSON: Yes. Well, again, it's on an operating basis. You know, it did not include capital reinvestment in that number. So if you included that, it would probably post a small loss. We probably put in a million dollars or so last year.

SENATOR RUIZ: And do you think that facility by itself is in need of infrastructure improvement?

MR. ROBINSON: Again, we continue to invest in infrastructure. In fact, one of the things that we have when we negotiated our new deal with our concessionaires -- we have, in essence, a pot of money of about \$1.5 million to continue to upgrade our concession operations. So again, you're constantly making improvements and updates and, again, fire suppression, roof repairs -- you name it -- lighting and sound systems, seating, suites, restaurants, so forth. So it will continue to need the normal care and watering that we've given it all along.

SENATOR RUIZ: In your earlier remarks, you talked about the site as a whole, and the power of the brand. But as you kept going through the presentation, it almost seems that the power of the brand is not existent anymore, in the sense that the power of the brand for the site itself *does* exist, but the ownership of it is not existing anymore. For instance: We lost the Jets and the Giants. We talk about-- You mentioned soccer, but, I guess -- and I'm not a sports buff, I'm just a Yankee fan. (laughter)

MR. ROBINSON: That counts.

SENATOR RUIZ: When I look at the facility and the possibility of the use, and then I see the new Harrison soccer stadium, and you talk about soccer events being held here, what is the probability of hosting events when there's a brand new arena in Harrison that will have major league soccer and extend itself for other soccer venues?

MR. ROBINSON: Sure; I think just by virtue of the differentiation in size, that international -- large international soccer games that cannot be accommodated in Harrison will be played at the New

Meadowlands Stadium. In fact, they've already announced it -- an international game -- I can't remember exactly who's playing in it. So those large, world-class international soccer games will continue to play. Certainly an 80,000-seat stadium for a franchise that draws less than 10,000 people, on average, or whatever, is what the Red Bulls-- It really was not a great environment. And there's another World Cup bid out there to bring the World Cup back to the United States, and we're part of that bid.

SENATOR RUIZ: And for those other sports teams that would look to play at this venue: Who will accrue the revenue from those events?

MR. ROBINSON: Well, any sports events at the IZOD, we would; any sports events at the new stadium -- the New Meadowlands Stadium would do that. Now, remember, here's my viewpoint: At the end of the day, the average customer doesn't care who runs the place. What they care about is: can they get in, can they get out, do they have fun, is it safe, is it clean, do they love their teams, do they love their events? And the brand for them is the Meadowlands.

SENATOR RUIZ: I agree with you, but I think that the average taxpayer does care. And in light of that, I think that that's where the focus of this hearing was, is that everybody, including yourself, recognizes that there is a greater problem at stake, and I just-- Something about the paradigm changing. And even in your reports for gaming, you see it. And so it's almost time for the NJSEA to start talking about what can really get us off incurring debt and move us in the direction of creating revenue. Because 1973 was a number that was thrown out there-- I wasn't

born, but my great-grandchildren will be paying this debt that's been incurred.

MR. ROBINSON: Again, as far as the debt is concerned, just to clarify that. The debt service, there's about-- As of July 1, 2009, there's \$803 million of debt. Of that, 35 percent, or \$287 million, is Sports Complex debt. So I want to make that differentiation. Fifty-four percent of that debt is other projects, which includes, on the other hand: 10 percent is Monmouth; but \$348 million on Atlantic City; \$40 million on Wildwood; and another \$46 million regarding Rutgers.

SENATOR RUIZ: I don't want to break down the debt. I'm most interested in how does the Authority recreate itself to reinvigorate this engine as an economic, viable--

MR. ROBINSON: Right.

SENATOR BUONO: And that's what the next--

SENATOR RUIZ: Has discussion been made -- because I think the Chairwoman asked a question, and it wasn't really answered. I'm just-- Everybody wants this to work, obviously. It's at the benefit of every New Jersey resident. So what kind of things can--

MR. ROBINSON: Well, listen--

SENATOR RUIZ: And we can't just rely on Xanadu, obviously.

MR. ROBINSON: Oh, no, no. And I don't think anybody would plan on that. I mean, listen: There are-- Paul has a solution. (laughter)

SENATOR SARLO: I have the solution. (laughter)

MR. ROBINSON: We're working with the Governor's Commission -- Advisory Commission on just those issues. So hopefully the Commission will come back with a plan that the Legislature and the public will be happy with.

SENATOR BUONO: And the next panel -- the vision panel -- will address future uses, specifically. But Senator Sarlo, did you want to wait until then, or did you want speak now?

SENATOR SARLO: I do have a few questions, yes.

SENATOR BUONO: Okay.

SENATOR SARLO: And I do have the solution, Senator Ruiz, and it solves all of our problems at the Meadowlands. (laughter)

SENATOR RUIZ: Wow, that's great.

SENATOR SARLO: I don't think you could comment on it, but I will get to it in minute.

I just want to touch back on a few points that have actually been raised. With regards to the revenue that is generated from non-sports events -- non-professional sports events at the Meadowlands. You had just answered Senator Ruiz that they are pretty close to covering their operating costs, is that correct?

MR. ROBINSON: Yes.

SENATOR SARLO: So really what puts the Sports Authority in a difficult situation right now is covering debt-cost payments.

MR. ROBINSON: Well, it's two things, Senator. It's the lost stadium revenue that, in one year, it's hard to overcome. And it's really the declining racing revenue. Those are the two things. And so it's a combination -- those two things combined, which is why we have utilized

Xanadu prepaid rents to fill that hole over the last three years, really, since 2007. And it's very hard to overcome \$15 million or more in one year.

SENATOR SARLO: The debt-- You've mentioned -- and I was unaware of this, and I'm somebody who's been very involved with the Sports Authority, because it's right in my Legislative District. But the Boardwalk Hall, the Atlantic City Convention Center, the Aquarium, the Wildwood Convention Center, the Rutgers Stadium -- when I add these numbers up, we're talking close to \$500 million worth of debt service that various governors, both Republican and Democratic governors, had asked the Sports Authority to place on their books. Am I correct?

MR. ROBINSON: No question about it.

SENATOR SARLO: So a good chunk of change of that debt service that is out there is for facilities that were asked by Republican and Democratic governors?

MR. ROBINSON: Fifty-four percent of all the debt that you were just referring to is either non-Sports Complex or non-Monmouth Park debt.

SENATOR SARLO: Right. I actually-- You mentioned Orlando as being paid 100 percent by-- Backed by public money.

MR. ROBINSON: Right.

SENATOR SARLO: I actually have to correct here-- It's probably being paid by Senator Kean and I, because every time we go to Disney World we get hit. (laughter) We take our kids, we get hit with some ridiculous fee for somebody to move our luggage from point *A* to point *B*. So that's probably paying for it.

MR. ROBINSON: In fact, I think it is hotel/motel taxes, if I'm not mistaken.

SENATOR SARLO: But to lead into that: You talk a lot about sports landlords of professional sports facilities around the country. And I've had the opportunity recently, as my kids get older, to go to different baseball stadiums that are taxpayer-funded baseball stadiums -- beautiful stadiums. Are they being built to attract teams to these cities in hopes of generating economic development around the stadium, and that's why they're willing to pretty much operate at a no-profit-- They're willing to operate even at a marginal loss, because of the economic benefit of the region?

MR. ROBINSON: I think it's a combination of things. I think there's an image associated with being a major-league city, a big-time city; there's no question about that. I think it's certainly -- some of the downtown facilities were certainly not what I'd call necessarily the main cog in redevelopment, but certainly, over time, add to the redevelopment of the city. For example, Cleveland is a good example, and San Antonio is a good example: after many, many years of urban development, and urban renewal, added sports facilities almost as the icing on the cake, rather than as the beginning of it. You know, I don't think any one sports facility is going to turn around an urban center, necessarily, but part of a grand urban redevelopment scheme, as part of it; and certainly I would advocate the last piece of it. You know, they do certainly add a lot to tourism and bringing people downtown and creating a sense of place, and so forth.

SENATOR SARLO: The stadium deal has been talked about a lot here. And not to weigh in whether it was a good deal, bad deal, I

understand it was done to keep the teams here; it was done for economic development purposes; it was a billion dollar private-- One thing that I've always heard and read about, and I've never had the opportunity to ask you or anybody else is: I understood that the State of New Jersey, because of the agreements with the teams from years ago, was potentially on the hook, in court, for close to \$400 million for renovations if they did not go ahead with a new stadium deal.

MR. ROBINSON: There was a clause in the Giants' agreement that called for, I forget the phrase, like *first class facility*. There was no question that, over time, we'd have to put more money into the stadium. How much, I think, is debatable. Obviously, back in my first foray here we added substantial improvement to the stadium, with the new suites project, new lighting and sound systems, and so forth. There was going to need an additional, certainly, capital investment, whether it was \$400 million or so, it's hard to tell. I think there certainly would have been a debate as to what be considered first class and what wouldn't, but certainly there was a significant sum of money that would have had to be reinvested in a 34-year-old facility, no question about it.

SENATOR SARLO: The New Jersey Nets are moving over to the Prudential Center -- and I hope that works out very well for the Prudential Center, and I hope it's an economic benefit.

MR. ROBINSON: So do I.

SENATOR SARLO: But from the State's perspective, the Sports Authority's perspective -- there's no major loss in revenue from the Nets' leaving the Sports Authority, correct?

MR. ROBINSON: No.

SENATOR SARLO: There actually will be a potential benefit?

MR. ROBINSON: Yes, I look at it as a potential benefit. I mean, obviously, you know, part of the reason you can only schedule so many events in the building is you have date conflicts. And then you have playoff conflicts, and you don't even know, and you've got to hold the dates for playoffs. So we should have, certainly, considerably more available dates and tours. And promoters, they don't necessarily book their tours around whether a facility is available; they book it based upon when they want to book it. And if you're available, great; if you're not, they'll re-route it, many times.

SENATOR SARLO: I know that Senator Buono wants to get to the other folks. Just one final question, and it's: A lot has been made about this lawsuit -- the OPRA lawsuit -- from the *Star-Ledger*. Can you just share with the members of the Committee what that's about, so we have an understanding of that?

MR. ROBINSON: Sure. We were asked to provide all of our contracts with concert and event promoters. And we did, and we provided 98 redacted contracts. We provided those redacted contracts under the current law, an "exemption to OPRA," based on its 47.1 information which, if disclosed, would give an advantage to competitors or bidders, is an exception to the public disclosure laws. And, basically, what it is, is that if we would share all of our promoter contracts, which differ in some cases, and give it to all the competition, the likelihood of being able to maintain that margin that we have and the profitability of those events would be significantly at risk. And, again, we compete in the private sector, and it's very important. And our promoters and partners, again, those are our

proprietary documents and contracts. And so we simply utilized the current law to make that determination. I should say that under that, in fact during this period of time where we've been in a disagreement, that over seven, in essence, competitors in the industry, including the Nassau Coliseum, HSBC Center in Buffalo, and the Times Union Center in Albany--

SENATOR SARLO: Are they also publicly financed, or publicly--

MR. ROBINSON: Yes.

SENATOR SARLO: They're public facilities?

MR. ROBINSON: Blue Cross Arena, Live Nation, Madison Square Garden-- Every one of them that has been asked to provide it declined on the same competitive basis, so we're really-- Again, we try to run it like a private-sector business, try to make it as profitable as we can. And I can tell you one thing: If those deals were disclosed, we would not have it be close to being as profitable as we are. And I would say that promoters would decline actually coming to New Jersey, and certainly playing the IZOD Center, if that were the case.

SENATOR SARLO: Thank you. Since you can't answer my casino questions, I'll use that for your next panel.

SENATOR BUONO: Senator Kean, and then we have to wrap it up. We already lost Dean Hughes, so--

SENATOR KEAN: In the interest of time, then, Madam Chair, I will be brief, although I may have a follow-up question. So if you don't mind, either through the Chair, or directly, if I can have some specific follow-up questions on some of these issues, over time.

SENATOR BUONO: Sure.

SENATOR KEAN: One simple question: In 2014, is the 48th Super Bowl, that is going to be played between the New Jersey Jets and the New Jersey Giants, going to be played at the Meadowlands?

SENATOR BUONO: Yes or no? (laughter)

SENATOR KEAN: Yes or no?

MR. ROBINSON: I am very confident that the Super Bowl will be in New Jersey in 2014.

SENATOR KEAN: Are we doing everything, partnering in (indiscernible) to be make sure that the April deadline's being met?

MR. ROBINSON: Yes.

SENATOR KEAN: Thank you. Thank you, Madam Chair.

SENATOR BUONO: And just to wrap it up, you just pointed to-- And I think we can all agree on something, and that is that we all seem to recognize that it was governors -- past governors and Legislatures that really were the source of problems, and in increasing the debt and expanding the scope of the Sports Authority where it wasn't prudent. Does that not say something about the model -- and it doesn't reflect on you or any of the EDs -- but doesn't that then say something about the lack of political independence that the model of the Sports Authority has? I mean, would it not be better to have political independence from the Governor and the Legislature and to be able to generate your own revenues in order to accomplish your mission, similar to the Meadowlands Commission?

MR. ROBINSON: Certainly there are times when it would be much easier. On the other hand, you know, it's interesting. Other states and municipalities -- let's say building an Atlantic City Convention Center.

Convention centers are built across this country based on taxpayer dollars. And some use some mechanisms, some states use other mechanisms. Some use hotel/motel taxes, rent-a-car fees, etc. In this case, the State decided that they were going to use State contract funds to finance it. Is it any different? I don't know. So again, you know, you just have to make a judgment project by project, as to whether that was the right decision or not.

SENATOR BUONO: Well, thank you very much, and I really appreciate you taking time out to come. And I understand you won't be leaving us for another job?

MR. ROBINSON: No. That's correct. No, no. I'm going to hang in here.

SENATOR BUONO: Thank you.

Okay, we're going to move up the panel regarding the future of the New Jersey Sports Authority and its assets. Dean Hughes-- I know he had to leave for a meeting; hopefully he'll be back by the end of our meeting. But we do have with us -- very fortunate to have -- Linda Morgan. Linda Morgan is an urban planner working in the New York office of AECOM. She is testifying in her capacity, however, as a member of the Urban League Institute. She has participated in several ULI advisory service panels, and she'll briefly discuss ULI's advisory service panels, and how the Meadowlands Sports Complex, as a whole, could benefit from this type of third-party land-use assessment. She's been on the New Jersey Executive Committee of the Northern New Jersey ULI District Council for many years, and was most recently in charge of all programs. She will also discuss other ULI programs in New Jersey, and how ULI was able to bring

planning experts to the state, at minimal cost, to provide unbiased redevelopment and planning advice.

And now I'm going to just introduce everyone at once. You're welcome to come up now, or just come up after the conclusion of Ms. Morgan's testimony.

Michael Pollock is with us -- I know Michael from my days as the Chair of another Committee -- Managing Director of Spectrum Gaming, renowned expert on gaming issues. Michael oversees all economic studies performed by Spectrum Gaming Group, including broad-scale impact studies for country, state and local government; and feasibility studies for private-sector clients. I'm not going to continue, just for the interest of time, but there's a lot more that we can certainly say about Mr. Pollock's credentials.

And Steve Gabel, regarding renewable energy opportunities. Gabel Associates is an energy, environmental, and public utility consulting firm based in Highland Park. The firm brings regulatory, energy, environmental, and financial expertise and experience to its clients, which include utilities, energy users, generators, and regulatory agencies.

Okay, Ms. Morgan, if you would begin, we'd be very appreciative.

LINDA MORGAN: Okay, thank you very much. I appreciate the opportunity to come and speak before your Committee.

As it was said before, my name is Linda Morgan. I'm an urban planner. I am currently working with AECOM, which is a large engineering infrastructure, planning, and master planning firm.

SENATOR BUONO: You have to have your red light on.

MS. MORGAN: Sorry.

SENATOR BUONO: Okay.

MS. MORGAN: My name is Linda Morgan. I'm an urban planner working at AECOM in New York, which is a large infrastructure and master planning company. But I also am a volunteer with the Urban Land Institute, which is the ULI, Northern New Jersey District chapter. And I'm going to just briefly talk a little bit today about a program that the national Urban Land Institute runs out of their Washington, D.C., office, which are called advisory services panels.

ULI is a 35,000-member organization that, worldwide, consists of developers, architects, planners, people who are market analysts and such, that get together to share ideas and expertise on critical land-use problems that confront us in our states, as well as abroad.

They have annual conferences at ULI; they publish a series of magazines and books, and conduct research services, including advisory service panels. The areas that they tend to look at run the gamut from sustainability and climate change, to how we handle market changes in urban areas, to replacing infrastructure growing around transit stations, and dealing with how to finance complex projects.

The advisory services panels have been around, apparently, since the 1940s, which I didn't know until recently. These volunteer panels have dealt with 500 or more topics; about 20 panels per year are convened with volunteers that serve as-- They are members of the ULI, and they volunteer to come together and look at issues around the country and the world about land use conflicts or land use challenges, such as: How do we re-use our military bases? How do we develop around transit stations?

How do we handle workforce housing in our communities? And deal with other complex development questions.

The panels are convened for anywhere from one day to up to five, which is the larger standard, to give strategic advice in an unbiased way, because they are not comprised of people who are from New Jersey, in this case, or even New York. The panels are put together to focus on a specific issue that's presented to them, and they're chosen by ULI National from the 35,000 members, for their expertise in finance, let's say, or stadium development, or stadium authority reorganization. You have an opportunity locally to veto who might sit on these panels, but the idea is to give practitioners and experts the chance to look at your policy and land-use issues, and come up with very specific strategies and recommendations on how to address the problems at hand. It's not an exercise in planning, but rather something that your locality can build upon and try to find solutions.

I mentioned that the panels run anywhere from five days down to a day or a day-and-a-half. There are different costs. They look for a sponsor, such as the Meadowlands Commission has been a sponsor in the past; New Jersey Transit, or DOT, have sponsored these panels in our state. A five-day panel can cost about \$120,000, so it is an investment, I wanted you to know. But eight or nine members will come from ULI, convened specifically because of their expertise in the area, and they'll kind of descend upon the locale -- having been briefed in advance through briefing books and such about what the issues are -- and they will do a massive amount of interviews with experts who understand the specific nature of the problem at hand. And they will have many discussions amongst each other, work with the public, work with whatever bodies -- legislative or otherwise -- want

to weigh in to the issue, and kind of do a thought analysis and come up with very specific recommendations.

There are also panels that go for a shorter amount of time, and they cost a lot less. For a three-day panel, it's \$60,000; a day-and-a-half panel with two or three ULI experts runs about \$25,000. I just think it's always important to know what these things cost.

Panels -- I'm sorry; I'm going too fast here -- apparently take about two or more months to convene, because you need to both pick the experts from National Headquarters and give them ample time to review the background materials. If we were to do this, let's say, for the issue at hand here today, there's an awful lot of -- I'm sure there would be a lot of background material that they would need to absorb in advance. That said, I had talked to Debbie Lawler at the Meadowlands Commission who -- she and Bob Ceberio had had one of these advisory panels come to Secaucus to look at the issue of growing around the transit station -- how do you manage growth and plan for transit-oriented development. And she--

SENATOR BUONO: Is that the Convention Center issue that was-- I missed the first half of what you said, I'm sorry, with respect to that.

MS. MORGAN: There have been panels that have come in the past from ULI to New Jersey, one of which was around the issue of the Secaucus Transit Station -- transit-oriented design and planning for growth and redevelopment around that train station. Debbie Lawler from the Commission told me that it didn't take two months to get them up and running, because they were very well prepared with the background material.

What a sponsor would do, in this case, if you want a panel to come to the state, is to sign off on a contract with them. You would designate a key person to be a liaison to the panel; you would prepare the background book -- briefing book -- and the types of questions that you wanted the panel to answer; you would identify up to 150 stakeholders that they interview in groups of five at a time -- or 10 at a time; and plan for the briefing tour -- where they should go and talk to people, what kinds of bus tour maybe would they take to look at the specific location; and then you'd make sure there was a place for a final presentation to take place. The ULI, at their end from Washington, helps you define and refine questions, picks the people who will serve on the panel with veto power from the locality; and arranges all the hotel, and travel, and interviewing that goes on while the people are on the ground here. They prepare a draft report for the participants, a summarizing report, and do a final presentation that's open to the public.

There's a lot of information that National gave me, so I'm going to skip right to--

SENATOR BUONO: Well, I appreciate you telling us what you could offer; but if I could just possibly direct you to some specifics with respect to the Sports Complex and the Meadowlands.

MS. MORGAN: Sure.

SENATOR BUONO: The area that surrounds the Sports Complex is under the auspices of the Meadowlands Commission, but the Sports Complex is overseen by the Sports and Exposition Authority. Both of the entities have their own Master Plans. I don't know if you were here for the beginning--

MS. MORGAN: Yes, I've been here.

SENATOR BUONO: And so they're not seen to coordinate their planning as well as they should. Could you just explain the importance of coordinated planning, and how this could improve developing this area for its highest and best use?

MS. MORGAN: Having listened to the testimony this morning, I would say there's always a need for coordinated planning. We have many organizations in this region that's whole mission is to do that -- Regional Plan Association, New Jersey Future. There's been a real push in the growth management field to try to consolidate and coordinate planning on a regional basis. It appears to me that the history here is legislative; it's been established by law, and it would probably take some doing to change that. Not to say that shouldn't be the case, but there is expertise out there that could probably, through an organization like Urban Land Institute, look at models and case studies around the country, and if not globally, where this type of issue has come up and they've been able to save, make economic benefit from consolidation and/or a more regional approach. Without looking at it myself, specifically, I can't say.

SENATOR BUONO: Do you work in conjunction with, for example, the Bloustein Institute? Is that something you do?

MS. MORGAN: Well, we often partner on programs that we do together, on real estate forecasts. The New Jersey District Council is made up of volunteers, like myself, who are either from a development entity -- they work for developers, they're lawyers in land use, they're urban planners -- and we're strictly volunteer, trying to deal with public policy issues that affect land use policies. So we do work with the Bloustein

School, and groups like Regional Plan Association, to take on issues of everything like -- university investment in urban redevelopment is a recent panel; how we deal with affordable housing and COAH. We'll bring these programs to our stakeholders in New Jersey, maybe five a year that we do.

SENATOR BUONO: And then one last question, then we'll move on to Michael Pollock. In the past, a convention center with hotel and office facilities, as well as retail, was once considered as a possible use of the Meadowlands Sports Complex. Do you have any opinion on the viability of this option, and what alternatives or--

MS. MORGAN: I don't specifically, because I have not looked at it, myself. I think what you do is provide that kind of information to a panel or to others that have this expertise, and they would be able to look at it for financial feasibility and land use appropriateness. Sorry I don't have specific--

SENATOR BUONO: That's okay; I just thought I'd ask the question.

MS. MORGAN: And if you're interested, I have with me the five or so advisory service studies that were done in New Jersey in the last five years -- Jersey City, NJIT did a transportation study in four case study cities; Paterson looked at transit-oriented design, and also Secaucus and Mercer County. And so if you'd like, I can leave a copy of those.

SENATOR BUONO: Thank you, that would be wonderful. And I'll distribute it to the other members of the Committee.

MS. MORGAN: And the website information is up for you to look at too.

SENATOR BUONO: And we'll make it part of the record of the Committee as well.

MS. MORGAN: Thank you.

SENATOR BUONO: Thank you so much for coming and giving up of your precious time.

MS. MORGAN: Thank you.

SENATOR BUONO: Michael Pollock, come on up.

As I said, Michael is the Managing Director of Spectrum Gaming Group.

MICHAEL J. POLLOCK: Thank you, Chair Buono.

Members of the Committee, and staff, I have two members of my team with me, in case any questions come up that perhaps I won't be able to address.

With your indulgence, I can shorten my comments.

SENATOR BUONO: That would be great. Thank you.

I would stay, but I have a feeling we're going to lose more Committee members. (laughter)

MR. POLLOCK: As you indicated, Chair Buono, our company does work for government clients around the world. And they're looking, essentially, to learn from our experience in New Jersey and elsewhere.

And our experience in various states and nations around the world leads us to conclude that most governments adopt policies in a vacuum with little regard to how those policies regarding casinos, tourism, parimutuel wagering, and lotteries affect each other, and how those policies can have unanticipated cause and effect relationships with other policies, which might range from urban development to revenue generation.

So while we have performed studies and are doing studies on behalf of the Casino Association of New Jersey -- which is an industry trade group. And one area of particular focus over the years has been the potential impacts on Atlantic City from changes in State policy regarding the Meadowlands. In a very important sense, the New Jersey casino industry has a vital stake in any effort to identify and capture the highest and best use for the Meadowlands. If the Meadowlands is transformed into an economic engine for the State, that benefits the casino industry, which depends on northern and central New Jersey as their most important markets. But in another equally important sense, any policy that does not fully take into account the impact on Atlantic City, or that creates in-state competition for casinos, could create an economic train wreck that would be devastating to the casino industry in New Jersey, as well as to the overall economy.

Transforming the Meadowlands into a competitor of Atlantic City would create -- this is a critical point -- would create a very real, irreconcilable conflict between two State policies. Since 1976, when voters approved a referendum to legalize casinos in Atlantic City, the State's gaming policy has been the redevelopment of Atlantic City. And for more than three decades, it has worked precisely as planned. When Atlantic City grows, the State benefits in various ways.

So the State's interests, and Atlantic City's interests, and the gaming industry's interests have, to date, operated on parallel tracks. Creating a new competition in the Meadowlands creates, essentially, diverging interests. The State's share, by definition, of Meadowlands slot revenue -- based on the presumed tax rate -- would, under any scenario, be

significantly higher than its share of Atlantic City revenue. And to be precise, I'm talking about the tax on gross gaming revenue.

Now, this disparity means that the State Treasury would have a clear, abiding interest in maximizing gaming revenue at the Meadowlands where the tax rate would be significantly higher. The casino industry in Atlantic City, however, would have a clear interest in maximizing revenue at Atlantic City properties. And this is an irreconcilable conflict that pits region against region, State against city, and potentially legislator against legislator. And we could envision future conflicts as well. Because as we sit here today, most states that have added slots to their tracks -- a number of states -- certainly some of the states surrounding New Jersey -- are in the process of adding table games as well. So this conflict becomes potentially even more pronounced.

In a nutshell, creating in-state competition would hurt Atlantic City, which has already been harmed by the twin impacts of a recession and competition. Now, that-- If you look at Atlantic City today, you can see that problems are addressable, even though some adults have shifted some of their business to out-of-state properties. Many still find Atlantic City to be attractive, particularly properties that have invested in the quality and breath of their attractions -- which underscores what Atlantic City needs from New Jersey and what it offers, regardless of a recession and regardless of competition.

Atlantic City needs capital investment to continue on its evolution into a regional entertainment destination. The potential for competition at the Meadowlands threatens to undermined the investment climate in Atlantic City and add risk for any investor considering Atlantic

City. Risk translates into a higher cost of capital. And even the overhanging, perpetual threat of competition at the Meadowlands adds risk. That risk is already baked into the cost of capital for any Atlantic City property.

Essentially, the State should be concerned with altering the status quo, which sends out a message to investors that the rules in New Jersey are not fixed. And that factor is very real for in-state competition. It does not exist for the potential for expansion out of state.

So as we sit here today, our findings show that the interest of the Atlantic City region, the casino industry, and the State of New Jersey, as well as the interest of those who live and work in the Meadowlands region, are precisely parallel. Each benefits from the success of the other. And I respectfully suggest that one of the things that this Committee and, ultimately, the State needs to be concerned about is the potential impact from derailing those parallel interests.

Thank you.

SENATOR BUONO: I apologize, but (indiscernible) talking to Senator Cunningham. She has a funeral, unfortunately, she has to attend. So if I missed something, please forgive me.

But you had spoke in terms of gaming. And I know other -- I think Dennis Robinson and others have talked about gaming becoming a regional activity. Yet, New Jersey hasn't expanded slots, as you said, beyond Atlantic City so as not to cannibalize the market. But racetracks in surrounding states have added slots, and casinos have invested outside of New Jersey borders at racinos, and they continue to do so. So could you

discuss what the impact would be on Atlantic City if slots were added to New Jersey racetracks, given the new reality?

MR. POLLOCK: Absolutely.

I do want to point out that there are some critical differences between gaming expanding in Pennsylvania, Delaware, New York, elsewhere in that those expansions should have been and, in most cases, were anticipated. It's different when you have in-state--

If I may, I think, answer the first part of your question. There are three essential differences. The Meadowlands, essentially -- because of its location -- would cut off Atlantic City from clearly what we determine to be its most important markets in northern New Jersey, New York, and elsewhere. The other reason is that the capital markets would look at this as a very real change in plans and raise the cost of capital for Atlantic City operators. And the third is what I alluded to in my testimony -- is that you create irreconcilable conflicts of policy.

But the second part of your question is: What would the impacts be? We did a very detailed study in 2007. We just recently updated some of the findings. If there was a casino in the Meadowlands today, Atlantic City, we anticipate, would generate, on an annualized basis, just about \$4 billion of annual revenue. The Meadowlands would take somewhere between \$180 million to \$242 million of that. The funding for the Casino Revenue Fund -- 8 percent goes to seniors and so forth -- would decline between 13 and 18. The Casino Reinvestment Development Authority's funding would decline by \$2.2 million to \$3 million. Jobs would -- the number of direct jobs in Atlantic City -- people would be laid off -- somewhere between 1,600 and 2,130; the indirect jobs that would

decline as a result of that -- somewhere between 2,300 and roughly 3,000. Salaries and wages would decline by between \$42 million and \$57 million, indirectly by an additional \$81 million to \$108 million.

SENATOR BUONO: I just wanted to clarify something, because my staffer had said she wasn't-- I thought you were talking about a casino, not VLTs in the Meadowlands. Are you talking about a casino?

MR. POLLOCK: Well, it's a-- These are essentially-- We're assuming slots at this point, correct? (affirmative response) We're assuming slots, VLTs.

From the standpoint-- We think the terms are interchangeable, certainly from the standpoint of a player. They're synonymous.

SENATOR BUONO: But I'm intrigued. When you mentioned casinos-- Have you done any reports or any studies about the potential of an actual casino -- state-of-the-art casino, which could be run by an interest that is already in New Jersey? Have you done any studies on that?

MR. POLLOCK: Well, the answer is that there is not much of a distinction, from a practical standpoint, from a market standpoint, from the standpoint of going to -- whether it's a VLT or casino.

SENATOR BUONO: Oh, I think that's not -- and I know that you're the expert, but anybody I've heard -- the experts testify who are much more well-versed than me -- feel differently. In fact, the folks who invest in Atlantic City have spent millions, if not hundreds of millions of dollars of State money in taxpayer-funded projects to create a destination resort. So there is a big difference.

MR. POLLOCK: Well, understood. But the-- And we are certainly not envisioning -- and I don't think any of our models took into

account the prospect of a destination resort property similar to what you have in Atlantic City at the Meadowlands. What we've envisioned is -- essentially, a racino that accepts wagers in the form of slot machines potentially tables, but essentially slot machines. A destination, no. That's not what we envisioned.

But there was another part to your question.

SENATOR BUONO: That's okay. I think you answered it.

Senator Sarlo.

SENATOR SARLO: Thank you, Madam Chair.

Does your company work for casinos?

MR. POLLOCK: We mostly work for governments, but we certainly do research and analysis on behalf of--

SENATOR SARLO: So you've been paid by casinos in the past.

MR. POLLOCK: Yes, correct.

SENATOR SARLO: So you're not really an independent analyst of whether casinos are good to be -- is a good place for the Meadowlands, because you've been paid by casinos.

MR. POLLOCK: We do have a history, however, of-- And we're very proud of this. In any study we do, there's no predetermined outcome. And we have studies that are in the public domain that demonstrate, whether public or private, our findings are not necessarily those that our clients wanted to hear. And I think that's an important point to make.

SENATOR SARLO: That's an important point. But you have been paid for-- Casinos have paid for your-- You've conducted studies on their behalf.

MR. POLLOCK: Correct.

SENATOR SARLO: The question is -- and I just want to follow up on Senator Buono, because I think she made a very good point there -- is: We're not talking-- What we're talking about-- What we heard before from Dennis Robinson and others -- we have a horse racing industry that is failing. Perhaps we can consolidate the operations at Monmouth Racetrack. We have debt service over years of debt service that has been put in place. We have arenas that perhaps -- could argue are competing against each other. Wouldn't a casino at the Meadowlands make the most sense to deal with the debt service, to deal with the horse racing industry that is failing? Because I believe -- and I've seen the chart before with all the beautiful stars up there -- there is a finite amount of gaming revenue from the State of New Jersey. And I'm telling you, New Jersey is getting their butts kicked right now in losing that gaming revenue to other states. Pennsylvania and New York are kicking our butts on it, because we're not capturing that revenue. And the unfortunate part is, the casinos themselves are operating just over our state borders. It's kind of hypocritical that they're opening up just outside of our state borders, taking revenue from the State of New Jersey -- and taking it outside of New Jersey. We could solve a whole host of problems here if we would just get to the point that a casino at the Meadowlands would solve a lot of these problems and provide enough money in revenue to inject back into the economy of Atlantic City. How could you not agree with that?

MR. POLLOCK: Well, it's a fundamental question that we have looked at. And there are essential, critical differences between a casino outside the state versus one inside, in the sense that, for example, Harrah's does operate a casino right over the New Jersey line in Chester. And the existence of that casino over the state line actually inures to the benefit of their Atlantic City property, in the sense that the tax rate is significantly lower here, they're able to build a destination, so that the people can play at one casino and earn points to then come to Atlantic City.

That model is not possible with the Meadowlands, largely because of the points that were raised earlier. When an out-of-state casino or racino exists, you do not have that conflict in New Jersey policy. In other words, a casino at the Meadowlands creates competition, in-state, that, in my view -- and our research would show -- is irreconcilable. You still have those parallel interests when you have casinos outside of New Jersey.

It's interesting, and it's a very important point. When Pennsylvania allocated its licenses -- the ones that it was able to in a competitive process -- Harrah's was not part of that, because they had -- it was a racetrack, and they had to award a licenser. But when they awarded the competitive bids to operators, they actually made it a conscience decision, on the record, they were not going to award it to a company with operations in Atlantic City for that fundamental reason -- that it would create the situation where you identify players in your high-tax markets and then bring them into your low-tax markets where you can cultivate them. That process requires capital investment in Atlantic City to build destinations.

SENATOR SARLO: Every member of this Committee is a member of the Senate Budget and Appropriations: Senator Buono being the former Chair, I'm the current Chair. We are concerned about revenues, and to balance our budget, and to make sure we can pay for education funding to help our most vulnerable citizens. Do you believe that we are losing gaming revenue to other states right now, as a whole? The State of New Jersey: Are we losing gaming revenue to other states?

MR. POLLOCK: Absolutely.

SENATOR SARLO: How do we get it back in New Jersey?

MR. POLLOCK: Well, that's a great question, and it's a fundamental question. Because if you look at-- The way you get that back is by building a destination in Atlantic City that has capital investment in it to create something other than a basic casino. Because the critical point is that for most of its history, the Atlantic City casino industry derived its revenue because it was the most convenient place to gamble. It hasn't been that way for years. And it needs capital investment to transform itself.

Can it work? Yes, and the best example would be Las Vegas, which, even today, depends on California as its principal feeder market. About 45 percent of its visitors come from California. California has a \$7 billion casino industry. The large operators in Las Vegas recognize, correctly, that they can't exist because they're the most convenient place to gamble. Las Vegas is not the most convenient place to gamble for anyone who lives outside of Las Vegas. They had to transform their business model.

Atlantic City essentially has to do the same thing. The problem is that--

SENATOR SARLO: How do you do that? How do you transform that business model?

MR. POLLOCK: It's capital investment, pure and simple. With the exception of the Borgata or the exception of a few properties that have been able in recent years to invest in their properties to create -- add additional attractions, go after a broader array of adults -- broader demographic, affluent adults, Convention Center visitors, a number of markets that otherwise would not come to Atlantic City -- it really comes down to capital investment.

SENATOR SARLO: We want Atlantic City to succeed. We've made a significant investment. We want it to succeed. But it's a little concerning that-- We need it to succeed. It's an important part of our economy here in the State of New Jersey. But it's a little concerning that the same facility operators and owners won't think twice about opening up shop just outside our state borders and not reinvesting those revenues back into the city of Atlantic City.

MR. POLLOCK: Well, it's interesting because-- Well, I would argue that if I -- and we have said this to operators -- "If you have a property in Atlantic City, the best thing you can do to grow your revenues in Atlantic City, and actually do well in other states, is to build properties in other states -- that you create this hub-and-spoke business model."

You can't get the capital investment-- You're asking the right questions. There's no question about it. You can't get the investment unless--

SENATOR SARLO: I'm not getting the answers.

MR. POLLOCK: Right. You can't get the investment in Atlantic City if the risk is too high to get the capital to build those attractions. That's the one fundamental point.

And the other fundamental point is that you would have the conflict between State policies that does not now exist and would not exist with gaming in other states.

SENATOR SARLO: If we were to put a question on the ballot -- my last question. If we were to put a question on the ballot: Do we want to provide additional gaming opportunities in the State of New Jersey -- perhaps at the Meadowlands, perhaps the City of Newark, perhaps the City of Jersey City on the waterfront -- I'm not just saying the Meadowlands -- would it pass?

MR. POLLOCK: You're asking me for a political prognostication. I would suggest that--

SENATOR SARLO: Perhaps we want to build one in Newark, one in Jersey City, and one at the Meadowlands.

MR. POLLOCK: Well, you know, it's interesting. The 1974 referendum would have let casinos anywhere in the state, and that went down two to one. Today I don't know. I don't think the public would have considered some of the issues we've looked at. So I don't know.

SENATOR SARLO: Okay. Thank you.

SENATOR BUONO: Thank you.

Anyone else? (no response)

Thank you very much, Mr. Pollock and your support group.

MR. POLLOCK: Thank you.

Steve Gabel.

And, Steve, you brought someone with--

S T E V E N G A B E L: No.

SENATOR BUONO: Oh, okay.

Congratulations, by the way.

MR. GABEL: Thank you, Senator and Senators, for inviting me here today.

I'll be brief. I really just want to touch on some energy-related issues as they apply to the Sports and Exposition Authority. Obviously, it's a little bit off-track from the other issues that we've been addressing, but I think there are some opportunities here to either realize additional revenues, reduce costs, as well as address some of the State's environmental goals in terms of reducing greenhouse gases.

SENATOR BUONO: And if you could, if it's possible, when you're speaking, could you also incorporate your thoughts or feelings about how -- the approach that the Meadowlands Commission is taking in that regard?

MR. GABEL: Absolutely.

SENATOR BUONO: Because they have explored those options, right?

MR. GABEL: Yes.

SENATOR BUONO: Okay.

MR. GABEL: Absolutely.

Essentially, under today's energy policies -- both international, national, and State energy policies -- there's a host of opportunities out there for the SEA or others to realize additional economic benefits. That runs the gambit from renewable development, solar, wind. For the

Meadowlands Commission, that also includes landfill gas projects; the implementation of energy management strategies, which would go to being more efficient; or implementing advanced technologies.

For the purposes of what you're thinking about in this Committee, I think it's important to realize that all of these are long-term commitments. So to the extent there are questions out there as to the future of the SEA, that gets into questions. These are all capital investments that are big on capital. Some of them use no fuel. A solar project is a no-fuel project with minimal operating costs. So in doing those projects, you're laying a lot of money out in the front end for benefits that accrue over the life of the project. Anyone who is going to lay the financing down for this -- and that's whether it's the public sector putting money down or the private sector -- is going to want to know that the party paying the dollars -- in this case the SEA -- is going to be there over the long haul. So any of these questions about energy automatically get intertwined into all the other questions you've been addressing today. To make a good energy policy in the Sports and Exposition Authority, you need to tie that fact to a long-term, stable plan for the overall Authority to make it work.

The Meadowlands Commission, in fact, has embarked on exactly that type of plan. And if you look around the district, particularly on properties that the Meadowlands Commission itself owns or controls, they have a host of projects going on right now, from landfill gas, to solar projects, to wind evaluations, and so on down the line. The value proposition for those projects, as with projects at the Sports and Exposition Authority, is really around four things that can be mined and create value for the State and for the SEA. That's obviously the value of the energy.

New Jersey's electric rates are fairly high -- anywhere from \$0.10 to \$0.15 a kilowatt hour can be saved by getting into these technologies. New Jersey's own policies to create what's called a *REC*, R-E-C, renewable energy certificate, creates value. And the Federal government creates two big sources of value. One is a 30 percent tax credit which, right now, comes -- at least for this calendar year -- in the form of a cash grant to the applicant; and Federal accelerated depreciation, which also -- I won't go into details -- creates a lot of project value. You package these four things together, and you have a project that can either create value for the SEA or whoever is implementing it. That value can show up in any number of ways. You can do the project yourself and mine all those benefits yourself. You can bring a third party, private vendor in to give you a lower energy price, or to pay lease payments. The Meadowlands Commission has looked at both of those and is implementing projects that will realize both of those types of benefits.

So, of course, you have, for a public entity -- they are not a tax-paying entity. So to realize some of these Federal benefits, which come in the form of tax benefits, you need to engage a third party to realize those benefits. Thirty percent is a big piece of a project. And it's hard not to try and develop a project that could realize those benefits. I'm not going to go into detail.

SENATOR BUONO: You wonder what-- If all those incentives are out there, it kind of surprises me that the Sports Authority hasn't been approached by any-- I mean, would you even know if they have been approached?

MR. GABEL: I know that they've looked at-- Well, first of all, with energy efficiency and power procurement, I know that the Sports and Exposition Authority has done an active job of realizing benefits in both of those areas.

With respect to renewables -- as I talked about the longer term commitment -- is something that either a vendor is uncertain about with respect to the SEA, or the SEA itself might be unwilling-- Because any vendor is going to protect itself. They're going to put somewhere in their contract a provision that says, "If you cut me off in three years, or five years, or seven years, you need to make me whole." And that tends to be the poison pill for someone who wants to get into that.

There is wind capability. I haven't looked at it specifically on this property. But there are a host of technologies, and tax benefits, and other benefits that can improve in that.

In general, I think there is a lot to be done here -- again, after the stability that I talked about, from a financing standpoint, can be addressed. There is a lot to be done here in terms of renewable projects, as well as looking at energy efficiency, as well as questions of assessments preconstruction to make sure the projects are truly addressing carbon footprint issues and alike.

So that's the short version, Senator. I'd be happy to answer any questions you have.

SENATOR BUONO: Thank you very much.

I have -- other than what I've already asked -- I think not.

Thank you for your patience. My best to Meryl.

MR. GABEL: Will do.

SENATOR BUONO: Next -- and I know you've waited very patiently -- our last panel -- very important panel, which would address community concerns and issues. You can all come up together if you'd like: the Honorable Michael Mahon, Mayor of Oceanport; and Tom Gagliano, former Senator. I think they wanted to come up together. And then we also have Jim Kirkos, CEO of the Meadowlands Regional Chamber of Commerce; and Kevin O'Brien, President of Local 632, International Alliance of Theatrical State Employees.

Mayor (*sic*).

F O R M E R S E N A T O R S . T H O M A S G A G L I A N O :
I'll move over a little bit.

Good afternoon, Senator.

Thank you very much for the opportunity to be here.

Many years ago I represented the central portion of Monmouth County in the State Senate. It was variously known as District 11, and then District 12.

I started my politics in the Borough of Oceanport, and I've been very concerned about Oceanport over the years.

There are two things I'd like to bring to the attention of the Committee. The first thing, of course, is the viability of Monmouth Park. We believe Monmouth Park is a gem. We do understand that racing has had its difficulties and is continuing to have those difficulties. So whatever the panel can do to help Monmouth Park continue and to grow and expand, we'd love to see it. We understand that there will be changes in the racing programs for the summer, and we pretty much endorse that.

The second thing I just wanted to mention is Fort Monmouth. Under the Base Closing Act of the Federal government, Fort Monmouth will be closed in September of 2011, which is not very far away. Fort Monmouth now employs almost 5,000 people in various categories, including scientific, and technological, and communications, and that sort of thing.

In addition, there are many companies and organizations that do business with Fort Monmouth, maybe to the tune of another 3,000 to 5,000 people. So we are facing, in central Monmouth County, a real problem over the next couple of years.

So getting back to Monmouth Park, we hope that the Legislature will do everything possible to continue to support Monmouth Park and, in a sense of course, the Sports and Exposition Authority, because we are owned by that.

I was involved in the beginning of the transaction, shall we say, when the State of New Jersey came to us and said, "We'd like to buy Monmouth Park." I said yes, I would support it. I thought it was a great idea, because they wanted to continue the circuit of racing in New Jersey, and they thought Monmouth Park was a good part of it, and they were right. I said, "As long as taxes are paid, it's a wonderful thing." The legislation was passed, and Oceanport continues to get paid taxes, which I think is very important.

And with me this morning is the Mayor of Oceanport, who is doing a fine job. He created a task force to help both Monmouth Park and Fort Monmouth folks, and he asked me to be a part of it. So I'm here. It's wonderful to be here. I heard so much history today, which I guess -- some

of which I was a part of. And it just proves to me how important it is that you (indiscernible) going into this. It really is. Because I don't think there's been an opportunity like this in a long time. So I congratulate you for that.

Here's the Mayor.

SENATOR BUONO: You have no idea how much I appreciate that. I took a lot of heat for holding this Committee meeting. (laughter)

When did you serve in the Senate?

SENATOR GAGLIANO: I was elected first in 1977, and I served until 1989.

SENATOR BUONO: So who were the governors then?

SENATOR GAGLIANO: I served under Governors Byrne and Kean.

SENATOR BUONO: Byrne and Kean.

SENATOR GAGLIANO: Yes.

SENATOR BUONO: Thank you for coming.

SENATOR GAGLIANO: Thank you.

SENATOR BUONO: Mayor, if you would.

M A Y O R M I C H A E L J. M A H O N: Thank you, Senator Buono, members of the Committee.

Oceanport has been home to Monmouth Park since 1870. Monmouth Park 1 and 2 were located on what became the main post of Fort Monmouth. The Monmouth Park we know today began as the old Rufus West Farm, later called Elkwood Park -- a single, short meeting was conducted in 1893. An act of the Legislature in 1894 prohibited gaming in general, and horse racing laid dormant for the next 50 years. It wasn't until

1946 that the new Monmouth Park Racetrack opened at the earlier site of Elkwood Park, where we know it today.

The Sports and Exposition Authority was created by an act of the Legislature in 1971. And in '85, the Authority reached an agreement to purchase Monmouth Park for \$45 million. Monmouth joined the Meadowlands, already owned by the Authority and built some eight years earlier at a cost of \$100 million. Today's Monmouth Park is valued at more than \$90 million.

Our remarks here today will focus on three main points: understanding the projected deficit of \$22 million by the Meadowlands Racetrack and Monmouth Park in 2010; focus on the possible by discussing a reduced racing schedule with higher purses; and finally, a vision for Monmouth Park's future in a continued partnership with the Borough of Oceanport.

Understanding the projected deficit: We must begin by restating the loss predicted for horse racing in 2010. Current law allows for the establishment of 15 off-track wagering facilities around the state. Licenses currently held by the Authority account for nine facilities, but only one located in Woodbridge has been built. Still, this facility accounts for \$9 million in profits not credited to horse racing.

The projected deficit must take into consideration another predator. Of the \$22 million in projected losses in on-track business, \$6 million is a charge back for the New Jersey Racing Commission. The cost for this State Commission was shifted from the regular State budget -- in large measure to the racetracks -- under a prior administration. Today, this shift accounts for \$6 million of the projected loss in horse racing.

With these two amounts included, the predicted loss is only \$7 million. With the hoped-for addition of the Bayonne off-track wagering in the coming year, and a third location in the works, horse racing for the Authority will be profitable.

The Oceanport/Monmouth Park partnership has existed for decades. Monmouth Park and Oceanport share a special relationship. We can take a look back to 1961, when the Monmouth Park Jockey Club deeded six acres to the Borough, where the Borough Hall, public works garage, and fire station were later built.

Most recently, the Borough of Oceanport supported a \$23.2 million loan for construction of a stormwater management project at the track. This loan is a combination of bonds sold by the Borough to the New Jersey Environmental Infrastructure Trust and secured by the full faith and credit of the Borough.

Through a special assessment agreement between the Authority and Oceanport, the loan will be repaid over 20 years. This arrangement was arrived at after several well-attended public hearings, project meetings, and presentations, leading to unanimous public support for the project. The project seeks to end contaminated runoff into nearby Branchport Creek from the track and stable area.

As you can see, the Borough views Monmouth Park as a partner and vital to our mutual success. And I'd like to especially mention Dennis Robinson for his leadership on this issue. At every opportunity, Oceanport has supported efforts by Monmouth Park to expand their entertainment offerings. Be it the Warped Tour, the Jersey Shore Jazz Festival, or perhaps a twilight concert series, community for Monmouth Park is strong. For its

part, the Authority has long-supported local nonprofits. The 2007 Breeders Cup Fan Fest was filled with community events such as the sailing regatta and polo match, to name a few, all to support local nonprofits.

We've discussed the local importance of Monmouth Park Racetrack, but it can't go without mentioning the value of horse racing in our county and around the state. Monmouth County has more than 27,000 acres dedicated to equine uses and almost 5,000 in farmland preservation. Only Hunterdon County has more acres at 29,000. Employment generated is nearly 13,000 jobs. It's easy to see why the horse is New Jersey's State Animal.

Next, we need to focus on the possible for success in racing. The 50/50-- As alluded to earlier by Dennis Robinson, Monmouth Park's thoroughbred schedule would be cut nearly in half, but its purse structure would be tripled to an industry-leading \$1 million a day under a plan to save the State's ailing horse racing industry. A duel meet format begins with 50 days focused on quality racing and attractive purses, followed by a fall meet of 21 days with at least \$250,000 in daily purses all conducted at Monmouth Park Racetrack.

The duel meet format seeks to provide a balanced number of racing days and opportunities for the horsemen to compete for purses and improve their stables. At the same time, the 50 days and \$50 million will improve the quality of each race, increase the on-track handle, and improve payouts. In addition to eliminating two days of operating costs, this plan will leave the Meadowlands for harness racing, and the Sports Authority would see a major savings by not having to convert the Meadowlands

Racetrack from a surface for thoroughbreds to one for harness racing, as it does each year.

The harness racing industry would benefit by being able to choose better late fall dates at the Meadowlands because of the absence of thoroughbred racing. We believe it will also allow for the highest and best use of the Meadowlands Racetrack facility by the Authority.

Amending the thoroughbred racing schedule would require legislative approval since, under the law, the Authority, which runs the Meadowlands and Monmouth Park, must race 141 days a year. This is a question which may be considered by this Committee and the full Legislature in the coming weeks, and, hopefully, enjoys your full support.

No discussion on the sustainability of horse racing in New Jersey is complete without mentioning competition from neighboring states. At every border, we are surrounded by gaming opportunities. In many cases, these gaming outlets are more convenient than a trip to Atlantic City and certainly less expensive for traveling when distance is a factor.

There are currently 10 locations along our borders, with another two destinations planned. These gaming destinations are a direct threat to Atlantic City and the casino industry in New Jersey. As a State, we can choose to compete by offering gaming destinations of our own outside of Atlantic City or watch as profits continue to drop.

This problem is as much a horse racing as it is a casino problem. Introducing slots or video lottery terminals outside of Atlantic City may be the answer for both the casinos and the racetracks. The casino industry's sole argument against slots at racetracks in New Jersey is based on the assumption that slots at the tracks would hurt them, through a loss in their

slot revenue. This position would be very difficult for them to support with facts and something that should be the focus of your investigation. The \$30 million the casinos presently use to underwrite the purses and block slots at racetracks could be better spent promoting Atlantic City and investing in a franchise agreement with the Authority to install and operate slots and VLTs at the Meadowlands.

The Authority, the casinos, and horse racing would all benefit from the resulting synergy such a partnership would create, opening new markets to the casinos and attracting the convenience player once again to New Jersey gaming. Slots at New Jersey tracks can draw back the dollars lost to other states' racetracks. Give the convenience gamer another choice. Why cross the border when you can play slots and ponies in New Jersey, and go to Atlantic City? We'll have both.

Looking forward, we have a vision for Monmouth Park. Monmouth Park is an underutilized facility and can easily support multiple uses as an entertainment destination. These alternate and compatible uses should be geared to maximize the facility in and out of season. This is true in the current format or in the possible 71 racing days. In either case, the facility is capable of supporting a variety of uses within its current configuration or with minor alterations to accommodate other uses. Exposition or conference space can easily be carved from within the current facility. Minor additions would allow for performance venues, night clubs, retail or restaurant uses. All of this is possible through public and private partnerships, and they hold the key to these opportunities.

In addition, Monmouth Park might be able to support expanded stabling through winterization. A training facility located nearby

-- perhaps at Fort Monmouth -- would permit trainers and owners to ready horses for the new racing calendar and fill those 12 races daily with quality horses from opening day to closing day. Twilight racing offers another option for beach goers and the traditional Friday exodus to the Jersey Shore, with post times that won't compete with the sand or sun.

In conclusion, let me restate the three main points. Understanding the projected deficit: Off-track wagering is a success story and should be repeated with additional locations quickly. Focus on the possible: The 50/50 model, as you heard earlier -- 50 days of racing for \$50 million in purses is a plan for success. The Legislature may be asked to consider a plan that doesn't count the days but emphasizes making the days count. A vision for Monmouth Park: public-private partnerships to expand uses and maximize the facility. Make it a profit center for the Authority.

The Borough of Oceanport recently assembled the Monmouth Park Task Force. This group consists of elected officials, past and present; local horsemen; business leaders; and residents. It is with their assistance that we present testimony before this Committee. The Monmouth Park Task Force will continue to offer advice and support those efforts underway by the Oversight Committee and the Governor's Gaming, Sports, and Entertainment Advisory Committee.

The underlying benefit to the State that must be considered by this Committee as part of its research is the benefit of jobs and open space throughout our state, owed in large measure to horse racing and the equine industry. Monmouth Park Racetrack directly and indirectly employs 3,000 people. These include building trades, horsemen, and a variety of other positions. Each of these jobs contributes to the local economy by

patronizing businesses, from barber shops to hotels in surrounding communities. Each pays their share of income taxes and contributes to the State's revenue.

Only four of New Jersey's 21 counties are without a preserved horse farm supporting the equine industry. The Rutgers Equine Science Center reports of 2007 and 2009 related to the equine industry contain data related to the economic impact across the state. These are important resources for this Committee.

An act of the Legislature passed in 1894 prohibited gambling in general and caused the closure of the original Monmouth Park. As a result, racing lay dormant for more than 50 years. Coincidentally, an act of the Legislature in March of 2010 may hold the key once again to the survival of horse racing in New Jersey.

We hope these contributions from the Oceanport Task Force have informed and influenced your perspective on this important issue. And we thank you for the opportunity to speak.

SENATOR BUONO: Thank you, Mayor.

So I take it that you support the discussion about the proposal to reduce the number of racing days at Monmouth and to eliminate thoroughbred racing at the Meadowlands. You support that?

MAYOR MAHON: Yes, we do.

And in a referendum you referred to -- I think most voters would vote yes.

SENATOR BUONO: Okay.

Anyone?

Senator Sarlo.

SENATOR SARLO: Mayor, thank you.

Consolidation of the racing into Monmouth Park -- does that work? Would Oceanport and the surrounding areas be able to handle that if we were to consolidate all the racing operations there?

MAYOR MAHON: We think absolutely.

SENATOR SARLO: Okay.

MAYOR MAHON: Absolutely. One of the things that we do at Monmouth Park already -- Monmouth Park provides the stabling for the majority of the horses that are run at the Meadowlands -- the thoroughbred meet.

SENATOR SARLO: The thoroughbreds.

MAYOR MAHON: Yes, we stable up to December 5 each year, and the horses are transported on a daily basis.

SENATOR SARLO: Thank you, Mayor. Good luck to you.

MAYOR MAHON: Thank you.

SENATOR BUONO: Anyone else? (no response)

Thank you very much.

Senator, I appreciate you coming and contributing.

MAYOR MAHON: Thank you.

SENATOR GAGLIANO: I appreciate it.

SENATOR BUONO: Last, but certainly not least, Jim Kirkos, CEO, Meadowlands Regional Chamber of Commerce.

Welcome and, again, thank you for your patience.

Oh, no, we actually have Kevin O'Brien.

I'm sorry, Kevin.

Why don't you just come together? And which ever one of you goes first-- The red light has to be on for whoever is speaking, but only one, because otherwise it gets distorted. (referring to PA microphone)

J I M K I R K O S: You're not going to turn the lights out on us, are you? (laughter)

SENATOR BUONO: No, I will just shut off your mike. (laughter)

MR. KIRKOS: Madam Chair, Madam Vice Chair, Senators, thank you very much for allowing myself to come testify today.

I, like Bob Ceberio who testified earlier, am a Lyndhurst resident of 45 years; a business owner in the Meadowlands for 23 years; and for the past seven years I've served as the Chief Executive of the Meadowlands Regional Chamber. So this Committee can see I have a long history in the Meadowlands. And I believe I have a clear experience perspective about the Meadowlands Sports Complex.

I'm here today representing over 800 companies: mom and pop shops on Park Avenue in Rutherford and Ridge Road in Lyndhurst; to major corporations like Ernst & Young, and Panasonic, and Goya Foods, and Hartz Mountain, and alike. That includes tens of thousands of employees and their families whose livelihoods depend on the success of the businesses in the Meadowlands. So today's discussion about the NJSEA and the Meadowlands Sports Complex is extremely important to us.

I must admit that I was very concerned about the motive for these hearings, initially. I am bullied by conversations -- and have been given some confidence from conversations from your staff. And I believe I have shared some information of the people I represent. Recently we

established what's called the Meadowlands 20/40 Council. And that is what we believe is an economic development think tank comprised of senior executives across all industries, across all sized businesses. And these are the folks who help us craft our public affairs message. But, more importantly, those are the people we're representing here today.

We've witnessed quite a bit of misinformation being actively distributed about the Complex, its various components, and the NJSEA itself. We've watched special interests from other parts -- other regions and other parts of the state fund and actively coordinate targeted campaigns that serve to further that misinformation. Unfortunately, we've watched the public dialogue subsequently disintegrate into knee-jerk suggestions for solutions that do not serve the public interest or the collective statewide interest, let alone the interests of those currently involved in the economic base of the Meadowlands.

But as I said, I'm convinced that an open dialogue can only produce a better understanding of the facts. Facts that--

SENATOR BUONO: Only the best intentions. We have no ulterior motive. I'm glad that you feel that way. Thank you for saying that.

MR. KIRKOS: I do. We're much past that.

Facts that illustrate that the economic growth of the Meadowlands region and the Sports Complex is an important factor in the economic growth of the state; facts that prove that the success of the Sports Complex does not mean the detriment of the economic opportunities in Atlantic City; and facts that prove that the success of the IZOD Center need not be thrown away to support the interests of the Newark Arena.

I will now share some of the reasons why I believe the way I do.

The Meadowlands Sports Complex has been the epicenter and nucleus that has driven investment, property values, economic development, and job growth for the entire region for 30-plus years. Event-day activity at the new stadium, the IZOD Center, and the Racetrack fills thousands of hotel rooms, restaurants, retail stores, not to mention all of the support services that add greatly to the overall economic impact, especially with small business, right into all of the local communities. Meadowlands Xanadu, when opened, will take all of these positive impacts to a whole new level.

Throughout the years, the NJSEA has been extremely successful in establishing a worldwide brand, as was discussed before, and that should be capitalized upon given the recognizable sense of place that is provided by such a brand.

You know, I believe one of our previous gentlemen giving testimony talked about the power of that brand. When I travel around the country for Chamber events and/or CVB -- and I meet with CVB colleagues across the United States -- when I say I'm from the Meadowlands, they know exactly where I work. So the power of that brand has untold benefits.

A destination-related economy, driven by tourism to the Meadowlands, can be a sustaining economic tool creating thousands of jobs and needed tax revenue. But during the past 30 years, many administrations in Trenton have siphoned off the surplus funds and utilized staff from the NJSEA for other statewide initiatives, and have intervened politically in franchise negotiations that have left the NJSEA powerless at times to advance its own business. So it disturbs me greatly when I read editorials on the Authority's inability to sustain itself. Quite frankly, these

editorials are very disingenuous and are aimed at the NJSEA's demise. We all know there are forces among us who will stop at nothing to promote the failure of the NJSEA and components of the Sports Complex, like the IZOD Center. This Committee must see through this and take into account the best practices and the bad political decisions as a root for some of the current financial status of the Authority.

The Meadowlands Regional Chamber's experience with the NJSEA -- very much like that of the New Jersey Meadowlands Commission -- has been open and collaborative on many fronts. We find the Authority to be extremely sensitive to the economic impact that it has on the Complex and area businesses. We see no example of political patronage. But instead, we experience a very dedicated staff who work long hours. In fact, a few Sundays ago you could find senior vice presidents at the Authority manning shovels, clearing the snow out of the Stadium so that the game could go on, on time. And I might also add that on that particular Sunday, out of seven markets around the country that were affected by that snowstorm, there was only one NFL football game that went off on time, and that was at Meadowlands Stadium.

The real issue here today is whether the State has the patience and confidence to use the NJSEA as its vehicle to resolve the problems or find some other mechanism. At this time, we cannot suggest another process. No matter what its flaws, the consistent fleecing of the agency for other State initiatives is the root of its problems, not its performance.

But let's separate the political from the economic. I'm here mainly to advocate for jobs and economic development that will enhance revenues to our state and help us grow out of our fiscal dilemma. The

NJSEA operating the Meadowlands Sports Complex has earned our respect for what it does for our region and for the State generally. And as an aside, typically business associations like ours are not the biggest fans of government agencies. But we happen to be very proud of both the Sports Authority in our area and the New Jersey Meadowlands Commission.

The simple fact is that for the money the State loses on its racing program, the economic impact of losing racing in New Jersey is much worse. The truth is that the IZOD Center contributes to its bond payments, an obligation the State cannot escape by closing that facility. And the NJSEA has a business plan in place to make it a net contributor to the State before we consider the \$20 million a year in income and sales tax revenues it throws off. The truth is, the deal on the new stadium has caused considerable financial pain to the SEA despite repeated early warnings. And finally, we have a \$2 billion building called Xanadu that will no doubt be a super regional attraction, but it remains unopened due to dynamics in the economy. And yet, each of these facts somehow come back to my office in the form of closure threats from public officials mostly motivated through regional interests.

Here are my simple truths: Every state that borders New Jersey has saved its horse racing industry with gaming, and if we do not run toward a casino gaming solution, we will lose ours completely. Those in Atlantic City most fervently arguing the health of their franchise know, intellectually, that one thing has nothing to do with the other. And if it did, they would have not opened casinos in Pennsylvania, 100 miles closer to Atlantic City than the Meadowlands. Atlantic City should be our

partner, not our opponent, in broadening gaming policy and offerings in the state.

The IZOD Center remaining open and competing with the Prudential Center is in the State's best interest in many ways, predominantly in total event day count, jobs, and overall economic activity. But let's not forget one thing: The State owns the IZOD Center. So we owe it to ourselves to make it work.

So if this Committee is questioning whether the State should get out of the sports and entertainment business, let's get the answers to some questions, because we owe it to the people of New Jersey to examine all the options. How much could you sell the IZOD Center for to a private investor? Do you know the potential value of a full gaming license or a racino license in the Meadowlands? There are those among my committee that believe a gaming license could fetch close to a billion dollars. How much will that license change if you impose the requirement that a regional convention center be placed on the site as well?

Senators, in closing, the Meadowlands Sports Complex is and must remain a great economic engine, not only for the Meadowlands, but for all of New Jersey. We must have the courage to dream about what the possibilities are and act on them, because that is what those before us did with their vision. Indecision is no longer an option. Your review and analysis of the Sports Complex should be based on business principles not politics. But you should be cognizant of the past political ramifications. Your review of the finances and operations of the SEA should take into account all aspects of the testimony you heard today. And in doing so, I trust that good business decisions can be made in the future.

Thank you for having me.

SENATOR BUONO: Excellent testimony.

Thank you very much.

Anyone at this point? (no response)

Okay, we can move on to our final speaker.

KEVIN M. O'BRIEN: Madam Chairwoman and distinguished members of the Legislative Oversight Committee, thank you for having me.

I'm Kevin O'Brien, President of Local 632 IATSE, representing the theatrical stagehands at the Meadowlands Complex. We are the behind-the-scenes artists and technicians who construct and execute the theatrical shows, concerts, ice shows, and circuses, as well as half-time performances at sporting events. I am, in fact, addressing this Committee from the standpoint of a working president, meaning, in addition to being a union official, I'm a theatrical rigger employed at various times by the NJSEA.

And if you want to know what a theatrical rigger is, on the last page of my testimony I have a picture there of the Madonna rehearsal we teched. Those strings that go up to the ceiling-- Those aren't strings, they're aircraft cable. That holds hundreds of thousands of pounds above the performers' heads. And that's what I do for a living. I am a rigger.

While our Union agrees that there are concerns with regard to ensuring the Sports Authority's financial stability, we also believe that there are viable solutions which must be considered and implemented to bolster the financial sustainability of the NJSEA product mix, one of which we understand is being considered as a means to draw bigger fields and higher-quality horses to Monmouth Park during its spring/summer meet. This, in

turn, would generate enough revenue to offset an approximately \$11 million net racing loss this year.

However, we just as strongly disagree with the purported theory that the viability of the IZOD Center is threatened by other local competition. The IZOD Center can and should be the entertainment jewel of a revitalized Xanadu project. As a union official who has dealt with many concert promoters and tour managers -- they will attest to the fact that the IZOD Center is one of the most efficient in the world with which to load into, perform, and load out a show. This speaks volumes about the physical plant as well as the NJSEA workforce. Speaking not merely of our stagehands, indeed the entire Meadowlands staff interacts seamlessly -- be it the paramedics, the security guards, laborers, electricians, building engineers, food services, guest services -- to give the paying public a safe, enjoyable experience no matter who the performing artist or act.

The domination of the IZOD Center is featured in publications which many in our industry consider to be the show business bibles. According to *Billboard* magazine, the IZOD Center ranked fourth nationally and sixth worldwide during the past decade, attracting over 7 million patrons who spent over \$300 million on concerts and family shows. *Venues Today* magazine released their 2009 rankings, showing that the IZOD Center continued its tradition of strong showings, ranking seventh in the United States and twelfth worldwide.

The NJSEA has taken the necessary actions to make the IZOD Center even more viable to concert promoters in that its management team, its Board of Commissioners, and all unions at the Meadowlands Complex take a no-nonsense approach to business. During recent contract

negotiations, Local 632 IATSE had agreed to forego compensation for the Austrian drape system until such time it had proven feasible. This is the drape system that encompasses the (indiscernible) and cuts down into a half-house with curtains.

To make the IZOD Center even more competitive, our members also waived their rights to recording fees in exchange for a nominal wage increase. And I do want this Committee to know that I stand up in front of the union every month. And I know what it's like to stand up there and convince members that a change in the contract is going to be worthwhile if it will produce more income. And that change in that contract, even though it wasn't politically popular at the time-- We got it through to make sure that management knew that we were serious about bringing extra work into the building.

This has made it more attractive for performing artists and acts such as the WWE to film, tape, rehearse, or broadcast at the Meadowlands Complex. Governor Christie's Transition Team on Gaming, Sports, and Entertainment noted in its report that in 2009, the IZOD Center had been used for rehearsals due to the dates opened up by the departure of the New Jersey Devils. In 2008, Madonna used the IZOD Center as the rehearsal hall for her world tour. And in 2007, both Bruce Springsteen and Marc Anthony/Jennifer Lopez used the building in the same way.

Local 632 IATSE is a progressive union whose officers think outside of the box. When the New Jersey Nets requested spotlight operators during home games, we acquiesced only to discover that basketball management was precluded from executing a collective bargaining agreement with us. Heeding our industry maxim, *the show must*

go on, we agreed to payroll the spotlight operators under the auspices of Local 642 Productions. This is a subsidiary which our union established to make it more economical for our 501(c)(3) employers, such as the Morristown Community Theatre, the Bergen Performing Arts Center, and the New Jersey Ballet, to pay their workforce.

Governor Christie's Gaming, Sports, and Entertainment transition report notes that in the past 26 months, two major arenas operating in the state have driven an increase of 222 events. That's a 58 percent increase over what would have been the historic norm. This substantial increase in events has indeed supported hundreds of jobs in ancillary businesses, increased the entertainment options for our people, and it has increased the State sales and income tax revenue, as well as increasing overall economic activity within the state.

From the State's perspective, two arenas can't have any other effect but being an incontrovertible success. It must be underscored that this has resulted in additional employment for residents of our great state, especially in these trying economic times. A prime example of this occurred last spring when the IZOD Center presented a concert by the Dave Matthews Band on the very same evening that the Devils were at the Prudential Center hosting their very first playoff game against the Carolina Hurricanes. In another instance last summer, 120 stagehands worked a Jonas Brothers concert at the IZOD Center, while 80 more stagehands simultaneously worked Cirque de Soleil at the Prudential Center. Consider that possibly hundreds of families were able to make their mortgage payments that month because both venues were operational on those two nights.

Local 632 IATSE theatrical stagehands from the Meadowlands Sports Complex took the time and effort to assist the residents of Newark in opening the Prudential Center with its first series of concerts. In fact, I shared the honor -- not the task, the honor -- with another Meadowlands rigger, James Mullen, to hang the very first rigging points for the inaugural Bon Jovi concert at Prudential. In turn, these same Prudential Center stagehands have been working at the Meadowlands, thanks to a newly formed cooperation between IATSE's Local 632 and IATSE Local 21 in Newark. Now, you talk about global-- Those same people from Local 21 were asked recently, when we had a 45-man call at Morristown Community Theatre to load "Hairspray" in. We had to call the Local 21 business agent to get an additional 20 stagehands. That's something positive. That's something that was unheard of two, three, four years ago.

One can't help but to realize how many more families have put food on their tables or have paid their heating bills simply because there's additional employment being generated by two venues operating in northern New Jersey, or how many small businesses are still thriving due to the dates being generated by two venues. And I'm going to be the first one to admit I brought a copy of the *Herald* that was -- I think it was published last September. And in it, it speaks to Doug Palsi, the owner of one of the restaurants. And Doug is a member of our Chamber of Commerce. I eat at his restaurant constantly when I'm at the Meadowlands. At the same time, I eat at Iberia Peninsula Restaurant in the Ironbound when I'm working at the Newark arena. So it works both ways. Here we have a positive synergy that's incredible if you stop and think about it. That's what's positive about this.

So, finally, as Governor Christie's transition team implies, it's within the realm of several venues in our state, including Giant's Stadium, Prudential Center, PNC Arts Center, IZOD, and Boardwalk Hall to cross-book, cross-market, or even do joint ventures. And who knows, a successful business model may emerge from this if we consider it strongly enough.

I thank you very much. This Committee has been very insightful. I've been listening all morning and all afternoon. And I appreciate the time to address this panel.

SENATOR BUONO: Any comments from the remaining members? (no response)

Thank you, gentlemen. I really do appreciate you, Kevin and Jim, for coming and hearing the testimony.

MR. O'BRIEN: Thank you.

MR. KIRKOS: Thank you.

SENATOR BUONO: And while I'm on the subject, I'd like to thank all of today's speakers for the valuable input that they gave to this Committee. This hearing was transcribed, and we'll make sure that it's available to the public on the legislative Web site. And in addition, I will provide a copy of the transcript to the Governor's Commission on the Sports Authority and gaming in New Jersey. And I have spoken on several occasions with Jon Hanson, and certainly look forward to working with them on this issue and to potentially sponsor legislation to reorganize the regulatory body overseeing the Sports Authority -- Sports Complex assets, I should say.

And although we heard a lot about the Sports Authority incurring a tremendous amount of debt today, we have to recognize that it

sits on some of the most valuable land in the State of New Jersey. And we need to put it to good use.

To that end, I will continue to work with my colleagues -- see, Senator Sarlo, this was a good idea (laughter) -- and many of our panelists, such as the Urban Land Institute, the Bloustein School, to ensure that we make the right decisions going forward for the best and highest use for this very valuable property.

I did want to make one other comment, though, since we did not have the raw data to discuss the Sports Authority's budget. What I've done is, I've spoken to the auditor, Steve Eells. And he is going to help me and the Committee members, if they so desire, to comb through the budget so that we understand their current operating budget and what their projections are for going forward, and whether or not they can be supported by the assumptions.

So, finally, I invite others -- whoever couldn't make the Committee hearing today -- to submit written testimony on the topic to this Committee, and we will certainly consider it.

Thank you so much.

Senator Sarlo.

SENATOR SARLO: Senator Buono, I just want to thank you for giving various folks an opportunity to be heard today. I know you invited a lot of other folks who couldn't make it. And I want to thank you for having a fair, balanced hearing.

I've always had concerns because, unfortunately, there are so many geographical wars in our gaming and entertainment industry. And I think if we all get beyond the regional wars -- whether it's Atlantic City,

whether it's Jersey City, whether it's Newark, whether it's the Meadowlands -- at the end of the day, we need as many revenues as possible here in the State of New Jersey. And I think, hopefully, we've touched upon that today.

Thank you.

SENATOR BUONO: Thank you. I appreciate that.

This meeting is adjourned.

(MEETING CONCLUDED)

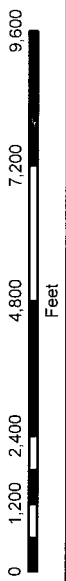
APPENDIX

For more information, an archived copy from the New Jersey State Library

Hackensack Meadowslands District WSP Sells, Aerial Imagery 2009



New Jersey
Meadowlands Commission
Geographic Information Systems



Feet

0 1,200 2,400 4,800 7,200 9,600

NEW JERSEY MEADOWLANDS COMMISSION STATE OF NEW JERSEY

THE INDISTRICT PORTION OF THE AERIAL PHOTOGRAPHY
PIXEL RESOLUTION BY WSP SELL IS 2009 AT 6"
THE PORTION OUTSIDE OF THE DISTRICT IS FROM THE
NJDEP CAPTURED IN 2008.



NEW JERSEY MEADOWLANDS COMMISSION
1 DEKORTE PARK PLAZA LINDHURST, NJ 07071 PHONE: 201-460-1700 FAX: 201-372-0181
www.njm Meadowlands.gov

**NEW JERSEY SPORTS AND EXPOSITION AUTHORITY
HISTORY OF STATE BUDGET SUPPORT**

**PREPARED FOR SENATE LEGISLATIVE OVERSIGHT COMMITTEE
MARCH 3, 2010**

PRESENTED BY:
OFFICE OF LEGISLATIVE SERVICES, LEGISLATIVE BUDGET AND FINANCE OFFICE

FIGURE 1

**NJ Sports and Exposition Authority
Revenues Transferred to State Budget**

Amounts in Millions

State Fiscal Year	State Revenues
1979	\$ 19.83
1980	11.24
1981	12.00
1982	10.00
1983	3.40
1984	1.00
Total	\$ 57.47

Prepared by Office of Legislative Services
March 2010
Source: annual State Budgets

FIGURE 2
NJ Sports and Exposition Authority
Amount and Type of Outstanding Debt

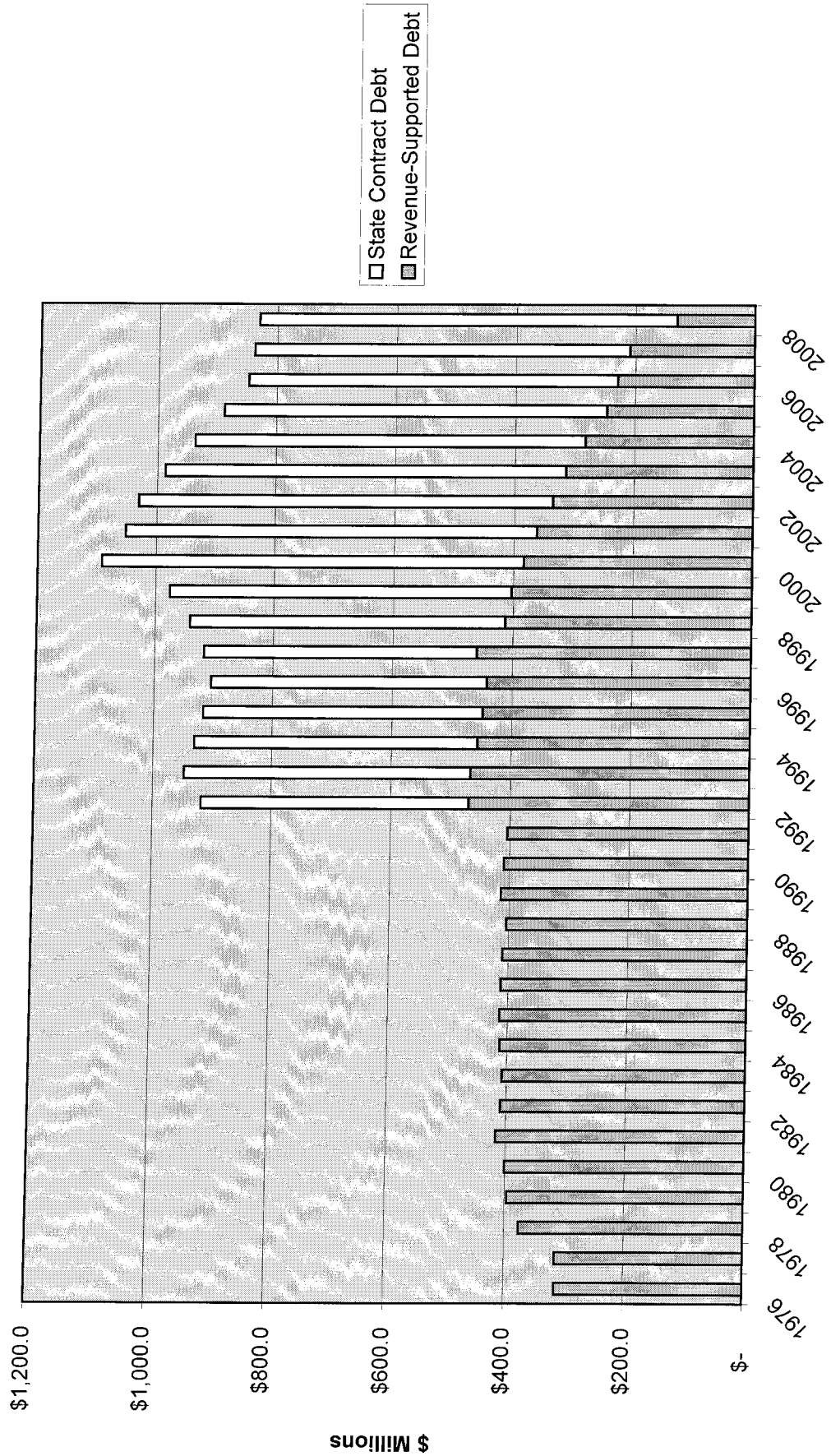


FIGURE 3

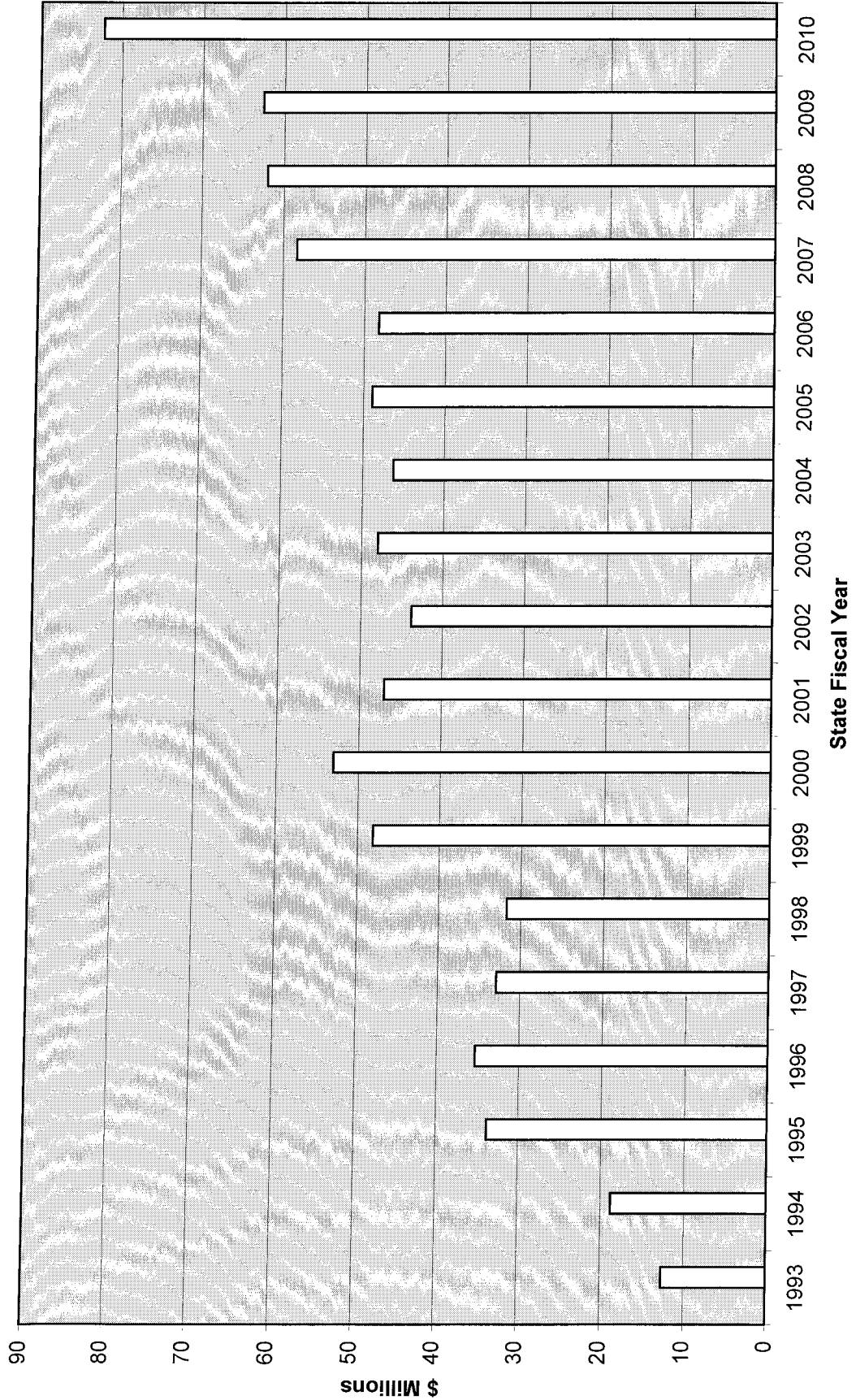
NJ Sports and Exposition Authority
Bonds and Notes Outstanding
Amounts in Millions

December 31	Amount	Revenue- Supported	State Contract	% State Contract
1976	\$ 315.0	\$ 315.0	\$ -	0.0%
1977	315.0 *	315.0	-	0.0%
1978	375.8	375.8	-	0.0%
1979	396.6	396.6	-	0.0%
1980	400.7	400.7	-	0.0%
1981	416.6	416.6	-	0.0%
1982	409.2	409.2	-	0.0%
1983	407.6	407.6	-	0.0%
1984	412.0	412.0	-	0.0%
1985	413.4	413.4	-	0.0%
1986	411.8	411.8	-	0.0%
1987	409.9	409.9	-	0.0%
1988	403.8	403.8	-	0.0%
1989	413.8	413.8	-	0.0%
1990	409.3	409.3	-	0.0%
1991	404.5	404.5	-	0.0%
1992	917.5	469.7	447.8	48.8%
1993	946.8	467.7	479.1	50.6%
1994	930.2	456.8	473.4	50.9%
1995	915.8	448.4	467.4	51.0%
1996	903.3	442.2	461.1	51.0%
1997	916.3	459.9	456.4	49.8%
1998	940.7	412.8	527.9	56.1%
1999	975.6	403.1	572.6	58.7%
2000	1,090.5	382.8	707.7	64.9%
2001	1,051.6	361.0	690.7	65.7%
2002	1,030.3	334.9	695.4	67.5%
2003	985.9	313.9	672.0	68.2%
2004	936.2	282.6	653.6	69.8%
2005	887.8	247.0	640.9	72.2%
2006	847.1	229.6	617.6	72.9%
2007	838.2	209.1	629.1	75.1%
2008	830.2	130.8	699.4	84.2%

* Estimated: report not available

Prepared by Office of Legislative Services
 March 2010
 Source: NJSEA Annual Reports & Financial Statements

FIGURE 4
State Budget Expenditures to NJ Sports and Exposition Authority



6x

FIGURE 5

**State Budget Expenditures to
NJ Sports and Exposition Authority**
Amounts in Millions

<u>State Fiscal Year</u>	<u>State Expenditures</u>
1993	\$ 12.7
1994	18.7
1995	33.8
1996	35.3
1997	32.9
1998	31.7
1999	48.1
2000	53.0
2001	47.0
2002	43.8
2003	48.0
2004	46.2
2005	48.9
2006	48.2
2007	58.3
2008	62.0
2009	62.6
2010	82.2

FY 2010 is amount available from appropriations and net transfers

FY 1999 includes \$15 million for operations

FY 2000 includes \$10.92 million for operations

Does not include Camden Aquarium funding

Prepared by Office of Legislative Services

March, 2010

Source: annual State Budgets, NJCFS

FIGURE 6

**NJ Sports and Exposition Authority
STATE CONTRACT DEBT SUMMARY**

State Contract Bonds Outstanding, June 30, 2009: \$671.4 million

Annual Debt Service (in Millions)			
2010	\$ 96.6	2018	\$ 60.4
2011	\$ 93.5	2019	\$ 66.2
2012	\$ 72.0	2020	\$ 58.8
2013	\$ 64.4	2021	\$ 53.0
2014	\$ 59.3	2022	\$ 35.3
2015	\$ 61.4	2023	\$ 34.9
2016	\$ 61.2	2024	\$ 24.4
2017	\$ 61.0	2025	\$ 32.8

Total Debt Service, FY 2010-2025: \$935.1 million

Prepared by Office of Legislative Services
March, 2010

Source: Official Statement, New Jersey Sports and Exposition Authority 2008 Series B and 2008 Series C Bonds, September 5, 2008; 2009 State Debt Report, Office of Public Finance, Department of the Treasury, November 2009

New Jersey Senate Legislative Oversight Committee Hearing March 3, 2010

Testimony

Dennis R. Robinson-President and CEO New Jersey Sports and Exposition Authority

First and foremost I want to thank the Chair, Senator Buono, for this opportunity to address your committee, a number of your members including Senators Sarlo and Kyrillos are very familiar with the challenges facing the Authority.

We are pleased with your interest in the future of the sports, racing and entertainment industries as the assets of the NJSEA are too vital to the state's quality of life, economic well being, and state revenues for the matter to be left to glib editorials.

The Meadowlands Sports Complex is arguably the State's most positive and well known worldwide brand. Over the years it has been heralded by many as the one visionary State project that instilled a sense of pride in its citizens and gave the State a sense of self rather than its prior reputation as a New York City or Philadelphia after-thought. The Sports Complex was an immediate international success and continues to this day to out perform its peers on an annual basis. In fact, the Meadowlands Sports Complex is still home to the world's most popular harness track, the #1 ranked stadium in the world (2009) and the IZOD Center was ranked #4 in sales in the last decade among large arenas in North America by Billboard Magazine, an industry publication.

Most importantly while serious revenue challenges face the NJSEA due to a series of State policy decisions; nonetheless, the core businesses of the Authority are generating returns to the State treasury. It is critical when focusing on the fiscal situation to look at the entire statewide picture and the not necessarily the bottom line of any one facility.

Unfortunately, the current financial structure in place since 1971 can no longer support the financial, operating, capital and contractual requirements of the Authority due to those policy decisions and changing business conditions. These issues have existed for years; in fact, when I began my initial employment with the NJSEA in 1990 we were dealing with this very issue. A report written by Deloitte & Touche in 1991 said..."Since its opening in 1976, the original capital funding strategy for the Meadowlands Sports Complex hinged principally on the income generated by the racetrack. However, 15 years later the competitive environment has drastically changed...It went on to say, horse racing, which served as the financial catalyst for developing the sports complex into a national attraction and which assumed its debt service for the last 15 years, no longer has the capacity to produce the revenue needed...it went on to point out that gambling competition from casinos, lotteries and off-track betting combined with other forms of entertainment, a faltering economy and a steady nationwide decline in racing contributed to the continuing reduction in racetrack revenues....again, this was written in 1991.

Take the declining racing revenues and combine it with the State's decision to approve the private financing of the new stadium, (which will impact our bottom line in 2010 by over \$15.0 million), needless to say we have some important decisions in front of us. Toward that end, we are working closely with the Governor's Advisory Commission on Sports, Entertainment and Gaming to address short and long-term solutions.

As we just noted, the current financial dilemma was long in the making and has been an issue of concern to the Authority's management team, its Board members, and administrations since the late 1980's as racetrack revenue began declining immediately after the opening of the racetrack in 1976. This steady decline of monopoly-like profits is due to increasing gaming competition from both in-state and out-of-state competitors. This increased competition for the gaming dollar put the Authority on this path over thirty years ago when the State authorized casino gaming. (From a statistical perspective, in 1977 the first full year of racetrack operations, racing in the state had an 81% market share of legalized gaming, there was racing and a new lottery, by 2008, racing's market share had declined to less than 2%.)

Let's take a quick look at to how the gaming industry has evolved since 1990 and I think it will be become self-evident as to why racing has difficulty competing in today's gaming market place. I want to make it clear I am not advocating for a specific solution by sharing this data with you, I am simply sharing this data with you to help you understand how competitive the racing and gaming industries have become in the region.

Over the years, with the support and direction of various administrations, the Authority has taken many steps to stem the financial tide, from implementing simulcasting, significantly increasing stadium revenues, refinancing debt on numerous occasions, utilizing State contract bond financing, expending reserve funds, to actual State appropriation. The difficulties of meeting the high cash flow requirements of a highly leveraged capital structure combined with the capital and labor intensive nature of a cyclical sports & entertainment business has been apparent for decades. During this period, the Authority has and continues to cut its costs dramatically, from reducing total labor costs over the last seven years, (despite increases in union wages) to reducing full-time salaried staff from 280 in 2002 to 176 in 2010, (a 37% decrease) while operating two new profitable lines of business: the Off-track Wagering facility in Woodbridge and an online account wagering operation. It is hard to imagine another State entity being able to reduce headcount, reduce total labor costs since 2002, and still meet its core objectives while also adding two new profitable lines of business.

The Authority will exist at both ends of the financial spectrum. On one side, the NJSEA will set a new standard for direct and indirect revenue generated for the State of New Jersey from its facilities, events, and statewide economic development efforts. The recent and privately financed renaissance of the Meadowlands Sports Complex, upon the opening of the Xanadu Entertainment & Retail Complex and the new Stadium will potentially generate over \$100 million dollars a year in new sales tax revenue, create thousands jobs for New Jersey families, bring hundreds of world-class events and concurrently leaves the NJSEA itself in an unsustainable financial position in the year ahead due to State policy decisions made over the years.

What is at stake? *"When you look back at the growth of the Meadowlands region over the past 30 years it is undeniably attributable to the impact of the Meadowlands Sports Complex. Event day activity creates thousands of hotel room nights, fills restaurants, retail stores and local downtown districts. A recent Global Insights report for the Meadowlands Liberty CVB states that visitors and tourism to the region provides a \$580 million impact to the regional economy. Add to that the five thousand part and full time jobs at the complex and you can see the tremendous impact it provides to the region," stated Jim Kirkos, President and CEO of the Meadowland Regional Chamber of Commerce."*

If New Jersey has an internationally known brand name it is the "Meadowlands". For sports fans the Complex is an icon that represents the only site home to two National Football League franchises and the site of a litany of great soccer, college and other sporting events at Giants Stadium, the IZOD Center and Meadowlands Racetrack. For those seeking concert and family entertainment, Giants Stadium and IZOD consistently outrank their peers nationally and internationally attracting the best in family entertainment.

The Meadowlands Racetrack and Monmouth Park respectively are considered two of the top standardbred and thoroughbred racing operations in the country. NJSEA Racing operations are the linchpin for the State's billion dollar equine industry that supports over 10,000 jobs, according to a recent Rutgers study.

Clearly, the quality of life for the State is better with the attractions of the Sports Complex and facilities around the State. By way of example: in 2007 the NJSEA hosted the Breeders Cup, the most important weekend in thoroughbred racing in the world. The cost to host such events is astronomical and while the NJSEA lost approximately \$2.0 Mil on the event, the State of New Jersey made an estimated \$16.00 million. So while the NJSEA lost money on the event, the State was a huge beneficiary. The question before us is: if we had the same opportunity to host this event again, should we do it if the NJSEA, a State entity, loses money? If we were a private entity and were not given public resources to host such an event, you can be sure it wouldn't be held in NJ and the State would have forgone the revenue. So it is in perhaps this light we need to evaluate the value of the horse racing and our operations in general.

Racing:

Currently, the racing business is operating at a combined loss of approximately \$10 million annually excluding capital replacement (\$19 million on-track) and is facing large and immediate capital investments. These losses have been absorbed by the Authority since 2007 through the utilization of Xanadu prepaid rent. These funds are no longer available going forward.

Racing, as currently configured, can no longer compete in the modern gaming marketplace as a result of legislative constraints preventing the diversification of our gaming offerings. Racing has been at a crossroads for years. According to a study by Rutgers University, racetracks and the equine sector of New Jersey's economy produce over a billion dollars of economic impact; support over 10,000 jobs and fully one-fifth of the State's agricultural acreage is devoted to the industry which is dependent upon the live racing business.

Additionally, the East Rutherford/Meadowlands and Oceanport/ Monmouth regional economies rely heavily on the economic impact of the racetracks including but not limited to PILOT payments, property tax payments, jobs, and spending in local businesses by racing customers, horsemen and employees. These areas would sustain a devastating blow should the tracks discontinue operations.

The racing industry throughout the country is indeed struggling with a changing competitive environment. For years the NJSEA has advocated a new business model for racing in the State, and its own financial structure, due to the expansion of gaming alternatives both in-state and on our borders. To offset the racing industry's declines, in late 2007 the Authority opened its first luxury off-track wagering facility, Favorites at Woodbridge. Off Track Wagering has proved to be a profitable line of business; Favorites produced an operating profit of over \$5.0 million dollars in 2009 and the Authority is building its second flagship OTW facility in Bayonne. Internet account wagering is also growing and returning strong profits.

Operationally the Meadowlands and Monmouth Park out performed the national industry in 2009. Monmouth saw attendance growth of 6% despite the sagging economy. 2008 saw record attendance and wagering at the Meadowlands Thoroughbred meet and the Haskell Invitational at Monmouth Park. In August 2009 twenty five thousand fans attended The Hambletonian at The Meadowlands Racetrack which saw international handle nearly double, and over 37,000 braved a driving rainstorm to see the filly Rachel Alexandra win The Haskell Invitational at Monmouth Park. Both The Meadowlands and Monmouth Park are still considered among the finest racing operations in the world.

Now we have taken one of the most dramatic and farsighted steps in thoroughbred racing in this country in decades. A 50 day core summer meet at Monmouth Park with the highest purses in the nation will attract the finest horses and stables in our history, dramatically increase handle, interest and attendance and perhaps most importantly, tourism. It is an experiment worth pursuing.

New Stadium:

When placed in a national context, the 100% privately financed \$1.6 billion New Meadowlands Stadium is virtually unheard of today. (The average of the last 11 stadium deals involved 54% public investment). However, the fact that the new deal reduces NJSEA revenue by over \$ 15 million in 2010 puts additional pressure on our finances. The NJSEA's engineering of the Jets move from Long Island to Florham Park is an enormous financial win for the State. The new stadium and practice operations will generate over \$66 million annually in recurring State revenues and now New Jersey is really home to two professional football franchises.

As mentioned above, the new stadium agreement will cause the Authority's stadium revenue to decline from over \$20 million in 2009 to less than \$ 5 million in 2010. We remain responsible for payment-in-lieu of taxes (PILOT) as well as any future increases over the life of the ground lease while rent remains flat.

On a positive note, due to the Authority's track record and management/operating expertise, the NJSEA was awarded a five year contract by the New Meadowlands Stadium to provide game day staffing and event marketing services in addition to site, security, emergency management, fire and medical services. This arrangement gave New Meadowlands Stadium an opportunity to leverage existing NJSEA infrastructure, expertise and allowed our employees to work at the new stadium in addition to the 150 + events at the IZOD Center. It was a win-win for both the NJSEA and New Meadowlands.

Sports Complex Renaissance:

While the core businesses of the Authority, Meadowlands Racetrack, Giants Stadium, the IZOD Center and Monmouth Park racetrack continue to provide excitement, entertainment and economic benefit for the people of New Jersey, the real headline is the renaissance taking place at the Meadowlands Sports Complex in the midst of a prolonged economic recession. The NJSEA sponsored \$4 billion private investment is transforming the Sports Complex site for decades to come. The new Meadowlands Stadium, a new Giants training complex and the Xanadu project, all privately funded, are now easily accessible via mass transportation with the completion of the Meadowlands Rail Station. The rail link, on the planning boards since the early 1970's, not only opens the Sports Complex to New York City with a short 20 minute ride from Penn Station, but opens the complex to the entire northeast corridor, from Washington to Boston. In addition, the rail link takes thousands of cars off the road, reducing energy consumption and pollution. These infrastructure investments make the Sports Complex even more valuable for future development opportunities.

Not only is the Sports Complex ground zero for the State's most significant facility and transportation improvements, but its economic impact also extends to the employment of thousands of New Jersey residents. Thousands of construction jobs have been created by the Stadium and Xanadu and over 10,000 permanent jobs will be added when the new stadium and Xanadu become operational. The first event in the new stadium is scheduled for April 10, 2010.

The 1,450 craftsmen and construction workers representing 23 different unions have just logged over 2 million hours on the site of the New Meadowlands Stadium. These are families making a living and the State is generating tax revenue in the midst of the worst commercial development depression and employment recession in decades. Sales tax collections for the State from the construction of the new Stadium and Xanadu alone are estimated to be over \$100 million.

IZOD Center/Giants Stadium:

The Authority's core businesses continue to produce. In 2009 Giants Stadium and IZOD Center will once again outperform their peers (as they did in 2008 by earning the first and fourth respective national rankings in concert and family shows business according to Billboard's independent rankings.) The IZOD Center's 171 events in 2008 generated millions in tax revenue for the State while employing 1,500 full and part time employees mostly from Bergen, Passaic and Hudson counties.

By any measure IZOD Center remains one of the most vibrant and successful venues in the country. (If you haven't been to the arena, I invite you to attend an event to see the "happy business" in action.) While admittedly, the IZOD Center does not have all the high revenue producing bells & whistles, including 100's of suites and clubs seats necessary to satiate the unending appetite of professional sports franchises for more and more revenue. Nonetheless, it is considered one of the finest concert and family show venues in the world and our results support that assertion. Despite the false and misleading rhetoric you may read, the IZOD Center, is a bright, clean, well maintained, safe and most of all, a happy place for our customers.

In its closing year, Giants Stadium continued to bring world class events to the Garden State. It is the only facility in the country to host two National Football League Teams. The 49 events in 2008 brought an array of concert, professional and college football, soccer and other events. In 2009 the Stadium was again the leading concert facility in the world closing with sold-out U-2 concerts. In fact, in 2009 Giants Stadium produced the 4th highest operating profit in its 34 year history! These events again have a direct positive impact on the State's economy and tax revenues and the State revenues will only improve upon the opening of the new stadium in April of 2010.

Statewide/Southern New Jersey Economic Impact:

The NJSEA's impact is felt across the State:

According to President of the New Jersey Alliance for Action Phil Beachem, "*the statewide investments made over many years by the Authority have created thousands of construction and permanent jobs across New Jersey and contributed substantial revenues to the State and local taxpayer.*"

And for South Jersey in particular:

"The New Jersey Sports & Exposition Authority's \$500 million of facility investment, construction and operations in South Jersey has leveraged enormous economic benefits and opportunities for the region. With the Atlantic City Convention Center and Boardwalk Hall as bookends, not only has the regional economy benefited from a new influx of visitors and events, but the entire corridor from the Expressway to the beach has been privately redeveloped. The Greater Wildwoods attained a new level of development with their new Convention Center and the Aquarium in Camden has spurred waterfront redevelopment. Regional employment and business development have been very positively impacted by these efforts and they should serve as a model for future growth," stated Debra DiLorenzo, President and CEO Chamber of Commerce of Southern New Jersey.

The Atlantic City Convention and Visitors Authority, which operates the Convention Center and Boardwalk Hall, in 2008 booked over 141,000-room nights and \$232 million in delegate spending was generated by the events booked by the ACCVA producing an enormous economic impact for the State.

In 1998 the Authority oversaw a \$100 million renovation to transform the historic Boardwalk Hall into a state-of-the-art special events arena. In 2008 Boardwalk Hall clinched the top spot for box office grosses among mid-sized arenas in North America, according to leading trade publications Billboard and Venues Today. The Boardwalk Hall's 38 shows, including eleven sellouts in 2008 grossed \$26 million dollars and attracted 299,353 customers.

The NJSEA and Atlantic City leaders had a vision that the new Convention Center and renovated Boardwalk Hall would anchor a complete private sector re-development of the corridor from the Atlantic City Expressway to the Boardwalk Hall—and we're proud to day that vision became a reality.

In 2008, The Wildwood Convention Center hosted 140 separate groups that held approximately 500 events that spanned over 196 event days on the Center's calendar. The Convention Center has bolstered the economy of the Wildwoods and Cape May County by extending the season and generating an excess of 132,117 motel/hotel nights and one million dining opportunities at area restaurants and eateries.

"The Wildwoods Convention Center continues to be a major economic force in the Wildwoods' redevelopment and will continue to grow to even greater importance in the coming years. We are grateful for the relationship we have with the NJSEA." Arleen Franco, Chairperson of the Greater Wildwood Tourism Improvement and Development Authority.

And of course you can't forget how a renovated Rutgers Stadium became the first piece in the football program's ascension to one of the nation's elite programs.

CONCLUSION:

The NJSEA has, to the best of its ability and within its legislative restraints, attacked the financial problem where it was able, by cutting costs, reducing headcount and instituting efficiencies where possible. It also created new profitable businesses in account wagering and Off-Track Wagering but the cost savings and revenue enhancements have not been enough to make up for the ongoing decline in racing revenues when combined with over a \$15 million dollar reduction in stadium revenue in 2010.

However the return to the State from its operations is growing. Given the on-going contractual obligations at IZOD Center, and the new Meadowlands Stadium, and the need for a restructuring of the state's racing industry the expertise of the NJSEA management is a great asset at the disposal of the Legislature and the Administration.

We look forward to continuing our work with the Legislature, Christie Administration and the Governors Advisory Commission to identify solutions to our financial challenges while continuing to fulfill the mission of the Authority to bring world class sports and entertainment and economic impact to New Jersey and its citizens.

Advisory Services



The Urban Land Institute

Linda Morgan, presenting on behalf of
ULI-Northern NJ District Council



Senate Legislative Oversight Committee Meeting March 3, 2010

About ULI - Who Are We

- Non-profit research and education organization
- 35,000 members world-wide
 - Developers
 - Architects
 - Planners
 - Bankers & financiers
 - Economic development
 - Market analysts
 - Includes folks from public and private sectors
- We are land use and real estate professionals who share ideas, insights and best practices.



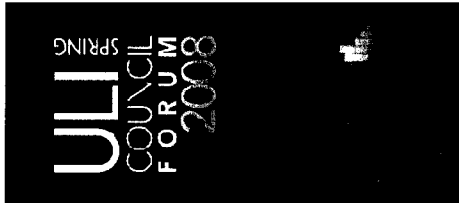
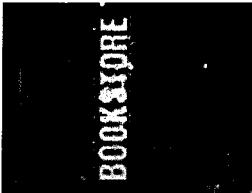
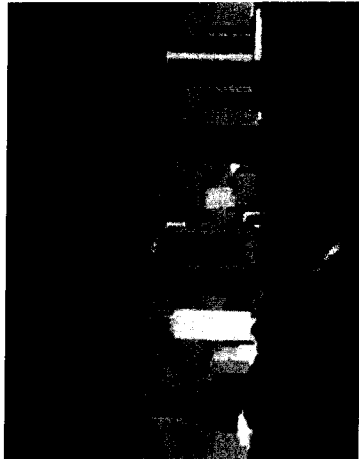
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About ULI – What We Do

- Organize meetings and conferences
- Publish books and magazines
- Provide Education Programs
- Conduct Research
- Advisory Services



The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide

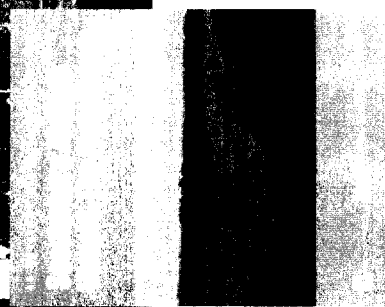
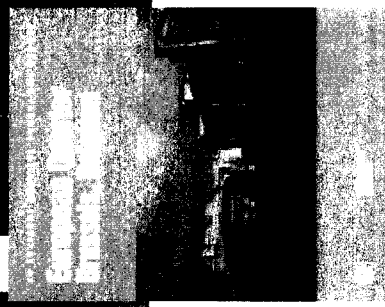
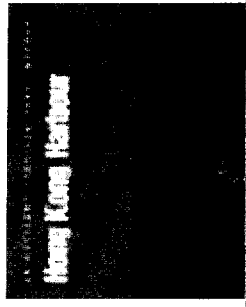
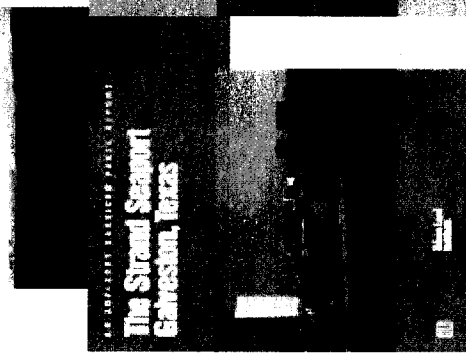
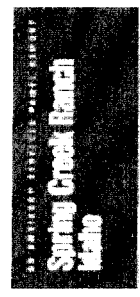


ULI Policy and Practice Priority Areas

- Sustainability/Climate Change
- Housing
- Infrastructure
- Place Making/Public Realm
- Places of Commerce
- Capital Markets and Finance
- Development at the Edge

ULI Advisory Services

- Since 1947, over 500 Panels
- Approximately 20 panels per year
- Subjects include a variety of real estate and land use issues:
 - Downtown redevelopment
 - Neighborhood revitalization
 - Military base reuse
 - Brownfield redevelopment
 - Economic development
 - Infrastructure
 - Workforce Housing
 - Organizing for Success
 - Sustainable Development
 - Development at the Edge

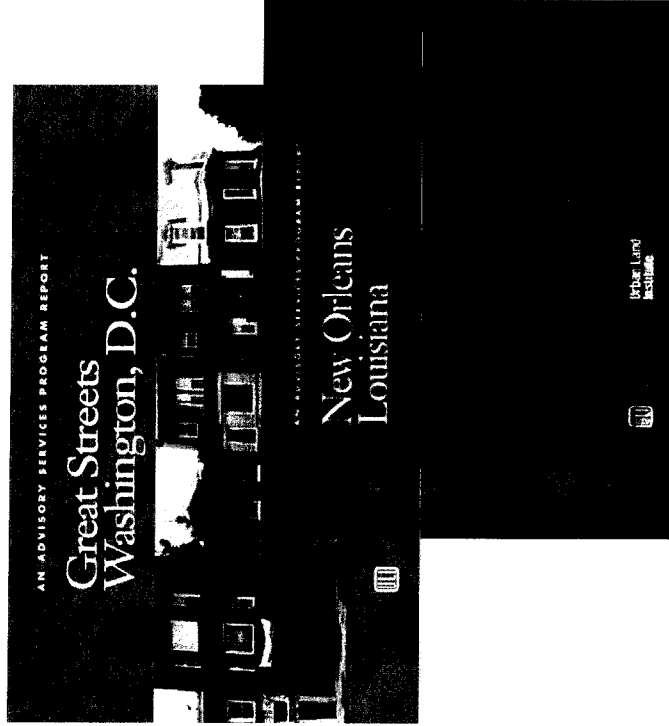


ULI Advisory Services

- Panels Provide Strategic Advice that is objective, candid and unbiased
- Outside point of view from practitioners and experts who volunteer their time
- Multi-disciplinary teams
 - Market potential
 - Development strategies
 - Planning and design
 - Implementation
- Not just a planning exercise
- Typically panels involve one or more of ULI's policy and practice priority areas

Types of Panels

- Five Day
- Three Day
- One & Half Day or Fellows
- Sustainable Development
- Special Services
- Project Analysis Sessions (PAS)



Panel Logistics

- Panels take about 2 1/2 to 3 months to organize
- Five day panels = 8 -10 panelists
- Developers, bankers, brokers, market analysts, architects, planners, public officials, and many other land use, design, finance and real estate experts

Sponsor Responsibilities

- Sign Contract
- Designate Liaison with ULI
- Prepare Questions for Panel that act as the scope of work
- Prepare Briefing Book
- Identify and Invite Stakeholders to Interview Sessions
- Host Reception and Dinner
- Conduct Briefing and Tour
- Identify and Secure Location for Final Presentation

24,



ULI Responsibilities

- Help Sponsor Refine Questions/Scope
- Recruit Panelists from our Membership
- Arrange all travel, lodging and meal logistics for Panel
- Attend Briefing and Tour
- Conduct Stakeholder Interviews– coordinate through Local District Council
- Deliberate, Frame and Prepare Recommendations
- Prepare Draft Report on-site
- Prepare Presentations Summarizing Report
- Conduct Final Presentation



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Typical Agenda for Panel

- **Sunday:** Arrival and Orientation + Sponsor Dinner
- **Monday:** Briefing and Tour + Public Reception
- **Tuesday:** Stakeholder Interviews
- **Wednesday:** Panel Deliberations and Report Preparation
- **Thursday:** Report Preparation and Presentation Preparation
- **Friday:** Presentation of the Panel's Findings and Recommendations

2/2



Where Have We Been Recently?

- Hong Kong, China
- Tustin, CA
- Osceola County, FL
- Virginia Beach, VA
- Utrecht, Netherlands
- St. Joseph, MO
- New Orleans, LA
- Germantown, MD
- Shreveport, LA
- Dallas, TX
- Pascagoula, MS
- Salem, OR
- Springfield, VA
- Hailey, ID
- Brussels, Belgium
- Pittsburgh, PA
- Westminster, CA
- Bayou La Batre, LA
- Chesterfield, MO
- Mesa, AZ
- Biloxi, MS
- Hartford, CT
- Galveston, TX
- Denver, CO
- Las Vegas, NV
- Buffalo, NY
- San Bernardino, CA

Past New Jersey Panels

- Secaucus –Evaluation of a Proposed Transit Village Concept and Plan -2004 (NJMC)
- Paterson Transit Village Initiative-2004 (NJ Transit &DOT)
- Mercer County Economic Redevelopment Strategy—2005 (Mercer County Planning Dept)
- Jersey City Powerhouse Arts District—2002 (City of Jersey City)

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MICHAEL POLLOCK
TESTIMONY BEFORE NEW JERSEY SENATE LEGISLATIVE OVERSIGHT COMMITTEE
MARCH 3, 2010

Thank you, Chair Buono, members of the committee and staff. My name is Michael Pollock. I am managing director of Spectrum Gaming Group, a research and analysis firm that has performed work for government agencies throughout the United States and around the world. While we do perform studies on behalf of private industry, most of our work is in the public sector. And our government clients, which range from Delaware to Singapore, and from Connecticut to Puerto Rico, retain our services because they want to get it right, and they want to learn from experience. We are proud to note that we are based in New Jersey, and New Jersey has a global reputation for effective regulation. Our full-time professionals have decades of experience as New Jersey regulators, in New Jersey law-enforcement, in New Jersey gaming operations and as journalists in New Jersey.

This Legislative Oversight Committee has accepted a very difficult, complex mission in holding these hearings. But I suggest that the simple fact that these hearings are being held is evidence that New Jersey intends to maintain its reputation as a state that does it right.

Our experience in various states and nations around the world leads us to conclude that most governments adopt policies in a vacuum with little regard to how policies regarding casinos, tourism, pari-mutuel wagering and lotteries affect each other, and how those policies can have unanticipated cause-and-effect relationships with other policies, which might range from urban development to revenue generation.

I respectfully suggest that these hearings, and the policy decisions that will emanate from these hearings, offer an opportunity to:

- Ask questions that might otherwise not be asked.
- Anticipate consequences that might otherwise not be anticipated.
- Determine how policies that might seem totally unrelated are actually inextricably intertwined.

We have performed – and continue to perform – studies for the Casino Association of New Jersey and other parties that endeavor to anticipate and analyze the impact on Atlantic City and casinos from state policies. One area of particular focus has been the potential impact on Atlantic City from changes in state policy regarding the Meadowlands and other race tracks.

In one very important sense, the New Jersey casino industry has a vital stake in any effort to identify and capture the highest and best use for the Meadowlands. If the Meadowlands is transformed into a more vital economic engine for the state's economy, it can only benefit the casino industry – which depends on northern and central New Jersey as its most important markets.

In another, equally important sense, however, any policy that does not fully take into account the impact on Atlantic City, or that creates in-state competition for casinos, could create an economic train wreck that would be devastating to the casino industry in New Jersey, as well as to the overall economy in New Jersey.

With those two points in mind, clearly, one question that must be asked is: Should the state consider transforming the Meadowlands into a racino – a racetrack with slot machines – if doing so would prove devastating to Atlantic City?

A related question, of course, that must also be asked and answered: Why would a Meadowlands racino prove devastating to Atlantic City, particularly since race tracks across North America are evolving into racinos, and racinos are perched in locations immediately across New Jersey's state lines?

The process of answering these questions requires an acknowledgement of a fundamental but uncomfortable truth: Transforming the Meadowlands into a competitor of Atlantic City would create a very real, irreconcilable conflict between two state policies.

Since 1976, when voters approved a referendum to legalize casinos in Atlantic City, New Jersey's gaming policy has been the redevelopment of Atlantic City.

For more than three decades, it has worked as planned. When Atlantic City grows, the state benefits in various ways, from the 8 percent tax on gross gaming revenue to increased casino reinvestment dollars to increased employment, as well as growth in various other taxes.

The state's interests and Atlantic City's interests have operated on parallel tracks. Adding slots to the Meadowlands would create divergent interests. The state's share of Meadowlands slot revenue would, under any scenario, be significantly higher than its direct share of Atlantic City casino revenue.

This disparity means that state Treasury would appear to have a clear, abiding interest in maximizing revenue at the Meadowlands, where the tax rate is higher. The casino industry and Atlantic City, however, would have a clear interest in maximizing revenue at Atlantic City properties.

This irreconcilable conflict would pit region against region, state against city, and legislator against legislator.

We can envision future conflicts as well, as the Meadowlands would compete with Atlantic City for both capital as well as gaming dollars. Over time, the Meadowlands -- faced with competitive pressures from other racinos in the Northeast -- would be forced to invest capital in its own physical plant beyond what would be envisioned in its initial phases. As racinos in Pennsylvania and Delaware are already evolving away from slots-only facilities into full-service casinos with table games, the Meadowlands would likely seek tables as well.

This would create more pressures and more conflicts. This is just one of the uncomfortable truths that must be confronted when developing state policy toward the Meadowlands.

One fundamental truth is that horse racing in New Jersey and elsewhere is not a growth industry. Indeed, just last week, an executive from Penn National Gaming – a company that is a major force in both gaming and racing, including interests in Freehold Raceway, and has its roots as a racing company – described racing as being in a “death spiral.” Of course, we note that another Penn National executive used that very term, one year earlier, to describe Atlantic City. Whether or not you agree with either characterization is not the issue. Penn National couched Atlantic City’s difficulties as solvable through the development of creative and courageous public policies.

Creating in-state competition for Atlantic City in the form of a casino at the Meadowlands would be neither creative nor courageous. Atlantic City has clearly been harmed by the twin impacts of a major recession and major competition. Yet, if you visit Atlantic City today, you can see that both problems are addressable. Many affluent adults – even some who have shifted some of their visits to out-of-state properties – still find Atlantic City to be attractive, particularly at the properties that have invested in the quality and breadth of their various attractions.

That underscores what Atlantic City needs from New Jersey – and what it offers – regardless of a recession, and regardless of competition. Atlantic City needs capital investment to continue on its evolution into a regional entertainment destination.

The potential for slots at the Meadowlands threatens to undermine the investment climate in Atlantic City and add risk for any investor considering Atlantic City. Risk translates into a higher cost of capital. Even the overhanging, perpetual threat of slots at the Meadowlands adds risk, and that risk is baked into the cost of capital for any Atlantic City operator.

Adding slots at New Jersey tracks alters the status quo, and sends out a message to investors that the rules in New Jersey are not fixed. That factor is not present when discussing the expansion of gaming in other states.

The practical reality is that most states are following a model characterized by a relatively high tax rate and limited licenses, with operators largely enjoying some geographic protection. This model actually creates opportunities for Atlantic City casinos, and actually creates a competitive advantage for the state of New Jersey. In the future, Atlantic City can position itself as the destination for adults who want more options and have more time – and money – to spend.

position itself as the destination for adults who want more options and have more time – and money – to spend.

New Jersey, starting with the work of this committee, has an opportunity to position a valuable asset like the Meadowlands as a magnet for investment, economic activity and jobs. Atlantic City – which depends on the economic health of the Meadowlands region as an important market – would benefit as a result.

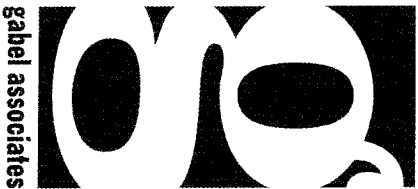
That opportunity would be squandered if the ultimate solution for the Meadowlands is one that fails to take into account the delicate, complex but essential relationship between regions, between industries and between the public and private sectors.

As we sit here today, the interests of the Atlantic City region, the casino industry, the state of New Jersey – and the interests of those who live and work in the Meadowlands region – are precisely parallel. Each benefits from the success of the other. I respectfully suggest that you do not derail those parallel interests.

New Jersey Sports & Exposition Authority Energy Issues

Prepared for: Senate Legislative Oversight Committee

March 3, 2010



Presented By:

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Potential Energy Options for NJSEA

- Renewable project development
 - Solar (roof-mounted, ground-mounted, or parking canopies)
 - Wind
- Implementation of energy management strategies
- Long term strategy to reduce costs and environmental impact

Renewable Project: Sources of Value

- Energy Market Value
- SREC/REC Market Value
- Federal Investment Tax Credit (or Treasury Grant)
- Federal Accelerated Depreciation

Solar Ownership/Financing Options

- Self Own
- Developer owns
 - Power Purchase Agreement (PPA)/customer pays per kwh supplied
 - Lease
- Private/publically funded

Wind Project Development

- A host of federal and state incentives
- Vertical and horizontal access turbines should be considered
- Building mounted should be considered

Energy Management

- Procurement strategies
 - Competitive energy purchasing
- Pre-construction strategies
 - Evaluate energy saving opportunities such as energy efficiency
- Long term plan and commitment to reduce environmental impact and cost

Oceanport Task Force on Monmouth Park Racetrack

Remarks before Senate Legislative Oversight Committee
The New Jersey Sports and Exposition Authority and Monmouth Park Racetrack
March 3, 2010

Introduction

Chair Senator Buono and Members of the Senate Legislative Oversight Committee; thank you for inviting me to speak before you today on this important topic. I am Oceanport Mayor Michael J. Mahon. With me is a former colleague of yours, Senator Tom Gagliano. Senator Gagliano is a former Oceanport resident and served on the Oceanport Borough Council. We are here today representing the Oceanport Task Force on Monmouth Park Racetrack.

Oceanport has been home to Monmouth Park since July 30, 1870. Monmouth Park 1 and 2 were located on what became the main post of Fort Monmouth. The Monmouth Park we know today began as the old Rufus West Farm. With a mile racing oval, tree lined grounds, stables, clubhouse and casino;ⁱ then Elkwood Park, a single short meeting was conducted in 1893. An act of Legislature passed on March 21, 1894 prohibited gambling in general and horse racing lay dormant for more than 50 years. On June 19th, 1946 the Monmouth Park Jockey Club opened the new Monmouth Park Racetrack at the earlier site of Elkwood Park.

The New Jersey Sports & Exposition Authority (Authority) was created by act of Legislature in 1971. On April 11, 1985 the Authority announced an agreement had been reached to purchase the racetrack for \$45 Million Dollars. Monmouth joined the Meadowlands, already owned by the Authority and built eight years earlier at a cost of \$100 Million Dollars.

Today's Monmouth Park is valued at more than \$90 Million Dollars.ⁱⁱ

Our remarks here today will focus on three main points:

1. Understanding the projected deficit of \$22 Million Dollars by the Meadowlands Racetrack and Monmouth Park in 2010.
2. Focus on the Possible by discussing a reduced racing schedule with higher purses, and finally;
3. A Vision for Monmouth Park's future in a continued partnership with the Borough of Oceanport.

Understanding the projected deficit

We must begin by restating the "loss" predicted for Horse racing in 2010. Of the \$22 Million projected losses in live on-track business, \$6 Million Dollars is a charge back for the NJ Racing Commission. The cost for this State commission was shifted from the regular state budget in large measure to the Racetracks under a prior administration. Today, this shift accounts for \$6 Million Dollars of the projected loss in horse racing.ⁱⁱⁱ

The projected deficit must also take into consideration Off Track Wagering. Current Law allows for the establishment of 15 off track wagering facilities around the state. Licenses currently held by the Authority account for 9 facilities, but only one located in Woodbridge has been built. Still, this facility accounts for \$9 Million in profits not factored in to the Horse racing deficit. With these two amounts included, the predicted loss is \$7 Million Dollars. **With the hoped for addition of the Bayonne OTW in the coming year and a third location in the works, horse racing for the NJSEA is profitable.**

The Transition Report issued in January by the NJ Gaming/Sports and Entertainment Committee also sites \$8 Million Dollars in payments to Host Municipalities as a contributing factor to the projected deficit. Of this \$8 Million Dollars, \$6 Million is a payment in lieu of taxes or PILOT to East Rutherford. Another \$2 Million is a property tax payment to the Borough of Oceanport. As stated in my opening, Monmouth Park has been a part of Oceanport since 1870 and a taxpayer. A New York Times article^{iv} appearing in the May 3, 1894 edition reports the decision of the Township Committee to seize the track property and foreclose for non-payment of taxes in the amount of \$2,300 Dollars. This is one small example of the historical value of the track to the region as a ratable.

When it reopened in 1946, the new Monmouth Park was again a vital asset to the community in terms of employment and property taxes. This continued from the purchase of the racetrack by the Authority in 1986, to the present day. When the State first considered the prospect of purchasing Monmouth, the enabling statute permitted the purchase on the condition

“that payments equivalent to all municipal, school board, and county taxes due to each entity shall be paid by the authority to the extent and in accordance with the same payment schedule as taxes would have been paid each year, as though the racetrack facility remained in private ownership.”

Senator Gagliano authored that piece of legislation. As a result, Monmouth Park shares in the support of local and regional services. While Oceanport is a small community of less than 6,000 residents; its population swells with the addition of some 1,000 residents housed in the back stretch from mid April to early December.

The Oceanport/Monmouth Park Partnership

Monmouth Park and Oceanport have long shared a special relationship. We can take a look back to 1961 when the Monmouth Park Jockey Club deeded 6 acres^v to the borough where the Borough Hall, Public Works Garage and Port Au Peck fire station were later built.

Most recently, the Borough of Oceanport supported a \$23.2 Million Dollar loan for construction of a Storm Water Management project at the Track.^{vi} This loan is a combination of Bonds sold by the Borough to the NJ Environmental Infrastructure Trust and secured by the full faith and credit of the Borough. Through a Special Assessment

Agreement between Authority and Oceanport, the loan will be repaid over twenty-years. This arrangement was arrived at after several well attended public hearings, project meetings and presentations, engineering and legal consultations leading to unanimous public support for the project. The project seeks to end contaminated runoff into nearby Branchport Creek from the track and stable area. As you can see, the Borough views Monmouth Park as a partner and vital to our mutual success.

At every opportunity, Oceanport has supported efforts by Monmouth Park to expand their entertainment offerings. Be it the Warped Tour, the Jersey Shore Jazz Festival, or perhaps a twilight concert series; Community support for Monmouth Park is strong. For its part, the Authority has long supported Oceanport Non-profits such as the Lions Club Fair and First Aid Squad Circus held annually on the property along with several other events. The Breeders Cup Fan Fest 2007 was filled with community events such as the Sailing Regatta and Polo Match to name a few, and is another example of the warm relationship between the Track and Oceanport.

We've discussed the local importance of Monmouth Park Racetrack, but it can't go without mentioning the value of horse racing in our County and around the state. Monmouth County has more than 27,000 acres dedicated to equine uses. Almost 5,000 in Farmland Preservation.^{vii} Only Hunterdon County has more acres at 29,400 with more than 1,600 in Farmland Preservation. Employment generated is nearly 13,000 jobs. It's easy to see why the horse is New Jersey's State Animal.

A Focus on the Possible

A Plan for Success in Racing – The 50/50. Monmouth Park's thoroughbred schedule would be cut nearly in half, but its purse structure would be tripled to an industry-leading \$1 million a day under a plan to save the state's ailing horse racing industry.^{viii} A "Duel Meet" format with reduced racing days beginning with 50 days focused on quality racing and attractive purses; followed by a fall meet of 21 days with at least \$250,000 in daily purses; all conducted at Monmouth Park.

The "Duel" meet format seeks to provide a balanced number of racing days and opportunities for the Horsemen to compete for purses and improve their stables. At the same time, the 50/50 with the higher purses will improve the quality of each race, increase the on-track handle, and improve payouts. In addition to eliminating two days of operating costs, this plan would leave the Meadowlands for Harness racing and the sports authority would also see a major savings by not having to convert the Meadowlands Racetrack from a surface for thoroughbreds to one for harness racing, as it does every year. The harness racing industry would benefit by being able to choose better late fall dates at the Meadowlands because of the absence of thoroughbred racing. We believe it will also allow for the "Highest and Best Use" of the Meadowlands Racetrack facility by the Authority. Amending the thoroughbred racing schedule will require legislative approval since under law, the Authority, which runs the Meadowlands and Monmouth Park, must race 141 days a year. This is a question that may be considered by this committee and the full legislature in the coming weeks and hopefully enjoys your full support.

No discussion on the sustainability of horse racing in New Jersey is complete without mentioning competition from neighboring states. At every border we are surrounded by gaming opportunities. In many cases, these gaming outlets are more convenient than a trip to Atlantic City and certainly less expensive for travel when distance is a factor. There are currently 10 locations^{ix} along our borders with another 2 destinations planned. These gaming destinations are a direct threat to Atlantic City and the Casino Industry in New Jersey. As a state we can choose to compete by offering gaming destinations of our own outside of Atlantic City, or watch as profits continue to drop. This problem is as much horse racing's as it is the casinos. Introducing slots or video lottery terminals outside of Atlantic City may be the answer for both the casinos and the race tracks. The casino industries sole argument against slots at race tracks in New Jersey is based on the assumption that slots at the tracks would hurt them through a loss of their slot revenue. This position would be very difficult for them to support with facts and something that should be a focus of your investigation. The \$30 Million Dollars the casinos presently use to underwrite the purses and block slots at racetracks could be better spent promoting Atlantic City and investing in a franchise agreement with the NJSEA to install and operate slots and VLT's at the Meadowlands. The Authority, the Casinos and Horse Racing would all benefit from the resulting synergy such a partnership would create. Opening new markets to the casinos and attracting the convenience player once again to New Jersey gaming. Slots at NJ tracks can draw back the dollars lost to other states racetracks. Give the convenience gamer this choice. "Why drive the miles when you can play the slots at the track while playing the ponies and play both the slots and black jack in nearby Atlantic City?"

A Vision for Monmouth Park

Monmouth Park is an underutilized facility and can easily support multiple uses as an entertainment destination. These alternate / compatible uses should be geared to maximize the facility in and out of season. This is true in the current 93 days over 5 months, or a possible 71 days over 7 months. In either case the facility is capable of supporting a variety of uses within its current configuration; or with minor alterations to accommodate these uses. Exposition or Conference Space can be easily carved from within the current facility. Minor additions would allow for performance venues, night clubs, retail and restaurant uses. A new Monmouth Park Hotel is a possible; duplicating the 1890's vision of Monmouth Park as a destination. All of these are possible through public private partnerships (PPP's).

In addition, Monmouth Park might be able to support expanded stabling through winterization. A training facility located nearby, perhaps at Fort Monmouth, would permit trainers and owners to ready horses for the new racing calendar and fill the those 12 races daily with quality horses from opening day to closing day. Twilight racing offers another option for beach goers and the traditional Friday exodus to the Jersey Shore with post times that don't compete with the sand and sun.

In conclusion

Let me restate the main points:

1. Understanding the projected deficit. Off Track Wagering is a success story and should be repeated with additional locations quickly.
2. Focus on the Possible. A Plan for Success in Racing – The 50/50. The Legislature may be asked to consider a plan that doesn't count the days, but emphasizes making the days count.
3. A Vision for Monmouth Park. Public Private Partnerships to expand uses and maximize the facility.

The Borough of Oceanport recently assembled the Monmouth Park Task Force. This group consists of elected officials, past and present; local horsemen, business leaders and residents. It is with their assistance that we present testimony before this committee. The Monmouth Park Task Force will continue to offer advice and support those efforts underway by the Oversight Committee; and the Governor's Gaming, Sports and Entertainment Advisory Commission.

The underlying benefit to the state that must be considered by this committee as part of its research is the benefit of jobs and open space throughout our state owed in large measure to horse racing and the equine industry. Monmouth Park Racetrack directly and indirectly employs 3,000 people. These include building trades, horsemen, concessionaires, mutual clerks, service workers, valets, veterinarians, trainers, owners and managers to name a few. Each of these jobs contributes to the local economy by patronizing businesses from barber shop to hotels in surrounding communities. Each pays their share of income taxes and contributes to the states revenue.

Only 4 of New Jersey's 21 counties are without a preserved horse farm supporting the equine industry. The Rutgers Equine Science Center^x reports of 2007^{xi} and 2009 related to the Equine Industry contain data related to economic impact across the state. These are important resources for the committee.

An act of Legislature passed on March 21, 1894 prohibited gambling in general and caused the closure of Monmouth Park. As a result, racing lay dormant for more than 50 years. Coincidentally, an act of the Legislature in March of 2010 may hold the key once again to the survival of horse racing in New Jersey.

We hope these contributions of the Oceanport Task Force on Monmouth Park Racetrack have informed and influenced your perspective on this important issue. Thank you for the opportunity to speak before this committee.

References

- ⁱ “Oceanport in Retrospect” Copyright 1970 by the Borough of Oceanport Historical Society
- ⁱⁱ Office of the Tax Assessor; Borough of Oceanport
- ⁱⁱⁱ Transition Report – New Jersey Gaming/Sports and Entertainment Committee 05Jan10
- ^{iv} “Monmouth Park’s Troubles” NY Times article dated 3May1984 Archive #109719648
- ^v “Oceanport in Retrospect” Copyright 1970 by the Borough of Oceanport Historical Society
- ^{vi} GluckWalrath, LLP Memorandum to Oceanport Mayor Dated 22Feb10
- ^{vii} Map of NJ – Total Equine Facility Acres Compared to Equine Acres in Farmland Preservation
- ^{viii} “State’s Cure for horse racing call for triples purses, fewer racing days at Monmouth Park” Tom Luicci / The Star-Ledger 25Feb10
- ^{ix} Map of Casino Gaming in the Northeast U. S.
- ^x “The New Jersey Equine Industry 2007-Economic Impact” Rutgers Equine Science Center 2007
- ^{xi} “Impact of Slot Machines/VLT’s on the Economy, Horse Racing and Breeding Industry, Agriculture and Open Space in States/Provinces where they Exist: Why is this Important for New Jersey?” Rutgers Equine Science Center 2009

**BOROUGH OF OCEANPORT
MAYOR MICHAEL J. MAHON
COMMENTS TO THE SENATE LEGISLATIVE OVERSIGHT COMMITTEE
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6. New Jersey Sports and Exposition Authority Law.
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9. Authorities Transition Report – Executive Summary.
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11. July 2008 Press Release on Economic Impact if Racing-related Activities Leave the State.
12. Rutgers – The New Jersey Equine Industry 2007 – Economic Impact
13. Walrath letter explaining NJEIT financing.
14. Maps of Equine locations throughout the state.
15. Maps showing Casino/Gaming in Northeast U.S.

MONMOUTH PARK TASK FORCE MEMBERSHIP

Chair: Mayor Michael Mahon, Co-Chair: Councilman Gerald Briscione

Senator John O. Bennett

Senator S. Thomas Gagliano

Assemblywoman Caroline Casagrande

Honorable Lillian Burry, Freeholder Director

Honorable Clement Sommers, Former Mayor & Former Freeholder

Honorable Joseph Irace, Council President

Mr. Peter Geronimo, IBEW 400 Business Manager

Mr. David Gruskos, Owner and Member NJTHA

Dr. Bernard Dowd, Veterinarian

Mr. Joseph Marinaro, Owner and Member NJTHA

Mr. James Ryerson, Trainer and Member NJTHA

Mr. Robert Kelly, Public Member

Mr. William Finley, Turf Writer

5:10-1. Short title

This act shall be known as, and may be cited as, the "New Jersey Sports and Exposition Authority Law."

L.1971, c. 137, s. 1, eff. May 10, 1971.

5:10-2. Declaration of policy

The Legislature hereby finds and declares that the general welfare, health and prosperity of the people of the State will be promoted by the holding of athletic contests, horse racing and other spectator sporting events and of trade shows and other expositions in the State; that in order to induce professional athletic teams, particularly major league football and baseball teams, to locate their franchises in the State, it is necessary to provide stadiums and related facilities for the use of such teams, in addition to the facilities for horse racing and other spectator sporting events and to undertake the projects herein described; that such projects would provide needed recreation, forums and expositions for the public.

It is hereby further found and declared that additional facilities are needed in the State to accommodate trade shows and other expositions in order to promote industry and development in the State and provide a forum for public events.

The Legislature further finds and declares that the location of a sports and exposition complex in the Hackensack meadowlands would stimulate the needed development of said meadowlands.

The Legislature has determined that to provide for the projects, including the establishment and operation of the needed stadiums and other facilities for the holding of such spectator sports, expositions and other public events and uses, a corporate agency of the State shall be created with the necessary powers to accomplish these purposes.

The Legislature further finds that the authority and powers conferred under this act and the expenditure of public moneys pursuant thereto constitute a serving of a valid public purpose and that the enactment of the provisions hereinafter set forth is in the public interest and is hereby so declared to be such as a matter of express legislative determination.

L.1971, c. 137, s. 2, eff. May 10, 1971. Amended by L.1984, c. 215, s. 1, eff. Dec. 18, 1984, operative Jan. 7, 1985.

5:10-3 Definitions.

3. The following words or terms as used in this act shall have the following meaning unless a different meaning clearly appears from the context:

- a. "Act" means this New Jersey Sports and Exposition Authority Law.
- b. "Authority" means the New Jersey Sports and Exposition Authority created by section 4 of the act.
- c. "Bonds" means bonds issued by the authority pursuant to the act.
- d. "Meadowlands complex" means the sports and exposition project authorized by paragraph (1) of subsection a. of section 6 of the act.

- e. "Notes" means notes issued by the authority pursuant to the act.
- f. "Projects" means and includes any project which the authority is authorized to undertake pursuant to subsection a. of section 6 of P.L.1971, c.137 (C.5:10-6).
- g. "State" means the State of New Jersey.
- h. "Hackensack meadowlands" means the Hackensack Meadowlands District as delineated in P.L.1968, c.404, s.4 (C.13:17-4).
- i. "Meadowlands Commission" means the Hackensack Meadowlands Development Commission created by P.L.1968, c.404.
- j. "Racing Commission" means the New Jersey Racing Commission created by P.L.1940, c.17.
- k. "Credit agreement" as used herein includes loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, interest exchange agreement, insurance contract, surety bond, commitment to purchase bonds, purchase or sale agreements, or commitments or other contracts or agreements authorized and approved by the authority in connection with the authorization, issuance, security, or payment of bonds.
- l. "Luxury tax" means the tax levied and collected by the city of Atlantic City, county of Atlantic, pursuant to P.L.1947, c.71 (C.40:48-8.15 et seq.).
- m. "Atlantic City convention center project" means the project authorized by paragraph 9 of subsection a. of section 6 of P.L.1971, c.137 (C.5:10-6).
- n. "Wildwood convention center facility" means the project authorized by paragraph (12) of subsection a. of section 6 of P.L.1971, c.137 (C.5:10-6).
- o. "Tourism related tax" means the tax levied and collected pursuant to P.L.1992, c.165 (C.40:54D-1 et seq.) for the tourism improvement and development district which includes the Wildwood convention center facility.

L.1971,c.137,s.3; amended 1984, c.215, s.2; 1991, c.375, s.1; 1997, c.273, s.19.

5:10-4 "New Jersey Sports and Exposition Authority"; membership.

4. a. There is hereby established in the Department of Community Affairs a public body corporate and politic, with corporate succession, to be known as the "New Jersey Sports and Exposition Authority." The authority is hereby constituted as an instrumentality of the State exercising public and essential governmental functions, and the exercise by the authority of the powers conferred by the act shall be deemed and held to be an essential governmental function of the State and the application of the revenue derived from the projects to the purposes provided in this act shall be deemed and held to be applied in support of government.

b. The authority shall consist of the State Treasurer, the President of the New Jersey Sports and Exposition Authority, and a member of the Hackensack Meadowlands Development Commission, to be

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appointed by the Governor, who shall be members ex officio, 11 members appointed by the Governor with the advice and consent of the Senate, one member appointed by the President of the Senate and one member appointed by the Speaker of the General Assembly, for terms of four years. Each member shall hold office for the term of his appointment and until his successor shall have been appointed and qualified. A member shall be eligible for reappointment. Any vacancy in the membership occurring other than by expiration of term shall be filled in the same manner as the original appointment but for the unexpired term only.

c. Each appointed member may be removed from office by the Governor, for cause, after a public hearing, and may be suspended by the Governor pending the completion of such hearing. Each member before entering upon his duties shall take and subscribe an oath to perform the duties of his office faithfully, impartially and justly to the best of his ability. A record of such oaths shall be filed in the office of the Secretary of State.

d. The chairman shall be appointed by the Governor from the members of the authority other than ex officio members, and the members of the authority shall elect one of their number as vice chairman thereof. The authority shall elect a secretary and a treasurer, who need not be members, and the same person may be elected to serve both as secretary and treasurer. The powers of the authority shall be vested in the members thereof in office from time to time and nine members of the authority shall constitute a quorum at any meeting thereof. Action may be taken and motions and resolutions adopted by the authority at any meeting thereof by the affirmative vote of at least eight members of the authority. No vacancy in the membership of the authority shall impair the right of a quorum of the members to exercise all the powers and perform all the duties of the authority.

e. Each member and the treasurer of the authority shall execute a bond to be conditioned upon the faithful performance of the duties of such member or treasurer, as the case may be, in such form and amount as may be prescribed by the Director of the Division of Budget and Accounting in the Department of the Treasury. Such bonds shall be filed in the office of the Secretary of State. At all times thereafter the members and treasurer of the authority shall maintain such bonds in full force and effect. All costs of such bonds shall be borne by the authority.

f. The members of the authority shall serve without compensation, but the authority shall reimburse its members for actual expenses necessarily incurred in the discharge of their duties. Notwithstanding the provisions of any other law, no officer or employee of the State shall be deemed to have forfeited or shall forfeit his office or employment or any benefits or emoluments thereof by reason of his acceptance of the office of ex officio member of the authority or his services therein.

g. Each ex officio member of the authority may designate an officer or employee of his department or agency to represent him at meetings of the authority, and each such designee may lawfully vote and otherwise act on behalf of the member for whom he constitutes the designee. Any such designation shall be in writing delivered to the authority and shall continue in effect until revoked or amended by writing delivered to the authority.

h. The authority may be dissolved by act of the Legislature on condition that the authority has no debts or obligations outstanding or that provision has been made for the payment or retirement of such debts or obligations. Upon any such dissolution of the authority all property, funds and assets thereof shall be vested in the State.

i. A true copy of the minutes of every meeting of the authority shall be forthwith delivered by and

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under the certification of the secretary thereof to the Governor. No action taken at such meeting by the authority shall have force or effect until 15 days after such copy of the minutes shall have been so delivered unless during such 15-day period the Governor shall approve the same, in which case such action shall become effective upon such approval. If, in said 15-day period, the Governor returns such copy of the minutes with veto of any action taken by the authority or any member thereof at such meeting, such action shall be null and void and of no effect. The powers conferred in this subsection I. upon the Governor shall be exercised with due regard for the rights of the holders of bonds and notes of the authority at any time outstanding, and nothing in, or done pursuant to, this subsection I. shall in any way limit, restrict or alter the obligation or powers of the authority or any representative or officer of the authority to carry out and perform in every detail each and every covenant, agreement or contract at any time made or entered into by or on behalf of the authority with respect to its bonds or notes or for the benefit, protection or security of the holders thereof.

L.1971,c.137,s.4; amended 1978, c.1, s.13; 1981, c.335, s.1; 1985, c.500, s.1; 1991, c.375, s.2; 2001, c.456; 2004, c.116, s.13.

5:10-5 Powers of authority.

5. Except as otherwise limited by the act, the authority shall have power:

- a. To sue and be sued;
- b. To have an official seal and alter the same at pleasure;
- c. To make and alter bylaws for its organization and internal management and for the conduct of its affairs and business;
- d. To maintain an office at such place or places within the State as it may determine;
- e. To acquire, hold, use and dispose of its income, revenues, funds and moneys;
- f. To acquire, lease as lessee or lessor, rent, lease, hold, use and dispose of real or personal property for its purposes;
- g. To borrow money and to issue its negotiable bonds or notes and to secure the same by a mortgage on its property or any part thereof, and to enter into any credit agreement, and otherwise to provide for and secure the payment of its bonds and notes and to provide for the rights of the holders thereof;
- h. To make and enter into all contracts, leases, and agreements for the use or occupancy of its projects or any part thereof or which are necessary or incidental to the performance of its duties and the exercise of its powers under the act;
- i. To make surveys, maps, plans for, and estimates of the cost of its projects;
- j. To establish, acquire, construct, lease the right to construct, rehabilitate, repair, improve, own, operate, and maintain its projects, and let, award and enter into construction contracts, purchase orders and other contracts with respect thereto in such manner as the authority shall determine, subject only to the provisions of sections 1 through 3 of P.L.1981, c.447 (C.5:10-21.1 through 5:10-21.3) and section 3 of P.L.1987, c.318 (C.5:10-21.1a);

k. To fix and revise from time to time and charge and collect rents, tolls, fees and charges for the use, occupancy or services of its projects or any part thereof or for admission thereto, and for the grant of concessions therein and for things furnished or services rendered by the authority;

l. To establish and enforce rules and regulations for the use or operation of its projects or the conduct of its activities, and provide for the policing and the security of its projects;

m. To acquire in the name of the authority by purchase or otherwise, on such terms and conditions and in such manner as it may deem proper, or, except with respect to the State, by the exercise of the power of eminent domain, any land and other property, including land under water, meadowlands, and riparian rights, which it may determine is reasonably necessary for any of its projects or for the relocation or reconstruction of any highway by the authority and any and all rights, title and interest in such land and other property, including public lands, reservations, highways or parkways, owned by or in which the State or any county, city, borough, town, township, village, public corporation, or other political subdivision of the State has any right, title or interest, or parts thereof or rights therein and any fee simple absolute or any lesser interest in private property, and any fee simple absolute in, easements upon or the benefit of restrictions upon abutting property, to preserve and protect any project, except that the authority shall not have the right to exercise the power of eminent domain in connection with projects authorized under paragraphs (5), (6), and (7) of subsection a. of section 6 of P.L.1971, c.137 (C.5:10-6);

n. To provide through its employees, or by the grant of one or more concessions, or in part through its employees and in part by grant of one or more concessions, for the furnishing of services and things for the accommodation of persons admitted to or using its projects or any part thereof;

o. To hold and conduct horse race meetings for stake, purse or reward and to provide and operate a parimutuel system of wagering at such meetings, but subject only to the provisions of section 7 of the act;

p. To acquire, construct, operate, maintain, improve, and make capital contributions to others for transportation and other facilities, services and accommodations for the public's use of its projects and to lease or otherwise contract for the operation thereof;

q. Subject to any agreement with bondholders or noteholders, to invest moneys of the authority not required for immediate use, including proceeds from the sale of any bonds or notes, in such obligations, securities and other investments as the authority shall deem prudent;

r. To contract for and to accept any gifts or grants or loans of funds or property or financial or other aid in any form from the United States of America or any agency or instrumentality thereof, or from the State or any agency, instrumentality or political subdivision thereof, or from any other source and to comply, subject to the provisions of the act, with the terms and conditions thereof;

s. Subject to any agreements with bondholders or noteholders, to purchase bonds or notes of the authority out of any funds or money of the authority available therefor, and to hold, cancel or resell such bonds or notes;

t. To appoint and employ a president, who shall be the chief executive officer, and such additional officers, who need not be members of the authority, and accountants, attorneys, financial advisors or experts

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and all such other or different officers, agents and employees as it may require and to determine their qualifications, terms of office, duties and compensation, all without regard to the provisions of Title 11A of the New Jersey Statutes; provided that it is the express intent of the Legislature that the authority within its sole discretion shall utilize, to the fullest extent feasible, the services of the officers, personnel and consultants of the Meadowlands Commission, in connection with its project in the Meadowlands complex;

u. To do and perform any acts and things authorized by the act, under, through, or by means of its officers, agents or employees or by contract with any person, firm or corporation;

v. To procure insurance against any losses in connection with its property, operations or assets, in such amounts and from such insurers as it deems desirable;

w. To do any and all things, including, but not limited to, the creation or formation of profit or not-for-profit corporations, necessary or convenient to carry out its purposes and exercise the powers given and granted in the act;

x. To determine the location, type and character of a project or any part thereof and all other matters in connection with all or any part of a project, notwithstanding any land use plan, zoning regulation, building code or similar regulation heretofore or hereafter adopted by the State, any municipality, county, public body politic and corporate, including but not limited to the Meadowlands Commission, or any other political subdivision of the State, except that all projects constructed after the effective date of this 1987 amendatory and supplementary act shall conform to the Barrier-Free Sub-Code promulgated as part of the State Uniform Construction Code pursuant to P.L.1975, c.217 (C.52:27D-119 et seq.) and further excepted that the authority shall consult with the Meadowlands Commission before making any determination as to the location, type and character of any project under the jurisdiction of the Meadowlands Commission; and

y. To provide, with or without charge as it deems appropriate, through or by means of its officers, agents or employees, advisory, consulting, management or operating services to any political subdivision of the State, or any agency or instrumentality of the State or of any political subdivision of the State, with regard to a stadium, arena, concert hall or other sports or entertainment facility in operation as of January 1, 2004 and owned or operated by such entity as of January 1, 2004.

L.1971,c.137,s.5; amended 1978, c.1, s.15; 1984, c.215, s.3; 1985, c.500, s.2; 1987, c.318, s.1; 2004, c.116, s.14.

5:10-5.1. Annual operating budget submission to State; recordation in minutes

13. In accordance with procedures which shall be established by the State Treasurer and the authority, the proposed annual operating budget of the authority and the capital budgets for all projects of the authority, and any amendments thereto, shall be submitted to the State Treasurer and the Joint Budget Oversight Committee of the Legislature prior to submission to the members of the authority so as to provide the State Treasurer and the Joint Budget Oversight Committee adequate time to provide comments with respect thereto.

The annual operating budget of the authority and the capital budgets for all projects of the authority, and any amendments thereto shall be adopted as part of, and recorded in the full text of, the minutes of the authority.

L.1991,c.375,s.13.

5:10-5.2. Audit contract

15. The State Treasurer, in consultation with the State Auditor and the New Jersey Sports and Exposition Authority, shall enter into a contract with a person qualified to conduct an independent operations and financial audit of the authority and may prescribe any supporting documentation to be provided under the terms of the contract. The contract shall require that recommendations be made regarding a reasonable operations and maintenance budget. Copies of the audit shall be submitted to the authority, the State Treasurer and the Joint Budget Oversight Committee of the Legislature.

L.1991,c.375,s.15.

5:10-6 Authority projects.

6. a. The authority, pursuant to the provisions of P.L.1971, c.137 (C.5:10-1 et seq.), is hereby authorized and empowered, either alone or in conjunction with others, and provided that, in the case of an arrangement with respect to any of the projects set forth in this section which shall be in conjunction with others, the authority shall have sufficient right and power to carry out the public purposes set forth in P.L.1971, c.137 (C.5:10-1 et seq.):

(1) To establish, develop, construct, operate, acquire, own, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, a project to be located in the Hackensack meadowlands upon a site not to exceed 750 acres and upon a site or sites outside of that acreage, but either immediately contiguous thereto or immediately across any public road which borders that acreage, consisting of one or more stadiums, coliseums, arenas, pavilions, stands, field houses, playing fields, recreation centers, courts, gymnasiums, clubhouses, a racetrack for the holding of horse race meetings, and other buildings, structures, facilities, properties and appurtenances related to, incidental to, necessary for, or complementary to a complex suitable for the holding of athletic contests or other sporting events, or trade shows, exhibitions, spectacles, public meetings, entertainment events or other expositions, including, but not limited to, driveways, roads, approaches, parking areas, parks, recreation areas, lodging facilities, vending facilities, restaurants, transportation structures, systems and facilities, and equipment, furnishings, and all other structures and appurtenant facilities, related to, incidental to, necessary for, or complementary to the purposes of that project or any facility thereof.

(2) To establish, develop, construct, acquire, lease or own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, a project, at a site within the State of New Jersey, consisting of a baseball stadium and other buildings, structures, facilities, properties and appurtenances related thereto, or incidental to, necessary for, or complementary to a complex suitable for the holding of professional baseball games and other athletic contests or sporting events, or trade shows, exhibitions, spectacles, public meetings, entertainment events or other expositions, such project to include driveways, roads, approaches, parking areas, parks, recreation areas, vending facilities, restaurants, transportation structures, systems and facilities, and equipment, furnishings and all other structures and appurtenant facilities related to, incidental to, necessary for, or complementary to the purposes of that project or any facility thereof.

(3) To establish, develop, construct, acquire, lease or own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, projects located within the State of New Jersey, consisting of aquariums and the buildings, structures, facilities, properties and appurtenances related thereto, or incidental to, necessary for, or complementary to those aquariums, such project to include driveways, roads, approaches, parking areas, parks,

recreation areas, vending facilities, restaurants, transportation structures, systems and facilities, and equipment, furnishings and all other structures and appurtenant facilities related to, incidental to, necessary for, or complementary to the purposes of that project or any facility thereof. To provide for a project authorized under this paragraph:

(a) (Deleted by amendment, P.L.1988, c.172.)

(b) With regard to an aquarium project located outside of the meadowlands complex, the authority is authorized to enter into agreements with the State Treasurer providing for the acquisition and construction of an aquarium by the authority, including the land necessary for the aquarium, and the costs thereof, ownership of the aquarium and its land which shall be conveyed to the State upon completion, and the operation by the authority of the aquarium pursuant to a lease or other agreement with the State containing such terms and conditions as the State Treasurer may establish prior to the acquisition and construction by the authority of the aquarium and the disbursements of funds therefor. The State Treasurer is authorized to enter into a lease or other agreement to effectuate the provisions of this subparagraph.

(c) With regard to an aquarium project located within the meadowlands complex, the authority is authorized to enter into such agreements as it determines are necessary for the construction of the aquarium, including agreements providing for the acquisition of any land that may be necessary, for the ownership and for payment of costs of the aquarium, and for the operation thereof.

(4) To establish, develop, construct, acquire, own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, **a project consisting of an exposition or entertainment center or hotel or office complex, including any buildings, structures, properties and appurtenances related thereto**, incidental thereto, necessary therefor, or complementary thereto, such project to include driveways, roads, approaches, parking areas, parks, recreation areas, vending facilities, restaurants, transportation structures, systems, and equipment, furnishings and all other structures and appurtenances related to, incidental to, necessary for, or complementary to, the purposes of that project. **A project authorized under this paragraph may be located within, immediately contiguous to, or immediately across any public road which borders the site of any other project of the authority, except the site of a racetrack authorized by paragraph (5) of this subsection and acquired by the authority prior to 1986.**

(5) To establish, develop, construct, acquire, own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, projects consisting of (a) racetrack facilities located within the State of New Jersey, but outside of the meadowlands complex, (b) their contiguous properties, and (c) their auxiliary facilities, including, without limitation, pavilions, stands, field houses, clubhouses, training tracks for horses, racetracks for the holding of horse race meetings, fairgrounds, other exposition facilities, and other buildings, structures, facilities, properties and appurtenances related to, incidental to, necessary for, or complementary to a complex suitable for the holding of horse race meetings, other sporting events, or trade shows, exhibitions, spectacles, public meetings, entertainment events or other expositions, including, but not limited to, driveways, roads, approaches, parking areas, parks, recreation areas, lodging facilities, vending facilities, restaurants, transportation structures, systems and facilities, equipment, furnishings, and all other structures and appurtenant facilities related to, incidental to, necessary for, or complementary to the purposes of any of those projects or any facility thereof.

Notwithstanding any law to the contrary, *the acquisition of any existing racetrack facility in and*

licensed by the State of New Jersey shall be permitted on the condition that payments equivalent to all municipal, school board and county taxes due to each entity shall be paid by the authority to the extent and in accordance with the same payment schedule as taxes would have been paid each year, as though the racetrack facility remained in private ownership. In the event the authority conveys lands or other parts of the racetrack facility to others, the authority shall receive a reduction of such payments commensurate with the amount required to be paid by the subsequent owner of the lands and improvements disposed of by the authority. In addition, the authority shall be responsible for paying all existing local franchise fees, license and parking tax fees in effect at the time of the acquisition.

(6) To establish, develop, acquire, own, operate, manage, promote and otherwise effectuate, in whole or in part, either directly or indirectly through lessees, licensees or agents, projects consisting of events, expositions, teams, team franchises or membership in professional sports leagues.

(7) To establish, develop, construct, acquire, own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, projects consisting of facilities, at a site or sites within the State of New Jersey and either within or without the meadowlands complex, that are related to, incidental to, necessary for, or complementary to the accomplishment or purpose of any project of the authority authorized by this section, including any buildings, structures, properties and appurtenances related thereto, incidental thereto, necessary therefor, or complementary thereto, such projects to include driveways, roads, approaches, parking areas, parks, recreation areas, off-track and account wagering systems and facilities or any interest therein, vending facilities, restaurants, transportation structures, systems, and equipment, furnishings and all other structures and appurtenances related to, incidental to, necessary for, or complementary to the purposes of those projects.

(8) To establish, develop, acquire, construct, reconstruct, improve and otherwise effectuate for transfer to, and for use and operation by, Rutgers, the State University, either directly or indirectly through lessees, licensees or agents, facilities located or to be located on property owned, leased, or otherwise used by Rutgers, the State University, consisting of an upgraded and expanded football stadium and a new track and field, soccer and lacrosse facility and the buildings, structures, properties and appurtenances related thereto, or incidental to, necessary for, or complementary to the football stadium and track and field, soccer and lacrosse facility, such facilities to include driveways, access roads, approaches, parking areas, parks, recreation areas, vending facilities, restaurants, transportation structures, systems and equipment, furnishings and all other structures and appurtenances related or incidental to, necessary for, or complementary to the purposes of those facilities; provided however that construction shall not begin on the expansion of the seating capacity of Rutgers Stadium until the Commissioner of Transportation certifies that all funding necessary to complete the Route 18 project in Piscataway Township has been appropriated and construction has begun on the Route 18 project in Piscataway Township under the Department of Transportation's capital program.

(9) To acquire by purchase, lease or otherwise, and to develop, construct, operate, own, lease, manage, repair, reconstruct, restore, improve, enlarge or otherwise effectuate, either directly or through lessees, licensees or agents, a project which may hereinafter be referred to as either the Atlantic City convention center project or a convention center project in the city of Atlantic City, Atlantic County, consisting of the existing convention hall and a new convention hall or center, and associated parking areas and railroad terminal facilities and including the leasing of adjacent land for hotel facilities. In connection therewith, the authority is authorized to:

(a) Assume existing leasehold or other contractual obligations pertaining to any such facilities or properties or to make provision for the payment or retirement of any debts and obligations of the governmental entity operating any such convention hall or center or of any bonds or other obligations payable from and secured by a lien on or pledge of the luxury tax revenues;

(b) Make loans or payments in aid of construction with respect to infrastructure and site development for properties located in the area between the sites of the existing convention hall and a new convention center or located contiguous to or across any public road which borders the area;

(c) Convert the existing convention hall or any facilities, structures or properties thereof, or any part thereof, not disposed of by the authority, to any sports, exposition, exhibition, or entertainment use or to use as a forum for public events or meetings, or to any other use which the authority shall determine to be consistent with its operation of the Atlantic City convention center project;

(d) Transfer, as soon as practicable, its ownership interest or other rights and obligations, other than any bonds, notes, or other obligations, including any credit agreement, of the authority issued and outstanding, or then in effect, on the date of such transfer under the Luxury Tax Bond Resolution, in the Atlantic City convention center project to the Atlantic City Convention and Visitors Authority created under section 3 of P.L.1981, c.459 (C.52:27H-31), and cease any supervision of the Atlantic City Convention and Visitors Authority, to the extent permitted by the terms of the bonds, notes, leases or other financing documents, assignments, agreements or arrangements issued or entered into to finance or refinance, in whole or in part, or incurred in connection with the Atlantic City convention center project, as reasonably determined by the authority but subject to the diligence and reasonable determination provisions of paragraph (6) of subsection f. of this section.

(10) To provide a feasibility study for the use and development of the existing convention center in the city of Asbury Park, county of Monmouth and to provide a feasibility study for the construction, use and development of a convention center or recreational facility in any other municipality.

(11) To provide funding to public or private institutions of higher education in the State to establish, develop, acquire, construct, reconstruct or improve facilities located or to be located on property owned, leased, or otherwise used by an institution, consisting of sports facilities and the buildings, structures, properties and appurtenances related thereto, or incidental to, necessary for, or complementary to those sports facilities, such facilities to include driveways, access roads, approaches, parking areas, parks, recreation areas, vending facilities, restaurants, transportation structures, systems and equipment, furnishings and all other structures and appurtenances related or incidental to, necessary for, or complementary to the purposes of those facilities.

(12) To acquire by purchase, lease, or otherwise, including all right, title and interest of the Greater Wildwood Tourism Improvement Development Authority in any property, and to develop, construct, operate, own, lease, manage, repair, reconstruct, restore, improve, enlarge or otherwise effectuate, either directly or through lessees, licensees or agents, a convention center facility in the City of Wildwood, Cape May County, consisting of and including any existing and acquired buildings, structures, properties and appurtenances and including restaurants, retail businesses, access roads, approaches, parking areas, transportation structures and systems, recreation areas, equipment, furnishings, vending facilities, and all other structures and appurtenances incidental to, necessary for, or complementary to the purpose of such Wildwood convention center facility. In connection therewith, the authority is expressly authorized to:

(a) assume any existing mortgages, leaseholds or other contractual obligations or encumbrances with

respect to the site of the Wildwood convention center facility and any other existing and acquired buildings, structures, properties, and appurtenances;

(b) enter into agreements with a local public body or bodies providing for any necessary financial support or other assistance for the operation and maintenance of such Wildwood convention center facility from taxes or other sources of the local public body or bodies as shall be made available for such purposes;

(c) to the extent permitted by law and by the terms of the bonds or notes issued to finance the Wildwood convention center facility, transfer its ownership interest or other rights with respect to the convention center facility to another State authority or agency;

(d) upon payment of all outstanding bonds and notes issued therefor, transfer its ownership interest and other rights with respect thereto to such other public body as shall be authorized to own and operate such a facility; and

(e) convert any existing convention hall or any facilities, structures or properties thereof, or any part thereof, not disposed of by the authority, to any use which the authority shall determine to be consistent with the operation of the Wildwood convention center facility.

(13) To acquire by purchase, lease or otherwise, and to develop, construct, own, lease, manage, repair, reconstruct, restore, improve, enlarge or otherwise effectuate, either directly or through lessees, licensees, or agents, all right, title, or interest in the Garden State Arts Center in Holmdel, Monmouth County, and any related or auxiliary facilities and to transfer its interest in the Garden State Arts Center and any related or auxiliary facilities to such other public body that is authorized to own and operate such a facility, or other entity, according to such terms and process as the authority may establish in its discretion.

(14) (a) To establish, develop, construct, acquire, lease or own, operate, manage, promote, maintain, repair, reconstruct, restore, improve and otherwise effectuate, either directly or indirectly through lessees, licensees or agents, projects located within the State of New Jersey, but outside the meadowlands complex, provided that the authority first obtains the consent of the municipality or municipalities in which the projects are to be located, consisting of football training facilities that are comparable in quality to National Football League professional football training facilities and the buildings, structures, facilities, uses, properties and appurtenances related thereto, or identical to, necessary for, or complementary to those National Football League-quality professional football league training facilities, such projects to include driveways, roads, approaches, parking areas, parks, recreation areas, restaurants, transportation structures, systems and facilities, and equipment, furnishings and all other structures and appurtenant facilities related to, incidental to, necessary for, or complementary to the purposes of such projects or any facility thereof.

(b) For projects developed pursuant to subparagraph (a) of paragraph (14) of this subsection, the authority shall make in-lieu-of-tax payments in each municipality affected in amounts negotiated by the authority and each municipality.

b. The authority, pursuant to the provisions of P.L.1971, c.137 (C.5:10-1 et seq.), is authorized (1) to make, as part of any of the projects, capital contributions to others for transportation and other facilities, and accommodations for the public's use of any of those projects, (2) to lease any part of any of those project sites not occupied or to be occupied by the facilities of any of those projects, for purposes determined by the authority to be consistent with or related to the purposes of those projects, including, but not limited to, hotels

and other accommodations for transients and other facilities related to or incidental to any of those projects, and (3) to sell or dispose of any real or personal property, including, but not limited to, such portion of the site of any of those projects not occupied or to be occupied by the facilities of any of those projects, at not less than the fair market value of the property, except in the case of sale or disposition to the State, any political subdivision of the State or any agency or instrumentality of the State or any political subdivision of the State.

c. Revenues, moneys or other funds, if any, derived from the operation or ownership of the meadowlands complex, including the conduct of horse race meetings, shall be applied, in accordance with the resolution or resolutions authorizing or relating to the issuance of bonds or notes of the authority, to the following purposes and in the following order:

(1) The costs of operation and maintenance of the meadowlands complex and reserves therefor;

(2) Principal, sinking fund installments and redemption premiums of and interest on any bonds or notes of the authority payable from such revenues, moneys or other funds and issued for the purposes of the meadowlands complex or for the purposes of refunding the same, including reserves and payments with respect to credit agreements therefor;

(3) The costs of any major or extraordinary repairs, renewals or replacements with respect to the meadowlands complex or incidental improvements thereto, not paid pursuant to paragraph (1) above, including reserves therefor;

(4) Payments required to be made pursuant to section 18b.;

(5) Payments authorized to be made pursuant to section 18c.;

(6) Except to the extent payments with respect to bonds or notes are provided with priority in accordance with paragraph (2) of this subsection, payments required to be made in accordance with the resolution authorizing or relating to the issuance of bonds or notes of the authority, for the purposes of any project authorized by this act, including payments and reserves with respect to any bonds or notes of the authority with respect to the meadowlands complex which are not provided with priority in accordance with paragraph (2) of this subsection;

(7) Payments required to be made to repay any obligation incurred by the authority to the State;

(8) The balance remaining after application in accordance with the above shall be deposited in the General State Fund, provided that (a) there shall be appropriated for authorized State purposes from the amount so deposited that amount which shall be calculated by the State Treasurer to be the debt service savings realized with respect to the refinancing of the initial project as defined in section 1 of P.L.1973, c.286 (C.5:10-14.1) at the meadowlands complex, by the issuance of bonds of the authority guaranteed by the State, and (b) after such appropriation, 40% of any balance remaining from the amounts so deposited shall be appropriated to the Meadowlands Commission for any of its purposes authorized by P.L.1968, c.404, and any amendments or supplements thereto.

d. Revenues, moneys or other funds, if any, derived from the operation or ownership of any project other than the meadowlands complex, the Atlantic City convention center project, or the Wildwood convention center facility and other than a baseball stadium project or an office complex project located on the site of a

baseball stadium shall be applied for such purposes, in such manner and subject to such conditions as shall be provided in the resolution authorizing or relating to the issuance of bonds or notes of the authority for the purposes of such project, and the balance, if any, remaining after such application may be applied, to the extent not contrary to or inconsistent with the resolution, in the following order: (1) to the purposes of the meadowlands complex, unless otherwise agreed upon by the State Treasurer and the authority, (2) to the purposes of any other project of the authority; and, the balance remaining, if any, shall be deposited in the General Fund.

e. Revenues, moneys or other funds, if any, derived from the operation, ownership, or leasing of a baseball stadium project or an office complex project located on the site of a baseball stadium shall be applied for the purposes, in the manner and subject to the conditions as shall be provided in the resolution authorizing or relating to the issuance of bonds or notes of the authority for the purposes of a baseball stadium project or an office complex project located on the site of a baseball stadium, if any, and the balance, if any, remaining after such application shall be applied, to the extent not contrary to or inconsistent with the resolution, to the following purposes and in the following order:

(1) The costs of operation and maintenance of a baseball stadium project and an office complex project located on the site of a baseball stadium and reserves therefor;

(2) Payments made to repay the bonded indebtedness incurred by the authority for the purposes of a baseball stadium project or an office complex project located on the site of a baseball stadium;

(3) Payments equivalent to an amount required to be made by the State for payments in lieu of taxes pursuant to P.L.1977, c.272 (C.54:4-2.2a et seq.);

(4) The balance remaining after application in accordance with the above shall be deposited in the General Fund.

f. Revenues, moneys or other funds, if any, including earned interest, derived from the operation, ownership or leasing of the Atlantic City convention center project shall be applied to the costs of operating, maintaining and promoting the Atlantic City convention center project and to the other purposes set forth in paragraphs (1) through (5) of this subsection, except as provided in paragraph (6) of this subsection.

Subject to paragraph (6) of this subsection, luxury tax revenues paid to the authority by the State Treasurer pursuant to section 14 of P.L.1991, c.375 (C.5:10-14.4), including earned interest, shall be deposited by the authority in a separate fund or account and applied to the following purposes and in the following order:

(1) To pay the principal, sinking fund installments and redemption premiums of and interest on any bonds or notes of the authority, including bonds or notes of the authority issued for the purpose of refunding bonds or notes, issued for purposes of (i) the initial acquisition of the existing properties which will constitute part of the Atlantic City convention center project, if the bonds or notes shall be payable under the terms of the resolution of the authority relating thereto from luxury tax revenues, or (ii) providing improvements, additions or replacements to the Atlantic City convention center project, if the bonds or notes shall be payable under the terms of the resolution of the authority relating thereto from luxury tax revenues; and to pay any amounts due from the authority under any credit agreement entered into by the authority in connection with the bonds or notes.

(2) To pay the costs of operation, maintenance and promotion of the Atlantic City convention center project, including amounts payable as operating expenses under the Luxury Tax Bond Resolution or the terms of the bonds, notes, leases or other financing documents, assignments, agreements or arrangements issued or entered into to finance or refinance, in whole or in part, or incurred in connection with, the Atlantic City convention center project.

(3) To establish and maintain a working capital and maintenance reserve fund for the Atlantic City convention center project in an amount as shall be determined by the authority to be necessary.

(4) To repay to the State those amounts paid by the State with respect to bonds or notes of the authority issued for the purposes of the Atlantic City convention center project.

(5) The balance of any luxury tax revenues not required for any of the foregoing purposes and remaining at the end of any calendar year shall be paid to the State Treasurer for application to purposes in the city of Atlantic City pursuant to section 5 of P.L.1981, c.461 (C.40:48-8.30a).

The authority may pledge the luxury tax revenues paid to it as provided for in section 14 of P.L.1991, c.375 (C.5:10-14.4) as security for the payment of the principal of and interest or premium on the bonds or notes issued for the purposes set forth above in paragraph (1) of this subsection f. in the same manner, to the same extent and with the same effect as the pledge of any of its other revenues, receipts and funds authorized by P.L.1971, c.137 (C.5:10-1 et seq.).

(6) (a) The authority shall promptly and diligently pursue all consents, approvals, waivers or non-objections under the bonds, notes, leases, or other financing documents, assignments, agreements or arrangements issued or entered into to finance or refinance, in whole or in part, or incurred in connection with, the Atlantic City convention center project, that are required for the following actions, which actions may be implemented at the same or at different times:

(i) to permit the State Treasurer to remit to the authority, for deposit to the Luxury Tax Revenue Fund established under the Luxury Tax Bond Resolution, luxury tax revenues held by the State Treasurer in the fund established pursuant to section 5 of P.L.1979, c.273 (C.40:48-8.30) in an amount sufficient to (A) pay the principal, sinking fund installments and redemption premiums, if any, of and interest on any bonds, notes, or other obligations, including any credit agreement, of the authority issued and outstanding or entered into pursuant to the Luxury Tax Bond Resolution, and (B) maintain any reserves required to be held by the trustee pursuant to the Luxury Tax Bond Resolution, and to remit the balance of the luxury tax revenues held by the State Treasurer in such fund, including interest thereon, to the Atlantic City Convention and Visitors Authority to be applied as provided in section 25 of P.L.2008, c.47 (C.52:27H-41.13) subject, however, to the lien of the Luxury Tax Bond Resolution, until all bonds, notes, and other obligations, including any credit agreement, of the authority issued and outstanding or entered into pursuant to the Luxury Tax Bond Resolution have been paid or defeased in full.

(ii) to permit the authority to transfer its ownership interest or other rights and obligations, other than any bonds, notes, or other obligations, including any credit agreement, of the authority issued and outstanding, or then in effect, on the date of such transfer under the Luxury Tax Bond Resolution, in the Atlantic City convention center project to the Atlantic City Convention and Visitors Authority, and cease any supervision of the Atlantic City Convention and Visitors Authority.

(iii) to implement any other provisions of P.L.2008, c.47 (C.52:27H-31.1 et al.).

(b) Upon obtaining such consents, approvals, waivers or non-objections or upon the reasonable determination by the authority or the State Treasurer that such consents, approvals or non-objections have been obtained, are unnecessary or that the absence of such consents, approvals or non-objections shall not result in a material default, the State Treasurer shall thereafter remit to the authority from the fund only those monies required to satisfy the obligations of subparagraphs (a)(i)(A) and (a)(i)(B) of this paragraph; the balance of the luxury tax revenues held by the State Treasurer in such fund, including interest thereon, shall be paid promptly to the Atlantic City Convention and Visitors Authority to be applied as provided in section 25 of P.L.2008, c.47 (C.52:27H-41.13), subject, however, to the lien of the Luxury Tax Bond Resolution until all bonds, notes, and other obligations, including any credit agreement, of the authority issued and outstanding or entered into pursuant to the Luxury Tax Bond Resolution have been paid or defeased in full.

(c) When all bonds, notes, or other obligations, including any credit agreement, of the authority issued and outstanding or entered into pursuant to the Luxury Tax Bond Resolution have been paid or defeased in full, any amounts received by the authority from the funds and accounts held under the Luxury Tax Bond Resolution shall forthwith be transferred to the Atlantic City Convention and Visitors Authority to be applied as provided in section 25 of P.L.2008, c.47 (C.52:27H-41.13).

g. Revenues, moneys or other funds, if any, derived from the ownership or operation of the Wildwood convention center facility shall be applied to the costs of operating and maintaining the Wildwood convention center facility and to the other purposes set forth in this subsection as shall be provided by resolution of the authority.

The tourism related tax revenues paid to the authority pursuant to subsection f. of section 14 of P.L.1992, c.165 (C.40:54D-14) shall be deposited by the authority in a separate fund or account and applied to any or all of the following purposes pursuant to an allocation of funds approved by the State Treasurer in writing and in advance of any application of such funds:

(1) to pay amounts due with respect to any obligations transferred to the authority pursuant to section 17 of P.L.1997, c.273 (C.40:54D-25.1) pertaining to the Wildwood convention center facility;

(2) to repay to the State those amounts paid with respect to bonds or notes of the authority issued for the purposes of the Wildwood convention center facility;

(3) to pay the cost of operation and maintenance reserve for the Wildwood convention center facility;

(4) to establish and maintain a working capital and maintenance reserve for the Wildwood convention center facility.

The balance, if any, of any tourism related tax revenues not allocated to any of the purposes set forth in the previous paragraphs and remaining at the end of the calendar year shall be paid to the State Treasurer for deposit in the General Fund.

L.1971, c.137, s.6; amended 1978, c.47, s.1; 1984, c.215, s.4; 1987, c.318, s.2; 1988, c.172, s.1; 1991, c.375, s.3; 1997, c.273, s.20; 2001, c.199, s.38; 2003, c.79, s.45; 2005, c.302, s.1; 2008, c.47, s.3; 2008, c.66.

5:10-6.1 New Jersey Hall of Fame.

1. a. The New Jersey Sports and Exposition Authority created by P.L.1971, c.137 (C.5:10-1 et seq.) is authorized to establish a New Jersey Hall of Fame as a project either within the Meadowlands complex, or within the State of New Jersey, but outside of the Meadowlands complex, at a site that the commissioners of the New Jersey Hall of Fame Advisory Commission and the board of trustees of the Foundation for the New Jersey Hall of Fame, acting jointly, determine to be appropriate to meet the requirements of the New Jersey Hall of Fame project and to best serve the interests of the public. With respect to this project, the authority may exercise all the rights and powers relating to the Meadowlands complex granted to the authority under P.L.1971, c.137 (C.5:10-1 et seq.) as though the rights and powers were granted under P.L.1985, c.325 (C.5:10-6.1) and P.L.2005, c.232 (C.5:10-6.4 et al.), and made applicable to a New Jersey Hall of Fame.

b. The New Jersey Sports and Exposition Authority shall establish a New Jersey Hall of Fame corporation, hereinafter referred to as the "hall of fame corporation," to operate and manage the New Jersey Hall of Fame project authorized by subsection a. of this section. The corporation shall be established as a separate, nonprofit corporation to be incorporated as a New Jersey nonprofit corporation pursuant to P.L.1983, c.127 (N.J.S.15A:1-1 et seq.), and organized and operated in such manner as to be eligible under applicable federal law for tax-exempt status, and shall be authorized to sue and to be sued as a legal entity separate from the authority and from the State of New Jersey. The voting membership of the board of directors of the hall of fame corporation shall consist of the members of the board of trustees of the Foundation for the New Jersey Hall of Fame established pursuant to subsection a. of section 6 of P.L.2005, c.232 (C.5:10-6.8), but may, subject to any bylaws of the corporation adopted by the voting membership of the board of directors thereof, include as nonvoting ex officio members the members of the New Jersey Hall of Fame Advisory Commission established pursuant to section 4 of P.L.2005, c.232 (C.5:10-6.6).

c. The terms of the 11 members appointed by the Governor to the board of directors of the New Jersey Sports Hall of Fame pursuant to P.L.1985, c.325 (C.5:10-6.1), shall continue after the effective date of P.L.2005, c.232 (C.5:10-6.4 et al.) and such board members serving on the effective date of P.L.2005, c.232 (C.5:10-6.4 et al.) shall serve as members of the New Jersey Hall of Fame Advisory Commission established pursuant to section 4 of P.L.2005, c.232 (C.5:10-6.6) until the expiration of their terms.

L.1985, c.323, s.1; amended 2005, c.232, s.3; 2008, c.109, s.1.

5:10-6.2. Consultation with local officials

Notwithstanding the provision of subsection x. of section 5 of P.L. 1971, c. 137 (C. 5:10-5) or any other law, rule or regulation to the contrary, any project authorized by paragraph (5) of subsection a. of section 6 of P.L.1971, c. 137 (C. 5:10-6) and acquired by the authority prior to 1986 shall be developed only after consultation with local officials and giving consideration to local objections, problems and suggestions in order to minimize conflict with the master plan, zoning ordinances and other development regulations of the municipality or municipalities in which the project is situated.

L. 1987,c.318,s.4.

5:10-6.3 Sports authority's operation of Wildwood convention center facility.

18. The sports authority is hereby authorized to acquire, finance through the issuance of bonds or notes, construct, operate and perform such other functions as provided in P.L.1971, c.167 (C.5:10-1 et seq.) regarding the Wildwood convention center facility authorized herein. The sports authority shall have sole responsibility to

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provide for the acquisition, financing through the issuance of bonds or notes and construction and operation of the Wildwood convention center facility within the district. Further, the authority in existence on July 1, 1997 may advise the sports authority with regard to the Wildwood convention center facility.

L.1997,c.273,s.18.

January 15, 2010

**Governor-Elect Chris Christie
Transition Team – Agriculture Subcommittee**

**Report On the
Department of Agriculture**

January 15, 2010

Transition Team – Agriculture Subcommittee

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January 15, 2010

I. Overview of the Department of Agriculture

The Agricultural Industry: The Garden State has long been known for its diverse and rich agricultural heritage. As the lead sectors in the 1950's of dairy and poultry have been replaced over the decades by nursery, greenhouse and sod, and fruit and vegetables, New Jersey residents have maintained their strong support for the state's ever changing farming industry. Farmers have continually adapted their business to take advantage of new market opportunities, which have allowed New Jersey's agriculture to grow to the diverse high value industry that exists today.

Agriculture remains an important part of our landscape with over 730,000 acres in active production which is more than 15% of the state's 4.8 million acres. Today, 183,410 acres of this privately managed working landscape are preserved through the publicly supported Farmland Preservation program.

New Jersey's significant food and agriculture complex generates \$82 billion in sales and employs an estimated 400,000 workers and touches the lives of every one of our state's residents. It is estimated that the food system contributes 8.5 percent of New Jersey's private sector Gross State Product (GSP) and accounts for 15 percent of the private sector workforce. This network of farmers, fishermen, food processors, food distributors, restaurants and food retailers require supportive public policies to prosper. As the most densely populated state in the nation, New Jersey has the opportunity to develop a strategic policy framework that will grow this important segment of our state's economy.

The Department of Agriculture: Created in 1916, the Department of Agriculture is responsible for regulating and promoting agriculture in our state as well as disseminating information and providing services that support agriculture. It has adapted to meet the changing needs of the food and agriculture industry that it both advocates for and regulates. Today, the Department is in the forefront on issues regarding farmland preservation, land use planning, food safety, hunger and nutrition, and plant and animal disease control. The programs it administers provide widespread public benefit for New Jersey's people, environment and economy.

Yet, the previous administration has been indifferent and even hostile to the Department as evidenced by its proposed elimination in 2008. In fact the Department's FY09 state support was reduced by 13% at a time when the average budget reduction across all state departments was 6 percent. The Transition Team's Agriculture Subcommittee believes the past 8 years of disinvestment in the Department should be reversed and welcomes the opportunity to strengthen this important agency in the new Christie administration.

The Department's Direct State Services budget, which a few years ago had been over \$11 million, has been reduced to just under \$7 million this fiscal year. Since 2005, the Department of Agriculture has reduced its workforce from 271 to 215 full-time employees today. Now among the state's leanest departments, it continues to meet mission-critical objectives by reorganizing, realigning and increasing productivity through strategic partnerships and cross-training. Any added efficiency gains will require Information Technology investments that would enable employees to more effectively perform current and additional tasks.

Subcommittee members representing various regions of the state spent several days listening to the department administrators and constituents that utilize its services. Constituents uniformly stated a positive view of the Department, citing its efficiency and effectiveness at administering programs for individuals, businesses and organizations. Its staff was found to be professional, delivering services with a passion and commitment that people expect from their

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public servants. In contrast however, much of what we heard about other state agencies, most notably the Department of Environmental Protection (DEP), was the frustration caused by trying to deal with the indecisive mindset in state government.

A food processor discussed his three-year experience spending over \$750,000 for DEP water allocation and wastewater discharge permit approvals. At one point he seriously contemplated moving his business out-of-state, a decision that would have meant a loss of over 200 jobs. One farmer told us about drilling a well on his preserved farm then waiting nearly a year for permission to pump the water on the new cropland. Unfortunately, this experience has become all too common even on publicly preserved farmland. Many spoke about wildlife like beaver, deer and bear destroying high value crops and the inability to get a quick decision from DEP on control permits. A winery owner spoke about an inflexible sign program for state highways making it difficult for consumers to find his business. These experiences hardly represent a business friendly way of thinking.

This attitude of state employees and leaders fails to recognize the urgency for a fair regulatory process with timely decision-making that encourages a vibrant business environment. In brief, change is needed. The food and agriculture industry asks the Governor to provide direction and a clear charge to his cabinet that these industries are vitally important and have priority in this administration.

As this report shows, certain segments of the industry are at a critical juncture and their future viability in New Jersey will need immediate attention from this administration. We firmly believe that the new Christie administration will bring a fresh approach that will provide the assurance our food and agriculture complex needs to continue their operations and invest in future growth.

Selection of the Secretary of Agriculture: The Department of Agriculture is a unique department in that the eight-member State Board of Agriculture appoints the Secretary of Agriculture with approval of the Governor. The Governor has the authority to reject the board's selection. The Secretary of Agriculture serves as head of the Department and implements the policies established by the board.

Under N.J.S.A. 4:1-1 et seq., two new Board members are selected each year by the 97 member legislatively-prescribed delegate body at the State Agriculture Convention held in February. The Board nominees are recommended to the Governor for appointment with the advice and consent of the Senate. A Board member's four-year term begins on July 1st. Representatives from the top four agricultural commodities must have seats on the board. The law further states that only those engaged in the production of farm crops or livestock can be members of the State Board of Agriculture. All members serve without compensation, but can be reimbursed for expenses.

In brief, Governor-elect Christie does not directly nominate or appoint the Secretary of Agriculture as will be done for the other cabinet-level positions. The Governor-elect can accept or reject the State Board's selection. The current members of the State Board of Agriculture along with their industry affiliation and term are in the following chart:

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State Board of Agriculture	Year Term Ends	Industry
Roger R. Kumpel, president	2010	Hay/grain
W. Scott Ellis, vice president	2011	Vegetable
Hugh McKittrick	2010	Nursery
Monica Ann Dorsett	2011	Equine industry
Andrew Borisuk	2012	Hay/grain
Henry D. DuBois	2012	Vegetable
Dr. Lewis DeEugenio	2013	Fruit
James Giamarese	2013	Vegetable

II. Department Initiatives Requiring Priority Review

1. Jersey Fresh Marketing program: New Jersey was the first state in the nation to brand its locally grown produce. Since then, the Jersey Fresh label has been extended to other agricultural products such as fish, Christmas trees, and processed food like crushed tomatoes. All of the agricultural, food and restaurant interest groups that provided comment to the Subcommittee uniformly support the Jersey Fresh program. A report conducted by the Department of Agriculture several years ago noted that for each dollar spent on Jersey Fresh promotion resulted in \$54.49 of increased economic output in the State. In 2003, the \$1.16 million spent on the Jersey Fresh program increased fruit and vegetable cash receipts by \$36.6 million and created an additional \$26.6 million in economic activity within agricultural support industries.

During the program's heyday in the late 1980's and early 1990's, the Jersey Fresh marketing budget reached a high of \$1.6 million annually. The television ads featured the Governor and the Agriculture Secretary and were highly successful in promoting not only the sale of locally grown products but also pride in our state and its farming industry. A return to this nationally recognized program should be considered. Funding was reduced during the McGreevey administration to \$800,000 annually. Although the 2006 Transition Team Agriculture report to Governor-elect Corzine recommended that the Jersey Fresh budget be doubled (to \$1.6 million), the recommendation wasn't heeded. In FY 2010, the budget for Jersey Fresh was further reduced to \$150,000; a portion of which is used for program administration.

The public-private partnership the New Jersey Blueberry Council has with the Jersey Fresh program is illustrative of how both entities have been able to maximize the limited funds available for marketing and promotion. In years when the Jersey Fresh promotions targeted the New Jersey, New York and Philadelphia markets, the Council focused its promotion efforts on the New England market. This unique complementary effort allowed both entities to reach a larger audience with their limited resources. Another example of leveraging occurs when supermarkets and restaurants utilize the Jersey Fresh and Jersey Seafood logos in their advertisements thereby generating millions of impressions at no cost to the taxpayer.

Finally, the Department of Agriculture and the Division of Consumer Affairs should strengthen and coordinate inspections for Jersey Fresh branded products to prevent out-of-state producers from benefiting from the brand. This will help our farmers and food processors position their products in the market, protect consumers from potentially unsafe foods, and maintain the integrity of the Jersey Fresh brand.

With a renewed state investment, the Department of Agriculture will be able to again market the Jersey Fresh brand. In these times of uncertainty regarding food safety, consumers

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trust the Jersey Fresh label and “locally grown” farm products. The resulting economic activity benefits not only farmers and consumers but also impacts local, state and federal taxes. An analysis of these impacts in 2003 showed that local and state tax revenues increased by \$2.2 million due to the Jersey Fresh program, a return far greater than the cost of the program. The current Jersey Fresh agency contract will expire in 2010; a new Request for Proposal will be issued next year.

2. Food Nutrition and Feeding the Hungry Programs: The food distribution programs run by the Department’s Division of Food and Nutrition serve on average 1.6 million residents daily and distribute over 55 million pounds of food annually. The Department’s management of the school nutrition program has put New Jersey in the forefront nationally in helping schools structure their food service operations to provide more nutritional offerings. New Jersey is one of only two states in which the state Department of Agriculture administers the federal school nutrition program.

A strategic policy change that would provide an opportunity for agriculture to grow in our region is to improve access to the public nutrition programs and open permanent farmers markets especially in urban areas. The economic potential is enormous for our state’s farmers and fishermen with over 300 hundred million dollars spent on school lunch and breakfast alone. When we include the money spent on the other public nutrition programs and access to population centers it more clearly illustrates the scale of this market opportunity.

This would offer numerous benefits like providing children and those most in need, access to fruits, vegetables and other nutritious products produced here in our Garden State. In addition creating new markets in the urban and more densely populated regions of our state would fill a need for fresh produce and other desired nutritious food products, and also complement revitalization efforts. This bold initiative will need the cooperation of the New Jersey Congressional delegation, local and state leaders.

a. Appropriations for the School Lunch and School Breakfast Programs: The Department of Agriculture receives millions in federal funding for the School Lunch and School Breakfast Program each year. In FY 2010, the department received \$168,761,775 in federal funds for the School Lunch program and \$41,616,978 for the School Breakfast program. The state is required to provide a minimum match of \$5.5 million for the School Lunch program. No match is required for the School Breakfast program.

In FY 2010, the State appropriated \$8,059,000 for the School Lunch program and \$3,000,000 for the School Breakfast program. If funding is reduced to the minimum required (\$5.5 million total) there would be no loss of federal funds, although participating families would have to pay slightly more per meal received. Currently, the \$8 million appropriation subsidizes each lunch by ten cents for students eligible for free and reduced lunches and by four cents for paying students. The \$3 million appropriation subsidizes each breakfast by ten cents, whether paying full price, a reduced price or free.

Reducing the funding for the two programs could free up about \$5.5 million for other Department programs (State Food Purchase Program, Jersey Fresh, NPHEAL facility etc.), the New Jersey Agricultural Experiment Station programs that help retain and grow the agricultural and fisheries industry, and help close the budget gap projected for the FY 2011 budget.

b. Increase Participation in the School Breakfast Program: Without any increase in state matching funds, New Jersey can receive more federal School Breakfast program funds if more schools would agree to participate in the program. Currently, New Jersey ranks 46th out of

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the 50 states in participation rates for the School Breakfast program. Barriers cited by school administrators to participation include opening the schools early and paying a staffer (overtime) to oversee the program.

According to the Department, the 2008 School Breakfast Report Card showed New Jersey losing more than \$17.5 million in federal funds because 60% of the low-income students that participate in the lunch program are not also being given access to the breakfast program. The benefits go beyond just getting more federal funds; research shows that in children hunger not only effects physical well-being but also contributes to a loss of concentration and lowered academic performance.

Creative approaches to overcome the barriers should be explored and evaluated so that more children can have access to the breakfast program. For example, a school might use the first ten minutes of homeroom each morning for school breakfast distribution. Another approach would be to purchase software to program school vending machines to read a student's ID card and deduct the cost of the breakfast (e.g., a granola bar) from the student's account (or free in the case of needs eligible students). This second method would not require additional staffing.

c. The Temporary Emergency Food Assistance Program (TEFAP) and the Governor's Hunger Initiative-State Food Purchase Program (SFPP): A recent USDA report found that 10.3% of New Jersey's population struggled with hunger in 2006-2008, a 2.2% increase over the previous two years. The New Jersey Department's Division of Food and Nutrition is responsible for ensuring that this segment of our population is fed by coordinating the statewide distribution of the various federal and state sources of surplus, donated and purchased foods. The federal TEFAP provided over 20.9 million pounds of food this year. The Governor's Hunger Initiative-SFPP contributed an additional 8.6 million pounds of food, much of which was purchased from local growers and producers.

The state has 6 food banks, or Emergency Feeding Operations (EFO's) and over 600 Local Distribution Agencies (LDA's), such as soup kitchens, food pantries and shelters that the EFO's serve. The Department, through the SFPP program, works hard to ensure that the distributed foods are locally grown or produced whenever possible. The demand for fresh and frozen foods is rising and reinforces the need to provide EFO's with the resources needed for their storage facilities to have refrigeration and freezer capabilities.

As the population of those in need has increased, so have the challenges. Those requiring immediate attention are: securing and affording sufficient storage space for, and transportation of, foods included in the various programs; identifying sponsors to open and operate adequate Local Distribution Agencies which can staff and effectively administer the programs, and the need to upgrade antiquated communication, data collection and public information dissemination systems.

In anticipation of the increasing demand, the Division projects it needs an additional \$3 million in the SFPP funds for the remainder of fiscal year 2010.

3. Farmland Preservation: The Farmland Preservation program, begun in the early 1980's, has preserved 1,904 farms covering 183,410 acres through December 31, 2009. Overseen by the State Agriculture Development Committee (SADC), this program purchases the development rights on farmland, thereby providing capital to the farmer to expand operations, reduce debt, or provide retirement funds. Unlike the Green Acres program, preserved farmland remains as tax-paying, privately owned and managed property. The Agriculture Subcommittee

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recommends that the Farmland Preservation program remain as part of the Department of Agriculture and that the SADC continue to oversee the program.

To date, voter-approved bonds have been the funding source for the state's farmland preservation program. The money dedicated for farmland from the Garden State Preservation Trust has been depleted. The bonds for the 2007 bond act have been floated, and the SADC has already allocated the entire \$73 million from the 2007 bond revenue for farmland preservation purposes.

The voter-approved 2009 bond act will provide \$146 million to the Farmland Preservation program. The Christie administration will need to decide when those bonds will be issued. The current real estate market conditions present an opportunity to purchase easements and permanently preserve more farmland than would otherwise be possible. An early decision on the bonds will give the county, local and non-profit organizations that partner with the SADC in the preservation effort adequate notice regarding the Spring 2010 funding cycle.

While there is strong support for the continuation of the Farmland Preservation program, a long-term stable funding source has yet to be identified. One stakeholder suggested allowing slot gaming at the Meadowlands Racetrack with a portion of those revenues dedicated to help fund the program (see Horse Farms and Racing page 11). Whatever source is eventually identified, the funding should be permanently dedicated for this purpose.

An important incentive to participation in the Farmland Preservation Program (both permanently preserved and those enrolled in the voluntary Eight-Year program) is eligibility to receive 50% soil and water conservation cost share grants. These grants are for conservation-related projects that measurably protect natural resources for future generations and improve the economic viability of the farming operation. They also encourage private investment in the farm operations since the farmer is required to provide 50% of the project cost. At the present time, no funds are available for this important program. Some farmers entered the Farmland Preservation Program with the understanding they would have access to these grants but are now frustrated to learn the funding is gone. In the past, these grants had been funded by the farmland preservation bond funds, the interest resulting from those funds and/or the State's general operating fund. It is recommended that these grants be reinstated and funded out of farmland preservation bond funds and/or the interest generated by those funds.

Another key issue facing this program is the stewardship of already preserved land. With over 1,900 farms permanently preserved and over 20 years of easement purchases, a new challenge has emerged, the monitoring and enforcement of the deeds of easement. The SADC has established a Deed of Easement Subcommittee to examine the various provisions of the deed easement on matters such as allowable soil disturbance, and personal, recreational or commercial land uses. The SADC expects to complete its review on stewardship of preserved land by December 2010.

4. Dairy Industry Milk Prices: While New Jersey's dairy industry has struggled in recent years, it remains a significant contributor with 75 farms totaling 12,000 acres of productive farmland. In 2009, milk prices received by the nation's dairy farmers began to decline and New Jersey was no exception. While milk prices have a history of rising and falling, the troughs seem to be getting deeper and longer. New Jersey dairy producers are reporting losses up to \$100 per cow per month (note: the current cost of production is around \$17 per hundredweight of milk while the farmer's return ranged from just \$11-13 per hundredweight). The pricing of milk is a component that is entirely controlled by the market, producers and handlers, but not the farmer. In-state milk processors and dealers are also being hurt; they report New Jersey risks losing in-

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state milk processing with an estimated loss of more than 3500 jobs. The processing situation also raises the question of how the state would continue to comply with its law that requires milk sold into the school food-service systems to come from New Jersey. The Department is currently reviewing the situation and has held hearings to determine what action should be taken. The hearing process is expected to conclude by mid-January. The Department will consider the production costs for farmers and processors and will determine whether the price to producers should be changed. The Department has 15 days after the hearings conclude to render a decision.

A strategy that would immediately help our dairy farmers in New Jersey is to allow the sale of fresh milk which is permitted in the states of New York and Pennsylvania. At the very least, this would release a competitive disadvantage New Jersey's dairy farms have in the growing market of organic/naturally grown/raised agricultural products. Although not the ultimate answer for dairy in New Jersey it at least levels the playing field and gives the dairy farmer to opportunity to compete in this niche but high value market. Because the dairy industry is dependent on corporations to process and bottle the raw material they produce, there has been discussion on perhaps forming a "cooperative" that would be owned by farmers to produce and bottle milk under the "Jersey Fresh" label.

5. Laboratory services relocation to new shared facility in May 2010: All diagnostic laboratory services conducted by the Department will be relocated to the New Jersey Public Health, Environmental and Agricultural Laboratory (NJPHEAL), State Police Campus, West Trenton. The new facility, set to open in May 2010, will provide secure testing and diagnostic laboratories for the detection of human, animal and plant pathogens. NJPHEAL will house labs for the Departments of Health and Senior Services, Environmental Protection and Agriculture. In addition to its public safety and security benefits, this state-of-the-art facility is expected to increase program revenues and improve the efficiency of the Department's current workforce.

A prime opportunity for this new facility will be enhanced animal disease and diagnostic capabilities for the Division of Animal Health. The rapid detection of animal diseases is essential due to the potential of certain pathogens to infect humans or to devastate entire animal industries. If provided with adequate resources and advanced technology investments, the new animal health laboratory can achieve accreditation status from the American Association of Veterinary Laboratory Diagnosticians (AAVLD). Once accredited, the lab will be the only authorized facility in the state to provide complete pathology services for private veterinarians and the United States Department of Agriculture (USDA). The state's investment will yield not only vitally important animal disease surveillance capacity but will also generate additional revenue from voluntary testing services for private and public clients.

III. Contributors to Agricultural Economic Growth and Viability

In addition to the state's investment in the Department, public policies and research and extension services that support the agricultural industry are essential to continued sustainability and growth. Selected priorities are listed below.

1. Right to Farm: The right to farm is essential to the economic viability of the State's agricultural industry. New Jersey's Right to Farm Act, which is considered the nation's strongest, protects responsible farming operations from public and private nuisance actions and unreasonable local regulations. It is important that these vital protections continue.

2. New Jersey Agricultural Experiment Station (NJAES): The New Jersey Agricultural Experiment Station was established in 1880 by the state legislature to be part of Rutgers University, New Jersey's land grant college. Since that time, this historic institution has

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served as a critical link in public education, research and extension services related to food, agriculture and the environment.

NJAES, through its nine off-campus research and extension centers and offices in all 21 counties, provides a direct link to the expertise at Rutgers, The State University of New Jersey and together with the New Jersey Department of Agriculture, state government, the County Boards of Freeholders and the US Department of Agriculture, does its part to keep agriculture a viable and sustainable industry in our state. In addition, NJAES directly enhances the quality of life for all by providing expertise and research-based information regarding food security, nutrition and health, water quality and supply, environmental quality and economic development.

Like all state experiment stations, base funding from state and federal sources provides the foundation for NJAES programs, while competitive contracts, grants and gifts also contribute to its operations. Ninety two percent of the State's investment in the NJAES goes to pay for the Rutgers research faculty (\$14.6 million) and the delivery of services to state farmers and other residents through Rutgers Cooperative Extension (\$8.7 million). The direct return on the State investment in NJAES faculty research in FY2010 includes leveraged grants and contracts (\$60million), USDA formula funding (\$6 million), and royalty income (\$6 million). Thus, each dollar of State investment in NJAES faculty research annually leverages approximately five dollars of non-State resources.

In order for NJAES to receive federal formula funds, the state must match those funds dollar for dollar. Unfortunately, state funding for NJAES has dropped to the level it was a decade ago, or when put in real (CPI adjusted) terms, it has been decreased by more than 24% during that time. Without adequate state support the vital services provided by NJAES to farmers, the agricultural business community, the NJDA and the general public, will need to be curtailed.

3. Farmland Assessment: Farmland assessment is a cornerstone public policy regarding the retention of agriculture, and all its environmental, economic and aesthetic attributes, in the most densely populated state in the nation. Article VIII, Section I, paragraph 1 of the State Constitution, as well as the "Farmland Assessment Act of 1964," provide that land used as farmland and woodland actively devoted to an agricultural or horticultural use qualifies for a reduced property tax assessment. The farmland assessment program does not apply to buildings or to the land associated with the farmhouse. Buildings and home sites on farms are assessed like all other non-farm property. To be eligible, the property must be at least five acres, have been in productive agricultural use for at least two years, and produce gross sales of at least \$500 annually in agricultural products.

There has been concern that some abuse of the Farmland Assessment program has occurred. The Office of Legislative Services conducted an audit of the Farmland Assessment Act for tax year 2008 and found numerous difficulties at the local assessor level but little support for increased "intensity" of farming. The Department of Agriculture, in consultation with the Division of Taxation, has developed an "Information Guide on Farmland Assessment." The Department has accelerated its education and training program for landowners and municipal assessors, targeting a three-year project conducted with the Division of Taxation. One of the three years has been completed. Any discussion regarding changes to the basics requirements of the program, such an increase to the \$500 gross sales threshold, must be done in a measured, rational manner to guarantee that there will be no unintended consequences. In addition, Farmland Assessment must continue to be tied to agricultural production.

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4. Alternative Energy on Farms: As New Jersey moves forward into the 21st century, energy generation and usage will become more and more important. With the passage of the "Global Warming Response Act" and the adoption of the Energy Master Plan, New Jersey will strive to increase the use of renewable energy sources as well as to increase efforts in energy efficiency and energy conservation.

The relevant State agencies, the Department of Agriculture, the Department of Environmental Protection and the Board of Public Utilities (BPU), must take a proactive approach in furthering the use of solar, wind and biomass on farmland. For example, the BPU should authorize net metering on farms.

As owners of significant land holdings, farmers can play a major role in the placement and production of renewable energy sources, such as wind, solar, and biomass. Producing energy on-site will reduce overhead costs for farm operations as well as potentially providing an additional revenue stream by selling excess energy to the grid. On preserved farmland, the current standard of allowable daily renewable energy generation capacity may not exceed the annual farm energy need plus 10 percent. This is to ensure that preserved farmland remains devoted to agricultural rather than energy production.

Senate Bill 1538 and Assembly Bill 2859 allow biomass, solar, or wind energy generation on preserved farms under certain circumstances and also include biomass, solar, and wind energy generation on commercial farms as protected activities under the "Right to Farm Act." These bills are awaiting action by Governor Corzine. Whether implemented legislatively or through policy changes, it is strongly recommended that guidelines be established that allow farms statewide to use alternative energy sources. All farms, including permanently preserved farms and those located in regions such as the Pinelands and the Highlands, should be afforded access to this new opportunity.

5. Conservation Plans: Agricultural production is hampered by overly-restrictive regulations that jeopardize the personal livelihood of producers and can directly impact whether the land will remain in agriculture or will be converted to non-agricultural uses. During the past several years there has been a dramatic increase in regulation by rules and ordinances that adversely impact agriculture. The regulatory gauntlet is diverse and ranging from dust, sound and odor ordinances to water use, tree-harvesting, protected wildlife species and required buffers, as well as over-aggressive and inconsistent enforcement, to threats of fines and other actions that can overwhelm a responsible agricultural operation.

A potential solution is for the DEP to allow a permit-by-rule procedure for agricultural operations, whereby the natural resource concerns generally regulated by multiple sources are addressed through the development and implementation of a Farm Conservation Plan. The Department of Agriculture would take leadership on developing this plan and would utilize the expertise available from NJAES, soil and water conservation agencies, the SADC and such entities. A permit-by-rule approach will maintain the appropriate environmental standards while protecting environmentally responsible agricultural operations from overly burdensome regulations that threaten their continued viability.

IV. Constraints on Economic Growth

Unduly burdensome regulations are creating an anti-business climate that is threatening the future for New Jersey's farmers and the agri-business community. Priority areas are enumerated below.

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1. Department of Environmental Protection Regulations: A recurring theme for many within the agricultural community is the overburdening impact of DEP regulations on agriculture, threatening the very economic viability of the industry. Below are a few examples of DEP regulatory issues:

a. Cranberry production: With 3,600 acres devoted to cranberry bogs, New Jersey is the third-largest cranberry producer in the United States, behind only Wisconsin and Massachusetts. The U.S. Environmental Protection Agency (EPA) strictly regulates wetland farming in cranberry producing states typically through cooperation of individual state agencies and the U.S. Army Corps of Engineers. In fact, the State of Wisconsin recently worked with the federal government to streamline the permitting process for cranberry acreage expansion while upholding these tough regulatory standards. (The permit reference is US Army Corp of Engineers GP-014-WI/St. Paul District).

The NJDEP also regulates wetland farming but has gone far beyond federal regulations and administered NJ State General Permit 23. This cranberry expansion permit includes mitigation costs of up to \$30,000 per acre and far exceeds all other normal costs of new cranberry bog construction. Therefore, because of these increased regulations and associated costs, it renders New Jersey cranberry production economically non-viable. In addition, the NJDEP has determined that any cranberry bog un-harvested for 5 years is considered abandoned. To reactivate the bog requires an Individual Wetlands Permit, something that is very expensive to apply for and is rarely granted. The cranberry industry has sought to work with DEP to ensure good stewardship of the land and retain economic viability, but with limited success. Due to the state regulatory restrictions on new cranberry acreage several multi-generational family farms are considering leaving New Jersey and expanding in the Eastern Canadian provinces.

The future could be bright for cranberry production in New Jersey if state government allows it to thrive. Research at Rutgers' Marucci Blueberry and Cranberry Research Center has led to the development of three new varieties that promise higher yields, earlier harvest and more resistance to weeds and disease. These new plantings are aggressively underway in other growing regions in the US and Canada. This research benefits our growers and producers nationally thereby keeping New Jersey in the forefront of varietal development. What is desperately needed now is a more balanced regulatory climate so New Jersey's cranberry industry can reach its full potential.

b. Food Processing: The food processing industry is part of New Jersey's food system that generates an estimated \$82 billion in sales each year. There is considerable opportunity for food processing and niche food production to thrive in our densely populated and ethnically diverse state. Small and mid-sized food and agricultural businesses in New Jersey have access to Rutgers' Food Innovation Center, a research facility located in Bridgeton. Its mission is to provide business and technology expertise, along with food safety and handling training to help encourage the production of new, value-added food products. A recent success was helping a third-generation peach farmer to turn fruit too ripe for fresh sale into cider, salsa and preserves. Conservative estimates project that by 2015, the Center will create over 1,000 new jobs.

However, the regulatory climate for the food processing industry is limiting its growth. One vegetable processor in Southern New Jersey provided the transition subcommittee with documentation of his struggle with DEP to comply with the state's wastewater regulations and the water allocation permit process. After 3 years and at a cost of over \$750,000, he recently succeeded in garnering the necessary permits and met the regulatory standards. The processor had seriously considered moving out-of-state, a decision that would have resulted in the loss of over

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200 jobs. Fortunately, the support network offered by the Department and the Food Innovation Center helped influence his decision to stay.

c. Nursery Production: The nursery industry is the largest contributor to the agricultural economy with an estimated annual cash receipts value of \$460 million. An issue of immediate importance to this and other segments of the agricultural community is the regulations implemented by municipalities to comply with the DEP Stormwater Management Plans. DEP has set the most limited definition of “impervious cover” in the nation (material that does not allow the passage of water). Greenhouse agriculture has been particularly hard hit by limitations on the amount of land that can be covered. Recent research by water resource specialists at the NJ Agricultural Experiment Station show that not all stormwater runoff causes degradation of water quality in streams, ponds, and other water bodies. In fact, farms may serve as likely sites for favorable water recharge opportunities. A balanced, scientific approach is needed to ensure that the issue regarding impervious cover is resolved to meet both the needs of our state’s agricultural industry and the legitimate concerns of municipalities.

d. Clean Water Act: The federal “Clean Water Act” controls water pollution by regulating point sources that discharge pollutants in and around waters in the U.S. through the National Pollutant Discharge Elimination System (NPDES) permit program. Previously the U.S. EPA did not require a NPDES permit for the application of pesticides for mosquito control, invasive aquatic weed control, forest canopy insect control or other registered uses of pesticides properly applied following the “Federal Insecticide, Fungicide, and Rodenticide Act” (FIFRA). The NPDES permit is generally administered at the State level, in this case the NJ DEP, under the New Jersey Pollutant Discharge Elimination System (NJPDES). Unfortunately, the U.S. Court of Appeals ruled against the FIFRA exemption, and the EPA has until April 2011 to develop and issue NPDES permits for affected parties. Immediate action by Congress is needed to clarify that pesticides applied in accordance with FIFRA are not subject to NPDES permit mandates. If Congress fails to act, all farmers (including wetlands farmers like cranberry growers), mosquito control districts, and local governments will be significantly impacted. The resources required to process these permits will strain not only farmers but also the regulatory agencies, EPA and the DEP.

The above examples show the negative impact overly burdensome DEP regulations have on agricultural production in New Jersey. It is vitally important for the DEP to work cooperatively with the Department to ensure that these regulatory programs are implemented in a manner that ensures protection for both our natural resources and the agricultural industry. A rationale approach to environmental regulations based on scientific expertise available from NJAES experts should be incorporated into DEP decision-making.

e. Water Allocation Permits: Water is an integral part of a successful farming operation. Continued access to an adequate supply of water is a necessity to ensure the viability of the agricultural industry in New Jersey. To that end, the Department of Agriculture should continue to work with the DEP and other agencies with authority over water supply to give priority for the steady supply of water for agricultural needs.

New Jersey farmers face increasing water supply restrictions, particularly in Critical Areas 1 and 2; and many agricultural certifications are being subjected to reductions in their allocations based upon actual usage. “Use it or lose it” provisions are counterproductive and create an unnecessary expense as farmers must re-apply to recapture any lost allocation.

Furthermore, the Department should work with DEP to establish an Agricultural Water Allocation Credit Program, whereby farmers who use water conservation practices that utilize

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water at a rate below their permit allocations should be permitted to correspondingly increase water use at other times. Such a program would encourage the implementation of water conservation measures within the agricultural community.

The department should continue to work on the development of an Agriculture Water Conservation Plan. Farmers should be encouraged to use water conservation technologies and to utilize any available state and federal cost-share grants to implement such conservation measures as drip irrigation, water recapture and reuse, and enhanced on-farm water storage techniques.

Finally, the Department should continue its outreach to the DEP as it develops the latest New Jersey Water Supply Master Plan. The present farm water demands for agriculture represent approximately six percent of the total water demand in the state. It is vitally important that the long-term needs of the industry should be taken into consideration in the new Master Plan.

2. Industry-Specific Regulatory Challenges: Below are examples of other (non-DEP) regulatory constraints and policy decisions that have a negative impact on our state's farming and agribusiness community.

a. Horse Farms and Racing: The equine industry is a significant contributor to New Jersey's economy and to the retention of its farmland. A 2007 study conducted by Rutgers Equine Science Center concluded that the equine industry has a \$1.1 billion annual economic impact on the state, accounts for 13,000 jobs and pays \$160 million annually in federal, state and local taxes. The industry accounts for 176,000 acres or about one-fifth of the state's 790,000 acres in agriculture.

This highly valued industry is in serious trouble. Competition from neighboring states coupled with an out-dated business model, are taking a toll on the economic viability for New Jersey's Standardbred and Thoroughbred Breeders and its public and private racetracks. A short-term solution has been Purse Enhancement Agreements (PEAs) funded by the Atlantic City Casinos. The current PEA will expire December 31, 2010. Pressured to develop a long-term solution, Governor Corzine established a committee to review the industry issues. However, it has been criticized as lacking representation from the breeding industry as well as not seeking input from the Department of Agriculture.

The industry warns that changes to the current business model are needed soon; without action this important contributor to the state's economy and its farmland base are in jeopardy. Several options to help the industry are being advanced. For example, the Standardbred Breeders & Owners Association is advocating for slot machine gaming to be allowed at the Meadowlands Racetrack. Their projections envision 10,000 slot machines that would generate \$1 billion in annual revenues; a portion of which could be dedicated for Green Acres, Open Space and Farmland Preservation.

The high cost to the racing industry to support the Racing Commission was cited as a major concern and for at least one track it is their single largest expenditure. One organization suggested immediate cost savings could be realized by using a neighboring state's laboratory facility for the required racehorse tests and thereby eliminates entirely the estimated \$5 million expense of the Racing Commission's laboratory.

It is recommended that the Christie administration immediately review the economic and policy constraints the industry faces and pursue the necessary changes to retain this vital segment of New Jersey's agribusiness complex. Further if slot machine gaming is determined to be part of

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the solution, a portion of the new revenues should be dedicated to farmland preservation and related programs that will help retain agricultural viability in our state.

b. Winery issues: The wine industry in the State is one of the fastest growing segments of the agricultural industry. New Jersey has the 3rd highest consumption of wine in the country, but wines produced in the State have only 1% of the market share. With greater advocacy for the local wine industry, this segment of the agricultural industry can truly flourish.

Until recently, New Jersey wineries were permitted to direct ship product to customers in New Jersey. Out-of-state wineries were not permitted to ship product directly to customers in New Jersey.

In a recent federal court decision, out-of-state wineries successfully sued, arguing that under the Interstate Commerce Clause of the U.S. Constitution, the out-of-state wineries were discriminated against because in-state wineries could directly ship, but they could not. The Corzine administration's solution was to forbid any winery, located in or out-of-state, from directly shipping wines to a customer.

A second federal court decision, currently being appealed by the NJ Attorney General, concluded that the same out-of-state wineries were discriminated against because in-state wineries are able to sell wine at a limited number of retail outlets. If the appeal is lost by the State, in-state wineries will be forced to close these retail outlets, which will stunt the growth of the wine growing industry in the state.

Legislation was introduced to address these issues. Senate Bill 1810 and Assembly Bill 2656 would permit a New Jersey plenary winery licensee with retail privileges or a farm winery licensee to directly ship wine to New Jersey residents. The bills also permit manufacturers, wholesalers, and retailers licensed in other states to directly ship wine to a New Jersey resident for personal consumption. With the direct shipment of wines, it has been estimated that an additional \$5.32 million in revenue from the sales tax, the excise tax and licensing fees could be realized for the State.

Another issue important to the wineries involves the inability for some wineries to participate in the tourism signage program for the Department of Transportation (DOT). According to the DOT, the Tourism Oriented Directional sign program "...directs motorists to businesses and activities which draw a major portion of their visitors or income from outside the immediate area of the business or activity. The program is designed to identify tourist oriented facilities that are not located on the State highway system." While the program allows an eligible business, such as a winery, to be located within three miles of the highway, the business must be on the crossroad from the highway. In order to allow more wineries to take part in this program, the eligibility requirements should be broadened to allow for two or three turns from the highway but still be within the three mile limit.

3. Regional Land Use Law: New Jersey has two regional land use entities, the Pinelands and the Highlands that pose unique challenges for farmland owners. The increased regulatory burden imposed by these regional entities severely limits the ability of producers in these areas to remain competitive with their national peers.

a. Pinelands: Agriculture in the Pinelands is vitally important to this region's history, culture and economy, warranting protection and enhancement as envisioned by the Pinelands Protection Act (the Act). Although enactment of this transformative land use legislation occurred thirty years ago, several issues remain for farmers within the Pinelands Area.

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First and foremost, there should always be representation from the agricultural industry and local residents on the Pinelands Commission. Throughout the history of the Commission, appointments made by the Governor have included at least one Commissioner who represented agriculture. Appointments should be made in a timely manner and should be comprised of people who understand the economy and cultural value of the region. This underlying premise should also apply to appointment to the Highlands Commission.

In February 2009, the State Ethics Commission ruled that Pinelands Commissioners who own land in the Pinelands area could no longer participate in discussions of amendments to the Pinelands Comprehensive Management Plan (CMP) that might impact their land. This decision was based on a changed interpretation by the Attorney General staff regarding the section of the Act that deals with conflicts of interest. That section (13:18A-17) specifically allows all members of the Commission to participate in the development and approval of the CMP, and had historically been interpreted to include amendments and revisions to the CMP. The decision effectively silences the landowners and farmers who were appointed to the Pinelands Commission as representatives for the economic interests of the residents in the Pinelands. When Pinelands Commissioners are forced to recuse themselves from discussions in which they may be the only members with working knowledge, a comprehensive discussion of CMP amendments cannot occur and the effectiveness of the Commission is seriously compromised. Senate Bill 2822 / Assembly Bill 3950 would cure the problem by clarifying that amendments to the CMP is within the purview of all commission members, removing any doubt regarding the meaning of the Act. This important clarifying legislation should be enacted as soon as possible in the new legislative session.

The Pinelands Development Credit (PDC) program is a regional transfer of Development Rights initiative designed to shift development away from land deemed important for agriculture and the environment to areas designated for growth. Multiple amendments are under consideration by the Pinelands Commission that could significantly affect the viability of the PDC program. Since PDC's are the primary means of compensating landowners for the loss of development rights within the preservation-oriented areas any changes to the PDC program must carefully weigh the impacts on everyone within the Pinelands region

b. Highlands: The enactment of the "Highlands Water Protection and Planning Act" in 2004 is viewed as a "taking" by many property owners throughout the Highlands Region. Democrat legislators who pushed for the Highlands Act promised in 2004 that a funding source would be found in order to compensate landowners whose land values diminished due to the restrictions created by the law and the ensuing regional master plan. However, a definitive, legitimate funding source has not been identified in the five years since the law's enactment. The Highlands Council has estimated that \$1.3 billion would be needed to compensate owners of 162,557 acres considered to be preserved.

Farmland in the Highlands region has seen a reduction in value since 2004. Yet, the promised stream of funding has not come to fruition. Any discussion of a stable source of funding for open space and farmland preservation should include dedicated funding for the Highlands.

Legislation must be enacted that continues the dual appraisal process. The Highlands law required, for farmland and open space preservation purposes, that two appraisals must be conducted, one using the zoning and DEP land use regulations in effect at the time of the proposed acquisition and one using the zoning and the DEP land use regulations in effect on January 1, 2004, which was prior to the enactment of the Highlands law. This special appraisal process ended on June 30, 2009. By utilizing the special appraisal process, landowners are

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guaranteed the highest value from the State preservation programs. Hence, one of the few options available to ensure that a property owner is awarded fair compensation for his land is no longer offered. There are several pieces of legislation that address this issue. Any dual appraisal legislation should apply to all farmlands statewide impacted by regulatory down-zoning.

The Transfer of Development Rights (TDR) program has not been fully established yet, even though five years have elapsed since the Highlands law's enactment. While the Regional Master Plan does identify potential receiving areas for the TDR program, the executive director for the council announced in January 2009 that there would be no receiving areas within the entire Highlands Region. The Highlands law allows for TDR receiving zones in the counties which contain part of the Highlands region within their borders. Assembly Bill 2202 and Senate Bill 2639 allow for the establishment of a Highlands receiving zone in any municipality anywhere in the state. These bills should be re-introduced and enacted by the Legislature in the upcoming months.

In addition, there have been complaints regarding the composition of the Highlands Council. While currently 8 of the 15 members must come from the 7 counties that are included in the Highlands Region, the governor appoints the members, with the advice and consent of the Senate. Some have suggested greater representation for the counties which form the Highlands Region.

Finally, due to the impact of the decisions made by the Highlands Council, through its Regional Master Plan and other land use decisions, council membership should always include representatives from the agricultural industry and other landowners in the region. Such appointments should be made in a timely manner.

c. Transfer of Development Rights: The transfer of development rights (TDR) is a method of preserving farmland relying upon the private marketplace to fund the land's protection. New Jersey Future has convened a task force comprising various experts and stakeholders to study methods to make TDR more effective. We support New Jersey Future's continued research into this promising method of land preservation.

The concept of implementing TDR on a regional or statewide basis should be further explored. In particular, the use of TDR in any area identified for growth within a municipality or a larger region, if appropriate, should be given serious consideration.

Any statewide transfer of development credit plan should provide for incentives to more intensely develop in the receiving area. Some incentives that should be considered are providing for increased densities and permitting increased impervious coverage in these areas. These incentives help create a robust market for development credits. A strong TDR option in the private market would complement New Jersey statewide policy of revitalizing cities and towns.

V. Opportunities for Change

The subcommittee identified the areas cited below as having the potential to improve efficiency in the delivery of state services.

1. Transfer animal welfare units into the Department: Three departments share authority and oversight over animals – the Infectious & Zoonotic Disease Program in the Department of Health and Senior Services (DHSS), the Division of Fish and Wildlife in the Department of Environmental Protection (DEP), and the Division of Animal Health in the

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Department of Agriculture. In broad strokes, the DHSS has authority over domestic animals, the DEP over wildlife, and the Department of Agriculture over livestock.

Some of the reporting requirements for veterinarians under the DHSS Infectious and Zoonotic Disease program are already called for under the Division of Animal Health in the Department of Agriculture. Transferring this unit into the Department of Agriculture will streamline these government agencies.

Transferring all units that deal with animal welfare into one department will help make the various departments more efficient. The DHSS can focus solely on public health and safety of humans, while the DEP can also focus on public health and safety of humans by concentrating on land, air and water quality. The Department of Agriculture can focus solely on the welfare of all domestic animals, wildlife and livestock.

2. Transfer Bureau of Shellfisheries Management and relevant units of the DEP Division of Fish and Wildlife into the Department: The Bureau of Shellfisheries manages shellfish programs and projects on both the Atlantic Coast and Delaware Bay. The bureau forms and implements plans for the protection and use of the state's shellfish resources.

Currently, the Department of Agriculture has substantial authority for shellfisheries including the responsibility to license persons who engage in shellfishing. However, it is the DEP that conducts biological surveys and leases shellfish beds. It would be more efficient for the Department of Agriculture to manage the shellfish beds and allow DEP to continue to conduct the biological surveys. In this way, the Department of Agriculture will be involved in all aspects of the shellfisheries and aquaculture industry.

A rule favorable to the economic viability of the oyster industry and being drafted by the DEP should be officially proposed as soon as possible. The current rules that manage the oyster industry only allow a licensed oyster dredge vessel to harvest its share of the annual oyster harvest. The draft rule would allow for the consolidation of up to three oyster dredge vessel licenses onto one harvest vessel. This change would allow vessel owners to maintain one vessel, thereby reducing annual maintenance costs and improve their profitability. This proposed rule change is strongly supported by the oyster industry and has received widespread support.

3. Transfer Fish and Game authority from DEP Division of Fish and Wildlife into the Department: Another unit within the DEP Division of Fish and Wildlife that should be considered for transfer to the Department the units with authority over fish and game interests. The Fish and Game Council and the relevant unit of the Division could be structured as an "in but not of" entity of the Department, comparable in structure to the SADC with its farmland preservation responsibility. The Endangered and Non-Game Species Program should remain with DEP.

4. Grant Authority over Forestry Management to the Department: The New Jersey Forest Service's stated mission is to "promote sound stewardship and conservation of public, private and community forest lands, to monitor and nurture forest health, to assist municipalities with the development of their tree resources and to achieve forest related economic, environmental and social benefits for current and future generations."

The Subcommittee members heard testimony from professional foresters who believe the Department is better suited to supervise both public and private forested lands. Notable areas cited with overlapping responsibility between the Department and the DEP Division of Forest Services include oversight of the Farmland Assessment Act, certain pest, disease and treatment

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programs, and wildlife management. The "can-do" culture at the Department further advocates for moving forestry to this agency.

The Department of Agriculture would be better suited to manage forests as is the case in many other states.

5. Combine public nutrition programs in one agency. We recommend transferring all USDA food and nutrition programs, currently located throughout state government, to the Department of Agriculture's Division of Food and Nutrition. The New Jersey Department of Agriculture presently administers programs such as The Emergency Food Assistance Program (TEFAP), the National School Lunch Program (NSLP) and the School Breakfast Program (SBP). We suggest the Supplemental Nutrition Assistance Program (SNAP), WIC - Special Supplemental Nutrition Program for Women, Infants & Children, the Senior Farmer's Market Nutrition Program (SFMNP) and the Farmers' Market Nutrition Program (FMNP) should be integrated with the other food programs in the Department. At the federal level all these nutrition programs are administered by the Food and Nutrition Service (FNS) a unit within USDA.

We believe that it is essential to link the state's food and agricultural industry to public nutrition programs. This can be best accomplished by housing these programs in one agency. Furthermore efficiencies through better coordination among programs and a more streamlined administration will result in a more consistent and thorough delivery of service to those that depend on these vital programs. In addition one agency working with one federal agency is better than the fragmented structure that currently exists.

VI. Department of Agriculture Budget

During the past 8 years, the Department has seen its direct state service funding drop from \$11.3 million in FY 2002, to \$9.2 million in FY 2006 and the FY 2010 budget currently stands at \$6.89 million. Following is a brief overview of the most recent decline in state funds.

When Governor Corzine first proposed the FY 2009 budget, he recommended that the Department of Agriculture be eliminated for a total savings of \$500,000. The proposed elimination was not well received by the agricultural community or the Legislature. The Governor did not win this battle, and the Department was saved from elimination. However the department took a severe hit, a 13% reduction, in funding between FY 2008 and FY 2009.

In recent weeks, the Corzine administration, in an effort to close a budget gap in the FY 2010 budget, electronically removed \$185,000 from the department's accounts in order to pay down State debt. Then, the department was ordered to reduce its FY 2010 budget by another \$800,000. The department identified \$100,000 in funds to return to the Treasury. The State Board has sent a letter inviting administration officials to meet with them to discuss what programs should be eliminated to reach the rest of the \$800,000 cut.

At this point in time, the State Board of Agriculture has argued that any more reductions to the department's budget will result in cutting vital programs.

The department receives millions in federal funding, primarily for the School Lunch and School Breakfast program (see pages 5-6). A state match of \$5.5 million is required in order to receive federal funding. There is no requirement for a state match for the School Breakfast program. In FY 2010, the State appropriated \$8,059,000 for the School Lunch program and \$3,000,000 for the School Breakfast program. If state funding were reduced to a total of \$5.5 million there would be no loss of federal funds and the surplus state funds (estimated to be about

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\$5.5 million) could be redirected to other Department programs (like the State Food Purchase Program, Jersey Fresh, NJPHEAL lab etc.), New Jersey Agricultural Experiment Station programs that help retain and grow the agricultural and fisheries industry and help close the budget gap. It should be noted that participants in the school food programs would, in all likelihood, have to spend slightly more (range of 4-10 cents per meal) to make up for the reduced State funding.

VII. Statistical Data

Statistical data from the Department is available that lists all employees at the Department of Agriculture, as well as the FY 2009 and FY 2010 OLS budget analysis with Department responses, and information regarding Department utilization of office space.

VIII. Conclusion

The food and agricultural industry is a major component of the State's economy. The New Jersey food system comprises a range of activities, including: production agriculture, food processing and manufacturing, food wholesale, distribution and brokerage, food retail, and foodservice. According to NJAES researchers, the food system comprised nearly 48,000 farms and food businesses in 2002. These enterprises generated \$82 billion in sales and employed 400,000 workers. The economic contribution of the food system can be better illustrated by its net contribution to Gross State Product (GSP). When linkages to supporting industries are included, it is estimated that the food system contributes 8.5 percent of New Jersey's private sector GSP and accounts for 15 percent of private sector workforce.

To retain this valuable asset the State must continue to actively preserve its farmland base and implement a policy agenda and regulatory process that enhances the economic viability of the industry. The state's 10,000 farmers, a mere one-tenth of one percent of the state's population, manage more than 15% or over 700,000 acres of the state's landscape. Our fishing industry utilizes the state's working waterfront with four ports considered in the top fifty in the country. New Jersey's food processors work directly with farmers to secure the locally grown produce for their products to market throughout the country. The 23,000 restaurants and eating establishments contribute to the character of every community in our state. These individual statistics are noteworthy but, the Agriculture Subcommittee believes that state leaders need to appreciate the entire complex, how it is interconnected and contributes as a whole to our state's quality of life.

Opportunities exist to strategically advance the food and agricultural industry contribution to New Jersey's economy due to several advantages:

Market proximity: The Garden State is in a unique position to connect the agricultural industry with the state's residents to improve their diets with the nutritious locally grown and produced food. Public feeding programs for our state's school children and the hungry are poised to better utilize locally grown and produced food. Farm-to-School programs are growing in popularity here in New Jersey and across the country.

Economic vitality: The agricultural industry can be strengthened by fostering economic development programs, by promoting and facilitating the development of new markets, by shortening the market chain between producers and consumers, and with the help of existing innovation centers by creating new and value-added products produced by our state's food and agricultural industries.

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Sustainability: With trends pointing to a more sustainable economy and way of life, farmers could grow feedstock for “biomass to energy” facilities. These plants could accept food waste from food processors or retailers, livestock waste from farmers and waste that can be composted from residents. This new business, with a proven return on investment, could help generate clean energy, reduce the waste stream to landfills and provide a co-product that will improve cropland. This system is already in practice in Denmark.

Innovation: Now is the time to embrace and nurture a culture of innovation by encouraging entrepreneurs to start new businesses, directing the appropriate academic institutions to research and develop marketable business opportunities, and starting in high school, or when appropriate, even earlier, educating and challenging future leaders to manage these new potential economic opportunities.

The Agriculture Subcommittee believes the incoming Christie administration has the potential to lead this collaborative agenda for a thriving economy. The Department of Agriculture is critical to achieving this objective. This is an agenda that will make our Garden State prosperous and livable, the place our children and future generations will be proud to call home.

3

DRAFT TRANSITION REPORT
NEW JERSEY GAMING/SPORTS AND ENTERTAINMENT COMMITTEE

JANUARY 5, 2010

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NEW JERSEY GAMING/SPORTS AND ENTERTAINMENT TRANSITION COMMITTEE

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VINCE CURATOLA	Actor, Racing Fan
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FRANK LUNA	Transition Coordinator
JACK DONNELLY	Transition Coordinator

A. MISSION STATEMENT

The purpose of this sub committee transition report is to address the significant issues and financial needs of New Jersey Gaming, Professional/Sports and Entertainment Industries. Inherently, the overriding objective(s) of this analysis is to harness, distill and focus upon a series of key issues that must be thoroughly examined and integrated into a master plan for the "Global Good" of New Jersey. This plan will provide an outline of a roadmap.

Additionally, the plan will provide solid strategic options upon which to move forward.

B. KEYS TO SUCCESS

1. Create meaningful bridges to all parts of the New Jersey Community for the "Global Good".
2. Inventory, account for and integrate core assets and liabilities to force financial accountability for the benefit of the New Jersey taxpayer.
3. Eliminate entities that are based on deficit spending and no longer relevant to the healthy future of New Jersey.
4. Act decisively and immediately.

C. EXECUTIVE SUMMARY

Our sub-committee deals with activities that cross over 3 major entities: NJSEA, Lottery Commission and the Atlantic City Gaming and Casinos (Since the Authority's sub-committee addresses the structure of these entities our report excludes this information).

1. Casino Industry: The historic business model has failed. However, a united front in a Public/Private venture to create Atlantic City as a Destination Resort may save Atlantic City and the Casinos. A review of State initiatives to improve Atlantic City must be undertaken immediately.
2. NJSEA and Horseracing: As budgeted for 2010, horseracing on track is projected to lose \$22 million; the business model is broken. The agreements with the various Horsemen Associations will ensure continued losses; during 2010 these agreements need to be reopened and renegotiated. It is time to review options for racing in New Jersey. THE STATUS QUO IS NOT SUSTAINABLE. We encourage consideration of all the options to make horseracing self-sustaining, including consolidation of racing state-wide. The ultimate goal is to continue to have live racing at a venue where the Sports Authority and its OTW system can operate without a subsidy. (NJSEA budgeted total deficit for 2010 is \$38 million). Another option to be considered is a feasibility study for the commercial redevelopment of the Meadowlands, including examining other potential uses such as NASCAR.
3. IZOD Center: The Corzine Administration attempted to negotiate an agreement that permits the Nets to play the 2010-2011 and 2011-2012 seasons at the Prudential Center. We suggest that the December 31, 2009 deadline that gives the Nets an

opportunity to opt-out be extended to February 28, 2010, and any changes to the Nets Licensing Agreement be held until the Christie Administration is in office. The Christie Administration can then resolve the 2 Arena question. Regarding concerts; the State directly or indirectly controls 4 venues where concerts can be held (IZOD, PNC, AC Convention Center and Rutgers); an integrated policy should be developed for these facilities; if possible, include Giants/Jets Stadium and PRU Center. The possibility of including the Pru Center through an integrated program administered by NJSEA should be pursued.

4. Xanadu: This project appears to be a failed business model. The NJSEA needs to engage the owners (NJSEA owns the land, not the buildings) to open or surrender the property.
5. Lottery: The latest numbers available show a net of \$883 million with potential to increase. Considerations should be given to privatize (package with Racing) in an RFP on a 20 year license. The potential price is in excess of \$10 billion.
6. New Jersey Professional Sports Franchise Report: New Giants/Jets Stadium appears on schedule, it will not be a financial contributor for the NJSEA; over time it will be a drain. Need to apply Sec 6.10 Giants/Jets ground lease, which provides 50% of \$34 million annually, and starts April 2010. There are no imminent issues with the franchises other than as stated in this report.

1. CASINO INDUSTRY:

New Jersey's Gaming Industry, a key economic engine for New Jersey with over 38,000 jobs is at a crossroads – and both directions are painful. Either we maintain a (i) “business as usual” approach with an accelerated economic collision between out-of-state competition and in-State mismanagement; or (ii) adopt substantial governmental and economic reform creating a re-engineered and enhanced industry for the “Global Good” of New Jersey. We strongly recommend the immediate selection of the latter alternative, as evidenced in the following report.

In 2009 alone, New Jersey Gaming will have delivered close to \$1 billion in State and local taxes – with more than \$400 million dedicated to seniors and disabled (PAAD). Furthermore, an additional \$2.2 billion of goods and services will have been purchased from New Jersey businesses throughout the State generating another 20,000 jobs. However, the present gaming model and its focus on the day trip market is broken, as evidenced by 6 of the 11 casinos in Atlantic City being either in bankruptcy, or in the midst of major debt restructuring. Additionally, the Revel Casino currently under construction lacks necessary funding to finish construction and to open. These current capital restructurings and industry difficulties are due to several factors, including the economy. An over reliance in the past on an east coast gaming monopoly which, in turn, had New Jersey casinos focused solely on a gaming product and not diversifying its offerings has exacerbated the situation. This business model will no longer work with the new “convenience gaming” day-trip competition in PA, NY, DE, and with more competition on the horizon. While there has been some movement and capital investment by various casinos to an alternative model -- a Tourism, Entertainment and

Destination model like Las Vegas -- there must be stronger government and casino industry leadership and a greater collective effort to generate new customers and revenues and position NJ gaming more competitively to the new "convenience gaming" on our borders. This effort also needs to be coupled with streamlining the current regulatory structure and the related disproportionate astronomical regulatory costs and operational burdens in NJ in comparison to other U.S. Gaming destinations.

For historical perspective, there has been over \$17 billion invested into New Jersey Gaming since 1978. A consistent pattern of revenue growth, both industry-wise and in governmental receipts was enjoyed for 29 years. This investment and continuous growth was driven by a combination of non-competitive market demand, plus a tax model designed to incentivize large scale capital investment. In fact, over \$7 billion of capital has been invested since 2003, largely to begin the conversion of Atlantic City from a solely Gaming centric day-trip market with mostly gaming product, to a more compelling and competitive Destination Resort with many non-gaming offerings. Unfortunately, between the "Great Recession", increased mid-Atlantic Gaming competition and related frozen Gaming capital markets, there has been an epic contraction in New Jersey Gaming with revenues shrinking over 20% from \$5 billion to \$4 billion annually since 2007. Inherently, jobs have seen a draconian decline going from nearly 50,000 to less than 38,000 in this same 2 year period.

Essentially, this historically significant downturn is primarily due to 4 factors:

- 1) Increased competition in "Convenience Gaming" in the 5 State mid-Atlantic region. From 1990 to 2009, Atlantic City has gone from a "monopoly", to a scattered competitive marketplace of 26 existing alternatives of VLT/Slots with close to a doubling of the supply of gaming product in recent years. Atlantic City remains the only alternative in New Jersey, but has been surrounded by a "picket fence" of competitive interests in surrounding states; the vast majority of which are principally stand alone warehouses of slot machines with little non-gaming product (no hotels and little in the way of night life, retail and food offerings). The newest generation of increased Atlantic City competition through convenience gaming is New York's Aqueduct Racetrack pending 4,500 VLT facility. This needs to be monitored.
- 2) Impact of the "Great Recession" on customer's spending.
- 3) Partial Smoking Ban has material revenue impact (est. 10% decline).
- 4) Perception of Atlantic City as unsafe and unclean arising from a failure to invest in the areas surrounding the casinos, and local government's inability to manage this current reality, in spite of unparalleled tax revenue per capita on a statewide peer basis.

The above 4 fundamental business conditions are further detrimental to New Jersey Gaming due to both an industry paradigm shift in marketing, and a failure to marshal a coordinated effort amongst "Stakeholders"; - State, Casinos and Atlantic City. The original Atlantic City business model based upon nearly 90% gaming revenue (now 75% gaming) is inappropriate to create success in today's highly competitive mid-Atlantic region gaming marketplace. With convenience gaming competition now surrounding

New Jersey, Atlantic City must appeal to a broader array of customers that stay longer (convention market, younger demographic) and, in doing so, derive a greater increase from non-gaming activities. This necessary objective requires immediate and full scale change through supporting a "Tourism and Entertainment Destination Resort" brand and culture and the private capital investment to achieve this transformation. This must and can be done through the development and implementation of an industry, State and Local agencies master marketing campaign. Presently, Atlantic City Convention and Visitors Bureau ("ACCVB") spends less than \$4 million on marketing, compared to over \$100 million for Las Vegas.

Unfortunately the city government in Atlantic City suffers from a combination of fiscal imprudence and very inefficient (at best) governmental guidance. A comparable peer analysis of Atlantic City demonstrates that they are from 70% to more than 100% more expensive than other New Jersey cities on a per capita basis. Consequently, less is performed for more money. For example, while much is spent on public safety, there is little return to show on this investment (or lack thereof) with perceptions of Atlantic City being at a low (a recent study reflected that 51% felt the city was not a safe place to visit, but 76% stated that a cleaner and safer environment would be a key factor in whether they would come more often). There is no revenue problem in Atlantic City, there is a significant and unparalleled expense and utilization problem. This is best evidenced by the fact that in spite of their "outlier" revenue per capita through largely casino real estate taxes, the City is now anticipating a potential (\$34 million) budget deficit in fiscal year 2010. It is imperative that an independent State review of Atlantic City is done, on a forensic accounting basis, to ascertain the greatest public benefit from existing revenue.

Like revitalization efforts in other key tourism markets throughout the US, there is a critical need for all Stakeholders to engage in a coordinated Public-Private Partnership to stabilize the Gaming Industry, and develop a comprehensive plan to take it to the next level as a Tourism and Entertainment Destination Resort. Creating an environment of fiscal accountability is vital to such an accomplishment in Atlantic City. In order to do this, a State presence will be required within the local governmental structure to achieve best in practice and most efficient financial benefits.

A summary of core revitalization and strategic goals are identified for the immediate, medium and long term:

1) Immediate Goals:

- A) Develop the necessary Clean & Safe initiatives, especially on the Boardwalk to encourage family traffic (a combination of police and cleaning up blight).
- B) Improve existing regulatory model consistent with competitive markets (i.e., Las Vegas), without sacrificing integrity. Derive substantial savings (potentially in excess of \$30 million annually) and mandate to industry a rededication of savings to reinvestment in new business revenue generating marketing.

- C) Implement Private-Public Partnership – an urban revitalization program managed and executed by State and Local agencies with experts with proven results – not political appointees - overseeing the effort.
- D) Marketing Strategy – develop a more focused and funded (see later source recommendation) concentration on branding and event marketing activities never before implemented in AC.
- E) Meetings and Conventions – re-establish Atlantic City as a significant Northeast hub for meetings and conventions with business complimenting the existing weekend market.

2) Medium Term Goals:

- Adopt and implement a master plan for Atlantic City, Boardwalk, Marina District and Atlantic City Entryways.

3) Long Term Goals:

- A) Master plan for the inlet.
- B) Bader Field plan that supports existing Atlantic City investment and overall positioning of Atlantic City.

Most importantly, the key implementation goals for the Governor-elect to consider are to endorse the above goals with the following bold actions:

- 1) A challenge to Casinos to match “seed capital” of New Jersey for Atlantic City Partnership (ACP) (possibly up to \$5 million), in order to “prime the pump”.
 - A) Establish the Atlantic City Partnership (ACP), a new entity funded by Private and Public dollars, responsible for visitor marketing, redevelopment strategy and project management of the new brand and integrate ACP with CRDA and ACCVA to ensure coordinated industry/state agency efforts.
 - B) State and Local focus to prioritize Clean & Safe efforts
- 2) Streamline Casino Control Act: For years there has been discussion of regulatory reform that could create savings of between \$20 and \$30 million annually which could be rededicated to Atlantic City marketing and redevelopment efforts without sacrificing integrity. New Jersey’s costs compared to Nevada’s are astronomical. The regulatory cost per slot machine is \$1,596 in New Jersey compared to \$170 in Nevada. Cost per employee is \$1,769 in New Jersey compared to \$196 in Nevada and cost as a percentage of gross gaming revenue is 1.47% in New Jersey compared to 0.33% in Nevada. Much of the cost is in redundancy between the CCC and DGE; especially with respect to staffing. One model is to turn the CCC into a purely administrative judicial function over licensee activity (reducing staffing with the DGE focused on day to day regulatory functions and enforcement and instituting actions before the CCC) similar to other models in other jurisdictions. Bringing the Act up-to-date could save more funds and create more operating efficiencies as many requirements are antiquated and serve no legitimate function. In addition to external cost of the

agencies, there is also an undefined, yet significant cost to comply with unnecessary regulations.

- 3) CRDA: Casinos pay 1 1/4% of GGR (about \$30M per year) towards "Atlantic City" "South Jersey" and "North Jersey" statutory funds. Subject to accounting for funds that are already bonded or committed, these funds could be an available source.
- 4) Fiscal Responsibility: Greater efficiencies at all government levels, particularly in Atlantic City where the industry pays \$180 million per year in Real Estate taxes. Create a State role of overseer to immediately delve into financial operations of Atlantic City to constructively reform current spending. The objective is to bring Atlantic City into a closer conformance to other New Jersey peer cities, and to use a portion of savings to support marketing and branding of Atlantic City. Also, better utilization of the police department could assist in the Clean and safe initiatives which are critical to making Atlantic City a destination.
- 5) Evaluate with current Stakeholders (State and Casinos) how to expand New Jersey Gaming with a goal of collective investor future growth.
- 6) Do not waste State money to pursue intra-state internet wagering, or sports betting until Federal laws change.

2. NJSEA AND HORSERACING:

The New Jersey Sports & Exposition Authority operates The Meadowlands Sports Complex. It is home to the world's most popular harness race track, a thoroughbred race meet, the #1 ranked stadium in the world (2009) and the #4 ranked large arena in the United States (2008). Unfortunately, the current financial structure can no longer support the financial, operating, capital and contractual requirements of the Authority. Without outside financial resources the Authority will be forced to discontinue its racing operations in 2010. In 33 years of successfully managing racing, sports and entertainment industries to the enormous financial benefit of the State, the NJSEA's 1970's financing structure was not addressed nor updated to meet current market conditions. This occurred even as State revenues from Authority activities grew. In short, while the new operating structure was increasing State revenues, the Authority's revenue streams were being reduced or even eliminated.

In 2006, solutions were presented to the Corzine Administration. As part of the solutions presented, the Authority's revenue streams would be linked to the fiscal benefits from the operations of the Stadium Project (See Section 6.10 attached). In 2008, the NJSEA pressed for the implementation of this prior commitment. Unfortunately, to date, it has not been adopted.

In light of the above, the 2010 financial and contractual obligations of the NJSEA must legally be met. This overview will present the problem and identify solutions and their ramifications. It is imperative that a solution be put in place for 2010 to allow for the implementation of a long-term plan. If not, chaos will ensue in the racing, sports and entertainment businesses in the State with legal and financial ramifications should the NJSEA cease operations from lack of funds.

Racing's Financial Impact on NJSEA

- 1) The Meadowlands Racetrack and Monmouth Park will sustain projected losses of \$22 million in 2010 in their respective live on-track businesses. Both facilities additionally require major capital investments. The losses have been underwritten in recent years by the advance lease payments made by Xanadu. Those funds are exhausted. That project is now stalled and the capital structure has failed.
- 2) Off track wagering at Woodbridge and internet account wagering are profit centers that offset the on-track loss by some \$9 million. Legislative mandates however require that the NJSEA conduct a specific number of on-track days in order to operate OTW's and account wagering. This is a restrictive legislative mandate that does not allow for a change in New Jersey's racing business model.
- 3) The addition of gaming at New York, Pennsylvania and Delaware racetracks drove New Jersey's on-track live racing from profitable to unprofitable in the past five years. In 2000, there were just 3 racinos on our borders competing with New Jersey. Today there are 12.
- 4) In addition to legislative mandates, prior legal agreements with horsemen require a certain number of specific racing days to continue until 2016.
- 5) The New Stadium agreement negotiated by the State with the Giants and Jets gave the teams the right to sponsorship and advertising at the Meadowlands Racetrack (a potential revenue source of approximately \$500,000 annually)
- 6) Suspending racing eliminates over 5,000 on-track full, part-time and seasonal jobs between The Meadowlands and Monmouth Park. Another 7,000 jobs statewide are dependent upon racetrack operations according to a recent Rutgers University study.
- 7) East Rutherford's PILOT is approximately \$6 million. Monmouth Park provides nearly \$2 million in property taxes to the Borough of Oceanport as its largest payer. Ending racing puts much of this at risk.
- 8) The NJSEA has currently issued the first contracts for a \$20 million project at Monmouth Park funded by a low interest loan from the New Jersey Environmental Infrastructure Trust to provide a long-term solution to the stormwater run-off problems in the CAFO area at the facility. This project is mandated under an Administrative Consent Order with the NJDEP. An immediate decision regarding this investment is needed as it is a prerequisite for continued horseracing at the track. The Borough of Oceanport has guaranteed the loan.

Additional Factors

The New Meadowlands Stadium agreement took a net revenue stream of \$20 million from the Authority and reduced it to \$6.3 million. Revenue was given to the new entity as they were given control of the new building and its revenues sources such as sponsorship, concerts, and naming rights to the new Stadium, the Sports Complex and the Racetrack. The NJSEA will provide substantial services to the new Stadium under a 5 year contract.

Additionally the NJSEA is contractually obligated to provide site, security, fire, environmental remediation and EMS service going forward on the Complex.

NJSEA Transition Team Suggested Options to Resolve Losses/Create New Revenue

The solution to the NJSEA Financial Problems is, by necessity multi-dimensional. There is no single solution that will singularly address the industries competitive position within the regional gaming industry. As a result, we are recommending a number of solutions, when taken as a whole, will begin to address the short and long-term needs of the industry and will go along way toward increasing New Jersey's tax revenues and jobs.

- 1) Implementing Section 6.10 (Application of Fiscal Benefits) of the Stadium Project Ground Lease and Development Agreement dated December 21, 2006, approved by the NJSEA Board of Commissioners and approved by the Governor's Office.
 - a. This section provides that 50% of the fiscal benefit of the new stadium (estimated in 2006 to be \$17.1 million/year) be directed back to the NJSEA for maintenance, repair and replacements to the Sports Complex. This provision was to begin after the initial commencement Date (April 2010). This provision would continue throughout the term of the new stadium ground lease (39 yr initial term & three 14.5 yr options).
- 2) Consolidate racing industry statewide and allow the NJSEA to develop all OTW facilities in-state if the private track owners continue to choose not to develop their allotted franchises.
- 3) In order to be more competitive with neighboring states, modify existing statutes to provide more management flexibility in staging live racing, i.e., existing purse agreements.
- 4) Reduce Monmouth Park to a 50 day summer meet with high purses assuming the elimination of the Meadowlands thoroughbred meet and more flexibility for standard-bred scheduling.
- 5) Amend legislation making siting and development of OTW's go more quickly. Rescind allocations not used by Freehold and Atlantic City Race Course.
- 6) Allow NJSEA to manage and coordinate the non-casino concert and entertainment industry in the State at IZOD, Prudential Center, PNC, Atlantic City Convention Center and Rutgers. Consolidate these facilities as much as possible. Study defeasance issue regarding IZOD Center.
- 7) PILOT payments saving \$8.1 million from Meadowlands and Monmouth (Madison Square Garden, Prudential Center, PAC, and Atlantic City Convention Centers pay none.) Needs to be addressed.
- 8) The Nets issue must be addressed. They cannot leave the Meadowlands without paying the waiver amount. The impact upon suites and sponsorship dollars has to be a part of the negotiations.

- 9) Explore content relating to sports and entertainment with the idea of building a cable or internet based network.

The above options are a stop-gap measure.

We need to explore restructuring the entire operations of the Sports Complex to make the Authority at least revenue neutral to the taxpayers. This may include discontinuing racing at the Meadowlands and restructuring the industry in NJ. See comments in Executive Summary.

3. IZOD CENTER:

Historical Perspective for Two Arenas

Concert/Family Show Industry in New Jersey: Two Arenas

In the competitive marketplace it is important to point out that the IZOD Center ranked 3rd and 4th nationally respectively in 2007 and 2008 for concert and family show gross sales and 4th for the decade as tracked independently by BILLBOARD Magazine

Concerts

The two-year concert industry statistics are testament to the positive impact two arenas have had on New Jersey's entertainment marketplace: 46 for the IZOD Center, 36 for the Prudential.

For perspective, The IZOD Center has averaged 25 concerts per year since 2000. Therefore, as a result of the opening of the Prudential Center, New Jersey added over 30 concert dates for metro area consumers, which were more dates for the people working in the buildings, and more event-days worth of revenues generated for the State while the IZOD Center maintained its historic level.

Family Shows

For Feld Entertainment (Ringling Bros. Barnum & Bailey Circus, Disney on Ice, etc.), the IZOD Center has and continues to be one of the highest grossing venues in the country. As a result, we are contracted with them through 2012. In 2009 there were 54 family shows at the IZOD and 39 at the Prudential Center.

A number of concerts in the past year would not have played New Jersey without two Arenas available because a conflict at IZOD meant an opportunity for the Prudential Center and vice versa.

In 2009 the IZOD has been used for rehearsals and movie shoots, and for example, in 2008, Madonna used the IZOD as the rehearsal hall for her world tour. In 2007, both Bruce Springsteen and Marc Anthony/Jennifer Lopez used the building in the same way. Additionally the IZOD has become the venue of choice for its convenience for the many major college and university graduations, performing quite a community service.

Current Situation

Much has been written about a cooperative arrangement between the IZOD Center and the Prudential Center to maximize the sports and entertainment industry impact for New Jersey. Unfortunately much of it has been ill-informed.

First, the premise that there are bidding wars for concerts between the two buildings belies a lack of understanding of the industry. One major promoter AEG has been involved in the Prudential Center. They bring their concerts to the Pru not the IZOD. Many other promoters vastly prefer the IZOD because of logistics and operations, i.e. many more seats in the lower bowl, parking, single concourse.

In the past 26 months two major Arenas operating in the State have driven an increase of 222 events (58%) for New Jersey over what would have been the historic norm. This substantial increase in events supported hundreds of jobs, increased the entertainment options for our people, and increased State sales and income tax revenue as well as increasing overall economic activity within the State. From the State's perspective, two arenas has been a huge success.

From the opening of the Prudential Center on October 25th, 2007 through December of 2009, the IZOD Center has booked 305 events and the Prudential Center has booked 297, for a total of 602 events. Given the current entertainment marketplace and our projections for the next few years it would be an exceptional year for a single Arena to host approximately 180 events. Because of the inherent date conflicts with professional teams, including the fact that a building manager is contractually required to keep two months of spring dates clear for potential playoff games, and compounded by the seasonality of family show and concert business, scheduling logistics limit the number of days a year any venue can be "lit".

One Arena in the time frame of October 27 2007 through December 2009 would have hosted a maximum of somewhere in the neighborhood of 380 events.

New Jersey Nets

A deal was proposed at the end of the Corzine Administration to allow the Nets to move to the Prudential Center commencing with 2010-11 for the seasons until the Barclays Center opened in Brooklyn. Additionally the plan called for a three-way "booking arrangement" with representatives of Devils Sports and Entertainment, the NJSEA and the Governors Office. The Prudential Center would apparently be the "sports" building, the IZOD the concert and family show arena.

Details are sketchy but we are unaware of any fiscal analysis of what the impact such an arrangement would be for 2010 or would have been for 2009 for that matter.

If the New Jersey Nets were interested in leaving the IZOD Center for the 2010-2011 season, they were contractually obligated to inform the NJSEA by January 1, 2009. Similarly should they wish to play elsewhere for the 2011-12 season notice needs to be given by December 31, 2009. There are substantial early termination provisions for the Nets as well, currently approximately \$7.5 million.

While discussions concerning the aforementioned joint arrangement were going on there was no contact from the Nets to the NJSEA about possible termination and departure.

Additionally, it is unknown how many concerts and family shows that would have gone to the IZOD Center in 2010 under the new "arrangement" would have been re-directed to the Prudential Center, despite their being the "sports" arena.

One entity booking both buildings, as well as for that matter the PNC Arts Center, Atlantic City Convention Center and any concerts on the Rutgers main campus makes sound sense and should absolutely be studied as a way to maximize the entertainment industry in the State. But without further substantial analysis, the three-way arrangement seems untenable.

Early in 2010, given the heated political rhetoric and more importantly the economic importance of the entertainment industry to the State's economy, some person(s) should be assigned immediately to study and analyze the best conceivable mechanism for maximizing the benefit of the two Arenas. Joint management of the two facilities should be analyzed. A recommendation is hereby made to immediately complete such an evaluation during the "opt out" extension from December 31, 2009 to February 28, 2010. The Christie Administration can then resolve the two New Jersey arena questions.

4. XANADU:

Current Status

Presently, this 2.3 million square foot complex looms as an abandoned project at the "front door" of New Jersey's historical sports and entertainment headquarters, the Meadowlands. There are very legitimate questions of viability to this incomplete project, and its apparently failed leasing plan. In addition, the original capital structure of nearly \$2 billion has been "frozen" by construction lenders.

Essentially, Mills Corporation, the original owner of Xanadu, has had their nearly \$500 million equity investment subordinated to Colony Capital and Dune LLC's additional equity investment of over \$400 million. Mills has retained a minority interest of approximately 5%.

The construction loan of \$1,015,000,000 was made to an entity known as ERC 16W Limited Partnership. The Note holders have suspended further debt fundings, with nearly \$400 million still not yet funded in the original commitment. Capmark is agent for the funding group and servicer. An agreement has apparently been reached by the original construction lending group to subordinate their nearly \$600 million loan to a new lender (tbd) for up to \$500 million. Therefore, the original construction lenders would rather risk \$500 million of their already funded loan to someone "new", than to continue funding.

Essentially, there is no leasing plan making material on-site progress. The physical activities of construction are at a stand-still, if not abandonment. The construction loan is out of balance. There are no monies readily available to finish construction of public areas, nor tenant improvements. Further complications exist due to Capmark Finance

being in bankruptcy (a \$250 million note holder and a \$105 million participating note holder).

Most, if not all, of announced major tenants have an “escape clause”, solely dependent on leasing – or lack thereof.

In conclusion, the Xanadu project needs both cash and tenants to complete their obligations to NJSEA. Both are missing. Hence, the original business model appears to have failed. The NJSEA needs to engage the owners (NJSEA owns the land, not the improvements) to either complete and open, or surrender the property.

Historical Background

The approximately 90 acres surrounding the IZOD Center has been subdivided into five (5) lots and use restricted for the development, construction and operation of an Entertainment Retail Center (“ERC”), Office A-B, Office C-D, Hotel and Baseball Stadium. Each of the five (5) subdivided lots has been leased to a separate entity (each, a “Project Ground Tenant”) pursuant to the terms of a ground lease (each a “Project Ground Lease”). The IZOD Center and pedestrian skirt is a sixth, separate subdivided parcel. The ERC and related roads and infrastructure improvements are the first components of the project to be constructed. The Meadowlands Xanadu Project is to be operated in accordance with a Project Operating Plan approved by the NJSEA as part of the Master Plan for the Project, which details parking operations, common-area maintenance, security and other matters.

Rent

Prepaid Ground Rent:	\$160.0 million
Less WMB Payment:	\$26.8 million - Payment is consideration paid by the NJSEA to The Mills Corporation to purchase the rights of The Mills Corporation to operate a wetlands mitigation bank using the Empire Tract.
Less Bond Defeasance:	\$37.2 million
Total to NJSEA	\$96.0 million

The initial \$160 million dollar payment was characterized as the “Development Rights Fee” under the project documents. The Development Rights Fee was allocated among the five (5) Project Ground Tenants and characterized as prepaid rent for the period Effective Date (June 30, 2005) through the last day of the 15th Lease Year under each of the Project Ground Leases.

Ground Rent Payments with respect to the entertainment/retail component commence on the first day of January in the year following the 15th anniversary of the earlier to occur of (a) ERC Grand Opening or (b) 3rd anniversary of Effective Date (June 30, 2005).

Pilot

The NJSEA has agreed to make PILOT payments to the Borough of East Rutherford in connection with the Project commencing on the ERC Grand Opening Date.

The total amount of the first year additional PILOT payment is \$1,850,000, increasing to \$9,850,000 in Years 6-20. After Year 20, the additional PILOT Payment increases in accordance with CPI increases. The entire PILOT payment has been allocated amongst the Project Ground Tenants under each of the Project Ground Leases.

Arena Right of First Refusal (On all uses except those excluded.)

Currently held by Meadowlands Developer Limited Partnership Colony Xanadu LLP, Managing GP.

Triggering Events Change in Use Event: The Arena is no longer used, operated, managed or controlled for Arena Component Uses (i.e. uses permitted under the NJSEA Enabling Legislation) in effect as of December 3, 2003.

Third-Party Event: NJSEA determines to accept a bona fide offer from a third party for the ownership, long-term lease, exclusive use and/or redevelopment of the arena tract by a third party.

Excluded Events:

- A) any lease to a present or future sports complex tenant;
- B) conduct of any particular category of events with greater frequency; and
- C) any delegation of Arena Management responsibility to a third party contractor.

Racetrack Right of First Refusal (Limited to Hotel uses connected to Gaming.)

Currently held by Meadowlands Developer Limited Partnership Colony Xanadu LLP, Managing GP

Triggering Events

Video Lottery Terminals or any other form of legalized gaming is approved or otherwise permitted in accordance with the applicable laws in connection with the operation of a portion of the racetrack site; and

NJSEA (or third party designated by NJSEA to have control over the racetrack) shall have received and determined to accept a bona fide written offer from a third party for one or more racetrack hotel developments.

The developers of the Xanadu project have invested approximately \$2 billion in the project and are currently looking for approximately \$500 million to complete the project.

While the developers have represented that the ERC portion of the project is approximately 70% rented, there is great uncertainty as to the firmness of these commitments.

Neither the ERC Ground Lease nor the other Meadowlands Xanadu project documents provide a deadline for opening or a continuous operation covenant. The prevailing business conclusion at the time of the negotiation of the Meadowlands Xanadu project documents was that once constructed, the developer's investment return and debt service requirements would compel the prompt opening and continuous operation of the ERC. Unbelievable!

5. LOTTERY:

In spite of its value as a huge cash source to state education uses, \$887 million in 2009 alone, the Lottery has flat to declining sales, is run by 130 demoralized state employees, has only short term Executive Directors for years, has adopted no strategic plan for generating higher sales, struggles to make even marginal improvements to its systems, old computers etc., has all its operating cash swept by the New Jersey Treasury in addition to the normal distributions for higher education leaving the management with little decision making authority.

The Sub-committee met with key personnel of the New Jersey Lottery and GTECH, the provider of its online gaming and instant ticket distribution services. The Sub-committee toured the Lottery headquarters located in Lawrenceville, the attached GTECH site and the backup data and distribution center in Cranbury. The Lottery and GTECH facilities are both physically and economically satisfactory for efficient current operations and future growth.

The committee makes the following major recommendation:

- **Privatization of the Lottery** – The Lottery would benefit from privatization with operations conducted by private management contracted by the State to manage, staff, and operate the administration of the Lottery. We are advised that the State of Georgia has privatized their lottery. The contract should include incentives to increase sales and net revenues to the State. The committee believes a significant increase in gross and net revenues to the State will result from privatization.

In the absence of a full privatization of Lottery Operations, or during the time privatization is implemented, the committee recommends the following **immediate** changes:

- **New Chief Executive** – We recommend that a qualified chief executive with Lottery and contract management experience be appointed. He or she should be charged with the responsibility of making a full analysis of Lottery operations, staffing and budget needs, contract status, sales and marketing plans, infrastructure needs and all aspects of Lottery operations in order to do what is required to increase sales and grow net revenues.
- **Put the Lottery off budget** – Putting the administration expenses “off budget” would enable the Lottery to operate without being subject to budget cuts or restrictions each fiscal year that have had a negative impact on its ability to make long-term (3-5 years) sales and marketing plans. This would enhance the ability of the professional staff to grow sales and net revenue to the state.
- **Develop a Strategic Plan** - The New Jersey Lottery lags far behind neighboring states in marketing resources and the player survey showed that New Jersey players are spending money in other jurisdictions with larger marketing budgets.

- Enhanced Security – Conduct a top down review of standards, procedures and personnel to insure the integrity of operations and play.
- New Information Management and Technology – Complete a review, bid and implement a complete upgrade of the Lottery's information technology. The last significant upgrade was done in 1998.

Background

The Lottery operates as a Division within the Treasury Department. The FY10 budget is approximately \$21.6 million of which \$8.7 million is allocated to salaries. The Lottery operates with 131 full-time staff and more than 6,100 agents throughout the state in retail locations. In addition to the allocated budget, the Lottery pays contracted vendor and network costs of approximately \$55 million and approximately \$1.1 million to NJN for broadcast fees. The contracted vendor costs for the online gaming system and network will be reduced by approximately \$18 million per year when the new contract is fully implemented.

By law, the Lottery must contribute a minimum of 30% of gross ticket sales to the Treasury for state aid for education and state institutions. Results in FY09 were gross sales in excess of \$2.5 billion and contribution to the state of \$887 million or 35% of total revenues. Their goal for FY10 is to generate \$2.5 billion in gross ticket sales and contribute \$893 million to the Treasury. Through November 2009, the Lottery is on budget to meet these goals due mainly to larger than expected increases in sales from Pick 6 and Mega Millions both of which were driven by large jackpots.

The current patronage based management has little or no authority to grow the business or make strategic decisions having virtually all authority removed by the prior administrations and the New Jersey Treasury Department. The current practice of viewing the Lottery as a division of the State Treasury, similar to the Office of Information Technology (OIT) or the Division of Taxation for example, results in budget decisions based on the State's overall revenue and expense situation rather than on sound business practices needed to market and sell Lottery tickets.

The Lottery currently faces two major challenges: 1. the completion of the implementation of its new online gaming contract, and 2. the launch of Powerball by January 31, 2010. The contract implementation is behind schedule and costs the Lottery approximately \$50,000 per day in excess costs over the new contract. Completion is not expected until early October 2010. The launch of Powerball on January 31, 2010 is in jeopardy due to a lag in negotiations between the Mega Millions consortium and MUSL, the Powerball consortium. Management hopes to resolve the outstanding issues by December 31 in order to meet the January 31 deadline for launch. Powerball is expected to increase gross revenues by an additional \$69 million and contribution to the State of \$25 million for FY10 if launched on time.

- Management – The Lottery has been operating without a full-time Chief Executive for several years. Various Acting Executive Directors who are state employees with little or no business experience have filled the position. This practice has resulted in management's loss of authority as the Treasurer depended on his personnel to make strategic decisions especially in the area of contract specifications. The absence of qualified Lottery upper management and the lack of confidence placed in them created mistrust and frustration among employees, lack of focus on the sales nature of the business, and delays in the awarding and implementation of vendor contracts that have proved costly and inefficient.

The new Chief Executive should be given full authority to hire qualified persons to fill the upper management level positions. He or she should have the authority to hire those persons in whom he/she has confidence and remove those who have lost that confidence. The Chief Executive should interview employees currently in management positions and assess their qualifications, competence and ability to do their jobs effectively.

A major challenge facing the new Executive Director is the immediate completion of the online contract currently being implemented. It is behind schedule and is not projected to be complete until early October 2010. Further, the delays have resulted in unnecessary costs by remaining bound by the terms of the old contract. The new contract terms are approximately half the current costs.

In addition, the Lottery expects a significant increase in sales from the launch of PowerBall on January 31, 2010. Not all systems are in place, however, and work remains to be done in order to meet this deadline. A delayed startup will result in lost revenues.

- **Marketing & Sales - GTECH** produced an Integrated Marketing Strategic Business Plan that contains survey information about player attitude and usage. The key findings indicate opportunities in several areas that the Lottery can use to identify future growth potential. The plan contains a number of suggestions including the need for a greater investment in marketing communications. The New Jersey Lottery lags far behind neighboring states in marketing resources and the player survey showed that New Jersey players are spending money in other jurisdictions with larger marketing budgets.

Among its peers (New York, Pennsylvania, Ohio, Michigan and Massachusetts), the New Jersey Lottery has an average annual marketing budget of \$4 to \$6 million compared to \$12 million for the peer group. Marketing resources should be increased by at least \$10 million to support a variety of promotional efforts.

This department currently has a Marketing Manager with more than 20 years experience who is well respected in the industry for his knowledge and expertise. The department has insufficient staff; however, to enable him to manage the advertising budget while also developing and implementing an overall marketing plan along with the development of new game launches. The Lottery should review the GTECH plan and incorporate those initiatives that it deems most productive to increasing sales and State revenue.

The Deputy Director of Sales heads the Sales department and manages a field staff of approximately 30 Sales Representatives along with a small in-house agent support staff. The Sales Reps do not have modern technology (laptops) or the ability to access retailer information while at an agent location. The GTECH Integrated Marketing Strategic Business Plan recommended enhancing the relationship between the Lottery's Sales Reps and the agent retailer network in order to foster greater agent cooperation in promoting Lottery sales.

- Finance – The finance manager is currently the Acting Executive Director. He should be relieved of this extra duty and returned to his role as Chief Financial Officer as soon as possible. The new Chief Executive should make an assessment of staffing levels to assure they are sufficient to adequately report and collect revenues.
- Validations/Claims – Headed by a Supervisor, this unit validates and pays winning tickets of \$600 and more. The process is slow and paper intensive. The processes should be analyzed and automated to the greatest extent possible.
- Information Management and Technology – The online vendor supplied the current back office hardware/software and support when the current contract was implemented in 1998. Most of the equipment and systems date from that time with only periodic updates and improvements. The new online contract currently being implemented does not contain this provision due to a decision made by the NJ Treasury Department to exclude the requirement that the vendor supply the back office infrastructure and software/support. This leaves the Lottery in the position of having to compete with other State divisions for scarce technology resources at a time when it needs modern and up to date technology due to the aging equipment with which it now operates. This will present a challenge to the incoming Executive Director as the aging equipment will hamper the Lottery's ability to quickly gather data and take advantage of tools the new contract will provide.
- Security – The Deputy Director of Security was recently hired. He is a 30-year veteran of the NJ State Police assigned for 22 years to the Casino Gaming Bureau conducting licensing and criminal investigations of persons and companies doing business with casinos. The department is responsible for the licensing of retail agents and key agent personnel. The department also conducts investigations when complaints of wrongdoing are received from the public. The department is understaffed and lacks modern technology. Additional investigators should be hired to both clear and avoid a backlog in investigations. The new online contract will contain tools that Security can use to access a variety of retailer information that can be used to aid the department in its work. These tools will not be useful without updated hardware and technology.

The new Chief Executive should interview the Security Director and assess his qualifications and effectiveness in managing the Department.

In summary, the New Jersey Lottery faces challenges in the following areas:

Ineffective Leadership & Management
Outdated Technology Infrastructure
Inadequate Staffing Levels
Inadequate Advertising & Marketing Support
Lack of Autonomy & Decision Making Power

To overcome these challenges an effective leader must be hired who can take control of what is essentially a \$2 billion sales business, restore confidence and morale among staff, develop and implement sales and marketing plans, interact with its online vendor and sales partner, convince the Treasury Department of the benefit of fully supporting the Lottery mission with human, economic and technological resources and operate within the borders of its mission to raise money for education and State institutions.

Other Suggestions

- **Sale of the Lottery** – Some investigation should be made into the merits of selling the Lottery and retiring outstanding State indebtedness. If a 20 year “operating lease” of the Lottery could be sold for \$10-12 billion and the funds used to retire debt, the State should review the possibility. We have been advised that this is a reasonable market value for a sale.

6. NEW JERSEY PROFESSIONAL SPORTS FRANCHISE REPORT:

The franchises reported no serious issues at the present time but identified several items they wanted resolution on:

New Jersey Devils

The Devils want the two arena issues resolved preferably with the Nets moving to Newark and the IZOD Center becoming a concert venue. They reported no pending deals or outstanding issues with the Corzine Administration.

New York Giants

Concerned about the lack of speed on the roadwork around the Complex, specifically the 16W Turnpike exit. They are also concerned about an agreement coordinating parking with Xanadu. They are pleased with the relationship with NJSEA and their agreement moving forward. Would like the law preventing the offering of presale tickets for events changed. They are preparing a bid for the 2014 Super Bowl and we assume they would need state assistance if they get the bid.

New Jersey Nets

Their issues have been partially addressed in the proceeding sections of the report. They would like to get to Newark on a short-term lease. They have an issue with what their split of the IZOD naming rights are.

New York Jets

Woody Johnson would like a conversation with us to discuss his ideas and suggestions about the NJSEA and the complex itself.

New Jersey Red Bulls

Planning to open their new stadium 3/17/10 in Harrison. Harrison committed to build roads and parking lots with DEP Brownfields Funds. DEP doesn't have any money, so no roads or parking lots were built. Trying to resolve the issues with Harrison.

AUTHORITIES TRANSITION REPORT – EXECUTIVE SUMMARY

Thank you for the opportunity to be a part of your transition team. Each member of this transition subcommittee personally met with or spoke to leaders of numerous authorities. Each deserves a great deal of credit for volunteering numerous hours, gathering valuable information and making serious recommendations.

It should be noted that the recommendations and opinions expressed herein do not reflect the opinions of each member of the subcommittee. Rather, this is a compilation of the most important observations and suggestions made by individual members.

Our subcommittee reviewed the budgets, missions and initiatives of various authorities. In some cases, very specific recommendations are made for changes or further examination where a need was seen. In other cases, due to significant overlap with other subcommittees, we limited our scope of examination and may make no recommendations, leaving those to the committees which only focused on one major policy area.

It is important to note that every single authority had overlap with one subcommittee or another. Therefore, in some cases, we allowed the entire examination and subsequent recommendations to be done by the subcommittee with the more specific focus. Efforts were made to avoid duplication.

Admittedly, there are times our recommendations and observations may go beyond our scope, or perhaps be inconsistent by those made by another committee, but where it was felt a recommendation was necessary, it was made. At times, we even looked beyond authorities when our research took us in certain directions and made recommendations that are felt to be in the best interest in the state's citizens.

This executive summary is separated into sections.

The first section makes recommendations as to how the Governor-Elect and his administration should approach all authorities as a whole. The goal is to recommend a framework as to how all authorities should be approached, regardless of the obvious differences between them. With so many authorities, it is imperative that there be a guiding philosophy in approach so there is consistency when dealing with the staff and leadership at each.

In the second section, specific recommendations pertaining to some individual authorities are made. In some instances, important and timely issues are raised without a recommendation. This is done

when the issue deserves attention, but it is felt more research needs to be completed by the incoming Administration.

Section One:

Recommendations as to how the Governor Should Approach All Authorities Units

The independent nature of authorities units has caused some to be, at best, underutilized assets in helping governors pursue their goals, and others, at worst, to be ineffective government organizations that waste public dollars. All too often, the authorities have been an afterthought. Given the vast resources and potential of the many state and bi-state authorities, it is imperative that they receive equal direction and are held as accountable as any state department or agency.

As one would imagine, when dealing with dozens of authorities, some operate far more effectively and efficiently than others. Some serve obvious and useful purposes for our citizens; some seemingly serve parochial interests and/or waste money.

In order to maximize the effectiveness of all authorities and cut down on the waste that is prevalent throughout these units, the governor can do five things across all the Authorities units to improve their performances.

- Bring a Clear Vision
- Create Accountability
- Control the Agenda
- Consolidate
- Require Fiscal Restraint

Also, special consideration should be given to how vision, accountability, appropriate control, fiscal restraint and even consolidation can be brought to bi-state authorities. While the governor has less ability to unilaterally do this at bi-state authorities, some things can be done, which will be discussed at the end of this section.

Vision

For each individual authority, the new Administration should review their mission, plans and budgets for the next two years. Too often, these entities are simply going about their business, well-intentioned in nearly all cases, but without focus or direction from the front office.

Literally billions of dollars are spent by various authorities throughout our state. This money will help our state and her citizens, but the money will be spent more effectively if the governor provides the vision, in an appropriate fashion, as to how those dollars are spent (or saved).

So much good can be done with the vast power and relative financial strength of many authorities, but their underutilization would be a missed opportunity if no focus is given to each.

Contrary to what one may think, many of the leaders on a staff level at the authorities clearly crave this type of direction, and often complained about ineffective liaisons with the Governor's office. Strong policy planning is needed, and then the system of communication must become an effective two-way street.

The system of communication between the individual authorities and the governor's office must be improved and strengthened if common goals are to be met. With so many authorities, it is clear some, even very large ones, have suffered from a lack of communication and direction with key players in the Governor's office.

Accountability

The same lack of attention also leads to a lack of accountability. As stated previously, billions of public dollars are spent by state and multi-state authorities. While there is not enough time during a transition to audit scores of authorities and commissions, it is clear that there is waste. It is also apparent, that few people have truly ever scrutinized the waste and poor financial prioritization seen in a number of authorities. The leaders of the authorities must know the Governor's office will scrutinize their books, and utilize all the power at its disposal, to bring accountability to each.

Audits of all authorities should be conducted early in the new Administration's tenure. If this is not feasible, there are a few that deserve a special look, which will be apparent in the specific recommendations made later in this report.

Sounding much like private parties often can, authority directors often complained about dealing with other authorities or government agencies. This is merely further evidence of the frustration that can be found everywhere with the ineffective nature of some inside the government.

Control

In order to bring vision and accountability to these authorities, it is important to exercise control over the authorities to the levels that are appropriate and afforded to the Governor under the law. Obviously, different authorities are set up with varying levels of control that the Governor may appropriately exercise.

- Use Veto Authority –
 - This is a powerful tool at the Governor's disposal. All authorities must act in a fiscally responsible manner and promote the vision of the Governor or face a veto. Early use of veto power, if necessary, would show that the Governor's office means what it says in terms of its vision and accountability.

- Legislative Remedies to Veto Authority –
 - The governor has no veto authority over some large-budgeted authorities, such as the Passaic Valley Sewerage Commission, the Casino Control Commission, the Meadowlands Commission, the Casino Control Commission and the North Jersey Water Supply Commission. If and where appropriate, the legislature should consider taking action to give veto authority to each and every authority.
 - Where there is veto authority, consideration should also be given to extending the timelines for veto authority where the turnaround time does not allow for thorough review by the Governor's office.

- Executive Directors –
 - The vast majority of executive directors are dedicated public servants who were very cooperative and looking to serve the interests of our state. That said, evaluations should be made on each as to how well he/she has performed and will perform during the next administration.

- General Counsel –
 - It is apparent that the general counsels within each authority can have considerable power of what can and cannot be accomplished. Just as with executive directors, the general counsel at each authority should be evaluated for past performance and future intentions.

- Cross-Pollinate Board Members –
 - Since some of the authorities have considerable impact on state departments, it is instructive that some past administrations have smartly had the same person serving on various related authority boards at the same time in an effort to enhance communication and understand the impact of the authorities on state operations.
 - For example, the Governor's Commissioner of Transportation should also serve on the boards of the Port Authority of New York and New Jersey, the Delaware River Port Authority, New Jersey Transit, the New Jersey Turnpike Authority, the South Jersey Transportation Authority and the South Jersey Port Corporation, among others.

 - While this is just one example, this cross-pollination should be considered for transportation, gaming and sports, the environment and economic development at the very least. It means fewer people getting appointments, but it means more reliable input, control and information flow for the governor.

Simply put, there are too many authorities. This wastes money in obvious and obscure ways. The governor's office should look to quickly make some changes that would both save money and send a powerful signal as to how serious the governor is when it comes to saving public dollars. Specific recommendations are made in the next section. While this is easier said than done, numerous authorities have outlived their usefulness and deserve to be downsized, merged or eliminated.

Too much government is unlikely to be limited only to the authorities. There is overlap between the missions of authorities and state agencies as well. Intensive studies should be embarked upon quickly to find potential cost-savings wherever possible.

Also, it seems incongruous that authorities are paying other authorities and agencies for work. While money moving between authorities and state government agencies may actually benefit the state's bottom line, it seems in many ways to simply be a shell game with public dollars. For example, the NJSDA complained that it paid \$20 million dollars in permitting fees (mostly to DEP and DOE) over the last twelve months. It would be important to undertake an effort to see how widespread this practice is within the state government and between governments and authorities.

Certain outside consulting functions should be considered for centralization/standardization. Examples include:

- Consideration of using the Attorney General's office more, and for more functions.
 - For instance, NJDOT has the AG's office handle all property acquisitions. NJ Transit and NJSDA use outside counsel for acquisitions (at considerable expense) but use the AG for environmental matters arising out of property acquisitions. NJTA uses outside counsel for acquisitions and environmental. Could these services be performed in a uniform way that would cut down on expenses?
 - Adding additional experienced staff to the AG's office could yield significant savings and potentially equal or better service – one typical case could generate \$500,000 in fees to a private firm. The same monies could be used to hire 5 experienced deputy AGs who, together, can handle dozens of cases each year.
- Most or all authorities hire outside accounting firms to perform audits at considerable expense. Audit procedures may be ripe for centralization, either within an expanded function of the State Controller, or through standardized audit procedures which will likely yield savings and more efficient operations
- While it may seem at first blush that adding personnel to certain government departments is contrary to the policy of making government "smaller," it may in certain cases make government much more efficient and less expensive to run

Require Fiscal Restraint

The financial pictures at different authorities vary greatly due to distinct sources of funding. It is imperative that each authority act like the state government must during this difficult economic time.

Many authorities have embarked upon, or are considering embarking upon, massive and expensive capital projects. Careful consideration should be given to the necessity of each given our financial situation.

The necessity of doing long-term capital projects that are not directly necessitated by safety or increased use by our citizens must be immediately reevaluated. Now is likely not the time to be thinking about expansion of systems that are already losing money.

One other important note that may help fiscal restraint (as well as accountability), would be to level the pay and benefits structures at the authorities to match those within state government. At least 27 people at various authorities have more lucrative salaries than the Governor. Without the oversight that is brought to departments in state government, salaries and benefits have often times escalated to unacceptable levels. And in some cases, particularly noted by the Casino Control Commission, it would actually help the management of their budget and employees if the employees were subject to the state personnel systems with steps.

While many of the authorities we looked at have done a good job controlling the employee numbers, increased employment nearly anywhere puts a strain on the state's pension system because many employees and some people providing professional services may be eligible for participation in PERS.

Dealing with Bi-State Authorities

While the ability to exercise such control and provide unilateral vision to bi-state authorities is understandably limited, the governor's office should attempt to bring about positive change wherever possible.

- Reach out early to other governors to create a dialogue regarding changes that should be made.
- Push for the same type of procurement and ethics reforms in these authorities as would be expected by state government agencies. The bi-state authorities are currently behind what has been done recently at the state authorities.

Section Two:

Specific Recommendations Pertaining to Individual Authorities

Below are some specific recommendations we make regarding individual authorities that we felt deserved special consideration.

Rethink the Highlands Council

The Highlands Council may be well-intentioned, but it is a disaster on multiple levels. Rather than simply providing the intended environmental protection to a treasured part of our state, it has added

extra layers of government bureaucracy that have punished individual landowners and inhibited the decision-making abilities of local governing bodies, causing economic distress to individuals and local governments alike.

If the Highlands Council had its powers changed or reduced, or even if it was eliminated outright, environmental protections would still be in place, enforced just as they are in every other part of the state. All projects would still be subject to DEP and local rules and regulations, just as they would be in any other region.

The Highlands Act's enabling legislation, as flawed as it is, has been hijacked by over reaching regulations by the DEP and by a Highlands Council which has strayed from both the law and the intention of the law in the Master Plan document. The law is very clear as to the content within the Master Plan and the separation of the Planning versus Preservation Areas, requiring true economic analyses of the impact of Highlands' zoning, transportation needs, etc., none of which seems to have been done.

The lack of ability for any ratable growth in most of the Highlands burdens the municipalities and chains their citizens to increasingly higher taxes to support school and local government contractual obligations, as well as inflationary increases of their operating costs. The Highlands Council has used punitive and menacing tools to force "opting in" by municipalities and co-opted home rule, which was not the legislative intention of the Act.

Further, by having a Council formed with 100% appointment power by the Governor (unlike the Meadowlands or Pinelands where Freeholders have some appointment authority) where 7 out of 15 members do not even have to live in the Highlands, the local governments and landowners feel unrepresented, powerless and voiceless.

At a bare minimum, changes should be brought to the representation on the Council. Right now, there is too little voice given to the counties and constituents most affected by their actions.

Importantly, there can also be cost savings as a part of any change. Annual budgets have ranged from \$2 million to \$3.8 million since its inception. Since this is funded entirely by the state, there is an opportunity for considerable savings.

Merge the South Jersey Transportation Authority with the Turnpike Authority

In concert with the recommendation of the Transportation subcommittee, the South Jersey Transportation Authority should be merged with the New Jersey Turnpike Authority. The elimination of a substantial amount of redundant administrative bureaucracy, redundant outside professional fees and needs, and the need for a separate administrative staff and Board could all be achieved by a merger. Throughout our collection of information, we have seen no reason why

there should be a separate authority. The legitimate needs of the region can still be met at a lower cost with a much-needed consolidation.

This recommendation should not be construed to suggest the SJTA does not do important work and do it well. To the contrary, the authority undertakes vital projects throughout the region. The same good work, though, likely can be done under the auspices of another authority.

Since the SJTA is not simply a toll road authority, the merger would require that thought be given to how these services are managed.

- The Atlantic City garages operated by SJTA could be turned over to one of the Atlantic City authorities or even the city or county should they adopt the operating costs.
- The Atlantic City Airport could be operated by a bi-state authority with experience managing airports, such as the Port Authority of New York and New Jersey or the Delaware River and Bay Authority.
 - While this is far outside the Port Authority's 25-mile radius of jurisdiction, an exception was made when they took over management of Stewart Airport in Newburgh, NY. The same exemption could theoretically be granted here.
 - The DRBA operates five airports, so this could be a sensible addition.
 - The Port Authority clearly understands how to operate airports very well.
 - The Atlantic City region could benefit from the expertise that would be brought in by the Port Authority or DRBA rather than being served by a toll road authority.
 - 52% of flights operated out of the airport are conducted by the Air National Guard, so communication with them should be considered beforehand.
 - ACY is a massive tract of land, so massive that it has a contract with NASA to serve as an alternate landing site for the space shuttle and is put on standby. The impact here would have to be reviewed.

Rethink the Sports and Exposition Authority.

Since the Sports and Gaming subcommittee studied this in far greater depth and is making serious policy recommendations, I will go into very little detail here as to the serious problems that face the NJSEA and their charges beyond this. With a \$38 million dollar budget shortfall that will have to be made up by the state's taxpayers in 2010, it is important that the entire mission, structure and even very existence of the NJSEA be questioned. No recommendation should be off the table.

The Authority will require immediate drastic cuts or capital infusion from supplemental sources simply to preserve its existence within the 1st Quarter of 2010.

While the NJSEA had immediate positive impact in the 1970's, showed great vision into the 1990's and provided great benefit to the state, it is fair to question what it should look like in the future.

With a horse racing industry losing tens of millions of dollars, the Devils gone, the Nets leaving and a poor deal with the Jets and Giants with their new stadium, the entire mission and future of the NJSEA must be entirely rethought, not simply tweaked.

The Port Authority of New York and New Jersey is an underutilized asset.

While this is true of many authorities, it bears special mention when it comes to the Port Authority. The key to New Jersey residents getting the most from the Port Authority will be having a strong governor with a clear vision for its potential and an understanding of potential budget ramifications and opportunities.

The economic impact the Port Authority's operations have on the state of New Jersey would be hard to overstate.

The Port Authority of New York and New Jersey, with its \$6.36 billion dollar budget and 6,977 employees operating and overseeing the nation's busiest airport system, marine terminals and ports, the PATH rail transit system, six tunnels and bridges between New York and New Jersey, the Port Authority Bus Terminal in Manhattan, and the World Trade Center, may be the most important but underutilized asset among all the authorities.

With its virtual monopoly on revenue for airports and river crossings, the Port Authority holds incredible potential to help the citizens of New Jersey by investing in infrastructure deemed important by the Governor to our region.

These considerations also could alleviate state budget pressures where transportation projects could, if appropriate, be shifted to the auspices of the Port Authority. The ARC tunnel is a massive and complex project, but within its finances, there are likely short-term opportunities from a budget perspective that would not change long-term obligations or jeopardize federal funding.

In addition to the budget ramifications that should be studied, here are a few other quick items on the Port Authority which should be immediately discussed by the new Administration:

- We have benefitted from excellent leadership at the Board of the Port Authority, but there is no substitute for clear vision and strong leadership from the Governor.
- Given the numerous assets of the Port Authority in New York, and the ongoing costs of the redevelopment of lower Manhattan around the World Trade Center, it will be important to ensure the new administration fight for New Jersey's fair share of projects that benefit New Jersey and/or both states. New Jersey is and always will be an equal partner in the Port, and this must be enforced.
- While the airports and river crossings make the PANYNJ solvent, the Port Authority could see similar success with an analysis of marine terminals and shipping in our ports.

- The Bayonne Bridge problem needs to be addressed. While it is not an imminent issue, a solution should be decided on relatively quickly to ensure the continued economic vitality of our port as it competes for business with ports up and down the east coast.
- Due to a revolving door of governors in both states, staff has had more control due to a lack of consistent visions from chief executives.
- A very cursory look at their revenue-generators paints a good picture long-term. The Port Authority basically has a monopoly on river crossings and airports, so as long as people need to drive and fly into and out of our region, they should be okay.
- Finally, the new Administration should not feel compelled to move quickly on anything immediately after taking office. New projects and revenue-generating ideas should be closely reviewed.

The Delaware River and Bay Authority Faces Challenges that Deserve Immediate Attention.

While the DRBA has clearly done a good job reducing its expenses by cutting its workforce from more than 500 employees to 398, reducing its vehicle fleet, reducing employee use of free E-Z Pass (could it be eliminated?), eliminating non-essential employee travel and planning to cease its community grant program after 2010, it will still face several major challenges in the upcoming months.

- DRBA must negotiate and execute new collective bargaining agreements with two unions that represent a combined total of 49% of its employees.
- DRBA may seek to increase the \$3 toll on the Delaware Memorial Bridge this coming summer to counteract falling bond ratios.
- DRBA intends to begin a \$300 million rehabilitation of the first span of the Delaware Memorial Bridge in late 2010.
- DRBA must adopt a plan to sustain its ferry service, which has operated at a significant loss over the past few years.

Importantly, it also seems that most senior level positions held at the DRBA are held by Delaware residents. This may have led to disproportionate attention given to Delaware's priorities over New Jersey's. It is important that this be thoroughly reviewed and addressed if true.

Consider Multiple Mergers Under the Economic Development Authority

As was mentioned in the first section of this report, there are simply too many authorities. EDA provides a very good opportunity to cut down the number of authorities by consolidating authorities with similar missions under its umbrella.

While all policy recommendations regarding economic development are left to the Economic Development Subcommittee, this is a specific recommendation regarding consolidation of multiple authorities in an effort to save public dollars.

While the New Jersey Redevelopment Authority has an important mission, and seems to have had some laudable achievements, it seems a lack of coordination and some duplication of efforts could be resolved with a merger. Merging NJRDA with the EDA should save money, eliminate duplication and make it more likely that the mission will be accomplished. It would be important that the core mission of the Redevelopment Authority be protected with a merger.

The Capital City Redevelopment Corporation and the New Jersey Commission on Science and Technology also ought to be considered for consolidation under EDA. Since the Economic Development Authority consistently received high marks in our research, we believe the goals of NJRDA, CCRC and NJ Commission on Science and Technology can be accomplished under EDA's umbrella, thereby saving public dollars.

The Fort Monmouth Economic Revitalization Planning Authority may also be ripe for consolidation here, but it is not as clear cut given some differing needs and variety of factors. That said, it is worthy of consideration if public dollars can be saved.

The Housing and Mortgage Finance Agency Needs a Spending Review.

While The Transition DCA Subcommittee has taken the lead on reviewing NJHMFA policy and program issues, we have looked at it from a budgetary perspective.

Certain spending within HMFA, along with reports of duplicative staffing, all while additional staff is being requested, demand a further review by the incoming Administration.

As of 2009, NJHMFA has 296 employees. In the interest of not duplicating the Transition DCA Subcommittee's report, we will not here detail HMFA's growth in budget and employees over the years, but will simply note that NJHMFA has expanded significantly in recent years, including its staff expanding into a second Trenton building. Notwithstanding that recent growth, HMFA desires to hire additional staff, particularly in the legal and regulatory affairs area.

One program worthy of question within HMFA is a direct subsidy to single-family home purchasers, which reportedly amounts to a simple direct buy-down of the purchase price, at approximately \$60,000.00 to \$70,000.00 per home, for approximately 250 single-family homebuyers per year.

A number of questions immediately come to mind here:

- Can a more creative program be advised, that leverages financial resources, other than just a direct buy-down of the purchase price?
- How are the 250 lucky winners selected?
- Since the program can apply statewide, with 566 municipalities, 250 single-family purchase price buy-downs per year means that less than 1 house very two years will be financed in the average municipality – at a cost of over \$15 Million per year.

- One should question whether this is an appropriate use of \$60 Million over the next four years on a program that, on the average, will simply buy down the purchase price of less than 2 homes per municipality over that entire four-year period.

Also, there are reports of massive duplicative efforts in the NJHMFA bureaucracy, including, for example, mandatory inspections of the same multi-family housing units each year, by the NJHMFA Property Management Unit, the NJHMFA Tax Credit Unit, and the NJHMA Technical Services Unit. If true, this would indicate that HMFA is vastly over-staffed, and that the staff could be cut back if that kind of duplicate effort was curtailed. At the very least, it indicates that requests for more staff may need further examination.

As we think of bringing change here, it is important to note that NJHMFA is one of the rare authorities where the Governor can exert tremendous influence essentially from "day one." The Authority has nine total members, and five out of nine are Cabinet Members.

Make New Jersey Network Self-Reliant. Eliminate all state subsidies.

More than \$10 million of the \$16.8 million dollar budget of the New Jersey Public Broadcasting Authority is provided either directly by the state in terms of a subsidy or through in-kind services performed by the state. In order to save taxpayer dollars, a goal should be to make NJN self-reliant during the first term. It is possible, given the resources of this station, that it can subsist without taxpayer support. Outside experts with experience privatizing television stations should be asked to undertake a study and make recommendations as to how this can be accomplished.

Since 2002, outside accountants have also said the authority does not follow generally accepted accounting methods. While it seems the reason for this is far from nefarious, it also seems like it a company faced with this issue in the private sector would solve it quickly.

Audit the Schools Development Authority.

While the impact of SDA on education policy should be left to education experts on our subcommittee, the financial impact needs immediate review. Previously, this report recommended that audits be performed on numerous authorities. With \$12.5 Billion in bonds already authorized and another \$425 million requested, impending changes in staff leadership and a fiscal outlook that only keeps the authority solvent through March of 2010, this should be the first place the new governor's office audits. How this money has been spent is very important to know because this money was supposed to be invested in schools for the children of the state.

Given the current state of finances here, decisions will need to be made very soon to

- Continue all projects, meaning the issuance of \$4.35 billion in bonds
- Finish just the 1,620 projects currently under construction, at a cost of \$1.3 billion

- 695 projects would be suspended or forfeited meaning substantial lost sunk costs
- Cancel the program impacting over 1,800 projects and leaving 20 major facilities unfinished, in addition to legal exposure.

It should also be noted that non-project related costs seem excessive, such as rent exceeding \$2 million per year and employee parking costs in Trenton rising to \$390,000 annually.

New Jersey Transit Requires Early Attention from the Administration.

While the specific transportation policy recommendations will be left to the Transportation Subcommittee, the financial challenges facing New Jersey Transit require immediate attention.

With 270 million riders per year, New Jersey Transit is the 3rd largest public transportation agency in the United States. There are a host of issues that are very expensive and time-sensitive and deserve immediate attention.

The first is the ARC Tunnel, which is also a Port Authority issue. This \$8.7 billion project has budget ramifications for years to come at New Jersey Transit, the PANYNJ and state of New Jersey.

An impending time sensitive issue relates to the fiscal solvency of private ferry operators who require funding by March of 2010 to remain solvent. Approximately 30,000 New Jersey commuters now utilize the ferry system to cross into New York every day, and there should be attention given as to what would happen if the ferry system was no longer viable.

Also of great fiscal importance, NJT's FY2011 budget faces a shortfall due to the use of stimulus funds in FY2010.

PATCO's New Jersey projects must be addressed quickly by the Delaware River Port Authority.

As with other transportation authorities, policy implications will be left to the Transportation Subcommittee. From a financial perspective however, multiple projects important to South Jersey commuters are jeopardized by the state of the Transportation Trust Fund. PATCO's expansion in South Jersey will be a 5-7 year project and is broken down into three phases.

1. Light Rail from Camden to Glassboro.
2. Rapid bus transit along Routes 42 and 55.
3. Improved rail connection to Atlantic City and its airport.

The projected costs for these projects will be north of \$1.5 billion, likely considerably higher as the cost analysis is not fully complete. Other PATCO projects that require considerable funding are the rehabilitation of train cars and the rehabilitation of tracks on the viaducts and the Ben Franklin Bridge.

As with other authorities, they must evaluate the necessity of doing capital projects that are not directly related to safety or increased use. Now may not be the time to be thinking about expansion of systems that are already losing money in part because there are other transportation options.

Breaking News: The New Jersey Transportation Trust Fund is Broke.

Nothing else needs to be said here as the ramifications and solutions will best be left to another subcommittee. One point from our research though - the current board makeup seems overly focused on transportation interests and lacks financial expertise. The disastrous financial position of the TTF should be kept in mind when making future appointments.

The Passaic Valley Sewerage Commission Needs an Overhead Budget Review.

The Governor currently lacks veto authority over the Passaic Valley Sewerage Commission and does not have enough representation on the commission to affect change. It seems the internal overhead expenditures here deserve a thorough review based on our transition findings. It also seems the use of outside consultants, including attorneys and engineers should be reviewed as a cost-saving measure given the existence of in-house professionals.

Bring Budget Prioritization to the Atlantic City Convention and Visitors Authority.

People all over New Jersey are inundated with ads to go to Las Vegas, Foxwoods in Connecticut and even Pennsylvania for gaming. In a cursory review of their budget, the ACCVA actually spent 40% more on salaries and benefits (\$5.2 million) for its 69 employees in 2008 than it did on marketing Atlantic City (\$3.7 million). Perhaps a review of the workforce is in order given the lack of dollars spent on marketing.

That said, there are ways the Administration may be able to assist ACCVA in controlling overhead costs as well. Labor costs were described as inconsistently and excessively higher at the Boardwalk Hall and Convention Center, as compared with private national competition facilities, as well as those located in Atlantic City. It was reported that this labor cost disparity significantly increased during the current administration to appease labor. Leveling the playing field would increase the Authority's ability to compete for shows which otherwise cannot afford its facilities.

Eliminate Council on Alcoholism and Drug Abuse - Fold into Addiction Services in the Dept. of Human Services

Governor Corzine attempted this consolidation but met with serious opposition. The Council on Alcoholism and Drug Abuse gives out \$9 million in grants every year, and with that they have a constituency. Despite that constituency, the same functions can and should be performed by the Division of Addiction Services within the Department of Human Services.

Real cost-savings can occur here as there is a staff of nine with a payroll and benefits budget of approximately \$800,000. It seems the overhead could be eliminated through consolidation while the good that is done by the \$9 million in grants could be continued.

It is important to note that some at the Council on Alcoholism and Drug Abuse were very critical of the Division of Addiction Services during our review, perhaps due to Governor Corzine's attempt at consolidation.

Consider Eliminating Salaries for Commissioners.

Most commissioners on state authorities are unpaid. However, there are some exceptions, notably the Casino Redevelopment Authority which pays commissioners \$20,000 per year and the New Jersey Maritime Pilot and Docking Commission, which pays its six commissioners \$28,000 annually. (It should be noted, however, that the Maritime and Docking Commission is self-reliant and actually has returned its surplus to the state for general operations over the last five years.) Calling for this elimination across the board will save tax dollars and send a powerful signal about cost savings.

Higher Education Student Assistance Authority

This important authority was examined by the Education Subcommittee, so the important leadership and policy recommendations are left to their report. However, given the Governor-Elect's dedication to higher education in the state, as well as the sometimes controversial nature regarding loans and banks in this fiscal climate, it is imperative that HESAA be looked at immediately by the new administration, and constantly evaluated during the course of the Governor's tenure.

Analyze the South Jersey Port Corporation's Budget and Projects

It is clear that the South Jersey Port Corporation has money and the ability to spend it, as evidenced by the Paulsboro groundbreaking in 2009. While there is such a need for economic development at this time, it is important that the state's vision for economic development be enhanced by the South Jersey Port Corporation.

Fort Monmouth Needs Immediate Attention and Assistance.

Fort Monmouth is a potentially tremendous asset which will be given to us by the US government in about 18 months, but progress has been hampered by government inaction and inefficiency. If we don't have an organized effort and vision as to how to use that asset to create jobs and economic growth quickly, it will be nearly impossible for that region to recover from the losses it will realize by the closure of the fort.

Institute Best Practices.

A number of authorities do some things very well, but due to the quasi-independent nature of the authorities, sometimes best practices aren't shared with others where they can be helpful. For example, the Building Authority's effective use of shared services and strong financial model with accountability should be reviewed to determine where else this model could be employed. The Authority has been able to significantly minimize administrative and staffing costs by utilizing a shared service model for administrative functions. This model has enabled the Authority to consistently deliver projects on time and on budget despite the increase in the complexities of their projects.

The Catastrophic Illness in Children Relief Fund Deserves Support from the Front Office.

The fund has distributed \$124 million to families in need over the last 20 years while administrative costs have seemingly been kept in check. There are two places where the Administration can help the fund. First, there is a claim that \$5 million was diverted from this fund to the general fund in 2009. This should be audited as dedicated funds should not be taken without the proper course being followed. Secondly, their infrastructure is aging. A new database system will allow them to process requests more quickly and efficiently.

The Federal Government Must Be Asked to Fund Its Fair Share for the Delaware River Basin Commission.

DRBC is funded through annual contributions from its members, state and federal grants, project review fees, water-use charges, and fines. New Jersey contributed \$800,000 this fiscal year. These funds were appropriated from the state budget.

DRBC advised that the federal government has not contributed its share since 1997, which cumulatively totals \$7.8 million. While perhaps impacting the effectiveness of the DRBC's operations, the federal government's failure to contribute has not affected the other members' contribution amounts.

Clearly if the federal government were to make good on its obligations to the DRBC, not just for the current year but retroactively, it could save \$800,000 from the state's general budget. This benefit could be realized years into the future as well if our federal representatives can get these past obligations met.

The Garden State Preservation Trust Needs Direction Regarding the Recently Approved Open Space Monies.

They are responsible for managing and disbursing the constitutional dedication of \$98 Million per year for open space and historic preservation (from the Sales Tax) PLUS the \$400 Million just approved by voters in the 2009 Ballot Referendum. The strategy for the \$400 Million is of

immediate concern. They will likely make no effort or suggestion as to how this should be spent until the new Administration is seated.

Additionally, nearly a quarter-million dollars could be saved per the Garden State Preservation Trust. Their annual allocation of \$476,000 is nearly twice what they need to fund their overhead, per their own estimates.

The EnCap Issue Facing the New Jersey Meadowlands Commission Needs Immediate Attention.

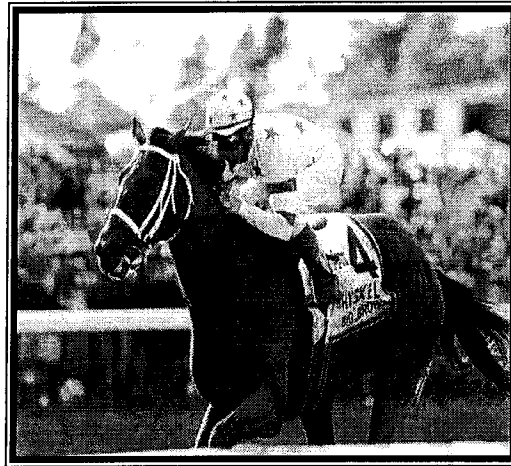
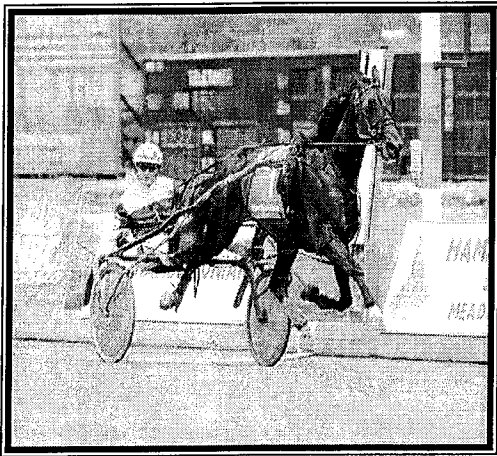
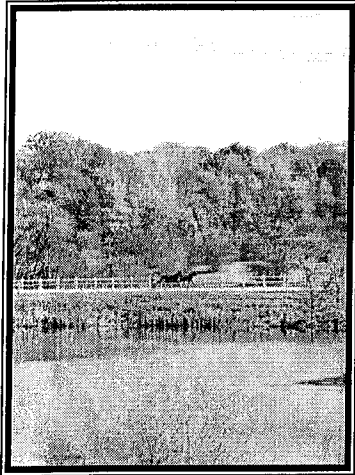
The Meadowlands Commission's major issue at the present time concerns the EnCap development, an 800-acre site that includes four former landfills. The planned redevelopment of the site had languished for years when the EnCap Company ran into substantial financial and other issues. The site is now being remediated by American Home Assurance in accordance with a performance bond that had been executed in the event that the redevelopment project stalled, which is exactly what happened.

NJMC is working on restructuring the financial arrangements with the banks involved with the project. NJMC must attract a new redeveloper for the project. NJMC will await guidance from the new administration with regard to these and other significant EnCap-related issues that arise.

RUTGERS

New Jersey Agricultural
Experiment Station

Impact of Slot Machines/Video Lottery Terminals (VLTs) on the Economy, Horse Racing and Breeding Industry, Agriculture and Open Space in States/Provinces where they Exist: Why is this Important for New Jersey?



Photos Courtesy of Ed Keys, USTA, Equi-Photo and Lisa Photo

Karyn Malinowski, Ph.D. and Ryan Avenatti, M.S.

Rutgers Equine Science Center
2009



Equine Science Center
Better Horse Care Through
Research and Education

Impact of Slot Machines/Video Lottery Terminals Executive Summary

The New Jersey equine industry is valued at \$4 billion and generates \$1.1 billion annually in positive impact on the New Jersey economy, is responsible for 13,000 jobs (7,000 jobs generated by racetracks and horse racing breeding and training operations), and pays an estimated \$160 million annually in federal, state, and local taxes (\$85 million generated by equine operations and owners and \$75 million generated by New Jersey racetracks). Contributing to the total economic impact are New Jersey's four racing venues (The Meadowlands, Freehold Raceway, Monmouth Park Racetrack, and Atlantic City Race Course), valued at \$502 million annually.

Regarding acres, 176,000 total acres support equine facilities; 96,000 of these acres are directly related to equine activities, 78,000 are devoted to pasture and hay production, with 46,000 additional acres producing hay for horses on non-equine-related operations. Equine-related acres represent more than one-fifth of the state's 790,000 acres in agriculture.

Regarding animals and operations, 42,500 equine animals are housed in New Jersey at 7,200 facilities. Of the 42,500 equine animals, 12,500 (nearly 30 percent) are in racing-related activities. These include 8,200 standardbreds and 4,300 thoroughbreds that are either actively racing or are racing breeding stock.

The installation of slot machines or video lottery terminals (VLTs) has proven to be a successful way to boost horse racing, specifically with enhanced purses and breeders awards in states/provinces where they are in place. Examples of these are: 1) the Delaware Certified Thoroughbred Horse Program whose intent is to contribute to the long-term economic prosperity of Delaware agriculture and encourage the preservation of Delaware farmland; 2) the establishment of the Pennsylvania Race Horse Development fund, within the state treasury, with the intent to further stimulate the viability and quality of racing; and 3) more than \$2.74 billion has been shared between racetrack owners and horsemen in the Ontario Lottery and Gaming Program. Over the eight year period between 1992 (pre-slots) and 2000 (post-slots) purses increased by 254% for standardbred horses and by 115% for thoroughbred horses in Ontario.

- In 2008, forty-four racetrack casinos in the United States generated \$6.19 billion in gross gaming revenues. Gross purses totaled \$135.3 million the year before slots were implemented at seventeen tracks in North America. In 2007, the same tracks had gross purses of \$295.2 million, a 118 percent increase.

- In states where slots exist:

Average daily gross slot terminal revenue at horse racing facilities is higher on racing days versus non-racing days; total number of race days, live racing handles on-track, total export or simulcast handles, and total purses increased. Also, state treasuries are receiving additional income from slot revenue to be used for a variety of programs, e.g. property tax relief and education.

- The past two Purse Enhancement Agreements from New Jersey casinos have attempted to maintain the purse structure at the Meadowlands Racetrack. In 2006, New Jersey led the nation in total purses paid for harness racing. However, in 2008, New Jersey ranked third behind New York and Pennsylvania for total purses paid.
- Off-track and internet wagering have been successful in New Jersey. However, only three of the 15 authorized off-track wagering centers have opened since first authorized in 2001. Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks.
- The Garden State stands to lose its premier agribusiness which generates \$780 million of economic impact annually, 7,000 jobs, \$110 million in federal, state and local taxes and 57,000 acres of working agricultural landscape and open space if racing-related activities leave New Jersey. These figures do not include the non-racing segment of the horse industry.
- The current business model which exists is no longer viable, with 2009 projections by the New Jersey Sports and Exposition Authority of losses of \$10 million and \$10.8 million for The Meadowlands and Monmouth Park racetracks, respectively.
- It is estimated that the combined impacts of existing and scheduled future machines in Pennsylvania and the New York City metropolitan area racetracks will reduce Atlantic City gross gaming revenue by as much as 12.3 percent. It was also projected that installation of video lottery terminals at three New Jersey racetracks would reduce Atlantic City gross gaming revenue by 1.8 percent.

The national economic downturn certainly has had an impact on household discretionary income available for gambling interests regardless of the outlet. Pari-mutuel wagering can no longer ensure racing's sustainability; nor can it fund the ever increasing costs of improving an aging plant infrastructure or with the promotion and marketing that needs to be conducted to introduce racing to a "new" generation of fans. These additional funds might be supplied by state funds as a direct subsidy, through continued Purse Enhancement Agreements from the Atlantic City casinos; or by increasing revenue by adding slot machines or video lottery terminals to New Jersey racetracks and providing a portion of that revenue for the horse racing and breeding industry.

The installation of video lottery terminals at New Jersey racetracks has the potential to be a "win-win" situation for both the racing and casino industries. The revenue would enhance the state budget significantly and provide capital for use by the horse racing industry to keep it competitive. Racinos would add jobs to the state, during construction and renovations of the racetracks as well as during operation. Video lottery terminals run by the operators of Atlantic City casinos would help these interests diversify sources of revenue.

Irrespective of the source of much needed revenue to ensure the future of racing in the Garden State, the racing industry needs to invest a portion of those dollars in things besides purses to ensure continued viability. These include: marketing of live racing and creation of a racing brand, creating innovative wagers, reductions in costs of regulating racing and the role of the New Jersey Racing Commission, investment in capital improvements and maintaining the integrity of racing, including research to benefit the equine athlete.

It was the intent of this paper to provide an overview of what slot machines or video lottery terminals have done for the economy, horse racing and breeding industry, and agriculture in states and provinces where they exist to assist policy decision makers in the state as they deliberate racing's future. It is the belief of these authors that the horse racing and breeding industry are commodities worth saving in New Jersey. The issue at hand is not an emotional one driven by the fact that the state animal is the horse which has a long and prominent history in New Jersey's agricultural and sports businesses. Horse racing is the economic driving engine of the entire horse industry in the state and is extremely valuable to the quality of life in the form of agricultural working landscape which benefits all residents of New Jersey.

Background

In 2006, at the request of the Hall Institute of Public Policy, the director of the Rutgers Equine Science Center was invited to address the future of horse racing in New Jersey and economic development for the equine industry in a white paper. The review stated that while the horse industry in New Jersey was an important agricultural commodity in the state, it was not without its challenges. At that time the New Jersey horse racing industry was facing extreme pressures that challenged its sustainability. The Equine Science Center in fulfilling its mission to ensure the well-being of horses and the equine industry, took the lead to address the future of horse racing in New Jersey.

This initiative began in July of 2003, when the Center hosted a blue-ribbon panel of horse racing industry leaders, legislators and government officials interested in the preservation of the entire horse industry, including the horse racing sector in New Jersey. The roundtable discussion primarily focused on three essential areas: 1) policy and regulation of racing, 2) marketing and growth of racing, and 3) operations and management of racing (Malinowski, 2006).

In July of 2006 the Center undertook the challenge of conducting a true economic impact assessment of the entire New Jersey equine industry. The purpose of the study was to assess the economic and land use impact of horses to the state, begin regular benchmarking of the equine industry, profile all components of the state's equine industry (including pleasure and sport/recreation), and to go beyond a simple enumeration of the industry. A related motivation was to provide insight into the number of dollars, jobs, and agricultural acres that would be put at risk if the state's four racing venues were to disappear. This exercise was useful to be able to trace out and communicate economic relationships and multiplier effects that might otherwise be ignored in state level policy discussions (Gottlieb, et al., 2009).

The study found that the New Jersey equine industry was valued at more than \$4 billion and generated \$1.1 billion annually in positive impact on the New Jersey economy, was responsible for 13,000 jobs (7,000 jobs generated by racetracks and other racing-related segments such as breeding and training of racehorses), and paid an estimated \$160 million annually in federal, state, and local taxes (\$85 million generated by equine operations and owners and \$75 million generated by New Jersey racetracks).

Regarding the acres to support equine facilities, 176,000 total acres were reported by equine operations; 96,000 of these acres were directly related to equine activities, 78,000 were devoted to pasture and hay production, with 46,000 additional acres producing hay for horses on non-equine-related operations. Equine-related acres represented more than one-fifth of the state's 790,000 acres in agriculture. A remarkable number of today's horse farms previously were other types of agricultural operations. For example, 24 percent used to be cattle, dairy, poultry or other livestock facilities; 13 percent were in field crops, fruits or vegetables; and 18 percent were used for other traditional agricultural activities.

Regarding animals and operations, 42,500 equine animals were housed in New Jersey at 7,200 facilities. Of the 42,500 equine animals, 12,500 (nearly 30 percent) were in racing-related activities. These included 8,200 standardbreds and 4,300 thoroughbreds that were either actively racing or were racing breeding stock. The equine-related assets were valued at \$4 billion, which was broken down into \$582 million in equine animals, \$2.9 billion in land and buildings (not including racetracks), and \$476 million in racetrack assets (land and buildings).

In addition, the economic impact of New Jersey's racing venues (The Meadowlands, Freehold Raceway, Monmouth Park Racetrack and Atlantic City Race Course), which were surveyed separately, contributed an additional \$502 million annually (Gottlieb, et al., 2007).

Far from an industry that some outsiders felt was dying, the study found that the equine industry was very much alive and well. However, it also suggested two very important points: 1) the racing subset is an economic driver for the entire equine industry and; 2) since it is no secret racing is facing tough competition from neighboring states that have added gaming operations to their racing venues – any further erosion of racing in New Jersey could have disastrous consequences for the state's economy and the rest of the equine industry.

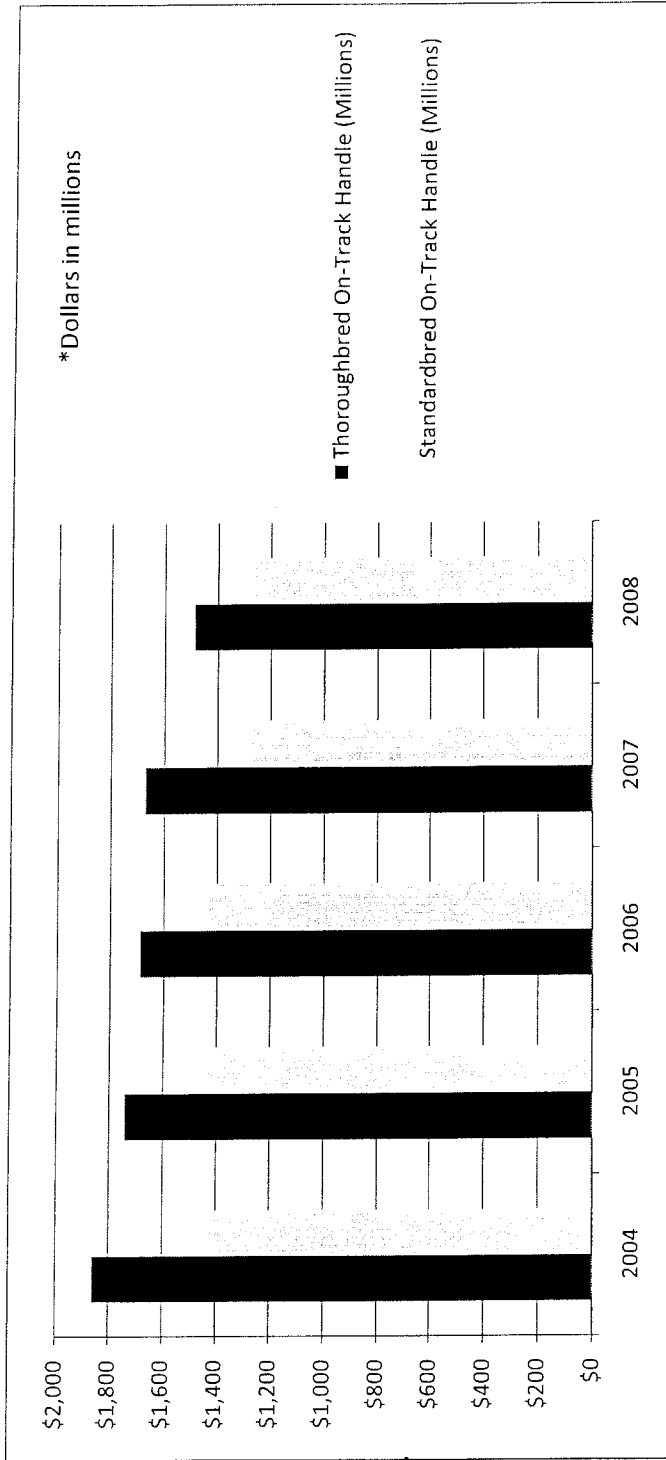
It was also suggested that revenue from slot machines or video lottery terminals (VLTs) would provide direct benefits to the economy, racetracks, horse owners, breeders and trainers, and track attendees. The state/province would have a revenue source for resident tax relief, growth of agribusiness, travel and tourism, and would experience a ripple effect to consumer economy. Tracks would be able to make capital improvements that were long overdue and would have the opportunity to partner with established gaming companies which are highly successful at marketing their product. Horsemen and women would earn more dollars from enhanced purse structures, and owners and breeders would benefit from an enhanced Sire Stakes Program and Breeders Funds (Malinowski, 2006).

It was the objective of this paper to review what is now known about the impact that slot machines and video lottery terminals have had on the economy, horse racing and breeding activities, and agriculture and open space in states and provinces where they exist. It was also the authors' purpose to assess the current status of New Jersey's gaming industries and to project the impact that will be felt on the aforementioned parameters in the "Garden State" if horse racing were to cease to exist in New Jersey.

What are slots doing for horse racing in other states/provinces?

The status of horse racing in New Jersey is not unique in its decline and questionable sustainability. In North America the trend of on-track handle and attendance and parameters which measure the quality of the racing product (such as field size, number of live races, driver and jockey profiles, etc.) mirrors what is happening in New Jersey (Figure 1). The installation of slot machines or VLTs has proven to be a

Figure 1: Trends in On-Track Handle at U.S. Thoroughbred and Standardbred Tracks



Source: Jockey Club Online Factbook, Harness Tracks of America Quarterly Report

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successful way to boost horse racing, specifically with enhanced purses and breeders awards, in states/provinces where they are in place. A recent report on the impact of 17 North American racinos (racetracks with slot machines) on purse money available stated that gross purses totaled \$135.3 million the year before slots were implemented at the respective tracks. In 2007, the same tracks had gross purses of \$295.2 million, a 118 percent increase (Kyle, 2008).

In 2008, forty-four racetrack casinos in the United States generated \$6.19 billion in gross gaming revenues (a 17.2 percent increase over 2007); \$2.59 billion in direct gaming taxes to state and local governments, and employed over 29,000 people. The racetrack casino market experienced growth, as a whole, even in view of a tough economic climate. The bulk of industry growth between 2007 and 2008 was due to the opening of new properties in Pennsylvania and Indiana. Pennsylvania experienced the largest percentage increase in gross gaming revenue for the period of 50.3 percent. New York experienced an increase of gross gaming revenue from 2007 to 2008 of 14.4 percent and Empire City at Yonkers Raceway in New York was the top racetrack casino market in the United States, grossing \$486.46 million in gaming revenue in 2008. Six of the top ten racetrack casino markets in the nation are located in the northeast region in close proximity to New Jersey; in New York, Pennsylvania, and Delaware (Table 1; American Gaming Association, 2009).

Table 1: 2008 Top Ten Racino Markets

Gross Gaming Revenue in Millions	
1. Yonkers, NY	\$ 486.46
2. Charles Town, WV	\$ 454.01
3. Providence, RI	\$ 407.50
4. Bensalem, PA	\$ 345.50
5. Dover/Harrington, DE	\$ 335.63
6. Chester, PA	\$ 328.44
7. Delaware Park/ Wilmington, DE	\$ 253.29
8. Chester, WV	\$ 251.21
9. Meadow Lands, PA	\$ 244.05
10. Broward County, FL	\$ 230.21

Source: American Gaming Association, 2009

Delaware

Delaware was the first to introduce slot machines at race tracks in 1994, in an effort to salvage horse racing. Total gross purses in Delaware were around \$650,000 before slot machines and now are more than \$35 million annually. Delaware law allocates revenue from slot machines as follows: 35 percent to the state, 48 percent to the racetracks, 11 percent to purses and 6 percent to slot machine vendors (Ellis, 2003). As an example, at Delaware Park (a thoroughbred/arabian) track, slot machines have become

a hit any business would consider to be phenomenal, generating \$300 per day per machine with 715 machines. This equates to \$200,000 daily or \$73 million annually.

At Delaware's harness track, Dover Downs, slots have been the savior of the small track by raising purses from \$10,000 per day to \$150,000 per day. This jump has allowed Dover to become competitive with other tracks in its ability to draw horsemen and women and quality horses. Handle and purses paid at Dover Downs and Harrington Raceway in 2008 are shown in Table 2. Eighty and one-half percent of the handle was on the export of the tracks' races to other outlets; 16.7 percent was on-track handle of imported simulcast races; and 2.8 percent was handle on-track on live races, suggesting the majority of dollars wagered were in other states at outlets wagering on the Delaware product. Total harness purses paid in 2008 were \$46.3 million (Delaware Harness Racing Commission, 2008).

Table 2: 2008 Handle and Purses - Dover Downs and Harrington Raceway

Handle on Track (Live Races)	\$ 5,463,368.00	2.80%
Handle on Track (Simulcast Races)	\$ 32,531,224.00	16.70%
Total on Track Handle (Live + Simulcast)	\$ 37,994,592.00	19.50%
Export Handle on Live Races	\$ 156,824,045.00	80.50%
Total Handle	\$ 194,818,637.00	-
Total Purses Paid	\$ 46,363,406.00	-

Source: Delaware Harness Racing Commission, 2008

For thoroughbred and arabian racing, the Delaware Racing Association saw a tremendous upward trend in purses paid, rising from \$7.9 million in 1994 before the installation of slots, to a high of \$42.5 million in 2002 and totaling \$34.8 million in 2008. Average purses paid per day followed a similar trend, beginning pre-slots in 1994 at \$58,642 per day, to the high of \$301,342 per day in 2002 and averaging \$256,098 in 2008 (Table 3). This "leveling off" of purses paid can be expected, and has been seen in other states where the purse structure is tied to slot revenue, as competition for the gambling dollar increases in surrounding states resulting in reduced income to individual slot machines.

While wagering trends reflect the national decline of live on-track wagering, they also reflect the impact that the installation of slot machines had on the quality of Delaware horses (Table 4). In 1994, 51 percent of wagering at Delaware Park was on the imported or foreign product via simulcast signals from other tracks; 30.5 percent was on live handle on track; and 18 percent was on the exported product via simulcast out to other tracks. In 2008, one sees a different picture reflecting the increased quality of the Delaware exported product. Seventy percent of money wagered in 2008 was on the exported signal from Delaware Park to other simulcast outlets; 25 percent was on the imported product from other tracks; and 5 percent was wagered live on-track (Delaware Thoroughbred Racing Commission, 2008).

Table 3: Delaware Purse Distribution Trends - Thoroughbreds and Arabians

Delaware Racing Association - Purses Paid									
Year	Live Race Days	Thoroughbred	Arabian	Total Purses	Average Thoroughbred/Day	Average Arabian/Day	Average Purse/Day		
1994	135	\$ 7,639,238	\$ 277,503	\$ 7,916,741	\$ 56,587	\$ 2,056	\$ 58,643		
1995	129	\$ 10,041,651	\$ 350,500	\$ 10,392,151	\$ 77,842	\$ 2,717	\$ 80,559		
1996	139	\$ 20,922,178	\$ 810,300	\$ 21,732,478	\$ 150,519	\$ 5,829	\$ 156,349		
1997	149	\$ 26,115,489	\$ 1,347,659	\$ 27,463,148	\$ 175,272	\$ 9,045	\$ 184,316		
1998	143	\$ 27,377,338	\$ 1,344,467	\$ 28,721,805	\$ 191,450	\$ 9,402	\$ 200,852		
1999	143	\$ 33,129,264	\$ 1,911,785	\$ 35,041,049	\$ 231,673	\$ 13,369	\$ 245,042		
2000	149	\$ 36,478,964	\$ 1,529,950	\$ 38,008,914	\$ 244,825	\$ 10,268	\$ 255,093		
2001	139	\$ 35,283,541	\$ 1,602,350	\$ 36,885,891	\$ 253,838	\$ 11,528	\$ 265,366		
2002	141	\$ 40,846,211	\$ 1,643,050	\$ 42,489,261	\$ 289,689	\$ 11,653	\$ 301,342		
2003	141	\$ 32,879,917	\$ 1,996,310	\$ 34,876,227	\$ 233,191	\$ 14,158	\$ 247,349		
2004	134	\$ 33,909,303	\$ 1,948,800	\$ 35,858,103	\$ 253,055	\$ 14,543	\$ 267,598		
2005	139	\$ 37,689,765	\$ 1,919,550	\$ 39,609,315	\$ 271,149	\$ 13,810	\$ 284,959		
2006	136	\$ 34,015,629	\$ 1,855,690	\$ 35,871,319	\$ 250,115	\$ 13,645	\$ 263,760		
2007	135	\$ 36,316,497	\$ 1,843,663	\$ 38,160,160	\$ 269,011	\$ 13,657	\$ 282,668		
2008	136	\$ 33,029,292	\$ 1,800,163	\$ 34,829,455	\$ 242,862	\$ 13,236	\$ 256,098		

Source: Delaware Thoroughbred Racing Commission, 2008

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Table 4: Delaware Wagering Trends

Delaware Racing Association Handle Information 1993 - 2008							
Year	Live Handle on Track	% of Total	Simulcast De. Pk out	% of Total	Simulcast In (Other Tracks)	% of Total	Total
1993	\$ 46,305,350	50.03%	\$ -	0.00%	\$ 46,244,189	49.97%	\$ 92,549,539
1994	\$ 35,610,116	30.53%	\$ 21,422,110	18.37%	\$ 59,612,946	51.11%	\$ 116,646,172
1995	\$ 27,251,269	15.15%	\$ 64,589,960	35.91%	\$ 88,014,756	48.94%	\$ 179,855,985
1996	\$ 28,442,006	12.21%	\$ 107,368,067	46.08%	\$ 97,200,658	41.72%	\$ 233,010,731
1997	\$ 30,379,849	10.10%	\$ 177,445,871	59.00%	\$ 92,931,297	30.90%	\$ 300,757,017
1998	\$ 25,012,926	7.82%	\$ 205,023,148	64.14%	\$ 89,635,910	28.04%	\$ 319,671,984
1999	\$ 26,313,188	7.06%	\$ 254,768,856	68.33%	\$ 91,778,412	24.61%	\$ 372,860,465
2000	\$ 25,455,446	6.63%	\$ 264,338,726	68.80%	\$ 94,421,101	24.58%	\$ 384,215,273
2001	\$ 22,965,700	6.09%	\$ 259,539,722	68.84%	\$ 94,534,804	25.07%	\$ 377,040,226
2002	\$ 22,228,588	5.98%	\$ 260,456,580	70.09%	\$ 88,889,344	23.92%	\$ 371,584,512
2003	\$ 19,671,990	5.61%	\$ 252,378,766	71.94%	\$ 78,743,432	22.45%	\$ 350,794,188
2004	\$ 18,233,483	5.68%	\$ 230,272,674	71.77%	\$ 72,348,635	22.55%	\$ 320,854,792
2005	\$ 18,569,775	6.08%	\$ 216,709,900	70.90%	\$ 70,388,340	23.03%	\$ 305,668,015
2006	\$ 17,167,868	5.77%	\$ 211,195,699	71.01%	\$ 69,059,698	23.22%	\$ 297,423,265
2007	\$ 14,419,478	5.25%	\$ 198,360,276	72.16%	\$ 62,116,689	22.60%	\$ 274,896,443
2008	\$ 11,915,673	5.39%	\$ 153,917,895	69.64%	\$ 55,184,297	24.97%	\$ 221,017,865

Source: Delaware Thoroughbred Racing Commission, 2008

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Delaware also has established an enhancement awards program for certified thoroughbred horses. The Delaware Thoroughbred Horsemen's Association contributes \$500,000 per year to the program from the horsemen's purse fund which is matched by \$500,000 from the state of Delaware. The intent is to contribute to the long-term economic prosperity of Delaware agriculture and encourage the preservation of Delaware farmland (Delaware Thoroughbred Horsemen's Association, 2009). The program is not aimed directly at breeders of thoroughbred horses in Delaware, therefore the numbers of stallions standing, mares bred and foals born have not increased. However, the program certainly attracts owners of horses stabled in the state.

In 2009 Delaware approved sports betting at its racetracks in an attempt to remain competitive with neighboring states for the gaming dollar.

Ontario

The picture of the Ontario horse racing industry before slot machines was not very bright, with little hope for permanent stability. Purses were not rising sufficiently to enable the industry to be competitive for the Ontario gaming or entertainment dollar. Measurements of the quality of the horse racing product such as field size, number of live races, individual horses and number of starters all were declining (Econometric Research Limited, 2005).

Prior to the introduction of slots revenue, both racetracks and horsemen were experiencing financial hardship. A racing simulcast system was proposed, concentrating on the big tracks such as Woodbine and Mohawk, in Toronto, at the expense of the smaller tracks. The estimation of industry size was that harness racing would have been only 35-65 percent of its present size if slot revenue had not been implemented (Brinkman and Weersink, 2004).

The introduction of slots in 1999 immediately reversed the decline of horse racing with an improvement of horse racing indicators such as increased purses and later increased wagering. Slot revenues certainly gave horse racing in the province a shot in the arm, but one must question the sustainability of these changes. New trends emerging include the decline of wagering on live races, the repatriation of Ontario horses that left the province when purses were low, the extensive use of foreign products, the inordinate dependence of purse structure at small tracks on slot revenues, and the increased participation by higher quality horses from outside the region; many of which are owned by a small number of owners, some of which are from outside Ontario (Econometric Research Limited, 2005).

In 2000, the Ontario Casino Corporation and Ontario Lottery Corporation merged to form the Ontario Lottery and Gaming Corporation (OLG). Since the beginning of the OLG program in 1998 more than \$2.74 billion has been shared between racetrack owners and horsemen. Tracks and horsemen share 20 percent of gross slot machine revenue, split equally between the two groups (OLG, 2009). In the elegant study by Econometric Research Limited, 2005, a number of emerging trends in the horse racing industry were

outlined after the introduction of slot machines at racetracks in Ontario in 1999. The research group admitted that it was difficult to disentangle the effects of technological change from those of slot revenue and that the market area of any racetrack was a thing of the past.

The primary objective of the Econometric Research study was to explore the impact of the implementation of slot machines at racetracks and the resulting slot revenues on individual segments of the racing industry and beyond to the agricultural sector as well.

Shown in Table 5 is an overview of industry benchmarks outlining changes in racing variables pre- and post- introduction of slots at racetracks in Ontario. The number of racing days, number of races, and number of individual horses, for both standardbreds and thoroughbreds, increased after 1999. The mainstay of the horse racing industry is the purse structure. Owners, trainers and hence, horses follow the higher purses which represent the potential for increased purse earnings by the owners. Over the eight year period between 1992 (pre-slots) and 2000 (post-slots) purses increased by 254 percent for standardbred horses and by 115 percent for thoroughbred horses in Ontario. In 2003 purse growth for both breeds began to decline. Reasons included: no new tracks introduced slot machines, existing slot earnings per machine leveled off and the possible cannibalization of pari-mutuel wagering by slots.

In Ontario wagering remained unchanged for the pre-slot period of 1992-1998 for standardbred horses and increased slightly for thoroughbreds. Post-slot implementation, total wagering on standardbred and thoroughbred horses declined. The disconnect between wagering and purses widened in 2003 because of cannibalization by slots and loss of churn. In 2004, wagering on standardbred races increased by 2.5 percent; while wagering on thoroughbred horses decreased 8.4 percent. This decline was partly explained by the widespread use of illegal wagering outlets outside the pari-mutuel system through off-shore accounts.

Average field size per track is a critical indicator of the attractiveness of a race. In Ontario this remained unchanged from 1992-1998 but increased substantially thereafter; ranging from 7.72 in 1992 to 8.17 in 2004 for standardbred horses. Average field size for thoroughbred horses actually declined during the period 1992-1998, and declined further in 2000, but rebounded in 2001, and experienced continuous increases during the period 2002-2004.

Wagering on live races for both standardbred and thoroughbred horses has declined while wagering at remote places and over the internet and telephone has increased. These trends have been seen all over North America as technology and innovation continues to impact live handle at racetracks.

The province of Ontario has been challenged by the infusion of foreign products. This is reflected in the fact that slot revenue enhanced purses have attracted foreign horses and that simulcast signals from foreign tracks are invading the total wagering

Table 5: Ontario Racing Industry Benchmarks

Year	Racedays, Live Races, Starters, and Individual Horses						Purses (thousands)			
	Racedays		Number of Races		Starters		Individual Horses			
	Standardbred	Thoroughbred	Standardbred	Thoroughbred	Standardbred	Thoroughbred	Standardbred	Thoroughbred		
1992	1,151	235	12,020	2,310	94,337	20,444	8,647	3,097	\$ 39,851	\$ 41,545
1993	1,085	237	11,275	2,352	88,513	20,647	8,266	3,117	\$ 36,648	\$ 38,538
1994	1,206	279	12,321	2,611	98,278	20,551	7,564	2,767	\$ 55,541	\$ 40,809
1995	1,169	291	12,195	2,700	98,463	20,718	7,396	2,770	\$ 69,862	\$ 50,339
1996	1,182	296	12,103	2,699	99,307	21,138	7,417	2,917	\$ 69,306	\$ 59,975
1997	1,108	278	11,558	2,549	94,237	20,087	7,178	2,739	\$ 67,195	\$ 44,474
1998	1,192	246	12,258	2,240	98,373	17,327	7,371	2,621	\$ 71,355	\$ 47,092
1999	1,237	272	13,066	2,470	105,137	18,599	7,907	2,817	\$ 89,880	\$ 61,284
2000	1,306	267	14,665	2,514	121,844	20,024	9,180	3,176	\$ 141,425	\$ 89,387
2001	1,364	281	15,672	2,729	130,559	22,475	9,908	3,619	\$ 169,076	\$ 101,364
2002	1,396	282	16,435	2,722	136,999	22,580	10,300	3,786	\$ 189,042	\$ 115,688
2003	1,378	276	16,615	2,667	139,114	22,167	10,649	3,930	\$ 184,839	\$ 115,443
2004	1,424	248	16,881	2,328	140,766	19,936	11,027	3,728	\$ 171,293	\$ 98,721

Source: Econometric Research Limited, 2005

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market share. Both suggest that foreign products are augmenting local products, but one must realize the impact that the stabling of foreign horses in Ontario had on the local agricultural links of the province.

An expected outcome of a slot revenue enhanced purse structure is the wider spread and disconnect between live wagering and purses. The share of purses as a portion of total wager increased sharply in 1999 and thereafter as slot revenues accumulated at tracks, and as part of these revenues were allocated for purses (Figure 2). The diversion trend between purses and wagering is expected to become more pronounced as purses (especially at smaller tracks) become more dependent on slot machines than on live handle. One must be aware that the negative correlation between live wagering and purse structure will challenge the sustainability of horse racing as live racing is increasingly overtaken by alternative gaming and betting outlets.

Stallion and yearling prices ultimately gauge the demand for the primary products of the racing industry. The breeding segment of the industry also represents a major portion of the agricultural component of the horse racing industry. There is no mistake that the introduction of slots in Ontario has invigorated the racehorse breeding industry for the period 1999-2004. It is also clear the upward trends in yearling and stallions sales are slowing down (Econometric Research Limited, 2005).

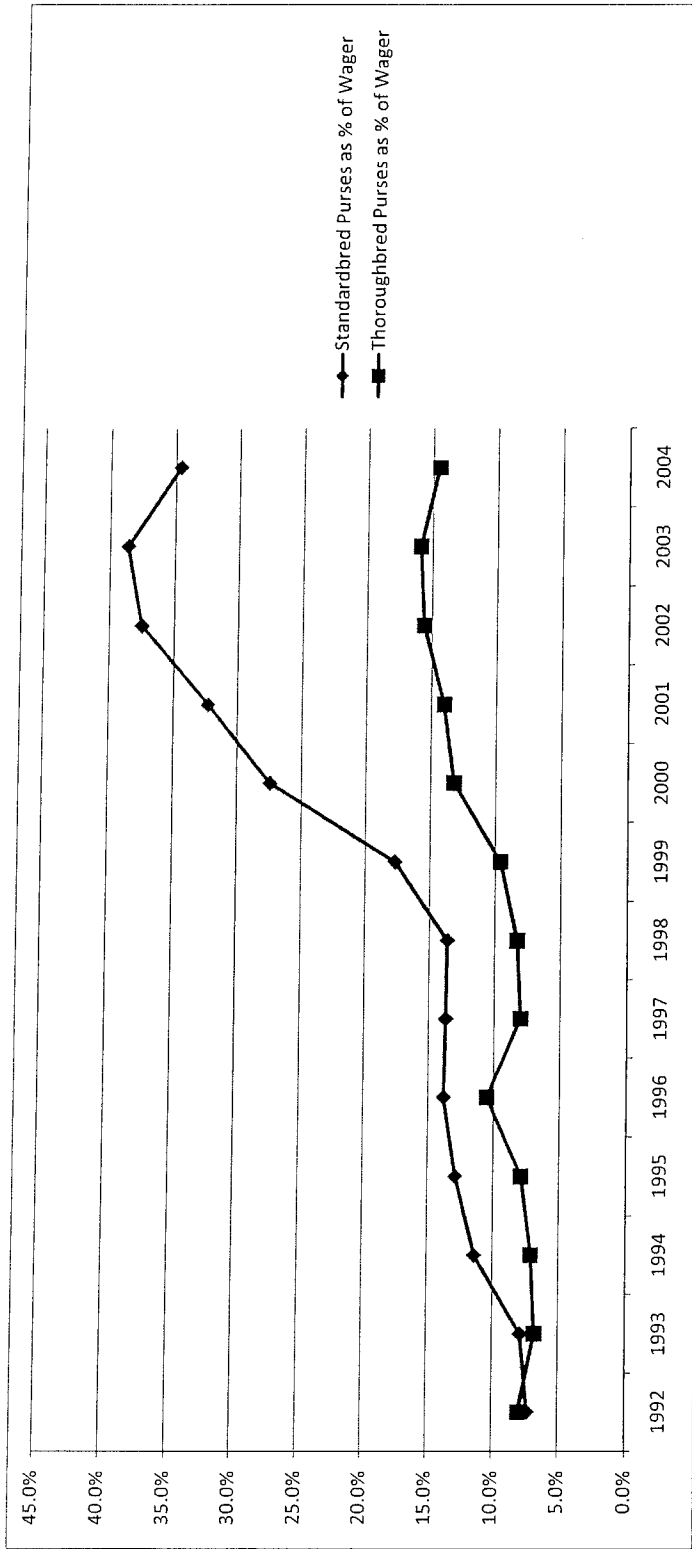
Pennsylvania

The Pennsylvania Gaming Control Board recently released its second Pari-Mutuel Wagering Benchmark Report which details the impact of slot machine revenue (2006-2008) on the state economy and horse racing industry in Pennsylvania. The positive impact is staggering. The report compares the status of pari-mutuel wagering for the years 2006, 2007, and 2008. It focuses on the impact of slot revenue on the various indicators of horse racing health such as number of race days, purse amounts, racing handle, and the export value of live racing from Pennsylvania tracks to other venues inside and outside of the state (Reuters, 2009).

As an example, of the impact of slot machines in Pennsylvania, purses at Philadelphia Park have increased 100 percent in five years. Purses pre-slots averaged \$120,000 per day and now are \$240,000 per day. Horse racing receives 12 percent of the gross slot revenue; the state gets 34 percent, the local municipality four percent, the Economic Development and Tourism Fund five percent and the track 45 percent (Jerardi, 2009).

The installation of slot machines resulted in the establishment of the Pennsylvania Race Horse Development fund within the state treasury, with the intent to further stimulate the viability and quality of racing. Each active and operating licensed gaming entity pays a daily assessment into this fund based on a percentage of each entity's gross terminal revenue.

Figure 2: Share of Purses as a Portion of Total Wager in Ontario



Source: Econometric Research Limited, 2005

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Pursuant to Pennsylvania law, the distributions to licensed racing entities from the fund are allocated as follows:

- Eighty percent is deposited weekly into a separate, interest bearing purse account to benefit horsemen. These funds are combined with funds from existing purse agreements to fund purses for live races in agreement with what had been negotiated with horsemen.
- Sixteen percent is deposited monthly into the Pennsylvania Breeding Fund of the Race Horse Industry Reform Act for thoroughbred tracks.
- Eight percent is deposited monthly into the Pennsylvania Sire Stakes Fund and eight percent into the Pennsylvania Standardbred Breeders Development Fund; as defined in the Race Horse Industry Reform Act.
- Four percent is used to fund health and pension benefits for members of horsemen's organizations (Pennsylvania Gaming Control Board, 2009).

Highlights of the Gaming Control Board report include:

- In 2008, average daily gross slot terminal revenue at horse racing facilities was 11.1 percent higher on racing days versus non-racing days;
- In 2008 there were seven slots facilities in operation which collectively contributed \$193 million to the Race Horse Development Fund, a \$69.2 million increase over 2007;
- Total number of race days increased by 11.8 percent from 838 race days in 2007 to 937 race days in 2008;
- Total live racing handle on-track increased by 5.7 percent from \$41.3 million in 2006 to \$43.6 million in 2008;
- Total export or simulcast handle increased by 19.1 percent from \$545.5 million in 2007 to \$649.8 million in 2008;
- Total purses increased by 39.3 percent from \$144.3 million in 2007 to \$201.1 million in 2008.

These highlights reflect an increased quality of racing in Pennsylvania as evidenced by the increased number of race days, purse structure and most notably the increase in on-track live handle (Table 6).

Table 6: Pennsylvania Racing Summary

Year	Race Days	Total Live Races	Purses Paid	Live Racing Handle
2006	756	7958	\$ 62,266,829	\$ 580,253,722
2007	838	9153	\$ 117,212,127	\$ 625,302,661
2008	937	10578	\$ 177,911,864	\$ 729,303,626

Source: Pennsylvania Gaming Control Board, 2009

Gary Sojka (a Gaming Control Board member and agriculturalist) stated, "The improvement of our racing industry, spurred by the tremendous success of legalized slots

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gaming, has a direct impact on farmland preservation and a beneficial trickle-down on the entire agricultural community in the Commonwealth,” (Reuters, 2009).

A recent report by Thalheimer, in agreement with that seen in Pennsylvania, displayed the symbiotic relationship between race tracks and casinos. Casino revenue was highest when live racing was scheduled, than during simulcast races, and lowest when racing was closed. This report suggests that the attraction of racing lures more patrons to play slot machines (Thalheimer, 2008).

New York

The picture of horse racing for the period 2003-2008, in New York, is shown in Table 7. On-track handle continued to decline while off-track wagering remained relatively steady. On-track wagering made up 26 percent of the total handle, when compared to OTB handle, in 2003, and made up 25 percent of the total handle in 2008. What could be interpreted as an increase in quality in horses racing at New York tracks after the introduction of video gaming machines (VGMs), is demonstrated by the fact that the percentage of total pari-mutuel handle at New York thoroughbred and harness tracks from live handle increased over the period, being 56 percent in 2003 and 2004, 61 percent in 2005 and 2006, and 57 percent in 2007 and 2008.

Purses increased for both thoroughbred and harness horses during the period, with harness purses reflective of the addition of VGM revenue. Purses for harness horses increased by 49 percent between 2003 and 2006 and displayed another significant jump (79 percent) between 2006 and 2008 which is most likely influenced by the influx of slot revenue due to the re-opening of Yonkers Raceway in the fall of 2006 (Table 8; New York State Racing and Wagering Board, 2008).

A very descriptive look at the New York picture is reflected in the figures from Yonkers Raceway for the first 22 weeks of 2009. Total dollars available for the purse account from racing was \$4,052,136; that available due to VGM revenue was \$18,562,226 (Wittstruck, 2009). The introduction of video gaming machines at Yonkers Raceway has enabled the track to be competitive with the Meadowlands Racetrack in New Jersey and Mohawk and Woodbine in Ontario! MGM Mirage has partnered with the New York Racing Association to build and operate a \$100 million racino at Aqueduct Racetrack in Queens; another gaming venue in close proximity to New Jersey.

Total purses for the New York Sire Stakes for 2009 will be \$16 million; \$1 million higher than previously expected due to increased revenues from video gaming machines at New York State harness tracks (USTA, 2009).

Table 7: New York Parimutuel Handle

Year	Total Parimutuel Handle: Racetracks and Off-Track Betting					Total Handle in NYS
	NYS Tracks' Live Handle	NYS Tracks' Simulcast Import Handle	Total at NYS Racetracks	Total OTB Handle		
2003	\$ 401,072,456	\$ 324,595,748	\$ 725,668,204	\$ 2,022,452,158	\$	\$ 2,748,120,362
2004	\$ 378,536,148	\$ 293,996,186	\$ 672,532,334	\$ 2,045,633,235	\$	\$ 2,718,165,569
2005	\$ 355,664,040	\$ 227,287,191	\$ 582,951,231	\$ 2,061,572,061	\$	\$ 2,644,523,292
2006	\$ 330,035,765	\$ 209,593,854	\$ 539,629,619	\$ 2,057,021,055	\$	\$ 2,596,650,674
2007	\$ 353,012,828	\$ 269,281,021	\$ 622,293,849	\$ 1,984,962,520	\$	\$ 2,607,256,369
2008	\$ 339,761,784	\$ 264,143,226	\$ 603,905,010	\$ 1,847,166,684	\$	\$ 2,451,071,694

Source: New York State Racing and Wagering Board, 2008

Table 8: New York Purse Structure

Year	Standardbred	Thoroughbred	Total
2003	\$ 35,157,037	\$ 125,640,552	\$ 160,797,589
2004	\$ 36,644,971	\$ 131,564,811	\$ 168,209,782
2005	\$ 35,745,764	\$ 132,634,673	\$ 168,380,437
2006	\$ 52,586,361	\$ 126,821,578	\$ 179,407,939
2007	\$ 94,301,593	\$ 135,386,278	\$ 229,687,871
2008	\$ 94,179,537	\$ 138,485,636	\$ 232,665,173

Source: New York State Racing and Wagering Board, 2008

Maine

In Maine, purses more than doubled at both race tracks, race dates have increased and the quality of horses has improved since a racino opened in the fall of 2005 at Bangor Raceway. Through 2008, Hollywood Slots, owned by Penn National Gaming has filtered \$21.2 million into harness racing and \$56.9 million in gaming taxes to the state. Fifty-one percent of every dollar wagered at the racino goes to the state in gaming taxes. From that revenue, a portion gets filtered back into harness racing; 10 percent purses; 4 percent to encourage racing at commercial tracks; 3 percent to Sire Stakes purses; 3 percent to support agricultural fairs; and 2 percent to support off-track wagering facilities.

The Standardbred breeding business has benefited from slot revenue as well. In 2002, 222 mares were bred in Maine. Number of mares bred increased to 299 in 2004 and reached 402 in 2007 (Menendez, 2009).

The impact of slot revenue on the breeding and agricultural segments of the horse racing industry is shown in Table 9. In all states with enhanced purse structures, the increase in number of stallions standing and mares bred is evident.

Status of New Jersey Gaming Industries

The New Jersey race horse industry has been severely impacted since the introduction of the state lotteries in 1970 and casino gaming in Atlantic City in 1977. As surrounding states continue to provide alternative gaming opportunities for residents of New Jersey, the State's racing industry continues to erode. Since their inception in Atlantic City, New Jersey's casinos have operated virtually with no competition for the casino gaming dollar, being the only gaming destination on the East Coast. Thirty years later the picture has changed where Delaware, New York, Pennsylvania, West Virginia and now Maryland have approved the placement of video lottery terminals or slot machines at their respective racetracks (Cryan, 2009).

In 2006, when three states in close proximity to New Jersey were moving forward with slot machines, we asked the question; what effect would Pennsylvania's installation of slot machines have on the quality of racing, the number of horses bred, and the number of acres devoted to breeding race horses? We predicted at that time that there would be a negative impact of these slots on the Atlantic City casino industry (Malinowski, 2006).

Atlantic City casinos are being hurt by regional competition with a decrease of revenues of 5.7 percent in 2007 and 7.6 percent in 2008 and a 17 percent decrease for the first part of 2009 when compared with the same period last year. These reductions ironically, coincide with the introduction of video lottery terminals in Pennsylvania. The Atlantic City casino industry has lost 31 percent of the regional casino gaming market share; a number that continues to grow. Atlantic City's gross gaming win, hit a high point of \$5.2 billion in 2006 and is now declining with a projection of \$3 billion in 2011. This will result in a loss of 5,000 jobs for the region and more than \$150 million in

Table 9.A: Impact of Expanded Gaming on Breeding Segments
Thoroughbred Breeding Segment

State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
New York	Active Stallions	154	130	133	139	136	136	156	159	156	134	124	113	100
	Mares Bred	1,770	1,638	1,741	1,886	1,947	2,135	2,274	2,533	2,749	2,646	2,477	2,308	1,879
Pennsylvania	Active Stallions	143	137	135	120	124	123	117	109	121	120	129	122	110
	Mares Bred	831	805	851	895	992	1,016	976	1,026	1,027	1,027	1,210	1,158	1,172
New Jersey	Active Stallions	68	59	53	51	44	56	51	42	38	28	34	28	26
	Mares Bred	433	378	363	338	316	301	278	456	329	268	318	452	389
Delaware	Active Stallions	1	3	3	1	1	0	0	1	1	0	1	1	1
	Mares Bred	2	9	27	5	4	0	0	5	1	2	0	2	7
Ontario	Active Stallions	124	115	131	125	108	104	112	111	112	131	120	109	101
	Mares Bred	1,150	1,103	1,056	1,187	1,107	1,114	1,320	1,448	1,493	1,619	1,686	1,537	1,461

Source: The Jockey Club, Canadian Thoroughbred Horse Society

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Table 9 B: Impact of Expanded Gaming on Breeding Segments

Standardbred Breeding Segment	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
New York														
Active Stallions	115	110	94	86	100	93	94	94	105	105	96	82	79	63
Mares Bred	1,539	1,516	1,337	1,137	1,211	1,179	1,573	2,628	2,098	2,373	1,715	1,703	2,220	1,854
Pennsylvania														
Active Stallions	77	83	83	82	75	76	66	70	72	79	83	78	76	79
Mares Bred	1,761	1,845	2,012	1,836	1,927	1,742	2,268	2,431	2,002	2,311	2,879	2,781	2,968	2,990
New Jersey														
Active Stallions	35	32	33	32	31	29	21	22	20	18	18	15	14	16
Mares Bred	2,450	2,126	1,916	2,174	2,437	2,523	2,374	2,898	2,054	1,607	1,848	1,554	1,329	1,377
Delaware														
Active Stallions	14	16	18	22	20	19	29	27	25	28	26	25	26	26
Mares Bred	32	49	108	133	151	168	628	666	405	537	562	427	370	381
Ontario														
Active Stallions	196	197	179	170	174	163	175	185	177	174	164	179	157	149
Mares Bred	3,146	3,225	3,349	3,457	3,922	4,252	5,279	5,338	5,087	5,233	4,867	4,329	3,867	3,525

Source: USTA, Standardbred Canada, NJ State Stakes

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annual casino revenue for the state. The total economic loss to New Jersey over the next decade could be more than \$2 billion (Kennedy, 2009).

Casinos are not alone in “feeling the pain” of increased gaming opportunities in close proximity to New Jersey. Competition for the gaming dollar affects horse racing and lottery interests as well. The entire state is suffering. Gaming dollars are tied to tourism, transportation and retail spending, providing the double benefit of boosting state economy with much needed tax revenue (Cryan, 2009).

A recent survey of license plates of cars in parking facilities by Malinowski and co-workers found that at the gaming venues close to New Jersey borders, a significant percentage of patrons were from New Jersey (Table 10).

Table 10: Survey of License Plates of Parked Cars at Gaming Facilities

Venue	Date	% In-State Cars	% NJ Cars	% Other
Harrah' Chester	12-Jul-09	84.5%	14.0%	12.5%
Philadelphia Park	18-Jul-09	65.0%	31.0%	4.0%
Sands Bethlehem	25-Jul-09	38.1%	59.4%	2.5%
Empire City Gaming	25-Jul-09	82.5%	10.0%	7.5%

Pari-mutuel wagering can no longer ensure racing’s sustainability; nor can it fund the ever increasing costs of improving an aging plant infrastructure or with the promotion and marketing that needs to be conducted to introduce racing to a “new” generation of fans. These additional funds might be supplied by state funds as a direct subsidy, through continued Purse Enhancement Agreements from Atlantic City casinos, or by increasing revenue by adding slot machines or video lottery terminals to New Jersey racetracks with a portion of that revenue dedicated to the horse racing and breeding industry (Christian Capital Advisors, 2007).

Features from editorials to columns by Sid Dorfman and Ray Brienza (2007) in The Star Ledger have been touting the impact of slots at neighboring venues for years. Dorfman suggested that the purse enhancement subsidy from the casino industry was inadequate and whose motive was suspect, suggesting that the casinos ante up this money as a way of keeping VLTs from being installed in North Jersey. The initial \$86 million subsidy did not stop the competitive onslaught now being felt by the New Jersey horse racing industry from New York and Pennsylvania. It was noted that nothing but slots would change that situation and that ironically these same casinos were investing in surrounding states (Dorfman, 2007).

The past two Purse Enhancement Agreements from the casinos have attempted to maintain the purse structure at the Meadowlands Racetrack. In 2006, New Jersey led the nation in total purses paid for harness racing. However, in 2009 New Jersey ranked third behind New York and Pennsylvania for total purses paid. While New Jersey still leads the way in average purse per race, it will only be a matter of time before that number drops as well if the Meadowlands becomes unable to compete for big money events like

the Hambletonian, Meadowlands Pace, and Sire Stakes events (Tables 11 and 12; New York State Racing and Wagering Board, 2008). Even in view of a competitive purse structure at the Meadowlands Racetrack, owners and breeders of racehorses in New Jersey have been hesitant to invest in the industry without a long-term vision for industry sustainability.

Off-track and internet wagering have been successful in New Jersey (Table 13). However, only three of the 15 authorized off-track wagering centers have opened since first authorized in 2001. Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks (New Jersey Racing Commission, 2008).

Table 13: New Jersey Account Wagering

	2007		2008	
<i>Internet</i>	\$	64,319,015	\$	79,090,735
<i>Phone</i>	\$	12,287,207	\$	9,985,987
<i>OTW</i>	\$	30,892,422	\$	140,787,044
Total	\$	107,498,644	\$	229,863,766

Source: NJ Racing Commission, 2008. Annual Report

The New Jersey racing scene is currently feeling the “pinch” of competition from New York and Pennsylvania especially. Reeling from the loss of harness horses at the Meadowlands and Freehold, the Meadowlands shortened its race week by dropping Wednesday’s beginning in March of 2007. Freehold Raceway, which did not take advantage of the current Purse Enhancement Agreement from the casino industry, reduced overnight purses by 25 percent effective January 2, 2009 and amended its live racing schedule. Freehold Raceway also announced that it has canceled the James B. Dancer Memorial Stake No. 34 and the Helen Dancer (Filly Division) for 3-year-old pacers for 2009, and terminated their ownership rights to the Freehold Stake No. 28 (Battle of Freehold for two-year-old pacers and the Molly Pitcher for 2-year-old pacing fillies), in an effort to maintain its purse structure. Race secretaries at both harness tracks were running with short fields and for reduced purses in the spring of 2009.

What is the effect of slots on state/province economy?

The horse racing and breeding industry are not the only entity reaping the benefits of slot/video lottery terminal revenues.

Pennsylvania’s gaming industry has generated \$1.9 billion in new revenues from seven of the 14 licensed venues located throughout the state. This resulted in a \$200 per household savings in property taxes and a wage tax cut for people living and working in Philadelphia. In addition, the construction of these new facilities resulted in 17,000 new

Table 11 A, B, C: Three Year Comparison of Nationwide Standardbred Purses

Table 11 A

Nationwide Comparison of Purses Paid in 2006: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New Jersey	\$ 69,085,399	4,235	\$ 16,313
New York	\$ 56,071,653	8,165	\$ 6,867
Delaware	\$ 42,871,200	3,618	\$ 11,849
Illinois	\$ 31,771,019	4,007	\$ 7,929
Pennsylvania	\$ 30,786,461	4,642	\$ 6,632
Ohio	\$ 23,618,219	6,122	\$ 3,858
Michigan	\$ 15,741,692	3,935	\$ 4,000
Indiana	\$ 14,246,208	1,888	\$ 7,546
Kentucky	\$ 11,420,990	840	\$ 13,596
California	\$ 11,073,583	2,424	\$ 4,568
Florida	\$ 10,261,300	1,950	\$ 5,262
Maine	\$ 4,857,257	1,768	\$ 2,747
Massachusetts	\$ 3,437,882	930	\$ 3,697
New Hampshire	\$ 3,037,644	582	\$ 5,219
Virginia	\$ 2,118,748	362	\$ 5,853

Source: NYS 2006 Annual Report

Table 11 B

Nationwide Comparison of Purses Paid in 2007: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New York	\$ 97,690,587	11,051	\$ 8,840
New Jersey	\$ 68,845,118	3,972	\$ 17,333
Pennsylvania	\$ 58,962,521	5,448	\$ 10,823
Delaware	\$ 45,022,950	3,607	\$ 12,482
Illinois	\$ 31,368,196	3,948	\$ 7,945
Ohio	\$ 21,319,553	5,807	\$ 3,671
Michigan	\$ 14,993,991	3,618	\$ 4,144
Indiana	\$ 14,909,988	1,855	\$ 8,038
Florida	\$ 12,890,434	1,946	\$ 6,624
Kentucky	\$ 12,229,870	626	\$ 19,537
California	\$ 9,704,630	2,343	\$ 4,142
Maryland	\$ 7,012,293	1,629	\$ 4,305
Maine	\$ 5,643,137	1,767	\$ 3,194
Massachusetts	\$ 3,276,661	951	\$ 3,445
New Hampshire	\$ 2,955,593	580	\$ 5,096

Source: NYS 2007 Annual Report

Table 11 A, B, C: Three Year Comparison of Nationwide Standardbred Purses

Table 11 C

Nationwide Comparison of Purses Paid in 2008: <i>Standardbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
New York	\$ 93,109,611	10,663	\$ 8,732
Pennsylvania	\$ 93,087,590	6,332	\$ 14,701
New Jersey	\$ 68,393,194	3,794	\$ 18,027
Delaware	\$ 46,472,734	3,714	\$ 12,513
Illinois	\$ 29,246,481	3,753	\$ 7,793
Ohio	\$ 18,839,088	5,429	\$ 3,470
Indiana	\$ 16,462,395	1,919	\$ 8,579
Kentucky	\$ 13,899,756	695	\$ 20,000
Michigan	\$ 12,752,193	3,332	\$ 3,827
Florida	\$ 11,673,833	1,783	\$ 6,547
California	\$ 6,853,684	1,782	\$ 3,846
Maine	\$ 5,959,088	1,801	\$ 3,309
Maryland	\$ 3,280,499	968	\$ 3,389
Massachusetts	\$ 2,931,098	965	\$ 3,037
New Hampshire	\$ 2,820,023	550	\$ 5,127

Source: NYS 2008 Annual Report

Table 12 A, B, C: Three Year Comparison of Nationwide Thoroughbred Purses

Table 12 A

Nationwide Comparison of Purses Paid in 2006: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 177,135,184	5,094	\$ 34,773
New York	\$ 132,618,831	3,707	\$ 35,775
Kentucky	\$ 103,550,913	2,660	\$ 38,929
Florida	\$ 85,409,600	3,733	\$ 22,880
West Virginia	\$ 81,888,629	4,434	\$ 18,468
Louisiana	\$ 75,115,145	3,083	\$ 24,364
Illinois	\$ 69,856,840	2,856	\$ 24,460
Maryland	\$ 46,425,300	1,835	\$ 25,300
New Jersey	\$ 44,381,833	1,173	\$ 37,836
Pennsylvania	\$ 42,903,619	3,374	\$ 12,716
Delaware	\$ 34,168,810	1,182	\$ 28,908
New Mexico	\$ 29,282,717	1,556	\$ 18,819
Texas	\$ 25,932,670	1,820	\$ 14,249
Ohio	\$ 25,198,383	2,980	\$ 8,456
Oklahoma	\$ 18,070,550	1,199	\$ 15,071

Source: NYS 2006 Annual Report

Table 12 B

Nationwide Comparison of Purses Paid in 2007: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 179,231,621	5,055	\$ 35,456
New York	\$ 142,120,921	3,664	\$ 28,788
Louisiana	\$ 95,328,892	3,547	\$ 26,876
Florida	\$ 90,215,130	3,660	\$ 24,649
Kentucky	\$ 81,693,968	2,658	\$ 30,735
Pennsylvania	\$ 76,280,710	3,748	\$ 20,352
West Virginia	\$ 73,309,674	4,357	\$ 16,826
New Jersey	\$ 67,775,266	1,167	\$ 58,076
Illinois	\$ 65,564,874	2,699	\$ 24,292
Maryland	\$ 43,828,800	1,774	\$ 24,706
Delaware	\$ 35,299,668	1,116	\$ 31,631
New Mexico	\$ 30,946,970	1,572	\$ 19,686
Texas	\$ 25,641,230	1,713	\$ 14,969
Ohio	\$ 22,498,200	2,805	\$ 8,021
Oklahoma	\$ 21,077,405	1,238	\$ 17,025

Source: NYS 2007 Annual Report

Table 12 A, B, C: Three Year Comparison of Nationwide Thoroughbred Purses

Table 12 C

Nationwide Comparison of Purses Paid in 2008: <i>Thoroughbred</i>			
State	Gross Purses	Number of Races	Average Purse/Race
California	\$ 198,311,069	5,076	\$ 39,068
New York	\$ 145,473,050	3,724	\$ 39,064
Pennsylvania	\$ 110,225,334	4,427	\$ 24,898
Louisiana	\$ 86,306,399	3,404	\$ 25,354
Florida	\$ 78,404,970	3,443	\$ 22,772
Kentucky	\$ 76,112,194	2,603	\$ 29,240
West Virginia	\$ 70,369,850	4,101	\$ 17,159
Illinois	\$ 61,227,246	2,409	\$ 25,416
New Jersey	\$ 46,921,346	1,327	\$ 35,359
Maryland	\$ 34,994,500	1,578	\$ 22,176
Delaware	\$ 32,912,635	1,084	\$ 30,362
New Mexico	\$ 31,867,919	1,678	\$ 18,992
Oklahoma	\$ 24,059,492	1,263	\$ 19,049
Texas	\$ 23,072,690	1,580	\$ 14,603
Ohio	\$ 18,235,820	2,537	\$ 7,188

Source: NYS 2008 Annual Report

construction jobs and 9,000 new jobs tied to the gaming industry itself, either directly or indirectly (Cryan, 2009).

By 2012, table games could increase Pennsylvania's yearly casino-gambling revenue by 30 percent to \$976 million, while at the same time spurring the economy by \$1 billion and creating more than 16,000 jobs. This is currently being considered by lawmakers in Pennsylvania who are faced with a \$3.2 billion budget gap. With games similar to those found in Atlantic City and Las Vegas, Pennsylvania would become a gambling titan in its own right generating \$4.2 billion annually and 10,000 casino jobs. Revenue findings were based on 12 of the 14 planned casinos being in operation and on a blended tax rate of 46.1 percent; a combination of 55 percent tax on slots and 12 percent tax on table games revenue. The 46.1 percent tax rate would be the second highest in the country among states that offer both slots and table games. Casino operators have warned that the tax rate on table games must be lower to enable Pennsylvania operators to compete with table game revenues in New Jersey which has the lowest tax rate in the region of 9.25 percent and one of the lowest in the nation (Parmley, 2009).

New York's funding for education has certainly benefited from the installation of video gaming machines in the Empire State. For fiscal year 2008-09, which ended March 31, the "net win" at 8 casinos was up 10.3 percent to \$965.1 million, even though profit was down 9 percent to \$457.9 million. All profits in the state of New York go to fund education. The decline in profit for the state during the described period was due to a change in the legislated net win splits for facility operators which occurred in February, 2008.

Within the video gaming machine business, net win was up substantially at all venues except Monticello Casino and Raceway, which was down 8.5 percent due to competition from Pennsylvania. Empire City at Yonkers, the newest, largest and fastest growing casino, saw its net win increase 15.5 percent to \$486.5 million. Batavia Downs, Tioga Downs and Fairgrounds Gaming and Raceway were all up double digit percentages while Vernon Downs and Finger Lakes Gaming and Racetrack were up 9.5 percent and 7.7 percent respectively. Saratoga Gaming and Raceway, the oldest of the state's casinos, was up 2 percent, but it remained the second largest of the state's casinos with \$135.3 million in sales. Empire City generates more net win and more profit than the other seven casinos combined, due to its size and proximity to the New York City metro area (New York Lottery, 2009).

In April 2009, the Ontario Lottery and Gaming Corporation issued more than \$17.8 million in fourth-quarter non-tax gaming revenue payments to the 23 municipalities that host OLG casinos and slots at racetrack facilities. To date, \$615.3 million has been distributed by the OLG to host municipalities. Hosting municipalities receive five percent of gross slot machine revenue from the first 450 slot machines and two percent from any additional machines over that number (OLG, 2009).

What does New Jersey stand to lose if there is no horse racing in the state?

The Garden State stands to lose its premier agribusiness which generates \$780 million of economic impact annually, 7,000 jobs, \$110 million in federal, state and local taxes and 57,000 acres of working agricultural landscape and open space if racing-related training and breeding farms leave New Jersey. An analysis by Goundrey and Malinowski in 2007 of preserved farmland in the state showed that a small portion of preserved farmland is in equine-related activity (Table 14). Only eight percent of acreage in the Farmland Preservation Program is used for horse related activities and 11 percent of preserved farms are in the horse business. Currently, acreage supported by equine interests makes up more than 20 percent of the total farmland in New Jersey (Gottlieb, 2007). This reinforces the argument that the state stands to lose this farmland to development if racing is no longer viable.

Racing is not the only equine discipline that will lose if New Jersey racing does not receive the "shot in the arm" it so desperately needs. Sport competition and recreational horse users stand to suffer, as will traditional agricultural interests such as grain, hay, and straw farmers who continue to survive and maintain open space due to the fact that their major customers are horse owners.

The New Jersey Equine Advisory Board's (part of the New Jersey Department of Agriculture) annual budget to support the Horse Park of New Jersey and the sport and recreation segments of the horse industry, predominantly, including 4-H Youth Development programs, is correlated to a percentage of the pari-mutuel handle from racing. The EAB annual budget which was \$498,000 in 1990 declined to a new low of \$290,400 in 2009. This budget would disappear if racing ceased to exist in New Jersey.

The "top shelf" level of services New Jersey horse enthusiasts have come to expect such as equine veterinary clinics and feed and supply stores are at risk, because, while they are frequented and supported by sport horse competition and recreational users, a predominant economic flow to these entities is from the racing industry. There already exists a shortage of large animal veterinarians in the state. If racing clients ceased to exist in New Jersey this demand would be even greater.

Between 1983 and 1996, New Jersey lost 40,000 acres of open space, primarily because of the demise of racehorse breeding farms (NJDA, 1996). Underlying causes for the loss of breeding farms at that time were changes in federal tax laws and reduction in the racing purse structure due to the competition for gaming dollars resulting from the arrival of casinos.

New Jersey stands to lose a similar amount of tax-paying open space unless it develops a mechanism(s) for assuring sustainability for both thoroughbred and standardbred racing. The New Jersey Farmland Preservation Program is extremely proud of the number of acres of preserved farmland (equine-related and otherwise). However it is not enough to just preserve farms (including horse farms) in the state. If industries

Table 14: 2007 NJ Horse Farms Under Farmland Preservation

County	NJ Farms in Farmland Preservation		NJ Horse Farms in Farmland Preservation		% of acreage in Farmland Preservation
	# Farms	Acreage	# Farms	Acreage	
Atlantic	29	3,592	NA	NA	NA
Bergen	7	318	1	16	5.00%
Burlington	177	21,835	15	1,137	5.00%
Camden	7	467	3	154	33.00%
Cape May	38	2,515	3	39	2.00%
Cumberland	102	12,617	3	135	1.00%
Essex	0	0	NA	NA	NA
Gloucester	100	8,777	6	191	2.00%
Hudson	0	0	NA	NA	NA
Hunterdon	256	22,678	22	1,607	7.00%
Mercer	88	6,699	6	192	3.00%
Middlesex	43	4,508	1	10	0.20%
Monmouth	133	10,585	61	4,886	46.00%
Morris	96	6,305	21	1,476	23.00%
Ocean	39	2,675	11	477	18.00%
Passaic	0	0	NA	NA	NA
Salem	185	23,232	6	1,009	4.00%
Somerset	78	6,601	9	454	7.00%
Sussex	86	10,872	6	857	8.00%
Union	0	0	NA	NA	NA
Warren	150	14,862	7	195	1.00%
Total	1,614	159,138	181	12,835	8.00%

Source: Rutgers Equine Science Center

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utilizing the preserved farmland are not viable, they will seek locations elsewhere, taking with them their financial contributions and leaving in their wake joblessness and a scenic vista of preserved but unproductive land, a fiscal burden to the community that helped preserve it. Again, without a long-term vision for horse racing's sustainability in New Jersey in place, owners, trainers and breeders are hesitant to invest in racing's infrastructure in the Garden State.

Recommendations for moving forward toward sustainability of horse racing in New Jersey

The horse racing, breeding and training industry, which is a critical component of open space preservation and the state's economy, needs an infusion of capital and a stable source of revenue to guarantee its sustainability. The current business model which exists is no longer viable, with 2009 projections by the New Jersey Sports and Exposition Authority of losses of \$10 million and \$10.8 million for The Meadowlands and Monmouth Park racetracks, respectively. A new model might mirror that seen in Ontario where a central governing body oversees gaming interests.

Solutions for New Jersey can come in numerous forms and venues, as noted from successful programs in other states. Pennsylvania permits 61,000 slot machines at racetracks and has in place a long-time off-track wagering and phone betting system. Florida offers both slot machines and poker rooms at its racetracks. Delaware and New York both have video lottery terminals at their racetracks and Delaware has passed legislation to permit sports betting and table games at its racetracks to enable them to remain competitive within the region.

There should exist in New Jersey a partnership between the casino and horse racing industries to enable both to remain sustainable as competition for the gaming dollar continues to escalate. This is no longer a discussion about competition between the horse racing and casino industries. It is about the competition between two important New Jersey industries and the rest of the region. Video lottery terminals at New Jersey racetracks would be the least significant factor impacting Atlantic City casino revenue. Slot machines in New York and Pennsylvania are impacting Atlantic City casinos now and will continue along this trend with increasing force as more machines are put into operation and more neighboring states like Maryland implement this form of wagering.

It is estimated that the combined impacts of existing and scheduled future machines in Pennsylvania and the New York City metropolitan area racetracks will reduce Atlantic City gross gaming revenue by as much as 12.3 percent. It was also projected that installation of video lottery terminals at three New Jersey racetracks would reduce Atlantic City gross gaming revenue by 1.8 percent. Video lottery terminals at the Meadowlands would serve a demand for gaming entertainment in North Jersey by generating over \$300 million in additional Lottery revenues while drawing from metropolitan area residents who do not desire to drive to Atlantic City. It is estimated

that only 19 percent of potential gaming “spend” in the Northern New Jersey market travels to Atlantic City casinos (Christian Capital Advisors, 2007).

We agree that the investment in Atlantic City’s gaming industry be preserved. The best way to do that is to ensure the preservation of its low rate of gaming privilege tax which is 9.25 percent in comparison to neighboring states which have tax rates as high as 55 percent.

What may have been the tipping point for putting video lottery terminals at the Meadowlands racetrack was reported in an editorial in 2007 when January revenues for Atlantic City were reported. Overall take dropped 2.9 percent and slot revenue dropped 7.2 percent at that time. Financial forecasters were concerned about the downward trend then and certainly their fear was warranted. Revenues in Atlantic City continue to decline along with discretionary income for consumers and competition for gambling dollars continues to escalate in surrounding areas in close proximity to New Jersey and Atlantic City, specifically (Star Ledger, 2007).

For years Atlantic City casino owners have resisted the idea of installing video lottery terminals at New Jersey racetracks and off-track wagering facilities. The study commissioned in 2007 by the governor’s office predicted that the installation of 2,100 video lottery terminals at the Meadowlands Racetrack, Scenario A, would generate approximately \$268.3 million annually in gross revenue with a payout of approximately \$114 million to the state. Video lottery terminals at the Meadowlands would also draw clientele from Northern New Jersey and New York residents who do not want to make the drive to Atlantic City. In Scenario B, it was estimated that an additional 2,100 video lottery terminals at Monmouth Park, for a total of 4,200, would generate \$411.3 million; and in Scenario C adding an additional 2,100 machines at Freehold Raceway for a total of 6,300 would generate \$433.5 million in the first year of operation. The projected revenue generating ability of these scenarios is conservative in view of the fact that at Yonkers Raceway, 5,500 machines generated \$208.60 per day per unit for a potential of \$418.764 million per year (Christiansen Capital Advisors, 2007). In 2008, Empire City Gaming led the nation in gross gaming revenue with over \$486 million generated (American Gaming Association, 2009).

By keeping gaming dollars in the state instead of losing patrons to neighboring venues, income would be made available for this financially troubled state and would provide revenue to keep the New Jersey racing industry viable, vital and sustainable.

The installation of video lottery terminals at New Jersey racetracks has the potential to be a “win-win” situation for both the racing and casino industries. The revenue would enhance the state budget significantly and provide capital for use by the horse racing industry to keep it competitive. Racinos would add jobs to the state, during construction and renovations of the racetracks as well as during operation. Video lottery terminals run by the operators of Atlantic City casinos would help these interests diversify sources of revenue.

Racing interests should take advantage of the 2001 legislation and proceed with the strategic opening of additional wagering outlets while at the same time being cognizant of the impact these gambling outlets will have on live handle at the racetracks.

Irrespective of the source of much needed revenue to ensure the future of racing in the Garden State, the racing industry needs to invest a portion of those dollars in things besides purses to ensure continued viability. These include: marketing of live racing and creation of a racing brand, creating innovative wagers, reductions in costs of regulating racing and the role of the New Jersey Racing Commission, investment in capital improvements, maintaining the integrity of racing, including research to benefit the equine athlete.

The industry needs to define itself: Is it sports? Is it gaming? Is it entertainment? The racing industry also needs to recognize that it is two-sided: side one, the horsemen and women who produce the product and side two, the racetracks which put on the show. Racing must define what its common purpose is and answer the question of who is in charge if it is to be successful in branding and marketing the betting product.

When discussing the future business model for racing and or gaming in the state, one must recognize the advantage of a centralized power. There then exists the ability to mobilize resources needed for product development, branding, marketing and sales, and capital improvements. Nationally there should be one body to enforce rules and regulations; a nation-wide network and schedule to maximize the value of the product and to aggregate the rights to the intellectual property of the sport, including television rights and sponsorships.

Racing needs to define who are its future fans? Propriety research is needed to enhance racing's competitiveness for the gaming dollar. It also needs to treat customers well, provide lessons on how to bet, and to introduce new wagers and forms of wagering.

It was the intent of this paper to provide an overview of what slot machines or video lottery terminals have done for the economy, horse racing and breeding industry, and agriculture in states and provinces where they exist to assist policy decision makers in the state as they deliberate racing's future. It is the belief of these authors that the horse racing and breeding industry are commodities worth saving in New Jersey. The issue at hand is not an emotional one driven by the fact that the state animal is the horse which has a long and prominent history in New Jersey's agricultural and sports businesses. Horse racing is the economic driving engine of the entire horse industry in the state and is extremely valuable to the quality of life in the form of agricultural working landscape which benefits all residents of New Jersey.

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FOR IMMEDIATE RELEASE

New Jersey Stands to Lose \$780 Million of Economic Impact Annually if Racing-related Activities Leave the State

Recent report analyzes the impact of slot machines on the horse racing industry

NEW BRUNSWICK, NJ (July 28, 2009) – The Rutgers Equine Science Center recently released an independent in-depth report of the impact of slot machines or video lottery terminals on the horse racing and breeding industry, and agriculture and open space. The study, published by the Hall Institute of Public Policy, is a follow-up to a 2006 white paper written by Dr. Karyn Malinowski, director of the Equine Science Center at Rutgers, The State University of New Jersey.

Neighboring states (New York, Pennsylvania, Delaware) offering slot machines or video lottery terminals at horse racing venues continue to attract tourism and gaming dollars away from New Jersey. This trend erodes expansion of the racing industry and could have disastrous consequences for the state's economy. The Garden State stands to lose one of its premier agribusiness which generates \$780 million of economic impact annually, 7,000 jobs, \$110 million in federal, state and local taxes, and 57,000 acres of working agricultural landscape and open space if racing-related training and breeding farms leave New Jersey. These figures do not include the non-racing segment of the horse industry.

"The intent of the report is to provide an overview of what slot machines or video lottery terminals have done in states and provinces where they exist, in order to assist policy decision-makers in New Jersey as they deliberate racing's future. Horse racing is the economic driving engine of the entire horse industry in the state and is extremely valuable to the quality of life in the form of agricultural working landscape; the horse racing and breeding industry are commodities worth saving in New Jersey," says Malinowski.

In 2008, forty-four racetrack casinos (racinos) in the United States generated \$6.19 billion in gross gaming revenues (a 17.2 percent increase over 2007); \$2.59 billion in direct gaming taxes to state and local governments, and employed over 29,000 people. The racino market experienced growth, as a whole, even in view of a tough economic climate.

Empire City at Yonkers Raceway in New York was the top racino market in the United States, grossing \$486.46 million in gaming revenue in 2008. Six of the top ten racetrack casino markets in the nation are located in the northeast region in close proximity to New Jersey. In 2006, New Jersey led the nation in total purses paid for harness racing. By 2008, New Jersey ranked third behind New York and Pennsylvania for total purses paid.

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"In 2006, we predicted that as surrounding states incorporate slot machines and video lottery terminals into their gaming portfolio, the horse racing industry would not be the only industry impacted, but the entire casino/gaming industry would feel effects as well," says Malinowski.

The installation of video lottery terminals at New Jersey racetracks has the potential to be a "win-win" situation for both the racing and casino industries. The revenue would enhance the state budget significantly and provide capital for use by the horse racing industry to keep it competitive. "Our goal was to provide the newly appointed Governor's Commission on the Future of the Horse Racing Industry with a synopsis of what is now known and to make projections and suggestions on how this timely information will impact New Jersey," says Malinowski.

Racinos would add jobs to the state, during construction and renovations of the racetracks as well as during operation. Video lottery terminals run by the operators of Atlantic City casinos would help these interests diversify sources of revenue.

To date, the entire New Jersey equine industry (including racing & non-racing interests) is valued at \$4 billion and generates \$1.1 billion annually in positive impact on the New Jersey economy. The industry also supports 13,000 jobs and pays an estimated \$160 million annually in federal, state, and local taxes.

For a copy of the full report, please visit the Hall Institute of Public Policy at <http://www.hallnj.org/new/>.

About Rutgers Equine Science Center

The Equine Science Center is a unit of the New Jersey Agricultural Experiment Station at Rutgers, The State University of New Jersey. Its mission is better horse care through research and education in order to advance the well-being and performance of horses and the equine industry. Its vision is to be recognized throughout New Jersey as well as nationally and internationally for its achievements in identifying issues in the horse industry, finding solutions through science-based inquiry, providing answers to the horse industry and to horse owners, and influencing public policy to ensure the viability of the horse industry.

For more information, please visit www.ESC.RUTGERS.EDU.

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RUTGERS

New Jersey Agricultural
Experiment Station

THE NEW JERSEY EQUINE INDUSTRY 2007

Economic Impact

Published by Rutgers Equine Science Center

New Jersey Equine Industry, 2007

Introduction

There is a reason the state animal of New Jersey is the horse.

The residents of New Jersey recognize the long and meaningful relationship they have had with horses for more than two centuries and the impact the equine industry has had on the economy of the state, on traditional agriculture, and on the preservation and maintenance of open space. They are aware of the role of the horse in sport, recreation, youth development, therapy for the handicapped, and rehabilitation of adults and children who are troubled or in trouble.

Acknowledging the complexity of the industry and the need for an updated assessment of its value, the Rutgers Equine Science Center led an effort beginning in July 2006 to analyze the economic impact of the horse industry in New Jersey. The Center partnered with several government agencies, industry groups, and private individuals to accomplish this task – the result of which is the “New Jersey Equine Industry - 2007.”

Much more than providing a census of animals and facilities, the research team employed economic modeling to determine the direct and indirect impacts of the horse industry on the state’s economy, on traditional agricultural enterprises, and on the maintenance of the working agricultural landscape – that is, open space that is cared for by the private sector rather than taxpayer dollars.

The result of more than 12 months of work is reported in this document. The numbers show that the horse industry – which generates \$1.1 billion in economic impact annually – is comparable to such widely recognized sectors as golf courses, landscaping, biotechnology, marine fisheries and aquaculture, and many others. In terms of impact on working agriculture, the horse industry accounts for one in five agricultural acres, more than any other segment of agriculture.

In addition to the impressive numbers, the impact on the quality of life in New Jersey is, undoubtedly, the most important contribution the horse industry makes. Horses are in every county in New Jersey and, by all accounts, are one of the top attractions for residents from the cities and suburbs when they tour the state. Clearly New Jersey is horse country, and this report provides the numbers to show why this is true.

Sponsors of this study included the New Jersey Department of Agriculture and its Equine Advisory Board and Sire Stakes units; The New Jersey Sports and Exposition Authority; the Standardbred Breeders and Owners Association of New Jersey; the Thoroughbred Breeders Association of New Jersey; and several private individuals.

New Jersey Equine Industry, 2007

Executive Summary

Economic impact of the equine industry

- Total economic impact of \$1.1 billion annually
 - \$278.2 million annually for racing-related operations, not including racetracks
 - \$262.4 million annually for non-racing operations
 - \$117.8 million annually for equine owners without operations
 - \$647 million annually for the three preceding categories combined
 - \$502.3 million annually for New Jersey racetracks

Employment

- Nearly 13,000 jobs generated
 - 9,150 jobs generated by equine operations, not including racetracks
 - 3,820 jobs generated by racetracks

Taxes generated

- An estimated \$160 million annually paid in federal, state, and local taxes
 - \$85 million generated by equine operations and owners
 - \$75 million generated by New Jersey racetracks

Acres to support equine facilities

- 176,000 total acres reported by equine operations
 - 96,000 of these acres are directly related to equine activities
 - 78,000 of these acres are devoted to pasture and hay production
- 46,000 additional acres in New Jersey produce hay and grain for horses
- New Jersey equine-related acres represent about one-fifth of the state's 790,000 acres in agriculture

Animals and operations

- 42,500 equine animals housed in New Jersey
 - 30,000 in non-racing activities
 - 12,500 in racing-related activities
 - 8,200 racing-related Standardbreds
 - 4,300 racing-related Thoroughbreds
- 7,200 equine operations in New Jersey
- \$4 billion in equine-related assets
 - \$582 million in equine animals
 - \$2.9 billion in land and buildings (not including racetracks)
 - \$476 million in racetrack assets (land and buildings)



Annual economic impact of New Jersey equine operations and owners
Of the \$1.1 billion annual economic impact of the horse industry in New Jersey, \$647 million or 59 percent is generated by equine operations (farms and stables that house equine animals) and by horse owners who board their animals on equine operations. Racing-related operations – although fewer in number than non-racing entities – produce \$278.2 million in impact, and non-racing operations account for \$262.4 million in impact. The total economic impact is composed of two parts: (1) direct dollars spent by the equine industry, and (2) the “ripple effect” of those expenditures on other related industries.

Type of Operation	Direct Annual Impact (\$ Millions)	Indirect/Induced Impact (\$ Millions)	Total Economic Impact (\$ Millions)
Racing-Related Operations	200.0	78.2	278.2
Non-Racing Operations	187.9	74.5	262.4
Horse Owners	88.9	28.9	117.8
Total Operations & Owners*	476.8	170.2	647.0

* Total economic impact has been adjusted downward to eliminate double counting impacts between operations and horse owners.

Annual economic impact of New Jersey racetracks

Racetracks located at the Meadowlands, Monmouth Park, Freehold Raceway and the Atlantic City Race Course represent an important economic engine in New Jersey. Together, they produce an annual economic impact of \$502.3 million. This does not include wagering (the “pari-mutuel handle”) at racetracks or the effects of travel and tourism-related contributions to the economy. Other reports have shown that a major one-time event at a racetrack, such as the Breeders Cup, can generate upwards of \$50 million in incremental impact for the surrounding communities and the state.

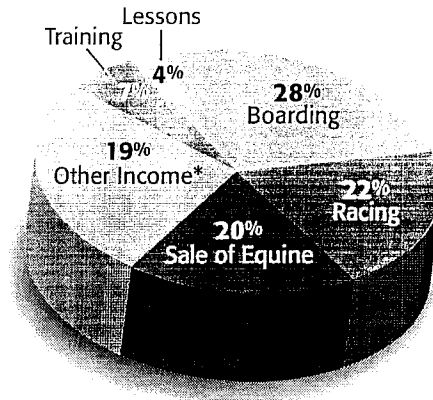
	Annual Impact (\$ Millions)
Direct Annual Impact	282.4
Indirect/Induced Impact	219.9
Total Racetrack Industry Impact	502.3





Top sources of income for equine operations and owners

Although a large number of equine operations are not businesses pursuing income, other sectors – especially the racing-related and professional boarding and show horse operations – do generate revenues. The main income sources are boarding, racing purses, sale of horses, training, and lessons.



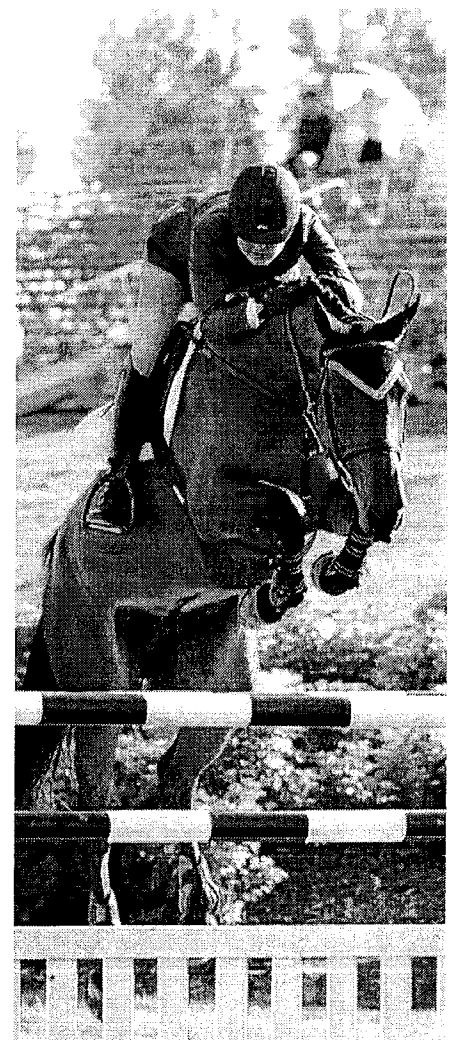
* Other Income category includes income from breeding, sale of hay & forage, leasing, non-racing competition, shows, trail riding, and other.

Top 10 annual expense categories for equine operations and owners

Expenditures affect all segments of the horse community, with nearly \$377 million paid out annually, excluding labor costs. The top expenditure categories are equipment purchases and depreciation (\$40 million), capital improvements (\$34 million), horse health costs (\$32 million), training fees (\$31 million), boarding (\$30 million), feed and supplements (\$23 million), hay and forage (\$22 million), and taxes (\$21 million).

Expense Type	Annual Expenses*	
	(\$ Millions)	%
Equipment Purchase & Depreciation	40.0	10.6%
Capital Improvements	33.6	8.9%
Health	32.2	8.5%
Training Fees	30.8	8.2%
Boarding	30.1	8.0%
Grain and Supplements	23.2	6.2%
Hay/Forage	22.2	5.9%
Taxes	21.4	5.7%
Equipment Maintenance	15.7	4.2%
Farrier	13.6	3.6%
All Other Expenses**	114.1	30.3%
Total Expenses	376.8	100.0%

* Excludes labor expenses. ** Other category includes expenses for insurance, breeding, bedding, competitive events, travel, utilities, grazing and cropland maintenance, tack and clothing, supplies, rent, professional fees, contract services, advertising, and other.



Employment impact of the New Jersey equine industry

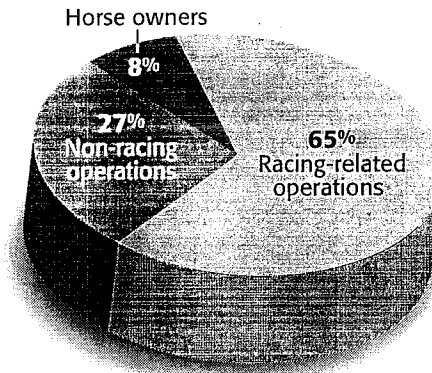
An estimated 13,000 jobs are generated by the equine industry in New Jersey, including a total of 5,670 directly employed by equine operations and horse owners and another 2,048 by the racetracks. In addition, 5,252 jobs are generated by the equine industry through the ripple effect on other industries.

Type of Operation	Directly Employed	Indirect/Induced # Jobs Generated	Total #Jobs Generated
Racing-Related Operations	1,480	1,711	3,191
Non-Racing Operations	3,805	1,359	5,164
Horse Owners	386	764	1,150
All Operations & Owners*	5,670	3,480	9,150
New Jersey Racetracks	2,048	1,772	3,820

* Total employment impact has been adjusted downward to eliminate double counting impacts between operations and horse owners.

Proportion of labor expenses by type of operation and horse owners

Racing-related operations accounted for almost two-thirds of labor expenditures in the horse industry. Twenty-seven percent of labor expenses are generated by non-racing operations, and horse owners accounted for another eight percent.



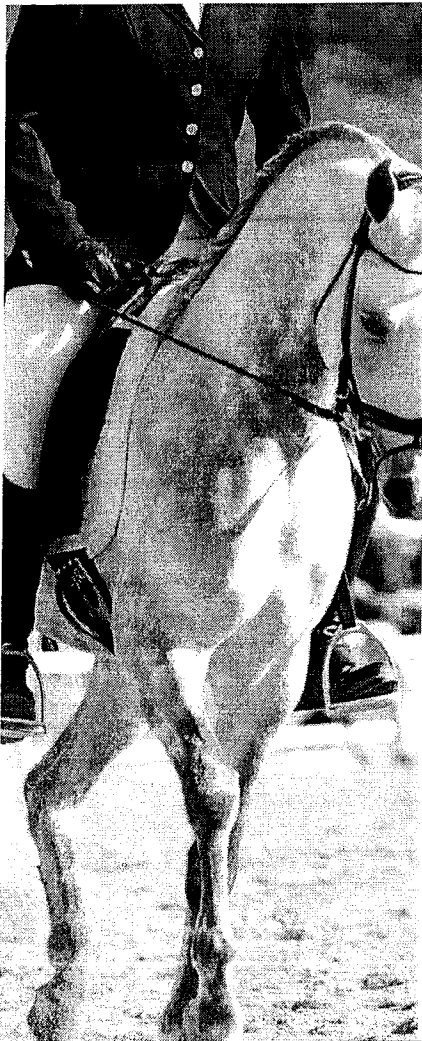
Annual tax impact of the New Jersey equine industry*

The equine industry generates an estimated \$160 million in tax revenues for the federal government, the state, and municipalities. More than \$60 million goes to state and local authorities in the form of corporate, personal, and property taxes.

Type of Operation	Federal Tax Impact (\$ Millions)	State and Local Tax Impact (\$ Millions)	Total Tax Impact (\$ Millions)
All Equine Operations and Owners	53.4	31.9	85.3
New Jersey Racetracks	44.2	31.2	75.4

*Estimated tax impacts include federal, state, and local taxes generated from the direct, indirect, and induced impacts of the equine industry. Included are estimates of corporate profits tax, personal taxes, Social Security taxes, and property taxes. Estimate may include a small percentage of overlap.

Estimates are adjusted for the fact that the New Jersey Sports and Exposition Authority (operating Meadowlands and Monmouth Park) is exempt from taxation, but does make payments in lieu of taxes to local municipalities.





Asset value of the New Jersey equine industry

The 7,200 equine operations in New Jersey hold assets valued at nearly \$4 billion, including \$582 million in horses and other equine animals and \$2.9 billion in land and buildings. New Jersey's racetracks account for an additional \$476 million in land and building assets.

Type of Operation	Land and Capital (\$ Millions)	Equine Animals (\$ Millions)	Total Value (\$ Millions)
Racing-Related Operations	833	316	1,149
Non-Racing Operations	2,076	175	2,251
All Equine Operations	2,909	491	3,400
New Jersey Racetracks	476	91	567

Agricultural land in New Jersey supporting New Jersey's equine animals including land in New Jersey that is used to grow forage and grain for the state's horses, approximately 142,000 acres are used to support the equine industry. This is almost one-fifth of the state's estimated 790,000 acres in farms.

Type of Operation	Number of Operations	Total Facility Acres	Acres that are Equine-Related	Acres Used for Pasture, Hay, and Grain
Racing-Related Operations	700	34,000	24,000	22,000
Non-Racing Operations	6,500	142,000	72,000	56,000
All Equine Operations	7,200	176,000	96,000	78,000
Farms Without Any Equine**	nc*	nc*	46,000	46,000
All New Jersey Operations Supporting Equine Animals	nc*	nc*	142,000	124,000

*nc = not collected as part of this study

** i.e., farms that produce forage, straw, and grain for equine animals



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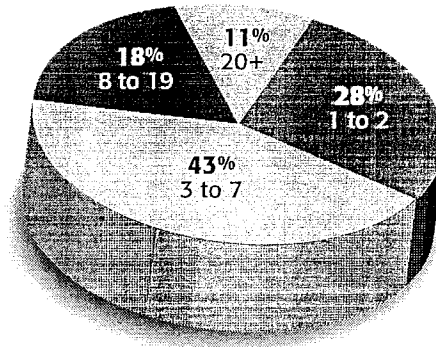
Equine operations and associated land, by county

The top three counties in both acres and number of operations are Hunterdon, Monmouth, and Burlington. The industry appears to be growing in the state's northwestern counties.

County	Number of Operations	Total Facility Acres	Acres that are Equine-Related	Acres Used for Pasture, Hay, and Grain
Atlantic	270	3,100	2,100	1,500
Burlington	850	20,700	12,100	10,100
Camden	160	1,600	1,100	1,000
Cape May	230	2,500	1,700	1,300
Cumberland	270	8,200	3,300	2,800
Gloucester	490	6,200	3,600	2,800
Hunterdon	1,110	29,400	16,600	14,000
Mercer	110	3,500	2,300	2,100
Middlesex	160	4,200	2,400	1,900
Monmouth	960	27,300	19,900	15,700
Morris	260	3,700	2,100	1,600
Ocean	290	4,000	1,500	1,100
Salem	500	12,900	5,600	4,700
Somerset	250	7,600	3,500	2,900
Sussex	640	20,000	10,300	7,800
Warren	500	18,800	6,800	5,300
All other NJ counties	150	2,100	1,100	900
Statewide Total	7,200	176,000	96,000	78,000

Operations by number of head

This is largely an industry of smaller farms. More than 70 percent of the state's 7,200 equine operations had fewer than eight equine animals in 2006. These operations include not only small commercial facilities, but also horses kept in "backyards" and commodity farms that happen to keep a few horses. Although they make up only 29 percent of all operations, those having eight or more animals account for three-quarters of New Jersey's equine inventory of 42,500, while operations with 20 or more animals account for a third.

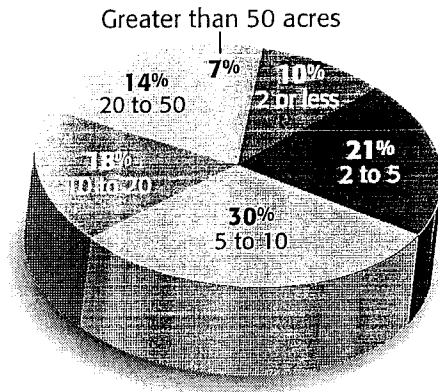


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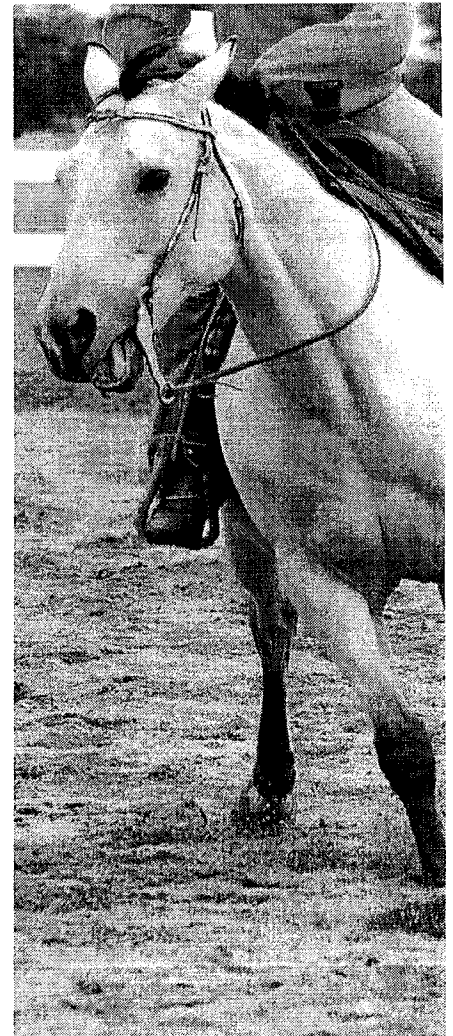
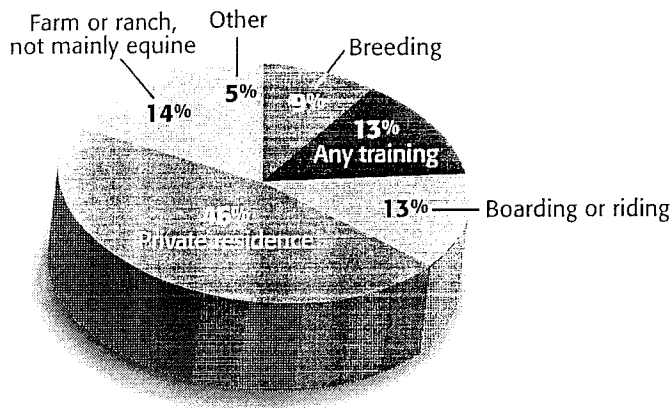
Operations by number of equine-related acres

The distribution of operations by size follows the distribution by number of head. More than half of all operations have fewer than 10 acres that can be characterized as equine-related. Although constituting a minority of all operations, those with more than 10 acres nevertheless account for 86 percent of the 96,000 equine-related acres on operations, while operations with more than 20 acres account for 71 percent of this total. Racing-related operations are, on average, about three times the size of non-racing operations, and account for one-quarter of operation acres devoted to equine activities.



Equine operations by primary function

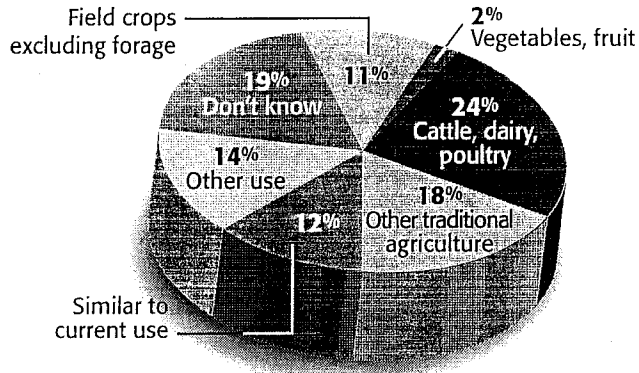
The chart below highlights the importance of the pleasure portion of the equine industry, with 46 percent of facilities with horses reporting that they are private residences, not commercial operations. The breeding and training categories, making up 22 percent of all operations, are the ones most likely to be racing-related.



179v

Acres by prior use of equine operation*

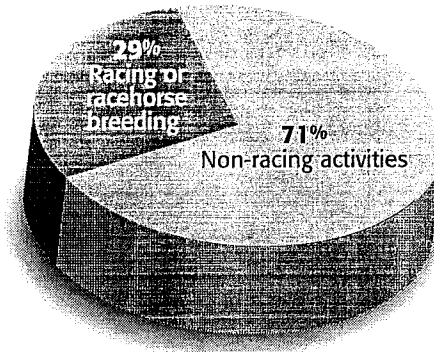
As urbanization continues, horses may prove to be a more profitable use of open land than more traditional agricultural commodities. More than a third of the land currently in equine operations was in field crops, livestock, or fruits and vegetables before becoming a horse farm.



*Current primary use must be equine. Figure includes acres on entire operation.

Equine operations involved in racing-related activities

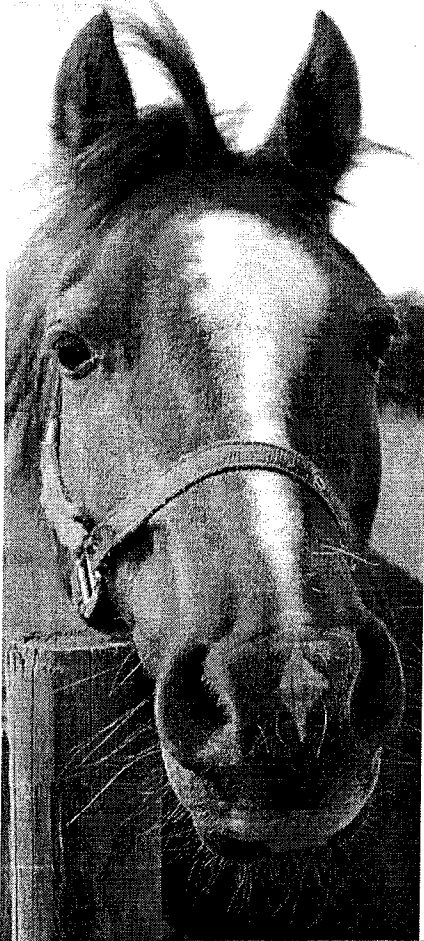
Racing represents a significant portion of the New Jersey equine industry, even far from the track. The racing-related operations shown below — 29% of the total — have more than half of their inventory in Standardbreds or Thoroughbreds that are foals, breeding stock, or active racehorses.



Demographic profile of the equine industry

New Jersey's horse people are a seasoned and committed group. Only a fifth, however, list the equine industry as a full-time occupation. This reflects not only the industry's pleasure component, but also the need for virtually all farm families to supplement their earnings with off-farm income.

Demographic Profile of the Equine Industry	
Male	40%
Female	60%
Average age	52
Own at least one equine animal	76%
Average years owning equine	23
Own an operation	52%
Primary occupation is in equine industry	20%



180x



Study Authors

This study is a joint effort of an inter-disciplinary research team of the New Jersey Agricultural Experiment Station (NJAES) of Rutgers University. Paul Gottlieb of the Department of Agricultural, Food, and Resource Economics served as principal investigator. Brian Schilling and Kevin Sullivan of the Rutgers Food Policy Institute had primary responsibility for the economic impact portion of the analysis. Drawing on their detailed knowledge of the equine industry in New Jersey, Karyn Malinowski and Diana Orban Brown of the Rutgers Equine Science Center contributed significantly to the execution of the study and communication of the findings.

Methodology

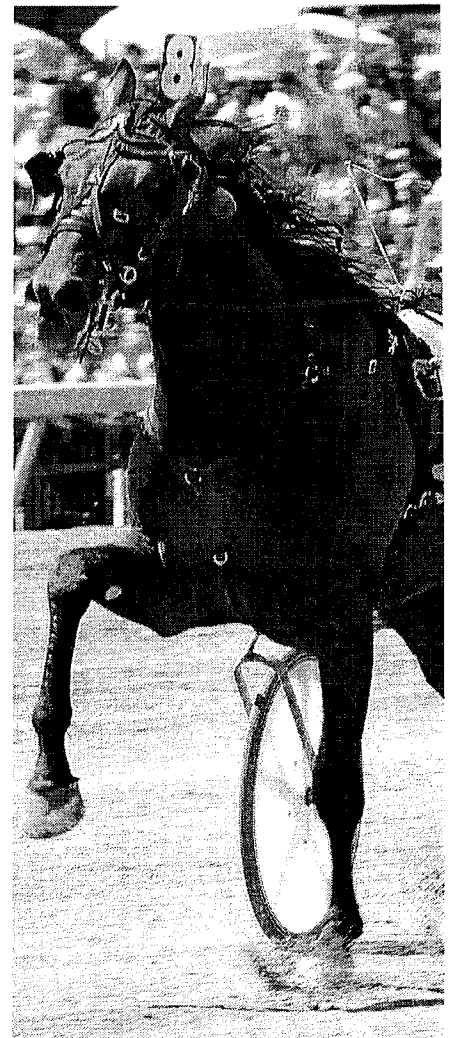
The study is based on an extensive survey of the equine industry conducted by the National Agricultural Statistics Service (NASS), a statistical agency of the United States Department of Agriculture. NASS mailed the survey to a list of nearly 10,000 potential horse owners and operations, and had staff visit 103 segments or parcels of land representative of New Jersey's agricultural and urban geography. The data collected from horse owners and operations in the geographical portion of the study was combined with the mail response to provide indications on equine inventory and the impact of the equine industry on the state's economy. This list-segment procedure is a highly recognized statistical methodology.

Expenditure information from the 2006 NASS survey was fed into IMPLAN, a highly-regarded computer model of the New Jersey economy. This enabled the research team to estimate the "multiplier" portion of the equine industry's impact on the New Jersey economy. Expenditure data was also combined with 2006 feed prices and 2002 agricultural yield figures to estimate the number of acres on non-equine farms used to feed New Jersey's horses. (A survey of the local hay industry, conducted by NJAES in 2004, was helpful for estimating prices, product mix, and interstate trade; see "NJAES Extension Bulletin E305.") Finally, telephone interviews were conducted with the state's racetracks and with a number of industry participants, both customers and suppliers.

Acknowledgements

The authors would like to thank Troy Joshua and his team of statisticians at the New Jersey office of the National Agricultural Statistics Service for their thorough data-gathering efforts. We would also like to thank Sarah Ralston and David Tulloch of Rutgers' School of Environmental and Biological Sciences; Ed Wengryn of the New Jersey Farm Bureau; and S. P. Dey II, Jane Gilbert, and David Meirs II, active equine industry participants, for providing suggestions on methodology. Several members of Rutgers Cooperative Extension gave technical advice, including Donna Foulk, Dan Kluchinski, Carey Williams, Joe Heckman, and Bob Mickel. Any errors or omissions are the authors' alone.

Further information related to the study is available on the Equine Science Center website at www.esc.rutgers.edu



For further information, contact:

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MEMORANDUM

TO: Mayor Michael J. Mahon
FROM: Christopher M. Walrath, Bond Counsel
RE: New Jersey Sports and Exposition Authority (the “**Authority**”) – NJEIT –
Monmouth Park
DATE: February 22, 2010

The Borough of Oceanport, on December 2, 2009, issued its \$6,265,000 Special Assessment Bond, Series 2009A (the “**Trust Bond**”) and its \$16,884,779 Special Assessment Bond, Series 2009B (the “**State Bond**”) and together with the Trust Bond, the “**Bonds**”) to the New Jersey Environmental Infrastructure Trust and the State of New Jersey, acting through the Department of Environmental Protection, respectively, each pursuant to the New Jersey Environmental Infrastructure Trust Program. The Trust Bond matures in 20 years, with principal payable annually and interest payable semiannually and bearing interest at various rates between 3.5% and 5.0%. The State Bond matures in 20 years, with principal payable semiannually, and does not bear interest. The blending of the low Trust Bond interest rates and the 0% State Bond interest rates produces a very low cost of borrowing.

The proceeds of the Bonds are being used for the construction of a stormwater basin (Elkwood Basin) at the Monmouth Park Racetrack property (the “**Property**”), including an outlet structure, a pumping station, stormwater lifting station, associated underground utility lines and manholes and a directional drill and the repair, rehabilitation, maintenance and reconstruction activities associated with an existing stormwater management basin (Infield Basin) on the Property, and the maintenance of a drainage swale thereon, including all work and materials necessary therefor and incidental thereto, all in accordance with all applicable laws, rules, regulations and permits (the “**Project**”). The Borough has entered into a Construction Agreement with the Authority whereby the Authority has undertaken to complete the Project with proceeds of the Bonds, and to obtain approvals necessary for the same. The Authority has also entered into a Tri-Party agreement with the Borough and the Trust evidencing its obligation to complete the Project. Please note however, that the obligation to pay principal of and interest on the Bonds is that of the Borough and not of the Authority.

Although the Bonds were authorized and issued as special assessment bonds, the Bonds are secured solely by the Borough’s full faith and credit pledge and taxing power. However, all of the Borough’s cost as well as debt service on the Bonds will be paid by the New Jersey Sports and Exposition Authority as a special assessment on the Property which benefits from the Project. The Borough and the Authority have entered into a Special Assessment Agreement pursuant to which agreement, among other things, the Authority has asked the Borough to undertake and finance the Project, requested that the costs of the Project and the financing costs,

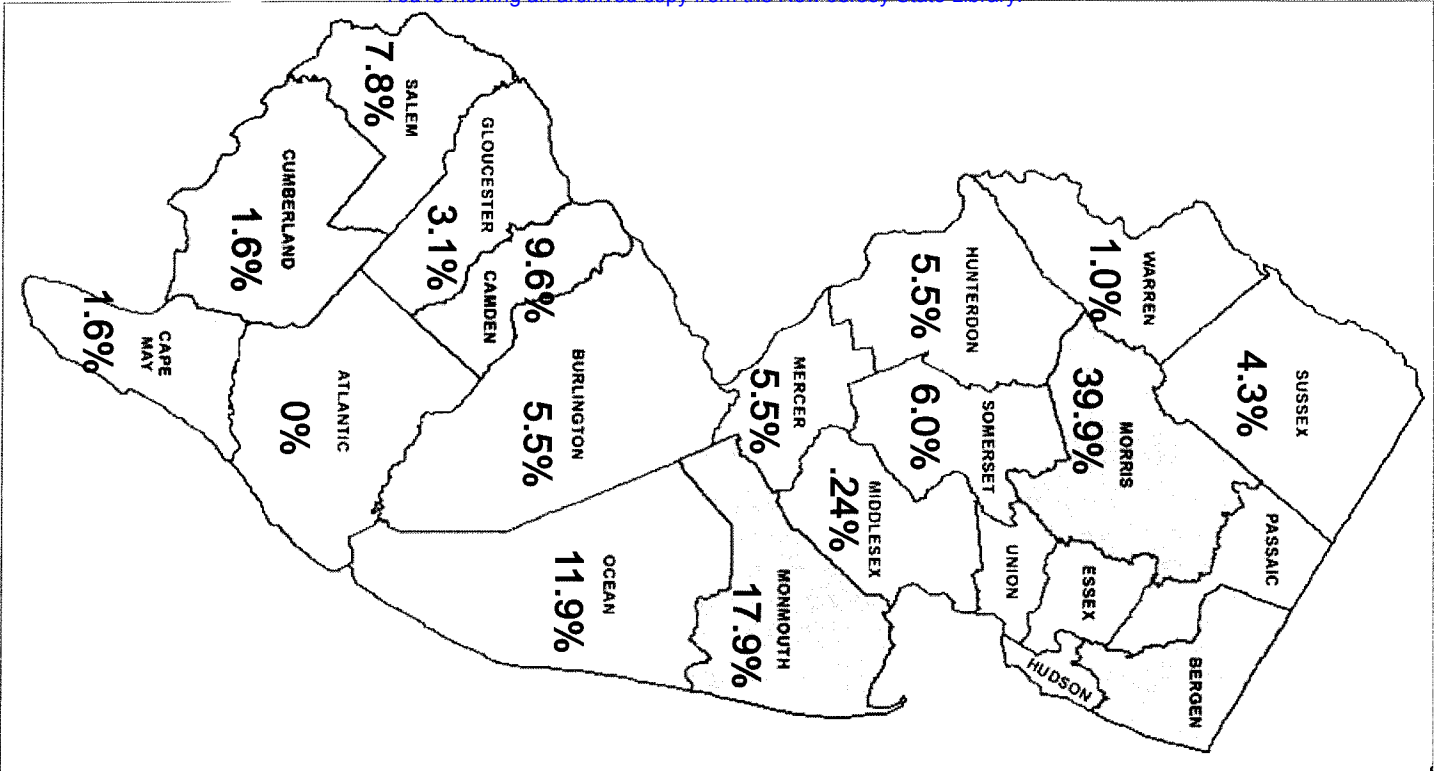


February 22, 2010

Page 2

including debt service on the Bonds, be assessed against the Property, and evidencing the Authority's obligation to pay the assessment on a timely basis. The timing of the payments by the Authority of the assessments to the Borough shall be such that the Borough will have sufficient moneys to pay any amounts owing to the Trust and the State prior to the date due.

Total Equine Facility Acres Compared to Equine Acres in Farmland Preservation

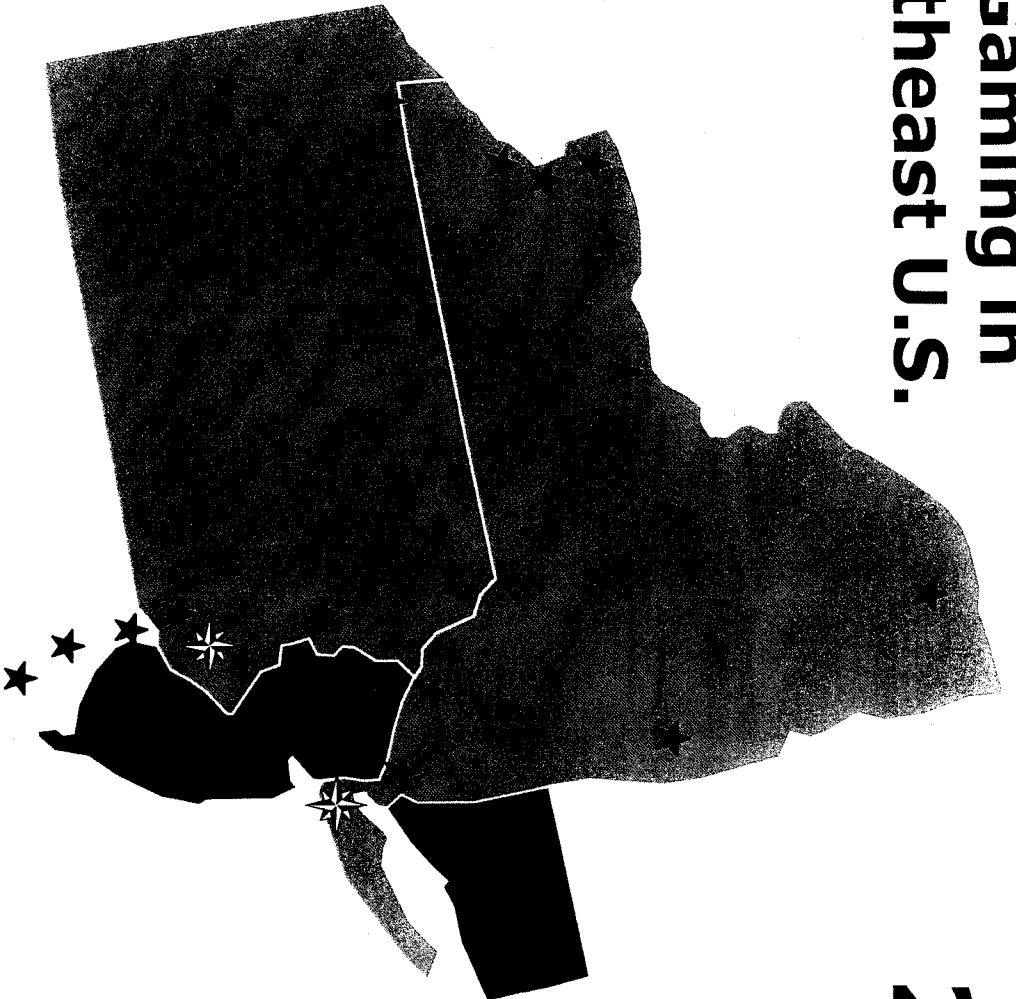


**% = preserved
equine acres
out of total
equine acres**

County	Total Equine Acres	Preserved Equine Acres
Atlantic	3,100	N/A
Burlington	20,700	1,137
Camden	1,600	154
Cape May	2,500	39
Cumberland	8,200	135
Gloucester	6,200	191
Hunterdon	29,400	1,607
Mercer	3,500	192
Middlesex	4,200	10
Monmouth	27,300	4,886
Morris	3,700	1,476
Ocean	4,000	477
Salem	12,900	1,009
Somerset	7,600	454
Sussex	20,000	857
Warren	18,800	195

Casino Gaming in the Northeast U.S.

2009



★ VLT / Slot destination

★ Planned VLT / Slot destination

0 VLT / Slot Machines	1 - 10,000 VLT/Slot Machines	10,000 - 20,000 VLT/Slot Machines	20,000 - 30,000 VLT/Slot Machines	30,000+ VLT/Slot Machines

Data from the State of New Jersey Casino Control Commission, Connecticut Division of Special Revenue, Delaware Lottery Commission, Pennsylvania Gaming Control Board, the New York State Lottery, turning-stone.com, senecagamingcorporation.com and mohawkcasino.com

Wednesday, March 3, 2010
Testimony to the Senate Legislative Oversight Committee
Committee Room 4, State House Annex

Senator Barbara Buono, Chair

Submitted by:
Jim Kirkos, Chief Executive Officer
Meadowlands Regional Chamber
201 Rt. 17N
Rutherford, NJ 07070
201-939-0707

Senator's, Good Morning and thank you for inviting me to speak before this committee on this day.

As a Lyndhurst resident of over 45 years, a business owner for 23 years and the chief executive of the Meadowlands Regional Chamber for the past 7 years, this committee can see that I have a long history in the Meadowlands and I believe a clear and experienced perspective on the Meadowlands Sports Complex.

I am here today representing over 800 companies from Mom & Pop storefronts to major corporations, many of which are directly affected by the Meadowlands Sports Complex and its economic impact to the region. That includes tens of thousands of employees and their families whose livelihoods depend upon the success of those businesses.

So, today's discussion about the NJSEA and the Meadowlands Sports Complex is very important to us.

I must admit that I was very concerned about the motive for this hearing. We've witnessed quite a bit of misinformation being actively distributed about the complex, its various components and the NJSEA itself. We've watched special interests from other regions of this state fund and actively coordinate targeted campaigns that serve to further that misinformation. And, unfortunately, we've watched the public dialogue subsequently disintegrate into knee-jerk suggestions for solutions that do not serve the public interest or the collective statewide interest, let alone the interests of those currently involved in the economic base of the Meadowlands.

But, I am convinced that an open dialog can only produce a better understanding of the facts. Facts that illustrate that the economic growth of the Meadowlands Region and the Sports Complex is an important factor in the economic growth of the state. Facts that

prove that the success of the Sports Complex does not mean the detriment of the economic opportunities in Atlantic City. Facts that prove that the success of the IZOD Center need not be thrown away to support the interests in the Newark Arena.

I will now share some of the reasons why I believe as I do.

The Meadowlands Sports Complex has been the epicenter and nucleus that has driven investment, property values, economic development and job growth for the entire region for over 30 years. Event day activity at the New Stadium, the IZOD center and the Racetrack fills thousands of hotel rooms, restaurants and retail stores not to mention all of the support services that add greatly to the overall economic impact, especially small businesses in the local communities. Meadowlands Xanadu when opened will take all of these positive impacts to a whole new level.

Throughout the years, the NJSEA has been extremely successful in establishing a worldwide brand that can and should be capitalized upon given the recognizable sense of place that is provided by such a brand. When I travel to meet with Chamber and CVB colleagues from all across the United States, all I have to say is that I am from the Meadowlands and they know exactly where I work. This powerful brand which benefits everyone in the state should now be used to promote tourism and attract visitors to a revitalized and dynamic destination called the Meadowlands Sports & Entertainment Complex. A destination related economy driven by tourism to the Meadowlands can be a sustaining economic tool creating thousands of jobs and needed tax revenue.

During the past 30 years, many administrations in Trenton have siphoned off surplus funds and utilized staff from the NJSEA for other statewide initiatives and have intervened politically in franchise negotiations that have left the NJSEA powerless at times to advance its own business, so it disturbs me when I read editorials on the authority's inability to sustain itself. Quite frankly these editorials are very disingenuous and are aimed at the NJSEA's demise. We all know there are forces among us who will stop at nothing to promote the failure of the NJSEA and components of the Sports Complex like the IZOD Center. This committee must see through this and take into account the past practices and bad political decisions as a root for the current financial status of the authority.

The Meadowlands Regional Chamber's experience with the NJSEA has been open and collaborative on many fronts. We find the Authority to be extremely sensitive to the economic impact that the Complex has on area businesses. We see no example of political patronage, but instead we experience a very dedicated staff who often works long hours. In fact a few Sundays ago you could find Sr. VP's with shovels' removing snow from Giants Stadium so the game could be played on time. (The only facility in the

country effected by snow to not delay the start time of an NFL game was right here in the Meadowlands)

My comments about the NJSEA must parallel that of the Complex as a whole and rightfully so you can't talk about the Authority without talking about the components of the entire Meadowlands Sports Complex and the problems they face.

The real issue here is whether the state has the patience, moral will and confidence to use the NJSEA as its vehicle to resolve these problems or use some other mechanism. At this time, we cannot suggest another process. No matter what its flaws, the consistent fleecing of the agency for other state initiatives is the root of its problems, not its performance. But let's separate the political from the economic. I am here advocating for jobs and economic development that will enhance revenues to our state and help us grow out of our fiscal dilemma while creating new opportunities for businesses and residents.

The NJSEA operating the Meadowlands Sports Complex has earned our respect for what it does for our region and for the state generally. The simple fact is that for the money the state loses on its racing program, the economic impact of losing racing in NJ is far worse. The truth is that the IZOD Center contributes to its bond payments – an obligation the state cannot escape by closing the facility – and the NJSEA has a business plan in place to make it a net contributor to the state BEFORE we consider the \$20 million a year in income and sales tax revenues it throws off and the tens of millions it generates locally. The truth is the deal on the New Stadium has caused considerable financial pain to the NJSEA despite repeated early warnings. And finally, we have a 2 billion dollar building called Xanadu that will no doubt be a super-regional attraction but it remains unopened due to dynamics in the economy.

And yet each of these facts somehow comes back to my office in the form of closure threats from public officials, mostly motivated through regional interests.

Here are my simple truths:

Every state that borders New Jersey has saved its horse racing industry with gaming, and if we do not RUN toward a casino gaming solution we will lose ours. Those in Atlantic City most fervently arguing the health of their franchise know, intellectually, that one thing has nothing to do with the other, and if it did, they would not have all opened casinos in Pennsylvania, 100 miles closer to Atlantic City than the Meadowlands. Atlantic City should be our partner, not our opponent, in broadening gaming policy and offerings in the state.

IZOD Center remaining open and competing with the Prudential Center is in the state's best interest in many ways, predominately in total event-day count, jobs and overall

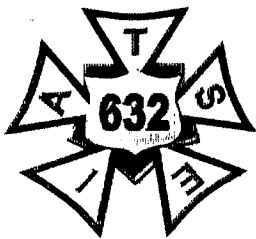
economic activity. But let's not forget, the state owns IZOD Center, so we owe it to ourselves to make it work.

So if you are questioning whether the state should get out of the sports and entertainment business, let's get the answers to some questions because we owe it to the people of New Jersey to examine all options.

- How much you can sell the IZOD Center for to a private buyer?
- Do you know the potential value of a full gaming license or a racino license in the Meadowlands? (We believe it could reach 1 billion dollars which could go a long way to reduce property taxes and stabilize NJSEA operations and capital investment.)
- How much does that license change if you impose the requirement that a regional convention center be placed on the site?

Senators, in closing, the Meadowlands Sports Complex is and must remain a great economic engine not only for the Meadowlands but for all of New Jersey. We must have the courage to dream about what the possibilities are... and act on them because that is what those before us did with their vision. Indecision is no longer an option. Your review and analysis of the Sports Complex should be based on business principles not politics but you should be cognizant of the past political ramifications. Your review of the finances and operations of the NJSEA should take into account all aspects of the testimony you are hearing today. In doing so, I trust good business decisions can be made about our future.

Thank you.



International Alliance of Theatrical Stage Employees, Motion Picture Technicians, Artists and Allied Crafts of the United States and Canada.
AFL-CIO, CLC

LOCAL 632 IATSE

Serving the Meadowlands and Northern New Jersey
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Email: iatse.sixthreetwo@verizon.net

Senate Legislative Oversight Committee
Committee Room 4, 1st Floor
State House Annex, Trenton, NJ

March 3, 2010

Madame Chairwoman and Distinguished Members of the Legislative Oversight Committee,

I am Kevin O'Brien, President of Local 632 IATSE, representing the Theatrical Stagehands at the Meadowlands Complex. We are the behind-the-scenes artists and technicians who construct and execute theatrical shows, concerts, ice shows and circuses, as well as half-time performances at sporting events. I am in fact addressing this Committee from the standpoint of a "working President", meaning, in addition to being a union official I am a theatrical rigger employed at various times by the NJSEA.

While our Union agrees that there are concerns with regards to insuring the Sports Authority's financial stability, we also believe that there are viable solutions which must be considered and implemented to bolster the financial sustainability of the NJSEA product mix; one of which we understand is being considered as a means to draw bigger fields and higher-quality horses to Monmouth Park during its spring/summer meet. This, in turn, would generate enough revenue to help offset an approximate \$11 million net racing loss this year.

We just as strongly *disagree* with the purported theory that "the viability of the IZOD Center is threatened by other local competition". The IZOD Center can and should be the "Entertainment Jewel" of a revitalized Xanadu project. As a Union official who has dealt with many concert promoters and tour managers, they will attest to the fact that the IZOD Center is one of the most efficient in the world with which to load into, perform, and load out a show. This speaks volumes about the physical plant, as well as the NJSEA workforce. Speaking not merely of our stagehands, indeed the entire Meadowlands staff interacts seamlessly.....be it the paramedics, the security guards, laborers, electricians, building engineers, food services, guest services....to give the paying public a safe, enjoyable experience no matter the performing artist or act.

The domination of the IZOD Center is featured in the publications which many consider to be the "show business bibles". According to *BILLBOARD* magazine, the IZOD Center ranked **fourth nationally** and **sixth worldwide** during the past decade, attracting over 7 million patrons who spent over \$300 million on concerts and family shows. *VENUES TODAY* magazine released their 2009 rankings showing that the IZOD Center continued its tradition of strong showings ranking **seventh in the United States**, and **twelfth worldwide**.

The NJSEA has taken the necessary actions to make the IZOD Center even more viable to concert promoters, in that its management team, its Board of Commissioners, and all Unions at the Meadowlands complex take a no-nonsense approach to business. During recent contract negotiations Local 632 IATSE had agreed to forego compensation for the Austrian drape system until such time that it had proven feasible. (The drapery system which transforms the Arena into a theatre configuration for hosting smaller, intimate audiences).

194x

To make the IZOD Center even more competitive our members also waived their rights to recording fees in exchange for a nominal wage increase. This had made it more attractive for performing artists and acts such as WWE to film, tape, rehearse or broadcast at the Meadowlands complex. Governor Christie's transition team on Gaming, Sports and Entertainment, noted in its report that in 2009 the IZOD has also been used for rehearsals due to the dates opened up with the departure of the NJ Devils. In 2008, Madonna used the IZOD Center as the rehearsal hall for her world tour, and in 2007 both Bruce Springsteen and Marc Anthony/Jennifer Lopez used the building in the same way. (Attached photos page 3)

Local 632 IATSE is a progressive Union whose officers think outside the box. When the New Jersey Nets requested spotlight operators during home games, we acquiesced only to discover that basketball management was precluded from executing a collective bargaining agreement with us. Heeding our industry maxim "the show must go on", we agreed to payroll the spotlight operators under the auspices of "*Local 642 Productions*", a subsidiary which our Union established to make it more economical for our 501(c)(3) employers such as Morristown Theatre, the BergenPac, and the New Jersey Ballet to pay their workforce.

Governor Christie's Gaming, Sports and Entertainment transition report further notes that in the past 26 months two major Arenas operating in the State have driven an ***increase of 222 events*** (58%) over what would have been the historic norm. This substantial increase in events has indeed supported hundreds of jobs and ancillary businesses, increased the entertainment options for our people, and increased State sales and income tax revenue as well as increasing overall economic activity within the State. From the State's perspective, two arenas has been an incontrovertible success.

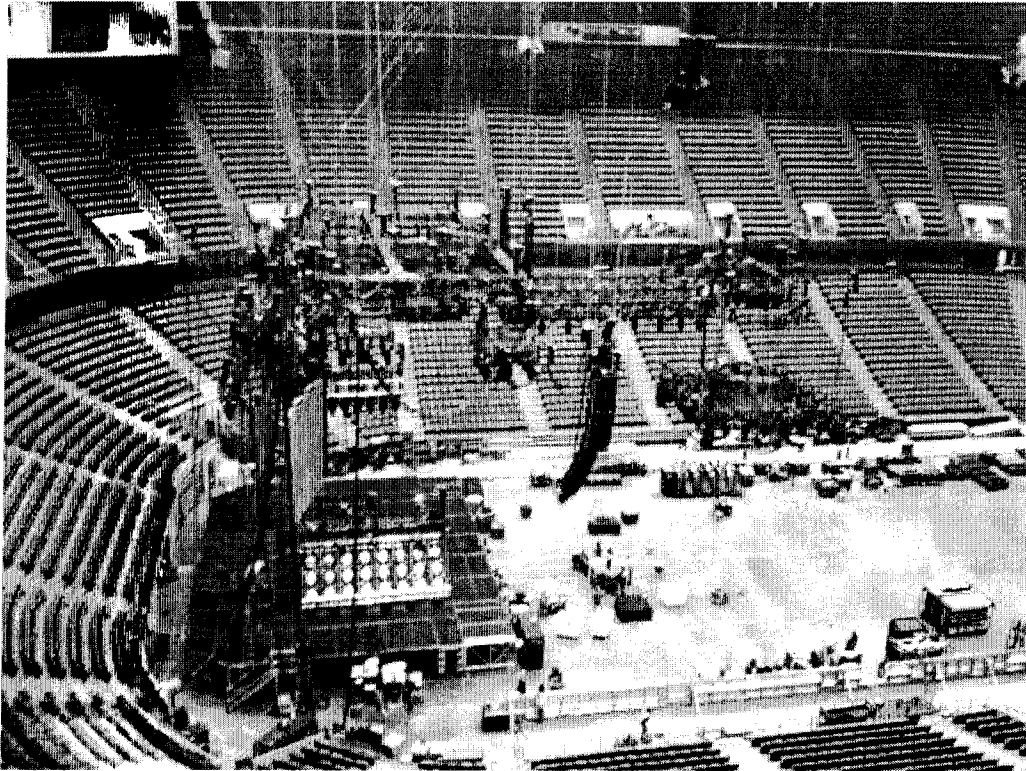
It must be underscored that this has resulted in ***additional employment*** for residents of our great State, especially in these trying economic times. A prime example of this occurred last spring when the IZOD Center presented a concert by the "Dave Matthews Band" on the very same evening that the Devils were at the Prudential Center hosting their first playoff game against the Carolina Hurricanes. In another instance last summer 120 stagehands worked a Jonas Brothers concert at Izod Center, while 80 more stagehands simultaneously worked Cirque de Soleil at the Prudential Center. Consider that possibly hundreds of families were able to make their mortgage payments because both venues were operational those nights.

Local 632 IATSE theatrical stagehands from the Meadowlands Sports Complex took the time and effort to assist the residents of Newark in opening the Prudential Center with its first series of concerts. In fact, I shared the task with another Meadowlands rigger, James Mullen, to hang the very first rigging points for the inaugural "*Bon Jovi Concert*" at Prudential. In turn, these same Prudential Center stagehands have been working at the Meadowlands, thanks to a newly-formed cooperation between IATSE Local 632 and IATSE Newark Local 21.

One can't help but to realize how many families have put food on their tables or have paid their heating bills simply because there is additional employment being generated by two venues operating in Northern New Jersey, or, how many small businesses are still thriving due to the dates being generated by two venues? We believe it imperative that all parties concerned should keep these questions in the forefront during these deliberations.

Finally, as Governor Christie's transition team's report implies, it is within the realm of several venues in our state, including Giant's Stadium, Prudential Center, PNC Arts Center, IZOD, and Boardwalk Hall, to cross-book, cross-market, or even do joint ventures. Who knows, a successful business model may emerge.... something for which we can all be very proud.

Respectfully,
Kevin M. O'Brien, President
Local 632 IATSE



Madonna Tour Technical Rehearsal Set-Up, IZOD Center



Madonna Tour NJSEA Stagehands Technical Rehearsal Crew, IZOD Center

ADDITIONAL APPENDIX MATERIALS
SUBMITTED TO THE
SENATE LEGISLATIVE OVERSIGHT COMMITTEE
for the
MARCH 3, 2010 MEETING

Submitted by Michael J. Mahon, Mayor, Borough of Oceanport:

“The End of Monmouth Park: Both the Old and the New Track to be Sold at Auction in April – History of the Courses,” *The New York Times*, March 14, 1897, Copyright © The New York Times.

Melissa Ziobro, “Fort Monmouth: Home to the Jersey Derby?” *Monmouth Message*, April 1, 2005.

Tom Luicci, “State’s cure for horse racing calls for tripled purses, fewer racing days at Monmouth Park,” *The Star-Ledger*, February 25, 2010.

Submitted by Jim Kirkos, Chief Executive Officer, Meadowlands Regional Chamber of Commerce:

John Brennan, “Izod Center concerns worry local businesses,” September 16, 2009, *The Record*.