

State of opportunity

Artist's impression of how Atlantic City might look in future after regeneration projects and online gaming breathe new life into the city.
(Image: Jerde Partnership)

Online gambling is up and running in New Jersey and it's off to a strong start, providing a welcome shot in the arm for ailing Atlantic City. Lawyer **Sarah Coffey** offers some early analysis

Given that the state's gambling law only went into effect on 26 February 2013, the 26 November launch was a quick turnaround that evidenced the casinos' – and the state's – eagerness to take advantage of a new revenue source. While official revenue figures for the first month of online operations will not be available until early 2014, the New Jersey Division of Gaming Enforcement (DGE) disclosed that over 51,000 online gaming accounts were opened in the first two weeks that casinos began accepting registration for online play. This impressive figure indicates that the casinos could be seeing a positive influx of money, some of which will be passed along to the state in the form of a 15% tax.

However, 51,000 accounts does not necessarily equate to 51,000 people registering. Six casinos were approved for online gaming for the go-live date of 26 November – Bally's, Borgata, Caesars, Tropicana, Trump Plaza, and Trump Taj Mahal – and players must create separate accounts for each casino's website, meaning

that a single person may register multiple accounts. Each casino is currently permitted to operate five websites, although players may use the same player account to access all the websites operated by an individual casino. Many casinos have used this allotment in order to launch poker-only websites in addition to websites offering a variety of casino games.

Anyone can create an online account with one or more New Jersey casinos, however, a player must be present within the state of New Jersey in order to play. The account registration process for each casino confirms that the person is who he or she claims to be, and that the individual is over the age of 21. Each time the player logs on – and throughout the course of play – geolocation software detects and verifies that the player is physically present in the state of New Jersey. If the software detects that the player is outside of New Jersey borders, it blocks the player's access to the online games.

Approved casinos did a statewide 'soft launch' of their software beginning

November 21. Seven casinos launched a total of 17 domain names, ten of which provided a range of casino games, and seven of which were solely dedicated to poker. During the five-day soft launch period, approximately 10,000 invited guests registered accounts and played online games for limited periods of time. The soft launch began with an eight-hour daytime period on Thursday 21 November, an eight-hour evening period the following day, a 16-hour test period on Saturday and finally 24-hour test periods on Sunday and Monday. This allowed the casinos and gaming operators to test the programs with live, statewide users on a limited basis in order to identify and fix any glitches and problems prior to the official launch date of 26 November 2013.

This test period was put to good use, with the state and casinos sending testers across and outside the state to test the geolocation software. While the testers found that the software was effective in blocking out-of-state transactions, a common complaint was that the software was overly cautious

and was blocking a fair number of in-state transactions. This was especially common near the state borders. Since some of New Jersey's most populous areas are near the borders of New York City and Philadelphia, however, it was critical that these issues be fixed so as not to block out a significant portion of the market, especially when these areas contain a considerable amount of young professionals – a target demographic for online poker in particular.

In addition to geolocation issues, some users reported problems in depositing funds into their accounts because their banks or credit cards blocked the gambling transaction. Some credit card companies still refuse to process online gaming transactions, or at least do not process them with regularity. After the 2006 passage of the Unlawful Internet Gaming Enforcement Act, internet gaming transactions were coded as '7995' transactions and largely rejected. Many credit card companies have been slow to acknowledge the change in legal status and adjust their codes to account for legal, intrastate gambling. They feel that the risks associated with processing any online gambling transactions currently outweigh the benefits of processing for the few states where it is legal, and as a result some companies, such as Bank of America, will not process the transactions. MasterCard, on the other hand, has adjusted its coding system to account for legal intrastate

gambling transactions by using the same advanced deposit wagering code used in legal online horse-racing, and is therefore regularly processing New Jersey online gambling transactions.

Casinos and regulators hope that online gaming will boost revenues for Atlantic City casinos, which have been steadily falling from \$5.2bn in 2006 to \$3bn in 2012. While New Jersey governor Chris Christie has said that he expects online gambling to generate \$1bn for casinos in its first year, bringing in \$150m in tax revenue for the state, most estimates are substantially more conservative. During a New Jersey Senate Budget Committee meeting in May, David Rosen, the budget officer for the nonpartisan Office of Legislative Services, told lawmakers that a more realistic online gaming revenue figure was \$30m. A recent report by Fitch Ratings corresponds to that number, with an estimate of \$30-45m in tax revenue in the first year.

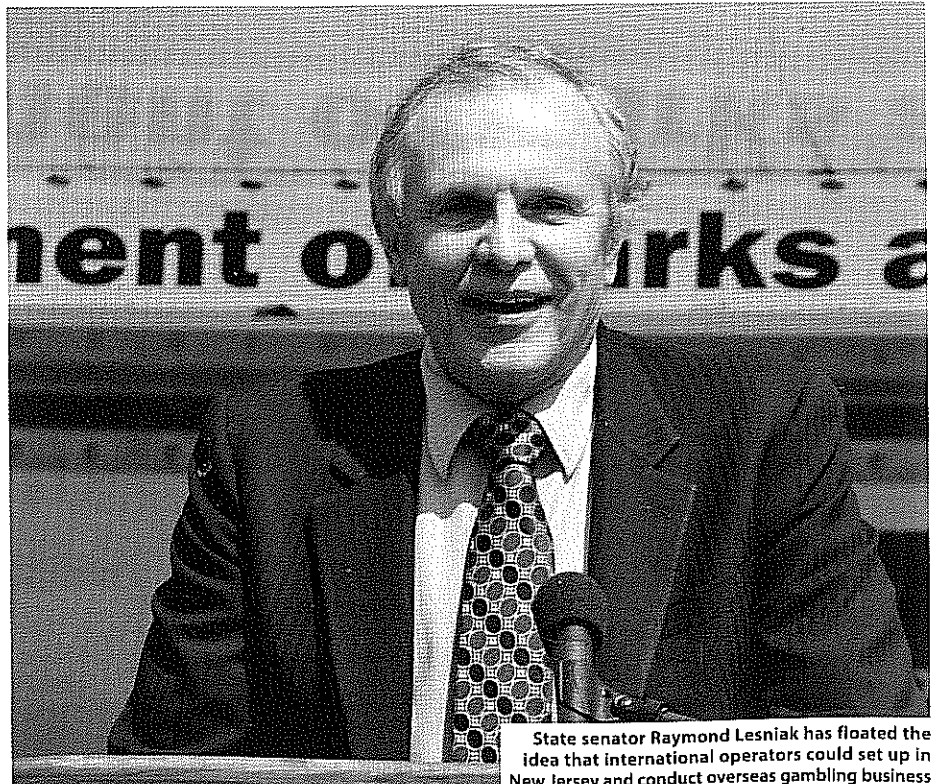
The prospective positives are not merely limited to tax revenue. Casinos hope that they will be able to use the online gaming platforms to advertise and incentivise online customers to come to the brick-and-mortar casinos in Atlantic City. Players could earn credits and rewards which could be redeemed at the casinos, or qualify online for in-person tournaments, hopefully bringing a new audience to the casinos and surrounding businesses.

There are also more far-ranging, long-term opportunities. The New Jersey online gaming law allows for the state to enter into interstate compacts in order for states to pool their customers together to increase liquidity, and divide profits from this larger player pool. With eight other states currently considering online gaming bills, and Delaware and Nevada already up and running, this could soon be a viable option. What's more, state senator Raymond Lesniak, who was instrumental in proposing the online gaming bill and seeing it through to law, has already raised the prospect of passing another law that would allow international gaming operators to set up shop in New Jersey to conduct overseas gambling business.

Judging by the large number of accounts set up in the first weeks, internet gaming appears to be off to a strong start in New Jersey. However, it will not be clear what sort of impact this could have for the casinos and the state until the official statistics are released in January 2014. Regardless, it is clear that New Jersey is currently the biggest online gambling market in the country, and that it can use that position to leverage authority in interstate gaming agreements and other opportunities down the line, providing Atlantic City casinos with a much needed boost. ◀

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