

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 854
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: MAY 2, 2022

SUMMARY

Synopsis: Provides that 1.25 percent tax on sports wagering revenues be used for local tax relief purposes for Atlantic City.

Type of Impact: Annual State revenue loss to Casino Reinvestment Development Authority. Annual revenue gain to the City of Atlantic City.

Agencies Affected: Casino Reinvestment Development Authority and the City of Atlantic City.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
State Revenue Loss	\$2 million to \$4 million
Revenue Gain to City of Atlantic City	\$2 million to \$4 million

- The Office of Legislative Services (OLS) estimates that the bill will result in a State revenue loss to the Casino Reinvestment Development Authority (CRDA), and a corresponding revenue gain to the City of Atlantic City, in the amount of \$2 million to \$4 million annually. Revenues generated by the 1.25 percent additional tax on sports wagering have increased from about \$1.5 million in calendar year 2019 to an estimated \$3.8 million in calendar year 2021.
- The amount of revenue raised by the 1.25 percent tax is driven by sports wagering activity. Sports wagering revenues in the first two months of calendar year 2022 have declined by 31.6 percent when compared to the same period in calendar year 2021. This decline may be caused by the commencement of sports wagering in New York on January 8, 2022.
- It is unclear how the CRDA will respond if the 1.25 percent additional tax revenues are redirected to the City of Atlantic City. CRDA revenues have been negatively impacted by the redirection of investment alternative tax revenues and the slowdown in economic activity resulting from the COVID-19 pandemic. CRDA's discretionary expenditures are generally used to support Atlantic City marketing and promotion efforts.

BILL DESCRIPTION

The bill provides that the 1.25 additional percent tax on sports wagering revenues be used for local tax relief purposes. Under current law, the 1.25 additional percent tax on sports wagering

revenues is remitted by the State Treasurer to the CRDA for marketing and the promotion of the City of Atlantic City. The bill requires sums from the 1.25 percent additional tax be remitted by the State Treasurer to Atlantic City to reduce the property tax levy for municipal purposes.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill will result in a State revenue loss to the CRDA, and a corresponding revenue gain to the City of Atlantic City, in the amount of \$2 million to \$4 million annually. The bill redirects proceeds from the 1.25 percent additional tax on sports wagering revenues from a State entity, the CRDA, to the City of Atlantic City. Casino gaming revenue is reported on a calendar year basis and the City of Atlantic City and the CRDA both operate on a fiscal year that begins on January 1 and ends on December 31. This estimate will be reported in a similar manner.

The 1.25 percent additional tax on sports wagering revenues has been levied since June 2018. According to information published in the Summary of Gaming and Atlantic City Taxes and Fees (prepared by the Division of Gaming Enforcement (DGE) in the Department of Law and Public Safety) and the CRDA's financial statements, the tax generated about \$1.5 million in calendar year 2019 and about \$2.1 million in calendar year 2020. Information reported by the DGE indicates that calendar year 2021 sports wagering revenues totaled about \$305.0 million. Based on that amount, the OLS projects that 1.25 percent additional tax revenues totaled about \$3.8 million last year.

Total sports wagering revenues increased from \$123.5 million to \$305.0 million, or 147 percent, from calendar year 2019 through calendar year 2021. The most recent gaming revenue report issued by the DGE, which covers January and February 2022, indicates that sports wagering revenue has declined by 31.6 percent when compared to sports wagering revenues for the same two-month period in calendar year 2021. If that rate of decline continues for calendar year 2022, then total sports wagering revenues will decrease from \$305.0 million to about \$208.6 million and 1.25 percent additional tax revenues will total about \$2.6 million. Some of this decline may be attributable to the commencement of sports wagering in New York State on January 8, 2022. Given the uncertainty regarding whether the rate of decline in sports wagering revenue will continue, the OLS concludes that an estimate of \$2 million to \$4 million of 1.25 percent additional tax revenues annually is reasonable.

The bill requires the City of Atlantic City to use the 1.25 percent additional tax revenues to reduce the municipal purposes property tax levy. According to Atlantic City's adopted budget for calendar year 2021, the municipal purposes property tax levy was about \$40.0 million. If the bill had been in effect for that period, then the estimated amount of 1.25 percent additional tax revenues, \$3.8 million, would have represented 9.5 percent of the municipal purposes property tax levy. (For purposes of this calculation the total municipal purposes property tax levy does not include the property tax levy dedicated for the local municipal library, which is determined in accordance with a formula set by State law.)

The bill will result in an annual revenue loss to the CRDA. Although the CRDA assumed responsibility for marketing Atlantic City following the dissolution of the Atlantic City Alliance

in 2016, it was not provided any additional financial resources to support these efforts until 2019. At that time, the CRDA's marketing budget was increased and revenues generated by the 1.25 percent tax were dedicated for marketing and promotion of Atlantic City.

It is unclear whether the CRDA has sufficient financial resources to make up for the loss of the 1.25 percent additional tax revenues. Although several revenues generated by gaming and tourism activity are dedicated to the CRDA, some of these funds are reserved for the payment of debt service and the operation of the Atlantic City Convention Center and Boardwalk Hall. Additionally, pursuant to P.L.2016, c.5 and P.L.2021, c.315, the bulk of the revenues generated by the investment alternative tax that were directed to the CRDA were redirected to support Atlantic City municipal debt service. CRDA finances have also been impacted by the reduction in economic activity due to the COVID-19 pandemic and capacity limits following the reopening of venues in 2020. In response to a FY 2022 OLS Discussion Point, the CRDA noted that calendar year 2020 revenues dedicated for debt service payments were down \$37 million from calendar year 2019 while general fund operating revenue was down \$10 million for the same comparable period.

Section: Revenue, Finance and Appropriations

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).