



THE SOUTH JERSEY ECONOMIC REVIEW

O I O O T N I H T

Buoyed by the opening of two new casino hotels last summer—Hard Rock and Ocean Resort—Atlantic City's economy added 4,600 jobs in 2018, an increase of 3.6 percent. Last year's rate of job growth in Atlantic City was its best since the late 1980s, a period that saw robust job creation tied to that decade's second wave of casino building. Employment in the metropolitan area's casino hotels increased by 3,500 (+17.8 percent) last year.¹

The increase was the gaming sector's largest (in absolute terms) since 1990—the year the Taj Mahal opened its doors.

While non-gaming related job growth was more modest last year it was relatively broad-based. Total employment excluding the gaming sector increased by 1,100—a 1 percent increase. (Table 1) The acceleration in regional homebuilding (see discussion below), in tandem with other major construction

continued on page 2

Table 1: Atlantic City Establishment (Payroll) Employment by Industry (2)

Industry/Sector	Employment (thousands)					Absolute Change from Prior Year				Percent Change from Prior Year			
	2014	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018

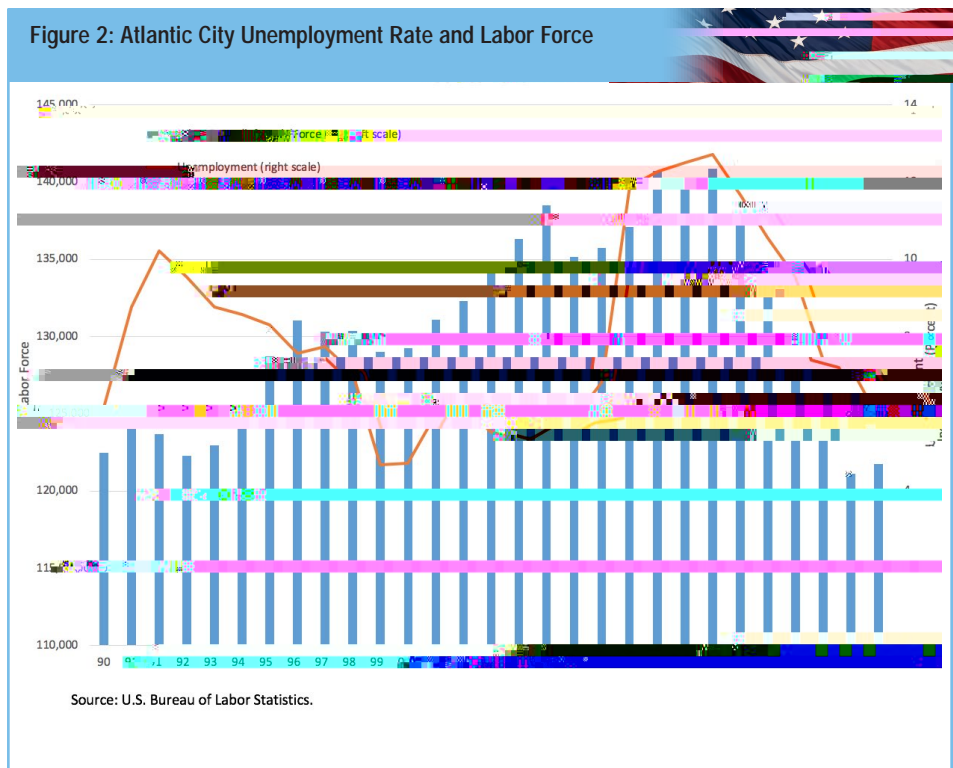
Source: U.S. Bureau of Labor Statistics.

Reflecting last year's solid job growth, the metropolitan area's unemployment rate fell to 5.9 percent from 7.2 percent in 2017. Importantly, last year's decline in the unemployment rate came despite a modest increase in the local labor force of 0.5 percent. In fact, last year's increase in the local labor force was the first since 2012. Reflecting the aftermath of the Great Recession and the deep and protracted retrenchment in the local gaming sector, the local economy's labor force declined by nearly 20,000 (-14 percent) between 2012 and 2017.

Housing Market

As Figure 3 shows, single-family home prices in the metropolitan area declined by 36 percent between mid-2006 and early 2017. The decline in single-family home prices in Atlantic City was among the largest and most protracted in the nation. Home prices began to stabilize in early 2017. Since then, prices have increased by approximately 7 percent.

The effect of the collapse in home prices is visible in Figure 4, which shows permit activity for single-family homebuilding in the metropolitan area. Single-family homebuilding in Atlantic City declined significantly beginning in 2006 in tandem with the national housing market downturn.



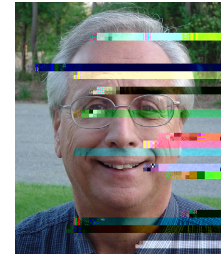
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Activity remained largely dormant until mid-2015. Homebuilding began to recover thereafter before slowing markedly again in late 2016 and early 2017. Since early 2017, permit activity has slowly gathered pace. In October 2018, the six-month moving average of permits (which captures the number of single-family units authorized by permits pulled by homebuilders) climbed to 104—a level last seen in early 2007.

Atlantic City Gaming

One key question that will hang over the Atlantic City metropolitan area economy as 2019 unfolds is whether the momentum the local gaming sector gained via the two new casino openings in 2018 can be sustained. While last summer's casino openings added jobs to the local economy, they also added significant new inventory (e.g., the industry's hotel room inventory increased by 28.5 percent) and competition to the local market. In addition to these openings and their localized effects on gaming operators and the industry's total employment, another

key consideration regards the longer-run implications of sports wagering and internet casino gambling on Atlantic City's gaming sector. In the special feature that follows, long-time gaming industry analyst and former adjunct instructor at Stockton University, Anthony Marino, assesses the economic potential these newest forms of gaming hold for Atlantic City's gaming industry.

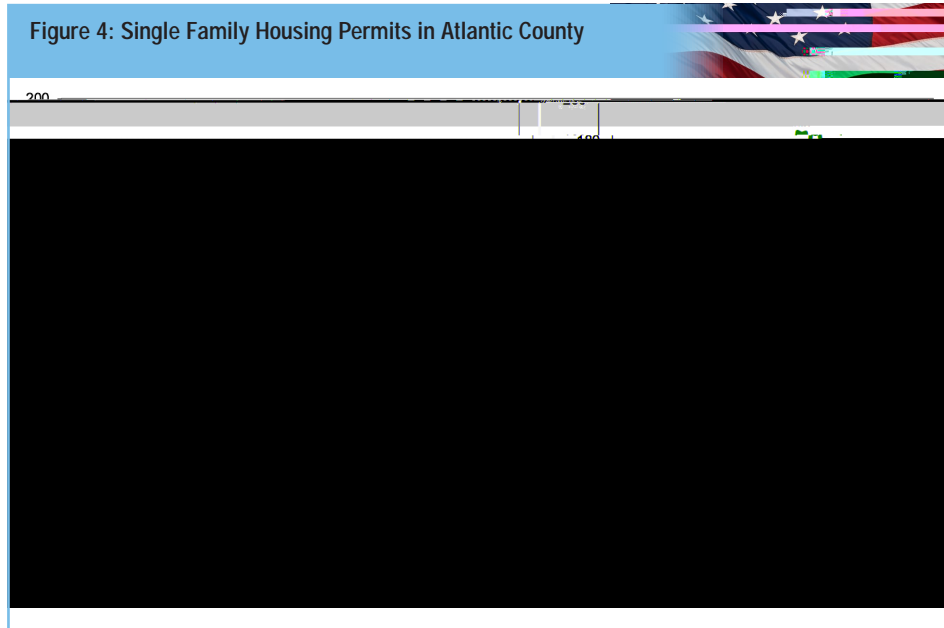
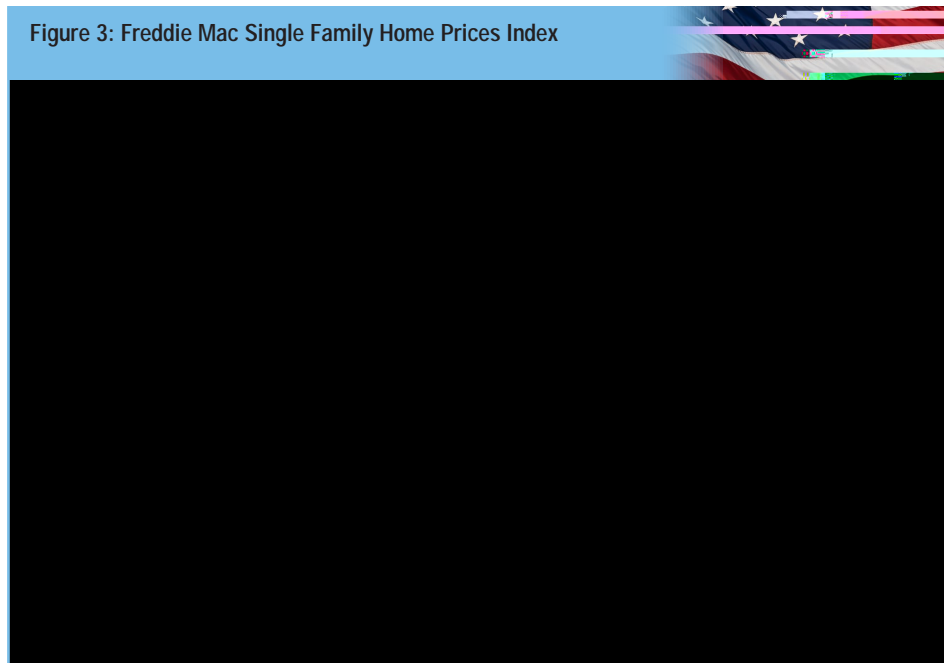


The Atlantic City casino industry changed significantly in the second half of 2018. In late June, the simultaneous opening of two new casinos and the advent of legal sports wagering operations sparked a surge in employment numbers, visitor trips to the resort, and gaming revenues.

Brick and mortar casino gambling revenues for all of 2018 increased to \$2.511 billion dollars from the 2017 level of \$2.413 billion. Sports wagering, which commenced in mid-June, added another \$50.2 million dollars to total gaming revenue while the industry's third revenue producing component, internet casino gambling, won \$298.7 million dollars. Thus, full year gaming win in 2018 totaled \$2.860 billion dollars, a robust +7.5% increase over 2017 revenues of \$2.659 billion dollars. (See Table 2)

Internet gambling and sports wagering revenue trends merit close scrutiny for two reasons: they supplement brick and mortar gambling but may reduce future visitation to Atlantic City, thereby threatening traditional brick and mortar gaming and non-gaming revenues. Table 2 includes completed data from 2006, 2012, 2017, and data currently available

continued on page 4





for 2018 to suggest how both internal and external competition have affected land-based casino revenue and casino employee numbers in the last 12 years.

The rapid rise of internet casino gambling.

The New Jersey Legislature and state gambling regulators fast-tracked the introduction of internet gambling ahead of most nearby east coast states. It became available in November 2013 and generated nearly \$8.4 million dollars in gaming win by year's end.

Internet gambling came too late to save four of the then 12 casinos from closing during 2014. Nonetheless, internet revenues were \$122.9 million dollars that year. In 2015, internet gambling increased 21.2%, to \$148.9 million compared to 2014; it jumped another 32.1% in 2016 to \$196.7 million dollars, and again by 24.9% in 2017 to \$245.6 million dollars. As shown in Table 2, in 2018, internet gambling win reached \$298.7 million dollars.

Will sports wagering follow a similar growth pattern? Total New Jersey sports wagering handle (amount bet, not amount won), including both Atlantic City casino and two racetrack sports books totaled \$1.247 billion dollars (in just six months) in 2018. But two of the nine casinos did not operate sports books in 2018, and others initiated activities late in the year.

The Hard Rock casino will open its sports book in early 2019 while Caesars casino in the resort apparently plans to continue sending its customers to its next-door

neighbor's jointly owned sports book at Bally's. All three Atlantic City casinos owned by Caesars Entertainment (Caesars, Bally's, and Harrah's), as well as the Borgata, owned by MGMWabdoll-8 (ts book at)e spo10 ll H 32.1% Hinteros

continued on page 5

in online gambling generated significant upward momentum in total industry gross gaming revenues. However, data also show brick and mortar gaming revenues declined at six of the seven former operators in the second half of last year. Upsizing from seven to nine operators increased city-wide visits but apparently not enough to benefit all casinos. Complete 2018 annual financial reports for individual casinos are due in March. These reports will provide additional insight into the impact of yet unreported costs on Net Revenues, Gross Operating Profits, and Net Income.

Questions not yet answered. Internet gambling and online sports wagering offer gaming operators the opportunity to reduce personnel and other costs associated with brick and mortar gambling. Online gambling may reduce staffing levels and render less critical the number of food, beverage, and retail outlets, even hotel rooms in generating gaming revenue. Promotional allowances and costs, plus room and food comps deployed to attract visits to land-based facilities to “incentivize” gambling, may not be as necessary in the

future, thereby increasing profit margins for gaming operators.

An early sign of this possible long-term trend is that the two smallest Atlantic City casinos (on the basis of rooms and non-gaming amenities) have done extremely well in recent years. Both the Golden Nugget and Resorts plunged early into internet gambling and sports wagering. In 2018, Golden Nugget racked up a \$104.8-million-dollar win from internet gambling, nearly doubling runner-up Borgata’s amount of \$54.1 million, while capturing 35 percent of the resort’s total internet market. Resorts Digital accounted for \$30.4 of Atlantic City’s \$50.2 million sports wagering revenue, a 61 percent market share.

Some assume the addition of on-site sports books ensures more visits to Atlantic City. Perhaps they did in 2018 while still a novelty. But more than \$35 million dollars of Atlantic City’s sports wagering win last year was actually bet online rather than at on-site kiosks or teller windows. The percentage of online wagers is likely to grow to perhaps 75 percent or more in the next two years as players adapt to mobile app wagering.

The benefits of boosting revenues while reducing costs through online betting and

sports wagering might be counterbalanced by their potential adverse impact on visitation to the resort, thereby depressing brick and mortar gambling and non-gaming revenues not only in casinos but at all city tourism venues. Moreover, a recent Department of Justice interpretive statement of the federal Wire Act threatens a government move to declare illegal any payments across state lines of gambling bets even if made legally within New Jersey or other states.

Certainly 2018 was an excellent year for the region’s tourism economy. Final data, however, will likely show that many of the nine casinos experienced decreased gross operating profits. If accelerating movement towards online sports wagering, internet gambling, and fierce external competition result in less future visitation, individual casino decreases in brick and mortar revenues, and falling employment levels, the current tourism industry boom may be short-lived.

The Ocean City metropolitan area—which is coincident with Cape May County—saw its best job growth since 2004 last year. Total employment in the metropolitan area economy increased by 1,400 jobs—a 3.2 percent increase. Importantly, last year’s job growth in Cape May occurred outside its key leisure and hospitality sector, which

Ocean City Economic Update and Outlook

experienced a job decline of 700 (-5.4 percent). Thus, employment in non-leisure and hospitality sectors increased by 2,100 (+6.6 percent). While payroll data limitations preclude full identification of the industries that experienced job growth last year, alternative data sources (first quarter data from the U.S. Bureau of Labor Statistics’ Quarterly Census of Employment and Wages, which is based on administrative data from the state’s unemployment system) suggests that much of it occurred in professional and business services, education and health services, and local government.

Last year’s job growth—which pushed total establishment employment to 45,000—allowed total employment in the metropolitan area to finally surpass its pre-Great Recession 2005 cyclical peak of 44,600. Between 2005 and 2011, the metropolitan area lost 3,800

jobs (-9 percent). Since bottoming out in 2011, employment has risen by 4,300 (+10 percent).

Reflecting last year’s job growth, Ocean City’s unemployment rate fell to 8.5 percent last year from 9.2 percent the prior year. Importantly, last year’s decline in the unemployment rate (unlike the prior year’s) came despite an increase in the local labor force which grew a modest 0.8 percent (+394 participants).

Despite the overall job decline in Cape May’s leisure and hospitality sector in 2018, hotel/motel sales tax data suggest that last summer’s shore season was solid. During the summer months, sales tax collections in Cape May County were up 4.7% year-on-year (compared to rates of growth of 2.4% in 2017 and 3.4% in 2016). Sales tax collections were up 3.3% year-on-year thru September 2018 (compared to rates of growth of 2.9% in 2017 and 2.7% in 2016). Toll transactions through the Egg Harbor Toll Plaza also indicate that last year’s

summer shore season was good. Total toll transactions last summer were up 4.6% year-on-year (compared to growth of 2.7% in 2017, and a decline of 2.4% in 2016).

Single-family home prices in Ocean City rose 3.6 percent in 2018, according to Freddie Mac’s single-family home price index. Between 2006 and 2014, single-family home prices in the metropolitan area declined by 22 percent. Since bottoming out, home prices have climbed 10.7 percent.

Looking ahead, Ocean City’s economic fortunes in 2019 will be heavily dependent upon healthy consumers and the national interest rate climate. More than one-third of the metropolitan area’s real GDP is tied to real estate and rental/leasing activity, compared to a U.S. metropolitan area benchmark of 14 percent. This figure not only reflects summer shore vacation rentals, but equally, second/vacation home buying. The latter tends to be rather

continued on page 6

Community Engagement. Many universities and colleges engage in extensive community engagement-related work. Internships, volunteerism, service-learning, experiential education, and community partnerships provide significant benefits to institutions of higher education and their host communities. While the ability to place an economic value on such engagement is often difficult (owing to its non-market status), there is little doubt that the value of such activities may be significant.

Diversification and Commercial Development. Universities and colleges can play an important role in diversifying a local economy. Such diversification has two dimensions. First, significant institutional growth over the long-run—which, above all, means growing enrollment, faculty, and staff, and procurement expenditures—can foster greater demand for a host of goods and services across a range of industries, including, among others, retail and wholesale trade, professional and business services, financial activities, leisure and hospitality, and other services. Such increases in demand can quickly mushroom in cases where an anchor educational institution serves as a magnet for the establishment of new businesses, business relocations (say, to a university district), or branch openings of existing businesses.

Broadly speaking, the extent of this type of industrial diversification will hinge upon the relationship between the educational institution's size and its host community's economy. Most obviously, such diversification might be expected to be rather significant given a large educational institution and a relatively small local economy. It may be far less significant in the opposite case.

The second diversification dimension relates to the research and development activities of higher educational institutions. There is a long and well-documented history of such institutional activities that have spawned entirely new products and industries. Perhaps the most famous example is Stanford University's role in the development of its renowned Industrial Park in the 1950s. The

same time, city-based data can be leveraged to get some sense of how these three institutions of higher education have affected their local host communities and economies along many of these other impact dimensions.

As Table 3 shows, the City of Merced's population totaled 65,000 in 2005. By 2017, it had grown 27 percent to 83,000. Over the same period, UC Merced's enrollment grew from 875 to 7,400.

Thus, by 2017, the university's enrollment was equal to nearly 9 percent of the City of Merced's population. Nearly all the university's students live on campus and are therefore (owing to U.S. Census Bureau population estimation protocols) counted as residents of the city. Henderson's population grew from 175,000 in 2000 to 302,000 by 2017—a rather remarkable 72.5 percent increase that reflects its proximity to Las Vegas, which has consistently been among the fastest-growing metropolitan areas in the U.S. for several decades. Over the same period, NSC's enrollment climbed from 177 to 4,200. Thus, by 2017, the college's enrollment was equal to 1.4 percent of the city's population. However, because NSC has yet to develop on-campus housing, it is impossible (as in the UC Merced case) to determine the relationship between its enrollment and the city's population. Lawrenceville's population increased to nearly 30,000 in 2017 from 26,900 in 2006.

University of California, Merced

Lying 115 miles east of San Jose, the City of Merced is the county seat of Merced County, which comprises the Merced, CA metropolitan statistical area. Merced, along with its neighboring metropolitan areas, Fresno and Modesto, lies along the north-south State Route 99 corridor that winds its way through the greater San Joaquin Valley. Merced lies 40 miles southeast of Modesto, and 57 miles northwest of Fresno. The 815-acre campus lies adjacent to Yosemite Lake approximately 8 miles northeast of downtown Merced. UC Merced welcomed its first undergraduate class in the fall of 2005. Enrollment has grown from an inaugural undergraduate class of 875 to nearly 7,400 students today (including nearly 600 graduate students). Approximately 72 percent of UC Merced's first-year students

are first-generation college students. The campus' faculty and administration total more than 1,500. Academic programs include engineering, natural sciences, social sciences, and the humanities and arts.

Nevada State College (NSC)

Located in the southern foothills of Henderson, NV (13 miles southeast of downtown Las Vegas), Nevada State opened its doors in the fall of 2002 as the state's first state college. Today, its 509-acre campus (which lies six miles southeast of downtown Henderson) enrolls approximately 4,200 undergraduates (compared to an inaugural class of 177). Sixty-one percent of students are first-generation college students. Faculty and staff number 175.

The college offers a range of degrees across its schools of education, nursing, and liberal arts and sciences.

Georgia Gwinnett College (GGC)

Georgia Gwinnett College is located in Lawrenceville, GA which lies 30 miles northeast of downtown Atlanta. GGC opened its doors on August 18, 2006, as the first four-year public institution created in Georgia in more than 100 years. Today, the college's 260-acre campus, which lies seven miles northwest of downtown Lawrenceville, enrolls more than 12,000 undergraduate students (compared to an inaugural class of 118). Forty percent of students are first-generation college students. The college offers degrees in business, education, health sciences, liberal arts, sciences and technology.

continued on page 8

	UC Merced (2005) Merced, CA			Nevada State College (2002) Henderson, NV			Georgia Gwinnett College (2006) Lawrenceville, GA		
	2005	2017	% Change	2002	2017	% Change	2006	2017	% Change
University/College Enrollment	875	7,400		177	4,200		118	12,000	
City's Population	65,391	83,100	27.1%	175,381*	302,535	72.5%	26,878	29,873	11.1%

Actual

Among the most interesting indicators shown in Table 3 is educational attainment. As shown, the increase in the share of the City of Merced's 18-24 age cohort that holds a BA degree or higher has risen significantly since UC Merced's opening. In 2005, just 1.4 percent of this cohort held a BA degree or higher. By 2017, this share had jumped to 7.7 percent. This share also increased in Henderson from 6.3 percent to 7.7 percent. And, while it declined in Lawrenceville by 1.6 percentage points, it increased to 10.5 percent (from 9.2 percent) in greater Gwinnett County, wherein Lawrenceville and GGC lay. The share of the City of Atlantic City's 18-24 age cohort that held a BA degree or higher was 3.5 percent in 2012-2017. (This share equaled 8.8 percent in Atlantic County, NJ.) Based on these data, it seems reasonable to expect that one of the Stockton AC campus's chief contributions to the local economy in the years ahead will be to increase the educational attainment of this age cohort in the City of Atlantic City.

What are the larger implications of the foregoing discussion and analysis? As noted, each of these institutions' openings and subsequent trajectories have been unique—just as Stockton Atlantic City's will be. This fact limits the ability to forecast Stockton's long-run impact on the City of Atlantic City. Nevertheless, the analysis here appears to provide at least two important take-homes. First, it seems clear that new colleges and universities can—via their procurement, foot-traffic, real estate needs, and community engagement—can play important roles in supporting their local host economies and

communities. In addition to these direct impacts, their anchor status can also help stabilize their immediate neighborhoods and attract new businesses. Last fall's opening of AtlantiCare's first Atlantic City-based Urgent Care Center on the Stockton AC site is emblematic of this type of magnet effect.

At the same time, these three openings also make clear (given their multi-year histories) that such institutions will not quickly nor radically transform their local economies. In some sense, this should not be surprising. Despite their size and scale, such institutions remain relatively small in the context of their larger host local economies. For example, despite UC Merced's obvious heft as an anchor institution in the San Joaquin Valley, one that supports 7,400 students and nearly 1,500 staff, its total expenditures (as noted) account for just 2.6 percent of the Merced metropolitan area's total personal income.⁴ Were Stockton Atlantic City (alone) to yield an equivalent impact, its expenditures would have to equal \$327 million or 1.5 times its 2015 Galloway campus expenditures. Now, of course, once one considers the city level (as opposed to the metropolitan level), this changes somewhat. It remains true that the City of Atlantic City's economy accounts for the lion's share of the greater Atlantic City metropolitan area economy (largely owing to the casino industry). It is also true that Stockton Atlantic City's impact on the local city economy may be larger than these other institutions' due to the fact that it sits in the city's business district (unlike the three other campuses that lies several miles from their host cities' downtown areas).

Still, based on these three case studies, it seems far-fetched to imagine that Stockton Atlantic City will drive significant

outperformance in the Atlantic City economy. Well over a decade has passed since UC Merced's opening. And, despite its heft as an anchor institution and obvious positive impact on the local economy, its presence in Merced has not been transformative in terms of generating extensive industrial diversification nor delivering significant economic outperformance to the greater Merced metropolitan area (nor even the City of Merced, whose 16+ employment base has grown just 5 percent since UC Merced opened its doors). The message here should not be misinterpreted. UC Merced, along with NSC and GGC have clearly had significant positive impacts on their host communities and their economies. Indeed, the relevant (though purely hypothetical) local economic development question is not whether these institutions have generated significant diversification or outperformance. Rather, it is what these communities' economic experiences would have been in the absence of these institutions.

Most importantly, and perhaps also least surprisingly, these institutions' largest contribution to their respective communities to date appears to have been their central roles in elevating the educational attainment of their communities' populations. Despite the understandable interest in Stockton's role in the economic revitalization of Atlantic City and its economy in the near-term, those contributions (whatever they may be) will, in the long-run, be dwarfed by the far more significant educational ones it delivers to those who walk through its doors.

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