

REGULATION

The New Jersey Casino Control Act

Several public purposes underlie the act. They are the decision to use casino gambling as a means to rebuild Atlantic City, the determination to provide funding for programs for senior citizens and the disabled and the demand that casino gambling and all the activity that accompanies it conform to the most rigorous standards of business, personal and public integrity. Not incidentally, casino gambling generates revenue for the state.

The gaming industry in New Jersey has generated more than \$7 billion in taxes for federal, state and local governments.²

The adoption of the Casino Control Act by the New Jersey Legislature created the Casino Control Commission and the Division of Gaming Enforcement. The principal regulatory purposes of the two agencies are:

- ◆ to ensure that only persons of good character, honesty and integrity participate in the casino industry;
- ◆ to ensure the close supervision of all gaming operations;

- ◆ to ensure the full and accurate assessment and collection of all taxes, fees and penalties generated by casino operations; and
- ◆ to administer the regulation of casino properties to foster and enhance the redevelopment of Atlantic City and its hospitality industries³

Regulatory Oversight

The **Casino Control Commission** is an independent agency in but not of the Department of Treasury. It has both regulatory and quasi-judicial functions. The commission employs a staff of 361 with a budget of \$23 million. The Governor, with the advice and consent of the Senate, appoints the chairman and four full-time members for five-year terms. The chairman is the chief executive officer and is responsible for the daily operations of the commission. The commission is vested with the power to promulgate all regulations interpreting and enforcing the provisions of the act, including the power to issue, deny, revoke, suspend or limit any required gaming affiliated licenses and to hear and decide all complaints for violations of the Casino Control Act. The five commissioners act as quasi-judicial hearing officers to consider contested license issues involving casinos, casino employees and casino service industries. As hearing examiners, the commissioners preside over the hearing and make evidentiary rulings. They are required to make comprehensive findings of fact and conclusions of law in formal written decisions that are submitted to the full commission for a final determination. In bi-weekly meetings, the commissioners vote on matters ranging from issuing casino licenses to establishing the rules of the games. In addition, the commissioners rule on applications for corporate refinancings and restructurings as they relate to financial stability. (See Appendix 1.)

The **Division of Gaming Enforcement** is part of the Attorney General's office. It investigates all license applicants, prosecutes all complaints brought under the Casino Control Act and monitors casino equipment and operations. In 1997, the division

employed a staff of 373 and had a budget of \$31 million. The division investigates every license application for corporations, individual owners, managers, employees and service industries. The division reports its findings and recommendations to the Casino Control Commission, which has the authority to grant or deny a license at a public hearing. Casino licenses are granted only to individuals and companies that meet the fitness criteria of personal integrity, good character and financial stability. (See Appendix 1-A.)

Regulators' Integrity

The commission and the division are also responsible for maintaining integrity within each respective agency by adhering to strict employment standards set forth in both the New Jersey Conflicts of Interest Law and the Casino Control Act.

Employee Background Investigation - All potential employees are subject to a background investigation by the New Jersey State Police.

Pre- and Post-Employment Restrictions - The New Jersey Conflicts of Interest Law, and the commission's own Code of Ethics, imposes pre- and post-employment restrictions on every employee. The commission and division may not hire anyone who has worked for a casino within the prior three years.⁴ Commission and division employees are prohibited from working for a casino after the termination of their employment at either of the agencies. Commissioners and the Director of the Division of Gaming Enforcement are prohibited for a period of four years and all other employees are restricted for a period of two years.⁵ Clerical and support staff are exempt from employment restrictions.

Immediate Family Members Employment Restriction - Immediate family members of any state officer or employee with responsibility for matters affecting casino activity are restricted from working for a casino licensee, with the exception of secretarial and clerical employees. Permission for such employment may be granted, provided there are no conflicting duties. Special conditions may be imposed.⁶

Annual Filing of Financial Disclosure - Each employee, except for secretarial and clerical, must file a financial disclosure statement annually. Immediate family members of each Commissioner must also file.⁷ (See Appendix 2.)

Gambling Restriction - Members and employees of the commission and the division are prohibited from gambling in any Atlantic City casino property.⁸

Focus on Duties - Each member and employee of the commission and the division must devote their entire time and attention to their duties. Special permission must be obtained for any outside employment.⁹

Political Involvement Restriction - No member or employee of the commission or the division is permitted to take an active part in political campaigns.¹⁰

Commissioners' Restrictions - Commissioners may not accept gifts or purchase goods or services from casino licensees or from lessees of the casino hotel facilities.¹¹

Integrity of Casino Licensees and Their Operations

Licensing System

It is through the licensing system that criminal elements are kept out of the casino industry. No other industry undergoes such severe scrutiny - scrutiny which includes not only the individuals working for casino licensees, but also businesses doing business with the casinos. In 20 years of casino regulation in New Jersey, there has not been any scandal involving organized crime in casino operations. The system assures this will continue to be the case.

The Casino Control Commission licenses hotel owners and operators, their employees and the companies that transact business with casino hotels, termed casino service industries. The commission determines who needs to be licensed or qualified and the appropriate license category for a casino's employees.¹²

Casino Licenses

An applicant for a casino license must establish by clear and convincing evidence its qualifications for licensure.

Qualifications for licensure include:

- ◆ good character, honesty and integrity
- ◆ business ability
- ◆ financial stability, integrity and responsibility

A casino license applicant must establish the integrity of all financial sources and the qualifications of each person who is required to be qualified. This includes each officer, director, principal employee, each person who directly or indirectly holds any beneficial interest or ownership of the securities issued by the corporation and any person who in the opinion of the commission has the ability to control the corporation or elect a majority of the board of directors. Issuance of a casino license to a corporate applicant also requires the qualification of every holding company and intermediary company of the applicant.¹³

Casino licenses are initially issued for three successive one-year terms and renewed for periods of up to four years thereafter. The commission may reopen licensing hearings at any time.

The casino license application fee is a minimum of \$200,000, although the total cost may increase depending upon the cost of investigating and considering the application. The casino license renewal fee is a minimum of \$100,000 for each one-year license renewal and a minimum of \$200,000 for longer renewal terms.

Disqualification Criteria

The commission will not license any person who is disqualified pursuant to section 86 of the Casino Control Act. The criteria include: a conviction or finding by the commission that the

applicant has committed one of the enumerated offenses or an offense found to be inimical to the act; the willful failure to reveal any fact material to qualification or supplying any information which is untrue or misleading as to any material fact pertaining to qualification; the pursuit of economic gain in an occupational manner which is in violation of the criminal or civil policies of New Jersey; identification as a member of organized crime or an inimical association with a member of organized crime or a career offender cartel; and contumacious defiance of any official investigatory body when such body is engaged in investigating crimes related to gaming, official corruption or organized crime activity.¹⁴

Employees of Licensees

The Casino Control Act requires casino key employees and all other casino employees to be licensed or registered before starting employment in a casino.

The Act also provides for the temporary licensing of employees. The different credentials reflect the employee's level of responsibility for the casino's operations.

Casino key employees occupy managerial and supervisory positions and possess the highest credentials.

All licensees must satisfy the affirmative licensing criteria of demonstrating their good character, honesty and integrity and their financial stability, integrity and responsibility. Licensees and registrants also are subject to the disqualification criteria of the act. Those persons who work in the hotel portion of the casino hotel facility, without any responsibilities regarding casino operations are not required to be licensed or registered as they are regarded as being the same as any other non-casino hotel worker in the state.¹⁵

All junket representatives employed by a casino licensee are required to be licensed to the standards established for casino employees, except for residency. The initial license term is three years and the license may be renewed for four-year terms.¹⁶

From 1978 through 1996, the Commission processed 118,061 employee license applications and 163,755 employee license renewals.¹⁷

In addition, each labor organization seeking to represent employees licensed or registered under the Act and employed by a casino is required to be registered.

Casino Service Industries

All casino service industries offering goods and services which directly relate to casino gaming activity and their owners, management and supervisory personnel and principal employees having the responsibility for services to a casino licensee must satisfy the standards established for casino key employees, except residency, in order to be licensed.

All casino service industries that provide non-gaming goods and services on a regular or continuing basis must be licensed once they reach a monetary threshold. Such enterprises are required to establish the good character, honesty and integrity of the enterprise and of each person required to be qualified.¹⁸

Businesses are required to be licensed once they have attained the specified dollar amounts in their business transactions with any casino operator:

1. *\$75,000 of business with a single casino within a 12-month period;*
2. *\$225,000 of business with two or more casinos within a 12-month period;*

3. \$30,000 of business with a single casino for each of three consecutive 12-month periods;
4. \$100,000 of business with two or more casinos within each of three consecutive 12-month periods; or,
5. business that satisfies 3 or 4 above within three consecutive 12-month periods.¹⁹

All qualifiers of junket enterprises are required to meet the standards established for casino key employees in order for the junket enterprise to be licensed.²⁰

Since 1978, the Commission has permitted 48,176 enterprises to conduct business with casino licensees and has prohibited 1,572 from doing so.²¹

Political Contribution Prohibition

The Casino Control Act prohibits political contributions by any applicant for or holder of a casino license, or any holding, intermediary or subsidiary company. The prohibition extends to any officer, director, key casino employee or principal employee of any of these companies, and any person or agent acting on behalf of any of these entities. Political contributions include contributing any money or thing of value to any candidate for nomination or election to any public office in the state, or to any committee of any political party in the state, or to any group, committee or association organized to support any candidate or political party.²²

The purpose of this prohibition is to maintain the public confidence and trust in the credibility and integrity of the casino regulatory process in New Jersey by preventing any prohibited person from attempting, or appearing to attempt, to influence or corrupt a candidate or political organization through a contribution of money or thing of value. The commission has recently proposed regulations to clarify this prohibition.

Prohibition on Gambling by Casino Employees

For over a decade, casino employees were not permitted to gamble in Atlantic City casinos. In 1992, the legislature permitted casino employees to gamble in any casino in the state, except for a casino where they were employed or another casino owned or operated by their employer. Casino key employees are prohibited from gambling in any Atlantic City casino.²³

Casino Credit

New Jersey permits a system of restricted check cashing or "counter check system" whereby the casino operator is permitted to accept a check from a patron only if the check is drawn on a personal checking account that has been verified by the casino and the check is deposited for collection within a specified time period after acceptance. A counter check is a multi-part form given to the patron by the casino and is made negotiable with the player's bank information.²⁴ A patron is permitted to redeem a counter check by purchasing it for cash or cash equivalents prior to its deposit by the casino licensee.²⁵ Pursuant to credit rules adopted by the commission, a patron may not cash counter checks in excess of his or her previously established credit limit.²⁶

A casino may not approve a credit limit until a thorough verification of the credit application submitted by the patron has been completed.²⁷ Although the commission does not impose any absolute limit on the amount of credit that may be extended to an individual, the commission's rules do require that all patron credit limits be supported by information contained in the patron's credit file.²⁸ The restricted counter check system has some deterrent value for compulsive gamblers by requiring a more careful, considered decision on whether to gamble beyond cash on hand in the verified bank account.

A counter check system also protects the state's interest in seeing that checks received from casino patrons are valid and collectible instruments. Before a counter check may be accepted from a patron, a casino licensee is required to record and verify the patron's identity, address, current casino credit limits

and outstanding balances, outstanding indebtedness, and personal checking account information. These regulatory requirements provide information as to the identity and financial history of the patron and the source of funds that will be used to pay the counter check. By requiring the counter check to be drawn on a form mandated by the commission, made payable to the casino licensee, presented to the casino cashier and dated but not postdated, problems relating to the collectibility of the instrument are minimized.²⁹

If a check is returned by the bank, only a licensed casino employee or an attorney may engage in collection efforts.³⁰ This requirement minimizes the possibility for collection abuses that tainted the early days of casino gaming in other jurisdictions.

Counter checks cashed in conformity with statutory and regulatory requirements are valid instruments, enforceable at law in the courts of New Jersey.

Checks that are cashed or conveyed in violation of the act or regulations are declared to be invalid and unenforceable, but are included in the calculation of the gross revenue tax that is owed to the state.

Thus, patrons who gamble on credit in New Jersey are advised in advance that they are engaging in a legally enforceable transaction and should temper their conduct accordingly. Similarly, a casino operator must adhere to the credit procedures established by the Act and regulations if it wishes to collect upon the checks it accepts.³¹

Casinos are allowed to accept a counter check before completion of the required verifications,³² if the casino is unable to complete those verifications at the time of the transaction and complies with all other requirements concerning the acceptance of counter checks. This allows the casino to accommodate new customers who arrive during time periods (weekends, nights) when financial institutions that must be contacted for purposes of verification might not be open for business. The casino is permitted to proceed with

the transaction under such circumstances as long as it records its efforts to complete the verifications in the patron's credit file.

Moreover, any counter check that a casino licensee chooses to accept under such circumstances may not be deducted from gross revenue if the check subsequently proves to be uncollectible.³³

Third Party Credit

In addition to the "credit" that may be granted to a patron by a casino through the delayed deposit of a counter check, a casino patron in New Jersey is also permitted to draw upon credit approvals or financial instruments previously issued to the patron by financial institutions unrelated to the casino licensee.

For example, a patron may use a credit card at an automatic teller machine or present it to the casino and request that the financial institution that issued the credit card approve a cash advance against his or her previously established credit limit. Similarly, a patron is permitted to use a debit card to obtain funds that are maintained in his or her bank accounts. In these transactions, a casino does not extend any credit to the patron but rather operates in the same manner as any other merchant that provides such services to its customers.³⁴

Cash Equivalent

A casino may also accept a cash equivalent (i.e., a traveler's check, certified check, cashier's check or money order) from a patron in exchange for cash. Once again, these transactions do not involve the creation of any creditor/debtor relationship between the casino and the patron; the patron is obtaining the use of funds that were previously expended by the patron to secure or purchase the financial instrument from the issuer. When a patron requests a casino to accept a cash equivalent in exchange for cash, the casino is functioning in the same manner as a bank or other merchant that cashes such instruments as part of its business.³⁵

Regulatory Costs are Paid by the Casinos

The cost of regulating the industry is paid by the casino industry through licensing fees and assessments that are deposited into the Casino Control Fund.

None of the costs of regulation are paid out of casino tax revenues or the state's general fund.

The Casino Control Fund is used to pay the operating expenses of the Casino Control Commission and the Division of Gaming Enforcement.³⁶ The combined budget of both the commission and the division totaled \$54 million for FY 1997. There are a total of 734 employees of the commission and the division.

How We Regulate

The two agencies provide a system of checks and balances, which minimizes the chance of mistakes or poor judgment and makes corruption of the system more difficult.

Regulators are present in each casino 24 hours a day through the commission's inspectors and the division's undercover investigators.

The commission inspectors keep track of events in the casino, monitor compliance with regulations, receive complaints from the public, and watch the daily count of casino revenue, both coin and currency, in order to certify tax receipts. The division also maintains a substantial presence in each casino, watching for violations of the law and gaming rules and regulations.

The commission and the division have always placed great emphasis on the oversight of casino operations.

Gaming oversight has been called a matter of people, watching people watching people.

While it is a good deal more complicated, that is a useful starting point. Not only do the commission and division watch gaming operations to assure honesty, casinos themselves also maintain compliance, surveillance and security staffs, as well as complements of gaming supervisors in accordance with minimum staffing requirements set by the commission.³⁷

Maintaining Integrity of Gaming Operations

Regulations on internal and accounting controls, casino equipment and the games assure effective control and fair gaming for the public. The commission establishes the rules of each game. In this way, every casino plays by the same rules and public confidence in gaming is enhanced. Commission inspectors check table gaming equipment, such as roulette wheels and dice, to be certain they meet state standards.

The commission's internal and accounting control regulations set down the procedures that must be followed by the casinos, because controlling their business is unlike controlling almost any other.

A casino does not record each gaming transaction. Instead, it relies on the amount of cash and credit collected at each table during that day and on the amount of chips remaining at the table when it closes. With the vast unrecorded exchange of cash and gaming chips across the tables each day, this daily profit-loss system presents substantial challenges in accurately accounting for casino revenue, in auditing casino operations and in preserving the ability of both the state and the casino to detect and prevent theft and embezzlement.

While the Casino Revenue Tax gives the state a direct 8 percent stake in gross gaming revenue, it always has a 100 percent interest in the integrity of gaming operations.³⁸

The Division of Gaming Enforcement assures the integrity of slot machine operations by examining each computer program to be sure it meets state standards, such as the minimum payout requirement of 83 percent. As machines are placed onto the casino floor they are inspected and sealed by the division so that the key computer elements cannot be tampered with. Any jackpot of \$35,000 or more requires an immediate notice to the division to examine the machine.

In addition to basic uniform control regulations, the law requires that each casino submit to the commission an individual set of internal controls, which must be approved and thereafter rigorously followed. They are subject to continual review.³⁹

State Oversight of Casino Revenue

In order to assure the state's 8 percent tax collection on casino revenue, the commission has developed the following procedures for accountability.

Hard Currency (coins, tokens, etc.)

All slot machines in New Jersey are required to have a double-locked compartment where the daily "slot drop" is collected. One key to this compartment is controlled by the casino's accounting department and one is controlled by the commission.

On a regular basis, using a schedule approved by the commission's principal inspector, the casino's

"drop team" collects the coins or tokens which have fallen into the drop buckets or boxes located in these locked compartments. This requires that both commission and casino keys be used to access these compartments. During the collection of high denomination tokens, \$25 or over, a commission inspector accompanies the drop team. At all other times an inspector roves the areas being serviced by the hard count drop teams to ensure that all procedures are being performed properly. In these cases the commission key is signed out to the supervisor of the teams, a person licensed as a key employee. Casino security staff also accompanies these teams.

Once the money is collected, it must be immediately transported to the casino's hard count room. This room is also under dual-lock control. An inspector must be physically present to unlock the room and allow access to it by the count team. The count team members wear one-piece pocketless jump suits and are checked with metal detectors when they leave the count room.

A commission inspector must be present during the counting of the high denomination tokens. The entire hard count room is covered by video surveillance.

The content of each drop bucket is weighed and coded so that the amount of money coming from each slot machine can be determined.

At the conclusion of the count, the total of all the wrapped and bagged money is reconciled with the reports generated by the counting machines.⁴⁰

Soft Currency (cash and approved coupons)

Each table game has a double locked box attached under the table into which is placed all currency and coupons exchanged by patrons for gaming chips.

The drop team, accompanied by a security guard, collects the double-locked boxes from each table. These boxes are placed into a double-locked trolley for transport to the soft count room. The soft count room is also secured by two locks, one controlled by security and one by the commission. All count team members wear pocketless one-piece jump suits.

The contents of each box are dumped onto a clear plastic table and the empty box is displayed to the inspector and to the surveillance camera above the count table.

Each box is opened in the presence of a commission inspector. The entire soft count room is covered by audio and video surveillance.

The money is counted twice using high speed counting machines which keep track of the drop from each box individually. At the conclusion of the two counts the totals are compared. If they agree, a physical count of the wrapped currency also takes place by the count team supervisor, the commission inspector and a representative of the accounting department.

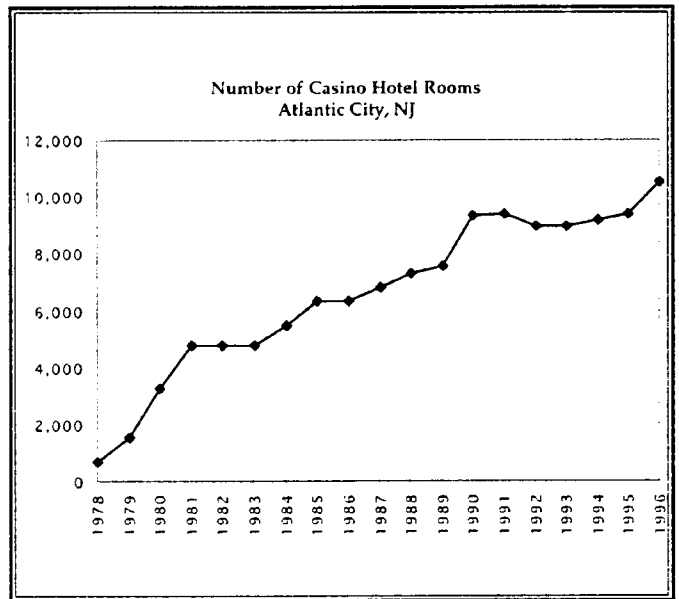
The process for counting the bill acceptor cassettes is similar to that just described with a few exceptions. Once again each cassette is fitted with two locks, one controlled by accounting and one by the commission inspector.⁴¹

Hotel Room Requirement

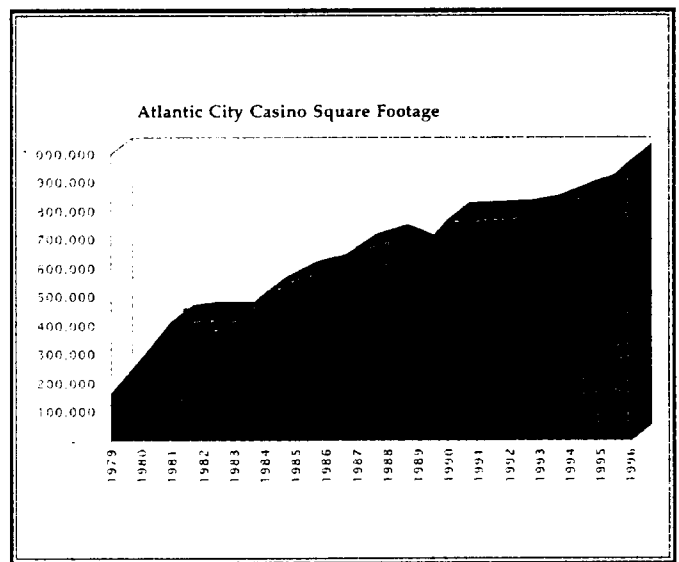
Since the purpose of New Jersey's casino legislation is to attract the kind of resort investment that will restore Atlantic City to its former place as a hospitality and convention center,

the Act requires that casinos be constructed in approved hotels with a minimum of 500 guest rooms.

They are permitted to have 60,000 square feet of casino space for the first 500 rooms. For each 100 rooms thereafter, they qualify for an additional 10,000 square feet of casino space up to a maximum of 200,000 square feet. No more than 90 percent of casino space may be used for slot machines. As the following charts reflect, the room requirement has contributed to an increase in casino floor space and hotel rooms since 1978 for Atlantic City's casino properties.⁴²



Source: New Jersey Casino Control Commission



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The largest casino in Atlantic City contains 139,474 square feet of casino and simulcast floor space.

Atlantic City casinos offer table games, keno, slot machines and simulcast facilities. In 1996, there were a total of 1,439 table games in Atlantic City, consisting of blackjack, craps, roulette, big six, baccarat, minibaccarat, sic bo, pai gow poker, pai gow, poker, Caribbean stud poker, let it ride poker, mini-craps and three card poker. Atlantic City casinos offer 45 keno windows and 32,786 slot machines from \$.05 to \$500 denominations.

In 1992, casinos were permitted to have simulcasting of horse racing from across the country. Table games may be included in simulcasting space. The size of the simulcasting area is at the discretion of the licensee and is not counted as casino space. As of December 31, 1996, simulcasting occupied a total of 92,250 square feet in Atlantic City casinos.

Statutory Changes Since 1978

New Jersey has the strictest gaming regulatory structure in the world. However, after the start of gaming in Atlantic City, regulators recognized that there were a number of areas which did not require governmental oversight or were in need of change.

Regulation has been evolutionary. As the industry matured and regulators gained experience, the rules have been appropriately modified.

Some of the revisions made to the Casino Control Act include:

- ◆ Adoption of interim casino authorization procedures to enable the efficient sale of casino hotels;
- ◆ Elimination of the requirement for the commission to approve indoor public spaces, such as restaurants, meeting rooms and entertainment areas;
- ◆ Expansion of casino operation to 24 hours;
- ◆ Casino employees allowed to gamble in casinos

that are not owned or operated by their employer;

- ◆ Authorization of simulcasting of horse races in casinos;
- ◆ Authorization for the commission to approve new games;
- ◆ Creation of the Casino Revenue Fund Advisory Commission to evaluate programs funded by the Casino Revenue Fund;
- ◆ Authorization for the commission to renew casino licenses for up to four years;
- ◆ Elimination of hotel employee registration;
- ◆ Elimination of pre-approval of marketing plans;
- ◆ Elimination of regulatory duplication;
- ◆ Casino gaming space allowed to occupy more than a single room;
- ◆ Sale of keno tickets allowed in public places throughout a casino hotel.

Common Sense Regulation

One of the recent initiatives is a "common sense" approach toward regulation. Maintaining the integrity of casino gaming and accounting for gross revenues remain the primary missions. However, the commission has sought to remove itself from involvement in business decisions of casinos. The commission has also established a Regulation Review Committee, composed of regulators from the commission and the division, along with representatives of the casino industry. The Regulation Review Committee focused on 237 regulatory changes proposed by the casino industry.

Regulators and industry representatives agreed on over 100 regulatory changes.

The changes range from the simple to the complex, and from the routine to the dramatic, but they all have

one thing in common: *they make sense*. Today, the casino industry and regulators have a better understanding of each other's needs and concerns.

New Jersey offers the gaming industry a stable yet flexible regulatory environment and a responsible level of regulation by responsive regulators.

The commission has implemented a program of adapting New Jersey's regulatory structure to changing times.

Outreach to Wall Street has helped securities analysts understand and feel comfortable with the regulatory environment in Atlantic City. Dozens of analysts and their clients have heard lectures explaining the commission's regulatory philosophy and have had the opportunity to tell the commission about their ideas. As a result, positive reports on the future of Atlantic City have been issued and have stimulated a dramatic expansion of the gaming industry.