

THE ORAL HISTORY OF THOMAS AURIEMMA

Thomas Auriemma is one of the most prominent gaming attorneys and consultants. His 40 years of experience include being one of the few individuals to work for both of New Jersey's casino regulatory agencies, the Casino Control Commission and the Division of Gaming Enforcement, as well positions with gaming industry giants like Penn National Gaming, MGM Resorts International, and Amaya. We are pleased to present Mr. Auriemma's Oral History, and hope you develop a deeper understanding of the history of gaming in New Jersey as told by someone who was there virtually every step of the way.

Where were you born and raised?

I was born in Newark, New Jersey and raised in Newark and in a suburb called Millburn. I grew up in a time when I think it was great to grow up in America, and great to grow up in New Jersey. The 1950's and 60's was an excellent time and a fun time to be a kid. I've lived all my life in New Jersey, except I did spend five years between 2006 and the end of 2011 living in Pennsylvania when I worked full-time for Penn National Gaming, Inc.

Were you ever exposed to gaming as a kid?

No. I was never exposed to it as a kid. I was exposed to it as a law clerk in the Essex County Prosecutor's office in Northern New Jersey, where I became familiar with illegal gambling in Newark.

Was illegal gambling quite rampant?

Yes, in that era, the era of the 50's, 60's, and early 70's, illegal gambling and illegal bookmaking was quite extensive in New Jersey, especially Newark and the county Newark is in, Essex County.

Did the view of illegal gambling from the prosecutor's side motivate you to get into gaming regulation?

Yes, at that point, I was attending law school in New Jersey at Seton Hall Law School. I worked in the Essex County Prosecutor's office as a law clerk, and my goal was to become a criminal prosecutor, which I ultimately did, although not with in that office but in the Attorney General's Office. And the

way I got involved in gaming and gaming regulation was that New Jersey did not authorize gaming until it passed a referendum in 1976. By that time, I was a Deputy Attorney General in the New Jersey Division of Criminal Justice, and the individuals who were part of creating the regulatory system in New Jersey, most of them came from the Essex County Prosecutor's office. The first Chairman of the Casino Control Commission was an individual named Joseph Lordi, and he was the Essex County Prosecutor. His top two lawyers, his general counsel and the special counsel for licensing, were his top two prosecutors there. For some reason, even though I was a young lawyer, they saw some value in my talents and hired me away from the Attorney General's Office to join them. Joseph Lordi was a legendary figure in the annals of New Jersey gaming history because he was clearly responsible for getting casino gaming off the ground in Atlantic City.

And did you get to work closely with Mr. Lordi?

Yes. As a law clerk, I met him in the Essex County Prosecutor's Office, but when I joined the Casino Control Commission I worked for him directly.

I think Joseph Lordi is the benchmark for regulators. He was a person of great integrity, great accomplishment, and his leadership got New Jersey casino gaming off the ground. He served four years, from 1977 to 1981, but his efforts are unparalleled in the history of casino gaming in New Jersey. I don't think we'd be here today if he hadn't accepted that position. So I think it is very important to recognize his contributions to casino gaming.

There was a referendum to legalize gaming back in 1974 that didn't pass, why do you think that was?

There were whispers for a long time about legal gaming coming to New Jersey at the Jersey Shore, our beach area. Some thought in 1969 that there might be gaming in New Jersey, but that never materialized. But in 1974, a referendum was on the ballot because in New Jersey, all gaming is illegal unless otherwise authorized by the New Jersey Constitution. For example, horse racing was legalized in the 1940s, but casino gaming was not. So it needed a referendum, meaning the voters would have to approve an amendment to the State Constitution.

In 1974, that referendum failed because it was unclear if it would legalize gambling on a statewide basis or whether it would solely be in Atlantic City. The advocate group was not as well organized as it would become two years later so that referendum went down to defeat. But the group reorganized, rethought the whole process, and the focus became rebuilding and revitalizing Atlantic City.

So, why Atlantic City? Atlantic City had a very storied and glorious past history, it had an excellent beach, a famed boardwalk, and it was the honeymoon capital of the East Coast in the 1920s, 30s, and 40s. Many people

honeymooned there, as did my parents and my in-laws in the 1930s. But Atlantic City had fallen on hard times with the advent of air travel and other amusements around the United States. Atlantic City went into a long decline highlighted by the 1964 Democratic Convention, which was held there. That's where Lyndon Johnson was nominated as the Democratic Nominee for President. But it really revealed the problems of urban decay and the social and economic ills that plagued many urban eastern cities at the time. So from 1964 up and through 1976 the city went into a very, very rapid decline. Many hotels shuttered their doors, and it was a high-crime area. So the focus became, "Let us revitalize and rebuild Atlantic City." The group focused on a new referendum in 1976 which would authorize casino gaming in Atlantic City—and Atlantic City only—and that referendum passed in November of 1976.

At that time, in November of 1976, I had just finished a judicial clerkship for a judge in Newark. And for a year, I was in the New Jersey Attorney General's Office Division of Criminal Justice, but I kept in touch with my colleagues at the Essex County Prosecutor's Office. A group started to write the Casino Control Act, which became the law governing casino gaming—that Act was enacted in June of 1977, sponsored by Assemblyman Steven Perskie. A decade or so later, he actually became the Chairman of the Casino Control Commission. But I was in the background at that point, assisting in writing certain provisions of the Casino Control Act, and there were many lawyers from a variety of groups that participated in writing the Casino Control Act.

The Casino Control Act looked at the Nevada Model, it looked at gaming in the United Kingdom and the Bahamas. New Jersey adopted a two-agency structure: there was the New Jersey Casino Control Commission, which was basically a licensing and regulatory body, and there was a law enforcement agency called the Division of Gaming Enforcement, which was part of the New Jersey Attorney General's Office. So these two agencies were to regulate casino gaming in New Jersey.

You happened to work for both agencies. What was that like?

Yes. There have only been a handful of people in the history of New Jersey gaming that have worked for both agencies. I worked from the beginning of the Casino Control Commission until 1986, and then I flipped over to the Division of Gaming Enforcement—which is a separate agency—where I became Deputy Director. I spent many years there, ultimately becoming the Director of Gaming Enforcement, and retired from public service in 2007.

And why did you switch from the Casino Control Commission to the Division of Gaming Enforcement?

The essential reason was that Gaming Enforcement had a new director at the time, who was someone that I knew. His name was Anthony Parrillo, and he felt that I could add a lot to the Division of Gaming Enforcement because of

my lawyering, management, and other skills, so I accepted the transfer between the agencies.

Were the agencies adversarial, or was there any kind of internal competition between the two?

Well, they were not rivals in that era. The law has changed since then but originally it was part of a checks and balances system that was created. The check and balance was that the Division of Gaming Enforcement was the law enforcement agency with criminal authority, investigative authority, and recommended licenses. But the actual licensing agency was the Casino Control Commission, and they were responsible for holding public hearings—when appropriate—and ultimately granting or denying licenses or imposing sanctions, fines, revocations of licenses, etc., as things were needed. So each had a very distinctive role at that point in time.

As a regulator, what were some of the biggest challenges you faced, and what did the regulators focus on in licensing?

In the 1970s, and throughout the 1980s, there were several areas that had to be focused on. The first was starting from scratch. There were no great models. I mean, there was the Nevada model, the United Kingdom model, and the Bahamas, and that is essentially where we learned about casino gaming. The individuals who were employed in New Jersey in the regulatory system did not have any real experience with regulating casinos or with gaming, so we had to learn it. We had to write regulations. We had to build the two agencies and appropriately staff them. We had to conduct many investigations of applicants, and even encourage investment and the opening of casinos in Atlantic City. The first casino opened in May of 1978, another one opened in 1979. Through 1981 nine casinos had opened. All of those individuals employed there had to be investigated and licensed. The companies had to be investigated and licensed. And the casinos as operational entities had to be regulated. So that was a very, very significant aspect of casino gaming in that era.

The other aspect was to ensure that no organized crime ever became involved in casino gaming in New Jersey. New Jersey had looked at what happened historically in Nevada, had seen certain examples of organized crime infiltration, and New Jersey, being adjacent to New York, was very familiar with the traditional five families of organized crime from New York State. So our mission was, and still is, to ensure that no organized crime individuals ever infiltrated, owned, or ran any casinos in Atlantic City. I can clearly and honestly state that organized crime has never, ever, been involved in the ownership, management, or operation of a casino in New Jersey.

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Is there anything you found particularly interesting from having to start from scratch?

In terms of organized crime, there were of course efforts by organized criminals to take advantage of casino gaming through ancillary companies like drywall companies, cement companies, concrete companies, and other subcontractors. So that became an issue. Originally the Casino Control Act did not provide for regulation of the construction companies and individuals who were actually constructing casino hotels. The law was changed to close that oversight, and there were, throughout the 1980s, various disqualifications of companies because they were controlled by organized crime. These companies were essentially cement, rebar, or drywall companies—things like that.

The other aspect of organized crime that was very interesting was that the Casino Control Act gave authority to the regulators to register any union that represented workers in the Atlantic City casino hotels. That led to significant—decades long—litigation against one of the unions, the Hotel, Bartenders, and Restaurant Union Local 54. A case was litigated in Federal District Court, the Third Circuit Court of Appeals, and actually went up to the United States Supreme Court. The argument from the union was that New Jersey did not have the right in any way to exercise oversight over unions because that was delegated to the federal government under the National Labor Relations Act. The U.S. Supreme Court disagreed, and the litigation was finally resolved in 1986 or 1987. That Supreme Court case said that New Jersey did have the authority to register these unions and evaluate the leadership of the unions.¹ That led to some very significant hearings, in which union leadership was disqualified and removed from their positions. So those were very, very significant developments throughout the late 1970s and 1980s.

I've learned that one of the more notable persons to be disqualified was Hugh Hefner of Playboy. How did that come about?

Yes, on the casino side, some of the first casinos had very lengthy hearings. Some lasted several months and produced thousands of pages of transcripts and multiple witnesses. The original Casino Control Act that was passed in June 1977 did not have a provision for temporary licensure of ownership of casinos. It had soon developed that casino hotels were ready to open, but the background investigations were not completed by the Division of Gaming Enforcement. In March of 1978 the Casino Control Act was amended to create a mechanism for temporary licensure. And the term that was used was “temporary casino permit.” The first casino that opened, Resorts International, opened pursuant to a temporary casino permit, in essence, a temporary license. I think the hope at the time was that the temporary casino permit legislation

¹ To read the full case, see *Brown v. Hotel & Rest. Employees & Bartenders Int'l Union Local 54*, 468 U.S. 491 (1984).

would only be used sparingly, but interestingly enough, the first nine casinos that opened all opened under temporary casino permits. So they ultimately had to go through full licensure hearings at some point in time.

The first casino that opened, Resorts International, the Division of Gaming Enforcement objected to the licensure of that company because of certain activities in the Bahamas. A lengthy hearing was held before the Casino Control Commission in the early part of 1979, and a published opinion of the Casino Control Commission was issued; it found the company suitable. Nobody was disqualified, and Resorts International received a plenary license at that point in time.

However, the next two casino hearings that were held, both in 1980, one involved a casino called Boardwalk Regency, owned by the Caesar's Company, not the Caesar's company that exists today, back then it was a publicly held company owning Caesar's Palace in Las Vegas, but the corporate headquarters then was in Beverly Hills, California. Their CEO and Chairman of the Board was disqualified after a lengthy hearing, which was followed by litigation in the New Jersey courts where the Casino Control Commission's order disqualifying them was upheld. After that, the CEO and Chairman of the Board of Bally's, an individual named William O'Donnell, was disqualified as well. So there were some very significant hearings.

Then, in 1982, Playboy, which had been operating a casino under a temporary casino permit, had a very lengthy hearing throughout the early part of 1982. I was the actual counsel to the Casino Control Commission on the hearing. Then the Commission was a five-member body, and they met virtually every day for almost two months. There were a multitude of witnesses, and ultimately, in April of 1982, there were five individual opinions written, each authored by one of the five individual commissioners. Hugh Hefner was disqualified as an individual, and although Playboy was a public company, he owned over fifty-percent of the stock of the company. So in reality, that meant that the company could not continue to operate a casino in New Jersey.

The twist of that case, which is a very unusual twist, is that the vote was favorable to Mr. Hefner—three commissioners voted in favor of him for licensure and two against. In the ordinary world, a 3-2 vote would be victory. But under the law that existed at the time in New Jersey, to issue a casino license the vote had to either be a 5-0 vote or a 4-1 vote in favor. Although positive for Mr. Hefner, 3-2 was not sufficient. That led to litigation on a variety of issues. I wrote the brief for the New Jersey Casino Control Commission and argued the case in the New Jersey Appellate Division, and was victorious. Mr. Hefner's disqualification was upheld, and ultimately Mr. Hefner sought certification to the New Jersey Supreme Court. That was denied, and Playboy had to essentially turn over its interest to its partner. There were some very, very colorful and lengthy hearings in the early days of casino gaming in New Jersey.

There were several reasons for the disqualification of Playboy. There is a

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published opinion by the Casino Control Commission on this—actually five opinions—but essentially the two minority opinions control. First, there was a finding by one commissioner that Mr. Hefner was not truthful before the Commission with respect to certain activities that occurred in the early 1960s in the State of New York. Those activities involved alleged bribes to corrupt officials of the state liquor authority. The other item that was harmful to Playboy's licensure was the fact that they had been disqualified from operating casinos in the United Kingdom. Prior to 1982, they were a significant casino operator in the United Kingdom and had been licensed in that country, but they were ultimately disqualified for some very significant improprieties in that country. When you look at those reasons, two commissioners felt that was sufficient to disqualify Mr. Hefner, and thus Playboy. Those opinions controlled although there were only two negative votes.

Did these disqualifications have any effect on the way the commission continued to look at licensure or operations?

No, I think New Jersey was very strict, not to say that New Jersey is not strict today. But then it was very strict in the way it licensed companies and individuals. In many respects, they gained the confidence of Wall Street and the financial community. If you look at today, of course, casinos are financed by financial institutions that are well respected and in most instances public entities, but that was not the case if you go back to the 1970s and 80s. It was very difficult to obtain financing for a casino. That's why Nevada had some historical issues with organized crime. Some might say that New Jersey's strictness was an aide in helping Wall Street understand that casino gaming was becoming a legitimate business, and they could comfortably invest in it.

So there was a state shutdown in 2006 that affected gaming. As the Director of the Division of Gaming Enforcement at that time, how did you respond to this?

In November of 2005 New Jersey elected a new governor. He took office in January of 2006. At that time, there were budget issues that did not relate to casino gaming, but other state issues. According to the Constitution of New Jersey, there must be a budget in place, which is adopted by law and signed by the governor, by June 30th every year. Sometimes it comes down to the eleventh hour, or at least one minute before midnight on June 30th, but this time the governor and the legislature could not agree on a budget. There were cuts that the governor's office desired, and there was definitely a political battle going on. I was the Director of Gaming Enforcement at that time, and we were instructed to prepare for a casino shutdown. Now casinos pay a lot of taxes not only to Atlantic City, but to the state of New Jersey for gaming taxes. But the other thing that the casinos pay for is the cost of regulation. There are fees that are assessed to casinos, vendors, employees, and those fees pay the cost of

regulation. I mean the salaries of all the regulators, the buildings that they occupy, to keep it supplied, etc. The taxpayers in New Jersey do not, in any way, bear the burden of casino regulation. So there was an argument being made by the casinos that since they were not funded by the state treasury, they should not have to shut down. The governor's office was sympathetic to that, and I, along with the then chair of the Casino Control Commission, went to many meetings in the governor's office just prior to July 1, 2006, as we saw that there could be potential shutdown of essential state services. All other agencies of government would shut down if the budget was not approved.

We were able to convince the governor's office that we could not just shut the casinos down at a moment's notice; there were too many moving parts to shut down a casino. So what happened was that the casinos were permitted to stay open beyond July 1st. The hope was that there would be a budget approved within the next couple of days. Well it took a little longer.

The casinos made it through the July 4th period, but we had been planning around the clock for a shut down. We were planning for what it meant in terms of securing all of the gaming equipment, securing the money, working on informing the public, any traffic issues that arose, things like that. And the casinos did shut down on July 5th because there was still no budget in place. The casinos were actually shut for around 71 hours, essentially three days. They reopened on July 8th when the legislature agreed upon a budget with the governor. It certainly was a hit to casino revenue for July of that year, and obviously gaming taxes were lower that month than would normally be the case, but from an administrative perspective, it was an orderly shutdown and an orderly reopening.

That essentially has been the only budgetary shutdown of casinos in New Jersey. There have been closures for bad weather. We do get snow, sometimes lots of snow, and the casinos have been shut down temporarily for safety reasons. We had Hurricane Sandy² several years ago, and the casinos shut down. But these things are something that do not relate to budgets. Since then, the Casino Control Act has been amended, and I would doubt that you would see a casino shutdown for a budgetary reason today.

It was a trying time. Those 71 hours that the casinos were shut was a difficult time for them because all they could do was watch and wait to see what was happening in Trenton, New Jersey's capital.

During this time, the Division ran in shifts 24/7 because we were not sure when a budget would be signed and when the casinos could reopen. So it was definitely an interesting few days in the history of casino gaming in New Jersey.

² For more information on Hurricane Sandy, see *Superstorm Sandy: Facts About the Frankenstorm*, LIVESCIENCE, <http://www.livescience.com/24380-hurricane-sandy-status-data.html> (last visited Feb. 9, 2017).

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New Jersey is the first state to legalize full online casino gaming. How has this affected the state?

I believe it has affected the state in a positive way. I think if you look at internet gaming, New Jersey did not have a referendum on internet gaming, unlike other expansions of gambling in New Jersey. Some might find that curious, but the reason is that the gambling that takes place—and some might call this a legal fiction—but the gambling occurs in Atlantic City. The bet is assumed to occur in Atlantic City even though the patron may be somewhere else within the state. So—from a legal perspective—internet gaming was not something that required an amendment to the state constitution. All that was required was a law, which was passed in 2013 and signed by the governor, and regulations.

The regulations in the past would have been adopted by the Casino Control Commission, but in 2011, there was a massive rewriting of the Casino Control Act. Many of the powers that were previously at the Casino Control Commission were transferred to the Division of Gaming Enforcement. For example, in the past regulations were written by the Casino Control Commission to govern casino operations. As of 2011 they are written, promulgated, and enforced by the Division of Gaming Enforcement. Most licensure occurs today not by the Casino Control Commission but by the Division of Gaming Enforcement. The Casino Control Commission was reduced from five full-time members to three full-time members, and their staff was downsized by several hundred individuals.

This was done mostly because it was felt like the checks and balances system that they created in the 1970s, although excellent and effective, was costly and duplicative. It was believed there was a better way to regulate casinos. So as far as gaming was concerned, those internet gaming regulations were written in 2013 by the Division of Gaming Enforcement, and the licensing of internet gaming companies that occurs now is also done by the Division of Gaming Enforcement. The Casino Control Commission still has certain authority with regards to the licensure of casino key employees and awarding of casino licenses.

But as far as internet gaming, the Division of Gaming Enforcement pretty much regulates it and licenses all the companies. Throughout 2013 the Division of Gaming Enforcement worked feverishly to learn as much as it could, promulgate regulations, and get internet gaming up and running. The first internet gaming site began operating in November of 2013, and internet gaming has been expanding since that day.

Unlike Nevada and Delaware, New Jersey permits not only poker, but full scale casino gaming—blackjack, roulette, etc. So that's a little different than what Nevada and Delaware have, and what other states are considering. Pennsylvania, which is seriously considering internet gaming, could have a law passed in 2017, yet it has focused mainly on poker. We'll see what emerges

there. Some say that internet gaming in New Jersey got off to a slow start. There were high expectations, and I think some of those expectations were unrealistic. Slowness had a lot to do with marketing, with ensuring that credit card payment processing could occur, and that geolocation issues had to be resolved.

To participate in internet gaming in New Jersey, you do not have to be a resident of New Jersey, but you must be physically present in New Jersey to place a bet. So if you lived in a neighboring state, say New York, but you worked in New Jersey, you could gamble on the internet when you are physically in New Jersey. But then when you go back to New York at night, you cannot gamble. Geolocation services pinpoint where you are when you are placing that bet, and they have been quite effective at this point in time.

Since November 2013, when the growth was modest, it has become quite remarkable. The past fifteen months or so have shown in excess of thirty percent growth month over month and year over year. So the latest numbers for December 2016 reveal an over thirty-percent growth in internet revenue from December 2015. On a year to year basis, 2016 exceeded 2015 in internet gaming revenue by over thirty percent. So internet gaming revenue in New Jersey now is close to \$200 million, and the percentage increase every month is quite significant.

Legalized sports betting has been a relatively hot topic in New Jersey as of late. What is your take on that situation?

For sports betting, we're not talking about internet sports betting, we're now talking about land-based sports betting in a casino in Atlantic City. New Jersey would love to have sports betting. It had an opportunity in 1993 to adopt sports betting, but it did not. There was a federal statute still in effect, the Professional and Amateur Sports Protection Act³ (PASPA), which is designed to prohibit sports betting on various professional and amateur sports games in the country. That bill was sponsored by U.S. Senator Bill Bradley from New Jersey, a former Princeton and New York Knicks basketball star. He felt that the integrity of sports would be hampered by sports betting. Of course, there were grandfather clauses for existing states that had it. Technically, there were four: Nevada, Delaware, Oregon, and Montana. Nevada is obviously viewed as the typical sports-betting state. New Jersey had the chance to amend its constitution to expand sports betting, but for a variety of political reasons that were local to New Jersey, the voters of the state never got the opportunity to vote on the referendum. It never made it to the ballot. So New Jersey lost its opportunity.

Now, fast forward to the present. Governor Chris Christie, who is a champion of sports betting, felt that it would be a great amenity for our land-

³ For more information on the Professional and Amateur Sports Protection Act, see 28 U.S.C. §§ 3701-3704 (2012).

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based casinos in Atlantic City. This time there was a vote to amend the state constitution to permit sports betting in Atlantic City. The voters in the state passed it, a law was written, and then litigation ensued. Obviously the state of New Jersey wants land-based sports betting, and the opponents—the NCAA and the professional sports leagues—are against it. It started in a New Jersey federal court and made its way up to the Third Circuit in Philadelphia. It has bounced around, even going to an en banc decision by the Third Circuit. So far, PASPA has been upheld, which prohibits New Jersey from having sports betting. However, there is a petition for certiorari by the State of New Jersey to the U.S. Supreme Court to have the Court hear the case. The case essentially asserts that New Jersey has certain powers, police powers being one, and can decide whether or not it can have sports betting within its borders. It asserts that PASPA, by prohibiting New Jersey from having sports betting, is unconstitutional.

In January 2017, in fact, the U.S. Supreme Court denied certiorari in a lot of cases throughout the U.S., but it did something unusual. It did not make a decision whether it would accept the sports betting case or not, but it invited the new solicitor general of the Justice Department, whoever that may be once the Trump administration takes over, to participate in the litigation and to file a brief and take a position. So the thinking is at this point that several months from now the U.S. Supreme Court will make a decision whether to grant certiorari or not. The hope of most New Jerseyans, especially those involved in gaming in New Jersey, is that the Supreme Court will take the case, hear the case, and decide it differently than it has been decided up until this point.

What has it been like working in the corporate side of the gaming industry after such a lengthy career as a regulator?

It has been very interesting. I had spent essentially 30 years in government in New Jersey and was eligible to retire, so I did, and I felt it was time to enter the private sector. Penn National Gaming was looking for a Vice President of Regulatory Affairs and a Chief Compliance Officer, and I knew some individuals at the company who felt that I met their requirements. I started with them in March of 2007. I kept my New Jersey home, but I moved to Pennsylvania for almost five years because Wyomissing, Pennsylvania is where the headquarters of Penn National Gaming is. I was their Vice President of Regulatory Affairs and Chief Compliance Officer, and handled many very interesting things at Penn National. During those years Penn National was an unusually expanding company, expanding into a variety of jurisdictions around the country. And many that did not have casino gaming before, like Pennsylvania, Kansas, Maine, Maryland, Ohio, and then ultimately, Nevada, where Penn National had not operated a casino previously. I was deeply involved in getting Penn National licensed in the state of Nevada and was involved in the licensure of the M Resort, which was Penn's first venture in Nevada. And now in addition to the M Resort, they own the Tropicana on the

Las Vegas Strip.

After that, I retired from Penn, but I still have a very strong affiliation with Penn. I am a member of their compliance committee and an advisor and consultant to them. I've built a consulting business, and I sit on compliance committees of other companies, including MGM and Amaya, which is the owner of PokerStars, the internet gaming company.

Is there anything in relation to regulation that you have experienced from the corporate compliance side that has changed the views you formed as a regulator?

I think that I was a very tough and strict regulator, and I think that was clearly warranted in the 1970s and 80s. I did learn the business, which I believe is important for regulators in general to do. Whether it is the casino business or if you're in the alcohol business, whatever business the regulators may be in, it's important to understand the business they are regulating. I learned the business, and I obviously learned a lot more when I went to the private sector. But it's very important. I think many regulators do not understand the business pressures that gaming companies or gaming suppliers face. This is not to say that business should be the be-all-and-end-all when it comes to licensure, but I think that there are certain regulations that are duplicative of other regulations, and that are too intense and perhaps not required in the modern world.

Many jurisdictions have reviewed their regulations and constantly change them to meet changing situations. Certainly, New Jersey has done that. Nevada and Pennsylvania have done that, as well as other jurisdictions. But some jurisdictions are slower than others to change.

One thing that is very, very significant in the casino industry, and it is hard sometimes for the regulators to realize this, is that change is constant in the casino industry. It is a fast-paced industry. Innovation is at the forefront of making money in the casino business, and timing is very important. So government, while it has a job to do, can not and should not be a roadblock with respect to casino gaming. It can protect the public interest while at the same time promoting and enhancing the business interests of the casinos. Because at the end of the day, a healthy casino industry is beneficial to a state. The casino industry employs thousands of people, both directly and indirectly. They pay millions of dollars in real-estate taxes to the localities that they are located in, and of course millions of dollars in gaming taxes which are used for a variety of governmental purposes. So the state has a very significant interest in casino gaming, just as it does in other forms of gaming—horse racing, lottery, and others—because the state receives various taxes that it uses for the public well-being.

Many of the companies that are involved in casino gaming, not all, but many are publicly-held companies that have very significant regulations on them already from the Securities and Exchange Commission or the Office of

the Comptroller. There is also shareholder oversight as well. So public companies have a lot to lose if they do something wrong in the gaming sector.

I think a lot has changed when you look at the relationship between casinos and law enforcement in respect to the influence of organized crime. I'm not saying that the traditional five families out of New York do not exist anymore, they do, but in a much different way. So many of those bad, evil individuals have either died off or gone to jail. There were many, many undercover operations by law enforcement. So that type of traditional organized crime has changed. There are other challenges of organized crime, Asian organized crime, Russian organized crime, so it is definitely still a challenge for law enforcement. But in the casino industry, it is not the ownership where the challenge is. The challenge is in the periphery. It's the companies that do work for the casinos like cement companies, drywall companies, those vendors could be influenced by organized crime. To me, that is where the larger challenge is today with respect to organized crime. I'm not sure that is the biggest challenge that casinos face today, there are other challenges by virtue of anti-money laundering regulations that have been imposed upon casinos. So today, one of the largest and most significant issues in casino gaming is ensuring that a casino company has a robust, active, and productive anti-money laundering program. The federal government, FinCen⁴, which is a part of the U.S. Department of Treasury, mandated very, very strict requirements upon financial institutions, like casinos, under the Bank Secrecy Act. The biggest challenge today is to ensure that there is no money laundering in casinos.

What do you see in the future for New Jersey Gaming, or what would you like to see?

New Jersey gaming is at a crossroads. The most casinos New Jersey had, and again we're talking in Atlantic City, was thirteen. This was for a brief period of time. For many, many years, there were twelve casinos. However, for a variety of reasons—the Great Recession, competition from neighboring states like Pennsylvania, New York, Maryland, Delaware—New Jersey has suffered dramatically in the casino gaming area. It no longer has twelve casinos. In the past two years we've had five casinos close. So there are only seven operating now in New Jersey. New Jersey's high-water mark in terms of revenues was 2006. Casino revenue was over five billion dollars at that point. After that, there had been a ten-year decline in terms of casino revenue. In fact, 2016 was the first year since 2006 that casino revenue increased slightly. It is about half of what it was, around the 2.6 billion dollar. It seems unlikely that New Jersey will be able to recapture those billions of dollars that were lost because there is so much convenience gaming in Pennsylvania, New York, Maryland, and Delaware. The things that New Jersey has tried to do to help increase revenues

⁴ For more information about FinCen, see *What We Do*, FINCEN, <https://www.fincen.gov/what-we-do> (last visited Feb. 9, 2017).

are internet gaming, which has been a success and I think will continue to be a success, as well as land-based sports betting. We don't have it yet, but we're trying here to get it, and I think that would help.

The other thing that is a very, very controversial issue, is whether there should be casinos in the northern part of New Jersey. The northern part of New Jersey is the most populous part of New Jersey. It borders New York City and parts of New York state. There have been discussions over the past several years of having up to two casinos in North Jersey. This past November 2016, there was a referendum on the ballot to amend New Jersey's Constitution to permit up to two casinos in North Jersey. The voters had their opportunity, and I must say, they were organized, they wanted it, and a number of groups organized to educate the public as to the virtues of having casinos in North Jersey. But there were also several groups opposed to casinos in North Jersey, and they were very organized and had a very, very effective anti-expansion campaign. When the vote came in November, the referendum went down to an overwhelming defeat. The vote was not close by any measure. Since the state constitution was not amended, we will not be able to have two casinos in Northern New Jersey.

The referendum proponents have said that they will try again in 2018. The way New Jersey's system works is that there must be a two-year window between ballots, so there can not be a referendum in 2017. November 2018 would be the earliest that New Jersey could consider an expansion of casino gaming. My crystal ball tells me that there probably will be a referendum at that point in time, and it will be up to the voters to determine if they want to permit up to two casinos in Northern New Jersey.

I think with regard to casino gaming, we have to come to grips—and not only in New Jersey, but elsewhere—that this industry is changing. Younger individuals, millennials, are not as enamored with slot machines as the older generation is. They are more interested in interactive-type games. The whole business is changing. There are casino companies getting involved in social gaming, for example, which is not even gambling, but social play. You see casino companies buying social-gaming companies, and I think that is a change that will continue moving forward.

Internet gaming, again we only have the three states in the U.S. right now that permit it, but this could be a multi-billion-dollar industry over time if certain larger states like Pennsylvania, New York, California, and Massachusetts, adopt laws to permit internet gaming. I think you might also see a reconfiguration in the future—maybe not in five years, maybe ten or more—of the way casino floors are laid out. You might see more lounges with people on tablets playing and betting on interactive games instead of many banks of slot machines and table games. I think it will become more of a social experience than it is today. It is hard to say, but I know the great slot machine manufacturers are thinking about what the casino floor is going to look like in the future. Casino operators are thinking about the same thing. Internet gaming

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companies are thinking about what the future of internet gaming in the U.S. is because it is a huge business outside of the U.S. I think we are going to see a different casino in the future. Maybe not in the near future, but certainly down the line. Casino gaming is really a fast-changing industry. Everyone wants a new, fresh product to offer to their customers, and those entities that don't change will not survive. You have to change with the times and understand what the public wants, and understand that what the public wants in the future may be different than what the public wants today.

We've had some very interesting operators at different times in New Jersey. We've had Donald Trump, Steve Wynn, Sol Kerzner from South Africa, all have brought something to the table. Hopefully there will continue to be those type of entrepreneurs and business people that will continue to invest in New Jersey and keep the industry healthy and expand it going forward.