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Atlantic City Rating Cut by Moody's on Emergency Manager Plan.

Atlantic City, New Jersey's struggling gambling hub, had its rating cut six levels deeper into junk by Moody's Investors Service after Governor Chris Christie appointed an emergency-management team.

The reduction to Caa1 from Ba1 on on the city's \$344 million in general-obligation debt follows the governor's decision Thursday to install a management team that includes Kevyn Orr, who shepherded Detroit through its record \$18 billion municipal bankruptcy last year. Orr will serve as a consultant, with Kevin Lavin taking the role of emergency manager.

"The downgrade to Caa1 reflects the appointment of an emergency management team of two bankruptcy specialists mandated to consider debt restructuring, which could involve a loss to bondholders," analysts Josellyn Gonzalez Yousef and Naomi Richman said in a statement.

Adding to the increased risk of default is the city's plan to sell about \$12 million of bond-anticipation notes next week to refund debt maturing Feb. 3, the analysts said. The one-year notes, to be sold Jan. 27, will refund an equivalent amount of securities issued a year ago, according to data compiled by Bloomberg.

Speaking in Atlantic City Thursday, Orr and Lavin both dismissed questions of a possible bankruptcy as premature. Orr declined to answer questions about the appointment and the note sale. Kevin Roberts, a spokesman for Christie, declined to comment.

Revenue Down

Christie, a 52-year-old Republican in his second term, has struggled with a five-year plan to turn around Atlantic City. Casino revenue dropped to \$2.9 billion last year, from a peak of \$5.2 billion in 2006, as Pennsylvania, Delaware, Maryland and New York expanded gambling. Moody's dropped the city's rating to junk in July because of dependence on casinos.

The city has borrowed \$345 million since 2010 to cover tax appeals and municipal deficits, and debt service now makes up about 15 percent of its budget, according to the executive order Christie signed authorizing Orr and Lavin. The city is relying on "unsustainable bond issuances" in part to fund pension payments of \$23 million this year and \$25 million next year, the order said.

Investors are demanding more additional yield to buy Atlantic City general obligations. Debt sold December 2013 and maturing December 2021 traded Friday at an average yield of 5 percent, the highest since August, data compiled by Bloomberg show.

Michael Stinson, the city's revenue director, said he didn't think Moody's "has a clue" about a bills pending in Trenton that would help the city. The legislation would have the state-administered Casino Reinvestment Development Authority cover as much as \$30 million in debt payments and have the casinos enter into payment-in-lieu-of-taxes agreements to guarantee debt service.

"I'm speechless; I'm in shock," Stinson said. "These guys came in with the governor's blessing. Up to this point, any additional state involvement has been met positively by the market."

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By Terrence Dopp Jan 23, 2015 9:16 AM PT

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