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Atlantic City Downfall Tests New Jersey's Record Rescuing Cities.

Atlantic City is gambling with New Jersey's reputation for rescuing distressed local governments.

The casino resort hub, whose finances have been battered by the expansion of gaming in nearby states, may shut down much of its functions next week for lack of cash -- an unprecedented action for a New Jersey municipality. Governor Chris Christie has suggested that bondholders may need to make "sacrifices" and refused to extend short-term help, marking a potential shift for a state that hasn't let a single locality default or go bankrupt since the 1930s.

"It is a blow toward New Jersey local credit quality and the assurance that investors have," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "It should no longer be said that it has a great reputation for local governments."

Atlantic City has been dependent on the casino industry since the late 1970s, when New Jersey gave it an East Coast monopoly that was lost when other states legalized gambling. The 39,000-person city has seen the property-tax base plummet by 64 percent in five years, with a third of its betting parlors shutting down in 2014. Others have demanded tax rebates as real estate values slide, further straining its finances.

This year, Atlantic City was counting on legislation that would allow it to tap additional gambling money to close its deficit, only to see the measure rejected by Christie, who said the local officials haven't done enough to reduce spending. Left with a \$33.5 million shortfall, Mayor Don Guardian said he won't be able to pay employees from April 8 until at least May 2 as he waits for tax collections to trickle in.

Christie is pushing legislation with the Senate's Democratic leader that would allow New Jersey to take over the city, after an earlier appointment of an emergency manager didn't lead to significant changes. Opposed by Guardian and the city council, the bill is stalled in the Assembly, where Speaker Vincent Prieto, a Democrat, rejects a provision that would let the administration change or end labor contracts.

Christie has faulted them for failing to endorse the legislation and said workers won't bear the city's financial burdens alone. During a radio interview Thursday, he said bondholders "are going to have to make sacrifices as well."

The city has \$247 million in general-obligation debt and owes \$190 million of tax refunds to casinos. Guardian told reporters last week that the debts should be renegotiated.

Investors have demanded higher yields on some uninsured city securities, reflecting the increased risk that payments won't be made. Tax-exempt bonds due in December 2033 last traded March 22 for an average of 65 cents on the dollar to yield 9 percent, more than three times those on top-rated securities, data compiled by Bloomberg show. That price is down \$1.01 early last year.

A shutdown could push up yields on bonds sold by Atlantic City and other distressed borrowers in New Jersey, said Ted Molin, senior credit analyst at Wilmington Trust Co., which oversees \$4 billion of municipal debt.

“A concrete event like that definitely would cause spreads to widen and would taint the state and probably a lot of the good credits in the state,” he said.

When asked about investors’ concerns, Brian Murray, a spokesman for Christie, said “there is a bipartisan solution on the table and just one person is obstructing that solution from proceeding, Speaker Prieto.”

The governor doesn’t need the legislature to help Atlantic City, said Tom Hester, a spokesman for Prieto. “The speaker isn’t blocking anything,” he said. “The governor already has the authority to save Atlantic City from financial disaster.”

While some New Jersey cities have furloughed workers for a day, Atlantic City would be the first to implement a prolonged shutdown, according to the state’s Department of Community Affairs. But it’s not the first that’s threatened to take that step. Camden did in 1999, only to withdraw a bankruptcy petition after the state came through with more aid.

“It’s so hard to tell nowadays what’s negotiating and what’s real,” said Dan Solender, who manages \$18 billion of state and local debt as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. “The way it’s sounding, it’s sounding real now.”

After making payments on bonds and to schools, the city’s cash balance will be just \$1.8 million on April 1 and will be depleted the following week, according to estimates Guardian provided to the state this month.

The mayor said many employees have volunteered to keep working and he’s still evaluating which services would cease.

Even after forgoing paychecks temporarily, the city will again run out of money this year, Guardian said. He said he plans to meet debt obligations in May.

Ratings companies are skeptical: without state action, Atlantic City is headed toward default or bankruptcy, according to Moody’s Investors Service. Yet a previous bout of stepped-up oversight did little to help: Standard & Poor’s cut the city’s grade twice in 2015 as the appointment of the emergency manager, who left in January after a year, heightened concerns of potential losses for bondholders. The company in January cut Atlantic City four levels to CCC-, nine steps into junk.

“There’s no real path right now,” Solender said.

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by Romy Varghese

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