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New Jersey Averts Atlantic City Bond Default as Revival Plotted.

- No Garden State municipality has defaulted since the 1930s
- After casino collapse dealt blow, the state took control

By the end of today, Atlantic City will use $2.3 million to cover payments due on its bonds, saving investors from the toll of the seaside casino town's financial collapse.

With New Jersey seizing control of the city's finances to avoid a default, the burden is poised to fall instead on residents, municipal employees and businessmen like John Exadaktilos, the owner of the Ducktown Tavern that's a few blocks from the shuttered Trump Plaza casino. He said his property tax bill this year was $51,000, more than twice what it was over a decade ago, and is set to rise again next year.

"It's becoming harder and harder," said Exadaktilos, 40, who predicts that more local businesses will buckle under the increasing burden. "They're going to close. It's becoming too hard."

Atlantic City is the latest test for New Jersey, which hasn't allowed a local government to default or go bankrupt since the Great Depression — a commitment that's left even its distressed municipalities able to raise money for schools, roads and other public works in the bond market. This stands in contrast to what has been seen in California, Alabama and Michigan, where municipalities resorted to bankruptcy after the most recent recession to escape from debts they could no longer afford.

"Let's say that there was a bankruptcy-type scenario in Atlantic City, the optics would bleed out to other local credits and they would be penalized by the capital markets," said Eric Kazatsky, a municipal credit analyst at Janney Montgomery Scott in Philadelphia. "It would reflect poorly on the current administration if that happened under their watch."

The city of 39,000 residents has been veering toward insolvency since a third of its casinos shut down in 2014 due to the proliferation of legalized gambling on the East Coast, which undercut the city's gambling monopoly. That dealt a blow to its finances, leaving an ongoing budget shortfall of about $100 million, as revenue disappeared and casinos still opened successfully challenged their annual property-tax bills. The Taj Mahal, once owned by President-elect Donald Trump, shut in October.

In May, Governor Chris Christie signed legislation that gave local officials 150 days to draft a plan for Atlantic City's recovery or risk being stripped of their control. Last month, New Jersey rejected the city's plan, saying it failed to take steps sufficient for a turnaround. As a result, the state approved a takeover overseen by former state Attorney General Jeffrey Chiesa, who has the power to seek to break labor contracts, sell off city assets, or oversee a restructuring of Atlantic City's $500 million debt.

On Nov. 9, the state imposed a $241 million budget on the city that boosted the property tax by 15 cents to $1.898 for every $100 of assessed value. New Jersey’s Department of Community Affairs said in a statement that Chiesa will take immediate steps to ensure that all debt payments are made on time while working on a long-term solution. Tammori Petty, a spokeswoman for the department, didn’t respond to requests for an interview with Chiesa.

Further tax increases or spending cuts will likely be needed, said Marc Pfeiffer, a senior fellow with Rutgers’s Bloustein Local Government Research Center.

“I think you’ve got to start bringing some finality to this process,” he said. “If you take a softer approach and try to negotiate, it could take longer and I don’t think this administration is necessarily in the mood to negotiate anymore.”

Such plans may not go unchallenged. Virginia Darnell, president of the city’s white collar union, said workers may file suit to keep employees covered by labor contracts from losing their jobs. City council president Marty Small said that while talks with Chiesa have so far been productive, the city is taking a “wait and see approach.”

“You can’t just take over Atlantic City and not take over its problems,” said Small in an interview. “They’re getting a rude awakening. It’s easy from the outside to look in and criticize, but they’ll see.”

While the loss of control has rankled city officials, New Jersey’s pledge to cover its debts has triggered a rebound in the price of its bonds, which tumbled as Atlantic City failed to shore up its finances. General obligations due in 2023, which traded for as little as 62 cents on the dollar in early May, sold for 81 cents on Nov. 29 to yield 8.7 percent. The securities were issued in 2013 for 107 cents on the dollar, or a yield of 4.2 percent.
City councilman Frank Gilliam, who criticized the city fiscal recovery plan that was dismissed by the state, said he’d prefer that bondholders ultimately share in the sacrifice, though he’s optimistic that New Jersey will revive his town.

“I would love to have the bondholders take a haircut,” he said. “We’ve had residents and businesses carry this burden.”

“I like to use the analogy that Atlantic City is the kid that doesn’t want to take the cap full of medicine,” he said. “Atlantic City has a sickness, and we need to actually be taking the medicine.”

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by Katherine Greifeld

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