# Bond Case Briefs

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## Gross Joins Bond Investors in North Las Vegas Crosshairs.

Nevada lawmakers are studying the unprecedented step of penalizing bondholders as North Las Vegas, the state's fourth-largest city, faces insolvency.

Once among the nation's fastest-growing municipalities, the city located less than 10 miles from the famed Strip has seen its property taxes collapse 70 percent since 2009. Funds run by Bill Gross, co-founder of the world's biggest bond manager, hold almost a fifth of the municipality's $420 million in general obligations, data compiled by Bloomberg show. The bonds were cut to junk by Standard & Poor's in March after a judge ordered the city to pay unionized workers raises withheld during a fiscal emergency declared two years ago.

With no provisions for municipal bankruptcy in Nevada, lawmakers are considering ways to make investors share the pain of distressed municipalities. The approach takes a page from bankruptDetroit, where an emergency financial manager proposed paying some bondholders 15 cents on the dollar, and from the insolvent California city of Stockton, which offered real estate to satisfy creditors after missing debt payments.

"Something's going to have to give at some point," said Marilyn Kirkpatrick, the Democratic speaker of the state assembly, who represents North Las Vegas, said in a telephone interview. "Somebody's got to sacrifice, and I can tell you, the residents have been making a lot of sacrifices."

### Rebound Struggle

The third-fastest-growing U.S. city from 2000 to 2009, North Las Vegas is an example of a municipality that has struggled to rebound from the longest recession since the 1930s. Property values in the community of about 223,500 fell for four straight years beginning in 2009, according toits annual community report. Moody's Investors Service has cut it 10 steps since 2011, making it the only city among the nation's 100 most populous with a junk grade, excluding those in bankruptcy.

The city has reduced its workforce nearly in half as property-tax collections sank to $7.6 million last year, from $25.1 million in 2009, according to its annual fiscal report. Facing a $31 million budget deficit, city council declared a fiscal emergency in 2012 to suspend provisions of union contracts including annual raises.

### Bond Financing

While property values began to rebound last year, casinos sagged. From July through February, wagers at North Las Vegas casinos fell 2.5 percent from a year earlier, while bets statewide rose 0.9 percent, according to Nevada's Gaming Control Board.

Even as the local economy crashed, North Las Vegas, situated about 8 miles (13 kilometers) from the casinos of the Las Vegas Strip, spent $257 million on a water-reclamation plant and $130 million on a new city hall. The facilities, funded with bonds, opened in 2011.

S&P was the last of the three biggest rating companies to cut the community to junk. It has been rated speculative grade by Moody's since August 2012, and since July 2013 by Fitch Ratings.

In January, Clark County District Court Judge Susan Johnson ruled that North Las Vegas had overreached by denying the raises and ordered it to pay about $16.2 million to workers including police and firefighters. City officials are negotiating with unions over how much to pay.

## Payments Made

North Las Vegas has yet to miss a payment to bondholders, Mayor John Lee said in his ninth-floor office overlooking expanses of undeveloped desert and the Strip in the distance.

The Democratic former state lawmaker said North Las Vegas's plight demonstrates the lack of options for struggling municipalities in Nevada under state law. With Chapter 9 bankruptcy off the table, cities are left with the prospect of finances run by a receiver from the state Taxation Department.

That has happened twice, in 2000 with the school district of eastern Nevada's White Pine County, with 1,400 students; and in 2005 with White Pine County itself, population 10,000.

North Las Vegas must submit a balanced budget proposal to the state Taxation Department by April 15, said Terry Rubald, the department's deputy director. Failure to do so is among criteria for a state financial takeover, although that's no guarantee, she said. The law governing state intervention doesn't provide for reduced payments to bondholders.

"This happening here definitely has elevated the issue," said Lee, who has discussed the city's options with Kirkpatrick and Republican Governor Brian Sandoval. "The legislature has a remedy that could help not only North Las Vegas but a lot of other cities in the state."

## Concession Idea

Lee and Kirkpatrick said their discussions focus on creating a law that, short of bankruptcy, could force concessions on bondholders of municipalities that meet certain criteria.

Any discussion on changing Nevada law to force concessions on investors would be "premature," as North Las Vegas hasn't yet satisfied the state's conditions for intervention, said Mac Bybee, a spokesman for Sandoval.

Changes to Nevada law probably wouldn't have broader implications for municipal debt as Nevada represents just $30 billion of the $3.7 trillion market, said Matt Fabian, managing director of Municipal Market Advisors in Concord, Massachusetts.

The city's debt includes about $119 million of federally taxable Build America Bonds maturing in June 2040, North Las Vegas's longest-maturity debt, Bloomberg data show.

## Gross's Funds

About $83 million of the maturity is held in funds run by Gross, chief investment officer at Pacific Investment Management Co., according to the latest filings to Bloomberg. That represents 19 percent of the city's general obligations.

The company's largest allocations of North Las Vegas bonds are in the $236 billion Pimco Total

Return Fund (PTTRX) and the $6.4 billion Harbor Bond Fund (HABDX), which combined own about $57 million of the securities, Bloomberg data show.

Mark Porterfield, a spokesman for Pimco in Newport Beach, California, said no one at the firm was available to comment on the bond holdings.

The Build America debt traded last week for the first time in about two years. Yesterday, it changed hands at an average price of 77.5 cents on the dollar to yield 8.78 percent, or about 5.4 percentage points above Treasuries. It priced in May 2010 to yield about 2.3 percentage points above Treasuries.

Van Eck Associates Corp., another bondholder, hasn't been approached by the city or state on the debt, said Jim Colby, who helps manage $1.8 billion of munis as a senior strategist with the company in New York.

## Pressure's On

Given Detroit's case and bankruptcies by California cities, "it doesn't surprise me that's the talk from lawmakers," Colby said. Legislators probably want to "put the pressure on bondholders, and if bankruptcy isn't an option, do something totally different to get out from under the obligation."

Market Vectors High Yield Muni Index ETF (HYD), which Colby helps manage, owns about $2 million of the city's general obligations.

Lee and leaders of North Las Vegas's three public-safety unions oppose a state takeover of city finances, they said in separate interviews.

Receivership would mean a potentially "lasting historic stigma for city and region," Barclays Plc said in a Jan. 9 report commissioned by the city.

## State Improvement

Nevada's economy improved more than any other state's from the fourth quarter of 2012 through the end of 2013, according to the Bloomberg Economic Evaluation of States. Nevada's 8.5 percent jobless rate in February, while the lowest since 2008, was still third-highest among states, according to the Bureau of Labor Statistics.

With a deadline looming for a budget proposal, North Las Vegas and its unions are attempting to agree on back pay and to free up money to balance the ledger. City council voted last month to lowerthe fund reserve to 6 percent from 8 percent, freeing $2 million toward a settlement on wages.

"A receivership would kill the economy of the whole region," Scott Sauer, a resident who has attended council meetings for close to a decade, said in an interview after a session last month. "North Las Vegas is one of the largest cities in the state. What does this say about the whole state?"

By James Nash and Brian Chappatta  Mar 31, 2014 7:19 PM PT

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