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Freebies Fail to Lift Atlantic City Revenue: Muni Credit.

The two-night getaway with her daughter, Barbara, was a money loser for the New Jersey oceanside resort that's seeking to reclaim its title as the second-biggest U.S. gambling destination after Las Vegas. With a 44 percent decline in casino revenue since its 2006 peak of \$5.2 billion, Atlantic City is attempting to lure all types of visitors to try their luck at the 11 casinos that account for about 70 percent of the municipal tax base.

Promotions such as free stays and meals aren't translating into the spending boom that Atlantic City needs, 20 months from the five-year deadline that Governor Chris Christie set for a turnaround. Freebies totaled 26 percent of gross revenue for casino owners last year, as North American gambling operators tracked by Bloomberg Industries averaged as little as 6 percent.

"We get a sub sandwich from White House and it's so big you can eat it all day," said Barbara Lapsley, a 56-year-old retired counselor from North Arlington, New Jersey.

As tourism struggles, investors in the city's bonds are demanding more yield compared with other New Jersey entities, said Daniel Solender, who helps manage \$15.5 billion of munis at Jersey City-based Lord Abbett & Co.

Extra Yield

Atlantic City bonds due December 2025 that sold seven months ago traded June 5 with an average yield of 3.86 percent, according to data compiled by Bloomberg. That's 1.15 percentage point more than the yield on an index of New Jersey securities with a similar maturity, according to Barclays Plc data.

The extra yield on the bonds, rated A- by Standard & Poor's, four steps above speculative grade, has increased since the Nov. 26 sale, Bloomberg data show. The 1.6 percentage point spread above top-rated munis compares with a 1.4 percent gap when the bonds first priced.

"The trends are negative," Solender said. "You may get a little extra yield, but the challenges to the credit and the increasing potential downside, that drives people away."

The performance comes as the \$3.7 trillion municipal-bond market rallies by the most since 2009. State and local debt has earned 5.8 percent this year through June 25, Barclays data show, with New Jersey bonds gaining 5.5 percent.

Pennsylvania overtook Atlantic City as the second-biggest U.S. gambling market in 2012. Amid the slide, Christie, a 51-year-old Republican, committed \$261 million in tax breaks to hasten the completion of the Revel Casino-Hotel, the newest resort, and signed legislation to create a state-supported tourism district, where Tanger Factory Outlet Centers Inc. (SKT) is an anchor.

Revel Bankruptcy

Revel, which kicked off its May 2012 grand opening with a Beyonce concert, never caught on. It filed

for bankruptcy protection within 10 months and retooled to appeal to a budget-minded crowd rather than its original target of high-income visitors seeking spas and dining over gambling. On June 19, Revel AC Inc. (REVEQ) again filed for bankruptcy and said it would seek a buyer or close.

Against the February 2016 deadline Christie gave Atlantic City to reverse its decline, casino revenue has continued to drop, to \$2.86 billion in 2013 from \$3 billion a year earlier, adding pressure to the city and state budgets.

Atlantic City's promotions rate compares with a range of 6 to 19 percent for North America casino operators tracked by Bloomberg Industries, according to analyst Brian C. Miller.

Atlantic Club

Promotions at one casino force others to come up with their own, and it's tricky to increase visitors and stay profitable, said Don Guardian, Atlantic City's 61-year-old Republican mayor. The Atlantic Club Casino Hotel closed in January after finding the generosity unsustainable, with giveaways last year equaling 36 percent of gross revenue, the highest among the city's casinos, according to Bloomberg Industries.

"They could grow their market 100 percent, but if they're still losing money you can only give away the house for so long," Guardian said in an interview in Trenton on June 24. "You only have a loss leader — the food, the beverages — for the short term to bring people back, but then you have to be profitable again."

On Nov. 20, Moody's Investors Service lowered Atlantic City debt one step, to Baa2, two levels above junk, with a negative outlook. Moody's cited successful casino tax-assessment appeals, which forced the city to borrow for refunds, and long-term high unemployment and poverty. The downgrade followed a Nov. 6 bankruptcy filing by the Atlantic Club.

Internet Gambling

The Nov. 26 start of Internet-based gambling, initially expected by the Christie administration to contribute \$180 million in state tax revenue by June 30, may produce about \$12 million at the current rate, according to the office of legislative services. The state in 2013 collected \$205 million in casino tax revenue, about half from the peak year.

On June 17, as the temperature at Atlantic City International Airport reached 92 degrees Fahrenheit (33 degrees Celsius), Dorothy and Barbara Lapsley chose the boardwalk over the air-conditioned gambling halls of Bally's, where they were staying, and a snack of funnel cake served on a paper plate rather than birthday cake from any of the celebrity-chef or theme restaurants.

Springsteen Cover

At Bally's Bikini Bar, amplifiers broadcast a singer covering Bruce Springsteen tunes to a young crowd drawn to rum punch and swimsuit-wearing waitresses on a beach reclaimed from decades of use by drug users, prostitutes and the homeless. Guardian's addition of a rainbow flag over the dunes at Park Place on June 16 signaled a welcome to lesbian, gay, bisexual and transgender visitors.

The beach as a whole, dotted with rows of rented yellow sun umbrellas, "looks better and it feels safer," said Geraldine Smallwood, a 69-year-old retired house and office cleaner from Philadelphia.

A spot on the sand — accessible for no charge, unlike most others in New Jersey — was the only

draw to the city where she grew up, she said.

“My father was a card player until the day he felt a slap on his hand, and he took that as the spirit of his late mother,” Smallwood said. “He never played again and that left an impression on me, too.”

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