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Atlantic City's Casino Closings Squeeze Homeowners: Muni Credit.

Atlantic City, the junk-rated New Jersey gambling destination, is increasing pressure on homeowners to meet municipal-bond payments as one third of the seaside resort's casinos go dark.

The \$261.4 million municipal budget for 2014, with 14 percent of revenue dedicated to debt service, includes a 29 percent increase in property taxes. That's atop a 22 percent boost approved last year for the struggling city of 40,000.

Republican Mayor Don Guardian plans to sell \$140 million of debt by year-end to satisfy tax appeals for casinos, which opened in Atlantic City in 1978 and pay about 70 percent of property levies. Residents still paid an average of \$5,273 annually in 2013, and as the gambling resorts shut the city is leaning more on those property owners.

"The city is stressed," said Howard Cure, head of muni research at New York-based Evercore Wealth Management LLC, which oversees \$5.2 billion. "The remaining casinos, are they going to also appeal their taxes and is the city prepared for that?"

State Backing

The planned financing will probably be costlier than a \$62.9 million issue in November, said Michael Stinson, Atlantic City's finance and revenue director. New Jersey will back the securities under its Qualified Bond Act, with payments tied to \$20 million in state aid. The program will earn the bonds a credit grade that is one level below the state's, even though Moody's Investors Service cut the city's debt to junk in July.

"The borrowing costs are going to be attributable to the market and what the rating agencies have rated the city's debt," Stinson said by phone on Aug. 26. "We're certainly not a non-investment grade enterprise, especially with the Qualified Bond Act — it's going to be a help."

Revel Casino Hotel, which closed yesterday, is the third gambling destination to shut this year, after Caesars' Showboat on Aug. 31 and the Atlantic Club in January, as new facilities in nearby states siphon away business. Trump Plaza, to be shuttered Sept. 16, will be the fourth, leaving eight establishments operating. The three most recent closings will eliminate about 7,300 jobs, according to UNITE HERE Local 54.

The city faces payments to casinos that have appealed tax bills after the recession that ended in 2009 eroded property values.

Poverty Level

About 30 percent of residents live in poverty in the city, where the homeownership rate is 34 percent, about half the state average, according to Census data. Some owners are Vietnamese immigrants who will lose their jobs as poker dealers and expect to join the ranks of the city's

unemployed. The 9.5 percent June jobless rate compares with the 6.6 percent state average.

“Choosing between paying the taxes and buying food, I’m sure most people will choose to buy food for their family,” Emily Vu, a certified public accountant who has led the Vietnamese community to form a group called the Atlantic City Tax Appealers, said by phone on Aug. 18.

Atlantic City was the No. 2 U.S. gambling destination until 2012, when it was overtaken by Pennsylvania. Moody’s on July 23 cut the city two steps to Ba1, the highest speculative grade, with a negative outlook, citing pressure from gambling in neighboring states, closing casinos and tax appeals. The rating applies to \$245 million of general obligations.

Bond Declines

The extra yield investors require on some city debt has risen since the downgrade. Investors last week demanded 2.7 percentage points of yield spread to own tax-exempt Atlantic City bonds maturing in December 2025 rather than benchmark debt, up from an average of about 1.6 percentage points from January through June, data compiled by Bloomberg show.

The city’s bonds may cheapen more as officials try to diversify the economy beyond gambling, reduce workers and cut spending, said Justin Land, who helps manage \$3.5 billion of munis at Naples, Florida-based Wasmer Schroeder & Co.

Further declines may create a buying opportunity, Land said. New Jersey’s Division of Local Government Services has a history of helping fiscally stressed cities such as Camden and Newark function and pay bondholders, he said.

“New Jersey has a pretty defined and strict oversight over local municipalities in terms of support when they get into trouble,” Land said.

Revenue Erosion

Total Atlantic City casino revenue for the first six months of 2014 was \$1.87 billion, or 3.5 percent less than a year earlier, according to data from the state Division of Gaming Enforcement.

Governor Chris Christie, a 51-year-old Republican in his second term, has invited casino representatives, elected officials and labor leaders to a Sept. 8 meeting to chart a turnaround based on retail, entertainment, tourism and other non-casino revenue. In 2010, the governor announced a five-year plan to revive the city, including \$261 million in tax breaks to Revel and the creation of a state-run tourism district.

“We’re going to talk about a plan to help those folks who may lose their job,” Christie told an audience in Long Branch on Aug. 19. “We can’t look at this as a disaster.”

About 20 New Jersey municipalities have state-backed qualified debt, the sort that Atlantic City will issue, which “gives investors added confidence that they will be paid in full,” Tom Neff, director of the Division of Local Government Services, said by e-mail.

Debt Payments

They include Harrison, whose involvement in the financing of a stadium for Major League Soccer’s Red Bulls led to a Moody’s rating of Ba1, the same as Atlantic City; and Salem, rated Ba3, two steps lower, burdened with redevelopment debt.

“Atlantic City’s budget has appropriated funds to make their debt-service payments in 2015 and state law requires adequate budget appropriations for debt service in the future,” Neff said. “The division will enforce these laws.”

Though the New Jersey backing gives towns access to lower-cost lending, the program saw its own credit slip this year after Moody’s cut the state’s general-obligation debt to A1, its fifth-highest level. The rating, which Moody’s said reflected revenue shortfalls and higher benefits costs, is second-lowest among U.S. states, behind Illinois.

On May 15, two days after it acted on New Jersey, Moody’s downgraded the qualified financings for 17 towns to A2, with a negative outlook, saying the grades are linked to the state’s.

The program should still keep down Atlantic City’s borrowing expenses, Cure said.

“There will be a premium that has to be paid, but it will be cheaper than if Atlantic City tried to go out on its own,” Cure said.

By Elise Young and Michelle Kaske Sep 2, 2014 5:00 PM PT

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