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Atlantic City Sells $12 Million of Notes to Bank of America.

(Bloomberg) — Atlantic City, the struggling New Jersey casino center, sold $12 million of notes to Bank of America Corp., part of a plan to repay $12.8 million of securities coming due this week.

The city will pay the remainder through cash, according to a plan the City Council passed Tuesday. While officials intended to issue new notes last week to raise the funds, Mayor Don Guardian said Monday that the city had been unable to sell the debt until receiving three offers Jan. 30, including one on which the proposed interest rate — 12 percent — was too steep.

Guardian said the buyer of the new securities was the Charlotte, North Carolina-based bank. The securities mature in August and pay a 5 percent interest rate, according to the city's finance director, Michael Stinson. In comparison, top-rated municipal borrowers pay about 2.55 percent for three decades, data compiled by Bloomberg show.

"It says we're in bad shape," Council President Frank Gilliam said in an interview, referring to the interest rate.

The city, which would pay $300,000 in interest on the borrowing, has pledged as much as $12 million in anticipated state and federal grants to repay the loan, Stinson said. A separate state loan of $40 million comes due March 31.

Orr's Role

Governor Chris Christie, a second-term Republican, has struggled to revive the community of almost 40,000 people, about one-third of whom live in poverty. Casino revenue dropped to $2.9 billion last year from $5.2 billion in 2006 as neighboring states expanded gambling. Four of the city's 12 casinos closed last year.

Moody's Investors Service dropped the city to junk in July because of the dependence on casinos. The company last month lowered its grade on $344 million of Atlantic City debt to Caa1, seven levels below investment grade, citing the governor's move to install an emergency-management team that includes Kevyn Orr. Orr guided Detroit through its record $18 billion municipal bankruptcy in part by asking bondholders to accept less than they were owed.

"The whole perspective for investors changed once Orr got involved, just based on how he approached Detroit," said Daniel Solender, who helps manage $17 billion as director of munis at Lord Abbett & Co. in Jersey City.

Michael Drewniak and Kevin Roberts, spokesmen for Christie, didn't immediately return a phone call or e-mails seeking comment from the administration or Orr's office. Zia Ahmed, a spokesman for Bank of America, declined to comment.

"Everyone is nervous," Mayor Guardian told reporters in his City Hall office. "The term emergency manager, I think, scares people away, even though the governor has indicated these are more counselors and tools or experts to help us get through that and doesn't indicate bankruptcy."

by Terrence Dopp

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