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Will Chris Christie bail out Atlantic City?

It took six decades for Detroit to reach the brink of bankruptcy. Atlantic City, New Jersey, got there in less than one. With casino revenues falling by half between 2006 and 2014 and the local economy imploding, the beleaguered gambling mecca resorted to fiscal gimmicks to shield its budget from severe cuts. But the day of reckoning has come. The 5 percent loan that the city secured from Bank of America represents a near tripling of its borrowing costs in only one year. As unwise as it was for Detroit to have relied so heavily on the auto industry, a city economy based on gambling makes even less sense.

Atlantic City suffers from many of the same problems that have led other American cities to ruin. The city's annual pension bill has risen over 200 percent since 2006, from $6.5 million to $20.2 million. City employees receive defined-benefit pensions administered through two massively underfunded statewide systems. In November, Governor Chris Christie's administration released a report recommending that Atlantic City take a pass on the annual, actuarially recommended payments, a "reform" the city had already tried. So far, the city has not sought to reduce pension benefits, though it is trying to negotiate cheaper labor contracts.

Fiscal gimmicks have only exacerbated Atlantic City's problems. As casino revenues tumbled, so did real estate values. The city reacted by raising tax rates and overvaluing its casino properties. Casino owners appealed these inflated assessments, and they won big on the overcharges. They're not finished yet. Four out of the city's top ten taxpayers now have outstanding tax appeals with the New Jersey Tax Court. Because the awards are too large to pay out in cash, Atlantic City issued general-obligation bonds to reimburse the casinos. Last month, Moody's downgraded those bonds to junk status. Already, $125 million of the city's $340 million debt burden consists of "Tax Appeal Bonds," a total that may soon more than double. Simply put, the city has been borrowing to pay for current operating expenses—the big no-no of municipal finance. Atlantic City taxpayers face years of paying off debt used to finance past services. That means less money for future services.

Atlantic City officials are trying to revamp the local economy, but their plans will take many years to succeed, if they ever do. In the near-term, officials' main concern is the debt. Bankruptcy is not out of the question. Harrisburg, Pennsylvania, Springfield, Massachusetts, and several other nearly broke cities have managed to restore solvency without going to federal court. (Springfield appears determined to jeopardize its fragile revival by opening a casino.)

The state government hasn't decided whether to let Atlantic City go bankrupt. State senate president Steve Sweeney has staked out a strong anti-bankruptcy position, but Christie signaled his openness to bankruptcy by appointing Kevyn Orr, who oversaw Detroit's bankruptcy, as a "special consultant" to emergency manager Kevin Lavin, a former financial consultant to Philadelphia. Though Christie's November report called for an emergency manager with "ultimate power on hiring, firing and budget expenditures," Lavin and Orr have no real authority. Their charge is to lay out a plan by mid-March that shows how to "place the finances of Atlantic City in stable condition on a long-term basis by any and all lawful means." The plan will be welcome if only because it will shed some light on exactly what is going on. Atlantic City's financial disclosure practices leave much to be desired.

Christie may have the legal authority to go ahead with bankruptcy over the objections of state and local officials. But before he does, he should define the problem that bankruptcy would solve. Is it incompetence? Corruption? Intractable creditors? Atlantic City is a fiscal and economic disaster, and Christie can't turn it around on his own. The governor, who is considered a potential presidential candidate in 2016, should think carefully about how much political capital he wants to invest.

Politics aside, New Jersey has a responsibility to Atlantic City. Municipalities are creatures of their state governments. A failing city is prima facie evidence of failed state policymaking. Atlantic City's casino-focused economic development policy is a state policy: state voters authorized casinos during the mid-seventies, and about $200 million in casino tax revenues still flow into Trenton's treasury each year. Atlantic City's future, whatever it might be, should not obscure the fact that, if not for casinos, the city wouldn't be facing insolvency. More pain is certain for residents and businesses, who must now serve as martyrs for the cause of better fiscal management.

CITY JOURNAL

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12 February 2015

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