

Bond Case Briefs

Municipal Finance Law Since 1971

In Atlantic City, Unease Over Emergency Managers.

Campaigning in New Hampshire recently, New Jersey Gov. Chris Christie told business leaders his move to install emergency managers in Atlantic City demonstrated his bold leadership.

"It was time to go in there, take more of a proactive role, make hard decisions," said Bill Greiner, a New Hampshire real-estate developer, said of the Republican governor's message.

Not everyone is so certain. In this struggling seaside city, some residents, business owners and local officials question whether emergency managers appointed in January will make the situation better.

In New Jersey, Atlantic City is an experiment in whether state control is the answer to the resort destination's long-standing problems. While governors have previously controlled some aspects of troubled cities such as Newark, Trenton and Camden, the state hasn't previously imposed an emergency manager.

The governor's move is also being watched outside the state. Kevin Madden, a senior adviser to Mitt Romney's 2012 campaign, said Atlantic City's decline and the state's finances are likely attack targets for Mr. Christie's opponents as he eyes a 2016 presidential bid.

Mr. Christie's appointment of emergency managers sent Atlantic City's already low bond rating further downward and left city leaders scrambling to sell about \$12 million in debt in February. The city ended up paying a pricey 5% interest rate on those short-term notes and officials are now unsure how future debt auctions will go.

"It's had such a negative effect from the business community," said Mayor Don Guardian, a Republican. "They immediately assume the worst when you bring two guys in that have worked with bankruptcy."

The city intends to go back out in the market by April for roughly \$50 million in financing, said Atlantic City Revenue Director Michael Stinson. The debt will be secured through a state financing program for municipalities, allowing Atlantic City to get better terms on the bonds than if it went into the market using its own lowered credit rating, Mr. Stinson said.

Senate President Steve Sweeney, the Legislature's ranking Democrat, said that bringing in two individuals with experience in municipal and corporate bankruptcies translated into more difficulties for Atlantic City.

"I think it was a big mistake," Mr. Sweeney said in a recent interview, noting the ratings downgrades that resulted. "It sent a very bad message to the markets."

The emergency managers, who in recent weeks have met with casino executives and city officials and studied the city's finances, and are expected to file their report and recommendations for the governor as soon as next week.

Turning around the city won't be easy. As casinos opened in neighboring states, the resort city of

40,000 that once bet on a gambling-led revival fell on hard times. Four casinos have closed in the past 18 months. Gambling revenue has dropped by half, from \$5.2 billion in 2006 to \$2.6 billion in 2014, according to the state's Department of Gaming and Enforcement.

The decline led casinos to successfully appeal their property taxes, leaving a big hole in the city's budget.

Mr. Guardian has already trimmed the workforce and cut some municipal services, citing the city's financial woes. Mr. Christie said at a recent town-hall meeting in Moorestown that an emergency manager can "right size the government" and do what government officials have been unable to do.

Mr. Christie's choice of Kevin Lavin, a restructuring expert, and Kevyn Orr, who handled Detroit's bankruptcy, has rattled confidence that the state would prevent a bankruptcy and maintain a safety net through state aid. Mr. Christie also issued an executive order that left open the possibility that the city could default.

The emergency managers declined to comment.

Emergency managers can offer financial expertise and make tough financial decisions without having to face the political pressure that elected officials can face, economists said.

Mr. Stinson, the city's revenue director, said that he has seen Mr. Lavin in the city nearly every day since he assumed the role. "They are working hard," he said of the emergency management team.

Across the city, talk in restaurants and among service workers has turned to whether the city will be the next Detroit, which emerged from bankruptcy in 2014 after officials struck deals with that city's creditors and reorganized city services. Israel Posner, executive director of the gaming institute at Stockton University, called the prospect of bankruptcy a "Damocles sword" hanging over Atlantic City.

Some think following in Detroit's footsteps might not be so bad in the long run. After that city's bankruptcy, some are betting that Detroit will bounce back, with less debt and more development. Real-estate prices have started rising in some parts of Detroit, and businesses are reinvesting in the downtown area.

Many in Atlantic City's casino industry have welcomed the emergency managers. Officials at the Golden Nugget said the city's regulatory costs and taxes had made business challenging and an emergency manager could help provide relief.

Joe Lupo, senior vice president at Borgata Hotel Casino & Spa, said the hotel believed changes needed to be made and the managers seemed qualified.

The appointment of the emergency managers surprised many because Mr. Guardian had also moved to cut the city's budget, staff and some municipal services, with Mr. Christie's approval.

"Don Guardian is there tightening the belt, shaving where he had to shave, trimming where he had to trim," said Tony Catonoso, owner of the city's famous Steel Pier. "Don's not going to sit there and pick fights. He's not going to sit there and dig in his heels just for spite. He's going to do whatever he has to do to move the city forward."

The mayor said he is meeting with the managers and working closely with them, and city officials are trying to assure outsiders that the situation isn't dire.

THE WALL STREET JOURNAL

By JOSH DAWSEY AND HEATHER HADDON

Updated March 20, 2015 2:51 p.m. ET

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com