

# **Bond Case Briefs**

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## **Atlantic City on the Brink of Financial Disaster.**

Financially beleaguered Atlantic City is at risk of defaulting on millions in debt, a new credit analysis warned Thursday.

The city faces a \$40 million loan repayment at the end of March and needs access to the credit market to refinance that loan. Its credit rating is at junk status, which will make it difficult for the city to find reasonable refinancing. "With only four business days between now and March 31," the Moody's Investors Service analysis said, "it will be difficult to refinance the loan in the capital markets."

The Moody's analysis comes just two days after Atlantic City's emergency manager Kevin Lavin released his plan to address the city's looming financial crisis. The city faces a \$101 million budget gap in 2015 alone, a figure that amounts to 40 percent of Atlantic City's entire budget last year. Lavin's plan requires swift action by the state legislature, which would have to pass two bills proposed late last year to redirect nearly \$48 million in special funds and taxes to the city's coffers. It also calls for a deferral in paying \$42 million in state health benefit and pension payments this year.

If the city survives the March 31 deadline, Moody's predicts the state legislature will have about three months until it hits another wall with nearly \$19 million in debt due on three separate dates in August.

Adding to the uncertainty are questions about the ability of struggling casinos to pay their property tax payments to Atlantic City. "Should a casino become delinquent on its property tax payments as Revel and Trump Taj Mahal did in 2014, the [emergency manager's] short-term solutions will not be enough to prevent a 2015 debt service default," Moody's said.

Atlantic City has struggled for years as the near-collapse of the gambling industry there eroded its tax base. But this January saw a significantly dramatic drop in the city's fortunes. Gov. Chris Christie appointed an emergency management team with ties to Detroit's bankruptcy and asked the team to consider debt restructuring through bankruptcy. The move resulted in "super downgrades," rare declines of multiple notches, by Moody's and Standard & Poor's to the city's credit rating.

Following the emergency manager's report this week, S&P warned it could downgrade the city's credit rating again. (Although it is low, S&P's credit rating for Atlantic City is still higher than the Moody's rating.) Both rating agencies said they are worried about the city's liquidity struggles and whether that would impair its ability to fully pay back its bondholders. S&P said it could drop the city's rating as low as CC, which would match the Moody's rating. If it defaulted on debt, it could drop to a D rating, S&P said. A rating of D is extremely rare for a U.S. city and typically given to cities in bankruptcy.

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