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Atlantic City Seen Following Detroit in Deferring Bond Payments.

Atlantic City's fiscal crisis may prompt New Jersey to depart from its historic practice of supporting local-government finances as the gambling hub heads down a path similar to Detroit's.
An emergency-management team hired by Governor Chris Christie that includes Kevyn Orr, who guided Detroit's record bankruptcy, is considering deferring bond payments to help fix the seaside city's finances, according to a March 23 report.

Asking bondholders to accept less than they're owed would undermine New Jersey's reputation for nurturing distressed cities, said Ted Molin, a senior credit analyst at Wilmington Trust Co. in Delaware. The last time a municipality in the state defaulted was during the Great Depression, according to its Department of
Community Affairs.

"We've always taken comfort in the strong state oversight of local governments," said Molin, whose company oversees $4 billion of munis. "I was hoping that Atlantic City's situation was so dire and unique, and it doesn't necessarily represent a policy change, but I'm starting to have my doubts."

Any debt losses in the city of about 40,000 would probably cause borrowing costs to rise for fiscally strained New Jersey cities, said Matt Fabian, a partner at Concord, Massachusetts-based research firm Municipal Market Analytics.

"For cities with even a chance of distress, you have to assume the state would pursue bondholder losses," Fabian said.

Christie, a second-term Republican, in January appointed the emergency-management team, which also includes restructuring specialist Kevin Lavin. He acted after four of 12 Atlantic City casinos closed last year after being battered by out-of-state competition. Casino revenue fell to $2.5 billion in 2014 from a high of $5.2 billion in 2006, state figures show.

The city relied on casinos for 70 percent of its annual property taxes from 2010 to 2013. The eight remaining resorts now represent 49 percent of the tax base, according to the emergency manager's report.
Atlantic City has borrowed to repay casinos property taxes that they said were too high. Including a $40 million state loan, debt service totals $86.7 million this year, according to the report.

'Ambitious Timeline'

The team identified a $101 million gap in 2015 and listed potential cuts, including eliminating jobs and renegotiating employee-benefit payments. Its plan calls for proposing a restructuring and negotiating with creditors and unions through June 30.

The team said it's not contemplating bankruptcy. Still, the installation of Orr and Lavin and their "ambitious timeline" for resolution echoes what happened in Detroit, Molin said. Detroit's $18 billion bankruptcy ended after bondholders agreed to take losses.

The team's plan is bad for credit, according to Moody's Investors Service, which lowered its grade on $344 million of Atlantic City debt to Caa1, seven levels below investment grade, after Christie hired the emergency managers.

Debt payments in August and December may be at risk without quick state action to prop up the city, Moody's said.

'Positive' Development

Michael Stinson, the city's revenue and finance director, said the emergency manager team "should be viewed as a positive" development.

"We're working collaboratively with the state," he said. "Everybody's on point that what needs to get done will get done in the timeframe that needs to get done."

Moody's has placed seven other New Jersey cities on review for a ratings cut, saying the team's appointment for Atlantic City "may demonstrate a limit to the state's willingness to provide emergency financial support to other municipalities." Also, New Jersey's "constrained" finances increases the risk of its curbing local aid, the company said.

New Jersey has had eight credit-rating downgrades under Christie amid revenue shortfalls and rising costs for pensions, benefits and debt service.

Kevin Roberts, a Christie spokesman, said he didn't have a comment on the Moody's report. He didn't respond to questions regarding the possibility of the city's bond losses and access to capital markets.

Bond Insurance

While Camden filed for bankruptcy in 1999, its case was dismissed because the city wasn't authorized to do so by the state, said James Spiotto, a bankruptcy specialist and managing director at Chicago's Chapman Strategic Advisors LLC, which advises on financial restructuring.

Paul Brennan, a money manager in Chicago at Nuveen Asset Management, said he expects insurance to cover any debt-service shortfalls in Atlantic City for the company, which oversees about $100 billion of munis, including city securities.

That's not an option for most Atlantic City investors; about 58 percent of city bonds carry no insurance, according to data compiled by Bloomberg.

Any imposition of debt reductions would curtail market access for Atlantic City, said Dan Solender, who helps manage $17 billion as director of munis at Lord Abbett & Co. in Jersey City.

"Why would you lend them money if they're already cutting the payments to existing lenders?" he said.

Stinson, the revenue director, said the city plans to sell long-term bonds by May that would refinance notes due in August and a state loan due June 30.

The city would still have market access if the team takes actions such as extending debt maturities, Stinson said.

“As long as it makes sense, and everybody’s in agreement and it’s not done unilaterally, it could be worked out,” he said.

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