

# **Bond Case Briefs**

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## **Atlantic City, America's Worst-Rated Town, Stares at Default.**

Atlantic City has so little money left that it could miss a \$1.8 million bond payment due Sunday, a step that would make it the first New Jersey municipality to default on debt since the Great Depression.

The Jersey Shore gambling destination has endured years of strain as a third of its casinos shut down. But now its cash levels are low enough that bankruptcy is a possibility for the 39,000-population city, according to Mayor Don Guardian.









"We're down to a couple million dollars on any given day," the mayor said in an interview.

Once prized as a vacation destination because of its giant casinos and boardwalk, Atlantic City is in this position because of a declining economy and mounting debt. Its predicament is more severe than most distressed U.S. municipalities because it has the worst credit rating of any American city.

The appetite for higher yields in the staid municipal-bond market has allowed some troubled cities to issue new debt or renegotiate existing terms. The Chicago Public Schools issued \$725 million worth of bonds in early February despite a junk rating and a push by Illinois's governor to give the school district the authority to declare bankruptcy. As recently as a year ago, bondholders purchased about \$50 million in Atlantic City bonds backed by state aid payments.

# Risky Gamble

Atlantic City, N.J., is struggling with higher amounts of debt per capita than other distressed cities around the country. Data are from 2014.

	ATLANTIC CITY	CHICAGO	DETROIT	SCRANTON, PA.
Population	39,415 	2.7 million 	680,250 	75,281 
Total direct debt per capita	\$6,867 	\$3,624 	\$3,969 	\$1,971 
Median household income	\$26,936	\$47,831	\$26,325	\$37,551

Source: Merritt Research

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Since then, however, New Jersey Gov. Chris Christie blocked the delivery of a more than \$30 million rescue package, a judge ruled Borgata Hotel Casino & Spa could stop paying about \$30 million in annual city taxes and the city lost a \$160 million property-tax dispute with the Borgata that the city can't afford to pay.

Standard & Poor's Ratings Services said in January it appears "inevitable" that Atlantic City would default on debt payments within six months barring major improvements. It rates Atlantic City triple-C-minus. S&P also downgraded the city's municipal utilities authority to junk last week, with further downgrades likely.

Atlantic City's credit rating has sunk so low that city officials and bankers say investors would likely reject any offers to buy new debt or refinance.

"If we could go to the market, we more than likely would've," said Marty Small Sr., the city council's president.

The writing was on the wall for the city when neighboring states opened their borders to gamblers over the past decade and took away Atlantic City's special draw. Subsequent declines in the hospitality and food industries caused four of Atlantic City's 12 casinos to close over the past two years, cutting the city's revenue in half.

Its direct debt, meanwhile, soared to \$240 million, larger on a per capita basis than either Detroit's or Chicago's, according to Merritt Research Services LLC, a municipal-bond data provider.

Atlantic City's crisis worsened in January, when Moody's Investors Service downgraded its general-obligation debt to Caa3, near the bottom of the rating firm's scale. That placed Atlantic City eight notches below Chicago's junk rating.

Junk-rated cities remain a rarity. Only about 15 of more than 2,000 U.S. cities have ratings of BB-plus or below, according to Merritt Research.

"It's become more and more clear that the cash [the city] expected to be there wasn't," said Jim Colby, who manages a VanEck fund that bought Atlantic City debt last year.

Talk of default is spooking bond investors whose holdings have traded for as little as 66 cents on the dollar in recent weeks, according to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website. That is down from close to 100 cents on the dollar early last year.

New Jersey leaders, including Gov. Christie and the Democratic state Senate president, agree on a general fix for Atlantic City: a state takeover of the city's operations that would give the state ability to sell city assets, restructure debt or renegotiate union contracts. But a separate plan, backed by the state's Democratic assembly speaker, opposes altering union contracts and has so far blocked takeover legislation.

The proposals differ on how quickly the state would take over. Any action would require state assembly approval.

But Mayor Guardian has called the state's plan "a fascist dictatorship" and wants to retain local control of operations. His plan is to cut the city budget by at least \$10 million and bring in new residents by giving away land and vacant homes.

"We're not an industrial town like Detroit," he said. "We're a tourist destination."

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