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Atlantic City Rescue Plan is Politics as Usual for Bondholders.

The tentative agreement to save Atlantic City is the latest example of how success is often measured in New Jersey politics.

After months of bickering, the deal reached Monday by state lawmakers to prevent the fiscal collapse of the seaside gambling hub offers optimism to workers worried about their next paychecks, unions adamant on preserving bargaining rights and tourism officials before the key Memorial Day holiday.

While the framework lets city leaders come up with a plan to align its operations with revenue or fall under state control, it doesn't detail how that could be done. The legislation provides cash for debt and other obligations this year, but the city must slash expenses and rebuild a tax base that has tumbled by more than two thirds since 2010.

"The underlying economic problems of Atlantic City haven't been resolved by this legislation," said Alan Schankel, a managing director at Janney Montgomery Scott in Philadelphia. "At the end of the day, some drastic action has to be taken. The state's not going to loan the city money indefinitely. I certainly don't think the state's going to loan money in some way to make bondholders whole."

For now, the legislative compromise does pull Atlantic City from the brink of bankruptcy, which would have been the first for a New Jersey community since the Great Depression. Credit-rating companies had warned of the effect of a collapse on other New Jersey cities. The legislature on Thursday will vote on the package that Democratic leaders say has the support of Republican Governor Chris Christie.

"The challenges are great," said Dan Belcher, a senior municipal analyst at Columbia Threadneedle Investment Advisers, which owns Atlantic City general obligations among its \$26 billion in municipals. "But this is a good starting point."

Atlantic City, which once had a monopoly on gambling on the East Coast, has been veering toward insolvency since a third of its 12 betting parlors closed in 2014. To avert an unprecedented shutdown of city services, the 39,000-resident community lengthened worker pay periods last month. Mayor Don Guardian warned the city could run out of money in June.

Under the agreement, the state would provide Atlantic City a bridge loan. Some gambling proceeds that go toward marketing would flow to the city, which would also receive fixed payments from casinos instead of property taxes to prevent assessment appeals that strain its finances.

Borgata Rebate

With that "stable revenue stream" as collateral, the city could sell bonds through a state program that diverts aid for debt payment to meet its \$170 million or so tab to Borgata Hotel Casino & Spa for tax refunds, said Belcher.

The legislation up for a vote Thursday is a compromise from that passed by the state senate and supported by Christie. Those bills would have implemented an immediate takeover of city operations that included an ability to change or end existing labor contracts. That power remains if the city's failure in 150 days to come up with an acceptable five-year plan to restore fiscal stability triggers the state's assumption of control.

Credit-rating companies expressed caution. "A liquidity infusion from the state of New Jersey would be credit positive for Atlantic City, but there would remain a high degree of uncertainty regarding a long-term solution," said Josellyn Yousef, a Moody's Investors Service analyst, in an e-mail Tuesday.

April Kabahar, a spokeswoman for S&P Global ratings, on Tuesday referred to a report earlier this month that said that even if the city does receive "extraordinary support" from the state, that may not prevent bondholder losses. Janney's Schankel said Tuesday that he considers some kind of hit to bondholders as "likely."

Unions welcomed the break in the impasse, however, and said they would work to prevent the marginalization of elected officials.

"We definitely don't want the state takeover," said Keith Bennett, a state delegate for the city's Policemen's Benevolent Association Local 24. "It would mean that Chris Christie would have his hands too deep into our union's issues. He would be able to control every aspect of the city."

Christie's spokesmen Brian Murray and Jeremy Rosen didn't respond to an e-mail requesting comment on the bills.

Investors need to see clear timelines and goals in the city's five-year plan — and consequences from New Jersey officials if they aren't met, Belcher said.

"I would want to see a very short leash," he said.

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