

ISSUER COMMENT

26 September 2018

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Atlantic City (City of) NJ

Continuation of state oversight and proposed long-term plan are credit positive

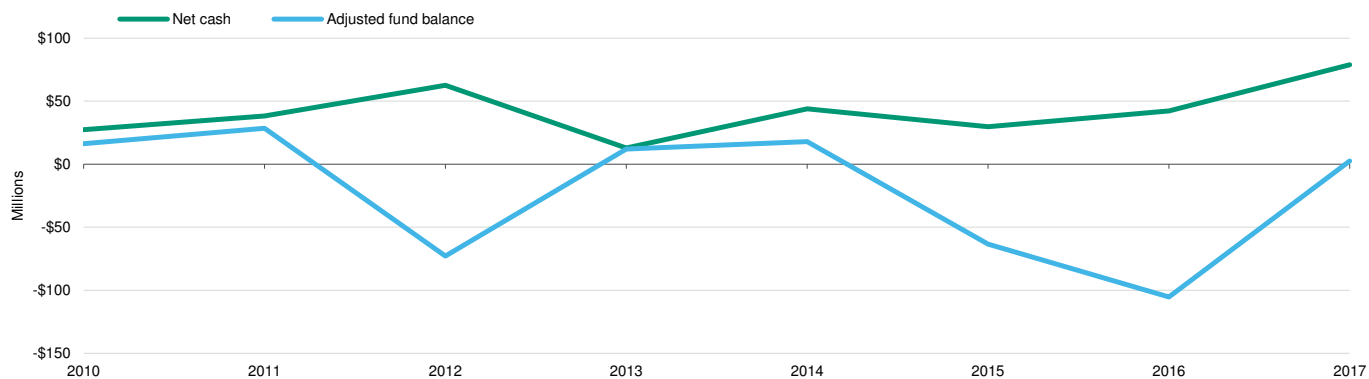
On 20 September, [New Jersey](#) (A3 stable) Governor Phil Murphy announced that the state intends to continue its extraordinary financial and operational oversight of [Atlantic City](#) (Caa3 positive). The announcement was made in conjunction with the release of New Jersey Special Counsel James Johnson's report analyzing the current state of affairs in the city and recommendations for a variety of steps to improve the city's economic and financial well-being. Both the continued oversight and overall plan proposed are credit positive for the city.

State control has had a strong, positive effect on the city's financial position, which remains weak. Prior to the November 2016 takeover, the city was on the verge of default and was actually in violation of the terms of an emergency loan granted by the state in August 2016. The legislation granting the takeover gave the state Division of Local Government Services sweeping powers, including the right to unilaterally modify or terminate union contracts, sell city assets, hire or fire workers, enter shared-services agreements, restructure debt, abolish departments and take control of city litigation.

Using these powers, the state settled long-standing tax appeals by Atlantic City casinos — one of the single biggest reasons for the city's fiscal distress — and materially reduced municipal employee headcount. In addition, in 2017, the state reduced the city's transitional aid and increased its Consolidated Municipal Property Tax Relief Act (CMPTRA) revenue, making state aid a more reliable and predictable revenue stream.

Along with a healthier gaming industry, the actions have substantially benefitted the city's fiscal position, with a surge in net cash and an improving fund balance (see Exhibit 1). However, the city's Moody's-adjusted fund balance is still near zero even after a \$108 million lift in 2017 that resulted from the tax appeals settlements with casinos. (Net cash is defined as total current fund cash less cash flow notes. The Moody's-adjusted fund balance incorporates [certain adjustments](#) to New Jersey local governments' fund balances. Net cash does not take into account large payables. For example, in 2017, the city owed approximately \$44.8 million in prior outstanding payables. In addition, the bulk of the 2017 improvement in adjusted fund balance was due to the \$108 million outstanding tax appeals paid for with long-term debt.)

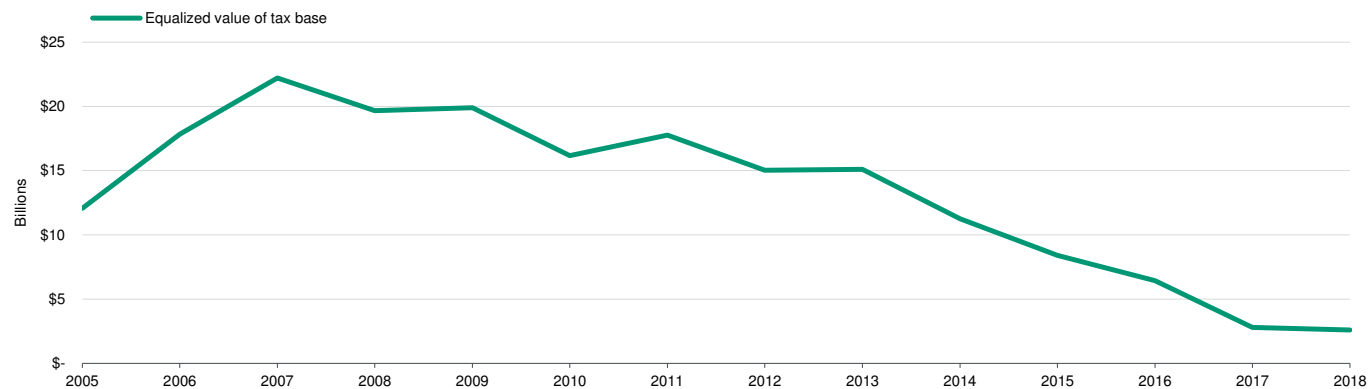
Exhibit 1

Atlantic City's finances are on the upswing, though still weak

Sources: Atlantic City audited financial statements, Moody's Investors Service

Without continued state oversight, the city's ability to continue making substantial fiscal improvements is dubious. The city remains embroiled in a lawsuit with the firefighters' union and the special counsel's report raised grave concerns about the overall efficiency and health of municipal services. Of particular note for a city with a decimated tax base (see Exhibit 2), the procedures and regulations for getting permission to build are not entirely within the city's control; the state's Casino Reinvestment Development Authority (CRDA) has partial jurisdiction over a wide swath of the city. While CRDA is legally required to fund economic development in the city, it is an independent agency answerable to the state, not to the city. Continued active state involvement makes it far more likely that the city and CRDA will be able to coordinate to expedite the city's redevelopment.

Exhibit 2

Atlantic City's tax base has plummeted since 2007

A citywide property revaluation occurred in 2007 and began to affect the tax rolls in 2008. In addition, the 2017 figure reflects the casinos transitioning to payments-in-lieu-of-taxes (PILOTS).

Source: New Jersey Division of Taxation

Besides calling for continued involvement and oversight, the special counsel's report lays out a vision for the city's future that includes improvements in municipal governance, especially in the public safety and public health spheres. The report also calls for the development of a master plan for redevelopment that aims to maintain the health of the city's biggest industry, casino gambling, and diversify the economy. The report also calls for improvements in transit access to the city.

While the continued oversight is a credit positive, the city is far from being financially secure. The report, which has received preliminary approval from the governor and is being reviewed in detail, lays out a strong vision for the future. But the devil is in the

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details and it remains for the city, state and CRDA to demonstrate that they can turn this vision into a sound plan. Even then, a plan is only as good as its execution.

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REPORT NUMBER 1143324