



Why We All Have a Stake in Atlantic City

Local leaders throughout the state
would be wise to urge policy makers to
avoid a bankruptcy

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Early this year, Moody's downgraded the credit rating of Atlantic City to a junk level rating of Caa1, a rating that was previously unheard of in New Jersey. This was a reaction to the appointment by the state of an "Emergency Manager" and "Special Counsel" for the city, who have both had extensive experience in bankruptcy to help to solve the financial problems facing the city. Concern that this may indicate a move towards the first municipal bankruptcy in New Jersey didn't sit well with the financial and credit markets.

A couple months later, Moody's put Newark, Paterson, Asbury Park, Trenton, Kearny, Union City and Weehawken under credit review and possible credit downgrade. Moody's action was not a surprise; these municipalities participate in the state's Qualified Bond program and participant debt ratings historically follow the state's rating (which was recently downgraded). In explanation, Moody's cited an overreliance on State Aid and New Jersey's current financial trouble and credit downgrade over its pension payment obligations. For the first time, however, Moody's also cited concern over the state's commitment to provide support to local governments.

So what does this mean to other New Jersey local governments who are less reliant on state aid? Should a possible bankruptcy by Atlantic City be a concern throughout the state? The simple answer is "yes." Now even highly rated New Jersey school districts are being questioned by the bond market because the state's commitment to providing annual debt service aid is in doubt. Moody's has also placed the New Jersey School Bond Reserve Guarantee Program (Chapter 72) on review for possible credit downgrade. There is an obvious crack in the state's financial armor. Where it will lead is a huge unknown.

How will the credit market view New Jersey municipalities that experience an unanticipated financial crisis if the state is no longer viewed as a reliable backstop to local governments? The long standing regulatory controls and oversight by the state over the finances of local governments can continue to provide value in the credit markets; but ultimately the value of the state's commitment will be judged more by what it does when it is needed most. If an actual bankruptcy occurs in Atlantic City, it will undermine the value of decades of state regulatory oversight and financial commitment; a system that has helped make credit values for our local governments some of the strongest in the nation for over 50 years.

Local leaders throughout the state would be wise to urge state policy makers to solve Atlantic City's financial distress with measures other than bankruptcy. The city's efforts to diversifying beyond casinos and to reduce the government workforce to match city revenue are strong indications that the financial path to a renewed city is through action, not bankruptcy.

One thing is certain, despite the superficial views to the contrary, the most expensive and devastating way to resolve a financial crisis is through bankruptcy. ❧