Bankruptcy Option Urged for Atlantic City

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By Kate King and Heather Haddon

ATLANTIC CITY--The threat of bankruptcy hung over New Jersey officials' latest proposal to take control of Atlantic City's finances, with some officials and others saying Wednesday that it would be the best way to save the struggling city.

Gov. Chris Christie, a Republican, and state Senate President Steve Sweeney, a Democrat, proposed on Tuesday that the state take control of the city's finances for five years. State officials pledged to include the city's mayor and City Council president in discussions and give the city a much-needed cash infusion.

On Wednesday, Dennis Levinson, Atlantic County's executive, said filing for bankruptcy would be better than relying on state taxpayers to pay the city's debts.

"Atlantic City lost 65-70% of their [tax] base," Mr. Levinson said. "No other city can say that. If they did renegotiate and restructure the amount of money they owe, it would most certainly put Atlantic City on a firmer footing."

Council members had planned to vote Tuesday on a resolution requesting state approval to seek bankruptcy protection, but after meeting with Mr. Sweeney the council approved a resolution authorizing the city to work with lawmakers and the governor's office on the state legislation.

Messrs. Christie and Sweeney, along with Assembly Speaker Vincent Prieto, a Democrat, have repeatedly said they don't want Atlantic City to file for bankruptcy. Still, Atlantic City Mayor Don Guardian said on Tuesday that he believed bankruptcy should remain an option.

State lawmakers have repeatedly said bankruptcy would hurt the city's and the state's credit ratings, both of which have been severely downgraded by the country's top ratings firms since Mr. Christie took office in 2010.
"Putting the city into bankruptcy would have disastrous results for the city and could jeopardize the financial standing of other cities in New Jersey, resulting in credit downgrades and higher costs," Mr. Sweeney said in a recent statement.

Marc Pfeifer, an assistant director of the Bloustein Local Government Research Center at Rutgers University, said the most immediate remedy the takeover legislation could offer would be allowing the state to sell city assets. Bankruptcy is a less appealing alternative, as court battles can be long and costly, he said.

"There is a need for an immediate infusion of cash, and that's what asset sales could do," said Mr. Pfeifer, a former state finance officer during several administrations.

The city's water utility and convention centers are among the assets that could be on the block. The state has also indicated it would like to rework the city's union contracts, often cited as a key component to shoring up the city's $250 million budget.

Atlantic City's finances, contracts, budget and personnel have been subject to the approval of a state monitor since 2010. The state expanded its oversight in January 2015, when Mr. Christie appointed an emergency manager to oversee the day-to-day finances.

The city is facing a $30 million deficit this year and is scheduled to run out of cash by April 1.

John Boyd, principal of Boyd Co., a Princeton-based firm that analyzes economic trends, said state lawmakers would likely use their enhanced powers to renegotiate union contracts.

"The challenge now is how this is managed and executed," Mr. Boyd said. "But let's be honest, bankruptcy should have happened probably a year ago."

At Tuesday's council meeting, some city residents lobbied for bankruptcy. One man noted that the city's credit rating is already in junk territory and said he would prefer federal court to a state takeover.

"We can't borrow any money," he said. "So it doesn't make any difference."

Legislation detailing the extent of the state's control over the city has yet to be introduced in the Legislature. On Wednesday, Mr. Prieto said he wasn't consulted before Messrs. Christie and Sweeney outlined the plan at Tuesday's news conference in Trenton.

"Not only did I not get an invitation, I didn't even know that there was a dance going on," Mr. Prieto said. "But without me they really can't hold the dance."

A spokesman for Mr. Christie said the governor and Mr. Sweeney made it clear that the full Legislature must be involved.
Mr. Prieto said he would look at what the Senate introduces but that he doesn't support state interference in contracts that Atlantic City recently negotiated in good faith with its local unions.

"There were a lot of givebacks from these unions to be able to come to an agreement," he said. "If you would have the ability to undo everything, I think that's not fair."

Former New Jersey Gov. Jim Florio, a Democrat who dealt with large budget problems during his tenure in the early 1990s, said he didn't think there was any legal way to change union contracts. He said he wanted to see more details in the bill on how that could be done.

Mr. Florio described the plan presented by Messrs. Christie and Sweeney as a short-term crutch.

"It's more imagery than reality," Mr. Florio said about what he knows of the legislation so far. "It's not really meaningful."

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