

City of Atlantic City

60 Day Report of the Emergency Manager March 23, 2015

Disclaimer

DISCLAIMER

THE EMERGENCY MANAGER FOR THE CITY OF ATLANTIC CITY (THE "EMERGENCY MANAGER") PREPARED THIS REPORT AND THE INITIAL PLAN OF ACTION CONTAINED HEREIN (THE "REPORT") IN ACCORDANCE WITH EXECUTIVE ORDER NO. 171 ISSUED ON JANUARY 22, 2015. THIS REPORT IS PRESENTED IN A FORM DEVELOPED AFTER CONSULTATION WITH THE APPLICABLE STATE AND LOCAL AUTHORITIES AND THE EMERGENCY MANAGER'S ADVISORS AND IS BASED ON (AND LIMITED BY) THE INFORMATION AVAILABLE TO THE EMERGENCY MANAGER AS OF THE DATE OF THIS REPORT. SUBSTANTIAL ADDITIONAL DATA IS BEING GATHERED OR DEVELOPED, AND CRITICAL FINANCIAL AND OPERATIONAL ANALYSES CONTINUE. THIS ADDITIONAL INFORMATION AND ANALYSIS, AS WELL AS CHANGES IN CIRCUMSTANCES, ARE EXPECTED TO HAVE A SIGNIFICANT IMPACT ON THE EMERGENCY MANAGER'S PLAN TO PLACE THE FINANCES OF THE CITY OF ATLANTIC CITY ("ATLANTIC CITY" OR THE "CITY") IN STABLE CONDITION ON A LONG-TERM BASIS BY ANY AND ALL LAWFUL MEANS. THUS, THIS REPORT IS A PRELIMINARY REPORT BASED ON THE EMERGENCY MANAGER'S WORK TO DATE AND REMAINS SUBJECT TO MATERIAL CHANGE AS THIS WORK PROGRESSES.

THIS REPORT WILL BE REGULARLY REEXAMINED BY THE EMERGENCY MANAGER AND THE APPLICABLE STATE AUTHORITIES AND MAY BE MODIFIED FROM TIME TO TIME . WITHOUT LIMITING THE FOREGOING, IF THE EMERGENCY MANAGER MODIFIES HIS ASSUMPTIONS, FUTURE REPORTS WILL CONFORM TO THE REVISED ASSUMPTIONS.

THIS REPORT IS BASED ON NUMEROUS PROJECTIONS AND ASSUMPTIONS CONCERNING FUTURE UNCERTAIN EVENTS. THESE PROJECTIONS AND ASSUMPTIONS INCLUDE, AMONG OTHERS, ESTIMATES OF TAX AND OTHER REVENUES AND FUTURE BUSINESS AND ECONOMIC CONDITIONS IN THE CITY, ALL OF WHICH ARE BEYOND THE CONTROL OF THE CITY. THIS REPORT LIKewise IS PREMISED ON THE FAVORABLE OUTCOME OF CERTAIN RESTRUCTURING INITIATIVES AND NEGOTIATIONS, SOME OF WHICH MAY BE SUBJECT TO LEGAL CHALLENGES, THE OUTCOME OF WHICH IS UNCERTAIN. THIS REPORT ALSO REQUIRES THE CITY TO OBTAIN ACCESS TO CERTAIN PROCEEDS OF FINANCINGS AND OTHER GRANTS AND THIRD PARTY ASSISTANCE. THERE CAN BE NO ASSURANCE THAT THE PROJECTED OUTCOMES WILL OCCUR. FOR ALL OF THESE REASONS, THE ASSUMPTIONS IN THIS REPORT MAY NEED TO BE MODIFIED FROM THE TERMS PRESENTED HEREIN, AND SUCH DIFFERENCES COULD BE MATERIAL.

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Emergency Manager Mandate and Opening Note

Emergency Manager Mandate

“To analyze and assess the financial condition of Atlantic City and prepare and recommend, within 60 days of appointment, a plan to place the finances of Atlantic City in stable condition on a long-term basis by any and all lawful means, including the restructuring of municipal operations and the adjustment of the debts of Atlantic City pursuant to law.”

Executive Order No. 171 § 2(a) and (b)

Signed by Governor Chris Christie on January 22, 2015

Note From the Emergency Manager to the Taxpayers of Atlantic City

Governor Chris Christie appointed me as Emergency Manager ("Emergency Manager" or "EM") and Kevyn Orr as Expert Consultant to the City of Atlantic City ("Atlantic City" or the "City") on January 22, 2015. This action was taken only after numerous reports analyzed and described the dire financial status of the City that currently threatens the City's ability to provide the crucial services that the citizens, businesses, visitors and stakeholders of the City expect and deserve.

Since my appointment, I have met with numerous stakeholders, including: elected officials, business partners, taxpayers, union representatives and other interested parties to discuss their observations and concerns about the financial and operating state of the City.

Commendably, the City, County, and State have made great efforts to confront these headwinds and develop plans to address the significant revenue shortfalls that are a direct consequence of the precipitous decline in both the City's ratable tax base and other limited revenue sources, a decline that has become even more severe within just the past 90 days. Indeed, the decline in revenues has exceeded the worst estimates that were published earlier this year. Moreover, absent the continuation of significant state assistance, the City is simply incapable of self-funding even its reduced budget for the coming fiscal year and this incapacity will only continue and worsen throughout the following years. The City simply cannot stand on its own. Thus, one thing is clear—there is no reasonable likelihood that these headwinds will abate at any point in the near future. In fact, as discussed in detail herein, all reasonable forecasts confirm that these troubling factors will continue to beset the City for the foreseeable future and, absent immediate and urgent corrective action, the City's ability to function as a thriving and viable municipal enterprise is imperiled.

In short, the acute financial distress facing the City is imminent and the causes of such distress are not transitory. Absent an urgent, material realignment of revenues and expenses, this crisis will rapidly deepen and will threaten the City's ability to deliver and maintain essential government services impacting the health, safety and welfare of its residents.

Lastly, the taxpayers of the City need and deserve a much more efficient and financially stable place to live and work. Atlantic City is a beautiful place with great people and tremendous potential. Indeed, I believe we all would like to see investors and developers aggressively pursuing investment opportunities here. Together we need to fix these challenges the City is facing and to that end I look forward to continuing to work closely and collaboratively with Kevyn Orr, the Mayor and his team, City Council, Atlantic County (the "County") and the State of New Jersey (the "State") personnel as well as all other City stakeholders.

Kevin Lavin

Executive Summary

Highlights of Executive Summary

- ▶ Overview of Work Performed
- ▶ What are We Trying to Accomplish?
- ▶ Atlantic City Financial Situation
- ▶ Actions to Create a Sustainable Future
- ▶ Atlantic City School District Update
- ▶ Shared Sacrifice

Overview of Work Performed

- ▶ We have been working to understand the financial situation of the City, both immediate and longer term. In addition, we have held numerous meetings with various stakeholders and interested parties to gain knowledge and perspective of their concerns, needs, and vision with respect to the City. We have also done the following:
 - Reviewed recent relevant reports including, but not limited to:
 - Atlantic City's Proposed Recovery Plan prepared by the Mayor and City Council
 - Update Report of Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment prepared by an advisory board chaired by Jon Hanson
 - Brief Summary of Atlantic City Financial Condition prepared by the State fiscal monitor assigned to the City by the Division of Local Government Services pursuant to the terms of the State Supervision Act ("State Monitor")
 - A summary of key findings in these reports is included in the Appendices to this Report
 - Engaged a financial advisor (Ernst & Young LLP)
- ▶ In addition, we have maintained ongoing coordination and discussions with the following:
 - The Mayor and his staff
 - City Council President and members of City Council
 - State and County personnel
 - State Monitor for the City and the Monitor for the Atlantic City School District (the "School District" or "School")
 - Other key stakeholders (e.g., unions, casinos)
- ▶ The knowledge and results of these efforts are incorporated into this Report

What are We Trying to Accomplish?

- ▶ Balance the 2015 Budget and address near term liquidity issues
- ▶ Stabilize the property tax base with a minimal (or zero) property tax increase for fiscal 2015
- ▶ Achieve sustainable fiscal balance for the long term (2016 and beyond)
- ▶ Create greater efficiency with City processes to support those living and conducting business in Atlantic City
- ▶ Establish Atlantic City as a desirable target for investment and development

Atlantic City Financial Situation

Atlantic City is in a financial crisis. Based on current available liquidity and projected collections and disbursements, the City will face a liquidity crisis commencing in the third quarter of this year, and continue throughout the remainder of 2015

- ▶ Over the past five years the City’s ratable tax base has declined from \$20.5b in 2010 to \$7.3b in 2015, representing a cumulative decline of 64%; the City’s spending has not kept pace with this decline
 - Most recently, the decline in the ratable tax base from \$11.3b in 2014 to \$7.3b in 2015 (a decline of 35%) has created a shortfall in the Mayor’s proposed 2015 budget (the “2015 Budget”)
- ▶ During this five year period, budget deficiencies, combined with significant tax refunds, have resulted in the City’s bond and property tax refund related debt increasing by approximately \$245.4m (much of this funded though the issuance of bonds)
- ▶ The chart below illustrates the City’s reported surpluses and deficits for the past five years, and the total related refunds of property tax appeals in the years to which they relate and, as added together, a proforma deficit for each year

Annual Surplus / (Deficit) and Related Tax Reassessments

	<u>2010(A)</u>	<u>2011(A)</u>	<u>2012(A)</u>	<u>2013(A)</u>	<u>2014(A)</u>
Total Revenues	\$ 400,387,372	\$ 424,954,921	\$ 431,480,685	\$ 468,364,114	\$ 411,970,906
Total Expenditures	400,212,469	424,719,430	433,825,430	478,887,486	441,392,766
Reported Annual Surplus / (Deficit) (A)	\$ 174,903	\$ 235,491	\$ (2,344,745)	\$ (10,523,372)	\$ (29,421,860)
Tax Refunds per Related Tax Year (B)	\$ 42,629,279	\$ 73,146,949	\$ 85,629,915	\$ 34,396,795	\$ 22,766,400
Total Proforma Deficit (A-B)	\$ (42,454,376)	\$ (72,911,458)	\$ (87,974,660)	\$ (44,920,168)	\$ (52,188,260)

Sources: Audited Financial Statements, 2014 Unaudited Financial Statement, City Assessor information

Note: 2012 deficit includes deferred charges of \$3.5m

Actions to Create a Sustainable Future

- ▶ The immediate priority is to close the 2015 Budget gap. This could be accomplished through a combination of several items including cost reductions, potential payment delays and increased revenue. The specifics of the estimated 2015 Budget gap and potential opportunities to balance the City's 2015 Budget are outlined in the next section of this report "Fiscal 2015 - The Immediate Issue"
- ▶ We are finalizing a plan to reduce the City's expenses by \$10.0m in 2015
- ▶ We will appoint mediators to work with key stakeholders towards a resolution of each stakeholder's and the City's respective issues and concerns, while considering the City's financial position and limited resources. The mediators will work with the City's major stakeholders, including, but not limited to:
 - Union leadership
 - Casino representatives
 - Other stakeholders
- ▶ We have also commenced a process of examining available federal aid programs in order to determine which programs may be available to Atlantic City
- ▶ We will also continue to do the following:
 - Coordinate with the Mayor and City Council regarding City matters and operations, including personnel reductions
 - Work cooperatively and in tandem with the State Monitor for the City
 - Combine efforts and share information with the Monitor for the City's School District in order to realize necessary efficiencies
- ▶ Lastly, the Emergency Manager may issue a second report to provide an update on the progress of resolving the City's immediate 2015 Budget needs as well as outlining a plan to place the City on a path to long term stability

Atlantic City School District Update

Process Steps to Date:

- ▶ The Commissioner of Education appointed a monitor (the “School Monitor”) of the School District
- ▶ The School Monitor has been working with School officials to obtain and analyze relevant information
- ▶ The Emergency Manager has been having weekly meetings / calls to coordinate and share information

Preliminary Recommendations of the Department of Education:

Although the School Monitor is in the early stages of his role, the Department of Education (“DOE”) has taken into account his findings thus far and has made the following recommendations:

- ▶ The School tax rate either to remain the same or increase very slightly to minimize the impact on Atlantic City taxpayers
- ▶ A reduction to the School budget, which will include layoffs across all levels and rationalization of other costs except debt service; the School Monitor is exploring debt refinancing alternatives in order to lower debt service expenditures
- ▶ After the above noted changes, the DOE is recommending any remaining deficit be covered through either State aid or a bridge loan from a bank

The School Monitor is continuing to review the operations of the School District. The DOE and the School Monitor will continue to update and refine their recommendations

Supplemental State Aid to Certain School Districts

- ▶ The State Legislature is also considering bill S-2574/A-3983, which proposes to provide supplemental State aid to school districts in municipalities that have experienced significant declines in commercial property valuations (decrease in valuation of at least 25% between 2008 and 2013 where commercial property represented at least 75% of the total assessed property values in 2008) through the creation of a stabilization aid category
- ▶ Once qualified, the Commissioner of Education will conduct a needs assessment of the school district to determine if it qualifies for stabilization aid and determine the amount of aid; this analysis will be conducted annually to determine the award, if any
- ▶ The school district will become ineligible for aid once the assessed property valuation meets or exceeds the 2008 property tax valuation levels

Shared Sacrifice

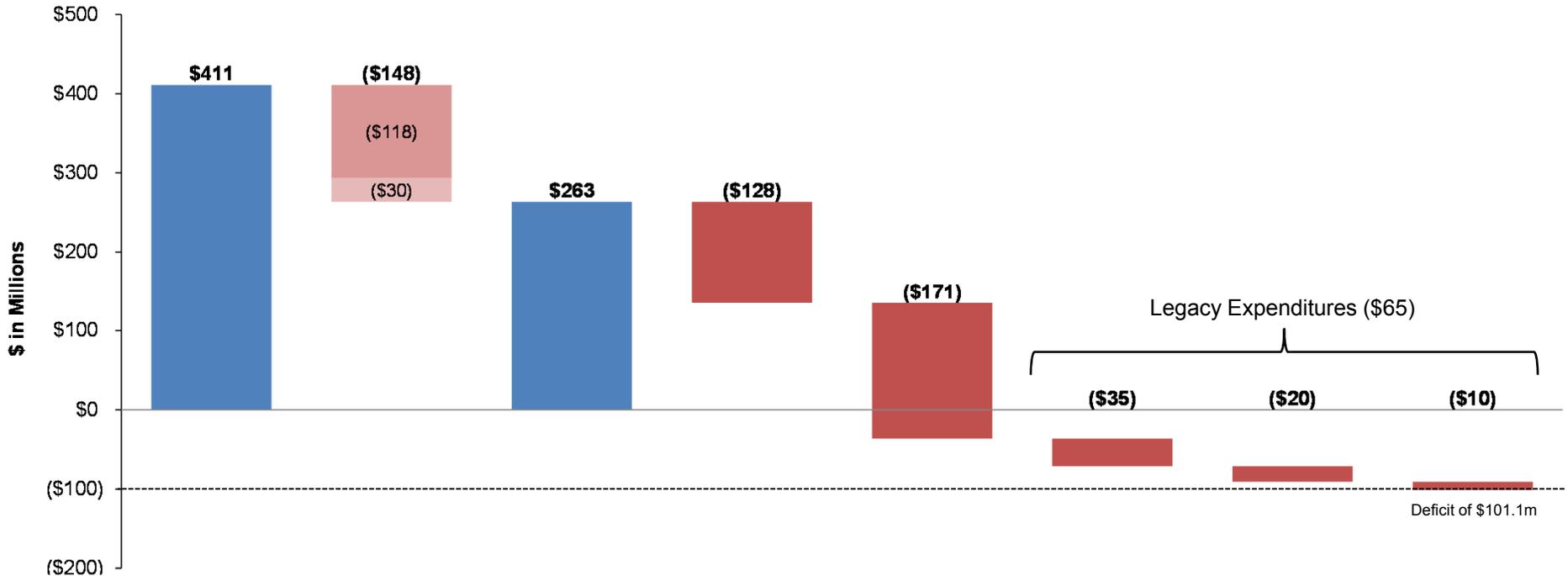
Any longer term restructuring plan for the city will require shared sacrifice from a variety of key stakeholders:

	Current Situation	Potential Options
Atlantic City	<ul style="list-style-type: none"> Increasing structural deficits Declining property tax revenue (largely dependent on casinos) Growing legacy costs (tax refund bonds, pension, other post employment benefits ("OPEB")) Monitor and Emergency Manager appointed 	<ul style="list-style-type: none"> Eliminate operational inefficiencies Reduce headcount Reduce costs via regionalization Rationalize / maximize unencumbered assets Assess reinvestment requirements Examine delay of PERS/PFRS and health benefit funding requirements
State of New Jersey	<ul style="list-style-type: none"> Provided \$40.0m bridge loan due 3/2015 Provided \$13.0m of Transitional Aid to the City in 2014 Pension plans for PERS and PFRS, and the City's health care plan for actives and retirees, are with the State 	<ul style="list-style-type: none"> Consider Transitional Aid, Energy Tax Receipts, and CDBG Essential Services Grant Provide CMPTRA and/or other aid Redirect ACA and IAT funds to the City Consider treatment of other taxes raised from the Atlantic City area (e.g., hotel tax, luxury tax, etc.) Taxes or other proceeds from non-taxable CRDA properties Address \$40.0m bridge loan; consider additional loans
Casinos	<ul style="list-style-type: none"> Declines in gross gaming revenue due to increased regional competition and other economic factors Ongoing tax appeals and settlements against the City 	<ul style="list-style-type: none"> Establish payment in lieu of taxes ("PILOT") program (may require adjustment to the current proposal) See Appendix "Casino Property Taxation Stabilization Act and Related Bills" for more information Develop plan for tax refunds
Bondholders	<ul style="list-style-type: none"> Increasing debt: \$217.9m in long term notes \$12.0m in bond anticipation notes due in August 2015 Credit rating downgrades impacting access to capital 	<ul style="list-style-type: none"> Extend maturities and explore refinancing opportunities that may reduce interest rates Restructure amortization schedules
Employees	<ul style="list-style-type: none"> Six of eight collective bargaining agreements ("CBAs") have expired (12/31/14) and are in negotiations Two remaining active CBA's will expire 12/31/15 	<ul style="list-style-type: none"> Negotiate reduction to head count and/or wages and benefits Analyze inefficiencies and negotiate improvements
Retirees	<ul style="list-style-type: none"> Pension plans of PERS and PFRS must remain State plans State determines amount of funding required Lifeguard pension plan with the City (not State) City currently utilizes the State benefits program (not mandated like pensions) 	<ul style="list-style-type: none"> Consider amendments to lifeguard pension plan Consider impact of longer term savings from alternative benefit plans, City self insurance and the near term impact from a delay of benefit expenditures
Public Schools	<ul style="list-style-type: none"> High per student operating cost City collects taxes on behalf of Schools. Collection and tax appeal risk is borne by the City Monitor appointed 	<ul style="list-style-type: none"> Examine potential for cost sharing of future tax refunds paid by the City Share benefit of reduced operating costs

Fiscal 2015 – The Immediate Issue

The 2015 Budget Shortfall Issue

- ▶ The City and School budgets currently have a shortfall of approximately \$101.1m and \$47.1m, respectively, assuming no property tax rate increases for 2015 (and after certain adjustments for unbudgeted tax credits and refunds, and prior to state aid)
- ▶ A combination of financial aid, cost cutting and delay of legacy obligations will be required to balance these budgets



Revenue per Mayor's Budget

- ▶ Taxes \$377.8m
- ▶ State Aid \$19.3m
- ▶ Other \$14.1m

Adjustments to Tax Receipts

- ▶ Lower ratable base and no tax rate increases (\$117.6m)
- ▶ Other adjustments of \$30.2m, which include unbudgeted tax credits and refunds for certain casino settlements, and Transitional Aid not yet awarded (in 2015 Budget)

Adjusted Revenue Base

Remittance of Taxes to Schools and County

- ▶ Schools \$87.9m
- ▶ County \$40.4m
- ▶ Assumes reduction to base and rates applied to both School and County

Operating Costs

- ▶ Salaries and wages \$96.4m
- ▶ Healthcare for active employees \$24.9m
- ▶ Other \$50.1m

Debt Service

- ▶ Principal \$25.0m
- ▶ Interest \$9.9m

Pension Payments

- ▶ PFRS \$14.7m
- ▶ PERS \$4.0m
- ▶ Lifeguard \$1.0m

Retiree Healthcare

- ▶ Healthcare \$10.2m

Illustrative Potential Solution to City Budget Deficit

- ▶ As stated on the previous slide, the City's 2015 Budget deficit is \$101.1m. Reflected below are the possible revenue enhancement and cost reduction/delayed payment items (totaling \$128.9m) that we have and will continue to pursue with appropriate City, County and State personnel to balance the City's 2015 Budget

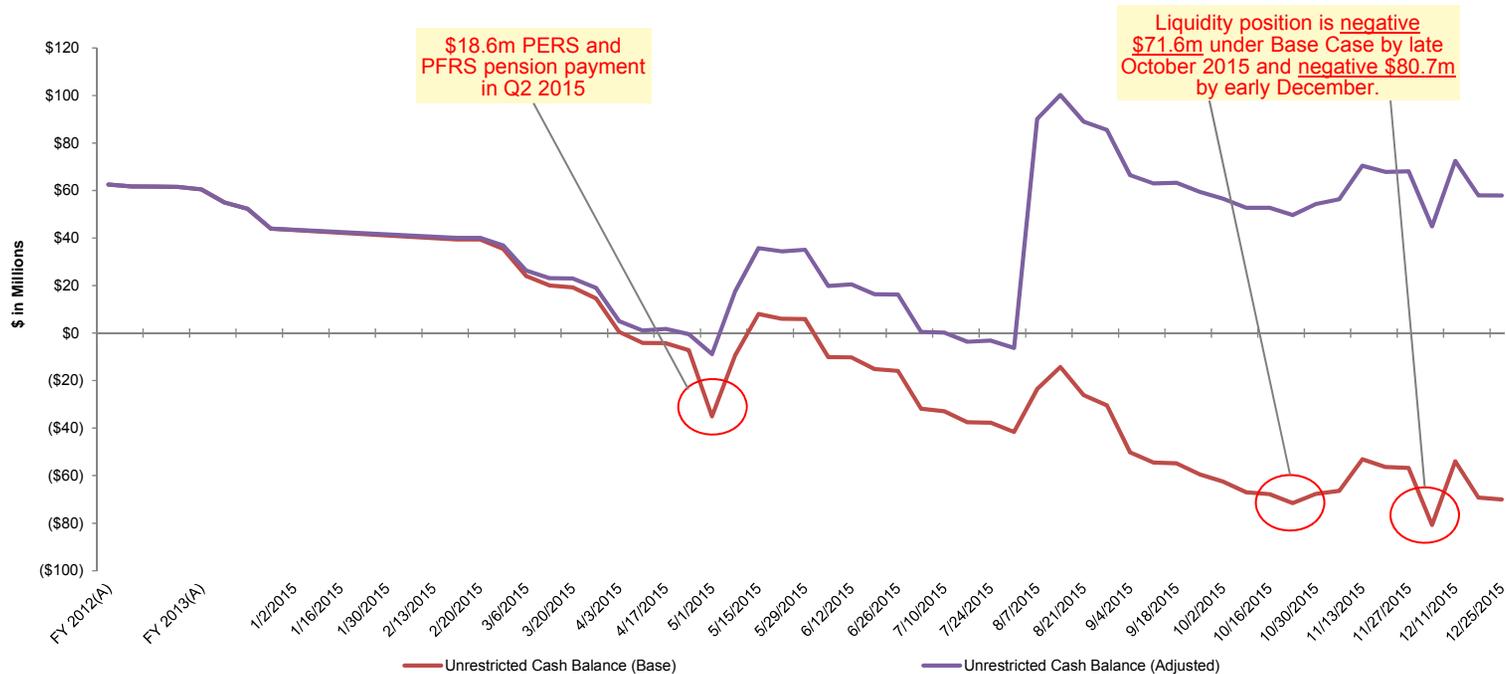
\$ in Millions

Current projected deficit (A)	<u>\$ 101.1</u>	
Potential Areas for Budget Improvements:		
<i>Cost Reductions/Delayed Payments</i>		
State benefit plan	\$ 23.0	Represents 10 months
PERS and PFRS pension	18.6	Annual amount
Lifeguard pension	tbd	Potential deferral or transfer to other pension plans - current appropriation \$1.0m
Immediate operational cuts	10.0	Estimate only - relates to headcount reductions and operational cuts
Debt service deferrals	tbd	
	<u>\$ 51.6</u>	
<i>Revenue Enhancements</i>		
Redirected ACA funding (S-2576/A-3985)	\$ 30.0	Assumed received in full in July/August
Redirected IAT funding (S-2575/A-3984)	17.5	Assumed at 50% of total 2014 IAT and received in full in July/August
Transitional Aid	13.0	Assumed same amount as 2014 award and received in full in July/August
CMPTRA Aid	10.0	Estimate only
CDBG Essential Services Grant	6.8	Assumed same amount as 2014 award and received in July/August
	<u>\$ 77.3</u>	
Total Potential Areas for Budget Improvements (B)	<u>\$ 128.9</u>	
Net Excess of Budget Improvements Over Deficit (B-A)	<u>\$ 27.8</u>	

Source: 2015 Budget, City and public information

The 2015 Liquidity Issue

- ▶ In addition to resolution of the 2015 Budget deficit, corrective actions are required in order to address liquidity issues anticipated to commence in the third quarter of 2015
- ▶ Liquidity forecasts for the remainder of 2015 under Base Case (business as usual) and Adjusted Base Case are presented below:



Base Case Assumptions

- ▶ Ratable base reduced to \$7.3b. No tax rate increases from FY14
- ▶ Excludes State Aid other than Energy Receipts Tax for \$6.3m
- ▶ Assumes \$40.0m State loan and \$12.0m BANs extended/refinanced

Adjusted Base Case Assumptions

- ▶ Consideration of delayed payments for PERS (\$4.0m) and PFRS (\$14.6m) pension and State Health Benefits Program (\$23.8m)
 - See Appendix "Pension and OPEB Costs" for more details
- ▶ State Aid inclusions of: \$30.0m Redirected ACA, \$17.5m Redirected IAT, \$13.0m Transitional Aid, \$10.0m CMPTRA, and \$6.8m CDBG Essential Services Grant
- ▶ Cumulative operational cuts of \$10.0m for 2015
- ▶ Periods of negative liquidity are manageable (per discussions with Director of Finance)

Potential Risks to Liquidity

- ▶ Unpaid property tax instalments from major taxpayers
- ▶ Unbudgeted or non-bonded tax refund settlements
- ▶ Unforeseen operating costs

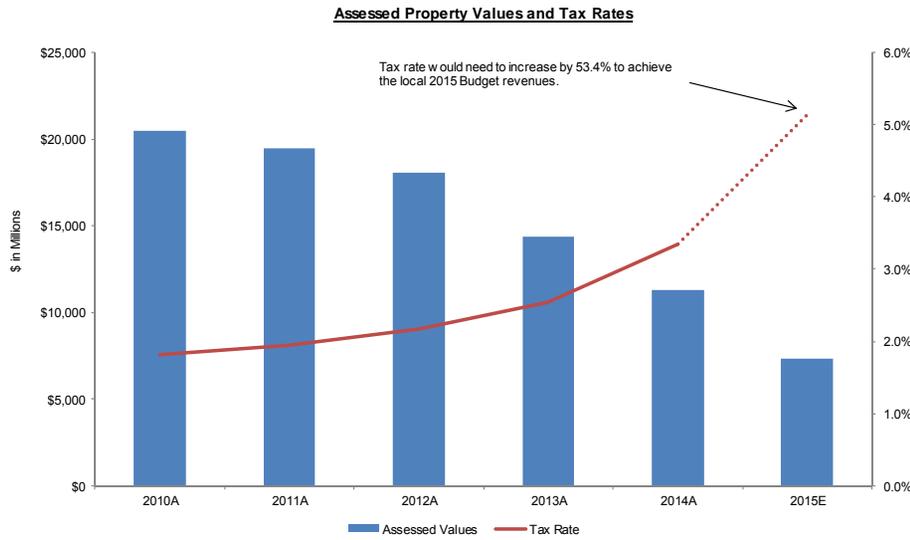
Source: 2015 Budget, City information

History – How Did We Get Here?

Background

- ▶ Historically the City has been reliant on property taxes as its main source of revenue
 - 85.8% of the 2015 Budget revenues are derived from property taxes
 - Minor revenues and non-recurring revenues (such as grants) comprise the remainder
- ▶ The City's property tax base has declined significantly over the past several years as property values have plummeted
 - Between 2010 and 2015, property values have decreased 64.1%
- ▶ A significant proportion of property taxes are paid by the casinos located in the City
 - From 2010 through 2013, the City's 12 casinos represented approximately 70.0% of total annual property taxes
 - After recent closures, and property tax appeals and rulings, the remaining eight operating casinos represent approximately 49.0% of the property tax base of the City
- ▶ Over the past several years, the City has settled tax appeals from casinos resulting in significant tax refunds
 - In order to pay the refunds, the City raised additional debt of \$186.0m to repay certain casino tax reassessments for 2010 through 2013
 - In addition, the City currently has \$126.0m of resolved tax appeals outstanding that are not bonded.
 - Furthermore, approximately \$48.0m of tax appeals from the casinos for various years remain unresolved
- ▶ The City's debt and legacy liabilities cost the City approximately \$64.6m to maintain annually (represents 24.6% of adjusted 2015 Budget revenues)
- ▶ Without significant changes in the longer term, the City will continue to operate in a budget deficit position (see page 23 "Deficits Will Continue Without Significant Changes")

Property Tax Base Continues to Decline While the City Remains Dependent on Casinos



Source:
City of Atlantic City "Tax Rates" (as provided by the City), ww.aclink.org/taxation ("Abstract of Ratables for Atlantic County" 2010 - 2014)

Casinos ¹
Residential
Commercial (excl. Casinos)
Vacant Land
Apartment
Industrial
Total

Tax Billings				
	2014	%	2015	%
Casinos ¹	\$ 212,728,204	56.37%	\$ 120,461,040	49.00%
Residential	70,362,602	18.64%	63,954,261	26.01%
Commercial (excl. Casinos)	62,197,699	16.48%	40,005,235	16.27%
Vacant Land	25,757,838	6.83%	15,514,183	6.31%
Apartment	6,218,417	1.65%	5,789,251	2.35%
Industrial	136,333	0.04%	136,257	0.06%
Total	\$ 377,401,092	100.00%	\$ 245,860,228	100.00%

Notes:

(1) Number of casinos reduced from 12 in 2014 to 8 in 2015.

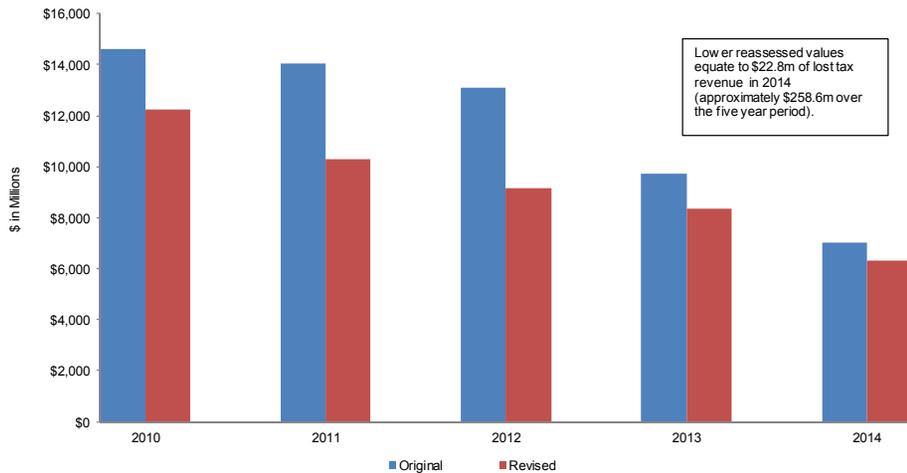
Source:

"Appendix A: Information Regarding the City," 2015 Municipal Data Sheet, Table of Aggregates of Taxable and Exempt Property in the Taxing District for 2015, Schedule prepared by the City (4/24/2015).

- ▶ Approximately 49.0% of the City's property tax revenues are generated by the eight active casinos (55.9% including the four closed casino properties)
- ▶ The City's casinos continue to face financial challenges, which have been exacerbated by increased competition from casinos in neighboring states:
 - Gross Gaming Revenues ("GGR") in Atlantic City has decreased from \$5.2b in 2006 to \$2.6b in 2014, a 49.9% decrease in GGR in Atlantic City over that time (see Appendix "Historical Gross Gaming Revenue" for additional information)
 - During 2014, four casinos ceased operations and closed; GGR in 2014 for this group was \$250.8m
 - The GGR of the remaining eight have declined 41.0% collectively since 2006 from \$4.0b to \$2.4b in 2014
 - Since 2007, seven casinos have been opened in the vicinity - four in Philadelphia and three within 200 miles of Atlantic City – further impacting the City's casino business

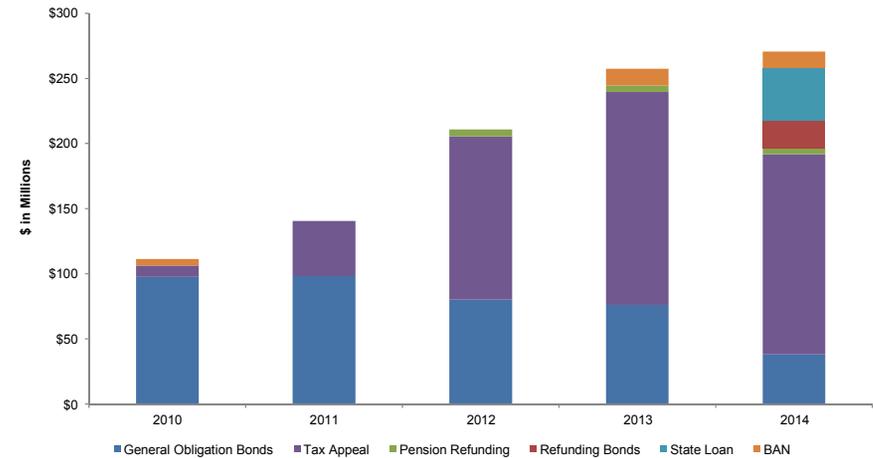
Tax Appeals have Resulted in Significant Refunds and Unsustainable Debt Load

Original & Revised Casino Assessment Values



Source:
A-20 COAC Appendix A info from proposed bond issuance 1/09/15

Historical Funded Debt

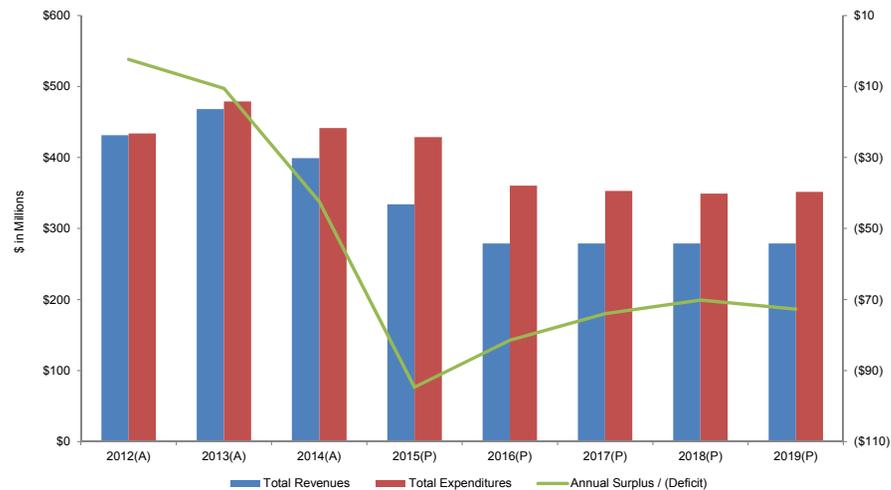


Source:
Audited Financial Statements (2010 - 2013), Annual Financial Statement for the Year 2014 (UNAUDITED)
State of New Jersey - Annual Debt Statement, Audit Report - Schedules "C-8a" and "C-8b," Management discussions.

- ▶ Recent property tax appeals by casinos have resulted in significant tax refunds, lower reassessed property values, and instability of the tax base
- ▶ Tax refunds represent a significant drain on the City's liquidity
 - The City's outstanding funded debt has more than doubled over the past five years to \$270.7m (includes State loan of \$40.0m and BAN of \$12.8m (reduced to \$12.0m in 2015) to be bonded)
 - Annual debt service has increased to approximately \$34.9m for 2015; see Appendix "Required Debt Service Cost"
- ▶ The impact of tax refunds is magnified as a result of the Atlantic City School District since the School is not liable for its portion of the refunds (approximately 35.8%) when the City loses a tax appeal
- ▶ Additional tax appeal settlements of approximately \$88.0m, together with other settlements and off balance sheet liabilities, will add additional debt service requirements not included in the 2015 Budget;

Deficits Will Continue Without Significant Changes

- ▶ The City had average annual current fund deficits of \$18.4m over the last three years (or an average of \$66.0m per year after adjusting for the refunds related to those years) excluding transitional aid of \$13.0m received in 2014
- ▶ **Absent significant changes (e.g., cost reductions, financial aid), the City's deficits are expected to continue resulting in a cumulative deficit of \$393.0m over the next five years**



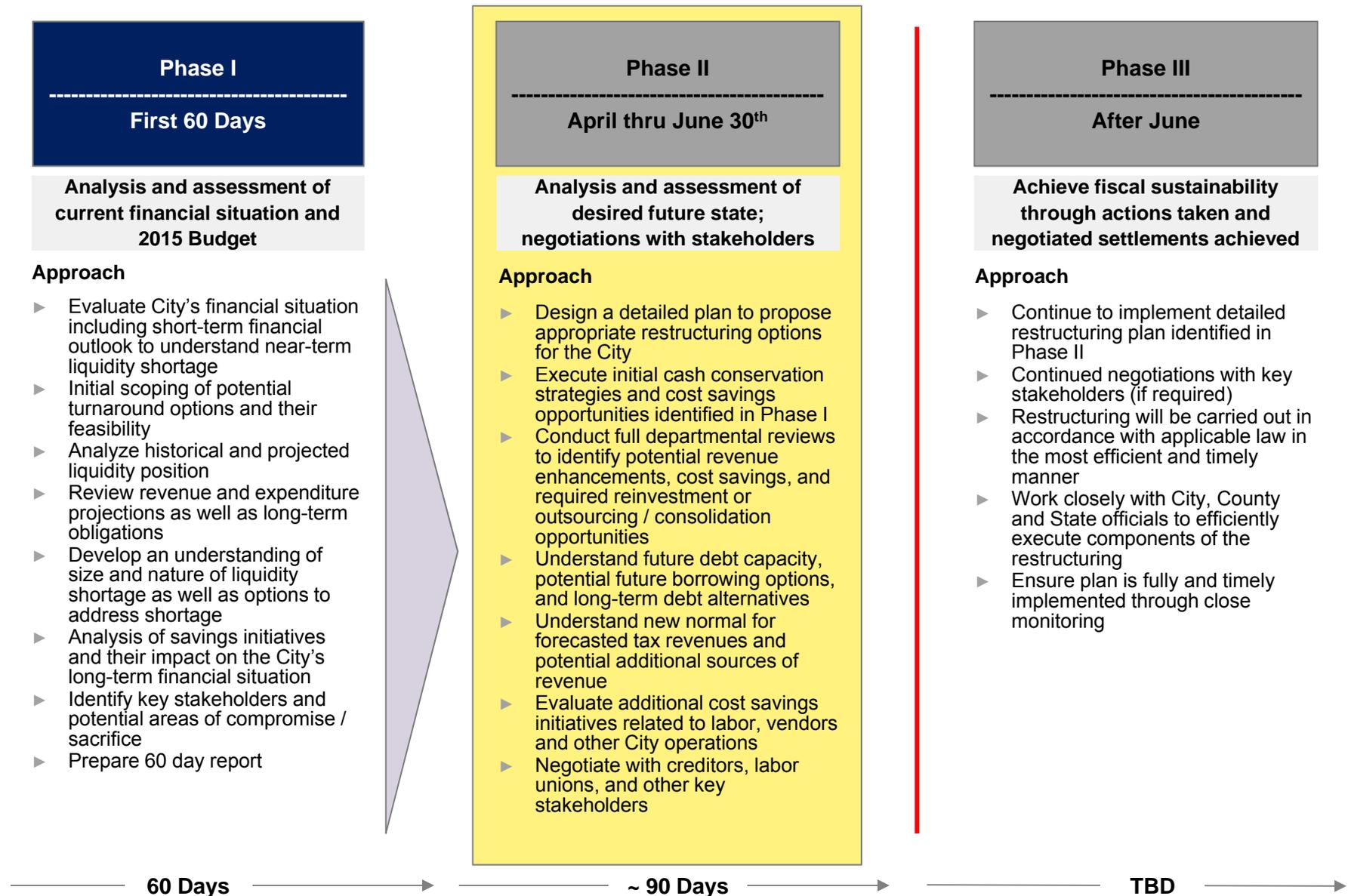
Additional risk factors that could further deteriorate 2015 and future years:

- ▶ Decline in assessed values
- ▶ Tax appeals
- ▶ Payment of non-scheduled and off Balance Sheet debt
- ▶ Operating costs increases

Source: Annual Audited Financial Statements, 2014 Annual Financial Statement, 2015 Budget, City Assessor information

Timeline Overview

Timeline Overview



Appendices – Supporting Financial Information

Appendices - Table of Contents

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Summary of Key Findings of Recent Reports

The Emergency Manager has met with and reviewed reports and information prepared by various parties noted below

	Mayor Guardian and City Council	Governor's Advisory Commission (Jon Hanson)	State Monitor for Atlantic City
Reports	Atlantic City's Proposed Recovery Plan	Update Report on NJ Gaming, Sports and Entertainment	Brief Summary of Atlantic City Financial Condition
Key Findings	<ul style="list-style-type: none"> • Reduce municipal personnel costs across all departments • Reduce costs per pupil in the school system • Sale of city assets • Right-size municipal and state aid (Transitional Aid and CMPTRA) • Redirect revenues from other public entities (CRDA and ACA) • Establish Alternative Tax Payment (ATP) for ten years for the gaming industry • Expand tourism district 	<ul style="list-style-type: none"> • Appoint Emergency Manager • Reform property taxes (7-10 year ATP system) • Reform School operations and finances • Temporarily delay pension payments • Regionalize (consolidate) certain public services • Redirect ACA funds • Reallocate and loan IAT funds • Create not-for-profit entity to act as Land Bank and focus on redevelopment 	<ul style="list-style-type: none"> • Continued headcount reductions will not make up for lost revenue due to drop in ratable base • Further ratable losses due to casino closings will negate savings from City downsizing

Comparison of Property Tax Rates

Historical Tax Rates for Comparable Atlantic County Municipalities

	2010	2014	PP Change
Egg Harbor City	2.60	3.93	1.33
Pleasantville City	2.34	3.68	1.34
Atlantic City	1.84	3.18	1.34
Linwood City	2.26	3.08	0.82
Northfield City	2.32	3.06	0.73
Buena Boro	2.29	3.04	0.75
Galloway Twp	1.91	2.79	0.88
Absecon City	2.06	2.75	0.69
Somers Point City	1.94	2.72	0.78
Egg Harbor Twp	2.02	2.71	0.69
Hamilton Twp	2.05	2.61	0.55
Mullica Twp	1.80	2.48	0.68
Hammonton Town	1.91	2.45	0.53
Buena Vista Twp	1.85	2.37	0.52
Weymouth Twp	1.74	2.22	0.48
Port Republic City	1.63	2.17	0.54
Estell Manor City	1.61	2.16	0.55
Ventnor City	1.64	2.15	0.51
Folsom Boro	1.41	1.79	0.38
Corbin City	1.86	1.70	-0.15
Brigantine City	1.17	1.66	0.49
Margate City	1.08	1.33	0.25
Longport Boro	0.60	0.83	0.23

Source: State of New Jersey Department of the Treasury: <http://www.state.nj.us/treasury/taxation/lpt/abstractrate.shtml>

- ▶ Atlantic City's tax rate is the third highest rate in Atlantic County; only Egg Harbor City and Pleasantville City have higher tax rates
 - In 2010, Atlantic City ranked 14th out of 23 Atlantic County municipalities

Pension Costs

Pension Costs				
\$ in Millions	2012	2013	2014	2015
PERS	\$ 4.0	\$ 3.7	\$ 3.5	\$ 4.0
PFRS	14.8	14.7	14.3	14.7
Lifeguards	0.9	0.9	0.8	1.0
	\$ 19.7	\$ 19.3	\$ 18.7	\$ 19.6

Note: 2012 - 2014 based on actual; 2015 is projected.

Source:

2014 Audited Financial Statements, 2015 Budget

PERS and PFRS

- ▶ Substantially all City employees are covered by the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS) (together, the "System")
 - PERS and PFRS are cost-sharing, multiple employer, defined benefit pension plans established by State statute
 - Annual cost is approximately \$18.6m (billed directly by the State)
 - City has deferred 50.0% of the 2009 PERS and PFRS payments (to be repaid beginning 2012 over five years at 8.5% interest)

Lifeguards

- ▶ The City established a pension plan to provide retirement, disability, and survivor pension benefits to individuals who served on the City's lifeguard force
- ▶ Annual cost is approximately \$1.0m

Healthcare Costs

		Healthcare Costs			
\$ in Millions	2012	2013	2014	2015	
Actives	\$ 18.7	\$ 22.2	\$ 23.7	\$ 24.9	
Retirees	6.1	7.5	8.2	10.2	
	\$ 24.8	\$ 29.6	\$ 31.9	\$ 35.1	

Note: 2012 - 2014 based on actual; 2015 is projected.

Source:

2014 Audited Financial Statements, 2015 Budget,
2015 Budget/Revenue Preparation Worksheet

- ▶ The City healthcare costs include medical, dental, vision, prescriptions and other benefits (collectively, with the State Health Benefits Program (“SHBP”), defined as other post employment benefits (“OPEB”))
- ▶ The City contributes to the SHBP, a cost-sharing, multiple employer, defined benefit post-employment healthcare plan administered by the State
 - SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents
- ▶ Annual retiree healthcare costs are approximately \$10.2m for FY15, an increase of 18.7% CAGR from 2012
- ▶ As SHBP is a State health plan, the City has limited ability (if any) to amend the State plan, but may have opportunities to exit the plan and enter into a new City plan with adjusted co-pays, deductibles, etc. which may lower plan costs

Casino Property Taxation Stabilization Act and Related Bills

The State Legislature is currently considering a series of five bills, including S-2572/A-3981, which would significantly amend the form of taxes from the City's casinos (under the form of a payment in lieu of taxes ("PILOT")), and S-2575/A-3984, which would provide additional revenues for the City via a redirection of the Investment Alternative Tax ("IAT") from the Casino Reinvestment Development Authority ("CRDA") to the City.

- **Issues addressed by S-2572/A-3981:** The accurate assessment of casino gaming properties is difficult due to their uniqueness, and recent court rulings have further increased the difficulty of those assessments. The Casino Property Taxation Stabilization Act (introduced in the State Legislature 12/1/2014) was proposed to bring stability to the City's casino tax base over a longer term and to avoid costly assessment appeals.

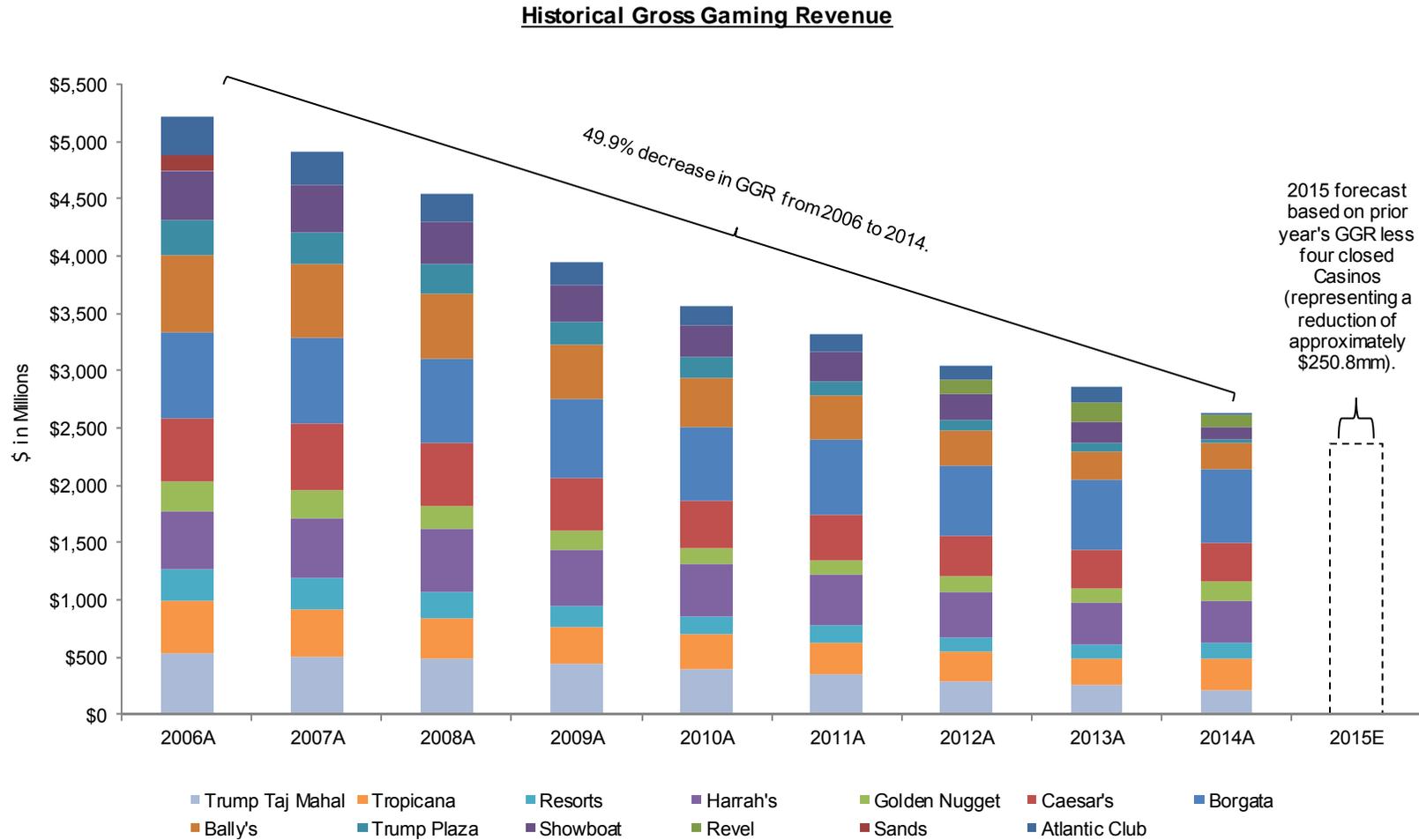
Summary of Senate and Assembly Bill S-2572/A-3981	
Who	<ul style="list-style-type: none"> • Applies to "Casino Gaming Properties," which is a casino situated within or part of a hotel located in Atlantic City and having not less than 500 rooms • Owners of Casino Gaming Properties shall collectively organize as the Casino Operator's PILOT Council ("Council") – new or transferred casino gaming properties shall also become members of the Council
Duration	<ul style="list-style-type: none"> • 15 year period (proposed to commence in 2015)
PILOT Payment	<ul style="list-style-type: none"> • First year and second year – Quarterly PILOT payments to the City from the Council of \$120.0m • Second year and thereafter – PILOT increases annually by inflation rate (based on CPI-W) not to exceed 2% per year (same for deflation with 2% limitation) • Following the second year, the amount of the PILOT shall be determined on the basis of the total Gross Gaming Revenues ("GGR") of the Casino Gaming Properties
PILOT Allocation	<ul style="list-style-type: none"> • Each casino gaming properties' share of the annual PILOT payment is based on three equally weighted factors: <ul style="list-style-type: none"> • Geographic footprint of real property of each casino gaming property • Number of hotel rooms in each casino gaming property • GGR of each casino gaming property • Allocation will be revised when new casinos are added or existing casinos are closed
Redirected ACA and IAT Funds	<ul style="list-style-type: none"> • Redirect annual \$30.0m Atlantic City Alliance ("ACA") funding to the City for 2015 and 2016 only; S-2576/A-3985 terminates the ACA • S-2575/A-3984 redirects annual IAT proceeds to the City to be utilized for debt service on bonds issued by the City prior to this Act

Casino Property Taxation Stabilization Act and Related Bills (cont'd)

Preliminary Legislative Actions

- ▶ The PILOT program under S-2572/A-3981 appears to provide benefits to the City; in particular, a means to create a stabilized and more predictable tax base. In addition, combined with S-2575/A-3984, the bills provide the City with an important (and needed) additional source of stop-gap revenue in the short term:
 - \$30.0m per year for 2015 and 2016 that was previously utilized to fund the ACA (directed to the City per S-2572/A-3981)
 - IAT funds, currently directed to the CRDA (approximately \$35.0m in 2014), net of CRDA debt service (amount to be determined), to be directed to the City for the next 15 years commencing in 2015 (per S-2575/A-3984)

Historical Gross Gaming Revenue



Source:

Per Monthly Gross Revenue Report - YTD per submissions from casinos (generally December report for annual numbers)

Funded Debt Summary

**City of Atlantic City
Funded Debt Summary
USD**

<u>Series</u>	<u>Bond Date</u>	<u>Amount Issued</u>	<u>Range of Interest Rates</u>	<u>Maturity Date</u>	<u>Balance as of 12/31/2014</u>
2008 General Obligation Bonds	2/15/2008	\$ 26,500,000	3.75% - 5.50%	2/15/2018	\$ 12,000,000
2011 General Obligation Bonds	2/1/2011	\$ 16,354,000	4.00% - 5.00%	2/1/2022	\$ 12,799,000
2013 General Obligation Bonds	12/1/2013	\$ 13,901,000	4.00% - 5.00%	12/1/2028	\$ 13,286,000
2005 Refunding Bonds	5/24/2005	\$ 29,010,000	4.50%	8/15/2015	\$ 2,445,000
2010 Refunding Bonds	12/15/2010	\$ 10,750,000	3.00%	12/15/2015	\$ 2,255,000
2012 Refunding Bonds	4/1/2012	\$ 15,710,000	4.00% - 5.00%	8/1/2017	\$ 9,375,000
2014 Refunding Bonds	1/15/2014	\$ 7,710,000	2.09%	1/15/2018	\$ 7,550,000
2012 Pension Refunding	4/1/2012	\$ 5,450,000	2.993% - 4.756%	4/1/2021	\$ 4,445,000
2010 Tax Appeal Bonds (tax exempt)	12/15/2010	\$ 1,795,000	3.50%	12/15/2015	\$ 380,000
2012 Tax Appeal Bonds (tax exempt)	12/5/2012	\$ 90,380,000	3.00% - 5.00%	11/1/2032	\$ 90,380,000
2013 Tax Appeal Bonds (tax exempt)	12/1/2013	\$ 48,976,000	5.00%	12/1/2033	\$ 48,976,000
2010 Tax Appeal Bonds (taxable)	12/15/2010	\$ 6,925,000	4.75%	12/15/2015	\$ 1,495,000
2011 Tax Appeal Bonds (taxable)	12/15/2011	\$ 35,285,000	3.099% - 3.299%	12/15/2016	\$ 11,350,000
2012 Tax Appeal Bonds (taxable)	12/5/2012	\$ 2,620,000	2.261% - 2.703%	11/1/2016	\$ 1,120,000
		<u>\$ 311,366,000</u>			<u>\$ 217,856,000</u>
State Loan		\$ 40,000,000	0.75%	3/31/2015	\$ 40,000,000
Bond Anticipation Note		\$ 12,800,000	5.00%	8/4/2015	\$ 12,800,000
Total Funded Debt					<u>\$ 270,656,000</u>

Required Debt Service Cost

Debt Service Cost (Excludes Non-Scheduled Debt and Off Balance Sheet Debt)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015 ^a	\$77,010,000	\$9,723,864	\$ 86,733,864
2016	23,335,000	8,246,478	31,581,478
2017	16,737,000	7,349,562	24,086,562
2018	13,620,000	6,626,693	20,246,693
2019	16,665,000	6,152,230	22,817,230
2020 - 2024	65,249,000	19,836,394	85,085,394
2025 - 2029	40,225,000	7,310,100	47,535,100
2030 - 2034	17,815,000	1,312,850	19,127,850
	\$ 270,656,000	\$ 66,558,172	\$ 337,214,172

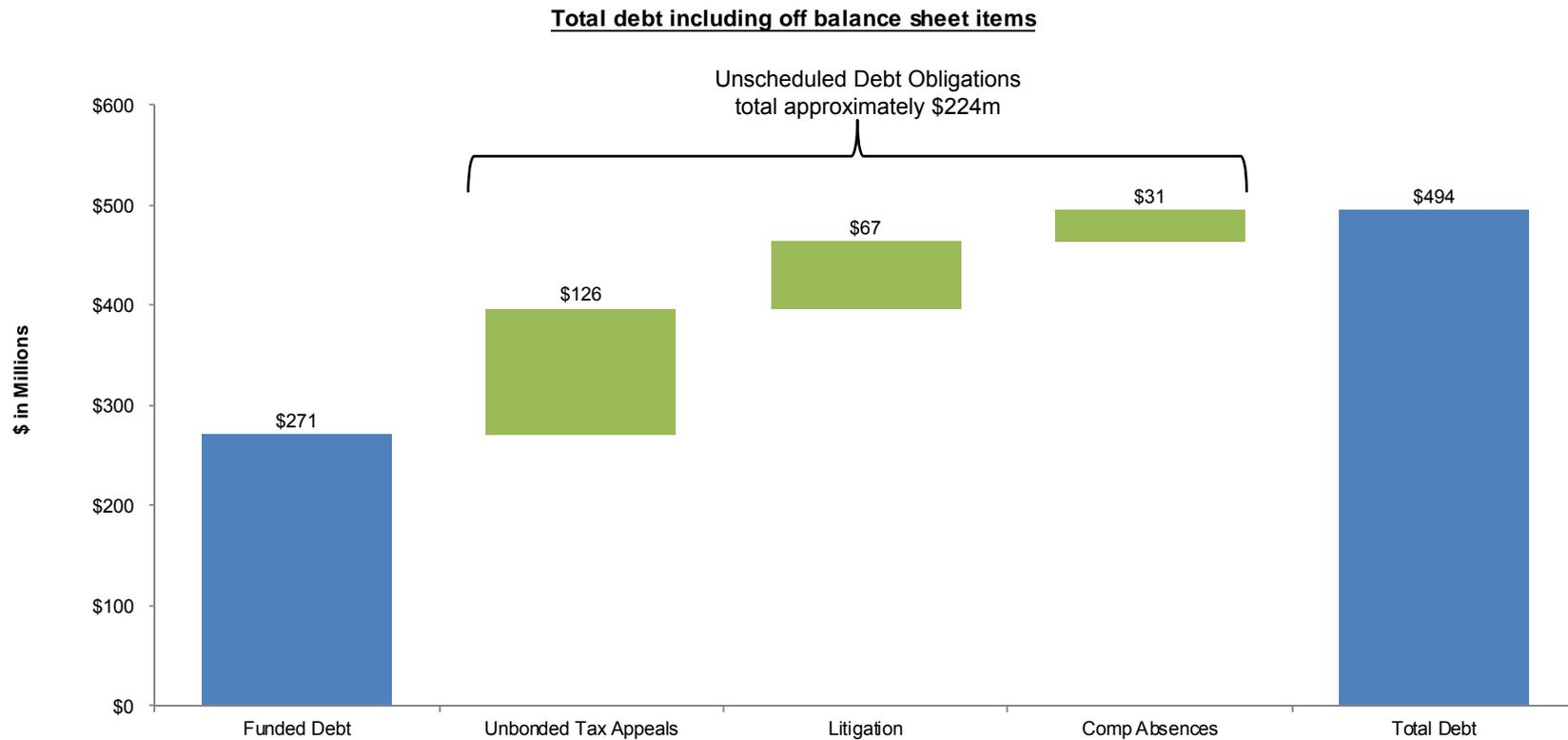
Sources:

Annual Financial Statement for the Year 2014 (UNAUDITED), State of New Jersey - Annual Debt Statement, Audit Report - Schedules "C-8a" and "C-8b," Management discussions.

Notes:

(a) 2015 includes repayment of \$40.0m "State Loan" and \$12.0m BAN plus associated interest.

Off Balance Sheet Debt



- ▶ Unbonded tax appeals settlements for certain casinos total approximately \$126.0m
- ▶ Court appeals of tax reassessments and other ongoing litigation total approximately \$67.0m
- ▶ “Compensation Absences” for banked sick days and accumulated vacation pay (approximately \$30.6m)

Source: Audited Financial Statements, City Information