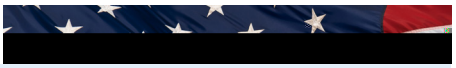
THE SOUTH JERSEY ECONOMIC REVIEW



ATLANTIC CITY'S CURRENT SITUATION

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Table 3: Metropolitan Areas with Largest Percentage Declines in Labor Force: November 2012 to November 2015

	November 2012				November 2015				November 2012 to November 2015 Change			
Metropolitan Area	**LF***	**HE***	**UN***	**UR***	**LF***	**HE***	**UN***	**UR***	**% Chg LF**	**Rank LF****	**Abs Chg LF**	**Rank Abs Chg LF****
Pine Bluff, AR MSA	39,736	35,873	3,863	9.7	34,845	32,39upanActualeFEF						

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THE TAKING OF ATLANTIC CITY (Michael Busler, Professor of Business)

The New Jersey Legislature has just introduced a bill known as the "Municipal Stabilization and Recovery Act." Although some parts of the bill could have wide-ranging impacts, the basic intent is to allow the state to takeover the finances of Atlantic City. The takeover will likely occur in late March and could last as long as five years.

The reason the state is taking this action, which has been rarely used in the past, is that Atlantic City is in severe financial distress. The governor said that in 2011, he told Atlantic City government that he would allow five years for the city to correct its financial problems. It is now 2016, the financial condition has worsened and may be reaching a critical point that could force Atlantic City into bankruptcy, which is something the state wants to avoid.

The timing is critical. This year the city budget is about $260 million while expected revenue will be about $160 million, although additional revenue should be raised through various government aid programs. The city has bond debt approaching $500 million which

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professionals view as so risky that the debt carries junk bond status, which means any further borrowing will occur at rates about 8 to10 times higher than they should be.

The alternative is to have the state borrow money for Atlantic City, which the state has already done, but which the governor does not want to do any longer. As a result the city will run out of money by March 31.

Making matters worse, is that the courts have ruled that the city over-taxed Borgata by $160 million dollars and ordered the city to re-pay. Since the city was unable to negotiate a settlement, Borgata asked the court to force the city to pay. The court has ruled favorably for Borgata meaning the city would have to immediately pay $60 million, which the city does not have and cannot borrow.

Making matters even worse, is that there will probably be a referendum on the ballot in November to approve casino gambling in Northern New Jersey. If that passes, which seems very likely, a substantial segment of Atlantic City's market will be virtually eliminated. Couple that with the eight casinos that are scheduled to open within the next three years that are within the marketing range of AC, and the problems worsen further.

Considering all of this, the legislature decided to take financial control of Atlantic City. The bill indicates that the takeover should occur within 30 days of the passage of the bill. Its first step will be to fund the city's operating shortfall. The city could run out of cash before the end of February if Borgata refuses to pay its current tax bill of $7.5 million. Borgata says that since the city owes it $160 million and is not paying that obligation, it will withhold its next tax payment and credit the amount toward the total owed by the city.

The next step is to get the city budget under control and eventually in balance. That will be difficult and painful. On the revenue side, property tax rate increases will be ruled out since the tax rate is already excessive. Boardwalk Hall, the Convention Center, Bader Field and the water company could be sold to private buyers. By selling these assets, hundreds of millions could be raised to repay debt and tax revenue could increase by about $8 million per year.

To increase revenue further, the city will try to bring in new investment and increase the ratable base. New investment will first come from public/private partnerships, then by offering tax credits to lure private investment. With the hardships facing the casino industry that may be difficult, so the new investment will have to come from outside of the casino industry.

Most of the city's operating expenses are for labor, so the first place the state will look to cut costs is the labor contracts. The state's position will be that there are too many public employees who are paid too much, for a city of this size and this cost of living. As such it will look to reduce the number of policemen, firemen, government workers and teachers. They will also look to re-work current contracts. This will be most painful, since the state will likely look for wage decreases in the 20% range and will seek to reduce the workforce by at least 10%.

Local officials will point out the various sources of the tax revenue that are paid to the state from Atlantic City. Perhaps some of the $55 million paid in luxury taxes, parking fees and hotel room tax, can stay in the city, although the state will be very reluctant to permanently lose tax revenue. Locals will also point out that it is unfair to compare spending per capita in AC to that of other New Jersey cities, since no other city has more than 20 million visitors every year. And no other city of 30 some thousand people has as many high rise buildings.

The state takeover could avoid a bankruptcy, but that is not assured. If casino revenue drops further so the PILOT program payments have to be adjusted downward and if there is no resolution on the labor contracts, bankruptcy could still be an option.

Since the state can keep control of Atlantic City's finances for up to five years, this will be a slow process. Eventually the state will exit and leave the city in a sustainable financial position. In the meantime, things will be difficult.

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NEW JERSEY'S ECONOMIC PERFORMANCE SINCE THE GREAT RECESSION'S ONSET

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HOUSING MARKET

Table 6: Job Gains/Losses Since the Onset of Great Recession (thousands)

State	Dec 2007 Emp	Nov 2015 Emp	Total Change Since Dec 2007	Nov 2015 as Share of Dec 2007	Rank
North Dakota	362	456	94	126.0%	1
Texas	10,530	11,883	1,353	112.8%	2
Utah	1,265	1,393	127	110.1%	3
Colorado	2,351	2,528	178	107.6%	4
Washington	2,999	3,203	204	106.8%	5
South Dakota	408	435	27	106.5%	6
Alaska	318	339	21	106.5%	7
Massachusetts	3,312	3,514	202	106.1%	8
New York	**8,774**	**9,307**	**533**	**106.1%**	**9**
California	15,422	16,258	836	105.4%	10
Idaho	657	687	30	104.6%	11
Nebraska	968	1,011	43	104.5%	12
Iowa	1,525	1,585	60	103.9%	13
South Carolina	1,949	2,025	76	103.9%	14
Oklahoma	1,607	1,664	57	103.5%	15
Georgia	4,170	4,309	139	103.3%	16
Minnesota	2,771	2,863	91	103.3%	17
Oregon	1,738	1,795	57	103.3%	18
Florida	7,932	8,185	253	103.2%	19
Tennessee	2,806	2,890	84	103.0%	20
Maryland	2,612	2,690	77	103.0%	21
Kentucky	1,858	1,913	55	102.9%	22
North Carolina	4,168	4,279	111	102.7%	23
Vermont	309	317	8	102.6%	24
Louisiana	1,936	1,983	48	102.5%	25
Indiana	2,993	3,064	71	102.4%	26
Montana	447	457	11	102.4%	27
Virginia	3,776	3,848	72	101.9%	28
Delaware	441	449	8	101.8%	29
Hawaii	628	639	11	101.7%	30
Kansas	1,386	1,406	20	101.5%	31
Michigan	4,246	4,279	33	100.8%	32
New Hampshire	651	656	5	100.8%	33
Wisconsin	2,878	2,899	21	100.7%	34
Pennsylvania	**5,815**	**5,856**	**41**	**100.7%**	**35**
Arkansas	1,208	1,214	6	100.5%	36
Ohio	5,420	5,437	17	100.3%	37
Rhode Island	488	487	-1	99.8%	38
Connecticut	1,706	1,700	-6	99.7%	39
Arizona	2,679	2,663	-16	99.4%	40
Illinois	5,988	5,927	-61	99.0%	41
Wyoming	294	291	-3	98.9%	42
New Jersey	**4,084**	**4,037**	**-46**	**98.9%**	**43**
Missouri	2,802	2,769	-34	98.8%	44
Maine	621	613	-8	98.7%	45
West Virginia	762	751	-11	98.5%	46
New Mexico	849	832	-17	98.0%	47
Mississippi	1,160	1,133	-28	97.6%	48
Alabama	2,015	1,965	-50	97.5%	49
Nevada	1,293	1,259	-33	97.4%	50
United States	138,350	142,950	4,600	3.3%	

Source: U.S. Bureau of Labor Statistics.

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Table 7: Comparing Job Growth by Industry: New Jersey vs. United States

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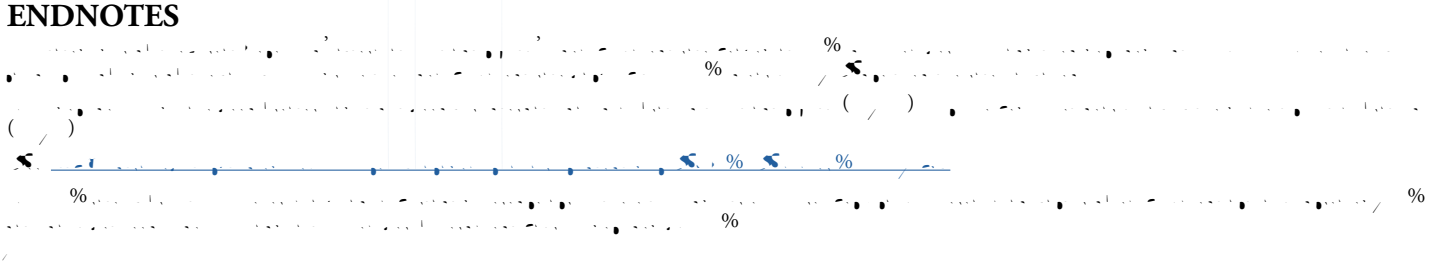
ENDNOTES



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