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Atlantic City's 'changed' economic culture under assault by history

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ATLANTIC CITY — Less than three years after facing the prospect of municipal bankruptcy, which resulted in a hostile state takeover, the city is making incremental progress toward economic stability, but its long-term picture is still problematic.

Commitments to regaining a modicum of fiscal responsibility by local officials could be undermined by the resort's looming debt obligations and the potential for continued state involvement.

Council President Marty Small Sr. said he is "100 percent certain" of at least a flat municipal budget for 2019. The budget for the current fiscal year is still a work in progress and has not yet been introduced.

"There will be no tax increase on the residents of Atlantic City," said Small, who also serves as chairman of the Revenue and Finance Committee, during a recent public meeting. "The budget is always a working document, ...(but) we're going to continue to make sound fiscal decisions."

In 2017, the first full year of the state takeover under the Municipal Recovery and Stabilization Act, Atlantic City approved the first reduction in the municipal rate tax rate since 2008. Last year, the city adopted a $220 million operating budget while holding the municipal tax rate — $1.83 per $100,000 of assessed value — flat.

A spokesperson for the state Department of Community Affairs, which oversees the city's finances as a result of the takeover legislation, said the agency is continuously "working with the city to reduce costs all around."

The city's newfound fiscal discipline is evident in its practice of awarding contracts for professional services, such as those paid to outside law firms.

City Council decreased the total amount awarded for legal services by $500,000 for 2019 by awarding $2.47 million in contracts for the upcoming year. Last year, the governing body awarded more than $3 million for legal contracts and spent $2.97 million. In 2017, Council awarded more than $2.95 million for legal contracts while only appropriating about $1.74 million for work done.

City Council has not approved a change order for legal services — when a vendor bills more for services than contracted and a governing body must allocate additional funding — since 2016, Small said.

"It's simple — we changed the culture," said Small. "That’s this (governing) body looking out for the taxpayers’ best interest."

Despite the alternative way of doing business, the city's history of fiscal mismanagement still looms large. At the end of 2017, Atlantic City's total debt was $438.9 million. In February 2018, City Council, with the state's approval, issued $49 million in additional debt to pay deferred pension and debt obligations from 2015, when Atlantic City was teetering on the brink of bankruptcy.

In 2019, the city's debt obligations will be slightly more than $15.2 million. Atlantic City's debt service payments will continue to rise each year until it peaks in 2026 with an annual obligation of $26.9 million. The following year, the city's debt payment drops to $14.4 million, a figure it will pay annually until 2036.

The 2018 bond issuance was the last of the more difficult fiscal decisions state overseers under former Gov. Chris Christie executed in order to address the immediate needs of the city. Christie's designee, former U.S. Sen. and state Attorney General Jeffrey Chiesa, negotiated a series of tax appeals filed by the casinos. The result was the current payment-in-lieu-of-taxes program. State officials estimated those deals saved the city in excess of $50 million.

The takeover legislation also allowed the state to reduce the city's labor force, which it did significantly. In 2013, Atlantic City employed 1,267 full-time employees. As of February 2018, there were 825 full-time employees in the city.

The reduction in public employees has strained the relationship with the labor unions, particularly those representing police officers and firefighters. Both unions have pending lawsuits against the city and state, contending that their collective bargaining rights were nullified as a result of MRSA.

In late-2018, the state's transition report on Atlantic City — co-authored by Special Counsel Jim Johnson at the behest of Gov. Phil Murphy — laid out a blueprint for addressing quality of life issues while also ensuring the city's long-term viability. The result has been the formation of several informal councils, consisting of stakeholders from the public and private sectors, as well as the execution of some of the report's more basic recommendations, such as the merger of multiple zoning offices into one location at City Hall.

The disparity between the two gubernatorial administration's approaches to Atlantic City were necessitated by circumstance and timing, said Marc Pfeiffer, assistant director of the Bloustein Local Government Research Center at Rutgers University and former deputy director of the state Division of Local Government Services.

"The actions of the Christie administration stopped the bleeding, or reduced it to a manageable flow," he said. "The Murphy administration is taking the long-term rehabilitation steps because now you are engaging beyond the fiscal condition."

The long-term vision of the Murphy administration and the less-than-ideal fiscal reality of a city with a decreased rateable base and mounting debt obligations may mean the state's involvement in Atlantic City could continue pass the 2021 MRSA expiration date.

"It would not be unusual (for the state to continue its oversight)," said Pfeiffer. "We've had municipalities under degrees of supervision for many years. Every case is different. And now that we've extended the state's engagement beyond just fiscal conditions, you want to make sure that those seeds they planted take root and start to grow on their own. And it may be that the state wants to stay engaged in Atlantic City longer."