Review of City of Atlantic City's Recovery Plan Pursuant to the Municipal Stabilization and Recovery Act

Department Of Community Affairs

Department of Community Affairs
Charles Richman, Commissioner

November 1, 2016

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I. Introduction

I am issuing this determination pursuant to the provisions of the Municipal Stabilization and Recovery Act (hereinafter, "the Act"), N.J.S.A. 52:27BBBB-1, *et seq.* In accordance with the Act, on June 6, 2016, I determined that the City of Atlantic City ("Atlantic City" or the "City") met the statutory criteria for declaring it a "municipality in need of stabilization and recovery." Accordingly, the Mayor and City Council were notified that Atlantic City had 150 days from the date of that determination to adopt a resolution containing a five-year recovery plan consistent with the requirements contained in Section 4(b) of the Act.[1]

The City delivered its Five-Year Recovery Plan (the "Plan") to me on October 25, 2016. The Act vests me, as the Commissioner of the Department of Community Affairs, with the authority to decide "whether the recovery plan is likely or is not likely to achieve financial stability." If I determine that the recovery plan is likely to achieve financial stability for the municipality, the Act requires the City to implement its Plan on January 1, 2017, and further requires that the City "strictly comply" with its Plan for the subsequent five years. In the alternative, *if* I determine that (1) the Plan is not likely to achieve financial stability, or (2) if the City does not strictly comply with its Plan after I approve it, or (3) if, at some point after approving the Plan, I determine that the approved Plan is no longer likely to achieve financial stability, *then* the Act allows the Local Finance Board to reallocate to the Director of the Division of Local Government Services certain functions, powers, privileges, and immunities of the governing body of that municipality.

Based on this statutory framework, this Decision sets forth my determination as to whether the City's Plan is likely or is not likely to achieve financial stability. For the reasons articulated below, I find that the City's Plan is not likely to achieve financial stability.

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1 Throughout this decision, I reference a number of historical documents. Those documents are part of the record I considered in reaching this decision.

II. Background

A. The Department of Community Affairs

The Department of Community Affairs (the "Department") was created pursuant to the "Department of Community Affairs Act," N.J.S.A. 52:27D-1, *et seq.*, effective March 1, 1967. As the Commissioner, I serve as the administrator and chief executive officer of the Department, and perform, exercise and discharge the functions, powers, and duties of the Department through its divisions. N.J.S.A. 52:27D-3. One of the Department's many responsibilities is the oversight of municipal government. As part of this statutory obligation, the Legislature tasked the Department with "[s]tudy[ing] the entire field of local government in New Jersey," and "assist[ing] local government in the solution of its problems, to strengthen local government." N.J.S.A. 52:27D-9. The Department's Division of Local Government Services (the "Division") is the recognized expert in this regard. The Division provides technical and financial assistance in budgeting, bond issuance, financial reporting, joint services, purchasing and management issues for the municipalities in the State of New Jersey (the "State"). The Division and the Local Finance Board ("LFB") are responsible for overseeing the financial integrity of all of New Jersey's local governing units. The Division is also tasked with implementing the State's heightened regulatory and supervisory authority over municipalities in need of extraordinary aid and support. See, e.g., N.J.S.A. 52:27BB-54, *et seq.*; N.J.S.A. 52:27BBBB-1, *et seq.*

In addition to the full resources of the Department, Acacia Financial Group, Inc. and Nassau Capital Advisors, LLC ("Nassau"), were retained to assist me in my review and to ensure that I was able to do a thorough and complete evaluation of the City's Plan during the five business days accorded by the Act. Throughout those five business days, I worked extensively with my staff and with these consultants to be certain that the City's plan was fully understood and properly evaluated.

B. Atlantic City

The City of Atlantic City is one of the State's 565 municipalities. Over the past decade, the City has experienced an extraordinary number of challenges. Some of those challenges result from the decline of casino gaming. The Atlantic City casino gaming and tourism industries have been vitally important to the local, regional, and State economies since the first casino opened in 1978. In recent years, casino gaming in the City has faced steadily increasing regional competition from casinos in neighboring states. Gaming revenues have declined from a peak of approximately $5.2 billion in 2006 to approximately $2.6 billion in 2015. Atlantic City's gaming revenues are anticipated to decline further as a result of regional competition and other factors. In addition to declining gaming revenues, other economic factors have caused the assessed value of taxable property in the City to decline from $20.5 billion in 2010 to $6.5 billion in 2016. Further decline in assessed value of City property is likely (as discussed in more detail *infra*, section V.A.1).

The decline in assessed values has caused the City to incur substantial liability for property tax refunds as a result of successful tax appeals. Moreover, many more tax appeals are pending, including three for casino gaming properties for 2014, four for casino gaming properties for 2015, and seven for casino gaming properties for 2016. Four casinos ceased operations in 2014; another ceased operation in 2016. These closures increased the financial burden on other taxpayers and threaten the long-term health of the casino gaming and tourism industries in Atlantic City. The City incurred $219 million of new bond debt subsequent to 2010 to cover tax appeals and municipal deficits, and debt service now comprises over 15% of the City's budget.

C. Supervision

The City is currently under the supervision of the Department. Under Article 4 of the Local Government Supervision Act of 1947, P.L. 1947 c. 151, as amended by P.L. 1981, c. 211 and set forth at N.J.S.A. 52:27BB-54 *et seq.*, the LFB and the Director of the Division may, subject to the approval of certain cabinet officers, assume and exercise supervision over the financial affairs of a municipality in unsound financial condition under specific conditions set forth in N.J.S.A. 52:27BB-55 and in accordance with the procedures set forth in N.J.S.A. 52:27BB-56. On October 12, 2010, the Superior Court of New Jersey entered a Consent Order between the Division and the City pursuant to and in support of a Memorandum of Agreement executed by the Department and the City on October 4, 2010. The Consent Order included a judicial determination that there had been a gross failure on the part of the City to comply with the provisions of the Local Budget Law, N.J.S.A. 40A:4-1 *et seq.*, which substantially jeopardized the fiscal integrity of the City. The Consent Order's judicial determination provided the LFB with the authority to adopt a resolution subjecting the City to the LFB's supervision under the Supervision Act. N.J.S.A. 52:27BB-55(6).

The LFB adopted such a resolution on October 13, 2010 and put a monitor in place to supervise the City in February 2011. The resolution authorizing supervision of the City has been renewed each year since then. The most recent renewal occurred on September 14, 2016.

Initially, supervision was limited. In 2014, the City applied for Transitional Aid – the Division's only discretionary municipal aid program – under the Transitional Aid to Localities Act, N.J.S.A. 52:27D-118.42a. The City and Division executed a Memorandum of Understanding ("MOU") memorializing the terms and conditions of the Transitional Aid award on September 17, 2014. At that time, the scope of the LFB's supervision was expanded to include the conditions the State attaches as part of any Transitional Aid award. See, e.g., New Jersey Division of Local Government Services Local Finance Notice 2014-2 (available online at http://www.nj.gov/dca/divisions/dlgs/lfns/14/2014-02.pdf). As a result, the LFB obtained access to all of the City's financial records, including but not limited to the City's budget, annual audit, annual financial statement, and debt statement. A second Transitional Aid MOU was executed on November 24, 2015, when the state gave the City an additional $13 million in Transitional Aid to assist it in addressing the adverse financial conditions it faced. In 2016, the City applied for $37 million in Transitional Aid – nearly three times the Transitional Aid it received in 2015. The Director recently notified the City that it would receive $26.2 million in Transitional Aid for 2016, more than twice what the City received in 2015.

D. Executive Order No. 171 and the Appointment of an Emergency Manager

On November 12, 2014, the Governor's Advisory Commission on New Jersey Sports, Gaming, and Entertainment ("Commission") submitted a report to the Governor finding that Atlantic City faced an economic and budgetary crisis and recommended that the City make immediate reforms to property taxation, pension payments, and municipal services in order to rectify its financial condition. The Governor accepted some of the Commission's recommendations and, by Executive Order No. 171 (Jan. 22, 2015), appointed an Emergency Manager in the Department ("Emergency Manager"). Among other things, the Executive Order authorized and directed the Emergency Manager to: analyze and assess the financial condition of the City; prepare and recommend, within 60 days of appointment, a plan to place the City's finances 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 the City pursuant to law; and negotiate with parties affected by the recommended plan for an adjustment of the City's debts and the restructuring of its municipal operations and, in his discretion, to recommend modifications of the plan as a result of such negotiations.

On March 23, 2015, the Emergency Manager issued his 60-day report ("60-Day Report") (available online at http://www.nj.gov/dca/divisions/dlgs/resources/reports.html). That report acknowledged the City's dire financial status, which threatened its ability to provide crucial services. The report noted:

> [A]bsent 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, . . . 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.
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> 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.
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> Lastly, the taxpayers of the City need and deserve a much more efficient and financially stable place to live and work.

The report concluded that the City was in a "financial crisis" and listed various options for steps the City should take, including eliminating operational inefficiencies; reducing headcount; reducing costs via regionalization; rationalizing/maximizing unencumbered assets; and assessing reinvestment requirements.

The Emergency Manager issued a second report on January 15, 2016 ("Update Report") (available online at http://www.nj.gov/dca/divisions/dlgs/resources/reports.html). That report reiterated that Atlantic City was in a financial crisis and that numerous items need to be improved or changed to address continuing structural deficits and achieve sustainable fiscal balance. Among other things, the report noted that the City would need to improve its budget through further downsizing of operations, alternative service delivery options, privatization of operations, and new or improved revenue sources. The report also recommended that the City monetize certain assets such as the Municipal Utilities Authority ("MUA"), Bader Field and Gardner's Basin. It noted that the MUA has significant assets, presenting opportunities to increase City revenues and provide much needed positive cash flow. It recommended that the MUA be dissolved, restructured, and then operated for the benefit of the City.

Though Atlantic City did not accept many of the Emergency Manager's recommendations, it did implement some. One area the Emergency Manager identified that would result in significant long term savings is the reduction of the City workforce. As the Emergency Manager explained, workforce reduction has not only the short term benefit of reduced operating expenses, but also the long term savings in associated pension, health and worker's compensation benefits. The Emergency Manager noted that the City had enacted some workforce reductions since the issuance of the 60-Day Report. Specifically, the City reduced its police department from 330 to 285 uniformed officers and 60 part-time Special Law Enforcement Officers. It does not appear, however, that the City evaluated lucrative salary and benefit packages awarded at a time when the City was better able to pay such compensation. Likewise, the City did not evaluate other practices, such as top-heavy departmental staffing and outdated contract work rules, which continue to drive up costs without improving the quality of public safety. Atlantic City also did not tackle overstaffing in the fire department. While it decreased the number of firefighters from 261 to 235, the City has not undertaken steps to reduce the number to 150, the number budgeted for at the time of the Update Report. Regarding the fire department, the Emergency Manager also recommended that the City explore privatization of fire services. There is no information to suggest that the City has done this. The City did restructure some prescription and dental benefits and institute some pay freezes in the police and fire departments, but not to the extent needed.

It also appears that the City moved some employees to the City payroll during this time. When the City effected layoffs in the recreation department, some employees were moved to other City positions. Likewise, when grants for Women, Infant and Children and the HIV program expired, some of those employees were transferred to City positions. Finally, a layoff plan for 50 employees was developed, submitted to the Civil Service Commission, but then rescinded and ultimately never implemented. The workforce reduction recommended by the Emergency Manager would have resulted in approximately $1.8 million in savings.

The Emergency Manager also recommended that the City consider consolidation, regionalization and/or privatization of municipal services to reduce costs. The Emergency Manager made these recommendations in both Reports and noted in the Update Report that many of these savings could be achieved within 12 months of the issuance of that Report. Atlantic City has undertaken only a few of these recommendations. The Emergency Manager specifically identified transferring health department and tax assessor services. The City did nothing about the tax assessor; however, the City has entered into an agreement with Atlantic County (or the "County") to provide senior transportation, home meal delivery and health clinic services. On October 19, 2016, the City agreed to outsource payroll functions. In July 2016, the City also entered into a contract for the equipment, installation, operation and maintenance of the City's parking meters and kiosks, which it anticipates will result in increased revenues and reduced need for employees. The savings are unknown at this time as all phases are not yet fully implemented.

It has been over 18 months since the issuance of the first Emergency Manager Report and more than nine months since the Update Report. While the City has recently issued a number of Requests for Proposals in areas the Emergency Manager identified, and is evaluating the bids for these services, I note that it has forfeited months of savings due to inaction. Atlantic City is now just at the point where it is evaluating options to outsource these services. In any event, the City is presently evaluating bids received for legal services (prosecutors and public defenders), sanitation and recycling services, including Kelly Act services, and towing. Thus, while the City finally is taking some action in these areas, it has taken some time since the Emergency Manager's recommendations.

The Emergency Manager recommended that the City dissolve the MUA to increase revenues and provide positive cash flow. The Emergency Manager also found that the City could realize revenue through development of the Gardner's Basin property, which presently is underutilized. Atlantic City has not pursued either source of potential revenue.

Regarding development, the Emergency Manager recommended streamlining the City's planning and land use practices to encourage economic development as part of its long term plan. The Emergency Manager noted that the property development process is overly complicated and inefficient, with multiple agencies involved.

In an effort to generate revenue, the City undertook an auction process to divest itself of surplus properties. The City contracted with Max Spann Real Estate & Auction Company and received over $1.7 million in proceeds from the sale of 120 various parcels sold at public auction on June 23, 2016. With respect to the parcels making up Bader Field, a sealed bid auction process was commenced. Bids were originally due on July 14, but on July 13 the City was forced to delay the receipt date until August 4 because of a failure to properly advertise the process. Ultimately, two bids were received; however, each was rejected by the City as non-compliant. The first response came from Bader Field Development, LLC but included no purchase price. Urban Echo, LLC submitted the second bid, which proposed a $50 million lease/purchase subject to numerous conditions and provided no details regarding the offering structure.

The City did adopt some of the Emergency Manager's other recommendations to reduce operational costs. The City reduced its vehicle fleet by 121 vehicles and City Council members have ended their use of take-home vehicles. In order to lower telephone costs, the City switched its telephone system to Voice Over Internet Protocol, which will enhance communication functions at a savings. The City is also working with an energy consultant to implement an Energy Savings Plan, which includes converting street lights to LED. The City has established a "virtual stockroom" to reduce inventory costs and is exploring ways to reduce police ammunition costs.

Likewise, in order to increase revenues, the City raised fees for services provided by the City's Department of Licensing and Inspection in an effort to make the Department more financially self-sustaining. Effective April 1, 2016, the City increased Fire Prevention Bureau fees to better align fees with the costs of service. Potential areas for increased fees and fines have been identified. The contract for parking services is expected to realize increased parking revenue. The City also entered into a shared services mortgage foreclosure registration program with the Atlantic County Improvement Authority.

III. The Municipal Stabilization and Recovery Act

On May 27, 2016, the Municipal Stabilization and Recovery Act, N.J.S.A. 52:27BBBB-1 *et seq.*, was enacted. The Act defines a "municipality in need of stabilization and recovery" as a municipality that: (1) has experienced a decrease of more than fifty percent of its total assessed non-equalized property values during the five-year period terminating at the end of the tax year immediately preceding the enactment of the law, and (2) has experienced an increase in outstanding debt exceeding fifty percent (50%) during the immediately preceding five-year period. The Act requires a municipality in need of stabilization and recovery to develop a five-year recovery plan to effectuate the financial stability of the municipality and to submit that plan to the Commissioner of the Department for review within 150 days from designation as a "municipality in need of stabilization and recovery."

As required under Section 4 of the Act, on June 6, 2016, I determined that Atlantic City constituted a "municipality in need of stabilization and recovery." I reached this determination after receiving a recommendation from the Director of the Division on June 2, 2015. His recommendation, and my subsequent acceptance of same, were based upon a review of the City's property tax ratable base and outstanding debt portfolio, which showed that the City has experienced both a decrease of more than fifty percent of its total assessed property values and an increase in outstanding debt during the specified five-year period, thus meeting the two criteria for determining that the City is subject to the Act's provisions. As noted in the June 6, 2016 determination, the City's ratable base plummeted from $19.5 billion in 2011 to $7.3 billion in 2015. Likewise, the City's outstanding debt increased from $141 million in 2011 to $260 million in 2015, exclusive of un-bonded debt such as accounts payable, reimbursements owed toward unpaid pension and healthcare obligations, and amounts owed to certain casinos pursuant to litigated tax appeals. These debts increase the City's total aggregate debt by an estimated $200 million. Therefore, on June 6, 2016, having notified the Governor and State Treasurer of my determination, I authorized the Director of the Division to inform the City that it had 150 days from the date of that determination to prepare and adopt a resolution containing a five-year recovery plan consistent with the requirements contained in Section 4(b) of the Act.

On June 6, 2016, the Director sent the City a letter alerting it of my finding and explaining its obligations under the Act. This included preparation and adoption of a five-year recovery plan consistent with the requirements contained in the Act. The Director notified the City that the plan they devised must commence on January 1, 2017 and be likely to achieve financial stability within the five-year period. The Director further explained that should the City fail to submit a plan by November 3, 2016 that is likely to achieve financial stability or should the City fail to implement a plan approved pursuant to the Act, the LFB may, in its exclusive discretion, assume, reallocate to, and vest exclusively in the Director any of the functions, powers, privileges, and immunities of the City's governing body that are, or may be, substantially related to the City's fiscal condition or financial rehabilitation and recovery.

The Act expressly requires that the City's five-year recovery plan meet certain requirements that demonstrate its overall potential to effectuate the financial stability of the municipality. The recovery plan must "establish processes and identify specific actions undertaken by the municipality following the determination that it is a municipality in need of stabilization and recovery, and actions to be undertaken by the municipality if the recovery plan is approved." N.J.S.A. 52:27BBBB-4(b).

The plan must also include a proposed balanced budget for the 2017 fiscal year that is consistent with the Local Budget Law, except for certain exemptions therefrom. These exemptions include no requirement for the proposed balanced budget to identify amounts outstanding, including accrued interest, on any obligation to the State , including any office, department, division, bureau, board, commission, or agency of the State, for deferred pension and health benefit payments for the first fiscal year of the municipality prior to the Act's enactment, and exemption from any requirement to appropriate the total amount necessary for the extinguishment of all outstanding property tax appeal debts. However, the municipality shall identify and account for the loss in revenue from any anticipated set-offs arising from all such property tax appeal debt or identify and appropriate for any amounts owed in fiscal year 2017 for the continued repayment of debts related to all property tax appeals settled by the municipality.

In addition to including the City's proposed balanced budget, the Act requires that the City's five-year recovery plan include detailed processes to:

(1) achieve sustainable net reductions in the municipality's general appropriations to be commensurate with revenues anticipated in the proposed budget;

(2) ensure that the municipality remits to the county in which it is located the full amount of all property taxes or payments in lieu of property taxes owed by law to the county on the dates on which the payments are due;

(3) ensure that the municipality remits to the school district serving the municipality the full amount of all property taxes or payments in lieu of property taxes owed by law to the school district on the dates the payments are due;

(4) schedule for the repayment of debts, including any accrued interest, as of the date of the commissioner's determination pursuant to subsection a. of this section, including, without limitation, any money owed to the State of New Jersey, including any office, department, division, bureau, board, commission, or agency of the State, for deferred pension and health benefits payments;

(5) account for future payments on bonded debt and unbonded debt, including, without limitation, any general obligation bonds, refunding bonds, pension refunding bonds, tax appeal bonds, and unbonded tax appeal settlements, obligations, liens, or judgments known to the municipality as of the date of the commissioner's determination pursuant to subsection a. of this section;

(6) account for future payments on any off balance sheet liabilities of the municipality known to the municipality as of the date of the commissioner's determination pursuant to subsection a. of this section;

(7) ensure the repayment of the loan in accordance with section 18 of P.L.2016, c.4 (C.52:27BBBB-16), including accrued interest; and

(8) increase the municipality's revenues, including, without limitation, through the establishment of long-term economic and land use development strategies. N.J.S.A. 52:27BBBB-4(b).

In accordance with the Act, I am vested with "sole and exclusive authority" to determine whether the City's plan "is likely or is not likely to achieve financial stability for the municipality." N.J.S.A. 52:27BBBB-4(c).

The Act also obligated the State to provide the City with a "secured" bridge-loan "on such terms and conditions that may be required by the [C]ommissioner" to ensure that the City has sufficient funding to cover 2016 expenses during the preparation of the Plan. N.J.S.A. 52:27BBBB-16. On June 21, 2016, the City made an official request for this bridge-loan, in the amount of $74,000,000. After considerable negotiation over the terms and conditions for the loan, the City and the Department ultimately came to agreement, including that the maximum amount of the loan would be $73 million. On July 28, 2016, the City Council conducted an emergency meeting at which it voted to agree to the terms and conditions of the loan. On July 29, 2016, the City and the Department entered into a Loan and Security Agreement ("Recovery Loan").

As part of the negotiation of the Loan Agreement, to ensure the Recovery Loan was adequately secured, the City agreed to include a condition in the Loan Agreement requiring the City, by September 15, 2016, to introduce and adopt a contingent ordinance dissolving the MUA in the event of a payment default. Less than three weeks after approving the Loan Agreement, the City, at a City Council meeting on August 17, 2016, failed to introduce the required ordinance by voting not to approve the ordinance on first reading. On September 7, 2016, the City had another opportunity to introduce the required ordinance to contingently dissolve the MUA, and the City Council again failed to do so. The Department, through its counsel, gave notice of the failure and of the potential consequences of a breach of the Loan Agreement on August 19, 2016 and again on September 8, 2016. On September 20, 2016, the Department provided notice to the City that the failure to take such action constituted a breach of the Loan Agreement and such breach would become an event of default under the Loan Agreement if not cured by the City within ten (10) days. The City again failed to take the required actions, leading to an event of default under the Loan Agreement on October 4, 2016. Nevertheless, the Department elected not to accelerate the Recovery Loan and to give the City more time to introduce and adopt a contingent ordinance dissolving the MUA. The Recovery Loan provides that a default under the Loan Agreement "may be considered by the Commissioner as a factor in making his determination to approve or deny the Recovery Plan" and the City's default of the Loan Agreement is an additional factor in my decision to reject the Plan.

IV. The Casino Property Tax Stabilization Act

The Casino Property Tax Stabilization Act, N.J.S.A. 52:27BBBB-18, *et seq.* (the "PILOT Act"), was enacted concurrently with the Municipal Stabilization and Recovery Act. The PILOT Act becomes operative upon my decision regarding the City's Plan.[2] It was intended to assist in addressing the City's fiscal distress in a number of ways.

First, under the PILOT Act, casino gaming properties[3] will pay the City specified payments in lieu of taxes ("PILOT") over a ten-year period, starting with $120 million in 2017. N.J.S.A. 52:27BBBB-20. Portions of the PILOT payments must be provided to Atlantic County and the Atlantic City School District. Although the PILOT Act does not specify the amount of the PILOT to be apportioned to the County or to the School District, it provides that the LFB may, in its discretion, apportion a specific percentage of the PILOT monies to be remitted to the County.

Second, the casino gaming properties will make additional annual payments for the years 2015 through 2023 (the "ACA payments"). N.J.S.A. 52:27BBBB-21. These payments range from $30 million per year for the years 2015 and 2016 and decrease to $5 million by 2023. The City has pledged the payments for 2015 and 2016 as collateral under the Loan Agreement.

Third, subject to certain limitations, a portion of the investment alternative tax ("IAT") collected pursuant to N.J.S.A. 5:12-144.1, is allocated to the City for the purpose of paying the debt service on its bond issues. N.J.S.A. 52:27BBBB-25. Any IAT money pledged for the payment of bonds issued by the Casino Reinvestment Development Authority ("CRDA"), or otherwise contractually obligated by CRDA prior to the effective date of the PILOT Act, or any bonds issued to refund such bonds, are excluded from the IAT money allocated to the City. In addition, the PILOT Act contains another significant limitation on the amount of the IAT money allocated to the City. Specifically, if a casino gaming property's PILOT

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2 Section 13 of the PILOT Act (uncodified) provides: "This act shall take effect immediately but shall remain inoperative unless and until Atlantic City is deemed a municipality in need of stabilization and recovery and the Commissioner of Community Affairs makes a determination regarding Atlantic City's recovery plan . . ., provided, however, that if this act becomes operative, sections 4, 11, and 12 shall be retroactive to January 1, 2015."

3 The PILOT Act defines "casino gaming property" as "one or more parcels of real property located in Atlantic City, and any adjacent property utilized in connection with such property, upon which there is located a facility licensed to be used for casino gaming in 2014 or thereafter, whether or not in actual operation, which has more than 500 guest hotel rooms, and is not subject to recorded covenants prohibiting casino gaming." N.J.S.A. 52:27BBBB-20(a).

obligation in any year results in that property owing an amount that is in excess of the total real property taxes due and payable by that casino gaming property in calendar year 2015, then that casino gaming property shall receive a credit against its IAT obligation. N.J.S.A. 52:27BBBB-20(c)(4). If this occurs, it would reduce the amount of IAT money allocated to the City in that year. The City has also pledged the IAT money allocated to it under the PILOT Act as collateral under the Loan Agreement.

Finally, the PILOT Act requires the City to enter into a ten-year financial agreement with each owner of each casino gaming property in which the casino gaming properties promise to make quarterly payments to the City of their allocated portion of the annual amount of the PILOT. N.J.S.A. 52:27BBBB-20. To date, the City has not substantiated that this process is underway.

V. The City's Plan

As noted above, the City submitted its Plan on October 25, 2016. The Plan contained some but not all of the information required by the Act. One significant omission is a "proposed balanced budget" for 2017 as required by N.J.S.A. 52:27BBBB-4(b). That section of the Act required the City to include in its Plan a budget "which shall be consistent with the 'Local Budget Law,'" except as explicitly stated otherwise. The Local Budget Law, N.J.S.A. 40A:4-1 *et seq.*, governs the manner in which local units of government are to adopt their annual budgets and to otherwise make appropriations for the purpose of providing lawful authorization for the expenditure of the funds of such local units. The Law requires the governing body of each local unit to prepare and adopt an annual budget for each fiscal year. N.J.S.A. 40A:4-3. It mandates that budgets be prepared on a "cash basis." N.J.S.A. 40A:4-2, -3, -22.

The Local Budget Law specifies certain formatting and reporting standards. The budget must "provide separate sections for: a. Operation of Local Unit (current fund). b. Operation of any municipal public utility. c. Dedicated assessment budget. d. Dedicated by rider." N.J.S.A. 40A:4-21. Additionally, "[e]very budget shall be prefaced by an explanatory statement of its contents and shall be itemized according to the respective objects and purposes for which appropriations are made," in the form prescribed by the Division, and must "consist of a tabulated statement" of all anticipated revenues and the appropriations for which such revenues are to be expended. N.J.S.A. 40A:4-22.

The format for presenting the arrangement of revenues, including the general fund, surplus, and miscellaneous revenues is prescribed by the Local Budget Law. N.J.S.A. 40A:4-23, -24, -25; *see also* N.J.S.A. 40A:4-28 through 30. The same is also true for arranging the several items of appropriations. N.J.S.A. 40A:4-31, -32. Separate classification must be made of dedicated revenues, as well as such categories as the reserve for uncollected taxes and appropriation for cash deficit. See, e.g., N.J.S.A. 40A:4-36, -40, -42. These standards set forth the framework for all municipal budgets.

The City's Plan included only a general summary of its proposed 2017 budget. It did not contain the mandatory preface or the separate sections required by the Local Budget Law. Nor did the budget within the City's Plan follow the format specified by the Local Budget Law. Although it nominally listed anticipated revenues and expenditures, it lacked sufficient detail to permit meaningful review.

In addition, the Plan did not provide a "schedule for the repayment of debts" as required by N.J.S.A. 52:27BBBB-4(b)(4). The graph on page 92 refers to debt repayments but only in a cursory manner. The graph illustrates how the debt is layered, but the City fails to explain how it will repay the debt over the life of the bonds. Further, page 117 details existing City debt obligations but does not incorporate future debt service as required by N.J.S.A. 52:27BBBB-4(b)(5). Remarkably, the Plan also excludes the interest rates used to determine the future payments on bonds, and any supporting analysis (though the charts suggest that the City did conduct an analysis in order to create the graphs). Lastly, the City also failed to include individual maturity amounts, individual yield or coupons, or sources and uses of funds.

In its Plan, the City characterizes its fiscal challenges as severe and acknowledges that absent corrective action, operating budget deficits will continue to grow annually, with additional exposure to over $250 million in unfunded, one-time liabilities. The Plan proposes to address these deficits by:

- Eliminating 100 full-time positions (although the Plan appears to rely on only eliminating 86 positions) through an Early Retirement Incentive (ERI) and efficiency strategies such as competitive contracting and shared services;

- Reducing non-personnel costs by at least 10% through initiatives such as energy-saving streetlight and facility retrofits and telephone system changeover; and

- Enhancing revenues through parking meter modernization, improved cost recovery through updated fees and fines, a $1.4 million annual payment in lieu of taxes from Stockton University once its new campus opens, and possible additional nonprofit contributions.

The cornerstones of the City's Plan, however, are the sale of Bader Field to the MUA for $110 million and a new $105 million financing secured by the State of New Jersey Municipal Qualified Bond Act credit enhancement. With respect to the sale of Bader Field, the City contends that:

> The proceeds will substantially reduce the City's outstanding liabilities without further burdening future budgets, thereby significantly improving the City's fiscal position . . . . Because the MUA owns and operates the City's water system, it maintains market access and can issue debt to finance the Bader Field acquisition due [sic] by pledging water system revenues to bondholders. The debt service on the MUA bonds would be partially offset by planned reductions in operating costs at the MUA and future revenues generated by the use or sale of Bader Field by the MUA. The resulting impact on water ratepayers will be tempered by the currently below-market MUA water rates, with minimal impact on residential households under the MUA's intended rate structure. This approach would also be likely to result in overall lower rates than a privatization of the MUA, where any external acquisition of the water system would require the purchaser to incur new debt that would ultimately need to be financed through water rates.

The City's Plan anticipates using the sale proceeds in combination with a new long-term tax appeal refunding bond to resolve certain pending liabilities, namely: amounts due to the owners of the Borgata casino in connection with various tax appeals (including both judgments already obtained and additional amounts that may be due in connection with tax appeals that remain pending); amounts due to MGM in connection with a tax appeal settlement; the establishment of a reserve for tax appeals and other one-time costs; and amounts owed to the State of New Jersey for pensions and health benefits contributions (deferred since 2015). The Plan further describes this component as follows:

> These remaining liabilities will be financed as tax exempt tax appeal refunding bonds over a 25 year term. The City will pay interest only during the first five years to provide budgetary capacity as operational restructuring ramps up, and then will amortize the principal over the remaining 20 years in much the same way a homeowner finances a mortgage. Because not all of the liabilities listed above are eligible for tax exempt financing, the final structure will be targeted to repay the eligible obligations and to incorporate all costs of issuance.
>
> The City will pledge its State Aid (CMPTRA/Energy) of $26.23 million dollars a year as security to bond holders under the provisions of the Municipal Qualified Bond Act ("MQBA") to provide credit enhancement and competitively priced market access. Bonds issued under this security feature have been able to obtain the same rating as the State of New Jersey which is "A3" by Moody's Rating Service. At least 16 New Jersey cities use MQBA to support their bond issues, and this is a well-accepted credit structure. Due to its financial difficulties, Atlantic City was recently added to the list of cities that can use MQBA. This enhanced rating will allow the City to enter the municipal bond market and obtain competitive interest rates at a time when interest rates are at a 50-year low.

VI. Analysis of the City's Plan

There are three critical components for evaluating whether the Plan is likely to achieve financial stability: projections for total revenues and expenditures over the five-year period; debt reduction strategies; and proposed cost-cutting measures. Each of these three components is addressed separately below.

A. Projections

1. Revenues

The City's Plan contains projections for total revenues over the five-year period. This portion of the Plan (as contained in Appendix F) is duplicated below.

Plan Projections - Revenues

	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected
Property Tax and Casino PILOT (Municipal Share)	120,637,859	111,651,889	111,786,981	112,970,815	114,178,325	115,409,986
ACA Funds - Temporary Diversion	30,000,000	15,000,000	10,000,000	5,000,000	5,000,000	5,000,000
Casino Investment Alternative Tax (IAT)	13,000,000	23,652,819	24,708,449	31,294,479	30,055,998	29,081,347
CMPTRA Aid	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Energy Tax Receipts	6,260,714	6,260,714	6,260,714	6,260,714	6,260,714	6,260,714
Transitional Aid	26,200,000	26,200,000	22,300,000	19,000,000	16,200,000	13,800,000
Local Revenues	8,967,201	10,191,601	10,226,095	11,719,261	11,809,740	11,855,509
Other Revenues	10,720,000	4,846,000	5,035,000	5,237,000	5,453,000	5,685,000
Total Revenues	**$ 235,785,774**	**$ 217,803,023**	**$ 210,317,239**	**$ 211,482,269**	**$ 208,957,777**	**$ 207,092,556**

The City's projections for total revenues over the five-year period contain several underestimates and several overestimates. The City's assumptions regarding ACA funds paid to the City pursuant to the PILOT Act, Consolidated Municipal Property Tax Relief Act ("CMPTRA") Aid and Energy Tax Receipts ("ETR") appear reasonable (although CMPTRA and ETR are subject to appropriation and are not guaranteed). Because the Plan contained no detail to support the City's projections for Local/Other Revenues, I can make no determination regarding whether those projections are reasonable. Moreover, the City appears to have underestimated revenues in three respects. First, a $2 million accelerated tax sale by the City will not be completed in 2016; the sale will occur in 2017 and should be included in 2017 revenues. Second, the $7.5 million derived from sales of municipal assets is more likely to straddle 2016 and 2017, with an estimated $5 million allocated to 2016 and the remaining approximately $2.5 million allocated to 2017. Third, the City appears to overstate the portion of the PILOT needed to support the school levy over the entire five-year forecast period.

The City's projections also contain several over-estimates. First, the Plan overestimated the amount of revenues that the City can anticipate from the IAT. Second, the Plan overestimates the amount of Transitional Aid that will be available to the City. Third, because the Plan assumes that the property tax ratable base and the property tax rate will remain stable for the entire five-year period and because it assumes only 10.3% of casino PILOT payments will be distributed to the County, it overestimates property tax and PILOT revenues. Each of these over-estimates is described in more detail below.

a) The IAT Payments

Under the PILOT Act, the IAT payments made by casino licensees will be allocated in the following order of priority:

1. **CRDA IATs**: CRDA will receive the IATs that were pledged to service the debt and other contractual liabilities that CRDA incurred prior to the effective date of the PILOT Act. N.J.S.A. 52:27BBBB-25.
2. **Casino IATs**: Beginning in 2017 (and running through 2021), if, under the PILOT formula, a casino is allocated a PILOT payment that is more than the total real property taxes that casino owed in calendar year 2015, then such excess shall be credited against the IAT the casino has to pay, to the extent IATs are available. N.J.S.A. 52:27BBBB-20(c)(4).
3. **City IATs**: All IATs left over after the CRDA IATs and the Casino IATs are funded are allocated to the City for the sole purpose of servicing the debt on City issued bonds. N.J.S.A. 52:27BBBB-25.

The Plan assumes that IATs will total $138.8 million for the five-year forecast period. But according to projections prepared by the Division of Gaming Enforcement, which works in consultation with DCA on implementing the PILOT, the City IATs are estimated to total only $107.7 million for the five-year forecast period, assuming nine casino gaming properties. The City's $31.1 million overstatement is primarily explained by the fact that the Casino IATs were not factored into the Plan. More specifically, the City's Plan fails to factor in the credits required by Section 3(d) of the PILOT Act, N.J.S.A. 52:27BBBB-20(d). That Section provides that, if the formula for calculating each individual casino gaming property's allocation of the PILOT payment results in an amount that exceeds the total real property taxes due and payable by that casino gaming property in calendar year 2015, then that casino gaming property shall receive a credit against its IAT obligation (under N.J.S.A. 5:12-144.1) in the amount of such excess. The practical effect of this provision of the PILOT Act is that the IATs allocated to the City must be reduced by the amount of the credit. As a result, the IAT revenues projected by the City in the Plan are overstated by approximately $31.1 million, broken down as follows:

2017	2018	2019	2020	2021	TOTAL
($3.1 M)	($4.9 M)	($8.3 M)	($7.6 M)	($7.2 M)	($31.1 M)

b) Transitional Aid

The Transitional Aid to Localities program provides annual funding to financially distressed municipalities to assist them in achieving renewed self-sufficiency. The Division is tasked by the Legislature with allocating Transitional Aid to localities. Municipalities are not automatically entitled to Transitional Aid in any given year. The Division's allocation of Transitional Aid funds is purely discretionary, N.J.S.A. 52:27D-118.42a, and is not subject to appeal, N.J.S.A. 52:27D-181. See, e.g., Local Finance Notice 2016-4 ("LFN 2016-4") (available online at http://www.nj.gov/dca/divisions/dlgs/lfns/16/2016-04.pdf). If a municipality has previously been awarded Transitional Aid, it is permitted to include 85% of its previous year's award in its introduced budget for the next calendar year. This is, however, "not a guarantee and is only permitted for the limited purposes of advancing a budget for introduction." Id.; Local Finance Notice 2015-19 (available online at http://www.nj.gov/dca/ divisions/dlgs/ lfns/15/2015-19.pdf). Indeed, LFN 2016-4 also informs applicants that they should anticipate a decrease in Transitional Aid each year. The Division strongly discourages requesting an increase in Transitional Aid from one year to the next. LFN 2016-4.

The Division also sets the conditions and requirements for receipt of Transitional Aid pursuant to N.J.S.A. 52:27D-118.42a. These are memorialized in a memorandum of understanding executed by the Division and the municipality. Additional terms appear in the Transitional Aid Application. See Local Finance Notice 2014-2. In this way, the Transitional Aid Program "allows the State to ensure that State taxpayer subsidies are spent in a manner consistent with transparency and effective government practices, by overseeing important municipal spending decisions, including, among others, personnel actions, professional services and related contracts, payment in lieu of tax agreements, acceptance of grants from state, federal or other organizations, and creation of new or expanded public services." N.J.S.A. 52:27D-

118.42. Among other requirements in completing the Transitional Aid application form, municipalities agree to raise taxes to reduce their reliance on State Aid.

The City's Plan failed to comply with these laws and policies in two material respects. First, the Plan failed to decrease Aid in 2017 – and for each year thereafter, the Plan calculated the amount of Transitional Aid based upon the overstated 2017 amount. Second, the City's Plan failed to provide for any tax increases during the entire five-year period. Instead, the City continues to rely on State Aid to fund its continuing structural budget imbalance.

The Division specifically advised the City in an October 24, 2016 letter not to rely upon the calendar year 2016 Transitional Aid figure for calendar year 2017. The City received $26.2 million in Transitional Aid for 2016 that was intended as a one-time award. By letter, the Director notified the City that, "The extraordinary increase in overall State Aid from year-to-year was necessitated by the City's failure to address its CY'16 budget in a timely manner, and its failure to propose a compliant CY'16 budget to date. Accordingly, the award of $26,200,000 in TA for CY'16 is for CY'16 only and the City shall not anticipate this award, or a similar award, in any further year or in any future budget." The City's failure to heed that instruction results in a significant overstatement of municipal revenues over the five-year forecast. For purposes of my analysis only, the City's calendar year 2015 Transitional Aid award of $13 million was held constant across the recovery period and does not include the year over year reduction anticipated by LFN 2016-4. This results in a cumulative overstatement in the City's projected revenues of $32.5 million over the five-year forecast period.

c) Property Tax Revenues

The City's projections for total operating revenues each year range from a high of $217,803,023 in 2017 to a low of $207,092,556 in 2021. In each year, the portion of property taxes and the PILOT revenues comprise more than half of those total operating revenues. Underlying the City's total projected revenues is the assumption that the property tax ratable base will remain stable for the entire five-year period, from 2017 through 2021. The City did not provide any analysis to support that assumption and I find that it is unrealistic.

In connection with my review of the City's five-year projections of revenue, Nassau was retained to forecast property values over the five-year period, estimate the impact on the City's ratable base, and assess the validity of the City's assumptions. (Its report is attached hereto as **Exhibit A**). Nassau analyzed the City's projected revenues. Nassau projects that the City's taxable base will continue to experience year-over-year reductions in valuations for the 2017-2021 period. Nassau noted that while the City has experienced tax appeals in assessed value of all Class 2 residential values from 2012-2016, the greatest year-over year drop in Class 2 residential values occurred recently, between 2015 and 2016. I have concluded that Nassau's analysis is reasonable and I have relied upon its report in reaching my decision.

Nassau's report provided a detailed examination of several troubling economic challenges facing Atlantic City. First, the City's population has declined in each of the past three years. Second, the City's level of unemployment is still "stubbornly high" and there has been a drop in labor force participation in Atlantic City. Third, "the incidence of high crime rates in Atlantic City will continue to discourage investment in new housing and commercial properties over the next five years, and thus put added downward pressure on property values." Fourth, Nassau noted that a leading indicator of a municipality's financial prospects is new building permits. By that measure, commercial investment in the City has dropped sharply since 2008 hitting a 15-year low in 2015 investment in residential projects has been flat for fifteen years and has actually declined since 2014. Against this backdrop, mortgage foreclosures in both Atlantic City and Atlantic County have continued to rise over the past several years. Taken together, Nassau found "no credible evidence to support a conclusion that the dramatic decline in the value of taxable property that has occurred in Atlantic City has hit bottom" and in its "opinion, assessed values of taxable properties will continue to decline in the next several years." To bolster this conclusion, Nassau reviewed all property tax appeals filed in Atlantic City in 2016, which resulted in a $200 million reduction in the City's tax base, and opined that the City will likely face another tough year of tax appeals in 2017. The number of appeals will not begin to decrease until 2018. Ultimately, Nassau concluded that taxable values should be discounted by 5% for 2018, 4% for 2019, 3% for 2020, and 2% for 2021.

Having considered and compared the City's Plan and Nassau's report, I have confidence that Nassau's conclusion is reasonable. In contrast, there is no basis to support the City's assertion that property values will remain flat for the 2017-2021 period. As a result, I find that the City overstated its projected property tax revenues by approximately $20.5 million over the five-year forecast period.

d) PILOT Revenues

The Plan assumes that the portion of casino PILOT payments distributed to the County will be 10.3%. However, an existing written agreement between the City and the County arguably requires the City to pay 13.5% of the PILOTs to the County, leaving less PILOT revenues available to the City.

Although that letter agreement was executed prior to enactment of the PILOT legislation, the County may argue that the agreement extends to the finally adopted legislation as well, particularly in light of the PILOT Act's legislative history, which also contemplates that the County will receive 13.5%. Certainly, the City has provided no support (for example, a new agreement with the County accepting the 10.3% figure) that its assumption of 10.3% is reasonable or appropriate. If the City has to pay the County 13.5% of the PILOT revenues instead of the 10.3% contemplated by the Plan, then the PILOT revenues available to the City would be reduced by an estimated $4 million per year on average, or $20 million over the five-year recovery period.

The Plan also assumes that a portion of the casino PILOT payments are distributed to the Atlantic City School District at a rate of 41.3%. As a result, a total of $257.9 million will be paid from the PILOT to the School District over the five-year period. Further, the City's Plan assumes that the tax rate for School District remains the same over the five-year period, which results in tax collections for the School District of $222.2 million. In total, the City's Plan will remit $480.1 million to the School District over the Plan period. Based on information from the New Jersey Department of Education, the estimated levy for the five-year period is $10 million lower than the amount allocated in the City's Plan from the PILOT for the School District (the annual reduced school levy requirement ranges from $1 to $3 million throughout the Plan period.)

Altogether, the City overstated its share of PILOT revenues by approximately $10 million over the five-year forecast period.

2. Expenses

The City's Plan contains projections for total expenditures over the five-year period. This portion of the Plan (as contained in Appendix F) is duplicated below.

Plan Projections - Expenditures

	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected
Personnel Costs						
Salaries and Cash Compensation	77,449,604	73,799,176	72,161,467	70,516,194	70,540,567	69,172,681
Health Benefits	32,535,000	31,905,817	33,919,062	36,059,028	38,406,114	41,065,972
Pension	20,988,100	20,850,058	19,509,796	18,823,652	19,019,923	18,909,520
Other Personnel Costs	12,916,383	15,705,064	15,443,467	14,644,135	14,738,297	14,657,681
Operating / Non-Personnel Expenses	26,859,969	27,057,857	26,676,784	26,865,787	27,077,899	27,276,400
Debt Service	38,664,442	32,582,487	28,837,118	31,502,155	30,055,998	29,081,347
Other Expenses	26,372,276	11,673,581	10,701,362	9,829,699	7,058,603	6,888,085
Contribution to Budget Stabilization Reserve	-	4,000,000	3,000,000	3,000,000	2,000,000	-
Total Revenues	**$ 235,785,774**	**$ 217,574,040**	**$ 210,249,056**	**$ 211,240,650**	**$ 208,897,401**	**$ 207,051,687**

Preliminarily, I note that the Plan included a 2016 budget that did not comport with the amended operating budget the City provided to the Division on October 17, 2016. The Plan included a 2016 Projected Budget with total expenditures of $235,785,774. The City's October 17, 2016 amended operating budget provided for total expenditures of $240,508,327. This leaves an unexplained difference of $4,722,553, as detailed below.

	City Plan 2016 Projected		City Budget 2016 Presented by City to DCA 10/2016
Personnel			
Salaries and Cash Compensation	$ 77,449,604	**Salaries and Wages**	$ 80,135,236.00
Health Benefits	$ 32,535,000	**OE Statutory**	$ 118,207,533.87
Pensions	$ 20,988,100		
Other Personnel Costs	$ 12,916,383	**Deferred Charge**	$ 350,000.00
Operating/Non-Personnel Expenses	$ 26,859,969	**Capital**	$ 200,000.00
Debt Service	$ 38,664,442	**Debt Service**	$ 36,782,942.00
Other Expenses	$ 26,372,276	**Reserve of Uncollected Taxes**	$ 4,832,615.12
Contribution to Budget Stabilization	$ -		
	$ 235,785,774		$ 240,508,326.99
		Difference	$ 4,722,552.99

As with the City's projections for revenues, the Plan's projections for total expenditures over the five-year period contain both underestimates and overestimates. The Plan appears to have understated debt service by approximately $3.5 million on average, meaning that total debt service over the five-year forecast period is estimated to be $17.7 million more than projected in the Plan. This is interest that will accrue on the tax-exempt tax appeal refunding bonds and debt service related to additional tax appeals, referenced but not addressed in the City's Plan. Approximately $1.9 million of the $3.5 million addition to debt service on an annual basis is associated with the $105 million worth of tax-exempt tax appeal refunding bonds and the capital improvement financings the City plans to issue. This is based on the likelihood that the City will have to issue these bonds at an interest rate higher than the 3.5%-4% implicit in the Plan. The remaining $1.7 million of the $3.5 million comes from new debt the City may have to issue in light of the additional outstanding tax appeals. In other words, the City's current and future reserves as reflected in the Plan are unlikely to be adequate to cover the costs of the remaining tax appeals it is facing. As a result, additional funds in the neighborhood of $30 million will need to be raised. The service on this additional debt is estimated to approach $1.7 million per year, assuming the same terms as the tax appeal refunding bonds discussed above.

B. Debt Strategies

The City's Plan proposes three major financial transactions to rein in certain significant financial liabilities. All involve bonds. The issuance of municipal and authority bonds is governed by a series of statutes, including the Local Bond Law and the Local Authorities Fiscal Control Law. Even if a transaction meets all legal standards and receives all necessary approvals and findings from appropriate State agencies, the success of such transactions is dependent on finding a buyer for the debt. The creditworthiness of municipal and authority issuers is largely determined by a rating system set forth by recognized rating agencies.

The largest component of the City's overall liability to be managed—$215 million according to the City's estimate—is among the shortest sections of the Plan. The "Plan to Close the Gap, Section IV, Resolving Liabilities" section provided few details on a series of complex financial transactions the City contemplates in its Plan. The Bader Field transaction, perhaps the lynchpin of the City's Plan, is treated in less than a page.

The three major financial transactions are:

1. A $105 million bond issue to fund tax appeal liabilities to the owner of the Borgata Hotel Casino & Spa, under the State of New Jersey's Municipal Qualified Bond Act ("MQBA") program;[4]
2. A five year, $4 million annual capital improvement program, whereby short term notes are issued and converted to longer term bonds under the MQBA; and

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[4] MQBA program allows Consolidated Municipal Property Tax Relief Act aid ("CMPTRA") and Energy Tax Receipts disbursements ("ETR"), both formula-derived State aid to municipalities appropriated by the State Legislature in the annual budget, to be held by the Treasurer of the State of New Jersey and directly pay debt service to a given bond trustee. N.J.S.A. 40A:3-1

3. The use of proceeds from the City's $110 million sale of Bader Field, the former municipal airport, to the MUA, the City's drinking water provider, to pay other extraordinary liabilities.[5]

Each of these financial transactions is unique. The MQBA and Bader Field deals, as understood in the context of Atlantic City's extreme financial distress, in particular, are each outside of the normal course for municipal financings and thus merit in-depth scrutiny as part of the Plan review.

The Plan does not include basic and critical details relative to the assumptions underlying each of the financings. There are no articulated interest rates or amortization specifics, the terms of the various debt issues are not always clarified, and the structure of the debt schedules are not included beyond a sentence on the MQBA financing and a chart. In addition, the Plan does not provide any pro forma for the transactions, which is typical of even the most routine financings. In the Bader Field deal, the magnitude of necessary water rate increases is not stated, nor are any details of alternative funding offered beyond a brief statement that rate increases to finance the debt would be "partially offset" by expenditure reductions at the MUA. The omission of details and underlying assumptions makes it very difficult to fully evaluate the financing proposals.

Individually these financings would be difficult to execute. Added to the typical difficulties of completing a series of complex financings in the compressed time frame the City estimates (as evidenced by the assumption of the bonds' interest payments commencing in CY2017), the City's precarious financial position further limits the feasibility of the contemplated financings. While not provided in the Plan, working backward from its debt service assumptions reveals the assumed interest rate of about 3.9 percent on the MQBA issuances. This does not seem to be in alignment with the distressed credit market broadly and the City's historical experience more specifically.

When incorporating the Borgata tax appeal financing, the annual capital improvement finance plan and the gap of at least $30 million for other extraordinary liabilities (primarily comprised of unbonded tax appeal obligations), the MQBA and capital improvement program become even less tenable due to the narrowing ratio of available CMPTRA and ETR to debt. With each financing added to the City's debt, the City is left with a low-point debt service coverage ratio (the ratio of the available amount of CMPTRA

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5 The other extraordinary liabilities consist of amounts associated with: the MGM tax appeal ($33 million); a reserve for other tax appeals and other one-time costs ($35.75 million); and payment of deferred State benefit contributions ($43.25 million).

and ETR to debt service) of 1.46-times in the adjusted Plan; the City's most recent financing, a 2015 $53.8 million MQBA bond issue, required a better than 3-times coverage ratio. Furthermore, it should be noted that this higher coverage ratio in 2015 resulted in interest rates significantly higher than other MQBA issuances by distressed New Jersey municipalities.

Moreover, although the MUA's financing to fund the Bader Field acquisition does not represent debt issued by the City itself, the two are nonetheless inextricably linked, primarily due to the existing "service contract" and related "deficiency agreement" between the City and the MUA. In essence, the service contract stipulates that if the MUA cannot pay debt service on its own debt, the City must make up the shortfall. Once again, no rate increase projection is included in the Plan and rate mitigation strategies are covered in just one sentence; however, basic modeling indicates that a significant rate increase would be necessary to fund the bond issue, which would increase the MUA's debt by seven times (based on a $110 million financing). The extent of that rate increase, paired with a possible further deterioration in the large commercial rate paying properties, means that revenue shortfalls due to ratepayer payment delinquency is not an outside possibility. Such delinquencies would mean that the City becomes liable for MUA-issued debt used to fund the acquisition of Bader Field, despite the attempt to limit the impact on the City. Although the MUA may have strategies to mitigate rate impact, no detail is provided in the Plan to allow any potential rate mitigation strategies to be considered in the review.

In short, each of the City's bond financings, as well as the MUA's, does not seem achievable. It will be difficult for the City and the MUA to achieve market access and, even if each were successful, the cost related to the high interest rate(s) would likely contribute further to the City's budget instability. Finally, the City did not address the unbonded tax appeal obligations.

1. City Debt – MQBA Financings

As of October 15, 2016, the City has $236,701,000 aggregate par amount of bonds outstanding, which consists of $53,335,000 par amount of previously issued MQBA bonds. The MQBA allows New Jersey municipalities to apply to the LFB for approval to issue bonds additionally secured by pledged State Aid payments. Such State Aid payments are held by the State Treasurer and directly pay debt service to a given bond trustee. Under the MQBA, the City's qualified aid consists of amounts received from CMPTRA and ETR, which are both formula-derived State aid to municipalities appropriated by the State Legislature in the annual budget.

The purpose of the $105 million bond issue is to fund tax appeals estimated to be owed to the owner of the Borgata Hotel Casino & Spa for tax years 2009-2015. A New Jersey Tax Court decision applies to tax years 2009 and 2010, with the Freeze Act applying to 2011 and 2012. The remaining amount applies to projected liabilities from tax years 2011-2015. The Plan states that the amount to be issued is inclusive of other costs related to the financing.

a) Structure and Underlying Assumptions

The size of the $105 million bond issue (plus $4 million for capital improvements) means that the City's debt, incorporating the 2016 average equalized valuation basis and debt as of December 31, 2016, will exceed the limit by approximately $28.8 million according to the City's currently employed methodology of calculating its annual debt limit. Under such methodology, and submission of a supplemental debt statement consistent with the City's practice, a waiver to exceed the debt limit must be granted by LFB for the issue to proceed. Other municipalities have been granted debt limit waivers; however, this is not a desirable practice. As stated in the Plan, tax exempt financing is assumed.

For the $105 million bond issue, the Plan indicates an interest only amortization for the first five years, followed by principal and interest payments for 20 years. While the LFB has the flexibility to approve a non-conforming debt schedule such as this, the proposed schedule would be well outside the LFB's standard practice when considering tax appeal refunding bond terms. In any case, the proposed structure would require LFB approval. The LFB would need to approve the anticipated application of the MQBA as well.

The Plan includes no detailed pro forma debt schedule/pay down, therefore, there is not sufficient detail to adequately review this proposal in light of the overall impact of the borrowing. The interest only debt schedule appears to be tied to the five-year forecast required by the Act and it should be understood that debt service on this issue will increase in year six (2022) once principal payments commence. The declination of the City's existing debt service profile will mitigate this impact somewhat.

As no interest rate assumption is included, the overall debt service cannot be fully calculated with what the City provided in the Plan. In order to evaluate the City's proposal, an interest rate assumption was adopted and a debt schedule calculated to provide a benchmarking review of the City's proposal as offered in the Plan. The primary basis of the interest assumption is the rate achieved for last year's tax exempt MQBA issue, adjusted for current market conditions.

b) Market Access for Bonds

Although going to the bond market is the true test of the viability of any given bond issue, the ability to issue these bonds at a reasonable interest rate, if at all, is uncertain. Much of the City's confidence in the Plan lies in the ability to employ the MQBA program, which allows CMPTRA and ETR to be held by the Treasurer of the State of New Jersey and directly pay debt service to a given bond trustee—subject to LFB approval. The market's belief in future levels of CMPTRA is, in part, a function of the historical application to a given municipality. A prospective bondholder customarily likes to see five years of steady CMPTRA payment. The City has only one year of CMPTRA to show, and this brief history is diminished if additional levels of CMPTRA are required for further coverage. It should be noted that only a qualified opinion was rendered in the last MQBA issue as to whether or not the CMPTRA intercept would stand in a Chapter 9 municipal bankruptcy.

The Plan rightfully points out that prior to 2015, the City did not employ the MQBA for its debt issues and that available CMPTRA has increased by $20 million from zero since 2014. Between CMPTRA and ETR revenues, $26,260,714 is available to "pledge" for bonds. Thus, the "pledgeable" amount prior to 2016 is relatively high; as the City notes in its Plan: "the excess capacity to issue MQBA debt in the future is significant and should be more than enough to ensure the City ongoing access to the market for its future capital improvement needs." However, when this $105 million bond issue is paired with the capital improvement program financing and the likely $30 million bond issue to fund other extraordinary liabilities not addressed in the Plan, the coverage provided by the pledgeable CMPTRA and ETR shrinks dramatically. While the City relied on an over 3-times coverage ratio (i.e., the available amount of CMPTRA and ETR to debt service) to sell the City's 2015 MQBA $53.8 million bond issue, coverage for each MQBA transaction, in the adjusted plan, would shrink to an average of nearly half: 1.68-times; the low point is 1.46- times.

For the City's MQBA 2015 issue, prospective buyers inquired about a City-imposed limitation of future additional MQBA bond issues. The underlying reason is concern among prospective buyers that the coverage of the MQBA pledge to the initial $53.8 million could diminish with subsequent issuances. As the City was not willing to accept this restriction, interest rates were increased in order to reflect the added risk. This will be a consideration on subsequent MQBA issuances.

2. Bond Anticipation Notes – Annual Capital Improvement Finance Plan - $4 million for five years

Due to its financial constraints, the City has not provided sufficient funds towards general improvements since their capital financing in 2013. To provide adequate improvements throughout the City, the Plan budgets a Capital Improvement Program with $4 million annually of local investment over five years, totaling $20 million. In the Plan, the City will fund the program by issuing and "rolling" short term notes for the first three years. On the third anniversary of the initial offering of the notes, the Plan anticipates the notes will either be permanently financed as bonds or will continue to be issued as notes conforming to required principal pay downs. It is stated that the bonds will be secured through the MQBA program, similar to the tax appeals as previously mentioned. It is unclear whether the City anticipates that the notes will be secured under the MQBA program, which would be a deviation from standard practice, and it is uncertain whether the City will have market access for stand-alone general obligation notes.

In addition, in accordance with N.J.S.A. 40A:2-1 *et seq.*, a bond ordinance for such issuance shall only be finally adopted if an amount equal to not less than 5% of the amount of the obligations authorized is appropriated for the municipality's budget. N.J.S.A 40A:2-11. It is not clear from the Plan whether the City has accounted for or appropriated such a down payment. If the City has not appropriated for such a down payment, it would need to seek a waiver of the down payment from the LFB.

Given the City's non-investment grade credit rating and no indication of additional security, it is not certain that the City itself will be able to secure a favorable interest rate on short term notes or even have market access without the MQBA securing the notes.

3. Excluded Unbonded Tax Appeal Obligations of at Least $30 Million

As noted above, the City's Plan did not address a projected liability for other unbonded casino tax appeals of at least $30 million, the impact of which is summarized in **Exhibit B**.

4. MQBA Coverage

When incorporating the tax appeal financing, annual capital improvement finance plan and the unbonded tax appeal obligations, the MQBA and capital improvement program become even less likely to succeed due to the ratio of available CMPTRA and ETR disbursements to debt narrowing. With each financing added to the City's MQBA debt service, coverage levels are reduced; as mentioned, the City's most recent financing, a 2015 $53.8 million MQBA bond issue, required a better than 3-times coverage ratio. Even this high coverage ratio resulted in interest rates significantly higher than other MQBA issuances by distressed New Jersey municipalities.

5. Summary of Financings Proposed in City's Plan

Exhibit B summarizes Atlantic City's existing debt, its debt after the City's financings contemplated in the Plan are completed (i.e., this does not include the Bader Field transaction, as the MUA is the issuer), and adjusted assumptions based on more historical and distressed credit market conforming interest rates—with the $30 million financing added. The gap between the Plan's debt service assumptions and the adjusted assumptions is significant, leaving a projected shortfall between $3.3 and $3.8 million per year during the five-year forecast period.

6. Bader Field - Water Revenue Bonds - $110 million

The single largest financing contemplated in the Plan is the sale of Bader Field to the MUA. The MUA would issue bonds in order to generate funds sufficient to buy Bader Field. The money made available to the City will be used to pay down other extraordinary liabilities (*see* footnote 4, *supra*), and fund a $35 million reserve for future projected liabilities.

Bader Field is comprised of a series of parcels of City-owned property, located at 601 North Albany Avenue, on a peninsula adjacent to the Chelsea Heights neighborhood of Atlantic City. Its current block and lot designation is Block 794, Lot 1. Bader Field has not been subdivided and is potentially the City's most valuable asset. Overall, the property is 142.25 acres, 20 of which are encumbered under the State of New Jersey's Green Acres program. However, a recent auction in the summer of 2016 revealed that the market does not believe Bader Field has much value, primarily due to the constraints of the Atlantic City market overall and specific constraints related to the property due to environmental remediation and high cost of flood insurance.

On October 19, 2016, the City Council approved, by a narrow 5-4 margin, Atlantic City Ordinance No. 44, the sale of Bader Field to the MUA (the City's water provider) for a purchase price of $110 million dollars, the acquisition of an easement over a portion of that property, and the acquisition of 1824 Baltic Avenue and 1560 Drexel Avenue from the MUA for $100,000. On the same date, the Board of the MUA approved a series of resolutions, Nos. 177-79, authorizing the MUA's purchase of Bader Field from the City, empowering the MUA's Executive Director to undertake the processes necessary to commence the transaction, and approving the MUA's sale of properties and granting of an easement to the City.

This anticipated transaction would have to comply with the Local Lands and Buildings Law, the Municipal and County Utilities Authorities Law, and the Local Fiscal Affairs Law. The strategy is an integral part of the City's Plan submitted for my review, a fact recognized by the City and the MUA in their ordinance, resolutions and in the Plan itself. My evaluation thereof is informed by these statutory standards.

In the most basic terms, the City plans to sell Bader Field to the MUA, which will issue debt in order to finance the purchase price of $110 million dollars. Given the failure of the recent auction, this seems an overly optimistic valuation. (Moreover, selling Bader Field to the MUA means that the property remains tax exempt – not within the tax ratable base and not producing tax revenues.)

Nevertheless, the MUA claims to have adequate ability under various governing statutes, primarily the Municipal and County Utility Authorities Law, to make such a purchase at the named price of $110 million, if the MUA so desires. The MUA's Board of Directors, in turn, unanimously approved the financing plan. While the contemplated use of Bader Field by the MUA is somewhat nebulous,[6] the Plan indicates that it will temporarily be used for an alternative energy project and, ultimately, redevelopment by a private developer, which the MUA will pursue on its own. The Plan includes no substantive discussion or estimates of revenue generation that may become available to the MUA in future years or any timing for the transaction.

a) Structure and Underlying Assumptions

As stated above, there are no assumptions related to the MUA's financing included in the Plan other than the basic fact that the financing will be supported by user revenue. The interest rate, term, and structure are all left unstated.

b) Marketability

The MUA has ratings from two rating agencies: Moody's – "B3" (junk, highly speculative) with a "Negative Outlook"; and Standard & Poor's – "B-" (junk, highly speculative) with a "Negative Outlook."

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6 The Mayor has referred to the MUA's purchase of Bader Field as a "poison pill."

The primary concern may be simply whether or not this financing is marketable, given that the debt is the MUA's and not the City's. Were the MUA to be unable to issue debt, the extraordinary liabilities listed in footnote 4, *supra*, would remain with the City.

c) The Service Contract

Debt sold by the MUA is issued pursuant to a bond resolution and secured by a "deficiency agreement" or "service contract," which makes the City liable to pay the MUA's debt service if the MUA's revenues are inadequate to meet the debt service requirement. This, in the final analysis, amounts to a virtual guaranty of the MUA's debt by the City. What this means is that, if the MUA cannot make debt service payments on the bonds it issues to purchase Bader Field, the City would then become responsible for those payments – effectively repaying the money it received for the sale, plus interest. The underlying economies of the rate paying base (evidenced by the loss of five casino gaming properties since 2014), places the MUA in jeopardy of a material loss of its ratepayer base and, therefore, exacerbates the likelihood of a draw upon the City deficiency agreement. Of note, the MUA's third largest customer, the Taj Mahal, ceased operations in October 2016.

The MUA has various series of its revenue bonds outstanding, which bonds are secured by a pledge of the revenues of the MUA funded by service charges collected from users (water supply buyers) of the MUA's water system and the Service Contract.

Series of Bonds	Estimated Outstanding Par as of Oct. 15, 2016	Final Maturity	Redemption Provisions	Purpose
NJEIT Bonds, Series 2005 A (Trust)	$905,000	9/1/2025	9/1/2014	New Issue
NJEIT Bonds, Series 2005 A (Fund)	$2,026,378	9/1/2025	9/1/2014	New Issue
NJEIT Bonds, Series 2006 A (Trust)	$410,000	9/1/2026	9/1/2015	New Issue
NJEIT Bonds, Series 2006 A (Fund)	$628,976	9/1/2026	9/1/2015	New Issue
Water System Revenue Refunding Bonds, Series 2007	$6,705,000	6/1/2029	6/1/2017	Advance Refunding of 1999 Bonds
NJEIT Bonds, Series 2009 A (Trust)	$620,000	9/1/2029	9/1/2018	New Issue
NJEIT Bonds, Series 2009 A (Fund)	$539,063	9/1/2029	9/1/2012	New Issue
NJEIT Bonds, Series 2010 A (Trust)	$390,000	9/1/2029	9/1/2018	New Issue
NJEIT Bonds, Series 2010 A (Fund)	$344,732	9/1/2029	9/1/2018	New Issue
Water System Revenue Refunding Bonds, Series 2012	$2,150,000	5/1/2021	Non-Callable	Current Refunding of 2002 Bonds
	$14,719,148			

The service charges imposed by the MUA are to be sufficient to provide for operations and maintenance expenses of the water system, debt service on the MUA's bonds, and to provide for various reserve funds. In addition to this security, pursuant to the terms of the Service Contract, the MUA shall impose and collect annual charges (the "Annual Charges") from the City to the extent of any deficiency in funds of the MUA which are needed to pay the MUA's operations and maintenance expenses of the water system, the MUA's debt service on its bonds, or reserve fund requirements. The Annual Charges constitute a general obligation of the City. The City has the power and is obligated to levy ad valorem taxes upon all the taxable real property in the City without limitation as to rate or amount to pay the portion of the Annual Charges so that the MUA can pay the debt service on its revenue bonds. This general obligation of the City, which is tantamount to a guaranty of the MUA's bonds, is included in the gross debt portion of the City's Annual Debt Statement but is taken as a deduction so long as it is self-liquidating and does not factor into the net debt of the City. If the MUA were no longer self-liquidating, the City would need to include this debt in the calculation of the City's net debt. This would result in a further reduction of the City's available borrowing capacity and impose an additional financial burden on the City for this debt service.

d) Process

As noted above, the proposed sale of Bader Field is subject to a number of State statutes, discussed in detail below. As of this point in time, it does not appear that the City and MUA have satisfied these statutory preconditions. The City and the MUA will be required to apply for and obtain approval of aspects of the sale from several State agencies, including the LFB and DEP. Other than its resolution authorizing submission of the sale to the LFB, it appears nothing has been done in this regard. Thus, compliance with the governing statutes is an open question; this adds another level of uncertainty to the viability of the Bader Field sale. In addition, prior to obtaining market access, the MUA would need to have adopted any necessary rate increases and its bond resolution.

(1) Local Lands and Building Law

The Local Lands and Buildings Law, N.J.S.A. 40A:12-1 *et seq.*, authorizes municipalities to sell any real property, capital improvements, or personal property, or interest therein, not needed for public use to any political subdivision, agency, department, commission, board, or body corporate and politic of the State of New Jersey. N.J.S.A. 40A:12-13. In Atlantic City Ordinance No. 44, the City makes a finding that the "Property is not needed for public use by the City." However, having made that statement, the City provides no analysis or factual findings in support of its conclusion. Indeed, the City indicates its intent to redevelop the property at a future date, describing this transaction as a means of avoiding an external sale of Bader Field until the City's property values increase. This kind of land banking may be an impediment to sale, because it could be determined that this purpose is not a proper purpose pursuant to the Municipal and County Utility Authorities Law ("MUAL"), N.J.S.A. 40:14B-1 *et seq.* See, e.g., Morris Cty. Mun. Util. Auth. v. Morris Twp., 14 N.J. Tax 81, 87 (1994).

(2) The Municipal and County Utility Authorities Law

The MUAL provides that any municipality, by ordinance of its governing body, may convey to any municipal utility authority any real or personal property owned by it, including all or part of any water supply, water distribution, or sewerage facilities, which may be "necessary or useful and convenient for the purposes of the municipal authority and accepted by the municipal authority." N.J.S.A. 40:14B-48; see also N.J.S.A. 40:14B-20(5).

The MUAL also provides that every municipal utility authority is authorized, subject to limitation, "to acquire, in its own name but for the local unit or units, by purchase, gift, condemnation, or otherwise, lease as lessee, and, notwithstanding the provisions of any charter, ordinance, or resolution of any county or municipality to the contrary, to construct, maintain, operate, and use such reservoirs, basins, dams, canals, aqueducts. . . and other such plants, structures, boats and conveyances, as in the judgment of the municipal authority will provide an effective and satisfactory method for promoting purposes of the municipal authority." N.J.S.A. 40:14B-19(b).

The MUA is duly constituted pursuant to the MUAL. Its purposes are narrowly defined by N.J.S.A. 40:14B-19. This transaction must conform to those purposes. The MUAL sets forth eight purposes of every municipal authority, which include, in relevant part, the provision and distribution of an adequate water supply both within, and in some cases without, the district; curbing pollution of the water supply; providing for sewage collection and disposal; solid waste management; the generation, transmission and sale of hydroelectric power at wholesale; operating utility systems owned by other governments located within the district through contracts; and funding improvements to county infrastructure in the case of a pilot county utilities authority. See N.J.S.A. 40:14B-19. These are consistent with the public policy of the MUAL articulated in N.J.S.A. 40:14B-2.

As noted above, Atlantic City MUA Resolution No. 177, enacted October 19, 2016, authorizes the MUA's acquisition of Bader Field from the City. The Ordinance describes the transaction as "a key component of the City's recovery plan," and a reaction to the MUA's inability to continue to "delay and defer decisions affecting the fate of the MUA." Resolution 178 details the City's authority to dispose of Bader Field if it "is not needed for public use by the City," and states that the "Authority has determined that the Property is necessary or useful and convenient for the purposes of the Authority." However, it provides no findings as to the statutory purpose such transaction fulfills. Resolution 179 is similarly unavailing. It merely states that the MUA "believes that:

(a) it is in the public interest to accomplish such purpose;

(b) said purpose or improvements are for the health, welfare, convenience, or betterment of the inhabitants;

(c) the amounts to be extended for said purpose or improvements are not unreasonable or exorbitant; and

(d) the proposal is an efficient and feasible means of providing services for the needs of the inhabitants of the County and will not create an undue financial burden to be placed upon the County."

Again, these conclusory statements are unsupported by factual findings, documentation, or any explanation of the authorized purpose the sale would fulfill. And, most importantly, there is no reference to any of the eight permissible purposes set forth in the MUAL, which raises a significant concern as to whether this significant component of the City's Plan is legally viable.

(3) Local Fiscal Affairs Law

The Local Fiscal Affairs Law ("LFAL"), N.J.S.A. 40A:5-14.2, imposes additional conditions and oversight upon the sale of any assets owned by a municipality in which casino gaming is authorized that have an assessed value of at least $50 million, such as Bader Field, to another public entity, "to ensure that any intended relief to municipal property taxpayers is maximized." In particular, it provides for local and State collaboration, and independent State review of the proposed transaction by the LFB, which must consider whether the proposed transaction is the "highest and best use" of the asset, "considering all relevant factors and circumstances." These factors include, without limitation, environmental constraints, appraisals, zoning restrictions, and flood zone concerns. The Legislature imposed this heightened standard of review for sales within this unique asset class because governing bodies often use such sales to fund a new service or provide property tax relief for a limited time, subsequent to which property tax increases are often necessary to continue the service or close the revenue gap that emerges. N.J.S.A. 40A:5-14.2(c).

The LFB's determination under this statutory provision must be supported by "a 'fairness opinion' and appraisal, commissioned by the Local Finance Board from a reputable, experienced, and independent third-party entity licensed to do business in the State of New Jersey." N.J.S.A. 40A:5-14.3(e). This is not an immediate process. The statute contemplates it occurring in a period of not more than 45 days. As of this date, the City has not commenced this process, despite awareness of the tight statutory period the Legislature has provided for my review and an approved Plan's implementation. Because the City failed to undertake the necessary administrative agency review for compliance with these underlying standards prior to plan submission, despite having had five months to do so, the City has submitted a plan that includes no findings that can support their assertion of feasibility or legality. This hinders meaningful review, leaving an open question as to whether the proposed transaction can be attempted, much less implemented, within a timeframe conducive to achieving fiscal stability.

The City intends to use the proceeds of the sale to address unfunded extraordinary liabilities including past due annual benefits payments and accrued tax appeal judgments. The use of the sale proceeds for a single cash injection of this nature is troubling, particularly when coupled with the City's determination not to raise taxes in the next five years. The City anticipates continued tax appeals throughout the next several years. It will also have continuing benefit payment obligations to the State. Structuring the transaction to shift the expense for these obligations from the City's taxpayers to the MUA's ratepayers in the short term does not resolve the funding gap that exists; it just masks it.

(4) Green Acres Standards

Bader Field is also subject to environmental encumbrances as a result of the City's receipt of Green Acres funding. The Green Acres statutes are "designed to provide State funding to assist municipalities with the acquisition and development of property for conservation and recreation purpose." Cedar Cove, Inc. v. Stanzione, 122 N.J. 202, 205 (1991). Parkland acquired with Green Acres funds can only be used for recreation or conservation purposes unless a diversion or disposal is approved by the DEP Commissioner and the State House Commission. N.J.A.C. 7:36-25.2(a).

So that municipalities do not use "State funds to purchase or develop new properties while converting comparable existing lands to more profitable commercial or residential development [,]" any municipally-held land devoted to recreation or conservation at the time the municipality received Green Acres funding is also considered encumbered. Cedar Cove, *supra*, 122 N.J. at 211; N.J.A.C. 7:36-25.2. These properties are referred to as "unfunded parkland." N.J.A.C. 7:36-2.1. When applying for funding, a municipality must prepare a Recreation and Open Space Inventory ("ROSI"), listing all unfunded parkland. N.J.A.C. 7:36-6.5. A diversion approval is required prior to using any unfunded parkland for purposes other than recreation or conservation. N.J.A.C. 7:36-25.2(a). This requires DEP Commissioner and State House Commission approval and a public hearing. N.J.S.A. 13:8A-47(b); Cedar Cove, *supra*, 122 N.J. at 205.

Approximately 20.32 acres of Bader Field are listed on the City's ROSI. Although the Green Acres rules allow administrative transfer of parkland between eligible funding recipients, under N.J.A.C. 7:36-3.2(a), a municipal utility authority is not eligible for Green Acres funding because its primary purposes are not recreation and conservation. The City's Plan fails to recognize the existence of any of these issues. The City has not applied for approval to divert or dispose of this property. Absent their adherence to this formal process, the proposed Bader Field transaction would violate the Green Acres laws and rules. It would be void and of no legal effect. N.J.A.C. 7:36-25.2. Furthermore, because the property is subject to Green Acres encumbrances, even were the City to receive approval for a diversion, the Department of Environmental Protection's regulations, N.J.A.C. 7:36-26.10, and N.J.S.A. 13:8C-32 requires a municipality to provide replacement land or the fair market value of the diverted land to compensate for its loss from the ROSI. The City's Plan does not provide for these moneys or the procurement of replacement land. It is therefore deficient, as it neglects to address an essential regulatory and financial consideration that would impact both the fiscal effect and practical implementation of this transaction.

(5) Municipal Stabilization and Recovery Act

In addition to these statutes of general applicability, because the proposed sale is a key component of the City's Plan, it must be consistent with the standard articulated in the Municipal Stabilization and Recovery Act. N.J.S.A. 52:27BBBB-4. The Act requires that the Plan, in its totality, must be "likely to achieve financial stability for the municipality." Compliance with this standard requires me to undertake a broader analysis than that imposed by the LFAL, in that I must give consideration to whether the asset's sale is to the municipality's benefit within the broader scope of general economic recovery, rather than simply the most advantageous use of this particular asset at this time.

The City's Plan allocates the proceeds of the proposed sale to repay certain extraordinary unfunded liabilities. The sale does nothing to increase revenues for the municipality under N.J.S.A. 52:27BBBB-4(c)(1). It is a temporary fix, a stop gap that reduces municipal revenues and undermines the stability of the MUA itself, one of the few financially viable public entities extant in the City of Atlantic City. The MUA, like most utility authorities, has ongoing capital needs that are ordinarily funded by ratepayer fees. Committing a substantial majority of those fees to debt service compromises the sufficiency of the existing rate fee structure as a means of providing for the integrity of the water system. The likely high cost of funds in the market place due to the MUA's below investment grade credit rating exacerbates these concerns.

To this end, this sale also undercuts long term economic and land use development on this "highly valued" property by allocating it exclusively for the purposes authorized under the MUAL, rather than achieving the highest and best use of the property for the recovery and redevelopment of the City's struggling tourism district. N.J.S.A. 52:27BBBB-4(c)(8); N.J.S.A. 40:14B-14.2.

7. Summary

The following table summarizes the projected deficit each year that results from adding all of the items described in Sections A and B above to the forecasts in the City's Plan, over the five-year forecast period:

2017	2018	2019	2020	2021	TOTAL
($17.7 M)	($21.0 M)	($23.9 M)	($23.0 M)	($21.6 M)	($107.2 M)

A more detailed version is attached hereto as **Exhibit C.**

C. Proposed Cost Cutting Measures

1. Personnel Reductions

The Plan indicates there will be a "further headcount cut" of an additional "100 positions, bringing the City's full-time workforce to 865 or below in **2017**." (emphasis added). The Plan provides generally that these reductions will be accomplished through:

- Competitive contracting where private providers can deliver services most cost-effectively.

- Shared services, where the County and/or regional neighbors can partner to achieve improved economies of scale and/or efficiencies.
- Targeted right sizing, where non-core activities can be streamlined or eliminated.
- Use of an Early Retirement Incentive (ERI) as authorized under the Municipal Stabilization and Recovery Act, **backstopped by layoffs** and attrition to the extent necessary to achieve the targeted reductions. (Emphasis added).

Thus, the Plan makes clear that the City is committed to making layoffs to reach the stated goal of reducing headcount by 100 positions if the ERI is not sufficient to meet the 100 headcount reduction.

The Plan identifies some positions that will be eliminated, but does not identify all of the 100 positions the City is planning to eliminate. This information is important because without knowing which positions are being reduced, it is hard to quantify the savings the reductions will generate. There is no spreadsheet or table in the Plan that shows precisely how the City intends to meet this 100 position reduction. Moreover, in calculating the savings of this headcount reduction, the Plan states that it "includes only those 86 specifically identified to date through competitive contracting, shared services, targeted rightsizing, and the PERS ERI." Although the Plan states that 86 positions have been identified, it is not clear what all of those positions are.

As noted above, the Plan provides that the 100-position reduction will be in 2017. However, if these reductions were in fact implemented in 2017 as the Plan provides for, then the projected savings in 2017 should have been higher than the $2.6 million in savings shown in the Plan. Specifically, the Plan contains a table that shows the following projected savings from the proposed head count reduction:

	2017	2018	2019	2020	2021
Headcount Reduction	$2.6 M	$5.4 M	$7.0 M	$7.6 M	$7.7 M
Labor Agreements/Direct 15	$1.3 M	$1.6 M	$1.9 M	$2.2 M	$2.7 M
Total	$3.9 M	$7.0 M	$8.9 M	$9.8 M	$10.4 M

The Plan provides no explanation for this discrepancy.

a) Potential For Further Headcount Reduction

(1) Firefighters

In addition to the 100 position headcount reduction set forth above, the Plan also notes the City could have proposed further reductions in headcount by reducing the number of City firefighters. The Plan states that: "the City could potentially provide the same level of services with 12-25% fewer apparatus-based uniform firefighter (approximately 25-44 positions)." While the Plan does not include these reductions, it notes that these reductions represent "a promising and viable option for managing impact of headcount reduction on service delivery." A reduction in the City's number of firefighters would be in line with the number of firefighters in other New Jersey urban centers. Specifically, the City provided the following table comparing the number of firefighters in Atlantic City to other New Jersey urban centers:

City	Total Firefighters	Firefighters per 1,000 (Commuter-Hotel-Adjusted)
Atlantic City (Current as of 9/1/16)	225	2.8
Camden	177	1.7
Trenton	226	2.1
East Orange	146	1.9
Paterson	340	1.9
New Brunswick	93	1.0

Based on the numbers provided in the Plan, the City has more firefighters per 1,000 people (commuter-hotel-adjusted) than any other urban center in New Jersey. This would be true even if Atlantic City reduced the firefighter head count by 44 positions as the Plan recognizes is possible. If the City were to lose the Staffing for Adequate Fire & Emergency Response (SAFER) grant from the Federal Emergency Management Agency, it would be imperative to effectuate these reductions.

(2) Police

The Plan states that "Atlantic City does not believe further police headcount reductions are desirable at this juncture, and hopes both to maintain current staffing levels and to deploy new technology as 'force multipliers' to enhance public safety." Had the Plan proposed implementation of a 12-hour shift, as other urban areas in New Jersey have implemented, such as Trenton, Camden Metro and the New Jersey State Police, the Plan could have included some police headcount reductions without risking the public safety because with police officers working longer shifts, the same police presence can be accomplished with fewer police officers.

2. Outsourcing of Public Services

The Plan provides that the City has "identified a broad range of functions with the potential for private sector delivery." More specifically, the Plan states that "in 2015 and 2016, requests for proposals have been issued for ten City services." To date, however, of these 10 RFPs, only one contract, for parking meter operations, is in place. Although the City has had significant time in which it could have implemented more of these concepts, it has not done so.

The following City service is under negotiation: Payroll. The Plan does not provide when the negotiations for the privatization of payroll will be completed. The privatization of the following City services is under evaluation:

- Prosecutors
- Public Defenders
- Solid Waste, Recycling, Kelly Act; and
- Police Towing.

The Plan does not state when the City will complete its evaluation of these City services or what criteria it will use in its evaluation. Lastly, the Plan states that the privatization of Emergency Dispatch (911) and Licensing and Inspection Construction Division were rejected because such privatization would not be cost-effective. The Plan does not specify how the City determined that privatization of these areas would not be cost-effective.

3. Collective Bargaining

The Plan states that the City will effectuate "agreements with three-year wage freezes." Likewise, the Plan provides "[a] wage freeze for two of the three contract years." Elsewhere, however, the Plan states that while there will be "no across-the-board wage increases" there *will* be "step increases" "for police and fire according to the contracts in effect as of October 2016." For example, if a police officer is at step 1, the following year that police officer automatically is moved to step 2, and at step 2 that police officer receives a higher salary. That same police officer will then be at step 3 in the following year with an associated increase. Therefore, the wages for that police officer are not being frozen. Under the current contract in place, Police Officers in their first seven years will automatically get a step-up (i.e.

raise) each year. Thus, it does not appear the Plan is accurate when it states that there will be "wage freezes." A true wage freeze would have resulted in greater savings to the City than set forth in the Plan.

4. ERI

The City has proposed an ERI for its employees. The Plan notes "the City will finalize and advance an ERI program for civilian employees as a component of this Plan." The City has submitted the information to the Department, which was forwarded to the Department of Treasury for analysis. Costs are forthcoming. The City's Plan suggests that the State will "assume the incremental pension costs associated with the ERI." However, the Act provides that "[i]f the incentive program is approved and implemented" then "the municipality shall pay the amount of the liability determined by the actuary to the retirement system in a lump sum or through annual installment payments." N.J.S.A. 52:27BBBB-11(o). Thus, since the Act expressly provides that the municipality and not the State is required to pay the costs associated with the ERI, it is not clear why the City suggests in its Plan that the State will "assume the incremental costs."

VII. Final Observations

Finally, I note that the City's Plan is very ambitious, but lacks concrete evidence that the proposed steps are feasible or will actually be undertaken. The Act requires the Plan to identify specific actions undertaken by the City after it was determined to be a municipality in need of stabilization and recovery to effectuate financial stability. Based upon my review, there is little in the Plan to suggest what constructive actions have been initiated by the City since June 6th, to show that it has the fortitude and the resolve to make the hard choices and difficult decisions at hand. Specifically, since June the City:

- Has not reached a ten-year agreement with the casino gaming properties as required by the PILOT Act to ensure payment of the PILOTs to the City for CY 17 and beyond;
- Did not implement meaningful cuts in its expenses to reduce the significant gap in its CY 2016 budget, including, without limitation, the resubmission of its previously withdrawn layoff plan or timely changes to employee benefits;

- Refused to raise local property taxes despite the significant gap in its CY 2016 budget, the recommendations of the Division of Local Government Services, the fact that the City did not raise local property taxes in CY 2015; and the decline in collected revenue under the levy set in CY 2015;
- Did not implement recommendations made by the Emergency Manager, including, without limitation, the dissolution of the MUA or the development or redevelopment of Gardner's Basin; and
- Failed to conditionally dissolve the MUA to make it available as collateral for the State's bridge loan, thus putting the City in default of that loan agreement.

In addition, although the City's Plan identifies a number of future actions that the City will undertake, these actions, as noted above, face significant practical and legal obstacles. As such it was incumbent upon the City to provide evidence of demonstrable and completed steps in support of these stated objectives. The City failed to do so. By way of example, the City:

- Did not apply to the LFB for approval of the MQBA transaction;
- Did not provide any tangible evidence of the terms of the proposed MQBA transaction or documented evidence of such financing;
- Did not provide any evidence of progress toward any of the procedural requirements for MQBA issuance;
- Did not apply to the LFB for approval of the Bader Field transaction;
- Offered no evidence that it evaluated or developed solutions for existing service contracts and deficiency agreements regarding the Bader Field transaction;
- Failed to address Green Acres concerns on Bader Field monetarily or procedurally;
- Provided no evidence of seeking bond insurance or credit enhancements to increase the viability of the MQBA or Bader Field transaction;
- Failed to provide an actual agreement with the MUA for the purchase of Bader Field;
- Failed to provide an actual agreement with Borgata to settle all outstanding tax appeals and judgments; and
- Failed to provide evidence supporting its assertion that the County will receive 10.3% of the PILOT, which is especially concerning in light of the legislative history of the PILOT Act and the City's prior agreement with the County.

While each of these individually may not be sufficient evidence of failure to comply with the requirements of the Act, collectively they raise significant concerns regarding the City's efforts to date to effectuate financial stability and the viability of future action by the City.

VIII. Conclusion

I would have much preferred to leave management of the City's recovery in the hands of its municipal officials. However, I am constrained by the Plan the City has placed before me. The enormous problems confronting the City did not occur overnight. City leadership has had ample time to improve the City's financial condition yet has avoided doing so in any meaningful way. Significantly, the City failed to take the steps necessary to implement the signature components of its Plan during the past 150 days. That inaction, combined with the Plan's disappointing shortcomings, which I have detailed throughout this recitation, compel me to conclude that the Plan is not likely to achieve financial stability for the City.

The Act found that "the short and long term fiscal stability of local government units is essential to the interests of the citizens of this State to assure the efficient and effective provision of necessary governmental services . . . ." Having already determined that Atlantic City is a "municipality in need of stabilization and recovery," my obligation under the Act was to evaluate the City's five-year recovery plan and determine whether it is "sufficient to effectuate the financial stability of the municipality."

In crafting its plan, it was incumbent upon the City to include those specific actions statutorily mandated to be included in the recovery plan. Likewise, the standards by which I judged the Plan's sufficiency were dictated by the Act's eight required elements and the threshold specification that the Plan include a proposed balanced budget for 2017 – in total nine mandatory components.

I have examined in detail every aspect of the Plan looking for specific actions taken by the City since it was designated a municipality in need of stabilization and recovery for strategies, actions, and policies that could be deemed to satisfactorily address those nine mandatory components. The Plan fails for three fundamental reasons.

<u>First</u>, the City's submission does not meet basic requirements of the Act. It does not include a proposed balanced budget for 2017 that complies with all of the applicable conditions of the Local Budget Law. Nor is it adequately responsive to all of the Act's eight specific directives insofar as some important details are missing and some are factually wrong.

<u>Second</u>, there is a significant financial gap each year and a cumulative financial shortfall across the recovery period in excess of approximately $106 million. Even more modest estimates of the fiscal

gap would yield a structural deficit that could never be closed by the actions outlined in the City's Plan. Some glaring errors or omissions that contribute to the shortfall include:

- understating debt service over the next five years by approximately $18 million;
- failing to accurately estimate the revenues collected from the investment alternative tax by improperly anticipating an excess of IATs of approximately $31 million over the life of the Plan; and
- overstating property tax revenues by approximately $20.5 million, based on the City's flawed assumption that the property tax base will remain constant for the Plan period.

Third, the Plan presents a number of other operational and qualitative concerns described within this Decision.

By way of example, the City has made some effort to reduce its workforce, primarily through attrition and outsourcing of services. Although the Plan outlines an additional headcount reduction of 100 over the life of the Plan, it is not enough to sustainably address one of the biggest cost drivers in the City's budget. Indeed, more generally, the City neglects to quantify operational savings achieved through full implementation of cost cutting strategies.

Fundamentally, the City elected to rely on various financing mechanisms the basis for which are not supported by information and whose viability has been challenged by both Department and consulting experts. For example, assuming these transactions would even be legally permissible, the sale of Bader Field to the MUA for $110 million and a new $105 million financing secured by State Municipal Qualified Bond Act credit enhancement should have been predicated on pro forma analyses of interest rates and other important terms, yet the Plan lacks that basic level of detail about the proposed transactions and omits the interest rates used to calculate the cost of issuance and debt. Independent financial experts advise that in the current financial marketplace, given Atlantic City's credit rating, the cost would be significantly higher than the City's projections.

The Emergency Manager urged the City to dissolve the MUA as a practical way to raise the most cash. Instead, the City rejected the Emergency Manager's recommendation and proposed a structurally flawed alternative, which even if consummated, could financially burden the City and the MUA, a significant asset of the City. Thus, the City's proposed sale of Bader Field is not likely to aid the City in achieving financial stability and is not prudent fiscal management.

Despite the extraordinary need to raise revenue, the City chose not to increase taxes at any point during the five-year recovery term and provided no analysis to support its decision.

Further, the City has not provided evidence of negotiated PILOT agreements with casino properties as required by the PILOT Act, thereby jeopardizing revenue collections during calendar year 2017 and beyond. Nor does the Plan sufficiently account for future payments for off balance sheet liabilities as required by N.J.S.A. 52:27BBBB-4(b)(6).

For all of the foregoing reasons, I find that the Plan is not likely to achieve financial stability.

Charles Richman, Commissioner
Department of Community Affairs

EXHIBIT A

NASSAU CAPITAL ADVISORS, LLC

Atlantic City, N.J. Revenue Projections – 2017-2021

Prepared by:

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November 1, 2016

Atlantic City, N.J. Revenue Projections – 2017-2021

Introduction

Nassau Capital Advisors, LLC has been retained by the N.J. Department of Law and Public Safety to provide certain financial advisory services in connection with the evaluation of the Five-Year Recovery Plan prepared by the City of Atlantic City and submitted to the New Jersey Department of Community Affairs on October 25, 2016 ("Recovery Plan"). The Recovery Plan was submitted pursuant to the Municipal Stabilization and Recovery Act enacted by the N.J. Legislature in May, 2016.

Nassau Capital Advisors, LLC provides public and private clients with professional economic and financial analysis of complex real estate transactions, trends and feasibility.

Nassau Capital Advisors, LLC's scope of work in this matter included an evaluation of projected revenues to the City of Atlantic City from four specific sources which are related to real property:

(i) Revenues from *ad valorem* property taxes;

(ii) Revenues from payments in lieu of taxes ("PILOT") from casinos;

(iii) Revenue contributions from casinos previously used to fund the Atlantic City Alliance ("ACA Funds") which are now diverted to the City; and

(iv) Casino revenues to the City from the Investment Alternative Tax ("IAT").

As part of our scope of work we were asked to assess the validity of the City's assumptions and projections with respect to these four revenue sources for the five-year recovery period.

The results of our analysis and evaluation of these matters are set forth in this report. This report is supplemented by the attached financial schedules entitled Atlantic City Property and Casino Revenue Summary dated October 31, 2016 ("AC Revenue Summary"), which is part of our report. The AC Revenue Summary consists of four worksheets:

1. *Summary Worksheet* with our projected revenues to Atlantic City for the five-year recovery period for (i) property taxes, (ii) casino PILOT payments; (iii) ACA funds; and (iv) Casino IAT payments.

2. *Atlantic City Property Tax Projections*, which focuses specifically on projected revenues from property taxes, including our forecast of assessed values for taxable property in the City for the five-year recovery period;

3. *Gross Re-Directed IAT Revenue*, which provides our projected revenues from Casino Investment Alternative Tax (IAT); and

4. *Gross Gambling Revenue Projections 2016*, which provides part of the basis for our projected IAT revenues.

In the preparation of our report, we have reviewed data from the N.J. Department of Community Affairs; the Five-Year Recovery Plan Submitted to the State of New Jersey October 25, 2016 by the City of Atlantic City, NJ; property tax records for the City of Atlantic City and Atlantic County; and data on Atlantic City casino properties available on the website of the N.J. Division of Gaming Enforcement. I have been assisted in the research, analysis and preparation of this report by my associate, Gerry Doherty.

Findings and Conclusions

Based upon our research and analysis, we conclude that the City's Recovery Plan overstated in a material way projected revenues in two categories:

- *Property Tax Revenues*
- *Casino IAT Revenues*

Here is our analysis of the two revenue items which need to be revised.

Revision #1: Property Tax Assessments and Revenues 2017-2021

In the Recovery Plan, the City of Atlantic City assumed the value of its property tax base will be $2,893,071,564 for 2017. That assessed valuation total is the amount certified for purposes of budgeting for the year 2016. That figure excludes the taxable values of property owned by casinos which are expected to enter into PILOT agreements beginning in 2017, thereby removing such property from the tax rolls.

The City has assumed that this adjusted 2017 property tax base will remain constant for the next four years (2018-2021).

Based upon our research and analysis, we conclude that the City's property tax base will not likely remain at the 2017 level of valuation for the recovery period. Rather, we project that the taxable base will continue to experience year-over-year reductions in valuation based on the underlying economic and financial distress that will continue to impair property values in the City for the next five years.

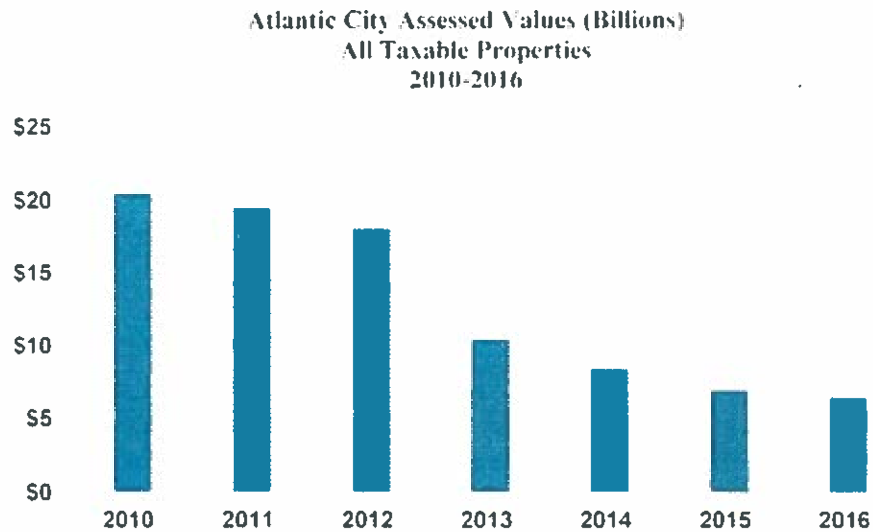
Based on our research and analysis summarized below, we recommend reductions in the projected assessed value of the City's property tax base as follows:

2017: 0%
2018: -5%
2019: -4%
2020: -3%
2021: -2%

Atlantic City's Recent History of Taxable Property Valuations

An analysis of the prospects for the stabilization of Atlantic City's property tax base must begin with the most recent history of the issue.

In 2010, the combined value of all taxable real estate in Atlantic City was approximately $20.5 billion. Thereafter, the sharp decline in casino gambling revenues combined with rising unemployment and residential mortgage foreclosures, resulted in a plunge in assessed value of all real estate of approximately $14 billion, representing a reduction of 68% in five years to $6.5 billion in 2016.



The Impact of Tax Appeals

The dramatic reversal in the fortunes of Atlantic City's casino industry over the past five years, combined with high unemployment in the City and the surrounding region, and a corresponding spike in mortgage foreclosures, sparked a flood of successful property tax appeals, resulting in substantial reductions in the assessed valuation of property in the city.

This impairment to Atlantic City's tax base led to the enactment of the PILOT legislation in 2016 which will move casinos off the tax rolls effective in 2017 and into a PILOT payment arrangement that provides Atlantic City with a more stable source of casino revenues in lieu of property tax payments from the casinos. However, the City has experienced dramatic year-over-year reductions in valuations *for non-casino property*, resulting from tens of thousands of successful tax appeals since 2012.

The chart below summarizes changes in assessed valuation of City properties classified as either residential or vacant land (and thus, excluding casinos). The chart indicates that from 2012 through September, 2016, tax appeal settlements have resulted in a cumulative reduction of just over 40% in the taxable value of non-casino properties.

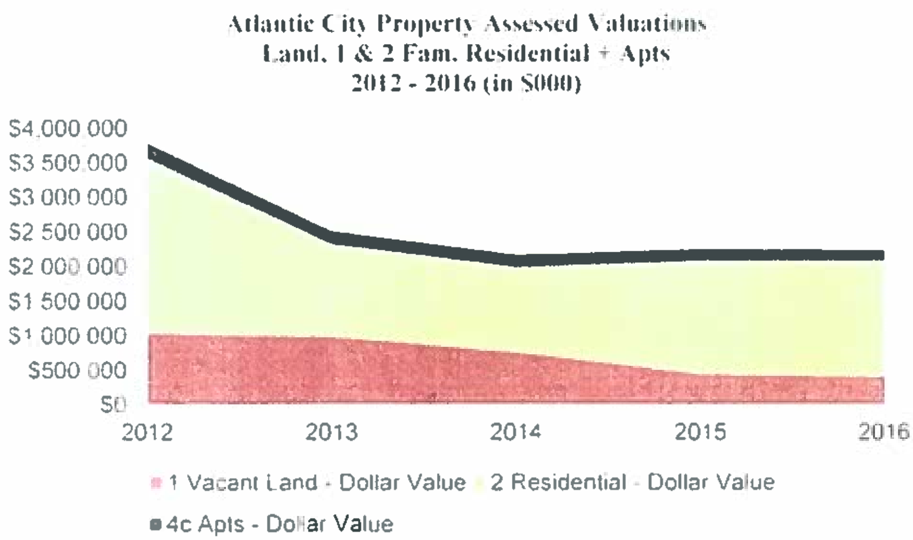
The largest dollar volume of such settlements affected single family and duplex residential properties (Class 2 Property). Between 2012-2016, tax appeals caused a drop in the assessed value of all Class 2 Properties from $2.529 billion to $1.685 billion, a reduction of approximately $843 million, or 33% over the four-year period.

Of particular concern about this timeline is that the greatest year-over-year drop in Class 2 residential values occurred recently, between 2015 and 2016 (11.7% reduction). In our opinion, this indicates that "the bottom" to be found in the continuing drop in valuations due to tax appeals may be several years away.

For homeowners who filed a tax appeal several years ago (or for those who have not yet filed any appeal) recent tax appeal settlements provide a compelling incentive to file new appeals going forward to take advantage of the continuing fall in property values.

Changes in Atlantic City Property Valuations – 2012-2016
Vacant Land and Residential

Property Type	*Value ($000)* 2012	*2013*	*2014*	*2015*	*2016*	*Change in Value 2012-2016*	*Avg Change Per Year*
1 Vacant Land - Dollar Value	**$1,047,061**	**990,057**	**773,314**	**462,757**	**415,929**		
1 Vacant Land - Year-over-Year Change		-5.4%	-21.9%	-40.2%	-10.1%	-60.3%	-15.1%
2 Residential - Dollar Value	**2,529,214**	**2,276,786**	**2,100,213**	**1,910,223**	**1,685,998**		
2 Residential - Year-over-Year Change		-10.0%	-7.8%	-9.0%	-11.7%	[illegible]	-8.5%
4c Apts - Dollar Value	**223,515**	**191,826**	**184,257**	**172,917**	**151,651**		
4c Apts - Year-over-Year Change		-14.2%	-3.9%	-6.2%	-12.3%	-32.2%	-8.0%
Totals: Land/Res/Apts - Dollar Value	**3,799,790**	**3,458,669**	**3,057,784**	**2,545,896**	**2,253,577**	-40.7%	-10.2%
Totals: Year-over-Year Change		-9.0%	-11.6%	-16.7%	-11.5%		



The critical question now for policy makers tasked with the management of the City's finances is whether the "bottom" has been reached in the collapse of the City's tax base in recent years.

Forecasting future trends in property tax revenues in Atlantic City is challenging, due to the extraordinary fiscal and economic distress the City is experiencing at the present time. What is known, however, is that the value of real property in any municipality does not rise or fall in an economic vacuum. Fundamental financial and economic trends in any local market determine the extent to which investors will bid up or bid down the values of real estate in such places. Therefore any rigorous analytical assessment of future trends in Atlantic City's property tax base must first review these economic factors.

Over the past decade, Atlantic City has been hit with a perfect storm of multiple economic and financial challenges:

(i) A gradual decline in population;

(ii) A substantial, continuing loss of private employment in the casinos and other local businesses operating in Atlantic City and Atlantic County, leading to one of the state's highest and persistent levels of unemployment;

(iii) A crime rate overall which is 260% higher than Atlantic County, and a violent crime rate 350% higher than Atlantic County;

(iv) A dramatic decline in private investment in new residential and commercial property in Atlantic City, signaling a reluctance of private capital to invest in the City's near-term future;

(v) Record-high levels of foreclosures by banks on residential and commercial properties in the City and in nearby communities in Atlantic County;

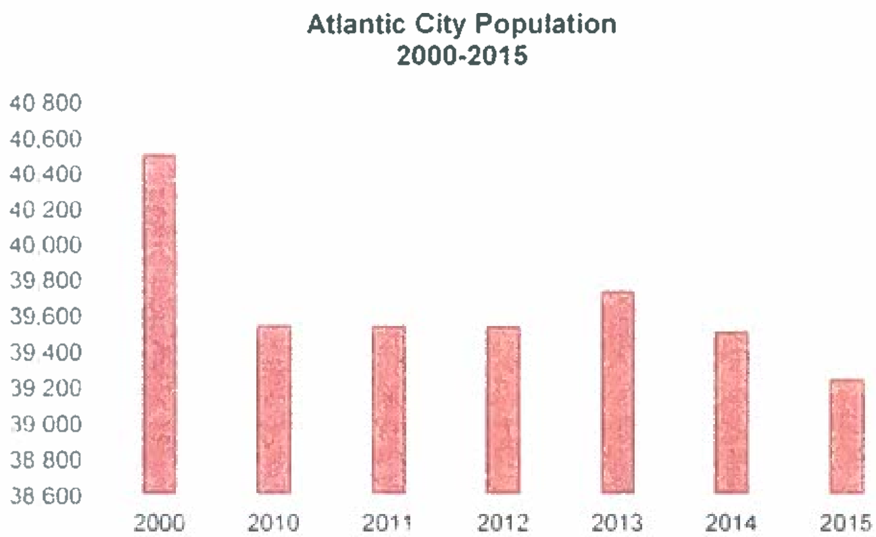
(vi) Historically-high levels of successful tax appeals by property owners in the City, which have resulted in dramatic reductions in assessed values for thousands of homes and commercial properties.

In our opinion, these fiscal and economic forces are primary drivers of the value of private property in any municipality. Such factors largely determine the attractiveness of commercial and residential real estate in any submarket to potential investors.

Here is a more detailed examination of these troubling economic challenges facing Atlantic City that, in our opinion, will determine the direction property valuations are likely to move over the next five years.

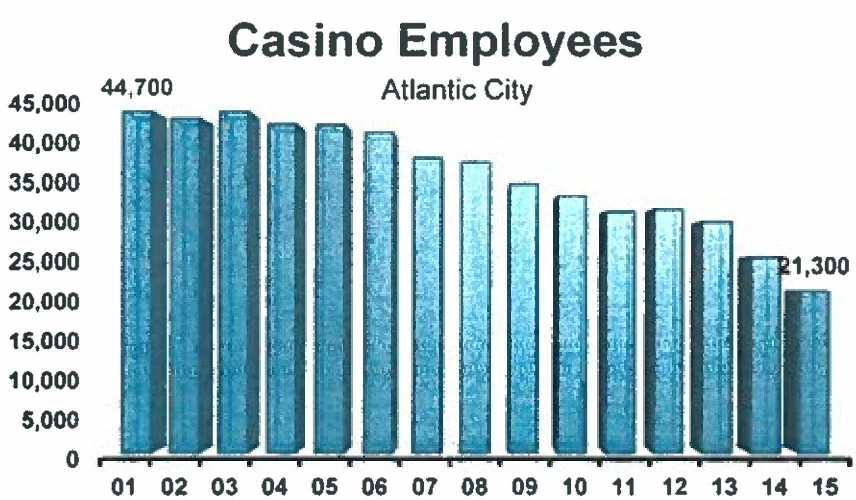
Economic Trends – Population

Atlantic City's population was 40,517 in 2000, and over the next decade, dropped to 39,558 in 2010. The population has declined each year over the past 3 years. The lack of growth in the City's population will likely interfere with investor confidence in property values in the near-term.



Economic Trends – Employment

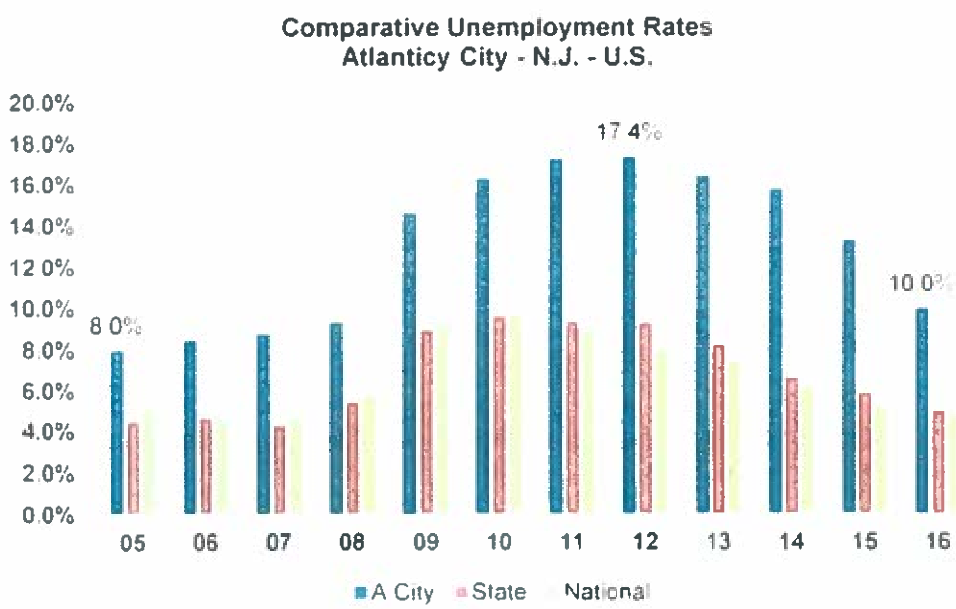
Atlantic City's primary private sector employer for decades has been its casinos. In 2001, the casinos employed approximately 44,700 persons; by the end of 2015, that number had dropped by more than 50%, to 21,300, a loss of more than 23,000 jobs.



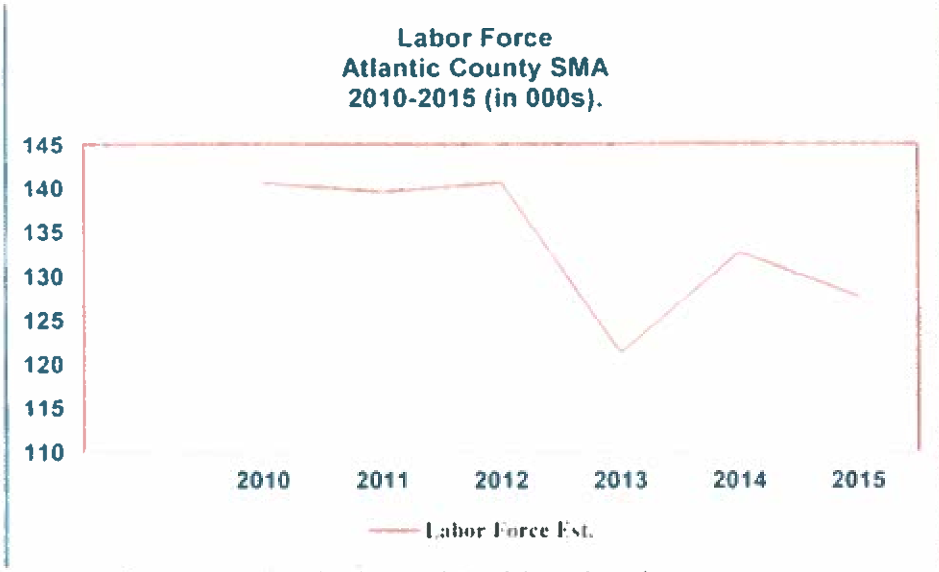
However, the negative jobs picture for this labor market area is not confined to the casinos. Private sector employment overall has been in a steady decline in the Atlantic City-Hammonton MSA as illustrated in the following chart.

Source: NJ Dept. of Labor and Workforce Development

Driven by the thousands of layoffs from the casinos starting in 2007, unemployment rate in the Atlantic City-Atlantic County labor market area peaked at 17% in 2012. While the rate has come down somewhat since then (currently 10%), the area's rate of unemployment has remained stubbornly high, and is currently twice the jobless rate for New Jersey.



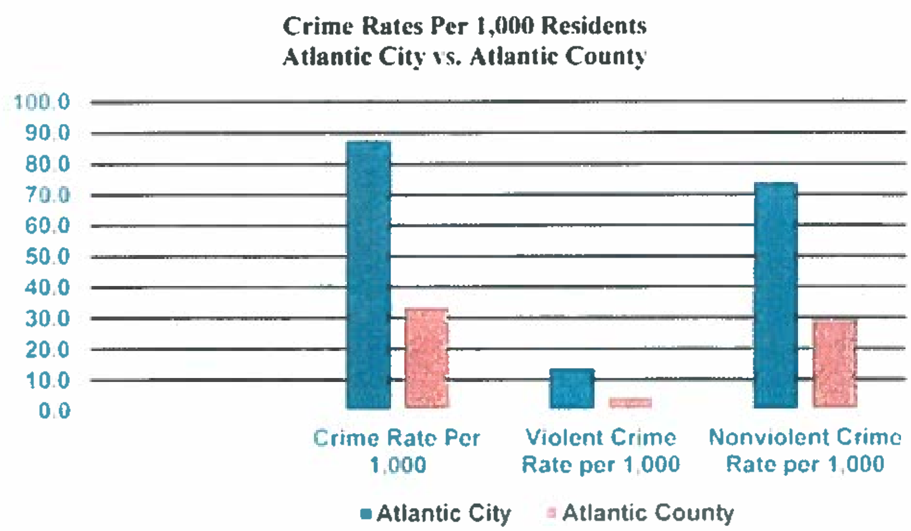
Equally troubling for growth in real estate values in the City has been the drop *in the labor force* in the Atlantic County MSA over the past five years. This reduction in the labor force indicates that an increasing percentage of jobless persons in the area have become discouraged and ended their search for work. Except for the drop in the labor force during this period, the recent unemployment rate would have been even higher.



Source: NJ Department of Labor and Workforce Development

High Rates of Violent and Nonviolent Crime

As shown in the chart below, Atlantic City's violent crime rate is 350% above the violent crime rate for Atlantic County as a whole. The overall crime rate, including violent and nonviolent property crimes, is 260% higher than Atlantic County.

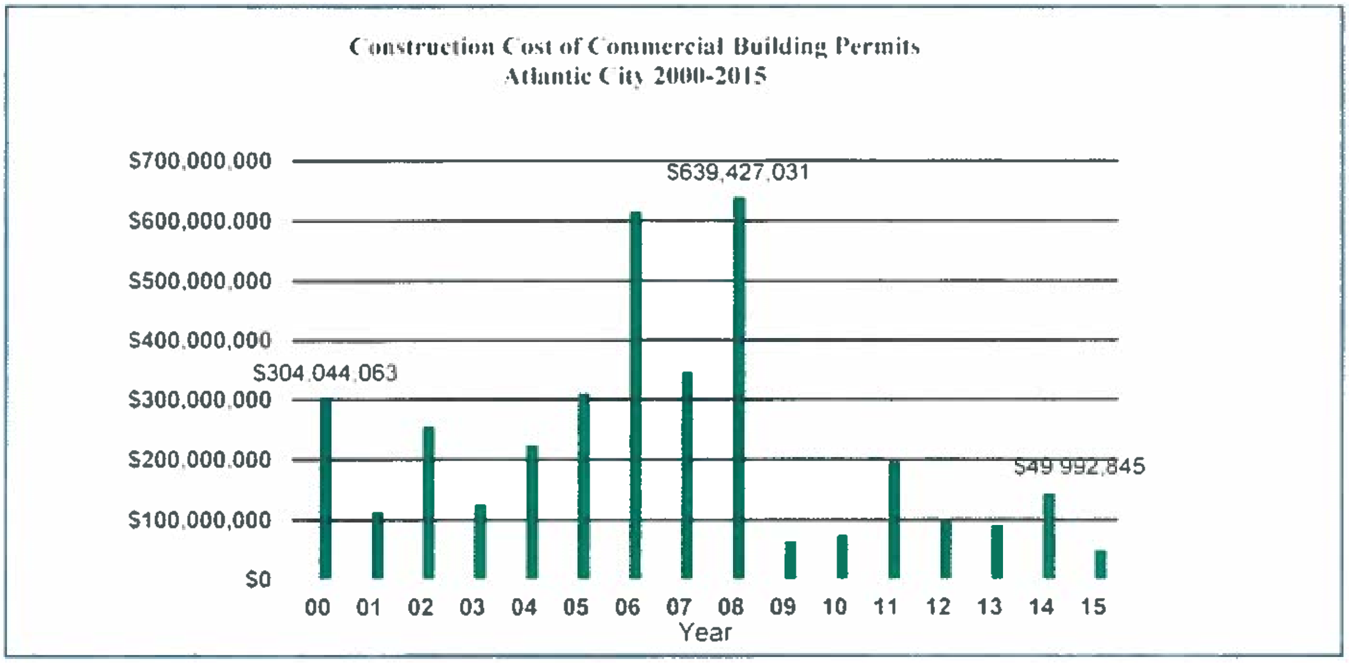


Source: Crime in New Jersey Report 2014

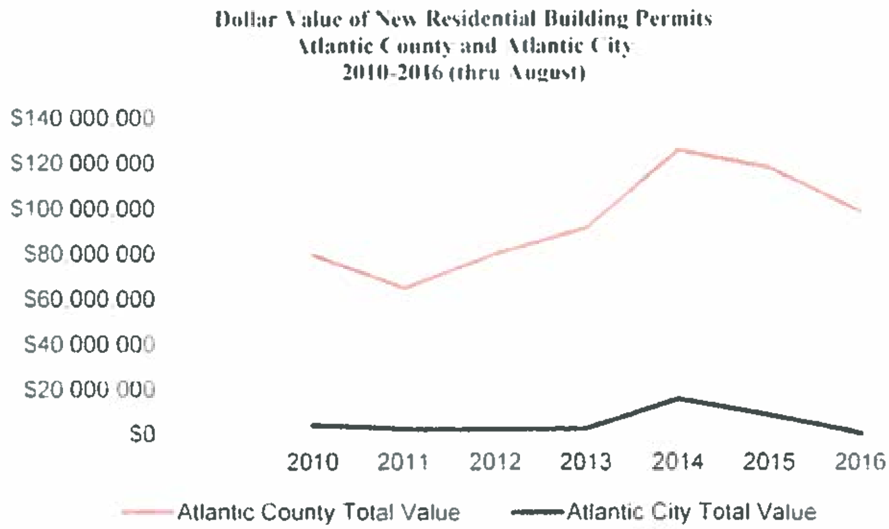
As reported in the City's Recovery Plan (at page 57), Atlantic City's crime rates are very high even compared with five other New Jersey urban municipalities (Camden, New Brunswick, Paterson, Trenton and East Orange). In our opinion, the incidence of high crime rates in Atlantic City will continue to discourage investment in new housing and commercial properties over the next five years, and thus put added downward pressure on property values.

Economic Trends – New Building Permits

An important leading indicator of a submarket's financial prospects is new building permit activity. Private investment in new commercial buildings in Atlantic City over the past 15 years has been almost entirely driven by casino investments. The construction of several large projects between 2006-2008 caused a spike in permit activity. However, since 2008, commercial investment in Atlantic City has dropped sharply, hitting a 15-year low of just under $50 million in 2015.



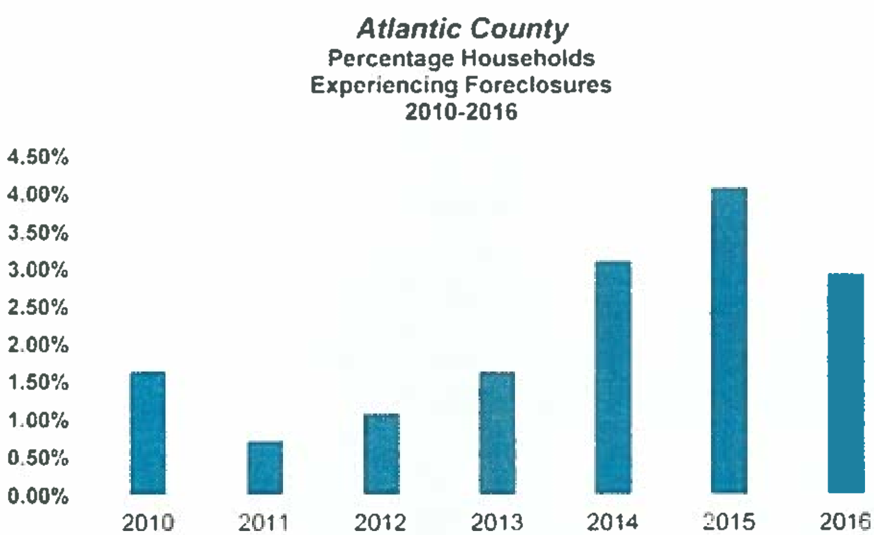
Meanwhile, investment in new residential projects in Atlantic City for the past 15 years has been flat, and has been declining since 2014.



Financial Trends - Foreclosure Activity

Against the backdrop of declines in traditional measures of the financial and economic health of a submarket (declines in employment, population and new investment activity), Atlantic City is struggling with another financial challenge which will likely take a longer-term toll on the values of its taxable real estate. That challenge is the surge in mortgage foreclosures.

The rates of foreclosures in both Atlantic County and Atlantic City have continued to rise over the past several years, as summarized in the following charts.[1]



[1] Charts based on data provided by custom foreclosure reports, ATTOM Data Solutions, Inc., a unit of Realty Trac, Inc., October 18, 2016; data for 2016 is through September 30, 2016.

As these foreclosures slowly wind their way through the courts, the declines in property values have been substantial.

New Jersey is classified as a "judicial state" in processing foreclosures, meaning that lenders must proceed through court in order to obtain a judgment on a defaulting mortgage and eventually take back the property. This has resulted in extensive backlogs and delays in the foreclosure process. New Jersey has one of the longest foreclosure pipelines in the country. Filings flowing through the state court system can take up to 18 months longer than the national average of 629 days. [2]

The Atlantic City metropolitan statistical area leads the country in the percentage of such distressed properties for MSAs with population of 200,000 or more.[3]

The typical foreclosure eventually ends with the subject property being resold at a substantial discount to other properties the area. This trend is especially dramatic in the case of Atlantic City submarket foreclosures.

Based on data as of June, 2016, the median sales price for all homes sold in Atlantic County for the first half of 2016 was $140,700; however, the median *foreclosure sale price* in Atlantic County during the same period was $29,900. This represents a "foreclosure discount" of 78.7% during this period for Atlantic County.

The foreclosure discount during the same period for homes sold in Atlantic City was even higher at 85.7%. This discount has been relatively-consistent in the county and city submarkets for the past several years, and indicates the substantial drag the continuing foreclosure process may have on real estate valuations in Atlantic City over the next five years.

External Economic Impacts of Foreclosures on Neighborhoods

We believe an additional analytical comment is relevant regarding the impact of the foreclosure crisis on property

[2] Q2 2016 Vacancy & Zombie Foreclosure Report, RealtyTrac, Inc.
[3] Ibid

valuations in Atlantic City.

Economists for several years have studied what are called the "external effects" of high rates of mortgage foreclosures on nearby property values in a number of U.S. metropolitan areas. Recent studies have confirmed that unusually-high rates of foreclosures reduce the values of nearby properties, although the results have varied as to the extent of the decline in values and the relationship between a decline in value and the distance of a home from nearby foreclosures.

Perhaps the most comprehensive review of the literature was a report published by the Federal Reserve Bank of Atlanta in 2010.[4] This report concluded as follows:

> *This critical review of the literature suggests that foreclosed properties sell at a discount, likely because such properties are in worse condition. Moreover, very nearby foreclosures appear to depress the sales prices of nondistressed properties although this effect decays rapidly in physical distance and time.*[5]

A 2009 report by the Urban Institute reviewed more broadly the impacts of foreclosures on families and communities.[6] The Urban Institute report confirmed in its literature review additional evidence that foreclosures tend to cause a reduction in nearby property values.

The report also focused on the impact of foreclosures on crime in neighborhoods most impacted by the foreclosure process. Citing specific studies on neighborhoods in Charlotte, NC and Chicago IL, which have experienced high rates of foreclosures in certain neighborhoods in both cities, the research indicated that the presence of such "foreclosure clusters" in a neighborhood were highly-correlated with an unusual increase in both violent crime and property crime in such neighborhoods.[7]

Finally, the Urban Institute Report focused on the impact a local foreclosure crisis has on local government fiscal stress and deterioration of municipal services.

The Urban Institute Report cited a 2008 survey of municipal finance officers by the National League of Cities. The survey found that a majority of these officials reported declines in property tax revenues in their cities in 2008 over the previous year, a time when the Great Recession was beginning to make its impact felt on local economies. The survey respondents reported that foreclosures and the declining housing market were principal reasons for such declines in property tax revenues.[8] In another National League of Cities survey referenced in the Report, elected officials were asked what conditions had impacted their communities most severely. "Increased foreclosures" came in third behind "decreased city revenues" and "decreased funding for other programs and projects."[9]

In a separate report cited by the Urban Institute Report, another research team which studied the foreclosure impact on the City of Chicago found a number of specific financial consequences of high rates of foreclosure that added to costs in the municipal budget. Those costs ranged from increased code enforcement, supervision of vacant or poorly-maintained property (i.e., lawn care and trash removal), added security costs, and eventually

[4] "Estimating the Effect of Mortgage Foreclosures on Nearby Property Values: A Critical Review of the Literature." W. Scott Frame, Economic Review, Federal Reserve Bank of Atlanta, Volume 95, Number 3, 2010.
[5] Ibid, page 8
[6] *The Impacts of Foreclosures on Families and Communities*, G. Thomas Kingsly, Robin Smith, and David Price, The Urban Institute, Washington, D.C., May, 2009
[7] Ibid, pp 17-18.
[8] Ibid, page 19.
[9] Ibid, page 19.

costs of fire suppression and/or demolition. Such costs in Chicago ranged from several hundred dollars per foreclosed property up to $34,000 per unit.[10]

Findings and Conclusions: Property Valuations 2017-2021

In our review of the economic and financial challenges that continue to buffet Atlantic City, we have found no credible evidence to support a conclusion that the recent dramatic decline in the value of taxable property that has occurred in Atlantic City has hit bottom. In our opinion, assessed values of taxable properties will continue to decline in the next several years.

To assist us in arriving at this conclusion, we reviewed all property tax appeals which were filed in Atlantic City for 2016. The results confirm our judgment that further declines in assessed values are likely to continue. The table below summarizes the results of all 2016 tax appeals.

Atlantic City Tax Appeal Worksheet - 2016

ATLANTIC CITY	*2016*			*No. Indiv Parcels*		*Percent of Parcels Filing*
Property Class	**Sum of 2016 Assessment**	**Sum of 2016 Judgment**	***Taxable Parcels Percent Reduction***	***Subject to Appeals***	***Total Number Parcels On Tax List 2016***	***Appeals 2016***
1 Vacant land	$30,611,700	$19,589,300	36%	263	2,239	**12%**
2 Residential	$621,921,040	$475,526,700	24%	3,843	10,893	**35%**
4A Com.	$209,415,500	$172,074,200	18%	365	1,578	**23%**
4C Apts.	$22,507,300	$18,137,000	19%	50	166	**30%**
15A	$32,000,000	$23,000,000				
15I	$56,880,500	$56,707,600				
Grand Total	$973,336,040	$765,034,800		4,521	14,876	**30%**
Taxable Parcels Only	$884,455,540	$685,327,200	23%			
Total Appeals Settled	***504***					

The data in the table may be summarized as follows:

1. Tax appeals were filed for 2016 challenging the assessments for 4,521 individual parcels of taxable property; these parcels represent 30% of all taxable properties in Atlantic City.

[10] William Apgar and Mark Duda. 2004. *The Municipal Impact of Today's Mortgage Foreclosure Boom*. Homeownership Preservation Foundation, Minneapolis, MN. Analysis for City of Chicago.

2. Excluding appeals for exempt properties (classes 15A and 15B), these tax appeals resulted in an average reduction of 23% in the assessed value of the properties. In the aggregate, this represents a reduction in assessed values from approximately $884 million down to $685 million, *meaning a reduction in the City's tax base of approximately $200 million for the year.*

3. This $200 million in reduction in the City's tax base due to the 2016 appeals represents approximately 6.9% of the City's total property tax base of $2,893,071,564 (which the City has assumed will be the ratable base for the City for 2017).

4. In our opinion, the City will likely face another round of tax appeals in 2017 which will impact another substantial percentage of its ratable base (similar to the 2016 experience). Since we do not see any indications of recovery in the residential or commercial real estate market in Atlantic City this year or next, we would anticipate these 2017 appeals are likely to be successful in bringing outdated assessed values down to realistic market levels. This, in turn, will cause another significant reduction in the ratable base for 2017 for purposes of the 2018 budget.

5. We project that as the tax appeal process proceeds into 2018 and beyond, fewer properties are likely to find themselves over-assessed based on market values, due to the increasing percentage of all properties by that time that will have been marked down to market through the appeals process. As a result, the year-over-year decline in the aggregate ratable base should begin to diminish as a percentage after 2018.

In our opinion, the assumption made in the Recovery Plan that the City's property tax ratable base will remain stable for the period 2018-2021 at the 2017 level is not supported by relevant economic and financial analysis, and therefore is not a credible assumption on which to base projections for property tax revenues.

Our recommendation, as reflected in our AC Revenue Summary accompanying this Report, is to discount the assessed values of taxable property by 5% for 2018; 4% for 2019, 3% for 2020 and 2% for 2021. In our opinion these discounts appropriately reflect the continued (but gradually-smaller) annual reductions in value the City is likely to experience to the year 2021.

Revision #2: Casino IAT Revenues 2017-2021

The Recovery Plan projects revenues from the Casino Investment Alternative Tax (IAT) starting at $23,652,819 in 2017, and growing each year to 2019, then dropping back to $29,081,347 in 2021. (Recovery Plan, page 119)

These IAT revenues to the City are substantially overstated, based on our calculations of the formula used for IAT revenues. The City appears to have disregarded a provision in the formula governing IAT payments which permits a casino whose PILOT payments starting in 2017 are greater than their 2015 property tax obligations, to take a credit for the difference in the casino's IAT tax obligation.

In Worksheet 3 in our AC Revenue Summary, we have calculated these IAT credits utilizing current data confirmed by data collected by the NJ Division of Gaming Enforcement. As indicated in this worksheet, the IAT credits are $3,764,580 for 2017 and grow each year thereafter to $10,158,024 in 2021. For the five-year recovery period, the IAT credits which were not deducted from the City's Recovery Plan revenue projections total $38,056,101.[11]

[11] Our gross IAT projections are slightly higher than those presented in the City's Recovery Plan, because we likely used more current data on internet gambling revenues, but the increases are not material to our conclusion.

The following table summarizes our calculation of the net IAT revenues to the City (properly adjusted for the credits to the casinos), compared with IAT revenues projected in the City's Recovery Plan. In our opinion the City has overstated the projected IAT revenues for the five-year period by approximately $31 million.

IAT Revenue Adjustment	*2017*	*2018*	*2019*	*2020*	*2021*	*Totals*
Net IAT Revenue After PILOT Credits - NCA	20,591,433	19,812,958	23,023,233	22,437,300	21,839,649	107,704,573
IAT Revenue per AC Recovery Plan	23,652,819	24,708,449	31,294,479	30,055,998	29,081,347	138,793,092
Difference	(3,061,386)	(4,895,491)	(8,271,246)	(7,618,698)	(7,241,698)	(31,088,519)

Respectfully submitted,

Dr. Robert S. Powell, Jr.
Managing Director

Attachment: Atlantic City Property and Casino Revenue Summary

Attachment: Atlantic City Property and Casino Revenue Summary

(Four Worksheets)

Atlantic City Projected Revenues - Property Taxes & Revenues Related to the Casino PILOT Legislation

November 1, 2016

	2017	2018	2019	2020	2021
Property Tax Revenues:					
Property Tax Base (See Worksheet 2)	2,893,071,564	2,748,973,059	2,633,694,255	2,551,558,107	2,499,106,251
Atlantic City Tax Rate (City Budget Proposal)	3.7150%	3.7150%	3.7150%	3.7150%	3.7150%
Property Tax Revenues (See Worksheet 2)	*107,477,609*	*102,124,349*	*97,841,742*	*94,790,384*	*92,841,797*
PILOT Related Revenues:					
Casino PILOT Revenues	120,000,000	122,400,000	124,848,000	127,344,960	129,891,859
ACA Funds - Temporary Diversion	15,000,000	10,000,000	5,000,000	5,000,000	5,000,000
Casino IAT (See Worksheet 3)	20,591,433	19,812,958	23,023,233	22,437,300	21,839,649
Total PILOT Related Revenues	155,591,433	152,212,958	152,871,233	154,782,260	156,731,508

Revel In PILOT (Yes or No)	*yes*
Taj Mahal In PILOT (Yes or No)	*yes*

Note: Assumes current tax credit appeal settlements can not be deducted as credits from the PILOT for Casinos in the PILOT Program.
Note: Assumes future tax credit appeal settlements can not be deducted as credits from PILOT payments for Casinos in the PILOT Program.

Atlantic City Property Tax Projections

November 1, 2016

Key Assumptions	2016	2017	2018	2019	2020	2021
Class of Property:						
Vacant Land Change per Year		0.00%	-5.00%	-4.00%	-3.00%	-2.00%
Residential Change per Year		0.00%	-5.00%	-4.00%	-3.00%	-2.00%
Commercial Change per Year		0.00%	-5.00%	-4.00%	-3.00%	-2.00%
Industrial Change per Year		0.00%	0.00%	0.00%	0.00%	0.00%
Apartment Change per Year		0.00%	-5.00%	-4.00%	-3.00%	-2.00%

Revel - IN PILOT (Yes or No)	yes	If No, Reduce Assessed Value	*50.00%*
Taj Mahal - IN PILOT (Yes or No)	yes	If No, Reduce Assessed Value	*50.00%*

Assessed Value	2016	2017	2018	2019	2020	2021
Vacant Land	415,929,500	404,907,100	404,907,100	384,661,745	368,465,461	356,925,609
Minus Adjustments for Tax Appeals	0	0	(20,245,355)	(16,196,284)	(11,539,852)	(7,459,800)
Residential	1,685,997,740	1,539,603,400	1,539,603,400	1,462,623,230	1,401,039,094	1,357,160,397
Minus Adjustments for Tax Appeals	0	0	(76,980,170)	(61,584,136)	(43,878,697)	(25,820,782)
Commercial	4,251,201,600	790,178,900	790,178,900	750,669,955	719,062,799	696,542,700
Minus Adjustments for Tax Appeals	0	0	(39,508,945)	(31,607,156)	(22,520,099)	(14,181,256)
Industrial	4,972,800	4,972,800	4,972,800	4,972,800	4,972,800	4,972,800
Minus Adjustments for Tax Appeals	0	0	0	0	0	0
Apartments	151,651,000	147,280,700	147,280,700	139,916,665	134,025,437	129,827,937
Minus Adjustments for Tax Appeals	0	0	(7,364,035)	(5,891,228)	(4,197,500)	(2,690,509)
Other	6,128,664	6,128,664	6,128,664	6,128,664	6,128,664	6,128,664
Minus Adjustments for Tax Appeals	0	0	0	0	0	0
Total Assessed Value	6,515,881,304	2,893,071,564	2,748,973,059	2,633,694,255	2,551,558,107	2,499,106,251
Add: Revel		0	0	0	0	0
Add: Taj Mahal		0	0	0	0	0
Total Assessed Value	6,515,881,304	2,893,071,564	2,748,973,059	2,633,694,255	2,551,558,107	2,499,106,251
Property Tax Rate	3.7150%	3.7150%	3.7150%	3.7150%	3.7150%	3.7150%
Gross Property Tax Revenue	242,064,990	107,477,609	102,124,349	97,841,742	94,790,384	92,841,797

Note: 2017 Assessments assume 2016 Assessments minus Tax Appeals for 2016 minus Casinos in PILOT

Gross Re-Directed IAT Revenue to Atlantic City

November 1, 2016

		Projected (a)				
		2017	2018	2019	2020	2021
Gross Gaming Revenue - Non-Internet (See Worksheet 4)		2,248,498,523	2,248,498,523	2,248,498,523	2,248,498,523	2,248,498,523
Gross Gaming Revenue - Non-Internet - Revenue Increase		0.00%	0.00%	0.00%	0.00%	0.00%
IAT Rate	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Estimated IAT Non-Internet		28,106,232	28,106,232	28,106,232	28,106,232	28,106,232
Gross Gaming Revenue Internet (See Worksheet 4)		184,733,362	184,733,362	184,733,362	184,733,362	184,733,362
Gross Gaming Revenue Internet - Revenue Increase		0.00%	0.00%	0.00%	0.00%	0.00%
IAT Rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated IAT Internet Tax		4,618,334	4,618,334	4,618,334	4,618,334	4,618,334
Total IAT Gross Taxes		32,724,566	32,724,566	32,724,566	32,724,566	32,724,566
Committed Obligations (CRDA Estimate)		(8,368,553)	(7,312,923)	(726,893)	(726,893)	(726,893)
Net IAT before PILOT Credits		24,356,013	25,411,643	31,997,673	31,997,673	31,997,673
IAT Adjustment for PILOT Credit Pledged (DGE Estimates)		(3,764,580)	(5,598,685)	(8,974,440)	(9,560,373)	(10,158,024)
NET IAT After PILOT CREDITS		20,591,433	19,812,958	23,023,233	22,437,300	21,839,649

(a) Annual Projection based on Trailing 12 Months from Oct 1, 2015 thru Sept 30, 2016 (See Worksheet 4)

Gross Gaming Revenue Projections 2016

November 1, 2016

Trailing 12 Month - October 1, 2015 thru Sept 30, 2016

	Non-Internet	Internet
Bally's	210,142,869	0
Borgata	717,962,945	47,421,709
Caesars	296,891,161	37,406,013
Golden Nugget	204,163,088	37,344,209
Harrah's	354,804,809	0
Resorts	171,704,977	26,120,214
Revel	0	0
Taj Mahal	161,792,796	0
Tropicana	292,828,674	36,441,217
Totals	2,410,291,319	184,733,362

2017 Estimates - Trailing 12 Months minus Taj Mahal

	Non-Internet	Internet
Totals	2,410,291,319	184,733,362
Deduct Taj Mahal	(161,792,796)	0
Revised Trailing 12 Months	2,248,498,523	184,733,362

Source: New Jersey Division of Gaming Enforcement Published Reports

EXHIBIT B

Exhibit B

Summary of Atlantic City Debt Before and After Recovery Plan, Including Adjustments
$30 Million Scenario *(x 000)*

Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**
Existing Debt Service	28,322	24,456	27,001	25,047	23,577
City Recovery Plan					
Tax Appeal Debt Service ($105mm)	4,141	4,141	4,141	4,141	4,141
Capital Debt Service ($20mm)	120	240	360	868	1,364
Total Debt Service	**4,261**	**4,381**	**4,501**	**5,009**	**5,505**
Existing + Recovery Plan	**32,582**	**28,837**	**31,502**	**30,056**	**29,081**
Amended Plan					
Tax Appeal Debt Service ($105mm)	5,766	5,766	5,766	5,766	5,766
Unfunded Liabilities Debt Svc. ($30mm)	1,667	1,667	1,667	1,667	1,667
Capital Debt Service ($20mm)	207	408	610	1,365	1,566
Total Debt Service	**7,640**	**7,842**	**8,043**	**8,798**	**8,999**
Existing + Financial Analysis	**35,962**	**32,298**	**35,045**	**33,846**	**32,576**
Differential					
Tax Appeal Debt Service ($105mm)	(1,626)	(1,626)	(1,626)	(1,626)	(1,626)
Unfunded Liabilities Debt Svc. ($30mm)	(1,667)	(1,667)	(1,667)	(1,667)	(1,667)
Capital Debt Service ($20mm)	(87)	(168)	(250)	(497)	(202)
Aggregate Differential	**(3,380)**	**(3,461)**	**(3,543)**	**(3,790)**	**(3,495)**

EXHIBIT C

Exhibit C

Plan Projections - Revenues

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Property Tax and Casino PILOT (Municipal Share)	111,651,889	111,786,981	112,970,815	114,178,325	115,409,986	565,997,996
ACA Funds - Temporary Diversion	15,000,000	10,000,000	5,000,000	5,000,000	5,000,000	40,000,000
Casino Investment Alternative Tax (IAT)	23,652,819	24,708,449	31,294,479	30,055,998	29,081,347	138,793,092
CMPTRA Aid	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	100,000,000
Energy Receipts Tax	6,260,714	6,260,714	6,260,714	6,260,714	6,260,714	31,303,570
Transitional Aid	26,200,000	22,300,000	19,000,000	16,200,000	13,800,000	97,500,000
Local Revenues	10,191,601	10,226,095	11,719,261	11,809,740	11,855,509	55,802,206
Other Revenues	4,846,000	5,035,000	5,237,000	5,453,000	5,685,000	26,256,000
Total Revenues	**$217,803,023**	**$210,317,239**	**$211,482,269**	**$208,957,777**	**$207,092,556**	**$1,055,652,864**

Plan Projections - Expenditures

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Personnel Costs						
Salaries and Cash Compensation	73,799,176	72,161,467	70,516,194	70,540,567	69,172,681	356,190,085
Health Benefits	31,905,817	33,919,062	36,059,028	38,406,114	41,065,972	181,355,993
Pension	20,850,058	19,509,796	18,823,652	19,019,923	18,909,520	97,112,949
Other Personnel Costs	15,705,064	15,443,467	14,644,135	14,738,297	14,657,681	75,188,644
Operating / Non-Personnel Expenses	27,057,857	26,676,784	26,865,787	27,077,899	27,276,400	134,954,727
Debt Service	32,582,487	28,837,118	31,502,155	30,055,998	29,081,347	152,059,105
Other Expenses	11,673,581	10,701,362	9,829,699	7,058,603	6,888,085	46,151,330
Contribution to Budget Stabilization Reserve	4,000,000	3,000,000	3,000,000	2,000,000	0	12,000,000
Total Expenditures	**$217,574,040**	**$210,249,056**	**$211,240,650**	**$208,897,401**	**$207,051,687**	**$1,055,012,834**
Surplus/(Deficit) Net of Liability Financing	**$228,983**	**$68,183**	**$241,619**	**$60,376**	**$40,869**	**$640,030**

Exhibit C

Analysis of DCA Amendments - Revenues

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Property Tax and Casino PILOT (Municipal Share)	(2,307)	(2,590,316)	(4,660,723)	(6,135,888)	(7,077,924)	(20,467,158)
PILOT Impact:						-
School	1,280,000	3,210,000	2,540,000	1,840,000	1,140,000	10,010,000
County	(3,840,000)	(3,916,800)	(3,995,136)	(4,075,039)	(4,156,539)	(19,983,514)
ACA Funds - Temporary Diversion	-	-	-	-	-	-
Casino Investment Alternative Tax (IAT)	(3,061,386)	(4,895,491)	(8,271,246)	(7,618,698)	(7,241,698)	(31,088,519)
CMPTRA Aid	-	-	-	-	-	-
Energy Receipts Tax	-	-	-	-	-	-
Transitional Aid	(13,200,000)	(9,300,000)	(6,000,000)	(3,200,000)	(800,000)	(32,500,000)
Local Revenues	-	-	-	-	-	-
Accelerated Tax Sale - 2016	2,000,000					2,000,000
Sale of Municipal Assets	2,500,000					2,500,000
Other Revenues	-	-	-	-	-	-
Total Amended Revenues	**$ (14,323,693)**	**$ (17,492,607)**	**$ (20,387,105)**	**$ (19,189,625)**	**$ (18,136,161)**	**$ (89,529,191)**

Analysis of DCA Amendments - Expenditures

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Personnel Costs						
Salaries and Cash Compensation	-	-	-	-	-	-
Health Benefits	-	-	-	-	-	-
Pension	-	-	-	-	-	-
Other Personnel Costs	-	-	-	-	-	-
Operating / Non-Personnel Expenses	-	-	-	-	-	-
Debt Service - City Plan	1,713,000	1,794,000	1,876,000	2,123,000	1,828,000	9,334,000
Debt Service - Unfunded Liabilities	1,667,000	1,667,000	1,667,000	1,667,000	1,667,000	8,335,000
Other Expenses	-	-	-	-	-	-
Contribution to Budget Stabilization Reserve	-	-	-	-	-	-
Total Amended Expenditures	**$ 3,380,000**	**$ 3,461,000**	**$ 3,543,000**	**$ 3,790,000**	**$ 3,495,000**	**$ 17,669,000**
Total Amendments	**$ (17,703,693)**	**$ (20,953,607)**	**$ (23,930,105)**	**$ (22,979,625)**	**$ (21,631,161)**	**$ (107,198,191)**

Exhibit C

Impact of DCA Amendments on City Plan - Revenues

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Property Tax and Casino PILOT (Municipal Share)	111,649,582	109,196,665	108,310,092	108,042,437	108,332,062	545,530,838
PILOT Impact:						
School	1,280,000	3,210,000	2,540,000	1,840,000	1,140,000	10,010,000
County	(3,840,000)	(3,916,800)	(3,995,136)	(4,075,039)	(4,156,539)	(19,983,514)
ACA Funds - Temporary Diversion	15,000,000	10,000,000	5,000,000	5,000,000	5,000,000	40,000,000
Casino Investment Alternative Tax (IAT)	20,591,433	19,812,958	23,023,233	22,437,300	21,839,649	107,704,573
CMPTRA Aid	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	100,000,000
Energy Receipts Tax	6,260,714	6,260,714	6,260,714	6,260,714	6,260,714	31,303,570
Transitional Aid	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000	65,000,000
Local Revenues	10,191,601	10,226,095	11,719,261	11,809,740	11,855,509	55,802,206
Accelerated Tax Sale - 2016	2,000,000					2,000,000
Sale of Municipal Assets	2,500,000					2,500,000
Other Revenues	4,846,000	5,035,000	5,237,000	5,453,000	5,685,000	26,256,000
Total Net Revenues	**$203,479,330**	**$192,824,632**	**$191,095,164**	**$189,768,152**	**$188,956,395**	**$966,123,673**

Impact of DCA Amendments on City Plan - Expenditures

	2017 Projected	2018 Projected	2019 Projected	2020 Projected	2021 Projected	Total Projected
Personnel Costs						
Salaries and Cash Compensation	73,799,176	72,161,467	70,516,194	70,540,567	69,172,681	356,190,085
Health Benefits	31,905,817	33,919,062	36,059,028	38,406,114	41,065,972	181,355,993
Pension	20,850,058	19,509,796	18,823,652	19,019,923	18,909,520	97,112,949
Other Personnel Costs	15,705,064	15,443,467	14,644,135	14,738,297	14,657,681	75,188,644
Operating / Non-Personnel Expenses	27,057,857	26,676,784	26,865,787	27,077,899	27,276,400	134,954,727
Debt Service - City Plan	34,295,487	30,631,118	33,378,155	32,178,998	30,909,347	161,393,105
Debt Service - Unfunded Liabilities	1,667,000	1,667,000	1,667,000	1,667,000	1,667,000	8,335,000
Other Expenses	11,673,581	10,701,362	9,829,699	7,058,603	6,888,085	46,151,330
Contribution to Budget Stabilization Reserve	4,000,000	3,000,000	3,000,000	2,000,000	0	12,000,000
Total Net Expenditures	**$220,954,040**	**$213,710,056**	**$214,783,650**	**$212,687,401**	**$210,546,687**	**$1,072,681,834**
Net Amended Surplus/(Deficit)	**(17,474,710)**	**(20,885,424)**	**(23,688,486)**	**(22,919,249)**	**(21,590,292)**	**(106,558,161)**