THE BOND BUYER

Haircuts, bond exchange mark Chapter 11 exit for troubled Illinois hotel

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CHICAGO – A U.S. bankruptcy court judge has cleared the path for the Lombard, Ill., Public Facilities Corp. to restructure its $190 million of hotel and conference center bonds, giving the project breathing room through bondholder haircuts and by stretching out repayment for 50 years.

U.S. Bankruptcy Court Judge Jacqueline Cox approved the confirmation plan at a hearing in her Chicago courtroom Tuesday. The corporation, which owns and manages the suburban Chicago facility and issued the 2005 bonds, won't exit bankruptcy until the restructured bonds totaling $142 million are sold next week by the Wisconsin-based Public Finance Authority.

"Without these bonds being issued, the plan can't be confirmed," LPFC attorney Brad Berish, of Adelman & Gettleman Ltd., told Cox in requesting that she approve a fee letter required by the PFA to proceed with the issue. Cox approved the letter and confirmation plan on the condition of the upcoming issuance being completed.

The LPFC turned to the PFA because it lacks the ability under Illinois law to issue 50-year bonds, while the PFA has such authority. Documents are available at a special LPFC website.

The Chapter 11 case was filed in July after years of defaults and failed negotiations finally led to an agreement on a "consensual restructuring." The corporation and ACA Financial Guaranty Corp. had been in discussions since late 2013 as a restructuring was viewed as providing a better recovery than a foreclosure on the hotel, according to filings.

The reorganization calls for a bond exchange that leaves some bondholders with a near total loss. The reorganization received overwhelming to unanimous approval from the various classes of claim holders in a balloting process.

Lawyers for key stakeholders in the case stood alongside the LPFC lawyers – Berish and his Adelman colleague Henry Merens – in seeking Cox's approval for the confirmation plan. While it's the debtor's plan, it's supported by main creditors and parties, they told the judge.

They include the village, the hotel manager, Nuveen Asset Management, Oppenheimer Rochester High Yield Municipal Fund, and ACA, which insures a portion of the bonds and is also a holder and controlling party.

"All of these parties support the plan" and "own or control more than 90% of the claims in the case," Berish said.

The filing survived a bondholder-led challenge to its eligibility for Chapter 11. Lord Abbett Municipal Income Fund Inc. was later joined by the project's former asset manager and the U.S. Bankruptcy Trustee assigned to the case.

Cox rejected arguments that the project and corporation were too closely linked to its municipal sponsor -- the village of Lombard – to qualify for Chapter 11.

Cox disagreed that the corporation was merely a unit of Lombard government acting as an instrument of a municipality and allowed the case to proceed. Lord Abbett appealed to the district court but later dropped its effort after a lead bondholder that supports the restructuring purchased its estimated $8.5 million in holdings.

The LPFC last month reached a settlement with the asset manager and during Tuesday's hearing Berish told the court that the U.S. Trustee said it would not move to resurrect the eligibility appeal, ending that potential roadblock.

Chapter 9 municipal bankruptcy was not an option. The state lacks such a statute and the corporation would not meet the legal characteristics of a municipality that could take advantage of Chapter 9.

The village west of Chicago established the LPFC to oversee construction and operation of the Westin Lombard Yorktown Center, a hotel and conference venue.

Under the confirmation plan, the LPFC will conduct a bond exchange for its 2005 issue.

The disclosure statement reports that the Series A-1 holders, who have a $71 million claim, will exchange their bonds for a $33 million series with final 38-year maturity at a 5.5% rate and a $22 million subordinate issue that matures in 2067 and pays 5.25%. They recover 77% of their holdings.

The holders of the ACA-backed Series A-2 hold a $58 million claim and will receive $27 million in new bonds with a final 2038 maturity that pays 5%, and a subordinate $18 million series that pays 5.25% with a final maturity in 2067. They recover 76%.

Series B holders have a $48 million claim and will receive $19.4 million of new bonds with a 34-year term paying between 3.75% and 4%, and $23 million of subordinate bonds that mature in 2067 and pay a4%. They recover 86%.

The A-2 bondholders that carry ACA insurance received a commutation offer from ACA that allows them to opt out of the plan.

The original deal totaled nearly $200 million with $64 million of A-1 bonds, $54 million of A-2 bonds, $43 million of B bonds and a deeply subordinated C series for $29 million.

The entire C series is being canceled. The former asset manager -- Mid-America Hotel Partners LLC -- is a major holder. The original indenture requires that A and B holders be made whole before C holders recoup their investment.

Under a settlement approved by the court, the asset manager will recoup crumbs in the form of $35,000 per year over 15 years and a $200,000 payment to cover attorney fees.

The village will pay $3 million to the LPFC on the effective date of the plan to fund capital expenditures and will continue to contribute revenue from a special 1% so-called Places for Eating Tax enacted last year through 2021 to LPFC for repayment on a portion of the bonds.

The village also agreed to establish a tax-increment finance district and enter into a TIF Redevelopment Agreement with the LPFC, which provides for the payment of up to $3.7 million to the LPFC. The reorganization frees the village of its appropriation obligations on portions of the debt.

The Lombard project suffered from a drop in tourism and meeting business during the recession and never generated enough revenue to meet debt service.

The affluent community of 43,000 west of Chicago lost its double-A rating from S&P Global Ratings after it reneged on its appropriation pledge attached to the B series. The A series carries an indirect appropriation pledge from a village rebate agreement.

ACA in 2016 acted on its post-default rights as the controlling party and directed the trustee Amalgamated Bank of Chicago to accelerate bond repayment. The move was viewed by some sources familiar with negotiations as an effort to sway some holdouts in negotiations.

The facility includes a 500-room hotel, two restaurants, 39,000 square feet of meeting and convention space, a 25-meter indoor swimming pool and fitness center, and a 675-car, four-story parking deck.