THE BOND BUYER

Offer emerges for bankrupt, bond-funded Arizona sports venue

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A deal that emerged in federal bankruptcy court Tuesday to purchase an Arizona participant sports venue for $25.5 million would allocate just $2.2 million plus an 11% equity stake in the acquiring company to bondholders, who possess $284 million of the facility's debt, according to a source familiar with the proposal.

Burke Operating Partners would put up $19.5 million, while Pacific Proving, which owns the 320 acres of land leased to Legacy Park in Mesa, would contribute $6 million, the source said, adding unpaid contractors with mechanic liens would get the lion's share of the sale proceeds at $19.1 million.

The deal, which will be the subject of a court hearing next month, comes after no qualified bids were received for the park last month and court-approved debtor-in-possession financing that has allowed the venue to continue operations expires Oct. 31.

A college soccer match at Legacy Park in Mesa, Arizona. Municipal bondholders who financed the venue are being offered pennies on the dollar in bankruptcy. *Park University Gilbert*

The mostly tax-exempt, unrated revenue bonds were sold in 2020 and 2021 through the Arizona Industrial Development Authority to build the park, which hosts youth and amateur competitions in sports including soccer, basketball, volleyball and pickleball. After defaulting, the park's non-profit owner Legacy Cares filed a Chapter 11 bankruptcy in May.

The potential for a low recovery rate for Legacy Cares' bondholders even before this latest proposed purchase deal emerged was highlighted in a Tuesday report from Moody's Investors Service as an example of "bondholders facing hurdles to using pledged physical assets to generate a strong recovery following a default on a secured municipal bond."

While security interest can "absolutely be valuable" to bondholder recoveries, the rating agency said "given the practicalities and complexities of the public sector, it is not predictable how much access bondholders will enjoy to pledged assets, and in any case what value they will have."

The report also cited Iowa City-based Mercy Hospital, which filed for bankruptcy in August to block a move by its largest bondholder to seek a court-appointed receiver and planned to sell its real estate and business assets to the University of Iowa for $20 million. The hospital had $62.145 million of bonds outstanding as of July 31.

Moody's said secured Mercy Hospital bondholders may still achieve a full recovery.

Preston Hollow, which owns $41.76 million of the hospital's unrated bonds, submitted with operational partner American Health Systems the highest bid of $29 million for the facility at an auction earlier this month. A hearing in U.S. Bankruptcy Court for the Northern District of Iowa on Preston Hollow's motion to compel Mercy Hospital to comply with the auction results is scheduled for Monday.

The Moody's report said in comparison with physical assets pledged by companies, "the collateral securing municipal bonds is hard to monetize."

That is because assets financed with muni bonds typically serve a public purpose, which hinders their value, and there are "optical and logistical problems associated with handing a civic asset over to a commercial creditor," it added.

The report noted that bondholders who took possession of a YMCA property in Topeka, Kansas, following a bankruptcy case that was dismissed in 2021, have been unable to find a buyer for the facility, which has $5.3 million of bonds outstanding.

Meanwhile, the sale in March of Oklahoma senior living facilities owned by a Texas nonprofit that filed for bankruptcy last November produced "a poor recovery" of $5.4 million for owners of nearly $30 million of bonds, Moody's said.