

Bond Case Briefs

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WSJ: Distressed-Debt Investor Persuades Cities to Play Ball.

When Laurence Gottlieb pitches his private-equity fund to investors, he says they often ask the same question: "What is going to happen if you buy a nursing home and kick granny out on the street?"

His answer: "That's not our business."

Investing in distressed municipal debt is a rough-and-tumble game. Fundamental Advisors LP, where Mr. Gottlieb is chairman and chief executive, is one of the biggest and best-known investors in the business.

Fundamental has bought debt in senior-care facilities, college dorms and the sewer system of bankrupt Jefferson County, Ala. Last month, the firm finished raising a \$450 million investment fund that includes money from pension funds and other big investors.

The 44-year-old Mr. Gottlieb, a former municipal proprietary trader at Citigroup Inc., says Fundamental eschews the "sharklike private-equity model" that buys up targets, siphons off cash and makes few improvements. To succeed, Mr. Gottlieb must often convince political officials that a deal will benefit the greater good, not just Fundamental's bottom line. "We don't pave paradise to put up a parking lot," he says.

The strategy is being put to work in Memphis, Tenn., where Fundamental bought \$58 million in municipal bonds on a downtown baseball stadium for about 42 cents on the dollar in late 2010.

More than a third of pest-management companies in the U.S. were called in by hospitals in 2012 to exterminate bedbugs, according to a new survey by the National Pest Management Association. MarketWatch's Jim Jelter reports.

Park's owner defaulted on the bonds when ticket, food and beer sales didn't live up to expectations. After essentially taking financial control of the ballpark, Fundamental spent \$2 million on an upgraded scoreboard, improved seating and other efforts to make the park more family friendly. Attendance rose.

The private-equity firm now is helping lead talks to sell the park and the team. One proposed deal would involve an investor group led by the St. Louis Cardinals buying the minor-league Memphis Redbirds from their nonprofit owner.

The other piece of the proposed deal could involve the city borrowing money to buy the stadium from the nonprofit group. The proceeds of the deal would be used to pay off Fundamental.

To pay for the new bonds, Memphis would collect sales taxes from the stadium and lease payments from the Cardinals.

Not everyone is sold on the idea. "I can't support the city getting in further debt or issuing bonds to buy a stadium when we could issue debt to rebuild our roads," said Harold Collins, a member of the Memphis City Council. Other city and team officials say residents have an interest in preserving the

stadium because it is a vital part of downtown Memphis and generates jobs. Fundamental has assured city officials that the deal won't result in additional costs for taxpayers.

If the deal goes through, the firm is targeting a return on its distressed-debt purchase in Memphis in the 15%-to-20% range that is typical of its private-equity deals.