
Cities Save Hotels, Arenas From Bond Defaults After Pandemic Hit.

- **Pledges to backstop debt raise new financial challenge**
- **Akron, Ohio, theater saved: ‘There’s a lot of history there’**

Cities across the U.S. are having to step in to keep civic projects from defaulting on bonds after months without events or public gatherings, dealing governments a fresh financial hit from the pandemic.

In Maryland Heights, Missouri, a St. Louis suburb, officials replenished the depleted reserves of an ice-skating and concert venue. San Antonio, Texas, used its hotel-tax revenue to help a Hyatt-run hotel make debt-service payments in July and plans to do so again in 2021. Akron, Ohio, in November honored its pledge to cover the debts of a nearly century-old downtown theater.

Such rescues are among the first of what may be many in the municipal-bond market, reflecting governments’ decisions to guarantee bonds sold for stadiums, convention centers and other projects that promised to revitalize cities. Those businesses’ revenues have dried up since March and it’s unclear how soon they will recover once coronavirus vaccines allow American life to return to normal.

“It’s an unprecedented crisis — these are structured to try to address that possibility,” said Thomas Hazinski, a managing director at consulting firm HVS, which specializes in tourism and entertainment projects.

Debt for such projects is usually repaid by the revenue they generate or specific cash streams earmarked by cities and counties. But some local governments have also pledged to extend their own money, providing crucial support that helped increase bond ratings and drive down financing costs.

Making Good

With tourism battered by the 9-month pandemic and mass gatherings shut down, some local governments are having to make good on those pledges.

Maryland Heights, Missouri, had to step in and help even before its ice center and music arena got a chance to fully debut. Financed with $55.5 million of bonds, the ice center opened in 2019, only to close less than a year later because of Covid-19. It has since reopened. The arena, which had an agreement with events promoter Live Nation and was set to open in May 2020 with a concert featuring Kesha, had to cancel all its shows for this year.

As revenue from ticket sales and concessions disappeared, the price of some of the bonds sold for the project due in 2039 tumbled, indicating concern among investors. Then the city council transferred more than $38,300 from its general fund to a reserve account for the bonds, part of its commitment to set aside $625,000 each year to backstop the senior debt’s reserve account. That buoyed confidence, with the bonds trading at nearly 92 cents on the dollar.

David Watson, the director of finance for Maryland Heights, said the payment wasn't a major challenge this year, given that the city received one-time federal aid that will help offset an estimated $6 million to $7 million shortfall. But the longer-term support for the bonds could be an issue given the uncertainty of Covid-19.

"We think it's going to be successful," Watson said. "But we certainly would like people to come out and be able to enjoy it."

Common Support

The local government guarantees are especially common among debt issued for convention centers and hotels that cities have built to lure in the type of business conferences that have since disappeared.

San Antonio, Texas, helped make debt service payments on bonds for a convention-center hotel run by Hyatt that was financed with municipal bonds in 2005. At the same time, the city had to institute a civilian pay and hiring freeze and slashed its fiscal 2021 budget by about $4.4 million compared to last year.

In July, the city used about $338,000 in hotel-tax revenue for a debt service payment, and is expecting to do so again in January and July 2021, amounting to an estimated $13.5 million. The city said it expects to be repaid.

In Myrtle Beach, South Carolina, the city in 2015 provided a "limited" guarantee to replenish withdrawals from debt-service reserve fund for $16.4 million of bonds sold for a convention-center hotel. It had to tap those reserves in October, according to regulatory filings, and if the hotel doesn't generate enough revenue the city will be on the hook to replenish the $28,064.90 withdrawal. It may also have to provide $150,000 in the next year for an insurance reserve fund tied to the project.

Michelle Shumpert, the city's chief financial officer, said tax revenue from short-term stays in hotels or other rental spaces were down about 35% in the first quarter of the fiscal year. Still, she said they expect a revival after vaccines are widely used, given the area's popularity with beach-goers.

"We tend to rebound rather quickly," she said.

More Help

Other projects will need even more help. The Washington State Convention Center, which tapped the municipal market for $1 billion in financing in 2018 for an expansion, is seeking about $300 million in loans from the state, King County and Seattle to help finish the expansion, according to Jeff Blosser, chief executive officer.

The financing district that sold bonds already used certain lodging tax revenue to pay debt service rather than send it to the state. That counted as a nearly $14.3 million loan that the district will have to repay the state.

Allison Dyer, senior counsel at Holland & Knight, said the bond guarantees are a tool that municipalities have to support the projects. "Without those, these projects do not get built," she said.

Akron, Ohio, extended such a guarantee nearly 20 years ago to restore the Akron Civic Theatre, a landmark built in 1929 that is one of five remaining theaters of its kind in the U.S. In late November, the city received notice that it would need to step in to cover debt service for December, or $45,452.98, according to a regulatory filing.

“There’s a lot of history there,” said Steve Fricker, Akron’s director of finance.

Bloomberg Markets

By Amanda Albright

December 15, 2020, 7:00 AM PST

— *With assistance by Stephen Gorin*