

# **Bond Case Briefs**

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## **Puerto Rico's Power Authority Reaches Deal With Bondholders.**

Puerto Rico's power authority said Wednesday that it agreed on a debt restructuring plan with a group of bondholders, in what officials painted as an important step in the island commonwealth's efforts to improve its finances.

The deal, after months of talks between the Puerto Rico Electric Power Authority and a group of mutual-fund companies and hedge funds, could pave the way for similar agreements between investors and the island's struggling public agencies, analysts said.

The Government Development Bank, the island government's fiscal agent, is already laying the groundwork for negotiations with investors who own some of its bonds. Some Puerto Rico bonds rallied as much as 23% on news of the power utility's deal, though they continued to trade at a deep discount to par value.

The bondholders who reached the agreement with the power authority, such as Franklin Resources Inc., OppenheimerFunds and hedge funds including BlueMountain Capital Management LLC and Marathon Asset Management, are slated to receive 85% of the face value of their bonds in exchange for new securities that will be designed to carry investment-grade ratings. Bonds from the authority, which has about \$9 billion in debt, are currently rated junk.

The agreement "sends a positive message to the market that there is a way to get a consensual deal that is equitable for both parties," said Lisa Donahue, chief restructuring officer for the authority. The power utility released a term sheet outlining the framework of the plan, though the parties still have to prepare a more formal agreement.

Puerto Rico has been struggling with a sluggish economy and high unemployment for years. The situation prompted Gov. Alejandro García Padilla in June to call the island's \$72 billion in debt unpayable, and he has directed a group of government officials to produce a broader fiscal adjustment plan for the island. Its financial troubles are the latest to hit the usually quiet market for municipal bonds, which has been rattled in recent years by large bankruptcies in Detroit and Jefferson County, Ala.

The deal gives the power authority "a fresh start and financial flexibility, with bondholders providing meaningful sacrifices to make that happen," Stephen Spencer of Houlihan Lokey, the bondholders' financial adviser, said in a statement. He said the bondholders will work "to finalize these steps and complete the transaction as quickly as possible."

The restructuring agreement is still contingent on several factors, including obtaining legislative authority for certain aspects of the agreement, underscoring the complexity of the challenges Puerto Rico faces in reducing its debt. Bond insurance companies, including Assured Guaranty Ltd. and MBIA Inc., and other lenders haven't agreed to the restructuring deal, though the power authority said in a statement that it will continue to negotiate with those parties.

“We have a strong track record of protecting our economic interest related to credits in financial distress and are continuing to negotiate in good faith,” said Robert Tucker, head of investor relations and communications at Assured, in a statement.

Most of the power authority’s creditors also agreed to extend a so-called forbearance agreement until Sept. 18, in which they agree not to exercise certain remedies. MBIA unit National Public Finance Guarantee Corp., however, didn’t extend the agreement. A spokesman for National declined to comment on why the insurer didn’t extend, or whether any action would be taken.

“There’s a lot of detail still to be worked out,” said Rick Donner, senior credit officer at Moody’s Investors Service. Still, the fact the forbearance agreement was extended suggests “the negotiations have reached a critical stage,” he said.

Bonds from the power authority rallied after the deal, reflecting the mood among some investors that the bondholder losses were less severe than expected. On Wednesday, a 2026 bond from the utility traded at 67.25 cents on the dollar, up from 54.57 cents on Monday, a 23% gain, according to the Electronic Municipal Market Access website.

Not all investors were buying.

“I still have a lot of questions, and I’m not willing to jump into purchasing anything yet,” said Howard Cure, director of municipal research at Evercore Wealth Management, which oversees \$6 billion and doesn’t own any bonds from the power authority.

According to the restructuring plan, bondholders will have the option to receive two types of securities in exchange for their existing bonds, with one carrying interest rates as high as 4.75% and the other as high as 5.5%. The first set of bonds will pay interest for the first five years, but the group of higher-rate bonds will defer interest payments during that time. The bonds will be scheduled to mature in 2043, according to the term sheet.

All investors who own uninsured bonds from the power authority will have the opportunity to participate in the exchange. The bondholder group that led the talks also agreed to discuss providing financing so the authority could offer cash to other investors who don’t want the new bonds. An offering price hasn’t yet been worked out.

The agreement is forecast to reduce the authority’s debt principal by about \$670 million and save more than \$700 million in principal and interest payments over the next five years.

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