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Puerto Rico Board Moves to Consider Bankruptcy-Like Process.

- **Oversight board gives itself right to hold session on topic**
- **Decision comes as island faces creditor lawsuits as stay ends**

Puerto Rico's federal overseers took an initial step toward considering the use of bankruptcy-like proceedings to allow the island to escape from \$70 billion of debt and approved a plan that calls for extracting concessions from owners of water agency bonds.

The territory's oversight board, which was created to help resolve the fiscal crisis, unanimously approved a measure that allows it to hold executive sessions to consider petitioning a court to cut Puerto Rico's obligations. That process, known as Title III, was created under a rescue law enacted last year. The vote also allowed the board to consider a negotiated settlement with creditors should one be reached.

"We're trying to do our best and trying to do the right thing by all the stakeholders and the people of Puerto Rico," Jose Carrion, chairman of the board, told reporters after the meeting. "It's a very difficult situation. These folks have lent Puerto Rico money and we are where we are and it's not a situation where we don't understand."

The decision comes just days before the expiration of a legal stay that has sheltered Puerto Rico from lawsuits filed by bondholders after an escalating series of defaults. The government has also struggled to make headway in negotiations with creditors, leading analysts to speculate that the issue is likely to be resolved in court.

The board approved increasing water rates as part of a plan to steady the Puerto Rico Aqueduct and Sewer Authority, the island's main water utility. Prasa, as the agency's known, will seek to cut its \$4 billion of debt by negotiating with bondholders to accept less than what they're owed, according to the plan. Prasa says it needs to reduce debt service costs by 35 percent and that it would be able to cover \$2.13 billion of the \$3.26 billion of payments due during the next decade — a shortfall of \$1.1 billion.

Separately, the board approved winding down Puerto Rico's government development bank, which financed public works on the island until it defaulted during the crisis.

"This will provide a viable path for an orderly process for the Government Development Bank with the least impact for stakeholders involved," said Elias Sanchez, Governor Ricardo Rossello's representative on the federal board.

Puerto Rico's debt restructuring, however it's ultimately done, will be the largest ever in the \$3.8 trillion municipal-bond market, with the commonwealth's debt issued by more than a dozen agencies and backed by sometimes competing repayment pledges. It promises to impose steep losses on investors, with Rossello's fiscal recovery plan covering less than a quarter of the debt payments that are due over the next decade, even after he takes steps to cut spending and raise revenue.

Bloomberg

by Michelle Kaske

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