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Puerto Rico Bondholders Reject Island's Restructuring Offer.

- **GOs would receive as much as 77 cents on the dollar in plan**
- **Sales-tax bonds would get as much as 58 cents on the dollar**

Puerto Rico bondholders rejected Governor Ricardo Rossello's debt-restructuring proposal days before a May 1 deadline to craft a deal or face a potential wave of creditor lawsuits.

The Caribbean island is offering holders of its general-obligation bonds as much as 77 cents on the dollar while proposing as much as 58 cents on the dollar for its sales-tax debt, according to the commonwealth's latest creditor proposal, dated April 24 and posted at midnight Saturday on the Municipal Securities Rulemaking Board's website, called EMMA.

The cash-strapped commonwealth is negotiating with its investors and has until Monday night to reach a restructuring accord, otherwise a legal stay that shields the island from creditor lawsuits expires. Absent a restructuring deal or an agreement to suspend legal claims, Puerto Rico may face potentially adverse rulings on cases already filed, as well as new legal challenges.

Puerto Rico is seeking to reduce its $70 billion debt load after years of economic decline and overspending. It would be the largest restructuring in the $3.8 trillion municipal-bond market. The island is operating under a federal oversight board that has the ability to seek creditor losses through a bankruptcy-like process called Title III.

Title III

Groups holding general-obligation bonds and senior sales-tax debt, which get the first claim on that revenue, rejected the offer. The senior sales-tax group now wants Puerto Rico to seek Title III, which Congress approved last year. The commonwealth's plan doesn't offer a better recovery to senior sales-tax bonds compared with the subordinate lien, a feature the investor pool disagrees with, Matt Rodrigue, managing director at Miller Buckfire & Co., financial adviser to the senior sales-tax group, said in a telephone interview.

"The right next step is a Title III filing to provide a forum in which creditors' rights will be respected and it also will provide a continuance of the stay, which will protect the people of Puerto Rico," Rodrigue said.

The senior group has declined Puerto Rico's request for a 60-day forbearance, Rodrigue said.

While general obligation bondholders are looking to avoid Title III, they say Puerto Rico's plan isn't a credible starting point for negotiations. The offer is based on the commonwealth's fiscal plan, which creditors say doesn't allocate enough money for principal and interest payments.

'Consensual Solution'

“We urge Puerto Rico’s elected leadership to work with creditors to construct a consensual solution that is based on a credible financial forecast and that avoids the free fall Title III that the Oversight Board seems intent on imposing,” Andrew Rosenberg, a partner at Paul Weiss Rifkind Wharton & Garrison, who advises the group of GO bondholders, said in an email Saturday.

The governor on Saturday reiterated his believe that the parties can reach a deal and that talks may continue beyond Monday. He didn’t rule out using Title III.

“I believe that there is a possibility that all parties could reach an agreement,” Rossello told reporters in San Juan. “One of the powers I have is Title III and if I have to use it I will.”

The commonwealth’s proposal illustrates the gap between the parties. Senior Cofinas, as the sales-tax bonds are called, want to receive 95 cents on the dollar, with the subordinate lien getting 60 cents, Rodrigue said.

Puerto Rico is committed to reaching a consensual resolution with its creditors, Gerardo Portela Franco, executive director of the island’s Fiscal Agency and Financial Advisory Authority, said in a statement Saturday.

“This proposal is intended to maximize returns to its creditors in a manner consistent with Puerto Rico’s goals for economic growth equitably,” Portela Franco said. “The government anticipates the discussions to continue over the coming weeks.”

Puerto Rico general obligations are trading below the best-case scenario recoveries in the commonwealth’s plan. General obligations with an 8 percent coupon and maturing in 2035, the most actively traded GOs, changed hands Thursday at an average of 64.6 cents, below the 77-cent offer, according to data compiled by Bloomberg.

Senior sales-tax bonds with a 6.05 percent coupon and maturing in 2036 traded Thursday at an average of 60.7 cents, above the 58-cent proposal, the data show.

Recovery Range

Puerto Rico is offering to repay general-obligation bondholders as much as $10.25 billion of the $13.2 billion it owes, according to the proposal. The island also would repay as much as $10.2 billion of $17.6 billion of sales tax bonds.

Investors would exchange their existing securities for two different types of debt: tax-exempt senior bonds with a constitutional priority maturing in 30 years, and cash-flow bonds that would be repaid after the senior securities, depending on the commonwealth’s liquidity.

That structure gives general-obligation bondholders a recovery range of as little as 52 percent — if Puerto Rico only repays the senior bonds — and as much as 77 percent if it repays both the senior debt and the cash-flow securities. The recovery range for sales-tax securities is 39 percent to 58 percent.

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