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A Restructuring Deal That Helps Investors, Not Puerto Rico.

While it's not clear if there are sharks in the waters surrounding Puerto Rico, the island does have sharks of a different kind — ones that hail from mainland hedge funds, municipal bond funds and insurance companies that insure against bond defaults.

The human sharks have been circling Puerto Rico's bonds, given that the island has more than $70 billion of debt that has defaulted or is in danger of doing so.

Some investors have been holding the island's debt for years, but others have more recently snatched up Puerto Rico-related bonds for significantly less than 100 cents on the dollar. They want a debt restructuring that gives them a big fat profit.

The fighting is particularly fierce at the moment over what will happen to $9 billion worth of bonds that were issued by the Puerto Rico Electric Power Authority.

After several years of difficult negotiations, the authority, known as Prepa, reached an agreement in April with its creditors, which include the hedge fund Blue Mountain Capital, bond funds managed by Oppenheimer and Franklin Templeton and insurance companies like MBIA and Assured Guaranty, which are obligated to make up the difference between the negotiated recovery of the bonds and 100 cents on the dollar.

Like everything having to do with Puerto Rico and its finances, the deal cut between the power authority, which is owned by the municipal government, and its creditors is complex.

But the gist of it is that the creditors are hoping to get a present value recovery of around 75 cents on the dollar: new bonds with a face amount of 85 cents on the dollar, issued at a below market interest rate.

It's great deal for the creditors, given what rough shape Prepa is in operationally. Puerto Ricans pay some of the highest electricity rates around — in the vicinity of 27 cents per kilowatt-hour. By contrast, New Yorkers pay around 13 cents per kilowatt-hour, one of the highest rates in the United States.

There are also problems with patronage and the high costs of labor, pensions and the fuel that powers the electricity generators. The authority's physical plant is woefully in need of repairs and an upgrade, which are likely to cost billions of dollars.

The deal with the creditors does not address those serious problems at the authority. Nevertheless, it does somehow come to the conclusion that electricity rates on the island will decrease to 21 cents per kilowatt-hour. But there will also be a monthly surcharge on the bills of consumers and businesses in Puerto Rico that will be dedicated to pay the interest and principal payments on the newly issued debt.

In other words, if the restructuring deal as proposed is approved, Prepa's customers — both consumers and businesses — effectively will be taxed in order for the hedge funds and other creditors that bought the bonds at a discount to make a profit. That’s a profit that cannot be renegotiated if Prepa again finds itself in financial distress down the road because the new revenue generated from the surcharge will be placed in a new, bankruptcy-remote entity for the creditors’ benefit.

Worse, as electricity use falls with the continuing exodus of the island’s residents and businesses, those that remain will pay higher and higher surcharges to meet the Prepa debt payments.

It is unfair to tax the people and businesses of Puerto Rico so that investors can make hundreds of millions of dollars in profit. It makes no sense to restructure the debt of the company without fixing its operational problems, or at least to have a restructuring that addresses both operational and financial problems.

Puerto Ricans deserve a restructuring plan that provides them with affordable electricity on a realistic future timetable. What is being proposed virtually guarantees that they will still pay unusually high rates for electricity so that a few hedge funds and bond funds can make a profit and so that the insurance companies can avoid paying up for their poor underwriting decisions.

The restructuring with the bondholders started before the June 2016 passage of the Puerto Rico Oversight, Management and Economic Stability Act, known as Promesa. That law allowed Puerto Rico’s other debts to be restructured in a way similar to how bankruptcy works in the United States, with a judge approving a deal that issues new debt based upon what a debtor can reasonably be expected to pay while also making necessary operational fixes, too.

The power authority’s creditors claim the company received a waiver exempting it from Promesa. That’s not fair, since the new act gives debtors like Prepa far more leverage to negotiate — leverage the power authority didn’t have years ago when it started the negotiation with its creditors.

The deal the authority cut with its creditors before Promesa should be junked. It’s a windfall for hedge funds and the insurance companies and it brutalizes the people and businesses of Puerto Rico. Prepa should restart the negotiation with creditors, under the auspices of the Promesa law, and make sure that any debt restructuring is paired with the operational fixes that the power authority desperately needs.

The creditors know they have a great deal for themselves. That explains why they are lobbying Republicans in Congress and are working overtime to persuade the independent Prepa board to approve the restructuring as is.

The creditors’ lobbying is having an effect. On June 15, Representative Rob Bishop, Republican of Utah and chairman of the House Committee on Natural Resources, wrote a letter to José B. Carrión III, the chairman of the financial oversight and management board of Puerto Rico, urging the board to approve the Prepa restructuring as is.

A day later, two other members of Congress, Representatives Nydia M. Velázquez, Democrat of New York, and Raúl M. Grijalva, Democrat of Arizona, urged Mr. Carrión to reject the restructuring. “Higher electricity costs are detrimental to the local economy, causing businesses both large and small to operate with reduced margins, leaving them less able to expand and hire new employees,” they wrote. The restructuring “will only accelerate the out-migration of residents and businesses. This downward spiral will deplete what is left of the island’s economic foundation,” they said.

It’s hand-to-hand combat. And the latest deadline to decide what to do is Friday. It could still be pushed back again.

Regardless, it’s clear that the deal as currently drafted is not fair to the people and businesses of Puerto Rico. It will keep electricity rates on the island at absurdly high levels and negatively affect the island’s ability to recover economically. It’s a recipe for future disaster, and all so that a few rich people can get even richer.

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