Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Faces Restart on Financial Plan After Maria.

Federal board supervising the bankruptcy meets this week and could change the island's fiscal map

It took months to put together a financial overhaul plan for Puerto Rico. Now officials may have to start over following Hurricane Maria.

The federal board supervising Puerto Rico's bankruptcy plans to meet Friday and is likely to discuss possible changes to a commonwealth fiscal plan it approved in March, according to a person familiar with the matter.

The conversations could affect the severity of write downs on Puerto Rico's $73 billion in debt.

The oversight board placed Puerto Rico under court protection in May in what amounted to the largest-ever U.S. municipal bankruptcy. Restructuring legislation approved by Congress charged the board with drafting a financial plan for the U.S. territory.

The initial plan stipulated Puerto Rico would pay bondholders roughly a quarter of what they were owed over the next 10 years. The numbers were based on pre-hurricane projections about government cash flows, economic activity and migration.

Any accelerated migration of Puerto Rico's 3.4 million citizens to the U.S. mainland would further drain its ability to service its debt obligations. The plan also called for government cuts.

"The board and governor urgently need to revisit the fiscal plan including austerity in the plan," said Antonio Weiss, a former senior Treasury official who worked on Puerto Rico's restructuring plan.

One analyst who studies Puerto Rico debt, Andrew Gadlin, said he believed estimates for the first year of the fiscal plan would be revised. "But in terms of the numbers I'd argue that this is more of a one-time capital expense than an ongoing need," said Mr. Gadlin, who works for broker dealer Odeon Capital Group.

The financial fallout from the natural disaster may already be affecting some Wall Street firms invested in the commonwealth. Investors have been selling Puerto Rico securities since the hurricane, pushing prices on its benchmark general obligation bond down to 51.75 cents on the dollar, a 9% drop. The S&P Municipal Bond Puerto Rico Index has fallen 5% to a one-year low.

President Donald Trump, who said he would visit the island next week, tweeted Monday that Puerto Rico's obligations to bondholders "sadly, must be dealt with."

Reconstructing Puerto Rico's power grid may prove particularly costly because of financial difficulties at its struggling electric utility. The public power monopoly known as Prepa owes $9 billion in bonds and loans, and has been operating under bankruptcy protection since July. Maria's winds wrecked much of Prepa's already outdated distribution grid, plunging the island into almost total darkness. The prolonged loss of service is expected to deprive Prepa of fees it normally collects

for powering homes and businesses.

Congress is starting to debate how best to rebuild Prepa. Setting up a reliable power system will require expensive modernization using federal dollars.

Prepa is a flashpoint in Puerto Rico's financial crisis because power rates are a drag on family incomes and company budgets. The oversight board has said it wants to privatize power generation to lower costs and transition Prepa to a regulated utility model. Creditors are skeptical of privatization, concerned that by selling off assets Prepa would lose the revenue streams backing its debt.

But raising power rates to repay creditors is politically toxic in Puerto Rico, where the cost of importing fuel from oil tankers has driven power prices higher than in any U.S. state but Hawaii. One week before Maria's arrival, a bipartisan group in Congress urged the oversight board to lower its target power rate of 21 cents per kilowatt-hour to lower consumers' power costs and revive the local economy.

"Even if new federal aid money comes into Prepa, there's real uncertainty about whether a brand new grid improves recoveries for creditors," Mr. Gadlin said.

The Wall Street Journal

By Heather Gillers and Andrew Scurria

Updated Sept. 26, 2017 6:50 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com and Andrew Scurria at Andrew.Scurria@wsj.com