Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Bondholders Pitch $10 Billion Debt-Cutting Deal.

Proposed sales-tax agreement rejected by Puerto Rico's federal overseers

Major Puerto Rico creditors agreed how to split up sales-tax collections and cut $10 billion in public debt but were rebuffed by the U.S. territory's federal financial supervisors.

The settlement framework unveiled Monday concerns future sales-tax revenue collections that Puerto Rico transferred to a public corporation to raise $18 billion in securitization bonds known as Cofinas. Competing creditors have tried to free up that money in Puerto Rico's court-supervised bankruptcy proceeding to pay down other government debts.

The federal board overseeing Puerto Rico's finances would need to approve any settlement for it to take effect. An oversight board spokesman said the proposed terms were crafted without its input "and are completely unaffordable."

The proposed deal swings the pledged taxes to a new lockbox which would distribute securities to participating debtholders at a discount to their claims, providing Cofina bondholders 64.5 cents on the dollar.

Creditors holding general obligation debt backed by Puerto Rico's full faith and credit would receive 58.6 cents on the dollar, according to settlement documents.

The oversight board approved a fiscal plan that includes a $6.7 billion surplus over six years from which creditors could be repaid, provided a host of other fiscal and structural reforms are enacted.

An agent for Cofina bondholder interests appointed by the oversight board supports the proposed division of sales-tax monies, settlement papers said. The agent appointed to attack the Cofina structure on behalf of unsecured creditors "did not support any portion."

The judge presiding over Puerto Rico's bankruptcy heard arguments last month on ownership of the sales tax collections, a dispute that has dominated the proceedings since they began more than a year ago. She hasn't yet issued a ruling or decided whether to punt the matter to Puerto Rico's highest local court.

Mutual funds with large holdings of subordinated Cofina debt including OppenheimerFunds Inc. weren't signatories to the proposal.

How the dispute is resolved will reverberate throughout the U.S. municipal marketplace as investors gauge the safety of Cofina-like investments backed by specific revenue streams. Discussions around an alternative settlement proposal with Puerto Rico's public pensioners are ongoing, according to a spokesman for hedge funds holding Cofina debt.

The Wall Street Journal

By Andrew Scurria

May 14, 2018

Write to Andrew Scurria at Andrew.Scurria@wsj.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com