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For Puerto Rico, Dream of Financial Recovery Masks Grim Reality.

- **Island has reached two crucial agreements with bondholders**
- **Recession, power grid failures continue to plague the island**

Slowly and painfully, Puerto Rico is inching toward what passes for a financial recovery on the bankrupt and devastated island.

Eleven months after Hurricane Maria, Puerto Rico has reached two crucial agreements with some creditors — key steps toward emerging from what was, even before the storm, the largest municipal bankruptcy in U.S. history. A tentative agreement announced Wednesday sent the price of certain Puerto Rico bonds soaring as much as 30 percent, a boon for anyone who'd bought them at rock-bottom prices only months ago.

Yet for many thousands of ordinary people on the island, recovery — financial and otherwise — remains elusive. Just this week, key stretches of its rickety power grid failed once again; the U.S. Army had to send 13 soldiers to help deal with a backlog of corpses at the island's morgue. And the economy remains mired in a decade-old recession that's sent hundreds of thousands fleeing to the mainland, including many young and educated workers.

"The future of Puerto Rico looks sad and depressing," said Flor de Oro Quinones, a Puerto Rican retiree from the nearby municipality of Trujillo Alto, who was walking through San Juan's business district Thursday. "This is going to be an island of the old and poor."

She's worried regular Puerto Ricans will shoulder the cost of the settlement with bondholders, and that the ongoing debt burden — reduced as it may be — will ultimately accelerate the brain drain.

Painful Austerity

What's more, a court ruling Monday had the island bracing for painful new austerity measures that some economists argue could accelerate a mass exodus to the U.S. mainland. U.S. District Court Judge Laura Taylor Swain sided with a federal oversight board installed by Congress to look after the island's spending, affirming its right to give binding recommendations about the budget. Governor Ricardo Rossello portrayed the decision as an attack on democracy, saying it gave the board the power to unilaterally overrule elected representatives.

The latest preliminary debt-restructuring deal announced late Wednesday involved bonds backed by revenue from sales-tax collections. It was a feature that was supposed to have made them more secure investments than other bonds, and it ultimately made them easier to sell when they went to market over the past decade or so.

Now, with the island short of cash, owners of the debt with top claim to the revenue would recoup 93 percent of their investments under the latest agreement, while subordinated bondholders would get 56 percent. While the securities surged on the news, they still hovered below the proposed deal prices, suggesting the market didn’t see the transaction as a done deal.

Late last month, Puerto Rico’s beleaguered electric utility struck a deal with its bondholders to reduce its $9 billion of debt.

Just about everyone — including bondholders, who would get new Puerto Rican securities in the latest restructuring agreement — has a stake in seeing Puerto Rico emerge from its decade-old recession. But opinions differ drastically on the most effective path, and whether it’s even possible to return to growth amid an austerity campaign.

Steeper Discount

“I’m a little skeptical of sort of the long-term economy and ability to pay debt service,” said Craig Brandon, co-director of municipal investments at Eaton Vance Management, which owns some insured Puerto Rico sales-tax bonds, which are known as Cofinas. “I don’t think economically things have gotten any better on the island.”

Many islanders think the government should have negotiated a steeper discount, and some had held out hope that Puerto Rico’s debt could be wiped out completely.

“The more money that goes to debt payment, the less there is for operations and investment here,” said Gustavo Velez, a Guaynabo, Puerto Rico based economist and head of consulting firm Inteligencia Economica. “By the looks of it, that agreement is quite generous with the Cofina bondholders, based on the money available and the sustainability of economic growth.”

But the deals aren’t all about Wall Street profiting at residents’ expense. For starters, the sales-tax bonds had been popular among residents themselves, including many working-class retirees who stood to take sharp losses under a less favorable accord.

Rossello held the pact out as good for all parties. He touted it as an example of his commitment to consensual dealmaking — as opposed to pricey and divisive litigation — and said it moved Puerto Rico one step closer toward accessing capital markets again, a key goal for full economic recovery.

“The public policy of my administration has always been to reach consensual agreements with our creditors that do not affect the services that the government provides to the most vulnerable,” Rossello said.

Bloomberg Business

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August 10, 2018, 3:00 AM PDT

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