

Bond Case Briefs

Municipal Finance Law Since 1971

New Puerto Rico Bond Group Starts Negotiations.

Funds holding about \$1.9 billion in general obligation bonds split from a rival group in a bid to further broader restructuring efforts

Investment funds owning about \$1.9 billion of Puerto Rico's general obligation bonds have formed a committee to negotiate a consensual restructuring with the commonwealth and the federal oversight board that manages its finances, people familiar with the matter said.

Members of the committee are seeking to differentiate themselves from a pre-existing group of general obligation bondholders that includes Aurelius Capital Management LP, which is fighting the board and the island's government in ongoing litigation, the people said

The new group organized in August after the oversight board reached important deals with Puerto Rico's two other largest classes of debt—bonds issued by its power utility and its sales-tax authority—raising hopes that general obligation creditors might also broker a settlement. The committee includes hedge funds Fir Tree Partners and Mason Capital Management LLC and mutual-fund manager First Pacific Advisors LLC, according to a bankruptcy-court filing.

The formation of the new group increases the likelihood that Puerto Rico will settle with its last large group of bond investors, potentially paving the way for a global restructuring of its finances.

Prices of Puerto Rico's \$3.5 billion general obligation bond due in 2035 have risen about 33% this month to 53 cents on the dollar, according to data from the Municipal Securities Rulemaking Board.

Brokering restructurings with investment funds that own much of its \$70 billion of bonds is critical for Puerto Rico because it needs to regain access to capital markets as a precondition for the removal of the oversight board. Litigation with creditors also has grown expensive for the island since it entered bankruptcy court in May 2017. Legal fees are expected to exceed \$1.1 billion over six years.

Relations between Puerto Rico and general obligation creditors have been frosty for much of the past two years. Fiscal plans published by the government and oversight board last year left little to repay its \$13 billion of general obligation bonds. Aurelius is suing the board, contending its appointment was unconstitutional. The committee Aurelius is part of also has argued that general obligation bondholders should have first claim on tax revenues before holders of about \$18 billion of bonds issued by the island's sales-tax authority known as Cofina.

"We have participated in constructive negotiation with the [Oversight] Board, and we hope that will continue," a spokesman for the committee that includes Aurelius said. "We've submitted proposals that would have achieved a consensual outcome, and we would welcome the Board's engagement and commitment to a solution."

The oversight board reached an agreement in early August with a committee of Cofina bondholders granting them claim on a portion of sales-tax revenues and average recoveries of 74.5% of face

value.

The recent deals with other creditor groups opened the door to a possible detente for general obligation bondholders, the people familiar with the new group said. Fir Tree and the other funds in the group already had been negotiating a deal with Puerto Rico to restructure bonds they own issued by its Public Buildings Authority and saw an opening to do the same for their general obligation bond investments.

A key negotiating point will be how the oversight board and Puerto Rico calculate revenue in future fiscal plans, the people familiar said. The larger the revenue assumptions, the more cash will be left over for debt servicing, they said.

The Wall Street Journal

By Matt Wirz

Aug. 29, 2018

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com