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## **Puerto Rico Bonds Jump as Board Sees More Ability to Pay.**

- **Federal oversight board projects surpluses through 2023**
- **Projections support case for consensual deal, BTIG says**

Puerto Rico bonds rallied Monday after the commonwealth's federal oversight board published an updated fiscal plan that apparently acknowledged a greater ability to repay its debt than had been previously estimated.

The latest projections suggest the island would have surpluses after contractual debt service through fiscal 2023, after accounting for a program of planned reforms, whereas previous plans had projected deficits. Without the reforms, the island is still projected to run deficits from fiscal 2021 onward, as federal disaster aid runs out.

Puerto Rico general-obligation debt with an 8 percent coupon and maturing in 2035 traded at an average of 59.3 cents on the dollar on Monday at 1 p.m., up more than 8 percent from its average of 54.6 cents on the dollar on Oct. 18. The bonds are the most actively-traded securities in the municipal market on Monday.

"In other words, Puerto Rico in the draft Fiscal Plan acknowledges that it will have the capacity required to pay its debts," said Mark Palmer, an analyst covering municipal bond insurers at BTIG.

He also said that the projections "support the case for a consensual deal with creditors and insurers of its general obligation (GO) bonds at a recovery level well above the level at which the bonds currently trade."

Puerto Rico general-obligation debt with a 5 percent coupon and maturing in 2041 traded at an average of 58.9 cents on the dollar on Monday afternoon, up more than 14 percent from its average of 51.4 cents on the dollar on Oct. 19. The bonds are the most actively-traded securities in the municipal market on Monday.

A footnote in the plan makes clear that the surplus is "for illustrative purposes only" and doesn't represent expected future payments on restructured debt, but the bond market nevertheless took it as an improvement over past plans.

Still, Puerto Rico has a tough road ahead. The new plan calls for the commonwealth to trim financial support to municipalities and the University of Puerto Rico. It also says the island's government should cut the number of agencies to no more than 35 from the current 114.

"Overall, this is just a plan that lays out a scenario if Puerto Rico were to implement significant reforms and cost cutting measures," said Dora Lee, vice president at Belle Haven Investments, which oversees \$7.5 billion in municipal debt. "So far the Puerto Rico government has not shown a willingness to do that."

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By Jonathan Levin and Amanda Albright

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— *With assistance by Yalixa Rivera*

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