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## **Ruling on Puerto Rico Revenue Bonds May be 'Game Changer' on Mainland.**

Credit analysts and ratings agencies said this week's federal court decision in Puerto Rico's bankruptcy may have implications for special revenue bonds across the nation.

The ruling called into question a long-standing assumption that special revenue bonds would continue to be paid in Chapter 9 municipal bankruptcies.

"If this decision were to hold, it would be a game changer in the municipal bond world," Evercore Director of Municipal Research Howard Cure said Thursday. "Holders of these special revenue bonds that thought they had bankruptcy protection from a government entity would ultimately be lumped into the government's credit profile."

On Tuesday the 1st Circuit Court of Appeals ruled that the relevant Chapter 9 sections made payment of these bonds in bankruptcy optional and not mandatory. The court ruled in a case brought by four bond insurers concerning Puerto Rico Highways and Transportation Authority bonds. The appeals court panel was affirming an earlier decision by Puerto Rico bankruptcy Judge Laura Taylor Swain.

Fitch Ratings said it was "evaluating the potential rating implications" of the ruling.

"Credit ratings that could be negatively affected by the decision, if it stands, include bonds secured by utility, transportation and tax revenues that are currently rated above the municipality's Issuer Default Rating (IDR)," Fitch said. "Although technically the decision only affects districts within the 1st Circuit (Maine, Massachusetts, New Hampshire, Puerto Rico and Rhode Island), Fitch believes that this decision will be influential in municipal bankruptcy cases nationwide given the overall lack of municipal bankruptcy case law."

The court's ruling was "contrary to the long-established belief in the municipal market that payment on the special revenue debt, such as that issued by utility systems, was required throughout the automatic stay period," Fitch said.

On Thursday Assured Guaranty Corp. told The Bond Buyer that its professionals were "reviewing all of our options," including seeking Supreme Court review of the appeals court ruling.

Fitch said, "The insurers have several avenues of appeal, and Fitch will monitor the court proceedings as they occur."

Kroll Bond Rating Agency said Wednesday it "is analyzing the potential implications to the broader market of the decision rendered on March 26 by the U.S. Court of Appeals for the First Circuit." Kroll said special revenue opinions informed its ratings of Los Angeles School District general obligation bonds, San Diego Unified School District general obligation bonds, and Board of Education of the City of Chicago general obligation bonds.

Cure said if the ruling became the prevailing legal interpretation of special revenue bonds, investors would have to treat the credit of special revenue bonds similarly to the way they treat related government entities. "A case in point would be the City of Chicago and the impact on the water and sewer system bonds, where the city does have some control of rates, or, a more extreme case, Chicago's O'Hare and Midway airports where the city has little if any control over rates charged to airlines and concessionaires."

Moody's Investors Service had a different response to the court's ruling: "The recent 1st Circuit ruling in the HTA case highlights the ongoing uncertain treatment of special revenue bonds in Chapter 9," said Moody's Vice President Genevieve Nolan.

"Case law offers few precedents, and only a handful of examples to support the assertion that a special revenue designation protects revenue bonds in bankruptcy," she continued. "For these reasons Moody's continues to link its special tax and municipal utility ratings to the general credit quality of the issuer."

BY SOURCEMEDIA | MUNICIPAL | 03/28/19 04:47 PM EDT

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