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Puerto Rico Utility Bond Agreement Limits Disclosure, MMA Says.

An agreement between Puerto Rico's junk-rated power utility and investors holding the bulk of its debt gives the agency time to mend its finances. It also offers some bondholders non-public information, says Municipal Market Advisors' Bob Donahue.

The Puerto Rico Electric Power Authority, called Prepa, the main supplier of electricity on the island, last month entered into an agreement with investors who collectively hold more than 60 percent of the utility's \$8.3 billion of debt. For signing on to the contract, those bondholders will receive monthly cash statements and financing plans, according to the document for the deal, known as a forbearance agreement.

Such an arrangement is typical in the \$3.7 trillion municipal-bond market, yet the amount of Prepa's obligations makes the situation unique, said Donahue, managing director at Concord, Massachusetts-based MMA. If the utility restructures its debt, it would be the biggest ever in the municipal market.

"The many disclosures that they will receive, that will create a real asymmetry in the market between those in the agreement and those outside," he said.

Lawmakers in June approved a law that would allow certain public corporations, including Prepa, to ask bondholders to take a loss. The commonwealth and its agencies have \$73 billion of debt. The island's economy has struggled to expand since 2006, fueling speculation that Puerto Rico will be unable to repay all of its obligations on time and in full.

Restructuring Chief

Prepa last week picked Lisa Donahue, managing director at New York-based turnaround firm AlixPartners LLP, as chief restructuring officer to cut expenses and improve its finances. As part of its agreement with creditors, Prepa must release a five-year business strategy by Dec. 15 and create a debt-restructuring plan by March 2.

Members of the forbearance group can sell only to other bondholders in the group or to investors who agree to join it, according to the agreement.

Being privy to detail on Prepa's finances gives investors insight into other Puerto Rico credits, said Daniel Solender, who helps manage \$15.5 billion of munis at Lord Abbett & Co. in Jersey City, New Jersey.

"It makes it a strange way to approach it, given how many different types of bonds are outstanding," Solender said. "If you have privileged information on Prepa, it affects the trading of all Puerto Rico bonds."

Prepa Rally

Lord Abbett held Prepa debt as of July 31, Solender said. He declined to say if the firm is part of the forbearance group.

Prepa has rallied since Donahue's appointment. The bonds are gaining in part because the universe of investors who can trade the securities has become limited by the agreement, MMA's Donahue said.

Prepa bonds maturing in July 2040 traded yesterday at an average price of 57.03 cents on the dollar, the highest since June 18, data compiled by Bloomberg show.

With Prepa's debt load and its financial challenges, the utility should disclose information to all investors at the same time through the Electronic Municipal Market Access website, known as EMMA, MMA's Donahue said.

"Given the high stakes and the difficulty that Prepa's facing, transparency would be the best antidote," he said.

David Millar, a New York-based spokesman for Puerto Rico's Government Development Bank, which handles commonwealth debt sales, didn't immediately respond to an e-mail and phone message. Abimael Lisboa Felix, a spokesman for Prepa in San Juan, didn't immediately respond to an e-mail and phone message.

By Michelle Kaske Sep 12, 2014 10:39 AM PT

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