

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico May Allow Higher Yields on Bond Sale to Lure Buyers.

Puerto Rico lawmakers plan to alter a bill so the Government Development Bank can offer higher interest rates on a \$2.9 billion petroleum-tax-backed bond sale to increase demand for the debt.

Governor Alejandro Garcia Padilla is set by mid-January to sign legislation authorizing the sale, Assembly Representative Rafael "Tatito" Hernandez said today in a phone interview. Immediately afterward, the legislature will ease limits on the bonds' coupon and a provision that links a petroleum-tax increase to broader tax-law changes, Hernandez said.

"The language of the bill has some ties between the tax reform and the date when the revenue starts and that isn't supposed to be that way," said Hernandez, who chairs the House Treasury Committee. "So we're going to change that."

The \$2.9 billion borrowing, which will have the additional security of the commonwealth's general-obligation pledge, would be the first bond sale for the junk-rated commonwealth since it sold \$3.5 billion of general obligations in March, the largest speculative-grade offering ever in the \$3.6 trillion municipal-bond market. Proceeds will repay \$2.2 billion the Highways & Transportation Authority owes to the GDB. That amount accounts for about 21 percent of the bank's loan portfolio.

Petroleum Tax

The measure increases the island's petroleum tax to \$15.50 per barrel, from \$9.25, with the new revenue backing the planned \$2.9 billion sale. The higher petroleum fee is set to begin March 15. The plan is to remove language that makes that start date dependent on lawmakers approving broader changes to Puerto Rico's tax system, Hernandez said.

The bill also limits the average coupon on the new securities to 8.5 percent and sets a floor on the price of 93 cents on the dollar, according to Hernandez. Lawmakers are discussing how to relax those guidelines and give the GDB more flexibility in structuring the deal to ensure there are enough buyers, Hernandez said. He declined to give more details on potential changes to the deal's structure.

"Our goal is to fix it to get about \$2.9 billion," Hernandez said. "So if we want to do that, we need to have the language that can help us get to that number."

An 8.5 percent coupon and 7-cent discount would generate a yield of about 9.19 percent for debt maturing in January 2045, according to data compiled by Bloomberg.

General obligations sold in March, with an 8 percent coupon and maturing in July 2035, traded today at an average yield of about 9.4 percent, or about 87 cents on the dollar, Bloomberg data show.

Luring Buyers

Lawmakers want the GDB, which works on the island's debt sales, to offer the securities to all types of buyers, not just hedge funds and alternative investors that bought most of the bonds sold in March, Hernandez said.

"There's going to be an obligation that the GDB has to go to all markets to make the sale, not just one group," Hernandez said.

Puerto Rico's next legislative session begins Jan. 12. Hernandez said he is already in discussions with House and Senate leaders regarding the changes.

Bloomberg

By Michelle Kaske

Jan 8, 2015 12:51 PM PT

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
William Selway, Mark Schoifet

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com