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## **Puerto Rico Power Bonds Rise After Judge Throws Out Debt Law.**

(Bloomberg) — Puerto Rico power bonds rallied after a judge threw out the island's debt-restructuring law, giving investors more power in negotiations with the electric utility.

Electric Power Authority securities maturing in July 2040 traded Monday at an average of about 58 cents on the dollar, the highest since May 28 and up from about 48 cents Friday, data compiled by Bloomberg show.

U.S. District Judge Francisco A. Besosa ruled Feb. 6 that the law that lawmakers passed last year would take away protections provided under the federal bankruptcy code, presenting an "irreconcilable conflict." The decision means the junk-rated power authority, called Prepa, can't dictate terms to investors, said Dan Toboja, senior vice president of municipal-bond trading at Ziegler, a broker-dealer.

"It gives Prepa bondholders a more powerful seat at the table if a restructuring becomes necessary," Toboja said from Chicago. "So perceived returns should be higher after the news."

The law that Puerto Rico lawmakers approved in June would have allowed some island agencies to negotiate with investors to lower their bond load. The commonwealth and its agencies owe \$73 billion of debt, most of which is tax-exempt nationwide and held by investors around the country.

### **Creditor Agreement**

Prepa and a majority of its creditors signed an agreement in August that puts off payment of bank loans. That contract ends March 31. The agency has asked for a new June 30 deadline, according to two people with knowledge of the request.

Prepa, which has \$8.6 billion of debt, owes bondholders \$400 million in principal and interest on July 1, according to Janney Montgomery Scott LLC. A debt restructuring of the agency would be the largest ever in the \$3.6 trillion municipal market.

Puerto Rico plans to appeal the ruling, Secretary of Justice Cesar Miranda said in a statement Monday.

As Prepa bonds gained, commonwealth general-obligation bonds lost value, pushing yields to record highs.

General obligations maturing in July 2035 traded with average yields above 10 percent, the highest since they were first sold in March 2014. The debt changed hands for as low as 81 cents on the dollar.

The bonds have traded at distressed levels for more than a year as investors speculated that the island will fail to make timely debt payments as officials struggle to revive its economy. Puerto Rico's jobless rate, at 13.7 percent in December, was higher than in any U.S. state and more than double the national average.

If Prepa were to restructure, the commonwealth might direct money to the power agency to resolve investor negotiations, which could mean less cash would be available for general-obligation holders, Toboja said. Investors may also see a resolution of the power-utility debt before they know the fate of the general obligations, he said.

"We'll have a better sense of what's going on with Prepa before we know exactly how the general obligations all shake out," Toboja said. "That could take years."

by Michelle Kaske

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