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Puerto Rico Agency's Note Sale Shows Climbing Debt Expenses.

(Bloomberg) — A Puerto Rico agency plans to sell notes maturing in May 2017 with an interest rate of 8.25 percent, underscoring the rising borrowing costs for the junk-rated commonwealth.

The Infrastructure Financing Authority, called Prifa, plans to issue the notes, which would be paid off with proceeds of a later bond sale, according to a filing with the Municipal Securities Rulemaking Board. Prifa also expects to sell as much as \$2.9 billion of bonds backed by petroleum-tax revenue.

Proceeds of that deal would repay the two-year notes, according to a person with knowledge of the transactions who requested anonymity because they're not final.

Puerto Rico and its agencies tend to borrow through the capital markets to balance operating budgets. That practice and the island's struggling economy prompted the three largest rating companies to drop the commonwealth to speculative grade in 2014.

The borrowing costs reflect the island's fiscal stress. The interest rate on the notes is about 7.6 percentage points more than the 0.6 percent yield on benchmark debt, data compiled by Bloomberg show.

It would be the first borrowing from the commonwealth since the Government Development Bank in October sold notes maturing in June 2015 at a yield of 7.75 percent.

Repayment Plan

Funds from the fuel-tax bond are intended to repay money the Highways & Transportation Authority owes the GDB. The bank needs the cash. It said it had \$1.2 billion of net liquidity as of Feb. 28, down from \$2 billion in October.

The funding in Puerto Rico's budget for the fiscal year that began July 1 is also uncertain. The island's revenue through February is \$121.7 million below budgeted estimates, according to Treasury Department data. That shortfall has grown from \$18.8 million at the end of January.

As of Friday afternoon, the development bank hadn't provided a comment or additional details about the note sale through its New York-based spokesman, David Millar. The bank handles debt transactions for the commonwealth.

Puerto Rico bonds rallied this week after the legislature on March 10 approved changes to the Prifa oil-tax bond sale to attract buyers. Debt from the island is tax-free nationwide, so it's widely held by individuals and mutual funds.

General obligations maturing in July 2035 traded Friday at an average price of 85.4 cents on the dollar, the highest since Jan. 28, data compiled by Bloomberg show. The average yield was about 9.7 percent.

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