

# **Bond Case Briefs**

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## **Puerto Rico Extends Deadline.**

Puerto Rico's cash-strapped power utility got a reprieve from creditors at a time of heightened worry about the financial health of the U.S. territory.

Prices on some Puerto Rico bonds slumped to record lows last week amid concerns that problems at the Puerto Rico Electric Power Authority, known as Prepa, could be the harbinger of bigger trouble.

The utility on Monday said it reached another agreement with creditors to push back a deadline—this time by 15 days—to extend some loans. Without a deal, it may need to repay about \$696 million borrowed to help fund operations. The most recent deadline was Tuesday.

"All parties believe advances have been made and there is merit to continue conversations with our creditors to find feasible solutions," said Lisa Donahue, the authority's chief restructuring officer, in a news release.

Some general-obligation bonds backed by the island and issued last year as part of a \$3.5 billion sale traded at about 82 cents on the dollar last week. Some bonds touched a record low of about 79.4 cents Friday, below the previous low in February of 81 cents. Yields, which rise as prices fall, rose to about 10%.

The S&P Municipal Bond Index Puerto Rico, a broad, market-value-weighted index of debt from the island, has fallen 1.3% this month, including prices and interest payments.

This contrasts with the rest of the bond market, where investors have shrugged off warnings about a rise in interest rates by the Federal Reserve, sending yields on the 10-year Treasury note to 1.959% on Monday and pushing the broad municipal market index up 0.2%.

"Puerto Rico seems to be moving on its own nowadays, meaning it moves down while the rest of the market is stable or up," said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which oversees about \$17 billion in tax-exempt debt. He declined to discuss if he had bought or sold the commonwealth's bonds recently.

Investors have faced months of uncertainty from Puerto Rico's economic woes. The island has more than \$70 billion in debt that is widely held because it is exempt from federal, state and local taxes.

A Puerto Rico law that attempted to create an orderly bankruptcylike process for the power authority and other agencies has been thrown out in court.

Plans for tax overhauls have bogged down. The commonwealth is working to borrow as much as \$2.9 billion to fund operations. Several island lawmakers have proposed amending the island's constitution to remove protections for bondholders.

Mutual funds are among those paring holdings. Almost one-quarter of municipal-bond funds that owned Puerto Rico debt sold it last year, according to data from research firm Morningstar Inc.

More than half of municipal-bond mutual funds still have debt from the commonwealth, down from about 70% at the end of 2013.

Hedge funds and distressed-debt traders were among the buyers of the \$3.5 billion sale in 2014. Some are now purchasing the debt below face value, expecting to recover more than they spent even in the event of a restructuring or default, several investors said.

Prepa is at the forefront of the island's financial woes. The authority, which has about \$9 billion of debt, is struggling to find cash to fund operations and pay lenders as the commonwealth struggles with steep unemployment and a weak economy.

Prepa will likely default on a \$400 million July payment to bondholders, according to Moody's Investors Service. The junk-rated authority has already missed a March 2 deadline to provide lenders with a restructuring plan.

According to Richard Donner, vice president and senior credit officer at Moody's, it is a good sign that creditors are still negotiating.

A spokeswoman for Prepa declined to comment, citing a confidentiality agreement.

Overhauling the island's public entities has been a priority for the administration of Gov. Alejandro García Padilla as it tries to restart the economy, eliminate budget deficits and reassure investors that the island's fiscal health is improving.

That included passing a law in June that would have allowed the island's power, water and transportation authorities to restructure about \$20 billion in debt. Puerto Rico is barred from permitting its government entities to access Chapter 9 bankruptcy protections afforded cities like Detroit.

A spokeswoman for the commonwealth declined to comment.

Prepa bond prices, which fell after the law's passage, rose after a federal judge blocked it last month, saying it was unconstitutional. That ruling is under appeal. Also last month, a U.S. House of Representatives panel held a hearing on a bill that would permit Puerto Rico to allow its agencies access to Chapter 9 protections.

A report by Janney Capital Markets this month said that a Prepa default may be just the beginning. Population declines, increasing debt and pension burdens still drag on the economy, and other Puerto Rico bonds will probably also default or restructure in coming years, including general-obligation and sales-tax bonds.

Melba Acosta, president of the island's Government Development Bank, who is also fighting for the governor's tax-overhaul plan, said in a statement that the bank and administration both oppose the proposed legislation that would reduce investor protections on tax-supported debt.

"There seems to be a drumbeat on the island toward bondholders sharing pain," said Robert Donahue, managing director at Concord, Mass., research firm Municipal Market Analytics.

That could complicate efforts for a new bond sale by the government. Fitch Ratings last week downgraded Puerto Rico's general-obligation debt further into junk territory, citing recent statements by lawmakers that call into question the ability of the government to borrow the money and its willingness to repay debt.

John Mousseau, director of fixed income at Cumberland Advisors, Sarasota, Fla., said his firm bought the 2014 bonds and traded them quickly. While he now restricts Puerto Rico holdings to bonds protected by insurance, he said there may be value there eventually.

“You start to wonder at what price they would be a great buy,” he said.

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