

# **Bond Case Briefs**

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## **Puerto Rico Utility's Restructuring Moves Toward Legal Showdown.**

Puerto Rico's junk-rated electric utility, weeks away from owing a \$416 million debt payment, is moving closer to a legal showdown as bond insurers consider blocking a move to give it more time to fix its finances.

The Puerto Rico Electric Power Authority, called Prepa, has been negotiating with insurers, banks and bondholders since August on ways to revamp its operations and finances, under a pact known as a forbearance agreement. That accord, which keeps the talks out of court, expires Thursday. The power provider said this week that it isn't generating enough cash to service its \$9 billion of obligations.

Without the forbearance pact, creditors can sue Prepa, which has breached bond contracts by using reserves for debt payments. Units of Assured Guaranty Ltd., MBIA Inc. and Syncora Guarantee Inc. insure about \$2.6 billion of the debt, according to their websites. Some members of that group are weighing ending the accord because the turnaround process is taking too long, according to three people with knowledge of the discussions who requested anonymity because the talks are private.

Negotiating behind closed doors "appears to be unworkable," said Robert Donahue, managing director at Municipal Market Analytics Inc., a Concord, Massachusetts-based research firm. "Now the likelihood is high that this will be forced into a court and that near-term losses are almost certain."

### **July 1**

A restructuring of Prepa, the main electricity supplier on the island of 3.5 million, would be the largest ever in the municipal-bond market.

Its next principal and interest payment is July 1. It's premature to predict whether Prepa will pay what it owes on time, U.S. Bank National Association, the bond trustee, said in a May 7 filing. Moody's Investors Service warned in March that Prepa may default on next month's bill.

"No decision has been made about the July 1 payment," Lisa Donahue, Prepa's chief restructuring officer, said in an e-mail. "There can be no assurance that the payment will be made."

Kevin Brown at Armonk, New York-based MBIA, Ashweeta Durani at Hamilton, Bermuda-based Assured, and Michael Corbally at Syncora in New York declined to comment.

### **Distress Case**

Prepa's securities, along with other bonds from the commonwealth, have traded at distressed levels for almost two years as the local economy reels.

The agency's bonds have recovered from their lows. Securities maturing in July 2028 have risen to

an average price of 52.6 cents on the dollar, up from a 2014 low of about 37 cents, according to data compiled by Bloomberg on Prepa's most actively traded securities Wednesday. The tax-exempt bonds yield about 12.5 percent.

The utility is discussing an extension of the forbearance agreement with creditors and will make an announcement before the deadline, Prepa's Donahue said Monday. A turnaround plan she submitted to some creditors that day said ratepayers, employees, bondholders and management need to share the burden of the agency's recovery.

## **Default Trigger**

In the event of a default, the bond trustee can ask a court to appoint a receiver to take over Prepa's operations, if holders of at least 10 percent of the debt agree, bond documents show.

Investors say Prepa can come up with the money to pay its bonds by cracking down on overdue bills. Late balances among residents, businesses and government tallied \$1.75 billion in September, according to a report compiled by a subsidiary of FTI Consulting Inc. The agency is also obligated to pass on to consumers its cost savings from lower oil prices.

A Prepa default would undermine bondholders' faith that the island will honor its debts, said Richard Larkin, director of credit analysis at Herbert J. Sims & Co. in Boca Raton, Florida. Puerto Rico bonds rallied after lawmakers last month moved to ease a cash crunch by boosting the sales-tax rate.

"That confidence will be diminished, however, if one of its largest authorities, Prepa, continues to subsidize lower rates and free municipal service at the expense of repaying investors," Larkin wrote in a report Wednesday.

If investors push Prepa into the courtroom or the hands of a receiver, the utility still would have to keep the lights on across the Caribbean island. That may require bondholders to take a loss, said MMA's Donahue.

"Can Prepa honor all of the legal pledges it's made as well as its critical mission to provide power?" he said. "This situation is at a head where Prepa's ability to do just that is clearly in question."

Bloomberg

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June 3, 2015 — 5:00 PM PDT Updated on June 4, 2015 — 7:29 AM PDT