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Investors Brace for Puerto Rico's Debt-Restructuring Plan.

Investors will be watching Puerto Rico this weekend for details of a restructuring plan for its \$72 billion debt load, as government officials face a Sunday deadline to deliver a draft of the plan to the governor.

The deadline kicks off what could be a busy week for the struggling island commonwealth, which defaulted on bonds from one of its public agencies earlier this month. Under previous agreements, the Puerto Rico Electric Power Authority, bondholders and other creditors are facing a Tuesday cutoff to shake hands on a restructuring program for the electric utility.

It isn't clear whether the government will release a draft version of its broader restructuring plan on Sunday, and analysts caution that any draft will likely be subject to heavy revisions. Daniel Hanson, an analyst at Height Securities, estimated in a recent research note that it could be up to two weeks before the full plan is officially released.

Earlier this week, Puerto Rican newspapers reported on some details of the proposed plan. The reports implied that Puerto Rico is "still intending to deeply haircut bondholders of many (or most) Puerto Rican bonds," meaning investors could face significant losses, Mr. Hanson wrote in his note.

"People are now looking for this report to give more color," said Bill Black, who helps oversee the \$7.2 billion Invesco High Yield Municipal Fund.

Some Puerto Rico bonds have risen in price in recent days, reflecting optimism that investors will soon get a better idea of how the restructuring plan might look. A big chunk of Puerto Rico general-obligation bonds traded at 72.75 cents on Friday, up from 70.5 cents a week earlier, according to the Electronic Municipal Market Access website.

Puerto Rico, whose bonds are widely held by U.S. mutual funds, has been struggling with a lackluster economy and high unemployment for years. In June, Gov. Alejandro Garcia Padilla called the island's debts unpayable and directed a so-called working group of government officials to develop a draft restructuring plan and present it to him by Sunday.

The deadline comes after Puerto Rico this week further delayed a \$750 million bond sale for its water and sewer authority. The sale has been scheduled for the past two weeks, but underwriters haven't been able to attract enough orders from investors to sell all the bonds, according to people with knowledge of the deal.

Officials have said they don't anticipate water and sewer bonds taking a hit as part of the restructuring plan, assuming the authority can sell bonds and its financial projections are met. Some investors, however, say the island commonwealth has been sending mixed messages. For example, Puerto Rico recently asked the U.S. Supreme Court to review a decision voiding a law allowing certain government agencies, including the water and sewer authority, to restructure their debts.

"You have one hand out telling people you can't pay your bills, and you have another hand out

hoping to collect money, saying you can pay your bills,” said Hugh McGuirk, head of municipal bonds at T. Rowe Price, which oversees about \$22 billion in municipal debt. “The market is asking, which is it?”

The sewer authority planned to use the bulk of the proceeds for improvements to the water and sewer system. But it also planned to use the cash to pay off a \$90 million credit line from Banco Popular de Puerto Rico, which comes due on Monday. The authority pledged the “bulk of its cash reserves” as collateral for the loan, according to Fitch Ratings, which gave the planned sewer bonds a junk rating.

THE BOND BUYER

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