

# **Bond Case Briefs**

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## **Puerto Rico Seen Paying Triple Benchmark Yields in Return to Market.**

Puerto Rico's water utility may have to pay yields three times higher than top-rated municipal borrowers as it sells \$750 million of bonds, the first securities offering from the commonwealth since it defaulted this month.

The island's Aqueduct and Sewer Authority, called Prasa, is offering 30-year bonds for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That compares with yields of 3.1 percent for benchmark securities. The bonds would carry an 8 percent coupon.

The sale comes amid an escalating fiscal crisis for Puerto Rico's government, which is seeking to restructure its \$72 billion of debt and made only part of an interest and principal payment due by one of its agencies on Aug. 3. Prasa bonds maturing in 2042 traded Monday for an average of 69 cents on the dollar for a yield of 8.1 percent.

"They have to come with a pretty deep discount just to be in line with how bonds are trading in the secondary," said Daniel Solender, who helps manage \$17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

The Prasa sale is a test of Puerto Rico's ability to access the capital markets and is the first sale of long-term debt from the island since it issued \$3.5 billion of general-obligation bonds in March 2014.

### **Attracting Buyers**

To attract buyers to that sale, which was the largest junk-rated offering ever in the municipal market, the commonwealth issued the securities, which had an 8 percent coupon, for 7 percent less than face value. Hedge funds bought the bulk of the bonds.

Kristen Kaus, a spokeswoman at Bank of America Merrill Lynch, the lead underwriter on the sale, didn't immediately respond to phone and e-mail messages seeking comment on the pricing.

Puerto Rico securities have been trading at distressed levels for two years on concern that the island of 3.5 million wouldn't repay its obligations on time and in full. Officials aim to craft a plan by the end of the month for restructuring the government's debts.

Prasa's bonds may be sheltered from that proposal. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations.

### **Bonds' Backing**

Prasa, which had almost \$5 billion of bonds and notes as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018. The utility provides water to 97 percent of the

island's population and wastewater service to more than half. The bonds are repaid with fees on water use.

There should be enough buyers for the sale, even though Puerto Rico is seeking to lower its combined debt load, said David Tawil, co-founder of hedge fund Maglan Capital LP.

"There should be adequate appetite for the deal in order to get it completed," said Tawil, who manages \$80 million in New York. "The entity by all accounts is solvent and is self sufficient, vis a vis cash flow.

With a very robust coupon that you frankly cannot find out of any similar type of issuer, all that together gets you to a conclusion that this is a good investment."

## **Bloomberg**

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