

# **Bond Case Briefs**

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## **Puerto Rico Sends Reassurance as Debt Talks Poised to Begin.**

Puerto Rico's pledge to take the constitutional priority of its general-obligation bonds in consideration is seen as a message that the commonwealth is willing to work with investors as debt restructuring talks begin.

"It's an important step for them just to reinforce that there are rules and that they know that there are rules and that they're going to be trying to work around them with bondholders," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "Maybe that works, maybe it doesn't."

Administration officials tasked with reducing the island's debt load or suspending debt-service payments met Thursday with Governor Alejandro Garcia Padilla and lawmakers to develop guidelines for a potential voluntary exchange of existing debt for new bonds with possible security improvements, according to a document released late Thursday. Those principles include seeking to take into account the priorities of the debt that creditors hold.

Puerto Rico has \$13 billion of general-obligation debt outstanding, which the island's constitution stipulates must be repaid first. Other securities are backed by specific revenues and lack that protection. Acknowledging that it would seek to respect the constitutional priority of its general obligations may help Puerto Rico in the future when it looks to borrow through the capital markets, said Fabian.

Puerto Rico's government and its advisers said on Sept. 9 that a proposal to pare the commonwealth's debt would be released in a few weeks. The government plans to start meeting with investors by mid-October to begin negotiations.

Puerto Rico has already initiated talks with advisers to bondholders of Government Development Bank debt, seeking to potentially exchange those obligations for new securities. About \$336 million of GDB debt matures Dec. 1.

Here's a list of the island's biggest bond issuers, how much long-term debt they have, and when major monthly payments are due, according to data compiled by Bloomberg.

General-obligations: \$13 billion. The debt backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Puerto Rico owes \$357 million of interest in January and an additional \$805 million of principal and interest is due July 1.

Puerto Rico Sales Tax Financing Corp.: \$15.2 billion. The bonds, known by the Spanish acronym Cofinas, are repaid from dedicated sales-tax revenue. A \$6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining \$9 billion, called subordinate-lien, get second dibs. After paying \$12.5 million of principal and interest in August, \$1.2 million of interest is due in November, February and again in May.

Puerto Rico Electric Power Authority: \$8.3 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. The utility owes \$196 million of interest in January and \$420 million of principal and interest July 1.

Puerto Rico Government Development Bank: \$5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The GDB is seeking to restructure its obligations through a debt exchange. The bank owes \$354 million in December and \$422 million in May.

Puerto Rico Highways & Transportation Authority: \$4.7 billion. The highway agency repays its debt with gas-tax revenue. It owes \$106 million of interest in January and \$220.7 million of principal and interest in July.

Puerto Rico Public Buildings Authority: \$4.1 billion. The PBA bonds are repaid with lease revenue from public agencies and departments of the commonwealth. The agency owes \$102.4 million of interest in January and \$207.6 million of principal and interest in July.

Puerto Rico Aqueduct & Sewer Authority: \$4 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes \$86.5 million of interest in January and \$135.1 million of principal and interest in July.

Puerto Rico Pension-Obligation Bonds: \$2.9 billion. The taxable debt was sold to bolster the island's main pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The next maturity is July 2023 and the system pays \$13.9 million of interest every month in this budget year.

Puerto Rico Infrastructure Financing Authority: \$1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Prifa owes \$37.2 million of interest in January and \$77.8 million of principal and interest in July.

Puerto Rico Public Finance Corp.: \$1.09 billion. The PFC bonds are repaid with money appropriated by the legislature. The agency defaulted on its Aug. 3 and Sept. 1 debt-service payments because the legislature failed to allocate the funds. It owes interest every month, the largest being a \$24 million payment in February.

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