
Puerto Rico Claw Back Wouldn't Pay Debt Costs, Barclays Says.

Puerto Rico wouldn't be able to repay the $5.5 billion of principal and interest due on its general-obligation bonds in the next five years even if the commonwealth diverted sales-tax revenue pledged to cover payments elsewhere, according to Barclays Plc.

The general obligations due through fiscal 2020 surpasses the $4.2 billion of revenue, including sales-tax receipts, that commonwealth officials calculate Puerto Rico will have to pay down central government and some agency debt during that period, Mikhail Foux, a municipal-debt strategist at Barclays in New York wrote in a report Wednesday. The island's sales-tax collections repay bonds, known as Cofina because of their Spanish acronym, that are backed by that revenue stream.

"Even if Cofina's cash flow stream is invaded, there would still not be enough value to fully cover principal and interest for GOs and commonwealth guaranteed debt in fiscal year 2016 through fiscal year 2020," Foux wrote in the report. "This suggests that some type of haircut would be needed," over those five years, he wrote.

Puerto Rico officials haven't said that they plan to redirect, or "claw back," sales-tax collections to pay down general-obligation debt before Cofina bonds. The island's constitution states that general-obligations must be repaid before other expenses. The commonwealth on Sept. 25 said it would take into account the constitutional priority given to general-obligation bonds as it seeks to restructure $73 billion of debt.

Prices on some Cofina debt would fall if the government uses the sales-tax receipts to repay general obligations first, Foux said. Subordinate Cofinas, which are repaid after senior-lien sales-tax bonds, would drop in value, he said.

"If Cofina is pierced, subs would be severely affected, allowing for more downside even at current depressed levels," Foux wrote.

Subordinate Cofinas maturing August 2039 traded Wednesday at an average price of 44.5 cents on the dollar, to yield of 12.9 percent, data compiled by Bloomberg show.

Puerto Rico had $13 billion of general obligation debt and $15 billion of sales-tax bonds, as of March 31.
Commonwealth general obligations sold in March 2014 and maturing July 2035 traded Wednesday at an average price of 75.3 cents on the dollar for a yield of 11.1 percent, according to data compiled by Bloomberg.

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