

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Bonds Tumble on Debt Moratorium Bill.

Some Puerto Rico bond prices touched record lows after Gov. Alejandro García Padilla signed a bill that would allow the commonwealth to suspend debt payments while awaiting help from Washington in dealing with the island's financial crisis.

The bill empowers Mr. García Padilla to impose a moratorium on payments to keep government cash flowing for essential services. It is the latest attempt by the U.S. commonwealth to protect money it says it needs for police and firefighters while it waits on action from the U.S. Congress or Supreme Court.

Under the provisions of the bill, the governor could evaluate whether to pay debt on an "entity-b-entity basis." The moratorium powers would generally last through Jan. 31 with a possible two-month extension. The debt would remain outstanding, and missed payments would be due when the moratorium ends.

Some Puerto Rico general obligation bonds maturing in 2035 traded at 62.98 cents on the dollar Wednesday, below a previous low of 64 cents in June 2015, according to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.

Puerto Rico owes investors about \$70 billion and has been struggling with a decade of economic stagnation and a steep population decline that led Mr. García Padilla to declare its debts unpayable. The island began defaulting on debt with weaker legal protections in August, and the governor has said he would prioritize public safety over payments to creditors.

"This legislation provides us with the tools to address the highest priority of needs—providing essential services to our people—without fear of retribution," Mr. García Padilla said Wednesday.

The island's bill may renew pressure for action from the U.S. Congress. Commonwealth officials have warned of a legal morass that would follow a default on debt with stronger protections.

Republicans in the U.S. House of Representatives last week proposed a bill that would allow debt restructuring under supervision of a federal control board, as the high court debates whether Puerto Rico has the right to craft its own process for municipal bankruptcy.

The House Committee on Natural Resources, which has jurisdiction over federal territories, is shepherding the bill. Because Puerto Rico isn't a state, its municipalities or entities can't file for bankruptcy protection under chapter 9 of the federal code.

The commonwealth's Government Development Bank has a debt payment of about \$400 million due May 1. The Government Development Bank had \$562 million available to pay debt as of Friday, the bill said.

The bill was met with criticism from some of Puerto Rico's creditors, who said they are being unfairly targeted by a commonwealth that won't commit to necessary structural overhauls and hasn't made a sincere effort at negotiating a consensual restructuring.

Stephen Spencer, a managing director at investment bank Houlihan Lokey who is financial adviser to several of the island's major bondholders, called the bill's passage "an unfortunate development."

"We intend to carefully review the legislation, but at this stage we believe that it may lead to violations of the terms of the agreement" between the Puerto Rico Electric Power Authority and its creditors, Mr. Spencer said.

Several analysts said the island can't restructure its way out of economic problems. At AllianceBernstein Holding LP, which holds no Puerto Rican government debt, municipal analyst John Ceffalio called for federal oversight and debt restructuring, in combination with policies that would spark economic growth.

"We would certainly consider investing in Puerto Rico in the future," Mr. Ceffalio said. "But we would be looking for an economic turnaround first and a change to that debt dynamic."

THE WALL STREET JOURNAL

By HEATHER GILLERS and AARON KURILOFF

Updated April 6, 2016 6:12 p.m. ET

Write to Heather Gillers at heather.gillers@dowjones.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com