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Supreme Court Ruling on Puerto Rico Debt Seen Positive for Investors.

The U.S. Supreme Court's invalidation of a Puerto Rican law giving the island's public utilities access to a bankruptcy-like process is the latest twist on the path to an eventual restructuring of the U.S. territory's \$70 billion debt load.

Monday's decision closes off one avenue for Puerto Rico to revamp some of its obligations and means any workout would depend on Congress, which is considering federal restructuring legislation.

Few public utility bonds changed hands Monday following the court decision. Some fifteen-year bonds issued by Puerto Rico's Aqueduct and Sewer Authority in 2012 traded at 72 cents on the dollar Tuesday morning after hovering in the low- to mid- 60s for much of the year. Benchmark general obligation bonds traded at between about 65 and 67 cents on the dollar Monday afternoon, just as they did Friday.

Bondholders and investment funds had asked the courts to strike down the law, which would have made at least \$16 billion of Puerto Rican debt eligible for bankruptcy-like protection.

"We view the ruling as incrementally positive for investors, since the Court has enjoined the Commonwealth from taking unilateral action to force a restructuring," said Daniel Hanson of Height Securities in an analysis of the court's decision. The ruling affirmed a lower court finding that Puerto Rico lacks the authority to make bankruptcy protection available to its agencies.

Momentum on the federal restructuring legislation has already buoyed investors. Bond prices rose after the U.S. House on Thursday approved a restructuring package, with yields on the Barclays Puerto Rico Municipal Bond Index falling about 10 basis points to 4.06% Friday. The measure awaits action in the Senate.

Puerto Rico has more than a dozen debt-issuing entities, with each set of bonds carrying different legal protections. Many stakeholders fear that without a restructuring framework, the island's financial crisis could devolve into a lengthy and expensive legal battle.

The local bankruptcy law struck down Monday would have given the commonwealth more authority to renegotiate its debt on its own than would the U.S. House bill, which envisions a federally appointed financial control board.

Unlike the local bankruptcy law, the congressional measure means that "a lot of discussion and negotiating have to happen before they can force an outcome on creditors," said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which holds some Puerto Rican debt in its portfolio.

Howard Cure, director of municipal research at Evercore Wealth Management, which also holds some Puerto Rican debt, said creditors "would rather take their chances with a financial control

board than to have the commonwealth decide how much of its outstanding debt to pay.”

Puerto Rico Gov. Alejandro Garcia Padilla had no immediate comment on the decision. But in a statement Thursday, he criticized an earlier Supreme Court decision that underscored Puerto Rico’s dependent status and limited authority.

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