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Puerto Rico Says \$911 Million in Payments Missed in Default.

Puerto Rico is skipping a record \$911 million of bond payments due Friday in the culmination of a more than year-long effort to force creditors into restructuring what island and federal officials have characterized as a crushing debt burden.

Governor Alejandro Garcia Padilla said during a press conference in San Juan that the biggest missed payment is for \$780 million of general-obligation bonds. On Thursday, he evoked a local moratorium provision after President Barack Obama signed a bill into law that sets a debt restructuring in motion and shelters the island from liability. The commonwealth had about \$2 billion in bond payments due Friday.

"Today, we complete a cycle," Garcia Padilla said. "If anybody had any doubt as to whether we would continue providing public services or paying Wall Street bondholders, I choose to provide services to our people."

The legislation, called Promesa, which means promise in Spanish, creates a seven-member federal board that will begin overseeing the island's finances. It also postpones creditor lawsuits seeking repayment and allows the control board to force reluctant bondholders into court, if need be, to reduce the island's roughly \$70 billion debt load.

Obama has until Sept. 15 to appoint board members from Congress's recommendations. The panel will then analyze the island's finances and its debt structure.

The island's crisis has been steadily building, with the economy continuing to shrink and the government effectively locked out of the bond market, where it routinely sold debt for years to paper over budget shortfalls. The concern about the consequences of the July 1 default triggered rare bi-partisan action on Capitol Hill, a step lawmakers decided was needed to avoid a financial bailout later.

Even with the risk of default, most Puerto Rico securities have gained in price as the bill moved through Congress and the possibility of federal oversight increased. General obligation with an 8 percent coupon and maturing 2035 traded Friday at an average price of 67.5 cents on the dollar, the highest since April 19 and up from 64.4 cents on Monday, data compiled by Bloomberg show.

An index of Puerto Rico securities has gained for 24 straight days through Thursday, the longest winning streak since May 2011, to the highest since the governor's announcement a year ago that the commonwealth was unable to repay all of its debt and would seek to restructure, according to S&P Dow Jones Indices.

Ownership Breakdown

Puerto Rico began defaulting in August on smaller payments on agency debt that have weaker repayment pledges. The missed payments affect traditional municipal-bond investors, hedge funds

and bond-insurance companies that guarantee repayment in the event of a default.

Hedge funds own about one-third, or \$23 billion, of Puerto Rico's debt, according to Antonio Weiss, a counselor to U.S. Treasury Secretary Jacob J. Lew, who helped Congress craft the Promesa bill. Municipal mutual funds hold almost \$8 billion of commonwealth securities, according to Morningstar Inc. data. On-island investors hold about \$15 billion, according to Backyard Bondholders, which is negotiating with Puerto Rico on behalf of residents.

Holders of bonds issued by the island's Government Development Bank said that they filed a motion to ensure that they may continue to pursue challenges to the moratorium. The plaintiffs are funds managed or advised by Brigade Capital Management, Claren Road Asset Management, Fir Tree Partners LP, Fore Research & Management and Solus Alternative Asset Management.

Missed Payments

Along with its general obligations, the Puerto Rico Infrastructure Financing Authority is defaulting on a \$77.1 million payment on rum-tax bonds, the Puerto Rico Highways and Transportation Authority is skipping a \$4.4 million payment and the Puerto Rico Public Finance Corp. is omitting \$1.4 million, according to the GDB. The Puerto Rico Public Buildings Authority will make a partial payment of \$151.8 million using reserve funds, leaving \$25 million unpaid.

The Puerto Rico Aqueduct and Sewer Authority, the island's main water utility, will pay \$135 million of principal and interest, according to the GDB. Puerto Rico and bondholders reached a forbearance agreement on another \$12.7 million due on the water agency's rural development bonds, which are guaranteed by the commonwealth.

Puerto Rico's default is the first payment failure from a state-level borrower on debt backed by the full power to raise taxes since Arkansas in 1933. Because the commonwealth's crisis is unique, there hasn't been any broader impact on the municipal-bond market, a haven where prices have been rising as money floods into the safest assets.

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by Michelle Kaske and Alexander Lopez

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