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Puerto Rico's Electric Utility Extends Pact to Pay Bonds.

Puerto Rico's main electric utility reached an agreement with creditors to borrow more money and extend an existing debt-restructuring pact for six months, enabling it to make a \$415 million bond payment due Friday.

The accord came as President Barack Obama signed legislation authorizing a control board to oversee a reorganization of the island's overall \$70 billion debt burden. The agreement reached in December with the utility known as Prepa was seen by analysts as a road map for other debt restructurings on the island.

A group of mutual-fund companies and hedge funds holding about 35 percent of Puerto Rico Electric Power Authority debt, and bond-insurance companies that guarantee repayment on some of the utility's securities, agreed to buy \$264 million of additional bonds from the agency, according to a statement from Prepa. The bond sale will free up cash to help Prepa make the July 1 payment.

"It keeps it alive," Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, said about Prepa avoiding default and extending the restructuring accord. For the future control board, "it builds credibility for what they've done."

S&P Global Ratings lowered Prepa's rating to D from CC as the transaction constitutes a "distressed exchange restructuring, tantamount to default under our criteria," Jeff Panger, an S&P analyst, wrote in a report Thursday.

Most Puerto Rico securities have been gaining in value as the bill known as Promesa, which is Spanish for promise, advanced through Congress. Prepa bonds maturing July 2040, the most-actively traded debt of the utility in the past three months, changed hands at an average price of 63.2 cents on the dollar, up from 61.3 cents on Wednesday, according to data compiled by Bloomberg.

"We are pleased to have reached an agreement allowing us to make the payment to bondholders and avoid a default," Lisa Donahue, Prepa's chief restructuring officer, said in a statement. "Today's outcome is another step towards Prepa's transformation. As a result of these agreements, we have preserved our cash position as we continue to implement an operational and financial restructuring."

In the transaction, the investors known as the Ad-Hoc Group and the insurers MBIA Inc., Assured Guaranty Ltd. and Syncora Guarantee Inc. will buy the new power-revenue securities from Prepa. The July 1 agreement is similar to a deal the parties reached to avoid a miss payment on Jan. 1.

Prepa has registered to sell debt, according to MSRB's website, called EMMA. Prepa Series 2016C, Series 2016D and Series 2016E will mature from 2018 through 2022 with a 10 percent interest rate, according to the website. Series 2016B bonds sold as part of the January deal carry a zero coupon and priced at 74.4 cents on the dollar to yield 10 percent, according to data compiled by Bloomberg.

Prepa struck a larger accord in December with the group and the insurers to restructure \$9 billion

in debt.

The parties on Thursday agreed to extend the expiration deadline for that agreement to Dec. 15, 2016, according to Prepa's statement. The agreement was the first reached between a commonwealth entity and creditors. The U.S. Supreme Court on June 13 struck down an island law that would have let its public utilities restructure their debt over the objection of creditors.

Under the restructuring agreement, bondholders will take a 15 percent loss on their securities in exchange for new debt repaid with dedicated revenue that Prepa doesn't have access to and flows straight to the bond trustee. Last week, the island's energy commission approved a 3.10-cent per kilowatt hour surcharge that will repay the restructuring bonds.

Members of the Ad-Hoc Group include Angelo, Gordon & Co., BlueMountain Capital Management LLC, D.E. Shaw & Co., Knighthead Capital Management LLC, Marathon Asset Management LP, Franklin Advisers Inc., Goldman Sachs Group Inc. and OppenheimerFunds Inc.

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