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Breaking Down Puerto Rico's Historic Default.

Puerto Rico was poised to pay less than a fifth of the guaranteed debt due on Friday, with none of the payment going to the general obligation debt, according to sources.

About \$1 billion in general obligation and commonwealth-guaranteed debt was due Friday, according to a written statement from the Government Development Bank for Puerto Rico and the Puerto Rico Fiscal Agency and Financial Advisory Authority. After the day was over the government would still owe over \$800 million of this, the statement said. These statements indicated payment of somewhere between \$100 million and \$200 million of this debt on Friday.

The government owed \$779 million for general obligation debt on Friday and planned to pay none of it, knowledgeable sources said. The \$100 million to \$200 million was going toward guaranteed but not GO debt.

Late on Thursday Puerto Rico Gov. Alejandro García Padilla invoked Puerto Rico's Moratorium Act on the payment of general obligation bonds and obligations of other public entities, opening the door to making partial and non-payments on about \$2 billion of debt due Friday.

He also declared a state of emergency at the Puerto Rico Convention Center District Authority, the Employees Retirement System, the Industrial Development Company, and the University of Puerto Rico, to give these entities what he believed to be legal cover to debt defaults or other actions. The governor said this protection comes from the Moratorium, Financial Emergency and Rehabilitation Law, which passed in April, and is used by the central government to retain funds necessary for its operation.

All of these entities owed debt Friday.

Besides its guaranteed debt, Puerto Rico had other debt due on Friday. The Puerto Rico Electric Power Authority said Thursday it planned to make its \$415 million payment.

The Puerto Rico Aqueduct and Sewer Authority was expected to make \$134 million in payments. It was not expected to make a \$12.7 million in rural development bond payment due to the U.S. Department of Agriculture, though it expected to have a forbearance agreement on the bonds by the end of Friday, PRASA president Alberto Lázaro Castro said. Nor would it make about a \$22 million state revolving fund payment to the U.S. Environmental Protection Agency, an account that is also in forbearance. Neither non-payment would be considered a default under the 2008 and 2012 bond covenants, he said.

The Puerto Rico Highways and Transportation Authority was expected to make payments on a 1968 resolution, 1998 resolution seniors, and 1998 resolution subordinate 2003 issued bonds, according to knowledgeable sources. It would pay about \$100,000 out of \$4.5 million due on 1998 resolution subordinate 1998 issued bonds.

A knowledgeable source said the following entities would make full payment Friday: Municipal

Finance Authority, Convention District Authority, Employment Retirement System, Sales Tax Finance Corp. (COFINA), Industrial Development Authority, and AFICA. The emergency declared Thursday for some of them may have allowed them to do other things besides a payment default.

The Public Building Authority, except for series L, was expected to pay \$152 million of \$177 million that was due. It was expected to pay the series L bond in full.

The Infrastructure Finance Authority was expected to continue non-payment of rum tax bonds. PRIFA was expected to pay \$10 million towards its \$10.7 million bond anticipation note payment.

The GDB was expected to pay all it owed, except for general obligation notes, on which it was expected to pay nothing. The Public Finance Corp. would continue to default.

The governor's executive orders stopped the transfer of cigarette tax revenues to the Metropolitan Bus Authority and authorized the suspension of rent payments from government entities to the Public Buildings Authority.

The government expected to end June with \$200 million in its operating accounts and \$150 million in a "clawback" account fed by funds shifted from certain public corporation and revenue streams. Through a combination of the executive orders and the use of other "extraordinary measures," the government's operating account is expected to remain below \$95 million for the remainder of the year. "This is a dangerously low cash position for a government that funds services to millions of Puerto Ricans," the GDB and the Fiscal Authority said.

The extraordinary measures include delaying payments to vendors, delaying contributions to the retirement systems, extending financing from certain public entities to the commonwealth government proper, and delaying capital expenditures. The government already owes about \$2 billion to its vendors.

The executive orders put a stay on creditor use of the legal system to remedy the defaults, the GDB and the Fiscal Agency said. On Thursday Pres. Barack Obama signed PROMESA, a bill that puts a stay on all Puerto Rico debt-related law suits retroactive to December 2015.

The Bond Buyer

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