

# **Bond Case Briefs**

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## **More Defaults Likely to Come: What Puerto Rico Owes on Aug. 1.**

It's that time again for Puerto Rico bondholders.

The commonwealth and its agencies owe about \$346 million in bond payments on Aug. 1, most of which goes toward repaying sales-tax supported debt. The deadline follows the island's July 1 default on nearly \$1 billion of principal and interest, the largest such payment failure in the history of the \$3.7 trillion municipal bond market.

While sales-tax investors are set to be repaid with funds already in the bond trustee's account, the Government Development Bank, which defaulted in May, faces another payment deadline. Some Puerto Rico entities started skipping payments a year ago, leading up to the commonwealth missing \$780 million due on general obligations at the start of the month.

Puerto Rico and its agencies racked up \$70 billion of debt after years of borrowing to paper over budget shortfalls. President Barack Obama on June 30 enacted a law to create a federal control board that will oversee any debt restructuring and monitor the island's budgets. It also prohibits creditors from suing the commonwealth for repayment of debt.

A breakdown of what's coming due:

**Puerto Rico Sales Tax Financing Corp.:** About \$256 million of principal and interest. The bonds, called Cofinas because of their Spanish acronym, are repaid from the island's sales tax. When the commonwealth's fiscal year begins on July 1, the first collections are directed toward repaying the debt before flowing into the island's general fund. The bond trustee already has the funds to make the Aug. 1 payment, according to S&P Global Ratings. Cofina has \$15.2 billion of debt outstanding.

**Government Development Bank for Puerto Rico:** \$28.5 million of interest. The bank, which used to serve as the island's fiscal agent before its liquidity dwindled, defaulted May 1 on nearly \$400 million that was due. The GDB is under an emergency period where withdrawals are limited to programs that provide essential services. It has \$5.1 billion of debt outstanding.

**Puerto Rico Pension-Obligation Bonds:** \$13.9 million of interest due each month. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. Puerto Rico has yet to default on the \$13.9 million monthly interest payment. It has \$2.9 billion of bonds outstanding.

**Puerto Rico Aqueduct and Sewer Authority:** \$2.5 million of interest. The island's main water provider, called Prasa, is looking to issue debt through a new agency to raise \$900 million for capital projects and to repay contractors. Prasa may also restructure as much as \$1.1 billion of existing bonds. It paid \$135 million to investors on July 1 and negotiated with creditors to delay another \$12.7 million due on commonwealth-guaranteed Prasa bonds. It has \$4 billion of bonds outstanding.

General-obligations: \$1.3 billion of interest. Puerto Rico defaulted on its general obligations on July 1, the first time a state-level borrower skipped payment on its direct debt since the 1930s. The island's constitution stipulates that the government must repay general obligations before other expenses. Governor Alejandro Garcia Padilla has said the island must preserve funds to cover essential services. The commonwealth has \$13 billion of general obligations.

Puerto Rico Infrastructure Financing Authority: \$700,000 of interest. Called Prifa, the agency has sold the island's rum-tax bonds. Prifa defaulted on a Jan. 1 interest payment and \$77.1 million of principal and interest on July 1. It has \$1.9 billion of bonds outstanding.

Puerto Rico Highways & Transportation Authority: \$600,000 of interest. The highway agency repays its debt with gas-tax receipts and toll revenue. The authority paid almost all principal and interest due on July 1 from reserve funds already held by the bond trustee. Future payment are uncertain because Puerto Rico has redirected a portion of the agency's revenue to the general fund, according to S&P. HTA has \$6.4 billion of bonds and notes outstanding.

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