

# Bond Case Briefs

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## For Sale: Puerto Rico.

### ***Territory seeks private companies to run ports, airports, ferries, and more; utilities could be next***

Puerto Rico has no cash and can't borrow money anymore. So it is looking to sell itself off in parts.

The troubled U.S. territory is preparing to seek bids in coming months from private companies willing to operate or improve seaports, regional airports, water meters, student housing, traffic-fine collections, parking spaces and a passenger ferry, according to a government presentation reviewed by The Wall Street Journal.

The goal is to attract more than \$500 million in investment starting this summer, according to a spokesman for the Puerto Rico Public-Private Partnerships Authority. Future possibilities include the island's power utility, water and sewer system and waste management, according to presentations made in April to private investors.

Puerto Rico officials haven't disclosed exactly how they plan to use any proceeds. The government currently needs cash to pay down debt, run operations and for other purposes.

Potential deals are a cornerstone of a new plan to revitalize the territory, which in May was placed under court protection, the largest-ever U.S. municipal bankruptcy. Gov. Ricardo Rosselló predicts public-private partnerships launched over the next three years will bring \$5 billion in new investment and 100,000 jobs to Puerto Rico. Economic projections in the commonwealth's revitalization plan are based in part on the completion of public-private partnership deals.

It's an ambitious goal. U.S. public-private transportation projects—the most common type of partnerships—have attracted about \$30 billion in total private and public investment since 1993, according to Public Works Financing newsletter's P3 Projects Database.

"I hope it happens but I recognize it's aggressive," former Puerto Rico Gov. Luis Fortuño, who created the Public-Private Partnerships Authority, said of the \$5 billion target.

In public-private partnerships, the government allows private firms to lease and operate public infrastructure for decades in exchange for upfront cash or a promise of long-term improvements. Some arrangements also involve building new infrastructure. Unlike municipal bonds, public-private partnerships insulate investors from the government's financial distress: The money typically flows straight to the private operator without ever passing through government officials' hands.

Proponents say privately run projects are typically more efficient and well-run than public projects, creating savings that lower the overall cost.

Critics of the partnerships say governments are pledging away revenues they need to fund core services in exchange for infrastructure improvements that could cost less if publicly financed. In one example, after Chicago leased its parking meters to a private firm in 2008, the city's inspector general found the firm's \$1.157 billion upfront payment was \$974 million less than what the city

would have gotten from operating the meters itself.

“Just as it is imprudent to sell your house to make a monthly credit card payment, valuable governmental assets shouldn’t be viewed as a one-shot budget solution,” said Chris Hamel, head of municipal finance at RBC Capital Markets, speaking generally about public-private partnerships.

Puerto Rico has had issues in the past with private partners.

Former Gov. Alejandro García Padilla tried to find partners for a passenger ferry from the mainland to the islands of Culebra and Vieques. But the government couldn’t afford to put down collateral to guarantee to a private operator that it would make payments to supplement ferry fares, and prospective partners lost interest.

Rick Newman, a developer and owner-operator of hotels in Puerto Rico who runs a private ferry service, opted against bidding to operate the Culebra and Vieques ferry under Mr. García Padilla’s plan. He said the proposed partnership carried too much risk. He said he would consider a new partnership, but not if the private partner is expected to rely solely on passengers for revenue.

“If the request for proposals comes out and says you have to live off of the fare box, the government may not find a private operator,” Mr. Newman said.

Other public-private partnerships in Puerto Rico have done better.

In 2009, then-Gov. Fortuño pushed through legislation creating an authority that could move forward with public-private deals without legislative approval. Puerto Rico’s largest airport is run by a public-private partnership.

The authority’s first major deal was a decision to lease the island’s busiest road, the José de Diego Highway, and a shorter nearby road. Puerto Rico got \$1.08 billion in upfront cash—almost all of it went to pay off debt—and a promise from the private firm, Autopistas Metropolitanas de Puerto Rico LLC, to invest about \$350 million in the roads, according to the Federal Highway Administration.

The private firm made a range of improvements, paving and widening the expressway and enhancing toll-collection efforts. It also raised prices for drivers by 20% since 2011; driving from end to end now costs \$4.45.

Mr. Fortuño said without private investment, he wouldn’t have had the upfront capital to make needed safety improvements. “I didn’t have a choice,” he said.

The private operator’s owners, Goldman Sachs Infrastructure Partners and the Spanish infrastructure firm Abertis, each received about \$40 million in earnings before interest, tax, depreciation and amortization from the road last year, according to people familiar with the matter.

Prices on the toll road’s bonds have risen by about eight cents on the dollar since October and now are trading at par value. Puerto Rico highway bonds, in contrast, are trading at close to 50 cents on the dollar after the island’s highway authority entered a court-supervised bankruptcy process last month.

“This is the solution that Puerto Rico has to move forward,” said Wilson Ortiz-Vega, advisory leader with the insurance brokerage Aon, which worked on a previous public-private partnership with Puerto Rico. “They don’t have access to capital markets at a reasonable rate, and they don’t have the resources.”

Even so, Carlos A. Colón De Armas, a professor of finance at the University of Puerto Rico Graduate School of Business, said the commonwealth would have been better off continuing to operate the José de Diego Highway. His 2011 study found the present value of the revenue the government would have collected over 40 years was \$2.1 billion.

## **The Wall Street Journal**

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