Bond Case Briefs

Municipal Finance Law Since 1971

Hurricane Irma Adds New Fiscal Strain for U.S. Territories.

Hurricane Irma's destructive path through the Caribbean is exacerbating financial crises in Puerto Rico and the U.S. Virgin Islands.

The storm downed power lines and left more than 1 million power customers in Puerto Rico without service on Thursday, forcing hospitals to activate backup generators and disabling water service for more than 221,000, according to the island's government. The coastal capital of San Juan in the north registered waves of up to 30 feet, and Governor Ricardo Rosselló warned of possible landslides and floods on the saturated terrain.

The physical damage is another stress on the island's dilapidated and inefficient power infrastructure, already weakened by years of neglect and underinvestment. Puerto Rico's central government and its public power monopoly are both under bankruptcy protection, the culmination of years of over-borrowing and economic stagnation on the island. Congress last year installed an oversight board to renegotiate roughly $73 billion in debt and coax business interests back to Puerto Rico.

"The government is incurring a lot of expenses to manage the emergency," said Rep. Jenniffer González (R.), Puerto Rico's nonvoting representative in Congress. "The major problem is our power grid is down."

Not all the cost of rebuilding will fall on Puerto Rico. The U.S. Senate on Thursday advanced legislation providing $15.25 billion for relief and recovery efforts for the Harvey and Irma hurricanes as part of a compromise to keep the federal government open and the debt limit suspended until Dec. 8.

But the recovery effort will unfold against a financial crisis that has pitted Wall Street firms demanding repayment on Puerto Rico's defaulted municipal bonds against its federal financial supervisors, who are trying to minimize obligations to creditors.

How the repair costs will affect this multibillion-dollar standoff will likely be determined by the courts. Creditors have criticized the oversight board's plans to allow private partners to take over the Puerto Rico Electric Power Authority's generation assets without fully repaying its $9 billion in debt.

Lengthy power outages "will have negative impacts on Prepa's revenues" and "could impact ultimate recovery for bondholders," Rick Donner, senior credit officer at Moody's Investors Service, said.

Electrical workers surveying the damage are estimating it may take six days to reconstruct concrete high-voltage lines destroyed in the storm and have no firm estimate on the time to restore service to residential and business consumers, according to a person familiar with the matter.

Gov. Rosselló said Thursday that officials were beginning the process of evaluating the damage and warned that another 5 inches of rain could come as Irma drifted toward Florida. Some regions in

Puerto Rico had already received a foot of rain. Emergency officials are bracing for another possible hit from Hurricane Jose, which strengthened to a Category 3 storm Thursday.

Noel Zamot, the oversight board official tasked with encouraging private investment, said he was examining whether an expedited infrastructure permitting process established by Congress could be invoked to help critical energy infrastructure.

The process “was not meant for disaster recovery; it was meant for an emergency,” he said. “But…a disaster can constitute an emergency.”

Power service was also affected in the U.S. Virgin Islands, Puerto Rico’s smaller Caribbean neighbor. The U.S. Virgin Islands has never defaulted on its obligations but shares many of the same fiscal weaknesses as Puerto Rico. Emergency responders on Thursday were clearing roadways, distributing food, removing downed power lines and relocating occupants of damaged shelters.

The Roy Lester Schneider Hospital on the island of St. Thomas was no longer able to care for its patients after its roof was destroyed, the government said in a news release. Emergency responders relocated critical patients to another hospital on St. Croix and were finalizing plans to evacuate all other patients to hospitals in Puerto Rico.

The Wall Street Journal

By Andrew Scurria

Updated Sept. 8, 2017 11:09 a.m. ET

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com