
Fitch Report: Puerto Rico Ruling Muddies Special Revenue Debt Waters.

Fitch Ratings-New York-14 February 2018 – Last month's Chapter 9 ruling over Puerto Rico's highway and transportation debt, if upheld, could increase the risk of delayed payments on special revenue debt in future municipal bankruptcies, according to Fitch Ratings in a new report.

With an appeal of the district court ruling already pending and the ultimate outcome likely to change, Fitch does not envision any immediate impact on criteria or ratings. "The Puerto Rico ruling suggests a different paradigm for assessing special revenue obligations and is very much at odds with prior bankruptcy treatment of special revenue obligations," said Managing Director Amy Laskey. "Chapter 9 protections shielding special revenue debt from the automatic stay provisions have consistently insured timely payment from available special revenues during bankruptcy proceedings."

Various restrictions around diverting enterprise revenues could remove much of the incentive to delay payments to special revenue bondholders during a municipal bankruptcy even if a final ruling upholds the district court decision. "Any potential criteria modifications would need to fully consider how to account for such protections when separating enterprise ratings from a municipal IDR," said Laskey.

"What Investors Want to Know: The Impact of the Puerto Rico Ruling on Special Revenue Debt"

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