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Puerto Rico's \$18 Billion Bond Restructuring Nears Completion.

U.S. territory's oversight board favors sales-tax bonds in deal

Puerto Rico's federal supervisors are making a final push to write down \$18 billion in sales-tax bonds under a settlement that would mark their largest renegotiation yet of the U.S. territory's crushing debts.

The restructuring proposal covers the revenue bonds known as Cofina s, which make up roughly 40% of Puerto Rico's core government debt. First issued in 2007, the Cofina bonds are backed by sales taxes that provided investors a secure source of repayment and lowered Puerto Rico's borrowing costs.

Sales-tax revenue has never fallen short of paying off the Cofina bonds. But a decade of economic contraction has pushed Puerto Rico's authorities to seek concessions from those bondholders to avoid further cutbacks in public services.

The settlement pending before U.S. District Judge Laura Taylor Swain would eliminate \$6 billion in Cofina debt and release to Puerto Rico roughly half of the future sales-tax revenue currently earmarked for bondholders.

Court approval would resolve one of the thorniest conflicts in Puerto Rico's bankruptcy while clearing the way for resolutions with competing bondholder groups.

Judge Swain didn't issue an immediate ruling after hearing arguments Wednesday and Thursday from Cofina creditors—most of whom support the restructuring proposal—and from the oversight board installed to rehabilitate Puerto Rico's economy.

"People voted overwhelmingly with their ballots and their wallets to accept the deal on the table," said Matthew Feldman, a lawyer representing the interests of Cofina holders.

Bondholder support for the plan has buoyed prices on benchmark Cofina bonds close to 80 cents on the dollar, while subordinated Cofina bonds were trading at just under 50 cents on Thursday, according to Electronic Municipal Market Access.

If approved, the settlement would pay off senior bondholders owed nearly \$8 billion at 93 cents on the dollar. Junior bondholders including Goldman Sachs Group Inc. and Santander Securities LLC would receive 56 cents on the dollar.

Under the proposal, creditors would receive new sales-tax bonds, affirmed by a court order to be valid and binding. The original Cofina bond structure was vulnerable to attack by rival bondholders who insisted it was unconstitutional, saying the sales taxes should never have been transferred out of the government's control and pledged as collateral.

Investors have long debated whether Cofina bonds or Puerto Rico's general obligations would come out on top in a restructuring since each group asserted an ironclad claim on sales tax money. The oversight board on Tuesday attacked the general obligations, saying that \$6 billion of those bonds are worthless because they layered more debt on Puerto Rico than its constitution allowed.

Doubts about who owned the sales taxes—the government or Cofina's bondholders—have clouded Puerto Rico's bankruptcy since it entered court protection in 2017. Forcing Judge Swain to decide the issue could have wiped out Cofina's bondholders completely—or guaranteed them a 100% recovery if the pledge was upheld.

Either outcome would have hamstrung the restructuring process and made it more difficult to buy peace with all creditors, said Luc Despins, a lawyer who negotiated the settlement.

The Cofina plan instead relinquishes more than 46% of the pledged sales taxes, supplying cash to correct the government's budget imbalance and ameliorate politically unpopular austerity measures.

Island residents would still be on the hook for repaying the newly issued sales-tax debt through 2058. Rolando Emmanuelli Jimenez, an attorney for Puerto Rico's public utility union, said the proposal didn't require enough sacrifice from Cofina bondholders given the territory's shrinking tax base.

Adriana Irizarry, a nonprofit worker and mother of three from San Juan, spoke in support of the proposal even though it will impair the Cofina bonds her family bought for retirement. She said she felt "betrayed and defrauded" by the government she had trusted to pay her back.

"I have already given the government half of my life savings. What are others willing to give?" she said. "They want to punish us for investing in our island."

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By Andrew Scurria

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