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Puerto Rico's Bankruptcy Exit Likely Pushed Out to 2022.

- **Judge Swain gives U.S. DOJ until Jan. 7 to defend Promesa law**
- **Commonwealth at risk of increases in retirement expenses**

Puerto Rico creditors hoping the commonwealth exits its more than four-year bankruptcy in 2021 will need to wait a bit longer as the U.S. Department of Justice may weigh in on the process.

U.S. District Court Judge Laura Taylor Swain is reviewing Puerto Rico's plan to restructure \$33 billion of debt, including \$22 billion of bonds, after finishing closing arguments Tuesday on the debt adjustment plan. The hearings ended after hurricanes, earthquakes, political upheaval and the coronavirus pandemic postponed the bankruptcy process for years.

Swain is likely to wait until next year to issue her ruling because on Monday she gave U.S. government lawyers until Jan. 7 to decide whether to get involved in defending the constitutionality of the federal law, called Promesa, that allows Puerto Rico to reduce its obligations through bankruptcy.

"It is a little frustrating it's been pushed out," Daniel Solender, head of municipals at Lord Abbett & Co., said about the delay. "It's already been a pretty long wait. You want this to get completed. It's been going on for so long and everyone's just ready for it to be over."

Even with the potential delay, prices on some Puerto Rico general obligations remained in line with recent trading levels. A G.O. with an 8% coupon and maturing in 2035 changed hands Tuesday in a \$2 million-size trade at 88 cents on the dollar, up from 87.75 cents on Nov. 15, the last time there was a trade of at least \$1 million, according to data compiled by Bloomberg.

Puerto Rico's bankruptcy began in May 2017. It's the largest municipal workout, surpassing Detroit's 2013 bankruptcy. Bondholders haven't been paid since 2016 and as long as the island remains in bankruptcy, its residents live under a cloud of default.

Swain mentioned the people of Puerto Rico in her final statements before ending Tuesday's hearing, saying thousands of residents have shared to the court how the bankruptcy has affected their lives.

"As I make my legal decisions, I will always be mindful of the reality of your lives and the future of your homeland," Swain said.

That homeland has a financial monitor, however. A federally-appointed oversight board weighs in on Puerto Rico's budgets in addition to managing its bankruptcy. Even if Swain approves the debt plan, the oversight board will continue to oversee the island's finances until the commonwealth has implemented balanced budgets in four consecutive years.

To help control spending, the board wants to freeze the pensions of teachers and judges, move them to a defined contribution plan and end cost of living adjustments, which Swain said she will rule on. Additionally, the board is seeking court approval to prohibit island lawmakers from increasing retirement benefits for public workers.

Yet, even if the court sides with the board on these issues, Puerto Rico lawmakers will almost surely pass additional future pension laws anyway, Matt Fabian, a partner at research firm Municipal Market Analytics, wrote in a report Monday.

Investors will need to consider added pension costs as long-term payouts may be slower and more volatile than what the debt restructuring plan offers, according to Fabian.

“Once the board has left the island, there will be few actors left with a funded interest in stopping the government from doing as it chooses,” Fabian wrote.

Bloomberg Markets

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