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Puerto Rico Approved to Exit Bankruptcy, Ending Record Saga.

- **Court approval allows Puerto Rico to begin exiting bankruptcy**
- **Plan reduces \$22 billion of municipal bonds to \$7.4 billion**

The judge overseeing Puerto Rico's bankruptcy approved its debt-cutting plan, a decision that leaves the island poised to exit bankruptcy after hurricanes, political turmoil and the pandemic prolonged the more than four-year process.

U.S. District Court Judge Laura Taylor Swain released the ruling Tuesday, saying "the provisions of the plan constitute a good faith, reasonable, fair, and equitable compromise and settlement of all claims and controversies resolved pursuant to the plan."

Puerto Rico's bankruptcy, the largest in the \$4 trillion municipal-bond market, will reduce \$33 billion of debt, including \$22 billion of bonds. The restructuring plan is the result of years of negotiations between the commonwealth and its financial oversight board, hedge funds, bond insurers, mutual funds and labor groups. The lengthy process has ballooned the cost of Puerto Rico's bankruptcy to more than \$1 billion.

Exiting bankruptcy will allow Puerto Rico to move beyond default, begin repaying bondholders and creditors, focus on growing its economy and rehabilitate a weak electrical grid that suffers from chronic outages.

"The bankruptcy of the commonwealth has been like a dark cloud on top of Puerto Rico for too long," Governor Pedro Pierluisi said in a telephone interview ahead of the approval. "It is a new day for the government and the economy of Puerto Rico."

Prices on some commonwealth securities already increased this month as investors were anticipating Swain's ruling. A Puerto Rico general obligation with an 8% coupon and maturing in 2035 traded Tuesday at an average price of 90.3 cents on the dollar, up from 87.5 cents at the start of the year, according to data compiled by Bloomberg.

Debt Forgiveness

The island's financial oversight board anticipates swapping out the legacy debt with new restructured bonds by March 15, as Puerto Rico and the board must take a series of administrative steps to implement the reorganization plan.

"We started out with what seemed like unbridgeable differences of views and projections about what the future was going to look like," David Skeel, chairman of the oversight board, told reporters Tuesday following Swain's ruling about the negotiations with creditors. "We were able to bridge those differences of opinion through some remarkable innovations in this plan of adjustment."

The debt plan will forgive \$3 billion of pension bonds and slash \$18.8 billion of general-obligation

bonds and commonwealth-backed securities to \$7.4 billion. Along with new bonds, investors will receive a \$7 billion upfront cash payment and a security, called a contingent value instrument, that pays if sales-tax revenue surpasses projections.

Those cuts mean bondholders will receive as little as 67.7 cents on the dollar to as much as 80.3 cents, depending on the type of security they hold and when it was first sold.

Post-restructuring, Puerto Rico will only have to pay an average of \$666 million annually for debt service on new general obligation bonds for the first 10 years, down from an average \$1.6 billion.

The workout also establishes a reserve trust to begin rebuilding the commonwealth's broke pension system, which owes current and future public employees an estimated \$55 billion.

Still, Puerto Rico's fixed costs will remain high, even post-bankruptcy. The commonwealth spends about \$2.3 billion each year to cover retirement benefits for public workers because its pension system is depleted. Medicaid costs may increase if the federal government fails to boost its Medicaid allocations to the island.

Puerto Rico may struggle again in future years to pay debt service. The commonwealth is estimated to face deficits in fiscal 2036 with a \$119 million shortfall, even if island lawmakers implement changes such as making it easier to do business there and installing programs to expand workforce participation, according to the commonwealth's current multi-year fiscal plan.

Puerto Rico has been in bankruptcy since May 2017, after years of borrowing to cover budget deficits, population decline and economic contraction.

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