THE BOND BUYER

Puerto Rico reaches deal with debt holders with 14% less repayment

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The Puerto Rico Oversight Board announced a central government debt deal that could pay out 14.1% less than a debt deal announced about a year earlier.

The deal reached Feb. 15 and announced Tuesday promises to pay at least $34.1 billion, less than the $39.7 billion of central government debt service agreement reached on Feb. 9, 2020. Both figures include the Puerto Rico Sales Tax Finance Corp. (COFINA) bond debt service. COFINA bonds were restructured two years ago.

Puerto Rico Oversight Board Chairman David Skeel said the new bond deal was in the interest of the Puerto Rico's creditors as well as its residents.

Brian Tumulty, Bond Buyer

The totals compare to the original promise to pay $90.4 billion total in debt service that was to be paid for the COFINA, general obligation, and Public Building Authority bonds, prior to any restructuring.

The deal continues to offer better recoveries for the guaranteed PBA debt than for GO debt.

Investors reacted to the news on Tuesday morning when trading of the 2014 GOs with an 8% coupon maturing in 2035 was up, with about $180 million of large blocks exchanging hands as of publication. Prices rose from Monday's level of 75.625 cents on the dollar to as high as 78.125 cents.

On Tuesday Gov. Pedro Pierluisi said he supports the new deal for debt but he does not support what he anticipates the board will propose for the overall plan of adjustment because it will include cuts to public pensions. He said he believes the bankruptcy court can approve the debt adjustment without approving the pension cuts.

The current deal includes a Contingent Value Instrument, which would pay holders of the general obligation bonds and commonwealth-guarantee Public Building Authority bonds up to $3.5 billion more in debt service if sales and use tax collections outperform board projections.

The deal has fixed recoveries (excluding any CVI) as of the May 2017 bankruptcy petition date of 77.5% for pre-2011 GO, 76.4% for series D/E/PIB of 2011 GO, 72.9% for series C of 2011 GO, 72.4% for the 2012 GO, 67.7% for the 2014 GO, 80.3% for the pre-2011 PBA, 79.5% for the 2011 PBA, and 74.8% for the 2012 PBA.

The board says that holders of at least 66% of the par of five of the eight bond classes support the deal. It said at least 50% of the holders of the remaining three classes have support the deal. However, these percentages are based on the assumption that while 100% of the insurers vote, 90% of the uninsured holders vote.

The new deal is to pay $7.02 billion in cash, $6.68 billion in GO current interest bonds, $0.44 billion in GO capital appreciation bonds with 5.375% interest, and $0.29 billion in GO CAB bonds with a 5% interest.

The February 2020 debt deal for the GO and PBA bonds was to pay in $5.86 billion in cash, $4.87 billion in subordinate COFINA bonds, and $4.88 billion in GO current interest bonds.

The board and the local government has generally included the bond debt of the Employees Retirement System, Highways and Transportation Authority, Infrastructure and Finance Authority, Public Finance Corp., University of Puerto Rico, Convention Center District Authority, Infrastructure Development Company, and other central government issuers in the central government debt. Tuesday’s presentation has no mention of how the deal affects or does not them.

In the February 2020 deal the board was offering most of these debt types a few pennies on the dollar in recovery.

A board spokesman said these other debt types were being discussed in mediation.

"My general thoughts are that much of the benefit for the holders is based on the contingent value instrument portion of the agreement where that only pays out if a portion of the commonwealth’s sales & use tax outperforms the projections in the oversight board’s certified fiscal plan," said Howard Cure, director of Municipal Bond Research at Evercore. "These holders, like much of the commonwealth, are hoping for additional federal aid to help bolster the economy and strengthen the resiliency of the infrastructure. The value of the contingent portion is thus based on stabilizing Puerto Rico’s economy which could also include additional favorable federal tax treatment. Changes in federal administrations and Congress could either impede or foster that hope."

“It is an accomplishment but since it requires legislative approval, I wonder if it can be approved by the court," Puerto Rico attorney John Mudd said of the agreement. "Also, the plan must be approved by December 15, 2021. This is very tight.”

Advantage Business Consulting President Vicente Feliciano said the preliminary information is that it is a good agreement for Puerto Rico and its creditors.

"The debt service seems manageable. At the same time, bondholders will be rooting for Puerto Rico, as they would benefit from economic growth in the island,” Feliciano said. Advantage Business Consulting and is a business and economic consulting firm in Puerto Rico.

Bond insurer Assured Guaranty released a statement.

“Assured Guaranty has consistently supported a consensually negotiated and comprehensive approach to resolving Puerto Rico’s current financial challenges. It conditionally supports this agreement with the express understanding that the government parties will work with Assured Guaranty to make the agreement part of such a comprehensive solution.”

The board said bond insurers National Public Finance Guarantee Corp. and Syncora Guarantee Inc. also support the agreement.

Oversight Board member Justin Peterson said, "Today's deal shows what can be accomplished when the board negotiates with a deal mindset. Before President [Trump] made changes [to the board], this mindset was lacking."

Updates with Pierluisi comment.

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