

Puerto Rico's debt default implications on infrastructure pipeline

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Puerto Rico won't proceed with planned PPP projects until the US territory is able to restructure existing debt.

On 3 August 2015 Puerto Rico defaulted on its Public Finance Corporation (PFC) bonds, after failing to make the entire \$58 million bond payment. It was its first default.

Puerto Rico only paid \$628,000, and will struggle to make its forthcoming debt payments, according to Moody's Investors Service. In June 2015 Governor Alejandro García Padilla declared that the island's debts were unsustainable and urged negotiations with creditors, which range from individuals to US hedge funds.

Moody's has since downgraded the Puerto Rico's general obligation (GO) and guaranteed bonds, as well as its senior lien Sales Tax Financing Corporation (Sr COFINA) bonds, to Caa3 from Caa2. Another government entity, the Puerto Rico Electric Power Authority (Prepa), has also been suffering financial distress.

Puerto Rico's economy has suffered from recession or stilted growth since 2006, and depressed oil prices haven't spurred a revival. Employment in its manufacturing sectors has declined, prompting locals to seek jobs in the continental US.

Imminent infrastructure slow down

Puerto Rico launched the public private partnership authority (P3A) in 2009. In December of that year, P3A approved its initial inventory of priority PPP concessions.

But P3A has closed just two PPPs – [the \\$1.44 billion concession for the PR-22 and PR-5 toll roads in 2011](#) and the \$615 million, 40-year lease of [Luis Muñoz Marín International Airport in 2013](#).

Luis Muñoz Marín was also the US' first commercial airport PPP.

Puerto Rico has four further priority PPPs:

- **Caguas-to-San Juan Commuter Rail Project:** The \$400-500 million project involves the construction of a commuter rail system that would connect the autonomous municipality of Caguas and surrounding municipalities to San Juan
- **Women's Correctional Facility Project:** The \$139 million project involves the construction of a new correctional facility dedicated to the female population to replace the only female correctional facility in Puerto Rico originally built in 1954
- **Maximum Security Correctional Facility Project:** The \$108-217 million project involves the construction of a correctional facility for adult males in maximum custody
- **Phase II of the School Modernization Project:** The \$45.6 million project would modernise public school facilities. The Authority launched a school modernisation programme in 2010 for the construction and/or renovation of schools across the territory. The programme involved construction work in 81 public schools (the program entailed the remodelling/reconstruction of 75 existing schools and the construction of 6 new school buildings). A second phase of the school modernisation programme started in 2013

P3A has yet to seek statements of qualifications for the four PPPs. "There is a very slim chance of any of these projects moving forward in the near-term," said a legal adviser who has been involved in P3A's procurement process. "This is especially true for availability payment-based deals as there is no government credit to backstop it."

Deals with demand risk are also on hold. The territory's sovereign credit is too weak to support financings.

"Any developer, investor or bank would be nervous to enter the market at this point," said a financial adviser who is close to the procurement process. "If these deals were to be tendered out today, they may not be as well-received."

Since Puerto Rico defaulted, P3A hasn't addressed the procurement processes of its planned projects. The agency did not respond to IJGlobal's calls or emails.

Advisers do not anticipate that Luis Muñoz Marín and PR-22 and PR-5 will be hurt – at least not in the near-term. "The airport's revenues are secured through airline fees and the roads are secured through the tolls," the legal adviser said. "So, the debt will not be impacted unless continued economic stress begins to impact traffic demand."

Puerto Rico, like other jurisdictions that have defaulted, may look at privatisation but the state has not made any announcements about the same yet. "The country has been able to privatise assets in the past successfully," said the financial adviser. "But even if one finds opportunities it would be challenging to arrange debt at this stage."

Prepa's troubles

On 2 July 2015 Standard & Poor's lowered Prepa's long-term and underlying ratings (SPURs) on the utility's electric revenue bonds to CC from CCC-. The rating remains on CreditWatch with negative implications.

While Prepa made a \$415 million payment to bondholders by 1 July 2015, which has enabled it to forestall an imminent default, the authority also announced that it had reached agreement with creditors to execute a restructuring support agreement (RSA) by 1 September 2015.

Prepa's financial stability largely depends on converting a predominantly oil-fired generation power plant fleet to a natural gas-fired fleet, which would lower operating costs, increase efficiencies, and improve receivable collections. Prepa must, at the same time, keep electricity rates at the lowest possible level to help spur needed economic growth across a weakened economy.

"While their creditor negotiations have been ongoing for some time, access to capital is an obstacle," said Ted Chapman, a senior director at Standard & Poor's in Dallas, Texas.

Prepa's project pipeline includes the procurement of a long-term supply of liquid natural gas (LNG) for the generation of electricity in two of Prepa's existing power plants in the northern part of Puerto Rico: the San Juan and the Palo Seco plants.

The project includes the design, construction, financing, operation and maintenance of the required infrastructure to receive and store LNG and its re-gasification in order to be used in the power plants.

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