Puerto Rico's renewed PPP goals

Sakshi Sharma

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Debt-ridden Caribbean island and US territory, Puerto Rico, announced plans in May 2017 to resurrect its PPP programme with its ambitious pipeline of greenfield projects across multiple sectors. This comes at a time when the extent of the damage for its creditors to the commonwealth’s debt restructuring is still unclear.

The state hired investment bank Jeffries Bank as its lead adviser to the programme in April, and has subsequently launched a new tender for additional advisers. The commonwealth also hosted a P3 summit in April to showcase its future plans to domestic and international investors.

Despite a concerted effort to revive its PPP ambitions, the government of Puerto Rico may find it a tough sell. Investors *IJGlobal* has spoken with said they remain cautious until there is more clarity on the state’s debt restructuring and creditor payback timeline.

“The government may want to initiate an asset recycling programme to unlock value from existing assets to create capital and build new infrastructure,” said Thomas Mulvihill, managing director and head of infrastructure and PPPs at KeyBanc Capital Markets in New York. “The industry does see a lot of opportunity in the commonwealth despite its challenges.”

Bankruptcy and sovereign credit

Although Puerto Rico’s Public-Private Partnerships Authority (PPPA) has set its sight on an ambitious P3 pipeline this year, it may be a long while before it seeks to qualify bidders for any project.

Under the Commonwealth of Puerto Rico’s latest bankruptcy filing in May 2017, filed under the Puerto Rico Oversight, Management, and Economic Stability Act's (PROMESA) Title III provisions, the commonwealth is seeking bankruptcy-like protections from creditors' lawsuits. PROMESA Title III is understood to be a modified version of bankruptcy protection created under a federal rescue law as a way to legally help the state cut its general obligation (GO) debt. The island's sales tax authority, known as COFINA, also filed its own filing under Title III of the PROMESA law, which provides for the bankruptcy mechanism. Puerto Rico is reportedly struggling with an estimated $70 billion in debt.

The country’s credit ratings have been suffering since the first signs of default in early 2016. Ratings agency Standard & Poor's said in a report that the latest filing will likely have little effect on its tax-backed ratings on the commonwealth which are already either 'D' (default), or 'CC' with a negative outlook, anticipating a default as a near certainty. "Puerto Rico's current financial plans project only partial payment on debt that is not yet in default," according to the report.

Meanwhile Fitch is also keeping the ratings of the sales tax financing corporation (COFINA) and the pension funding bonds of the Employees Retirement System (ERS) at 'C' with a negative outlook. Fitch maintains in its report that the 'C' rating indicates that "default of some kind on the COFINA and ERS bonds appears inevitable due to the Commonwealth's previously stated intent to restructure its debt." Fitch declined to comment when contacted by *IJGlobal*.

Puerto Rico's national debt problems, one of the biggest in US’ history after the Lehman Brothers debacle, began surfacing in late 2015. At the beginning of 2016, the Puerto Rico Infrastructure Financing Authority (PRIFA) defaulted on a scheduled interest payment of $36 million due 4 January 2016. Subsequently, ratings agency Standard & Poor's lowered its rating on the approximately $1.43 billion PRIFA bonds to 'D' from 'CC', following the scheduled interest payments' default. The bonds were secured against federal rum excise taxes. The rating agency said at the time that it expects the situation to worsen as the year progresses and new general obligation debt service becomes due in mid-2016.

P3 plans and skepticism

PPPA's full list of priority P3 projects is estimated to cost over $2.5 billion, of which some of the largest projects are:

- $200 million project to replace domestic water meters
- $360 million gas-conversion project for the Palo Seco plant
- $200-325 million project for country-wide campus optimization and reinvestment in schools
- Up to $700 million project for development of renewable energy projects including PV solar and wind energy

While an availability payment based concession procurement may be a long way away, one banker close to the market said that the water metering PPP could be attractive to investors, once launched, as a revenue generating asset. "The project aims to install a meter on every pipe to create new revenue where at the moment most water used by residents and business is not metered and doesn't generate revenue."

The PPPA and Jefferies did not respond to enquiries from *IJGlobal* about the programme or when the first tenders are expected to be launched.

"We have a hard time understanding how any investment grade investor would willingly look at the country's greenfield pipeline today," an institutional investor in New York told *IJGlobal*. "Revenue backed projects or user-pay type transactions in the secondary market, might attract investor interest, if and when those come to market."

The only transaction that came to the secondary market since the Puerto Rico's debt problems became known was Oaktree Capital Group's sale of its 50% stake in the concession to operate the San Juan Luis Muñoz Marin International Airport in Puerto Rico. The project remains the country's only successful P3 and it reached financial close in 2013.

Canadian pension fund investor Public Sector Pension Investment Board (PSP Investments) is understood to be the preferred bidder for the stake, as reported exclusively by *IJGlobal*. It is not known yet when the transaction will conclude. The other shareholder of the concession company Aerostar Airport Holdings is Mexican airport operator Grupo Aerportuario del Sureste (ASUR), also with 50%.