Puerto Rico

AAFAF Investor Presentation Updates Market on P3s, Covid-19 Impact and ‘Key’ Debt Restructuring, Structural Reform Milestones

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Relevant Document:
Investor Presentation

The Puerto Rico government is continuing to negotiate with preferred proponents for the privatization of Puerto Rico Aqueduct and Sewer Authority and San Juan cruise port operations and is pushing ahead with a plan to put the Puerto Rico Electric Power Authority’s legacy generation assets under public-private partnerships in 2021, according to an investor presentation posted on EMMA today by the Puerto Rico Fiscal Agency and Financial Advisory Authority, or AAFAF.

In addition to outlining the status of key public-private partnership, or P3, projects, the investor presentation also updates the market on the impact of the Covid-19 pandemic on Puerto Rico, outlines “key accomplishments” on the debt restructuring, structural reform and payroll reduction fronts, and provides a breakdown of the fiscal 2021 budget.

“Puerto Rico continues to make substantial progress on various public-private partnerships to achieve efficiencies in partnership with the private sector,” the presentation states, pointing to the agreement with Luma Energy to run PREPA’s transmission and distribution system and plans to put the public utility’s generation assets in private hands.

Under the current timeline for the PREPA generation P3, a request for qualifications was to be sent out in July, followed by a request for proposals by year-end on a track to pick selected proponents to operate and manage PREPA’s existing generation assets during the second quarter of 2022, according to the presentation. Attempts to get comment from the Public-Private Partnerships Authority, or P3 Authority, regarding the status of the RFQ were not successful today.

Regarding the PRASA smart metering and customer service and cruise port P3s, the presentation states that negotiations are ongoing with preferred proponents that were selected for the projects back in the third quarter of 2019, but it provides no anticipated timelines for the signing of related contracts.

The PRASA P3 entails an estimated investment of $350 million under a design, build, finance, maintain and operate, or DBFMO, structure centered on meter replacement and optimization of the customer service area to reduce resource losses and attract service reliability, according to the presentation.

The cruise port P3 entails an estimated $340 million investment under a DBFMO structure for the operation and execution of capital improvements for the expansion of the cruise ship terminals of the piers of San Juan, according to the presentation. The project aims to increase cruise ship passengers and strengthen Puerto Rico as a tourist destination, and contemplates repairs for damages caused by natural disasters and a long-term maintenance program.

The P3 Authority does not disclose the name of preferred proponents selected through competitive processes until final contracts are signed with the counterparties. Press reports have pointed to Global Ports Holdings, the company that first pitched the cruise port concession under a P3 law revamp enacted in January 2017 that allows developers to make unsolicited P3 proposals to the government, as the preferred proponent selected for that project. A recent report by the Spanish-language El Vocero newspaper named a consortium comprising IBT Group and Miya as the winning bidder for the PRASA project.

Turning to Covid-19, the presentation noted that two primary factors in determining the impact of the pandemic on Puerto Rico in terms of the certified fiscal plan were lost income from an enduring spike in unemployment and the relative amount of income that will be replaced either directly by extraordinary government support programs or indirectly as a pass-through from nonlabor forms of federal and local spending on the response.

The presentation also outlines key accomplishments and milestones including more than $23 billion of “successful restructurings” through various transactions covering COFINA, Government Development Bank and Puerto Rico Infrastructure Finance Authority-Ports Authority bonds and PRASA’s federal debts that involved “significant cooperation among the Government, Creditors, FOMB, and the Puerto Rico Legislature.”

The presentation adds that broader restructurings related to the commonwealth and PREPA are “in process and being negotiated with creditors.”

The section also outlines significant progress on reform measures including P3s, labor reform and “unprecedented measures to increase transparency in the use of public funds,” and “rebuidling Puerto Rico’s credibility in Washington.”

“When PROMESA was enacted in 2016, Puerto Rico suffered from severe and systemic liquidity problems, had no ability to repay its staggering debt, and had no access to the capital markets. Since that time, the Government has reached critical milestones in an effort to achieve credibility and restructure the debt that has crippled the Island for more than a decade,” the presentation reads.

The presentation states that the government has achieved a cumulative headcount reduction of 18,000 employees since 2016 via natural attrition and early retirement and voluntary transition programs, representing a decrease of more than 19% in payroll expenses over the same period, adding that nonpayroll operating expenses have been reduced by more than $1 billion, or 20%, over the same period.

“Puerto Rico has made significant progress in its transformation and the Government is committed to continuing to improve the fiscal and economic conditions and move Puerto Rico forward,” the presentation states, concluding that the commonwealth will continue “moving forward with the restructuring of the remaining credits and exit Title 3” and implementing “transformational structural reforms, while improving business conditions to positively impact the Commonwealth’s economic development.”