On June 30th, President Obama signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). The legislation paves the way for a long, drawn out path for the restructuring of the Commonwealth's $70 billion of public debt. PROMESA calls for a seven-member fiscal oversight board to be established by mid-September. The board will have the power to review budgets and forecasts and file restructuring plans on behalf of the Commonwealth and its issuing entities should negotiated settlements with creditors fail to materialize. In addition, the bill includes a retroactive stay on creditor litigation, a key provision given the much anticipated default on constitutionally guaranteed general obligation (GO) debt on July 1st. The stay covers the period of December 2015 through the later of February 2017 or six months after the oversight board is in place. The date can also be extended further if the oversight board or federal court believes it is necessary. With multiple issuers, varying revenue sources, and differing legal parameters, PROMESA provides the ability to sort through the levels of debt and offer transparency to the market on payment priority, while providing structure to what has been a muddied situation to date.

Subsequent to PROMESA's approval, Puerto Rico's Governor Padilla declared a moratorium on the "payment of the Commonwealth's debt and the debt of certain other instrumentalities" ahead of nearly $2 billion in debt payments due on Friday, July 1st. In total, Puerto Rico failed to pay approximately $911 million in payments, including $780 million on constitutionally guaranteed general obligation bonds, the first default on GO bonds by the island. The remaining $1.1 billion in bond payments were presumably paid with funds held by bond trustees, which are legally difficult to clawback or interrupt. The market had largely anticipated a full or partial default as bond prices on outstanding GO bonds remained relatively stable. Puerto Rico's $3.5 billion GO bonds due in 2035 with an 8.0% coupon traded at 67.5 cents on the dollar on Friday, similar to trading levels experienced throughout June.

Issuer	Principal	Interest	Total Debt Service Due	Debt Service Actually Paid	Full/Partial/No Payment
PREPA	$ 224.0	$ 193.7	$ 417.7	$ 417.7	F
COFINA (Sales Tax)	-	15.4	15.4	15.4	F
Government Development Bank	-	9.8	9.8	9.8	F
Other	97.0	42.8	139.8	139.8	F
Highway & Transportation Authority	102.6	118.8	221.4	217.0	P
Public Building Authority	86.1	91.8	177.9	152.8	P
PRASA	53.4	94.3	147.7	135.0	P
PRIFA BANs	10.0	0.6	10.6	10.0	P
General Obligation	435.1	354.9	790.0	-	N
PRIFA Rum	41.1	35.9	77.0	-	N
Public Finance Corporation	-	1.4	1.4	-	N
Total	$ 1,049.3	$ 959.4	$ 2,008.7	$ 1,097.5	

Source: Puerto Rico Government Development Bank

At Appleton Partners we continue to believe that developments in Puerto Rico have been well publicized and are largely idiosyncratic to the general market. It is our opinion that the legislation and eventual restructuring of the island's debt should not have implications for the broader municipal market. Aggregate credit conditions of state and local governments have been improving and we expect that trend to continue despite the growing fiscal and economic crisis in Puerto Rico. While some pockets of stress and state level budgetary and pension pressures exist, the fiscal and economic pressures crippling the island are unique to Puerto Rico and not indicative of conditions across the municipal market. We also believe that investor reaction to the news should be muted. Although recoveries on Puerto Rico bonds remain uncertain, the market has been anticipating the possibility of impairment, evidenced by low bond prices.

Appleton Partners does not have exposure to Puerto Rico debt.

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