

THE BOND BUYER

Current rate environment may be challenge for COFINA refunding

By

[Robert Slavin](#)

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Puerto Rico took another step toward refunding its Sales Tax Financing Corp. (COFINA) bonds Friday, but analysts said while the refunding is worth pursuing, they remain skeptical about its success.

The Puerto Rico Fiscal Agency and Financial Advisory Authority posted an announcement to the EMMA website Friday specifying J.P. Morgan Securities would be the lead underwriter on a sale, with BofA Securities, Barclays Capital, and Morgan Stanley & Co. acting as co-senior managers.

The Bond Buyer reported in February that [FAFAA was considering refunding](#) the COFINA bonds.



Cumberland Advisors Portfolio Manager Shaun Burgess said he applauded the effort to refinance the COFINAs but questioned the timing.

The posting to EMMA warns the refunding is not certain and no sales date is provided.

“Puerto Rico absolutely should be leveraging the municipal buy-side’s ebullience about COFINA through a refunding,” said Matt Fabian, partner at Municipal Market Analytics. “Over time, it’s more likely for COFINA lending demand to fall than to rise, so Puerto Rico acting sooner vs. later is probably a good idea. Theoretically, investor demand should also be dependent on how much scoop and toss the commonwealth attempts to effect through the refunding, but in practice it might not matter.”

Shaun Burgess, portfolio manager at Cumberland Advisors, said, COFINA "remains one of the strongest Puerto Rico credits on the market and I applaud the effort though I question the timing and whether they can get a refinancing done at any great cost savings in the current environment."

However, he noted, if a refinancing saves Puerto Rico any money, "I think it is worthwhile." Cumberland owns insured Puerto Rico bonds.

In February 2019, \$17.6 billion of old COFINA bonds were [restructured into about \\$12 billion](#) of new COFINA bonds as part of the Puerto Rico bankruptcy process. The new bonds consist of \$9.12 billion of current interest bonds with four maturities from 2034 to 2058 and \$2.9 billion of initial value capital appreciation bonds with seven maturities from 2024 to 2051. The restructured COFINA bonds were issued with interest rates from 4.5% to 5.625%.

The earliest call date, 2025, is for the current interest bonds maturing 2034. These are 3.1% of the total COFINA par.

In February, John Hallacy, president of John Hallacy Consulting, said a refunding would be done with taxable bonds or “some kind of synthetic refunding with derivatives.”

Except for Morgan Stanley, the potential COFINA underwriters were involved with the August 2021 [refunding of Puerto Rico Aqueduct and Sewer Authority bonds](#).

JPMorgan declined to comment on its role as book runner on the deal.

Any COFINA refunding would be contingent on the approval by the COFINA and FAFAA boards and the Puerto Rico Oversight Board.

The COFINA bonds are repaid through revenues from Puerto Rico's sales and use tax.