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Blown Deadline for Puerto Rico Bill Risks Triggering Defaults.

U.S. House leaders concede there is little chance of passing a bill to address Puerto Rico's debt woes before a May 1 deadline on a \$422 million debt payment, leaving members worried the urgency of the debate could wane until the next crisis point.

That leaves lawmakers eyeing July 1, when a significant \$2 billion payment comes due, and raises the risk that the territory could default on some of its general-obligation bonds, which are seen as the island's most sacrosanct debt.

Given the longstanding pattern of Congress waiting until the last minute to force through major compromises — whether it's raising the nation's debt limit or averting a government shutdown — members say that passage of a Puerto Rico bill could slip into late May, or even June.

"I've had a problem with that way of thinking since I've been here," complained Representative Tom Marino of Pennsylvania, of a tendency for Congress to let up until the next due-date. "I'm really worried about that."

Representative Raul Grijalva of Arizona, the top Democrat on the House Natural Resources Committee, which is drafting the measure, said "some might characterize May 1 as not a doomsday date."

"But we get past May and toward July when another big shoe drops — they continue to default and not be able to pay — then you're starting to take it to what the Republicans want to call a fiscal crisis of their own making, to a humanitarian crisis of pretty huge proportion," said Grijalva.

"I hope we maintain some urgency," he added.

Still Negotiating

House leaders insisted Thursday that they are trying to move the bill through as quickly as possible, saying that they are trying to accommodate changes demanded by the U.S. Treasury Department. Natural Resources Chairman Rob Bishop of Utah — who earlier this week said missing the May 1 deadline was not "Armageddon" — said Thursday there are only "minor" pieces left to resolve on a draft bill. He said his committee could act quickly once they were fixed.

But neither he nor House Speaker Paul Ryan would say whether that newly revised bill would be released next week — much less be acted on by the committee or the entire House. The House is out on a one week-recess starting on May 2, which also delays any action.

Congress's slow pace is worrying to officials in Puerto Rico and many of the bondholder groups, who have been waiting to see what kind of action Congress will take.

"The longer the commonwealth suffers without federal legislation, the greater the likelihood of a

taxpayer funded bailout,” former Senator Judd Gregg, an adviser to an ad hoc group of bondholders that holds \$1.6 billion of securities known as Cofinas, said in a statement.

Fearing Default

Puerto Rico and its agencies owe \$2 billion of principal and interest on July 1, including \$805 million for general-obligation bonds. A default on those securities would send a signal to investors and Congress that the commonwealth is out of cash and needs help, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees \$4.2 billion of municipal bonds, including Puerto Rico debt.

“If they decide to default, it raises the stakes and it will push Congress to do something sooner rather than later,” Dalton said.

A missed payment on general obligations would be a shift in tone for Puerto Rico, which has found ways to continue paying on its direct debts. General obligations are backed by the commonwealth’s full faith and credit and carries a constitutional guarantee of repayment.

“That would be a big negative step for them,” said Daniel Solender, who manages \$18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. “You would hope that they’re just waiting as long as they can to figure out closer to the deadline of how not to default because that would be huge for them. Defaulting on their general obligation debt is not a positive step toward their future.”

Outstanding Issues

Lawmakers appear to have made little apparent progress since Bishop’s Republican-controlled Natural Resources panel canceled a meeting last week where it planned to work on the draft measure, H.R. 4900. That came amid objections raised to various provisions by Republicans, Democrats and Treasury Department officials.

Minority Leader Nancy Pelosi on Wednesday ticked off outstanding issues.

They include details of the restructuring processes that will be in place regarding the island’s debt; the membership, workings and powers of a financial oversight control board; issues related to pensions of workers and “other workers’ issues,” which have included Republican calls for lowering the island’s minimum wage; and proposed land transfers.

In addition, beyond the bill language, Ryan has been working to play down perceptions — pushed by some fiscal conservatives in his own conference and in ads from outside groups running in some members’ districts — that the measure is a “bailout” of Puerto Rico, or a step toward that.

At the same time, leaders in both parties say any final bill will need bipartisan support to succeed. Pedro Pierluisi, Puerto Rico’s non-voting delegate to the U.S. Congress, is among those who say that if a House bill doesn’t get approved with “a decent number of both Republicans and Democrats, it doesn’t stand a chance in the Senate.”

“Ideally, within a month, the bill should be out of the House,” said Pierluisi, in an acknowledgment that the May 1 date is no longer going to be met.

Trading Blame

Republicans and Democrats each are largely blaming the other party for the holdup.

Majority Leader Kevin McCarthy, a Republican from California who sets the House floor schedule on legislation, shifted focus to the Obama administration and House Democrats when asked if lawmaker urgency on the Puerto Rico bill could disappear after May 1.

“Well, we’ve been working and ready to go. The Treasury Department keeps negotiating, so the Democrats said they won’t move until Treasury’s done,” he said.

“Your question goes to the Treasury,” said McCarthy. The department didn’t immediately respond to a request for comment.

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