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Puerto Rico Finds Going Bust Isn't Cheap as Consultant Fees Rise.

- **Island spent as much as \$154 million in run up to bankruptcy**
- **Court proceedings will boost tab as it seeks to cut debts**

For Puerto Rico, it's been expensive to go broke.

Even before the U.S. territory filed for a tailor-made form of bankruptcy, the government spent as much as \$154 million on financial consultants and lawyers as it negotiated with bondholders to cut its \$74 billion debt, according to the terms in contracts provided by the island's Office of the Comptroller. With creditors and Puerto Rico now squaring off in court, the fees will only grow.

"This can become very expensive in relationship to the benefits you receive if you don't get to a recovery and bring people along quickly," said James Spiotto, managing director at Chicago-based Chapman Strategic Advisors LLC, whose firm advises on municipal restructurings. "Dealing with financial distress is expensive."

Puerto Rico's May 3 bankruptcy, allowed under a unique process created by a federal rescue law enacted last year, is the largest ever for a U.S. government, promising significant paydays for lawyers and advisers clashing over who has a higher claim on the island's diminished cash. The amount the government spent during its slow-motion collapse approached the \$180 million shelled out in Detroit's record bankruptcy — roughly equivalent to what it costs to cover the annual pensions of 11,000 Puerto Rico retirees.

Some of the spending on consultants has borne fruit: the Puerto Rico Electric Power Authority, known as Prepa, and the Government Development Bank have both reached out-of-court settlements with bondholders to reduce what's owed. The power company's deal struck this year, which amended an earlier one, promises to cut its debt-service costs by about \$2.2 billion from 2018 to 2022 if it's executed. Puerto Rico was less successful with owners of other bonds, ultimately wagering on a better outcome from bankruptcy.

The amount Puerto Rico has spent on outside consultants is based on the maximums specified in the contracts. The actual amounts may differ, depending on the work performed. Following are the sums included in the agreements and the firms involved:

- \$52.7 million: Cleary Gottlieb Steen & Hamilton LLP, which advised the commonwealth and the electric company on restructuring from February 2014 until January 2017 and negotiated with creditors
- \$45.6 million: AlixPartners LLP, whose managing director, Lisa Donahue, served as chief restructuring officer of the power company from September 2014 until February 2017
- \$26.5 million: Millco Advisors LP, an affiliate of Washington-based Millstein & Co., had advised former Puerto Rico Governor Alejandro Garcia Padilla since 2014 on Prepa's restructuring and the ultimately unsuccessful efforts to reduce the government's general debt
- \$7.5 million: Kirkland & Ellis LLP, which represented the commonwealth in legal disputes

including challenges to the island's debt-moratorium law

- \$6.6 million: Proskauer Rose LLP, adviser to the Government Development Bank
- \$6.4 million: Rothschild & Co., which Governor Ricardo Rossello hired to replace Millco, based on the contract running through this month. Puerto Rico's Fiscal Agency and Financing Advisory Authority has paid Rothschild \$3.6 million, as of June 10, according to the agency.
- \$6 million: Dentons LLP, which Rossello hired to replace Cleary Gottlieb, with a contract that runs through June 2017. Dentons has subcontracted legal work from O'Melveny & Myers LLP, according to Puerto Rico's fiscal agency.
- \$2.2 million: O'Neill & Borges LLC, adviser to the development bank

The conflict over Puerto Rico's series of defaults is now playing out in U.S. court in San Juan, where the island is seeking to have billions of dollars of debt written off. Its fiscal turnaround plan, approved by federal overseers in March, would cover less than a quarter of the \$33.4 billion the commonwealth and its agencies owe in debt payments through fiscal 2026. Creditors have questioned the magnitude of the cuts they're facing.

It's unclear how long the workout will linger in court. Detroit, with \$8 billion of bond debt, took 17 months to emerge from bankruptcy. Jefferson County, Alabama's, the second-biggest bankruptcy case, took about two years.

While the process will ultimately steady the government's finances and likely save it billions of dollars, it won't be cheap. Puerto Rico will also need to cover the legal fees for some creditors, which will add to the commonwealth's bankruptcy costs.

McKinsey & Co. was hired as a strategic consultant to the federal oversight board, whose bills are covered by Puerto Rico, under a \$3.75 million contract. Proskauer, the lead legal counsel in the island's bankruptcy, was also hired by the board, as was O'Neill & Borges. Edward Zayas, spokesman for the panel, said it would disclose "soon" how much the board is paying the firms.

Spokespeople for Cleary Gottlieb, AlixPartners, McKinsey and Kirkland & Ellis declined to comment. Representatives of Rothschild, Dentons, O'Neill & Borges, Millstein, Proskauer, O'Melveny. Puerto Rico's fiscal agency said in a statement that it isn't responsible for contracts entered into before April 2016, when it was created.

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