Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico’s Bankruptcy Advisers Could Get Closer Scrutiny.

Oversight board prepares disclosure requests targeting legal and financial advisers

Puerto Rico’s federal supervisors are preparing to scrutinize the U.S. territory’s bankruptcy advisers, reflecting broader concerns about potential overcharging and conflicts of interest in public contracting, according to people familiar with the matter.

The federal board overseeing Puerto Rico’s finances is considering making new disclosure requests to the law firms and financial experts hired to navigate the largest-ever U.S. municipal debt restructuring, people familiar with the matter said.

U.S. and local lawmakers have criticized the amounts being spent on attorneys and bankers, including the oversight board’s own advisers, at a time when pensioners and creditors are facing cuts. Its initiative is aimed at uncovering any undisclosed side deals or subcontracts and whether any third parties act as pay-to-play gatekeepers for public contracts, the people said.

An oversight board spokesman declined to comment.

Going bankrupt has been an expensive affair for Puerto Rico as it struggles against creditors fighting to maximize their claims and secure top priority in a restructuring. Professional fees in Puerto Rico’s court-supervised bankruptcy are projected to consume $1.1 billion over six years, or 1.65% of the amount of government debt being restructured.

Funding the oversight board itself is expected to cost island taxpayers another $430 million through 2023.

The disclosure requests are expected to cover the oversight board’s legal and financial advisers in addition to the island government’s, people familiar with the matter said. While the scope of the requests hasn’t been finalized, they would go beyond disclosure rules put in place last year after a controversial contract award to power grid construction company Whitefish Energy Holdings LLC.

A federal rescue package approved in 2016 empowers the oversight board to review contracts and to issue subpoenas for documents “relating to any matter under investigation.” Its current policy flags contracts over $10 million for review.

The oversight board has previously addressed potential conflicts of interest in its work, requiring its seven volunteer members to submit financial disclosures to an ethics examiner detailing their sources of income and business interests.

Disclosures were also required of Gov. Ricardo Rosselló’s former oversight board liaison, Elías Sánchez Sifonte, who was criticized by opposition lawmakers for working for law and government relations firms while serving on the board. Mr. Sánchez, who resigned the position last July, said he did nothing wrong and made all required disclosures of his business ties.

A few of Puerto Rico's bankruptcy attorneys from Greenberg Traurig LLP and O'Melveny & Myers LLP charge fees of more than $1,000 an hour, though the average hourly rate for the firms' restructuring professionals has hovered around $700, according to court documents.

A Greenberg Traurig spokeswoman said the firm's contracts require it to disclose any subcontractors it uses to the contracting agency. A spokesman for Puerto Rico's financial adviser, Rothschild & Co., declined to comment.

In a response three days after this article was published, a spokesman for O'Melveny & Myers said "we do not pay any referral fee or engage in any fee-splitting arrangements with any third-parties for any services provided."

Rep. Rob Bishop, R-Utah, who chairs a congressional committee with jurisdiction over U.S. territories, has questioned why Puerto Rico needs its own professional teams when the oversight board was designed to represent the island government's interests in court. The dual representation is partly a function of the rescue law, which hands some policy powers to the board and keeps others with local elected officials.

The bankruptcy at times has pitted the oversight board against Gov. Rosselló, who is defying its mandates to cut pension benefits and eliminate employee protections. Separate legal teams argued over who could control Puerto Rico's electric monopoly, the board or the governor. His advisers are negotiating repayment terms with bondholders, yet any settlement requires the board's approval.

Oversight board chairman Jose Carrion told Rep. Bishop in a March letter he would collaborate with the governor to minimize legal fees while suggesting that some duplicative spending was unavoidable "as long as this structure remains in place."

On a call with reporters last week, oversight board executive director Natalie Jaresko said the best way to cut down on fees was to end the bankruptcy quickly. But she acknowledged that a debt adjustment plan may not be up for court approval for a year or longer.

Creditor appeals could further prolong the legal process if they don't reach negotiated settlements. The oversight board's financial framework projects a $6.7 billion surplus over six years for repaying creditors, assuming other labor, pension and tax reforms are enacted.

The Wall Street Journal

by Andrew Scurria

May 9, 2018 12:06 p.m.

Write to Andrew Scurria at Andrew.Scurria@wsj.com