

Bond Case Briefs

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BANKRUPTCY - PUERTO RICO

Franklin California Tax-Free Trust v. Puerto Rico

United States District Court, D. Puerto Rico - February 6, 2015 - F.Supp.3d - 2015 WL 522183

Holders of nearly two billion dollars of bonds issued by the Puerto Rico Electric Power Authority ("PREPA")

sought a declaratory judgment that the Puerto Rico Public Corporation Debt Enforcement and Recovery Act was unconstitutional.

The bondholders alleged that the Recovery Act eliminated the contractual rights guaranteed them under the PREPA Authority Act (which authorized PREPA to issue bonds) and the Trust Agreement (pursuant to which PREPA issued bonds to plaintiffs) by giving PREPA the right to participate in a new legal regime to restructure its debts.

The District Court held that the Recovery Act was preempted by the federal Bankruptcy Code and was therefore void pursuant to the Supremacy Clause of the United States Constitution. The Commonwealth was permanently enjoined from enforcing the Recovery Act.

For a more detailed explication of the ruling, see this [Cadwalader memo](#).