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House Panel to Hear Proposal for Puerto Rico Bankruptcy Protections.

A U.S. House committee is planning a hearing on a proposal to grant public agencies in cash-strapped Puerto Rico access to the same bankruptcy protections provided to cities such as Detroit, according to a person familiar with the plans.

The hearing, expected to take place in coming weeks before the U.S. House Judiciary Committee, would address bondholder concerns about how a possible default by any of the island's heavily indebted agencies would be handled. The U.S. commonwealth is struggling with more than \$70 billion in debt, a sluggish economy and a declining population.

The U.S. Bankruptcy Code denies Puerto Rico's so-called public corporations the protections afforded under Chapter 9, and a federal judge in San Juan last week blocked a law that would have allowed some of those agencies to restructure their debts, ruling it unconstitutional.

Pedro Pierluisi, Puerto Rico's nonvoting representative and a member of the committee, on Wednesday resubmitted a bill that would extend Chapter 9 protections to the Commonwealth, saying lawmakers should act swiftly to avert uncertainty.

The bill would allow the agencies to follow the same path as Detroit, which emerged from a record bankruptcy last year, and aims to reassure investors who are already familiar with the Chapter 9 process, Rep. Pierluisi said.

"The current state of matters is there's no legal framework here for enforcing a restructuring or reorganization plan for any government-owned entity in Puerto Rico," Rep. Pierluisi said.

The law that was struck down, known as the Recovery Act, would have paved the way for public agencies, such as the island's power, water and highway authorities, to restructure debt. The Puerto Rico Electric Power Authority, which has about \$9 billion outstanding, is negotiating to extend an agreement with creditors to postpone some obligations that expires at the end of March. Moody's Investors Service said on Tuesday that it expects the utility to default later this year.

Rep. Pierluisi's bill, which was first submitted last summer but failed to advance, has garnered support from some investors and lawyers. Fitch Ratings said on Wednesday that amending the bankruptcy code to include Puerto Rico's entities would benefit bondholders and "place Puerto Rico on an equal footing with the 50 states."

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—Pedro Pierluisi, Puerto Rico's nonvoting congressman and a member of the committee.

Prices for some power-authority bonds maturing in 2036 traded at about 58 cents on the dollar Friday, up from about 40 cents after the Recovery Act's passage in June. Yields went to 12.4% from 17.5%. Yields fall as prices rise.

Standard & Poor's Ratings Services on Thursday cut its rating on Puerto Rico debt further into junk territory and increasing liquidity problems. S&P lowered its rating on the island's general obligation debt to B from BB.

"All of this poses a threat, in our view, to the commonwealth's ability to continue providing basic public services," S&P's report said. "We have observed in other jurisdictions that such an environment can easily give way to political and policy instability."

The bill's chances are improving as lawmakers realize Puerto Rico's importance to stability in the bond markets, where the debt is widely held because of its tax advantages, said Robert Donahue, managing director at Concord, Massachusetts-based research firm Municipal Market Analytics. More than half of municipal mutual funds still hold Puerto Rico bonds, down from about 70% in 2013, according Morningstar data.

"Having a territory default on its bonds is not something that looks good internationally," Mr. Donahue said. "That would be a black eye for the U.S., so it's in the interests of Congress to rectify this problem."

Several analysts, however, said the bill had little chance of advancing beyond the committee, where even Rep. Pierluisi's fellow Democrats have other legislative priorities. Daniel Hanson, an analyst with Washington, D.C.-based investment firm Height Securities LLC, said in a report on Friday that the bill faces opposition from some Republicans and may be all-but dead already.

The Puerto Rico government may also resist having its public corporations enter Chapter 9, because a judge could force politically unpalatable moves such as tax increases and increased user fees, said Mike Comes, a portfolio manager and vice president of research at Sarasota, Florida-based Cumberland Asset Management, which owns some insured bonds issued by the island.

Puerto Rico, meanwhile, is appealing the court decision on the Recovery Act and is working to avert a cash crunch by borrowing at least \$2 billion to repay a loan the island's highway authority took from the Government Development Bank, the government's fiscal arm. Puerto Rico's Gov. Alejandro Garcia Padilla this week also proposed reforms that would move the island from an income tax to a consumption tax, an action aimed at increasing collections and stabilizing government revenue.

Rep. Pierluisi said protecting public corporations is another key to Puerto Rico's economic development. "You want them viable," he said. "You want them operating. And if they are insolvent, you want to return them to financial stability through an orderly and stable process."

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