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WSJ: Puerto Rico Bankruptcy Bill Could Offer Roadmap for Creditors.

A bill that would give Puerto Rico's government agencies access to the same bankruptcy protections provided to cities such as Detroit would provide a road map for investors if one or more runs out of money, a senior government official told a U.S. House committee Thursday.

Melba Acosta, president of the island's Government Development Bank, told the panel of the House Judiciary Committee that a bill permitting the island to let its so-called public corporations seek protection under Chapter 9 of the U.S. Bankruptcy Code would help protect public services and plans for long-term growth. Puerto Rico is currently barred from allowing its government entities to use Chapter 9.

A recent decision by a federal judge to block a local law that would have provided a pathway for the power, water and highway agencies to restructure about \$20 billion in debt leaves Puerto Rico in a legal void, creating an uncertain environment that threatens the island's economic future, she said. That lack of clarity reduces investor demand for Puerto Rico debt, affecting the government's strained cash flow, and undermines the administration's goal of making the agencies self-sufficient.

Without a legal process in place, defaults could prompt "a race to the courthouse," which could "trigger years of litigation, exacerbate liquidity pressures at these public entities and have adverse consequences on economic growth, which only exacerbates Puerto Rico's overall fiscal situation," she said in written testimony. "Creditors would be in a worse position than they would be under an orderly, consensual process."

The House bill would allow the agencies to follow the same path as Detroit, which emerged from a record municipal bankruptcy last year, and aims to reassure investors who are already familiar with the Chapter 9 process, according to Pedro Pierluisi, Puerto Rico's nonvoting congressional representative, who sponsored it. Puerto Rico isn't asking for a bailout or special favors, he said.

The U.S. commonwealth is struggling with a weak economy and a declining population. It has about \$73 billion in debt, which is widely held by individuals and mutual funds nationwide because of its tax advantages. Moody's Investors Service said in a report last week that there is high probability of default on central government obligations within two years.

Robert Donahue, managing director at Concord, Mass.-based research firm Municipal Market Analytics, called the bill a "technical fix" that may help avert chaotic defaults, receivership, years of lawsuits and even social unrest if agencies such as the Puerto Rico Electric Power Authority run out of cash to provide services. The utility, which has about \$9 billion in municipal bonds and notes outstanding, is in talks with creditors, and Moody's expects a default some time this year.

"Among investors, many believe this is the lesser of two evils," Mr. Donahue, who also testified, said in an interview. "This is not a bailout bill. It doesn't require any congressional resources. So for Congress it seems like a straightforward, simple way to keep Puerto Rico and the capital markets from negative consequences."

The bill's opponents include Thomas Mayer, partner and co-chairman of the corporate restructuring and bankruptcy group at Kramer Levin Naftalis & Frankel LLP, who told the committee that the use of Chapter 9 by Puerto Rico agencies would cause more harm than good. Mayer represents funds managed by Franklin Templeton Investments and OppenheimerFunds Inc., which hold about \$1.6 billion in bonds from the Puerto Rico Electric Power Authority and sued in federal court to block the island's local restructuring law.

Mr. Mayer said Chapter 9 harms bondholders, takes years, costs millions and has no established body of case law. Puerto Rico isn't a state, and its law already provides for a receivership if an agency can't pay its debts. And the power authority, known as Prepa, doesn't need the law—it could raise rates, which have declined with fuel prices, he said.

"Chapter 9 itself does not offer 'certainty,'" he said in prepared remarks. "Chapter 9 is the Wild West."

University of Michigan law professor John Pottow, however, said the bill was an overdue correction to the bankruptcy code. It faces little opposition in the academic community where it's not even clear why Puerto Rico was excluded from Chapter 9 in the first place, he said.

Chairman Bob Goodlatte (R. Va.) said in a statement that Chapter 9 could "provide predictability, transparency and stability" to a Puerto Rico agency bankruptcy, which would rank among the largest in U.S. history. He also cautioned that proposals to retroactively impact bondholders' rights deserve cautious analysis.

Some investors remained skeptical about the bill's chances this week. Even if it advances beyond the committee, "it is highly unlikely to be passed by either chamber of Congress, certainly the Senate," according to a report by Bank of America Merrill Lynch.

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