

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 bonds issued by Puerto Rico Electric Power Authority (PREPA) brought action against Puerto Rico, PREPA, and certain Puerto Rican officials, seeking declaration that Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which provided procedure for PREPA to restructure its debt, was unconstitutional. Defendants moved to dismiss for lack of subject matter jurisdiction and for failure to state claim, and bondholders cross-moved for summary judgment.

The District Court held that:

- Declaratory relief sought by bondholders was conclusive in character;
- Declaratory relief sought by bondholders did not depend on facts that had not been sufficiently developed;
- Impact of Act upon bondholders was sufficiently direct and immediate as to render issue appropriate for judicial review;
- Allegation that Act unconstitutionally authorized suspension of federal court proceeding was not fit for judicial decision;
- Act's elimination of bondholders' security rights was not traceable to action by PREPA;
- Act was expressly preempted by Federal Bankruptcy Code;
- Act substantially impaired a contractual relationship; and
- Bondholders alleged that Act's impairments on contractual relationship between PREPA and bondholders were not reasonable and necessary to serve important government purpose.