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Puerto Rico's Debt Crisis Is Big Business for Washington Lobbyists.

That ugly B word, bailout, has come to dominate debate in Washington about Puerto Rico's debt crisis.

One side argues that passing a bill allowing Puerto Rican government agencies to restructure their debts will stave off an eventual bailout of the whole island. The other side says that's all wrong: The very act of approving the legislation will constitute a bailout.

The public battle for ownership of the word underscores how despised such assistance remains in America seven years after the financial crisis. It also shows how the U.S. territory's \$72 billion debt saga has become a booming business for Washington lobbyists, who are developing websites, creating advertisements and lining up the support of conservative advocacy groups.

"Puerto Rico may soon reach a height of budget crisis that can be addressed only through a massive bailout package from the federal government," says a Web page for the Puerto Rico Fiscal Stability Coalition, an organization promoting passage of the bankruptcy bill. A group of 35 asset managers, including Fir Tree Partners Inc., Brigade Capital Management LLC and Monarch Alternative Capital LP also supports the bill.

A website set up by 60 Plus Association, a senior-citizen advocacy group, opposes the legislation.

"Make no mistake: Extending Chapter 9 bankruptcy protection to Puerto Rico is not a way to avoid a bailout," says NoBailout4PR.org. "It is a bailout."

Bond Risk

Opponents also include BlueMountain Capital Management LLC, OppenheimerFunds Inc. and six other investment managers, who are "not coordinating with any third-party advocacy groups at this time," according to Dan Zacchei, their spokesman. They are fighting the bill because they own bonds issued by the Puerto Rico Electric Power Authority, or Prepa, so bankruptcy would put their holdings at risk.

The 35 asset managers and other supporters own Puerto Rico's general-obligation and sales-tax bonds, so restructuring Prepa's debt would leave more money to pay off their holdings.

The U.S. territory's legislature passed a bill this week raising the sales tax to 11.5 percent, higher than in any state, to ease the financial strains. The junk-rated island's woes have been a topic of debate on Capitol Hill since February, when Pedro Pierluisi, the island's resident commissioner in the U.S. House of Representatives, introduced H.R. 870.

Amend Code

The legislation would amend the Federal Bankruptcy Code to treat Puerto Rico as a state, giving it the option to authorize its municipalities and public agencies to file for Chapter 9 protection. This

would help Prepa restructure its \$8.6 billion of debt.

Chapter 9 currently doesn't apply in Puerto Rico, a territory since the Spanish-American War.

The lobbying efforts focus on Republicans, who control the House. BlueMountain, Franklin Resources Inc. and several other investment managers have hired former high-ranking Republican staffers from the House Financial Services Committee and Senate Banking Committee who now work at Venable LLP, a law and lobby firm, to defeat the bill, according to disclosure records.

Others that oppose the legislation include Tea Party activists and the Alexandria, Virginia-based 60 Plus, which describes itself as a "seniors advocacy group with a free enterprise, less government, less taxes approach."

'Shortchange Millions'

"Chapter 9 is a bailout and a deliberate effort by Puerto Rico to evade its debt obligations," 60 Plus Chairman Jim Martin said in a press release. "It would shortchange millions of seniors, pensioners and other unwitting Puerto Rican bondholders who placed their faith — and life savings — in Puerto Rican bonds, only to see the rules changed."

On the other side, the 35 asset managers favoring the legislation share that support with the Puerto Rico Fiscal Stability Coalition, co-chaired by former Puerto Rico Governor Luis Fortuno. Russ Grote, a spokesman for the managers, declined to comment on whether they provided any financial support.

The coalition's spokesman, Phil Anderson, is a former special assistant to Dan Quayle, U.S. vice president from 1989 to 1993, and held positions in the National Republican Party. He is now president and a founder of Navigators Global LLC, a Washington-based lobbying group that has set up English- and Spanish-language websites and produced video ads targeting the Puerto Rican public and Congressional members and staff.

Gathering Support

The coalition has gathered backing for Pierluisi's bill from groups such as Citizens Against Government Waste and Grover Norquist's Americans for Tax Reform.

Allowing Puerto Rico entities to file for bankruptcy would prevent what Anderson calls the "potential collapse" of the \$3.6 trillion municipal-bond market, about 40 percent of which is held directly by U.S. households. An orderly restructuring would allow debtors and creditors to settle the dispute without involving taxpayers, he said.

"What solution is in the best interest of the U.S. taxpayer and what's the most conservative solution to apply to the problem," Anderson said in a telephone interview. He declined to say who is funding the fiscal-stability coalition's publicity campaign or to quantify its budget.

Darrell Issa, a Republican from California, has been the most outspoken member of Congress in questioning the legislation.

"Do we have a constitutional and legitimate role in retroactively changing contracts in place so that a bankruptcy can occur?" Issa asked during a February hearing on Pierluisi's bill before the House Judiciary Subcommittee on Regulatory Reform, Commercial and Antitrust Law.

Regular Meetings

Pierluisi is meeting regularly with members of the House Judiciary Committee to argue that the bill isn't a bailout, Carmen Feliciano, his chief of staff, said in an interview.

The committee's chairman, Republican Representative Bob Goodlatte of Virginia, recently met with Puerto Rico Governor Alejandro Garcia Padilla to discuss the economic consequences of the legislation. While Goodlatte hasn't backed it, he feels the committee has responsibility to review its merits, according to an aide.

The full panel hasn't taken up the bill, however, and it hasn't been introduced in the Senate, where Puerto Rico doesn't have a representative, so opponents may win by default. Given the difficulty Congress has passing any legislation, the likelihood of enacting H.R. 870 is low, according to Daniel Hanson, an analyst in Washington with Height Securities LLC.

Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics Inc., says Puerto Rico's deteriorating situation increases the chance of Congress considering the bill at some point, which is why opponents and supporters are boosting the amount of money they're spending.

The island and its agencies have amassed more debt than all but two U.S. states, and the bonds have traded at distressed levels for more than a year. The commonwealth's newest general obligations, which mature in July 2035, yield about 9.85 percent, or about 6.7 percentage points above benchmark debt.

"There is so much money being invested in the Puerto Rico-related strategies," Fabian said. "The bill might move in the future."

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by Kasia Klimasinska and Martin Z Braun

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