

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Debt Crisis Eludes U.S. Fix, Top Republicans Say.

Top Senate Republicans showed no intention of acting soon to rescue Puerto Rico from its escalating financial crisis, saying there's no easy way for the federal government to steady the Caribbean island pushed to the brink by \$73 billion of debt.

Republicans who lead both chambers of Congress have signaled little urgency in aiding Puerto Rico, and the White House has made it clear it won't bail out the commonwealth. The reticence was on display Tuesday at a Senate Finance Committee hearing, the first in Congress since Governor Alejandro Garcia Padilla said the island can't afford to repay what it's borrowed.

While Puerto Rico officials are pushing for more funding for some federal programs, Senator Orrin Hatch of Utah, the chairman of the finance committee, expressed skepticism that additional money would be sufficient. He noted that it's received billions in additional federal funds since 2009.

"Even with those boosts in federal funding and the related increases in commonwealth spending, all we see is added commonwealth debt," he said at a hearing in Washington Tuesday.

Providing more money for health-care programs, for example, "would necessarily mean reduced funding for other priorities, increased taxes, or even more federal debt," he said. "That is the unpleasant budget arithmetic that we face. There are no easy answers."

The commonwealth of 3.5 million people is teetering because of years of borrowing to cover budget shortfalls as the economy stumbled and residents left for the U.S. mainland. Garcia Padilla is seeking to postpone or reduce the government's debt bills, moving the island toward what would be the biggest restructuring ever in the \$3.6 trillion municipal-bond market.

Senator Charles Grassley, the Iowa Republican who chairs the judiciary committee, during the hearing stopped short of endorsing legislation Puerto Rico is seeking that would allow its publicly owned corporations, such as the power company, to file for bankruptcy, as U.S. cities can.

Instead, he recommended exempting Puerto Rico from the minimum wage and shipping laws that drive up the cost of goods. He also suggested setting up a federal board to oversee its finances, though he said any Congressional steps would depend on whether Puerto Rico moved to eliminate deficits at the root of the crisis.

"Congressional help without meaningful reform by the Puerto Rican government won't work," Grassley said at the hearing.

The commonwealth is rapidly draining its cash. Unless it can raise money in the capital markets, it could run out of money by the end of the year, just before a large payment is due on its general-obligation bonds, Government Development Bank President Melba Acosta said.

She told the senators that "federal action is essential," including giving it the same access to the

Medicaid and Medicare health-care programs that states have and extending municipal bankruptcy access to the island.

“Puerto Rico has passed the tipping point and faces an immediate liquidity crisis,” she said. That’s “threatening the ability of the government to continue to provide essential services to its residents and to pay its debts when due.”

In addition to approximately \$73 billion of public debt, Acosta said Puerto Rico has a \$45 billion shortfall in its workers’ retirement system that’s threatening to put more strain on the budget.

Bankruptcy Bill

Puerto Rico, which has already defaulted on some bonds, wants Congress to approve the legislation giving some entities access to Chapter 9 bankruptcy protection. That could avoid a protracted legal fight by allowing the government to restructure some debt in court, rather than through individual negotiations. That bill has yet to advance for lack of Republican support.

With bonds sold through more than a dozen agencies, Puerto Rico has yet to say which securities could be affected and by how much, which has left investors speculating about the scale of losses they may be asked to take. The administration plans to ask investors to exchange their bonds for new debt with lower interest rates or longer maturities. Such a plan may come in the next few weeks.

Going Alone

During the hearing, Puerto Rico’s representative in Congress, Pedro Pierluisi, said lawmakers should end the disparate treatment that applies to the island with respect to federal programs.

“Any notion that the territory alone got itself into this situation and the territory alone must extricate itself from this situation is totally false,” he said. “The truth is that the federal government bears tremendous responsibility for the crisis in Puerto Rico, and so Congress and the president must be part of any solution.”

Bloomberg News

by Kasia Klimasinska

September 29, 2015 — 7:13 AM PDT Updated on September 29, 2015 — 11:39 AM PDT