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Moody's: U.S. Initiatives Could Help Puerto Rico's Fiscal Recovery and Debt Restructuring.

New York, October 15, 2015 — While the United States (Aaa stable) is unlikely to provide a financial bail-out for Puerto Rico (Caa3 negative) as the territory tries to restructure some of its \$73 billion in debt, media reports suggest the US Treasury Department is considering taking a more active role, Moody's Investors Service says, as the deteriorating fiscal situation leads to increasing pressure on Congress to take actions to stabilize the island's economy or finances.

"A combination of federal initiatives could encourage Puerto Rico's return to solvency and market access with little or no incremental cost to US taxpayers beyond current levels of support," Vice President — Senior Credit Officer Ted Hampton says in "Puerto Rico (Commonwealth of): Deepening Fiscal Crisis Might Prod US Intervention."

Current proposed legislation to amend the bankruptcy law would authorize Puerto Rico's public corporations to file for Chapter 9 bankruptcy protection if they can demonstrate insolvency. While corporations like the Puerto Rico Electric Power Authority (PREPA — Caa3 negative) and Puerto Rico Highways and Transportation Authority (PRHTA — Ca negative) would likely qualify under the legislation, almost 80% of Puerto Rico's debt probably would be ineligible for restructuring under Chapter 9, unless the legislation was to be broadened in scope.

Some in Congress have also suggested implementing a federal financial control board to put the commonwealth on a path to fiscal health. However, this is likely to meet heated opposition in Puerto Rico since the commonwealth has governed itself for many years. Congress instituted a control board for the District of Columbia (Aa1 stable) in 1995.

The treasury is reportedly considering a "superbond" proposal, where the US Treasury would hold certain pledged commonwealth revenues in trust for payment on debt service on newly issued securities.

Hampton says if a "superbond" came to fruition along with a financial control board, it could accelerate the restructuring negotiations.

Other measures to provide relief for Puerto Rico without burdening US taxpayers include loosening federal minimum wage requirements, or granting the commonwealth's employers a reprieve in future minimum wage increases. Congress could also exempt Puerto Rico from Jones Act shipping restrictions.

Moody's says the largest and most immediate impact would be stabilizing current federal healthcare funding on the island, which is scheduled to decline in coming years even as the share of citizens participating in Medicaid is higher in Puerto Rico (48%) than in any US state.

"However, any actions by the federal government will take time to implement," notes Hampton, "given the current partisan gridlock in Congress and a lack of transparency on the commonwealth's finances."

Moody's also notes that even as the commonwealth faces a liquidity crisis and potential new defaults, Congress is less likely to offer Puerto Rico assistance if it encumbers US taxpayers.

The report is available to Moody's subscribers [here](#).

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