

# **Bond Case Briefs**

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## **Puerto Rico Debt Tragedy's Second Act is Close. Here is the Cast.**

NEW YORK – The second act of Puerto Rico’s long- building debt drama is about to begin, and waiting in the wings is a veteran cast. It includes an embattled politician, his foe, the former executive of a failed bank, and those with roles in the Wall Street bailout, Argentina’s default and America’s biggest municipal bankruptcies.

Locked out of the capital markets as it edges toward a record-setting default, the Caribbean island of 3.5 million people may run out of cash as soon as this month. With \$354 million of debt payments due on Dec. 1, Gov. Alejandro Garcia Padilla would have to decide whether to pay bondholders or conserve whatever funds he can find to keep the government running.

While Puerto Rico has already defaulted on securities backed by legislative appropriations, it may mark the first time the government has failed to make good on obligations guaranteed by its full faith and credit — a pivotal moment that could haunt it for years.

With a debt load of \$73 billion, more than any state but California or New York, and an economy that’s contracted in all but one year since 2006, Garcia Padilla says the island can’t afford to pay back what it owes. Puerto Rico expects to have a negative cash balance of \$30 million this month, the governor told a U.S. Senate committee on Oct. 22, and the administration may cut civil servants to a three-day work week to conserve cash. The debt restructuring the governor wants to push through would be by far the largest ever in \$3.7 trillion municipal market.

Here are the men and women who will chart the way:

-Alejandro Garcia Padilla, governor. Before becoming governor in January 2013, Garcia Padilla, a graduate of the Interamerican University of Puerto Rico School of Law, served in Puerto Rico’s senate. The 44-year-old is a member of the Popular Democratic Party, which is aligned with Democrats in the U.S. and favors keeping the island a territory over pushing for statehood. He raised excise taxes, increased the retirement age for government workers, and pushed to change the sales tax to a value-added tax, a step aimed at cracking down on widespread evasion.

He’s been unable to revive the economy or eliminate chronic deficits that have left the government reliant on borrowed money. In April, Garcia Padilla said it would be “folly” to default. By late June he reversed course, saying the deep spending cuts or tax increases that would be required to pay its debts would be too much to bear.

His administration plans to offer investors a chance to exchange their bonds for new securities that will be less costly to the government, though no details have been released and it’s unclear how many bondholders will go along. Facing re-election next year, Garcia Padilla hasn’t said whether he’ll run again. El Nuevo Dia, the island’s biggest newspaper, reported that he won’t so that his handling of the debt crisis is freed from the pressure of election-year politicking. About 12 percent of Puerto Ricans approve of Garcia Padilla’s performance, according to a poll published by El Nuevo Dia.

- Pedro Pierluisi. Puerto Rico's sole representative in Congress since 2009 and president of the New Progressive Party that favors statehood, Pierluisi, 56, is planning his own gubernatorial run and has been critical of Garcia Padilla, giving the island a somewhat divided voice in Washington. With Garcia Padilla's support, he proposed a bill that would allow the government-run power company and other struggling agencies to file for bankruptcy protection in U.S. court.

It's gone nowhere for lack of a single Republican co-sponsor. In testimony prepared for a September hearing, he said debt guaranteed by the central government should be "sacrosanct" and that the governor had "badly tarnished" the island's reputation by not standing firmly behind it.

A graduate of Tulane University, he has a degree from George Washington University Law School and worked as a lawyer in private practice before taking office.

- Melba Acosta, Government Development Bank. A Harvard University MBA, Acosta has been president of the GDB, which handles the commonwealth's financial affairs, since October 2014 and previously worked as Puerto Rico's Treasury Secretary. From 2004 to 2010, she was a vice president, chief operating officer and chief financial officer with R&G Financial Corp. and its subsidiary R-G Premier Bank, one of three Puerto Rico lenders that closed following the island's severe recession. While at the GDB, she attempted to negotiate a restructuring of some of the agency's debt in a trial run of what may be attempted on a larger scale. The talks collapsed last month.

In addition to her MBA, Acosta, 49, has degrees in accounting and law from the University of Puerto Rico.

- Jim Millstein, Millstein & Co. Millstein, the founder and chief executive officer of the financial advisory firm that's serving as Puerto Rico's main debt adviser, has experience with high-profile financial messes. Before starting his firm, from 2009 to 2011 Millstein served as the U.S. Treasury's chief restructuring officer, responsible for monitoring the financial-industry bailouts from the 2008 credit-market crisis. He was the principal architect of American International Group Inc.'s recapitalization.

Millstein, 60, is a former co-head of Lazard's restructuring group and before that was head of the corporate turnaround practice at Cleary Gottlieb Steen & Hamilton. At Lazard, he represented Argentina in connection with the exchange offer for its international bonds, which may serve as a template for Puerto Rico. A Princeton University graduate, he has a law degree from Columbia Law School.

- Antonio Weiss, Treasury Dept. After his nomination to serve as undersecretary for domestic finance was blocked by Sen. Elizabeth Warren over his long career on Wall Street, Weiss joined Treasury as an adviser to Secretary Jack Lew and serves as the point person for Puerto Rico. The Obama administration has suggested that Congress give Puerto Rico's entire government the power to file for bankruptcy to allow for an orderly workout in court, a broader scope than Pierluisi's stalled bill. It's also proposed increasing health-care spending and tax credits for the island to help boost the economy.

At Lazard, Weiss was the head of investment banking, advising Walgreen in its acquisition of Alliance Boots and cigarette maker Reynolds American in its takeover of rival Lorillard. He was formerly publisher of the storied literary magazine The Paris Review, where he worked as assistant to founder George Plimpton just after graduating from Yale University. Weiss, 49, also has an MBA from Harvard.

- Lee Buchheit, Cleary Gottlieb. Buchheit, 65, who worked on the restructuring of Greece's debt, is partner in the sovereign practice group at the firm, which is serving as legal adviser to Puerto Rico. Over three decades his clients have included Russia, Mexico, the Philippines, Iraq and Iceland. Buchheit received International Financial Law Review's inaugural Lifetime Achievement Award for his contributions to international finance. Buchheit earned an undergraduate degree from Middlebury College and a law degree from the University of Pennsylvania Law School.

- Harrison Goldin, Goldin Associates. Harrison Goldin, 79, the firm's managing director, was involved in one of the biggest municipal financial crises: New York City's mid-1970s meltdown. Known as "Jay," he served as the city's comptroller when it was pushed to the brink of bankruptcy by years of unsustainable borrowing to pay bills, just like Puerto Rico. Goldin's firm was hired to advise a group of investors holding some of Puerto Rico's \$13 billion of general- obligation bonds, the second biggest chunk of the island's securities. He's a graduate of Princeton and Yale Law School.

Bondholders, however, are far from unified. That's because some 17 arms of the commonwealth have sold securities that are backed by different legal protections and revenue streams, setting up a clash between various bondholders over who will be saddled with the steepest losses. Case in point: a group formed to represent more than three dozen hedge funds holding \$5 billion of Puerto Rico bonds disbanded, with the firms breaking into smaller alliances that would better represent their interests.

- Lisa J. Donahue, AlixPartners. Donahue, a managing director of the advisory firm's turnaround practice, serves as the chief restructuring officer for the Puerto Rico Electric Power Authority, the government-run electric company that's been negotiating for over a year in an effort to cut its \$8 billion of debt. She was appointed in September 2014. She previously served as executive vice president and CFO at Calpine Corp., an independent power producer, and CFO for the Atlantic Power Corp. The authority has reached an agreement with some bondholders to restructure the agency's debt, which would leave investors taking losses of as much as 15 percent. Finishing the rest of the deal has proved difficult. The utility still needs to get agreements with insurers that guarantee the debt against default. Donahue has a degree in finance and accounting from Florida State University.

- David Brownstein, Citigroup. Brownstein is head of public finance at the New York-based bank, the third-largest underwriter of U.S. municipal bonds during the first half of the year. Citigroup was hired to be the lead banker for the restructuring of Puerto Rico's debt and hosted a July meeting between investors and officials at its Manhattan headquarters. Brownstein was the top banker to Jefferson County, Alabama, on the water and sewer refinancing that brought it out of the second-biggest U.S. municipal bankruptcy. He also worked with Detroit following its financial collapse. Brownstein has a bachelors degree from Beloit College.

## **Bloomberg**

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