

# **Bond Case Briefs**

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## **Congress Unlikely to Agree on Puerto Rico Rescue by Year's End.**

Less than 10 days before they plan to adjourn for the Christmas holiday, lawmakers in Congress remain divided over how to help Puerto Rico as the island rapidly runs out cash and inches closer toward the first major default on its bonds.

Top Senate Republicans are moving to extend as much as \$3 billion in aid to the territory as long as it cedes some financial powers to a federal board, while declining to give Puerto Rico the ability to file for bankruptcy to cut its debt. Democrats, who are in the minority, may try to attach a bankruptcy measure to the spending bill that Congress needs to pass to keep the U.S. government running, seeing it as the best chance to push through one of Puerto Rico's key priorities.

"We don't see how there is a resolution in the week or so that remains before this Congress leaves for the holidays, and once it returns this fight could drag on for many months," Guggenheim Securities analysts led by Jaret Seiberg said in a note to clients Thursday. "It is hard to see how political leaders find a compromise in front of the election. The atmosphere is just too charged."

The last-minute push comes as Puerto Rico is running out of time to address a crisis that's been building for years because of \$70 billion of debt, a legacy of borrowing to paper over budget shortfalls. The commonwealth this month narrowly averted a default on government-guaranteed bonds for the first time and may be unable to cover \$957 million of interest due Jan. 1.

Governor Alejandro Garcia Padilla said on Wednesday that the island is "out of cash" and has been pushing for Congress to give it the legal tools to restructure debt in court, just as U.S. cities can. Without that, the government is dependent on negotiations with creditors, a potentially lengthy process that could get bogged down in litigation. The Puerto Rico Electric Power Authority has yet to reach a final deal to reduce its debt despite more than a year of talks with bondholders and insurers.

Garcia Padilla's office welcomed the Republican lawmakers' initial push to help the island while stopping short of endorsing it.

"The presentation of the project in the U.S. Senate demonstrates the urgency and the seriousness of Puerto Rico's situation," Jesus Manuel Ortiz, spokesman in San Juan for Garcia Padilla, said in a statement. "We will continue conversations and we are confident that the final language will be positive for the country and will deal with the depth of the problem."

Puerto Rico's crisis has dragged down the prices of its bonds, which have been little changed since the Republican proposal was announced Wednesday. General obligations maturing July 2035, which were first sold for 93 cents on the dollar in March 2014, traded Thursday for an average of 74.8 cents, compared with 74.6 cents a day earlier.

Some bondholders and analysts were skeptical that Congress will be able to come to an agreement.

"I don't see anybody gaining any strength with a solution yet," said Matt Dalton, chief executive

officer of Rye Brook, New York-based Belle Haven Investments, which oversees \$3.4 billion of municipal bonds, including Puerto Rico securities. “I’m not running in one direction or trying to bet on whether I should or I shouldn’t buy Puerto Rico based on these bills.”

The Republican plan wasn’t fully embraced in Puerto Rico. Senate President Eduardo Bhatia called it “shameful” and “unworthy.”

“No Puerto Rican should have to accept a fiscal control board with as much powers over Puerto Rico as that which Senator Orrin Hatch’s bill confers,” Bhatia said in a statement Thursday.

That bill, introduced by Senators Hatch, Chuck Grassley and Lisa Murkowski, would set up a new authority to help craft and oversee the budget. It would also have the power to borrow on Puerto Rico’s behalf, a mechanism that could help the island restructure its debt.

Grassley, the chairman of the Judiciary Committee, has expressed skepticism about allowing Puerto Rico to file for bankruptcy, which bondholders oppose. Representative Sean Duffy, a Republican who sits on the House Financial Services committee, introduced such a bill Wednesday, despite the objections of others in his party.

Senator Charles Schumer, a New York Democrat, told reporters in Washington Thursday that he is seeking to include language in the spending bill that would allow Puerto Rican agencies to file for Chapter 9 proceedings. He shrugged off the measure offered by his Republican colleagues.

“They need to come to an agreement that both sides support — like in most other things,” he said.

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