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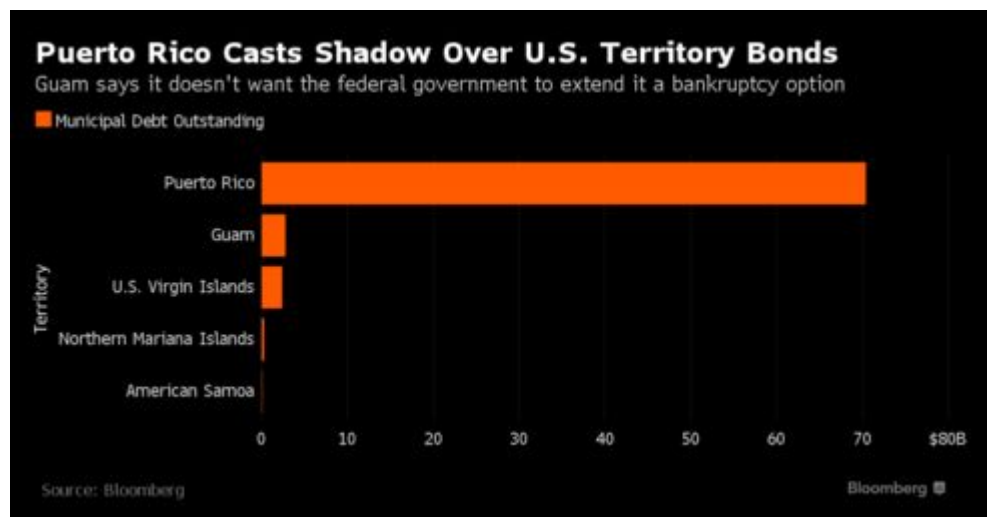
With Eye on Puerto Rico, Guam Says No to Territorial Bankruptcy.

Puerto Rico has always gotten the most attention among the U.S. territories. It's the most-populous, most-indebted, most-proximate to the mainland and most-vocal in pressing the case for bankruptcy.

Now, officials from the other islands are speaking up as they seek to borrow. In Guam, which issued \$143 million of tax-free water bonds on Tuesday, they say borrowing costs could swell if Congress extends Chapter 9 bankruptcy protection to U.S. territories as a way for Puerto Rico to reduce its \$70 billion of debt. It's an idea supported by the Obama administration and Alejandro Garcia Padilla, the commonwealth's governor.

"When it comes to the policymakers in Washington, D.C., dealing with the Puerto Rico situation, I've made it very clear: Guam has no need nor desire to look at any type of backdoor such as bankruptcy protection," said Guam Governor Eddie Calvo, a Republican who in 2014 won a second term to lead the island of 167,500.

"That's something we've always believed has made our triple tax-exempt bond sales very attractive — that we were treated a certain way," Calvo said in a telephone interview Feb. 3 from San Francisco, where he met with rating companies and investors. His goal is "ensuring the sanctity of these investments for investors," he said.



Calvo's argument is the same as the one made by some Senate Republicans and Puerto Rico investors, who say retroactively changing the rules around the commonwealth's bonds could disrupt the functioning of the \$3.7 trillion municipal market. Some analysts say it raises the possibility that troubled states would eventually get bankruptcy access to force losses on bondholders.

Yet the proposal is most pressing for the four territories besides Puerto Rico that issue bonds that are tax-exempt at the federal, state and local level nationwide: American Samoa, Guam, the Northern Mariana Islands and the U.S. Virgin Islands.

Guam, the Pacific island 9,372 miles (15,080 kilometers) from Puerto Rico, issued debt through its waterworks authority to pay for needed infrastructure improvements. About \$111 million of debt due in 2046 priced to yield 3.64 percent, data compiled by Bloomberg show. That's less than the 3.71 percent average yield on 30-year revenue bonds rated BBB, which is about the average grade on the waterworks bonds from the three biggest credit raters.

Calvo said he visits investors twice a year to remind them that the territory has won upgrades and balanced its budget while Puerto Rico veered toward insolvency.

Guam averted the fate of American Samoa's bond sale last month, which officials said came at a high penalty.

The island's economic development authority issued \$23 million of federally taxable debt due in 2024 that priced to yield 11.9 percent, data compiled by Bloomberg show. In August, it sold taxable securities at a 7.5 percent yield. The most-recent offering will fund a government-run charter bank. The Bank of Hawaii plans to leave, making the new institution the only bank for the territory's 55,000 residents.

That island had to delay its deal and pay higher borrowing costs because of the potential change to extend Chapter 9 protection to territories, said Keniseli Lafaele, director of American Samoa's commerce department.

"I don't believe we should manage our territory with the thought in our minds that we can fail and then use bankruptcy as a way out of our trouble," Lafaele said in an e-mail. "We plan to live within our means, including strategic and limited use of debt."

Those assurances may not have been enough for investors in the bonds, which have a Moody's rating of Ba3, three steps below investment grade.

Offering documents for the deal cite "a lot of discussion" about changing federal law to give Puerto Rico different treatment under the bankruptcy code. Any enacted legislation could alter the rights of American Samoa bondholders, according to the disclosure.

Virgin Islands

"The specter of it, that they can always retroactively change these legal statutes should things become problematic in the Virgin Islands or Guam or American Samoa, would drive spreads up on those bonds," said David Ashley, a portfolio manager in Santa Fe, New Mexico, at Thornburg Investment Management, which oversees \$11 billion of munis. The company owns no Puerto Rico securities, but holds other territory debt, including from the Guam Waterworks Authority.

Other territory leaders don't see the harm of having bankruptcy open to them, particularly if it's part of a broader package that puts the islands on more equal footing with U.S. states.

"Yes, I favor the territories being included under the bankruptcy protection statutes as other U.S. jurisdictions," U.S. Virgin Islands Governor Kenneth Mapp said in an e-mailed statement. "While the Virgin Islands is stable financially and does not require bankruptcy protection, congressional changes in regard to Puerto Rico should include all other U.S. territories."

Stacey Plaskett, the non-voting representative of the U.S. Virgin Islands in Congress, has said she would push for the territory to be included in any assistance package for Puerto Rico, outside of bankruptcy.

“She is concerned that extending Chapter 9 bankruptcy protection to the territories may raise a red flag on Wall Street and jeopardize the Virgin Islands’ bond ratings,” Richard Motta, Plaskett’s press secretary, said in an e-mail.

Northern Mariana

E-mails to the office of Northern Mariana Islands Governor Ralph Deleon Guerrero Torres and the territory’s commerce department weren’t returned.

Calvo, Guam’s governor, also sees Puerto Rico’s fiscal crisis as a chance to highlight unequal treatment of U.S. territories, apart from the bankruptcy code.

Under a four-part plan announced in October to address Puerto Rico’s crisis, the Obama administration asked Congress to fix the commonwealth’s funding disparity under Medicaid. A spending bill in December didn’t address the full scope of that difference. The U.S. Treasury has also pressed Congress to give Puerto Ricans access to the Earned Income Tax Credit.

“When it comes to Medicaid, Medicare, the Earned Income Tax Credit treatment, those are things where I want equity with the states if there’s to be something in a package,” Calvo said. “But obviously not where they’re touching on bankruptcy protection.”

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