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Puerto Rico Needs Restructuring to Avoid Cascading Defaults: Treasury.

NEW YORK/SAN JUAN — U.S. Treasury counselor Antonio Weiss said on Thursday that without a proper restructuring regime, Puerto Rico will default and litigation will intensify, as he pushed Congress to act with legislation to help the island fix its crisis.

Weiss, speaking to the House Natural Resources Committee in a hearing about the island's fiscal crisis, outlined the scale of the problems the U.S. territory faces.

"As the cascading defaults and litigation unfold, there is real risk of another lost decade, this one more damaging than the last," Weiss said.

A legislative solution for Puerto Rico, battling with \$70 billion debt, may be edging closer. Legislation to find a fix for the island is expected to be drawn up following two Congressional hearings on Thursday - one in front of the House Natural Resources Committee at which Weiss was the sole witness.

House Speaker Paul Ryan has said he wants the Republican-led House to develop a response to Puerto Rico's fiscal crisis during the first quarter of 2016, and Republicans plan to bring a bill addressing the crisis to the House floor by the end of March.

Puerto Rico wants access to a bankruptcy-like mechanism to reduce debt - a view backed by President Barack Obama's administration and some Congressional Democrats. But majority Republicans have not supported efforts to extend bankruptcy protection to the island, a strategy which could be detrimental to some creditors, and are keen to put Puerto Rico under strict fiscal oversight.

Weiss, in questioning, said that Treasury's restructuring proposal was not envisioning the Chapter 9 bankruptcy law U.S. states can access for their public agencies, but legislation "customized to the unique conditions that face Puerto Rico."

Weiss said his team will have to work to convince island leaders of the need for an oversight board for the island. "I think the legislature doesn't fully understand what this oversight authority would consist of," he said.

Puerto Rico, with a 45 percent poverty rate, has been in recession for nearly a decade and is losing population to the mainland. It is suffering from a huge debt buildup and has already defaulted on some borrowings.

"There is fear of the future," said Weiss. "Puerto Ricans are leaving and are joining us on the mainland where they find access to jobs, a future for their children, better healthcare."

Weiss said that a failure to protect pension payments would "irreparably harm retirees" and add greater stress to Puerto Rico's economy.

“We are deeply concerned about the pensions in Puerto Rico,” he said.

The Treasury late last year envisioned giving Puerto Rico’s pensioners stronger legal protection than holders of its constitutionally backed bonds if it went bankrupt, according to a draft of a proposed plan seen by Reuters.

A separate hearing before a subcommittee of the House Committee on Financial Services focused on the impact to investors in the \$3.7 trillion municipal bond market.

Mark Zandi, chief economist at Moody’s Analytics, said without a broad restructuring framework to include more of the debt than a Chapter 9 framework would envision, the issue would not be solved and “we will be back here again.”

Legislation for Puerto Rico could potentially be written as a stand-alone law, which carries the risk of having little momentum to approve it, or attached to a bill related to the Federal Aviation Administration (FAA), a congressional source previously said.

An FAA authorization bill which authorizes funding for the agency could come up for a vote in the House of Representatives as early as next month.

However, a legislative solution may be hard to achieve given the differing views and acrimonious relationship between Republicans, which control Congress, and Democrats.

Tom McClintock, a Republican of California, said instead of increasing regulation, Puerto Rico needs less red tape, less tax burden and could be turned into a “Hong Kong of the Caribbean.”

However, Representative Raul Labrador of Idaho said he appreciated that Weiss was “trying to find a solution.”

“We don’t agree on every one of your solutions but I can tell that the administration is acting in good faith in finding a solution to the problem,” Labrador said.

By REUTERS

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(Additional reporting by Daniel Bases in New York and David Morgan in Washington)