

# **Bond Case Briefs**

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## **Lawmakers See Strong Board as Part of Puerto Rico Debt Fix.**

SAN JUAN/WASHINGTON — Republican lawmakers are writing a fix to the Puerto Rico debt crisis that would give an independent financial review board sweeping power to arbitrate creditor disputes and map a future for the U.S. territory's pension system.

Rather than pick winners and losers among investors who hold roughly \$70 billion of Puerto Rican debt, the Republican plan envisions leaving key questions to a newly-created board, according to legislative sources familiar with the work. Republicans control both houses of Congress and so the party leaders often write the first draft of legislation.

Under the proposal, White House and congressional leaders would appoint a board of financial experts to arbitrate politically-charged questions like whether bonds issued by utilities or even the island's government should be written down.

"We expect to have a framework that protects taxpayers and restores solvency to the island," said Parish Braden, spokesman for the Natural Resources Committee that is writing legislation in the House of Representatives.

A crucial issue for lawmakers is whether Puerto Rico will have a clear path to restructure debt through the courts, in a process akin to U.S. bankruptcy, if the new board could not facilitate a deal among stakeholders.

The U.S. Treasury Department has long called for a debt restructuring for Puerto Rico. So have Congressional Democrats, and Puerto Rico's leaders.

A spokesman for the Treasury Department said officials were "encouraged by the increased legislative activity," but declined to speculate on the Republican legislation that was expected to be finished before the end of the month.

And while Republicans will write the first draft of the rescue bill, Democrats in Congress and the White House will have a say as legislation moves toward approval from President Barack Obama.

On Monday, New Jersey Senator Robert Menendez, a Democrat, proposed putting roughly \$45 billion in unfunded pension liabilities at the top of the list of creditors.

Some creditors are concerned where they might rank with such a move and many oppose any provision that would allow the island to file for bankruptcy. Municipal bond markets would be roiled if Puerto Rico were cleared, some Republican lawmakers have argued.

"These are complicated issues and Congress needs to empower people qualified to handle them," said one staffer working on the plan.

The 3.5 million residents of Puerto Rico may face a reduction of "essential government services" like

public safety and health care if there is no fix before the next debt payments in May, Puerto Rico Governor Alejandro Garcia Padilla told Congress last year.

The Menendez plan would restructure all of Puerto Rico's debt, establishing a chief financial officer, a "Fiscal Stability and Reform Board" and require the island's governor to develop a 5-year fiscal plan.

If Puerto Rico accepts the plan Menendez proposes then an automatic 12-month stay on debt payments would go into effect, after which a restructuring plan with creditors would be crafted.

The plan would see that pensions would be paid before the island's General Obligation debt, which is typically the first in line for payment.

Padilla praised Menendez's plan for providing tools needed to stave off the immediate impact of the crisis while helping to stabilize the economy.

Orrin Hatch, the Utah Republican who is chairman of the powerful Senate Finance Committee, swatted away Menendez's proposals.

"While I have yet to see the full legislative text of the proposals, from what I've read, Senate Democrats appear to want to move the goal posts on broad debt restructuring," Hatch said in a statement emailed to Reuters.

By REUTERS

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