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Puerto Rico Bill Won't Shield GOs, Congressional Aide Says.

Draft legislation to reduce Puerto Rico's \$70 billion debt load may fail to shield debt protected by the island's constitution.

The House Natural Resources Committee released Tuesday a discussion draft of a bill that would establish a federal control board to manage Puerto Rico's finances and oversee any restructuring of debt. It plans to introduce the bill April 11. The proposed oversight panel may consider the commonwealth's \$13 billion of general-obligation debt, which its constitution says must be repaid before other expenses, if it believes those securities need to be altered, a congressional aide told reporters during a conference call.

The legislation is the most comprehensive plan yet drafted by Congressional Republicans to help resolve the island's debt crisis. Details of the bill started to be unveiled last week. Puerto Rico Governor Alejandro Garcia Padilla in June said the commonwealth was unable to repay all of its obligations after years of borrowing to fix budget deficits. Two agencies have defaulted on debt since then and the island's next major bond payment is about five weeks away.

"This draft is thoughtful, comprehensive legislation that gives the U.S. territory the tools it needs to deal with its systemic fiscal and budgeting problems—without a taxpayer bailout," House Speaker Paul Ryan said in a statement Tuesday.

Broad Counterproposal

Ryan directed his members to draft legislation that would address Puerto Rico's finances by March 31. Lawmakers have been working on the bill as the commonwealth negotiates with its creditors. Island officials last week gave bondholders their most recent debt-restructuring plan. Investors began working together Monday on a broad counterproposal that would include the island's various types of debt during a meeting between advisers and lawyers for mutual funds, bond-insurance companies and hedge funds.

A U.S. Treasury Department spokesman said the draft needed improvements.

"Puerto Rico urgently needs the ability to comprehensively restructure its financial liabilities paired with independent oversight that respects the commonwealth's self-governance," the spokesman, Daniel Watson, said in a statement Tuesday.

The draft bill would enable the control board to rein in bondholders that are reluctant to agree to a voluntary restructuring plan by using the courts to force those investors to accept losses. Some investors have balked at that element of the legislation. Puerto Rico entities don't have access to municipal bankruptcy, as Detroit did.

"The bill would retroactively eliminate an important investor protection relied upon by millions of individual investors throughout the U.S. mainland and Puerto Rico," Stephen Spencer, managing director at Houlihan Lokey, adviser to major creditors of Puerto Rico, said in a statement. "As a

result, the bill would transfer billions of dollars from retail investors and retirees to pay for Puerto Rico's mismanagement and reckless spending."

The bill would also safeguard Puerto Rico from legal action by temporarily prohibiting creditor lawsuits once the measure is enacted into law.

Garcia Padilla said Monday that the proposed federal legislation imposes too much U.S. control over the island. The federal board would oversee any debt restructuring, instead of entrusting that power to local officials. The panel would have the ability to balance budgets if Puerto Rico lawmakers are unable to end multi-year deficits that are at the root of the island's financial challenges.

Most Congressional Democrats led by top House Democrat Nancy Pelosi of California were also less than impressed. She warned in statement that "the sweeping powers of the oversight board proposed in Republicans' current discussion draft are far from what Democrats can support."

"In its current form, this board would exert undue and undemocratic control over Puerto Rico's government and residents," said Pelosi.

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