

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico's Government Development Bank Risks Receivership.

Puerto Rico's Government Development Bank, whose regulator says faces a cash shortfall of as much as \$1.3 billion in June, will continue to operate on its own — for now.

The bank, which lends to the commonwealth and its municipalities, is insolvent, Puerto Rico's Commission of Financial Institutions, the bank's regulator, concluded in its most recent report on the GDB's finances.

That determination allows the island's Treasury Secretary to ask a court to appoint a receiver to oversee the GDB. It's a move the administration won't make at this time, Jesus Manuel Ortiz, a spokesman for Governor Alejandro Garcia Padilla, told reporters Wednesday in San Juan.

"We are constantly monitoring the liquidity of the GDB and no receiver will be named in the short term," Ortiz said.

The GDB serves as the commonwealth's financial adviser and structures municipal-debt sales for the island. The bank's cash crunch has hampered its ability to lend to the commonwealth and provide short-term funds.

The GDB is experiencing a liquidity shortfall that will reach a negative \$1.3 billion in June, according to a Monday court opinion of Wal-Mart Stores Inc.'s successful suit against Puerto Rico to end a tax that applied its highest rate on the retailer. The opinion quoted from the commission's November report, which isn't public.

Critically Deficient

The commission's report found that the bank's "liquidity levels are critically deficient in relation to its weakened financial conditions caused by an elevated debt exposure and obstructed access to capital markets," the court opinion quoted from the report.

The bank has disputed the findings. Melba Acosta, president of the Government Development Bank, is cited in a footnote in the report as saying the report was 'obviously written by someone who doesn't understand the GDB.'

Barbara Morgan, a spokeswoman at SKDKnickerbocker in New York who represents the GDB, didn't have an immediate comment. Betsy Nazario, a spokeswoman at the GDB in San Juan, didn't immediately return a phone call and e-mail.

Puerto Rico is negotiating with its creditors to reduce \$70 billion of debt through a voluntary debt exchange after the island borrowed for years to paper over budget deficits. About 45 percent of residents live in poverty and the island's economy has shrunk in the past decade. The House Natural Resources Committee Tuesday made public a discussion draft of a bill that would set up a federal control board to oversee any debt restructuring and review annual budgets.

Last Examination

The bank in November warned that it was at risk of receivership, which would suspend the GDB's operations and settle its obligations. It owes investors a \$422 million bond payment May 1 that Garcia Padilla has said cannot be paid. Puerto Rico and its agencies must pay an additional \$2 billion in principal and interest on July 1.

The commission's last comprehensive exam of the GDB was in 2007, according to the court opinion. Once the commission began conducting its review last year, the bank took more than six months to give "the minimum necessary information to produce" the review, the court opinion quoted from the report.

"For years now, the commonwealth has been running away from the truth about its fiscal health," Judge Jose Antonio Fuste, wrote in his opinion. "The deep-seated refusal of several administrations to own up to and correct the structural imbalances in our economy has brought us to the point of crisis."

Bloomberg Business

by Michelle Kaske and Alexander Lopez

March 30, 2016 — 12:11 PM PDT