

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **House Committee Approves Puerto Rico Bill with Bipartisan Support.**

A House committee on Wednesday advanced legislation to address Puerto Rico's debt crisis with solid bipartisan support, a strong sign the bill could move quickly through Congress ahead of a potential default by the territory on July 1.

The legislation would create a debt-restructuring process and empower a federal oversight board to supervise what is shaping up to be the largest municipal debt workout in American history. The measure wouldn't spend any federal money.

The House Committee on Natural Resources, which has oversight of federal territories, advanced the bill on a 29-10 vote, with 14 Republicans and 15 Democrats backing the legislation.

The bill, which produced a rare moment of bipartisan cooperation in an election year, has drawn strong opposition from some bondholders and other political groups that spent millions of dollars on television advertisements to defeat it.

Puerto Rico last year began defaulting on several classes of nearly \$70 billion in debt it owes, threatening to worsen the island's growth prospects after a decadelong recession. Because it isn't a state, its municipalities aren't eligible to restructure their debts in U.S. bankruptcy courts. Because it isn't a country, Puerto Rico can't turn to the International Monetary Fund for assistance.

Rep. Rob Bishop (R., Utah), the committee chairman, said he expects majorities of both parties to back the bill when it comes to the House floor. In the Senate, Majority Leader Mitch McConnell (R., Ky.) said Tuesday lawmakers were "anxious to take up" whatever the House could pass. The White House supports the measure.

The measure would mark a significant policy accomplishment for House Speaker Paul Ryan (R., Wis.), who tasked Mr. Bishop with crafting legislation earlier this year for the island to write down certain debts while subject to the federal board. They worked closely with the Treasury Department and Democratic lawmakers, and both sides complimented what they said was an unusually collegial and bipartisan process.

"The legislation provides a framework to motivate the government and its creditors to come to the table to negotiate more," said Eric LeCompte, executive director of Jubilee USA, an organization that presses for debt relief.

Still, the compromise has been unpopular with blocs in both parties. Labor unions and elected officials in Puerto Rico have objected to several provisions, including an oversight board appointed by the White House and Congress that they say amounts to a colonial takeover.

House Minority Leader Nancy Pelosi (D., Calif.) and Rep. Pedro Pierluisi, a Democrat who serves as Puerto Rico's nonvoting representative, have supported the bill, saying it is the best package they can secure under a Republican-controlled Congress. Lawmakers should "get real" about any

alternative “that can actually become law,” said Mr. Pierluisi. “I do not believe one exists.”

Some conservative lawmakers, meanwhile, said it would harm creditors’ rights and create a potential precedent for distressed U.S. states.

Bond-market analysts said the legislation could actually help the broader \$3.7 trillion municipal bond market, because by using the territories clause of the U.S. Constitution, Congress made clear it wouldn’t set a precedent for states.

“This creates a clear firewall and ring-fences Puerto Rico from the broader muni market,” said David Hammer, co-head of municipal bond portfolio management at Pacific Investment Management Co.

Moreover, the debt-restructuring mechanism would require Puerto Rico to cede more power to the federal government, he said. “That’s not something a state or local government would ever seek to do.”

Congress granted U.S. citizenship in 1917 to residents of Puerto Rico, which was seized from Spain after the Spanish-American War of 1898. The U.S. gave the territory the right to elect its own governor in 1947.

Under the legislation advanced Wednesday, a seven-member oversight board, not the government elected by Puerto Rico, would determine whether and when to initiate court-supervised debt restructuring, and it would have the power to approve or reject budgets. The board would terminate after Puerto Rico regains the ability to borrow at reasonable interest rates and balances its budget for four consecutive years.

THE WALL STREET JOURNAL

By NICK TIMIRAOS

Updated May 25, 2016 5:24 p.m. ET

—Siobhan Hughes contributed to this article.

Write to Nick Timiraos at [nick.timiraos@wsj.com](mailto:nick.timiraos@wsj.com)

Copyright © 2026 Bond Case Briefs | [bondcasebriefs.com](http://bondcasebriefs.com)