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Puerto Rico Bill Passes Senate.

WASHINGTON—Senate approval of debt-relief legislation for Puerto Rico on Wednesday paved the way for President Barack Obama to sign the bipartisan bill into law before Friday, when Puerto Rico's government says it will default on some of its most senior debt payments.

The legislation, which the Senate passed on a 68-to-30 vote, creates a process to guide what could be the largest municipal-debt workout in U.S. history. The House approved the measure earlier this month.

Puerto Rico's government has begun defaulting on \$70 billion in debts and says the territory will be unable to make \$2 billion in debt payments due Friday. The legislation doesn't authorize or prevent a default, but it would provide the island with a stay against creditor litigation.

The bill won majorities within both parties in the House and in the Senate, and the White House strongly backed the bill.

The legislation has been a rare instance of bipartisan compromise on Capitol Hill, a feat made more remarkable by the fraught and technically complex subject matter. Congress, for example, deadlocked this week over how to approve funding to combat the Zika virus.

"In a world where people have given up on Washington to deal with technical, complicated, controversial things, it ought to be a moment of some encouragement," Treasury Secretary Jacob Lew said in an interview Wednesday.

Earlier this year, many observers doubted Congress would take swift action on Puerto Rico, but the measure emerged because of the strong backing of House Speaker Paul Ryan (R., Wis.), who negotiated the compromise with Mr. Lew after committing to finding a solution with House Minority Leader Nancy Pelosi (D., Calif.) at the end of last year.

In recent days, Treasury officials voiced alarm over a looming race to the courthouse that they said would be hard to stop if the bill wasn't approved by Friday, potentially forcing cuts in public services in Puerto Rico.

U.S. hedge funds that own the island's most senior bonds sued earlier this month to block a local debt-moratorium law, arguing that their bonds are "required to be paid first in times of scarcity, ahead of even what government deems 'essential services.'"

Treasury officials said the lawsuit hinted at the likelihood that investors would seek an injunction in the event of a default that would force Puerto Rico to cut public services to pay its constitutionally prioritized debts.

"If anyone had any doubt about what would happen on July 1, the lawsuit...puts those doubts aside," Antonio Weiss, a Treasury counselor, said last week.

Republicans have argued the measure was necessary to prevent a taxpayer bailout of the island

down the road.

Some bond investors and outside political groups spent millions of dollars on a lobbying effort to kill the debt-relief bill, which could force them to accept larger upfront losses on their investments. Some bondholders say the island's government, with the blessing of the Treasury Department, has made Puerto Rico's difficulties worse by threatening to default on debt. They say the territory has exaggerated its financial difficulties.

Labor unions also opposed the bill.

The legislation authorizes a seven-member oversight board, appointed by Mr. Obama with input from Congress, to oversee the territory's finances and approve any court-supervised debt restructuring.

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By NICK TIMIRAOS

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Write to Nick Timiraos at nick.timiraos@wsj.com

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