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Puerto Rico Debt Fix Unlikely to Resemble Detroit's.

NEW YORK — The federal appointees tapped to help map Puerto Rico's economic future are technocrats more than political actors, and that could make the U.S. territory's fiscal turnaround look more like a corporate restructuring than a politically charged municipal bankruptcy in the vein of Detroit.

The law known as PROMESA, which created the board when it passed the U.S. Congress in June with bipartisan support, envisioned a pragmatic solution for an island combating \$70 billion in debt, 45 percent poverty and a brain drain as residents bolt in droves for the mainland United States.

Its members, four Republicans and three Democrats appointed last week, were chosen by Republican and Democratic lawmakers and President Barack Obama. The board has broad powers to help stabilize the island's economy, from investigating Puerto Rico's government to working with that government on projects to spur economic growth.

It must also approve the island's annual budgets, and will eventually facilitate debt-restructuring talks with creditors. In the latter endeavor, it will have to navigate a minefield of competing interests.

The island has 18 separate debt issuers, backed by different revenues streams, as well as \$18 billion in so-called general obligation debt backed by the "full faith and credit" of the territory's government. While that promise is legally weak in a bankruptcy setting, it is a sacrosanct pledge in municipal debt markets.

Holders of all that debt will jockey for payouts against government vendors and beneficiaries of the island's public pensions, which have less than \$2 billion in assets to cover some \$45 billion in liabilities.

Detroit's bankruptcy, which ended in December 2014, treated city pensions much better than its outstanding bonds, which were largely insured. Some Puerto Rico creditors, still suffering Detroit flashbacks, feared Puerto Rico could look similar – especially since Governor Alejandro Garcia Padilla has pushed big haircuts and railed against the idea of reducing government services.

But the makeup of the Puerto Rico board has offered some reassurance, said Nader Tavakoli, chief executive officer of Ambac, which insures \$2.2 billion of Puerto Rican bonds and also insured some of Detroit's bonds. "These board members are technocrats, and it gives us confidence that this is not going to be overly politicized," he said.

Deal makers also feature prominently, with an ex-bankruptcy judge, a banker and a hedge fund operator in the mix.

Republicans, generally seen as creditor-friendly, nominated a bankruptcy academic who favors restructuring the island's debt, David Skeel. And Democrats nominated a banker, Jose Ramon Gonzalez, and a Democratic finance expert in Ana Matosantos who directed California's budget

under former Republican Governor Arnold Schwarzenegger.

Experts see the group as likely to push a solution that sees all sides share a burden, a typical approach for companies restructuring under Chapter 11.

“There are no ideologues in the group,” said Keefe Bruyette & Woods analyst Chas Tyson.

That does not mean there are not drawbacks. For one, the board will have to navigate a testy local political climate with residents who largely revile a panel they see as an extension of colonial rule. Island voters broadly unhappy with the Garcia Padilla administration in November will elect a new governor as well as members of the legislature and scores of mayors.

“There are still politics here,” said veteran bankruptcy attorney Richard Levin, who is following the situation. “The governor and legislature retain some authority.”

For Height Securities analyst Daniel Hanson, the board is short on expertise in economic development. Any real solution for Puerto Rico requires fundamental economic changes, including at its underperforming education department, and it’s unclear whether the board can facilitate such change.

But from a financial perspective, at least, the board seems less inclined to promote a political agenda than figure out a collaborative fix and then get out, said Matt Fabian, partner at Municipal Market Analytics.

“The board is not being installed to fight with Puerto Ricans or to impose some kind of federal view,” Fabian said. “They just want these troubles to be fixed.”

By REUTERS

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