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No Conspirators or Smoking Gun in Puerto Rico Report: Joe Mysak

- **Good intentions, binge borrowing created muni debt debacle**
- **No one thing doomed Puerto Rico; it was everything combined**

The 608-page investigative report prepared for Puerto Rico's Financial Oversight & Management Board isn't exactly a whodunit.

Who was responsible for Puerto Rico borrowing its way to bankruptcy? How was it even possible for the island to build up $74 billion in bonded debt and $49 billion of unfunded pension liabilities, a burden that is described as "catastrophic"?

Well, nobody, really. Or everybody. Puerto Rico's debt debacle, as recounted here in almost excruciating detail, was, so to speak, a crime without criminals. It was committed over more than a decade, very slowly and for the most part in plain sight.

For years, until that summer day in 2015 when Governor Alejandro Garcia Padilla declared on the front page of the New York Times that the debt was not payable, analysts and observers had to keep two conflicting premises in their heads.

The first was that Puerto Rico would repay its bonded debt, no matter what the financial or humanitarian cost, because that's what municipalities do. The second was that the territory's debt per capita, a multiple of that carried by the most indebted mainland states, was absurd and unsustainable. Now we know that only the second was valid.

The report, prepared by independent investigator Kobre & Kim LLP, is critical of the island's leadership and lawmakers and processes, but only up to a point. It's the same with the bond lawyers and bankers, advisers and analysts. Everything, it seems, was done with the best of intentions.

Consider, for example, the credit-rating companies. Couldn't the analysts involved been more aggressive in shutting down Puerto Rico's borrowing binge? "We have not seen any evidence to establish that the credit rating agencies did not genuinely believe that contemporaneous circumstances justified their assigned ratings," the report says.

Or take the Government Development Bank, which enabled so much of the borrowing to go on. "The evidence we examined does not support the conclusion that current or former GDB officials violated any applicable ethics restriction in connection with relevant Puerto Rico-related transactions."

Didn't the island violate its own constitutional debt limits? "The evidence we reviewed supports the conclusion that Puerto Rico employed a reasonably robust process for these Debt Limit Calculations," the report says. "We did not find any evidence that Puerto Rico's government personnel believed that Puerto Rico's interpretation of the Constitutional Debt Limit was wrong or that Puerto Rico performed the Debt Limit Calculation incorrectly."

And so on. The chapter on Puerto Rico's use of interest-rate swaps is the usual catalog of horrors, and there is a banker who does not recall a lot, but Puerto Rico wasn't alone in its enthusiasm for the things.

The enormity of the Puerto Rico blowup seems to demand conspiracy theories to explain it. You won't find them in the Final Investigative Report.

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