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Puerto Rico Board Says Debt Is \$6 Billion Over Limit.

U.S. territory's oversight board says post-2012 bond issuances are void

Puerto Rico's financial supervisors attacked investors holding \$6 billion of general obligations, saying the bonds are worthless because they layered more debt on the U.S. territory than its constitution allowed.

The Puerto Rico oversight board [filed court papers on Monday](#) seeking to nullify general obligation debt issued after 2012, based on constitutional restrictions on the amount of debt backed by the island government's full faith and credit.

The objection covers Puerto Rico's [sale of \\$3.5 billion of high-yielding general obligations](#) in 2014, the largest-ever deal for junk-rated municipal debt.

The oversight board, which is helming Puerto Rico's court-supervised bankruptcy, said the post-2012 general obligations "should be disallowed in their entirety" to ease the restructuring of tens of billions of dollars in bond and pension debts owed by the central government.

"Where a government transaction is found to have violated a clear public policy embodied in statutory or constitutional law, allowing any remedy to a private counterparty would undermine that public policy, which exists to protect the people of Puerto Rico," the filing said.

A spokesman for a group of general obligation bondholders including Aurelius Capital Management, LP, Monarch Alternative Capital LP and Autonomy Capital didn't immediately respond to a request for comment.

The objection concerns several provisions of the Puerto Rico constitution. One clause bars Puerto Rico from guaranteeing debt if the borrowing costs would exceed 15% of its revenues from the prior two years. Puerto Rico is also barred from issuing general obligations to cover budget deficits, according to the objection. It also contended that bonds backed by rent payments on government buildings are tantamount to general obligations and should have counted toward the debt limits.

The oversight board said general obligation sales under former governors from both of Puerto Rico's largest political parties breached these provisions.

The objection echoes a legal strategy employed by the formerly bankrupt city of Detroit, which argued that \$1.5 billion in debt issued to finance pension obligations was invalid because it exceeded Michigan's limits on municipal borrowing. Those bonds were paid back at 14 cents on the dollar when Detroit emerged from bankruptcy.

A restructuring plan for Puerto Rico's general obligations isn't expected to materialize for months. The oversight board is currently vying with dissident bondholders to write down \$18 billion in sales-tax bonds known as Cofinas and has proposed a [debt adjustment plan](#) that is scheduled to be heard on Wednesday by U.S. District Judge Laura Taylor Swain.

By driving down Puerto Rico's \$125 billion debt load, the oversight board is hoping to free up money for investment in dilapidated infrastructure and entice private capital back to the island, which was devastated by two hurricanes in 2017.

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By Andrew Scurria

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