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Puerto Rico Bankruptcy Climax Set to Come Amid Island Elections.

- **Federal judge sets schedule for approving debt-cutting plan**
- **Plan backers seek approval before new government comes in**

Puerto Rico's main bankruptcy case could end in early November under a schedule approved by the federal judge overseeing the island's record-setting debt restructuring.

U.S. District Court Judge Laura Taylor Swain adopted the recommendations of a team of court mediators, who have been leading confidential talks aimed at cutting a deal among bondholders, the government and the federal oversight board responsible for steering Puerto Rico out of its long-running debt crisis.

The decision means that a bankruptcy exit plan that cuts pensions for government workers and pays billions of dollars to bondholders will come before Swain for final approval just as lawmakers, whose cooperation is needed to make the plan work, face voters in November.

The Financial Oversight and Management Board pushed for approval of its proposed debt-adjustment plan before the election in order to lock in any deal that may come with the current governor and legislature, the federal panel's lead bankruptcy attorney Martin Bienenstock said in court.

"We don't know who might change in the new government," Bienenstock told Swain. "It's just reality, your honor and we're not afraid to admit it."

Court Battle

Swain said she will release the exact dates for the court battle over the plan in the coming days, but expects to generally schedule the hearing between Oct. 21 and Nov. 6. That hearing would be among the last steps needed to free much of Puerto Rico's government from court oversight.

The current government would still be in office should Swain approve the commonwealth plan after the hearing ends in November. Puerto Rico lawmakers are still negotiating potential changes with the federal oversight board. The government opposes proposed cuts to public worker pensions.

Before she considers approving the debt plan, Swain agreed to try to rule on some of the most important legal disputes between creditors, including bond insurers, and the federal oversight board.

Since the bankruptcy began in 2017, Puerto Rico's government has refused to adopt a number of painful economic reforms demanded by the Financial Oversight and Management Board, the agency set up by the U.S. Congress to restructure the commonwealth's public debt. The board has been wildly unpopular on the island and is a frequent target in the elaborate political graffiti seen in San Juan, the territory's biggest city.

Political Value

Should the legislature refuse to adopt measures needed to implement the plan, the board could try to bypass Puerto Rico's lawmakers, a move that would likely be attacked in court. There is no island-wide political vote on the plan itself.

If lawmakers continue to oppose the debt plan, the board should make more concessions so there's political value in accepting the restructuring deal, said Matt Fabian, partner at Municipal Markets Analytics. Even then, the odds of Swain approving the debt plan in the middle of an election are low, he said.

"It will be a real achievement for the board to be able to get a critical mass of creditors and the commonwealth on board for a plan before the election," Fabian said. "I think it's very unlikely."

The oversight board has cut deals with various factions, including investors who hold general-obligation debt and public building agency bonds, government unions that represent nearly 11,000 people and a committee of retired commonwealth workers.

One of the main settlements was with investors who hold about $10 billion of general-obligation and public building bonds. The federal board had tried to have much of that debt canceled, arguing it should never have been issued. The deal slashes related principal and interest owed by the commonwealth by 56%, from $90.4 billion to $39.7 billion, including the already enacted cuts to its sales-tax debt, according to court documents.

Complex Case

The proposal is also opposed by bond insurers who guaranteed much of the island's debt against default.

In complex bankruptcy cases, it typically takes months to get a debt-adjustment plan ready for the court to rule on whether it meets all the standards laid out in federal law. For example, creditors must be given an outline of the plan and time to vote on it.

Delaying the start of that months-long process would be a mistake, said Barbara Houser, the U.S. bankruptcy judge who is leading a team of mediators through negotiations between creditors and the federal board.

"If we don't start, we can never finish," she told Swain during the hearing Wednesday morning.

The case is The Commonwealth of Puerto Rico et al, 17-3283, U.S. Bankruptcy Court, District of Puerto Rico (San Juan)

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