The Virgin Islands Consortium

Puerto Rico Debt Crisis Bill Heads To Obama

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ST. CROIX -- With the territory no longer directly tied to the Puerto Rico Oversight Management and Economic Stability Act (PROMESA), the U.S. Senate on Wednesday passed the bill 68 to 30, and sent it to the White House where President Barack Obama is expected to sign the measure into law.

The rescue package will not prevent Puerto Rico from missing a $2 billion debt payment due today, and Republican congressional leaders worked overtime to reassure conservatives that the bill is not a bailout.

Instead, the legislation would allow the island's government to restructure its $72 billion total debt so it can manage payments, and create a bipartisan oversight board mostly of outsiders to guide the recovery process.

The legislation had cleared the House after a change to a controversial provision in the bill, which extended the option for the Oversight Board to preside over U.S. territories outside of Puerto Rico. Delegate to Congress Stacey Plaskett fought long and hard to remove that provision, and accomplished her goal through an amendment that was introduced on the House floor essentially removing the U.S. Virgin Islands and other U.S. territories from the bill, with the exception of getting re-included if lawsuits were to be filed by challengers -- especially bondholders.

“What we’ve been working on with a member on the Republican side — and we’ve garnered several co-sponsors — is proposing an amendment that will be introduced on the [House] floor which removes the smaller territories from the bill, but has what’s called a snap back provision which says that we are excluded unless a court case says that constitutionally all the territories have to be included because of uniformity clause issues in the Constitution,” Ms. Plaskett told The Consortium.

Part of the delegate’s concern was the negative effect U.S. Virgin Islands inclusion in the P.R. debt measure could have on the territory’s bonds. But the U.S. Treasury, which has been leading the charge in pushing to have all U.S. territories included in the PROMESA bill, had argued that if some territories were included and others were left out, bondholders, who see the bill as a way for the federal government to allow Puerto Rico to legally not pay its debt — a notion that has greatly diminished Puerto Rico’s standing in the bond market — could sue the federal government.

She feared that local bonds could have beeen negatively impacted as well, and noted that the territory’s interest rates had already inched up just on the talk of being included in the measure.

“Since this legislation came in and has been discussed on the floor, the price of our municipal bonds (a security issued on behalf of a local authority) has gone up,” she said. “And so we need to be removed from this because we still need at this time to go to the market.”

The PROMESA bill would put Puerto Rico’s fiscal affairs under direct federal control and establish a legal framework for reducing its $72 billion load of debt. The rules would be similar to Chapter 9 municipal bankruptcy, but with differences intended to reassure those creditors who believe Chapter 9 is stacked against them.

If enacted as is, the bill would also pre-empt action by the United States Supreme Court, which has been called upon to interpret the laws governing Puerto Rico, according to the New York Times. Chapter 9 of the bankruptcy code explicitly bars Puerto Rico from seeking debt relief without revealing why. In March, the justices heard oral arguments in an expedited appeal by the island, but they expressed uncertainty about how to proceed.