

The Virgin Islands Consortium

Creditors Owed by Puerto Rico Agree to Reduce \$18.8 Billion Debt, But Puerto Rico Has Rejected Deal Because of Cuts to Pension System

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The Puerto Rico Capitol Building

SAN JUAN, Puerto Rico (AP) — Puerto Rico's governor announced Tuesday that a federal control board reached a key deal that would reduce the U.S. territory's overall debt by nearly 80%, but that his administration is rejecting it amid concerns about cuts to the island's crumbling public pension system.

The impasse between the governor and a board that oversees Puerto Rico's finances threatens to throw into limbo attempts to end a bankruptcy-like process for a government

that six years ago declared unpayable its more than \$70 billion public debt load.

The deal was reached with creditors who hold general obligation bonds and Public Building Authority bonds sold by Puerto Rico's government and would resolve \$35 billion worth of debt and non-debt claims, according to the board. It also would reduce debt held by those creditors from \$18.8 billion to \$7.4 billion, a 61% reduction, and would provide them with \$7.4 billion in bonds and \$7 billion in cash, among other things.

The board said the deal would free up more than \$300 million a year for government services, and that instead of the 30 cents for every dollar in taxes and fees that Puerto Rico's government collects that once went to creditors, it would be less than 8 cents.

"It will set Puerto Rico on the path to end bankruptcy," said board chairman David Skeel. "We think this is a very, very big moment in Puerto Rico's recovery."

Gov. Pedro Pierluisi disagreed.

He said in a statement that while the agreement is positive in many ways for Puerto Rico, his administration does not back the deal that is scheduled to be submitted in court next month and requires final approval from a federal judge overseeing the bankruptcy-like process.

"The plan of adjustment should not be structured in a way that affects our pensioners even more," he said.

Pierluisi added that finalizing the restructuring of a portion of Puerto Rico's debt is a priority for his administration, but not at the expense of retirees: "Putting the bankruptcy process behind us is a fundamental step toward the recovery and economic development of our island."

Natalie Jaresko, the board's executive director, said she understood the governor's concerns but added that she doesn't want to presuppose what might happen going forward and what the lack of support from Pierluisi could mean for debt-restructuring efforts.

"I'm hopeful that over time people will understand that this is likely to be the most fair and confirmable resolution to exit bankruptcy," she said. "Hopefully, we'll reach consensus."

Jaresko noted that more than 70% of pensions would face no cuts, and that most teachers and police officers are under the \$1,500 threshold. She added that the board also would set aside a pension reserve trust since it projects budget deficits in upcoming years, and that money in the trust could not be used to help the government make ends meet.

Puerto Rico accumulated the debt after decades of mismanagement, corruption and excessive borrowing to balance budgets. A former governor declared it unpayable in 2015 and then two years later, the government filed for the biggest U.S. municipal bankruptcy in history.

Officials are now restructuring a portion of that debt amid a nearly 15-year economic crisis that deepened after Hurricane Maria, a string of strong earthquakes that hit a year

ago and the ongoing pandemic.

The creditor groups involved in the deal hold more than \$11 billion worth of bonds. Those who hold more than \$8 billion of those bonds said they have engaged in good faith with the board to provide Puerto Rico with the financial flexibility it needs to recover from the pandemic.

“This widely-supported compromise will help Puerto Rico avert years of costly, distracting litigation and finally expedite the island’s long-awaited exit from bankruptcy in 2021,” they said in a statement.

The next step is for the court to hold a hearing where details of the plan will be provided. A majority of bondholders would then have to vote in favor of the deal for it to be approved, and then a confirmation hearing would be held. Currently, 60% of bondholders back the deal.

The board said mediation continues with creditors that hold other types of bonds, including Employee Retirement System ones.

Written by AP's Danica Cotto.