



The Urgency to Save Puerto Rico and Its People

Edolphus Towns Jr.

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I proudly served the people of New York as a congressman for 30 years. In that capacity, I did everything in my power to serve my constituents, many of which were Puerto Rican. As I watch the issue of Puerto Rico's bankruptcy unfold, I fear that Congress is not giving it the attention and urgency it needs, and the consequences will be severe.

To provide some background, just last year Puerto Rico defaulted on more than \$70 billion in debt. Because Puerto Rico is a commonwealth, not a sovereign nation or a U.S. state, the U.S. Supreme Court rejected an effort to restructure some of its debt – leaving the future of Puerto Rican people to Congress. As such, both Congress and the Obama administration passed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which created the oversight board. This oversight board (OB) is made up of seven members responsible for approving a fiscal plan put forth by Gov. Ricardo Rossello and ensuring that Puerto Rico is on a path toward economic growth and development.

Unfortunately, both the OB and Rossello have been slow to develop a plan and time is running out. Although the board was created in June 2016, it was not until March 2017 that the OB approved a fiscal plan. Approving a plan is a step in the right direction, but sadly there are several provisions of the proposal that are incredibly alarming.

Most concerning is that this fiscal plan is short-sighted by treating specific bonds immeasurably different than others. While the plan asks that most creditors take more than 70 percent haircuts, it is proposing that the Puerto Rican Electric Power Authority (PREPA) take about a 15 percent haircut. Supporting energy in Puerto Rico is important, but it is also important to remember that Puerto Ricans and other local parties have a stake in the other sales-tax bonds, and asking them to take such a huge cut is not viable.

According to Puerto Rican economist Gustavo Vélez, the PREPA restructuring deal would be good for the PREPA creditors but bad for the Puerto Rican economy. In his study, he concludes the deal would result in higher electricity costs by 3.3 cent/kWh, and it does nothing to improve the efficiency or reliability of PREPA's infrastructure. This is incredibly alarming, considering that Puerto Rico already has high energy costs – about 212 percent higher than rates on the U.S. mainland. The proposed plan is so flawed that a group of creditors that own \$13 billion in debt came together and sent a letter to the OB asking that it reject the plan.

Not only will Puerto Rico be deprived the access to credit markets in the future if it treats creditors so poorly, but it will also be vulnerable to litigation. As part of PROMESA, Puerto Rico is exempt from litigation until May 1, 2017. If the OB and Congress do not act and propose a plan that has equal haircuts across the board, Puerto Rico will be opening the flood gates on May 1 when creditors demand to be treated equally. According to the Cato Institute, "Without

access to the markets and no respect for private contracts, revenues will decline and the prospects for growth will vanish, and the island's 3.5 million citizens will continue fleeing to the mainland.”

On an island where many retirees are under the poverty line and pensions are almost out of cash, there is no room for error, and this fiscal plan must be taken seriously. The way to do that is by creating a comprehensive debt restructuring plan that values all debt before giving PROMESA a large chunk of the pie.

The Oversight Board, Puerto Rico and Congress have a long way to go. Even though I can't tell you how long it will take, I can tell you one thing – the road will be much longer and tougher if these issues are not deliberately considered. In bankruptcy, everyone needs to be treated fairly and with due consideration. Puerto Ricans deserve a second chance, and that begins with a comprehensive plan. If not, this issue will become an even larger financial mess and it will become the United States' responsibility to clean it up.