Puerto Rico's Fiscal Crisis: What You Need to Know

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Summary: Here are the actual facts behind seven myths you may hear about legislation to help Puerto Rico out of its debt crisis.

Congress should enact comprehensive, bipartisan legislation to address Puerto Rico’s fiscal crisis by July 1st.

H.R. 5278, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), has already been passed through the House Natural Resources Committee on an overwhelmingly bipartisan basis. Doing nothing would consign Puerto Rico to a chaotic, disorderly downward spiral that risks a worsening humanitarian crisis.

Here are the corrections to harmful misconceptions about PROMESA and the important tools it provides to address the crisis hurting 3.5 million Americans in Puerto Rico.

MYTH: Puerto Rico can get a better deal through Congress after July 1st or next year.

Puerto Rico is out of time and out of cash. It has already begun defaulting on debt payments, stretching its luck with suppliers, and cutting back on essential services. On July 1, Puerto Rico will face nearly $2 billion worth of payments that it does not have the money to pay. Creditors may sue to force Puerto Rico to pay its debts instead of providing essential services. The only thing that is certain is that without action by Congress, the crisis will get much worse. For those that are fighting for the 3.5 million Americans in Puerto Rico, it would be irresponsible to allow the situation to get even worse when there is no real alternative to the current bill. The reality is that legislation for Puerto Rico requires bipartisan compromise. And as with any compromise, there are parts of this legislation that we do not support, that we would like to be better. But for the moment, we have a deal that:
• Immediately halts costly and disruptive litigation
• Keeps all of Puerto Rico’s debts on the table
• Prohibits carve-outs or special favors to creditors
• Respects Puerto Rico’s self-governance while providing needed transparency and oversight
• Protects pensions and essential services

We will continue to do all we can to improve the deal that is on the table, but we should recognize that this is a deal Democrats and Republicans should be able to get behind.

**MYTH: PROMESA favors hedge funds over the well-being of the 3.5 million Americans in Puerto Rico.**

PROMESA requires shared sacrifice from Puerto Rico’s creditors to achieve a sustainable solution for Puerto Rico. PROMESA puts all of Puerto Rico’s liabilities on the table, with no special carve-outs or bail-outs for Puerto Rico’s creditors. And unlike Puerto Rico’s current laws, PROMESA has no special carve-outs or bailouts for creditors. It is simply not true that PROMESA favors hedge funds. To the contrary, hedge funds and other powerful financial interests have spent millions of dollars on attack ads and hired well-known lobbyists to work to defeat the legislation. On July 1, Puerto Rico will face nearly $2 billion worth of payments that it does not have the money to pay. In the absence of this bill, Puerto Rico’s future will be in the hands of its creditors—not its people.

**MYTH: Puerto Rico won’t have a voice on the oversight board.**

PROMESA creates an independent oversight board to help implement needed reforms while respecting Puerto Rico’s self-governance. Congressional leaders from both parties have committed to work with President Obama to set politics aside and nominate a well-functioning, independent group of experts to serve on the board. The Governor of Puerto Rico has a role on the board, and the Administration is committed to ensuring that Puerto Ricans will be well-represented in board membership.

This independent oversight board is designed so Puerto Rico’s elected leaders remain responsible for initiating and driving economic policy. PROMESA is clear that the Governor of Puerto Rico remains in charge of developing Puerto Rico’s five year fiscal plan and annual budgets, and the Legislature must pass the budget and the laws required to implement the budget. Only if—after multiple opportunities for revision—the Governor’s plan fails to reduce Puerto Rico’s debt to a sustainable level or fails to protect pensions and essential services is the oversight board allowed to counter the Governor’s plan with an alternate plan. In addition, strong provisions and disclosure requirements written into the legislation will prevent anyone with a conflict of interest from serving on
the oversight board. Once Puerto Rico is on the path to economic recovery, the board will—by law—terminate permanently.

**MYTH: PROMESA will mean further austerity and cuts to essential services.**

Puerto Rico is already in a financial crisis. Puerto Rico cannot afford the $70 billion debt that it amassed during a decade-long recession—let alone basic government services. On July 1, Puerto Rico will face nearly $2 billion worth of payments that it does not have the money to pay. Without provisions outlined in PROMESA, creditors may sue to force Puerto Rico to pay its debts instead of providing essential services. Courts could order the Governor to pay creditors instead of paying for police, firefighters, and hospitals.

PROMESA removes the damaging uncertainty of complex and protracted litigation and provides Puerto Rico with the breathing space it needs to focus on providing essential services and restructuring its debts. In addition, PROMESA will allow Puerto Rico to restructure all of its financial liabilities. Puerto Rico spends over a third of its budget today on debt payments—crowding out needed investments and forcing cuts to essential services. By giving Puerto Rico the tools it needs to reorganize its unsustainable debt payment obligations, PROMESA will free up funds that can ultimately be invested in the local economy to attract private investment, create jobs, and better support workers and retirees.

**MYTH: PROMESA fails to protect pensions. Puerto Rico’s pensions could get a better deal under Puerto Rico’s current laws than under PROMESA.**

Public workers in Puerto Rico have little protection for their pensions in the absence of PROMESA. Puerto Rico’s constitution prioritizes payments to bondholders. Unlike bondholders, Puerto Rico’s pensions have no explicit protection or payment priority under Puerto Rico’s constitution. Additionally, pensioners—unlike many bondholders—do not have a claim on specific tax revenues for repayment. If pitted in a race to the courthouse against Puerto Rico’s creditors, the retirement security of Puerto Rico’s pensioners would be in serious jeopardy. With PROMESA, Puerto Rico will be required to provide adequate funding to support the pensions of hundreds of thousands of individuals. Puerto Rico will be expressly prohibited from balancing its budget by short-changing pensions.

Without legislation, the underfunding of the pension system will likely get worse. At the same time, PROMESA does not preclude litigation regarding the legitimacy of Puerto
Rico’s debt. In contrast to PROMESA, which protects pensions, a disorderly default puts pensions at serious risk. Without this legislation, Puerto Rico’s workers do not have the protection they deserve.

**MYTH: The oversight board can order the Governor to lay-off workers or cut wages.**

The oversight board has **NO** authority to lay-off workers or cut wages. PROMESA is clear that the Governor of Puerto Rico remains in charge of developing Puerto Rico’s five year fiscal plan and annual budgets, and the Legislature must pass the budget and the laws required to implement the budget. Only if—after multiple opportunities for revision—the Governor’s budget exceeds the level set by the fiscal plan is the oversight board allowed to call for expenditure reductions or hiring freezes to bring budgets back into balance. But how those expenditure reductions or hiring freezes are implemented, rests entirely with the Governor and Puerto Rico’s legislature.

PROMESA provides the oversight board **NO** authority to dictate how budget cuts, if necessary, should be carried out nor to require that wages or jobs be cut. PROMESA does require that Puerto Rico reduce its debt service—which currently takes up more than 30 percent of its budget—to a sustainable level freeing up revenues to sustain government operations and protect essential services.

**MYTH: Passing PROMESA would mean bailing out Puerto Rico or its creditors.**

PROMESA is the opposite of a bailout. PROMESA provides Puerto Rico with the ability to comprehensively restructure its financial liabilities and provides appropriate fiscal oversight and transparency to ensure needed fiscal reforms are implemented.

Restructuring Puerto Rico’s unsustainable debt does not cost the federal taxpayer even a single additional dollar. Rather than a bailout, PROMESA requires shared sacrifice on the part of Puerto Rico and its creditors; for all stakeholders to do their part to come to a resolution. The alternative—an untested and potentially disruptive process with numerous creditor lawsuits and years of litigation—would increase costs, depress the local economy, delay creditor recoveries and make long-term economic recovery harder to achieve.

PROMESA provides Puerto Rico with the tools it urgently needs to responsibly resolve this crisis. Without PROMESA, the risk that Congress might need to use tax-payer to avert a humanitarian disaster in Puerto Rico only increases in the face of a spiraling, uncontrolled and disorderly crisis.
Jeffrey Zients
Director of the National Economic Council and Assistant to the President for Economic Policy

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