

PROMESA Contains No Bailout, No “Super Chapter 9”

There has been a lot of misinformation floating around on legislation to address Puerto Rico’s fiscal crisis. Despite reports to the contrary, H.R. 4900, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) introduced by House Natural Resources Committee Chairman Rob Bishop (R-Utah) and Congressman Sean Duffy (R-Wis.) contains no bailout and does not retroactively grant the island super chapter 9 bankruptcy.

Why Does Congress Need to Act?

First, some question why this is a Congressional problem. After all, Puerto Rico got itself in this mess, why should Washington have to get them out of it?

For one, Puerto Rico’s 3.5 million residents are U.S. citizens and as a territory of the United States, Congress has [constitutional authority](#) over the island.

If nothing is done the situation will get worse for all stakeholders. Over the next year, Puerto Rico must make \$3.5 billion in debt payments that it has no way of paying. As early as next month, 11 government entities will begin defaulting one by one. Because it is unclear which debt is first in line, the ensuing lawsuits will result in chaos. Not only will Puerto Rico lose out, but creditors will lose out because they will not be paid what they are owed.

The alternative is the House bill which creates a strong oversight board to manage Puerto Rico’s fiscal crisis. The Oversight Board is clearly the better outcome – it will maximize creditor recovery because they will get little or nothing from Puerto Rico if the island has defaulted.

While it would be preferable to see this legislation contain more pro-growth provisions in it, the control board has the authority to get Puerto Rico’s finances under control and implement many suitable reforms.

A majority of the control board is appointed from lists provided by the Senate Majority Leader or the House Speaker, so there should be no concerns that the oversight board will choose tax hikes over pro-growth reforms.

The Legislation Does Not Provide for a Taxpayer Funded Bailout

PROMESA contains no federal bailout and does not leave taxpayers on the hook. Despite accusations that this taxpayers and savers are bailing out Puerto Rico, the legislation has zero federal budgetary impact.

In fact, even expenses for setting up and operating the Oversight Board will come from Puerto Rico, not federal taxpayers. Any suggestions that this legislation contains a bailout are completely false.

The Legislation Does Not Contain Retroactive “Super Chapter 9” Bankruptcy

PROMESA does not grant Puerto Rico retroactive chapter 9 bankruptcy and it does not create a precedent that states will be able to seek forced restructuring.

The Oversight Board has the authority to mediate voluntary restructuring between stakeholders, and if (and only if) this breaks down, the board has the authority to facilitate court supervised restructuring. This is NOT chapter 9 bankruptcy.

Any suggestion that this legislation will create a precedent for the states is false because this bill places the relevant provisions within the section of federal law that relates to U.S. territories.

