Title: **Puerto Rico Debt Crisis**

Date: March 17, 2016

Time: 12:45 PM to 2:00 PM

Moderator

Jaime Areizaga-Soto
Deputy Secretary of Veterans and Defense Affairs of Virginia
Richmond, VA

Panelists:

Frederick Pfaeffle
Deputy Assistant Secretary for Civil Rights
US Department of Agriculture
Washington, DC

José Calderón
President
Hispanic Federation
New York, NY

Tab 1 – Biographies or CVs

Secretary of Veterans and Defense Affairs
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SECRETARY OF VETERANS AND DEFENSE AFFAIRS

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DEPUTY ASSISTANT SECRETARY FOR CIVIL RIGHTS

Frederick Pfaeffle Arana

Frederick Pfaeffle Arana began his tenure as Deputy Assistant Secretary for Civil Rights at the United States Department of Agriculture (USDA) in March 2014. Prior to his current position, Mr. Pfaeffle was appointed by the White House as Principal Deputy General Counsel of the USDA, one of the largest agencies in the Federal government, with presence in 88 countries and with approximately 100,000 employees.

Mr. Pfaeffle Arana has been instrumental in leading efforts with the U.S. Department of Justice to establish a $1.33 Billion women and Hispanic claims process to resolve long-standing discrimination claims by women and Hispanic farmers, and ranchers against USDA. He also worked to resolve multi-billion dollar class-action civil rights litigation filed by African-Americans and Native-Americans.

Furthermore, Mr. Pfaeffle leads teams responsible for administrative investigations and adjudication of thousands of civil rights complaints filed against the United States claiming employment discrimination and discrimination in the delivery of USDA programming. Other functions include compliance with civil rights laws and regulations and establishing civil rights policy on a national scale.

As Principal Deputy General Counsel, he assisted the General Counsel in managing the Office of the General Counsel which employs over 200 lawyers nation-wide. His responsibilities included providing legal advice to the Secretary of Agriculture and his subcabinet and supervising 3 Divisions and 2 Regions. In addition to his Civil Rights work, his areas of supervision included legal services in Natural Resources and Environment, Rural Development, Anti-trust, International Trade, Finance, Insurance, and Food and Nutrition Services such as the Food Stamp and School Lunch programs.

Mr. Pfaeffle Arana was born in Mexico City from Nicaraguan parents and lived in Latin America until moving to Miami to attend High School, where he became a U.S. Citizen. He attended the University of Florida and Florida International University and practiced as a CPA at a major international accounting firm until entering Law School at the University of Southern California. He began his career in the private sector at a major California law firm in the areas of Real Estate, land use, and environmental law.

Prior to joining USDA in 2010, Mr. Pfaeffle Arana held the position of Principal Deputy County Counsel in Los Angeles County where he was responsible for legal work in the areas of Public Works, Solid Waste, Hazardous Waste and Water. He was active in the community serving as staff counsel to the Christopher Commission Investigating the LAPD following the LA riots and serving for a U.S. Senator as International Monitor to Presidential Elections in Nicaragua. Mr. Pfaeffle Arana also served as member to various boards, including the Mexican American Bar Foundation.

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President

José Calderón is President of the Hispanic Federation (HF), the nation’s premier Latino non-profit membership organization. José manages HF’s overall operations with a primary focus on strategic planning, program development, public policy advocacy and resource development. He is a leading advocate for Hispanic grassroots organizations and pro-Latino legislation locally and nationwide.

José has worked in various capacities for the Federation since 2001, including Program Coordinator, Program Director, Vice President and Senior Vice President. During that time, he has helped develop and launch several of HF’s most important initiatives including its Latino College Success Program, Workforce Development ABLE project, Board Leadership Development Initiative, DREAMers Scholarship Fund, Diabetes Awareness Campaign, Latino Immigration Task Force, among others. He has also spearheaded HF’s civic engagement efforts, helping to register and mobilize hundreds of thousands of voters in key federal and local elections over the last decade.

As the Federation's principal spokesperson, José works to disseminate the organization's public policy positions to the media, public officials, the private sector and the community at large. Through public hearings, weekly newspaper columns and Federation-produced radio and television shows, he also works to educate Latinos about issues and services of critical importance to them and their families.

José currently serves as Co-Chair of the Immigration Committee of the National Hispanic

Leadership Agenda (NHLA), a coalition of the leading Latino organizations in the nation. He also serves on the advisory committee for The Aspen Institute's Roundtable on Community Change. A recipient of numerous awards and recognitions, José is most proud and grateful for the continued support and acknowledgments he receives from HF's network of Latino nonprofits.

José received a Bachelor of Arts Degree from Hunter College and a Master of Arts Degree from St. John's University with a concentration in Latin American studies, Spanish literature and political science. He is married and a proud father of two daughters.

For more information, please contact Carolyn Martinez.

Tab 2 – Course Materials (articles, publications, other materials)

The New York Times http://nyti.ms/1OOknqS

DealBook WITH FOUNDER ANDREW ROSS SORKIN

Failed Talks Raise Specter of Biggest Default in Puerto Rico Crisis

By MARY WILLIAMS WALSH JAN. 23, 2016

SAN JUAN, P.R. — Negotiations to restructure roughly $9 billion of the debt of Puerto Rico's power company collapsed late Friday, raising the prospect of the biggest default yet in Puerto Rico's deepening debt crisis.

The creditors blamed the utility, the Puerto Rico Electric Power Authority, or Prepa, for scuttling the talks, saying Prepa officials had decided to let a critical expiration date pass without taking action. But Prepa said it was the creditors' fault for trying to impose a requirement that Prepa had already rejected.

Prepa is one of the largest single issuers of Puerto Rico's $72 billion in debt, most of it in the form of municipal bonds, which are widely held through mutual funds and other investment firms. It is a monopoly, owned by the residents of the island, and until 2014, it was self-regulated.

"They had no incentives whatsoever to be efficient," the president of Puerto Rico's Senate, Eduardo Bhatia, said of Prepa in a recent interview. "This is incredible. Our power plants look like the cars in Cuba."

They run like old cars, too, and one goal of the restructuring was to provide money for a long-awaited modernization.

The creditors released a statement at midnight on Friday, as soon as the expiration date had passed, saying the hard-won deal was off. They did not say whether they would now declare Prepa in default. Doing so could have major repercussions.

In August, Puerto Rico missed a $58 million payment on what it called "moral obligation bonds," saying it did not have any legal obligation to make the scheduled payment on that type of debt. On Jan. 1, it defaulted on $163 million worth of payments to a low-ranking type of bond, in order to save cash to pay its highest ranking general obligation bonds. Insurers of the affected bonds have filed lawsuits, which in turn prompted Puerto Rico to intensify its pleas to take shelter in bankruptcy court, which would require an act of Congress.

Prepa does not take in enough cash to cover its costs, and it has a debt payment of about $400 million due to bondholders on July 1. It also owes about $700 million to two institutions that finance the shipments of fuel that Prepa burns to produce energy. The utility does not have the resources to make those payments.

In a recent congressional hearing, Prepa's chief restructuring officer, Lisa J. Donahue of AlixPartners, said it "would, in my opinion, be a disaster" if Prepa failed to make those payments. She said its fuel shipments could then stop, and if it ran out of fuel to generate power, "blackouts across the island" would result. The government here has been desperately trying to court new investment and revive the island's shrinking economy. Widespread blackouts could undo those efforts.

Prepa issued its own statement early Saturday, saying that even though its restructuring deal had "terminated," it remained willing to pick up the pieces and try to get a new deal. It said the talks broke down because the creditors had said they were willing to roll back the expiration date from Friday to Feb. 12, but tried to impose new requirements in exchange. "Prepa had rejected these same conditions in December 2015," the utility said in its statement.

The negotiations have been underway since 2014, when Prepa ran out of cash, precipitating a crisis, and creditors agreed to refrain from enforcing their claims. As part of their forbearance agreement, they allowed Prepa to dip into prepaid reserves to make bond payments, something that could otherwise be considered an event of default.

In September 2015, the parties reached a tentative debt-exchange agreement, in which a big group of creditors agreed to exchange their Prepa bonds for new bonds that had a face value of 15 percent less, a lower interest rate and other relief. The existing bonds were rated as junk, and the deal called for the new bonds to get investment-grade ratings, something that would require Prepa to seek the first increase since 1989 in the base rate it charges customers.

The Puerto Rico Legislature also needed to approve the deal. Some lawmakers said Prepa and its creditors were rushing to close the deal before the island's new public utility commission — the first independent regulator in Prepa's 75-year history — could properly review it.

The creditors expected the Legislature to approve the deal in December. When that did not happen, they said they would wait until Jan. 22. The creditors also offered to buy an additional $115 million of bonds from Prepa to help cover the cost of a debt-service payment that the utility made on Jan. 1.

But as the deadline loomed this week, lawmakers said they were still not ready to approve the agreement. One person familiar with the negotiations said the creditors were willing to wait until Feb. 12 for the enabling law, but tried to make the $115 million financing mechanism contingent on the new public-utility commission signing off on the increase in the base rate by then. The person, who spoke anonymously, said the commission could not work that quickly because it had not been set rates before and would probably need until May.

The Prepa creditors said they could not wait that long because, among other things, the Federal Reserve was nudging up interest rates, and the deal had a fixed interest rate that would soon fall behind. Their statement said, "It was our desire to be as supportive of the legislative process as possible," and added that they found it "extremely disappointing and perplexing that Prepa has chosen to take this stance."

The creditors said that they remained open to resuming talks.

Prepa's statement quoted Ms. Donahue as being disappointed as well. "Prepa remains willing to continue discussions," she said.

A version of this article appears in print on January 24, 2016, on page A15 of the New York edition with the headline: Failed Talks Raise Specter of Biggest Default in Puerto Rico Crisis.

The New York Times | http://nyti.ms/1MB3M7O

BUSINESS DAY

Puerto Rico’s Debt Crisis and the 1975 Law Complicating Matters

By MARY WILLIAMS WALSH NOV. 4, 2015

To appreciate why it is proving so hard for Washington to help debt-burdened Puerto Rico, it helps to go back to 1975, the year New York City went broke, and consider the role played in that crisis by a prominent Republican senator from Texas named John Tower.

Fearing more financial failures in other municipalities, federal securities regulators wanted Congress to force states and cities to provide truthful financial information about bonds they were going to sell to raise money. But cities were having none of it, instead rallying around the cause of states’ rights. The fight was resolved by Senator Tower, the first Texas Republican elected to the Senate since Reconstruction. He introduced a bill that kept federal regulators at bay.

As a result, the Securities and Exchange Commission has no power to make states and local governments submit to the same kind of scrutiny that companies must endure before sending their securities to market — which may help explain how a small, impoverished island like Puerto Rico managed to borrow $72 billion before the markets saw that it was insolvent.

Now there are signs that some policy makers see Puerto Rico’s troubles as proof that the S.E.C.’s hands-off approach to the entire $3.7 trillion municipal bond market is part of the problem and should be changed.

“There’s just an idea that the Tower Amendment isn’t worth it, and maybe the issuers ought to come under the S.E.C. after all,” said Matt Fabian, a managing director at Municipal Market Analytics.

The lack of oversight — and transparency — is playing out in multiple ways in the Puerto Rico debt debacle. The island’s government has been unable or unwilling, or both, to provide Congress with accurate numbers that explain the island’s financial needs — a requirement for getting help from the United States government. Investors who stand to lose millions if the island defaults, or has to restructure its debt, complain that they, too, are in the dark about the island’s true financial picture.

Even Puerto Rico’s governor, Alejandro García Padilla, acknowledged at a recent Senate hearing that the absence of accurate financial information had hampered the island’s ability to get on a path to fiscal health.

“It’s a historical problem in Puerto Rico,” he said. “We inherited such a mess there, too. It was part of the different governments, in the past, to hide information from the market, so they were able to have more access to the market.”

On Wednesday, Representative Nydia M. Velázquez, Democrat of New York, introduced a bill that would require improved disclosures from another group of players in the municipal bond market: the hedge funds and other alternative investment firms that have been snapping up the bonds of distressed jurisdictions like Puerto Rico.

The problem, she and others say, is that the funds and firms representing bondholders are maneuvering behind the scenes to protect their stakes. But unlike an investor buying up a stock of a company, they do not have to reveal the amount or the type of investment they are making. That has made it harder to come up with a coherent negotiating strategy.

Until just a few years ago, hedge funds showed little interest in municipal bonds, which were seen as stodgy and safe — something for widows and orphans, not sophisticated investors willing to take big risks. That has changed in the last few years, as large local governments like Detroit and Jefferson County, Ala., were crushed by their debts.

Hedge funds that might not have bothered with public finance in the past found that they could scoop up distressed municipal bonds at a deep discount, as traditional investors in the bonds bailed out. They could then participate in the restructuring agreements that followed. In some cases, market analysts said, they played a useful role when they did so, because they provided liquidity that would otherwise not have existed.

Ms. Velázquez sees it differently.

"It has become increasingly clear that hedge funds, which have purchased a sizable part of Puerto Rico's debt, are exacerbating the crisis and profiting from the island's misery," she said in a statement on Wednesday after introducing her bill. In her view and that of others, the unwillingness of investors to renegotiate their bond payments is forcing Puerto Rico to lay off teachers and nurses and reduce other kinds of government services.

"Rather than working to help resolve Puerto Rico's financial crisis in a fair, orderly fashion, these funds are lobbying to cut basic services that 3.5 million American citizens in Puerto Rico rely on," she said.

Puerto Rico's $72 billion debt is complex, coming from almost 20 different governmental issuers and sometimes involving guarantees or other special features. It also has different types of investors whose interests are not necessarily the same, and it is difficult, if not impossible, to determine which types of investors now hold which types of debt.

Ms. Velázquez's bill takes aim at federal regulations that require hedge funds and other investors to file statements with the S.E.C. only after they have acquired more than 5 percent of a class of a company's stock. Her bill would lower the threshold to just 1 percent. In addition, it would establish a quarterly reporting requirement for the purchasers of bonds — including municipal bonds — as well as stock, to bring their under-the-radar activities into the light.

Ms. Velázquez said she found it troubling that hedge funds had "enormous impact on capital markets, corporations, local governments and, ultimately, working families' lives," even though "they operate largely in the shadows, avoiding scrutiny."

Her bill does not make any effort to repeal the Tower Amendment, but it would require greater disclosure for positions taken in derivatives, such as interest-rate swaps, which were a popular hedging tool for variable-rate municipal bonds in the past.

In the Chapter 9 municipal bankruptcy of Detroit, it became clear that federal laws intended to reduce systemic risk in bank failures were forcing the destitute city to keep paying its interest-rate swaps — to the tune of tens of millions of dollars — even though Chapter 9 gave it a breather from most of its other financial obligations.

Detroit's bankruptcy judge, Steven W. Rhodes, eventually complained about the situation from the bench. Detroit managed to buy its way out of the interest-rate swap contracts at a much lower cost, and it settled the related bonds for about 13 cents on the dollar after making the unusual argument that the entire bond deal was a sham and should be voided.

Had there not been a settlement, the bond insurers were expected next to file their own lawsuits against the underwriters and blame the sham deal on them; the city would have figured in the case as a victim rather than a perpetrator.

Judge Rhodes retired after completing the bankruptcy of Detroit, and is now helping advise Puerto Rico.

Paul Volcker, the former Federal Reserve chairman, and Richard Ravitch, a former lieutenant governor of New York, called on Congress to re-examine the Tower Amendment last year, after leading a study of hidden financial weakness at the state level.

"These markets have to be sound, liquid and creditworthy," Mr. Ravitch said at the time.

But the amendment remains intact, and officials seeking to help Puerto Rico say they will not be able to build congressional support without the kind of audited numbers that companies routinely supply to the S.E.C.

Correction: November 6, 2015

An article on Thursday about Puerto Rico's debt problem misstated the constitutional principle at issue in the prospect of federal regulation of securities sold by state and local governments. It is states’ rights, not the separation of powers.

A version of this article appears in print on November 5, 2015, on page B1 of the New York edition with the headline: A Hurdle to Transparency.

Puerto Rico's $72 billion public debt crisis has forced congressional leaders to pay attention to a US territory that's usually on the sidelines of American politics

Associated Press Jan. 19, 2016, at 3:47 a.m. + More

By MARY CLARE JALONICK, Associated Press

WASHINGTON (AP) — Puerto Rico's $72 billion public debt crisis has forced congressional leaders to pay attention to a U.S. territory that's usually on the sidelines of American politics.

The island has been mired in economic stagnation for nearly a decade. The governor now says Puerto Rico's debt is unpayable and needs restructuring.

The White House and Democrats in Congress say the United States needs to change the law to allow the territory to declare bankruptcy. Republicans say they want to fix the symptoms of the problem first.

Gov. Alejandro Garcia Padilla says that if Congress doesn't act soon, Puerto Rico is headed toward a "humanitarian crisis under the United States flag."

A rundown on what's wrong in Puerto Rico, and what Congress is considering doing about it:

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MOUNTAINS OF DEBT

Treasury Secretary Jacob Lew said Friday that he will travel to Puerto Rico on Wednesday for meetings with government officials. He urged Congress to pass legislation soon, saying the territory is "in the midst of an economic collapse."

Puerto Rico's economic decline has been coming for years.

Coffee and sugar once fueled its economy, and as agriculture diminished, Puerto Rico got an economic boost from federal tax incentives that lured manufacturers, especially pharmaceutical companies, from the U.S. mainland. When Congress phased out those incentives a decade ago, Puerto Rico's economy suffered.

The territory's financial problems grew worse as a result of setbacks in the wider U.S. economy, and government spending in Puerto Rico continued unchecked as borrowing covered increasing deficits. Many people moved to the mainland U.S., reducing the island's tax base.

In just 15 years, Puerto Rico's debt tripled.

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NO BANKRUPTCY

Like all U.S. states and territories, Puerto Rico cannot declare bankruptcy under federal law. Mainland municipalities and their utilities can; municipalities and utilities in Puerto Rico cannot. The island's public utilities are heavily indebted, and Garcia's administration is pushing Congress to allow them to declare bankruptcy.

Garcia signed a debt-restructuring law, but a federal judge ruled it unconstitutional after two major U.S. companies representing bondholders sued. The Supreme Court is preparing to hear an appeal on the issue this year.

Puerto Rico recently defaulted on $37 million in interest on bonds and faces its first lawsuit over diverting money to meet other bond payments.

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WHAT CAN WASHINGTON DO?

The White House says a federal bailout is not under consideration. But the Obama administration has proposed creating a territorial bankruptcy process that would allow Puerto Rico's government to restructure its debt and impose new oversight on finances, among other measures.

Garcia, who has said he won't run for re-election, spent much of December in Washington lobbying Congress to include debt restructuring in a massive year-end spending bill. He blamed his creditors for lobbying against it.

The governor met with Speaker Paul Ryan, R-Wis., who later said the House will work with Puerto Rico to come up with "a responsible solution" by the end of March for the territory's debt problems.

Senate Majority Leader Mitch McConnell, R-Ky., hasn't made any similar promises. In a Jan. 12 letter, Senate Democratic leader Harry Reid of Nevada asked him to form a congressional task force to deal with the issue.

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CONGRESSIONAL DIVIDE

It is unclear whether Congress will be able to meet Ryan's March deadline.

Democrats say allowing the island debt restructuring won't cost U.S. taxpayers and is the right thing to do.

Republicans have so far objected, saying they first want to address the root causes of the crisis and see more data on the island's finances. They have asked for audited financial statements that the territory has not yet provided.

BACK ON THE ISLAND

Almost 10 percent of Puerto Rico's population has left in the last decade and hundreds of businesses have closed.

If the island isn't able to restructure its debt, officials have said they will have to start laying off police officers, firefighters, medical professionals and other public employees. Garcia has said that could lead to a humanitarian crisis.

Officials are hoping that lawmakers will be able to find a solution.

"This is the battleground," Garcia said when he was on Capitol Hill in December. "It's not over until it's over."

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Associated Press writer Danica Coto in San Juan, Puerto Rico, contributed to this report.