

Outline of the testimony of Richard Ravitch before the Senate Judiciary Committee  
December 1, 2015

1. Restructuring **all** of the debt obligations of the Commonwealth of Puerto Rico and its municipalities and in conjunction with the establishment of a federal control Board is essential to ensure social stability and economic growth in the territory of Puerto Rico.
2. My experience with the New York City fiscal crisis in 1975, my role as advisor to the bankruptcy judge in Detroit, and my work with Paul Volcker as co-chair of the state and city fiscal crisis task force constitutes the basis of the recommendations I'm offering to this Committee.
3. The gross product of Puerto Rico has declined by 9% in the latest decade and employment has fallen by almost 14 percent.
4. The total debt service represents almost 40% of the revenues available to the government whereas debt service in our states and cities is rarely greater than 6% of their revenues.
5. The pension system will run out of money in another 12 to 18 months and the obligation to pay benefits, without modification, will cost the Commonwealth \$1.2 billion annually.
6. If the total debt service isn't dramatically reduced there will be insufficient funds to provide essential public services and the risk of social unrest and accelerated emigration from the island could impose a significant cost to the federal government given the fact that the 3 1/2 million people who live in Puerto Rico are United States citizens. To quote from a Wall Street Journal editorial in July "Bankruptcy would be painful and carries risks, but an orderly restructuring under a legal framework in federal court is preferable to a creditor brawl that would likely follow up a default. Hedge funds, mutual funds and bond insurers would have to take haircuts for mis-pricing the risk and enabling Puerto Rico's political mismanagement. Incredibly, yields on the island's general obligation bonds were as low as 6% two years ago----- they are now 12%
7. A bankruptcy filing would enable the Commonwealth to undertake debtor in possession financing thus providing a cash flow during the period of debt restructuring and budget Reformation.
8. Any argument that enabling Puerto Rico to file sets a precedent for states is incorrect because it is a constitutional inhibition which prevents states from filing that is not applicable to the Commonwealth... a point overlooked in an article by Jeb Bush and Newt Gingrich advocating the right of states to use the bankruptcy code.
9. The risk of legislative changes to the law has already been priced into the current market value.
10. Voluntary restructuring would never produce an annual debt service cost that would afford the Commonwealth sufficient funds to regrow its economy.

Inevitably there would be holdouts whereas under bankruptcy the collective action clause would bind everyone.

11. To limit the bankruptcy authorization to just the corporations and municipalities would produce an iniquitous result. Citibank has estimated that such an authorization would instantly raise the value of the GO and Cofina debt by approximately \$4 billion. This would provide a reward to those who receive the highest interest rate for taking the highest risk. Such a limitation would also prevent enough cash flow saving to address the problem of economic growth-- the most significant objective of this entire effort.
12. The contemporaneous creation of a control board that would have the power to approve the Commonwealth budgets, its future indebtedness, and its collective-bargaining agreements would constitute the assurance that the revised debt obligations would be paid and that the Commonwealth would no longer use the proceeds of borrowing to cover operating deficits.