

## Cabinet News and Views

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### Puerto Rico's Plan of Adjustment 'Goes Effective'



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On March 15, 2022, the Financial Oversight and Management Board for Puerto Rico announced that the Plan of Adjustment for the Commonwealth of Puerto Rico became effective, more than four years after Puerto Rico commenced restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). PROMESA is a bespoke piece of federal legislation enacted in 2016 to address Puerto Rico's debt crisis, and incorporates most of chapter 9 of the Bankruptcy Code. The Commonwealth's Title III case is the largest municipal restructuring proceeding in U.S. history.

Under the Plan, the Commonwealth:

- reduced more than \$33 billion of its pre-petition bond debt and other claims. Commonwealth creditors will receive \$7.4 billion in new bond debt and over \$8 billion in cash on the Effective Date, as well as securities designated as "contingent value instruments" that pay out based on the outperformance of actual revenues over projected revenues;
- eliminated all debt of the Employees Retirement System of the Government of Puerto Rico ("ERS") and the Puerto Rico Public Buildings Authority ("PBA"); and
- reduced annual debt service from a maximum of \$3.9 billion before the debt restructuring to \$1.15 billion each year.

Puerto Rico's use of PROMESA to significantly lower its debt burden could encourage other distressed government debt issuers to consider bankruptcy as a viable option. In the case of issuers already eligible to be debtors under chapter 9, Puerto Rico's example could spur an increased number of chapter 9 filings in coming years. To the extent PROMESA is perceived as a success, it could also inspire Congress to contemplate legislation extending bankruptcy access to

financially burdened U.S. states, such as Illinois or New Jersey, which are not currently eligible to be debtors under chapter 9.

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