

114TH CONGRESS  
1ST SESSION

# H. R. 3725

To authorize the Secretary of the Treasury to guarantee principal and interest payments on bonds issued by the government of the U.S. territory of Puerto Rico, including its public corporations and instrumentalities, on the condition that the government of the territory demonstrates meaningful improvement in the management of its public finances, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 8, 2015

Mr. PIERLUISI introduced the following bill; which was referred to the  
Committee on Financial Services

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## A BILL

To authorize the Secretary of the Treasury to guarantee principal and interest payments on bonds issued by the government of the U.S. territory of Puerto Rico, including its public corporations and instrumentalities, on the condition that the government of the territory demonstrates meaningful improvement in the management of its public finances, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Puerto Rico Financial  
3 Improvement and Bond Guarantee Act of 2015”.

4 **SEC. 2. PURPOSE AND SENSE OF CONGRESS.**

5 (a) PURPOSE.—The purpose of this Act is to em-  
6 power the Secretary of the Treasury to facilitate access  
7 of the government of Puerto Rico to capital markets for—

- 8 (1) immediate short-term financing needs,  
9 (2) capital expenditures, and  
10 (3) debt refinancing,

11 by guaranteeing the principal and interest payments on  
12 bonds issued by the government of Puerto Rico upon de-  
13 termination by the Secretary that certain conditions relat-  
14 ing to financial accountability in Puerto Rico have been  
15 met.

16 (b) SENSE OF CONGRESS.—It is the sense of Con-  
17 gress that—

18 (1) Puerto Rico, as a territory, is treated in-  
19 equitably and inconsistently by Federal law and pol-  
20 icy, and that such treatment has contributed signifi-  
21 cantly to the current financial distress of the govern-  
22 ment of Puerto Rico;

23 (2) consequently, there exists a Federal respon-  
24 sibility and need to help the government of Puerto  
25 Rico gain access to the capital markets on reason-  
26 able terms;

1           (3) stronger financial controls, budgeting proc-  
2           esses, and accountability measures should be imple-  
3           mented by the government of Puerto Rico in order  
4           to improve its financial standing and creditworthi-  
5           ness; and

6           (4) it is in the national interest of the United  
7           States to reduce the risk of default by the govern-  
8           ment of Puerto Rico on its bond payments, to en-  
9           sure essential public services can be provided in the  
10          territory, and to promote economic growth and re-  
11          sponsible borrowing in the territory.

12 **SEC. 3. DEFINITIONS.**

13          For purposes of this Act:

14           (1) **COST.**—With respect to a guarantee, the  
15           term “cost” has the meaning given such term under  
16           section 502 of the Federal Credit Reform Act of  
17           1990 (2 U.S.C. 661a).

18           (2) **GUARANTEE.**—The term “guarantee”—

19                   (A) has the meaning given the term “loan  
20                   guarantee” in section 502 of the Federal Credit  
21                   Reform Act of 1990 (2 U.S.C. 661a); and

22                   (B) includes a loan guarantee commitment  
23                   (as defined in such section 502).

24           (3) **INSTRUMENTALITY THEREOF.**—With re-  
25           spect to Puerto Rico, the term “instrumentality

1       thereof” means any political subdivision, instrumen-  
2       tality, or instrumentality of a political subdivision of  
3       Puerto Rico.

4           (4) OBLIGATION.—The term “obligation”  
5       means a bond that is guaranteed under this Act.

6           (5) SECRETARY.—The term “Secretary” means  
7       the Secretary of the Treasury.

8       **TITLE I—FINANCIAL IMPROVE-**  
9       **MENT AND BOND GUARAN-**  
10      **TEES FOR PUERTO RICO**

11      **SEC. 101. BOND GUARANTEES.**

12       (a) GENERAL AUTHORITY.—The Secretary of the  
13      Treasury is authorized to guarantee bonds issued by the  
14      government of Puerto Rico or any instrumentality thereof  
15      that are issued solely for the purpose of financing capital  
16      projects or refinancing existing debt.

17       (b) LIMITATION.—The authority granted under sub-  
18      section (a) does not extend to bonds issued to finance  
19      operational expenses, except with respect to tax revenue  
20      anticipation notes.

21      **SEC. 102. TERMS AND CONDITIONS.**

22       (a) IN GENERAL.—A guarantee made under this Act  
23      may guarantee up to 100 percent of the principal and in-  
24      terest of the obligation.

1 (b) RECEIPT OF REQUEST.—A guarantee may only  
2 be made under this Act if—

3 (1) the Secretary first receives a request for  
4 such guarantee, in writing, from the Governor of  
5 Puerto Rico, along with the terms, including the  
6 purpose and amount, of the bond to be issued for  
7 which the guarantee is requested; and

8 (2) the Secretary determines, pursuant to sec-  
9 tion 103(b), that the government of Puerto Rico  
10 and, if applicable, any instrumentality thereof, has  
11 demonstrated meaningful improvement in the man-  
12 agement of its finances.

13 (c) OBLIGATION REQUIREMENTS.—

14 (1) MATURITY.—An obligation shall require full  
15 repayment over a period not to exceed 30 years.

16 (2) INTEREST RATE.—An obligation shall bear  
17 interest at a rate that does not exceed a level that  
18 the Secretary determines appropriate.

19 (d) AGREEMENT DOCUMENT.—

20 (1) MINIMUM REQUIREMENTS.—A guarantee  
21 agreement shall be written and executed for any  
22 guarantee made under this Act in order that such  
23 guarantee may have legal effect, and, at a minimum,  
24 shall include appropriate language detailing the

1 terms and conditions set forth in this Act for such  
2 guarantee.

3 (2) ADDITIONAL TERMS AND CONDITIONS.—A  
4 guarantee agreement may include such detailed  
5 terms and conditions in addition to those set forth  
6 in this section and as the Secretary determines ap-  
7 propriate to protect the interests of the United  
8 States in case of default and to ensure repayment.

9 (3) AUTHORITY OF THE SECRETARY.—The Sec-  
10 retary is authorized to agree to any modification,  
11 amendment, or waiver or any such term or condition  
12 as the Secretary deems desirable to protect the in-  
13 terests of the United States.

14 (e) ADMINISTRATIVE EXPENSES.—

15 (1) IN GENERAL.—The Secretary shall charge  
16 and collect fees for guarantees made under this Act  
17 in amounts the Secretary determines are sufficient  
18 to cover applicable administrative expenses.

19 (2) AVAILABILITY.—Fees collected under this  
20 subsection shall be available to the Secretary, with-  
21 out further appropriation, to pay for the administra-  
22 tive expenses of carrying out this Act.

23 (f) LIMITATION.—A guarantee may be made under  
24 this Act only if the Secretary determines that there is a

1 reasonable prospect of repayment of the principal and in-  
2 terest on the bond to be guaranteed.

3 **SEC. 103. FINANCIAL IMPROVEMENT GUIDELINES AND DE-**  
4 **TERMINATION.**

5 (a) EXAMINATION, GUIDELINES, AND RECOMMENDA-  
6 TIONS.—

7 (1) IN GENERAL.—Not later than 120 days  
8 after the date of the enactment of this Act, the Sec-  
9 retary shall—

10 (A) examine the financial management  
11 practices of the government of Puerto Rico and  
12 instrumentalities thereof and identify specific  
13 areas in such practices that may need improve-  
14 ment; and

15 (B) establish guidelines and recommenda-  
16 tions for the government of Puerto Rico and in-  
17 strumentalities thereof to use as a basis for  
18 making improvements in its financial manage-  
19 ment practices and in determining whether to  
20 make a guarantee requested under section  
21 102(b).

22 (2) CRITERIA.—The guidelines and rec-  
23 ommendations required under paragraph (1) shall  
24 address, at a minimum, the following criteria, where  
25 applicable:

1 (A) Fiscal stability and operational effi-  
2 ciency.

3 (B) Reduction in deficits and debt.

4 (C) Accuracy in estimating revenues and  
5 expenditures.

6 (D) Collection of taxes due.

7 (E) Management of Federal grant monies.

8 (F) Quality of financial controls, state-  
9 ments, and reporting.

10 (G) Use of information technology.

11 (H) Regulations and licensing require-  
12 ments affecting business establishment, expan-  
13 sion, and operation.

14 (3) REVISIONS.—The Secretary may revise such  
15 guidelines and recommendations as the Secretary de-  
16 termines appropriate.

17 (4) TRANSMISSION AND PUBLIC NOTICE OF  
18 GUIDELINES AND RECOMMENDATIONS.—The Sec-  
19 retary shall, within 10 days of establishing or revis-  
20 ing guidelines or recommendations under this sub-  
21 section—

22 (A) transmit such guidelines and rec-  
23 ommendations to the Governor of Puerto Rico  
24 and the Congress;



1 (B) publish such guidelines and rec-  
2 ommendations in the Federal Register; and

3 (C) make such guidelines and rec-  
4 ommendations available to the public on the  
5 website of the Department of the Treasury.

6 (b) FINANCIAL IMPROVEMENT DETERMINATION.—

7 (1) DETERMINATION.—The Secretary shall, for  
8 purposes of section 102(b)(2), determine whether  
9 the government of Puerto Rico and, if applicable,  
10 any instrumentality thereof, has demonstrated  
11 meaningful improvement in the management of its  
12 finances.

13 (2) BASIS FOR DETERMINATION.—In making a  
14 determination under paragraph (1), the Secretary  
15 shall take into account the guidelines and rec-  
16 ommendations established under subsection (a) and  
17 such other criteria as the Secretary determines ap-  
18 propriate.

19 (3) NOTIFICATION.—If, under paragraph (1),  
20 the Secretary determines that the government of  
21 Puerto Rico and, if applicable, any instrumentality  
22 thereof, has not demonstrated meaningful improve-  
23 ment in the management of its finances, the Sec-  
24 retary shall—

1 (A) notify the Governor of Puerto Rico and  
2 the Congress, in writing, of the Secretary's de-  
3 cision and the basis for such decision;

4 (B) publish a notice of such determination  
5 in the Federal Register;

6 (C) make such notice available to the pub-  
7 lic on the website of the Department of the  
8 Treasury;

9 (D) make recommendations to the Gov-  
10 ernor of Puerto Rico on specific ways the gov-  
11 ernment of Puerto Rico and, if applicable, any  
12 instrumentality thereof, can demonstrate mean-  
13 ingful improvement; and

14 (E) if the Secretary determines it appro-  
15 priate, make recommendations to—

16 (i) the Congress about specific legisla-  
17 tion that can be enacted to improve the fi-  
18 nances, financial stability, and financial  
19 management practices of the government  
20 of Puerto Rico and that would help the  
21 government of Puerto Rico or any instru-  
22 mentality thereof demonstrate meaningful  
23 improvement and implement the rec-  
24 ommendations in the areas identified by

1 the Secretary under subsection (a)(1)(B);  
2 and

3 (ii) the heads of Federal departments  
4 and agencies other than the Department of  
5 the Treasury about specific administrative  
6 actions that could be taken to improve the  
7 finances, financial stability, and financial  
8 management practices of the government  
9 of Puerto Rico and that would help the  
10 government of Puerto Rico or any instru-  
11 mentality thereof demonstrate meaningful  
12 improvement and implement the rec-  
13 ommendations in the areas identified by  
14 the Secretary under subsection (a)(1)(B).

15 **SEC. 104. PUBLIC NOTICE.**

16 Upon making any guarantee under this Act, the Sec-  
17 retary shall publish notice of such action, along with the  
18 results of the determination made under section 103(b),  
19 in the Federal Register and make such information avail-  
20 able to the public on the website of the Department of  
21 the Treasury.

22 **SEC. 105. LOAN GUARANTEE FUNDING.**

23 There are appropriated to the Secretary such sums  
24 as may be necessary for the cost, as defined in section  
25 502 of the Congressional Budget Act of 1974, of bond

1 guarantees made under this title. The Secretary may make  
2 such bond guarantees notwithstanding subsections (b) and  
3 (d) of section 504 of the Federal Credit Reform Act of  
4 1990 (2 U.S.C. 661c).

5                   **TITLE II—TECHNICAL**  
6                   **ASSISTANCE FOR PUERTO RICO**

7                   **SEC. 201. TECHNICAL ASSISTANCE.**

8                   The Secretary is authorized to provide advice and  
9 technical assistance to the government of Puerto Rico and  
10 instrumentalities thereof about ways and means to dem-  
11 onstrate meaningful improvement in managing its fi-  
12 nances (as described under section 103).

13                   **TITLE III—PURCHASE AND SALE**  
14                   **OF PUERTO RICO BONDS**

15                   **SEC. 301. AMENDMENT TO THE FEDERAL RESERVE ACT.**

16                   Section 14(b)(1) of the Federal Reserve Act (12  
17 U.S.C. 355(1)) is amended by inserting after “continental  
18 United States” the following: “or Puerto Rico”.

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