

June 29, 2014 www.mcvpr.com**McV ALERT*****Puerto Rico Governor Signs Local “Bankruptcy” Law for Debt-Restructuring of State-Owned Corporations; First Lawsuit Challenging the Statute Filed in Federal Court***

On Saturday, June 28, 2014, the Governor of Puerto Rico, Alejandro García Padilla, announced that he signed into law Puerto Rico’s local bankruptcy statute authorizing a debt-restructuring court procedure for state-run corporations, officially known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (“the Act”).

The Bill to create the Act was submitted to the local Legislature by the Governor three days before, on June 25, and approved by a majority vote in both Senate and House of Representatives, on the same day.

Also, the first known lawsuit challenging the Act was filed in federal court on Saturday, soon after the Governor announced he had signed the Bill. The case was filed by the Franklin California Tax-Free Trust, Franklin New York Tax-Free Trust, the Oppenheimer Municipal Fund, and numerous affiliated investment trust funds, which collectively hold approximately \$1 billion dollars of Power Revenue Bonds (or “PREPA Bonds”). The main named defendants are the Commonwealth of Puerto Rico and the Puerto Rico Electric Power Authority (“PREPA”). Also included in the lawsuit as defendants are the Governor of Puerto Rico and the unknown agent for the Government Development Bank for Puerto Rico (“GDB”).

The federal action seeks declaratory relief, and asks the federal court to declare that the Act creates a “bankruptcy regime” that is completely preempted by federal law and alleges it violates multiple provisions of the U.S. Constitution, including the Bankruptcy Clause, the Takings Clause, the Contracts Clause, and the Fifth and Fourteenth Amendments to the Constitution. It also claims the Act infringes the constitutional right of access to federal courts, and questions Puerto Rico’s authority as a U.S. Territory to enact many of the Act’s provisions. The case will soon be assigned to a federal judge.

For further information on these matters, you may contact any of the attorneys listed below, members of our Bankruptcy and Government Affairs Practice Teams:

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