



VCA Blog
May 5, 2017

Puerto Rico: Beautiful but bankrupt. Who's next?

Vertical Capital Advisors Blog May 5, 2017

ALPHARETTA, GA – The US Territory of Puerto Rico, an island of striking beauty and history, filed for bankruptcy protection on May 3, the largest municipal bankruptcy in US history. The filing involves \$74 billion in bonds and another \$49 billion in pension obligations, over \$40 billion of which is unfunded.

We visited Puerto Rico last year while Congress was debating the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). Prior to President Obama signing the Act into law in 2016, Puerto Rico had no mechanism for filing for protection from creditors.

While visiting Puerto Rico, we struck up conversation with many locals who proudly showed the numerous government housing options, most of which included free electricity, water and cable TV (don't know why cable TV was such a big deal but it is a source of great pride among locals). They boasted of government unemployment benefits for nearly half of the working-age population and a normal retirement age in one's early 50's. It was clear that this model is not sustainable but that did not seem to faze the locals – it is just the way their economy is set up and they like it that way. They also had many stories of politicians going to jail for corruption. Correlation between giving away the key to the treasury and going to prison? We don't know but seeing politicians of the opposite party being carted off to prison seemed to be a national pastime of sorts.





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The NY Times reports marches BEFORE Puerto Rico's bankruptcy filing against austerity that is surely coming.¹

Who's Next?

George Mason University ranked all 50 states for solvency in a [June 2016](#) study and the weakest states are:

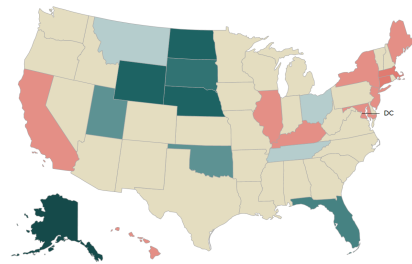
Connecticut #50

Massachusetts #49

New Jersey #48

Illinois #47

Kentucky #46



with Hawaii and California not far behind at #45 and #44, respectively. Forbes, JPMorgan and Price WaterhouseCoopers rank them [similarly](#).

What does this mean?

It means that even though markets have been topping off at new highs and world wealth has never been greater, fundamental structural economic fault lines are growing. And with imminent insolvency of entitlement programs like Social Security and Medicare, the US government has got to figure out a way to avoid a fate similar to Puerto Rico. It means we can't keep giving everything away before creditors force us to give everything up. It means a little discomfort now to avoid incredible pain and dislocation later. Can the US Congress get it right during the Trump years?

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At Vertical Capital Advisors, we are most often engaged by industry leaders to be the bridge to the capital they need to fuel growth. We start with great leaders at great companies that have compelling, profitable business plans where the only missing ingredient is capital.

¹ <https://nytimes.com/2017/05/03/business/dealbook/puerto-rico-debt.html>



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ABOUT VERTICAL

Vertical Capital Advisors is an Atlanta-area business advisory firm built on ***creating tangible value*** for our clients, serving clients in just about every industry. Our clients are both capital growers and capital allocators. How can Vertical help your firm maximize value?

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