



STATE OF ARIZONA
OFFICE OF THE GOVERNOR

DOUGLAS A. DUCEY
GOVERNOR

EXECUTIVE OFFICE

January 21, 2016

The Honorable Paul Ryan
Speaker of the House
1233 Longworth House Office Building
Washington, D.C. 20515-4901

The Honorable Mitch McConnell
Majority Leader
317 Russell Senate Office Building
Washington, D.C. 20510-1702

Dean Speaker Ryan and Majority Leader McConnell:

I write you today to express my concern over policies that Washington is contemplating to deal with Puerto Rico's fiscal challenges. Specifically, I am worried that certain measures proposed by the Obama Administration and some Members of Congress to deal with Puerto Rico could actually end up negatively affecting Arizona and other states.

In fact, the policy measures proposed by the Obama Administration would grant Puerto Rico extraordinary bankruptcy authority, known as "Super Chapter 9", to restructure all of its debts, including the General Obligation, or "full faith and credit" debt. To be clear, this would exceed the authority that states have under normal Chapter 9 to restructure municipal and public corporation debt. No other state is allowed to restructure its General Obligation debt, and Puerto Rico's General Obligation debt, which comprises only a small portion of its total debt load is constitutionally protected.

Significantly, the proposed policy measures create a moral hazard for states and territories. It disincentivizes states from guarding against the risks and consequences of profligate spending. In recent years, the state of Arizona struggled with a series of annual deficits, including a two-year deficit exceeding a billion dollars as late as January 2015. Our state government made the necessary but difficult decisions to reduce spending to match ongoing revenues. The result is a structurally balanced budget and an upgrade to Arizona's credit rating. The proposed policy amounts to a bailout for Puerto Rico's unwillingness to make tough decisions as we have in Arizona, and may encourage other states and territories to make similar unwise choices.

Of most concern to me as a governor, granting Puerto Rico such unprecedented bankruptcy authority would likely raise the borrowing costs of our state, reducing our ability to invest in vital services and eroding investor confidence in the whole notion of full faith and credit debt. In addition, millions of Americans who invest in state general obligation bonds could see their retirement accounts suffer.

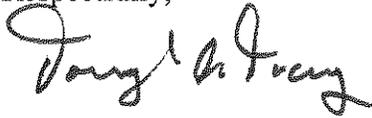
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The National Governors Association has already warned against this in 2011, noting that states should not be given the authority to declare bankruptcy themselves because the resultant market volatility would raise the cost of state governance precipitously.

For these reasons, I urge Congress to reject any legislation that would allow Puerto Rico to restructure its General Obligations debts. A more prudent course of action would be to treat Puerto Rico like other states by granting it access to normal Chapter 9 bankruptcy, and allowing it to restructure its municipal and public corporation debt. Most importantly, Congress should encourage Puerto Rico to engage directly with its creditors to negotiate a consensual solution.

Thank you both for the consideration of this letter and for your continued vigilance in serving our country and our fellow citizens. We are open to any further inquiries you may have on this matter.

Respectfully,



Douglas A. Ducey
Governor
State of Arizona

cc: The Honorable John McCain
The Honorable Jeff Flake
The Honorable Trent Franks
The Honorable Ruben Gallego
The Honorable Ann Kirkpatrick
The Honorable Martha McSally
The Honorable Raul Grijalva
The Honorable Paul Gosar
The Honorable Matt Salmon
The Honorable David Schweikert
The Honorable Kyrsten Sinema