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Puerto Rico Plan Calls for Spending Cuts, Tax Overhaul.

Puerto Rico's proposed restructuring plan brings the U.S. commonwealth one step closer to a long-awaited showdown with the investors who are being asked to take losses on the island's $72 billion in debt.

The five-year plan released Wednesday is light on specifics, analysts said, but investors agree it clearly could affect the island's general obligation bonds, which are protected by its constitution, as well as its sales tax-backed debt.

Several investors and analysts said the proposal didn't provide enough detail about how much debt the island wants to cut, what form such cuts may take or which bonds might be affected. Some said it relies too much on future actions by lawmakers in Washington and San Juan and successful negotiations with bondholders and other stakeholders.

"I don't see anything to work with at this point," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt debt, including some from Puerto Rico. "Now they have to speak up and say what it is they really want."

The plan doesn't include specific estimates of losses on Puerto Rican debt, though prices for some bonds fell after its release. Some general obligation bonds maturing in 2035 traded Wednesday at around 74 cents on the dollar, down from about 76 cents Tuesday.

The product of a working group appointed by Gov. Alejandro Garcia Padilla, who in June called the island's debts unpayable, the plan says that even if all proposed structural changes are adopted by policy makers, the commonwealth will still fall billions short of securing the amount it needs to pay bondholders in the next five years.

Those proposals seek to reduce a $28 billion financing gap over the next five years by adjusting taxes, reducing government spending, revamping welfare and the minimum wage, consolidating public schools, and creating a control board to ensure such changes are implemented.

"The key finding of this plan is that even if we implemented all the measures contained in it, they wouldn't be enough to achieve the necessary balance," the governor said in a televised address Wednesday. "The massive public debt of Puerto Rico is an impediment to growth. It is time for the creditors to come to the table and share the burden of the sacrifices."

The plan has been awaited by investors, who are bracing for losses amid falling bond prices and a growing fiscal crisis, and who have wanted to see new structural changes before lending Puerto Rico any more money. The commonwealth has often borrowed to fund deficits during a decade of economic stagnation and population declines, and officials say it is rapidly running out of cash for operations. A government agency defaulted on a $58 million payment last month.

That makes the island the latest trouble spot in the market for U.S. municipal debt, which has been rocked in recent years by large bankruptcies in Detroit and Jefferson County, Alabama. Puerto Rico bonds are widely held by individuals and mutual funds around the U.S. because of their tax advantages.

Ted Hampton, vice president at Moody's Investors Service, said the recommended changes will pose political challenges and likely prompt contentious negotiations with bondholders, with a high probability of "protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections."

Officials say investors have begun organizing themselves into groups based on the type of bonds they own, and the government will begin talks with each group over the next several weeks.

The plan comes after one agreement was struck with commonwealth bondholders. The Puerto Rico Electric Power Authority, known as Prepa, last week reached an accord with its bondholders that would give them 85% of the face value of their junk-rated bonds in exchange for new securities designed to get investment-grade ratings. Prepa, which owes about $9 billion, is still negotiating with other creditors.

The plan also seeks help from the U.S. government, asking Congress to allow some Puerto Rico government entities to access bankruptcy protections. The commonwealth is currently barred from granting its agencies access to that legal process and officials say the lack of a framework is a significant obstacle to the restructuring effort.

The federal government should also reconsider the island's relatively high minimum wage for young workers or exempting the island from the Jones Act shipping law—a move that could help reduce the cost of transporting goods, a summary of the plan said. Federal help is also needed to stave off a growing health-care crisis, by equalizing the funds Puerto Rico receives relative to U.S. states, it said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said the report includes serious measures to adjust the island's budget and policy but lacks important details for investors, such as the engines of economic growth, the powers of the control board, or how the island will treat its constitutionally protected general obligation bonds versus its sales-tax debt.

"I am not sure that this report has moved the process along to any great extent, which may only come when they sit down with bondholders," he said.

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