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## **Puerto Rico's New Governor Takes Over as Debt Crisis Reaches Climax.**

- Governor sworn in Monday, just weeks before bond payments due
- Rossello vows to reduce spending, work with creditors

After a series of record-setting defaults, Puerto Rico is slowly moving toward ending its debt crisis under a new governor who has pledged to work with bondholders and federal overseers to restore the island's battered financial credibility.

Ricardo Rossello, a 37-year-old former medical researcher, took office on Monday, ushering in a change of power after the island skipped payments on a growing share of debt under predecessor Alejandro Garcia Padilla, a member of the opposing party.

Faced with projected budget deficits over the next decade nearly as large as its \$70 billion public debt, Rossello said he plans to start tightening the government's purse strings in his first few days in office. He immediately signed orders for agencies to reduce 10 percent of spending by the end of the fiscal year in June and cut the number of political appointees.

"Once we get to our first budget, we'll make even more adjustments and cuts," Rossello said in a telephone interview from San Juan, adding that an additional 10 percent of spending would later be cut. "We're taking the immediate steps that are necessary."

The measures are aimed at closing the chronic deficits that pushed the government to the brink and prompted the federal government to install an oversight board authorized to approve the budget and any restructuring of debt. That's left Rossello with considerably less power than any of his predecessors, including his father, who led the commonwealth in the 1990s.

He's taking office with only weeks to come up with a fiscal blueprint that will serve as the base for talks with bondholders, a plan that federal overseers want to have in place by the end of the month. Another \$1.3 billion in debt payments is due in February.



The governor, however, has the ability to extend for two months a debt-moratorium law enacted under Garcia Padilla, who said that only devastating spending cuts would allow the island to meet its obligations. Puerto Rico last month projected that it will have a deficit of at least \$2 billion in the current fiscal year if forced to cover bond payments.

On a call with reporters last month, control board officials suggested that the moratorium — or the extension of a federal measure that has kept creditor lawsuits on hold — could be used to avoid the looming cash crunch.

Rossello has said he would like to reach a settlement with bondholders out of court. During his campaign, he said he'd be willing to cover some interest bills if creditors are willing to delay

principal payments.

But investors will almost certainly be forced to accept less than they're owed. The oversight panel has already warned that "substantial, deep" debt reduction and as much as \$8 billion in spending cuts are needed to keep the government running while servicing its debt. If some creditors balk, the board can try to force losses on them in court, an option the Puerto Rico governor didn't have before President Barack Obama enacted the emergency rescue law in June.

The new administration must also find ways to address the expiring tax on multinational businesses, known as Act 154. The levy, which makes up more than 20 percent of the island's budget, is set to lapse in December. Supplemental funds allocated by the Affordable Care Act will also likely be depleted by 2018, according to estimates by a congressional panel.

With President-elect Donald Trump and a Republican-controlled Congress threatening to repeal the health-care law and modify the tax code, it's not clear what additional help, if any, the territory will get. Rossello, in his inauguration speech on Monday, vowed to enact legislation to push for statehood.

"If we as a government start making some tough decisions, and there's still some gaping holes, the federal government needs to intervene," Rossello said in the interview. "We don't need a bailout. What we aim to have is some areas where Puerto Rico can be treated equally and stand to benefit."

## **Bloomberg**

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