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Puerto Rico Oversight Board Backs Governor's Turnaround Plan.

- Federal panel, governor resolve disagreement over blueprint
- Amendment would furlough workers to resolve cash shortages

Puerto Rico's federal oversight board approved Governor Ricardo Rossello's plan for pulling the island out of a fiscal crisis, a step that will allow the territory to start negotiating with bondholders to reduce its $70 billion debt.

The decision, made at a public meeting in New York Monday after the governor rolled back forecasts that the panel said were overly optimistic, marks an early move to steady Puerto Rico after a series of bond defaults. If the board and Rossello remained at loggerheads, the federal appointees could have imposed their own measures under sweeping powers extended by Congress last year.

The plan proposed by Rossello, who took office in January, relied heavily on increasing revenues through tax overhauls and wresting cost-savings from the government operations, stopping short of the bigger reductions to spending on health care and other programs suggested by the U.S. overseers. As a condition of its approval, the board demanded furloughs for government employees, deeper pension-spending cuts and the potential elimination of Christmas bonuses to shore up needed cash.

"Puerto Rico is about to capsize — the island is overwhelmed by debt," said David Skeel, a member of the board. The proposal "calls for everyone to sacrifice."

The governor relied on a less sanguine outlook for Puerto Rico's current trajectory when revising his proposal and increased spending reductions to $25.7 billion over ten years from $19.8 billion initially floated last month, according to copies released by the board. It would also extract larger concessions from bondholders: There would be less than $800 million annually left over for debt service over the next decade, just a fraction of the more than $3 billion it owes each year.

Having the fiscal outline in place will allow Puerto Rico to begin talks on what will be the biggest debt restructuring ever in the U.S. municipal bond market, a haven where few borrowers default. Puerto Rico's general obligations due in 2035, one of its most active securities, dropped to an average of 71.6 cents on the dollar Monday from 72.8 cents Friday.

The approval comes after the board last week advised Rossello that it would reject his initial plan unless it was revised, saying it relied on overly optimistic assumptions and failed to go far enough to stabilize the government's finances.

Rossello has sought to avoid deep cutbacks to government programs that would worsen the economic contraction or fall heavily on the low-income residents of an island where nearly half live below the poverty line. His predecessor began defaulting on debt in 2015 to conserve cash for services after years of borrowing to cover bills.

“I’m very pleased that our plan got certified and approved,” Rossello said in an interview. “We were able to maintain our principles to have a plan that would safeguard the most vulnerable.”

Puerto Rico is under pressure to begin negotiating with bondholders because a temporary hold on creditor lawsuits is set to lapse in May, leaving it potentially exposed to rulings requiring it to make good on past-due payments. Rossello has requested that the stay be extended to give him more time.

“The fiscal plan recognizes that there are no simple, easy, painless solutions to the problems that built up over 20 years,” Jose Gonzalez, a member of the oversight board, said during the meeting. “It’s barely the end of the beginning of a long process to get Puerto Rico on the road to economic growth again.”

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