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Puerto Rico Board Approves Fiscal Road Map.

Plan lays groundwork for debt negotiations as May 1 deadline looms

The federal board overseeing Puerto Rico's finances approved a fiscal plan for the island Monday after marathon talks over the weekend with advisers of Gov. Ricardo Rosselló. The deal clears the way for the governor to start negotiations with creditors over the U.S. territory's \$70 billion debt load.

Puerto Rico is racing to meet a May 1 deadline to reach a settlement with bondholders under legislation passed by the U.S. Congress in June that permitted the commonwealth to restructure its debts. Obtaining board approval for the fiscal plan required newly elected Mr. Rosselló to agree to potentially painful spending cuts while leaving less money to repay bondholders, but the deal allows for more expenditures if the island's economy improves.

"We were limited by what we could do with creditors before having a plan certified," Mr. Rosselló said in an interview. The governor said he would be personally involved in talks with bondholders in coming days.

The federal oversight and management board approved the plan at a meeting Monday in New York, modifying a proposal last week by the governor that would have paid bondholders \$1.2 billion a year over a decade, or roughly a third of what they are owed under existing contracts.

The approved plan forecasts that a roughly \$800 million primary surplus will be available annually to service debt over the next 10 years. The reduction reflects the oversight board's more conservative forecasts of economic contraction and budget deficits in Puerto Rico.

The board rejected the governor's proposal last week, saying it relied on overly optimistic revenue assumptions and didn't include enough government spending cuts to close a yawning fiscal gap. The board's modifications opened the door to austerity measures the governor had resisted, including possible employee furloughs, pension spending reductions and the elimination of Christmas bonuses.

Mr. Rossello's administration agreed with the board's required expenditure cuts on health-care and public-sector payroll: by \$650 million in 2018, by \$1.2 billion in 2019 and by \$2.05 billion in 2021, Elias Sanchez, the governor's representative on the board, said in an interview.

The plan also assumes that Congress won't extend health-care funding for Puerto Rico under the Affordable Care Act, or ACA, that is scheduled to lapse in December, something Mr. Rosselló is lobbying to prevent.

"The elephant in the room is the assumption that there will be no federal funding for health care," Mr. Rosselló said. "If we do get federal funding at the same level it means we'll have \$1.5 billion more in fiscal 2019 and forward."

Despite Republican efforts to repeal the ACA, Puerto Rico could get its current funding extended when Congress passes in coming weeks a new continuing resolution, a bill that keeps the

government funded in the absence of a full-year spending bill, Mr. Rosselló said.

The plan could be amended if Congress sends Puerto Rico additional federal health-care dollars but that won't necessarily boost money paid to bondholders, said David Skeel, a law professor and oversight board member.

Puerto Rico bond prices held steady Monday as investors bet that the island would ultimately generate more cash to pay its debts than projected under the fiscal plan. The island's benchmark \$3.5 billion bond due 2035 dipped slightly to about 72 cents on the dollar, according to Electronic Municipal Market Access

The debt-relief law that Congress passed last summer protects Puerto Rico from creditor lawsuits until May 1, when a stay on litigation is scheduled to expire. The governor has called for an extension of the stay to pursue consensual deals with creditors, but any extension must be approved by Congress.

Mr. Skeel said he "would not bet" on an extension of the May 1 deadline. After that date, Puerto Rico can switch to a quasi-bankruptcy process that can bind creditors to unfavorable repayment terms.

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