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Puerto Rico Tax Deal Gives Federal Board Power Over Use of Cash.

- **That may rekindle clash between board and Governor Rossello**
- **Bonds rally as investors cheer tentative pact to end dispute**

The deal to steer some of Puerto Rico's future sales taxes to a key group of bondholders puts a U.S. oversight board in charge of whether the rest should keep crucial services running if the government runs into financial trouble again.

If the tentative pact between the court-appointed agents is enacted, the federal Financial Oversight and Management Board for Puerto Rico — and not the island's elected officials — will decide if the remaining sales-tax revenue is needed to fund "essential" services, according to terms of the proposed agreement filed in federal bankruptcy court. That will be the case even after the territory's bankruptcy ends.

Bypassing government officials may renew a court struggle between the board and Governor Ricardo Rossello, who succeeded last year in blocking the board from taking control of the island's bankrupt electric utility. To some residents, many of whom favor becoming a state, the board's power smacks of colonialism by weakening their say over Puerto Rico's fate.

On Friday, the governor said there's no final agreement and declined to comment on the details because talks are continuing. His administration wasn't part of the agreement and is still evaluating it.

"We want the government to continue being part of that negotiation," he told reporters in San Juan. "For the benefit of the people of Puerto Rico, I prefer not to comment on the details of the negotiation."

Either the board or Puerto Rico needs to outline what exactly are the island's most necessary expenditures, said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state and local debt, including Puerto Rico securities.

"The concern is that there's just no clear definition out there," Solender said. "There needs to be some agreement on what's essential and what shouldn't be."

Investors have questioned the amount of money that Puerto Rico actually has, partly because they suspect that some of what the government describes as spending for essential services may be discretionary. The island has also made dire predictions that it was poised to run out of cash, only to later find the funds needed to avert a shutdown.

Under Promesa, the law passed by the U.S. Congress that allowed Puerto Rico's insolvent government entities to file bankruptcy, the federal board is responsible for developing debt adjustment plans for each agency that seeks court protection, including the commonwealth itself and the government owned utility, known as Prepa.

In November, U.S. District Court Judge Laura Taylor Swain ruled that the federal overseers must share control with local officials. She said Promesa allowed the board to put public agencies into bankruptcy, but doesn't allow it to run them.

But now the two court appointed agents, representing the central government and the agency that sold Puerto Rico's sales-tax bonds, have proposed giving the board, not local officials, control of the revenue.

Investors cheered. On Friday, Puerto Rico's sales-tax debt with the highest legal claim to the money rallied 10 percent to 83 cents on the dollar.

The case is The Official Committee of Unsecured Creditors v. Bettina Whyte, as agent of, the Puerto Rico Sales Tax Corp., 17-257, U.S. District Court, District of Puerto Rico (San Juan)

Bloomberg Markets

By Steven Church and Michelle Kaske

June 8, 2018, 2:36 PM PDT

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