Federal Board Files Plan to Reduce Puerto Rico Debt by 60%.

SAN JUAN, Puerto Rico — A federal control board that oversees Puerto Rico's finances filed in court Friday a long-awaited plan that it says would reduce the U.S. territory's debt by more than 60 percent and pull the island out of bankruptcy.

The plan comes three years after the U.S. Congress created the board and would reduce $35 billion in liabilities to $12 billion, a move that some believe would help ease Puerto Rico's financial crisis amid a 13-year recession, pave the way to the board's departure and allow Puerto Rico to regain fiscal autonomy.

"Today we have taken a big step to put bankruptcy behind us," said board chairman José Carrión. "Three years after Congress passed PROMESA and two years after the most severe hurricane in more than 100 years hit Puerto Rico, after more than a decade of economic decline and fiscal disarray, after tens of thousands of Puerto Ricans left their island to find prosperity elsewhere, we have now reached a turning point."

Puerto Rico was dragging more than $70 billion in public debt after decades of mismanagement, corruption and excessive borrowing to balance budgets. In June 2015, the government declared the debt unpayable, and in May 2017, Puerto Rico filed for the biggest U.S. municipal bankruptcy in history.

Since then, deals totaling more than $23 billion have been reached with creditors holding bonds issued by certain Puerto Rico government agencies. The newest plan targets general obligation bonds and other debt held by the government, and it still has to be approved by a federal judge overseeing a bankruptcy-like process as Puerto Rico still struggles to recover from Hurricane Maria.

The island's infrastructure remains weak as evidenced by Puerto Rico's Electric Power Authority announcement late Thursday about selective power cuts given high demand and an overwhelmed power grid that has left tens of thousands without power overnight.

In addition, the fiscal crisis has crippled Puerto Rico's ability to recover from the Category 4 storm that hit in September 2017 because it cannot borrow money since it doesn't have access to capital markets, officials said.

Board members met on Friday to talk about the plan's details, noting that while they expect creditors to fight back, the restructuring is needed.

Natalie Jaresko, the board's executive director, said Puerto Rico's bankruptcy is larger than that of General Motors in 2009 as she praised the aim to reduce the island's debt by 60%.

"Those are huge numbers," she said. "It's a very important day for Puerto Rico."

However, Carrión acknowledged that the plan itself would not lift Puerto Rico's economy or spur economic development.

“It’s not a panacea,” he said, adding, “Nothing can happen unless we get out of bankruptcy.”

If approved, the debt restructuring plan would reduce Puerto Rico’s annual debt service to under 9%, down from almost 30% prior to Congress approving a financial package that led to the creation of the board.

The plan also would restructure general obligation bonds and others issued in previous years by Puerto Rico’s government, with creditors who hold bonds issued after 2011 facing bigger cuts since that debt has been challenged as unconstitutional.

In addition, the plan would impose an 8.5% in pension cuts for retirees that receive more than $1,200 a month, a move that Puerto Rico’s government has opposed. Puerto Rico’s public pension system currently faces more than $50 billion in unfunded pension benefits.

The island’s previous governor, who resigned in August amid political turmoil, vehemently opposed pension cuts. However, the new governor, Wanda Vázquez, said in a televised address on Friday that she supports the plan in part because it will help guarantee the continuation of government services and warned retirees would face deeper cuts if it’s not approved.

Vázquez said she’s convinced the plan is the best option, adding, “We cannot remain stuck in bankruptcy for much longer.”

By The Associated Press

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