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U.S. Treasury Supports Broad Bankruptcy Protection for Puerto Rico.

SAN JUAN/NEW YORK — The U.S. Treasury on Wednesday urged Congress to help debt-stricken Puerto Rico, saying the U.S. commonwealth needs the ability to file for bankruptcy protection, changes to Medicaid funding and access to the Earned Income Tax Credit.

“Only Congress has the authority to provide Puerto Rico with the necessary tools to address its near-term challenges and promote long-term growth,” Treasury said in a statement.

Puerto Rico, a U.S. territory home to 3.5 million, is buckling under \$72 billion in debt and a 45 percent poverty rate. With financial creditors resisting reductions to debt payments and political gridlock threatening proposed spending reforms, some Puerto Rican leaders have called on the U.S. government to step in.

A bailout by the United States is seen as unlikely, but Wednesday’s statement from Treasury is the strongest indication yet that President Barack Obama’s administration supports some form of federal assistance for the island.

A key element of Treasury’s proposal is its endorsement of extending bankruptcy protections not only to Puerto Rico’s public agencies, but to the island itself – a notion championed by some Puerto Rican leaders but seen as too radical to be politically practical.

Cities, towns and municipal agencies can file for under the U.S. Chapter 9 bankruptcy code, while states cannot. Puerto Rico is exempt from Chapter 9 because it is a commonwealth.

“With the escalating crisis, bankruptcy protection is now needed for the commonwealth as well,” Treasury said in a 10-page proposal. “Congress should authorize a broader legal framework that allows for a comprehensive restructuring of Puerto Rico’s debts.”

Treasury would be a key ally for Puerto Rico in Washington, where the island has struggled to find powerful supporters.

Antonio Weiss, a counselor to Treasury Secretary Jack Lew, is scheduled to testify on Thursday at a hearing on Puerto Rico before the Senate Committee on Energy and Natural Resources.

Treasury’s proposal also calls on Congress to create a fiscal control board for Puerto Rico.

In a statement, Puerto Rico Governor Alejandro Garcia Padilla said his administration would seek to ensure that any such board respected Puerto Rico’s autonomy.

Still, Garcia Padilla lauded the Obama Administration for taking what he called the “historic step” of presenting a set of recommendations to help Puerto Rico.

The department’s proposal makes clear its view that resolving Puerto Rico’s crisis requires a debt

restructuring and concessions from bondholders, and that pension benefits should be protected.

While Treasury has also called on Puerto Rico to fix its traditionally opaque financial reporting practices and instill more credible fiscal oversight, the proposal is generally in line with what the island itself has said it needs from Congress and its creditors.

By REUTERS

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(Reporting by Nick Brown in San Juan and Megan Davies in New York; Editing by Chris Reese, Diane Craft and Leslie Adler)

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