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Report Questions Whether Puerto Rico Debt Issued Illegally.

SAN JUAN, Puerto Rico — A commission created to audit Puerto Rico's debt is questioning the legality of government-issued bonds in a report released Thursday, saying the struggling U.S. territory might not be responsible for paying a portion of the money owed.

The report comes as the U.S. Congress is debating how best to help Puerto Rico as it struggles to restructure \$70 billion in public debt. The island is widely expected to default on a \$2 billion payment due July 1.

The commission, whose 17 members were in part appointed by Puerto Rico legislators, found in its pre-audit report that millions of dollars of debt might have been issued in violation of the island's constitution. They say that is significant because previous court rulings have found that some U.S. municipal agencies were not responsible for paying debt if it was illegally issued.

The 44-page report states that Puerto Rico has borrowed more than \$30 billion to finance deficits since as early as 1979, though its constitution prohibits it from doing so.

The constitution also bars the government from issuing loans for more than 30 years, but the commission found that the government has long done that. For example, a debt was incurred in 2014 to repay debt from 2003, which was used to refinance a 1987 debt.

The report also said Puerto Rico is spending more government revenue on debt than is allowed by the constitution.

"A court may rule that Puerto Rico borrowed without authorization to do so, with the consequence that Puerto Rico may be barred from issuing further debt in the future to finance deficits, it may be forced to raise taxes, or alternatively, declare the debt unpayable for lack of authorization," the report said.

The report's findings are not final. The commission noted that it has not received any funds yet to carry a full audit as planned.

"The findings of this report prove the need to dedicate resources to this audit and start to reveal who holds the debt, how borrowed money was used and if it met constitutional and legal limits," said Roberto Pagan, the commission's president.

Puerto Rico already faces several lawsuits stemming from its debt crisis, and some say the report's findings could further complicate efforts to find a solution in time to avoid default. The U.S. House of Representatives is considering a bill that would allow for restructuring of some debt while creating a federal control board to oversee the territory's finances.

The House is expected to debate the measure in upcoming weeks, while the Senate has not yet considered the bill.

By THE ASSOCIATED PRESS

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