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Puerto Rico Board Backs Fiscal Plan Amid Clash With Governor.

- **Bonds gain as plan projects bigger surplus before debt bills**
- **Governor rejects panel's plan for cutting retirement benefits**

The federal board that oversees Puerto Rico's finances approved a multi-year fiscal plan that aims to pull the commonwealth out of a decade-long recession by cutting spending, improving tax collections and taking steps to encourage businesses to expand on the hurricane-ravaged island.

The vote for the austerity plan sets up a clash with Governor Ricardo Rossello, who opposes proposed cuts to retirees' pensions and said the board has no authority to impose them over his objections. The chairman of the U.S.-appointed panel, Jose Carrion, said it's willing to challenge Puerto Rico in court if the plan isn't implemented by the legislature and the governor.

The panel projects that the recommendations would result in a \$6.7 billion surplus over the next six years, before debt-service payments, the highest estimate since the outlook was redrawn several times to reflect the impact of Hurricane Maria.

"The new fiscal plan provides a blueprint for structural reforms and fiscal measures that if implemented in full and on a timely basis will give Puerto Ricans what they need and deserve: a growing economy with more and better jobs, a 21st century electricity grid, resilient infrastructure and an effective and efficient public sector," Natalie Jaresko, the board's executive director, said during the meeting in San Juan.

The vote comes a day after the board released the latest forecast, buttressing the optimism among investors that they stand to recover more on the bankrupt island's debt than they previously expected, despite uncertainty about how closely Rossello will implement the policies it assumes. General obligations maturing in 2035 traded Thursday at an average of 42.5 cents on the dollar, up from 41.7 cents on Wednesday, data compiled by Bloomberg show. The bonds have rebounded from a record-low of 20.75 cents on Dec. 5.

The plan, which will serve as a blueprint as the board negotiates with creditors in bankruptcy over how to restructure Puerto Rico's \$74 billion debt, drew criticism from Rossello over its calls for cutting pension benefits by an average 10 percent beginning in 2020 for some retirees. Some board members approved the plan despite their stated reservations, while one, Ana Matosantos, dissented, saying it will fall too heavily on already impoverished residents.

"I am simply not willing to support massive cuts to the safety net," she said. "I cannot support too much pain with too little promise."

But Jaresko said the step is necessary to ensure that the pension checks can be paid, given that the government retirement system is depleted.

"The board's intention is to ensure retirees get a pension despite the fact that there are no funds in

the pension plan to do so while ensuring that current government employees can have more confidence in their future pensions and will have more control over them,” Jaresko said.

Rossello has resisted taking such a step and on Thursday criticized the board for including measures he said it can’t implement, saying it casts doubt on the financial projections. A member of his administration reiterated his views at the panel’s hearing.

“It would be inhumane to impose any further freeze or reduction in benefits upon them,” said Gerardo Portela, the executive director of Rossello’s fiscal agency. “The board’s proposed cuts arbitrarily would place the greatest burden on those retirees least able to afford it.”

The plan would reduce allocations to municipalities, the University of Puerto Rico and public schools and consolidate government departments and agencies. Labor reforms include continuing the central government’s pay freeze through fiscal 2023 and eliminating Christmas bonuses for all public employees. To help spur business growth, the plan seeks to ease some regulations and speed up the island’s permitting process.

“The government believes that through meaningful and significant fiscal and economic measures set forth in its new fiscal plan, Puerto Rico will be in position to achieve a sustainable level of debt and long-term economic growth and recovery without impairing pensions and Puerto Rico jobs,” Portela told the board.

The board also approved multi-year fiscal plans for the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority.

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