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U.S. Releases Puerto Rico Debt Crisis Report, Offers Solutions.

SAN JUAN, Puerto Rico (AP) — A U.S. government report Wednesday detailed how Puerto Rico accumulated some $70 billion in public debt and suggested ways federal officials could help avoid a repeat of the crisis, such as removing a triple-tax exemption on the island's bonds and requiring local investment companies to disclose risks associated with those bonds.

The report comes nearly two years after Congress enacted a law to help Puerto Rico restructure a portion of its debt and establish a federal control board to oversee the island's finances amid what is now a more than decade-old recession. It also allowed the Government Accountability Office to examine what led to Puerto Rico's crisis and actions the U.S. government could take.

"From highlighting the stifling debt, to identifying the systemic financial malpractice of the Puerto Rico government over the past half century, the GAO report reiterates why Congress passed (the law) two years ago," said U.S. Rep. Rob Bishop, chairman of a committee that has jurisdiction over Puerto Rico affairs.

The report found that the island's public finance problems are partly a result of government officials who overestimated revenue, overspent, did not fully address public pension funding shortfalls and borrowed money to balance budgets.

It said the government overestimated revenue in eight of the 13 years analyzed, by as much as 19 percent in one year. As a result, this allowed Puerto Rico's legislature to increase appropriations to agencies that in turn overspent an average of nearly $460 million annually in nine of the 13 years.

The report said Puerto Rico's Treasury Department was not always aware of this practice because government agencies used a variety of accounting systems that prevented it from tracking those expenses.

Puerto Rico also made agreements with certain corporations to reduce their tax rates but then did not maintain an inventory on those details, preventing treasury officials from taking them into account when estimating revenues, the report said.

In addition to the recession's impact, the island's economy has been further weakened by a loss of population, the high cost of importing goods and energy and "burdensome" regulations and permitting processes for new businesses, the report said.

The GAO reviewed 20 of Puerto Rico's largest bond issuances over nearly two decades and found that 16 were issued solely to repay or refinance debt and fund operations.

"States rarely issue debt to fund operations, and many states prohibit this practice," the report stated.

As the crisis dragged on, Puerto Rico was still able to borrow money because its bonds were triple tax exempted and featured investment grade ratings, in part because they offered bankruptcy protection. During that period, it took Puerto Rico nearly twice the amount of time than average to release its audited financial statements.

“Untimely financial information made it difficult for … investors to assess Puerto Rico’s financial condition, which may have resulted in (them) not being able to fully take the investment risks into account,” the report said.

Puerto Rico still has not released audited statements for fiscal years 2015, 2016 and 2017.

The GAO suggested the Securities and Exchange Commission could be allowed to require timely disclosure of those statements so investors can make informed decisions. If such a measure were already in place, it could have precluded Puerto Rico from issuing a $3.5 billion general obligation bond four years ago, the report said.

However, the GAO made no formal recommendations and it noted that Puerto Rico’s government provided no information on potential progress made on many of the factors identified in the report.

The Associated Press

By Danica Coto

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