

Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico Overseers Scale Back Spending After Labor-Law Changes Fail.

The U.S. territory's financial supervisors cut bondholder payments by more than half over 30 years

Puerto Rico's federal supervisors said they would cut government spending and scale back economic growth projections after the U.S. territory's legislature declined to overhaul labor laws.

The federal board overseeing Puerto Rico's finances voted to cut bondholder payments, university scholarships, municipal subsidies and public employee bonuses after lawmakers didn't adopt at-will employment laws designed to spark hiring and economic growth.

The revised fiscal framework also leaves less money for infrastructure investments and for Puerto Rico's legislature and judiciary. The pot of money available for bondholders was slashed to \$14 billion over 30 years from \$39 billion, according to the oversight board's executive director Natalie Jaresko.

Revising labor laws has been a top priority for the oversight board. Puerto Rico's 40% labor participation rate is the lowest in the U.S., while youth unemployment on the island is 24%, more than double the overall U.S. rate, according to World Bank data.

Puerto Rico owes roughly \$70 billion to bondholders and \$50 billion in unfunded pension obligations and is restructuring those debts under a court-supervised bankruptcy proceeding. The oversight board was counting on bringing more residents into the workforce to increase tax collections.

But lawmakers balked at repealing labor protections that impose strict liability on employers for discharging workers.

The reduction in debt payments could complicate Puerto Rico's exit from court protection—the larger the losses that need to be imposed on bondholders, the harder it will be to negotiate settlements with them.

"When reforms to increase economic growth are not implemented, unfortunately, more cuts and more controls are needed," oversight board member Ana Matosantos said at a Friday news conference.

The oversight board is also clashing with Puerto Rico Gov. Ricardo Rosselló over pension cuts and other austerity measures as bondholders and retirees compete for top status in the restructuring.

Puerto Rico is struggling to rebuild following a devastating hurricane season last year that destroyed the power grid, killed an unknown number of residents and drove hundreds of thousands more to the mainland U.S.

The electric power authority known as Prepa is \$9 billion in debt and under bankruptcy protection

as well. Harvard University researchers last month estimated the death toll from Hurricane Maria at more than 4,600, far exceeding previous official figures.

Puerto Rico bonds have nonetheless rallied in recent months as government revenue rebounded stronger than expected and insurance payments rolled in for property damage and lost business.

The Wall Street Journal

By Andrew Scurria

June 29, 2018 6:58 p.m. ET

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com