

Puerto Rico oversight board extends reach to island's municipalities

Luis Valentin Ortiz

SAN JUAN, May 9 (Reuters) - Puerto Rico's federally created financial oversight board on Thursday took unexpected action, adding town and cities to its mandate, which up until now was focused on the island's central government and related entities.

Board officials said the move was aimed at helping municipalities avoid insolvency and not at eliminating local governments or pushing them into a form of bankruptcy that was filed for Puerto Rico's government and agencies in 2017 to restructure about \$120 billion of debt and pension obligations.

"This is absolutely not a takeover of anything," José Carrión, the board's chairman, told reporters, adding that the purpose was to help cities improve their finances and services.

Christian Sobrino, Governor Ricardo Rosselló's representative on the board, questioned if the board has the capacity to fully oversee municipal governments.

"I would not recommend designating all 78 municipalities as covered entities. But that is the board's prerogative," Sobrino said.

"The board lacks the personnel and resources. It is a lot of work," he added.

The board said it will launch a pilot program with 10 of Puerto Rico's 78 cities that were chosen for their geographic locations and not due to insolvency issues.

The 10 cities will be required to submit fiscal plans by June 7 that include spending cuts, efficiency measures like shared services, as well as programs to improve revenue collection and boost economic development.

The board also certified a new fiscal plan for the commonwealth that shows a surplus of about \$20 billion in the next 30 years, and includes revised macroeconomic, revenue and expense data.

The plan revises and delays economic growth estimates resulting from structural changes that the government has not fully implemented. Salary increases for police, firefighters and teachers were also included in the certified plan.

"You can't expect economic growth until (structural reform) is actually implemented," said Natalie Jaresko, the board's executive director.

Activity by the seven-member oversight board, which is still awaiting constitutional reappointment by the Trump administration and the U.S. Senate, has been in overdrive during the last couple of weeks.

Ahead of a two-year statute of limitations that ended last week, the board filed complaints against hundreds of government vendors and service providers, bondholders, and banks and advisors that worked on past bond sales or were counterparties in interest-rate swap agreements.

Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago Editing by Matthew Lewis