

ECONOMY

Federal Tax Reform on agenda; \$7.85 billion hurricane emergency-funding request passes



Think Strategically: 'Find Place Inside Where There's Joy & It Will Burn Out Pain'

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Congress: Full agenda, including Tax Reform

As Congress returns this week to Washington, D.C., it arrives facing a full agenda with pressing deadlines that could impact financial markets and affect millions of lives. Part of their agenda is dealing with Tax Reform by mid-September, with the introduction of either a draft bill or set of principles, followed by public hearings.

Some argue that a comprehensive Tax Reform bill would be difficult to pass and there would be opposition to the principal provisions of the measure. However, knowing that Republicans will consider passing this bill as part of their political survival, a lot of horse trading will happen to allow some form of a bill to pass. Congress may focus on tax reductions for individuals, corporations and pass-through entities, and provisions to repatriate income of U.S. companies in foreign countries. The tax reform

may become law during the early part of 2018.

Hurricanes Harvey, Irma recovery funding

There was little argument in Washington about the \$7.85 billion emergency-funding request that President Trump made in the aftermath of Hurricane Harvey, and Hurricane Irma's impact on the U.S. Virgin Islands and Puerto Rico. This measure passed with strong bipartisan support. The agreement includes more than \$15 billion for the Harvey and Irma recovery efforts and another \$14 billion for broader recovery efforts. Since Irma made landfall in Florida as a category 3 hurricane and with expected severe effects in that state, Congress may have to increase emergency funding by several billion dollars.

Nation's debt ceiling in focus

Another issue that can rattle financial markets is any prolonged discussion of the nation's Debt Ceiling. Both the White House and Congress fully understand the consequences of not approving an increase to the debt ceiling and will not risk a default; the most recent debt-ceiling increase was approved until December. However, the President reached an agreement with the Democratic leadership to work on a deal that would eliminate the ongoing need for Congress to raise the nation's debt ceiling. These days, with a conservative Congress in power, this is a way to control federal spending. Failure to increase the debt limit would have severe economic consequences and would cause the government to default on its obligations.

P.R. Update: Hurricane Irma

As the eye of Irma's Category 5 storm grazed Puerto Rico early last Thursday, a string of neighboring Caribbean islands suffered from flattened homes, flooding and widespread devastation. Irma battered the islands of Barbuda, St. Bart's, St. Martin, and the U.S. and British Virgin Islands. Local authorities estimate that on some islands, as much as 95% of the territory was in rubble and the tourism infrastructure suffered severely. There was not a single Puerto Rican who was not in some way or another consumed by the dire reality of facing this impact. The biggest hits locally were to Culebra and Vieques, which President Trump declared disaster areas. At its worst point, the P.R. Electric Power Authority (Prepa) estimated 70% of its clients had no electric power and over 30% of all P.R. Aqueduct & Sewer Authority customers (Prasa) were without water. Gov. Rosselló estimated that 25 to 30 municipalities were under evaluation for disaster-area declarations with the worst impacts on towns in the north,



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northeast and the mountain region.

We must congratulate Rosselló and his team for effectively managing the emergency crisis before, during and after the hurricane. Prepa's and Prasa's efforts to restore service to residents have been quite fast and efficient. However, as Rosselló stated, "It's the lack of maintenance of our infrastructure, with periods of over a decade without proper investments in capital expenditures." If there was a time to privatize all government monopolies, it is now.

Final word: Judge Swain ruling on HTA

This past Friday, Judge Taylor Swain ruled in favor of the Puerto Rico government and the Financial Oversight & Management Board (FOMB) by ruling against a complaint filed by a creditor group of the P.R. Highways & Transportation Authority (HTA).

Judge Swain ruled against Peaje Investments, which owns nearly \$65 million in HTA bonds and wanted to force monthly deposits of toll revenues with its fiscal agent. This income stream guarantees the payment of bonds issued by the public corporation. Since the HTA is under Title III bankruptcy protection, the judge also denied Peaje's request to lift the stay. This case is an important win for the Government and the FOMB as it opens a path for other legal issues under contention (see Promesa Watch p.8).

As Puerto Rico faces its own troubles and joins in clean-up efforts with those in the neighboring islands, I am always mindful of the words by writer Joseph Campbell, who stated: "Find the place inside where there's joy, and the joy will burn out the pain."

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IPO Calendar (Trade Date Estimate: Week of Sept. 11, 2017)

Company	Ticker	Deal Size
Social Capital Hedosophia Holdings	IPOA.U	\$500 million
Tremont Mortgage Trust	TRMT	\$90 million