

ECONOMY

GAO publishes study on P.R.'s financial condition



Think Strategically: The Vote Collectors

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Iran, North Korea at center stage: Markets react in stride

As President Trump announced his decision to abandon the Iran nuclear accord, what does this mean for the upcoming U.S./North Korea Summit in Singapore on June 12? The White House says this sends a clear signal about the hard bargain the president plans to drive with one of the axis of evil countries.

The president's decision triggers re-initiating a wide range of economic sanctions on Iran, and it shows in the price of oil.

The market reaction was as follows:

- The Dow Industrials climbed 182.33 points, or 0.7 percent, to 24542.54.
- The S&P 500 added 25.87 points, or 1 percent, to 2697.79.
- The Nasdaq Composite advanced 73 points, or 1 percent, to 7339.91.
- U.S. crude oil is rising, by 3 percent to \$71.14 a barrel.

Increased inflation is expected as a result of oil's recent gains, which provides the Federal Reserve Bank with incentives to raise interest rates.

GAO Study on P.R.

The Government Accountability Office (GAO) published a study to examine the causes that contribute to Puerto Rico's financial condition, levels of debt and federal actions that could address these factors, concluding the following measures are needed:

1. The government's persistent annual deficits: Expenses for the past 13 years have exceeded revenues.
2. Using debt to cope with deficits: This increased debt levels to an unmanageable territory.

These practices combined with the factors discussed below, created according to the GAO, the perfect storm we are now facing.

•**The government's inadequate financial management controls and oversight practices.** The government continually overestimated its revenues and agencies regularly overspent the Legislature-appropriated budget for a given fiscal year without any consequence.

•**Policy decisions by the government.** Such as borrowing to fund deficits and not addressing pension deficits.

•Puerto Rico's prolonged economic contraction. The contraction includes

outmigration and the resulting diminished labor force, and the high cost of importing goods and energy.

The GAO establishes that the high demand of Puerto Rico's debt, even as it funded persistent deficits driven by the fact the Puerto Rico bonds are triple tax-exempt and suggests three federal actions:

- Modify the tax-exempt status for Puerto Rico municipal debt. Making interest income from Puerto Rico bonds earned by investors residing outside of Puerto Rico subject to taxes may lower demand for its debt. This may hinder our ability to borrow funds for capital investments or liquidity needs. We do not support this conclusion; it is based on flawed analysis and does not consider that most of the debt was revenue bonds that had or still can be repaid.

- Apply federal investor protection laws to Puerto Rico. Requiring Puerto Rico investment companies to disclose risks with Puerto Rico bonds and adhere to other requirements could lower demand for the bonds. This action will further limit Puerto Rico's ability to borrow funds.

- Modify the Securities & Exchange

Commission's (SEC) authority over municipal bond disclosure requirements. The SEC could be allowed to require timely disclosure of materials—such as audited financial statements—associated with municipal bonds.

While it is true Puerto Rico has been running persistent deficits and we need improved financial controls, it fails to mention that when the shortages began, it coincided with the phaseout period of the repeal of Section 936 of the Internal Revenue Code that was given away by "The Vote Collectors." In the latter part of 2004, we lost revenues and the loss of high-paying jobs was more than 160,000 in total. I will never understand why Congress would repeal 936 only to save \$4.5 billion (which it did not) in claimed federal tax credits. This GAO study and the preceding one on the Cabotage Laws remind me of what Jerry Seinfeld used to say, that "his show was about nothing."

Final Word: The Vote Collectors

This week, the FOMB sent to the government a letter stating the

government budget was in violation of Section 202 of Promesa. The proposed Government of Puerto Rico budget for fiscal year 2019 submitted to the FOMB is not compliant with the New Fiscal Plan.

Some of the violations include a detailed budget of expenses for FY19 consistent with the New Fiscal Plan:

- No inclusion of University of P.R. and Workforce Development reinvestments generated from comprehensive labor reform;
- Lack of a Commonwealth appropriation to Health Insurance Administration (ASES by its Spanish acronym);
- The composition of additional reserves beyond the \$130 million emergency reserve in the Fiscal Plan;
- The addition of \$100 million to municipalities for regionalization of services, which is separate from \$176 million in Fiscal Plan appropriations and not included in the Fiscal Plan;
- The inclusion of Christmas Bonus payments to employees;
- \$3.5 million for State Revolving Funds instead of the \$114 million enumerated in the Fiscal Plan;
- \$33 million for Police employees' inclusion in Social Security payments;
- No integration of \$132 million of unallocated capital expenditures;
- Utility payments that are inconsistent with projections;
- No agency holdbacks of 5 percent as its concept of spend; and
- Incorrect appropriations.

This letter has become fuel for "the Vote Collectors," who are members of any party, running for any office or elected to any office, which runs through their political existence, saying anything people would like to hear to collect votes.

The Vote Collectors reacted with a statement that the budget will not include the following:

- Increases in budgets to the FOMB of \$60 million;
- Implementing the Labor Reform; and
- Elimination of the Christmas Bonus for government employees.

According to the Vote Collectors, the FOMB does not have the power to request these changes.

The Vote Collectors have chosen to let the FOMB become the bad guy in this scenario to preserve their vote-collecting powers.

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