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Fiscal board holds hearing on Puerto Rico debt investigation

By Caribbean Business on September 18, 2018

SAN JUAN – The Special Investigation Committee of the Financial Oversight and Management Board for Puerto Rico held a public hearing Tuesday to discuss the findings in the report prepared by investigative firm Kobre & Kim on the island's debt and its relationship to the fiscal crisis.

During the hearing, committee members Arthur González, Ana Matosantos and David Skeel heard from Kobre & Kim's investigative team and their discussion of the report's findings, which include a thorough analysis of potential causes of action, and numerous recommendations for Puerto Rico and its government officials, "to make sure the island never has to go through a debt crisis again," the board said in a release issued after the hearing.

The report contains specific recommendations for various Puerto Rico debt-issuing government entities, as well as for the government's financial management, budgeting and accounting practices, and public utilities' governance reforms.

Some of recommendations included in the 600-page report that were highlighted by the board are: recomposing the boards of directors for public utilities to include a mix of governor-appointed and independent members, with longer and staggered terms across administrations; establishing independent rate boards for both the Puerto Rico power company and the Puerto Rico Water and Sewer Authority; amending the Puerto Rico Constitution so that tax securitization structured debt, such the Sales Tax Financing Corp.'s (Cofina), count toward the constitutional debt-limit calculation; adopting a statute that requires that the bonds or the issuer's structure be validated by a court before the debt is issued; adopting a joint and modernized accounting and budgeting system that, among other mechanisms, incorporates automatic stop-pay controls for exhausted budget categories; permanently reducing the percentage of Puerto Rico assets in which on-island funds must invest, and having the Office of Government Ethics undertake targeted reforms, including the implementation of a whistleblower or bounty program.

“The serious evaluation of these recommendations is critical to ensure sure this never happens again,” Matosantos said in the release.

Kobre & Kim’s presentation was followed by a question and answer session, led by board investigative committee members, that incorporated questions submitted by the public and a moderated panel discussion of the potential reforms in governmental structures and debt-issuance procedures resulting from the report’s recommendations.

The panel’s moderator was Kenneth Rivera, president of the Puerto Rico Chamber of Commerce, and the panelists included Alvin Velázquez, associate general counsel of the Service Employees International Union and former executive coordinator of the Debt Audit Commission; Francisco Montalvo Fiol, member of the Private Sector Coalition; John Mudd, bankruptcy attorney and commentator; and Ramón Ponte, CPA and former president of the Puerto Rico Certified Public Accountants Society.

“The report found many troubling and problematic practices, as well as instances when bond proceeds were not used for the purposes for which they were issued. It also identifies issues that could lead to potential claims. Most importantly, it provides a solid foundation for the work that is to come: resolving the debt and fiscal issues before us, and for the government of Puerto Rico and its people to decide what changes to make to avoid this happening again,” Matosantos added.

The board has created a Special Claims Committee to evaluate report findings that could lead to potential claims and decide which ones to pursue. The committee comprises board members Arthur González, Matosantos, David Skeel and Andrew Biggs.

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As it stands calculations only included debt backed by full faith and credit of the commonwealth, not debt issued by public corporations

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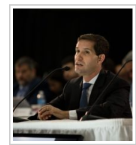

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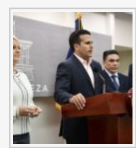

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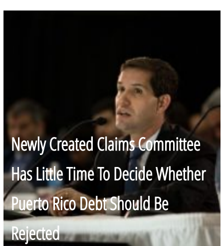

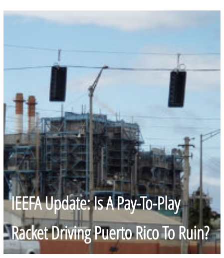

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