Fiscal News Coverage—Highlights

Contents

MUNINET GUIDE: Puerto Rico Makes Its Case

Triet Nguyen

October 18, 2013 · Print · Email

As expected, the dramatic events in Washington did go down to the wire on Wednesday, and we still ended up with no permanent solution. Although a default on the national debt may have been averted, our politicians' decision to kick the can down the road yet again may have inflicted great damage to the near-term economic outlook. The cloud of sure-to-be contentious budget negotiations and the fear of another government shutdown in another three months will hang over the economy at least through year-end, and probably until Janet Yellen's first FOMC meeting. And, barring an unexpected surge in employment over the next few months, we can just forget about any further "tapering" talk at this point. As one of the anchors on CNBC quipped yesterday, "why not just go ahead and cancel Christmas right now?" and for once, we would tend to agree with him. In our view, all these factors should add up to a fairly benign environment for fixed income through year-end and probably through the first quarter of 2014.

In spite of yet another week of significant outflows in mutual fund flows, we believe investors should start rediscovering the value in municipals, particularly if the Puerto Rico market stabilizes.

Obviously, we're not the only ones to have reached this conclusion, as evidenced by yesterday's meaningful Treasury rally which took the yields on the benchmark 10-year and 30- year bonds to 2.55% and 3.62%, respectively.

In spite of yet another week of significant outflows in mutual fund flows ($1.29 billion for the week ended October 16th), we believe investors should start rediscovering the value in municipals, particularly if the Puerto Rico market stabilizes (more on this later). Inter-market ratios are particularly attractive on the long end of the curve (around 111% in 30 years) and less so in the 10-year range, where they have dipped below 100%.

Puerto Rico Goes on the Offensive

It's fair to say that no other major issuer has been subject to greater credit scrutiny than the Commonwealth of Puerto Rico and its instrumentalities over the last few months. On Tuesday, under tremendous pressure from the market, the Commonwealth of Puerto Rico (PR) finally broke new grounds in its disclosure efforts: it held an informational webcast that was open to *all* investors, not just a few privileged institutional bondholders. In fact, PR now intends to become the poster child of municipal disclosure, with monthly revenue updates and quarterly investor calls, a welcome change from its former stance. We do hope that the Commonwealth will also provide full disclosure on its private loans also.

Puerto Rico now intends to become the poster child of municipal disclosure, with monthly revenue updates and quarterly investor calls, a welcome change from its former stance.

A full analysis of PR's recently released financial information would go beyond the scope of this column (for a copy of our upcoming update report on PR, please contact us directly atresearch@axiosadvisors.com). We can, however, offer a few preliminary observations regarding some key issues we heard on the investor call.

Obviously, with yield levels on PR paper reaching new highs going into the call, there was little room for mistakes. To the extent that the Padilla team came out with a comprehensive and informative presentation that did not reveal any new negative information, the investor call can be viewed as a success.

Not surprisingly, Commonwealth officials categorically confirmed that default or bankruptcy on its debt is not an option at this time. But then again, what else could they really say that wouldn't turn into a self-fulfilling statement?

We were surprised that the financial team decided to address the "clawback" issue on COFINA debt head-on. One of the reasons for the recent underperformance of COFINA bonds is the persistent rumor that, in the event of a default or bankruptcy, sales tax revenues might be subject to a "clawback" by G.O. creditors. PR officials cited strong legal opinions from local as well as stateside counsel that revenues pledged to COFINA financings would not be subject to clawback. While such clarification is certainly helpful, we're not sure market participants can fully rely on it, as we all realize that anything can happen in a default/bankruptcy scenario, particularly one that is adjudicated in local court.

As we've discussed before, everything still boils down to PR's struggling economy. To address that concern, the Commonwealth also released a five-year economic development plan aimed at exploiting the island's inherent strengths, including a well-educated bilingual work force, among other factors. While the plan, which was probably devised by the Boston Consulting Group, sounds impressive at face value, we remain skeptical about its successful execution, as it really doesn't address a key issue: the very high cost of doing business on the island. Even the effort to lower energy costs through conversion to natural gas will take several years to implement. And, of course, the tax burden on corporations is still rising.

On the budget front, we're encouraged that revenues are tracking fairly close to projections, with corporate tax increases basically making up for still declining personal income tax receipts. We were looking forward to hearing more about the Commonwealth's stepped up revenue collection efforts but that topic, sadly, was not covered.

Most importantly, in our view, the GDB now claims it has access to enough "liquidity" (read: private financings from commercial banks) that it can stay away from the public market until at least June 2014. Quite understandably, the Bank is loath to pay the kind of long-term interest rates that the public market would require currently. At this writing, a Junior Subordinated COFINA issue as proposed would require yields in the high 8.00/low 9.00% to clear the market.

When asked by Thomson Reuters what the Commonwealth would target as an acceptable rate on its upcoming COFINA financing, Treasurer Acosta Febo replied: "less than 7.00%." This, of course, translates to a rally of at least 150 basis points from current levels by next June. Quite an ambitious, if rather unrealistic, target, in our opinion. It would be interesting to see how long PR can adhere to the 7.00% line in the sand.

For now, based on the initial reaction from the market, the investor call appears to have accomplished its purpose in stopping the free fall in PR bonds. With some help from a firmer Treasury market, COFINA bonds have rallied by about 25 basis points, although there are unconfirmed rumors that Barclays has been the one supplying the bid.

THE BOND BUYER: Puerto Rico Unveils 5-Year Economic Plan
BY ROBERT SLAVIN

OCT 16, 2013 2:45pm ET

Puerto Rico's government economic and financial leaders, seeking to reassure investors in its municipal debt, unveiled a five-year plan to diversify the economy.

The plan was among the disclosures during a wide-ranging webcast broadcast Tuesday to calm investors and funds who have been asking for increasing yields on Puerto Rico bonds. Long maturing Puerto Rico bonds have been trading in a range from 8% to the low 9% region in recent days. Slides from the webcast can be found at:http://www.gdb-pur.com/documents/GDBPresentationHighlights101513FinalFinal.pdf.

"We have tackled investor concerns in a swift and decisive manner," Gov. Alejandro García Padilla said during the webcast, referring to progress in revenue and expenditures.

The five-year plan aims to create a more diversified, knowledge-based economy. It focuses on improving five sectors: life sciences, knowledge services, tourism, small and medium enterprizes, and agriculture.

For life sciences, the government plans to defend its base in pharmaceuticals and pursue new opportunities in generics, biologics, and contract manufacturing. It also hopes to consolidate the island's position as a medical devices manufacturer and do agricultural biotechnology research and development.

For knowledge services, the government wants the island to become the center of this in the Americas and to grow insurance and financial services. It will focus on clients in the Americas and go after select large integrated outsourcers.

Puerto Rico wants to grow its tourism in general and target emerging niche markets in ecological, cultural, and medical tourism in particular.

Small and medium sized businesses provide 65% of the island's employment. To help them the government will improve coordination of support services and take other steps.

Finally, the government hopes to grow agriculture. Its focus will be on expanding diary and sugarcane production and processing and expanding the acreage available for coffee growing.

On Monday the government had announced that general fund revenues were running 0.6% ahead of projections in the first three months of the fiscal year. Preliminary results show that there was $56 million less spending in the past fiscal year than had been budgeted, Carlos Rivas, director of the Office of Management and Budget, said in the webcast. This money will be rolled over to the current fiscal year.

Rivas also said that the year-over-year payroll expense in the first quarter of this fiscal year was down 5.3%. He also said that actual payroll compared to the budgeted payroll was down 0.6%.

Government Development Bank of Puerto Rico chairman David Chafey said the government won't be forced to use "extraordinary measures" to avoid the capital markets this fiscal year. The bank has adequate liquidity to finance government needs, if necessary.

As things stand, the government plans to sell between $500 million and $1.2 billion in COFINA sales tax bonds this fiscal year, GDB general counsel José Coleman-Tió said.

Officials said they would take additional measures to improve communications with the market.

Treasury secretary Melba Acosta Febo said that the government would soon post its monthly revenue projections for the rest of the fiscal year to the GDB web site.

Coleman-Tió said the GDB will hold investor webcasts at least once per quarter. The GDB will also publish a report on commonwealth financial and economic data once a quarter. The Treasury and Office of Management and Budget will provide revenue and expenditure updates at least once a month.

Finally, the Puerto Rico Electric Power Authority has begun to post quarterly results. The Puerto Rico Aqueduct and Sewer Authority and the Highways and Transportation Authority will follow suit, Coleman-Tió said.

H.J. Sims & Co. director of credit analysis Dick Larkin said he heard nothing negative from the webcast of which he had not already been aware. Larkin said he heard several positive things: assurance that liquidity is not a problem for at least fiscal year 2014, a commitment to improved financial disclosure, and details on an economic development strategy.

Ideally, Larkin would have liked to hear the government was moving up the elimination of the deficit to fiscal year 2015. Larkin would also have been happy if it had announced the adoption of a four year financial plan similar to what New York City adopted in the 1970s.

“The commonwealth didn’t have any room for error,” said Triet Nguyen, managing partner at Axios Advisors, about the webcast. “To the extent they achieved that, it was successful. I don’t think there were any new negatives that came out of it.”

Joseph Rosenblum, senior vice president at AllianceBernstein, was also generally positive. The government made a comprehensive presentation and recognized the challenges in front of it. Rosenblum said he was happy that there would be improved disclosure.

In the coming months, observers will have to keep an eye on how the economic strategy plays out, how the COFINA sales go, and how government revenues and expenditures perform, Rosenblum said.

WALL STREET JOURNAL: Puerto Rico Moves Again to Allay Investors
Island Officials Outline Efforts to Improve Fiscal Health

Puerto Rico officials outlined efforts to improve the island's fiscal health on a conference call with investors, even as some bond buyers continue to shun its debt.

By Mike Cherney , Kelly Nolan

Puerto Rico officials outlined efforts to improve the island's fiscal health on a conference call with investors, even as some bond buyers continue to shun its debt.

The call on Tuesday lasted nearly 21/2 hours and featured more than a half-dozen officials, including Gov. Alejandro Garcia Padilla and Melba Acosta, Puerto Rico's treasury secretary. The message was that Puerto Rico is making progress in repairing its budget and can survive the rest of the fiscal year without taking on any new bond debt.

"We have tackled the investors' concerns in a swift, decisive and unprecedented manner," Mr. García Padilla said. "The difficult decisions made by my administration stand in stark contrast with the failure of many other U.S. jurisdictions."

The call is an effort to soothe investors who have shunned the island's debt amid concerns about its large deficits, excessive borrowing and economic malaise. The island's credit rating sits just above "junk" status, and ratings firms have warned it could see future downgrades.

Municipal bonds from Puerto Rico have dropped more than 20% in value this year, according to one measure from S&P Dow Jones Indices. Investors fret the island's high unemployment rate, budget gaps and weak economy could make it more difficult for Puerto Rico to pay back its bonds.

Puerto Rico bonds are widely held, in about three-quarters of municipal-bond mutual funds, in part because interest on the island's debt is exempt from federal, state and local income taxes.

About $70 billion in Puerto Rico municipal bonds are outstanding.

Island officials said they are on the right track. They said they plan to reduce the island's budget deficit by at least an additional 50% for the next fiscal year.

The budgeted deficit is $820 million, a decline from the previous year, and officials highlighted various tax increases that were passed to help close the gap. Benefits were recently cut for its main pension system, and officials said they plan to tackle the ailing pension system for teachers by the end of the year. A balanced budget is expected no later than fiscal 2016.

General fund revenue for the first quarter of the fiscal year came in at almost $1.7 billion, exceeding estimates by $10.4 million, officials said.

Puerto Rico officials also said they have a five-year plan to improve the island's economy, aiming to create more than 90,000 jobs by the start of 2016 and more than 130,000 by the start of 2018.

Facing concerns about its bonds, Puerto Rico has decided to take out short-term loans with banks in recent months. Island officials said they had pared back plans to borrow in bond markets this year but still say they could sell an additional $500 million to $1.2 billion this year, subject to market conditions.

REUTERS: UPDATE 2-Puerto Rico will do what it takes to honor debts

Tue Oct 15, 2013 8:22pm EDT

* Territory does not need to access capital market till earliest June 2014

* Over 9,000 jobs expected in key industries in next 12 months -officials

* Yields need to fall below 7 pct for market return - Treasury Secy

By Edward Krudy and Tiziana Barghini

NEW YORK, Oct 15 (Reuters) - Puerto Rico will do whatever it takes to honor its debt, Governor Alejandro Garcia Padilla said on Tuesday, as local officials tried to reassure investors the U.S. territory can and will meet its obligations after a jump in yields shut it out of capital markets.

A host of officials from the Government Development Bank (GDB), the departments of treasury and economic development, the budget office, and others joined Padilla in a wide-ranging call with investors that lasted nearly two and a half hours. The message: Puerto Rico is not going to default on its debt.

"We will do everything, and I repeat everything, that is necessary for Puerto Rico to honor all its commitments. It is not only a constitutional but also a moral obligation," Padilla said at the start of the conference call and webcast that contained 72 pages of slides.

Puerto Rico's bonds have been trading at around 60 cents on the dollar, pushing yields above 9 percent and forcing Puerto Rico to rely on private debt sales to banks instead of issuing debt on capital markets.

Officials from Puerto Rico's Government Development Bank said they have enough liquidity tofinance the commonwealth through at least the end of the current fiscal year in June 2014, allaying fears that the government could face a refinancing crunch later in the fiscal year.

"We feel it is a very manageable situation right now," said David Chafey, president of the board of the GDB, pointing to $2.3 billion of net assets at the bank, most of which is held in liquid assets such as money market funds and U.S. Treasury and agency debt.

A major issuer on the United States municipal bond market, Puerto Rico has $70 billion in outstanding debt that has been very popular with investors and fund managers because it is exempt from federal, state and local taxes. Puerto Rico debt represents nearly 2 percent of the $3.7 trillion municipal bond market.

But investors - spooked after Detroit filed the largest municipal bankruptcy in history in July and worried about rising interest rates - have largely ignored a series of reforms aimed at kick-starting the economy and reigning in Puerto Rico's public finances, instead treating the Caribbean island's debt as a potential default risk.

Yields on its 30-year debt have spiraled from just over 5 percent in mid-May to more than 8 percent currently.

Puerto Rican officials have expressed frustration at their rising borrowing costs, saying investors are not recognizing the painful reforms to the pension and tax systems and are unfairly punishing the commonwealth in comparison with U.S. states in similar or worse situations.

In a separate interview with Reuters on Tuesday, Treasury Secretary Melba Acosta Febo said Puerto Rico might tap America's municipal bond market with a new issue of sales tax bonds if yields on the secondary market fell below 7 percent.

A COFINA bond, as the sales tax revenue bonds are known, traded at 61.346 cents on the dollar and a yield of 9.085 percent on Tuesday.

When asked what yield level would represent the right conditions to tap the market, Acosta Febo said, "less that 7 percent would be good." The Commonwealth, which had planned issues for between $500 million and $1.2 billion in bond sales, will have to keep monitoring market conditions, she said.

Dan Berger an analyst with Municipal Market Data, a unit of Thomson Reuters, said an imminent return to capital markets at a yield under 7 percent was "wishful thinking."

A major issue for Puerto Rico is the lack of economic growth even as a sharp decline in the Caribbean island population leaves fewer people to bear the cost of a growing debt.

Officials outlined plans to increase development in key industries such as pharmaceuticals, biotech, medical devices, high tech manufacturing and agriculture through incentives and tax cuts. An expected 9,280 new jobs will be created in those sectors over the next 12 months based on ongoing negotiations, officials said.

The unemployment rate, at 13.9 percent, is already the highest of any U.S. state or territory.

Dick Larkin, director of credit analysis at HJ Sims & Co, gave the conference call a cautious welcome but expressed some reservations that Puerto Rico was doing enough.

"It shows that they have been thinking and planning for economic growth, and not just focusing on the deficit," he said. "I am glad to see there exists a coherent, thought-out plan, still (there is) no guarantee that they will get the desired results, but they are trying."

Puerto Rico has a projected deficit of $820 million for this fiscal year, and plans to cut it in half for fiscal 2015 and to reach a balanced budget for the year after that.

Larkin said he would have liked to hear an announcement that Puerto Rico was moving up its goal of eliminating the deficit to 2015 instead of reiterating its 2016 target.

Chris Mier, chief strategist at Loop Capital, said he was generally impressed with what he heard.

"They are an impressive 'management' team. They have a better understanding of what bond investors want and need than almost any issuer I have heard," he said. "I think their economic forecasts are lofty but cannot be dismissed out of hand."

REUTERS: UPDATE 1-Puerto Rico says will do everything to honor debt commitments
Wed Oct 16, 2013 3:36am IST
Oct 15 (Reuters) - Puerto Rico will do whatever it takes to honor its debt commitments, Governor Alejandro Garcia Padilla said on Tuesday, as local officials tried to reassure investors after a jump in yields effectively shut the U.S. commonwealth out of capital markets.

Puerto Rico's bonds have been trading at around 60 cents on the dollar, pushing yields up above 9 percent and forcing Puerto Rico to rely on private debt sales to banks instead of issuing debt on capital markets.

Investors have largely ignored a series of reforms aimed at kick-starting the economy and reigning in Puerto Rico's public finances, instead treating the Caribbean island's debt as a potential default risk.

"We will do everything, and I repeat everything, that is necessary for Puerto Rico to honor all its commitments. It is not only a constitutional but also a moral obligation," Padilla said at the start of a conference call with investors that lasted nearly two and a half hours.

Puerto Rican officials have expressed frustration at their rising borrowing costs, saying investors are not recognizing painful reforms to the pension and tax systems and are unfairly punishing the commonwealth in comparison with U.S. states in similar or worse situations.

Officials from Puerto Rico's Government Development Bank, also present on the conference call, said they have enough liquidity to finance the commonwealth through at least the end of the current fiscal year in June 2014.

Officials did not rule out further private placements of sales tax revenue bonds, known as COFINA bonds, this year and said they would only issue debt in the $3.7 trillion municipal bond market if conditions improved significantly.

ASSOCIATED PRESS: Puerto Rico Denies Bankruptcy And Takeover Rumors
Published October 16, 2013

SAN JUAN, PUERTO RICO – The government of Puerto Rico denied Tuesday that it is near bankruptcy or might need U.S. federal intervention, offering those assurances during a conference call with investors aimed at alleviating concerns about a recent cut in planned bond sales and the island's continuing financial crisis.
Gov. Alejandro García Padilla said that the U.S. territory would not default on its debts as it heads into its eighth year of recession.

"We will do everything, and I repeat, everything that is necessary for Puerto Rico to honor all its commitments," he said. "It's not only a constitutional but also a moral obligation."

Investors became rattled when the island's Government Development Bank recently announced it would cut bond sales to between $500 million and $1.2 billion for the rest of the year, after investors pushed the yield on Puerto Rico bonds above 10 percent.

The Caribbean territory's government is a major issuer of bonds in the U.S., where the bonds are popular because they are exempt from federal and state taxes.

García said he would introduce legislation before year's end to overhaul the pension system for teachers, which is at risk of running out of funds. Earlier this year, he reformed a separate and larger public pension system that was crumbling under a $37.3 billion unfunded liability.

Last week, García also increased the borrowing capacity of Puerto Rico's main debt issuer, the Sales Tax Financing Authority, in a move praised by several municipal bond analysts.

The move comes as the territory struggles with $70 billion in public debt and a 13.9 percent unemployment rate, higher than any U.S. state.

Treasury Secretary Melba Acosta said rumors about the U.S. government intervening to help alleviate Puerto Rico's financial crisis are not true. But she said U.S. officials are discussing setting up a committee that would help find ways to boost the island's economy.

"It's something that's under discussion right now," she said.

Investors, however, kept questioning the possibility of the federal government becoming involved, and whether territorial agencies could file for Chapter 7 or 11 bankruptcy restructuring.

One noted the market is speculating that the island's power company could file for bankruptcy because it operates as a mostly autonomous entity.

"There seems to be a lot of misinformation out there," said Jose Coleman, executive vice president of the Government Development Bank. "Bankruptcy is completely out of the question concerning Puerto Rico."

Acosta promised investors that the government would cut its $820 million budget deficit in half by 2015. Officials noted that the deficit has already been reduced from $2.4 billion.

Officials also pledged to start holding regular investor webcasts at least once a quarter and said agencies including the Highway Transportation Authority would start posting their quarterly and monthly results.

David Chafey Jr., board president of the Government Development Bank, said he doesn't expect the island's four main public corporations to need subsidies or loans for the upcoming fiscal year, in part because of such measures as an average 60 percent rate increase by the state water company.

MARKET WATCH: Puerto Rico seeks to calm rattled muni bond investors
October 15, 2013, 4:16 PM

Puerto Rico officials sought to soothe the fears of edgy investors Tuesday as the market continues to price risk into the tropical island's widely held municipal bonds.

"These are not just constitutional obligations, but also moral obligations," said Governor Alejandro Garcia Padilla in an investor webinar, reaffirming the island's intent to make good on its debt obligations.

Puerto Rico has roughly $70 billion in outstanding municipal bonds, which hold the lowest investment grade rating from major rating agencies. Its debt has long been held in municipal bond funds because its bonds are exempt from local, state, and federal taxes, but investor concerns have grown.

Recent upheaval in the muni bond market, helped along by the bankruptcy filing of the city of Detroit,accelerated a swift drop in Puerto Rico debt prices. Year-to-date the S&P Municipal Bond Puerto Rico Index is down 21.50%. By comparison the S&P National AMT-Free Municipal Bond Index is only down 3.9%.

In the webinar packed with detailed lists of fiscal accomplishments and economic growth game-plans, Puerto Rico officials tried to replace the sense of worry that was most prominently expressed in a Barron's cover story in August with a more optimistic outlook.

The island reduced its fiscal-year 2013 budget deficit by $923 million, and projects a $820 million budget deficit at the end of fiscal year 2014. Puerto Rico's government has undertaken pension reforms, worked to make its public financing corporations self-sufficient, and brought in above-estimate revenues. It plans to continue with pension reform and budget deficit elimination going forward. The government intends to have enough liquidity to fund itself through the end of fiscal year 2014. (Read more in the presentation here.)

These reforms may often be overlooked in the popular press, but they aren't lost on municipal credit analysts. Alan Schankel, managing director at Janney Capital Markets, wrote in a report earlier this month:

"Recent actions by political leadership in Puerto Rico have significantly improved the fiscal situation in Puerto Rico, and we look forward to seeing if projected results are realized in the first and second quarters of the current fiscal year.

The bigger and broader issue, though, is lagging economic growth. After peaking last November, the island's Economic Activity Index has been steadily contracting, illustrating the need to attract new business investment, Schankel wrote.

The webinar sought to address those concerns. Strategic priorities include bolstering its existing pharmaceutical industry, growing its insurance and financial services economy, increasing tourism business, and reducing reliance on food imports. Puerto Rico hopes to bring in 90,000 additional jobs by 2016 ($6 billion to $7 billion in incremental GDP) and 130,00 jobs by 2018 ($10 billion to $12 billion in incremental GDP).

That will be a challenge, as many are quick to point out. And in the meantime, creditors like bond insurer Ambac are sizing up their exposure to the island. But as investors continue to look for signs of progress, perhaps the most heartening sign is the webinar itself, meant to begin taking place each quarter. Disclosure is just one step, but it's an important one.

– Ben Eisen

WALL STREET JOURNAL: Puerto Rico to Overhaul Teacher Pension System
By MIKE CHERNEY and KELLY NOLAN
Oct. 15, 2013 3:31 p.m. ET

Puerto Rico will seek to overhaul its ailing pension system for teachers by the end of the year, Gov. Alejandro García Padilla told municipal-bond investors on a conference call Tuesday.

The island commonwealth already cut benefits for retirees in its main government pension plan, which together with its other pension systems had less than 10% of the assets needed to meet future liabilities, according to the island's most recent financial report, which covered the fiscal year ending in June 2012.

"We have tackled the investors' concerns in a swift, decisive and unprecedented manner," Mr. García Padilla said on the call. "The difficult decisions made by my administration stand in stark contrast with the failure of many other U.S. jurisdictions."

The call, held by Puerto Rico government officials, is an effort to soothe investors who have shunned the island's debt amid concerns about its large deficits, excessive borrowing and economic malaise. The island's credit rating sits just above "junk," and ratings firms have warned it could see future downgrades.

Municipal bonds from Puerto Rico have dropped more than 20% in value this year, according to one measure from S&P Dow Jones Indices. Investors fret the island's high unemployment, budget gaps and weak economy could make it more difficult for Puerto Rico to pay back its bonds.

Puerto Rico bonds are widely held, in about three-quarters of municipal-bond mutual funds, in part because interest on the island's debt is exempt from federal, state and local income taxes. About $70 billion in Puerto Rico muni bonds are outstanding.

Island officials say they are on the right track. They said they plan to reduce its budget deficit by at least an additional 50% for the next fiscal year. The current budgeted deficit is $820 million, a decline from the previous year, and officials highlighted various tax increases that were passed to help close the gap. A balanced budget is expected no later than fiscal year 2016.

General fund revenue for the first quarter of the fiscal year came in at almost $1.7 billion, exceeding estimates by $10.4 million, officials said.

Puerto Rico officials also said they have a five-year plan to improve the island's economy, aiming to create more than 90,000 jobs by the start of 2016 and more than 130,000 by the start of 2018.

Facing concerns about their bonds, Puerto Rico has decided to take out short-term loans with banks in recent months. Island officials said they had pared back their plans to borrow in bond markets this year but still plan on selling an additional $500 million to $1.2 billion this year, subject to market conditions.

THE BOND BUYER: Puerto Rico's First Quarter Revenues Revised Upward
BY ROBERT SLAVIN
OCT 15, 2013 12:31pm ET

Puerto Rico now believes first quarter revenues were up 5.4% from the previous year rather than 4.4% as had been announced on Oct. 7.

The new figures are the revised "final" figures for the quarter, according to the Puerto Rico Treasury.

Rather than coming in 0.4% below projections for the quarter, the new figures show that revenues came in 0.6% above projections.

The new figures also show that September revenues were up 21% year-over-year rather than 18% as had been announced Oct. 7.

The percentages are for general fund net revenues, after reserves for refunds are withdrawn.

"These results demonstrate progress on the fiscal stabilization and responsibility measures this administration has taken and we remain focused on implementing fiscal oversight measures to increase revenue collections," Treasury Secretary Melba Acosta Febo said.

Puerto Rico passed a variety of new tax measures for this fiscal year. As these have been instituted over time they have led to higher revenues, particularly in September.

However, through the first 25% of the year Puerto Rico has collected 19.4% of its projected $9.5 billion annual revenue. This percentage and these figures are for gross revenue rather than for net revenue.

REUTERS: Puerto Rico's revenue surges, beats quarterly estimates

October 14, 2013 12:59 PM ET

WASHINGTON, Oct 14 (Reuters) - Puerto Rico's revenue rose 21 percent to $731 million in September from the same month last year, helping the struggling territory beat revenue forecasts for the quarter, its treasury secretary said on Monday.

Puerto Rico last week initially estimated its September revenues had risen 18 percent from a year earlier.

The final numbers also showed revenue for the first quarter of the island's fiscal year, which began in July, totaled $1.7 billion, up 5.4 percent from the same quarter last year, Treasury Secretary Melba Acosta said in a statement.

Puerto Rico had initially estimated its first-quarter revenue would rise only 4.4 percent, leading it to miss its budget target by $7 million.

But the final numbers show Puerto Rico beat forecasts for the quarter by $10.4 million, said Acosta.

"These results demonstrate progress on the fiscal stabilization and responsibility measures this administration has taken, and we remain focused on implementing fiscal oversight measures to increase revenue collections," she said in a statement.

Puerto Rico has about $70 billion of outstanding debt, or nearly 2 percent of overall outstanding debt in the $3.7 trillion municipal bond market, much of which is held by mutual funds. Its high jobless rate and shrinking economy have lately sparked worries the territory could default on its debt or require a federal bailout.

Since January, the island has been working with the White House and Treasury Department on economic development. Last week, Puerto Rico Senate President Eduardo Bhatia said he expects U.S. officials to soon announce some form of assistance, though likely not direct financial aid.

BLOOMBERG: Puerto Rico’s First-Quarter Revenue Tally Exceeds Estimates
By Michelle Kaske & Felice Maranz - Oct 14, 2013 1:07 PM ET

Puerto Rico collected $10.4 million more revenue in the past three months than it counted on as the self-governing commonwealth cracks down on tax cheats.

Governor Alejandro Garcia Padilla, 42, who took office in January, increased taxes and implemented new ones to balance the budget for the fiscal year that began July 1. The island, whose credit rating is one step above junk, collected about $1.7 billion for its general fund from July through September. That’s a 5.4 percent increase over the same period last year, according to Treasury Secretary Melba Acosta.

“These results demonstrate progress on the fiscal stabilization and responsibility measures this administration has taken,” Acosta said in a statement. “We remain focused on implementing fiscal oversight measures.”

Investors have been demanding additional yield to buy Puerto Rico debt as an index that tracks the island's economy fell in August by 5.4 percent compared with the same month in 2012. That was the steepest drop since 2010.

Puerto Rico general-obligation bonds maturing July 2041 traded Oct. 11 with an average yield of 8.79 percent, or 4.5 percentage points more than top-rated munis with similar maturity, data compiled by Bloomberg show. The bonds traded at 10.2 percent on Sept. 9, the highest since the debt first sold in March 2012.

The commonwealth's ability to raise taxes will help it meet debt obligations, Richard Larkin, director of credit analysis for Fairfield, Connecticut-based Herbert J. Sims & Co., said in a report.

"States as a category have had the lowest default rates of any municipal bond," Larkin said. "Although Puerto Rico is not a state, it has many of the same sovereign powers that a state has, including the power to tax and legislate without interference from a higher authority."

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THE BOND BUYER: Puerto Rico September Revenue Rises 18%
Byline: Robert Slavin-October 7

Puerto Rico's government revenues rose 18% in September from a year earlier and were up 4.4% in the first quarter of this fiscal year, the commonwealth's Treasury Department reported.

First-quarter gross revenues came in 0.4% below budget projections.

"We feel confident about our preliminary first quarter fiscal year 2013-2014 revenue growth," said Treasury Secretary Melba Acosta Febo. "The preliminary figures demonstrate the results of the new tax legislation and the significant fiscal responsibility measures we've adopted. We continue to closely monitor revenue collections and reinforce fiscal oversight initiatives in order to meet our goals."

Sales and use tax revenues rose 5.3% in the quarter from the first quarter of fiscal 2012-2013. The revenues that come in at the start of the fiscal year go into a fund to pay the COFINA sales tax bonds and thus do not contribute to the government gross revenue figures mentioned above.

"These are the highest collections for the month of September since the [sales and use tax] was implemented in November 2006," Acosta Febo said. "This increase is the result of the measures we've taken to expand the tax base and is another positive fiscal signal."

While up year-over-year, the sales and use tax revenues were 1.8% below budget projections for the first quarter.

September's increase in revenue was due primarily to increases in corporate tax revenues and excise taxes on foreign corporations. The introduction of a gross receipts tax led to a 57% increase in corporate tax revenues to $243 million. An increased excise tax rate on foreign corporations led to a 25% increase in these revenues to $150 million.