

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

June 29, 2018

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear Governor Rosselló Nevares, President Rivera Schatz, and Speaker Méndez Núñez:

The New Fiscal Plan for the Commonwealth of Puerto Rico, as certified on April 19, 2018 and recertified on May 30, 2018 (the “New Fiscal Plan”), chartered a path forward for overcoming the numerous and entrenched challenges that Puerto Rico has faced for decades, challenges that have become all the more pressing in light of the devastation wrought by Hurricanes Maria and Irma. The New Fiscal Plan provided a blueprint of the structural reforms and fiscal measures that, if implemented, would give Puerto Ricans what they need and deserve – a growing economy with more and better jobs, resilient infrastructure, and an effective and efficient public sector. Full implementation also would have put Puerto Rico on the path to meeting the objectives laid out in PROMESA: achieving fiscal responsibility and balance, regaining access to the capital markets, and restoring economic opportunity for the Island.

Unfortunately, we now know that the Government of Puerto Rico will not implement the New Fiscal Plan in full because the Legislature did not comply with the April 19, 2018 version of the New Fiscal Plan or with the May 30, 2018 version of the New Fiscal Plan. The Legislature failed to pass the most important component of the Labor Reform Package — the repeal of Law 80 and turning Puerto Rico into an at-will employment jurisdiction — as required by the New Fiscal Plan. Accordingly, the Oversight Board will follow through on the commitment that it made in its letter, dated June 4, 2018, to Representative Jorge Navarro Suárez, who had asked the Oversight Board what would happen if the Legislature did not comply with the New Fiscal Plan.

Changes to the Commonwealth Fiscal Plan

Today, June 29, 2018, the Oversight Board intends to certify a revised version of the New Fiscal Plan to reflect the following changes relative to the April 19 and May 30, 2018 versions of the New Fiscal Plan:

- 1) *Macroeconomic adjustments*: Because Law 80 was not repealed, the macroeconomic impact of labor reform is limited to the implementation of the Earned Income Tax Credit and welfare to work, which leads to a score of 0.30% growth. The “Trading Across Borders” structural reform in the May 30, 2018 version of the New Fiscal Plan will remain and is scored at 0.15% growth.
- 2) *Revenue forecast*: The revenue forecast for the General Fund, as submitted to the Government on May 31, 2018, will be amended to \$8,458M General Fund and \$20,355M consolidated.
- 3) *Accommodation spending*: Because Law 80 was not repealed, the accommodation agreed to with the Government is reversed, which means eliminating: \$345M in spending categories across the fiscal plan period; the annual \$50M municipal fund; the annual \$25M UPR scholarship fund; and the public-sector Christmas bonus across all government employees starting in FY19.
- 4) *Reinstating rightsizing*: Right-sizing measures will be reinstated for the Legislature and the Judiciary.
- 5) *Focus on anti-corruption, anti-fraud, and transparency efforts*: In line with the Governor’s priorities, the Oversight Board will remove the right-sizing targets for the Office of the Comptroller and the Office of Government Ethics, thus leaving the budgets for these two offices unaltered from FY18.
- 6) *Remove tax law initiatives*: Because the Legislature did not pass by the end of the legislation session the tax law initiatives described in the New Fiscal Plan, they will be removed.
- 7) *UPR independently-managed scholarship fund*: As stated in the April 19, 2018 version of the New Fiscal Plan, an independently managed UPR scholarship will be established and funded from the right-sizing savings achieved from the Legislature, Judiciary, AAFAF, and FOMB.
- 8) *Adjustments based on lower FY19 budget submissions*: The Governor’s budgets submitted on June 1, 2018 and June 22, 2018 allocated less money to certain agencies than the New Fiscal Plan had projected. For those agencies, the budget will be adjusted to match the Governor’s submission.

- 9) *Starting in FY19, include police under age 40 in the Social Security Program:* As requested by the Governor, we will be moving forward enrollment of police under the age of 40 in Social Security beginning in FY19 instead of FY20, once necessary changes to their pension programs have been implemented.
- 10) *Technical adjustments based on new information:* Various adjustments will be made to align with new factual information from the Government or the federal government, including information identified through working with the Government in the budget submission process. Examples include insurance premium costs, rent expense, and Law 70 expenses.

Changes to the Instrumentalities Fiscal Plans

- 1) **PREPA:** The New Fiscal Plan that the Oversight Board intends to certify on June 29, 2018 will have changes that have macroeconomic implications, which will need to be reflected in a revised fiscal plan for PREPA. Because PREPA must have a budget certified before July 1, 2018, and given that PREPA requires several days to run the macroeconomic changes through its model before a new fiscal plan or budget can be created, the Oversight Board intends to certify a FY19 budget for PREPA by June 30, 2018 that is compliant with the fiscal plan for PREPA that was certified on April 19, 2018. The Oversight Board is aware that the macroeconomics for the April 19, 2018 fiscal plan for PREPA will not be aligned with those for the New Fiscal Plan that the Oversight Board intends to certify on June 29, 2018. As soon as PREPA can generate a new fiscal plan and budget to reflect these macroeconomic changes, but no later than July 12, 2018, the Oversight Board will revise the fiscal plan and budget for PREPA to remedy this inconsistency. Accordingly, the Oversight Board intends for the FY19 budget for PREPA that it certifies by June 30, 2018 to serve solely as an interim, operating budget, that will be applicable for no more than the first two weeks of FY19.
- 2) **PRASA:** The New Fiscal Plan that the Oversight Board intends to certify on June 29, 2018 will have changes that have macroeconomic implications, which will need to be reflected in a revised fiscal plan for PRASA. Because PRASA must have a budget certified before July 1, 2018, and given that PRASA requires several days to run the macroeconomic changes through its model before a new fiscal plan or budget can be created, the Oversight Board intends to certify a FY19 budget for PRASA by June 30, 2018 that is compliant with the fiscal plan for PRASA that was certified on April 19, 2018. The Oversight Board is aware that the macroeconomics for the April 19, 2018 fiscal plan for PRASA will not be aligned with those for the New Fiscal Plan that the Oversight Board intends to certify on June 29, 2018. As soon as PRASA can generate a new fiscal plan and budget to reflect these macroeconomic changes, but no later than July 12, 2018, the Oversight Board will revise the fiscal plan and budget for PRASA to remedy this inconsistency. Accordingly,

Hon. Ricardo A. Rosselló Nevares
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the Oversight Board intends for the FY19 budget for PRASA that it certifies by June 30, 2018 to serve solely as an interim, operating budget, that will be applicable for no more than the first two weeks of FY19.

Conclusion

We understand that the Legislature intends to submit its version of the budget for the Commonwealth by June 30, 2018, as is its right under Commonwealth law. The Oversight Board will review that budget for compliance against the New Fiscal Plan, as described in this letter, which the Oversight Board intends to certify on June 29, 2018. Should the Oversight Board determine, in its sole discretion, that the budget that the Legislature submits on June 30, 2018 is not compliant with the New Fiscal Plan, as certified on June 29, 2018, the Oversight Board will certify its own budget on June 30, 2018.

Sincerely,



Natalie A. Jaresko

José B. Carrión
Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Christian Sobrino Vega
Gerardo Portela Franco
Raul Maldonado Gautier
Jose I. Marrero Rosado