

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



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David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

August 12, 2018

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor. Rosselló Nevares:

This letter serves as a Notice of Violation pursuant to Section 202(c)(1)(B) of PROMESA that the Financial Oversight and Management Board (the “Oversight Board”) has determined, in its sole discretion, that the proposed Puerto Rico Aqueducts and Sewers Authority (“PRASA”) revised budget for fiscal year 2019 (“FY19”), submitted to the Oversight Board on July 19, 2018, is not compliant with the revised version of the New Fiscal Plan for PRASA (the “Oversight Board PRASA Revised Fiscal Plan”) as certified by the Oversight Board on August 1, 2018. The Oversight Board looks forward to reviewing a revised budget that it hopes it can determine as compliant with the Oversight Board PRASA Revised Fiscal Plan so that it can certify it on or before the deadlines set forth in this letter.

Background

At the Oversight Board’s eleventh public meeting, held on December 5, 2017, the Oversight Board outlined an approach to the FY19 integrated budget review process, including guiding principles and key milestones.

By letter dated December 13, 2017, the Oversight Board, pursuant to Section 202(a), set a schedule for PRASA’s submission to the Oversight Board of the proposed budget for FY19, and requested that the budget be prepared in accordance with the principles established by the Oversight Board.

By letter dated December 21, 2017, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the Oversight Board PRASA Fiscal Plan.

By letter dated January 5, 2018, the Oversight Board provided guidelines for Milestone 1 (complete inventory listing), which was due on January 10, 2018.

By letter dated February 5, 2018, the Oversight Board provided guidelines for Milestone 2 (proposed revenues), which was due on February 23, 2018.

By letter dated February 22, 2018, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the Oversight Board PRASA Fiscal Plan.

By letter dated April 27, 2018, the Oversight Board set deadlines for intermediate steps before the FY19 budget for PRASA could be adopted and set May 7, 2018 as the date by which PRASA must provide its proposed budget and supporting detail, including a detailed reconciliation between its budget and the Oversight Board PRASA Fiscal Plan, budget to actual templates, and key performance indicators for reporting post-certification. The Oversight Board also requested that all the Oversight Board PRASA Fiscal Plan attributes, including revenue and expenditure measures, be incorporated into Milestone 4 (proposed expenditure budget and reporting templates), and required that total expenditures be consistent with the Oversight Board PRASA Fiscal Plan. Further, the Oversight Board provided the revenue forecast as required by Section 202(b) on April 27, 2018.

By letter dated June 29, 2018, the Oversight Board certified a revised version of the Fiscal Plan for the Commonwealth of Puerto Rico as developed by the Oversight Board. This revision required corresponding changes to the FY19 budget for PRASA as certified by the Oversight Board on June 30, 2018.

By letter dated June 30, 2018, the Oversight Board certified the FY19 budget for PRASA as set forth in the Unanimous Written Consent dated June 30, 2018.

By letter dated August 1, 2018, the Oversight Board provided a revised revenue forecast to the Governor for use in developing the revised budget for PRASA.

PRASA's Submission

The Oversight Board and PRASA's management have had discussions over several collaborative working sessions, in advance of the August 17, 2018, budget certification and the Oversight Board recognizes that PRASA and its advisors have worked hard and cooperated with the Oversight Board and its advisors in the development of the revised FY19 budget.

PRASA's budget submitted on August 6, 2018, is not compliant with the Oversight Board PRASA Fiscal Plan and does not meet the requirements set forth by the Oversight Board in its correspondences with PRASA. The Oversight Board requires further revisions and additional information from PRASA before it can approve PRASA's budget, on August 17, 2018.

Pursuant to Section 104(c), the Oversight Board requests all outstanding information in correspondence with PRASA, as previously outlined. This will enable the Oversight Board to review the proposed budget in its entirety and determine its compliance with the Oversight Board PRASA Fiscal Plan.

Review of Budget Compliance

The following items represent variances that are in violation with the Oversight Board PRASA Revised Fiscal Plan¹ and budget milestones guidelines:

Macroeconomic inputs inconsistent with the Commonwealth	Does not include macroeconomic inputs consistent with the New Fiscal Plan for Puerto Rico as certified by the Oversight Board.
Christmas bonus	Includes Christmas bonus payments to employees.

The following item represents additional requirements to be included as part of the revised proposed budget to be submitted by PRASA:

Breakdown of operating labor and maintenance expenses	The revised proposed PRASA budget shall include a breakdown of operating labor and maintenance expenses, including allotted amounts for the Christmas bonus and healthcare insurance contributions, along with any supporting information and documentation.
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Furthermore, below you will find the remaining schedule for developing, submitting, and certifying the budget for PRASA as follows:

1. By **August 15, 2018**: The Governor shall submit a revised proposed budget which has been approved by PRASA's Governing Board in electronic format and any supporting documentation to the Oversight Board, including a detailed breakdown of operating labor and maintenance expenses as described above.
2. By **August 17, 2018**: (a) If the Governor submits a revised, compliant budget to the Oversight Board on or before August 17, 2018, the Oversight Board shall approve it and issue a compliance certification to the Governor. (b) If the Governor fails to submit a revised, compliant budget to the Oversight Board, the Oversight Board shall submit its own compliant budget to the Governor on August 17, 2018 and that budget, pursuant to PROMESA § 202(e)(4), shall be (i) deemed to be approved by the Governor, (ii) deemed to be subject to a compliance certification issued by the Oversight Board to the Governor, and (iii) in full force and effect as of the date of compliance certification issued by the Oversight Board.

¹ Observations of violations identified as of August 9, 2018, include inconsistencies with the Oversight Board PRASA Revised Fiscal Plan and guidance not followed by PRASA in its submitted budget for FY19.

Hon. Rosselló Nevares

August 12, 2018

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Conclusion

We are committed to reviewing the revised submission promptly and certifying a budget that is compliant with the Oversight Board PRASA Fiscal Plan.

Sincerely,



Natalie A. Jaresko

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CC: Christian Sobrino Vega
PRASA Governing Board
Elí Díaz Atienza
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