



Financial Oversight and Management Board for Puerto Rico

PRESS RELEASE

For Immediate Release

OVERSIGHT BOARD FOCUSES ON IMPLEMENTATION OF FISCAL PLAN

Discusses needed changes to Puerto Rico's government pension systems; certifies fiscal plan for COSSEC, with amendments

(Fajardo, PR – August 4th, 2017) – During its ninth Open Meeting held today in Fajardo, the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board” or the “Board”), created by Congress under the bipartisan Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA” or the “Act”), focused on implementation of the certified Fiscal Plan, specifically two elements critical to the success of achieving fiscal responsibility: implementation of pension reform and government right-sizing. It also certified a compliant fiscal plan, subject to certain amendments, for the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC).

Pension Reform

During the meeting, the Board reported on the work it has been doing with respect to pension reform in accordance with the Commonwealth’s certified Fiscal Plan. Pension reform is one of the critical reforms necessary for the stabilization and revitalization of the economy of Puerto Rico.

“The employee retirement systems will soon deplete the assets they use to pay benefits. Without action, this could lead to large benefit cuts for all retirees that would be devastating,” said Oversight Board member and pension system expert Andrew Biggs, as he led a discussion of the proposed reforms.

Biggs noted that the Board’s proposals for system-wide overhaul of the government’s pension system are meant to accomplish three things: First, fund existing pension obligations on a “pay go” basis, which means that the government will pay benefits to retirees directly as they come

due. Second, enroll both active employees and newly-hired workers in a true defined contribution retirement system. Third, ensure that all newly-hired employees are enrolled in Social Security.

It was also noted that the Commonwealth's certified Fiscal Plan provides for a reduction in pension benefit outlays of 10% by fiscal year 2020, to ensure the systems can meet their obligations to all retirees. These pension benefit reductions would be enacted in a progressive manner, with protections to ensure that those at or below the poverty level are not impacted by pension adjustments. To ensure the necessary savings are achieved and to provide retirement security to current and future retirees, reforms will be pursued through a court approved plan of adjustment.

The Oversight Board released an explanatory memorandum (available on the Board's website in both Spanish and English) that details the proposed changes to Puerto Rico's government pension systems as provided for in the certified Fiscal Plan for Puerto Rico.

Right-sizing

During the meeting, the Oversight Board reviewed the importance of government right-sizing efforts to the certified Fiscal Plan. Right-sizing in the certified Fiscal Plan targeted savings of \$880 million in Fiscal Year 2018. The Government made marked progress by submitting \$662 million in right-sizing measures toward this target. Therefore, the Board determined that additional measures must result in net savings of at least the remaining \$218 million. Accordingly, the Oversight Board determined to reduce but not to repeal the furlough program included in the Commonwealth's certified Fiscal Plan. The Government must plan for and execute a furlough program, commencing on September 1, 2017, which shall be formally communicated to the Governor. Additionally, the fiscal year 2018 budget should be adjusted to reflect these changes.

"In light of the significant progress that the Government has made on right-sizing, we foresee this will be a two-day per month furlough for all Executive Branch employees, with the exclusion only of front-line police, for fiscal year 2018. This is instead of the furlough program that the certified Fiscal Plan envisioned, which was a four-day per month furlough for most government employees," said Oversight Board Executive Director Natalie Jaresko.

"We recognize that the Government has made significant progress in enacting meaningful measures to right-size the government and government spending, in an effort to bring spending in line with Puerto Rico's dire fiscal reality and to encourage a greater share of private sector development and employment. However, full implementation is required to enable us to reach the goals in the certified Fiscal Plan, which envisions an overall 30% reduction in the Government's operating expenditures over three years." said Jaresko.

In addition to \$441 million in subsidy reductions, specific savings the Board credited towards the \$880 million right-sizing target include \$188 million in payroll-related measures and \$33 million in additional non-personnel expenditure reductions, Jaresko explained.

As per the Fiscal Plan, the furlough program will remain active until two criteria are met: (1) the required savings of \$218 million have been achieved or are reasonably expected to be achieved based on actual fiscal year-to-date and projected fiscal year performance; and (2) the Board determines in its sole discretion that the Government has made material and sufficient progress toward identifying opportunities, developing plans, and beginning to execute the transformational changes required to truly right-size the Government.

Regarding the Government's recent announcement that it intends to implement an Incentivized Transition Program, which could produce significant long-term savings, the Board recognized it is a promising step in the right direction, but noted it will not be able to produce any budgetary savings in fiscal year 2018.

Certification of COSSEC'S Fiscal Plan with Amendments

At the meeting, the Oversight Board unanimously adopted a resolution approving the certification of a compliant fiscal plan, subject to certain amendments, for the Public Corporation for the Supervision and Insurance of Cooperatives ("COSSEC") pursuant to PROMESA § 201(e).

The Board resolved that COSSEC's Fiscal Plan should be amended (1) to include revised stress-test analyses that replicate the National Credit Union Administration's approach; (2) to include an implementation plan for the COOP-SELF program; (3) to include a reform plan that redefines COSSEC'S mission and governance; and (4) to outline the scope of activities that should be addressed through requests for external assistance from federal agencies or external contractors.

Furthermore, the certification of COSSEC's Fiscal Plan remained contingent on three additional conditions requiring amendments to existing statutes: (1) amending the COSSEC Enabling Act to provide that during the implementation of the fiscal plan, the Government constitute a committee composed of COSSEC's Board President, the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAP," for its Spanish acronym) and the Commissioner of Financial Institutions that will supersede COSSEC's Board and its powers; (2) amending both the Coops Act and COSSEC's Enabling Act to authorize a coop to issue preferred shares in an amount in excess of the amount of its common stock and to expressly authorize COSSEC to sell the assets of a coop to a non-coop entity in the event that COSSEC orders the liquidation, consolidation or merger of such coop; and (3) amending Act 220-2015 in order that

COSSEC's regulatory powers over a cooperative are not limited in any way due to a coop's investments in bonds or notes issued by the Commonwealth or its instrumentalities.

The Board specifically requested the Government to submit within 30 days, a plan to implement the amendments and a revised fiscal plan that complies with the measures described in said amendments no later than 15 days thereafter.

Conclusion

"We have entered an important new stage in the implementation of PROMESA. We have moved from developing a Fiscal Plan and Budget within that plan, to implementation of the certified Fiscal Plan. Key elements of the plan include right-sizing the government and government spending, pension reform, healthcare reform and tax reform. Today, we moved forward in two of these areas, both critical to achieving fiscal discipline in Puerto Rico," concluded Jaresko.

The recorded proceedings, as well as all material of public interest considered during the meeting, will be posted on the Oversight Board's website as soon as possible after the meeting.

###

Contact:

José Luis Cedeño

787-400-9245

jcedeno@forculuspr.com

info@forculuspr.com

Board's Contact Information:

E-mail: comments@oversightboard.pr.gov

Website: www.oversightboard.pr.gov