



Financial Oversight and Management Board for Puerto Rico

For Immediate Release

OVERSIGHT BOARD ADDRESSES LARGER FISCAL DEFICIT

Will pursue third-party validation of deficit; outlines framework for fiscal plan

PROPOSES MEASURES TO FILL THE BUDGET GAP AND FISCAL PLAN GOALS TO IMPROVE QUALITY OF LIFE IN PUERTO RICO

(San Juan, PR – December 20, 2016) – The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), created under the bipartisan Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA” or the “Act”), today addressed the Revised Baseline Projection for the Fiscal and Economic Growth Plan (“FEGP”) of the Government of Puerto Rico.

In a joint letter to Governor Alejandro García Padilla and Governor-Elect Ricardo Rosselló Nevaes, the Oversight Board noted that, based on the latest information available, the new projection indicates that under current law—i.e., without relying on additional federal funding and unless the local government adopts measures to reduce expenses, increase revenues, enact structural reforms and restructure its long-term obligations (including debt and pensions)—the Government of Puerto Rico will face a deficit of \$67.5 billion over the next 10 years.

To put that number in context, the Oversight Board explained that, unless action is taken, covering the enormous deficit would require the equivalent of EVERY Puerto Rican family having to pay \$5,400 (more than one fourth, or 28%, of their average annual family income, in addition to what they already pay in taxes) EVERY year over the next 10 years, for a total of \$54,000 per family.

The new projected deficit is almost \$10 billion larger than the \$58 billion deficit originally projected in the Government’s FEGP, submitted by Governor García Padilla on October 14, 2016. The revised projection was calculated by the government’s own team of staff and advisors and is still being vetted by the Oversight Board and its advisors. The Oversight Board will pursue independent

third party validation of the starting point of the Baseline Projection and the bridge from the last available audited financial statements of fiscal year 2014.

In the letter, Oversight Board Chair José Carrión thanked García Padilla, his team and his advisors “for collaborating with the [Oversight Board] over the past month to help us evaluate the Government of Puerto Rico’s proposed fiscal plan.” Meanwhile, Carrión congratulated Governor-Elect Rosselló Nevaes on his election and told him that “[w]e look forward to developing a productive working relationship with you and your Administration to address Puerto Rico’s fiscal and economic crisis for the benefit of the People of Puerto Rico.”

On November 23, 2016, the Oversight Board had informed Gov. García Padilla that the FEGP he had submitted did not comply with the requirements set forth in PROMESA.

“After careful review and analysis, it is patently clear that the deficit the government of Puerto Rico will face over the next 10 years is larger than originally calculated. This reality requires the Government of Puerto Rico to step up to the plate and propose the initiatives and measures necessary for Puerto Rico to meet the enormous fiscal challenge it faces; and even more importantly to set in motion the reform policies required for sustainable economic growth and a substantial increase in job opportunities for the People of Puerto Rico,” said Oversight Board member José Ramón González.

“These measures must strike the right balance between fiscal adjustment, structural reform and debt restructuring. And that balance has to be struck with a heightened sense of the impact of potential changes on Puerto Rican children, seniors and families, as well as on institutional stakeholders and society at large. This is not merely a mathematical exercise of balancing the checkbook, although achieving a balanced budget is critical. The key goal is to restore economic growth to improve the lives of people,” added Oversight Board member Ana Matosantos.

According to the Revised Baseline Projections, the deficit the Government of Puerto Rico faces over the next 10 years is so large, that even if Puerto Rico’s entire debt were to be wiped out (which is legally and equitably not an option), the Island’s government would still be in the red.

“The Oversight Board strongly believes Puerto Rico has the potential to emerge from this crisis in a stronger economic position. [We are] a tool provided by Congress to improve Puerto Rico’s ability to handle this crisis. But, it is up to the Government and the People of Puerto Rico to use this tool effectively to address the challenges facing the Island,” said Carrión.

In the letter, the Oversight Board outlined a series of measures it believes the Government of Puerto Rico must consider to achieve three goals:

1. Restore economic growth and opportunity through a mix of short- and long-term structural reforms that create a more competitive economy;
2. Achieve sustainable balanced budgets by restructuring the Government and making the necessary budget cuts, while preserving essential services for the People of Puerto Rico;
3. Restructure long term liabilities to a sustainable level under a fiscal plan that complies with PROMESA—including restructuring Puerto Rico's debt, reforming pensions and addressing unfunded pension liabilities—and re-establish access to the capital markets.

Among the measures the Oversight Board urged the Government of Puerto Rico to consider are the following:

1. Comprehensive labor and welfare reform, to boost job creation and ensure more people go from welfare to work;
2. Energy reform, to lower the cost and increase the reliability of electric power;
3. Tax reform, to lower the tax burden on individuals and businesses, increase tax collections, revise tax expenditures and incentives regimes, and create an effective and efficient Puerto Rico Department of Treasury;
4. Regulatory and permitting reform, to enhance economic competitiveness;
5. Public-Private Partnerships, to develop new and repair and upgrade existing infrastructure;
6. Right-size the Government, to focus on the quality delivery of core services (such as security, health and education) while eliminating non-essential services the Government simply cannot afford;
7. Right-price Government services, aligning the prices it charges for services more closely with their true costs, thereby reducing or eliminating costly subsidies the Government simply cannot afford;
8. Privatize government assets, to be better managed by the private or third sector while producing additional money for the Government to invest in infrastructure;
9. Restructure long-term liabilities, including debt restructuring and pension reform;
10. Reform the education and healthcare systems.

“It is not the Oversight Board’s initial role or desire to determine which measures or what combination of measures Puerto Rico should adopt to achieve the structural fiscal balance required by PROMESA. We may propose initiatives that the government may implement in order to accomplish that objective. We will provide guard rails to ensure compliance, discipline and that the government stays the course. But the task of determining what measures it will implement belongs to the Government of Puerto Rico in the first instance. The elected officials have to assume the responsibility that the People of Puerto Rico have bestowed on them; they need to act. Doing less than what is needed or “kicking the can” is no longer an option. What we, the Oversight Board, are asked to do under the law is to analyze, evaluate and eventually certify the Fiscal Plan. And that’s what we will do. If the Government were to fail to propose a fiscal plan certifiable under PROMESA, then the Oversight Board could go further. But, that is not what it wants to do,” noted Carrión.

Goals for Puerto Rico’s future upon successful implementation of the Fiscal Plan

Carrión emphasized that the Fiscal Plan is not a mere exercise of achieving a balanced budget, but a living document that provides a framework for achieving concrete goals that make a difference in improving the lives of everyone in Puerto Rico. “The Fiscal Plan is a road map to restore economic growth and opportunity for the People of Puerto Rico within the next 10 years and preferably sooner,” he said.

According to the Oversight Board, it is important for the Fiscal Plan to incorporate measurable goals or aspirations for Puerto Rico, such as:

1. Return Puerto Rico’s economic performance to a level consistent with that of a regional economy of the U.S.;
2. Increase the labor participation rate;
3. Transition more parents and other adults from welfare programs to self-sufficiency and work;
4. Improve writing, reading, bilingual and STEM (Science, Technology, Engineering and Mathematics) proficiency of K-12 students, thus charting for them an early path to: (1) jobs available in the labor market or (2) college, and provide affordable public higher education on a financial need-basis;
5. Build a modern, efficient and cost-effective infrastructure that ensures quality utility services are delivered fairly to every Island region;
6. Create a vibrant entrepreneurial sector;

7. Increase the median family income and reduce poverty;
8. Improve vital health statistics and average life expectancy;
9. Improve public safety and reduce crime and violent deaths; and
10. Restore population growth in Puerto Rico.

Open good faith conversations with creditors

As anticipated at its November meeting, the Oversight Board noted it will start coordinating good faith conversations with creditors this week. Creditor groups interested in meeting with Oversight Board members and its advisors should send a written request to comments@oversightboard.pr.gov.

Further, Carrión restated the Oversight Board's readiness to work jointly with the duly elected Government of Puerto Rico to develop a certifiable fiscal plan. To that end, he said the Oversight Board will be contacting Governor-Elect Rosselló Nevares shortly to discuss the next steps necessary to achieve this objective by January 31, 2017.

"We trust the incoming Administration shares the Oversight Board's sense of urgency to collaborate swiftly and boldly on this effort. [The] Oversight Board stands ready to assist the Government of Puerto Rico in defining the necessary structural reforms, responsibly managing its long term obligations and restoring economic growth and opportunity for the People of Puerto Rico," concluded Carrión.

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Contact:
José Luis Cedeño
787-717-2429
jcedeno@forculuspr.com
info@forculuspr.com

Oversight Board's Contact Information:
E-mail: comments@oversightboard.pr.gov
Website: www.oversightboard.pr.gov