BOARD RESOLUTION ADOPTED ON MARCH 13, 2017

(FISCAL PLAN CERTIFICATION)

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was enacted; and

WHEREAS section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico ("the Board"); and

WHEREAS section 201 of PROMESA establishes a multi-step procedure for the development, review, and approval of a fiscal plan for Puerto Rico, requiring that (*i*) the Governor must submit a proposed fiscal plan to the Board; (*ii*) the Board must review the proposed plan and determine either that it satisfies PROMESA's requirements or that it does not, in which case, the Board must issue a notice of violation and recommended revisions giving the Governor an opportunity to correct the violations; (*iii*) the Governor may then submit a revised proposed plan to the Board; and (*iv*) if the Governor fails to submit timely a proposed plan the Board determines in its sole discretion satisfies PROMESA's requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

WHEREAS, at the Board's public meeting on November 18, 2016, the Board adopted five principles furnished to the Government which the Board would apply to determine whether a proposed fiscal plan complies with PROMESA; and

WHEREAS, by letter dated December 20, 2016, the Board advised the then Governor-elect of a detailed "Framework for the Government of Puerto Rio to Develop Policies and Plans to Address the Current Fiscal and Economic Problem," and

WHEREAS, by letter dated January 18, 2017 to the Governor, the Board provided the fiscal plan targets and guidelines, on a category-by-category basis, that the certified fiscal plan should satisfy; and

WHEREAS, at the Board's public meeting on January 28, 2017, the Board approved the Governor's request that it extend the PROMESA stay through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short term liquidity loans that could restrict fiscal options; and

WHEREAS, on February 28, 2017, the Governor submitted a proposed fiscal plan to the Board; and

WHEREAS, after reviewing the proposed plan with the Governor's representatives and analyzing and deliberating over it with the Board's members, economist, consultants, and attorneys, the Board informed the Governor on March 9, 2017 that the Board had determined the Governor's proposed fiscal plan did not satisfy PROMESA's requirements, and the Board recommended revisions; and

WHEREAS the Board's notice to the Governor described the violations that the Board had identified; and

WHEREAS, on March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan; and

WHEREAS representatives of the Governor and the Board's experts, consultants, and attorneys engaged in extensive discussions on March 11 and 12, 2017 about the Governor's proposed fiscal plan and the Board's concerns about the plan, resulting in further changes incorporated into the Government's proposed plan; and

WHEREAS, on March 13, 2017, the Board held an open meeting at which the Governor's representatives presented his final proposed fiscal plan to the Board and the public; and

WHEREAS the Board has had the opportunity to consider the Governor's latest proposed plan and discuss it with its experts, consultants, and attorneys, and believes that, with certain amendments, it complies with PROMESA; and

WHEREAS the Board provided an opportunity for public comment on the Governor's proposed fiscal plan and on the Board's recommended modifications to such fiscal plan; and

WHEREAS, after substantial deliberations, the Board has determined to approve and certify the Governor's latest proposed fiscal plan, as modified by the following amendments; provided, however, that in approving and certifying the fiscal plan the Board does not adopt statements that are not fiscal measures, baseline projections, or other assertions necessary to satisfy PROMESA's criteria for a certifiable fiscal plan:

Amendment No. 1:

Furlough and Christmas Bonus Amendment to the Commonwealth's Proposed Fiscal Plan:

The Government's Fiscal Plan requires additional safeguards to ensure that sufficient liquidity and budgetary savings are realized to fund essential services in FY 18.

Accordingly, the fiscal plan for the Commonwealth that the Oversight Board certifies should be the Government's fiscal plan amended to include the use of (a) a furlough program and (b) removal of all Christmas bonuses, to achieve necessary liquidity and budgetary savings.

The furlough program shall be formulated to:

- Achieve $35 million to 40 million in monthly savings, through furloughs equivalent to
    - 4 days per month for most Executive branch government personnel; and
    - 2 days per month for teachers and frontline personnel at 24-hour institutions.

- Frontline law enforcement personnel shall be exempt from the furlough program.

During fiscal year 2018, the Christmas bonus shall be eliminated, and the furlough program shall take effect on July 1, 2017, unless either or both of the bonus elimination and furlough program are subsequently repealed or decreased on occurrence of the following respective conditions:

1. Furlough Program – July 1, 2017

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing measures, as well as a liquidity plan, reasonably expected to generate an additional $200MM cash reserve by June 30, 2017, there shall be no furloughs commencing July 1, 2017, with all furloughs for the fiscal year 2018 to commence September 1, 2017 unless fully or partially eliminated in accordance with the criteria below.

2. Furlough Program – September 1, 2017

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing personnel measures reasonably expected to generate sufficient savings, there shall be no furloughs commencing September 1, 2017.

If in the Board's sole discretion, the Government's plan is not reasonably expected to generate sufficient savings, then depending on the level of savings the Board determines is likely to be achieved, the Board shall determine whether the full furlough program commencing September 1, 2017 shall be decreased or eliminated.

3. Christmas Bonus Elimination – September 30, 2017

If in the Board's sole discretion to be exercised no later than September 30, 2017, the trend of the Commonwealth's personnel costs as of September 1, 2017 indicates sufficient savings have been and will timely be achieved through the Government's right-sizing measures, the Board shall determine whether the full elimination of the Christmas bonus shall be modified into (a) a partial reduction of the bonus or (b) no elimination of the bonus.

Amendment No. 2:

Pension Amendment to the Commonwealth's Proposed Fiscal Plan:

All or virtually all pension fund assets will be depleted before 2022. ERS, TRS, and JRS have combined liabilities of at least $50 billion and a combined funded ratio below 8%.

Despite previous reform efforts, Puerto Rico's pension systems have not stabilized. Structural changes are required to ensure long-term stability and restore public confidence in the pension system.

Accordingly, the public pension systems must be overhauled through the measures in the Commonwealth's proposed fiscal plan, supplemented to provide for progressively reduced total pension outlays by 10% by fiscal year 2020, to ensure the system can meet its obligations, with protections to ensure that no member is pushed below the federal poverty line as a result of the reductions.

The system overhaul shall be formulated by the Commonwealth and the Board on or before June 30, 2017, and be guided by the following principles:

1. Fund existing pension obligations on a "paygo" basis, liquidating assets to help fund benefits and using general fund revenues to pay benefits owed under previous plans
2. Enroll all active members and new hires in defined contribution accounts that segregate and protect their contributions to pay for their own future benefits, and:
    a. Offer employees diversified, low-cost "index funds" similar to the federal government's Thrift Savings Plan
    b. Ensure that employees retain the full return on their contributions, without the 20% "tax" currently charged by hybrid plans; and
3. Beginning in 2020, enroll all newly-hired teachers and public safety workers in Social Security, and, to the extent practicable, enroll current teachers and public safety employees under age 40 in Social Security.

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT the Board approves and certifies the Governor's latest proposed fiscal plan pursuant to PROMESA § 201(e), as modified by Amendment No. 1 and Amendment No. 2; and it is

FURTHER RESOLVED that the Board shall issue a compliance certification for the fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).