



GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

March 8, 2017

Mr. José Carrión

Chairman

Financial Oversight and Management Board

Dear Mr. Carrión,

Thank you for your letter, dated March 8, 2017 (the “Letter”) concerning the fiscal plan, dated February 28, 2017 (the “Fiscal Plan”) as submitted by the government of Puerto Rico (the “Government”) to the Financial Oversight and Management Board for Puerto Rico (the “Board”) in accordance with the Board’s established deadline. This Fiscal Plan was accomplished by the Government’s new administration within 58 days after taking office on January 2, 2017. In that regard, Conway MacKenzie has been working closely with the Government for over two years to audit cash flow information and liquidity forecasts. Conway MacKenzie is intimately familiar with the cashflows underlying the Fiscal Plan. Representatives of the Fiscal Agency and Financial Advisory Authority (“AAFAF”) and its advisors presented in person in detail the Fiscal Plan on March 2, 2017 before certain Board representatives and its financial advisors in San Juan, Puerto Rico. Meetings are occurring today and this week between the Board and AAFAF, including their representatives and advisors.

The Letter states that, based upon E&Y’s review of the Government’s revised baseline 10-year projection, the Fiscal Plan potentially understates fiscal year 2017 expenditures “by an amount from \$360 million to \$810 million based on historical expenditures.” In addition, we note that the Board asserts the liquidity projections in the Fiscal Plan fail to account for the foregoing potential additional expenditures and as a result the Government “could face a cash deficit of approximately \$190 million by the beginning of July 2017.”

The Government understands and appreciates the Board’s concerns as to the impact of the E&Y analysis on the viability of the Government’s proposed Fiscal Plan. AAFAF wishes to assure the Board that E&Y’s hypothetical expenditure range suffers from important defects based upon Conway MacKenzie’s review and input. Moreover, we realize that E&Y has been at work on the Fiscal Plan for only 3 weeks and no doubt confusion may occur because of the pressure of time and complexity. AAFAF wishes to understand E&Y’s methodology, specifically the hypothetical extrapolation which concludes that there is an understatement of up to \$810 million in expenditures by June 2017. E&Y’s extrapolation is based on unaudited



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historical data and implies significant overruns to the FY 2017 budget. The Government and its advisors have been working to provide E&Y with the data necessary to perform their analysis, however there appear to be fundamental differences in the conclusions that E&Y is reaching as compared to the Government's view. We welcome the opportunity to discuss with E&Y and resolve any discrepancies.

The Government submits (as duly noted by the Board) that any potential cash flow deficit can be mitigated through certain governmental measures that may be taken pursuant to the recently enacted Act 5 of 2017 — The Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act 5"), which repealed significant portions of the Moratorium Act (Act 21-2016, as amended by Act 40-2016 and Act 58-2016). Namely, Act 5 was also intended, among other things, to suspend and/or cancel "all special appropriations not budgeted in the current fiscal year that may have been multi-year authorizations from prior fiscal years."¹ Section 207(b) of Act 5 provides that the Governor and/or AAFAF may:

- (i) direct a government entity within the Executive Branch to reduce expenditures through the implementation of administrative efficiencies;
- (ii) impose limits on contractual expenditures by government entities within the Executive Branch;
- (iii) order the lapse or return of unexpended multi-year appropriations to the general fund within the Executive Branch;
- (iv) prohibit the establishment of new program or expansion of a current program by a government entity within the Executive Branch;
- (v) issue directives for the allotment of appropriations;
- (vi) transfer appropriated funds from one program to another within a government entity within the Executive Branch, without modifying the amounts assigned for the payment of salaries, related costs and utilities;
- (vii) intervene in any matter touching functions and activities under subsection (a).

As of now, there are \$1.8 billion of funds that have received multi-year authorizations from prior fiscal years and have not been expended. In

¹ Act 5 of 2017, Statement of Intent, at 2.



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accordance with Act 5, yesterday AAFAF signed Administrative Order 2017-01 (the "Administrative Order") which placed a freeze on those unexpended appropriations so as to make those funds available to mitigate any potential decrease in projected cashflows as set forth in the current Fiscal Plan. Moreover, given the fact that the Government and Conway MacKenzie are very confident that the E&Y analysis (which assumes no measures or policy changes are implemented)² is flawed and that AAFAF has already prudently taken significant protective measures pursuant to the Administrative Order to preserve cash and liquidity, the suggested implementation of a furlough program, reductions in both healthcare expenditures and all government contract expenses are unnecessary.

With respect to AAFAF's defined role in assisting the Government in addressing the current economic and fiscal crisis, please be assured that AAFAF fully appreciates those responsibilities and has been actively engaged on all fronts as it relates to the development of a viable Fiscal Plan and in renegotiating and restructuring the Government's public debt. AAFAF has timely delivered all of the Board's requests.

In order to streamline and expedite discussions concerning the issues raised by E&Y, AAFAF will appoint a working group to meet with the Board and its advisors to evaluate and address those issues concerning E&Y's analysis and the Government's actions taken to date. We suggest that this working group (which will include Conway MacKenzie) and representatives of the Board and its advisors, including E&Y, meet without delay.

Respectfully submitted,

Best regards,

A handwritten signature in blue ink, appearing to read "E. Sánchez-Sifonte".

Elías F. Sánchez-Sifonte
Governor's Representative
Financial Oversight and Management Board of Puerto Rico

² Conway MacKenzie is preparing a detailed report concerning the E&Y analysis and will be prepared to review and discuss with E&Y as soon as possible.