



GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

January 22, 2017

Mr. José Carrión

Chairman

Financial Oversight and Management Board

Dear Mr. Carrión,

I write on behalf of Governor Ricardo Rosselló Nevares in further response to your Letter dated January 18, 2017, which sets forth conditions upon which the Financial Oversight and Management Board ("Oversight Board") will grant the Government's petition to extend an additional 45 days to submit and certify a fiscal plan as well as extend the PROMESA stay to May 1, 2017. As the Governor's letter dated January 20, 2017, has already provided the Administration's view on the policy recommendations set forth in your letter, this letter answers the specific conditions for the requested extensions.

- I. The Government's commitment to working towards a "once and done" approach that achieves structural balance, with no discussion or consideration of short-term liquidity loans or near-term financings that could restrict fiscal options.
 - The Government has previously stated its intention to work collaboratively with the Oversight Board in the creation of a fiscal plan that is consistent with the statutory requirements set forth in PROMESA. Fiscal plans by nature are documents that are subject to change during implementation and execution due to several variables, including unforeseen economic fluctuations that may impact multiyear projections. As such, a "once and done" approach may not be the best approach to deal with a ten-year fiscal planning document that will have a dramatic impact in the lives of 3.5 million citizens. Our commitment is to work together with the Oversight Board toward approving a fiscal plan that is consistent with statutory requirements set forth in PROMESA, i.e. a five year plan that is consistent with the termination of the Board's charter within ten years, that achieves structural balance. We see no reason to preclude the adoption of a second fiscal plan that is consistent with the first certified fiscal plan and extends for a longer or additional term.
 - As the Governor has stated publicly and personally to you in our meeting held on January 13, 2017, the Administration has not and will not seek short-term liquidity loans or near-term financings that could restrict fiscal options. It has been the Governor's decision to face the upcoming operational and budgetary challenges through structural reforms and spending cuts during the stay period.



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- II. Development and implementation of a liquidity plan that addresses anticipated cash shortfalls at least through the duration of the stay in a manner that is acceptable to the Board by no later than January 30th including the Government's protocol for priority of payments and its public disclosure.
 - The Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") is currently working with its Advisors to complete a liquidity plan that meets the set forth conditions. Our target date is January 27, 2017 as per the revised milestone date agreed upon on January 20, 2017. On or before January 30, 2017 AAFAF will submit the Government's protocol for priority of payments and its public disclosure.
- III. Visibility on the cash position of the Government is critical, and to that end a 13-week rolling cash flow forecasting report for substantially all government budgets should be put in place and delivered to the Board within two weeks and weekly thereafter.
 - The Oversight Board advisors are working with the AAFAF technical team to establish an agreed format for a 13-week rolling cash flow forecasting report. AAFAF's first report following the agreed format should be ready within two weeks and we will be meeting the weekly report requirement. We are confident that the proposed milestone date will be met.
- IV. To facilitate the forensic accounting review, the Government should deliver to the Board by January 25, 2017 a document detailing the bridge between the 2014 audited financial statements and the fiscal plan baseline scenario that includes details on all line items and assumptions.
 - AAFAF is currently working with its Advisors and the Oversight Board's advisors to complete a document by January 25, 2017 that details the bridge between the 2014 audited financial statements and the fiscal plan baseline scenario that includes details on all line items and assumptions. We are confident that this milestone date will be met.
- V. The Government and the Board (and their respective advisors) will establish a clear joint working arrangement, information sharing protocol and work plan to be finalized by January 23, 2017.
 - As you acknowledge in your letter, the AAFAF team is currently working with your advisor McKinsey in said information sharing protocol and work plan. The milestone date will be met.



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- VI. Title VI negotiations conducted by your Administration will be in joint coordination with the Board and its advisors, including the participation of the Board and its advisors in all meeting with creditors. Likewise, the Board will invite your representatives and advisors to participate in any meetings with creditors the Board holds pursuant to its rights and duties under PROMESA.
- As we have already agreed, the Government will lead in creditor negotiations with the collaboration of the Oversight Board and its advisors. Just as with the creditor meetings held the past week, the Board and its advisors will participate in any future meeting. Likewise any meeting held by the Board with creditors will be with the participation of the Governor's representatives and advisors.
- VII. The Government will adhere to a schedule of important milestones (including the above) to be provided by the Board by January 23, 2017.
- This response affirms our commitment to meet with every milestone date set in your letter dated January 18, 2017.

In summary, we believe that this letter answers and satisfies all remaining conditions for the Board to provide the Government's requested extensions, which are in the interest of the Government and people of Puerto Rico, as well as all Puerto Rico creditors. We believe that the Board shares the Government's desire to achieve a consensual resolution of the issues facing Puerto Rico, and wishes to aid the Government in promoting growth and achieving the Island economic sustainability. We look forward to continue in this collaboration.

Best regards,

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

Elías F. Sánchez
Governor's Representative
Financial Oversight and Management Board