GOVERNOR OF PUERTO RICO
Ricardo Rosselló Nevares

March 7, 2017

Mr. José Carrión
Chairman
Financial Oversight and Management Board

Dear Mr. Carrión,

On behalf of Governor Ricardo Rosselló Nevares, I write to follow up on the Government's fiscal plan submission (the "Fiscal Plan"), and to express gratitude for the Oversight Board's prior extension of the deadline for the Government to submit its Fiscal Plan to February 28, 2017, and in extending expiration of the PROMESA[1] stay to May 1, 2017. As you are well aware, no further extensions of the PROMESA stay are possible.[2]

We are hopeful that the Oversight Board finds that the Fiscal Plan as submitted by the Government is compliant with the statutory requirements of PROMESA. In that regard, we and our advisors will be available to the Oversight Board to answer any questions and provide clarifications or additional information as requested.

To understand where we are today, set forth below are some points that the Government of Puerto Rico wishes to confirm and expand upon with respect to legal issues and objectives raised in the Fiscal Plan submittal.

A. *Preference for Voluntary Title VI Agreements*

The submission of the Fiscal Plan and other fiscal plans for certain of Puerto Rico's "covered entities" to the Oversight Board and anticipated certifications of these fiscal plans represents a watershed event in the PROMESA process which began upon its enactment on June 30, 2016.

What is now before the Oversight Board and the Government are the priorities and the tasks which must be accomplished prior to May 1, 2017. It has been and continues to be the stated intent and preference of the Government to

[1] As used herein, "PROMESA" means the Puerto Rico Oversight, Management, and Economic Stability Act (48 U.S.C. § 2101 *et seq.*).

[2] *See* PROMESA § 405(d)(1)(B) (providing that the longest possible extension of the PROMESA stay for Puerto Rico is 75 days from February 15, 2017, i.e., May 1, 2017); 48 U.S.C. § 2194(d)(1)(B).

achieve a restructuring through "voluntary agreements" in the manner and method provided for under Title VI of PROMESA for the Government and certain "covered entities" as designated by the Oversight Board. In addition to the Government's preference to move forward with the Title VI process, the Government and the designated "covered entities" do not desire "to effect a plan to adjust [their] debts"[3] under Title III of PROMESA at this time.

B. Short Circuited Title VI Process

As all are aware, the Government is responsible under PROMESA to make "good faith efforts to reach a consensual restructuring with creditors" under a Title VI process.[4]

Title VI of PROMESA, as envisioned by Congress, was intended to give the Government sufficient runway to achieve a consensual process in the first instance. That is, after at least a reasonable period of time where Government and bondholders could not achieve consensus, Title III proceedings would be available to implement a plan of adjustment of debt.

Since June 30, 2016 (PROMESA's effective date), it is widely recognized that the former administration failed to utilize its six remaining months in office to produce a credible fiscal plan based upon total transparency and truthfulness, and wasted the opportunity to maintain open and constant communications with the Government's creditors aimed at conveying control and stability. Its failure to submit a compliant fiscal plan was due in large part to its negligence in allowing for its financial statements to go unaudited for fiscal years 2015 and 2016.

As a result of its negligent course of conduct from June 30, 2016 through its last day in office on January 1, 2017, there was no continuity for a framework or a consensual process under Title VI that could have been passed on to the new administration.

Contrary to the position of the former administration,[5] the new administration strongly believes that a positive outcome under Title VI inures to the benefit

[3] *See* PROMESA § 302(3); 48 U.S.C. § 2162(3).

[4] *See* PROMESA § 206(a)(1); 48 U.S.C. § 2146(a)(1).

[5] Public statement of Governor Garcia-Padilla from December 21, 2016: "*Title VI benefits the bondholders exclusively. It does not benefit the people of Puerto Rico. Title III is an impartial judge. What the people of Puerto Rico are asking is that the debt be submitted to an impartial judge.*"

of all parties involved. As previously communicated to the Oversight Board by the Government, a "freefall" Title III for the Government and its agencies carries the risk of years of litigation and delay in the Government achieving the reforms as set forth in the submitted Fiscal Plan.[6]

The Government has achieved a tremendous amount of progress in initiating fiscal and economic reforms since taking office on January 2, 2016,[7] including compliance with the timely submission of the five covered entities' fiscal plans to the Oversight Board.[8] It would be truly unfair if after all of the progress achieved over the last two months (as compared to the former administration's poor track record), the Government could not achieve a Title VI consensual restructuring simply because the former government either intentionally or negligently truncated the Title VI process at the expense of the new administration.[9]

C. Request for Oversight Board Recommendations to the President and Congress

In furtherance of the Government achieving the goals and success of the Fiscal Plan submitted to the Oversight Board, the Government requests the Oversight Board to submit to the President and Congress an emergency report in advance of its Annual Report, recommending immediate legislative actions in a number of areas.

First, the Government requests the Oversight Board to recommend an amendment to PROMESA extending the stay imposed under Section 405(b) to

[6] *See* letter from Elías Sánchez-Sifonte to the Oversight Board, dated January 4, 2017.

[7] Fifty-eight (58) days after taking the oath of office, the Governor and new administration have enacted over 16 laws and executive orders to begin effectuating the changes and reforms needed to address fiscal and economic challenges. These include, in part, Act 1-2017: Updating/augmenting P3 structure to facilitate critical infrastructure investments and improve public services; Act 2-2017: Enhanced AAFAF's fiscal authority to oversee, centralize and implement fiscal reforms, liquidity and debt; Act 3-2017: To attend to Puerto Rico's emergency economic, fiscal and budget crisis; Acts 4 & 8-2017: Labor reform (allowing for efficiency and flexibility); Act 5-2017: Financial Emergency and Fiscal Responsibility Act; Act 13-2017: New model for economic development (Enterprise PR); Executive Orders: EO-2017-01, 02, 03, 04, 05, 09,10,14, 15 (fiscal, infrastructure (critical projects), expedited permitting-consistent with Title V of PROMESA, federal funds office, zero-based budgeting orders).

[8] Fiscal Plans for the following covered entities timely submitted on February 21, 2017 – GDB, PREPA, PRASA, COSSEC and HTA.

[9] Although PROMESA became effective June 30, 2016, it is widely recognized that until Governor Ricardo Rosselló-Nevares took office on January 2, 2017, the fiscal plan and negotiation processes were moribund and effectively abandoned by the prior administration.

December 31, 2017. Such a request would be consistent with the spirit and intent of PROMESA Section 208(a)(3) which provides that the Oversight Board may make recommendations to the President and Congress requesting certain changes to PROMESA "that would assist the territorial government in complying with any certified Fiscal Plan."[10] The basis for such a request is grounded in the fact and concern that with the PROMESA stay expiring on May 1, 2017, a multiplicity of bondholder lawsuits will ensue and, therefore, trigger the commencement of Title III proceedings to maintain a stay against all litigation.[11]

The Government believes that as a matter of fairness it should be rightfully allowed to achieve what Congress set out to do under PROMESA; namely, a robust good-faith negotiation process with bondholders and insurers within a reasonable period of time to achieve consensus under Title VI. A recommendation for an extension of the May 1 deadline is eminently reasonable, given that:

i. The former administration bears full responsibility for dissipation of valuable time to negotiate consensual Title VI agreements under its own watch;

ii. While in office only 58 days, Governor Rosselló-Nevares and his administration have accomplished significant progress to date, including reinstatement of bondholder communications and a stated commitment to a transparent flow of financial information;

iii. After a long and obscure period of no financial reporting under the prior government, the new administration has made demonstrable progress in "turning the lights on" through the timely submission of the fiscal plans requested by the Oversight Board; and

iv. An extension of the PROMESA stay through the end of the year will allow additional time for the issuance of FY15 audited financials by Summer 2017 and the fiscal year 2016 financials by Fall 2017.

Second, as the Fiscal Plan makes amply clear, an extension of federal funding under the Affordable Care Act (the "ACA") is critical. Equally important is the need

[10] While PROMESA Section 208(a) contemplates such a report be made "not later than 30 days after the last day of each fiscal year", the Government submits that the requested recommendations be accelerated given the time exigencies at stake. *See* 48 U.S.C. § 2148(a).

[11] *See* PROMESA § 301(a) (incorporating in its entirety the stay provisions under section 362 of the United States Bankruptcy Code); 48 U.S.C. § 2161(a).

to address the "Medicaid Cliff" which will occur by the end of this year and must be addressed before then for the reasons set forth in the Congressional Task Force of Economic Growth in Puerto Rico Report, dated December 20, 2016 ("Congressional Task Force Report"). As noted and recommended in the Congressional Task Force Report, Congress should "enact fiscally responsible legislation to address the impending Medicaid Cliff established by the ACA." Therefore, the Government requests the Board to recommend to the President and Congress that immediate legislative action be taken to provide for an extension of the ACA over the next ten years and to eliminate or modify the Medicaid annual capped federal allotment under Section 1108 of the Social Security Act.

Finally, there are additional recommendations made in the Congressional Task Force Report which are aimed at changes to federal laws and programs that if adopted would serve to spur sustainable long-term economic growth, job creation, reduce child poverty and attract investment in Puerto Rico. Included in these areas are recommended changes identified in the Congressional Task Force Report covering: Medicare; Family & Family Health Information Center Grant Program; Maternal, Infant and Early Childhood Visiting Programs; Federal Tax Policy; Energy; Federal Statistical Programs; Support for Small Businesses; and Supplemental Security Income.

While the foregoing programs are of great importance to Puerto Rico, the Government believes that any suggested legislative efforts as recommended by the Oversight Board with respect to these areas can be addressed in the Oversight Board's Annual Report submitted to the President and Congress in July 2017.

D. Continued Progress

Upon the Oversight Board's certification of those fiscal plans it deems to be compliant with PROMESA, the Government and its advisors will promptly convene meetings with organized bondholder groups, insurers, union, local interest business groups, public advocacy groups and municipality representative leaders to discuss and answer all pertinent questions concerning the Fiscal Plan and to provide additional and necessary momentum as appropriate. The Government believes that the steps taken during its first 58 days has replaced an atmosphere of distrust with one based upon open dialogue and cooperation. In that regard, the Government will pursue a pathway as best it can that achieves a consensus with its various bondholders and insurers.

Moreover, the Government will continue with its aggressive pursuit of fiscal and economic reforms as outlined in the submitted Fiscal Plan.

We look forward to continuing our discussions and joint efforts to complete work on a certifiable Fiscal Plan and, thereafter, to engage in truly effective and good-faith negotiations and meetings with creditors, insurers and other stakeholders with the clearest and best information available during the Summer and Fall of 2017.

We trust that the Oversight Board shares our views with respect to seeking a legislative amendment to PROMESA that would extend the PROMESA stay. We are at your disposal to further discuss our request and additionally explain why the Government believes at this time that Title VI represents the best course of action to resolve Puerto Rico's fiscal and economic issues.

Best regards,

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

c: Members of the Oversight Board
Mr. Ramon Ruiz-Coms, Interim Executive Director
Mr. Jorge El Koury, General Counsel to the Oversight Board