



COMMONWEALTH OF
PUERTO RICO
GOVERNOR

ALEJANDRO J. GARCÍA-PADILLA

December 28, 2016

VIA ELECTRONIC MAIL

Dr. Ricardo Rosselló Nevares
Governor-elect
Commonwealth of Puerto Rico

Dear Governor-elect Rosselló:

As you know, upon the expiration of the moratorium under Act 21 and/or the stay granted by PROMESA the government will not have enough resources to operate. Even assuming an available short extension of the protections against claims afforded by Act 21 and PROMESA, the liquidity pressures on the Commonwealth will only increase. That requires that the government focus all its efforts in executing a wide debt restructuring that leaves no debt overhang and provides sufficient fiscal room for Puerto Rico to implement its fiscal and economic recovery plan.

As you know, the depletion in the coming year of both Affordable Care Act (ACA) funding and liquid assets of the pension systems will place additional material stress on the Commonwealth. Note that as the Fiscal and Economic Growth Plan dated September 2015 and the Fiscal Plan dated October 14, 2016 and its Revised Baseline, published last week, illustrate clearly, without federal action regarding the upcoming ACA cliff there is absolutely no money to pay any debt service. That fact has to be front and center in any negotiation with creditors. It would be dangerous to agree to any level of debt service without having certainty as to whether the government will have the federal funds necessary to care for the health of its citizens. The Commonwealth should not agree to any level of debt service that is not sustainable in the long term. Furthermore, because these events will coincide with the exhaustion of the liquid assets of our pension systems, the Commonwealth will be forced to pay retirees from operating revenues. Benefits for pensioners of the largest pension fund average \$14,000 annually. For the Teachers Retirement System the average annual benefit is \$18,000, and they do not receive Social Security benefits. These are barely subsistence pensions. Act No. 3-2013 already established significant reforms and reductions of pension benefits to the Employees Retirement System. We have reached the limits of the sacrifices we can ask from our retirees. As you have stated, this is one of our most vulnerable constituency and we must continue to protect it.

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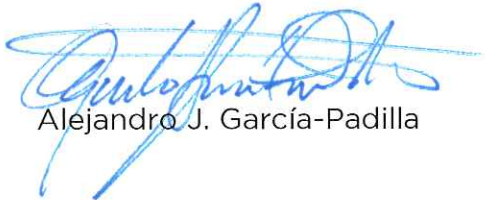
The Commonwealth currently has a contracted annual debt service that averages over \$3.5 billion – which it cannot afford to pay under any debt sustainability metric – plus it will have an additional \$3 billion in healthcare and pension expenditures once we hit the fiscal cliffs outlined above. These are the massive fiscal challenges we have been warning about since the summer of last year with the publication of the Krueger Report; and the reason why Congress enacted a bankruptcy regime to restructure the government’s financial obligations. That math will force an inevitable Title III filing. The government should plan accordingly now and demand that the Oversight Board be ready to file a petition under Title III in early February, 2017.

Finally, I want to forewarn that there will be attempts to amend Title III of PROMESA to provide certain creditors with priority over other stakeholders. Title III is the most important tool Puerto Rico has at its disposal to address our debt crisis. The copious legislation that customarily gets enacted in Congress when there is a new Administration will be fertile ground to try to weaken the restructuring provisions of PROMESA. The Government of Puerto Rico must be vigilant against any attempt to water down such restructuring powers.

I pledge any assistance I can provide to your Administration to ensure that Puerto Rico’s restructuring is successful.

Cordially,

The Governor of the Commonwealth of Puerto Rico,



Alejandro J. García-Padilla

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