

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

June 16, 2017

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

Honorable Carlos J. Méndez Núñez
Speaker of the House of Representatives
of Puerto Rico

Dear Governor Rosselló Nevares, Senator Rivera Schatz, and Speaker Méndez Núñez:

As we continue to move towards our common goal of achieving an Oversight Board-approved and certified Commonwealth budget for fiscal year 2018 by June 30, 2017, I write to you out of concern that some of the progress we appeared to have made in the past few weeks as a result of the close and positive collaboration between the Board and the administration—and their respective teams of advisors—may be receding, and that the necessary resolve to attain the goals set forth in the certified fiscal plan may be waning.

It is equally of concern that some of the narrative taking hold in the public discourse fails to characterize adequately the truly dire fiscal situation the Commonwealth is facing, thus leading the public to underestimate the true nature and impact of some of the fiscal responsibility measures mandated in the fiscal plan and that, accordingly, will have to be incorporated in the budget. Stability can only be earnestly projected if the people know and understand the reality of Puerto Rico's fiscal situation and the serious steps being undertaken to address it.

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A good example is the narrative that incorrectly asserts that the measures the Board approved in the way of amendments to the administration's proposed fiscal plan to ensure sufficient liquidity to pay for essential services during FY18—i.e., a furlough program and the Christmas bonus reduction or elimination—will not go into effect if only the administration's liquidity plan can reasonably be expected to generate additional cash reserves of \$200 million by June 30, 2017. In fact—as stated in the Board Resolution of March 13, 2017, certifying the fiscal plan—the \$200 million cash reserve requirement is in addition to the main requirement that the administration submit for Board approval, along with the proposed budget for FY18, implementation plans for the right-sizing or spending reduction measures that provide necessary certainty that the critical liquidity and budgetary savings required by the fiscal plan will be achieved by the administration.

The importance of the implementation plans for the right-sizing or spending reduction measures the administration commits to undertake cannot be overestimated. We stressed it again in our Unanimous Written Consent approving the submission of the Commonwealth FY18 budget to the Legislature when we noted that “the Board expects that the final budget will...reflect any necessary changes to align to achievable implementation plans for spending reductions, to ensure the budget is fully aligned to the Commonwealth's fiscal plan....”

Let me assure you those implementation plans will be evaluated fairly and responsibly. We need to make sure all the measures the administration has committed to undertake to generate the liquidity and budgetary savings necessary to fund essential services throughout FY18 can reasonably be expected to do just that.

Casual reference to a particular level of funding in the Treasury Single Account not only can be deceiving, but is bound to generate the confusion that we witnessed yesterday in the wake of certain press reports on the subject. Scant progress will be made towards the goal of ensuring the necessary liquidity to fund essential services in FY18 if we just focus on a certain balance in the Secretary's TSA in a particular moment in time—let alone tout it—and, more importantly, if implementation plans to produce the necessary budgetary savings during the fiscal year are inadequate or poorly executed. If that happens, Puerto Rico is all but certain to run out of money to fund the central government's payroll come November or December of this year.

Modest improvements in liquidity don't change the reality of the Island's fiscal situation. Under current law, beginning in July, Puerto Rico will face a worsening cash flow problem because of loss of federal funds and the depletion of pension funds' assets.

In short, the issue of liquidity needs to be understood in the context of the cash flow over time. That is precisely the importance of the liquidity plan. While the administration did submit a liquidity plan in line with the proposed budget, we have yet to achieve confidence

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in the ability of Puerto Rico to fund essential services in an uninterrupted manner throughout the fiscal year taking into account several risk scenarios.

On that note, we must reiterate our earlier requests urging the administration to make and communicate as soon as possible the necessary public policy determinations with respect to what it understands constitute “essential services” in the context of PROMESA. As you know, in light of Puerto Rico’s fiscal situation, a PROMESA-compliant budget needs to reflect appropriate allocations for the adequate funding of essential services, pension benefits, investments to spur growth and other PROMESA priorities. We can no longer afford business as usual.

As we have stated in the past, the Oversight Board supports a fair, orderly and equitable restructuring of Puerto Rico’s debt, but such restructuring will take time and will not solve by itself Puerto Rico’s considerable fiscal disarray. We need to work within the parameters of PROMESA that provide for restructuring to a sustainable debt level so we can fund essential services, pension benefits, and the capital investments necessary to spur economic growth.

Finally, let me urge you further to work with the Oversight Board in the establishment of an appropriate, consistent and reliable protocol for the submission and publication of the various financial reports—including, but not limited to liquidity, collections, actual vs. budget—the administration must regularly submit to the Oversight Board. Transparency is a guiding principle specifically mandated by PROMESA. It is also, I know, a guiding principle of the Governor’s administration. Let’s make sure that, together, we deliver to all interested parties, stakeholders and, most importantly, the people of Puerto Rico the accurate and timely financial information they deserve and have every right to expect.

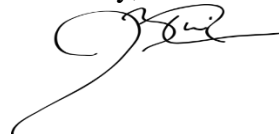
Governor, Mr. President and Mr. Speaker, in the past five and a half months the Oversight Board has given the Government of Puerto Rico—sometimes upon its request, sometimes out of our own volition—latitude to facilitate compliance with the mandates of PROMESA. For example, of our own accord, we changed our own guidelines regarding the formulation of a fiscal plan to grant the administration one more year in which to effect the spending reduction and revenue enhancement measures leading to fiscal equilibrium. At the administration’s request, we extended the automatic stay against litigation provided by PROMESA. We certified the administration’s proposed fiscal plan, noting our reservations in the way of amendments thereto. In every instance, we have provided the accommodation that you have required for two basic reasons: first, because we believed it was the reasonable and prudent thing to do given your short time in office as a new administration and a new legislature and, second, because we were, and remain, convinced of your steadfast resolve to comply with the requirements of PROMESA for the benefit of the people of Puerto Rico.

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Now we are at a critical juncture that requires that we collectively strengthen that resolve. I trust that, working together, we will successfully remove any potential roadblocks in our path towards successful implementation of PROMESA and the attainment of its goals of establishing fiscal responsibility, regaining access to markets, restructuring the public debt, strengthening economic competitiveness, and restoring opportunity to everyone in Puerto Rico.

The Oversight Board looks forward to continue working with your administration and the Legislature to accomplish the considerable remaining requirements and goals of PROMESA for the benefit of the people of Puerto Rico, its creditors and other stakeholders.

Sincerely,



José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Natalie A. Jaresko
Elías F. Sánchez-Sifonte