



GOBIERNO DE PUERTO RICO

HON. RICARDO A. ROSELLÓ NEVARES  
GOBERNADOR

Letter to Oversight Board

Dear Mr. Carrión:

Your December 20, 2016 letter outlined several goals and initiatives to address the fiscal crisis of Puerto Rico. As stated both on a press conference on December 28, 2016 and on the response letter by my representative, Mr. Elías Sánchez, our “Plan Para Puerto Rico” embodies much of what was outlined in your December 20, 2016 letter. Specifically, we agree that:

- The only way to solve Puerto Rico’s economic and fiscal crisis is “through real economic growth”.
- Real economic growth will only be achieved through, among other things, “fundamental structural reforms that create a more competitive economy” with a focus on “liberalizing the labor market, lowering the cost of reliable energy, rationalizing and optimizing taxation and streamlining the permitting processes to enable investment.” Indeed, the first pillar of our Administration’s “Plan para Puerto Rico” is to reform these areas and remove obstacles to doing business in Puerto Rico, thereby cultivating local investor confidence necessary to support future economic development in Puerto Rico.
- In addition to fundamental structural reforms, achieving a sustainable fiscal balance will require “a comprehensive restructuring of the way the Government delivers services” by both improving the quality and efficiency of essential government services and the efficiency of revenue collection “while preserving essential services for the People of Puerto Rico”.
- Structural reforms and improved government efficiency alone will not be sufficient to close the current budget gap, thus long-term liabilities will need to be restructured under a fiscal plan in compliance with PROMESA and re-establishing access to capital markets.

Taking into consideration that time is of the essence, I have taken immediate steps to address the Island’s fiscal crisis. Our Government is taking the lead with vital structural reforms as we will with debt renegotiation efforts. In only ten (10) days, we have made significant advances toward achieving the above-mentioned goals. The purpose of this letter is to keep you apprised of the initiatives put into place during the first ten days of my Administration.

On January 2, 2017, immediately after taking the Oath of Office, I issued Executive Order No. 2017-001, which, among other cost reduction initiatives, (1) imposed a reduction of ten

percent in government spending for the current fiscal year; (2) ordered a reduction of ten percent (10%) in professional service contracts, and a five percent (5%) decrease in utility spending for all government agencies and public corporations; and (3) mandates a twenty percent (20%) reduction in positions of trust in each agency and/or public corporation.

Executive Order No. 2017-002, signed that same day, created the Center for Federal Opportunities to improve the Government's ability to obtain, maximize and improve the oversight of federal funds and resources. This is an important step towards addressing your concern that "there is no central office to manage federal funds and optimize use of proceeds."

Furthermore, Executive Order No. 2017-003, declares a state of emergency in infrastructure, thus creating an expedited process for infrastructure projects which are much needed in order to boost the local economy and, as complement, Executive Order No. 2017-004 creates a Governmental Task Force for urgent infrastructure projects that require the approved expedited process. Through these Orders, we have set in motion the process to "build a modern, efficient and cost-effective infrastructure that ensures quality utility services are delivered fairly to every island region".

Also, Executive Order No. 2017-005 requires all agencies and public corporations to establish a Zero-Base Budgeting methodology as a way to reduce government spending. Lastly, Executive Order No. 2017-009 imposes a five percent (5%) reduction in purchases of goods in all government agencies. These orders will result in more efficient government operation "while preserving essential services for the People of Puerto Rico".

Likewise, I have introduced a series of bills that will jumpstart the economic development of the Island. Specifically, during the first day of our administration, I introduced ten (10) bills, seven (7) of which were geared at promoting economic development and putting controls on government spending. These seven (7) legislative measures include:

(1) The creation a non-profit entity, in partnership with the private sector, named "Enterprise Puerto Rico, Inc.", to stimulate local investments and promote Puerto Rico as an investment and business destination;

(2) Tax incentives for medical doctors to stop the exodus of our physicians and bring more health professionals to our island;

(3) Tax amendments to provide incentives to other professionals to stay in Puerto Rico by promoting and facilitating the creation and management of retirement plans and other trusts to promote financial stability and job creation;

(4) The creation of a Direct Marketing Organization ("DMO") that, through the expertise of the private sector, will handle the marketing of Puerto Rico as a tourist destination in order to develop and promote tourism so that it may serve as a cornerstone to the island's economic development;

(5) Amendments to the Public-Private Partnership (3Ps) Act in order to expand the projects and initiatives that may be subject to a 3Ps and allow the public employees retirement systems to invest and participate in 3Ps agreements to raise much needed funds that will help in the recovery of the now nearly insolvent pension systems;

(6) Creation of the Office of the Inspector General to guarantee unbiased preventive audits of government spending to detect and deter waste, fraud, and abuse;

(7) Creation of the Puerto Rico Social and Community Economic Development Office attached to the Office of the Governor which shall, through a more efficient administration of federal funds, work with nonprofit organizations and the private sector to empower and strengthen communities so that they take charge of their future, break the chain of poverty and contribute to the island's economic development as well as their own.

Additionally, on January 9<sup>th</sup> we introduced profound labor reforms. Our Employment Transformation and Flexibility Act is aimed at reducing the cost of doing business in Puerto Rico and creating a more competitive economy in order to attract new capital and allow the private sector to create much needed jobs. This bill includes most if not all of the comprehensive labor reforms that you stated in your letter, including, among other things, significant changes related to severance pay, flexible scheduling, employee retention and mandatory vacation days. Simultaneously, we introduced a bill which converts the Government into a single employer. Through our Personnel Management Transformation Act, we will reduce spending and create efficiencies in all government agencies. Also, we introduced the Puerto Rico Fiscal Agency and Advisory Authority Act, providing the Authority with additional duties in managing and implementing measures to achieve a coherent and responsible fiscal policy. Likewise, we presented our "Fiscal Crisis Management Act". This bill, for first time in our history, establishes the extension to the excise tax on acquisitions by foreign corporations that would serve as a key element of the 10-year Fiscal Plan for Puerto Rico. Furthermore, this bill establishes a series of reforms to address the fiscal crisis and to develop and implement a fiscal plan.

It should be clear by now that we have submitted a package of legislation and administrative reforms implementing some priority measures well before the February 15, 2017 stay deadline established in PROMESA. I am pleased to inform that yesterday, just nine (9) days after taking Office, I signed into law House Bill No. 2, now Act. No. 1-2017, which enacts amendments to the Public-Private Partnership (3Ps) Act in order to expand the projects and initiatives that may be subject to a 3Ps and allow the public employees retirement systems to invest and participate in 3Ps agreements that would bring more funds and would help in the recovery of the now nearly insolvent pension systems<sup>1</sup>. As you have pointed out, our 3Ps Act has proved successful in attracting private sector investment but has been hampered by a low-growth economy and a lack of aggressive execution. This new law, together with my Administration's commitment with implementing aggressive and innovative strategies, will be key in bringing new investment and economic growth, as well as providing a needed update to the island's infrastructure.

On January 4<sup>th</sup>, through Mr. Elías Sánchez, our representative to the Board, we requested a 45 day extension to present a Certifiable Fiscal Plan in accordance with PROMESA. While we reiterate our request for such extension, a request that even the bondholders support, it is important to note that we have wasted no time in implementing important reforms that pave the way for economic development and to achieve a coherent and responsible fiscal policy. Indeed, even bondholders have acknowledged that the measures we have taken to reduce spending are positive, describing them as "the first steps on the road to restore Puerto Rico's fiscal health and

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<sup>1</sup> By means of comparison, I must point out that it took my predecessor thirty-nine (39) days to sign into law his first bill which aimed to create jobs that never materialized.

economic growth.” This shows that our administration is already rebuilding the Government’s credibility with both credit agencies and capital markets, something that was lost due to the incoherent and improvised policies of the previous administration.

My administration has a clear commitment with establishing and promoting measures to boost our economy and reduce government spending in order to resolve our Island’s fiscal crisis. We will keep working in other measures reforming the local tax code, providing alternate sources of energy that will lower the cost of utilities and simplifying the permitting process. I look forward to further discussions with the Oversight Board and our future collaboration in search of additional measures that would bring solvency, establish a future economic growth, and open access to capital markets, all of which are needed to ensure and guarantee the well-being of the people of Puerto Rico.



Ricardo Rossello

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Members of the Financial Oversight and Management Board