**UNITED STATES DISTRICT COURT**
**FOR THE DISTRICT OF PUERTO RICO**

In re:

THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

THE COMMONWEALTH OF PUERTO RICO, *et al.*,

Debtors.[1]

PROMESA
Title III

No. 17 BK 3283-LTS

(Jointly Administered)

ACP MASTER, LTD., AURELIUS CAPITAL MASTER, LTD., AURELIUS CONVERGENCE MASTER, LTD., AURELIUS INVESTMENT, LLC, AURELIUS OPPORTUNITIES FUND, LLC, AUTONOMY MASTER FUND LIMITED, CORBIN OPPORTUNITY FUND, L.P., FCO SPECIAL OPPORTUNITIES (A1) LP, FCO SPECIAL OPPORTUNITIES (D1) LP, FCO SPECIAL OPPORTUNITIES (E1) LLC – MASTER SERIES 1, FUNDAMENTAL CREDIT OPPORTUNITIES MASTER FUND LP, JACANA HOLDINGS I LLC, JACANA HOLDINGS II LLC, JACANA HOLDINGS III LLC, JACANA HOLDINGS IV LLC, JACANA HOLDINGS V LLC, LEX CLAIMS, LLC, LMAP 903 LIMITED, MCP HOLDINGS MASTER LP, MONARCH ALTERNATIVE SOLUTIONS MASTER FUND LTD, MONARCH CAPITAL MASTER PARTNERS II LP, MONARCH CAPITAL MASTER PARTNERS III LP, MONARCH CAPITAL MASTER PARTNERS IV LP, MONARCH DEBT RECOVERY MASTER FUND LTD, MONARCH SPECIAL

Adv. Proc. No. ______

**COMPLAINT**

[1] The Debtors in these Title III Cases, along with each Debtor’s respective Title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor’s federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); and (ii) Puerto Rico Sales Tax Financing Corporation (“COFINA”) (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474).

OPPORTUNITIES MASTER FUND LTD, MPR INVESTORS LLC, P MONARCH RECOVERY LTD, P STONE LION IE, A FUND OF PERMAL MANAGED ACCOUNT PLATFORM ICAV, PERMAL STONE LION FUND LTD., PINEHURST PARTNERS, L.P., PRISMA SPC HOLDINGS LTD.—SEGREGATED PORTFOLIO AG, RRW I LLC, SENATOR GLOBAL OPPORTUNITY MASTER FUND LP, SL LIQUIDATION FUND L.P., SL PUERTO RICO FUND II L.P., and SL PUERTO RICO FUND L.P.

Plaintiffs,

v.

THE COMMONWEALTH OF PUERTO RICO and THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,

Defendants.

Plaintiffs, as creditors and/or parties in interest in the above-captioned case, by and through their undersigned counsel, allege as follows:

## NATURE OF THE ACTION

1. This action seeks a declaratory judgment and related equitable relief recognizing and enforcing Plaintiffs' rights and interests in, and Defendants' obligations with respect to, certain revenues committed by the Puerto Rico Constitution, by statute, and by contract, to payment of public debt.

2. Plaintiffs are beneficial owners of substantial amounts of general obligation bonds issued by the Commonwealth of Puerto Rico (the "Commonwealth," and together with its instrumentalities, "Puerto Rico") and bonds issued by certain of the Commonwealth's public corporations and guaranteed by the Commonwealth, which together constitute "public debt." Unique among all of the Commonwealth's debt obligations, public debt

is secured by an absolute and enforceable first claim and lien on all of the Commonwealth's "available resources," P.R. Const. art. VI, § 8, in addition to, and complemented by, a pledge of the Commonwealth's good faith, credit, and taxing power.[2] Because these protections are specifically and uniquely enshrined in interlocking provisions of the Puerto Rico Constitution, and reinforced by statutory and contractual obligations, public debt is known as "Constitutional Debt."

3. In addition to the constitutional protections that provide a first claim and lien on all of the Commonwealth's available resources, Plaintiffs enjoy unique property interests in two separate and specific streams of revenues: (1) proceeds of certain taxes and fees that, although conditionally earmarked for payment of certain obligations of Commonwealth instrumentalities, are required by Puerto Rico law to be "clawed back" for the express and sole purpose of paying Constitutional Debt when other available resources are insufficient to do so (collectively, the "Clawback Revenues"); and (2) certain proceeds of property taxes that Puerto Rico statutory law requires be levied and collected for the benefit of Constitutional Debtholders and segregated in a trust for the express and sole purpose of paying Constitutional Debt (the "Special Property Tax Revenues," and together with the Clawback Revenues, the "Restricted Revenues"). In fiscal year 2017, Puerto Rico collected approximately $940 million in Restricted Revenues, and an equal or greater amount will be collected in fiscal years 2018 and beyond.

4. Under Puerto Rico law, neither the Commonwealth nor any other person other than Constitutional Debtholders (and potentially Clawback bondholders) has *any* equitable or beneficial property interest in the Restricted Revenues, which by operation of the Puerto Rico

---

[2] With respect to Plaintiffs' liens as Constitutional Debtholders, this Complaint seeks only determinations regarding Plaintiffs' liens on the Restricted Revenues, as opposed to all available resources of the Commonwealth. However, nothing herein is intended or shall be deemed to waive Plaintiffs' liens on other available resources.

Constitution, Puerto Rico statutes, and applicable contract, are required to be segregated and held in trust for the benefit of Constitutional Debtholders. The Clawback Revenues constitute "special revenues" pursuant to 11 U.S.C. § 902(2), and Constitutional Debtholders hold enforceable statutory liens and other equitable and beneficial property interests in the Restricted Revenues. If these revenues were applied as required by law, the Commonwealth would be paying a significant portion of the amount due annually on Constitutional Debt. The Commonwealth, however, has chosen to ignore its laws.

5. Following the passage of the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. L. No. 114-187, 130 Stat. 549 ("PROMESA") (codified at 48 U.S.C. §§ 2101-2241) on June 30, 2016, Puerto Rico immediately defaulted on its Constitutional Debt, and has refused to make nearly all debt service payments ever since. Even as it defaulted on its Constitutional Debt, Puerto Rico continued to collect approximately $940 million in Restricted Revenues in fiscal year 2017, and projects a similar or higher amount of Restricted Revenues in fiscal year 2018. But having collected these revenues, the Commonwealth—now acting under the control of the Financial Oversight and Management Board (the "Oversight Board")—refuses to use the Restricted Revenues for their only lawful purpose, or even segregate them for the benefit of Constitutional Debtholders. Instead, the Commonwealth and the Oversight Board have chosen to take the Restricted Revenues, in which they have no equitable or beneficial interest, and spend them however they see fit, in clear violation of Puerto Rico law and the rights of Constitutional Debtholders.

6. Quite simply, Puerto Rico law requires that, when available resources are insufficient to pay Constitutional Debt in full, the only lawful use of Clawback Revenues is the payment of Constitutional Debt. The Commonwealth has defaulted on its obligations to pay

Constitutional Debtholders for almost a year. It has issued executive orders authorizing the clawback of Clawback Revenues on the express basis that the Commonwealth lacks sufficient resources to pay Constitutional Debtholders for even longer. The Oversight Board has certified a fiscal plan that ensures that the Commonwealth will continue to default on its obligations to pay Constitutional Debtholders for years to come. On these facts alone, the Court should declare that Constitutional Debtholders are the only parties with any interest in the Clawback Revenues.

7. Similarly, Puerto Rico law requires the Commonwealth to levy Special Property Tax Revenues for the sole purpose of paying Constitutional Debtholders and requires that these revenues be held in trust subject to the lien of Constitutional Debtholders. On this basis alone, the Court should likewise declare that Constitutional Debtholders are the only parties with any interest in the Special Property Tax Revenues.

8. The Oversight Board and Commonwealth have nevertheless refused to acknowledge Plaintiffs' interests and rights in the Restricted Revenues. They mistakenly assert that Congress's decision to enact PROMESA bestowed unprecedented rights on the Commonwealth that permit it to disregard all of its obligations under Puerto Rico law. Based on that misconception, the Commonwealth and the Oversight Board have certified a fiscal plan and proposed a budget premised on the notion that the Commonwealth can spend $18 billion in average annual revenues in any manner it wants, and without any regard to existing statutes governing the allocation of revenues, or creditors' rights or interests in particular revenues. Having declared themselves free from the nettlesome obligations of Puerto Rico law, the Oversight Board and the Commonwealth propose massive 80% cuts to bondholders, while leaving untouched more politically favored creditors such as trade creditors and pension creditors.

9. PROMESA, however, does not countenance the wholesale disregard of decades of Puerto Rico law. To the contrary, Congress expressly required that fiscal plans and budgets, among other requirements, account for revenues "based on applicable laws" and that they "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory," as such laws existed before PROMESA was enacted. PROMESA §§ 201(b)(1)(A) and (N). That a municipal debtor remains subject to applicable state law restrictions on funds is also consistent with well-settled law under Chapter 9 of the Bankruptcy Code. Congress did not wipe clean all pre-PROMESA requirements under Puerto Rico law and empower the Oversight Board to aggregate all revenues in one pot and distribute them however the Oversight Board deems fair. Instead, Congress required the Oversight Board to impose fiscal discipline on Puerto Rico and work to resolve Puerto Rico's challenges within the existing legal framework.

10. Emboldened by the misconception that they no longer have to comply with Puerto Rico law, the Oversight Board and the Commonwealth have confiscated and misappropriated the Restricted Revenues as part of an ongoing campaign to pay everyone but bondholders, including Constitutional Debtholders. The Commonwealth—with the Oversight Board's blessing—has pledged to pay pension claims in full, and repeatedly increased the amount appropriated to pensions in the Commonwealth's budget and fiscal plan. The Commonwealth's fiscal year 2018 budget, for example, allocates more than $2 billion to pensions, an amount sufficient to ensure that pension liabilities will not be impaired at all. Likewise, the Commonwealth has pledged to pay trade creditors in full, recently disclosing that—since PROMESA was enacted on June 30, 2016—the Commonwealth has reduced outstanding trade debt by approximately $1.2 billion. The constituency that the Oversight Board

and Commonwealth ask to make by far the greatest sacrifice is bondholders, including Constitutional Debtholders who are entitled to be paid before all other expenses under the plain terms of the Puerto Rico Constitution and applicable laws.

11. In addition to paying politically favored creditors, the Commonwealth shows no signs that it will rein in its long-standing history of profligate spending. According to the Commonwealth's fiscal plan, expenses will *increase* over the next 10 years when the Commonwealth should be cutting costs. The Commonwealth's fiscal year 2018 budget reveals hundreds of millions of dollars in non-essential spending, including—as only one example—$75 million in appropriations for arts, recreation and lifestyle programs. In addition to hundreds of millions of dollars in questionable spending choices, the most recent budget proposal includes $750 million in non-budgeted expenses; *i.e.*, "reserve funds" or other budgetary cushions not based on identified expenses.

12. On top of all of this, the Governor recently announced his desire to enact sweeping tax cuts for the people of the Commonwealth, all the while continuing to misappropriate the Restricted Revenues.

13. The Commonwealth's and Oversight Board's actions create a self-fulfilling prophecy: they confiscate hundreds of millions of dollars per year in Restricted Revenues on the basis that there are insufficient available resources to pay Constitutional Debt, and then illegally squander those resources on impermissible expenditures, thereby exacerbating their claimed lack of available resources to pay Constitutional Debt.

14. The Oversight Board's and Commonwealth's well-documented history of confiscating Restricted Revenues, misappropriating them for unlawful purposes, and using whatever funds the Commonwealth can find to pay lower priority but politically favored

creditors irreparably harms Plaintiffs. As a result of Defendants' conduct, Plaintiffs seek, in addition to declaratory relief determining their rights and interests in the Restricted Revenues, equitable relief requiring Defendants to segregate the Restricted Revenues for the exclusive benefit of Constitutional Debtholders and prohibiting them from using the Restricted Revenues for any purpose other than repayment of Constitutional Debt.

15. Accordingly, an actual, ripe, and justiciable controversy has arisen between the parties regarding the scope of Plaintiffs' rights and interests in, and Defendants' obligations with respect to, the Restricted Revenues.

16. In particular, in Counts One and Two, Plaintiffs seek declaratory judgments that, under Puerto Rico law, the Restricted Revenues are restricted by law and cannot be used by the Commonwealth for any purpose except to satisfy the Commonwealth's payment obligations with respect to outstanding Constitutional Debt. In Counts Three and Four, Plaintiffs seek declaratory judgments that the Commonwealth lacks any equitable or beneficial property interest in the Restricted Revenues, and Plaintiffs, as Constitutional Debtholders, have equitable and beneficial property interests in the Restricted Revenues. In Counts Five and Six, Plaintiffs seek declaratory judgments that Plaintiffs, as Constitutional Debtholders, have a statutory lien on the Restricted Revenues. In Count Seven, Plaintiffs seek a declaratory judgment that the Clawback Revenues are special revenues as defined in the Bankruptcy Code. In Count Eight, Plaintiffs seek a declaratory judgment that the Defendants' diversion of the Restricted Revenues without just compensation is an unlawful taking under the Fifth Amendment to the United States Constitution. In Counts Nine and Ten, Plaintiffs seek declaratory judgments that, under Puerto Rico law, the Restricted Revenues must be segregated and deposited into a designated account for the exclusive benefit of Constitutional Debtholders and not commingled with other funds of

the Commonwealth or used for any purpose other than repayment of Constitutional Debt. In Count Eleven, Plaintiffs seek injunctive relief enjoining Defendants from continuing to divert the Restricted Revenues, and directing Defendants to segregate and preserve the Restricted Revenues for payment of the Constitutional Debt.

## **PARTIES**

17. Plaintiffs ACP Master, Ltd., Aurelius Capital Master, Ltd., Aurelius Convergence Master, Ltd., Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, Autonomy Master Fund Limited, Corbin Opportunity Fund, L.P., FCO Special Opportunities (A1) LP, FCO Special Opportunities (D1) LP, FCO Special Opportunities (E1) LLC – Master Series 1, Fundamental Credit Opportunities Master Fund LP, Jacana Holdings I LLC, Jacana Holdings II LLC, Jacana Holdings III LLC, Jacana Holdings IV LLC, Jacana Holdings V LLC, Lex Claims, LLC, LMAP 903 Limited, MCP Holdings Master LP, Monarch Alternative Solutions Master Fund Ltd, Monarch Capital Master Partners II LP, Monarch Capital Master Partners III LP, Monarch Capital Master Partners IV LP, Monarch Debt Recovery Master Fund Ltd, Monarch Special Opportunities Master Fund Ltd, MPR Investors LLC, P Monarch Recovery Ltd, P STONE LION IE, a fund of Permal Managed Account Platform ICAV, Permal Stone Lion Fund Ltd., Pinehurst Partners, L.P., Prisma SPC Holdings Ltd.—Segregated Portfolio AG, RRW I LLC, Senator Global Opportunity Master Fund LP, SL Liquidation Fund L.P., SL Puerto Rico Fund II L.P., and SL Puerto Rico Fund L.P. are the beneficial owners of a substantial amount of Constitutional Debt, as further defined below.[3]

18. Defendant the Commonwealth of Puerto Rico is a territory of the United States.

---

[3] Plaintiffs file this Complaint exclusively on their own behalves and do not assume any fiduciary or other duties to any other creditor or person.

19. Defendant the Financial Oversight And Management Board for Puerto Rico was created under Section 101(b)(1) of PROMESA (48 U.S.C. § 2121(b)(1)) and purports to be an "entity within the [Commonwealth] government." 48 U.S.C. § 2121(c)(1).

**JURISDICTION & VENUE**

20. This is an adversary proceeding under Federal Rules of Bankruptcy Procedure 7001(2) and (9), made applicable to this case by 48 U.S.C. § 2170.

21. This Court has jurisdiction over this action pursuant to 48 U.S.C. § 2166.

22. As described in greater detail herein, there exists an actual case or controversy under 28 U.S.C. § 2201(a).

23. Plaintiffs request relief only with respect to their rights and interests in, and Defendants' obligations with respect to, the Restricted Revenues. Because the Commonwealth has no equitable or beneficial property interest in the Restricted Revenues, Section 305 of PROMESA (48 U.S.C. § 2165) is not implicated by this Complaint, and this Court has the constitutional and statutory authority to award the relief requested herein. To the extent Section 305 applies to some portion of Plaintiffs' requested relief, Section 305 does not prohibit the Court from granting the requested declaratory relief, which does not compel any use or disposition of the Restricted Revenues and thus does not "interfere[]" with any property or revenues of the Commonwealth under Section 305.

24. Venue is proper in this district pursuant to 48 U.S.C. § 2167(a)(2).

**FACTUAL AND STATUTORY BACKGROUND**

25. The Factual and Statutory Background section of this Complaint is organized as follows: First, in Part One, we describe the interlocking constitutional, statutory and contractual protections that afford Plaintiffs an absolute first claim and lien on all of the Commonwealth's "available resources." We then set forth the constitutional, statutory and

contractual provisions granting Plaintiffs specific property interests in the Restricted Revenues, and the characterization of those interests as, among other things, statutory liens and the characterization of the Clawback Revenues as "special revenues" under the Bankruptcy Code.

26. Second, in Part Two, we describe Defendants' pattern of unlawful conduct beginning the day PROMESA was enacted and continuing to the Commonwealth's recent announcement of sweeping tax cuts. In particular, Part Two recounts Defendants' disregard of Plaintiffs' property interests in the Restricted Revenues, as well as Defendants' broader campaign of impermissibly using PROMESA as a pretext to pay politically favored creditors in full at the expense of Plaintiffs. As detailed in Part Two, Defendants' stated intention to continue confiscating Restricted Revenues and refusing to apply them to their only authorized purpose—the payment of Constitutional Debt—causes irreparable harm to Plaintiffs and warrants the relief sought herein, including without limitation, the segregation and accounting of Restricted Revenues.

**PART ONE: Constitutional Debtholders' Interests in the Restricted Revenues**

## I. The Constitutional Debt

27. Plaintiffs are beneficial owners of bonds issued or guaranteed by the Commonwealth entitled to unique protections under the Puerto Rico Constitution and backed by a pledge of the Commonwealth's good faith, credit, and taxing power (the "Constitutional Debt" and, the holders thereof, "Constitutional Debtholders"). The Constitutional Debt is "public debt" within the meaning of the Puerto Rico Constitution, and is therefore senior to, and set apart from, all other debt issued by Puerto Rico by an interlocking series of constitutional, statutory, and contractual commitments that make it the Commonwealth's highest priority obligation, assure Constitutional Debtholders full and timely payment even (and especially) in times of economic scarcity, and grant Constitutional Debtholders an absolute first claim and lien on all of the

Commonwealth's "available resources" and a pledge of the Commonwealth's good faith, credit, and taxing power.

**A. Article VI, Section 8 Constitutional Protections**

28. The Puerto Rico Constitution is explicit in its absolute protection for the Commonwealth's Constitutional Debt. Section 8 of Article VI of the Constitution provides that:

> In case the available resources including surplus for any fiscal year are insufficient to meet the appropriations made for that year, ***interest on the public debt and amortization thereof shall first be paid***, and other disbursements shall thereafter be made in accordance with the order of priorities established by law.

P.R. Const. art. VI, § 8 (emphasis added). This provision provides the foundation for Constitutional Debtholders' absolute first claim and lien on available resources of the Commonwealth.

29. Section 8 was adopted from a provision of the Jones Act, Pub L. No. 64-368, 39 Stat. 951 (1917), which governed the Commonwealth prior to the adoption of its Constitution in 1952. Section 34 of the Jones Act provided a default prioritization of expenditures, listing "interest on any public debt" in the first-priority position along with the "ordinary expenses" of the insular government. *Id.* § 34. Unlike the prior provision in the Jones Act, however, Section 8 of the Puerto Rico Constitution provides Constitutional Debt *sole and absolute* first priority; Constitutional Debt does not share that position with "ordinary expenses" of government. Likewise, whereas the Jones Act provided only a default prioritization of government spending that was subject to revision by the governor, Section 8 does not countenance any override by the governor or the Legislative Assembly. Accordingly, adoption of Section 8 of the Puerto Rico Constitution was a deliberate choice to strengthen the protections afforded to Constitutional Debtholders.

30. As Chief Justice Trías Monge (himself a delegate to the Puerto Rico Constitutional Convention) explained, these absolute protections were no accident. Rather, Section 8 was adopted to "place[] in absolute first term, and beyond the scope of the power of the Governor, the payment of interests and the amortization" of the Constitutional Debt.[4]

31. The Constitutional Debt's first claim and lien on all available resources has been further acknowledged for decades in the Puerto Rico statute that defines the remaining "order of priorities" referenced in Article VI, Section 8 of the Puerto Rico Constitution. Section 4(c) of the Office of Management and Budget Organic Act (the "OMB Act") recognizes that Constitutional Debt must be paid first before all other expenditures, even (and especially) when resources are scarce. 23 L.P.R.A. § 104(c)(1). The OMB Act provides that, "[i]n tune with Section 8, Article VI," of the Constitution, the Commonwealth must follow a hierarchy of priorities governing the "disbursement of public funds . . . when resources available for a fiscal year are insufficient to cover the appropriations made for that year."

32. The OMB Act specifically enumerates the hierarchy of priorities that the Commonwealth must follow in disbursing available resources. In particular:

- **First**: "[T]he payment of interest and amortizations corresponding to the public debt." *Id.* § 104(c)(1).

- **Second**: "commitments entered into by virtue of legal contracts in force, judgments of the courts in cases of condemnation under eminent domain, and binding obligations to safeguard the credit, reputation, and good name of the Government of the Commonwealth of Puerto Rico," *id.*§ 104(c)(2);

- **Third**: "[r]egular expenses" related to government operations, such as "[c]onservation of public health," "[p]rotection of persons and property," "[p]ublic education programs," and "[p]ublic welfare programs," *id.*§ 104(c)(3)(A)-(D);

---

4 3 José Trías Monge, Historia Constitucional de Puerto Rico 225 (1982), attached hereto as **Exhibit A.**

- **Fourth**: "construction of capital works or improvements," *id.* § 104(c)(4); and

- **Fifth**: "contracts and commitments contracted under special appropriations," *id*. § 104(c)(5).

As set forth above, one—and only one—expense is granted first priority under the OMB Act: the payment of Constitutional Debt. The OMB Act therefore reinforces the constitutional requirement that available resources be used for repayment of the Constitutional Debt before any other purpose.

### B. Article VI, Section 2 Constitutional Protections

33. Article VI, Section 2 of the Puerto Rico Constitution, added by amendment in 1961, authorizes Constitutional Debtholders to compel the Secretary of the Treasury to "apply the available resources including surplus to the payment of interest on the public debt and the amortization thereof." P.R. Const. art. VI, § 2. This provision of the Constitution confirms that Constitutional Debtholders have an absolute, judicially enforceable property interest in all of the Commonwealth's available resources and a right to recover against them, including, without limitation, the Restricted Revenues.

34. A special commission involved in the consideration of the 1961 amendments that added Section 2 explained that this constitutionally enshrined remedy would "give[] reality to what is provided in Section 8, Article VI which commits the Government's revenues to the preferential payment of the capital and interest of the public debt."[5]

### C. Other Significant Constitutional Protections

35. Other provisions of the Puerto Rico Constitution bolster the Constitutional Debt's first claim and lien by providing further safeguards that ensure full and timely payment of

[5] Senate Report accompanying R. Conc. del S. 3 (Sept. 4, 1961) at Vol. 14, No. 27, Diario de Sesiones de la Asamblea Legislativa 222 (Extraordinaria) (1961), attached hereto as **Exhibit B.**

Constitutional Debt. For example, Section 6 of Article VI overrides any non-compliant budgets, such as the fiscal year 2017 budget and the recently proposed budget for fiscal year 2018, that fail to appropriate funds for payment of the Constitutional Debt. Section 6 states:

> If at the end of any fiscal year the appropriations necessary for the ordinary operating expenses of the government and for the payment of interest on and amortization of the public debt shall not have been made, the several sums appropriated in the last appropriation acts for the objects and purposes therein specified, so far as the same may be applicable, shall continue in effect item by item, and the Governor shall authorize the payments necessary for such purposes until corresponding appropriations are made.

P.R. Const. art. VI, § 6. This provision ensures that if the government does not appropriate funds for the payment of interest and principal on Constitutional Debt when due, these payments will nonetheless be automatically appropriated in the next fiscal year. Section 6 therefore imposes an express and non-discretionary limit on the Legislative Assembly's authority to selectively appropriate for debt service on Constitutional Debt. Section 6 of Article VI is reinforced by the Puerto Rico statutes authorizing issuance of Constitutional Debt, which have provided, at least since 1942, for continuous appropriations to fund payments owed to holders of that debt.[6]

36. Article VI, Section 7 provides, in turn, that the Commonwealth must have a balanced budget and that, if the budget is not balanced, the Commonwealth must raise taxes sufficient to cover any excess appropriation. It provides that "[t]he appropriations made for any fiscal year shall not exceed the total resources, including available surplus, estimated for said fiscal Year unless the imposition of taxes sufficient to cover said appropriations is provided by law." P.R. Const. art. VI, § 7. The Constitution thus prohibits any effort by the Commonwealth to deprive itself of resources to fund payment of the Constitutional Debt by spending funds on

---

[6] *See, e.g.*, Act of Dec. 7, 1942, No. 33-1942, 1942 P.R. Laws 175.

other expenses, and complements the Commonwealth's pledge of taxing power to support repayment of the Constitutional Debt.

37. The Puerto Rico Constitution also includes limitations on the Commonwealth's incurrence of Constitutional Debt. Section 2 of Article VI states that Puerto Rico may not issue or guarantee new Constitutional Debt if doing so would cause anticipated debt payments on Constitutional Debt issued by the Commonwealth in any future fiscal year—plus any amounts actually paid by the Commonwealth on constitutionally guaranteed bonds in the previous fiscal year—to exceed 15% of the Commonwealth's average revenue over the previous two fiscal years. P.R. Const. art. VI, § 2. The debt limit, which is measured prospectively upon the issuance of new public debt, thus: (1) assures Puerto Rico's citizens that their government may not imprudently pledge away the Commonwealth's future revenues for the benefit of creditors; and (2) simultaneously protects Constitutional Debtholders by ensuring that the Commonwealth will not overextend itself through binding commitments enjoying similar protections.

**D. Contractual Protections**

38. The Commonwealth also has committed itself by contract to make timely payments of principal and interest on its Constitutional Debt before using available resources for any other purpose. These contractual promises further confirm Constitutional Debtholders' absolute first claim and lien on all of the Commonwealth's "available resources."

39. For example, the 2014 resolution issuing general obligation bonds (such resolution the "2014 GO Bond Resolution" and such bonds the "2014 GO Bonds")[7] states that

[7] *See* Commonwealth of P.R., Bond Resolution Authorizing and Securing $3,500,000,000 Commonwealth of Puerto Rico General Obligation Bonds of 2014, Series A § 19 (2014); *see also* Act of Mar. 4, 2014, No. 34-2014, 2014 P.R. Laws 76 (authorizing issuance of 2014 GO Bonds).

the 2014 GO Bonds are protected by the Constitutional Debt's first claim and lien on available resources:

> The Bonds constitute public debt, as described in and for the purposes of Section 2 and Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico (the "Constitution"). The Secretary is authorized and directed to pay the principal of and the interest on the Bonds as the same shall fall due from any funds in the Treasury of the Commonwealth available for such purpose in the fiscal year for which said payment is required.

Consistent with this understanding, when the Commonwealth approached the capital markets in late 2013 to issue additional general obligation bonds, then-Governor García Padilla acknowledged that "[o]ur Constitution gives first priority over all revenues to payments on our general obligation debt."[8]

40. The Commonwealth has recognized the absolute and binding nature of the Constitutional Debt's first claim and lien in other contexts as well. For example, the Official Statement associated with a 2006 issuance of bonds by the Puerto Rico Infrastructure Finance Authority informed purchasers of those bonds that "[t]he Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues," and made clear that funds otherwise pledged to the repayment of those bonds were subject to being applied first to the payment of debt service on the Constitutional Debt, as discussed in more detail below.[9]

41. As recently as June 29, 2016, well after the Commonwealth indicated it was in financial distress, then-Governor Alejandro García Padilla left no doubt about the

[8] *See* Alejandro García Padilla, *An Open Letter from Governor Alejandro García Padilla*, Wall St. J., Oct. 23, 2013, at A5.

[9] *See* Official Statement for PRIFA Special Tax Revenue Bonds, Series 2006, at 10 (Sept. 19, 2006); *see also* Official Statement for PRCCDA Hotel Occupancy Tax Revenue Bonds (Series A), at 21 (Mar. 15, 2006) (same).

continuing validity of the Constitutional Debt's first claim to and lien on available resources when he reaffirmed that "general obligation bonds" are "the island's senior credits protected by a constitutional lien on revenues."[10]

## II. Plaintiffs Have Property Interests In Restricted Revenues

42. While Constitutional Debtholders are entitled to an absolute first claim to and lien on all of the Commonwealth's available resources, the Commonwealth has granted Plaintiffs additional and specific property interests in certain subsets of available resources. In particular, under Puerto Rico law, Plaintiffs—and not the Commonwealth—have equitable and beneficial interests in certain property tax revenues collected under statutory levy specifically for the benefit of Constitutional Debtholders, and certain specific tax proceeds and other revenues that have been "clawed back," or are subject to being "clawed back," for payment of Constitutional Debt. For fiscal year 2017, the aggregate amount of the Restricted Revenues dedicated to the payment of Constitutional Debt is at least $940 million. In contrast, scheduled interest due in respect of Constitutional Debt in fiscal year 2017 is approximately $931 million.

### A. Special Property Tax Revenues

43. Puerto Rico law requires that a special property tax be levied for the benefit of Constitutional Debtholders, and further requires that these Special Property Tax Revenues be held in trust subject to the lien of Constitutional Debtholders.

44. Pursuant to Act 83 of 1991 ("Act 83"), the Legislative Assembly authorized a "special tax" of 1.03% on the appraised value of all personal and real property in Puerto Rico, which is "in addition to all other taxes imposed by virtue of other laws in effect."

---

[10] *See* Alejandro García Padilla, *There's No Choice: Puerto Rico Will Default on More Than $1Billion in Debt on Friday*, CNBC (June 29, 2016, 10:00 AM ET), http://www.cnbc.com/2016/06/29/puerto-ricos-governor-warns-of-imminent-default-on-more-than-1-billion-in-debt-commentary.html.

21 L.P.R.A. § 5002.[11] Act 83 provides a strict process for demarcating these Special Property Tax Revenues from other tax revenues collected and used for the Commonwealth's operating expenses or general purposes. The "Municipal Revenues Collection Center" (known by its Spanish acronym "CRIM") is required to collect the Special Property Tax Revenues and deposit them into the "Commonwealth Debt Redemption Fund" by the 15th working day after payment has been made by the taxpayer. *Id.* §§ 5002, 5004. The Commonwealth Debt Redemption Fund is "a trust" held by the Government Development Bank (the "GDB") that was specifically established to hold these special tax proceeds. *Id.*

45. Act 83 expressly provides that the Commonwealth's obligation to apply the Special Property Tax Revenues to payment of Constitutional Debt "***will be considered to be a prior lien bond*** and the same will constitute sufficient authorization for the Government Development Bank for Puerto Rico to carry out the corresponding [distributions]." *Id.* § 5005 (emphasis added). Further, Act 83 requires that Special Property Tax Revenues "shall remain" in the Commonwealth Debt Redemption Fund and "shall be applied . . . ***solely*** for the payment of the principal and interest on the existing and future general obligations of the Commonwealth of Puerto Rico evidenced by bonds or notes, or to the early redemption of said obligation, including the payment of any premium that is required for said early redemption." *Id.* at § 5004(a) (emphasis added).

46. Act 83 thus authorizes a special tax that is levied specifically for the payment of Constitutional Debt, and establishes a trust account for Special Property Tax Revenues to be deposited into subject to a statutory lien in favor of Constitutional Debtholders.

---

[11] The term "appraised value" assumes an appraisal at a "real and current value." *See* 21 L.P.R.A. § 5052. However, the Commonwealth continues to appraise some real property at values that are outdated by more than half a century, resulting in artificially diminished collections.

47. For fiscal year 2017, the amount of Special Property Tax Revenues required to be held in trust for Constitutional Debt is at least $101 million.[12]

**B. Clawback Revenues**

48. Puerto Rico law also explicitly requires that certain tax and fee revenues conditionally earmarked for the payment of bonds issued by certain Commonwealth instrumentalities constitute "available resources" and be "clawed back" for the express and sole purpose of paying Constitutional Debt. In particular, "Clawback Revenues" include: (1) certain excise taxes and vehicle fees conditionally pledged to support the payment of bonds issued by, or obligations of, the Puerto Rico Highways and Transportation Authority ("PRHTA") or the Metropolitan Bus Authority ("MBA"); (2) hotel occupancy taxes conditionally pledged to support the payment bonds issued by Puerto Rico Convention Center District Authority ("PRCCDA"); and (3) federal excise taxes imposed on rum and other items produced in the Commonwealth and sold in the United States that are conditionally pledged to support the payment of bonds issued by the Puerto Rico Infrastructure Financing Authority ("PRIFA"), as well as certain revenues from excise taxes on non-diesel petroleum products pledged to support certain PRIFA bonds.

**(i) *PRHTA***

49. PRHTA is a public corporation created by Act 74-1965 to assume responsibility for the construction of highways and other transportation systems in the Commonwealth. *See* 9 L.P.R.A. § 2002. The Commonwealth has conditionally earmarked two

---

[12] CRIM recently proposed to sell a portfolio of delinquent tax debts, including delinquent Special Property Tax Revenues. *See* Centro de Recaudación de Igresos Municipales, Requests for Qualifications, Financial Advisor for the Sale of Property Tax Debts and Associated Tax Liens (Apr. 25, 2017), *available at* http://www.aafaf.pr.gov/assets/rfq-crim-april-25-2017.pdf. To the extent any delinquent Special Property Tax Revenues are monetized or collected, such revenues should be placed in the Commonwealth Debt Redemption Fund and held in trust for the benefit of Constitutional Debtholders.

sets of tax proceeds, which constitute "available resources," for payment of bonds issued by PRHTA (the "PRHTA Bonds"): gasoline, diesel, crude oil, cigarette, and other excise taxes levied by the Commonwealth pursuant to Act 34-1997, Act 1-2011, and Act 1-2015 (the "Excise Taxes"); and motor vehicle license fees imposed under Act 22-2000 (the "Vehicle Fees"). These revenues are placed in trust each month so as to be rendered unavailable for other expenses.

50. The statutes under which the PRHTA Bonds were issued expressly set forth that the proceeds from the Excise Taxes and Vehicle Fees are available resources that are subject to clawback for the sole purpose of paying Constitutional Debt. With respect to the Excise Taxes conditionally earmarked for payment of PRHTA Bonds, the statute provides:

> ***The proceeds of said collection shall be solely used for the payment of interest and amortization of the public debt, as provided in said Section 8 of Item VI of the Constitution***, until the other resources available to which reference is made in said section are insufficient for such purposes. Otherwise, the proceeds of said collection, in the amount that may be necessary, shall be used solely for the payment of the principal and interest on bonds and other obligations of the Authority and to comply with any stipulations agreed to by the latter with the holders of said bonds or other obligations.

13 L.P.R.A. § 31751(a)(1)(C) (emphasis added); *see also* 9 L.P.R.A. § 2004(1) (expressly subjecting the bondholders' lien on the Excise Taxes "to the provisions of § 8 of Art. VI of the Constitution of the Commonwealth").[13] With respect to the Vehicle Fees conditionally earmarked for payment of PRHTA Bonds, the statute provides:

> [S]aid pledge or pignoration shall be ***subject to the provisions of § 8 of Article VI of the Constitution of Puerto Rico***; Provided, however, That ***the proceeds of said collection shall only be used for the payment of interest and the amortization of the public debt, as provided in said § 8***, until the other resources available, referred to in said section, are insufficient for such purposes, otherwise, the proceeds of said collection in the amount that is necessary shall be used solely for

[13] With respect to cigarette tax revenues, the first $20 million in revenues are conditionally earmarked for the PRHTA, and the next $10 million in cigarette tax revenues are conditionally earmarked for the payment of obligations of the MBA. Pursuant to statute, the cigarette tax revenues conditionally earmarked for MBA obligations must also be transferred monthly to a segregated account and are also subject to clawback for the sole purpose of paying Constitutional Debt. *See* 13 L.P.R.A. § 31751(a)(4)(A)-(C).

> the payment of the principal and interest on bonds and other obligations of the Authority, and to meet whatever other stipulations are agreed upon between the Authority and the holders of said bonds or other obligations.

9 L.P.R.A. § 2021(emphasis added); *see also* 9 L.P.R.A. § 5681.

51. Disclosures issued by PRHTA when offering bonds to the public make clear that the proceeds from Excise Taxes and Vehicle Fees are subject to clawback. The Official Statement provides:

> The proceeds of the gasoline tax, the gas oil and diesel oil tax, the petroleum products tax and the motor vehicle fees allocated to [PRHTA] by the Puerto Rico Internal Revenue Code and Act No. 9 are available Commonwealth resources under the Constitution. ***Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth***.

Official Statement for PRHTA Series AA Refunding Bonds (June 17, 2010), at 19 (emphasis added). The Official Statement acknowledges that the PRHTA Bondholders' lien on the dedicated tax proceeds "is subject to the Constitution of Puerto Rico, which permits the Commonwealth to apply such taxes to payment of certain Commonwealth bonds to the extent other Commonwealth moneys are insufficient thereof." *Id.* at 24.

**(ii)** ***PRCCDA***

52. PRCCDA is a public corporation that was created by Act No. 351 of September 2, 2000, for the purpose of developing and operating a convention center located in San Juan, Puerto Rico, and related improvements and facilities. The Commonwealth has conditionally earmarked for payment of bonds issued by PRCCDA (the "PRCCDA Bonds") revenue from certain hotel occupancy taxes that are imposed by the Commonwealth and collected by the Puerto Rico Tourism Company pursuant to Act 272-2003 ("Hotel Taxes"). The Commonwealth is statutorily required each month to place the revenue derived from the Hotel Taxes into a trust account held by the GDB. 13 L.P.R.A. § 2271v.

53. The statute under which the PRCCDA Bonds were issued expressly sets forth that the revenues from the Hotel Taxes are available resources that are subject to clawback for the sole purpose of paying Constitutional Debt. The statute provides:

> ***The product of the collection of the tax shall be used solely for the payment of the interest and the amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico***, but only to the degree to which the other available resources to which reference is made in said Section are insufficient for such purposes. Otherwise, the product of said collection, in the amount necessary, shall be used solely for the payment of the principal and interest on the bonds, notes or other obligations and the obligations under any bond related financing agreement contemplated herein, and to comply with any stipulations agreed to with the bondholders, noteholders or holders of other obligations or the providers under bond related financing agreements.

*Id.* (emphasis added).

54. Disclosures issued by PRCCDA when offering bonds to the public confirm that the revenues from the Hotel Taxes are subject to clawback. The Official Statement provides:

> Hotel Occupancy Tax revenues are available revenues under the Constitution. ***Accordingly, if needed, they may be applied first to the payment of debt service on the public debt of the Commonwealth***.

Official Statement for PRCCDA Hotel Occupancy Tax Revenue Bonds, Series A, at 22 (Mar. 15, 2006) (emphasis added).

55. The Official Statement acknowledges that, while the PRCCDA Bonds are "secured by a lien on" the pledged tax proceeds, *id.* at 19, the "Constitution of the Commonwealth provides that the public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues," *id.* at 21.

**(iii) *PRIFA***

56. PRIFA is a public corporation created by Act 44-1988 for the purpose of providing financial and other types of assistance to political subdivisions, public agencies, and

instrumentalities of the Commonwealth. PRIFA has issued certain bond anticipation notes (the "PRIFA BANs") and other series of bonds (excluding the PRIFA BANs, the "PRIFA Bonds"). The Commonwealth has conditionally earmarked: (i) revenues from a federal excise tax imposed on rum and other items produced in the Commonwealth and sold in the United States ("Rum Taxes") for the payment of PRIFA Bonds, and (ii) revenues from certain excise taxes on non-diesel petroleum products for the payment of PRIFA BANs. The proceeds received from these taxes are to be placed in a special fund, set apart from the other tax revenues of the Commonwealth. 3 L.P.R.A. § 1914; Act 1-2015.

57. The statute under which the PRIFA Bonds were issued sets forth that the revenues from the Rum Taxes are available resources that are subject to clawback for the sole purpose of paying Constitutional Debt. The statute provides:

> [PRIFA] is hereby empowered to segregate a portion of said Funds into one (1) or more sub-accounts, ***subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico*** for the payment of the principal and interest on bonds and other obligations of the Authority, or for the payment of bonds and other obligations issued by a benefited entity, or for any other legal purpose of the Authority. ***The moneys of the Special Fund may be used for the payment of interest and for the amortization of the public debt of the Commonwealth, as provided in said Section 8***, only when the other resources available referred to in said Section are insufficient for such purposes.

3 L.P.R.A. § 1914 (emphasis added).

58. Disclosures issued by PRIFA when offering the PRIFA Bonds to the public acknowledge that the revenues from the Rum Taxes are subject to clawback. The Official Statement provides:

> Prior to their application to pay principal of and interest on the Bonds, the Special Tax Revenues are available revenues under the Constitution. ***Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth.***

Official Statement for PRIFA Special Tax Revenue Bonds, Series 2005A-C, at 10 (June 2, 2005) (emphasis added).

59. Moreover, the Official Statement acknowledges that, while the PRIFA Bonds are "secured by a pledge of . . . the first proceeds received by the Commonwealth of Puerto Rico of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States," "[s]uch federal excise taxes, however, are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth." *Id.* at 1. The holders of the Constitutional Debt's absolute senior interest in the Rum Taxes is consistent with the Official Statement's recognition that the "Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues" and PRIFA Bonds "do not constitute public debt of the Commonwealth." *Id.* at 10.

60. In addition, pursuant to Act 1-2015, the Commonwealth has conditionally earmarked for payment of PRIFA BANs revenues from an excise tax on non-diesel petroleum products imposed by Section 3020.07A(a)(i) of the Puerto Rico Internal Revenue Code. The Act provides:

> Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The revenues derived from such collection ***shall only be used for the payment of interest on and the amortization of the public debt as provided in Section 8 of Article VI of the Constitution, insofar as all other available resources mentioned in said Section are insufficient for such purposes.***

Act 1-2015 (emphasis added).

61. Disclosures issued by PRIFA when offering the PRIFA BANs to the public confirm that the revenues from the excise tax on non-diesel petroleum products are

subject to clawback. For example, the offering memorandum for PRIFA's Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015, stated:

> ***The revenues pledged*** to the payment of the Series 2015 Notes ***could be applied to pay general obligation debt of the Commonwealth of Puerto Rico*** (the "Commonwealth") ***if its available resources are insufficient to cover all approved appropriations***.

Limited Offering Memorandum for Puerto Rico Infrastructure Financing Authority Dedicated Tax Fund Revenue Bond Anticipation Notes, Series 2015 (Mar. 17, 2015) (emphasis added).

### C. Permitted Uses of Clawback Revenues Under Puerto Rico Law and PROMESA

62. According to Commonwealth estimates prepared in connection with the March Fiscal Plan (as defined below), as well as the fiscal plan for PRHTA, the Commonwealth will collect approximately $841 million in Clawback Revenues during fiscal year 2017.[14] In particular, the Commonwealth projects that it will collect:

- $605 million in Excise Taxes[15]
- $93 million in Vehicle Fees
- $30 million in Hotel Taxes
- $113 million in Rum Taxes

63. Under Puerto Rico law, the payment of the Constitutional Debt is the specific and only purpose for which these Clawback Revenues may be applied when the Commonwealth's available resources are insufficient to satisfy its obligations. The Commonwealth is statutorily prohibited from clawing back these revenues for any other purpose,

---

[14] PRHTA, Government of Puerto Rico, PRHTA Fiscal Plan 2017-2026, at 22 (Apr. 28, 2017); Puerto Rico Fiscal Agency and Financial Authority, Government of Puerto Rico, Fiscal Plan for Puerto Rico 28 (Mar. 13, 2017); Puerto Rico Fiscal Agency and Financial Advisory Authority, Government of Puerto Rico, Fiscal Plan 131 (Feb. 28, 2017); December Revised Baseline at 11, attached hereto as **Exhibit C**.

[15] Composed of $411 million in crude oil ("crudita") taxes, $151 million in gasoline taxes, $13 million in oil and diesel excise taxes, and $30 million in cigarette taxes.

including to provide an additional source from which the Commonwealth can fund government operations or other expenditures, even in times of financial distress. *See, e.g.,* 13 L.P.R.A. § 31751(a)(1)(C), 31751(a)(4); 9 L.P.R.A. § 2021; 9 L.P.R.A. § 5681; 13 L.P.R.A. § 2271v; Act 1-2015.

64. The Commonwealth has repeatedly recognized that Clawback Revenues conditionally earmarked for PRHTA, PRCCDA, and PRIFA are available resources over which Constitutional Debtholders have an absolute senior property interest. For example, in the Commonwealth's quarterly financial report, dated November 6, 2015, the Commonwealth stated:

> Certain revenues assigned to Puerto Rico Highways and Transportation Authority, Puerto Rico Infrastructure Financing Authority and Puerto Rico Convention Center District Authority are stated by existing law to be available Commonwealth resources for purposes of the payment of public debt.

Commonwealth of Puerto Rico, Financial Information and Operating Data Report 45 (Nov. 6, 2015).

65. In this regard, as discussed more fully below, the Governor has issued various executive orders clawing back the revenues conditionally earmarked for payment of the PRHTA, PRCCDA, PRIFA Bonds, PRIFA BANs and MBA debt obligations. *See, e.g.*, Exec. Order No. 2015-46 (Nov. 30, 2015) (the "December 2015 Executive Order"), attached hereto as **Exhibit D**. In these executive orders, the Commonwealth recognized that Clawback Revenues must be segregated and devoted to the payment of Constitutional Debt. *Id.* (providing that clawed back funds "shall be kept in a separate account and shall be used only to make public debt payments as they become due").

66. Under Puerto Rico law, the Commonwealth and Oversight Board have two options regarding the proper use of Clawback Revenues: paying Constitutional Debtholders *or* paying the holders of bonds or other debt obligations issued by the PRHTA, PRCCDA,

PRIFA, or MBA. There is no third option, and no provision of PROMESA empowers the Commonwealth or Oversight Board to do otherwise.

67. Moreover, the Commonwealth's filing for relief under Title III of PROMESA does not empower it to disregard applicable Puerto Rico law. In almost all of the recent high profile chapter 9 cases, the court (or the debtor) has acknowledged that a chapter 9 filing does not authorize the debtor to disregard applicable state laws regarding restrictions on revenue uses. *See, e.g.*, *In re City of San Bernardino*, 499 B.R. 776, 789 (Bankr. C.D. Cal. 2013) (holding that the California Constitution precluded the city from using restricted funds for general fund purposes); *In re City of Vallejo*, No. 08-26813-A-9, 2008 WL 4180008, at *5 (Bankr. E.D. Cal. Sept. 5, 2008), *aff'd*, 408 B.R. 280 (9th Cir. BAP 2009) (holding that cash and investments restricted by law or dedicated to specific uses were not available to cover the operating expenses of the city, and could not be considered in determining the city's solvency); *In re City of Detroit, Mich.*, No. 13-53846 (SWR) (Bankr. E.D. Mich. Jan. 16, 2014), Bench Opinion at 25–27, [ECF No. 2521] (holding that certain casino revenues must be used in accordance with the Michigan Gaming Control Act); *In re City of Stockton*, No. 12-32118 (Bankr. E.D. Cal. Nov. 21, 2013), Modified Disclosure Statement with Respect to First Amended Plan for the Adjustment of Debts of City of Stockton, California (November 15, 2013), at 3:7-10 ("The Plan does not alter the obligations of those City funds that are restricted by grants, by federal law, or by California law; pursuant to the Tenth Amendment to the United States Constitution and the provisions of the Bankruptcy Code that implement the Tenth Amendment, such funds cannot be impacted in the Chapter 9 Case."); *see also In Matter of Sanitary Imp. Dist. No. 7 of Lancaster Cnty, Neb.*, 96 B.R. 967, 972 (Bankr. D. Neb. 1989) ("[t]he Code does not override state law concerning the use debtor may make of its property . . . neither the Code nor

the Nebraska statute authorize a Chapter 9 debtor to pay [] expenses out of a restricted fund.”). In short, there is no basis for the view that PROMESA authorizes the Oversight Board or the Commonwealth to disregard applicable Puerto Rico law regarding the Restricted Revenues.

### D. Plaintiffs Have Equitable And Beneficial Property Interests In, And Statutory Liens On, The Restricted Revenues, Which Constitute Special Revenues.

68. Plaintiffs have a first claim and lien on the Restricted Revenues due to their constitutional first claim and lien on all “available resources.” In addition, Plaintiffs enjoy three sets of specific interests in the Restricted Revenues: (i) Plaintiffs hold equitable and beneficial property interests in the Restricted Revenues; (ii) Plaintiffs are secured by statutory liens in the Restricted Revenues; and (iii) Plaintiffs are entitled to, with respect to Clawback Revenues, the protections afforded creditors secured by “special revenues” within the meaning of 11 U.S.C. § 902(2).

#### i. Plaintiffs, And Not The Commonwealth, Have Equitable And Beneficial Interests In The Restricted Revenues

69. As explained above, Puerto Rico law provides that Clawback Revenues must be segregated and used only as prescribed in the statutes authorizing their collection and allocation. *See, e.g.*, 3 L.P.R.A. § 1914; 9 L.P.R.A. §§ 2021, 5681; 13 L.P.R.A. §§ 2271v, 31751(a)(1)(C), 31751(a)(4); Act 1-2015. Pursuant to these statutes, Clawback Revenues are immediately demarcated for payment of PRHTA, PRCCDA, and PRIFA bonds; no provision of any law (including PROMESA) permits the Commonwealth to appropriate Clawback Revenues to fund general government operations.

70. But if available resources are insufficient to pay outstanding Constitutional Debt—as the Commonwealth has asserted must be the case, since it has defaulted on its Constitutional Debt obligations—then Constitutional Debtholders have a vested interest in

Clawback Revenues, and these revenues *must* be transferred to Constitutional Debtholders. The PRHTA, PRCCDA, PRIFA and MBA bondholders and lenders consented to this requirement as the terms of purchasing these bonds or making such loans, thereby disclaiming any title to, possession of, or control over, the Clawback Revenues upon satisfaction of such condition.

71. When the Commonwealth exercises its constitutional and statutory right to redirect Clawback Revenues to Constitutional Debtholders, the Commonwealth acts as a mere conduit for transferring Clawback Revenues from PRHTA, PRCCDA, PRIFA and MBA to Constitutional Debtholders. Although Puerto Rico law requires the Commonwealth to transfer these funds (and to collect or receive them in the first place), no provision of Puerto Rico law (or PROMESA) vests the Commonwealth with any equitable or beneficial property interest in the Clawback Revenues.

72. The only purpose for which Clawback Revenues may be clawed back is the payment of Constitutional Debt. Accordingly, any control the Commonwealth exercises by segregating and transferring Clawback Revenues to Constitutional Debtholders is for the exclusive benefit of Constitutional Debtholders. Therefore, Plaintiffs, and not the Commonwealth, hold equitable and beneficial property interests in the Clawback Revenues.

73. Likewise, pursuant to Act 83, the Legislative Assembly established a special tax on property for the sole purpose of paying Constitutional Debt. *See* 21 L.P.R.A. §§ 5002, 5004. In so doing, the Commonwealth disclaimed any title to, possession of, or control over the Special Property Tax Revenues.

74. Act 83 requires that Special Property Tax Revenues be immediately and strictly segregated in a trust, prohibiting access to, and use of, the revenues by the Commonwealth for any purpose other than payment of Constitutional Debt. *Id.* § 5004. No

provision of Puerto Rico law (or PROMESA) vests the Commonwealth with any equitable or beneficial property in the special tax proceeds.

75. Any control the Commonwealth exercises by maintaining the Commonwealth Debt Redemption Fund and transferring the Special Property Tax Revenues is for the exclusive benefit of Constitutional Debtholders. Accordingly, Plaintiffs, and not the Commonwealth or taxpayers, hold equitable and beneficial property interests in the Special Property Tax Revenues.

**ii. The Restricted Revenues Are Encumbered By Statutory Liens**

76. The enabling statutes for the bonds and obligations issued by PRHTA, PRCCDA, PRIFA and MBA provide that specific revenues—the Excise Taxes and Vehicle Fees, the Hotel Taxes, and the Rum Taxes—secure the payment of Constitutional Debt. *See, e.g.*, 3 L.P.R.A. § 1914; 9 L.P.R.A. §§ 2021, 5681; 13 L.P.R.A. §§ 2271v, 31751(a)(1)(C), 31751(a)(4)(C); Act 1-2015. Constitutional Debtholders, as a discrete class, enjoy these superior rights in identifiable revenues, and the Commonwealth is restricted from using Clawback Revenues for any other purpose. Accordingly, Constitutional Debtholders have liens on the Clawback Revenues within the meaning of 11 U.S.C. § 101(37), in addition to their first claim and lien on all available resources.

77. These specific liens arise solely by force of the statutes authorizing the bonds and obligations issued by PRHTA, PRCCDA, PRIFA and MBA, though they are consistent with Constitutional Debtholders' first claim to, and lien on, all available resources. The liens automatically vest upon two conditions: creation of the specific economic relationship of "public debt," and insufficiency of the Commonwealth's other available resources to satisfy payment of that public debt during the fiscal year. *See, e.g.*, 3 L.P.R.A. § 1914; 9 L.P.R.A. §§

2021, 5681; 13 L.P.R.A. §§ 2271v, 31751(a)(1)(C), 31751(a)(4); Act 1-2015. Both conditions have been satisfied. The Commonwealth has issued "public debt" which is held by Plaintiffs, and the Commonwealth has already declared, by executive order and by its subsequent failure to pay Constitutional Debtholders, that it has insufficient available resources to pay Constitutional Debt.

78. Accordingly, Plaintiffs hold fully vested statutory liens on the Clawback Revenues within the meaning of 11 U.S.C. § 101(53).

79. Likewise, Act 83 provides that the Commonwealth's obligation to apply the Special Property Tax Revenues to payment of Constitutional Debt "will be considered to be a prior lien bond," and that Special Property Tax Revenues must be placed in trust in the Commonwealth Debt Redemption Fund for the sole purpose of securing Constitutional Debt. *See* 21 L.P.R.A. §§ 5002, 5004-5005. By levying and dedicating Special Property Taxes solely for the purpose of paying Constitutional Debt, Act 83 grants superior and exclusive rights to these revenues to a single class of claims, Constitutional Debtholders. Accordingly, Constitutional Debtholders have a lien on Special Property Tax Revenues and the Commonwealth Debt Redemption Fund within the meaning of 11 U.S.C. § 101(37), in addition to their first claim and lien on all available resources.

80. This specific lien arises solely by force of Act 83 and is consistent with Constitutional Debtholders' first claim and lien on all available resources. Act 83 automatically vests Constitutional Debtholders' property interests in the Special Property Tax Revenues and the Commonwealth Debt Redemption Fund upon creation of the specific economic relationship of "public debt." 21 L.P.R.A. §§ 5004, 5005. Issuance of Constitutional Debt to Plaintiffs satisfied this condition.

81. Accordingly, Plaintiffs hold a fully vested statutory lien, within the meaning of 11 U.S.C. § 101(53), on the Special Property Tax Revenues and the Commonwealth Debt Redemption Fund.

**iii. The Clawback Revenues Constitute Special Revenues On Which Plaintiffs Have A Lien**

82. The Clawback Revenues constitute special revenues within the meaning of 11 U.S.C. § 902(2)(B) (defining special revenues as "special excise taxes imposed on particular activities or transactions"). As discussed above, the Commonwealth has pledged these special revenues to payment of the Constitutional Debt.

83. The Clawback Revenues derive directly from Excise Taxes, Vehicle Fees, Hotel Taxes, and Rum Taxes that are distinguishable and separate from other taxes the Commonwealth levies for its general or operating purposes. Such taxes and fees constitute special excise taxes imposed on particular transactions, and therefore constitute "special revenues."

84. The Clawback Revenues constitute special revenues, and Plaintiffs are not prohibited from enforcing their rights in the Clawback Revenues in accordance with 11 U.S.C. § 922(d).

**PART TWO: Defendants' Disregard Of Plaintiffs' Rights And Ongoing Campaign To Pay Politically Favored Creditors In Violation Of Puerto Rico Law And PROMESA**

85. Since June 2015 the Commonwealth—at first through its elected leaders, and now through the Oversight Board—has engaged in a consistent pattern of unlawful conduct designed to avoid their obligations to Constitutional Debtholders for the benefit of more politically favored causes and creditors. At all times, the Commonwealth has ignored Plaintiffs'

property interests in the Restricted Revenues and unlawfully diverted available resources, including the Restricted Revenues, to purposes other than repayment of the Constitutional Debt.

86. This Part Two details Defendants' well-documented campaign of illegal conduct. First, we describe the Commonwealth's efforts to illegally divert available resources, including Restricted Revenues, immediately upon the enactment of PROMESA, and the Oversight Board's subsequent failure to review or rescind those actions. Second, we detail Defendants' disregard of Puerto Rico law and PROMESA by certifying a fiscal plan that, in addition to disregarding Plaintiffs' rights in Restricted Revenues, pays pension claims in full and other lower priority creditors almost entirely in full while imposing large (nearly 80%) cuts on debt service. Finally, we describe Defendants fiscal year 2018 budget, which exemplifies Defendants' campaign to continue illegally diverting Restricted Revenues as part of an ongoing plan to default on Constitutional Debt for the purpose of paying politically favored creditors and avoiding politically unpopular expense reductions.

87. The existence of this longstanding and ongoing plan to divert available resources, including the Restricted Revenues, justifies immediate relief from this Court, including an order to segregate the Restricted Revenues during the Commonwealth's Title III proceeding as required under Puerto Rico law.

## I. The Commonwealth's Initial Abuse Of PROMESA

### A. The Enactment Of PROMESA

88. On June 29, 2015, the Commonwealth's Governor delivered a television address in which he declared that Puerto Rico's debts were unpayable and that "Puerto Rico is not capable of paying under the current terms" of its debt. The Governor went on to assert that bondholders must accept a "sacrifice" and that Puerto Rico should not be "forced to choose"

between paying bondholders and competing financial priorities.[16] Over the next 12 months, Puerto Rico spent millions of dollars on advisors and lobbyists who urged the Commonwealth not to honor its Constitutional Debt (or most of its other debt), but instead seek shelter in federal legislation.

89. On November 30, 2015, Governor García Padilla issued the December 2015 Executive Order instructing the Commonwealth to claw back the Clawback Revenues. The December 2015 Executive Order stated that "any funds retained by the Department of Treasury ***shall be held in a segregated account and shall only be used***" for the payment of Constitutional Debt. December 2015 Executive Order (emphasis added). Pursuant to this order, the Commonwealth clawed back approximately $164 million in Clawback Revenues and used these revenues to make a debt service payment on Constitutional Debt due on January 1, 2016. However, the Commonwealth would go on to claw back approximately $289 million in *additional* Clawback Revenues in fiscal year 2016 that it later refused to apply to repayment of Constitutional Debt.

90. Meanwhile in Washington D.C., Congress debated the terms of legislation to address Puerto Rico's fiscal distress, with six different bills proposed between December 2015 and May 2016.[17] Congressional debate focused on, among other things, two key aspects of the proposed legislation.

---

16 *Mensaje del Gobernador Alejandro García Padilla Sobre Situación Fiscal de Puerto Rico*, El Nuevo Día (June 29, 2015 6:00 PM), https://www.elnuevodia.com/noticias/politica/nota/mensajedelgobernadoralejandrogarciapadillasobresituacionfiscaldepuertorico-2066574/, attached hereto as **Exhibit E**.

17 Cate Long, *Developing: Puerto Rico Enters Bankruptcy on May 3*, Am. Bankr. Inst. J., June 2017, at 12, attached hereto as **Exhibit F**.

91. *First*, unlike chapter 9 of the Bankruptcy Code, Congress insisted on the appointment of an oversight board, whose purpose was "to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." PROMESA § 101.

92. *Second*, Congress debated the relative treatment of public pensions vis-à-vis bondholders. In an initial draft of proposed legislation supported by the Commonwealth's then-Governor, public pensioners were explicitly required to be paid in full *before* bondholders, including Constitutional Debtholders.[18] This language concerned members of Congress, prompting amendments to the legislation.[19] Ultimately, Congress included a "requirement" that any fiscal plan "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory . . . in effect prior to the date of enactment of [PROMESA]." PROMESA § 201(b)(1)(N). Congress added this language to "ensure fiscal plans keep intact the structural hierarchy of prioritized debt."[20]

93. Section 201(b)(1)(N) crystalized preexisting entitlements, and other provisions of PROMESA were included to buttress the respect of lawful priorities and liens and to prohibit the Commonwealth from subsequently altering those entitlements. For example, Section 301(e) requires the Oversight Board to consider whether "claims have priority over other claims" when classifying claims under a plan of adjustment, Section 204(c)(3)(B) prohibited the Commonwealth from "alter[ing] pre-existing priorities of creditors in a manner outside the ordinary course of business or inconsistent with the territory's constitution," and Section 303(3) prohibits "executive orders that alter, amend, or modify rights of holders of any debt of the

[18] *See e.g.*, United States Senate Committee on Finance, *Hatch Pushes for Current Financial Statements from Puerto Rico* (Feb. 10, 2016), https://www.finance.senate.gov/chairmans-news/hatch-pushes-for-current-financial-statements-from-puerto-rico.

[19] *Id.*

[20] Memorandum from Majority Comm. Staff, Comm. on Nat. Res., to All Nat. Res. Comm. Members (May 23, 2016), http://naturalresources.house.gov/uploadedfiles/markup_memo_--_h.r._5278_05.24.16__05.25.16.pdf.

territory." Each of these provisions—which have no analogue under Chapter 9 of the Bankruptcy Code—express Congress' desire that preexisting priorities and liens be enforced under PROMESA.

94. Moreover, before any plan of adjustment can be confirmed, Congress required that it meet the separate requirements of Section 314(b) of PROMESA. Prominent among Section 314(b)'s safeguards is compliance with provisions of the Bankruptcy Code made applicable to PROMESA. *See* PROMESA § 314(b)(1). These include the "absolute priority" rule, under which a senior class of claims must receive the full value of its claims before any junior class of claims may receive any distribution under a plan of adjustment. *See* 11 U.S.C. § 1129(b)(2). A plan of adjustment must also be "in the best interests of creditors, which shall require the court to consider whether available remedies under the non-bankruptcy laws and constitution of the territory would result in a greater recovery for the creditors than is provided by such plan." PROMESA § 314(b)(6). Again, Congress paid particular focus on remedies under the *constitution* of a territory.

95. Although Congress also required that fiscal plans "provide adequate funding for public pension systems," Congress stated that this provision "should not be interpreted to reprioritize pension liabilities ahead of the lawful priorities or liens of bondholders as established under the territory's constitution, laws, or other agreements."[21] That intent is borne out by the many provisions that Congress included in PROMESA requiring the Oversight Board and Commonwealth to respect lawful liens and priorities. Additionally, Congress' characterization of the competing interests of "pension liabilities" and bondholders demonstrates

[21] H.R. Rep. No. 114-602, pt. 1, at 45 (2016) (internal quotation marks omitted).

that, as is the case in most Chapter 9 bankruptcy cases, Congress believed that pension liabilities would be restructured under PROMESA.

96. The President signed PROMESA into law on June 30, 2016. The enactment of PROMESA imposed a litigation stay solely against bondholders until February 15, 2017 (subject to further extension by the Oversight Board). PROMESA § 405. Puerto Rico immediately commenced a series of actions in violation of Puerto Rico law and PROMESA.

**B. The Commonwealth's Immediate Default On Constitutional Debt**

97. On July 1, 2016, the Commonwealth defaulted on approximately $817 million due on its Constitutional Debt—almost the entirety of what it owed.[22] In the press release announcing the default, the GDB openly admitted that there were hundreds of millions of dollars in cash on hand "available to pay GO and Commonwealth-guaranteed indebtedness expected to be payable on July 1."[23] The Commonwealth simply chose default, apparently preferring to divert those available resources to other purposes.

98. In choosing to default, the Commonwealth ignored Plaintiffs' specific property interests in the Restricted Revenues. Despite having clawed back hundreds of millions of dollars in Clawback Revenues under the December 2015 Executive Order and continuing to collect Special Property Tax Revenues, the Commonwealth chose not to devote one penny of these dedicated revenues to the payment of Constitutional Debt. The Commonwealth's financial disclosures stated that it had clawed back $289 million during the second half of fiscal year 2016

---

22 The defaulted amounts stated herein do not include amounts for overdue interest or interest on overdue principal or overdue interest. Plaintiffs reserve all rights with respect to interest and other amounts owing by the Commonwealth under applicable law.

23 Press Release, Government Development Bank for Puerto Rico & Puerto Rico Fiscal Agency and Financial Advisory Authority, *Government Development Bank for Puerto Rico and Puerto Rico Fiscal Agency and Financial Advisory Authority Statement on Implementation of Emergency Measures Under Act 21* (July 1, 2016) ("July 2016 Press Release"), attached hereto as **Exhibit G**.

alone (*i.e.*, from January 1, 2016 through June 30, 2016).[24] Roughly half of these Clawback Revenues were deposited with the insolvent GDB, from which the Commonwealth later restricted withdrawals. Approximately $150 million more was held at a commercial bank and indisputably available for the July 1, 2016 payment.[25] Likewise, on July 1, 2016, the GDB was required by law to hold millions of dollars of Special Property Tax Revenues in trust for Constitutional Debtholders.

### C. The Commonwealth's Opportunistic Use Of The PROMESA Litigation Stay To Violate Puerto Rico's Constitution And Laws

99. Shielded by the litigation stay under Section 405 of PROMESA, holding hundreds of millions of dollars that belonged to Constitutional Debtholders, and waiting for the Oversight Board to be appointed and operational, the Commonwealth—led by a lame-duck Governor—embarked on a transparent campaign to siphon funds to politically favored causes in violation of the Puerto Rico Constitution and PROMESA.

100. The Commonwealth's July 1, 2016 default coincided with the beginning of fiscal year 2017, which runs from July 1, 2016 through June 30, 2017. The Commonwealth's fiscal year 2017 budget (the "FY17 Budget") failed to account for any of the Restricted Revenues, and instead—in violation of Puerto Rico's Constitution—allocated $0 to the payment of Constitutional Debt. Although the Commonwealth exercised its right to redirect the Clawback Revenues from the PRHTA, PRCCDA, PRIFA and MBA bondholders and lenders in fiscal year 2017, it chose—again in violation of Puerto Rico law—not to apply those revenues, totaling approximately $841 million, to the payment of Constitutional Debt, the only lawful use. Similarly, despite projecting more than $100 million in Special Property Tax Revenues in fiscal

---

24 Conway MacKenzie, Inc., *Commonwealth of Puerto Rico, Current Liquidity Situation and Implications*, at 29 (Nov. 18, 2016), attached hereto as **Exhibit H**.

25 *See* July 2016 Press Release.

year 2017, the FY17 Budget failed to allocate those funds to the payment of Constitutional Debt, their only lawful purpose.

101. The Commonwealth's FY17 Budget also provided for substantial transfers outside the ordinary course of business and the diversion of vast resources to politically favored parties. In particular, the FY17 Budget provided for over $800 million—roughly $150 million more than the Commonwealth appropriated in fiscal year 2016—in contributions to Puerto Rico's public employee pension systems. The Commonwealth took these actions, in addition to dozens of other legislative actions that improperly elevated lower priority creditors, while defaulting on Constitutional Debt, its most senior obligation.

**D. Plaintiffs' Action To Stop The Commonwealth's Unlawful Diversions Of Available Resources**

102. In light of the Commonwealth's unlawful diversion of available resources, including the Restricted Revenues, immediately following PROMESA's enactment, certain Plaintiffs brought an action in the U.S. District Court for the District of Puerto Rico on July 20, 2016 seeking declaratory and injunctive relief. *See Lex Claims LLC* v. *Puerto Rico*, No. 16-cv-02374 (D.P.R. July 20, 2016) [Dkt. No. 1].

103. PROMESA prohibited the Commonwealth from declaring a moratorium on debt payments, transferring funds or assets in a manner inconsistent with the constitution and laws of the territory, or otherwise impairing creditors' lawful rights. *See, e.g.*, PROMESA §§ 204(c)(3), 207, 303(1), 303(3). Nevertheless, the same day that PROMESA became law, the Commonwealth issued Executive Order 2016-30, directly violating PROMESA and the Puerto Rico Constitution by announcing a moratorium on the Commonwealth's obligation to repay its Constitutional Debt, even while the Commonwealth continued to spend funds for other purposes and had hundreds of millions of dollars in cash on hand to pay Constitutional Debtholders.

104. On August 31, 2016, President Obama purported to appoint the members of the Oversight Board. By early October, the Oversight Board had held its first meeting, adopted bylaws, and retained counsel. Under Section 204(c)(3) of PROMESA, the Oversight Board is specifically empowered to review and rescind any law passed during the "gap period" from May 4, 2016 until the appointment of the Oversight Board that "alters pre-existing priorities of creditors in a manner outside the ordinary course of business or inconsistent with the territory's constitution . . . ." Despite the clear statutory authority to address previous misconduct—a provision Congress found necessary to include in the case of Puerto Rico—the Oversight Board refused to take any position and instead sought to stay the *Lex Claims* litigation.

105. To date, the Oversight Board has failed to take any action to address the Commonwealth's actions identified in the *Lex Claims* litigation, which were a small subset of offending legislative actions. Moreover, the Oversight Board has failed to account for the Restricted Revenues under the FY17 Budget, or the unlawful dissipation of these revenues since the enactment of the FY17 Budget. To the contrary, the Oversight Board has overseen the continued misappropriation of Restricted Revenues and the continued violation of Puerto Rico law and PROMESA.

## II. The Oversight Board's And Commonwealth's Continued Abuse of PROMESA

106. The Commonwealth's systematic plan to impair Constitutional Debt while paying certain other, less senior but politically favored, obligations has continued since the Oversight Board was appointed. Moreover, the Commonwealth—now with the blessing of the Oversight Board—has signaled its intent to continue disregarding Plaintiffs' property rights in the Restricted Revenues in clear violation of Puerto Rico law and PROMESA.

## A. The New Rosselló Administration

107. Governor Rosselló campaigned on the promise of restoring the rule of law and honoring Puerto Rico's debts. Then-candidate Rosselló gained prominence by offering a different vision for Puerto Rico: "He said Puerto Rico had to maintain credibility with the international community and investors. And that Puerto Rico, despite its mounting troubles, should pay its debts."[26] In the gubernatorial primary, candidate Rosselló "propose[d] a new path forward for Puerto Rico; one that begins with the basic premise that the Puerto Rican government *can and should pay its debts* and that it does not need any type of bailout from Washington to meet the responsibilities it has assumed."[27] Before taking office, he criticized the fiscal year 2017 budget for its failure to follow the Puerto Rico Constitution and appropriate for the payment of Constitutional Debt.[28] In his inaugural address, Governor Rosselló proclaimed "[t]o regain the people's confidence in government institutions, there should be absolute transparency in the administration of public finances, and there cannot be any impunity for those who have acted outside the law."[29]

108. After taking office on January 2, 2017, Governor Rosselló continued saying he would respect the rule of law, but his actions soon painted a different picture. For example, on February 15, 2017, Governor Rosselló announced the Commonwealth's intention to

[26] Eric Platt, *Ricardo Rosselló, Puerto Rico's Young Governor*, Fin. Times (May 5, 2017), https://www.ft.com/content/5f9cefc4-3004-11e7-9555-23ef563ecf9a.

[27] Ricardo Rosselló, *A New Path for Puerto Rico – Which Doesn't Include a Washington Bailout*, Forbes (October 22, 2015 6:00 AM), https://www.forbes.com/sites/realspin/2015/10/22/a-new-path-for-puerto-rico-which-doesnt-include-a-washington-bailout/#4140bde244ff (emphasis added).

[28] Andrew Scurria, *Rosselló Promises to Challenge Puerto Rico's Enacted FY17 Budget*, Debtwire (Oct. 13, 2016 5:15 PM), attached hereto as **Exhibit I**.

[29] Rebecca Banuchi, *Rosselló Charts His Course*, El Nuevo Día (Jan. 3, 2017 8:36 AM), https://www.elnuevodia.com/english/english/nota/rossellochartshiscourse-2277648/ (internal quotation marks omitted).

segregate Clawback Revenues in a trust account dedicated to the payment of Constitutional Debt.[30] At that time, despite having defaulted on Constitutional Debt since July 1, 2016, the Commonwealth continued to hold nearly $300 million in Clawback Revenues in the GDB and Banco Popular from fiscal year 2016, and projected the collection of approximately $841 million in Clawback Revenues in fiscal year 2017.

109. The Commonwealth, however, failed to follow through on the Governor's promise, a recurrent theme. Although the Commonwealth made limited debt-service payments totaling less than $5 million on certain series of Constitutional Debt from March to June 2017, the fiscal year 2018 budget (discussed below) demonstrates that the Commonwealth and Oversight Board will *not* segregate Clawback Revenues (either for the existing revenues collected in fiscal years 2016 and 2017 or the additional revenues that will be collected in fiscal year 2018) and will undoubtedly choose to default on the large semi-annual debt service payment due July 1, 2017. At the time of its Title III filing—three months after the Governor's announcement—the Commonwealth continued to hold nearly $300 million in Clawback Revenues it had collected in fiscal year *2016*.

**B. An Overview Of Fiscal Plans Under PROMESA**

110. Pursuant to PROMESA, the Commonwealth, in conjunction with and under the supervision of the Oversight Board, must develop a fiscal plan designed to "provide a method to achieve fiscal responsibility and access to the capital markets." PROMESA § 201(b)(1), (2). Rather than providing a path toward fiscal responsibility, the Oversight Board and Commonwealth have used PROMESA as an excuse to ignore Plaintiffs' rights in the

---

30 *Sánchez Provides Update on $146M GO Payment Trust Fund*, Reorg Res. (Feb. 15, 2017 6:32 AM), attached hereto as **Exhibit J**.

Restricted Revenues and as a blueprint for paying politically favored creditors at the expense of Constitutional Debtholders.

111. Congress included 14 different "***requirements***" that any fiscal plan must satisfy. PROMESA § 201(b). Congress authorized the Oversight Board to certify a fiscal plan only if the fiscal plan "satisfies such ***requirements***." *Id.* § 201(c)(3)(A) (emphasis added). If a fiscal plan "does not satisfy such ***requirements***," then the "Board ***shall*** provide to the Governor a ***notice of violation***." *Id*. § 201(c)(3)(B) (emphasis added). Most relevant to this Complaint, a fiscal plan must satisfy the following requirements:

- "provide for estimates of revenues and expenditures . . . ***based on applicable laws***;" *id.* § 201(b)(1)(A) (emphasis added),
- "ensure the funding of ***essential*** public services;" *id.* § 201(b)(1)(B) (emphasis added),
- "provide for the elimination of structural deficits;" *id.* § 201(b)(1)(D),
- "***respect the relative lawful priorities or lawful liens***, as may be applicable, ***in the constitution***, other laws, or agreements of a covered territory or covered territorial instrumentality ***in effect prior to the date of enactment of this Act***." *id.*§ 201(b)(1)(N) (emphasis added).

112. Once a fiscal plan is certified by the Oversight Board, the Commonwealth is required to pass annual budgets that follow the certified fiscal plan. *See* PROMESA § 202. Congress provided that in the event the Commonwealth is in violation of its approved budget, the Oversight Board shall "make appropriate reductions in ***nondebt expenditures*** to ensure that the actual quarterly revenues and expenditures for the territorial government are in compliance with the applicable certified Territory Budget." PROMESA § 203(d)(1) (emphasis added).

## C. Oversight Board Sets Fiscal Plan Targets

113. On December 20, 2016, the Oversight Board sent a letter to Governor Padilla and Governor-elect Rosselló outlining a framework of proposed measures and priorities

for the Commonwealth's fiscal plan.[31] Although the Oversight Board discussed many of PROMESA's requirements for a fiscal plan, it nowhere mentioned that a fiscal plan must respect lawful liens and priorities under the Puerto Rico Constitution and applicable laws. Rather, the Oversight Board expressed optimism that in collaboration with the Commonwealth they could, among other things, "[i]mprove vital health statistics," "[b]uild a modern, efficient and cost-effective infrastructure," and even "[c]reate a vibrant entrepreneurial sector."[32]

114. On January 18, 2017, the Oversight Board sent another letter to Governor Rosselló "to provide . . . more detailed information on the specific goals and objectives . . . to be incorporated into a viable fiscal plan" and setting forth its requirements for certification.[33] At that time, the Oversight Board had not yet engaged Ernst & Young to provide a "reconciliation" of recent spending and expenditure levels, the Oversight Board's financial professionals had just been retained, no formal analysis of pension liabilities had been commissioned, and the newly elected Rosselló administration had just taken office and not provided the Oversight Board with revenue or expense projections.

115. Nonetheless, the Oversight Board told the Commonwealth, with mathematical precision, that it would certify a fiscal plan that provided only $800 million in annual debt service (representing an 80% reduction in total debt service) and a 10% reduction in pension liabilities (that will not take effect for years).[34] The Oversight Board's "model" to calculate these values assumed an unprecedented 16.2% *contraction* in real GNP in fiscal year 2018, and a further 1.2% contraction in fiscal year 2019, notwithstanding that nominal GNP had,

[31] Letter from Fin. Oversight & Mgmt Bd. for P.R. to Alejandro García Padilla, Governor of P.R., and Ricardo Rosselló Nevares, Governor-Elect of P.R. (Dec. 20, 2016), attached hereto as **Exhibit K**.

[32] *Id.* at 2.

[33] Letter from Fin. Oversight & Mgmt. Bd. for P.R. to Ricardo Rosselló Nevares, Governor of P.R. (Jan. 18, 2017), attached hereto as **Exhibit L**.

[34] *Id.* at 3-4.

with one exception, increased in Puerto Rico in each of the previous 30 years.[35] Although the Oversight Board would later adjust these macro-economic assumptions upward, the March Fiscal Plan (as defined below) and other subsequent changes to that fiscal plan would always result in approximately $800 million in annual average debt service.

116. The lack of foundation for the Oversight Board's initial determination that $800 million was the appropriate amount of debt service and the Oversight Board's actions ever since evince a determination to prevent debt service from inching above $800 million, regardless of whether the facts on the ground support that determination. As part of its contrived effort to keep debt service at the $800 million mark they settled on months before Governor Rosselló even presented his draft fiscal plan, the Oversight Board and the Commonwealth have engaged in numerous accounting gimmicks, obfuscation, and excessive spending, perpetuating the wrongs PROMESA was designed to remedy.

### D. The Oversight Board Rejects Initial Rosselló Fiscal Plan

117. The Rosselló administration submitted its initial fiscal plan to the Oversight Board for certification on February 28, 2017 (the "February Fiscal Plan"). The February Fiscal Plan allocated $1.2 billion to debt-service annually for fiscal years 2017 through 2026—$400 million more than suggested by the Oversight Board—representing an approximately 67% reduction in total debt service, moderately less severe than the 80% reduction proposed by the Oversight Board.[36] On March 9, 2017, the Oversight Board rejected the February Fiscal Plan, declaring, among other things, that despite the substantial impairment to annual debt-service, it "fail[ed] to provide for the scale of expenditure reduction required to

[35] *Id.* at 3 n.1.

[36] February Fiscal Plan at 89.

achieve medium-term structural balance and near-term liquidity."[37] The Oversight Board demanded a revised fiscal plan with lower revenue estimates and increased expense projections to be submitted within two days.[38]

### E. The Oversight Board Certifies March Fiscal Plan

118. On March 13, 2017, the Oversight Board certified a revised fiscal plan (as amended, the "March Fiscal Plan") subject to two amendments.[39] The March Fiscal Plan provided an average of approximately $787 million in annual debt service, yet again remarkably close to the $800 million initially sought by the Oversight Board. This $787 million was for the Constitutional Debt issued by the Commonwealth as well as tens of billions of debt issued by other instrumentalities, including COFINA. The $787 million of annual average debt service prescribed by the March Fiscal Plan represented only 22% of the originally scheduled debt service (before taking into account the accrual and compounding of interest as prescribed by contract or statute). Even if the entire $787 million went to pay Constitutional Debt, only approximately 56% of Constitutional Debt service over the life of the March Fiscal Plan would be paid. In contrast, non-debt liabilities are getting a full or near full recovery in violation of the Constitutional and statutory protections afforded Constitutional Debt.

### F. March Fiscal Plan Violates Puerto Rico Law And PROMESA

119. The March Fiscal Plan revealed the Oversight Board's and Commonwealth's mistaken belief that PROMESA empowered them to disregard any aspect of

---

[37] Letter from Fin. Oversight & Mgmt. Bd. for P.R. to Ricardo Rosselló Nevares, Governor of P.R. (Mar. 9, 2017), attached hereto as **Exhibit M**.

[38] *Id.* at 5.

[39] Oversight Board Resolution Adopted on March 13, 2017 (Fiscal Plan Certification), attached hereto as **Exhibit N**. The amendments proposed by the Oversight Board included: (i) a furlough program and removal of Christmas bonuses; and (ii) a reduction in pension outlays by 10% that would not take effect until fiscal year 2020. *Id.* at 2-4. The March Fiscal Plan numbers cited herein do not include the effect of these amendments because the Oversight Board has not released such information.

Puerto Rico law that interfered with their preferred use of funds. Rather than consider how particular funds must be used under Puerto Rico law, the Oversight Board and Commonwealth instead treated the entirety of Puerto Rico's resources as one piggy bank they could use for any purpose they found desirable, with general Commonwealth revenues and Restricted Revenues simply pooled together. Further, the March Fiscal Plan projected unprecedented revenue reductions yet authorized rampant spending, thereby guaranteeing that the Commonwealth could claim that it lacked the available resources to pay Constitutional Debt. Despite the March Fiscal Plan's projections that the Commonwealth will have insufficient available resources to pay Constitutional Debt, the Commonwealth's unlawful confiscation and misappropriation of Restricted Revenues will continue indefinitely under the March Fiscal Plan.

120. Both before and after the Oversight Board certified the March Fiscal Plan, Plaintiffs repeatedly advised the Oversight Board and Commonwealth that they were unlawfully diverting the Restricted Revenues and that the March Fiscal Plan (and earlier drafts thereof) violated Puerto Rico law and PROMESA.[40] Neither the Oversight Board nor the Commonwealth ever responded.

**(i) Failure To Respect Lawful Priorities And Liens**

121. The March Fiscal Plan ignored two of the requirements Congress imposed on any fiscal plan, namely, that it "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of this Act," and that estimates

[40] *See, e.g.*, Letter from the Ad Hoc Group of GO Bondholders to José B. Carrión III, Chairman, Fin. Mgmt. & Oversight Bd. of P.R., and Gerardo Portela Franco, Exec. Dir., P.R. Fiscal Agency & Fin. Advisory Auth. (Mar. 22, 2017); Letter from the Ad Hoc Group of GO Bondholders to José B. Carrión III, Chairman, Fin. Mgmt. & Oversight Bd. of P.R. (Mar. 10, 2017); Letter from the Ad Hoc Group of GO Bondholders to Gerardo Portela Franco, Exec. Dir., P.R. Fiscal Agency & Fin. Advisory Auth. (Feb. 15, 2017); Response of the Ad Hoc Group of GO Bondholders, *Survey for the Government of Puerto Rico's Fiscal Plan as Presented to the Financial Oversight and Management Board for Puerto Rico* (Nov. 16, 2016).

of revenues and expenditures be based on "applicable laws." PROMESA § 201(b)(1)(A), (N). The Commonwealth openly acknowledged that it had not complied with Section 201(b)(1)(N), but the Oversight Board certified the March Fiscal Plan anyway.[41] Accordingly, the March Fiscal Plan provides for the payment of *every* non-debt expenditure, and then allocates any "remainder" to debt service. Moreover, rather than consider if particular revenues, such as the Restricted Revenues, were restricted, encumbered or otherwise pledged to particular creditors, under applicable law and developing their projections accordingly, the Oversight Board disregarded all applicable (or, at least, inconvenient) law.

**(a) Failure to Respect Lawful Liens on Restricted Revenues**

122. The March Fiscal Plan failed to account for Constitutional Debtholders' priority claim to, and lien on, available resources, and lien on Restricted Revenues in particular. Despite the constitutional and statutory provisions granting a lien on Restricted Revenues, and placing these revenues in trust to secure Constitutional Debt, the March Fiscal Plan failed to acknowledge Constitutional Debtholders' property interest in the Restricted Revenues. Rather, by allocating total debt service for all bonds that is *less* than the aggregate amount of Restricted Revenues, the March Fiscal Plan guaranteed that these revenues will be used unlawfully. The March Fiscal Plan failed to account for *any* liens held by any creditors, and instead provides $787 million annually to all bondholders, irrespective of their varying rights and remedies.

**(b) Failure to Respect Lawful Priorities**

123. As set forth in Part One, Puerto Rico's Constitution—expressly referenced in Section 201(b)(1)(N) as well as the OMB Act—requires that Constitutional Debt be paid

[41] *See* February Fiscal Plan at 9 (noting that compliance with Section 201(b)(1)(N) was "ongoing"); *see also* March Fiscal Plan at 6 (noting that the "mechanisms by which projected cash flow available for debt service should be allocated to different debt instruments" was a "[l]egal and contractual issue[] not determined by the Fiscal Plan").

before all other expenditures. The March Fiscal Plan, however, ignored Puerto Rico's Constitution and the OMB Act, and in doing so also violated PROMESA. The March Fiscal Plan provided, in the first instance, for the full payment of every non-debt expenditure, and left the "remaining" revenues for the payment of debt service, including—without any distinction—Constitutional Debt and other debt. Using fiscal year 2018, as an example, the Oversight Board certified that the Commonwealth could spend over $11.7 billion of local revenues on non-debt expenditures, and then allocate the remaining $404 million in projected surplus for debt service.

124. Any fiscal plan that endeavored to "respect the relative lawful priorities or lawful liens" under Puerto Rico law would have first budgeted the payment of Constitutional Debt, segregated revenues subject to lawful liens, and then considered the remaining revenues and desired spending. If the Oversight Board had followed the law as Congress intended, the Commonwealth could meet its Constitutional Debt obligations and still have an average of $10.9 billion of local revenues per year to provide services to its citizens. However, the Oversight Board chose to develop the March Fiscal Plan in the precise opposite manner, thereby ignoring Constitutional Debt's unique status as the Commonwealth's most senior obligation, violating the plain language of Section 201(b)(1)(N), and guaranteeing that the Commonwealth could claim that it did not have sufficient available resources to pay Constitutional Debt.

125. In response to criticisms from Senators Tom Cotton and Thom Tillis that the March Fiscal Plan failed to properly respect lawful priorities and liens, the Oversight Board claimed that the word "respect" was somehow intended to "provide[] flexibility" to the Oversight Board.[42] Based on that semantic folly, the Oversight Board has ignored Plaintiffs'

42 Letter from Fin. Oversight & Mgmt. Bd. for P.R. to U.S. Senators Tom Cotton and Thom Tillis 12 (Apr. 25, 2017) (the "April 25th Letter"), attached hereto as **Exhibit O**.

property interests in Restricted Revenues, as well as Plaintiffs' lawful priority under the Puerto Rico Constitution and OMB Act.

**(c) Impermissible Payment of Lower Priority Creditors**

126. Because the Oversight Board believes that Section 201(b)(1)(N) provides it "flexibility" to ignore binding Puerto Rico law, the March Fiscal Plan endeavors to pay junior creditors in a manner that is inconsistent with Puerto Rico's Constitution and laws. For example, in contrast to the March Fiscal Plan's proposed 80% reduction in debt-service, the March Fiscal Plan proposes paying trade creditors 100% and paying pension creditors 100% for the next three years, while imposing no more than a 10% reduction in aggregate pension liabilities beginning in fiscal year 2020. Although Congress directed that PROMESA "should not be interpreted to reprioritize pension liabilities ahead of the lawful priorities or liens of bondholders," that is precisely what the Oversight Board and Commonwealth have proposed.[43]

127. Recent disclosures by the Commonwealth underscore the extent to which the Commonwealth and Oversight Board have used PROMESA as a justification for paying expenses in violation of Puerto Rico law. As of June 30, 2016—the same day PROMESA became law—the Commonwealth reported that "[o]utstanding third-party accounts payable of funds managed by the Commonwealth . . . are estimated at approximately $1.6 billion."[44] More recently, however, the Commonwealth reported that total accounts payable, as of May 26, 2017, had been reduced to $373 million, representing a $1.2 billion decrease in accounts payable since

[43] H.R. Rep. No. 114-602, pt. 1, at 45 (2016).

[44] Commonwealth of Puerto Rico, Financial Information and Operating Data Report (December 18, 2016), *available at* http://www.gdb-pur.com/documents/CommonwealthofPuertoRicoFinancialInfoFY201612-18-16.pdf; *see also* Puerto Rico Fiscal Agency and Financial Advisory Authority, Liquidity Plan 12 (Jan. 28, 2017) (stating that accounts payable as of June 30, 2016 were estimated to be $1.556 billion).

PROMESA was passed on June 30, 2016.[45] The Commonwealth—again with the Oversight Board's blessing—has therefore apparently spent more than $*1.2 billion* to pay down various accounts payable (*i.e.*, junior creditors) during fiscal year 2017, while simultaneously failing to honor its obligations to its most senior creditors—Constitutional Debtholders—in direct violation of Puerto Rico law and PROMESA.

**(ii) Failure to Identify "Essential" Expenses**

128. The March Fiscal Plan provides for the confiscation of the Restricted Revenues and their utilization to pay hundreds of millions of dollars in non-essential spending. PROMESA states that a fiscal plan shall "ensure the funding of *essential* public services." PROMESA § 201(b)(1)(B) (emphasis added). The March Fiscal Plan, however, did not define what expenses are for essential services and what expenses may be considered non-essential.[46] Rather, it listed this issue as one of the "legal and contractual issues not determined by the Fiscal Plan."[47] As certified, the March Fiscal Plan provides that all Commonwealth (and, in certain cases, component unit and public corporation) non-debt expenses would be paid *before* any payments were made for debt service. As a result, the March Fiscal Plan remarkably presumed that approximately $18 billion in annual average non-debt expenditures were somehow necessary to maintain an essential service.[48] The Commonwealth and Oversight Board's position that every single dollar in an $18 billion budget is necessary to provide an essential

---

[45] Puerto Rico Department of Treasury, Treasury Single Account ("TSA") Cash Flow Actual-to-Forecast Comparison (May 26, 2017), attached hereto as **Exhibit P**.

[46] March Fiscal Plan 6; *see also* Letter from Fin. Oversight & Mgmt. Bd. for P.R. to Ricardo Rosselló Nevares, Governor of P.R. (June 16, 2017) (the "June 16th Letter") (acknowledging that March Fiscal Plan did not define "essential" services and asking Commonwealth to define essential services *after* the March Fiscal Plan had been certified), attached hereto as **Exhibit Q**.

[47] March Fiscal Plan 6.

[48] This total amount includes average annual federal transfers. Removing federal transfers results in average annual *local* expenses of approximately $11.5 billion that the Commonwealth asserts are entirely used to maintain essential services.

service, results, in turn, in the Commonwealth's claimed inability to pay Constitutional Debtholders.

**(iii) The So-Called "Reconciliation Adjustment"**

129. The March Fiscal Plan not only considered all expenses to be "essential," but it then artificially inflated the Commonwealth's "expenses" by including a so-called "Reconciliation Adjustment" of $585 million in the Fiscal Plan for fiscal year 2017 (the amount grows each year and totals $6.2 billion over the March Fiscal Plan's 10-year term). The Reconciliation Adjustment is a line item in the March Fiscal Plan for unidentified expenses based on the assumption that Puerto Rico will spend more than its FY17 Budget allows. Not only is the Reconciliation Adjustment antithetical to any concept of fiscal discipline, but the methodology the Oversight Board (and its advisors) used to determine the amount of the Reconciliation Adjustment was illogical and deeply flawed.

130. Much of the March Fiscal Plan, which includes revenue and expense projections for fiscal years 2017 through 2026, is built on fiscal year 2017—the "base" year—and the Commonwealth's FY17 Budget projected $8.987 billion in general fund expenditures.[49] However, the Oversight Board was purportedly concerned that the Commonwealth's budgeted expenses for fiscal year 2017 were understated. To address this concern, the Oversight Board retained Ernst & Young ("EY") to "bridge" Puerto Rico's audited fiscal year 2014 financial statements to projected expenses for fiscal year 2017.[50]

---

49 Luis F. Cruz Batista, Presupuesto Aprobado AF2017, Estado Libre Asociado de Puerto Rico, *available at* https://www2.pr.gov/presupuestos/PresupuestoAprobado2016-2017/PresentacionPresupuestoAprobadoAF2017/Radiograf%C3%ADa%20Presupuesto%20Aprobado%20AF17.pdf

50 Ernst & Young Puerto Rico LLC, Financial Bridge Analysis (Mar. 7, 2017) (the "EY Report"), attached hereto as **Exhibit R**.

131. Only three weeks after being retained, and one week before the March Fiscal Plan was certified, EY issued a report concluding that a "hypothetical extrapolation of historical general fund expenditures" suggested "a potential understatement of general fund expenditures" of $360 million to $810 million for fiscal year 2017.[51] The Oversight Board quickly incorporated these conclusions, and added $585 million (the midpoint of the range) in "expenses" for fiscal year 2017. As a result, although the Commonwealth's FY17 Budget projected only $8.987 billion in general fund expenditures, the Oversight Board projected that the Commonwealth would spend an incremental $585 million from its general fund in fiscal year 2017. Further, because fiscal year 2017 was the "base" year for the March Fiscal Plan, the Oversight Board included a similar (but increasing) amount of "Reconciliation Adjustment" expenses throughout the ten year projection period, totaling $6.2 billion in such "expenses."

132. The Oversight Board's and EY's methodology for determining the proper amount of the Reconciliation Adjustment, however, was arbitrary relative to their stated concerns and goals. Although they were concerned with the "historical" "understatement of general fund expenditures," they failed to actually analyze historical budgeted versus actual spending amounts and apply those results to the FY17 Budget. Rather, the Oversight Board and EY considered only growth in actual expenses from fiscal year 2014 to fiscal year 2015 (without regard to budgeted amounts) and reversed the year over year decrease from actual unaudited expenses in fiscal year 2016 to the FY17 Budget. In other words, rather than calculate the rate at which the Commonwealth's expenses historically exceeded its budget, the Oversight Board and EY instead took for granted that the Commonwealth's expenses would *always* increase, and sought merely to quantify *how much* expenses increased over the past two or three years.

---

51 *Id.* at 13.

133. Because fiscal year 2017 was the base year for the March Fiscal Plan, the Oversight Board's flawed methodology infects the expense projections for the next 10 years, at a cost of $6.2 billion. Moreover, the Oversight Board has set these future "expenses" in stone, despite not even knowing if the Commonwealth's actual expenses in fiscal year 2017 will in fact exceed the FY17 Budget, something they will not know until the Commonwealth releases its audited financials for fiscal year 2017. For example, if the Commonwealth adheres to its FY17 Budget, then there will be no need for the "Reconciliation Adjustment" at all, although the Fiscal Plan will have $6.2 billion of "expenses" embedded in it. Similarly, if the Commonwealth exceeds its FY17 Budget by less than the $585 million assumed by the Oversight Board and EY, then the Reconciliation Adjustment, to the extent it is permissible at all, will be significantly overstated throughout the ten year projection.

134. Simply put, the Oversight Board insisted on including the full $6.2 billion Reconciliation Adjustment for years 2017 through 2026 before even knowing if the Commonwealth will meet its FY17 Budget. As a result, the Oversight Board authorizes and encourages the Commonwealth to spend these amounts for as yet unidentified (and therefore non-essential) expenses during that period. In fact, the fiscal year 2018 budget does just that, appropriating at least $545 million in "Reconciliation Adjustments" to fund new expenses before fiscal year 2017 even concludes. The Reconciliation Adjustment is therefore a *fait accompli*, guaranteeing that the Commonwealth will spend *billions of dollars* in the future on the unproven assumption that it overspent in fiscal year 2017. In reality, the Reconciliation Adjustment is an "expense" that is somehow "essential," but not for any identifiable expenditure: an "essential" $600 million annual cushion fund.

135. PROMESA does not countenance such gimmicks or spendthrift ways. Rather, PROMESA requires the Commonwealth to pass and meet annual budgets, and if it does not, PROMESA requires the Oversight Board to make necessary budgetary adjustments from "nondebt expenditures." PROMESA § 203(d)(1). Further, PROMESA requires the elimination of "structural deficits," which the Reconciliation Adjustment also violates. *Id.* § 201(b)(1)(D).

**(iv) Unexplained Assumptions in March Fiscal Plan**

136. In contrast to the February Fiscal Plan, the March Fiscal Plan—certified only four days after the Oversight Board rejected the February Fiscal Plan—***increased*** baseline payroll expenses by more than $1.5 billion and ***increased*** baseline operational expenses by more than $400 million over ten years. Neither the Oversight Board nor Commonwealth offered any explanation as to how these expense projections increased so significantly in four days. Similarly, the deficits of various Commonwealth-affiliates increased—again without explanation—by $715 million between the two fiscal plans.

**(v) Uncommonly Low Debt Burden**

137. Because the Oversight Board and Commonwealth believe they no longer need to respect applicable Puerto Rico law concerning Restricted Revenues or the payment of Constitutional Debt, the March Fiscal Plan leaves the Commonwealth with an extraordinarily low debt burden.

138. Rather than attempt to resolve Puerto Rico's challenges within the confines of existing Puerto Rico law, the Oversight Board has decided instead to ignore it. Accordingly, as the very last expense, the March Fiscal Plan allocates only $787 million to average annual debt service (for all debt) over the next 10 years, which amounts to

approximately 6.4% of local revenues (after measures).[52] As a percentage of revenues, this is significantly lower than several U.S. states with comparable populations. For example, the ratio of debt service to revenues is 20.8% in Rhode Island, 14.7% in Connecticut, 11.6% in Louisiana and 10.3% in Colorado.[53] Debt service ratios for similarly situated sovereign borrowers are also significantly higher, with interest expense to revenues reported to be 10.5% in El Salvador, 11% in Costa Rica, 14.1% in the Dominican Republic and 24.2% in Jamaica.[54] Moreover, the Puerto Rico Constitution itself reflects the judgment that 15% of revenues is a sustainable debt burden for Constitutional Debt. *See* P.R. Const. art. VI, § 2.

139. In addition, Joint World Bank/International Monetary Fund guidelines provide that, even for "low-income countries" (*i.e.*, the poorest countries in the world, whose economies are far less developed than Puerto Rico's), 18% to 22% of government revenues constitutes a sustainable debt service burden.[55]

140. Section 201(b)(1)(I) of PROMESA requires a fiscal plan to "include a debt sustainability analysis." Had the Oversight Board and Commonwealth conducted a bottoms-up analysis—as opposed to simply calculating the amount "left over" after all other expenses were paid—it would have concluded that, like all other comparable sovereigns, the Commonwealth could allocate significantly more than approximately 6.4% of its total local

---

52 "Measures" refers to various revenue and expense adjustments mandated by the Oversight Board under the March Fiscal Plan.

53 *See CivicDashboards*, OpenGov, http://www.civicdashboards.com/state/rhode-island-04000US44/debt_service_ratio; http://www.civicdashboards.com/state/connecticut-04000US09/debt_service_ratio; http://www.civicdashboards.com/state/louisiana-04000US22/debt_service_ratio; and http://www.civicdashboards.com/state/colorado-04000US08/debt_service_ratio (last visited June 20, 2017).

54 *Interest payments (% of revenue)*, World Bank, http://data.worldbank.org/indicator/GC.XPN.INTP.RV.ZS (last visited June 20, 2017).

55 *See* Factsheet: The Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries, International Monetary Fund 2 (Mar. 2016), http://www.imf.org/external/np/exr/facts/pdf/jdsf.pdf.

revenues (after measures) to debt service. Instead, the Defendants have chosen to ignore Puerto Rico's Constitution and Plaintiffs' rights in the Restricted Revenues and in doing so also violated PROMESA.

## III. The Commonwealth Files A Title III Petition

141. On May 2, 2017, Governor Rosselló sent a letter to the Oversight Board expressing a desire for relief under Title III of PROMESA.[56] On May 3, 2017, the Oversight Board approved the Commonwealth's request for a Title III filing and commenced this Title III case. The Commonwealth proclaimed that the Title III filing would not affect the Government's payment of any governmental services other than payment of debt service. For example, the Governor's office press release issued in connection with the Title III filing stated the purpose was "to ensure the essential services of the public, the payment of the government payroll and suppliers."[57] Fiscal Agency and Financial Advisory Authority Executive Director Gerardo Portela also declared "[t]he government has the commitment and, more importantly, the ability to pay suppliers and providers as usual. All of the government's bills will be processed under the ordinary process."[58]

## IV. The Fiscal Year 2018 Budget and Amendments to the March Fiscal Plan

142. On May 31, 2017, the Commonwealth released its proposed budget for fiscal year 2018 (as amended, the "FY18 Budget"), incorporating lowered revenue forecasts and

[56] Letter from Ricardo Rosselló Nevares, Governor of P.R., to Fin. Mgmt. & Oversight Bd. of P.R. (May 2, 2017), attached hereto as **Exhibit S**.

[57] Press Release, P.R. Fed. Affairs Admin., Gov. of P.R., Governor Rosselló Announces Prot. under Title III of PROMESA to Ensure Essential Servs. (May 3, 2017), attached hereto as **Exhibit T**.

[58] *AAFAF Says Title III Won't Touch Supplier Payments as Treasury Sends out $70M in Checks This Week*, Reorg Res. (May 5, 2017 3:22 PM) (internal quotation marks omitted), attached hereto as **Exhibit U**.

other significant changes from the March Fiscal Plan.[59] Also on May 31, 2017, the Commonwealth requested that the Oversight Board amend the March Fiscal Plan to reflect certain revenue changes included in the FY18 Budget.[60] The Oversight Board, subject to vague and unarticulated "concerns" and the prospect of unspecified modifications, approved the proposed revenue revisions to the March Fiscal Plan.[61] Despite approving these amendments, which relate solely to projected revenues, the Oversight Board has not released an updated version of the March Fiscal Plan showing the effect of these changes on the $404 million provided for debt service in fiscal year 2018, or disclosing whether additional revisions have been made to the *expense* projections for fiscal year 2018 under the March Fiscal Plan.

143. The FY18 Budget compounds the errors in the March Fiscal Plan and further highlights the Oversight Board's and Commonwealth's disregard for Puerto Rico law and PROMESA. The FY18 Budget would continue wild spending on politically favored causes, while continuing to violate Plaintiffs rights in the Restricted Revenues and ignoring the Constitutional priority and liens afforded to Constitutional Debtholders.

### A. Continued Failure to Respect Lawful Lien and Priorities

144. Because it provides more detail than the March Fiscal Plan, the FY18 Budget amplifies the numerous ways in which the Oversight Board and Commonwealth have entirely discarded Sections 201(b)(1)(A) and (N) of PROMESA, which require projections based on "applicable laws" and budgets that demonstrate "respect for lawful liens and lawful

---

[59] The Puerto Rico House of Representatives passed the FY18 Budget, with certain amendments from the version initially proposed by Governor Rosselló, on June 23, 2017, and the Puerto Rico Senate passed the same version on June 24, 2017.

[60] Letter from Gerardo J. Portela Franco, Exec. Dir., P.R. Fiscal Agency & Fin. Advisory Auth., to Natalie A. Jaresko, Exec. Dir., Fin. Oversight & Mgmt. Bd. for P.R. (May 31, 2017) (the "May 31st Letter"), attached hereto as **Exhibit V**.

[61] Financial Oversight and Management Board for Puerto Rico, Unanimous Written Consent Approving Certified Fiscal Plan, as Corrected (May 31, 2017), attached hereto as **Exhibit W**.

priorities." As a result, the FY18 Budget confirms that the Commonwealth and Oversight Board will continue to confiscate Restricted Revenues while simultaneously ensuring that the Commonwealth will claim to have insufficient resources to pay Constitutional Debt.

**(i) Continued Failure to Respect Lawful Liens on Restricted Revenues**

145. The FY18 Budget continues to ignore Plaintiffs' interests in the Restricted Revenues. There is no reference in the FY18 Budget to Clawback Revenues or Special Property Tax Revenues, no suggestion that they are being segregated for the benefit of Constitutional Debtholders, and no explanation of how these revenues will be spent in fiscal year 2018. Because, pursuant to the March Fiscal Plan, total debt service in fiscal year 2018 is only $404 million and Restricted Revenues are likely to be double that amount, it is evident that the Commonwealth and Oversight Board intend to spend the Restricted Revenues in violation of Puerto Rico law and Section 201(b)(1) of PROMESA.

146. In addition, although the March Fiscal Plan provides that the Commonwealth will allocate $404 million for debt service in fiscal year 2018, the FY18 Budget does not allocate any funds specifically for debt service, in violation of the March Fiscal Plan.

**(ii) Continued Impermissible Payment of Lower Priority Creditors**

147. The Commonwealth proclaims that they will not reduce pension liabilities. In his address to the Legislative Assembly announcing the FY18 Budget, Governor Rosselló repeatedly touted that the FY18 Budget would pay pension claims in full:[62]

- "Another significant difference is that the new budget includes PAYMENT OF ALL PENSIONS." (emphasis in original).
- "[I]t has been necessary to protect one of the most vulnerable sectors of our population: our pensioners …"

[62] Governor Ricardo Rosselló Nevares, Address to Legislative Assembly of P.R. (May 31, 2017) (the "Legislative Assembly Address"), attached hereto as **Exhibit X**.

- "This budget includes payments for pensions of over $2 billion. Thus, we are taking a difficult step for the budget, but we are guaranteeing the pensions of all of our retirees."
- "[W]e again request protection under Title III of PROMESA. By taking this timely action, we guarantee the Puerto Rican government will continue to operate and pay its pensions."
- "[I]n this budget we will assume all pension payments for the retirement systems. Payment to our pensioners are guaranteed in this budget."

148. In addition to promising to pay pension claims in full, the Governor also announced that he intended to lower taxes on pensioners by increasing exemptions approximately 66.67%: "we will increase the exemption for pensioners from $15,000 to $25,000, thus again reaffirming our commitment to retirees."[63]

149. Consistent with the Governor's promises, the FY18 Budget appears to contemplate, for fiscal year 2018 alone, a $285 million *increase* in pension expenses (gross of any asset sales or other income to the retirement systems) compared to the fiscal year 2018 projections contained in the March Fiscal Plan. As a result, consolidated aggregate pension costs for fiscal year 2018 now total $2.552 billion, in contrast to the $2.267 billion assumed under the March Fiscal Plan.[64]

150. Further, in fiscal year 2017, the Commonwealth allocated $804 million from its general fund to the payment of pension claims. In fiscal year 2018, the Commonwealth proposes to appropriate $2.038 billion from the general fund for pension liabilities. Pension claims therefore account for approximately 20% of all general fund appropriations for fiscal year

---

63 *Id.*

64 The most recent public actuarial reports for the ERS, TRS and JRS pension systems were prepared by Milliman, Inc. for fiscal year 2015. These reports indicate a projected "pay go" burden (projected benefits plus administrative costs) for fiscal year 2018 of $2.267 billion. Upon information and belief, the Oversight Board and Commonwealth adopted the estimates set forth in the Milliman report to determine the projected pension liabilities under the March Fiscal Plan.

2018. Had the FY18 Budget appropriated $404 million of debt service (as called for under the March Fiscal Plan), it would represent only 4% of all general fund appropriations for fiscal year 2018.

151. Finally, while the Oversight Board told Senators Cotton and Tillis that the March Fiscal Plan "reduces pension payments" by "an average [of] 10% . . . amounting to approximately $250 million per year,"[65] the purported 10% reduction in pension payments is not scheduled to commence until fiscal year 2020. Accordingly, the Commonwealth will continue to appropriate over 20% of its general fund budget to pension claims for the foreseeable future. Moreover, given that the Commonwealth hopes (as do Plaintiffs) to exit Title III by fiscal year 2020, and given the political calculations involved, the Commonwealth may nonetheless attempt to pay pension creditors in full in fiscal year 2020 and beyond.

152. The Oversight Board's unabashed elevation of pension claims over debt service is a flagrant violation of PROMESA, which Congress warned "should not be interpreted to reprioritize pension liabilities ahead of the lawful priorities or liens of bondholders as established under the territory's constitution, laws, or other agreements."[66]

153. The Oversight Board's and Commonwealth's unlawful favoritism to junior creditors is not limited to pension creditors. For example, Governor Rosselló announced that the Department of Finance has, to date, paid $140 million in tax refunds and was "pleased to inform" that an additional $35 million in refunds would be paid in June 2017.[67]

154. Jose Ivan Marrero, the Director of the Office of Management and Budget, reportedly said that the Reconciliation Adjustment in the FY18 Budget "could be used to

[65] April 25th Letter at 6, 8.

[66] H.R. Rep. No. 114-602, pt. 1, at 45 (2016).

[67] Legislative Assembly Address.

amortize bills left pending from previous budgets."[68] The FY18 Budget appropriates $16 million for "legal judgments against" Puerto Rico, further demonstrating that the Oversight Board and Commonwealth intend to, among other things, use the Restricted Revenues to pay certain other prepetition junior claims ahead of Constitutional Debt.

### B. FY18 Budget Includes $750 Million Budgetary Cushion

155. Spread throughout the FY18 Budget is at least $750 million in "expenses" that serve no purpose other than covering non-budgeted expenses. This amount is only moderately less than the total amount of Restricted Revenues dedicated to Constitutional Debt, indicating that the Commonwealth's illegal confiscation of Restricted Revenues is being used to fund non-specified, lower priority and non-essential expenditures. These "expenses" in fact comprise approximately 8% of all expenses in the FY18 Budget.

156. Governor Rosselló promised a new era of fiscal discipline premised on a bottoms-up "zero based budgeting." During his May 31 Budget Address to the Legislative Assembly, the Governor proclaimed:

> In the past, money was taken from areas, budgeted expenses were increased and the debt was hidden. That is over.
>
> This budget will be very structured and include components from the zero-based budgeting method so that all fiscal transactions in the government's operations are transparent and justified.[69]

157. The premise of zero based budgeting is that the Commonwealth starts at a "zero base" and then builds its budget up based solely on identifiable and justifiable expenditures. The inclusion of hundreds of millions of dollars of "cushion" is antithetical to the

---

[68] *See Budget Includes Significant Funding for Unspecified 'Other Operational Costs,'* Reorg Res. (June 8, 2017 6:29 AM), attached hereto as **Exhibit Y**.

[69] Legislative Assembly Address.

very purpose of a zero based budget.[70] Despite its commitment to zero based budgeting, the FY18 Budget is more business-as-usual and includes significant "cushions."

**(i) $205 Million In Rainy Day Funds**

158. The FY18 Budget treats as "expenses" $205 million in funds that the Commonwealth will build and maintain as a sort of "rainy day fund."[71] In particular, the FY18 Budget includes two line items that function as a rainy day fund. *First*, the FY18 Budget includes a "Liquidity Reserve" of $190 million. *Second*, the FY18 Budget includes an "Emergency Fund" of $15 million to cover unexpected and unforeseen expenses caused by calamities such as wars or natural disasters.[72] Together, these $205 million in cushion-funds are not appropriated for any known or expected expenditure (essential or otherwise) that is likely to occur in fiscal year 2018.

159. While a "rainy day fund" is nice to have, it is impossible to see how this is an "essential service" or how it can be justified in the face of PROMESA's direction to respect the Constitutional Debt's lawful liens and priorities. Nonetheless, the Commonwealth and Oversight Board claim that these amounts will be spent in fiscal year 2018, leaving insufficient resources to pay Constitutional Debt.

**(ii) The So-Called "Reconciliation Adjustments"**

160. The March Fiscal Plan allocated $592 million in Reconciliation Adjustments for fiscal year 2018, and the FY18 Budget specifies the use of at least $545 million,

---

70 The number of line items (35 lines totaling over $540 million in the special appropriations) in the FY18 Budget that precisely match the FY17 Budget further belies the Commonwealth's commitment to zero-based budgeting.

71 The Commonwealth's initial FY18 Budget included an extra $100 million in rainy day funds, raising the total amount to $305 million. Although the House of Representatives lowered these funds to $205 million, the extra $100 million appears to have been used to increase appropriations to the University of Puerto Rico, Department of Education, and other agencies.

72 Act 91 of 1966, which created the present-day Emergency Fund, provides that, if during any fiscal year there are insufficient funds to pay principal and interest on Constitutional Debt when such payments are due, a transfer from the Emergency Fund may be made to meet such government obligations. 3 L.P.R.A. §§ 460, 465.

though the remaining $47 million is likely hidden in other line items. The $545 million in identifiable Reconciliation Adjustments demonstrate that the Oversight Board and Commonwealth are using the Reconciliation Adjustment to fund *new and plainly non-essential* expenditures, and are not concerned with the historical understatement of expenses.

161. As discussed above at paragraphs 129-135, the stated reason for the Reconciliation Adjustment was a concern that the Commonwealth's expenses would exceed its FY17 Budget, thereby leading to an understatement of expenses in later years under the March Fiscal Plan. However, before they even know if the Commonwealth's expenses will exceed the FY17 Budget, the Oversight Board and Commonwealth are *already* using the Reconciliation Adjustment to budget more than $500 million in extra expenses. The very fact that the Commonwealth is appropriating the Reconciliation Adjustment before it knows whether any "adjustment" to fiscal year 2017 expense projections is warranted demonstrates that the Reconciliation Adjustments is nothing more than a budgetary cushion that the Commonwealth intends to use however it deems fit.

162. At least $423 million of the Reconciliation Adjustment is allocated to provide additional funding—ranging from 20% to more than 600% compared to the FY17 Budget—to departments that cannot be explained by the "historical understatement" of expenses. For example, $22 million of the Reconciliation Adjustment is allocated to the PRHTA, which did not receive *any* direct general fund appropriations in fiscal year 2017. Nevertheless, the Commonwealth—given $592 million in "Reconciliation Adjustments" to spend in fiscal year 2018 alone—used the Reconciliation Adjustment to justify increased funding to PRHTA. As another example, in fiscal year 2017, the Commonwealth appropriated only $2 million to the Public Private Partnerships Authority (the "PPPA"). Under the FY18 Budget, however, $15

million in Reconciliation Adjustment funds are allocated to the PPPA, suggesting that the PPPA historically spends *more than seven times* its total budget. Even if this were historically accurate, the FY18 Budget provides that, rather than impose fiscal discipline on the PPPA (or require it to submit a zero based budget), the Oversight Board has decided instead to simply give it more money.

163. In order to justify these significant Reconciliation Adjustment appropriations, the Oversight Board must have concluded either that the Commonwealth was not adopting zero based budgeting methodologies and therefore required significant budgetary cushions or that the relevant entities submitted zero based budgets with significant *new* expenditures. In either case, the Reconciliation Adjustment is being used in a manner that is antithetical to its stated purpose, and its status as an "expense" provides an additional basis for the Commonwealth to claim to have insufficient resources to pay Constitutional Debt.

### C. Oversight Board Obfuscates and Negates Significant "Additional" Revenues

164. The FY18 Budget and May 31 amendments to the March Fiscal Plan include *more than $1 billion in additional revenues* not set forth in the March Fiscal Plan. Yet, consistent with their longstanding desire to keep average annual debt service below $800 million, the Oversight Board and Commonwealth engaged in accounting gimmicks, obfuscation, and additional spending to negate these additional revenues. As a further result of the Oversight Board's and Commonwealth's contortions, they guaranteed that the Commonwealth would continue to claim to have insufficient resources to pay Constitutional Debt.

165. Despite claiming on April 25, 2017 to Senators Cotton and Tillis that the March Fiscal Plan "increases revenue to the maximum extent[] possible" and that creditors unhappy with the March Fiscal Plan were simply asking for "more frothy and optimistic assumptions," the Oversight Board in fact identified $1.03 billion in "additional revenues" not

enumerated in the March Fiscal Plan.[73] In particular, the Oversight Board and Commonwealth identified $734 million in "additional revenue" from pension reimbursement and asset sales:

- "***Additional revenue*** of $390 million [that] should be added to the general fund due to pension reimbursements from other agencies and asset sales"; and

- "***Additional revenue*** of $344 million [that] should be added to the other income fund due to pension reimbursements from other agencies and asset sales."[74]

166. Moreover, on May 5, 2017, President Trump signed into law the Consolidated Appropriations Act, Pub. L. No. 115-31, pursuant to which Congress allocated $296 million in additional Medicaid funding for Puerto Rico that was not included in the March Fiscal Plan. The FY18 Budget and Fiscal Plan amendments acknowledge this additional funding: "Puerto Rico will receive an ***additional*** $295.9 million in one-time funding for its Medicaid program."[75]

167. However, at the same time that they identified $1.03 billion in "additional revenues" for fiscal year 2018, the Oversight Board and Commonwealth curiously made other—offsetting—revenue adjustments to the FY18 Budget intended to negate these additional revenues. *First*, without any explanation, the Oversight Board and Commonwealth decreased fiscal year 2018 projected tax revenues by $215 million (compared to the fiscal year 2018

[73] April 25th Letter 3, 10.

[74] May 31st Letter 1 (emphasis added). The Commonwealth's identification of more than $730 million in additional revenues from the sale of pension assets suggests that, contrary to their repeated claims, the pension systems have not fully reached pay-go thresholds. Upon information and belief, Puerto Rico's pensions hold substantially more assets that could further reduce the Commonwealth's pension liabilities beyond fiscal year 2018.

[75] Notably, on May 23, 2017, President Trump proposed his fiscal year 2018 budget, which includes full restoration of Medicaid funding for Puerto Rico, totaling $862 million for the U.S. fiscal year 2018. Although this proposal has not passed, the Oversight Board and Commonwealth continue to project that the Commonwealth will not receive a single dollar beyond the $296 million allocated under the Consolidated Appropriations Act.

assumptions certified in the March Fiscal Plan).[76] *Second*, the Oversight Board and Commonwealth "reduced" "non-general fund Sales and Use Tax revenues . . . by $519 [million]."[77] Together, the $215 million reduction in projected tax revenues and $519 million reduction in sales and use tax revenues curiously resulted in $734 million of revenue reductions, *exactly* the same amount as the $734 million in "additional revenues" generated from pension reimbursements and asset sales.

168. Because the additional pension-related revenues in fiscal year 2018 were completely negated by the Oversight Board's other—unrelated—revenue reductions, total projected revenues increased by only $296 million (from $18.435 billion to $18.731 billion), equal to the amount of supplemental Medicaid funding. The Oversight Board, however, refuses to explain how this $296 million in incremental fiscal year 2018 revenue will affect the March Fiscal Plan. The Oversight Board's refusal appears consistent with its continual practice of making sure that debt service remains unchanged regardless of the facts, and making new-found funds disappear to further that end through financial gimmicks and increased spending. For instance, as discussed above at paragraph 149, it appears that the Oversight Board and Commonwealth have in fact increased pension payments by $285 million in fiscal year 2018.

**D. Continued Failure To Reduce Expenses or Identify Essential Expenses**

169. The FY18 Budget highlights the Oversight Board's failure to identify "essential" services, so that they can "ensure the funding of *essential* public services" under Section 201(b)(1)(B) of PROMESA. Despite telling Senators Cotton and Tillis that it had

[76] May 31st Letter, Appendix A.

[77] *Id.*; *see also Budget Includes Significant Funding for Unspecified 'Other Operational Costs*,*'* Reorg Res. (June 8, 2017 6:29 AM). On information and belief, these funds were removed because the Oversight Board and Commonwealth intend to interplead or otherwise segregate such funds pending resolution of disputes between the Commonwealth and COFINA, and not because the Commonwealth will collect $519 million *less* in sales tax revenues in fiscal year 2018. Nevertheless, the Oversight Board's amendments to the March Fiscal Plan account for this by *reducing revenues* by $519 million.

"reduced spending … to the maximum extent[] possible," the FY18 Budget tells a different story.

170. *First*, general fund expenditures in fiscal year 2018 will *exceed* expenditures budgeted in fiscal year 2017. The fiscal year 2017 budget included $8.755 billion in total non-debt expenditures.[78] The Commonwealth therefore intends to spend $806 million *more* in fiscal year 2018 than fiscal year 2017, a 9.2% *increase* in non-debt expenditures. Similarly, in fiscal year 2014, the last year in which audited financials exist, the Commonwealth spent $8.95 billion in non-debt expenditures. The Commonwealth will therefore spend $612 million *more* in fiscal year 2018 than fiscal year 2014, a 6.8% *increase* in non-debt expenditures.[79] Although the population of Puerto Rico has *decreased* since 2014, the Oversight Board maintains that it is not possible to reduce overall spending levels to pre-2014 levels.

171. *Second*, although the March Fiscal Plan called for "expense measures" that would save $950 million in fiscal year 2018, and Governor Rosselló touts making "approximately $1 billion in expenditure cuts," the FY18 Budget demonstrates that such expense reductions are largely illusory.[80] For example, while the Commonwealth purports to reduce payroll costs by $424 million, the unexplained increase in pension funding negates this reduction significantly. Further, the "expense reductions" are calculated *before* giving effect to the Reconciliation Adjustment expense, rainy-day funds, and other "below the line" expenses that one must ignore in order to see reductions. Finally, despite the Commonwealth's proclaimed

---

[78] The 2017 budget included $231.5 million in debt-service appropriations, bringing total expenditures to $8.987 billion.

[79] The 2014 budget included $359 million in debt service appropriations, bringing total expenditures to $9.309 billion. *See* General Fund Consolidated Budget by Expense Type and Source of Funds, Fiscal Years 2014 to 2017, http://www2.pr.gov/presupuestos/AdoptedBudget2016-2017/Tablas%20Estadsticas/02.pdf (last visited June 20, 2017); *see also* EY Report.

[80] Letter from Ricardo Rosselló Nevares, Governor of P.R., to Fin. Oversight & Mgmt. Bd. for P.R. (June 20, 2017), attached hereto as **Exhibit Z**.

austerity, it recently "found" $40 million in revenues that it has announced it will use to reduce proposed subsidy cuts to the University of Puerto Rico.[81]

172. *Third*, the FY18 Budget reveals numerous expenses that, on their face, could not possibly be characterized as "essential." For example, $75 million is appropriated to arts, recreation, and lifestyle programs, including appropriations for:

- Department of Sports and Recreation ($39.2 million)
- Institute of Puerto Rican Culture ($12.6 million)
- Public Broadcasting Corporation ($7.3 million)
- Musical Arts and Stagecraft Corporation ($6.2 million)
- Conservatory of Music ($4.2 million)
- Corporation of the Center for Fine Arts ($2.4 million)
- School of Visual Arts ($1.9 million)
- State Historic Preservation Office ($1.1 million)
- Photojournalism Workshop ($280,000)
- Model Forest of Puerto Rico ($223,000)
- Ballet Conceirto ($88,000)

173. Additional expenses include $1.8 million appropriated to the Boys & Girls Club, $1.45 million appropriated to "Horse Racing Industry and Sport," $13.72 million to the "Office of the Governor," and $5.2 million for the creation of two *new* departments, the "Office of the General Inspector" and the "Real Estate Property Administration." The Chairman of the

[81] *Puerto Rico Allocating Budget Resources To Ease University of Puerto Rico Funding Cuts*, Debtwire (June 16, 2017 3:12 PM), attached hereto as **Exhibit AA**.

House Treasury Committee, Antonio Soto, recently noted that the FY18 Budget included funding for festivals and carnivals that "*maybe* aren't clearly defined as essential services."[82]

174. Following the Commonwealth's public release of its FY18 Budget and the disclosure that the Commonwealth's cash position had improved by more than $859 million compared to projections in the March Fiscal Plan,[83] the Oversight Board—for the very first time—requested that the Commonwealth define what services constitute "essential" services:

> 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.[84]

175. Despite having repeatedly certified the March Fiscal Plan as satisfying the requirements of PROMESA, the Oversight Board's letter acknowledges that, because the Commonwealth and Oversight Board have never defined "essential services," the March Fiscal Plan in fact did not comply with PROMESA. Accordingly, the Oversight Board's repeated

---

82 *House Treasury Committee Chief Says PROMESA Board Concerns Factored Into Budget Process*, Reorg Res. (June 9, 2017) (emphasis added) (internal quotation marks omitted), attached hereto as **Exhibit BB**.

83 According to a recent May 26, 2017 Department of Treasury Report, the Commonwealth's "Bank Cash Position" as of June 30, 2017 is estimated to equal $1.15 billion; *i.e.*, more than $1.1 billion in cash the Commonwealth is sitting on while it refuses to make any payments to bondholders. *See* Puerto Rico Department of Treasury, Treasury Single Account ("TSA") Cash Flow Actual-to-Forecast Comparison (May 26, 2017). In contrast, when certifying the March Fiscal Plan only two months earlier, the Commonwealth and Oversight Board projected that their "Bank Cash Position" on June 30, 2017 would total $291 million. March Fiscal Plan 30. The Commonwealth's liquidity therefore increased by $859 million from March to May 2017, demonstrating that the projections underlying the March Fiscal Plan were substantially understated, or that the Commonwealth and Oversight Board are impermissibly using Title III to build large cash deposits. The Commonwealth's increasing cash deposits is, of course, a result of its unlawfully confiscating Restricted Revenues at the expense of Constitutional Debt, and then failing to appropriate those revenues under the fiscal year 2017 budget. Further, the Commonwealth's reported $1.15 billion in cash on hand as of June 30, 2017 is in addition to the separate $395 million in contingency deposits funded during the final weeks of fiscal year 2017, and the approximately $150 million in prior Clawback Revenues held at a commercial bank.

84 June 16th Letter, at 3.

admonitions that the amount available for debt service under the March Fiscal Plan could not be revised was based on the (now) admittedly false assumption that neither the Oversight Board nor the Commonwealth had any obligation to define "essential services."

**E. Governor Rosselló Announces Significant Tax Cuts**

176. On May 31, 2017, Governor Rosselló announced his intention to implement large tax cuts for the people of Puerto Rico.

> I am announcing to you that I will be submitting legislation to reform the tax system and do our people justice.
>
> The reform I will be submitting for the consideration of the Legislative Assembly will include the following: ***Tax relief for salaried individuals over $200 million that will increase the income and reduce the effective tax rate***. I repeat: In this ferocious fiscal environment, ***we have found a way to lower the tax burden on the majority of Puerto Ricans***, primarily on the middle class and the most vulnerable.[85]

177. The Governor also "found a way" to propose eliminating certain sales taxes imposed on business-to-business ("B2B") services and transactions:

> We will establish a credit of $100 per dependent for any annual income up to $80,000. By keeping our commitment, ***we will reduce the B2B tax by half, from 4% to 2%, as part of the first phase to fully eliminate this tax***.[86]

* * * *

178. The relief sought in this Complaint is ripe for adjudication by this Court because, among other reasons, (1) the Commonwealth has not segregated Restricted Revenues, but instead has confiscated and misappropriated Restricted Revenues in clear violation of Plaintiffs' rights; (2) the Commonwealth has indicated in the March Fiscal Plan and FY18

85 Legislative Assembly Address (emphasis added).

86 Legislative Assembly Address; *see* Act of May 29, 2015, No.72-2015.

Budget that it will not segregate the Restricted Funds in the future or limit their use to payment of Constitutional Debt as required under Puerto Rico law; (3) the Commonwealth defaulted on its obligations to pay amounts owing on its Constitutional Debt, notwithstanding the collection of Restricted Revenues to pay Constitutional Debtholders; and (4) the Commonwealth intends to continue defaulting on its obligations to pay amounts owing on its Constitutional Debt, notwithstanding the continued collection of Restricted Revenues to pay Constitutional Debtholders.

## COUNT ONE

### Request For A Declaratory Judgment That Under Puerto Rico Law The Special Property Tax Revenues Are Restricted And That Defendants Are Prohibited From Collecting or Using The Special Property Tax Revenues For Any Purpose Other Than Paying Constitutional Debt

179. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

180. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether the Special Property Tax Revenues are restricted by Puerto Rico law and cannot be collected or used by Defendants for any purpose other than paying Constitutional Debt.

181. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Special Property Tax Revenues.

182. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that under Puerto Rico law, the Special Property Tax Revenues are restricted and

cannot be collected or used by Defendants for any purpose except to satisfy the Commonwealth's payment obligations with respect to outstanding Constitutional Debt.

## COUNT TWO

### Request For A Declaratory Judgment That Under Puerto Rico Law The Clawback Revenues Are Restricted And That Defendants Are Prohibited From Collecting Or Using The Clawback Revenues For Any Purpose Other Than Paying Constitutional Debt

183. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

184. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether the Clawback Revenues are restricted by Puerto Rico law and cannot be collected or used by Defendants for any purpose other than paying Constitutional Debt.

185. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, Clawback Revenues.

186. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that under Puerto Rico law, the Clawback Revenues are restricted and cannot be collected or used by Defendants for any purpose except to satisfy the Commonwealth's payment obligations with respect to outstanding Constitutional Debt.

## COUNT THREE

### Request For A Declaratory Judgment That Plaintiffs Have, And The Commonwealth Lacks, Equitable Or Beneficial Property Interests In The Special Property Tax Revenues

187. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

188. An actual, ripe, and justiciable controversy has arisen between the parties regarding Plaintiffs' equitable and beneficial property interests in the Special Property Tax Revenues and the Commonwealth's lack of equitable and beneficial property interests in these proceeds.

189. Neither the Commonwealth nor its taxpayers have any equitable or beneficial interests in the Special Property Tax Revenues. The Commonwealth is a mere conduit for transferring the Special Property Tax Revenues collected under Act No. 83. The Commonwealth's collection and segregation of the Special Property Tax Revenues is for the exclusive purpose of paying Constitutional Debt and thus is for the benefit of Plaintiffs, as Constitutional Debtholders.

190. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Special Property Tax Revenues.

191. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that (i) the Commonwealth is a mere conduit for the Special Property Tax Revenues and lacks and equitable or beneficial property interest in the Special Property Tax Revenues and (ii) Plaintiffs, as Constitutional Debtholders, have equitable and beneficial property interests in the Special Property Tax Revenues.

## COUNT FOUR

### Request For A Declaratory Judgment That Plaintiffs Have, And The Commonwealth Lacks, Equitable Or Beneficial Property Interests In The Clawback Revenues

192. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

193. An actual, ripe, and justiciable controversy has arisen between the parties regarding Plaintiffs' equitable and beneficial property interests in Clawback Revenues and the Commonwealth's lack of equitable and beneficial property interests in these proceeds.

194. Neither the Commonwealth nor its taxpayers have any equitable or beneficial interests in the Clawback Revenues. The Commonwealth is a mere conduit for transferring the Clawback Revenues to the Constitutional Debtholders. The Commonwealth's collection and segregation of the Clawback Revenues is for the exclusive purpose of paying debt service for Constitutional Debt and thus is for the benefit of Plaintiffs, as Constitutional Debtholders.

195. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, Clawback Revenues.

196. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that (i) the Commonwealth is a mere conduit for the Clawback Revenues and lacks any equitable or beneficial property interest in the Clawback Revenues and (ii) Plaintiffs, as Constitutional Debtholders, have equitable and beneficial property interests in the Clawback Revenues.

## COUNT FIVE

### Request For A Declaratory Judgment That Plaintiffs Have A Statutory Lien On The Special Property Tax Revenues

197. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

198. An actual, ripe, and justiciable controversy has arisen between the parties regarding the validity, priority, and extent of Plaintiffs' lien on or other interests in the Special Property Tax Revenues.

199. Plaintiffs have a statutory lien, within the meanings of 11 U.S.C. §§ 101(37) and (53), on the Special Property Tax Revenues because, solely by force of the Constitution and Act 83, the Commonwealth's pledge of these special tax proceeds to pay Constitutional Debt constitutes a charge against or interest in the Special Property Tax Revenues to secure payment of the Constitutional Debt.

200. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Special Property Tax Revenues.

201. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that Constitutional Debt is secured by a statutory lien on the Special Property Tax Revenues.

## COUNT SIX

### Request For A Declaratory Judgment That Plaintiffs Have Statutory Liens On Clawback Revenues

202. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

203. An actual, ripe, and justiciable controversy has arisen between the parties regarding the validity, priority, and extent of Plaintiffs' liens on or other interests in the Clawback Revenues.

204. Plaintiffs have statutory liens on the Clawback Revenues within the meaning of 11 U.S.C. §§ 101(37) and (53). Solely by force of the Constitution and the statutes authorizing issuance of the PRHTA, PRCCDA, PRIFA and MBA bonds and obligations, the Commonwealth's pledge of Clawback Revenues to pay Constitutional Debt constitutes a charge against or interest in the Clawback Revenues to secure payment of the Constitutional Debt.

205. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, Clawback Revenues.

206. For the reasons stated above, Plaintiffs are entitled to a declaratory judgment that Constitutional Debt is secured by statutory liens on the Clawback Revenues.

## COUNT SEVEN

### Request For A Declaratory Judgment That Plaintiffs' Liens On Clawback Revenues Are Liens On Special Revenues

207. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

208. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether Plaintiffs' lien on the Clawback Revenues constitutes a lien on special revenues within the meaning of 11 U.S.C. §§ 902(2)(B), 922, and 928.

209. Plaintiffs have liens on the Clawback Revenues. These liens are statutory liens arising from the Puerto Rico Constitution and statutes as described in paragraphs 76-78 supra.

210. The Clawback Revenues constitute special revenues because they are proceeds from special excise taxes imposed on particular activities or transactions. *See* 11

U.S.C. § 902(2)(B) (defining special revenues as "special excise taxes imposed on particular activities or transactions").

211. Under 11 U.S.C. § 922(d), incorporated into PROMESA by Section 301, the automatic stay does not operate as a stay of the application of the Clawback Revenues to payment of the Constitutional Debt during the Commonwealth's Title III case.

212. Under 11 U.S.C. § 928, incorporated into PROMESA by Section 301, any Clawback Revenues acquired by the Commonwealth after the commencement of these Title III proceedings shall remain subject to any lien on the Clawback Revenues that existed before the commencement of the Title III proceedings.

213. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, Clawback Revenues.

214. For the reasons stated herein, Plaintiffs are entitled to a declaratory judgment that (i) the Clawback Revenues are special revenues within the meaning of 11 U.S.C. § 902(2)(B) and must be applied in accordance with 11 U.S.C. §§ 922(d) and 928, and (ii) pursuant to 11 U.S.C. § 922(d), the automatic stay does not operate as a stay with respect to the application of the Clawback Revenues to payment of Constitutional Debt.

## COUNT EIGHT

### Request For A Declaratory Judgment That The Commonwealth's Diversion Of The Restricted Revenues, Without Just Compensation To Plaintiffs, Is An Unlawful Taking Under The Fifth Amendment To The United States Constitution

215. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

216. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether there has been an unlawful taking of Plaintiffs' property under the Fifth Amendment to the United States Constitution, which applies to Puerto Rico, because of the Commonwealth's use of the Restricted Revenues for purposes other than repaying Constitutional Debt.

217. The Commonwealth has made clear to Plaintiffs that it will not segregate the Restricted Revenues and has already used, and intends to continue to use, the Restricted Revenues for purposes other than repayment of Constitutional Debt.

218. The Commonwealth has taken and intends to continue to take these actions in derogation of Plaintiffs' property interests without providing just compensation.

219. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Restricted Revenues.

220. For the reasons stated above, Plaintiffs are entitled to a declaratory judgment that the Commonwealth's use of Restricted Revenues for any purpose other than payment of Constitutional Debt, without just compensation, would constitute an unlawful taking of property under the Takings Clause of the Fifth Amendment to the United States Constitution, which is applicable to the Commonwealth.

## COUNT NINE

**Request For A Declaratory Judgment That Puerto Rico Law Requires The Special Property Tax Revenues To Be Segregated And Deposited Into A Designated Account And Not Commingled Or Used For Purposes Other Than Payment Of Constitutional Debt**

221. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

222. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether Puerto Rico law requires Defendants to segregate the Special Property Tax Revenues and prohibits their diversion for purposes other than repayment of Constitutional Debt.

223. Puerto Rico law requires the Commonwealth to (i) impose the Special Property Tax for the payment of debt service for Constitutional Debt, (ii) collect the Special Property Tax Revenues levied to repay Constitutional Debt and deposit such revenues in a segregated debt retirement fund, and (iii) use such revenues only to repay the outstanding Constitutional Debt and for no other purpose.

224. Defendants have made clear to Plaintiffs that they have not and will not segregate the Special Property Tax Revenues and have already used, and intend to continue to use, the Special Property Tax Revenues for purposes other than repayment of Constitutional Debt, in contravention of Puerto Rico law and in derogation of Plaintiffs' rights.

225. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Special Property Tax Revenues.

226. For the reasons stated herein, holders of Constitutional Debt, including Plaintiffs, are entitled to a declaratory judgment that, under Puerto Rico law, Special Property Tax Revenues must be (i) segregated and deposited into a designated account, and (ii) not commingled with other funds of the Commonwealth or used for any purpose other than repaying the Plaintiffs, as Constitutional Debtholders.

## COUNT TEN

**Request For A Declaratory Judgment That Puerto Rico Law Requires The Clawback Revenues To Be Segregated And Deposited Into A Designated Account And Not Commingled Or Used For Purposes Other Than Payment Of Constitutional Debt**

227. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

228. An actual, ripe, and justiciable controversy has arisen between the parties regarding whether Puerto Rico law requires Defendants to segregate the Clawback Revenues and prohibits their diversion for purposes other than repayment of Constitutional Debt.

229. Puerto Rico law requires the Commonwealth to (i) collect and deposit Clawback Revenues in segregated trust accounts, (ii) apply the Clawback Revenues solely for the payment of Constitutional Debt when the Commonwealth's available resources are insufficient to pay Constitutional Debt in full, and (iii) use Clawback Revenues only as prescribed in the statutes authorizing their collection and allocation.

230. Defendants have made clear to Plaintiffs that, despite their continued default on Constitutional Debt, they have not and will not segregate the Clawback Revenues and have already used, and intend to continue to use, the Clawback Revenues for purposes other than repayment of Constitutional Debt, in contravention of Puerto Rico law and in derogation of Plaintiffs' rights.

231. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, Clawback Revenues.

232. For the reasons stated herein, holders of Constitutional Debt, including Plaintiffs, are entitled to a declaratory judgment that, under Puerto Rico law, Clawback Revenues must be (i) segregated and deposited into a designated account, and (ii) not commingled with other funds of the Commonwealth or used for any purpose other than repaying the Plaintiffs, as Constitutional Debtholders.

## COUNT ELEVEN

### Request For Injunctive Relief Requiring Defendants To Segregate And Preserve The Restricted Revenues

233. Plaintiffs hereby incorporate the preceding paragraphs as if fully set forth herein.

234. Defendants have confiscated and misappropriated the Restricted Revenues in violation of Puerto Rico law, PROMESA and Plaintiffs' rights thereunder. The March Fiscal Plan and FY18 Budget make clear that this confiscation and misappropriation are not temporary, and that Defendants will (i) continue to confiscate the Restricted Revenues in violation of Puerto Rico law and PROMESA, (ii) not segregate the Restricted Revenues for the purposes required under Puerto Rico law and PROMESA, (iii) continue to misappropriate and use the Restricted Revenues in violation of Puerto Rico law and PROMESA, and (iv) continue to default on their obligations to pay amounts owing to Constitutional Debtholders. Defendants' unlawful use of the Restricted Revenues directly and irreparably harms Plaintiffs, as Constitutional Debtholders, and Plaintiffs have no adequate remedy at law.

235. Plaintiffs seek an injunction enjoining Defendants from continuing to confiscate and misappropriate the Restricted Revenues, and directing Defendants to segregate and preserve the Restricted Revenues for payment of Constitutional Debt in accordance with the constitutional, statutory, and contractual obligations specified above.

236. No provision in PROMESA authorizes Defendants to disregard Puerto Rico's Constitution or applicable Puerto Rico law, as in effect prior to the enactment of PROMESA, concerning Plaintiffs' interests in, and Defendants' obligations and limitations on use with respect to, the Restricted Revenues.

237. For the reasons stated herein, Plaintiffs are entitled to such an injunction notwithstanding PROMESA.

## REQUESTS FOR RELIEF

**WHEREFORE**, Plaintiffs respectfully request entry of a judgment:

(1) On Count One, declaring that, under Puerto Rico law the Special Property Tax Revenues are restricted funds by law that cannot be used by the Commonwealth for any purpose except to satisfy the Commonwealth's payment obligations with respect to outstanding Constitutional Debt;

(2) On Count Two, declaring that, under Puerto Rico law the Clawback Revenues are restricted funds by law that cannot be used by the Commonwealth while it is in default on the Constitutional Debt for any purpose except to satisfy the Commonwealth's payment obligations with respect to outstanding Constitutional Debt;

(3) On Count Three, declaring that (i) the Commonwealth is a conduit for the Special Property Tax Revenues and lacks an equitable or beneficial property interest in the Commonwealth Debt Redemption Fund; and (ii) Plaintiffs have equitable and beneficial property interests in the Special Property Tax Revenues;

(4) On Count Four, declaring that (i) the Commonwealth is a mere conduit for the Clawback Revenues and lacks an equitable or beneficial property interest in the

Clawback Revenues; and (ii) Plaintiffs have equitable and beneficial property interests in the Clawback Revenues;

(5) On Count Five, declaring that Plaintiffs have a statutory lien on the Special Property Tax Revenues;

(6) On Count Six, declaring that Plaintiffs have statutory liens on the Clawback Revenues;

(7) On Count Seven, declaring that (i) the Clawback Revenues are special revenues within the meaning of 11 U.S.C. § 902(2)(B) and must be applied in accordance with 11 U.S.C. §§ 922(d) and 928, and (ii) pursuant to 11 U.S.C. § 922(d), the automatic stay does not operate as a stay of application of the Clawback Revenues to payment of Constitutional Debt;

(8) On Count Eight, declaring that the Commonwealth's diversion of the Restricted Revenues, or any other impairment of Plaintiffs' property interests in the Restricted Revenues, without just compensation is an unlawful taking under the Fifth Amendment to the United States Constitution;

(9) On Count Nine, declaring that the Special Property Tax Revenues must be segregated and deposited into a designated account and not commingled with other funds of the Commonwealth or used for any purpose other than repayment of Constitutional Debt;

(10) On Count Ten, declaring that the Clawback Revenues must be segregated and deposited into a designated account and not commingled with other funds of the Commonwealth or, while the Commonwealth is in default on the Constitutional Debt, used for any purpose other than repayment of Constitutional Debt;

(11) On Count Eleven, enjoining Defendants from continuing to divert the Restricted Revenues, and directing Defendants to segregate and preserve the Restricted Revenues for payment of Constitutional Debt; and

(12) On all Counts, granting such other and further relief to Plaintiffs as the Court may deem proper.[87]

[*Remainder Of Page Intentionally Left Blank*]

[87] The disposition of Plaintiffs' claims in this adversary proceeding does not require this Court to determine at this time whether Plaintiffs are entitled to adequate protection, but Plaintiffs reserve the right to seek adequate protection at the appropriate time.

Dated: June 27, 2017

Respectfully submitted,

/s/ Mark T. Stancil
Lawrence S. Robbins (admitted *pro hac vice*)
Mark T. Stancil (admitted *pro hac vice*)
Gary A. Orseck (admitted *pro hac vice*)
Kathy S. Zecca (admitted *pro hac vice*)
Ariel N. Lavinbuk (admitted *pro hac vice*)
Donald Burke (admitted *pro hac vice*)
ROBBINS, RUSSELL, ENGLERT, ORSECK,
UNTEREINER & SAUBER LLP
1801 K Street, NW
Washington, D.C. 20006
Telephone: (202) 775-4500
Facsimile: (202) 775-4510
Email: mstancil@robbinsrussell.com

/s/ Andrew N. Rosenberg
Andrew N. Rosenberg (admitted *pro hac vice*)
Walter Rieman (admitted *pro hac vice*)
Richard A. Rosen (admitted *pro hac vice*)
Kyle J. Kimpler (admitted *pro hac vice*)
Karen R. Zeituni (admitted *pro hac vice*)
PAUL,WEISS, RIFKIND,WHARTON
& GARRISON LLP
1285 Avenue of the Americas
New York, NY 10019
Telephone: (212) 373-3000
Facsimile: (212) 757-3990
Email: arosenberg@paulweiss.com

/s/ Ramón Rivera Morales
J. Ramón Rivera Morales
USDC-PR Bar No. 200701
JIMÉNEZ, GRAFFAM & LAUSELL
PO Box 366104
San Juan, PR 00936
Telephone: (787) 767-1030
Facsimile: (787) 751-4068
Email: rrivera@jgl.com

*Counsel to Plaintiffs*

# Exhibit A

JOSE TRIAS MONGE

Juez Presidente
Tribunal Supremo de Puerto Rico
LL.B., A.M., Universidad de Harvard
J.S.D., Universidad de Yale

# HISTORIA CONSTITUCIONAL DE PUERTO RICO

VOLUMEN III

EDUPR

EDITORIAL DE LA UNIVERSIDAD DE PUERTO RICO
1982

ıyoría popular, desde el
ıuntos, determinó dejar
problema. Sí se le dio
ı esta sección como en

E LAS LEYES:

Constitución por la Co-
de la Comisión de la
auspiciado por la Co-
ılo 22 y el inciso sexto
e estilo, la recomenda-
como sigue, se adoptó

procedimiento que se
e se determine por la

fue eliminar el torpe
a ley, excepto las de
tiva al contrario, por
esidad imperiosa, en-
ación. Ni la Constitu-
los de la Unión Ame-
una disposición simi-
res impuestas por la
parlamento local.
gados por la Ley de
e dudoso rango cons-
nblea Legislativa. La
había originado por
e influyentes líderes
esidente de la Comi-
abiertas hacia acer-
ı favor de la Consti-

Méndez y Ferré ar-
restituyese el texto



## 6. PROCEDIMIENTO EN CASO DE NO APROBARSE EL PRESUPUESTO: LA SECCION 6 DEL ARTICULO VI

Las recomendaciones sobre este asunto también provinieron de la Comisión de la Rama Legislativa, la cual apoyó una redacción igual a la contenida en la Ley Jones,[64] según enmendada por la Ley Olmsted para resolver el *impasse* de 1909, con ciertas enmiendas.[65] El artículo redactado por la Comisión leía así:

"19. Cuando a la terminación de un año económico no se hubieren aprobado las asignaciones necesarias para los gastos ordinarios del funcionamiento del gobierno y el pago de intereses y amortización de la deuda pública en el siguiente año económico, regirán durante dicho año económico las partidas consignadas en las últimas leyes aprobadas para los mismos fines y propósitos, en todo lo que fueren aplicables, y el Gobernador autorizará los desembolsos necesarios a tales fines."[66]

Iriarte objetó sin éxito las variaciones que se le hacían a la Ley Orgánica.[67] Miguel Angel García Méndez obtuvo, sin embargo, la corrección de un defecto del texto recomendado. Tal como leía el anteproyecto de la Comisión éste podía concebiblemente interpretarse, aunque tal interpretación ciertamente hubiera estado reñida con el historial de la Ley Olmsted, en el sentido que perpetuaba por un año más el presupuesto anterior, no importa cuál fuese la voluntad de la Asamblea Legislativa. La enmienda, tal como quedó finalmente redactada por la Comisión de Estilo, consistió en adicionar la frase final de la sección, que lee "hasta que se aprueben las asignaciones correspondientes".[68] Quedó así claro en el récord el poder de la Asamblea Legislativa y del Gobernador de suspender en cualquier momento un *impasse* surgido en cualquier año sobre la aprobación del presupuesto mediante la adopción de las leyes de asignación correspondientes.

## 7. LIMITACION A LAS ASIGNACIONES: LA SECCION 7 DEL ARTICULO VI

El lenguaje exacto de la actual sección 7 del artículo VI también proviene de una recomendación contenida en la proposición redactada por la Comisión de la Rama Legislativa, que leía así:

"20. Las asignaciones hechas para un año económico no podrán exceder de los recursos totales calculados para dicho año económico, a menos que se

64. Véase el primer párrafo del art. 34.
65. *Infra*, 758 y ss.
66. *Diario de Sesiones*, vol. IV, pág. 2587. Las enmiendas efectuadas por la Comisión a la Ley Orgánica consistían principalmente en añadir una referencia muy necesaria, al pago de intereses y a la amortización de la deuda pública y en delegarle tan sólo al Gobernador, en vez de al Tesorero, previa consulta a aquél, la función de autorizar los desembolsos.
67. *Ibid.*, vol. II, pág. 888.
68. *Ibid.*, vol. II, págs. 890-891.

provea por ley de la misma sesión legislativa para la imposición de contribuciones suficientes para cubrir dichas asignaciones." [69]

La fuente de esta disposición fue el último párrafo del artículo 34 de la Ley Jones, el cual, como hemos dicho, se había derogado por la Ley de Bases. En este caso, no obstante, se determinó por voluntad de la mayoría popular repetir la sustancia del mismo, a pesar de su naturaleza limitante y aunque su uso no era muy frecuente en las constituciones estaduales,[70] a fines de mantener el buen crédito de los bonos del pueblo de Puerto Rico y de sus agencias en el mercado de los Estados Unidos, acostumbrado ya a las restricciones que la Ley Jones le imponía al gobierno de Puerto Rico.[71] Igual consideración habría de dictar la redacción de la sección siguiente del artículo VI, la sección 8, la cual comentaremos dentro de breve. En el estudio de estas y otras secciones que podían afectar las finanzas y el crédito de Puerto Rico intervinieron en diversas etapas Rafael Picó, Sol Luis Descartes, Rafael Buscaglia, Cándido Oliveras, Aida Martínez Schettini y otros distinguidos funcionarios que usualmente asesoraban al gobierno en estos asuntos. Igual método se utilizó en otras instancias con otros géneros de asuntos, intentándose en lo posible que la Constitución pasara por el cedazo, al menos en sus aspectos más técnicos, de las personas con mayor experiencia en las diversas materias concernidas.

La Comisión de la Rama Legislativa hizo un cambio muy importante al redactar la sección que ahora discutimos en el antiguo lenguaje de la Ley Orgánica sobre este particular. Lo que prohibía el último párrafo del artículo 34 de dicha Ley era que las asignaciones hechas durante cualquier año económico excediesen de "las rentas totales provistas a la sazón por ley...", mientras que en el texto aprobado por la Convención se habla de no exceder de "los recursos totales calculados para dicho año económico". La diferencia era sustancial. El concepto de "rentas totales" utilizado en la Ley Jones, según explicó Luis Negrón López en el curso de los debates,[72] había llegado a interpretarse como que incluía tan sólo los ingresos contributivos y los excedentes que pudieran estar disponibles de ejercicios económicos anteriores. La nueva frase "recursos totales calculados" era mucho más abarcadora e incluía, en adición a los indicados, ingresos no contributivos, tales como los provenientes de venta de propiedades, ayudas federales, el producto de emisiones de bonos, sobrantes de beneficios obtenidos por corporaciones públicas, etc.

La sección no fue objeto de mayor debate, excepto que Iriarte intentó que se insertase también en la Constitución el párrafo 15 del artículo 34 de la Ley Jones, en que se limitaban los asuntos que podían incluirse en el proyecto de presupuesto general. Tal párrafo era ejemplo del detallismo de la Ley Jones y esta vez la mayoría popular resistió el esfuerzo republicano por asemejar en lo posible la nueva Constitución a la vieja Ley Orgánica.[73]

69. *Ibid.*, vol. IV, pág. 2587.
70. *Notes and Comments...*, pág. 103.
71. El temor a la reacción de los compradores de bonos a la eliminación de este tipo de restricción era parte significativa de la constitución viviente de Puerto Rico en 1952.
72. *Diario de Sesiones*, vol. II, pág. 893.
73. *Ibid.*, págs. 895-899.

8. PRIORIDAD I
LA SECCION

Esta sección,
y perseguía princi
el buen crédito d
Comisión fue el s
"Cuando los r
suficientes para
procederá en prir
pública y luego s
norma de priorid
Tan sólo se h
Esta disposic
con la diferencia
alterable por el C
dicha contingenc
ejecutivo y judici
pública..." Como
vención colocó e
Gobernador, el p
circunstancias d
dactó la Ley Jo
embargo, se dep
plena marcha, d
público.[76]
No surgiero
ción.[77] García M
anteproyecto ori
la Ley Orgánica
socialista respal
ción que hacer

9. RESTRICCI
LA SECCIO

Se ha come
cipio de la sepa

74. Así lo indica
*Ibid.*, vol. IV
75. *Loc. cit.*
76. De ahí la co
gen prestata
77. Cf. *Diario d*
78. Véase la Pr
79. Véase la Pr
80. *Ante*, capítu

para la imposición de contri iones." [69]
› párrafo del artículo 34 de la derogado por la Ley de Bases. luntad de la mayoría popular naturaleza limitante y aunque iones estaduales,[70] a fines de eblo de Puerto Rico y de sus acostumbrado ya a las restric- de Puerto Rico.[71] Igual consi- ción siguiente del artículo VI, breve. En el estudio de estas ıs y el crédito de Puerto Rico Sol Luis Descartes, Rafael ttini y otros distinguidos fun- erno en estos asuntos. Igual géneros de asuntos, intentán- or el cedazo, al menos en sus or experiencia en las diversas

n cambio muy importante al l antiguo lenguaje de la Ley el último párrafo del artícu- echas durante cualquier año vistas a la sazón por ley...", nción se habla de no exceder ño económico". La diferencia ilizado en la Ley Jones, según lebates,[72] había llegado a in- sos contributivos y los exce- icios económicos anteriores. mucho más abarcadora e in- ontributivos, tales como los derales, el producto de emi- iidos por corporaciones pú-

excepto que Iriarte intentó árrafo 15 del artículo 34 de e podían incluirse en el pro- jemplo del detallismo de la el esfuerzo republicano por a vieja Ley Orgánica.[73]

os a la eliminación de este tipo tución viviente de Puerto Rico

## 8. PRIORIDAD DE LOS DESEMBOLSOS: LA SECCION 8 DEL ARTICULO VI

Esta sección, como hemos indicado, está íntimamente ligada a la anterior y perseguía principalmente el mismo propósito de proteger y aun acrecentar el buen crédito de los bonos de Puerto Rico.[74] El texto recomendado por la Comisión fue el siguiente:

"Cuando los recursos disponibles para cualquier año económico no sean suficientes para cubrir las asignaciones aprobadas para el mismo año, se procederá en primer término al pago de intereses y amortización de la deuda pública y luego se procederá con los demás desembolsos de acuerdo con la norma de prioridades que la Asamblea Legislativa establezca por ley." [75]

Tan sólo se harían leves cambios de estilo al lenguaje citado.

Esta disposición deriva del párrafo 19 del artículo 34 de la Ley Jones, con la diferencia de que ésta prescribía un orden completo de prioridades, alterable por el Gobernador, y colocaba en primer término, aunque sujeto a dicha contingencia, "Los gastos ordinarios de los departamentos legislativo, ejecutivo y judicial del Gobierno del Estado y los intereses de cualquier deuda pública..." Como puede verse, la disposición finalmente adoptada por la Convención colocó en absoluto primer término, y fuera del alcance del poder del Gobernador, el pago de intereses y la amortización de la deuda pública. Las circunstancias de la constitución real dictaban esta medida. Cuando se redactó la Ley Jones, la deuda pública era irrisoriamente baja. En 1952, sin embargo, se dependía ya fuertemente, con la Operación Manos a la Obra en plena marcha, del mantenimiento y, preferiblemente, la expansión del crédito público.[76]

No surgieron cuestiones de importancia en los debates sobre esta sección.[77] García Méndez, Ferré y otros líderes republicanos apoyaban en su anteproyecto original de constitución la repetición exacta de lo dispuesto en la Ley Orgánica,[78] pero no suscitaron tal asunto en los debates. El sector socialista respaldaba originalmente igual solución, pero tampoco tuvo objeción que hacer a la propuesta popular.[79]

## 9. RESTRICCIONES AL USO DE PROPIEDADES Y FONDOS PUBLICOS: LA SECCION 9 DEL ARTICULO VI

Se ha comentado ya esta sección al discutir la libertad de culto y el principio de la separación de la iglesia y el estado.[80]

---

74. Así lo indica la Comisión en su informe al comentar el art. 21 de su anteproyecto. *Ibid.*, vol. IV, pág. 2587.
75. *Loc. cit.*
76. De ahí la consideración desde 1950 hasta su logro en 1961 de la ampliación del margen prestatario.
77. Cf. *Diario de Sesiones*, vol. III, págs. 1961-1964.
78. Véase la Prop. Núm. 103, art. XXXIX.
79. Véase la Prop. Núm. 94, art. X, sec. 3.
80. *Ante*, capítulo XXXV, 4.

JOSE TRIAS MONGE

Presiding Judge
Supreme Court of Puerto Rico
LL.B., A.M. Harvard University
J.S.D., Yale University

# CONSTITUTIONAL HISTORY OF PUERTO RICO

## VOLUME III

UNIVERSITY OF PUERTO RICO PRESS
1982

**6. PROCEDURE IN CASE OF NON-APPROVAL OF THE BUDGET: SECTION 6 OF ARTICLE VI**

The recommendations regarding this matter also originated from the Commission of the Legislative Branch, which supported a text equal to the one contained in the Jones Act,[64] as amended by the Olmsted Act to resolve the *impasse* of 1909, with certain amendments.[6] The article drafted by the Commission read as follows:

"19. When at the termination of an economic year the necessary appropriations for the ordinary expenses of the operation of the government and the payment of the interest and amortization of the public debt in the following economic year have not been approved, there will govern during said economic year the items consigned in the last laws approved for the same goals and purposes, in everything that is applicable, and the Governor will authorize the necessary disbursements to that effect."[66]

Iriarte objected without success the variations that were being made to the Organic Act.[6] Miguel Angel García Méndez obtained, however, the correction of a defect of the recommended text. As the draft of the Commission read, it

---

[64] See first paragraph of Art. 34.

[65] *Infra, 758 et seq.*

[66] *Diary of Sessions,* Vol. IV, page 2587. The amendments made by the Commission to the Organic Act consisted principally in adding a very necessary reference, to the payment of interest and to the amortization of the public debt and in delegating only to the Governor, instead of to the Treasurer, prior consultation with the same, the function of authorizing the disbursements.

[67] *Ibid,* Vol. II, page 888.

Certified to be a true and correct translation from its original.

Aida Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 87.723.9488
1 21/15

could conceivably be interpreted, even though said interpretation would have certainly been contrary to the history of the Olmsted Act, in the sense that it perpetuated the prior budget for one more year, regardless of what was the will of the Legislative Assembly. The amendment, as it was finally drafted by the Style Commission, consisted in adding the final phrase of the section, which reads: "until the corresponding appropriations are approved".[68] The power of the Legislative Assembly and of the Governor was left clearly in the record to suspend at any time an *impasse* that arose in any year regarding the approval of the budget through the adoption of the corresponding laws of appropriation.

## 7. LIMITATION TO THE APPROPRIATIONS: SECTION 7 OF ARTICLE VI

The exact language of the current section 7 of Article VI also originates from a recommendation contained in the proposition drafted by the Commission of the Legislative Branch, which reads as follows:

"20. The appropriations made for an economic year may not exceed the total resources calculated for said economic year, unless it is provided by law of the same legislative session for the imposition of sufficient taxes to cover said assignments."[69]

The source of this provision was the last paragraph of Article 34 of the Jones Act, which, as we have stated, had been derogated by the Bases Act. In this case, nevertheless, it was determined by the will of the popular majority to repeat the substance of the same, despite its limiting nature and even though its use was not very frequent

---

68 *Ibid*, Vol. II, pages 890-891.

69 *Ibid*, Vol. IV, page 2587.

Certified to be a true and correct translation from its original.

Aida Torres

Aída Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 787.723.9488
10/21/15

in the constitutions of the states,[70] in order to maintain the good credit of the bonds of the people of Puerto Rico, and of its agencies in the market of the United States, already accustomed to the restrictions that the Jones Act imposed on the government of Puerto Rico.[71] The same consideration would dictate the writing of the following section of Article VI, Section 8, which we will comment briefly. In the study of these and other sections which could affect the finances and the credit of Puerto Rico, there intervened in different phases Rafael Picó, Sol Luis Descartes, Rafael Buscaglia, Cándido Oliveras, Aida Martínez Schettini and other distinguished officials who usually advised the government in these matters. The same method was used in other instances with other types of matters, attempting as far as possible that the Constitution pass through the sieve, at least in its most technical aspects, of the persons with greater experience in the different matters involved.

The Commission of the Legislative Branch made a very important change in drafting the section which we now discuss in the old language of the Organic Act regarding this particular matter. What the last paragraph of Article 34 of said Law prohibited was that the appropriations made during any economic year exceed "the total rents provided pursuant to the law...", while in the text approved by the Convention it talks about not exceeding the "total resources

---

70 Notes and Comments... page 103.

71 The fear to the reaction of the buyers of bonds to the elimination of this type of restriction was a significant part of the constitution the existed in Puerto Rico in 1952.

Certified to be a true and correct translation from its original.

Aida Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 787.723.9488
10/21/15

calculated for said economic year." The difference was substantial. The concept of "total rents" used in the Jones Act, as explained by Luis Negrón López in the course of the debates,[72] had been interpreted as including only the tax income and the surpluses that could be available from prior economic exercises. The new phrase "total resources calculated" was much more comprehensive and included, in addition to those indicated, non-tax income, such as those originating from the sale of properties, federal aids, the proceeds of the issuance of bonds, the surplus from benefits obtained by public corporations, etc.

The section was not subject to greater debate, except that Iriarte attempted to also insert into the Constitution paragraph 15 of Article 34 of the Jones Act, which limited the matters that could be included in the general budget bill. Said paragraph was an example of the excessive detail of the Jones Act and this time the popular majority resisted the republican effort to make the new Constitution as similar as possible to the old Organic Act.[73]

**8. PRIORITY OF THE DISBURSEMENTS: SECTION 8 OF ARTICLE VI**

This section, as we have indicated, is intimately linked to the prior one and principally pursued the same purpose of protecting and even increasing the good credit of the bonds of Puerto Rico.[74] The text recommended by the Commission was the following:

---

72 Diary of Sessions, Vol. II, Page 893.

73 *Ibid*, pages 895-899.

74 This was indicated by the Commission in its report when commenting on Art. 21 of its draft, *Ibid*, Vol. IV, page 2587.

Certified to be a true and correct translation from its original.

Aída Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 787.723.9488
10/21/15

"When the resources available for any economic year are not sufficient to cover the appropriations approved for the same year, in the first term there will be paid the interest and the amortization of the public debt and then it will proceed with the other disbursements according to the standard of priorities that the Legislative Assembly establishes by law."[75]

Only slight changes will be made to the style of the language cited.

This provision derives from paragraph 19 of Article 34 of the Jones Act, with the difference that it prescribed a complete order of priorities, alterable by the Governor, and placed in the first term, even though subject to said contingency, "The ordinary expenses of the legislative, executive and judicial departments of the Government of the State and the interests of any public debt...." As can be seen, the provision finally adopted by the Convention placed in absolute first term, and beyond the scope of the power of the Governor, the payment of interests and the amortization of the public debt. The circumstances of the real constitution dictated this measure. When the Jones Act was drafted, the public debt was extremely low. In 1952, however, it [the Government] already strongly depended on, Operation Bootstrap was in full swing, the maintenance and, preferably, the expansion of the public credit.[76]

There did not arise issues of importance in the debates on this section.[77] García Méndez, Ferré and other republican leaders supported in their original bill of constitution the

75 *Loc Cit.*

76 Thus the consideration since 1950 until it was achieved in 1962 of the expansion of the lending margin.

77 Cf. *Diario de Sesiones*, Vol. III, pages 1961-1964.

exact repetition of what was provided in the Organic Act,[78]

Certified to be a true and correct translation from its original.

Aida Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 787.723.9488
10/21/15

# Exhibit B

ESTADO LIBRE ASOCIADO DE PUERTO RICO

# DIARIO DE SESIONES

PROCEDIMIENTOS Y DEBATES DE LA

# ASAMBLEA LEGISLATIVA

Vol. XIV SAN JUAN, P. R.—Martes, 5 de septiembre de 1961 Núm. 27

## SENADO

(Sesión del lunes 4 de septiembre de 1961)

A las doce del día, el Senado continúa sus trabajos, bajo la presidencia del señor Rivera Colón, designado al efecto por el Presidente, señor Quiñones.

Sr. Colón Velázquez: Señor Presidente.

Presidente Acc. (Sr. Rivera Colón): Señor senador Colón Velázquez.

Sr. Colón Velázquez: Para proponer que volvamos al turno de Informes de Comisiones Permanentes.

Presidente Acc. (Sr. Rivera Colón): Adelante.

### INFORMES DE COMISIONES PERMANENTES

La Comisión Especial que interviene en la consideración de las enmiendas a la Constitución, propone al Senado que se apruebe, sin enmiendas, la siguiente resolución concurrente:

R. Conc. del S. 3

"Para proponer enmiendas a la Sección 2 del Artículo VI de la Constitución del Estado Libre Asociado de Puerto Rico."

### PROYECTOS Y RESOLUCIONES RECIBIDOS DE LA CAMARA DE REPRESENTANTES Y REFERIDOS A COMISIONES

El Secretario informa que ha sido recibido de la Cámara de Representantes y referido a comisiones, el siguiente proyecto de ley:

P. de la C. 385.—(Por el señor Méndez).—"Para autorizar a los jefes de departamentos, agencias, instrumentalidades o corporaciones públicas del Estado Libre Asociado de Puerto Rico, previa la autorización expresa del Gobernador de Puerto Rico, a concertar convenios con cualquier subdivisión política, ciudad, agencia o instrumentalidad del Gobierno de los Estados Unidos de Norte América o de los gobiernos de los Estados de dicha Unión, a los fines de proveerles servicios y facilidades." (Gobierno Estatal y Municipal) (Trabajo)

### COMUNICACIONES DE TRAMITE LEGISLATIVO

El Secretario informa que la Cámara de Representantes remite, firmada por su Presidente, la siguiente resolución conjunta:

R. C. de la C. 936

"Asignando a la Universidad de Puerto Rico la suma de doce mil (12,000) dólares para la compra e instalación de un microscopio electrónico, cantidad que podrá ser pareada con fondos federales para los propósitos de este proyecto, y la cual cantidad podrá ser traspasada a la Junta Provisional del Centro Médico a fin de que dicho microscopio forme parte de dicho Centro."

El Secretario informa que el señor Presidente del Senado ha firmado dicha resolución conjunta y dispone su devolución a la Cámara de Representantes.

### COMUNICACIONES VARIAS

El Secretario da lectura a la siguiente comunicación:

"a c Nenadich 26 (Este—Mayagüez, Puerto Rico—3 de septiembre de 1961—Honorables Miembros del Senado de Puerto Rico—Capitolio Insular—San Juan, Puerto Rico—Estimados señores:

El Movimiento Estudiantil Pro Monumento a José de Diego tiene el placer de invitar a todos los miembros del Senado de Puerto Rico y a sus distinguidas familias al acto de develación del monumento a don José de Diego, fundador del Colegio de Agricultura y Artes Mecánicas, nuestro Colegio.

Día: domingo 10 de septiembre—Hora: 10:30 A.M.—Sitio: frente a la entrada del Colegio.

Cordialmente, (Fdo.) Loida Figueroa, Profesora Loida Figueroa—(Consejera)—(Fdo.) J. A. González-González, Miembro)."

El Senado se da por enterado.

### EXCUSAS

Sr. Colón Velázquez: Señor Presidente.

Presidente Acc. (Sr. Rivera Colón): Señor senador Colón Velázquez.

Sr. Colón Velázquez: Para solicitar que se excuse al compañero Bauzá, que no puede asistir a la sesión de hoy, por encontrarse enfermo.

no hay objeción, así se acuerda.

Presidente Acc. (Sr. Rivera Colón): Si

Es llamado a presidir, y ocupa la presidencia, el señor Reyes Delgado.

### MOCION

El Secretario da lectura a la siguiente moción, formulada por escrito por el señor Carrasquillo:

"Para que se designe una comisión Especial que estudie el problema que se ha creado en las islas de Vieques y Culebra con motivo de la transportación de pasaje y carga.

Por cuanto: los habitantes de dichas islas vienen clamando desde hace mucho tiempo en sentido de que tanto el costo del pasaje de personas como el de carga constituyen un enorme gravamen para los habitantes de aquellas islas.

Por cuanto: los artículos de primera necesidad en dichas islas se están vendiendo a precios exhorbitantes debido ello a los altos costos de transportación de los mismos.

Por cuanto: estos altos precios tanto en la transportación de personas como en los de mercadería encarecen la vida de todos los habitantes de dichas islas, y muy especialmente al de clase pobre que a menudo se encuentra desempleada.

Por tanto, resuélvese que por este Senado; se proceda al nombramiento de una Comisión Especial para que estudie, recomiende e informe para la próxima sesión ordinaria de este Alto Cuerpo sobre todo lo que tenga que ver con la transportación de personas y cargo en las islas de Vieques y Culebra."

Sometida a votación, la referida moción es aprobada.

### CALENDARIO DE ORDENES ESPECIALES DEL DIA

Como único asunto en el Calendario de Ordenes Especiales del Día, el Secretario da lectura a la R. Conc. del S. 3, como sigue:

Para proponer enmiendas a la Sección 2 del Artículo VI de la Constitución del Estado Libre Asociado de Puerto Rico.

Resuélvese por la Asamblea Legislativa de Puerto Rico:

Artículo 1.—Se propone enmendar la Sección 2 del Artículo VI de la Constitución del Estado Libre Asociado de Puerto Rico para que lea de la manera siguiente:

"Sección 2.—El poder del Estado Libre Asociado para imponer y cobrar contribuciones y autorizar su imposición y cobro por los municipios se ejercerá según se disponga por la Asamblea Legislativa, y nunca será rendido o suspendido. El poder del Estado Libre Asociado de Puerto Rico para contraer y autorizar deudas se ejercerá según se disponga por la Asamblea Legislativa, pero ninguna obligación directa del Estado Libre Asociado de Puerto tamente por el Estado Libre Asociado de Rico por dinero tomado a préstamo directo Puerto Rico evidenciada mediante bonos o pagarés para el pago de la cual la buena fe, el crédito y el poder de imponer contribuciones del Estado Libre Asociado de Puerto Rico fueren empeñados será emitida por el Estado Libre Asociado de Puerto Rico si el total de (i) el monto del principal de e intereses sobre dichos bonos y pagarés, junto con el monto del principal de e intereses sobre la totalidad de tales bonos y pagarés hasta entonces emitidos por el Estado Libre Asociado y en circulación, pagaderos en cualquier año económico y (ii) cualesquiera cantidades pagadas por el Estado Libre Asociado en el año económico inmediatamente anterior al año económico corriente en concepto de principal e intereses correspondientes a cualesquiera obligaciones evidenciadas mediante bonos o pagarés garantizadas por el Estado Libre Asociado, excediere el 15 por ciento del monto total de las rentas obtenidas de acuerdo con las disposiciones de las leyes del Estado Libre Asociado e ingresadas en el Tesoro de Puerto Rico en el año económico inmediatamente anterior al año económico corriente; y ninguno de dichos bonos o pagarés emitidos por el Estado Libre Asociado para cualquier fin que no fuere facilidades de vivienda vencerá con posterioridad a un término de 30 años desde la fecha de su emisión y ningún bono o pagaré emitido para fines de vivienda vencerá con posterioridad a un término de 40 años desde la fecha de su emisión; y el Estado Libre Asociado no garantizará obligación alguna evidenciada mediante bonos o pagarés si el total de la cantidad pagadera en cualquier año económico en concepto de principal de intereses sobre la totalidad de las antes referidas obligaciones directas hasta entonces emitidas por el Estado Libre Asociado y en circulación y las cantidades a que se hace referencia en la cláusula (ii) excediere el 15 por ciento de dicho monto total de rentas.

La Asamblea Legislativa fijará límites para la emisión de obligaciones directas por cualquier municipio de Puerto Rico por dinero tomado a préstamo directamente por dicho municipio evidenciadas mediante bonos o pagarés para el pago de las cuales la buena fe, el crédito y el poder para imponer contribuciones de dicho municipio fueren empañados; disponiéndose, sin embargo, que ninguno de dichos bonos o pagarés será emitido por municipio alguno en una cantidad que, junto con el monto de la totalidad de tales bonos y pagarés hasta entonces emitidos por dicho municipio y en circulación, exceda el por ciento determinado por la Asamblea Legislativa, el cual no será menor del cinco por ciento (5) ni mayor del diez por ciento (10%) del valor total de la tasación de la propiedad situada en dicho municipio.

El Secretario de Hacienda podrá ser requerido para que destine los recursos disponibles incluyendo sobrantes al pago de los intereses sobre la deuda pública y la amortización de la misma en cualquier caso al cual fuere aplicable la Sección 8 de este Artículo VI mediante demanda incoada por cualquier tenedor de bonos o pagarés emitidos en evidencia de la misma".

Artículo 2.—Esta enmienda entrará en vigor al ser ratificada por la mayoría de los electores que voten sobre la misma en un referédum celebrado con ese propósito.

"Estado Libre Asociado de Puerto Rico
Senado de Puerto Rico

San Juan, Puerto Rico
4 de septiembre de 1961

Informe

Al Senado de Puerto Rico:

La Comisión Especial designada para estudiar y considerar la P. Conc. del S. 3 tiene el honor de informar a este Alto Cuerpo que recomienda la aprobación de la medida sin enmiendas.

Vuestra Comisión celebró audiencias conjuntamente con la Comisión Especial designada por la Cámara de Representantes durante los días 21, 22, 23, 24, 25, 28 y 29 de agosto de 1961. En estas vistas declararon los señores José Ramón Noguera, Secretario de Hacienda; Rafael Picó, Presidente del Banco Gubernamental de Fomento para Puerto Rico; Francis Bowen, primer vicepresidente de dicho Banco, y Ramón García Santiago, presidente de la Junta de Planificación, todos éstos funcionarios públicos. Además, prestaron testimonio las siguientes personas particulares: Lcdo. Rodolfo Aponte, vicepresidente del Banco Popular; Esteban Bird, vicepresidente ejecutivo del Banco Crédito y Ahorro Ponceño, quien compareció también a nombre de la Asociación de Banqueros; César Vizcarrondo y S. L. Descartes, quienes comparecieron a nombre de la Cámara de Comercio de Puerto Rico; Webster Pullen, vicepresidente del First National City Bank of New York a cargo de los negocios de Puerto Rico; Roberto de Jesús, presidente del Banco de Ponce; Francisco de Jesús, vicepresidente del Chase Manhattan Bank en Puerto Rico; Leandro Cabranes, director ejecutivo de la Asociación de Alcaldes de Puerto Rico; Emiliano Pol, contador público autorizado; y Juan Diez de Andino, en calidad de ciudadano particular. La Comisión tuvo ante sí, además, memoriales escritos en apoyo de la resolución, del Sr. José R. Noguera, Secretario de Hacienda; del Sr. Francis Bowen, primer vicepresidente del Banco Gubernamental de Fomento; del Dr. Rafael Picó, presidente de dicho Banco; y del Sr. Ramón García Santiago, Presidente de la Junta de Planificación.

Tanto los funcionarios públicos como las personas particulares mencionadas que comparecieron a nombre de las instituciones relacionadas o en su carácter personal, favorecieron, con excepción del señor Diez de Andino, el principio envuelto en la enmienda constitucional bajo consideración de fijar el límite prestatario del Estado Libre Asociado a base de una relación con los ingresos del Gobierno en lugar del sistema actual que se basa en un por ciento del valor de tasación de la propiedad.

Por la Resolución Conjunta número 1 aprobada el 23 de junio de 1958, la Asamblea Legislativa de Puerto Rico solicitó del Congreso de los Estados Unidos que se suprimiesen de la Sección 3 de la Ley de Relaciones Federales con Puerto Rico las disposiciones relativas a la fijación de un límite prestatario al Estado Libre Asociado y a los municipios de Puerto Rico.

A tenor con dicha solicitud, el Congreso de los Estados Unidos aprobó la Ley Pública número 87-121, la cual fue sancionada por el Presidente el 3 de agosto de este año. Esta Ley provee que se suprima de la Sección 3 de la Ley de Relaciones Federales con Puerto Rico el siguiente lenguaje:

"Disponiéndose, sin embargo, que ninguna deuda pública de Puerto Rico y de los municipios de San Juan, Ponce, Mayagüez, Arecibo y Río Piedras, será autorizada si excediere del 10 por ciento del valor total de la tasación de sus propiedades, y ninguna deuda pública de ninguna otra subdivisión o municipio de Puerto Rico se autorizará en lo sucesivo si excediera del 5 por ciento de la valoración total de la propiedad existente en cualquiera de esas subdivisiones o municipios... Al computar la deuda de el Pueblo de Puerto Rico, no se contarán los bonos municipales para el pago de cuyo capital e intereses se hubiere hasta la fecha empeñado la buena fe del Pueblo de Puerto Rico, ni los bonos emitidos por el Pueblo de Puerto Rico garantizados por una suma equivalente de bonos de las corporaciones municipales o juntas escolares de Puerto Rico; pero sí se contarán todos los bonos que en lo sucesivo emitiere cualquier municipio o subdivisión dentro del 5 por ciento que por la presente se autoriza, para los cuales se pignore la buena fe del Pueblo de Puerto Rico."

Provee además dicho estatuto federal, que las disposiciones del mismo entrarán en vigor tan pronto los electores capacitados de Puerto Rico hayan votado en un referendum de acuerdo con la Sección 1 del Artículo VII de la Constitución del Estado Libre Asociado de Puerto Rico para que se incluyan en dicha Constitución disposiciones que sustituyan las disposiciones pertinentes de la Sección 3 de la Ley de Relaciones Federales con Puerto Rico arriba—transcritas, limitando la capacidad prestataria del Estado Libre Asociado y sus municipios, a tenor con los propuesto en una Resolución Concurrente aprobada por la Asamblea Legislativa.

La Resolución Concurrente del Senado número 3 y la Resolución Concurrente de la Cámara número 5, las cuales son idénticas y están ahora ante la consideración de la Asamblea Legislativa, contienen disposiciones para cumplir total y cabalmente con las disposiciones de la Ley Pública número 87-121 del Congreso de los Estados Unidos. Al ser aprobadas por la Asamblea Legislativa y por los electores capacitados de Puerto Rico en un referendum, tendrán el efecto de suprimir las disposiciones ya transcritas de la Ley de Relaciones Federales con Puerto Rico e incluir en nuestra Constitución disposiciones adecuadas fijando el límite de la capacidad prestataria del Estado Libre Asociado y de los municipios de Puerto Rico.

Actualmente, bajo las disposiciones de la Ley de Relaciones Federales, el límite prestatario del Estado Libre Asociado y de los municipios de San Juan, Ponce, Mayagüez y Arecibo se establece en términos de un 10 por ciento del valor de tasación de la propiedad y un 5 por ciento de dicha valoración para el resto de los municipios. Esta fórmula, aunque flexible, ya que la capacidad prestaria aumenta con el incremento de la propiedad y el aumento en la tasación de la misma, ha dejado de proveer el medio adecuado en la contratación de la deuda pública del Estado en vista del gran auge económico de Puerto Rico en los últimos años y la necesidad correlativa de tener que ofrecer mayores y mejores servicios públicos al pueblo de Puerto Rico.

La necesiad de ampliar el margen prestatario de Puerto Rico se hace imperativamente evidente al confrontarnos con el hecho de que al 31 de julio de 1961 sólo le quedaba disponible al Estado Libre Asociado un margen prestatario de alrededor de $3,000,000. Conscientes de esta situación, la cual fue prevista hace ya unos cuantos años, las Resoluciones Concurrentes actualmente ante la consideración de la Asamblea Legislativa recogen disposiciones que han de ser incluidas en nuestra Constitución, fijando el margen prestatario del Estado Libre Asociado y de los municipios de Puerto Rico en una forma más flexible, realista y a tono con sanos principios económicos. Las disposiciones propuestas usan como base para fijar el margen prestatario del Estado Libre Asociado el monto de los ingresos recaudados por el Gobierno provenientes de fuentes internas durante el año fiscal anterior al que se haya de contratar una deuda. No se incluyen en los ingresos las recaudaciones provenientes de aportaciones federales, derechos de aduana y arbitrios sobre embarques, por no estar la imposición de estas rentas públicas bajo el control de la Asamblea Legislativa de Puerto Rico. Esto hace que la fórmula sea más conservadora, ya que dichos ingresos pueden utilizarse también para el pago de la deuda.

La limitación se fija en términos de requerimientos de pago de capital e intereses más alto en cualquier año de vencimiento de la deuda existente y la que se contempla autorizar en ese momento, más cualquier pago que el Estado haya tenido que hacer en el año fiscal anterior por concepto de bonos garantizados por el Estado emitidos por agencias o corporaciones públicas. Cuando los requerimientos de pago mencionados más la cantidad que el Gobierno haya tenido que pagar por concepto de bonos garantizados ascienda a un 15 por ciento de los ingresos de fuentes estatales durante el año económico anterior, el Gobierno no podrá incurrir en más obligaciones directas ni podrá garantizar más bonos de instrumentalidades públicas. Por ejemplo, asumiendo que los ingresos del Gobierno provenientes de fuentes internas en el año fiscal anterior al que se intente vender determinada cantidad de bonos autorizados sea $200 millones, el 15 por ciento de esta cantidad sería $30 millones. Suponiendo que los requerimientos de pago de capital e intereses más altos en los años de vida que le quedan a los bonos ya emitidos fuese de $15 millones, restarían $15 millones adicionales para asumir el pago de los requerimientos anuales de futuras obligaciones.

Se notará, por lo tanto, que bajo la fórmula propuesta el límite de la deuda en que puede incurrirse se expresa en términos de la cantidad de dinero disponible para amortizar la deuda, en lugar de expresarse como actualmente, en términos de la cantidad de dinero total que puede tomarse a préstamo en determinado momento. Bajo las disposiciones de ley actuales, el margen prestatario es de aproximadamente $190 millones, o sea un 10 por ciento del valor de tasación de la propiedad, que es aproximadamente de $1,900 millones.

Si se desease traducir este margen prestatario de $30 millones (15 por ciento de $200 millones de ingresos) a una suma más o menos fija, podría calcularse históricamente a base del tipo de interés promedio y el patrón de vencimientos de la deuda existente o, si se desea una base más exacta, podría usarse el patrón de vencimiento y el tipo de interés pagado en la más reciente emisión de bonos. Basándonos en la última emisión de bonos del Estado Libre Asociado por $40 millones vendida en marzo de este año, y usando un patrón de vencimientos por un máximo de veinte años y un tipo de interés de 4 por ciento anual, podríamos decir que el margen prestatario disponible actualmente del Gobierno sería de $212.4 millones, con ingresos disponibles en el año fiscal 1960-61 de $204 millones. Al hacer este cálculo asumimos que habría un margen libre de $15 millones para la contratación de deuda nueva, y que el remanente del 15 por ciento de $204 millones (sobre $15 millones) estaría ya comprometido para el pago de capital e intereses de los bonos en circulación.

Deseamos recalcar, sin embargo, que usamos estos ejemplos con el solo propósito de demostrar en la práctica cómo funcionaría la mecánica de la fórmula propuesta para fijar el límite prestatario a través de la enmienda constitucional bajo consideración. La verdadera limitación estriba en la capacidad para pagar el dinero tomado a préstamo, expresada en términos de un por ciento fijo (15 por ciento) de los ingresos anuales disponibles para pagar el capital y los intereses de las obligaciones directas emitidas por el Estado. Una vez la cantidad reflejada por dicho por ciento se encuentre comprometida para pagar anualmente los requerimientos de la deuda evidenciada a través de bonos y pagarés directamente por el Estado la capacidad prestataria estará agotada.

Según podrá verse por este análisis, la fórmula propuesta para fijar el margen prestatario del Estado es más flexible y realista que la usada actualmente. La misma se basa en los recursos disponibles del Gobierno que es la verdadera fuente para afrontar las obligaciones del Estado y no en un por ciento del valor de tasación de la propiedad, que no es un verdadero índice de la capacidad para pagar. Conviene anotar que la fórmula propuesta está en realidad en armonía con la Sección 8 del Artículo VI de nuestra Constitución, que en síntesis provee que los recursos disponibles del Estado se usarán en primer término para el pago de intereses y amortización de la deuda pública. Aunque actualmente, como cuestión de hecho, se usan las contribuciones sobre la propiedad para atender el pago de la deuda pública, la verdad es que por los términos de la disposición constitucional referida todos los recursos del Gobierno están comprometidos para dichas atenciones. El producto de la contribución sobre la propiedad representa hoy en día para el Gobierno solamente el 7 por ciento de los ingresos.

Bajo el actual sistema, el margen prestatario aumenta con el incremento en la propiedad y el aumento en el valor de tasación de la misma. Estos factores no están necesariamente bajo el control de la Asamblea Legislativa. Sin embargo, bajo la fórmula propuesta la Asamblea Legislativa tendría un control más absoluto sobre el margen prestatario.

El principio de la fórmula propuesta de fijar el margen prestatario en un por ciento de los recursos disponibles del Estado, aunque parece ser novel en el ámbito de la política pública fiscal, ha sido usado sin embargo como base por bastante tiempo para autorizar emisiones de bonos de rentas por corporaciones públicas y privadas. Por lo general la capacidad para emitir este tipo de bonos se basa en un por ciento de los ingresos o de los requerimientos de pago de la deuda de dichas corporaciones. Además, los estados de Connecticut y Mississippi adoptaron recientemente legislación fijando el límite prestatario del Estado en un por ciento de los ingresos anuales del mismo. Aunque el sistema usado en dichos estados no es igual a la fórmula propuesta en la enmienda constitucional bajo consideración, sigue, sin embargo, el principio general de relacionar la deuda pública con los ingresos del Gobierno.

Al hablar de bonos de rentas, conviene aclarar que los bonos emitidos y que emitan las corporaciones públicas del Estado Libre Asociado de Puerto Rico no se tendrán en cuenta al calcular el margen prestatario del Estado, ya que para el pago de los mismos no está comprometida la buena fe del Pueblo de Puerto Rico y se seguirán pagando solamente de las rentas derivadas por dichas corporaciones. Unicamente en el caso de que el Estado garantice alguno de estos bonos, cosa que no ha hecho hasta el presente, y que tenga que pagar en determinado año una deficiencia de los requerimientos de deuda de los mismos, es que se contará la cantidad así pagada contra el margen prestatario del Estado Libre Asociado.

La enmienda constitucional propuesta circunscribe la deuda pública a obligaciones del Estado Libre Asociado evidenciadas únicamente por bonos y pagarés emitidos directamente por el Estado. Por bonos y pagarés se entiende el tipo de obligación clásica y negociable que se vende en el mercado de valores de Estados Unidos. No incluye las obligaciones o deudas corrientes o contingentes del Estado en que se incurre normalmente para atender el funcionamiento del Gobierno. El lenguaje usado en la enmienda aclara la norma que se ha seguido en la práctica hasta el presente.

La propuesta enmienda a la Constitución no afectará en forma alguna el crédito y la venta de los bonos del Estado Libre Asociado de Puerto Rico. Al contrario, una encuesta hecha por el Secretario de Hacienda y el Presidente del Banco Gubernamental de Fomento para Puerto Rico en el mercado de valores de los Estados Unidos con prominentes figuras de la banca, revela que la fórmula propuesta no sólo tiene el visto bueno y la aceptación de todos ellos, sino que en su opinión mejorará el crédito y la viabilidad en la venta de los bonos de Puerto Rico. El buen crédito que tiene Puerto Rico en el mercado de valores de los Estados Unidos se basa principalmente en su puntualidad através de toda su historia en el pago de sus obligaciones, en el buen juicio que ha ejercido en la contratación de la deuda pública y en el no hacer uso de subterfugios para evadir las limitaciones impuestas a la misma. En el récord hay interesantes testimonios de distintas personalidades del mundo financiero norteamericano endosando franca y abiertamente la propuesta enmienda constitucional. No ha habido una sola fuente de crédito de las principales que usa el Pueblo de Puerto Rico en la venta de sus bonos que se haya manifestado en contra de la nueva fórmula. Algunos de ellos creen que se le presenta a Puerto Rico la oportunidad de hacer una valiosa aportación en el campo de la ciencia político-fiscal con la aprobación de esta enmienda.

Otra disposición de la enmienda constitucional propuesta que se estima ayudará sustancialmente en la venta y clasificación de los bonos de Puerto Rico es la que concede el derecho a los tenedores de bonos de demandar al Estado en caso de incumplimiento en el pago de la deuda. Esta disposición le dá realidad a lo dispuesto en la Sección 8, Artículo VI que compromete los ingresos del Gobierno al pago preferente del capital e intereses de la deuda pública. El Estado de Nueva York, así como otros estados de la Unión, tienen disposiciones análogas incluidas en sus Constituciones. Esta renuncia a la inmunidad del Estado a ser demandado, ha de redundar en una mejor aceptación y clasificación de nuestras obligaciones.

En cuanto a los municipios, la enmienda constitucional provee que se siga usando el mismo método que se usa actualmente bajo la Ley de Relaciones Federales con Puerto Rico para fijar el margen prestatario de los mismos. La úncia diferencia consiste en que en lugar de fijarle un límite del 10 por ciento sobre el valor de tasación de la propiedad a los municipios de San Juan, Ponce, Mayagüez y Arecibo y un 5 por ciento al resto de los municipios, se dispone en términos generales que la Legislatura fijará los límites prestatarios, los cuales no podrán ser menor del 5 por ciento ni mayor del 10 por ciento. Naturalmente, se podrá fijar cualquier límite entre un 5 y un 10 por ciento.

Es la intención usar el valor de toda la propiedad tasada en los distintos municipios con excepción de aquella que no está sujeta al pago de contribuciones. Al calcular el margen prestatario de los distintos municipios, se incluirá, sin embargo, el valor de tasación de aquellas propiedades que se usan como vivienda de sus dueños y que por acción legislativa se haya reducido o se reduzca en el futuro la contribución a pagar sobre las mismas hasta determinada cantidad del valor de tasación. Se hace esta distinción entre la propiedad exenta totalmente del pago de contribuciones y la propiedad usada por sus dueños como hogares, toda vez que ésta última hay que conservarla en las listas de propiedades sujetas a contribución, ya que si la misma está tasada para efectos contributivos en una cantidad mayor que la cantidad exenta para contribuciones, se cobrará sobre el remanente, y además porque si deja de ser usada como hogar del dueño está sujeta de nuevo al pago de contribuciones. Existe otra razón, además, para incluir esta clase de propiedad al calcular el margen prestatario de los municipios, y es el hecho de que éstos no sufrirán merma en sus ingresos por motivo de la legislación reduciendo las contribuciones a las propiedades que sean usadas por sus dueños como su vivienda, ya que la Asamblea Legislativa ha tomado medidas para reembolsar a los municipios la cantidad que dejen de recibir con motivo de tal reducción.

Este tipo de propiedad estaría disponible en el futuro para el pago de contribuciones en caso de que la Asamblea Legislativa lo estime aconsejable y necesario para afrontar el pago de la deuda pública.

La Comisión Especial, al recomendar que se apruebe favorablemente esta medida, está consciente de que su aprobación es indispensable para el desarrollo económico de nuestro Pueblo.

Respetuosamente sometido

Yldefonso Solá Morales,
Secretario.

Cruz Ortiz Stella,
Presidente."

Sr. García Méndez: Señor Presidente.

Presidente Acc. (Sr. Reyes Delgado): Señor Senador.

Sr. García Méndez: Queríamos llamar la atención y hacer que se consigne en el récord claramente, que este informe de la Comisión Especial designada para estudiar y considerar la Resolución Concurrente del Senado 3, no aclara que se consignó el voto en contra de los Senadores que representamos este sector minoritario del Senado, para especificar los fundamentos en la discusión de la Resolución en su fondo en el día de hoy, y queremos que quede así claro, a los fines de que no pudiera aparecer como que es un informe por unanimidad.

Sr. Ortiz Stella: Señor Presidente, tiene razón el compañero García Méndez. El informe fue aprobado por mayoría.

Presidente Acc. (Sr. Reyes Delgado): Que se haga constar.

Sr. Ortiz Stella: No tengo inconveniente en que así se haga constar.

Señor Presidente, voy a pedir un turno, para consumirlo ahora, defendiendo la resolución y el informe.

Sr. García Méndez: Señor Presidente, antes que el compañero distinguido comience a hacer uso de su turno, queremos hacer constar que tenemos dos enmiendas fundamentales, a nuestro juicio, para ofrecer al texto de la Resolución Concurrente.

Si el compañero desea hacer uso del turno de defensa del informe como está, claro que no podrá entrar en la cuestión relativa a las enmiendas que vamos a formular. La práctica normalmente ha sido discutir las enmiendas y entonces pedir turno para defender el proyecto tal como ha sido enmendado, si ha sido enmendado, o tal como está si no ha sido enmendado. Sin embargo, yo no tendría inconveniente en aceptar que el compañero exponga su tésis al través de este turno defensor del informe, pero haciendo claro que no hemos renunciado y que, por el contrario, nos reservamos el derecho a formular estas enmiendas que hemos traído para someter a la consideración del Senado.

Sr. Ortiz Stella: Voy más lejos, señor Presidente. Para que quede bien claro, o sea, que este turno mío de exposición defendiendo el informe y la resolución, tal como ha sido sometida por la Comisión Especial, deja enteramente a salvo el derecho del compañero García Méndez a formular las enmiendas que él estime convenientes a esta resolución.

Presidente Acc. (Sr. Reyes Delgado): ¿Esto es para consumirlo ahora?

Sr. Ortiz Stella: Sí, señor Presidente.

Presidente Acc. (Sr. Reyes Delgado): Adelante.

Sr. Ortiz Stella: Señor Presidente y compañeros del Senado: Voy a defender el informe de la Comisión Especial a la cual fue referida la Resolución Concurrente del Senado número 3, y a pedir un voto favorable para esa resolución.

Como coautor del informe que se acaba de leer, necesariamente algunos de los conceptos ya vertidos en ese Informe, estarán necesariamente repetidos en ste turno de exposición que voy a consumir ahora.

No tengo la imaginación de Victor Hugo, para hacer un informe sobre esta Resolución y después un turno de exposición exponiendo ideas completamente nuevas. De modo, que quiero advertirle a los compañeros que lo que voy a decir, probablemente ya estará dicho en el informe.

Las disposiciones sobre la deuda pública del Estado Libre Asociado y de sus municipios, están contenidas, al presente, en el Artículo 3 de la Ley de Relaciones Federales que en lo pertinente dice de esta manera:

"Disponiéndose, sin embargo, que ninguna deuda pública de Puerto Rico y de los municipios de San Juan, Ponce, Mayagüez, Arecibo y Río Piedras, será autorizada si excediere del diez por ciento del valor total de la tasación de sus propiedades, y ninguna deuda pública de ninguna otra subdivisión o municipio de Puerto Rico se autorizará en lo sucesivo si excediera del cinco por ciento de la valoración total de la propiedad existente en cualquiera de esas subdivisiones o municipios;

"Al computar la deuda de El Pueblo de Puerto Rico, no se contarán los bonos municipales, para el pago de cuyo capital e intereses se hubiere hasta la fecha empeñado la buena fe de El Pueblo de Puerto Rico, ni los bonos emitidos por El Pueblo de Puerto Rico garantizados por una suma equivalente de bonos de las corporaciones municipales o juntas escolares de Puerto Rico; pero sí se contarán todos los bonos que en lo sucesivo emitiere cualquier municipio o subdivisión dentro del 5 por ciento que por la presente se autoriza, para los cuales se pignore la buena fe de El Pueblo de Puerto Rico".

A virtud de la ley pública número 87.121 del Congreso de Estados Unidos, esas disposiciones sobre la deuda pública quedarían eliminadas de la Ley de Relaciones Federales tan pronto los electores capacitados de Puerto Rico aprueben una enmienda a la Constitución conteniendo todo lo relativo a esa deuda pública. El Artículo 2 de dicha Ley Pública número 87.121 dice así:

"Artículo 2.—

Este es el Artículo 2 de la Resolución Conjunta de la Cámara de Representantes Federal que se convirtió en la Ley Pública 87.121.

"El Artículo 1 de esta ley empezará a regir cuando una mayoría de los electores capacitados de Puerto Rico haya votado en un referéndum de acuerdo con el Artículo VII de la Constitución del Estado Libre Asociado de Puerto Rico para incluir disposiciones en la Constitución del Estado Libre Asociado en lugar de las disposiciones del Artículo 3 de la Ley de Relaciones Federales con Puerto Rico que en la presente se especifican limitando el márgen prestatario del Estado Libre Asociado y sus municipios, según se propone en la Resolución Concurrente de la Asamblea Legislativa del Estado Libre Asociado."

Quiérese decir, que aprobándose esta Resolución por ambas Cámaras,—siendo una Resolución Concurrente no tiene que ser firmada por el Ejecutivo—hasta que el pueblo de Puerto Rico no apruebe esta propuesta enmienda a la Constitución, quedarían vigentes en el estatuto de Relaciones Federales las disposiciones sobre el márgen prestatario del Estado Libre Asociado y de sus municipios. Solamente cuando electores capacitados en un referéndum aprueben la propuesta enmienda, entonces es que ya deja de existir la disposición en el estatuto de Relaciones Federales y entonces surte efecto la enmienda constitucional.

Dando cumplimiento a las disposiciones de dicha ley del Congreso, se radica en este Senado la Resolución Concurrente número 3, y en la Cámara la Resolución Concurrente número 5, en las cuales se propone una enmienda a la Sección 2 del Artículo VI de la Constitución del Estado Libre Aso-

CERTIFIED TRANSLATION

COMMONWEALTH OF PUERTO RICO

# DAILY FLOOR PROCEEDINGS

## LEGISLATIVE ASSEMBLY

Vol. XIV – No. 27

San Juan, P.R. – Tuesday, September 5, 1961

# SENATE

CALENDAR OF SPECIAL ORDERS OF THE DAY

(Calendario de Ordenes Especiales del Día)

The only matter in the Calendar of Special Orders of the Day, the [Senate] Secretary reads Concurrent Senate Resolution 3, as follows:

[TEXT OF C.S.R. #3 IS TRANSCRIBED]

To the Senate of Puerto Rico:

The Special Committee appointed to study and consider the Concurrent Senate Resolution 3 has the honor of informing this High Body that it recommends the approval of this measure without amendments.

[ ****]

The need to increase the borrowing margin of Puerto Rico is imperatively evident one we are confronted with the fact that as of July 31, 1961 the Commonwealth only had left a barrowing margin of approximately $3,000,000. Conscious of this situation, which was foreseen a few years ago, the Concurrent Resolutions before the consideration of this Legislative Assembly adopt provisions that will be included in our Constitution, establishing a borrowing margin of the Commonwealth and the Municipalities of Puerto Rico in a form that is more flexible, realistic and in tune with sound economic principles.

[****]

As can be seen by this analysis, the proposed formula to set the Commonwealth's borrowing margin is more flexible and realist than the one used today. It is based on the Government resources that are available which is the true source to face the State's obligations and not through a percentage of the assessed property value, which is not a true measure of the capacity to pay. It is convenient to note that with the proposed formula is in reality in harmony with Section 8 of Article VI of our Constitution, which in synthesis provides that the State's available resources shall be used in the first place for the payment of interest and the amortization of the public debt. Although presently, and as a matter of fact, property taxes are used to take care of the payment of the public debt, the truth is that per the terms of the referenced constitutional provision all of the resources of the Government are committed to those obligations.

I, Juan E. Segarra, USCCI #06-067/translator, certify that the foregoing is a true and accurate translation, to the best of my abilities, of the document in Spanish which I have seen.

[****]

The proposed constitutional amendment limits the public debt to the Commonwealth's obligations which are evinced by bonds or notes issued directly by the State. By bonds and notes it is understood [to mean] the type of classic negotiable obligation that is sold in the securities market of the United States.

[****]

Another provision of the proposed constitutional amendment which we consider will substantially help in the selling and in the classification [*i.e.*, credit rating] of Puerto Rico's bonds is the one that grants the right to bondholders to sue the State in case of a debt payment default. This provision gives reality to what is provided in Section 8, Article VI which commits the Government's revenues to the preferential payment of the capital and interest of the public debt. The State of New York, as other states of the Union, have similar provisions included in their Constitutions. This waiver of the State's immunity to be sued will lead to a better acceptance and classification of our obligations.

[****]

I must say, additionally, that these persons related to the banking sector, who appeared before the special committees, are the ones who directly participate in the trading of bonds that the Commonwealth and its municipalities issue. In other words, the purchasers of our bonds accept, as a complete and solid guarantee for the same, the formula regarding the borrowing margin that is contained in the proposed amendment to Section 2 of article VI of the Constitution of the Commonwealth of Puerto Rico.

[****]

The method or formula for determining the limit on the borrowing capacity of the State which is contained in the Concurrent Senate Resolution no. 3 and the House's no. 5, has been in use in two States of the Union, to wit; Connecticut and Mississippi.

[****]

I have already stated that the Puerto Rican banking sector favors the Concurrent Resolution of which I am speaking and I want to add that according to information received by the Special Committees, the entities and persons in the United States that have relation with the trading of Puerto Rico bonds, all favor also said Concurrent Resolution.

[***]

I hereby transcribe the letter from Mr. John W. Demilhoo, vice-president of the Chase Manhattan Bank, and who is in charge of the bond departments of said bank, in august of this year, addressed to Mr. Bowen, Vice-president of the Government Development Bank: (Translated to Spanish)

….

"Dear mister Bowen:

I have studied the proposed amendment to Section 2, Article VI of the Constitution of the Commonwealth of Puerto Rico. I believe that the proposed limits on the debt issuance are essentially sound. I am of the opinion that the Commonwealth is protecting the investor, who can purchase its debt and at the same time it is providing a certain flexibility that is necessary for its capital investment program.

# Exhibit C

# Revised Baseline Projections

December 20, 2016

# Disclaimer

- The Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Commonwealth of Puerto Rico (the "Commonwealth"), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with AAFAF and the Commonwealth the "Parties") make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties.
- The Parties do not owe or accept any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of this presentation or that is otherwise consequent upon the gaining of access to this document by such third party.
- This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Parties do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Commonwealth and the information contained herein.
- Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Commonwealth and its instrumentalities is affected by various financial, social, economic, environmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Commonwealth and its agencies and instrumentalities, but also by entities such as the government of the United States. Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by AAFAF, the Commonwealth, or any government instrumentality in the Commonwealth or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.
- By accepting this document, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations.
- This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should consult with advisors of AAFAF should clarification be required.
- The following information is presented for discussion purposes only. Nothing herein shall be construed to represent any statement or position of the Commonwealth on its rights and obligations with respect to revenues subject to "clawback" pursuant to Art. VI, Sec. 8 of the Puerto Rico Constitution or subject to retention pursuant to Act 21-2016 or any debt service that may be payable during the current fiscal year. Nothing herein shall constitute a waiver of any rights or defenses the Commonwealth and its instrumentalities may have with respect to the same, all of which are hereby expressly reserved.

# Executive Summary

# Introduction

## Pursuant to the request of the Oversight Board and based on revised assumptions developed in cooperation with the Oversight Board, the Commonwealth prepared updated baseline projections (the "Revised Baseline Projections")

- Through formal and informal communications to the Commonwealth, the Oversight Board has requested revised baseline projections based on "current law" and "current obligations"
- The Oversight Board's request suggested the Commonwealth revise its baseline in light of certain assumptions, some of which were already included in the Commonwealth's baseline projections published on October 14, 2016 (the "October Baseline Projections"), as well as others that require modifications to the October Baseline Projections

| | |
|---|---|
| **Baseline Assumptions Included in the October Baseline Projections** | ▪ The exclusion of any funding resulting from an extension of the Affordable Care Act ("ACA")<br>▪ Sunset of Act 154 tax treatment for mainland-based firms on income earned in the Commonwealth (such income becoming subject to a modified source income rule) |
| **Baseline Assumptions Requiring Modification to the October Baseline Projections** | ▪ Segregation of employee contributions in the public-sector pension programs and a pay-as-you-go ("paygo") policy (vs. a funding policy based on Additional Uniform Contributions ("AUC")) to cover annual pension liabilities<br>▪ An adjustment to the baseline expenditures to reconcile with historical trends<br>▪ An adjustment to move certain catch-up payments to local suppliers and past-due tax refunds from the "measures" to the baseline projections consistent with "current law"<br>▪ Updated baseline macroeconomic assumptions, including:<br>– Growth focusing on GNP rather than GDP<br>– The inclusion of permanent fiscal adjustments sized to allow for the full payment of all debt service (principal and interest) and to stabilize the fiscal projection to a zero cumulative fiscal balance at the end of the projection period<br>– Any action in FY 2017 is assumed to have insufficient implementation time to generate cuts and hence any deficit emerging in FY 2017 is paid down over time[1] |

- In addition to the above changes, minor adjustments were made by the Commonwealth as a result of ongoing diligence
- The following pages provide additional details regarding the assumptions used in the Revised Baseline Projections, as well as the resulting financing gap

(1) Any deficit emerging in FY 2017 is assumed to be paid down over time at a 10 percent interest rate, dropping by 300 basis points annually until the rate reaches U.S. 10-year Treasury rates plus 100 basis points.

# Overview of Macroeconomic Assumptions

## The baseline macroeconomic growth projections were modified in consultation with the Oversight Board's experts to reflect the impact of very significant fiscal austerity that would be required to comply with current law

- The first step in the analysis is to identify and model the underlying drivers of real GNP growth in FY 2016 – FY 2026 to anchor a trend for potential GNP on indicators exogenous to economic policies. The underlying drivers include exogenous factors such as commodity prices, U.S. real GDP growth, lagged Commonwealth growth, and post-2000 indicator variables that reflect the macro-fiscal decline trend observed since 2003
  - Potential real GNP growth declines from the observed -0.55% in FY 2015 to a projected -1.5% over the medium term
  - Inflation is modeled to reflect directly imported inflation from the U.S. mainland and price pressures in the Commonwealth. Specifically, 50% is attributed to U.S. mainland inflation and 50% is modeled through a Phillips curve, with the real GNP output gap and commodity and oil prices driving inflation. The 50/50 split reflects the unpredictability of inflation from structural breaks and knock-on effects due to the large output gap that would be expected to emerge following the large fiscal adjustment
- The current law/current obligations baseline is then evaluated in the context of the trend baseline in terms of the impact on the macro-fiscal framework
  - To close the financing gaps under the current law/current obligations baseline, permanent fiscal adjustments (modeled generically as spending cuts) are enacted in FY 2018 and FY 2019. These cuts are sized to comply with current law and current obligations and stabilize the fiscal projection to a zero-cumulative fiscal balance at the end of the forecast period[1]
  - Any action in FY 2017 is assumed to have insufficient implementation time to generate cuts and hence any deficit emerging in FY 2017 is paid down over time at a 10 percent interest rate, dropping by 300 basis points annually until the rate reaches U.S. 10-year Treasury rates plus 100 basis points
  - A conventional Keynesian multiplier, used in many IMF program analyses, is used to model the impact of fiscal policy. The multiplier is based on estimates for U.S. regional fiscal expenditure shocks. Fiscal policy is assumed to have a zero long-term multiplier, as is the standard in such projections
    - However, in light of the magnitude of the assumed adjustment, a zero long-term multiplier may be a conservative assumption

(1) Note that due to the iterative nature of developing the projections, the deficit/surplus shown in the Revised Baseline Projections herein may not show an exact zero cumulative surplus by the end of the projection period; however, the variance shown is not considered to materially impact the overall projections.

# Overview of Macroeconomic Assumptions (cont'd)

## Below is a comparison of the economic growth rates derived from the revised macroeconomic assumptions, as compared to the growth rates used in the October Baseline Projections

- As shown below, the changes in fiscal austerity assumptions included in the Revised Baseline Projections are expected to cause significant economic contraction when they are implemented, with significant real GNP declines in FY 2018 and FY 2019. Real GNP growth ultimately settles at approximately -1.5% at the end of the projection period

### October Baseline Projections

| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | CAGR FY '18-'26 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP Growth | | (1.54%) | (1.79%) | (1.78%) | (1.79%) | (1.78%) | (1.77%) | (1.75%) | (1.71%) | (1.67%) | (1.73%) |
| Inflation | | 1.89% | 1.84% | 1.79% | 1.77% | 1.77% | 1.78% | 1.80% | 1.83% | 1.89% | 1.82% |
| **Nominal GDP Growth** | | **0.35%** | **0.05%** | **0.01%** | **(0.02%)** | **(0.01%)** | **0.01%** | **0.05%** | **0.12%** | **0.22%** | **0.08%** |
| *Memo: GNP*(1)(2) | | | | | | | | | | | |
| *Real GNP* | *$66,811* | *$65,781* | *$64,604* | *$63,451* | *$62,316* | *$61,204* | *$60,120* | *$59,068* | *$58,057* | *$57,088* | |
| *Nominal GNP* | *$66,020* | *$66,248* | *$66,281* | *$66,286* | *$66,274* | *$66,265* | *$66,269* | *$66,302* | *$66,379* | *$66,525* | |

### Revised Baseline Projections

| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | CAGR FY '18-'26 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GNP Growth | | (16.24%) | (1.23%) | 4.33% | 2.81% | 2.36% | (0.63%) | (1.51%) | (1.52%) | (1.53%) | (1.64%) |
| Inflation | | (1.01%) | (1.06%) | (0.31%) | 0.42% | 1.14% | 1.39% | 1.63% | 1.67% | 1.67% | 0.61% |
| **Nominal GNP Growth** | | **(17.25%)** | **(2.29%)** | **4.02%** | **3.23%** | **3.50%** | **0.76%** | **0.12%** | **0.15%** | **0.14%** | **(1.03%)** |
| *Memo: GNP*(1) | | | | | | | | | | | |
| *Real GNP* | *$66,811* | *$55,963* | *$55,272* | *$57,666* | *$59,286* | *$60,686* | *$60,302* | *$59,394* | *$58,493* | *$57,595* | |
| *Nominal GNP* | *$66,020* | *$54,634* | *$53,382* | *$55,526* | *$57,319* | *$59,324* | *$59,773* | *$59,847* | *$59,936* | *$60,019* | |

### Variance – Revised Baseline Projections vs. October Baseline Projections

| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | CAGR FY '18-'26 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Real Growth | | (14.70%) | 0.56% | 6.11% | 4.60% | 4.15% | 1.14% | 0.24% | 0.20% | 0.13% | 0.10% |
| Inflation | | (2.90%) | (2.90%) | (2.11%) | (1.35%) | (0.63%) | (0.39%) | (0.17%) | (0.16%) | (0.22%) | (1.21%) |
| **Nominal Growth** | | **(17.59%)** | **(2.34%)** | **4.01%** | **3.25%** | **3.51%** | **0.75%** | **0.08%** | **0.03%** | **(0.08%)** | **(1.11%)** |
| *Memo: GNP* | | | | | | | | | | | |
| *Real GNP* | – | *($9,818)* | *($9,332)* | *($5,785)* | *($3,030)* | *($518)* | *$182* | *$326* | *$437* | *$507* | |
| *Nominal GNP* | – | *($11,614)* | *($12,899)* | *($10,760)* | *($8,955)* | *($6,941)* | *($6,497)* | *($6,455)* | *($6,442)* | *($6,506)* | |

(1) Based on preliminary FY 2015 GNP of $68,521 million at current prices, per the Puerto Rico Planning Board.
(2) For comparison purposes to the Revised Baseline Projections, represents GNP grown by the real and nominal GDP growth rates underlying the October Baseline Projections. Had the macroeconomic assumptions underlying the October Baseline Projections been stated in terms of GNP instead of GDP, the FY 2026 growth rates would have been as follows: -1.50% for real GNP growth, 1.76% for inflation and -0.26% for nominal GNP growth.

# Summary of Revised Baseline Projections

**Based on the adjusted assumptions, the Revised Baseline Projections indicate that Puerto Rico's cumulative financing gap totals approximately $67 billion over the ten-year projection period**

- The Revised Baseline Projections continue to show that the Commonwealth's current revenues are not sufficient to support existing current operations and debt service absent nearly $8 billion of additional fiscal austerity measures
  - The size of the financing gap assumes that austerity measures fill the financing gap; if the Commonwealth were to balance austerity-type measures with structural reform and debt restructuring, it is estimated that real GNP contraction could be mitigated(1)
  - Any action in FY 2017 is assumed to have insufficient implementation time to generate cuts and hence the growth projections assume that any deficit emerging in FY 2017 is paid down over time
  - Additional details regarding the changes in the assumptions to derive the Revised Baseline Projections, as well as the impact of these changes, are discussed in the following pages

## Annual Summary of the Revised Baseline Projections ($ millions)

| | | | | | | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | 5-Yr | 10-Yr |
| Total Revenues | $19,107 | $16,621 | $15,438 | $15,657 | $15,908 | $16,219 | $16,331 | $16,410 | $16,491 | $16,582 | $82,730 | $164,763 |
| Total Expenses ex. Debt Service | (18,111) | (19,077) | (19,124) | (19,219) | (19,421) | (19,570) | (19,952) | (20,377) | (21,036) | (21,392) | (94,952) | (197,279) |
| Debt Service Net of Existing Reserves | (4,618) | (3,294) | (3,872) | (3,493) | (3,438) | (3,197) | (3,138) | (3,554) | (3,055) | (3,308) | (18,715) | (34,967) |
| **Base Financing Gap** | **($3,622)** | **($5,751)** | **($7,558)** | **($7,055)** | **($6,951)** | **($6,548)** | **($6,759)** | **($7,521)** | **($7,600)** | **($8,118)** | **($30,937)** | **($67,483)** |
| Illustrative Refi./(Amort.) of FY 2017 Deficit | $3,622 | – | ($3) | ($607) | ($771) | ($1,196) | ($1,029) | ($16) | – | – | 2,241 | – |
| Illustrative Interest Due on FY 2017 Deficit(2) | – | (362) | (264) | (163) | (102) | (81) | (38) | (1) | – | – | (892) | (1,011) |
| Fiscal Adjustment to Reach Zero Cumulative Deficit | – | 6,100 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 29,575 | 68,700 |
| **Fin. Surplus / (Gap) After Fiscal Adjustment(3)** | – | **($13)** | – | – | – | – | – | **$288** | **$225** | **($293)** | **($13)** | **$206** |
| *Memo: October Baseline Projections* | *($3,605)* | *($3,408)* | *($5,813)* | *($5,744)* | *($5,978)* | *($5,974)* | *($6,258)* | *($7,084)* | *($7,171)* | *($7,682)* | *($24,547)* | *($58,716)* |
| *Memo: Select Items Excluded From Total Revenues* | | | | | | | | | | | | |
| *ACA Funding Loss* | – | *($864)* | *($1,515)* | *($1,580)* | *($1,677)* | *($1,831)* | *($1,950)* | *($2,066)* | *($2,248)* | *($2,379)* | *($5,636)* | *($16,110)* |
| *Est. Act 154 / Foreign Company Tax Losses* | – | *(501)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(3,509)* | *(8,523)* |
| *Memo: Select Items Included in Total Expenses* | | | | | | | | | | | | |
| *Expiration of Act 66* | – | *($101)* | *($101)* | *($101)* | *($101)* | *($101)* | *($124)* | *($194)* | *($266)* | *($340)* | *($406)* | *($1,431)* |
| *CW Health Care Insurance Program(4)* | *(923)* | *(806)* | *(833)* | *(942)* | *(1,005)* | *(1,104)* | *(1,182)* | *(1,257)* | *(1,375)* | *(1,459)* | *(4,509)* | *(10,886)* |
| *Memo: Additional Pensions Details* | | | | | | | | | | | | |
| *Pension-Related Outflows Included in Baseline(5)* | *($1,041)* | *($2,075)* | *($2,138)* | *($2,145)* | *($2,164)* | *($2,349)* | *($2,366)* | *($2,391)* | *($2,414)* | *($2,436)* | *($9,563)* | *($21,518)* |
| *Est. Paygo Payments Included in Baseline* | – | *(989)* | *(1,014)* | *(985)* | *(964)* | *(1,151)* | *(1,177)* | *(1,217)* | *(1,251)* | *(1,278)* | *(3,952)* | *(10,026)* |

(1) The growth projections assume that a permanent fiscal adjustment of $6.1 billion is taken in FY 2018 (and for every year thereafter through the projection period), as well as an additional permanent adjustment of $1.725 billion taken in FY 2019 (and for every year thereafter through the projection period) in order to fill the gaps over the projection period (resulting in a total cut of approximately $7.8 billion in every year starting in FY 2019).
(2) Assumes the deficit in FY 2017 is paid down over time at a 10% interest rate, dropping annually by 300 basis points until the rate reaches 10-year U.S. Treasury rates plus 100 basis points.
(3) Note that due to the iterative nature of developing the projections, the deficit/surplus shown in the Revised Baseline Projections herein may not show an exact zero cumulative surplus by the end of the projection period; however, the variance shown is not considered to materially impact the overall projections.
(4) Represents General Fund Budget special appropriation for health insurance and the net surplus / (deficit) of ASES (pre-ACA funding loss and excluding capex).
(5) Represents the total pension-related outflows included in the Revised Baseline Projections. Note that Milliman projections were used to estimate the employer contributions, which are assumed to reflect the amounts embedded in payroll. Special law contributions paid outside of the General Fund budget were estimated based on Milliman projections and ERS data. Note that these figures do not represent solely the benefit payments paid to the pensioners (the figures include both payments to the pension systems as well special law benefits paid to the pensioner in order to estimate the total pension-related outflows included in the Revised Baseline Projections).

# Revised Baseline Projections Assumptions

## The following provides a summary of the changes incorporated in the Revised Baseline Projections as well as the cumulative 10-year impact of these changes on the October Baseline Projections

| | Impact (10-years) | October Baseline Projections Assumption | Revised Baseline Projections Assumption |
|---|---|---|---|
| **Pensions** | **- $678** million(1) | ▪ The October Baseline Projections included the Additional Uniform Contribution ("AUC") required to be paid to the Employees Retirement System ("ERS") and the Annual Additional Contributions ("AAC") required to be paid to the Teachers Retirement System ("TRS") and Judicial Retirement System ("JRS")<br>▪ The projections also assumed all past-due AAC/AUC payments are made in FY 2017<br>▪ Special Laws projections for ERS and TRS were based on the FY 2017 General Fund budget and held flat through the projection period | ▪ The Revised Baseline Projections assume that the Commonwealth no longer makes AUC/AAC payments (including the past-due amounts). Instead, existing pension system assets, employer contributions, and investment income are used to fund benefit payments(2)<br>▪ The Revised Baseline Projections also assume that the employee contributions are completely segregated in all three pension systems starting in FY 2017<br>▪ Based on additional information provided by the pension systems, Special Laws contributions are no longer held flat through the projection period and instead are projected based on current law, estimated mortality rates, and retiree increase ratios |
| **Growth and Inflation** | **- $3.4** billion | ▪ The macroeconomic assumptions in the October Baseline Projections were stated in terms of GDP growth<br>▪ The macroeconomic assumptions underlying the October Baseline Projections were based solely on certain factors exogenous to Puerto Rico's fiscal position and potential policy measures, such as working age population and price indices<br>▪ The October Baseline Projections included real economic contraction with a compound annual growth rate ("CAGR") of 1.7% and inflation of 1.8% over the period FY 2018 through FY 2026, resulting in nominal economic growth of 0.1% | ▪ The macroeconomic assumptions are now stated in terms of GNP growth<br>▪ The macroeconomic assumptions have been updated to reflect existing law and assume that contractual debt service is made in full by enacting fiscal adjustments<br>▪ The Revised Baseline Projections include real economic contraction with a CAGR of 1.6% and inflation of 0.6% over the period of FY 2018 through FY 2026, resulting in nominal economic contraction of approximately 1.0% |
| **Pay Businesses for Past Services and Tax Refunds** | **- $1.6** billion | ▪ The payment of central government payables to reach 60 Days Payable Outstanding ("DPO"), central government payables to PREPA and PRASA, potential police officer pay and the payment of past-due tax refunds were included as "measures" | ▪ These catch-up items have been moved from the "measures" into the baseline(3) |

(1) Note that the variance shown here does not represent the variance directly attributable to the switch to a paygo scenario. The $678 million unfavorable variance includes the positive variance associated with an update to the special laws projections, which makes up approximately $241 million of the variance shown above (i.e. if this positive variance is excluded, the total paygo impact would increase to approximately negative $920 million).
(2) Paygo projections assume that the AUC and AAC amounts included in the FY 2017 budget are no longer made. Illustratively assumes 80% of the illiquid assets are amortized over 5 years and an investment income return of 3% per annum on available system assets.
(3) Note that a minor update was made to the amount of central government payables owed to PRASA as of June 30, 2016 as a result of ongoing diligence.

# Revised Baseline Projections Assumptions (cont'd)

## The following table provides a summary of the changes incorporated in the Revised Baseline Projections and the impact as compared to the October Baseline Projections

| | Impact (10-years) | October Baseline Projections Assumption | Revised Baseline Projections Assumption |
|---|---|---|---|
| **Expenses Reconciliation Adjustment** | **- $3.0** billion | | ▪ A contingency for expenses was included to reconcile FY 2017 projected Governmental Funds expenses with historical trends for FY 2014 through FY 2016 (as estimated on a preliminary basis and adjusted for certain one-time items)<br>▪ Reflects possible discrepancy between Governmental Funds expense budgeting, which forms the basis of the expense projections, and actual historical results based on modified accrual accounting<br>▪ Amount assumed to remain flat per annum for the projection period; the estimated contingency amount may decrease to the extent improved governmental controls are implemented |
| **General Fund Revenues and Budget** | **+ $109** million | ▪ The FY 2017 Approved Budget was used for the General Fund Budget projections and formed the basis of the General Fund revenues projections, as provided by OMB and Hacienda | ▪ Preliminary actuals for the first three months of FY 2017 have been incorporated into the Revised Baseline Projections<br>▪ FY 2017 Budget increased by $60 million (non-recurring adjustment) to reflect the net impact of Department of Education special education fund overspend |
| **Other Changes** | **- $189** million | ▪ The October Baseline Projections did not include a projection for COFINA operating expenses or the posting of collateral for swap payments<br>▪ The October Baseline Projections also did not include a projection for the net operating deficits of the Special Communities Perpetual Trust ("SCPT") or the Maritime Shipping Authority ("MSA")<br>▪ Federal Transfers/Programs in FY 2017 were based on the federal transfers figure included in the OMB budget (plus transfers to UPR), which were grown by a combination of inflation and projected population growth | ▪ Projections for COFINA operating expenses and swap collateral requirements, as well as projections of net operating deficits for SCPT and MSA, have now been included in the Revised Baseline Projections, which make up the majority of the impact shown for "Other Changes"<br>▪ A minor adjustment to Federal transfers/Federal Programs was made to reflect the higher projected growth of ASES-related federal transfers (pre-ACA funding loss) relative to inflation, *which had <u>no net impact</u> on the model*<br>▪ Additional changes were made that had an immaterial impact on the Base Projections[1] |

(1) Additional changes include an update of the GDB debt service schedule in order to incorporate the payment-in-kind of certain interest on November 1st, 2016 and the resulting impact of the General Fund Revenues and Budget update on UPR projected expenses.

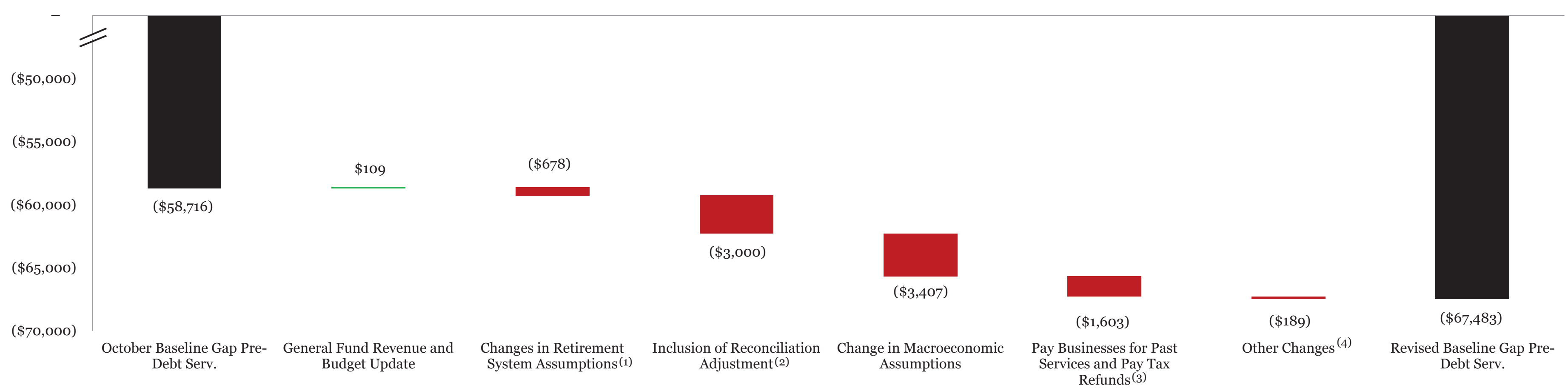
# Summary of Changes to Baseline Projections

## The tables below provide a summary of the variances between the October Baseline Projections and the Revised Baseline Projections

### Annual Summary of Changes in the Revised Baseline Projections ($ millions)

| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | Total 5 Yr | Total 10 Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| General Fund Revenues | | | | | | | | | | | | |
| October Baseline Projections | $9,045 | $8,564 | $8,056 | $8,024 | $7,989 | $7,954 | $7,918 | $7,884 | $7,853 | $7,825 | $41,678 | $81,111 |
| Revised Baseline Projections | 9,100 | 8,599 | 8,070 | 8,038 | 8,003 | 7,968 | 7,932 | 7,898 | 7,867 | 7,839 | 41,810 | 81,314 |
| Delta (if positive, a reduction of the deficit) | $55 | $35 | $14 | $14 | $14 | $14 | $14 | $14 | $14 | $14 | $132 | $203 |
| Adjusted General Fund Budget (ex. Retirement System Contributions and Debt Service) | | | | | | | | | | | | |
| October Baseline Projections | ($7,732) | ($8,031) | ($8,118) | ($8,158) | ($8,344) | ($8,352) | ($8,442) | ($8,533) | ($8,762) | ($8,767) | ($40,383) | ($83,239) |
| Revised Baseline Projections | (7,792) | (8,035) | (8,121) | (8,162) | (8,348) | (8,356) | (8,446) | (8,537) | (8,765) | (8,771) | (40,458) | (83,332) |
| Delta (if positive, a reduction of the deficit) | ($60) | ($4) | ($4) | ($4) | ($4) | ($4) | ($4) | ($4) | ($4) | ($4) | ($75) | ($94) |
| Retirement System Contributions[1] | | | | | | | | | | | | |
| October Baseline Projections | ($1,417) | ($996) | ($1,651) | ($1,708) | ($1,715) | ($1,707) | ($1,701) | ($1,767) | ($1,765) | ($1,759) | ($7,488) | ($16,186) |
| Revised Baseline Projections | (537) | (1,577) | (1,651) | (1,674) | (1,705) | (1,896) | (1,915) | (1,947) | (1,973) | (1,990) | (7,144) | (16,864) |
| Delta (if positive, a reduction of the deficit) | $880 | ($581) | $0 | $34 | $10 | ($189) | ($214) | ($180) | ($208) | ($231) | $343 | ($678) |
| Inclusion of Reconciliation Adjustment[2] | ($300) | ($300) | ($300) | ($300) | ($300) | ($300) | ($300) | ($300) | ($300) | ($300) | ($1,500) | ($3,000) |
| Change in Macroeconomic Assumptions | ($5) | ($1,204) | ($1,178) | ($778) | ($416) | ($80) | $19 | $49 | $85 | $102 | ($3,581) | ($3,407) |
| Pay Businesses for Past Services and Pay Tax Refunds[3] | ($555) | ($262) | ($262) | ($262) | ($262) | – | – | – | – | – | ($1,603) | ($1,603) |
| Other Changes[4] | ($33) | ($27) | ($15) | ($16) | ($16) | ($16) | ($16) | ($17) | ($17) | ($17) | ($106) | ($189) |
| **Base Financing Gap** | | | | | | | | | | | | |
| October Baseline Projections | ($3,605) | ($3,408) | ($5,813) | ($5,744) | ($5,978) | ($5,974) | ($6,258) | ($7,084) | ($7,171) | ($7,682) | ($24,547) | ($58,716) |
| Total Delta | (17) | (2,343) | (1,745) | (1,311) | (973) | (575) | (501) | (437) | (429) | (436) | (6,390) | (8,767) |
| Revised Baseline Projections | ($3,622) | ($5,751) | ($7,558) | ($7,055) | ($6,951) | ($6,548) | ($6,759) | ($7,521) | ($7,600) | ($8,118) | ($30,937) | ($67,483) |

### 10-Year Cumulative Summary of Changes in the Revised Baseline Projections ($ millions)




(1) Represents the total impact of all the changes made to the retirement system projections, including the update to the special laws projections, which resulted in a cumulative positive variance of approximately $241 million over the 10-year projection period. If this variance were excluded, the implied cumulative paygo impact would increase to approximately negative $920 million over the 10-year projection period. The variance shown herein does not include employer contributions or special laws outside of the General Fund (note that the variance does include the incremental contributions that are paid from the General Fund Budget).

(2) Represents adjustment to reconcile Governmental Funds expenses in the Revised Baseline Projections with historical trends based on preliminary analysis.

(3) Represents the payment of central government accounts payable to reach 60 DPO, central government payables to PREPA and PRASA, past-due tax refunds, and potential police officer pay. These items were previously includes as "measures" in the October Fiscal Plan. Note that a minor update was made to the amount of central government payables owed to PRASA as of June 30, 2016 as a result of ongoing diligence.

(4) Additional changes include an update of the GDB debt service schedule in order to incorporate the payment-in-kind of certain interest on November 1st, 2016, the resulting impact of the General Fund Revenues and Budget update on UPR projected expenses, a projection for COFINA operating expenses and swap collateral requirements, and a projection for the net operating deficits of Special Communities Perpetual Trust ("SCPT") and Maritime Shipping Authority ("MSA").

# Appendix

# Revised Baseline Projections – Revenues

## The following table presents a detailed summary of revenues included in the Revised Baseline Projections

| | | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | Total 5 Yr | Total 10 Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Revenues before Measures** | | | | | | | | | | | | |
| | *General Fund Revenues (incl. Act 154 / Excise Tax Losses)* | | | | | | | | | | | | |
| 1 | Individual Income Taxes | $1,953 | $1,620 | $1,583 | $1,662 | $1,733 | $1,813 | $1,826 | $1,828 | $1,830 | $1,832 | $8,551 | $17,680 |
| 2 | Corporate Income Taxes | 1,541 | 1,307 | 1,277 | 1,328 | 1,371 | 1,419 | 1,430 | 1,431 | 1,433 | 1,435 | 6,824 | 13,973 |
| 3 | Non-Resident Withholdings | 731 | 731 | 731 | 731 | 731 | 731 | 731 | 731 | 731 | 731 | 3,654 | 7,308 |
| 4 | Act 154 / Excise Tax Revenues | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 2,005 | 10,027 | 20,053 |
| 5 | Estimated Loss of Act 154 / Foreign Company Tax Revenues | – | (501) | (1,003) | (1,003) | (1,003) | (1,003) | (1,003) | (1,003) | (1,003) | (1,003) | (3,509) | (8,523) |
| 6 | Excise Taxes on Alcoholic Beverages | 269 | 223 | 218 | 226 | 234 | 242 | 244 | 244 | 244 | 244 | 1,169 | 2,387 |
| 7 | Motor Vehicle Excise Taxes | 308 | 255 | 249 | 259 | 268 | 277 | 279 | 279 | 280 | 280 | 1,338 | 2,733 |
| 8 | Excise Taxes on Off-Shore Shipments Rum | 201 | 163 | 164 | 165 | 167 | 168 | 169 | 170 | 172 | 173 | 859 | 1,712 |
| 9 | General Fund Portion of 11.5% SUT | 1,637 | 1,204 | 1,129 | 1,175 | 1,207 | 1,245 | 1,226 | 1,192 | 1,156 | 1,119 | 6,352 | 12,290 |
| 10 | Cigarette Excise Taxes | 114 | 94 | 92 | 96 | 99 | 102 | 103 | 103 | 103 | 104 | 495 | 1,012 |
| 11 | Casino Slot Revenues | 18 | 15 | 15 | 15 | 16 | 16 | 16 | 16 | 16 | 16 | 78 | 160 |
| 12 | Lotteries | 65 | 66 | 65 | 67 | 70 | 72 | 73 | 73 | 73 | 73 | 333 | 696 |
| 13 | Other General Fund Tax Revenues | 117 | 93 | 91 | 94 | 97 | 101 | 102 | 102 | 102 | 102 | 492 | 1,001 |
| 14 | Other General Fund Non-Tax Revenues | 142 | 118 | 115 | 120 | 124 | 128 | 129 | 129 | 130 | 130 | 620 | 1,266 |
| 15 | *General Fund Revenues (incl. Act 154 / Excise Tax Losses)* | *9,100* | *7,392* | *6,731* | *6,942* | *7,118* | *7,317* | *7,331* | *7,301* | *7,273* | *7,242* | *37,284* | *73,747* |
| | *Additional Sales and Use Tax ("SUT")* | | | | | | | | | | | | |
| 16 | COFINA Portion of 6% SUT | 724 | 753 | 783 | 815 | 847 | 881 | 916 | 953 | 991 | 1,031 | 3,922 | 8,694 |
| 17 | Portion of 11.5% SUT - FAM | 117 | 97 | 95 | 98 | 102 | 105 | 106 | 106 | 106 | 106 | 508 | 1,038 |
| 18 | Portion of 11.5% SUT - Cine | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 16 | 32 |
| 19 | *Additional Sales and Use Tax ("SUT")* | *844* | *853* | *881* | *916* | *952* | *989* | *1,025* | *1,062* | *1,100* | *1,140* | *4,446* | *9,764* |
| | *Other Tax Revenues* | | | | | | | | | | | | |
| 20 | Non-Resident Withholdings (Special Revenue Fund) | 59 | 59 | 59 | 59 | 59 | 59 | 59 | 59 | 59 | 59 | 295 | 590 |
| 21 | Excise Taxes on Off-Shore Shipments Rum (Special Revenue Fund) | 174 | 136 | 137 | 138 | 139 | 140 | 141 | 142 | 143 | 144 | 724 | 1,436 |
| 22 | Room Taxes | 77 | 81 | 85 | 88 | 91 | 94 | 95 | 95 | 95 | 95 | 422 | 895 |
| 23 | Cigarette Excise Taxes (Special Revenue Fund) | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 337 | 674 |
| 24 | Petroleum Products (Crudita) Excise Tax | 411 | 510 | 510 | 510 | 510 | 510 | 510 | 510 | 510 | 510 | 2,451 | 5,001 |
| 25 | Gas Oil and Diesel Excise Taxes | 13 | 13 | 13 | 13 | 13 | 12 | 12 | 11 | 11 | 11 | 63 | 119 |
| 26 | Gasoline Excise Tax Revenue | 151 | 146 | 145 | 146 | 148 | 143 | 139 | 134 | 129 | 126 | 736 | 1,407 |
| 27 | Vehicle License Fees | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 93 | 463 | 927 |
| 28 | Other Special Revenue Fund Tax Revenues | 51 | 42 | 41 | 43 | 44 | 46 | 46 | 46 | 46 | 46 | 222 | 454 |
| 29 | Casino Slot Revenues | 140 | 145 | 146 | 145 | 154 | 164 | 166 | 167 | 167 | 167 | 731 | 1,562 |
| 30 | CRIM Property Tax Inflows | 101 | 84 | 82 | 85 | 88 | 91 | 92 | 92 | 92 | 92 | 439 | 897 |
| 31 | *Other Tax Revenues* | *1,337* | *1,376* | *1,377* | *1,387* | *1,406* | *1,420* | *1,420* | *1,416* | *1,413* | *1,411* | *6,883* | *13,963* |
| | *Other Non-Tax Revenues* | | | | | | | | | | | | |
| 32 | Lotteries - Munis & Other | 33 | 26 | 28 | 33 | 41 | 43 | 43 | 43 | 43 | 50 | 160 | 383 |
| 33 | HTA Non-Tax Revenues (ex. Teodoro Moscoso) | 240 | 245 | 249 | 252 | 259 | 266 | 268 | 268 | 268 | 268 | 1,245 | 2,582 |
| 34 | Teodoro Moscoso Bridge Revenues | – | – | – | – | 17 | 17 | 18 | 18 | 18 | 18 | 17 | 105 |
| 35 | PRIDCO Rent and Other Non-Tax Revenues | 67 | 67 | 69 | 71 | 74 | 77 | 77 | 77 | 77 | 78 | 347 | 733 |
| 36 | UPR Tuition, Fees and Other Non-Tax Revenues(1) | 169 | 168 | 167 | 166 | 167 | 168 | 170 | 172 | 174 | 176 | 837 | 1,696 |
| 37 | PRCCDA Rent and Other Non-Tax Revenues | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 20 | 40 |
| 38 | Net Income of Select Component Units(2) | 76 | 63 | 62 | 64 | 66 | 69 | 69 | 69 | 69 | 70 | 332 | 679 |
| 39 | *Other Non-Tax Revenues* | *590* | *573* | *577* | *591* | *627* | *644* | *649* | *651* | *653* | *663* | *2,958* | *6,218* |
| 40 | **Total Adjusted Revenue before Measures** | **$11,871** | **$10,195** | **$9,567** | **$9,836** | **$10,103** | **$10,371** | **$10,425** | **$10,431** | **$10,439** | **$10,456** | **$51,571** | **$103,692** |
| 41 | GDB Loan Inflows | 236 | 233 | 233 | 211 | 186 | 183 | 181 | 181 | 178 | 176 | 1,098 | 1,998 |
| 42 | Federal Transfers | 7,000 | 7,057 | 7,154 | 7,190 | 7,297 | 7,496 | 7,675 | 7,864 | 8,122 | 8,330 | 35,698 | 75,184 |
| 43 | Loss of Affordable Care Act ("ACA") Funding | – | (864) | (1,515) | (1,580) | (1,677) | (1,831) | (1,950) | (2,066) | (2,248) | (2,379) | (5,636) | (16,110) |
| 44 | **Total Revenues before Measures** | **$19,107** | **$16,621** | **$15,438** | **$15,657** | **$15,908** | **$16,219** | **$16,331** | **$16,410** | **$16,491** | **$16,582** | **$82,730** | **$164,763** |

(1) Excludes Federal Grants.
(2) Represents the net income estimates of entities without bonded debt that have historically provided a surplus. Net numbers are shown as these entities generally receive independent revenues that would not be generated absent the associated expenses. Note that numbers are shown excluding capital expenditures, which are shown elsewhere and forward estimates are based on a review of historical results.

# Revised Baseline Projections – Expenses and Financing Gap

## The following table presents a detailed summary of the expenditures included in the Revised Baseline Projections and also shows the Financing Gap

| | | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | Total 5 Yr | Total 10 Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Non-Debt Expenditures before Measures** | | | | | | | | | | | | |
| | *General Fund Expenses (ex. Paygo Contributions and Debt Service)* | | | | | | | | | | | | |
| 45 | Direct Payroll(1) | ($3,271) | ($3,238) | ($3,204) | ($3,194) | ($3,207) | ($3,244) | ($3,289) | ($3,342) | ($3,398) | ($3,455) | ($16,114) | ($32,841) |
| 46 | Direct Operational Expenses | (907) | (898) | (888) | (885) | (889) | (899) | (912) | (927) | (942) | (958) | (4,468) | (9,105) |
| 47 | Utilities | (260) | (331) | (351) | (359) | (372) | (371) | (368) | (373) | (386) | (394) | (1,674) | (3,566) |
| 48 | Special Appropriations - UPR Formula | (791) | (839) | (839) | (839) | (839) | (839) | (839) | (839) | (839) | (851) | (4,147) | (8,353) |
| 49 | Special Appropriations - Judicial Formula | (324) | (367) | (367) | (367) | (367) | (367) | (367) | (367) | (367) | (367) | (1,793) | (3,629) |
| 50 | Special Appropriations - Municipalities Formula | (361) | (371) | (371) | (371) | (371) | (371) | (371) | (371) | (371) | (371) | (1,845) | (3,701) |
| 51 | Special Appropriations - Retirement Systems | (537) | (589) | (637) | (688) | (741) | (744) | (738) | (730) | (722) | (712) | (3,192) | (6,838) |
| 52 | Special Appropriations - Health Insurance | (885) | (885) | (885) | (885) | (885) | (885) | (885) | (885) | (885) | (885) | (4,425) | (8,850) |
| 53 | Special Appropriations - Other | (992) | (967) | (936) | (877) | (956) | (887) | (895) | (895) | (1,013) | (913) | (4,728) | (9,331) |
| 54 | *General Fund Expenses (ex. Paygo Contributions and Debt Service)* | *(8,329)* | *(8,485)* | *(8,479)* | *(8,466)* | *(8,628)* | *(8,608)* | *(8,664)* | *(8,729)* | *(8,923)* | *(8,906)* | *(42,386)* | *(86,216)* |
| | *Paygo Contributions in Excess of Asset Balance* | | | | | | | | | | | | |
| 55 | Paygo Contributions in Excess of Asset Balance(2) | – | (989) | (1,014) | (985) | (964) | (1,151) | (1,177) | (1,217) | (1,251) | (1,278) | (3,952) | (10,026) |
| 56 | *Paygo Contributions in Excess of Asset Balance* | – | *(989)* | *(1,014)* | *(985)* | *(964)* | *(1,151)* | *(1,177)* | *(1,217)* | *(1,251)* | *(1,278)* | *(3,952)* | *(10,026)* |
| | *Maintenance Capital Expenditures* | | | | | | | | | | | | |
| 57 | Run-Rate Capital Expenditures (excl. Incremental Non-Growth and Growth Capex) | (283) | (400) | (407) | (415) | (422) | (429) | (437) | (445) | (453) | (462) | (1,928) | (4,154) |
| 58 | *Maintenance Capital Expenditures* | *(283)* | *(400)* | *(407)* | *(415)* | *(422)* | *(429)* | *(437)* | *(445)* | *(453)* | *(462)* | *(1,928)* | *(4,154)* |
| | *Component Units, Non-GF Funds and Enterprise Funds* | | | | | | | | | | | | |
| 59 | Net Deficit of Special Revenue Funds ex. Tax Revenues(3) | (107) | (179) | (182) | (165) | (155) | (147) | (152) | (161) | (170) | (179) | (788) | (1,598) |
| 60 | PRCCDA Expenses | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (24) | (48) |
| 61 | PRIDCO Expenses | (104) | (105) | (106) | (106) | (106) | (107) | (108) | (109) | (110) | (111) | (528) | (1,072) |
| 62 | UPR Expenses | (175) | (132) | (136) | (141) | (152) | (168) | (187) | (209) | (231) | (242) | (735) | (1,773) |
| 63 | ASEM Deficit ex. Capex and AUC | (10) | (7) | (9) | (10) | (12) | (13) | (15) | (17) | (20) | (23) | (47) | (135) |
| 64 | ASES Surplus / (Deficit) pre-ACA Loss ex. Capex and AUC | (38) | 79 | 52 | (57) | (120) | (219) | (297) | (372) | (490) | (574) | (84) | (2,036) |
| 65 | Net Op. Deficit of Other Independently Projected Component Units ex. Tax Revs.(4) | (155) | (274) | (277) | (268) | (262) | (252) | (259) | (267) | (274) | (281) | (1,236) | (2,569) |
| 66 | Net Deficit of Select Component Units ex. Tax Revenues(5) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (13) | (26) |
| 67 | Net Op. Deficit of Special Communities Perpetual Trust and Maritime Shippping | (17) | (17) | (17) | (17) | (17) | (17) | (17) | (17) | (18) | (18) | (85) | (171) |
| 68 | Net Deficit of Enterprise Funds(6) | (6) | (8) | (8) | (8) | (7) | (7) | (7) | (7) | (7) | (8) | (8) | (36) | (74) |
| 69 | HTA Operational Expenses (excl. Debt Service, T. Moscoso and Capex) | (246) | (234) | (236) | (238) | (234) | (237) | (240) | (244) | (248) | (252) | (1,188) | (2,409) |
| 70 | Teodoro Moscoso Expenses (excl. Debt Service and Capex) | – | – | – | – | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (23) |
| 71 | COFINA Operating Expenses | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (0) | (1) | (3) |
| 72 | COFINA Revenues Posted for Swap Collateral | (15) | (12) | – | – | – | – | – | – | – | – | (27) | (27) |
| 73 | Allocation of SUT to Cine | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (16) | (32) |
| 74 | *Component Units, Non-GF Funds and Enterprise Funds* | *(884)* | *(899)* | *(929)* | *(1,021)* | *(1,079)* | *(1,182)* | *(1,297)* | *(1,419)* | *(1,583)* | *(1,704)* | *(4,811)* | *(11,995)* |
| | *Disbursements of Tax Revenues to Entities Outside Plan* | | | | | | | | | | | | |
| 75 | Cigarette and Rum Shipment Excise Tax Related Outflows | (175) | (137) | (138) | (139) | (140) | (141) | (142) | (143) | (144) | (145) | (729) | (1,446) |
| 76 | Lotteries Related Outflows - Munis & Other | (33) | (26) | (28) | (33) | (41) | (43) | (43) | (43) | (43) | (50) | (160) | (383) |
| 77 | Allocation of SUT to FAM | (117) | (97) | (95) | (98) | (102) | (105) | (106) | (106) | (106) | (106) | (508) | (1,038) |
| 78 | *Disbursements of Tax Revenues to Entities Outside Plan* | *(324)* | *(260)* | *(261)* | *(270)* | *(283)* | *(289)* | *(292)* | *(293)* | *(294)* | *(302)* | *(1,398)* | *(2,867)* |
| 79 | **Adjusted Expenses** | **($9,821)** | **($11,032)** | **($11,090)** | **($11,157)** | **($11,375)** | **($11,660)** | **($11,867)** | **($12,103)** | **($12,504)** | **($12,651)** | **($54,474)** | **($115,258)** |
| 80 | GDB Loan and Net Deposit Outflows | (236) | (276) | (313) | (305) | (182) | (109) | (110) | (110) | (111) | (112) | (1,312) | (1,865) |
| 81 | Federal Programs | (7,000) | (7,057) | (7,154) | (7,190) | (7,297) | (7,496) | (7,675) | (7,864) | (8,122) | (8,330) | (35,698) | (75,184) |
| 82 | Reconciliation Adjustment(7) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (1,500) | (3,000) |
| 83 | Payment of Past-Due Tax Refunds | (293) | – | – | – | – | – | – | – | – | – | (293) | (293) |
| 84 | Pay Local Businesses for Past Services | (262) | (262) | (262) | (262) | (262) | – | – | – | – | – | (1,310) | (1,310) |
| 85 | Federal Oversight Board Implemented by PROMESA | (200) | (150) | (5) | (5) | (5) | (5) | – | – | – | – | (365) | (370) |
| 86 | **Total Noninterest Expenditures** | **($18,111)** | **($19,077)** | **($19,124)** | **($19,219)** | **($19,421)** | **($19,570)** | **($19,952)** | **($20,377)** | **($21,036)** | **($21,392)** | **($94,952)** | **($197,279)** |
| 87 | **Financing Gap Pre-Debt Service, Pre-Measures** | **$995** | **($2,457)** | **($3,685)** | **($3,562)** | **($3,513)** | **($3,351)** | **($3,621)** | **($3,967)** | **($4,546)** | **($4,810)** | **($12,221)** | **($32,516)** |
| | **Debt Service Net of Existing Reserves(8)** | | | | | | | | | | | | |
| 88 | Consolidated Interest | (2,372) | (2,319) | (2,239) | (2,169) | (2,118) | (2,062) | (2,025) | (1,974) | (1,972) | (1,910) | (11,217) | (21,159) |
| 89 | Consolidated Principal | (1,095) | (957) | (1,628) | (1,299) | (1,315) | (1,130) | (1,109) | (1,575) | (1,078) | (1,394) | (6,295) | (12,580) |
| 90 | Missed Principal and Interest Payments | (1,375) | – | – | – | – | – | – | – | – | – | (1,375) | (1,375) |
| 91 | TDF Guaranteed Debt Service(9) | (155) | (37) | (6) | (25) | (5) | (5) | (5) | (5) | (5) | (5) | (227) | (251) |
| 92 | Use of Existing Debt Service Reserves | 379 | 19 | – | – | – | – | – | – | – | – | 398 | 398 |
| 93 | **Total Debt Service Net of Existing Reserves** | **(4,618)** | **(3,294)** | **(3,872)** | **(3,493)** | **(3,438)** | **(3,197)** | **(3,138)** | **(3,554)** | **(3,055)** | **(3,308)** | **(18,715)** | **(34,967)** |
| 94 | **Total Estimated Financing Gap before Measures** | **($3,622)** | **($5,751)** | **($7,558)** | **($7,055)** | **($6,951)** | **($6,548)** | **($6,759)** | **($7,521)** | **($7,600)** | **($8,118)** | **($30,937)** | **($67,483)** |

(1) Includes a portion of employer contributions to the Employees and Teachers Retirement Systems ("ERS" and "TRS", respectively).

(2) Pay-go contributions represent the incremental contributions in excess of payments from existing asset balances required to be paid to the Teachers, Judicial and Employees Retirement Systems based on estimates provided by the Commonwealth's actuaries and pension advisors, incorporating updated assumptions regarding items such as changes in the size of the active membership and future payroll assumptions consistent with the Fiscal Plan.

(3) Deficit for Special Revenue Funds calculated after removing tax revenues, which are shown separately.

(4) Developed by consulting with management including: ADEA, Cardiovascular Center, PBA, PRITA, Ports Authority and Tourism Company.

(5) Represents the net income estimates of entities without bonded debt that have historically resulted in a deficit. Note that numbers are shown excluding capital expenditures, which are shown elsewhere. Forward estimates based on review of historical results.

(6) Includes Unemployment Insurance and 9-1-1 Services Governing Board. Excludes Drivers Insurance and Disability Insurance, which are restricted funds.

(7) Represents adjustment to reconcile Governmental Funds expenses in the Revised Baseline Projections with historical trends based on preliminary analysis.

(8) The debt service payment schedule is based in part on publicly available information from the GDB website and Bloomberg as well as information provided by Hacienda and GDB. All parties should consult the relevant governing debt documents to determine their own views as to the debt service obligations for the debt shown below. Note that only bonded debt service for the entities included in the Fiscal Plan is included (with the exception of the 2013B GDB notes and GSA lines, both of which are private lending arrangements). Other debt service for private bank lines may be embedded in the projections for certain component units and public corporations. Such amounts are not material. Note that debt service does not include a refill of reserve amounts.

(9) Includes debt service of certain TDF guaranteed bonds and loans.

# Summary of Revised Baseline Projections

## The following provides an alternative summary of the Revised Baseline Projections, which shows the revenues and expenses before economic contraction and the impact of economic contraction as compared to 0% real economic growth(1)

- For comparison purposes, inflation is illustratively held constant between the two scenarios at a CAGR of 0.6% over the period FY 2018 through FY 2026

### Annual Summary of the Revised Baseline Projections ($ millions)

| | 2017P | 2018P | 2019P | 2020P | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P | Total 5-Yr | Total 10-Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenues | $19,107 | $17,800 | $16,680 | $16,621 | $16,668 | $16,800 | $16,967 | $17,170 | $17,379 | $17,601 | $86,877 | $172,793 |
| Total Expenses ex. Debt Service | (18,111) | (19,033) | (19,077) | (19,182) | (19,390) | (19,545) | (19,925) | (20,345) | (21,001) | (21,352) | (94,793) | (196,960) |
| Debt Service Net of Existing Reserves | (4,618) | (3,294) | (3,872) | (3,493) | (3,438) | (3,197) | (3,138) | (3,554) | (3,055) | (3,308) | (18,715) | (34,967) |
| *Economic Contraction (2)* | – | *(1,224)* | *(1,289)* | *(1,002)* | *(791)* | *(606)* | *(663)* | *(792)* | *(924)* | *(1,059)* | *(4,305)* | *(8,349)* |
| **Base Financing Gap** | **($3,622)** | **($5,751)** | **($7,558)** | **($7,055)** | **($6,951)** | **($6,548)** | **($6,759)** | **($7,521)** | **($7,600)** | **($8,118)** | **($30,937)** | **($67,483)** |
| Illustrative Refi./(Amort.) of FY 2017 Deficit | $3,622 | – | ($3) | ($607) | ($771) | ($1,196) | ($1,029) | ($16) | – | – | 2,241 | – |
| Illustrative Interest Due on FY 2017 Deficit(3) | – | (362) | (264) | (163) | (102) | (81) | (38) | (1) | – | – | (892) | (1,011) |
| Fiscal Adjustment to Reach Zero Cumulative Deficit | – | 6,100 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 | 29,575 | 68,700 |
| **Fin. Surplus / (Gap) After Fiscal Adjustment(4)** | – | **($13)** | – | – | – | – | – | **$288** | **$225** | **($293)** | **($13)** | **$206** |
| *Memo: October Baseline Projections* | *($3,605)* | *($3,408)* | *($5,813)* | *($5,744)* | *($5,978)* | *($5,974)* | *($6,258)* | *($7,084)* | *($7,171)* | *($7,682)* | *($24,547)* | *($58,716)* |
| *Memo: Select Items Excluded From Total Revenues* | | | | | | | | | | | | |
| *ACA Funding Loss* | – | *($864)* | *($1,515)* | *($1,580)* | *($1,677)* | *($1,831)* | *($1,950)* | *($2,066)* | *($2,248)* | *($2,379)* | *($5,636)* | *($16,110)* |
| *Est. Act 154 / Foreign Company Tax Losses* | – | *(501)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(1,003)* | *(3,509)* | *(8,523)* |
| *Memo: Select Items Included in Total Expenses* | | | | | | | | | | | | |
| *Expiration of Act 66* | – | *($101)* | *($101)* | *($101)* | *($101)* | *($101)* | *($124)* | *($194)* | *($266)* | *($340)* | *($406)* | *($1,431)* |
| *CW Health Care Insurance Program (5)* | *(923)* | *(806)* | *(833)* | *(942)* | *(1,005)* | *(1,104)* | *(1,182)* | *(1,257)* | *(1,375)* | *(1,459)* | *(4,509)* | *(10,886)* |
| *Memo: Additional Pensions Details* | | | | | | | | | | | | |
| *Pension-Related Outflows Included in Baseline (6)* | *($1,041)* | *($2,075)* | *($2,138)* | *($2,145)* | *($2,164)* | *($2,349)* | *($2,366)* | *($2,391)* | *($2,414)* | *($2,436)* | *($9,563)* | *($21,518)* |
| *Est. Paygo Payments Included in Baseline* | – | *(989)* | *(1,014)* | *(985)* | *(964)* | *(1,151)* | *(1,177)* | *(1,217)* | *(1,251)* | *(1,278)* | *(3,952)* | *(10,026)* |

(1) The growth projections assume that a permanent fiscal adjustment of $6.1 billion is taken in FY 2018 (and for every year thereafter through the projection period), as well as an additional permanent adjustment of $1.725 billion taken in FY 2019 (and for every year thereafter through the projection period) in order to fill the gaps over the projection period (resulting in a total cut of approximately $7.8 billion in every year starting in FY 2019).
(2) As compared to 0% real GNP growth. Comparison illustratively holds inflation constant between scenarios at a CAGR of 0.6% over the period FY 2018 through FY 2026.
(3) Assumes the deficit in FY 2017 is paid down over time at a 10% interest rate, dropping annually by 300 basis points until the rate reaches 10-year U.S. Treasury rates plus 100 basis points.
(4) Note that due to the iterative nature of developing the projections, the deficit/surplus shown in the Revised Baseline Projections herein may not show an exact zero cumulative surplus by the end of the projection period; however, the variance shown is not considered to materially impact the overall projections.
(5) Represents General Fund Budget special appropriation for health insurance and the net surplus / (deficit) of ASES (pre-ACA funding loss and excluding capex).
(6) Represents the total pension-related outflows included in the Revised Baseline Projections. Note that Milliman projections were used to estimate the employer contributions, which are assumed to reflect the amounts embedded in payroll. Special law contributions paid outside of the General Fund budget were estimated based on Milliman projections and ERS data. Note that these figures do not represent solely the benefit payments paid to the pensioners (the figures include both payments to the pension systems as well special law benefits paid to the pensioner in order to estimate the total pension-related outflows included in the Revised Baseline Projections).

# Exhibit D

**COMMONWEALTH OF PUERTO RICO**
**LA FORTALEZA**
**SAN JUAN, PUERTO RICO**

**Administrative Bulletin Num. OE-2015-**

**EXECUTIVE ORDER ISSUED BY THE GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO, HON. ALEJANDRO J. GARCÍA PADILLA, ORDERING THE RETENTION OF REVENUES THAT WOULD OTHERWISE BE TRANSFERRED TO THE PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY, THE INFRASTRUCTURE FINANCING AUTHORITY, THE METROPOLITAN BUS AUTHORITY, THE INTEGRATED TRANSPORTATION AUTHORITY, AND THE PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY IN ORDER TO COMPLY WITH THE PAYMENT OF PUBLIC DEBT.**

**WHEREAS:** Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico provides that ""[i]n case the available resources for any fiscal year are insufficient to meet the appropriations made for that year, interest on the public debt and amortization thereof shall first be paid, and other disbursements shall thereafter be made in accordance with the order of priorities established by law."

**WHEREAS:** The Commonwealth of Puerto Rico has the responsibility and the duty to ensure the public health, safety, education, and welfare of its residents through the exercise of its police power.

**WHEREAS:** This Administration has taken historic measures to address Puerto Rico's fiscal crisis by reducing government expenses, increasing revenues and implementing structural changes. Additionally, the Working Group for the Fiscal and Economic Recovery of Puerto Rico was created in June 2015 and it developed a five-year Fiscal and Economic Growth Plan.

**WHEREAS:** On October 21, 2015, the administration of the President of the United States, Hon. Barack Obama, requested U.S. Congress to provide the Commonwealth of Puerto Rico with a legal framework to address its financial obligations in an comprehensive and orderly manner. Nevertheless, Congress has not enacted such legislation.

**WHEREAS:** Despite all the steps that have been taken, the Secretary of Treasury and the Director of the Office of Management and Budget of Puerto Rico have certified that the cash flow projection for the current fiscal year is insufficient to meet public debt payments as they become due, and continue paying for the necessary expenses to protect the public health, safety, education and welfare of the residents of Puerto Rico.

**WHEREAS:** The updated cash flow projection took into account actual year-to-date revenues, a revised revenue projection through the end of the current fiscal year and estimates of the necessary expenses to protect the health, security, education and welfare of the residents of Puerto Rico.

**WHEREAS:** Given the foregoing, the Commonwealth of Puerto Rico does not have sufficient resources to meet public debt payments and, at the same time, ensure essential services to preserve public health, safety, education and welfare.

**WHEREFORE:** I, ALEJANDRO J. GARCÍA PADILLA, Governor of the Commonwealth, by virtue of the inherent powers of my position and the authority vested in me by the Constitution and the laws of the Commonwealth, do hereby order as follow:

**FIRST:** The Secretary of Treasury of Puerto Rico is hereby ordered to retain the revenues assigned to:

a. the Puerto Rico Highways and Transportation Authority (PRHTA) for the payment of certain PRHTA obligations pursuant to Section 3060.11 of Act Num. 1-2011, as amended, and Section 23.01 of Act Num. 22-2000, as amended,
b. the Infrastructure Financing Authority (PRIFA) for the payment of certain PRIFA obligations PRIFA pursuant to Section 25 of Act Num. 44 of June 21, 1988, as amended, and Section 3060.11A of Act Num. 1-2011, as amended,
c. the Metropolitan Bus Authority (AMA, by its Spanish acronym) for payment of certain AMA obligations pursuant to Section 3060.11 of Act No. 1-2011, as amended; and
d. the Integrated Transport Authority (ATI, by its Spanish acronym), for the payment of certain ATI obligations pursuant to Section 3060.11 of Act No. 1-2011, as amended.

**SECOND:** The Puerto Rico Tourism Company is hereby ordered to transfer to the Department of the Treasury the amounts collected and used pursuant to Article 24 of Act No. 272-2003, as amended, for the payment of certain obligations of the Puerto Rico Convention Center District Authority described in Article 31, Section A, of said act.

**THIRD:** The Department of the Treasury shall only retain such revenues that are necessary for the payment of public debt, while continuing to provide essential services necessary to protect the public health, safety, education and welfare of the residents of Puerto Rico. The aforementioned revenues constitute available resources subject to Article VI, Section 8, of the Constitution of the Commonwealth of Puerto Rico. The retention will not affect such funds that are necessary for the operation of the applicable entities. Any funds retained by the Department of Treasury shall be held in a segregated account and shall only be used for the payment of the public debt when due. To the extent that the use of all or a portion of such funds is not necessary, any remaining funds shall be transferred to the applicable public corporations for the payment of their respective obligations.

**FOURTH:** DEROGATION. This order shall prevail over any other Executive Order that may, in whole or in part, be inconsistent with this Executive Order, to the extent of such incompatibility.

**FIFTH:** EFFECTIVENESS AND PUBLICATION. This Executive Order shall take effect immediately. Its widest publication and dissemination are hereby ordered.

IN TESTIMONY BY WHICH, I issue this order under my signature and I stamp on it the Great Seal of the Commonwealth of Puerto Rico, in the city of San Juan, today, the 1st day of December, 2015.

ALEJANDRO J. GARCÍA-PADILLA
GOVERNOR

Enacted pursuant to applicable law, on December 1, 2015.

VÍCTOR A. SUÁREZ-MELÉNDEZ
DESIGNATED SECRETARY OF STATE

# Exhibit E

POLÍTICA

# Mensaje del Gobernador Alejandro García Padilla sobre situación fiscal de Puerto Rico

Anuncia la creación de un grupo de trabajo para la recuperación económica que estará a cargo de negociar la reestructuración de la deuda pública

lunes, 29 de junio de 2015 - 6:00 PM

*Puertorriqueño y puertorriqueña:*

*Llego a tu hogar esta tarde para hablarte sobre la economía y la situación fiscal de Puerto Rico. Como sabes, la situación es en extremo difícil. Pero como siempre, y al igual que tú, sigo convencido de que Puerto Rico unido podrá superar cualquier crisis.*

*Esta tarde, te quiero hablar sobre la realidad que enfrentamos y la hoja de ruta que nos permitirá, con mucho esfuerzo y sacrificio, restablecer el crecimiento para ti y para tus hijos. Para que tu trabajo no vaya únicamente a pagar la deuda asumida en el pasado, sino para que* *el país pueda prosperar, como siempre lo ha hecho, con el sudor de cada trabajador y trabajadora.*

*En el día de hoy, hicimos público un importante informe, realizado a solicitud de mi gobierno, por un grupo de economistas y expertos cuya reputación y experiencia en el manejo de situaciones similares a la nuestra son incuestionables. Es la primera vez que se hace este tipo de análisis abarcador de la situación fiscal a 10 años considerando la totalidad del gobierno y no solo el fondo general. Este tipo de análisis nunca se había hecho.*

*El informe nos enfrenta a una dura realidad. La deuda pública, considerando el nivel de actividad económica actual, es impagable. Pero además, el tamaño de esa deuda nos impide salir del ciclo de recesión y contracción. Ante esta situación, todos tenemos que asumir nuestra responsabilidad.*

*Escuchen esto bien claro: no se trata de política. Se trata de matemáticas.*

*El nivel de deuda hoy es esencialmente el mismo que hace dos años y medio. Heredamos una deuda de $70 mil millones y está prácticamente igual. Por eso nadie puede decir, en justicia, que se trata de préstamos asumidos por esta administración.*

*Aun así, cuando digo que todos tenemos que asumir nuestra responsabilidad, realmente quiero decir todos. En los pasados dos años, mi gobierno ha tomado las medidas, difíciles pero valientes, y siempre sin despedir empleados, que por muchos años otros gobiernos pospusieron. Eran medidas necesarias y el informe así lo reconoce. Pero éstas resultaron insuficientes ante la dimensión y persistencia de la crisis fiscal y económica que heredamos, y que todos los expertos reconocen como la más grande que ha enfrentado gobierno alguno desde la que enfrentó con éxito Luis Muñoz Marín.*

*El informe enfoca en nuestra realidad de forma mucho más precisa que cualquier otro estudio reciente. El informe delata que encontramos métodos anticuados de contabilidad, corporaciones públicas sin fuentes propias de ingresos, falta de controles fiscales, estadísticas no confiables, y otros factores, que conspiran, contra la buena voluntad de muchos servidores públicos, para producir la situación que tenemos ante nosotros.*

*En el pasado el Gobierno podía barrer los problemas debajo de la alfombra, dejando para después su solución y tomando más dinero prestado. Ahora, es momento de enfrentar nuestros problemas y atenderlos de una vez y por todas. La deuda heredada es tan grande que no nos permite acceso a los mercados financieros y nuestra economía no genera suficientes ingresos para repagar las obligaciones asumidas.*

*Según reza el propio informe, aún si prospectivamente aumentáramos contribuciones y recortáramos más los gastos, la magnitud del problema es tal, por el peso de la deuda que arrastramos, que nada resolveríamos.*

*Por otro lado, si continuáramos tomando prestado para cubrir los déficits de las agencias, las corporaciones y los sistemas de retiro, el informe revela que para el 2025 la deuda se habría duplicado. O sea, de poco más de $70 mil millones hoy, a más de $140 mil millones en solo diez años - cantidad que equivaldría a un préstamo de más de $40,000 por cada hombre, mujer, niño y niña en Puerto Rico.*

***De la única forma que saldremos de este atolladero es si nos unimos y estamos dispuestos todos - incluso los bonistas - a asumir algunos sacrificios compartidos*** *hoy, para que mañana podamos compartir los beneficios de una economía en crecimiento. Sí, es hora de que también los que prestaron se unan a la mesa de los sacrificios, a la que nos sentamos ya nosotros, para luego participar también juntos, a la mesa, de los frutos de ese sacrificio.*

*Aun así, hay asuntos que quiero dejar bien claros. No estoy de acuerdo con todas las propuestas contenidas en el informe - no avalaré, por ejemplo, ver la educación como un gasto, en lugar de como una inversión, ni promoveré reducciones al salario mínimo para los trabajadores, entre otros. Además, defenderé los empleos como un objetivo principal en este proceso. Pero las conclusiones generales y la mayor parte del programa merecen la más seria consideración.*

***Puerto Rico necesita, y te propongo, un plan de reestructuración y desarrollo completo, comprensivo y abarcador, que atiende, no a corto, sino a largo plazo, y de forma definitiva, el inmenso problema que hoy enfrentamos.*** *De no lograrlo, la alternativa sería el impago unilateral y no planificado de las obligaciones, con todas las consecuencias negativas que esto implica para cada uno de nosotros. Para que eso no suceda, debemos, actuar ahora.*

*El primer paso, y el más importante, será restablecer el crecimiento económico. Aunque serán necesarios más ajustes fiscales, queda claro que sin un crecimiento agresivo de la producción en Puerto Rico, nunca saldremos del ciclo vicioso de contracción, emigración, austeridad e impuestos. La agenda económica que implantamos desde el comienzo de mi gobierno, ha logrado avances en la creación de empleos, manufactura, agricultura, la industria aeroespacial, de servicios de salud, y de investigación y desarrollo, y así lo refleja la baja en el desempleo, pero, nuevamente, hace falta hacer más, hace falta hacer mucho más.*

*Para volver a generar riqueza, promoveré legislación localmente para hacer más competitivas nuestras leyes para atemperarlas a la realidad actual de forma que promuevan la creación de empleos y una mayor expansión de la empresa privada. Abogaré por una reforma del sistema de beneficencia social a nivel federal, que en conjunto creen las condiciones para que los patronos e inversionistas contraten más empleados, y para que trabajar en Puerto Rico deje más dinero que recibir asistencia pública.*

*El sector privado, y no el gobierno, tiene que ser el principal promotor de creación de empleos en Puerto Rico, por lo cual facilitaremos la inversión privada en construcción y en nuevos negocios, y levantaremos una nueva clase empresarial nativa.*

*Promoveremos más inversión estratégica que realmente le devuelva al país un rendimiento económico. Por cada dólar invertido en obra pública debemos generar un múltiplo adicional de actividad privada. Ese es el criterio correcto, no la conveniencia política.*

*Esto me lleva al segundo pilar del plan.*

*Dije que encaminar el crecimiento requeriría que todos asumamos algunos sacrificios. Y es que para poder invertir en nuestra economía, hoy creé por orden ejecutiva, el* ***Grupo de Trabajo para la Recuperación Económica de Puerto Rico****, liderado por el Ing. Víctor Suárez, la CPA Melba Acosta, el Lcdo. César Miranda y los Presidentes de Senado y Cámara, Eduardo Bhatia y Jaime Perelló, quienes iniciarán conversaciones para lograr, con transparencia y consenso, la reestructuración de la deuda pública.* ***La meta será lograr una moratoria negociada con los bonistas para posponer por un número de años los pagos de la deuda, de forma tal que ese dinero se invierta aquí en Puerto Rico.***

*No estamos reestructurando la deuda en un vacío. Todas las medidas que tomamos en estos últimos dos años demuestran nuestra voluntad de pagar y, de no haberlas tomado, no estaríamos en posición hoy de reclamar la reestructuración. Hemos hecho todo lo que estaba en nuestro poder, pero, según demuestra el informe, el próximo paso tiene que ser lograr términos más favorables para el pago de nuestra deuda. Compartiendo el sacrificio con los acreedores, podremos salir adelante.*

*El fracaso de esta estrategia no le conviene a nadie. Puerto Rico no tiene la capacidad de continuar pagando conforme a los términos actuales. Eso no le conviene a quienes nos prestaron y no nos conviene a nosotros.*

*De nuestra parte, tenemos que cambiar de forma fundamental la operación del gobierno. Se trata de usar mejor los recursos del gobierno. Lo cual me lleva al tercer punto que te quiero presentar hoy. P**ara capitanear ese cambio, el Grupo de Trabajo también tendrá la tarea de preparar, en estrecha coordinación con el liderato legislativo, una agenda de responsabilidad fiscal a largo plazo dirigida a:***

*1. Establecer los parámetros para un plan de ajuste fiscal a cinco años;*

*2. Proponer reducciones adicionales en el gasto - incluyendo recortes en algunos servicios. De esta forma, insistiremos en evitar aumentos en las contribuciones;*

*3. Aumentar la captación de recaudos en función de una reestructuración operacional de Hacienda;*

*4. Promover alianzas con la empresa privada para la provisión de algunos servicios que hoy provee el sector público, como los exitosos modelos del puente Moscoso, el aeropuerto y el expreso de Arecibo;*

*5. Hacer cambios radicales en la forma en que se trabajan las finanzas del gobierno y las estadísticas sobre la economía, para proveer mayor transparencia y credibilidad;*

*6. Garantizarle al ciudadano la provisión de servicios esenciales y al pensionado un sustento digno, y;*

*7. Crear una Junta Fiscal que, fuera de líneas partidistas, garantizará continuidad y el cumplimiento con los compromisos que asumamos en este proceso de reestructuración. Esta Junta deberá descargar su responsabilidad de forma ininterrumpida y fuera de los ciclos electorales.*

*El Grupo de Trabajo tendrá hasta el 30 de agosto para desarrollar, en diálogo con una amplia representación de sectores interesados, el plan dirigido a estas reformas económicas y fiscales, de tal forma que el mismo pueda ser considerado y aprobado en la sesión legislativa que comienza a mediados de agosto.*

*Sé que no es fácil. Pero sé también que no tenemos otra alternativa y que estos sacrificios compartidos nos pondrán en el camino de la recuperación.*

*Los principios que dirigirán esta gestión son, primero, velar principalmente por los intereses tuyos y de tu familia; segundo, que estos sacrificios deben ser compartidos, y; tercero, que todas las partes deben ser tratadas de forma justa y equitativa bajo la ley.*

*El sacrificio debe ser compartido por los bonistas, que son co-partes en la responsabilidad de nuestra deuda. A los acreedores que de buena fe quieran cooperar, bienvenidos. Ahora bien, aquéllos que pretendan explotar esta situación, para sacarle provecho financiero o político, a costa de nuestro pueblo, les digo, que Puerto Rico estará unido frente a ellos.*

*Si no asumimos esta responsabilidad hoy, arriesgamos no tener a nuestra disposición las soluciones, o peor, perder el control sobre éstas, regalándole el poder de decidir a otros. Nosotros tenemos que dirigir, juntos, el destino de Puerto Rico.*

*Muchos países, ciudades y estados han enfrentado, o enfrentan hoy, situaciones como la nuestra o, incluso, peores. Puerto Rico no está hoy en una situación diferente de la que estaban Nueva York y Detroit, hace unos años. El éxito de Nueva York y Detroit estuvo en la unión de voluntades. Todos los sectores - las uniones, el gobierno, los bancos, los bonistas, los ciudadanos de a pie - compartieron los sacrificios, y hoy, comparten la prosperidad. La alternativa - inaceptable para Puerto Rico - es que todos sigamos compartiendo la crisis.*

*Este no es momento para recriminaciones. No es momento para que quienes cogieron prestado se quejen cuando se toman las medidas necesarias para atender la deuda. No es momento para que pensemos en las elecciones del año próximo. No es momento para el partidismo. Es momento para el patriotismo. Es momento de acción inmediata y de unidad.*

*No vamos a permitir que la pesada carga de la deuda heredada nos arrodille. No podemos permitir que nos obliguen a escoger entre pagarles a policías, maestros y enfermeras, o pagar la deuda. Otro camino es posible. Debemos actuar ahora, juntos. Todos tenemos que compartir la responsabilidad, y el sacrificio, para poder así compartir los beneficios de una economía puertorriqueña en crecimiento.*

*Es momento de que le reclamemos a Washington acción concertada, en una sola voz, ahora. Acción para que acaben de aprobar cambios al capítulo 9 y que Puerto Rico cuente con la misma protección que tienen otras jurisdicciones.*

*Acción para que el Medicare se dispense en Puerto Rico en igualdad de condiciones, tal como pagamos en igualdad de condiciones, para que tengamos herramientas que atraigan inversión manufacturera a Puerto Rico y para que se nos excluya de las leyes de cabotaje.*

*En algunos de estos temas, hemos visto consensos entre mi propio gobierno y mi liderato legislativo - el Presidente del Senado Eduardo Bhatia y el Presidente de la Cámara Jaime Perelló - con líderes de la oposición política. Es ese el ejemplo que debemos seguir para enfrentar esta crisis.*

*Es hora de que todos estemos del lado de los trabajadores, empresarios e inversionistas de aquí, y los que, aun no siendo de aquí, creen en Puerto Rico. Es hora de que demostremos nuestra capacidad de ponernos de acuerdo. Aprobar presupuestos y adelantar juntos soluciones a los problemas del país.*

*Es hora de que obliguemos al gobierno a un cambio profundo, que permita que el ciudadano, el trabajador y el que arriesga sus ahorros por empezar un negocio, puedan aportar al crecimiento del país. Es con ellos y ellas que lograremos crecer. Nos debemos a esos héroes, no a las instituciones de gobierno que nos han fallado.*

*Igual que los problemas no se crearon de la noche a la mañana, el cambio que te propongo no se dará de un día para otro. Será un cambio que tomará años, pero debemos comenzar a actuar ahora. En la medida en que logremos mejores términos para la deuda de Puerto Rico, tendremos las herramientas para el desarrollo. Las decisiones que tomemos hoy van a definir el mañana de nuestro país, y obligarán a futuros gobiernos a su cumplimiento.*

*Es por ello que quiero retomar la convocatoria que abrí en mi último Mensaje de Estado. Hemos agotado las alternativas que puede tomar solo un gobierno. Hace falta que todos pongamos de nuestra parte: los ciudadanos, los empresarios, los bonistas, los demás partidos y los gobiernos del futuro. Para que esto funcione, como ha funcionado en tantos otros lugares a través del mundo, hace falta, más que nunca, unidad de propósitos. Hace falta que pensemos en nuestra gente y en su futuro.*

*A partir de mañana, me verás en sesiones de trabajo con líderes de todos los partidos políticos, con líderes religiosos y de la sociedad civil, empresarios, sindicatos, organizaciones sin fines de lucro y personas destacadas de la sociedad civil. A todos les pediré sacrificio. Pero a todos les aseguro mi compromiso de que vengan de donde vengan, se escucharán las ideas, y cuando cumplan con el principio de un acuerdo justo para todas las partes envueltas, serán acogidas.*

*Estoy confiado de que tenemos en nosotros, aquí en nuestro país, la capacidad de unirnos y de prevalecer. Debemos superar las divisiones partidistas y las agendas particulares.*

*Estoy seguro que igual que Wilma y que yo, tú estás dispuesto a hacer sacrificios personales por tus hijos y nietos. Al fin y al cabo, todo esto de lo que te he hablado se trata de eso que haces individualmente por tus hijos, pero en su expresión colectiva, trabajando juntos, por los hijos de todos. Nuestros hijos son el Puerto Rico de mañana. En nuestras manos está decidir si seguimos como íbamos, endeudándoles, o si les saldamos las deudas y les dejamos en herencia un país de oportunidades.*

*Estos no son tiempos fáciles los que nos han tocado vivir. Pero, luchando unidos, contra cualquier enemigo, contra cualquier crisis, unido Puerto Rico vencerá.*

*Que Dios te bendiga y que Dios bendiga a Puerto Rico.*

Cabo San Lucas, Baja California Sur, Mexico

I, Jason Schrier, am fluent in the Spanish and English languages. I have been translating documents for over 10 years. I am a federal Spanish/English legal interpreter certified by the Administrative Office of United States Courts. My certificate number is 10-067. I am also a NYU certified Spanish-English legal translator. I am competent to translate from Spanish into English.

I hereby certify that the following are, to the best of my knowledge and belief, true and accurate translations of the attached "Garcia Padilla Debt is Unpayable June 29 2015 Address (Spanish)" from Spanish into English.

I declare under penalty of perjury that the foregoing is true and correct.

Jason Sc

____________________________

Jason Schrier

Executed on this 22th day of June, 2017.

**POLITICS**

# Message from Governor Alejandro Garcia Padilla on Puerto Rico's Fiscal Situation

Governor announces creation of an economic recovery task force in charge of negotiating the government's debt restructuring

Monday, June 29, 2015 - 6:00 PM

*Fellow Puerto Ricans:*

*I come to your homes this afternoon to speak to you about Puerto Rico's economy and fiscal situation. But as always, and just like you, I'm convinced that a united Puerto Rico can overcome any crisis.*

*This afternoon, I want to speak to you about the reality we face and the roadmap that, with a lot*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

*of effort and sacrifice, will allow us to bring back growth for you and your children. So that your work doesn't just serve to pay past debts, but instead so that the country may prosper, as it always has, from the hard work of each and every worker.*

*Today, we published an important report prepared, at my administration's request, by a group of economists and experts whose reputation and experience in managing situations similar to ours is unquestionable. This is the first time a ten-year plan of this kind has been made to address the fiscal situation taking into account the size of the government and not just the general fund. A plan of this kind has never been done.*

*This report paints a stark reality. Considering the current economic activity, the government debt cannot be paid. But not only that, the amount of debt has trapped us in a cycle of recession and contraction. Given this situation, we all have to take responsibility.*

*Let me make this very clear: it's not a matter of politics. It's a matter of mathematics.*

*Today, the amount of debt is the same as it was two and a half years ago. We inherited a debt of $70 billion, and it is basically unchanged. Therefore, no one can rightly claim that this is about debt assumed by this administration.*

*Even so, when I say we all have to assume responsibility, I really mean everyone. In the past two years, my administration has implemented many tough but brave measures that, always without dismissing employees, other governments proposed for many years. They were necessary measures, and the report recognizes that. But they have been insufficient in the face of the size and scope of the economic and fiscal crisis we inherited, which experts recognize as the greatest any government has ever faced since Luis Munoz Marin's reforms.*

*The report focuses on our reality much more accurately than any other recent study. The findings indicate we have antiquated accounting methods, public corporations without their own sources of revenues, a lack of fiscal controls, unreliable statistics and other factors that conspire against the goodwill of many public servants to produce the situation facing us.*

*In the past, the government could sweep the problems under the carpet and put them off until later by borrowing more money. Now is the time to face our problems and resolve them once and for all. The debt inherited is so much so that we have been denied access to financial markets, and our economy does not generate enough revenue to repay the obligations assumed.*

*According to the report, looking forward even if we raised taxes and cut spending, the problem is of such a magnitude that we would not solve anything because of the weight of the debt are carrying.*

*Moreover, if we continue to borrow to cover the deficits of the agencies, corporations and retirement systems, the report reveals that by 2025, the debt will have doubled. In other words, in just ten years a little over $70 billion would be $140 billion, an amount that would be equivalent to a loan of more than $40,000 for each man, woman, boy and girl in Puerto Rico.*

***The only way for us to get out of this predicament is if we all come together and are willing – even bondholders – to make some shared sacrifices** today, so that tomorrow we may share in the benefits of a growing economy. Yes, it is also time for lenders to come to the table of sacrifices, where we are already seated, so that, together, at this same table, we may later enjoy the fruits of our sacrifices.*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

*Even so, there is something I wish to make very clear. I do not agree with all of the report's proposals. I do not approve, for example, of looking upon education as an expense instead of an investment, and I will not promote cuts on items such as the minimum wage. Moreover, I will make defending jobs a top priority during this process. However, the general conclusions and most of the plan merit serious consideration.*

***Puerto Rico needs, and I propose to you, a comprehensive restructuring and development plan that will fully address once and for all, over the long – not the short – term, the immense problem we face today.*** *If we fail, the alternative is a unilateral, unplanned default on our obligations, along with all of the negative consequences this will bring down upon each and every one of us. To prevent this from happening, we must act now.*

*The first and most important step will be to re-establish economic growth. While more fiscal adjustments will be necessary, it is clear that without aggressive growth in productivity in Puerto Rico, we will never escape the vicious cycle of contraction, emigration, austerity and taxes. The economic agenda we've implemented since the beginning of my administration, has made progress in job creation, manufacturing, agriculture, the aerospace industry, health services and research and development, and this is reflected by the drop in unemployment; however, again, we need to do more, we need to do much more.*

*To generate wealth again, locally I will promote legislation to make our laws more competitive and to adjust them to the current reality in order to promote job creation and private sector growth. I will advocate for reforms to the federal welfare system that, overall, will provide conditions for employers and investors to hire more employees, and so that working in Puerto Rico generates money, instead of public assistance.*

*The private sector, and not the government, needs to be the main driver of job creation in Puerto Rico. Accordingly, we will facilitate private investment in construction and new businesses, and we will create a new, native business class.*

*We will promote greater strategic investment that actually brings the country an economic benefit. For each dollar invested in public work, we must multiply investment in private activity. This is the right approach, not politics of convenience.*

*This brings me to the second pillar of the plan.*

*I stated that we will all have to make sacrifices to promote growth, and that's why, in order to invest in our economy, today I've issued an executive order creating the* ***Puerto Rico Economic Recovery Task Force****, led by Victor Suarez, CPA Melba Costa, Cesar Miranda and the chairmen of the Senate and House, Eduardo Bhatia and Jaime Perello, who will begin talks to successfully restructure the government's debt, based on transparency and consensus.* ***The goal will be to negotiate a moratorium with bondholders to postpone debt payments for a number of years, such that the money may be invested here in Puerto Rico.***

*We are not restructuring our debt in a vacuum. All of the measures we have implemented in the last two years demonstrate our willingness to pay, and, if we had not implemented them, today we would not be in a position to appeal for restructuring. We have done everything in our power, yet, as the report shows, the next step is to obtain better terms for paying our debts. By making shared sacrifices with creditors, we can succeed.*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

*If this strategy fails, no one benefits. Puerto Rico is not capable of paying under the current terms. This does not benefit lenders, and it does not benefit us.*

*For our part, we must fundamentally change how the government operates. It is about using government resources better. This brings me to the third point I wish to discuss today.* ***To lead this change, the Task Force, in close collaboration with legislative leaders, will also have the responsibility of preparing a long-term fiscal plan aimed at:***

1. *Establishing the parameters for a five-year fiscal adjustment plan;*

2. *Proposing additional spending reductions – including cuts to some services. In this way, we will insist on avoiding tax increases;*

3. *Increasing tax revenues by restructuring the Treasury's operations;*

4. *Promoting partnerships with private companies to provide some services that are currently provided by the public sector, such as, for example, the Moscoso bridge, the airport and the Arecibo expressway;*

5. *Making radical changes in the way government financing and statistics about the economy are used, in order to provide greater transparency and credibility;*

6. *Guaranteeing essential services for citizens and decent pensions for retirees.*

7. *Creating a bipartisan fiscal board that will ensure consistency and compliance with any commitments we assume in this restructuring process. This board shall perform its duties uninterrupted and independent of election cycles.*

*The Task Force will hold talks with representatives from a wide range of interest groups and will have until August 30th to develop a plan aimed at these tax and economic reforms, so that it may be considered and approved at the legislative session beginning mid-August.*

*I know it is not easy. But I also know we have no other choice, and these shared sacrifices will put us on the road to recovery.*

*The principles that will guide this approach are, first, to serve you and your family's best interests; second, that these sacrifices must be shared; and, three, that all parties must be treated fairly and equally under the law.*

*The sacrifice must also be shared by the bondholders that are jointly liable for our debt. To creditors who in good faith wish to cooperate, welcome. However, those who think to exploit this situation for financial or political gain at the expense of our people, I say to you, Puerto Rico will be united against you.*

*If we do not assume this responsibility today, we risk not having available solutions or, worse, losing control of them, conceding decision-making power to others. Together, we must set Puerto Rico's course.*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

*Many countries, cities and states have faced, or still face, situations similar to, or worse than, ours. Today, Puerto Rico is in a situation that is no different than what New York and Detroit faced a few years ago. New York and Detroit succeeded because people came together. All sectors – unions, government, banks, bondholders and ordinary citizens – made shared sacrifices, and today they share in the prosperity. The alternative is to continue sharing this crisis, which is unacceptable for Puerto Rico.*

*This is not the time lay blame. This is not the time for those who borrowed money to complain when measures are taken to address the debt. This is not the time for us to think about next year's elections. This is not the time for partisanship. This is the time for patriotism. This is the time for united, immediate action.*

*We are not going to allow the heavy weight of the debt we inherited to crush us. We cannot be forced to choose between paying police officers, teachers and nurses or paying the debt. Another way is possible. We must act now, together. We must all share the responsibility, and the sacrifice, to share in the benefits of a growing Puerto Rican economy.*

*Now is the time to demand concerted action from Washington, together. Action to finish approving changes to Chapter 9 so that Puerto Rico may enjoy the same protection as other jurisdictions.*

*Action to make the conditions for Medicare coverage the same for Puerto Rico as they are for Medicare payments, to have the tools to attract manufacturing investment to Puerto Rico and to be exempt from cabotage laws.*

*On some of these issues, there has been consensus between my own administration and my legislative leadership – Senate Chairman Eduardo Bhatia and House Chairman Jaime Perello – and leaders of the political opposition. This is the example we must follow to face this crisis.*

*It is time we all got behind the workers, businessmen and investors from here, and all people, who, though not from here, believe in Puerto Rico. It is time we demonstrate our ability to agree, approve budgets and, together, find solutions for our country's problems.*

*It is time we force the government to make deep changes that will allow citizens, workers and those who risk their savings to start a business to contribute to the country's growth. It is with these men and women we will succeed at growing. We owe it to these heroes, not to the government institutions that have failed us.*

*Just as these problems weren't created overnight, the change I am proposing you will not happen in a day. It is a change that will take years, but we must start taking action now. To the extent we negotiate better terms for Puerto Rico's debts, we will have the tools for development. The decisions we make today will define the future of our country and will bind future administrations.*

*For this reason, I wish to reiterate the call I made in my last Governor's Message. We have run out of alternatives that a single administration can take. We must all make sacrifices: citizens, businessmen, bondholders, other political parties and future administrations. For this to work, as it has worked in so many other places around the world, now more than ever, we need common goals. We must think of our people and of their future.*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

*Starting tomorrow, you will see me in sessions working with leaders from all political parties, with civic and religious leaders, businessmen, unions, non-profit organizations and leading members of civil society. I will be asking all of them to make sacrifices, but I will guarantee my commitment to everyone that, regardless of where they're from, their ideas will be heard, and if they can abide by the principle of a fair agreement for all the parties involved, they will be welcomed.*

*I am confident that, within ourselves, here in our country, we have the ability to come together and prevail. We must overcome partisan divisions and personal agendas.*

*I am sure that, just like Wilma and I, you are willing to make personal sacrifices for your children and grandchildren. Ultimately, everything I've told you is about what you do individually for your children but as a group, working together for everyone's children. Our children are the future of Puerto Rico. It is up to us to decide whether to continue on like we are, putting them further in debt, or whether we pay off the debts and we leave them a country of opportunities.*

*These are not easy times we are living in. Yet, by working together, against any enemy, against any crisis, a united Puerto Rico will prevail.*

*God bless you and God bless Puerto Rico.*

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

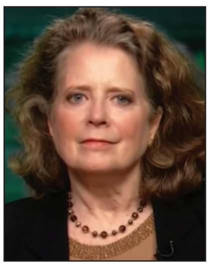
# Exhibit F

By Cate Long

# Developing: Puerto Rico Enters Bankruptcy on May 3

## *Faithful to PROMESA and Congressional Intent?*

**Editor's Note:** *The developments in Puerto Rico are ongoing, and the information in this article was current as of May 19, 2017. Stay informed by visiting ABI's "Puerto Rico in Distress" website at abi.org/PR-crisis.*



**Cate Long**
*Puerto Rico Clearinghouse*
*Rhinebeck, N.Y.*

*Cate Long is one of the nation's leading municipal analysts and predicted Puerto Rico's insolvency in 2012. She has worked closely with congressional staff as they crafted PROMESA, and she holds two U.S. patents related to fixed-income market data.*

Facing increasing fiscal disarray in Puerto Rico and pressure from the U.S. Treasury, numerous pieces of legislation were drafted in the U.S. Congress to address the problems of America's largest territory. Six pieces of legislation were filed in the U.S. Senate and three pieces in the House of Representatives between December 2015 and May 2016 before Rep. Sean Duffy (R-Wis.) filed H.R. 5278, the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), on May 18, 2016.[1]

PROMESA, with amendments, passed the House in a vote of 297-127 on June 9, 2016, and was essentially waved through the Senate without debate or amendment as S. 2328 by a vote of 68-30 on June 29, 2016. President Barack Obama signed PROMESA into law on June 30, 2016.

Although modeled in part on the federal law that created an oversight board for the District of Columbia, PROMESA created an entirely new approach to righting the finances of the bankrupt territory and creating a framework for consensual debt negotiations and court-supervised restructuring. PROMESA's Title Vl created a framework for consensual debt negotiations based on sovereign debt restructurings by inserting a "cramdown" provision that would allow the ability of a supermajority of creditors to bind holdout creditors. PROMESA's Title III, for court-supervised debt restructuring, incorporated, by reference, various sections of the U.S. Bankruptcy Code. Because PROMESA is a uniquely crafted law examining the legislative history of H.R. 5278, this will help illustrate Congress's intent. When Natural Resources Committee Chairman Rep. Rob Bishop (R-Utah) introduced H.R. 5278 on the House floor for debate, he stated:

> The bill is structured into seven titles. The first two establish an Oversight Board that will oversee the development of fiscal plans and budgets, which act as the foundational documents for returning Puerto Rico to fiscal responsibility.
>
> The third title permits Puerto Rico debts to be restructured if certain criteria are met in the Oversight Board's discretion. For instance, the entity seeking restructuring must have completed good-faith debt negotiations with its creditors, as well as have a board-approved fiscal plan in place and be on the path towards producing audited financials.[2]
>
> Although PROMESA was written for a U.S. sub-

sovereign, there are fundamental differences between Title III of the law and chapter 9 bankruptcy. PROMESA was not incorporated into the Bankruptcy Code but was written under the Territorial Clause of the U.S. Constitution. Unlike chapter 9, where the debtor retains control over its finances and proposes an adjustment plan, the Oversight Board controls any plan of adjustment under Title III, among other differences. In § 101, Congress delineated the primary purpose of the Oversight Board:

> (a) PURPOSE. — The purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets.

### Title II

Title II charges the Oversight Board with the powers to approve, for territory governments or instrumentalities of those governments (such as public corporations or municipal governments), the following: fiscal plans, budgets, voluntary agreements with bondholders, debt-restructuring plans and critical projects eligible for expedited permitting processes.

### Fiscal Plan

The keystone to the PROMESA process is the development of a five-year fiscal plan for commonwealth entities as outlined in § 201. The Oversight Board chose to require the development of a 10-year plan by the Puerto Rico government instead of the five-year plan specified in law. Congress was explicit about what elements the fiscal plan must contain. Section 201(b) reads in part:

> A Fiscal Plan developed under this section shall, with respect to the territorial govern-

1 *See* H.R. 5278, *available at* naturalresources.house.gov/uploadedfiles/promesa_hr_5278.pdf (unless otherwise specified, all links in this article were last visited on May 17, 2017).

2 Chairman Rob Bishop, PROMESA Floor Statement, June 9, 2016, *available at* drive.google.com/file/d/0BwUldNJ-sOg_aHNPRVJWU0xFckU/view?usp=sharing.

ment or covered territorial instrumentality, provide a method to achieve fiscal responsibility and access to the capital markets, and—

> (A) provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on —
>
> > (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan;
>
> (B) ensure the funding of essential public services;
>
> (C) provide adequate funding for public pension systems;
>
> (D) provide for the elimination of structural deficits;
>
> (E) for fiscal years covered by a Fiscal Plan in which a stay under Titles III or IV is not effective, provide for a debt burden that is sustainable;
>
> (F) improve fiscal governance, accountability, and internal controls; [and] …
>
> (N) respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of this Act.

Congress clearly intended for Puerto Rico to pay their debts stating: "PROMESA ensures that Puerto Rico is unable to repudiate its debts. Instead it institutes fiscal and economic reforms to guarantee the island regains access to capital markets."[3] The language in § 201 was the subject of intense discussion in Congress in the months leading up to PROMESA's passage. Debate centered around subsections regarding funding for essential services, adequate funding for pension systems, providing for a debt burden that is sustainable, and respect for the "relative lawful priorities or lawful liens."

Some creditors argued for legislation to specifically outline the priority of competing bonded debt claims by inserting language that required payment of constitutionally protected general obligation (GO) debt prior to all other expenses of the Puerto Rico government. Congress indirectly incorporated this recommendation in § 201(b)(1)(N), which states that the fiscal plan "respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of this Act." Congress also incorporated by reference §§ 361, 362 and 364(c)-(f) of the Bankruptcy Code to ensure adequate protection of secured creditors, as well as §§ 922, 927 and 928.

Establishing the priority between unsecured classes of Puerto Rico GO bondholders and public pensions was a primary issue raised by the chair of the U.S. Senate Committee on Finance, Sen. Orrin Hatch (R-Utah), in a letter to former Puerto Rico Gov. Alejandro García Padilla prior to PROMESA's passage.[4] Sen. Hatch requested clarification because U.S. Treasury officials were attempting to codify the priority of pensions over GO debt rather than the less-preferential treatment that pensions received in the final legislative language. Then-Gov. García Padilla did not respond.

3 PROMESA Package, House Committee on Natural Resources, May 18, 2016, p. 7, *available at* drive.google.com/file/d/0B1sjx-sk-u_DVkNJLW1ZaGM1d3c/view?usp=sharing

4 "Hatch Pushes for Current Financial Statements from Puerto Rico," Senate Committee on Finance, Feb. 10, 2016, at p. 5, *available at* finance.senate.gov/chairmans-news/hatch-pushes-for-current-financial-statements-from-puerto-rico.

## Fiscal Adjustments

The Oversight Board certified a 10-year fiscal plan[5] for the commonwealth's government that reduced consolidated government spending by approximately 5 percent, and it appears to have reduced pension costs by 10 percent and reduced debt service by 78 percent (an amendment to the March 13 fiscal plan made by the Oversight Board affecting pensions does not quantify as expense savings). The fiscal plan increases spending from $17.872 billion to $18.030 billion for fiscal years 2017 to 2018 (see Figure 1). Prof. **David A. Skeel, Jr.** (University of Pennsylvania Law School; Philadelphia), a member of the Oversight Board and past ABI Resident Scholar, said that the fiscal plan "aims to boost revenues with tax reforms, increase tax compliance and increase fees and taxes; tighten government spending with a wage freeze until 2020 and cut subsidies and operational expenditures; extract economies in health care spending and pension plans; and invest in infrastructure projects along with support from public/private partnerships."[6]

The certified fiscal plan retains all payroll employees but reduces paid public holidays from 30 to 15 days, and reduces several other employee benefits. Government spokesman Ramón Rosario said that the purpose of Puerto Rico's "80 percent cut to debt-service payments" is "precisely to save public employees and services provided by the government."[7] The consolidated central government budget is $18 billion (including federal funds). The fiscal plan and proposed budget will have $851 million in expense cuts for fiscal year 2018:

- $411 million in reduced subsidies to the University of Puerto Rico (UPR), municipalities and private companies;

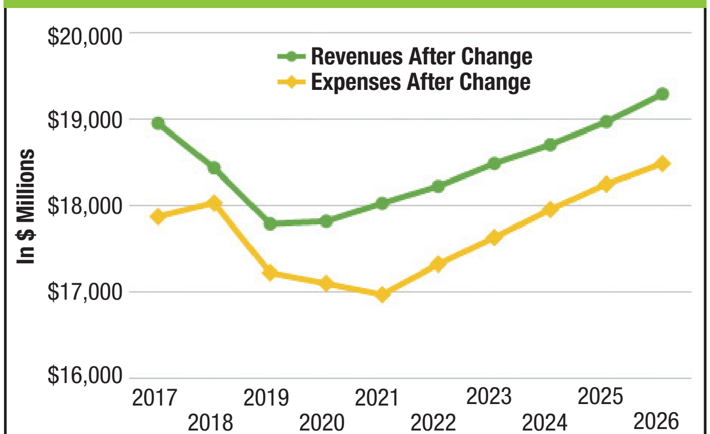
5 "Fiscal Plan for Puerto Rico," Puerto Rico Fiscal Authority and Financial Advisory Authority, March 13, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_YVBMbUVsUVNFcXc/view?usp=sharing.

6 "Perils in Puerto Rico: Is Bankruptcy the Answer?," Knowledge@Wharton, May 9, 2017, *available at* knowledge.wharton.upenn.edu/article/puerto-rico-can-recover.

7 Luis J. Valentín, "La Fortaleza Stands Firm Regarding Fiscal Adjustments," *Caribbean Business*, May 1, 2017, *available at* caribbeanbusiness.com/la-fortaleza-stands-firm-regarding-fiscal-adjustments.

*continued on page 77*

**Figure 1: Projected Puerto Rico Central Government Revenues and Expenses (Excludes Debt Service; Includes Zero Federal Funds for Medicaid)**




*Fiscal year — Source: March 13 fiscal plan.*

# Developing: Puerto Rico Enters Bankruptcy on May 3

*from page 13*

- $250 million reduction in marginal employee benefit payments (*i.e.*, elimination of sick leave payouts, Christmas bonus reduction, reduction of paid public holidays, etc.); and
- $190 million of savings achieved by outsourcing nonessential services via public/private alliances.[8]

The fiscal plan projects a $100 million reduction in fiscal year 2018 health care spending through the capping of payments to health care providers. UPR is receiving the largest subsidy cut in an effort to rationalize their operations with private higher-education institutions (the fiscal plan does not specify the dollar amount of specific subsidy reductions). UPR's finance director said that they currently intend to pay their bonded debt and do not intend to file a Title III petition.[9]

An amendment made to the fiscal plan for public pensions states that all retirees will have their pensions adjusted to the poverty level but does not specify the amount of savings to the central government for fiscal years 2018-26. The unamended fiscal plan projected savings on pension costs of $83 million per year beginning in 2020, achieved by capping public pensions at $2,000 per month including Social Security payments.

On May 12, 2017, current Puerto Rico Gov. Ricardo Rosselló signed Executive Order 2017-033 to consolidate supervision of spending in three agencies: the Financial Advisory Authority and Fiscal Agency (AAFAF), the Department of Finance (DH) and the Office of Management and Budget (OGP). Gov. Rosselló stated:

> The current situation of our island requires the prompt intervention of the AAFAF, the DH and the OGP, according to their respective powers in law.... Appointed personnel will be able to review invoices, reconcile debts and recommend reductions in contract costs so that contracting reductions are achieved and additional savings are generated to those already projected by the government. No new contracting will be allowed that is not essential.[10]

Three days prior to executive order 2017-033, the AAFAF issued contract number 2017-000052 for $250,000 to KOI Americas for advertising expenses in Gov. Rosselló's campaign for governor. Since he took office on Jan. 2, 2017, various government entities have issued more than 950 contracts for advertising and public relations, according to the Office of the Comptroller's Contracts Registration database. It is unclear why government entities would contract for paid advertising and public relations, or how rigorously the government intends to identify essential services and rein in spending.

## Revenue Increases

Revenue enhancements in the fiscal plan rely primarily on the extension of the reform of corporate taxes (approximately 60 percent of revenue increases), the extension of the current sales tax to internet purchases, increases in excise taxes on tobacco products, a 10 percent increase in the cost of traffic fines and driver's licenses, and 5 percent premium increases on insurance offered by the government.[11] The fiscal plan also relies on improved tax compliance; Puerto Rico has had a historic problem with collecting taxes at a rate commensurate with U.S. states.

The plan does not project any revenue from asset sales, although PROMESA explicitly gives the Oversight Board the authority to sell assets. For example, the government intends to close approximately 170 public schools and consolidate students and teachers with nearby schools. The government has projected $7 million in savings from the consolidation. Gov. Rosselló campaigned on a pledge to turn the closed facilities into homeless shelters, senior centers and animal rescue facilities, and has made no mention of selling these properties.

The fiscal plan projects zero federal funding for Medicaid, although Congress appropriated $295 million for Puerto Rico in May 2017,[12] and House Speaker Paul Ryan (R-Wis.) has stated that he will address Puerto Rico's Medicaid funding in September as part of the state Children's Health Insurance Program. The fiscal plan projects an increasing loss of Medicaid funds up to $2.382 billion in 2026.[13] The assumption of zero federal dollars for Medicaid means that the Puerto Rico government will fund the entire expense for the next 10 years. No U.S. state government proposed budget assumes zero funds for Medicaid.[14] At a Heritage Foundation meeting earlier this year, Gov. Rosselló discussed cutting taxes once Title III is complete.[15]

KBRA recognizes that the eventual outcome of any restructuring and longer-term fiscal plan must protect the funding of essential services to the citizens of Puerto Rico. However, the certified fiscal plan does not reflect any meaningful effort, in KBRA's view, to identify and eliminate or substantially reduce the costs of nonessential services. For example, the financial bridge analysis prepared by Ernst & Young (EY), a document designed to fill gaps in the commonwealth's financial reporting, states that "total operating expenditures have increased from" fiscal years 2014-16.[16] This suggests limited financial restraint during a period when the commonwealth was defaulting on debt payments.

## Essential Services

The certified fiscal plan deviates substantially from PROMESA's requirements because it does not identify "essential services" as required in § 201(b)(1)(B). The fiscal plan also appears to assume that all current spending and

8 Damaris Suárez, "$851 Million Decrease in PR Government Expenses," *Noticel*, May 10, 2017, *available at* noticel.com/noticia/202891/asoma-reduccion-de-851-millones-en-gastos-del-gobierno-de-pr.html.
9 Cynthia López Cabán, "UPR Does Not Think for Now to Restructure Its Debt," *El Nuevo Día*, May 13, 2017, *available at* elnuevodia.com/noticias/locales/nota/lauprnopondera-porahora-reestructurarsudeuda-2320546.
10 Rebecca Banuchi, "Rosselló Imposes More Controls on Public Spending," *El Nuevo Día*, May 13, 2017, *available at* elnuevodia.com/noticias/locales/nota/rosselloimponemascontrolesalgastopublico-2320606.
11 *See* Fiscal Plan, p. 19, *supra* fn.6.
12 Robin Respaut and Nick Brown, "U.S. Congress to Give Puerto Rico Short-Term Medicaid Help," Reuters, May 1, 2017, *available at* reuters.com/article/us-puertorico-debt-healthcare-idUSKBN17X285.
13 *See* Fiscal Plan, p. 13, *supra* fn.6.
14 *See* "States' Proposed and Enacted Budgets," National Association of State Budget Officers, *available at* nasbo.org/resources/proposed-enacted-budgets.
15 "Moving Puerto Rico Forward: A Conversation with Governor Ricardo Rosselló of Puerto Rico," Heritage Foundation, April 26, 2017, *available at* heritage.org/budget-and-spending/event/moving-puerto-rico-forward-conversation-governor-ricardo-rossello-puerto.
16 "Puerto Rico: Is It Doing Enough to Regain Capital Market Access?," Kroll Bond Rating Agency, April 20, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_ZjhDQm9KYzRMekE/view?usp=sharing.

*continued on page 78*

# Developing: Puerto Rico Enters Bankruptcy on May 3

from page 77

employees are essential. The fiscal plan explicitly states that it "does not attempt to resolve, among others, the following issues: What is an essential service for purposes of the exercise of the Government's police power."[17]

It is unclear why the Oversight Board certified a fiscal plan that does not comply with PROMESA. The federal government must regularly identify essential services when continuing appropriations expire and the government is shut down. Although Congress has not specified what it considers to be "essential services," a 2014 report lists what services were deemed essential by the Office of Management and Budget.[18]

In addition, the fiscal plan includes an annual expense line of approximately $600 million, termed a "Reconciliation Adjustment," and the 10-year total for this expense is $6.175 billion. PROMESA § 203(a)(1)(B) instructs the Oversight Board to require reductions in spending to align with the adopted budget, so it is unclear why the Oversight Board would approve such a large recurring expense for unspecified purposes.

The stated explanation for this spending buffer was three weeks of contract work by EY,[19] which had not previously audited any Puerto Rico entity for at least five years. The EY contract stated that they were retained to "assess the completeness of the financial bridge between the Government of Puerto Rico audited financial statements of June 30, 2014, and the Government's 2017 fiscal plan baseline.... The Financial Bridge has been prepared by the Government and its advisors."

PROMESA does not allow a judicial challenge to the fiscal plan certification, although bond insurers Assured Guaranty and National have already filed an adversary complaint. A group of bondholders wrote to the Oversight Board regarding the fiscal plan:

> As many of us have informed you, we have fundamental issues with and questions regarding the March 13 Fiscal Plan's underlying assumptions. We also are concerned by the fact that the Fiscal Plan was constructed without respecting the various legal rights of Puerto Rico's financial creditors, among other things.[20]

A Puerto Rico legislator and spokesman for former Gov. García Padilla stated in an opinion column[21] that the fiscal plan funds 87 public agencies that do not provide essential services (and cited budget figures, including revenues of the central government and public corporations such as state-owned electric utility Puerto Rico Electric Power Authority (PREPA)):

> Finally, an analysis of the current budget shows that 36 public entities that offer essential services, including municipalities and UPR, would receive $21.3 billion, or 81.7 percent, of the consolidated budget. If these figures are ordered by a cut of 15 percent, the Government, in that group alone, would have [a] savings of $3.2 billion. In addition, there are another 87 entities that do not offer essential services and receive another $4.1 billion. If applied the same rod, would leave another $800 million that would be sufficient resources to pay interest and to repay the principal of the public debt. The situation requires us all to make adjustments, but certainly, protecting the areas of services most important to our people and those that will help us get up as soon as possible [are priorities]. There is no longer room for spectacle and ambivalence.

Bond insurer Assured Guaranty wrote to the Oversight Board asking that they formally revoke certification of the March 13, 2017, fiscal plan on the grounds of material noncompliance with PROMESA.[22] U.S. Sens. Tom Cotton (R-Ark.) and Thom Tillis (R-N.C.) asked the Oversight Board to explain how the fiscal plan was compliant with PROMESA,[23] and Oversight Board Chair José Carrión responded, obfuscating about compliance:

> Whether the Fiscal Plan Legally Complies with a Statute Is a Legal Question: Your Letter states that during the House Subcommittee on Indian, Insular, and Alaska Native Affairs' March 22 hearing, I was asked where the certified fiscal plan complies with PROMESA. I said it does, because that is my belief. When it appeared [that] the same question was being repeated, I believed [that] the subcommittee might be referring to the COFINA-GO dispute, and I responded that the FOMB had not taken a position on that dispute. But, your Letter asserts my response was "unsatisfactory," and that I did not explain why the fiscal plan is compliant. While I am not a lawyer, I am advised that PROMESA section 201(b) governs the compliance requirements, and that it has [14] subdivisions, which would make it difficult for me to a give a complete explanation in the context of a hearing even if I had fully appreciated the focus of the question.[24]

The certified fiscal plan projects $183 billion of revenues and allocates $7.87 billion of debt service over 10 years.[25]

## Fiscal Plan Funds Available for Debt Service

The fiscal plan proposes minimal debt service compared to contractual debt service. Funds available for debt service would increase considerably if the fiscal plan projected more than $0 for Medicaid for the next 10 years. Figure 2 on p. 79 compares debt service as a percentage of locally collected central government revenues (excludes federal funds).

17 *See* Fiscal Plan, p. 5, *supra* fn.6.

18 "Shutdown of the Federal Government: Causes, Processes and Effects," Congressional Research Service at p. 29, *available at* fas.org/sgp/crs/misc/RL34680.pdf.

19 EY Contract of Feb. 15, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_cnBEd3VEeE5LMlU/view?usp=sharing.

20 *See* Joint Creditor Letter to FOMB, March 30, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_0TcxQTBWWVlIUHM/view.

21 Jesús Manuel Ortiz, "Omissions that Hinder Rescue of Puerto Rico," *El Nuevo Día*, May 9, 2017, *available at* elnuevodia.com/opinion/columnas/omisionesqueentorpecenrescatarapuertorico-columna-2319321.

22 "Request to Revoke Certification of Fiscal Plan for Non-Compliance with PROMESA," April 5, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_S2tMY0xaM0JKUFU/view?usp=sharing.

23 *See* Letter Dated April 7, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_Y1R0Zk9WMEVoMHM/view?usp=sharing.

24 *See* Letter Dated April 25, 2017, p. 11, *available at* drive.google.com/file/d/0BwUldNJ-sOg_QzlvUTlSX3Ixa0E/view?usp=sharing.

25 *See* Fiscal Plan, p. 29, *supra* fn.6.

## Federal Funds to Puerto Rico

Many essential services for Puerto Rico's citizens are substantially paid for with federal funds. The government and citizens receive grants and transfers for primary and higher education, health care, public safety, retirement and disability, and other services. Puerto Rican workers pay Social Security taxes but are currently exempt from federal income taxes for income earned on the island. Federal grants and transfers to Puerto Rico are approximately twice the amount of locally collected revenues, according to a 2015 report.[26]

## Financial Statements

Puerto Rico has yet to provide audited Comprehensive Annual Financial Reports (CAFRs) for Fiscal Years 2015 and 2016. Puerto Rico's audited Fiscal Year 2014 CAFR (the latest available) was released at midnight on June 30, 2016, the same day on which PROMESA was enacted. The financials were prepared by KPMG and released more than a year after the May 2015 deadline. There has been, however, a parade of financial documents that purport to represent the financial condition of the Puerto Rico government, including the following:

1. a debt-sustainability analysis prepared by Dr. Anne Krueger and other former IMF economists;[27]
2. a detailed liquidity analysis prepared at the request of creditors by Conway MacKenzie;[28]
3. a fiscal and economic growth plan, which contains detailed 10-year revenue and expenditure projections;[29] and
4. a data report that provides a general overview of the commonwealth's financial condition and its outstanding debt-service obligations.[30]

These earlier financial documents generally provide for less spending and more debt service. Given the contradictions and irregularities presented in numerous financial documents, it is not yet clear that the Puerto Rico government and Oversight Board are "on the path towards producing audited financials," as required in PROMESA.

## History of False Financial Documents

Puerto Rico has a long history of falsifying its financial documents, according to public officials. At a Politico event, Gov. Rosselló admitted that the government had operated as a "giant Ponzi scheme"[31] and regularly misrepresented its financial condition. The *New York Times* previously reported on how former Gov. García Padilla testified to Congress that former governments had falsified financial reports:

> It's a historical problem in Puerto Rico.... We inherited such a mess there, too. It was part of the different governments, in the past, to hide information from the market, so they were able to have more access to the market.[32]

Puerto Rico's Center for Investigative Journalism wrote how expenses were falsely misrepresented in budgets and the government made no midyear budget reductions even though a 2006 budget law required it to do so:

> Faced with questions, [Government Development Bank (GDB) President Melba Acosta Febo] acknowledged that the Legislature left out of the current budget those items corresponding to agency debt payments with the GDB, affecting the already delicate liquidity of the GDB. The presumed "reserve" created by the chairman of the Finance Committee, Rafael "Tatito" Hernández, is actually the payment of local debt that is being pushed into the future, the CPI found.
>
> Contrary to the provisions of the Fiscal Reform Law of 2006, the budget does not include agency consolidation or significant expenditure cuts. The OGP director acknowledged in an interview with the CPI that in the current budget no structural changes were made to the government, nor pay cuts. He said the changes will be part of the plan drawn up by the Fiscal Board appointed by the governor following the recommendations of the Krueger Report and should be ready by August 30.[33]

Unfortunately, KPMG has been unable to complete audited financial statements for fiscal years 2015 or 2016.

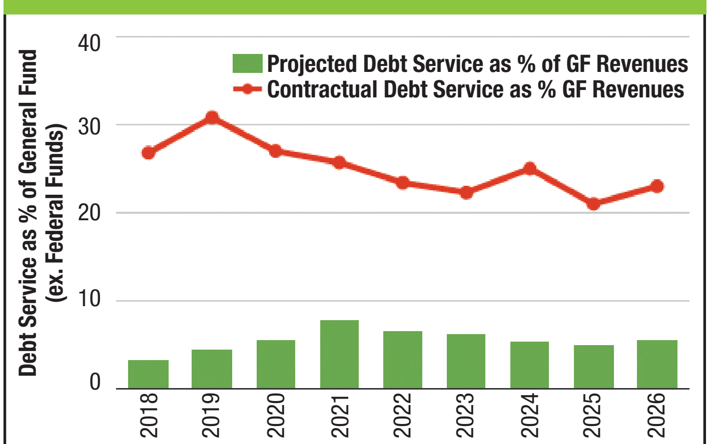
## Title VI: Consensual Negotiations

Congress repeatedly stated its preference for consensual negotiations between the Oversight Board, acting on behalf of the government, and creditors. A memo by the Majority Staff of the Committee on Natural Resources for an oversight hearing to be held Feb. 25, 2016, stated:

> Much of the debt restructuring proposed by the Administration may occur through consensual agree-

continued on page 80

**Figure 2: Proposed Puerto Rico Debt Service in March 13, 2017, Fiscal Plan Compared to Contractual DS as a Percentage of Central Government Revenues (Not Including Federal Funds)**




*Source: GBD data, March 13 fiscal plan.*

26 *See* "Federal Funds Management Office: Commonwealth of Puerto Rico," Federal Funds Management Office for the Commonwealth of Puerto Rico, *available at* drive.google.com/file/d/0BwUldNJ-sOg_SUhmdnRjS3lwbGM/view?usp=sharing.

27 Anne Krueger, Ranjit Teja and Andrew Wolf, "Puerto Rico: A Way Forward," June 29, 2015, *available at* bgfpr.com/documents/FinalUpdatedReport7-13-15.pdf.

28 "Liquidity Update, Commonwealth of Puerto Rico," Conway MacKenzie, Aug. 25, 2015, *available at* drive.google.com/file/d/0BwUldNJ-sOg_dWU1TU4zTUFrYWc/view.

29 Puerto Rico Fiscal and Economic Growth Plan, dated Sept. 9, 2015 (updated on Jan. 18, 2016), *available at* bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf.

30 Commonwealth of Puerto Rico Financial Information and Operating Data Report, Nov. 6, 2015, *available at* emma.msrb.org/EP885653-EP685527-EP1087218.pdf.

31 Politico Live Video, Twitter (Feb. 24, 2017, 6:32 a.m.), *available at* twitter.com/POLITICOLive/status/835135373483388931.

32 Mary Williams Walsh, "Puerto Rico's Debt Crisis and the 1975 Law Complicating Matters," *New York Times*, Nov. 4, 2015, *available at* nytimes.com/2015/11/05/business/puerto-ricos-debt-crisis-and-the-1975-law-complicating-matters.html.

33 Omaya Sosa Pascual, "Impunity in the Fiscal Debacle of Puerto Rico," Centro de Periodismo Investigativo, Aug. 13, 2015, *available at* periodismoinvestigativo.com/2015/08/impunidad-en-la-debacle-fiscal-de-puerto-rico.

*from page 79*

> ments between the creditors and Puerto Rico, if a strong, independent oversight authority exists to advocate for the development of such voluntary agreements.[34]
>
> A further possible solution would be to promote voluntary agreements between creditors and Puerto Rican debtors. Exemplifying this notion is the restructuring agreement reached between PREPA and 70 [percent] of its bondholders. This agreement provided PREPA with five-year debt-service relief of [more than] $700 million, a principal debt reduction of more than $600 million, and a refund to PREPA of $115 million of the January 1, 2016, interest payment. Consensual agreements such as this could obviate the need for forced debt restructuring and provide viable paths forward for much of Puerto Rico's debt.[35]

Rep. Bishop described the importance of consensual negotiations in the Committee markup memorandum dated May 23, 2016:

> H.R. 5278 ... is the second iteration of legislation with the express purpose of bringing fiscal responsibility and access to capital markets to ... Puerto Rico. The bill establishes an Oversight Board to supervise the development of Fiscal Plans, which act as road maps to revitalize Puerto Rico's economy, and budgets. Furthermore, the Oversight Board will work to ensure transparency and efficiency in the island's finances, as well as facilitate private capital to invest in the island's infrastructure.
>
> PROMESA provides Puerto Rico with potential access to debt restructuring overseen by a district court and driven by the Oversight Board acting in place of the debtor. Such restructuring access, however, is conditioned on the Oversight Board's determination that the debtor has met specific criteria, including whether the debtor has undertaken good-faith voluntary negotiations to reach a consensual restructuring agreement.

The Congressional Research Service wrote in a July 1, 2016, report on PROMESA:

> Title VI: Creditor Collective Action: The first section of Title VI (§ 601) would establish a process for creditor collective action that could retroactively change individual creditor rights for a portion of Puerto Rico's outstanding bonded debt. "Collective action clauses" (CACs) are a feature of sovereign bonds that, while long-standing in London-issued sovereign debt, became more common for debt issued under New York law around 15 years ago.
>
> The second section (§ 602) states that the process would be governed by U.S. law, without regard to any foreign or international law. CACs have been used to expedite the restructuring of sovereign debt. CACs allow a supermajority of bondholders (usually 75%) to agree to a debt restructuring that is legally binding on all bondholders. Without CACs, some bondholders may have incentives to try to hold out for better terms, slowing down the negotiations. CACs describe a procedure a country may use once it decides it must restructure its debt.[36]

Unfortunately, the Puerto Rico government and Oversight Board consistently refused consensual negotiations with creditors. After they certified the fiscal plan on March 13, 2017, the government and Oversight Board stalled for one month and left a very short window for any consensual deals.

The Ad Hoc GO Bondholder Group wrote to Carrión[37] requesting negotiations to begin with meetings on March 27-31, 2017. The letter stated:

> On March 18, 2017, the Oversight Board moved before the First Circuit Court of Appeals to stay the pending litigation in *Lex Claims, LLC, et al. v. Alejandro Garcia Padilla, et al.*, No. 3:16-cv-02374 (D.P.R.). In seeking a stay, the Oversight Board argued that it "has approximately 45 days left before the PROMESA stay will end and, absent a Title III filing, the Commonwealth will then be inundated with creditor lawsuits. The Oversight Board requests that it be given these six weeks to negotiate with the Commonwealth and its creditors...." The Board further stated that it would suffer irreparable harm if ongoing litigation interfered with the negotiation process contemplated by PROMESA.
>
> The First Circuit Court of Appeals agreed, stating that the Board's participation in litigation "would take valuable time and resources away from the Board's crucial work of negotiating voluntary resolutions between the Commonwealth and its creditors," and cause "irreparable harm to the Oversight Board's PROMESA negotiations."

Another large group of creditors wrote to the Oversight Board on March 30, 2017,[38] pleading to begin negotiations. The Oversight Board did not respond, and instead insisted on supervised mediation beginning on April 13, 2017. This left only 17 days to consensually negotiate approximately $50 billion of debt prior to the May 1, 2017, expiration of the stay imposed by Congress.

## Consensual Negotiations by Debt Class

Sens. Cotton and Tillis wrote to the Oversight Board on April 7, 2017, expressing concern that the fiscal plan did not comply with PROMESA's requirements and that the Oversight Board was refusing to consensually negotiate with creditors[39] (see Figure 3 on p. 81). On April 25, 2017, the Oversight Board responded, asserting that creditors believed that the assumptions of the fiscal plan created an "econom-

34 Committee on Natural Resources Memo, dated Feb. 22, 2016, at p. 1, *available at* drive.google.com/file/d/0BwUldNJ-sOg_UDJCTVQyVUQ2cU0/view?usp=sharing.

35 *Id.* at p. 3.

36 D. Andrew Austin, "The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA; H.R. 5278, S. 2328)," Congressional Research Service at p. 31, *available at* fas.org/sgp/crs/row/R44532.pdf.

37 GO Letter to Commonwealth, dated March 22, 2017, *available at* drive.google.com/file/d/0BwUldNJ-sOg_OU9Wa0cwcXMzbzQ/view?usp=sharing.

38 *See* Joint Creditor Letter to FOMB, *supra* fn.21.

39 *See* Letter Dated April 7, 2017, *supra* fn.24.

ic pie" that was too small to pay more debt service.[40] The Oversight Board also asserted that maximum expense cuts had been made in the plan and that they had responded to all creditor requests to consensually negotiate. A Puerto Rico business reporter wrote on the paucity of the negotiations:

> Prior to filing Title III, Puerto Rico and their creditors exchanged 5 offers and counteroffers and none were completed. According to three ENDI sources, one of the GO offers made by Ad Hoc Group of GO Bondholders remained alive until the morning hours of May 3, hours before Governor Rosselló stated he would be filing Title III.
>
> The Board opposed everything, forced the Fiscal Plan, refused to make changes to that plan, denied all offers that were made and now also forced the Government to file Title III, said one of the sources. The sources say that although there was the impression that between April 13 and 28, there were two weeks of talks in fact during that period hardly three meetings were held with mediator, ex federal judge **Allan L. Gropper**.[41]

The Oversight Board, in filing their Title III petition, asserted:

> 6. From December 2016 through March 2017, the Oversight Board and the Commonwealth held more than thirty meetings with creditor representatives to better understand their perspectives and work towards achieving a consensual financial restructuring. On March 13, 2017, after almost six months and numerous internal and external meetings between the Oversight Board and its advisors, the Oversight Board certified an amended version of the current Governor's fiscal plan. Not happy with the result and the projected level of debt service, creditors requested the decertification of the current fiscal plan and the certification of a new fiscal plan that would have exceeded the certified fiscal plan's debt sustainability analysis. The Oversight Board and the Commonwealth convened mediation on April 13, 2017, to find common ground and a consensual resolution.
>
> 7. As of the termination of the PROMESA stay, no consensual agreement was reached. Given the massive debt load to be addressed, as well as the need to attain pension and operational reform in accordance with the fiscal plan, it was determined that the best path forward was to commence a Title III case to protect Puerto Rico and its citizens.[42]

## Title VI Offers Made to Creditors

The Puerto Rico government and Oversight Board published two offers made to GO and COFINA bondholders on the Municipal Securities Rulemaking Board website (the April 24, 2017, offer and May 1, 2017, counteroffer). The offer had the following provisions:

- Puerto Rico's government presented a debt-restructuring offer that could repay as much as 77 percent of GO bonds and 58 percent of tax-backed bonds, but both bondholder groups quickly rejected it;
- Puerto Rico's proposal would appear to treat GO debt more favorably, threatening COFINA holders with much smaller recoveries if they reject the plan;
- Under its proposal, Puerto Rico would issue $16.75 billion of new senior bonds and $10 billion in "cash flow bonds," essentially a growth bond, payable only if the island exceeds fiscal targets;
- GO holders would get $9.8 billion of the senior bonds, recouping them a guaranteed 52 cents on the dollar, as

40 *See* Letter Dated April 25, 2017, *supra* fn.26.

41 Joanisabel Gonzalez, "The Night Before Title III," *El Nuevo Día*, May 8, 2017, *available at* elnuevodia.com/negocios/economia/nota/lanocheantesdeltituloiii-2318810.

42 *See* "Title III Petition for Covered Territory or Covered Instrumentality" at p. 24, *available at* drive.google.com/file/d/0BwUldNJ-sOg_UkRvQXRtZHZuSEE/view?usp=sharing.

*continued on page 82*

**Figure 3: Consensual Negotiations by Debt Class**

| Debt Serviced from General Fund | Fiscal Plan Certification | Title 6 Negotiations Commence(d) | Debt to Be Renegotiated | Days Since Fiscal Plan Was Approved | Days Puerto Rico Government Allotted for Negotiations as of April 30, 2017 |
|---|---|---|---|---|---|
| General Obligation | March 13 | Forced Mediation, April 14-23 | $13.257 Billion | 48 | 17 |
| Government Development Bank | April 27 | Ducera/Coops in Voluntary Mediation with Gropper | $4.126 Billion | 3 | Unknown |
| Highway and Transportation Authority | April 27 | None | $4.124 Billion | 3 | None |
| Puerto Rico Sales Tax Financing Corp. | March 13 | Forced Mediation, April 14-23 | $17.58 Billion | 48 | 17 |
| Public Building Authority | March 13 | None | $4.097 Billion | 48 | None |
| Employee Retirement System | March 13 | None - Judge Besosa Req. Interest Set Asides | $3.156 Billion | 48 | None |
| Public Finance Corp. | March 13 | None | $1.197 Billion | 48 | None |
| Puerto Rico Infrastructure Financing Authority | March 13 | None | $2.207 Billion | 48 | None |
| University of Puerto Rico | None | Fiscal Plan Deadline April 30 | $496 Million | 48 | None |
| Puerto Rico Convention Center Authority | March 13 | None | $386 Million | 48 | None |
| Puerto Rico Infrastructure Development Co. | March 13 | None | $156 Million | 48 | None |
| Total Debt Serviced from General Fund | | | $51.461 Billion | | |

*from page 81*

well as $4.7 billion of the conditional cash flow bond, which could up their recoveries to 77 cents; and

- COFINA holders would get $6.9 billion of the senior bond and $3.3 billion of the cash-flow bond (a recovery of up to 58 percent) but only if they accepted the deal; otherwise, Puerto Rico would repay senior COFINA holders with $450 million in short-term notes, while junior COFINA holders would get nothing.[43]

The Puerto Rico government made a counteroffer to GO bondholders[44] of 70 cents cash and 20 cents of a "hope" or "growth" bond that would only pay out if certain fiscal targets were met. In the offer, the government also proposed to litigate against COFINA creditors.

## Treatment of Local Bondholders

The April 24, 2017, offer contained a placeholder for a "convenience class" of bondholders, which is assumed to represent a special class dedicated to on-island bondholders. According to a former Puerto Rico advisor:

> It is ... imperative that any restructuring proposal incorporates a restructuring solution that addresses the needs of local holders. Such a solution could take many forms, including a long-dated instrument that maintains the same par value as the old bonds (but with a lower interest rate and little or no amortizations) for those holders who are focused on capital preservation or estate planning; transferable tax credits for lost principal that offset local taxes owed (calculated to not materially erode in any given year government revenues for such year), which could enable local holders to monetize or offset some of the losses they may experience; options to swap discounted debt for "equity" in new public vehicles set up to hold assets that are expected to be privatized; a government-sponsored support mechanism to protect the viability of local credit unions (cooperativas) and help them offset losses from discounted debt that otherwise might harm some of the most vulnerable residents of Puerto Rico; and/or the establishment in Title III of a convenience class of local individual, retail holders to mitigate their losses up to an agreed maximum amount of discounted debt.[45]

Giving preferential treatment to local bondholders appears to directly contradict Congress's intent. Rep. Bishop stated at a House Rules Committee hearing on June 9, 2016, regarding his manager's amendment:

> Furthermore, the amendment grants the Oversight Board the authority to review and rescind any laws passed by the territory between May 4, 2016, and the date of the full appointment of the membership of the Board. This date would capture some of the more controversial amendments made to the debt moratorium bill on May 5, which prioritized local (territorial) bondholders over bondholders off the island.[46]

Although politically advantageous to preference local bondholders, it seems clear that Congress wants mainland and island bondholders to be treated equally in the restructuring.

## Oversight Board Title III Filing for Puerto Rico

On May 3, 2017, on Puerto Rico's behalf, the Oversight Board filed for bankruptcy protection under Title III of PROMESA in the U.S. District Court for the District of Puerto Rico. The Title III case was filed after the expiration of a PROMESA litigation stay at midnight on May 1, 2017, and followed the filing of multiple litigations by several creditors on May 2, 2017.

Title III provides a means for the commonwealth that is in financial distress to work with its creditors in order to adjust its debts. To that end, certain sections of the U.S. Bankruptcy Code are incorporated and become applicable to cases under Title III.

In Title III, the commonwealth will remain in possession and control of its property, and will continue to maintain its functions and provide services for the benefit of its citizens. The commonwealth intends to propose a plan for the adjustment of commonwealth debts, although they claim that this intention will not exclude efforts to implement agreed-upon debt restructurings if possible.[47]

## Mutual Funds Holding Puerto Rico Debt

More than two dozen mutual funds hold approximately $15 billion of uninsured Puerto Rico bonds.[48] OppenheimerFunds, a unit of Massachusetts Mutual Life Insurance, is the biggest mutual fund holder with $6.3 billion. Franklin Resources Inc., the second-largest holder, has about $3.1 billion. UBS Asset Managers of Puerto Rico funds hold $1.4 billion, followed by Goldman Sachs Asset Management, which holds about $1.2 billion.

## Bond Insurers

First, Ambac Financial Group reported an exposure of $9.7 billion to Puerto Rico debt, mainly of COFINA bonds (net accrued exposure equals $2.7 billion: $1.3 billion in COFINA, $493 million in Highways and Transportations Authority (HTA) bonds, $56 million in PRIFA, $137 million in CDA and $187 million of GO). Ambac is a plaintiff

43 *See* "Municipal Secondary Market Disclosure Information Cover Sheet," Puerto Rico Fiscal Agency and Financial Advisory Authority, *available at* drive.google.com/file/d/0BwUldNJ-sOg_NGxHWm1UTnNEMHc/view?usp=sharing.

44 *See* "GO Counter Proposal," Puerto Rico Fiscal Agency and Financial Advisory Authority, May 1, 2017, *available at* emma.msrb.org/ES1027603-ES803731-ES1205100.pdf.

45 Richard J. Cooper and Luke A. Barefoot, "What Should Puerto Rico Offer Its Creditors?," *Law360*, March 15, 2017, *available at* clearygottlieb.com/~/media/cgsh/files/bio-pdfs/what-should-puerto-rico-offer-its-creditors.pdf.

46 *See* Chairman Rob Bishop, Manager's Amendment Statement, *available at* drive.google.com/file/d/0BwUldNJ-sOg_MldtMGp4Rmw0UEU/view?usp=sharing.

47 "Puerto Rico Debt Restructuring Chronology," *available at* docs.google.com/document/d/1J6YxpkgYsNqbgamNhp2vzliyfb5LaeaPv-jrWzc4b9M/edit.

48 Martin Z. Braun, "Puerto Rico Menaces Mutual Funds that Resisted Market Exodus," Bloomberg, May 8, 2017, *available at* bloomberg.com/news/articles/2017-05-08/puerto-rico-menaces-mutual-funds-that-bucked-bond-market-exodus.

in five of the eight lawsuits related to PROMESA that were filed after the expiration of stay imposed by Congress.

Second, Assured Guaranty has an exposure of $ 5.4 billion, mainly GOs, PREPA and HTAs. They have two of the pending lawsuits against the government and the Oversight Board.

Third, National Public Finance Guaranty/MBIA reports an exposure of $4.1 billion in COFINA and PREPA bonds. National is a party to the adversary proceeding against the Oversight Board.

Fourth, Financial Guaranty Insurance Co. reports an exposure of $ 1.9 billion, mainly in GO, HTA and IFA bonds.

## Oversight Board: All Issued Debt Is Legal

Competing claims will be strongly contended, but the Oversight Board is already attempting to take one significant issue off the table by declaring in its commonwealth Title III petition that amendments to Puerto Rico's Constitution made the stated debt limit irrelevant. Two classes of senior bondholders (GOs and COFINA) have made claims against the other class that issuance of the other's debt breached limits set in the Puerto Rico Constitution and was therefore invalid.

## Challenging the Fiscal Plan

Since the Oversight Board is attempting to reduce bonded debt claims by approximately 80 percent of what is contractually due, it does not appear that the fiscal plan certified by the Oversight Board would meet Congress's requirement to "respect the relative lawful priorities or lawful liens." The fiscal plan has already been challenged by two major bond insurers, Assured Guaranty and National Public Finance, which collectively insure $9.5 billion of debt. In their adversary complaint filed May 3, 2017, they allege that the fiscal plan is illegal for numerous reasons and constitutes a taking in violation of the U.S. Constitution. In a statement by Assured attorneys, Cadwalader, Wickersham & Taft LLP said:

> On behalf of Assured, Cadwalader on May 3 filed the first major litigation in the Title III case against Puerto Rico, the Oversight Board, the Governor of Puerto Rico and other Puerto Rican officials. The litigation was filed in response to Puerto Rico's fiscal plan that violated PROMESA by totally disregarding lawful priorities and liens on special revenues pledged to secure bonds insured by Assured. The adversary complaint alleges that the fiscal plan also violates the U.S. Constitution by substantially impairing the contractual rights of Assured and other bondholders, and by depriving them of property without just compensation or due process of law.[49]

The adversary complaint challenges the fiscal plan as being "illegal" and insufficient to allow a Title III filing. The claim's basis is that although PROMESA does not allow the certification to be challenged, it does appear to allow the review and approval of the fiscal plan to be challenged. The challenge itself revolves around the mandatory language "shall" regarding the requirements for the fiscal plan in § 201(b). In addition and as a fallback argument, the plaintiffs argued that if PROMESA's language does allow the Oversight Board to disregard the requirements of § 201(b), then that portion of the law itself is unconstitutional and thus invalid.

## Lawsuits Filed After the Expiration of the PROMESA Stay on May 1, 2017

- *Aurelius, et al., Government of Puerto Rico, filed May 2, 2017, in the Supreme Court of the State of New York:* A group of hedge funds, including Aurelius, Autonomy and Monarch, claimed that the government must pay almost $ 243 million in debt service that it has not covered, plus interest. The plaintiffs own $ 1.4 billion in GO bonds issued by the government in 2014.[50]
- *Ambac v. Government of Puerto Rico (I), filed May 2, 2017, in U.S. District Court of Puerto Rico, Case No. 17-cv-1567:* COFINA bond insurer Ambac asked to override the certified fiscal plan and local law 938. They claim that both are unconstitutional and contrary to PROMESA. Ambac is trying to prevent the government from appropriating the sales and use tax (IVU) funds that guarantee the payment of COFINA's debt.[51]
- *Ambac v. Government of Puerto Rico (II), filed May 2, 2017, in U.S. District Court of Puerto Rico, Case No. 17-cv-1568:* In addition to claims made against the fiscal plan and local law 938 in 17-cv-1567, the insurer also asked to overrule the moratorium orders and legislation in effect since the end of 2015. Through them, the government retains, or can "claw back," certain sources of income — taxes, cigarette licenses and taxes, oil barrel and hotel room fees, among others — that guarantee the payment of debt of HTA, IFA and the PRCCDA. They claim that the orders are also unconstitutional and contrary to PROMESA. Ambac wants to prevent the government from using these monies for uses other than the payment of the debts they guarantee.[52]
- *Ambac v. U.S. Treasury (III), filed May 2, 2017, in U.S. District Court of Washington, D.C., case No. 17-cv-809:* Ambac also sued the U.S. Treasury regarding the money that it transfers to the Puerto Rican government for federal excise duty for rum sales. Through one of the moratorium orders, the Puerto Rico government has withheld this source of income that guarantees the payment of certain IFA bonds. The insurer requested that the U.S. Treasury cease transferring these funds to the Puerto Rico government until the clawback dispute has been resolved. In the alternative, Ambac requests retention of the funds in a segregated account.[53]
- *Aristeia Horizons, et al. v. Government of Puerto Rico, filed May 2, 2017, in U.S. District Court of Puerto Rico, Case No. 3:17-cv-1566:* A coalition of institutional funds and hedge funds that owned COFINA senior bonds sued the government in Puerto Rico's federal court. The plaintiffs requested that the court declare as invalid the fiscal plan and local law 938 as being contrary to PROMESA and for impairing the rights of these bondholders.[54]

49 "Cadwalader Represents Largest Insurer of Puerto Rico Bond Debt in Historic Restructuring," Press Release, May 9, 2017, *available at* cadwalader.com/news/news-release/cadwalader-represents-largest-insurer-of-puerto-rico-bond-debt-in-historic-restructuring.

50 *See* Filing, *available at* cb.pr/wp-content/uploads/2017/05/Aurelius.pdf.
51 *See* Filing, *available at* cb.pr/wp-content/uploads/2017/05/Ambac-1.pdf.
52 *See* Filing, *available at* cb.pr/wp-content/uploads/2017/05/Ambac-2.pdf.
53 *See* Filing, *available at* cb.pr/wp-content/uploads/2017/05/AmbacUSTreasury.pdf.
54 *See* Filing, *available at* cb.pr/wp-content/uploads/2017/05/Aristeia.pdf.

*continued on page 84*

# Developing: Puerto Rico Enters Bankruptcy on May 3

from page 83

• *Assured and MBI Adversary Complaint, filed May 3, 2017, in U.S. District Court of Puerto Rico, Case No. 3:17-cv-01584:* Bond insurers Assured and National are challenging the fiscal plan:[55]

> Indeed, the obvious alternative to the approval and subsequent implementation of the Illegal Fiscal Plan would have been to approve and implement a fiscal plan that actually complied with PROMESA by providing a method for the Commonwealth to achieve fiscal responsibility. For example, the Oversight Board and the Commonwealth could have addressed the Commonwealth's economic difficulties by, among other things:
>
> • Approving and implementing a fiscal plan that required the Commonwealth to adjust its budget in accordance with the "priority guidelines" set forth in the OMB Act. Notably, the Illegal Fiscal Plan itself assumes approximately $19 billion in revenues for Fiscal Year 2017, meaning that the Commonwealth and its instrumentalities could pay their approximately $3.5 billion in annual debt service (including for PBA, the Authorities, and all other Commonwealth bond issuers) and still have approximately $15.5 billion to fund other expenses. Thus, based on a proposed nondebt expense line item of approximately $18 billion in 2017, the Commonwealth could pay all debt service if it merely undertook a modest 13 [percent] trimming of nondebt expenses. Importantly, this is a conservative analysis that gives full credence to the Commonwealth's unsubstantiated claim that the approximately $600 million per annum "Reconciliation Adjustment" included in the Illegal Fiscal Plan reflects real expenses.
>
> • Approving and implementing a fiscal plan that distinguished between essential and nonessential services, as required by Section 201(b)(1)(B) of PROMESA, and that prioritized essential over nonessential services.
>
> • Approving and implementing a fiscal plan that instead of including an illegal $6.2 billion contingency reserve to cover unbudgeted expenses, assumed that the Commonwealth would eliminate structural deficits as required by Section 201(b)(1)(D) of PROMESA.
>
> • Approving and implementing a fiscal plan that required the Commonwealth to raise additional revenues, as required by the Commonwealth Constitution in a fiscal year in which appropriations exceed estimated resources. *See* P.R. Const. art. VI, § 7.
>
> • Negotiating a consensual restructuring of the Commonwealth's debt, similar to the recently-negotiated restructuring of the debts of the Puerto Rico Electric Power Authority. Notably, PROMESA itself, through Section 104(i), encourages such voluntary agreements with creditors, and Title VI of PROMESA provides a mechanism by which they can be effectively implemented.
>
> In view of these more reasonable PROMESA-compliant alternatives, the Illegal Fiscal Plan and the Fiscal Plan Act do not constitute reasonable or necessary means of serving an important public purpose and therefore violate the Contracts Clause.

• *Peaje Investments v. Puerto Rico Highways and Transportation Authority, filed May 9, 2017, in U.S. District Court of Puerto Rico, Case No. 17-cv-01612:* HTA is required to deposit certain toll revenues in a collateral account with the fiscal agent and has not done so for one year. The toll revenues serve as a source of repayment for the HTA bonds. Peaje seeks enforcement of its lien on gross HTA revenues.[56]

## Title VI Agreements

The Puerto Rico government and its advisors have been attempting to complete two Title VI agreements. The Oversight Board has not yet approved either one as required by PROMESA.

First, PREPA bondholders have been in restructuring talks since August 2015. Creditors have signed more than 15 versions of restructuring support agreements,[57] reloaned maturity proceeds to PREPA and transitioned to an agreement under Title VI of PROMESA. Under the RSAs and Title VI agreement, approximately 70 percent of PREPA bondholders agreed to a 15 percent debt reduction, which will be paid through a bond exchange. The last RSA recognizes that in order to complete a restructuring of the utility, Title III must be invoked to address employee pensions and other non-bonded debt claims.

Next, on May 15, 2017, the Puerto Rico government announced a Title VI agreement with slightly less than a majority of creditors of the GDB.[58] GDB's assets will be split between two separate entities, according to a term sheet. The first, holding $5.3 billion in GDB assets, would issue three tranches of debt with different protections in exchange for varying principal reductions for creditors. The second entity, funded with public entity loans and $50 million in cash, would benefit all other depositors. The three tranches have varying haircuts and interest rates: A tranche (55 percent recovery and 7.5 percent coupon), B tranche (60 percent

55 Adversary Complaint, p. 36, *available at* drive.google.com/file/d/0BwUldNJ-sOg_VWkxd3lUTDFGUG8/view.

56 *See* Filing, *available at* drive.google.com/file/d/0BwUldNJ-sOg_aHBJLTN6QnhNanM/view?usp=sharing.

57 *See* Municipal Securities Rulemaking Board, EMMA, *available at* emma.msrb.org/IssueView/IssueDetails.aspx?id=MS201107.

58 *See* Continuing Disclosure Details, EMMA, *available at* emma.msrb.org/ContinuingDisclosureView/ContinuingDisclosureDetails.aspx?submissionId=EP779430&.

recovery and 5.5 percent coupon) and C tranche (waterfall/principal amortizes after tranches A and B repaid 75 percent recovery and 3.5 percent coupon).

## Swain Appointed as Title III Judge

On May 5, 2017, Chief Justice John Roberts appointed Hon. **Laura Taylor Swain** of the U.S. District Court for the Southern District of New York to preside over Puerto Rico's Title III cases. She previously served as a federal bankruptcy judge and as chair of the Advisory Committee on Bankruptcy Rules when the bankruptcy rules were rewritten in 2007-08.

## Swain Transfers Title III Cases from District to Bankruptcy Court

On May 11, 2017, the dockets in the Title III cases were transferred to the CM/ECF system of the U.S. Bankruptcy Court for the District of Puerto Rico. Bankruptcy Case No. 17 BK3283 has been opened and will correspond to Title III Case No. 17 CV 1578 for the Puerto Rico Government, and Bankruptcy Case No. 17 BK 3284 has been opened and will correspond to existing Title III Case No. 17 CV 1599 for the COFINA Corporation.

## Title III First-Day Motions Hearing

A hearing on the first-day motions was held on May 17, 2017, before Judge Swain at the U.S. Bankruptcy Court in San Juan. Counsel for the debtor entities were requested to provide a status report, including their expectations as to the timetable for proposing plans, whether and to what extent active settlement negotiations are proceeding, and whether the initiation of a formal mediation process in the near term would be helpful. In addition, the representative of the U.S. Trustee was requested to provide a status report, including its expectations and timetable relating to the formation of committees. abi

# Exhibit G

GDB

COMMONWEALTH OF PUERTO RICO

Government Development Bank for Puerto Rico

COMMONWEALTH OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

FAFAA Puerto Rico Fiscal Agency and Financial Advisory Authority

*GDB Contact: Betsy Nazario (787) 960-2089 • Betsy.Nazario@bgfpr.com*

# GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO AND PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY STATEMENT ON IMPLEMENTATION OF EMERGENCY MEASURES UNDER ACT 21

**July 1, 2016**

**San Juan** – The Government Development Bank for Puerto Rico ("GDB") and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") released the following statement today regarding the implementation of further emergency measures by the Commonwealth of Puerto Rico (the "Commonwealth") pursuant to Act 21-2016, the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, as amended ("Act 21"):

"On June 30, the Governor of Puerto Rico took a historic step to protect the Commonwealth's ability to provide essential public services to the residents of Puerto Rico and to put the Commonwealth on the path to recovery. Under the powers granted to the Governor under Act 21, the Governor issued two executive orders, Executive Order No. OE-2016-30 and Executive Order No. OE-2016-31 (the "Executive Orders"), that declare a moratorium on the payment of the Commonwealth's debt and the debt of certain other instrumentalities, implement various cash and liquidity preservation measures and protect the Commonwealth and its instrumentalities from the exercise of creditor remedies as the Commonwealth addresses its fiscal and economic crisis.

"The fiscal situation of the Commonwealth on the last day of fiscal year 2016 is dire. Despite extraordinary liquidity and cash management measures implemented by this Administration over the last fiscal year, the Commonwealth is expected to end the month of June with approximately $200 million of cash in its operating account (such account known as the "Treasury Single Account" or "TSA"), and another approximately $150 million in funds that were directed from certain public corporations pursuant to Executive Orders OE-2015-046 and OE-2015-049 and held in the "Clawback Account". Against this very strained liquidity, the Commonwealth faces, on July 1, approximately $1 billion of general obligation ("GO") and Commonwealth-guaranteed debt service obligations coming due that would typically be paid out of the TSA, either directly or, in the case of certain guaranteed indebtedness such as that of the Puerto Rico Public Buildings Authority, indirectly through appropriations (including for lease payments) from the TSA that would in turn be used for debt service.[1] After accounting for reserves available to pay GO and Commonwealth-guaranteed indebtedness expected to be payable on July 1, the Commonwealth projects that GO and Commonwealth-guaranteed creditors will still be owed over $800 million on July 1, 2016.[2] Even if the Commonwealth were to devote every last penny in the TSA and the Clawback Account to debt service on July 1, it would still owe holders of the public debt hundreds of millions of dollars.

[1] Consistent with the Commonwealth's historical reporting, the approximately $1 billion of debt service referenced is net of capitalized interest amounts and mandatory principal redemptions from escrowed funds, but is *not* reported net of debt service reserves, including monthly set-aside amounts deposited with any bond trustee, if applicable.

[2] Creditors may receive some portion of this amount through insurance policies on their bonds, if available.

"The Department of the Treasury's cash flow projections for this fiscal year paint a similarly challenging picture. Based on the Commonwealth's projections, the government will need to continue implementing certain extraordinary liquidity measures over the coming six months -- such as delaying payments to vendors and special contributions to the Commonwealth's retirement systems, extending internal financing to the Commonwealth from certain of its instrumentalities and delaying capital expenditures -- in order to continue to provide essential services to Puerto Rico's citizens. These measures will need to be taken *even if the Commonwealth does not pay any of the GO and Commonwealth-guaranteed indebtedness over the period*. After these extraordinary measures, based on current revenue and expense projections, the TSA will exhaust its liquidity balance in the next 30 to 60 days. Even after the implementation of the measures in the Executive Orders, the balance in the TSA is *still* projected to fall below approximately $95 million during the remainder of this year.[3] This is a dangerously low cash position for a government that funds services to millions of Puerto Ricans.

"The Executive Orders signed by the Governor yesterday respond to the critical financial position of the Commonwealth that currently exists and that is anticipated to only worsen over the coming months.

- *First*, the Executive Orders declare the Commonwealth and several additional government entities to be in a state of emergency, and extend the state of emergency that was previously declared for certain other governmental entities. These include operating entities such as the Puerto Rico Highways and Transportation Authority, the University of Puerto Rico and the Metropolitan Bus Authority, who provide essential services to Puerto Rico's citizens, and financing entities such as the Puerto Rico Infrastructure Financing Authority, whose debt service obligations are supported by tax revenues paid for by the people of Puerto Rico.

- *Second*, the Executive Orders allow the Commonwealth and the other issuers to suspend the transfer of certain funds to and from the entities, in order to support the conservation of cash at the central government and, as a result, avoid a government shutdown and the consequences for the millions of Puerto Rico's citizens who depend on the services provided by the government.

- *Third*, the Executive Orders implement a stay on creditor remedies against these entities. This is a crucial element of enabling the Commonwealth to seek a debt restructuring and right the island's ship, without which Puerto Rico's human and financial resources would be diverted to dealing with dozens of lawsuits seeking a piece of a rapidly dwindling pie – and resources and funds consumed by litigation will serve only to further affect our creditors' recoveries.

- *Fourth*, the payment obligations of the Commonwealth under its GO and guaranteed debt, along with the payment obligations of certain other issuers, are suspended until January 31, 2017.

"While the measures implemented yesterday are unprecedented for the island, they are not without forewarning. Even as the Commonwealth has spent the last year developing a sustainable fiscal and economic growth plan and attempting to bring creditors to the table to reach a voluntary plan for debt relief, the government has always said that Puerto Rico's debt is unpayable and that the music would stop. The temporary measures contained in the Executive Orders issued yesterday are necessary for the

---

[3] In addition to this amount, the Clawback Account (assuming no further deposits or application of funds contained in such account) would continue to have approximately $150 million.

Commonwealth to fulfill its duty to provide essential services to the people of Puerto Rico and necessary for the Commonwealth to have the tools to finally reach an agreement with its creditors without the legal and economic distractions posed by chaotic and disorderly defaults. These actions are part of this government's commitment to correcting the fiscal mistakes of the past decades, as opposed to continuing them by accepting a band-aid of short-term financing that saddles Puerto Rico with further unpayable debt. The measures enacted yesterday will not, however, take the place of either the real and significant debt relief that the Commonwealth must achieve or the hard work that must be done by the government itself to rein in spending, boost revenues and re-ignite the island's economy.

"Today, with these measures and PROMESA's federal restructuring authority in place, the Commonwealth is finally in a position to return to prosperity."

*   *   *

***Not an Offering of Securities***

This statement does not constitute, nor does it form part of, an offer to sell or purchase, or the solicitation of an offer to sell or purchase, any securities or an offer or recommendation to enter into any transaction. This presentation has been prepared for informational purposes only. Any offer or sale of any security may only be made pursuant to the relevant offering documents and binding transaction document and is subject to the detailed provisions therein, including risk considerations. Prospective purchasers should obtain a copy of the relevant offering materials prior to making any investment decisions.

***Forward-Looking Statements***

The information included in this statement contains certain forward-looking statements. These forward looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward looking.

This statement is not a guarantee of future performance and involves certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies or instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies or instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies or instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth's or its agencies or instrumentalities' projections.

# Exhibit H

# Commonwealth of Puerto Rico

## Current Liquidity Situation and Implications

November 18, 2016

# Disclaimer

- The following presentation represents a summary of Conway MacKenzie, Inc.'s ("CM") findings and should not be used for any purpose other than that for which it has been designated.
- CM, including its officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates, makes no representation or warranty, express or implied, with respect to the information contained herein; and we hereby expressly disclaim any such representation or warranty. CM assumes no responsibility with respect to the accuracy or completeness of the information contained herein and shall have no obligation to update or correct any of the information. CM neither owes nor accepts any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for or in respect of any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature which is caused by, or alleged to be caused by, the use of this presentation or which is otherwise consequent upon the gaining of access to this presentation.
- CM's work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, CM does not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Commonwealth of Puerto Rico (the "Commonwealth").
- Any statements and assumptions contained in this report, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this report. The economic and financial condition of the Commonwealth and its instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and its agencies and instrumentalities, but also by entities such as the government of the United States. Because of the uncertainty and unpredictability of these factors, their impact cannot be included in assumptions of this report. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this report should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Commonwealth, the Government Development Bank for Puerto Rico ("GDB"), or any government instrumentality in the Commonwealth. Nothing in this report shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.
- By accepting this presentation, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations.
- The following information is presented for discussion purposes only. Nothing herein shall be construed to represent any statement or position of the Commonwealth on its rights and obligations with respect to revenues subject to "clawback" pursuant to Art. VI, Sec. 8 of the Puerto Rico Constitution or subject to retention pursuant to Act 21-2016 or any debt service that may be payable during the current fiscal year. Nothing herein shall constitute a waiver of any rights or defenses the Commonwealth and its instrumentalities may have with respect to the same, all of which are hereby expressly reserved.

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

- This presentation will be mainly focused on the Treasury Single Account ("TSA"), which pools approximately two thirds of the Commonwealth's cash flows.
- My intention today is to provide the Oversight Board with an overview to facilitate the understanding about:
  - What is the TSA
  - What is the updated Cash Flow forecast through FY17
  - Recent Historical cash trends that reflect how deficits have been covered
  - What measures have been implemented to preserve cash
  - Where are the proceeds from Clawbacks and Moratorium
  - What is the structure of the Commonwealth's financial debt
  - What debt is being paid currently
  - What are the key considerations the Oversight Board and the new government should address as soon as possible?

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

# The Scope of This Liquidity Report is the TSA, Which Channels Approximately Two Thirds of the Commonwealth Cash Flow

| Scope | Description | Select Examples of Covered Entities[1] |
|---|---|---|
| **TSA Treasury Functions** | ▪ TSA performs treasury functions for agencies without self-generated revenues and independent treasuries<br>▪ These agencies primarily rely on General Fund (GF) appropriations for operations | ▪ Department of Education<br>▪ Police<br>▪ Legislative Assembly<br>▪ Department of Health<br>▪ Department of Family<br>▪ Other Agencies |
| **Outside TSA Pool** | ▪ Entities that maintain independent treasuries (i.e., manage their own cash flows and bank accounts)<br>▪ Many of these receive either GF and/or pledged revenues that are disbursed from the TSA, these interactions with the TSA are noted beside the entity in the box to the right | ▪ UPR - Receives GF appropriations incl. formula<br>▪ PREPA/PRASA - Receives GF appropriations for central gov't utilities<br>▪ HTA - Receives pledged to debt and others<br>▪ PBA - Receives GF rent appropriations for OpEx and debt service<br>▪ ASES - Receives fed. funds, GF appropriations<br>▪ ASEM – GF appropriations<br>▪ Pension Funds[2]<br>▪ Municipalities - Receives GF appropriations<br>▪ COFINA |

(1) List is not intended to be exhaustive.
(2) TRS and ERS manage the fund assets which are periodically liquidated to transfer to the TSA for the payment of benefits.

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

I. Overview of the TSA

**II. FY 2017 Cash Flow Forecast**

III. Historical Cash Flow Trends

IV. Short-term cash preservation measures that have been implemented to date to address PR's liquidity and budgetary challenges

V. Discussion of Uses of “Claw Back” Revenue and Moratorium-Related Funds

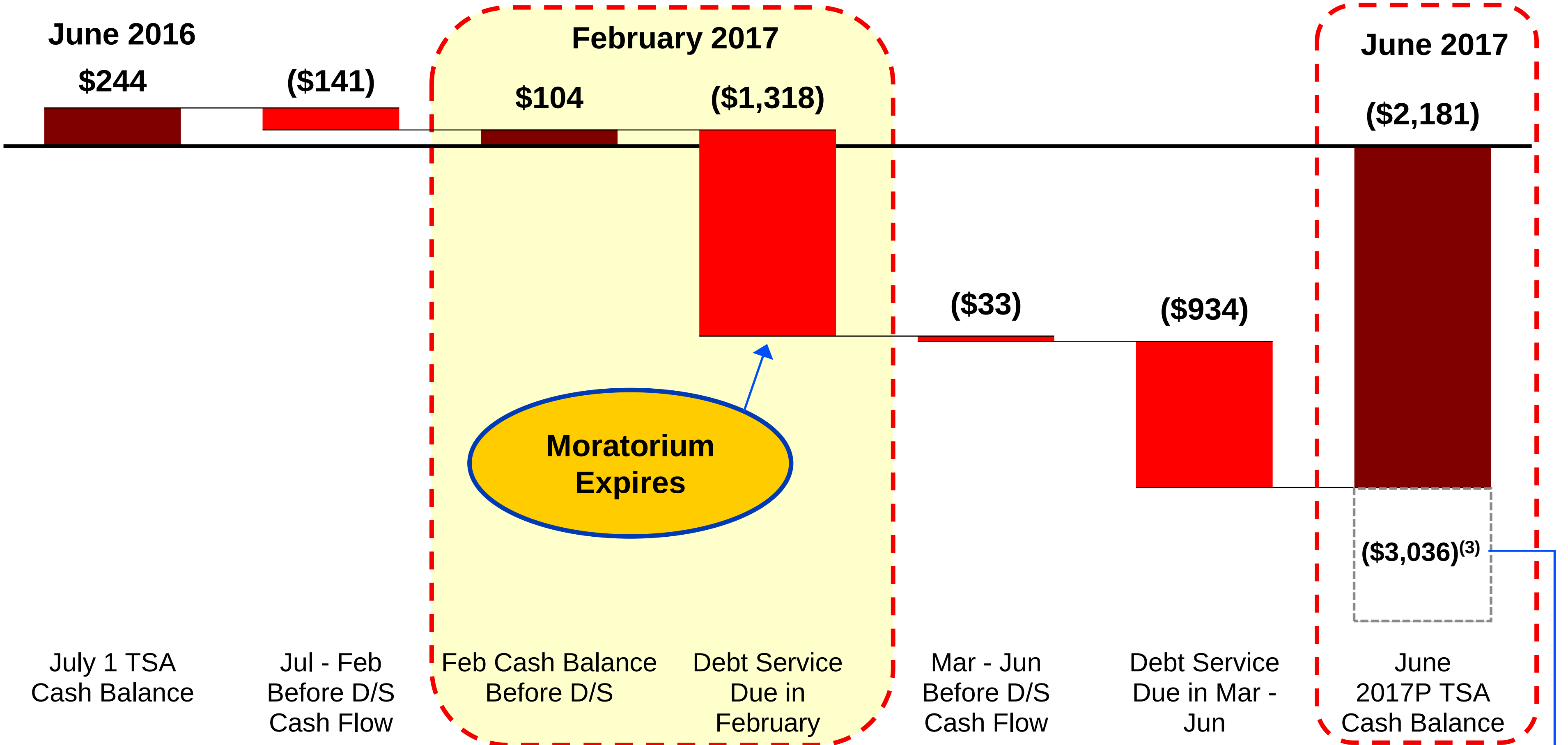
VI. Review of Debt Outstanding

VII. Final Considerations

# Cash Projections for the FY 2017 Based on Current Law

- **The TSA will not have sufficient liquidity to meet its obligations when the Moratorium period expires**
- **Excluding debt service, the TSA is expected to end FY 2017 with a bank cash balance of $71 million**

**Summary of Baseline TSA Cash Movements – July '17 to June '17 (1)(2) ($mm)**

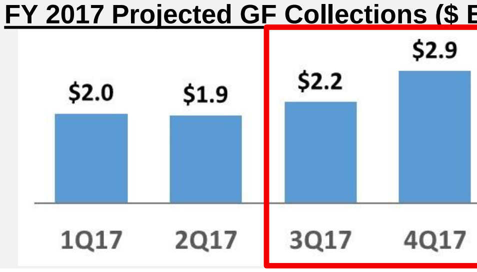



1. See following pages for additional details and notes.
2. Projections as of October 21, 2016.
3. Cash deficit increases to approx. $3.0 billion assuming repayment of withheld pledged revenues, clawback revenues, and PFC and PRIFA mental health (ASSMCA) debt service, see baseline scenario cash flow details in later pages for more detail.

# Key Risks in the FY 2017 Forecast and Issues to Consider in FY 2018

- **ACA Funds:** Significant risk of $0.8 Bn in FY 2018 (partial year impact), increasing to $1.5 Bn in FY 2019 and will continue to increase in future years
- **Act 154:** Significant risk of $0.5 Bn in FY 2018 (half year impact), increasing to $1.0 Bn in FY 2019
- **Pensions:** Liquid assets of the pension system are expected to be exhausted in early FY 2018 or sooner, necessitating higher contributions to the pension system or a switch to a full "pay-go" system with even higher future payments; the TSA cash flow herein assumes pension system transfers through FY 2017
- **Special Revenue Funds:** Non budgeted funds with positive accounting balances without corresponding cash reserves could have a significant impact on liquidity
- **Litigation Expenses:** After the expiration of the moratorium period the Commonwealth is exposed to litigation, which costs are not in the projections
- Potential deteriorating Component Unit liquidity that operate independent treasuries
- **Cash Inflows Are Limited by Seasonality:** General Fund collections are heavily weighted to the 2nd half of the fiscal year; The first half of the year also includes ~$720 million of COFINA debt service

FY 2017 Projected GF Collections ($ Bn)

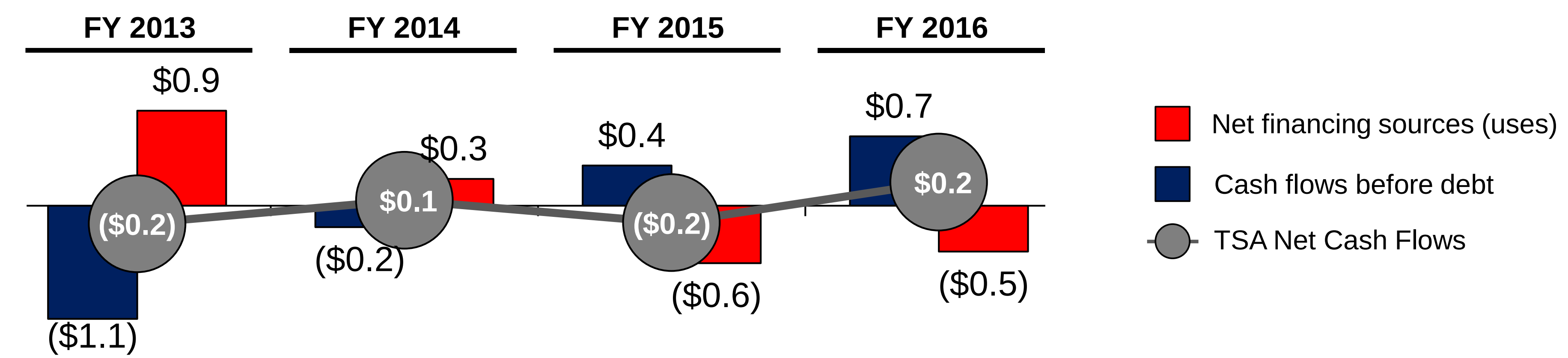


# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

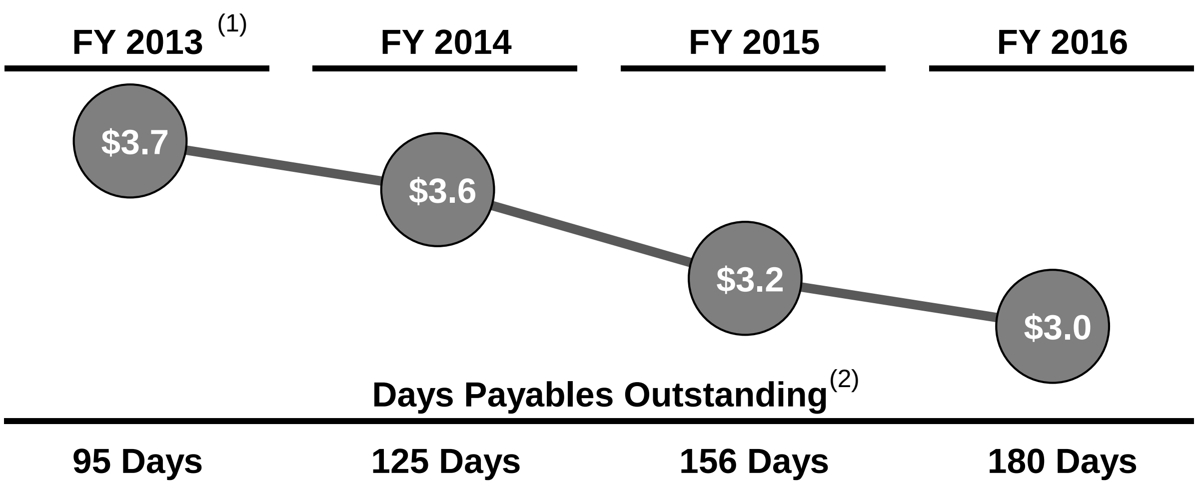
# Historical Cash Flow Trends

**Historically, the Commonwealth has relied on the credit markets for deficit financing, but delaying vendor payments has also been an important source of financing**

## Cash Flow Trends ($bn)



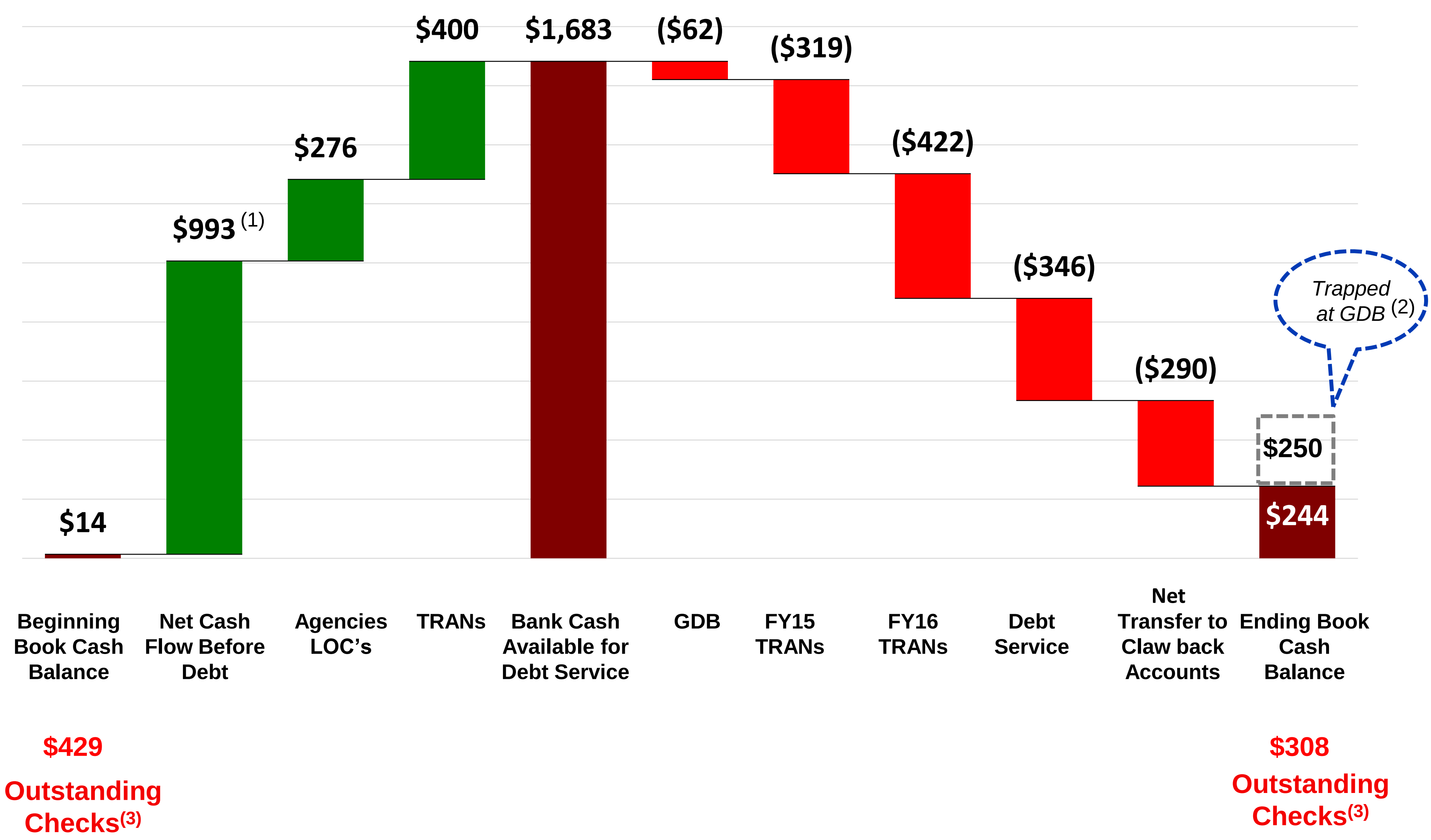

## Supplier Payment Trends ($bn)




**Note that days payables outstanding is a CM estimate based on currently available data. Figures are subject to change.**

1) FY 2013 supplier payments were categorized differently than in other fiscal years. For comparison purposes, certain adjustments were made to FY 2013 to provide a fair historical comparison.
2) Based on accounts payable data from PR CAFR for FY13 and FY14 and PR Treasury Department estimates for FY15 and FY16

# FY 2016 Cash Flow Reconciliation




1) Includes clawback revenues.
2) Deposits at GDB are subject to the provision of Act 21-2016 and Executive Orders.. Excludes clawback accounts at GDB and non-TSA accounts at GDB
3) For FY 2015, outstanding checks and restricted deposits used by the Commonwealth amounted to $506 million, the sum of outstand checks ($429mm) and deferral of payments to governmental agency ($78 mm); amounts do not add up due to rounding. FY 2016 outstanding checks includes $2 million in checks in transit not in possession of Treasury.



Source: PR Treasury cash flow, CM analysis

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

# Short-Term Measures Taken by the Commonwealth to Manage Liquidity in FY 2016

## FY 2015/16 Year-End Liquidity Measures

| | 2015 | 2016 |
|---|---|---|
| Fiscal Year End (June 30) Cash Balance After Measures [1] | $14 | $244 |
| Long Term Loan from the State Insurance Fund issued in June 2015 | ($100) | n/a |
| Deferral of TRANs Payment | ($300) | n/a |
| Non-Payment of General Obligation Debt Service [2] | n/a | ($633) |
| Non-Payment of PFC Debt Service | n/a | ($94) |
| Non-Payment of PRIFA Dedicated Rum Bonds Debt Service | n/a | ($113) |
| Non-Payment of GDB Appropriation Debt Service | n/a | ($275) |
| Accounts Payable Deferral [3] | ($89) | ($231) |
| Deferral of Payment to Governmental Entities [4][5] | ($78) | ($119) |
| Fiscal Year End (June 30) Cash Balance Before Measures | ($553) | ($1,221) |
| *Outstanding Checks at June 30* [5] | *$429* | *$308* |
| *Unpaid Income Tax Refunds at June 30* | *$295* | *$264* |

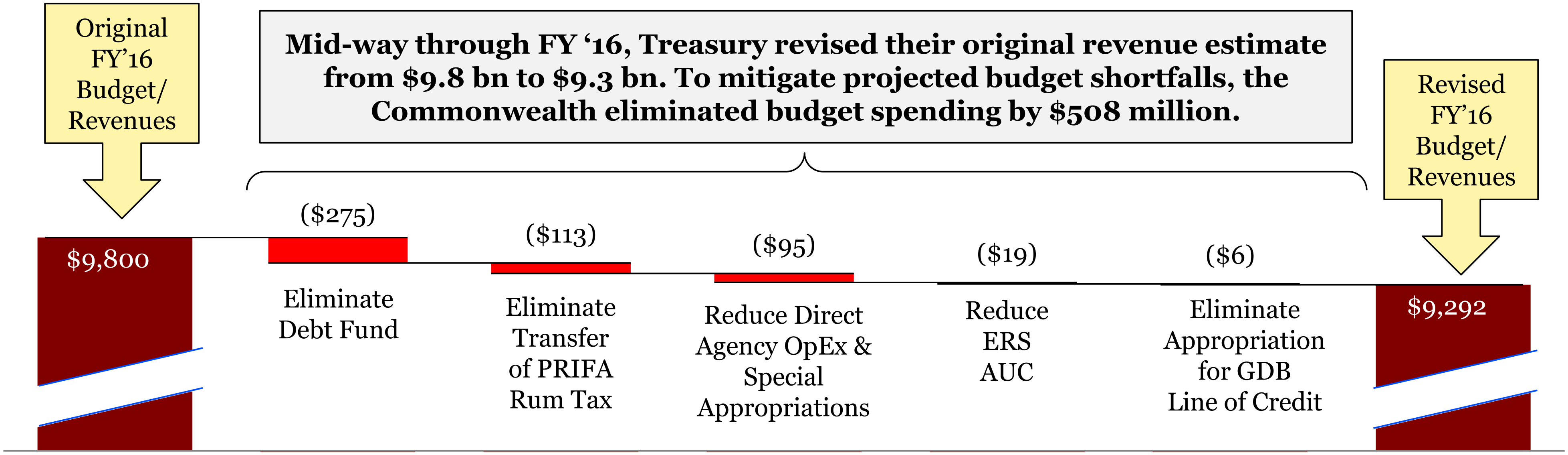
## Intra-Year Liquidity Measures Taken in FY 2016

- Pension fund advancements from the Retirement Systems ($328 million)
- Suspension of set-asides for GO debt service ($564 million)
- Intergovernmental TRANs funded by the State Insurance Fund, AACA and the Puerto Rico Labor Department's Disability Fund ($400 million)
- Transfers of Cash (Contributions) from the State Insurance Fund and AACA related to Act 105 ($100 million)

(1) Account balance includes the TSA operating account , reserve account bank cash balances and $44 million in restricted cash. also Clawback account balances are excluded.
(2) The GO debt obligation of $779 million was reduced by $146 million which represents available amounts in the Clawback Account to pay General Obligation debt service. Amounts in the Clawback Account are not included in this analysis as the funds are unavailable for disbursement.
(3) Accounts payable deferral is based on actual FY 2016 PRIFAS outflows as compared to the FY 2015 PRIFAS adjusted for the June 2015 deferral.
(4) FY 2016 excludes approximately $111 million related to intra-governmental accounts payables.
(5) For FY 2015, outstanding checks and restricted deposits used by the Commonwealth amounted to $506 million, the sum of outstand checks ($429mm) and deferral of payments to governmental agency ($78 mm); amounts do not add up due to rounding. FY 2016 outstanding checks includes $2 million in checks in transit not in possession of Treasury.

# FY 2016 Budgetary Measures: Actions implemented by the Commonwealth to mitigate major revenue shortfalls

**Mid-way through FY '16, Treasury revised their original revenue estimate from \$9.8 bn to \$9.3 bn. To mitigate projected budget shortfalls, the Commonwealth eliminated budget spending by \$508 million.**




| **Budgetary Measure** | **Description/Impact** |
|---|---|
| Eliminate Debt Payment and Economic Development Fund | ▪ Resulted in non-payment of debts payable from legislative appropriations (e.g., GDB lines of credit, Public Finance Corporation, etc.). |
| Reduction of Direct Agency Operating Expense Budgets | ▪ Agencies are primarily responsible for managing these reductions. The impact of these cuts on services is unclear but likely to cause neglect of government assets and degradation of government services. |
| Reduction to Unencumbered Special Appropriations | ▪ These cuts may have resulted in incomplete projects or other changes to services. |
| Eliminate transfer to AFI of pledged General Fund rum taxes revenues | ▪ Implemented through clawback executive order. Resulted in non-payment of AFI rum bonds. |
| Reduction of Additional Uniform Contribution to ERS | ▪ Non-payment of contributions to retirement system necessitates higher future contributions to avoid interruption to retiree benefit payments. |
| Elimination of Payment to GDB for Line of Credit Payment | ▪ The Commonwealth has continually not paid GDB lines of credit in order to mitigate its budgetary deficits. Historical non-payment of GDB debts contributed to the liquidity issues facing GDB today. |

Source: Office of Management and Budget

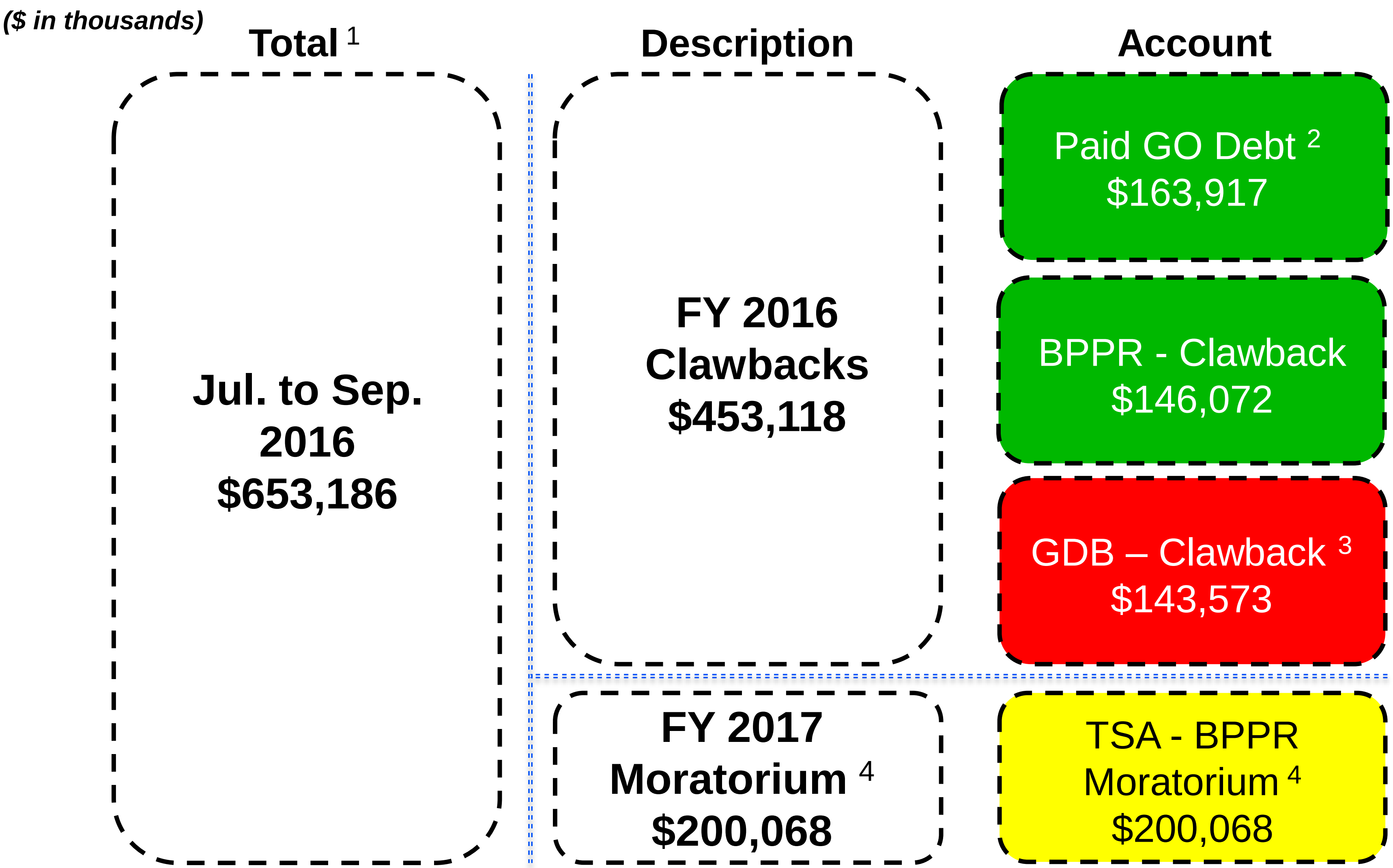
# Efforts taken to improve tax collections

| | |
|---|---|
| **Technology Upgrades** | ▪ Implementation of SURI, an integrated tax processing software platform designed to support the administration of multiple taxes in the Commonwealth:<br>• SUT module went live on October 31<br>• Corporate income tax module to go live in December, 2017<br>• Individual income tax module to go live in December, 2018 |
| **Enforcement** | ▪ Select enforcement tools increasingly used by the current administration:<br>• Repossession of personal property<br>• Foreclosure of bank accounts<br>• Tightening of requirements needed for debtors to establish payment plans<br>• Publication of list of defaulting debtors<br>• Imposition of personal penalties on directors and business officers related to withheld and unpaid SUT<br>• Retention of payment to government suppliers for the payment of tax debts |
| **E-Filings and New Payment Channels** | ▪ Mandatory e-tax filing – individual paper filings went from 369 thousand in FY2014 to 33 thousand in FY2015<br>▪ The opening of additional payment channels through "*Hacienda Virtual*" and payments by phone at the contact center *"Hacienda Responde"* |
| **Tax Policy** | ▪ Enactment of Law 159 in 2015 amending the provisions of the Internal Revenue Code to establish limitations on the power of the Secretary to formalize Closing Agreements |

Source: PR Department of Treasury

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

# Cash accounting of funds collected and disbursed from the clawback account via Executive Order or diverted because of the Moratorium Law through the TSA




***Additional funds totaling <u>approximately $117 million were collected in independent treasuries</u> from July to September 2016 at other entities as a result of the Moratorium Law that are not included above.* These entities include ERS, UPR, Desarollos Universitarios, PRHTA, Tourism, and PRIDCO [5].**

(1) Excludes approximately $117 million of moratorium related revenue outside the scope of the TSA.
(2) Deposits were utilized for GO debt service in January 2016.
(3) Deposits at GDB are subject to the provision of Act 21-2016 and Executive Orders.
(4) Excludes approximately $117 million of moratorium related revenue outside the scope of the TSA. Includes approximately $77 million corresponding to rum excise tax revenues that would have otherwise been transferred to PRIFA for the payment of Special Tax revenue Bonds.
(5) Excludes funds retained by PR Ports Authority pledged to the PRIFA Porta Authority Bonds.

# Overview of Debt Structure

**Below illustrates debt of entities included in the Fiscal Plan; All of these rely, directly or indirectly, on the Commonwealth's taxing authority, either directly from tax revenues allocated by law or indirectly from appropriations included in the Commonwealth's General Fund. A majority of the revenues are collected through the TSA.**

- Certain entities that have issued debt backed by allocated tax revenues have revenues that are either explicitly "available revenues" that may be diverted to pay Commonwealth general obligations (HTA, PRCCDA, AMA, PRIFA) or have been alleged in litigation by general obligation debt holders to be an "available revenue" (COFINA)

**Central Government Collected Revenues**

*General Fund Directly Pays Debt Service*

**General Obligation Debt**

*Reliant on General Fund Appropriations*

*Payable from Allocated Tax Revenues*

**COFINA[5]**
**HTA**
**PRIFA**
**PRCCDA**
**AMA**

| | |
|---|---|
| **PBA** | ▪ 93%[1] of revenues from the lease payments budgeted in the GF (also fully guaranteed by the CW) |
| **GDB** | ▪ Appropriations made to pay loans owed by CW entities to GDB, which GDB uses to pay its own debt |
| **ERS** | ▪ The Commonwealth is typically responsible for approximately 79%[2] of the total AUC contributions to ERS (of which the central government contributes approximately 62%) and nearly all of the contributions to TRS and JRS |
| **PFC** | ▪ Directly reliant on appropriations to pay debt service; does not have any other revenues |
| **UPR** | ▪ Receives ~74%[3] of annual revenues from General Fund appropriations and allocated tax revenues |
| **PRIDCO[4]** | ▪ Receives withholding and rum taxes; rental revenue dependent on ability to grant tax subsidies |
| **Other** | ▪ Consists of certain discretely presented non-major component units, including entities such as ADEA that receive transfers from the central government |

(1) Source: Conway MacKenzie PBA 5-Year Projections dated July 20, 2015. Percentage shown (93%) represents FY 2016 lease payments made by agencies in the General Fund (i.e., excluding agencies outside the General Fund and municipalities).
(2) Percentages shown per ERS and includes the AUC contributions for component units that are included in the Fiscal Plan and does not include municipalities. (67% to 70%) represent special law, AUC, and employer contributions from the General Fund as a percentage of total contributions, excluding investment income.
(3) Source: Conway MacKenzie UPR projection included in FEGP dated January 18, 2016. Percentage shown (74%) represents FY 2016 Commonwealth appropriations and dedicated tax revenues including collections from slot machines (excluding federal transfers and Pell Grant funding) as a percentage of total cash inflows (excluding debt proceeds which are non-recurring). Excluding slot revenues, UPR receives 70% of revenue from General Fund appropriations.
(4) While PRIDCO receives appropriations for portions of the non-resident withholdings tax and rum excise taxes, such revenues are not specifically dedicated to the payment of debt service. However, PRIDCO's rent revenues are attributable to its ability to provide tax subsidies to private sector companies.
(5) COFINA-allocated tax revenues are not collected by the TSA.

# Overview of debt currently being paid and not paid, balances remaining in set aside accounts or reserve funds and expected depletion dates

**The below summarizes debt service missed and paid from July 2015 through October 2016. It is important to note that this schedule includes only debt in the Fiscal Plan. Additional detail, including debts excluded below, is provided in the appendix.**

| | FY 2016 | | | | FY '17 YTD (Thru Oct.) | | | | Depletion Analysis | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *($ in millions)* | Due | Paid | Missed[1] | FNs | Due | Paid | Missed[1] | FNs | DSF/DSRF Amount[2] *As of Oct. 2017* | Est. Date of Depletion[3] | FNs |
| **Currently Being Paid from Current Revenues:** | | | | | | | | | | | |
| COFINA | 655 | 655 | — | | 311 | 311 | — | | 724 | NA | *(4)* |
| **Being Fully/Partially Paid from Existing Reserves:** | | | | | | | | | | | |
| PRIFA - ASSMCA (Mental Health) | 3 | 3 | — | | 2 | 2 | — | | 2 | FY 2018 | |
| UPR | 43 | 43 | — | | — | — | — | | 55 | FY 2018 | |
| PRIDCO | 26 | 26 | — | | 2 | 2 | — | | 20 | FY 2018 | |
| AFICA - University Plaza Project | 6 | 6 | — | | — | — | — | | 7 | FY 2018 | |
| PBA - Series L | 2 | 2 | — | | — | — | — | | 6 | Jul-17 | |
| PRCCDA | 30 | 30 | — | | — | — | — | | 18 | Jul-17 | |
| HTA (ex. 1998 Resolution Series '98 Sub. Bonds) | 317 | 317 | — | *(3)* | 0 | 0 | — | *(3)* | 177 | Jul-17 | *(5)* |
| ERS | 167 | 167 | — | | 42 | 42 | — | | 86 | May-17 | |
| PRIFA - Port | 12 | 12 | — | | — | — | — | | — | NA | *(6)* |
| **Reserves Exhausted/Not Being Paid:** | | | | | | | | | | | |
| GO | 1,125 | 346 | 779 | | 4 | — | 4 | | — | Jul-16 | |
| GDB (Inc. CW-Guaranteed) | 1,064 | 664 | 360 | *(2)* | 48 | — | 48 | | — | May-16 | *(7)* |
| PBA (ex. Series L) | 274 | 249 | 25 | | 3 | — | 3 | *(2)* | — | Jul-16 | |
| PFC | 94 | 1 | 93 | | 54 | — | 54 | | — | Aug-15 | |
| PRIFA - Rum | 113 | — | 113 | | — | — | — | | — | Jan-16 | |
| PRIFA BANs | 155 | 155 | — | | 32 | — | 32 | | — | Aug-16 | |
| HTA - 1998 Resolution, Sub Series 1998 | 6 | 1 | 4 | *(4)* | — | — | — | | — | Jul-16 | *(9)* |
| **Total** | **$4,091** | **$2,676** | **$1,375** | | **$497** | **$357** | **$140** | | **$1,096** | | |

All debt shown above, excluding COFINA, is either not being paid or paid from existing reserves.

*Note: The above excludes PREPA, PRASA, AFICA – Guaynabo, HTA - VRDOs (1998 Resolution), MFA, HFA, and CTF debts. All of these debts are continuing to be paid except PRASA rural development debt.*

**Important information and footnotes is provided in the appendix.**
Only includes bonded amounts; Excludes amounts owed to GDB.
Total amount missed represents amounts not paid from the Commonwealth and has not been reduced by amounts paid by insurers, if any.
Amounts do not include any accrued interest on missed payments.

# The Financial Oversight and Management Board Requested an Assessment of the Commonwealth Liquidity

I. Overview of the TSA

II. FY 2017 Cash Flow Forecast

III. Historical Cash Flow Trends

IV. Short-term cash preservation measures that have been implemented to date to address PR's liquidity and budgetary challenges

V. Discussion of Uses of “Claw Back” Revenue and Moratorium-Related Funds

VI. Review of Debt Outstanding

**VII. Final Considerations**

# Final Considerations

**The Liquidity Crisis Is Real**

- The expected cash position at the expiration of the current Moratorium period in January is $104 million, not enough to cover the required debt service of $1.3 billion while providing essential services to the people of Puerto Rico and benefits to its Government retirees

**An Expeditious Confirmation of a Fiscal Plan is Critical**

- The Commonwealth may need time to address the upcoming maturity cliff and develop a broad set of sustainable, long-term structural reforms that meet the PROMESA requirements
- All stakeholders must work together to achieve a fiscal plan that can be certified

**Visibility and Transparency of Financial Data are Keys to Credibility**

- The  Commonwealth must implement quick “fixes” to improve the visibility and reporting of financial information in the short-term; existing tools and processes are inadequate

# Appendix

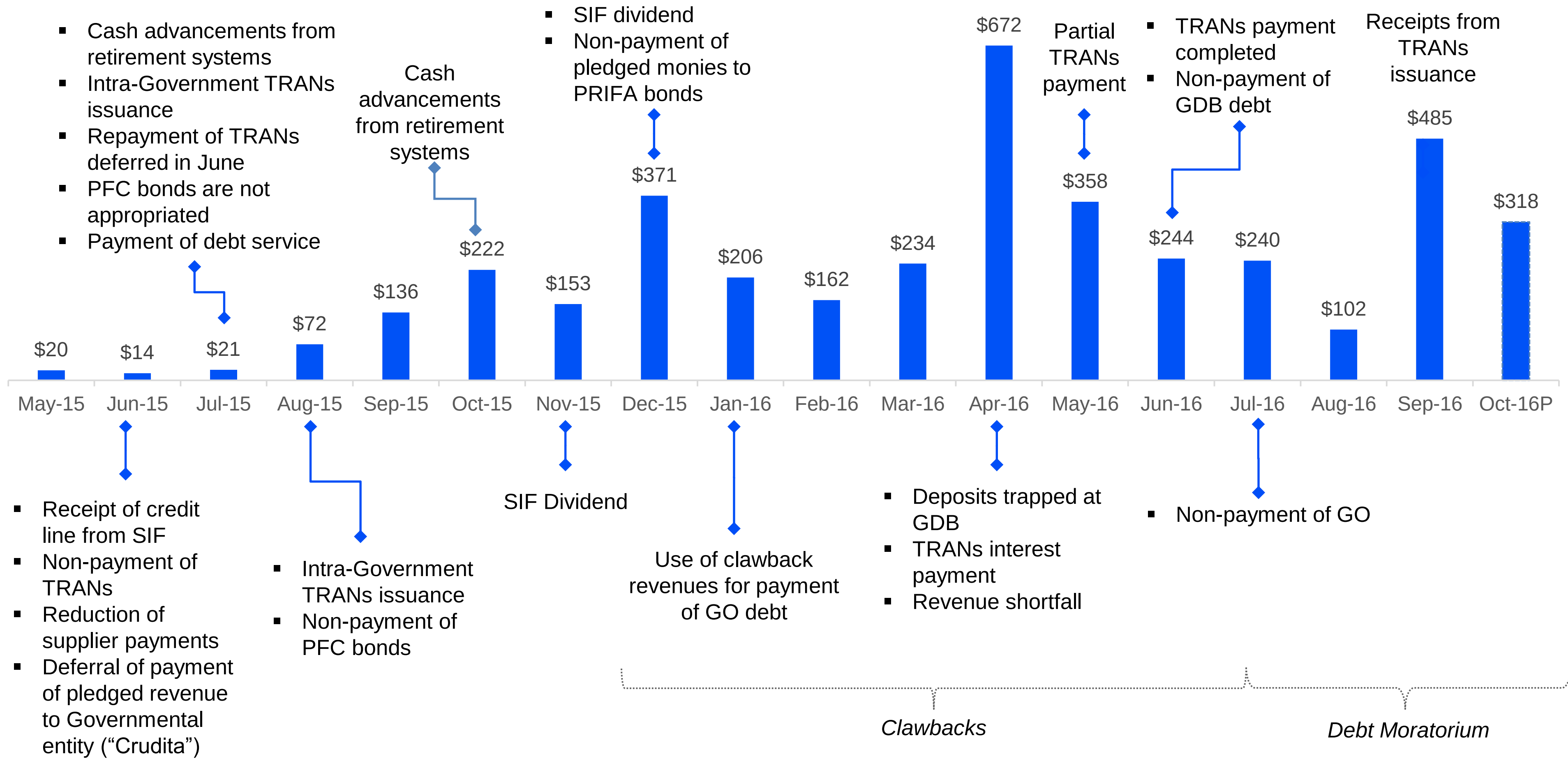
# FY 2017 TSA Forecast - Key assumptions

- **General Fund:** FY 2017 estimated revenues(1) and approved budgeted appropriations
- **Tax Refunds:** Estimate consistent with recent trends
- **Federal Funds:** Inflows and outflows are net of the Nutrition Assistance Program
- **Pensions:** Pension inflows are based on input from ERS/JRS and TRS, reduced by the appropriated AUC.(2) Pension outflows are based on historical data and estimated changes for FY 2017
- **Current Law:** Retention of pledged revenues and General Fund appropriations from the TSA to certain public corporations for debt service during the moratorium period (July 2016 through January 2017)
- **Special Revenue Funds:** Inflows and outflows are estimated by Treasury based on historical data, recent events and anticipated changes for FY 2017(3)
- **Seasonality:** The monthly timing of inflows and outflows is based on historical data

(1) Revenue projections reflect the original projection of $9.1 billion reduced by $55 million for projected shortfalls in transfers from electronic and traditional lottery.
(2) Required AUC under statutory law is higher than budgeted amount
(3) Special Revenue funds and special appropriations of the General Fund budget can be expended for up to three fiscal years, therefore current year disbursements may include appropriations made in prior years.

# TSA Cash Balances (1) and Sequence of Emergency Measures

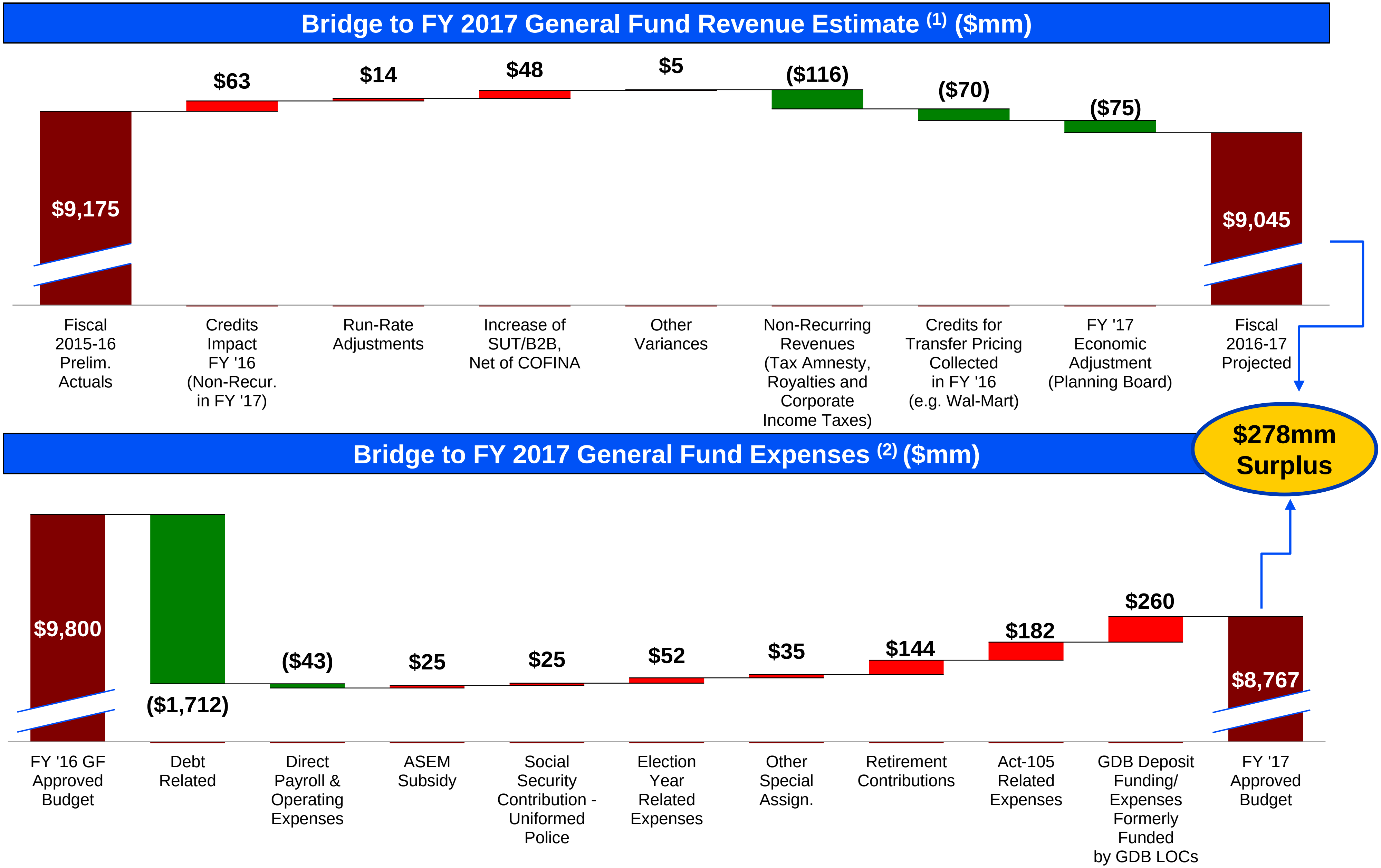
*($ in millions)*




(1) Represents bank cash balances. Excludes clawbacks deposited into GDB from January to March 2016 totaling $144 million are subject to the provisions of Act 21 and subject to the limitations on the withdrawal of funds (EO 014-2016). Excludes $146 million of cash retained through “clawbacks” deposited at BPPR from April to June 2016, which is held in a separate bank account at BPPR

(2) The end of month TSA cash balances presented are not adjusted by outstanding checks and deposits in transit, which if added result in negative book balance.

# In FY 2017, the General Fund is Expected to Generate a Surplus of $278 million on a Budgetary Basis*




1) Projected F Y 2017 revenue of $9.045 billion is based on an original estimate of $9.1 billion reduced by lower estimate of revenue related to traditional and electronic lottery.
2) FY 2017 budget is exclusive of budgetary reserve and emergency fund reserve.
* Excludes working capital impacts (i.e., payment of prior year's expenses)

# The historical TSA liquidity trends reflect the impact of the historical deficits discussed in the previous section; Stretching of AP has been a major source of financing in the past three years

## Historical Liquidity Trends

| *($ in millions)* | Actual | Actual | Actual | Actual | Change vs. Prior Year Favorable / (Unfavorable) | | |
|---|---|---|---|---|---|---|---|
| **Inflows:** | **FY 2013** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2014** | **FY 2015** | **FY 2016** |
| General Collections | 9,355 | 9,663 | 9,668 | 8,912 | 308 | 5 | (756) |
| Federal Funds | 3,223 | 3,253 | 3,524 | 3,573 | 30 | 272 | 48 |
| Retirement System Transfers | 1,140 | 1,260 | 1,358 | 1,330 | 120 | 98 | (27) |
| Sales and Use Tax | 543 | 641 | 630 | 1,560 | 99 | (11) | 929 |
| Excise Tax | – | 555 | 424 | 500 | 555 | (131) | 76 |
| Rum Tax and Other | 269 | 364 | 336 | 209 | 95 | (28) | (127) |
| Lotteries | 142 | 128 | 185 | 137 | (14) | 58 | (48) |
| **Total** | **14,671** | **15,864** | **16,126** | **16,222** | **1,193** | **262** | **95** |
| **Outflows:** | | | | | | | |
| Payroll-Related | (4,069) | (3,853) | (3,632) | (3,574) | 215 | 221 | 58 |
| Suppliers, Welfare and Operating Expenses (a) | (4,836) | (4,646) | (4,180) | (3,736) | 189 | 466 | 444 |
| ASES | (2,023) | (2,047) | (2,595) | (2,669) | (24) | (548) | (74) |
| Pension Benefits | (1,831) | (1,991) | (2,024) | (2,040) | (160) | (33) | (16) |
| University of Puerto Rico | (825) | (896) | (860) | (890) | (70) | 36 | (30) |
| Tax Refunds | (684) | (978) | (768) | (615) | (294) | 210 | 152 |
| CRIM | (414) | (345) | (359) | (460) | 69 | (14) | (102) |
| PBA | (205) | (344) | (317) | (329) | (140) | 27 | (12) |
| HTA | (289) | (501) | (548) | (303) | (213) | (47) | 245 |
| Traditional Lottery | (282) | (226) | (206) | (191) | 56 | 21 | 15 |
| Compulsory Insurance | (196) | (120) | (118) | (103) | 76 | 3 | 15 |
| Other | (128) | (126) | (125) | (186) | 2 | 2 | (61) |
| **Subtotal - Outflows** | **(15,782)** | **(16,076)** | **(15,730)** | **(15,096)** | **(294)** | **345** | **634** |
| **Non-Debt Net Cash Flow** | **(1,111)** | **(211)** | **396** | **1,125** | **899** | **607** | **729** |
| Debt Related Inflows | 4,085 | 7,292 | 2,625 | 1,050 | 3,207 | (4,668) | (1,574) |
| Debt Related Outflows (b) | (3,152) | (7,028) | (3,188) | (1,501) | (3,876) | 3,840 | 1,687 |
| **Debt-Related Cash Flow (c)** | **933** | **264** | **(563)** | **(451)** | **(669)** | **(828)** | **113** |
| Clawback Related Outflows | – | – | – | (443) | – | – | (443) |
| **Clawback-Related Cash Flow** | **–** | **–** | **–** | **(443)** | **–** | **–** | **(443)** |
| **Net Cash Flow** | **(178)** | **53** | **(168)** | **231** | **231** | **(221)** | **398** |
| **Beginning Cash Balance** | **305** | **128** | **181** | **13** | | | |
| **Ending Cash Balance** | **128** | **181** | **13** | **244** | **53** | **(168)** | **231** |

## Key Variance Explanations

- Non-debt related inflows
  - General collections unfavorable trend due to repealing Patente Nacional, ceasing tax amnesty programs, decrease in employment and population
  - FY 2016 includes an increase of approximately $930 million in sales and use tax primarily attributable to the rate increase of 6.0% to 10.5% (net of 1% for municipalities) in July 2015 and B2B tax of 4% in October 2015
- Non-debt related outflows have declined in recent years
  - Payroll and related costs have been reduced through attrition
  - Pension benefits have increase in part because of early retirement programs
  - Income tax refunds have seen reductions due to delay of payment and elimination of the earned income tax credit and reduction of senior citizen tax credit
  - Supplier payments have declined due to deferral of payments to maintain liquidity
- The increase outflows to ASES are partially offset by ACA federal funds receipts
- Debt related inflows experienced significant decrease due to lack of market access

a) For comparison purposes, the line items in ASEM, legislative assignments and suppliers have been included in suppliers and other.
b) Includes approximately $251 million of outflows of funds impaired at GDB that are reflected as an outflow for presentation purposes.
c) Debt service related includes receipts and disbursements of 2014 G.O. issuance, which was receipts were used for debt refinancing purposes.

# TSA Liquidity – Fiscal 2016 to Fiscal 2017 Variance

| | ($ in millions) | FY 2016 Actual | FY 2017 Proj. | Variance - B/(W) |
|---|---|---|---|---|
| 1 | General Collections | $8,572 | $8,197 | ($375) |
| 2 | Clawback/Moratorium Rev. (Ex. PRIFA Rum) | 340 | 290 | (51) |
| 3 | Sales and Use Tax | 1,560 | 1,634 | 75 |
| 4 | Excise Tax | 500 | 579 | 78 |
| 5 | Retirement System Transfers | 1,130 | 893 | (237) |
| 6 | Electronic Lottery | 137 | 138 | 1 |
| 7 | Traditional Lottery | 51 | – | (51) |
| 8 | CRIM | 103 | – | (103) |
| 9 | Rum Tax | 208 | 203 | (5) |
| 10 | Federal Funds | 3,573 | 3,516 | (57) |
| 11 | Other Income/Agency LOCs | 276 | 40 | (236) |
| 12 | Tax Credits | 1 | – | (1) |
| 13 | Tax Revenue Anticipation Notes | 400 | 400 | – |
| 14 | Clawback Acct. Transfers | 164 | – | (164) |
| 15 | Other | 107 | – | (107) |
| 16 | **TOTAL INFLOWS** | **$17,122** | **$15,890** | **($1,233)** |
| 17 | Payroll-Related | ($3,574) | ($3,619) | ($45) |
| 18 | Pension Benefits | (2,040) | (2,065) | (25) |
| 19 | University of Puerto Rico | (890) | (872) | 17 |
| 20 | GDB Transactions /AAFAF | (62) | (207) | (145) |
| 21 | Tax Revenue Anticipation Notes | (741) | (423) | 318 |
| 22 | G.O. Debt Service | (346) | – | 346 |
| 23 | ASES | (2,669) | (2,662) | 6 |
| 24 | ACAA | (78) | (78) | – |
| 25 | HTA | (303) | (348) | (46) |
| 26 | PRIFA BANs | (42) | (18) | 25 |
| 27 | PRITA/AMA | (66) | (71) | (5) |
| 28 | Lottery | (242) | (16) | 226 |
| 29 | Compulsory Insurance | (103) | (98) | 5 |
| 30 | CRIM | (460) | (428) | 32 |
| 31 | Suppliers | (3,021) | (3,474) | (453) |
| 32 | Legislative Assignments | (595) | (645) | (50) |
| 33 | Tax Refunds | (615) | (672) | (56) |
| 34 | PBA | (329) | (162) | 167 |
| 35 | PRIDCO | (25) | (60) | (35) |
| 36 | ASEM | (95) | (122) | (26) |
| 37 | Other - Law 105 & Cigarettes | (45) | (24) | 21 |
| 38 | Transfers to Clawback Acct. | (443) | – | 443 |
| 39 | Transfers to TRS Trust Acct. | (57) | – | 57 |
| 40 | Loss of Funds Trapped at GDB | (51) | – | 51 |
| 41 | **TOTAL OUTFLOWS** | **($16,892)** | **($16,063)** | **$829** |
| 42 | **NET CASH FLOW** | **$231** | **($174)** | **($404)** |

## Key Takeaways

**FY 2017 cash flow scenario does not include payment of debt service or repayment of pledged/clawback revenues**

- Net cash flow during fiscal 2017 is $404 million lower than during fiscal 2016
- Significant drivers of reduced inflows:
  - General collections – declined due to non-recurring revenue and economic factors
  - Retirement system transfers based on discussion with ERS and TRS are forecasted to be lower than fiscal 2016
  - Traditional lottery setup an independent treasury
  - CRIM – funds are deposited in a separate bank account, receipts are pledged for General Obligation Bonds
  - Other income/agency LOC's – reduced due to very limited liquidity at GDB
  - Clawback Acct. Transfers – not applicable for fiscal 2017
  - Other – Fiscal 2016 received separate inflows related to pay Act 105 expenses, these expenses are included in the General Fund for fiscal 2017
- Significant drivers of reduced outflows:
  - Tax revenue anticipation notes – fiscal 2016 outflows included $300 million related to fiscal 2015
  - GO debt service – not included in the General Fund budget and related to the Moratorium Act
  - Lottery – offset by a decrease in inflows due to independent treasury.
  - PBA – related to the Moratorium Act
  - Transfers to Clawback Account – not applicable for fiscal 2017
  - The reduction in outflows above is partially offset by higher outflows from:
    - GDB/AAFAF – higher outflows related to increased General Fund appropriations in fiscal 2017
    - Supplier payments – higher outflows to compared to prior fiscal year

# Monthly FY 2017 Cash Flow Summary (Baseline Scenario)

**The following represents a scenario of TSA cash flows for discussion purposes only, and that the Commonwealth expressly reserves its rights with respect to the timing and amounts of debt service and other payments illustrated herein**

| | For the Month Ended | | | | | | | | | | | | 12-Month Ended |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | 7/31/16 | 8/31/16 | 9/30/16 | 10/31/16 | 11/30/16 | 12/31/16 | 1/31/17 | 2/28/17 | 3/31/17 | 4/30/17 | 5/31/17 | 6/30/17 | 6/30/17 |
| **Beginning Cash Balance (Ex. Clawback Acct.)** | **$244** | **$240** | **$102** | **$485** | **$318** | **$221** | **$184** | **$97** | **($1,214)** | **($1,249)** | **($1,013)** | **($1,338)** | **$244** |
| **Receipts:** | | | | | | | | | | | | | |
| TSA Inflows (Ex. Withheld Pledged Revenues) | $1,113 | $1,059 | $1,655 | $1,204 | $1,019 | $1,268 | $1,063 | $1,252 | $1,444 | $1,821 | $1,178 | $1,524 | $15,600 |
| Withheld Pledged Revenues (Moratorium Related) | 39 | 42 | 42 | 42 | 42 | 42 | 42 | – | – | – | – | – | 290 |
| **Total Inflows** | **$1,152** | **$1,101** | **$1,697** | **$1,246** | **$1,061** | **$1,310** | **$1,104** | **$1,252** | **$1,444** | **$1,821** | **$1,178** | **$1,524** | **$15,890** |
| **Disbursements:** | | | | | | | | | | | | | |
| TSA Outflows | ($1,156) | ($1,239) | ($1,314) | ($1,413) | ($1,158) | ($1,347) | ($1,191) | ($1,245) | ($1,454) | ($1,560) | ($1,479) | ($1,506) | ($16,063) |
| 2017 G.O. Debt Service (1)* | – | – | – | – | – | – | – | (369) | (1) | (1) | (1) | (755) | (1,128) |
| 2017 Other Debt Service (1)(2) | – | – | – | – | – | – | – | (108) | – | – | – | (83) | (191) |
| 2017 PBA Debt Service (1)(3)* | – | – | – | – | – | – | – | (185) | (23) | (23) | (23) | (23) | (277) |
| Payment of FY 2016 Unpaid Debt Service (4) | – | – | – | – | – | – | – | (656) | – | – | – | – | (656) |
| **Total Outflows** | **($1,156)** | **($1,239)** | **($1,314)** | **($1,413)** | **($1,158)** | **($1,347)** | **($1,191)** | **($2,563)** | **($1,479)** | **($1,585)** | **($1,503)** | **($2,367)** | **($18,315)** |
| **Baseline Net Cash Flow Before Repayment of Clawbacks and Retained Pledged Revenues** | **($4)** | **($139)** | **$384** | **($167)** | **($97)** | **($37)** | **($87)** | **($1,311)** | **($35)** | **$236** | **($325)** | **($843)** | **($2,426)** |
| **Ending Cash Balance (Ex. Clawback Acct.)** | **$240** | **$102** | **$485** | **$318** | **$221** | **$184** | **$97** | **($1,214)** | **($1,249)** | **($1,013)** | **($1,338)** | **($2,181)** | **($2,181)** |
| Clawback Account Balance | 146 | 146 | 146 | 146 | 146 | 146 | 146 | – | – | – | – | – | – |
| **Ending Cash Balance (Inc. Clawback Acct.)** | **$386** | **$248** | **$631** | **$464** | **$367** | **$330** | **$243** | **($1,214)** | **($1,249)** | **($1,013)** | **($1,338)** | **($2,181)** | **($2,181)** |

| ***Memo - Baseline Liquidity After Repayment of Clawback and Retained Pledged Revenues:*** | 7/31/16 | 8/31/16 | 9/30/16 | 10/31/16 | 11/30/16 | 12/31/16 | 1/31/17 | 2/28/17 | 3/31/17 | 4/30/17 | 5/31/17 | 6/30/17 | 12-Month Ended 6/30/17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Repayment of Retained Pledged Revenues (5)* | – | – | – | – | – | – | – | *(217)* | – | – | – | – | *(217)* |
| *Repayment of Clawback Revenues* | – | – | – | – | – | – | – | *(453)* | – | – | – | – | *(453)* |
| *Payment of 16'/17' PFC Debt Service* | – | – | – | – | – | – | – | *(174)* | *(1)* | *(1)* | *(1)* | *(1)* | *(179)* |
| *Payment of 16'/17' ASSMCA Debt Service* | – | – | – | – | – | – | – | *(5)* | – | – | – | – | *(5)* |
| ***Ending Cash Balance (Ex. Clawback Acct.)*** | ***$240*** | ***$102*** | ***$485*** | ***$318*** | ***$221*** | ***$184*** | ***$97*** | ***($2,063)*** | ***($2,099)*** | ***($1,864)*** | ***($2,191)*** | ***($3,036)*** | ***($3,036)*** |

(1) Includes payment of missed contractual FY 2017 debt service due is paid in February 2017 after lapse of moratorium related legislation then continued payment of contractual debt service thereafter as it becomes due.
(2) Other debt service includes PRIFA rum bonds, PRIFA petroleum products BANs, and General Services Administration debt.
(3) Includes payment of missed FY 2017 contractual debt service for debt held by the Public Buildings Authority in Feb. 2017 after lapse of moratorium related legislation and continued payment of contractual debt service as it becomes due.
(4) Figures do not consider any debt service reserves or "set-aside" funds that may have been released by trustee to partially satisfy owed payments. Includes missed G.O.,PBA (June set-aside), and PRIFA rum bond debt. Excludes HTA, UPR and GDB debt service assumed to be paid from other sources. Missed G.O. debt service has been netted against projected available clawback funds in February 2017.
(5) Amount has been adjusted by the amount of Jul. '17 through Jan. '17 PRIFA petroleum products BANs debt service paid in February 2017.
* February amounts represent eight months of equal set-aside payments, amounts there after represent monthly set-aside amounts and not actual debt service due.

Notes:
a) For illustrative purposes, moratorium revenue retained by the TSA including revenues pledged for PRHTA Bonds, PRMBA Line of Credit and PRIFA BANs is projected to be repaid after the moratorium period expires on January 31, 2017.
b) For illustrative purposes, clawbackable revenue from FY 2016 related to PRHTA, PRCCDA, PRMBA, PRIFA Petroleum and PRIFA Rum tax is shown in this projection to be repaid after the moratorium period expires on January 31, 2017.
c) Debt service does not include accrued interest on unpaid amounts.

Note: Other Commonwealth liabilities that have been deferred for GDB appropriation debt, past-due contributions to pension systems (including catch-up payments for the Additional Uniform Contribution (AUC) and Annual Additional Contribution (AAC) of $405 million and amounts for the unappropriated-portion of the FY 2017 AUC/AAC), third-party payables, tax refunds, intra-government payables, and others are not included in the projections. Note that the AUC/AAC figures are subject to continued revision and refinement.

# Additional Clawback and Moratorium Revenues Detail

*($ in thousands)*

## FY 2016 Clawback Revenues

| Entity | Concept | Through Dec '15 | Jan. '16 – Jun. '16 | Total |
|---|---|---|---|---|
| PRIFA | Rum Tax | $113,000 | – | $113,000 |
| PRIFA | Petroleum Tax | – | 12,826 | 12,826 |
| PRMBA | Cigarette Tax | 323 | 4,674 | 4,997 |
| PRCCDA | Hotel Room Tax | 3,033 | 9,100 | 12,134 |
| PRHTA | Petroleum Tax | 20,000 | 60,000 | 80,000 |
| PRHTA | Gasoline/Diesel/Licenses | 27,561 | 86,369 | 113,930 |
| PRHTA | Petroleum Tax | – | 53,638 | 53,638 |
| PRHTA | Motor Vehicle Fines | – | 29,117 | 29,117 |
| PRHTA | Motor Vehicle Licenses | – | 21,814 | 21,814 |
| PRHTA | Cigarette Tax | – | 11,662 | 11,662 |
| **Total Amount Transferred** | | **$163,917** | **$289,201** | **$453,118** |
| **GDB - Account Reconciliation [1]** | | | | |
| **Beginning Balance** | | – | **$163,917** | – |
| Transfers to Clawback Acct. *(Dec. 2015 - Mar. 2016)* | | 163,917 | 143,199 | 307,116 |
| Amount disbursed from Clawback Acct. | | – | (163,917) | (163,917) |
| Interest Earned | | – | 375 | 375 |
| **Ending Balance** | | **$163,917** | **$143,574** | **$143,574** |
| **BPPR - Account Reconciliation** | | | | |
| **Beginning Balance** | | – | – | – |
| Transfers to Clawback Account *(Apr. 2016 - Jun. 2016)* | | – | 146,002 | 146,002 |
| Amount disbursed from Clawback Acct. | | – | – | – |
| Interest Earned [2] | | – | 70 | 70 |
| **Ending Balance** | | – | **$146,072** | **$146,072** |
| **Total Ending Balance** | | **$ 163,917** | **$ 289,646** | **$ 289,646** |

## FY 2017 Moratorium Revenues Deposited in the TSA [3]

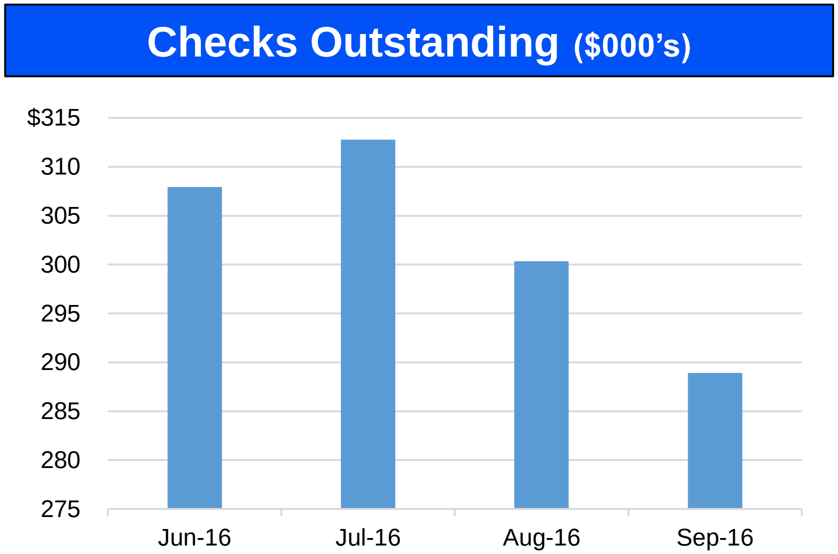
| Debt Instrument | Jul. '16 - Sep. '16 |
|---|---|
| PRHTA Bonds (Resolution 98 and 68 bonds) | $ 81,721 |
| PRMBA Line of Credit (Scotiabank) | 2,400 |
| PRIFA Bonds Anticipation Notes | 39,034 |
| PRIFA Rum Bonds | 76,913 |
| **Total Moratorium - TSA** | **$ 200,068** |

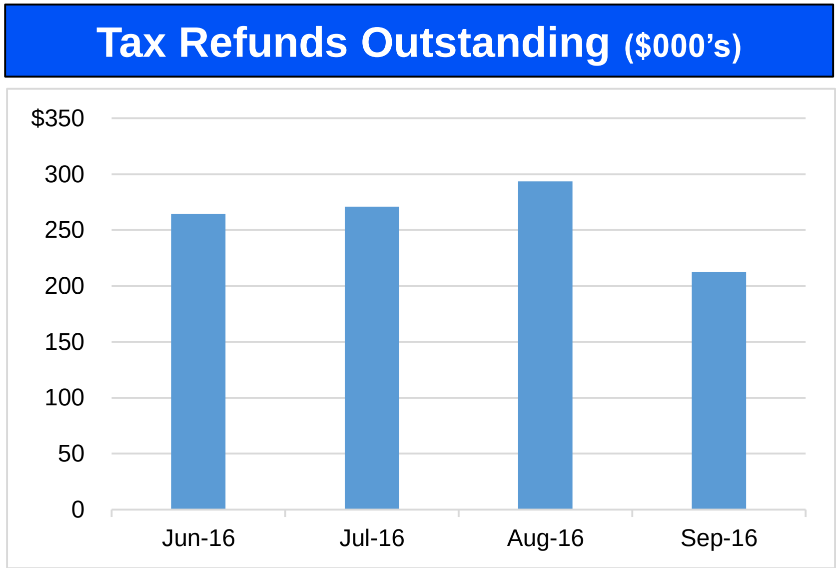
## FY 2017 Moratorium Revenues Retained Directly by Component Units

| Component Unit | Jul. '16 - Sep. '16 |
|---|---|
| ERS | 57,800.0 |
| UPR | 12,000.0 |
| Desarollos Universitarios | 1,400.0 |
| PRHTA | 30,000.0 |
| Tourism Company | 9,100.0 |
| PRIDCO [4] | 6,400.0 |
| **Moratorium - Component Units [5]** | **$ 116,700.0** |

(1) Deposits at GDB are subject to the provision of Act 21-2016 and Executive Orders.
(2) Includes $55k of accrued interest from July to September.
(3) Includes approximately $77 million corresponding to rum excise tax revenues that would have otherwise been transferred to PRIFA for the payment of Special Tax revenue Bonds.
(4) Estimated amount.
(5) Excludes funds retained by PR Ports Authority pledged to the PRIFA Porta Authority Bonds

# Checks and Tax Refunds Outstanding – FY 2017




(1) Source: PR Treasury Department

# Additional Detail on Debt Service

# Debt Service Introduction

**The following slides provide summary information on the Commonwealth's debt obligations in FY 2016 and year-to-date FY 2017**

- In assessing the information included herein, it is important to note:
  - Fiscal Year 2016 debt service includes principal and interest payments due on July 1, 2016
    - Annual COFINA debt service shown herein corresponds to an August to July schedule, whereas the Fiscal Plan shows COFINA debt service on a September to August schedule to align debt service with the revenues collected to pay such debt service in the Commonwealth's fiscal year
  - Only bonded debt service is included herein; debt service related to loans, including amounts owed to GDB, is not included[1]
  - Debt service is shown on a cash basis when payments to bondholders actually come due, so the amounts shown do not include amounts that otherwise would have been "set-aside" into deposit accounts or accruing interest on capital appreciation (*i.e.*, zero coupon) bonds that is not due and payable
    - Certain bonds are beneficiaries of federal subsidies (including, for example, those related to the Build America Bonds program), cash that was set-aside at the time the bonds were issued ("capitalized interest"), or cash that was set aside to "pre-refund" the bonds. Debt service shown herein is presented net of such federal subsidies, capitalized interest, and pre-refunding amounts where applicable
  - Amounts shown herein do not incorporate any default interest that may be due and payable
  - Any payments made by insurers on account of missed payments by the Commonwealth are also not incorporated
- Note that interest and principal amounts due in FY 2017 are based on Commonwealth estimates and precise payment amounts have not been confirmed by bond trustees for all issuers; in addition, where possible, current reserve balances are based on information provided by the bond trustees, but such information has not been confirmed in all cases
  - The Commonwealth is not directly responsible for maintaining the reserve accounts shown nor making *direct* payments to bondholders; the Commonwealth expects to update the information contained herein regularly for the Oversight Board. While the Commonwealth relies on account information provided by third-parties, to the extent new information becomes available from the trustees it will be included in future submissions

(1) For example, the amount shown herein exclude Port of the Americas ("POA" or "APLA") bonds, GO Notes, and GSA loans.

# FY 2016 Debt Service

## The following provides a summary of the debt service due, paid, and missed in FY 2016

FY 2016 Debt Service Due, Paid and Missed ($ millions)

| | FY 2016 Interest | | | FY 2016 Principal | | | FY 2016 Total Debt Service | | |
|---|---|---|---|---|---|---|---|---|---|
| | Due | Paid | Missed | Due | Paid | Missed | Due | Paid | Missed |
| **Debt Included in Fiscal Plan** | | | | | | | | | |
| GO | $699 | $346 | $353 | $426 | – | $426 | $1,125 | $346 | $779 |
| GDB[2] | 173 | 173 | – | 569 | 209 | 360 | 742 | 382 | 360 |
| GDB (CW-Guaranteed) | 15 | 15 | – | 267 | 267 | – | 282 | 282 | – |
| PBA (ex. Series L) | 188 | 188 | – | 86 | 61 | 25 | 274 | 249 | 25 |
| PBA - Series L | 2 | 2 | – | – | – | – | 2 | 2 | – |
| PFC | 57 | 1 | 57 | 36 | – | 36 | 94 | 1 | 93 |
| COFINA | 643 | 643 | – | 11 | 11 | – | 655 | 655 | – |
| PRIFA - Rum | 72 | – | 72 | 41 | – | 41 | 113 | – | 113 |
| PRIFA - Port | 10 | 10 | – | 2 | 2 | – | 12 | 12 | – |
| PRIFA - ASSMCA (Mental Health) | 2 | 2 | – | 1 | 1 | – | 3 | 3 | – |
| UPR | 23 | 23 | – | 20 | 20 | – | 43 | 43 | – |
| PRCCDA | 19 | 19 | – | 11 | 11 | – | 30 | 30 | – |
| PRIDCO | 9 | 9 | – | 17 | 17 | – | 26 | 26 | – |
| PRIFA BANs | 13 | 13 | – | 142 | 142 | – | 155 | 155 | – |
| HTA - 1968 Resolution | 44 | 44 | – | 28 | 28 | – | 72 | 72 | – |
| HTA - 1998 Resolution, Senior[3] | 161 | 161 | – | 59 | 59 | – | 220 | 220 | – |
| HTA - 1998 Resolution, Sub Series 1998[4] | 3 | 1 | 1 | 3 | – | 3 | 6 | 1 | 4 |
| HTA - 1998 Resolution, Sub Series 2003 | 12 | 12 | – | 13 | 13 | – | 24 | 24 | – |
| Teodoro Moscoso Bridge[5] | 7 | 7 | – | 7 | 7 | – | 14 | 14 | – |
| ERS | 167 | 167 | – | – | – | – | 167 | 167 | – |
| AFICA - University Plaza Project | 3 | 3 | – | 2 | 2 | – | 6 | 6 | – |
| **Total Debt Included in Fiscal Plan** | **$2,323** | **$1,840** | **$483** | **$1,741** | **$850** | **$891** | **$4,064** | **$2,690** | **$1,375** |
| **Additional Debt Not Shown in Fiscal Plan** | | | | | | | | | |
| HTA - VRDOs (1998 Resolution) | 24 | 24 | – | – | – | – | 24 | 24 | – |
| AFICA - Guaynabo | 1 | 1 | – | 2 | 2 | – | 2 | 2 | – |
| PRASA - 2008 Series A&B, Senior | 76 | 76 | – | 15 | 15 | – | 91 | 91 | – |
| PRASA - 2012 Series A&B, Senior | 107 | 107 | – | 34 | 34 | – | 140 | 140 | – |
| PRASA - 2008 Series A&B, Sub | 17 | 17 | – | – | – | – | 17 | 17 | – |
| PRASA - Rural Development[6] | 16 | 9 | 6 | 10 | 5 | 5 | 25 | 14 | 11 |
| MFA[7] | 34 | 34 | – | 83 | 83 | – | 117 | 117 | – |
| HFA[8] | 21 | 21 | – | 24 | 24 | – | 46 | 46 | – |
| CTF | 47 | 47 | – | – | – | – | 47 | 47 | – |
| PREPA | 382 | 382 | – | 354 | 354 | – | 736 | 736 | – |

See following page for footnotes.

# Footnotes to “FY 2016 Debt Service “

## The below serve as the footnotes for the FY 2016 debt service schedule shown on the previous page

Note: payments shown for FY 2016 include principal and interest payments due on July 1, 2016.

1. Total amount missed represents amounts not paid by the Commonwealth and has not been reduced by amounts paid by insurers, if any.
2. GDB contractual debt service due shown herein excludes the $40 million principal payment due in May 2016 that was subsequently extended to May 2017.
3. Amount shown does not include amounts associated with the 1998 Resolution Series A Variable Rate Demand Obligation (“VRDO”) bonds, which are shown separately in the “Additional Debt Not Shown in Fiscal Plan” section, as these bonds are held by GDB and therefore eliminated in Fiscal Plan due to consolidation.
4. Total payment missed represents the missed payment on the 1998 Resolution subordinated Series 1998 bonds, which have a $15 million reserve held at GDB which was not available to make the debt service payment due.
5. Teodoro Moscoso Bridge bonds shown here for illustrative purposes, as these bonds are included in the Fiscal Plan. The concessionaire is currently responsible for the debt service payments.
6. The Rural Development Bonds have been subject to a forbearance agreement since July 1, 2016 and the amounts shown herein reflect the forbearance of remedies in respect of debt service payments due on July 1, 2016. Amounts shown as paid/missed per the trustee, which remains subject to continued diligence with the trustee.
7. Amounts shown include 2002 Series A Bonds, 2005 Series A,B, & C bonds, and 1997 A bonds. Additional diligence regarding the 2005 Series A & C bonds remains ongoing with the trustee.
8. HFA amounts shown herein represent only the Capital Fund Bonds and do not include the Single Family Mortgage Revenue Bonds and the Mortgage-Backed Certificates (diligence on these excluded bonds remains ongoing with the trustee).

# 2017 Fiscal Year to Date – Total Debt Service (P+I)

**The following provides a summary of the estimated total debt service due to bondholders in August, September and October 2016 (excluding required set-aside amounts), as well as the estimated amounts paid and missed in that time period**

FY 2017 YTD Total Debt Service Due, Paid and Missed ($ millions)

| | Fiscal YTD Total Debt Service Due | | | | Fiscal YTD Total Debt Service Paid | | | | Fiscal YTD Total Debt Service Missed[1] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Aug-16 | Sep-16 | Oct-16 | Total | Aug-16 | Sep-16 | Oct-16 | Total | Aug-16 | Sep-16 | Oct-16 | Total |
| **Debt Included in Fiscal Plan** | | | | | | | | | | | | |
| GO | $1 | $1 | $1 | **$4** | – | – | – | – | $1 | $1 | $1 | **$4** |
| GDB | 27 | 9 | 9 | **46** | – | – | – | – | 27 | 9 | 9 | **46** |
| GDB (CW-Guaranteed) | 1 | 1 | 1 | **2** | – | – | – | – | 1 | 1 | 1 | **2** |
| PBA (ex. Series L)[2] | – | – | 3 | **3** | – | – | – | – | – | – | 3 | **3** |
| PBA - Series L | – | – | – | – | – | – | – | – | – | – | – | – |
| PFC | 51 | 1 | 1 | **54** | – | – | – | – | 51 | 1 | 1 | **54** |
| COFINA | 278 | 16 | 16 | **311** | 278 | 16 | 16 | **311** | – | – | – | – |
| PRIFA - Rum | – | – | – | – | – | – | – | – | – | – | – | – |
| PRIFA - Port | – | – | – | – | – | – | – | – | – | – | – | – |
| PRIFA - ASSMCA (Mental Health) | – | – | 2 | **2** | – | – | 2 | **2** | – | – | – | – |
| UPR | – | – | – | – | – | – | – | – | – | – | – | – |
| PRCCDA | – | – | – | – | – | – | – | – | – | – | – | – |
| PRIDCO | 1 | 1 | 1 | **2** | 1 | 1 | 1 | **2** | – | – | – | – |
| PRIFA BANs | 11 | 11 | 10 | **32** | – | – | – | – | 11 | 11 | 10 | **32** |
| HTA - 1968 Resolution | – | – | – | – | – | – | – | – | – | – | – | – |
| HTA - 1998 Resolution, Senior[3] | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | – | – | – | – |
| HTA - 1998 Resolution, Sub Series 1998 | – | – | – | – | – | – | – | – | – | – | – | – |
| HTA - 1998 Resolution, Sub Series 2003 | – | – | – | – | – | – | – | – | – | – | – | – |
| Teodoro Moscoso Bridge[4] | 1 | 1 | 1 | **2** | 1 | 1 | 1 | **2** | – | – | – | – |
| ERS | 14 | 14 | 14 | **42** | 14 | 14 | 14 | **42** | – | – | – | – |
| AFICA - University Plaza Project | – | – | – | – | – | – | – | – | – | – | – | – |
| **Total Debt Included in Fiscal Plan** | **$384** | **$54** | **$60** | **$498** | **$293** | **$31** | **$33** | **$358** | **$91** | **$23** | **$26** | **$140** |
| | | | | | | | | | | | | |
| **Additional Debt Not Shown in Fiscal Plan** | | | | | | | | | | | | |
| HTA - VRDOs (1998 Resolution) | 2 | 2 | 2 | **6** | 2 | 2 | 2 | **6** | – | – | – | – |
| AFICA - Guaynabo | – | – | – | – | – | – | – | – | – | – | – | – |
| PRASA - 2008 Series A&B, Senior | 0 | 0 | 0 | **0** | 0 | 0 | 0 | **0** | – | – | – | – |
| PRASA - 2012 Series A&B, Senior | 1 | 1 | 1 | **3** | 1 | 1 | 1 | **3** | – | – | – | – |
| PRASA - 2008 Series A&B, Sub | 1 | 1 | 1 | **4** | 1 | 1 | 1 | **4** | – | – | – | – |
| PRASA - Rural Development[5] | – | – | – | – | – | – | 1 | **1** | – | – | – | – |
| MFA[6] | 92 | – | – | **92** | 92 | – | – | **92** | – | – | – | – |
| HFA[7] | – | – | – | – | – | – | – | – | – | – | – | – |
| CTF | – | – | – | – | – | – | – | – | – | – | – | – |
| PREPA | – | – | 9 | **9** | – | – | 9 | **9** | – | – | – | – |

(1) Total amount missed represents amounts not paid by the Commonwealth and has not been reduced by amounts paid by insurers, if any.
(2) Excludes mandatory redemption of $750k that took place in August.
(3) Amount shown does not include amounts associated with the 1998 Resolution Series A Variable Rate Demand Obligation ("VRDO") bonds, which are shown separately in the "Additional Debt Not Shown in Fiscal Plan" section, as these bonds are held by GDB and therefore eliminated in Fiscal Plan due to consolidation.
(4) Teodoro Moscoso Bridge bonds shown here for illustrative purposes, as these bonds are included in the Fiscal Plan. The concessionaire is currently responsible for the debt service payments.
(5) The Rural Development Bonds have been subject to a forbearance agreement since July 1, 2016 and the amounts shown herein reflect the forbearance of remedies in respect of debt service payments. Amounts shown as paid/missed per the trustee, which remains subject to continued diligence with the trustee.
(6) Amounts shown include 2002 Series A Bonds, 2005 Series A,B, & C bonds, and 1997 A bonds. Additional diligence regarding the 2005 Series A & C bonds remains ongoing with the trustee.
(7) HFA amounts shown herein represent only the Capital Fund Bonds and do not include the Single Family Mortgage Revenue Bonds and the Mortgage-Backed Certificates (diligence on these excluded bonds remains ongoing with the trustee).

# Fund Balances

**The below summarizes the amounts currently available in debt service funds ("DSF") and debt service reserve funds ("DSRF"). All information shown herein as provided to the Commonwealth by the trustees or fiscal agents as of the dates shown below and remains subject to continued diligence and change**

**Debt Service Fund and Debt Service Reserve Fund Balances ($ millions)**

| | Debt Service Fund ("DSF") | Debt Service Reserve Fund ("DSRF") | Total DSF/DSRF Balance | Balance as of: | Trustee/Fiscal Agent |
|---|---|---|---|---|---|
| PBA (excl. Series L)[1] | $0 | – | $0 | Oct 27, 2016 | U.S. Bank |
| PBA - Series L[2] | – | 6 | 6 | Oct 27, 2016 | U.S. Bank |
| COFINA[3] | 455 | – | 455 | Oct 25, 2016 | BONY |
| PRIFA - ASSMCA (Mental Health)[4] | 0 | 2 | 2 | Oct 27, 2016 | BPPR |
| PRIFA BANs[5] | 0 | – | 0 | Oct 25, 2016 | BONY |
| UPR[6] | – | 55 | 55 | Oct 28, 2016 | U.S. Bank |
| AFICA - University Plaza Project[7] | 0 | 7 | 7 | Oct 31, 2016 | BONY |
| AFICA - Guaynabo[8] | 1 | 3 | 4 | Oct 27, 2016 | BPPR |
| PRCCDA[9] | – | 18 | 18 | Oct 25, 2016 | BONY |
| PRIDCO[10] | 0 | 20 | 20 | Oct 28, 2016 | U.S. Bank |
| HTA - 1968 Resolution[11] | 0 | 64 | 64 | Oct 25, 2016 | BONY |
| HTA - 1998 Resolution, Senior[12][13] | 0 | 105 | 105 | Oct 25, 2016 | BONY |
| HTA - 1998 Resolution, Sub Series 2003[14] | 0 | 8 | 8 | Oct 25, 2016 | BONY |
| HTA - 1998 Resolution, Sub Series 1998[15][16] | – | 15 | 15 | Oct 14, 2016 | BONY/GDB |
| ERS[17] | 0 | 86 | 86 | Oct 25, 2016 | BONY |
| MFA[18] | 35 | 76 | 111 | Oct 27-Nov 3, 2016 | BPPR/BONY/U.S. Bank |
| HFA[19] | 3 | 33 | 36 | Oct 27, 2016 | U.S. Bank |
| CTF[20] | 26 | 84 | 109 | Oct 27, 2016 | U.S. Bank |
| PRASA 2008 A&B, Senior[21] | 30 | 93 | 123 | Oct 27, 2016 | BPPR |
| PRASA 2012 A&B, Senior[21] | 43 | – | 43 | Oct 27, 2016 | BPPR |
| PRASA 2008 A&B, Sub[21] | 0 | – | 0 | Oct 27, 2016 | BPPR |
| PREPA[22] | 0 | 6 | 6 | Oct 19, 2016 | U.S. Bank |

See follow page for footnotes.

# Footnotes to “Fund Balances”

## The below serve as the footnotes for the fund balances shown on the previous page

Note: all balances shown are strictly funds deposited in the DSF or DSRF, except where noted. Balances include cash amounts where applicable and where reported. Amounts shown on the Fund Balances page may not be exhaustive of all accounts held by trustees for various purposes. Note that all bonds are shown even if they do not have either a DSF or DSRF.

1. PBA exc. Series L balances shown include amounts in the accounts labeled by the trustee as “PBA 1995 SNK Bd Svc,” “PBA 2007M BD Svs Ac,” “ PBA Govt Fac Rev BD 11R,” “PBA Series 2011 T AC,” and “PBA 2004K Bond Svc Ac.”
2. PBA Series L balances shown include amounts in the account labeled by the trustee as “PBA SF Reserve.”
3. COFINA balances shown include amounts in the accounts numbered by the trustee as: 313604, 313607, 880518, 880523, 880215, 880217, 880248, 880299, 880318, 880319, 880497, 880498, and 880499.
4. PRIFA ASSMCA (Mental Health) balances shown include amounts in the accounts labeled by the trustee as “2007 Debt Service Reserve Fund,” “2007 Sinking Fund Account,” and “2007 Interest Account.”
5. PRIFA BANs balances shown include amounts in the account labeled by the trustee as “2015 Redemption Fund.”
6. UPR balances shown include amounts in the account labeled by the trustee as “UPR 6-1-71 Rev Bds Rsv Ac.”
7. AFICA University Plaza Project balances shown include amounts in the account labeled by the trustee as “Debt Serviec Reserve Fund,” and “Master Debt Service.”
8. AFICA Guaynabo balances shown include amounts in the account labeled by the trustee as “1995 A – Bond Fund,” “1995A – Debt Serv.Reserv.Fund,” “1998A Interest Acct,” “1998A Debt Serv.Resv.,” and “1998 Bond Fund.”
9. PRCCDA balances shown include amounts in the account labeled by the trustee as “Hotel Occ Bds Ser A D S R FD.”
10. PRIDCO balances shown include amounts in the account labeled by the trustee as “1964 Bond Service Interest,” and “1964 Bond Reserve.”
11. HTA balances shown include amounts in the accounts numbered by the trustee as: 115484, 115526, 115532, 115538, 115482, 115524, 115537, 231806, and 764919.
12. HTA 1998 Resolution Senior balances include those available to the HTA 1998 Resolution Variable Rate Demand Obligation (“VRDO”) bonds.
13. HTA balances shown include amounts in the accounts numbered by the trustee as: 115471, 115479, 115522, 115566, 115653, 231811, 764911, 115469, 115478, 115488, 115515, 115520, 115564, 231793, 231805, 404035, 764914, and 764924.
14. HTA balances shown include amounts in the accounts numbered by the trustee as: 115475 and 115473.
15. HTA balances shown include amounts in the accounts numbered by the trustee as 115541.
16. HTA 1998 Resolution Subordinated Series 1998 bond DSRF amounts are held separately at GDB and are currently not available to make debt service payments on these bonds.
17. ERS balances shown include amounts in the account labeled by the trustee as “DS Interest Sub Ac Senior,” “Debt Service Reserve Ac,” and “General Reserve Ac.”
18. MFA balances shown include amounts in the account labeled by the trustee as “2002 Bond Serv.,” “2002 Reserve Ac.,” “1997 SR A/B Reserve,” “1997 Bond Service Account,” "1999 Bond Service," "1999 Reserve Ac.," "05 Ser Bds Bond Ser Fund," and "05 Ser Bds Reserve Fund." Diligence with the trustee on these amounts and additional reserve accounts that may exist remains ongoing.
19. HFA balances shown include amounts in the accounts laveled by the trustee as “2008 Debt Service Rsv FD,” “2008 Debt Svc Fund,” “Puerto Rico HSG Fin Debt Svc Fd Ac,” "ST 2008 Debt Svc Rsv Fd," and “Puerto Rico HSG Fin Debt Svc Rsv Fd Ac.” Diligence with the trustee remains ongoing on the available reserve balances.
20. CTF balances shown include amounts in the account labeled by the trustee as “FD 2002 Bd Fd Ds Ac,” and “2002 Bd Fd Lq Rsv.”
21. PRASA balances shown include amounts in the account labeled by the trustee as “2008 Series A&B Senior Interes,” “2008 Senior Principal Acct,” “2008 Senior Debt Service Res,” “2008 Senior B Debt Service Res,” “2012 A Senior Interest,” “2012-B Senior Principal Acct,” and "2008 Subordinated Bond Fund." Note that additional diligence regarding the amounts available for debt service remains ongoing with the trustee.
22. PREPA balances shown include amounts in the account labeled by the trustee as “1974 Sinking Fd BS Ac Int,” “1974 Sinking Fd Reserve Ac,” “Sinking Fd Reserve SubAc A,” “Sinking Fd Reserve SubAc B,” “Sinking Fd Reserve SubAc C,” and “Sinking Fd Reserve SubAc D.”

# Footnotes to “Estimated Fund Balance Depletion”

## The following footnotes provide additional detail to page titled “Estimated Fund Balance Depletion” shown on the previous page

1. FY 2017 Debt Service shown indicates the total debt service due in FY 2017 (including debt service payments due on July 1, 2017).
2. Debt Service Fund (DSF) and Debt Service Reserve Fund (DSRF) balances as provided by the trustees as of October 2016, unless otherwise indicated. See footnotes for additional details.
3. The actual/projected date of first missed payment is an estimate only and subject to change materially. Estimate based on illustrative assumptions, including the assumption that no additional funds are deposited in the debt service fund or the debt service reserve fund, if applicable, and all future debt service payments are made out of the existing reserve balances until the fund balances are fully depleted.
4. COFINA FY 2017 total debt service and DSF/DSRF balance reflects the Pledged Sales Tax Base Amount (“PSTBA”) for FY 2017 (totaling $724 million) and does not represent the current balance in the accounts.
5. Analysis shown herein illustratively assumes continuation of clawback through FY 2017 and also assumes that toll revenues are no longer transferred to debt service accounts, per executive order issued May 2016 suspending the obligation of HTA to transfer to bondholders any toll revenue or other income it receives. HTA 1998 Resolution Senior bonds debt service includes debt service due on VRDOs held by GDB and the DSF/DSRF balances shown include the amounts that would be used to make debt service payments on the VRDOs. Note that VRDOs are not shown in the Fiscal Plan, as these bonds are held by GDB and therefore eliminated in Fiscal Plan due to consolidation.
6. PRIFA Ports is not believed to have a DSF or DSRF. Debt service payments in FY 2017 are expected to be paid from loan payments from the Ports Authority.
7. Includes $110m of GDB notes which are Commonwealth guaranteed. Amounts shown for FY 2017 includes the $40 million that was originally due in May 2016 but was extended to May 2017.
8. Note that while GSA is not bonded debt, it is shown in this schedule for illustrative purposes as it is included in the Fiscal Plan.
9. The HTA 1998 Resolution Subordinated Series 1998 bonds have a Reserve account totaling approximately $15 million, which is separately held at GDB and was not available for debt service payments due July 1, 2016. Assumed to continue to be unavailable in this analysis and as such are illustratively not shown in this table.

# Footnotes to "Estimated Fund Balance Depletion"

## The following footnotes provide additional detail to page titled "Estimated Fund Balance Depletion" shown on the previous page

1. FY 2017 Debt Service shown indicates the total debt service due in FY 2017 (including debt service payments due on July 1, 2017).
2. Debt Service Fund (DSF) and Debt Service Reserve Fund (DSRF) balances as provided by the trustees as of October 2016, unless otherwise indicated. See footnotes for additional details.
3. The actual/projected date of first missed payment is an estimate only and subject to change materially. Estimate based on illustrative assumptions, including the assumption that no additional funds are deposited in the debt service fund or the debt service reserve fund, if applicable, and all future debt service payments are made out of the existing reserve balances until the fund balances are fully depleted.
4. COFINA FY 2017 total debt service and DSF/DSRF balance reflects the Pledged Sales Tax Base Amount ("PSTBA") for FY 2017 (totaling $724 million) and does not represent the current balance in the accounts.
5. Analysis shown herein illustratively assumes continuation of clawback through FY 2017 and also assumes that toll revenues are no longer transferred to debt service accounts, per executive order issued May 2016 suspending the obligation of HTA to transfer to bondholders any toll revenue or other income it receives. HTA 1998 Resolution Senior bonds debt service includes debt service due on VRDOs held by GDB and the DSF/DSRF balances shown include the amounts that would be used to make debt service payments on the VRDOs. Note that VRDOs are not shown in the Fiscal Plan, as these bonds are held by GDB and therefore eliminated in Fiscal Plan due to consolidation.
6. PRIFA Ports is not believed to have a DSF or DSRF. Debt service payments in FY 2017 are expected to be paid from loan payments from the Ports Authority.
7. Includes $110m of GDB notes which are Commonwealth guaranteed. Amounts shown for FY 2017 includes the $40 million that was originally due in May 2016 but was extended to May 2017.
8. Note that while GSA is not bonded debt, it is shown in this schedule for illustrative purposes as it is included in the Fiscal Plan.
9. The HTA 1998 Resolution Subordinated Series 1998 bonds have a Reserve account totaling approximately $15 million, which is separately held at GDB and was not available for debt service payments due July 1, 2016. Assumed to continue to be unavailable in this analysis and as such are illustratively not shown in this table.

# Exhibit I

DEBTWIRE

# Rossello promises to challenge Puerto Rico's enacted FY17 budget -- Conference Coverage

13 October 2016 | 17:15 EDT

New Progressive Party gubernatorial candidate Ricardo Rossello said today that he would ask the Puerto Rico control board to review the "illegal budget" currently in place.

The Puerto Rico Oversight, Management and Economic Stability Act allows the board to review commonwealth laws already in place, and Rossello has already asked it to undertake a review of the current administration's budget, he said via teleconference during today's *Association of Financial Guaranty Insurers* conference.

"In our view, the current administration has embarked on an illegal budget," he said. "We've asked the current board members to reevaluate the current budget to make it constitutional again."

The enacted FY17 budget contemplates no payment on general obligation (GO) bond debt service after Governor Alejandro Garcia Padilla vetoed a bill allocating USD 370m in interest, as reported. The GOs fell into default when Puerto Rico skipped a USD 779m payment on its constitutional debt 1 July. Puerto Rico's constitution does not allow for such a vacuum, Rossello said.

by Andrew Scurria

**Municipals**

Government
Puerto Rico

**Issuer**
Government Development Bank For Puerto Rico

**Issuer**
Government Of Puerto Rico

**Issuer**
Puerto Rico (Commonwealth Of) Employee Retirement System

**Issuer**
Puerto Rico Convention Center District Authority

**Issuer**
Puerto Rico Highways And Transportation Authority

**Issuer**
Puerto Rico Infrastructure Financing Authority

**Issuer**
Puerto Rico Public Building Authority

**Issuer**
University Of Puerto Rico

**Other**
Ambac Assurance Corporation

**Other**
Assured Guaranty Corp

**Other**
Financial Guaranty Insurance Company (FGIC)

**Other**
National Public Finance Guarantee Corporation

**Other**
Syncora Guarantee Inc.

**Obligor**
Government Development Bank For Puerto Rico

**Obligor**
Government Of Puerto Rico

**Obligor**
Puerto Rico (Commonwealth Of) Employee Retirement System

# Exhibit J

Reorg Research

Wed 02/15/2017 06:32 AM

Puerto Rico

# Sánchez Provides Update on $146M GO Payment Trust Fund

The commonwealth government is establishing a trust account at Banco Popular for the $146 million in clawback funds deposited at the institution that would limit the commonwealth's access to the monies, Elías Sánchez, the governor's representative on the PROMESA oversight board, told Reorg Research Tuesday night. Once the funds are in the trust account, Sánchez explained, they would be earmarked for constitutionally guaranteed general obligation bond payments and not considered available resources for government operations.

The trust establishment process should be complete within two to three days, said Sánchez. He also said the $1.3 million GO interest payment due Feb. 1 has not been paid but would be shortly. Gov. Ricardo Rosselló announced the establishment of the GO trust fund and the interest payment last week.

“The trust is going to be solely for the purposes of GO payments. It will not be available resources for the government to operate, as it is right now. We are putting this money toward a legal structure where it is beyond our reach in terms of operational spending,” Sánchez said during a telephone interview.

“It has a trustee that essentially has to oversee the money to the degree that we can't spend it. Right now, as is, we can tap into the account and use it for whatever we want," he said. Sánchez explained that once the PROMESA litigation stay went into effect, the previous administration began defaulting on its constitutionally backed debt. "That's just not fair,” he added.

Sánchez addressed a situation involving a similar amount in clawback funds that had been deposited at the Government Development Bank, calling the GDB situation a "bit more complex," as the institution “barely” has $150 million - nearly equal to the amount of clawback money originally deposited there - and the funds were commingled with monies from other accounts.

The roughly $300 million in clawback funds between the GO payments and the funds on deposit at the GDB stemmed from fiscal year 2016, which ended June 30, 2016. Since the close of fiscal year 2016, the revenue streams clawed back from other credits have poured into the general fund to cover financing gaps. Sánchez reiterated administration plans to identify those funds as it brings expenditures in line with revenue and resumes talks with GO holders. Those talks are still being described by sources familiar with the matter as being in the initial stages.

"That is part of the spelunking we are doing right now to decipher how the government has been operating for the last four years and fix it with a fiscal plan," Sánchez said. He added that further information on clawback monies will be detailed in the administration’s proposed fiscal plan, which must be delivered to the PROMESA oversight board by the end of this month.

Sánchez said that the goal is to fund the account for GO payments with available monies once the government identifies funding for "clearly delineated" and "true" essential services. He said the administration inherited a government “that is working with clawback money” and “tapping into other sources of income." He also said that the administration is taking the steps to transition out of relying on clawing back revenue from other government entities.

"What we are trying to do is the following: while we work in tandem with our structural reforms - and reducing the size of government and reducing expenditures - free up those available resources once we segregated what true essential services are and put all of that money into that trust. And as we get deposits, we essentially do a set-aside continuously. This is only for the emergency period. This is not how the government is going to operate," he explained.

The government is pushing ahead with structural reforms so that "we don't have the need for, or we can easily segregate, those revenue streams and be able to send money to that trust structure so that in the midst of our title VI negotiations we can come to consensual agreements with our GO bondholders and as part of the negotiations agree on how those monies should be distributed among the GO holders," he added.

Puerto Rico's GO debt service added up to $1.3 billion in fiscal year 2016, and the commonwealth government clawbacks from revenue supporting other bonds, including petroleum products, hotel and rum taxes, were expected to raise about $700 million during the year, according to creditor and government sources.

---

# Exhibit K

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



December 20, 2016

**SENT VIA ELECTRONIC MAIL**

Honorable Alejandro García Padilla
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dr. Ricardo Rosselló Nevares
Governor-Elect of Puerto Rico
#36 J Street Urb. Villa Caparra
Guaynabo, PR 00966

Dear Governor García Padilla and Governor-Elect Rosselló Nevares:

We would like to start by thanking you, Governor García Padilla, your team and your advisors for collaborating with the Financial Oversight and Management Board for Puerto Rico ("Oversight Board") over the past month to help us evaluate the Government of Puerto Rico's proposed fiscal plan.

We also would like to congratulate you, Governor-elect Rosselló Nevares, on your election. We look forward to developing a productive working relationship with you and your Administration to address Puerto Rico's fiscal and economic crisis for the benefit of the People of Puerto Rico.

With the passage of the bipartisan Puerto Rico Oversight Management and Economic Stability Act ("PROMESA"), the Federal Government both empowered the Government of Puerto Rico and imposed on it the responsibility to implement an economic turnaround of Puerto Rico on behalf of its people. Through PROMESA and the establishment of the Oversight Board, Congress and the President have given Puerto Rico tools to establish fiscal discipline, restructure its debt and restore opportunity on the Island.

The Board is committed to carrying out its duties under law in partnership with Puerto Rico's duly elected government. To that end, the Oversight Board has evaluated the Government's proposed Fiscal and Economic Growth Plan ("FEGP" or the "fiscal plan"), initially vetted the magnitude and nature of Puerto Rico's fiscal and economic situation, as well as considered actions required to address this crisis. In this letter, we outline key findings and a framework for an updated fiscal plan.

We are optimistic that working together we can achieve the following:

1. Return Puerto Rico's economic performance to a level consistent with that of a regional economy of the U.S.;

2. Increase the labor participation rate;

3. Transition more parents and other adults from welfare programs to self-sufficiency and work;

4. Improve writing, reading, bilingual and STEM (Science, Technology, Engineering and Mathematics) proficiency of K-12 students, thus charting for them an early path to: (1) jobs available in the labor market or (2) college, and provide affordable public higher education on a financial need-basis;

5. Build a modern, efficient and cost-effective infrastructure that ensures quality utility services are delivered fairly to every Island region;

6. Create a vibrant entrepreneurial sector;

7. Increase the median family income and reduce poverty;

8. Improve vital health statistics and average life expectancy;

9. Improve public safety and reduce crime and violent deaths; and

10. Restore population growth in Puerto Rico.

While we are optimistic, we must also be realistic about where we are today. The Puerto Rican economy is struggling under constraints that make it uncompetitive, including a high burden of long-term obligations. Wide ranging reforms will be required to unlock the economy's true potential. Only through real economic growth will enough opportunities be created to allow the People of Puerto Rico to stay and thrive, thus stemming outmigration and attracting new investment and new residents to the Island.

As you know, this is a crucial time for Puerto Rico. The tight timeline imposed by the mandatory stay on debt litigation, ending on February 15, 2017 requires us to act urgently. At this critical juncture we would like to:

1. Define the nature and magnitude of Puerto Rico's current fiscal and economic problem;

2. Provide a framework for the Government of Puerto Rico to develop policies and plans to address the current fiscal and economic problem; and

3. Propose a path forward to certify a revised fiscal plan as the immediate next step.

**NATURE AND MAGNITUDE OF PUERTO RICO'S CURRENT FISCAL AND ECONOMIC PROBLEM**

Puerto Rico has a massive fiscal deficit, a declining economy and no access to capital markets. To understand the magnitude of this problem, the Oversight Board and its advisors have been working diligently with the Government and its advisors to develop a "baseline gap" analysis that answers the following question: "What would happen to Puerto Rico's fiscal situation over the next 10 years if all current obligations remain as they are and no corrective actions are taken?"

To answer this question, we requested the current Administration to make certain modifications to its models, including an economic forecast based on current law and policy, updated pension assumptions, and spending projections that reflect existing obligations and current spending levels. These changes, based on the latest information available as well as updates to other assumptions, result in a fiscal gap of $67.5 billion over the next 10 years. The implications of this situation are dire:

- The $67.5 billion projected budget gap is equivalent to approximately $54,000 per Puerto Rican family, or 2.8 times the average Puerto Rico median annual family income. In other words, unless action is taken, covering the enormous deficit would require the equivalent of EVERY Puerto Rican family having to pay $5,400 EVERY year over the next 10 years, for a total of $54,000 per family.

- The Government would have to reduce expenses, increase revenues or both to close an average annual budget shortfall of $7 billion (out of about $20 billion in annual spending) to meet its current legal obligations.

- Even if the Government made no debt payments (which is legally and equitably not an option), Puerto Rico would face an average annual budget shortfall of more than $3.2 billion.

- A decline in the gross national product (GNP), likely larger than what has occurred over the past years, is expected.

- Puerto Rico has limited or no ability to finance such a deficit through additional borrowing.

We will continue to evaluate the baseline numbers in the FEGP as part of the certification process. Specifically, the Oversight Board is seeking an independent third party validation of the starting point of the Baseline Projection and the bridge from the last available audited financial statements of fiscal year 2014.

**FRAMEWORK FOR THE GOVERNMENT OF PUERTO RICO TO DEVELOP POLICIES AND PLANS TO ADDRESS THE CURRENT FISCAL AND ECONOMIC PROBLEM**

Puerto Rico's economy has been studied extensively since the early 1970's. The conclusions from prior studies and lessons from jurisdisctions managing similar critical economic situations suggest that Puerto Rico should take immediate action on several fronts. The aim of such actions should be to restore economic growth, achieve fiscal balance, and allow for the wind-down of the Oversight Board as set forth in PROMESA. Puerto Rico will need a very clear plan and a commitment to enact and implement major changes to:

1. Restore economic growth and opportunity through fundamental structural reforms that create a more competitive economy. In the short-term, the focus of structural reforms should be liberalizing the labor market, lowering the cost of reliable energy, rationalizing and optimizing taxation and streamlining the permitting processes to enable investment.

2. Achieve sustainable, balanced fiscal budgets by substantially restructuring the Government while preserving essential services for the People of Puerto Rico.

3. Restructure Puerto Rico's debt to a sustainable level and reform pensions, in each case respecting the process and requirements established under PROMESA, and re-establish access to the capital markets.

These critical actions will require commitment and sacrifices from all stakeholders, but they are the key to restoring economic growth and opportunity for all. Every month we wait represents lost opportunity for economic growth and Puerto Rico's ability to recover.

**1. Restoring economic growth through structural reforms.**

Economic growth is critical to address Puerto Rico's crisis. For decades, Puerto Rico has focused on attracting investment from outside the Island by providing incentives targeted at specific industries. While the model worked to spark different industries, it did not address the fundamental structural problems that have been building within the Puerto Rican economy and are impeding growth. To address this challenge to economic growth, several major reforms will need to be implemented immediately:

**Comprehensive labor and welfare reform.** Structural reform should focus on increasing Puerto Rico's labor force participation rate which stands at 40% (compared with 63% in the rest of the U.S. and 60% in Florida) and lowering its unemployment rate (currently at 13% compared with 4.5% in the rest of the U.S. and 4.8% in Florida). To encourage businesses to create job opportunities, a comprehensive review of labor regulations, including Act 80 and pension benefits, should be completed. Today, regulations related to severance pay, flexible scheduling, employee retention and mandatory vacation days and pensions, for example, are not consistent with those in the U.S. states with whom Puerto Rico competes for investment and talent.

Additionally, welfare programs require comprehensive reforms to strengthen incentives for work. A 2006 Brookings Institution/Center for a New Economy study found that minimum wage earners lost between 80 cents and $1.25 for each additional $1 they earned, meaning that beneficiaries who chose to work often ended up with lower incomes. Moving the needle on the labor force participation rate requires reform to eradicate these disincentives.

Puerto Rico could also benefit from an Earned Income Tax Credit which can reduce hardship for low-wage workers, stimulate formal employment and offset sales tax regressivity.

**Energy reform.** The cost of electricity in Puerto Rico is high compared with competing economies. Power prices are also highly variable over time due to Puerto Rico's dependence on oil-fired power plants and link to the volatile global oil markets. Furthermore, the supply of electricity is also increasingly unreliable due to aging infrastructure. Lowering the cost of energy and increasing system reliability are key priorities to lower the cost of living and doing business in Puerto Rico. Low energy prices are spurring economic activity and new investments across the rest of the U.S. Unfortunately, Puerto Rico has largely missed out on the low-cost energy boom. Getting there will require a fundamental reevaluation of energy policy and the way the Puerto Rico Electric Power Authority ("PREPA") delivers its services today.

There is a pressing need to stabilize the situation at PREPA and accelerate critical capital projects that can bring new and cheaper energy resources to Puerto Rico. We believe that a process should be established for interested stakeholders to weigh in on the pros and cons of the current proposed PREPA restructuring and more generally on the options for energy reform. The Board will work with the Government and with PREPA on an expedited basis to assess the PREPA restructuring in light of the goals of delivering lower cost, reliable power to Puerto Rico as soon as possible.

**Tax reform.** Puerto Rico has a tax structure that is onerous on employees and small businesses and disproportionately benefits certain businesses instead of providing a level playing field for all enteprises. In addition, there is a history and habit of negotiated tax agreements, amnesties and other short-term oriented approaches that end up undermining the Government's credibility and ability to collect.

Puerto Rico needs a simpler and fairer tax structure, particularly for corporate tax, that eliminates giveaways and spreads the tax burden over a broader tax base. The Government should complete a comprehensive review of tax inequities and act quickly to put in place new legislation, regulation and capabilities to reduce inconsistencies and improve collections. Specific proposals should include reviewing and considering replacing the soon-to-sunset Act 154 excise tax with proposed legislation. Puerto Rico should also consider property tax reform, including a revaluation of properties that could increase tax receipts, incentivize real estate investment and enable Puerto Rico's central government to decrease subsidies to municipalities.

Puerto Rico also needs to collect more actively and effectively the taxes it is owed. Current tax compliance rates in Puerto Rico are around 65%, versus a benchmark of over 85% nationally. In order to address this gap, Puerto Rico can enhance compliance through increased audit effectiveness and use of technology, advanced analytics and training to increase capture rates and administration. We encourage the incoming administration to pursue a long-term collaboration or agreement with the U.S. Internal Revenue Service to guide, monitor and accelerate the enhacement of tax compliance.

**Economic competitiveness measures.** Puerto Rico is plagued with an array of regulations that slow economic growth and opportunity. Additionally, there are numerous regulations that unreasonably protect certain businesses or result in higher costs for consumers. Overall, the Government should evaluate the costs and benefits of barriers limiting competition in certain economic sectors with the aim of making distribution of goods more competitive and reducing costs of local goods to promote fair competition. In addition, real property markets are distorted by a variety of regulatory requirements and fees that are not consistent with what is seen on the mainland.

Government permitting processes are also slow, uncertain and sometimes duplicative. These impediments stall much-needed capital projects and prevent a variety of other projects from even being considered (an opportunity cost that is impossible to measure, but likely significant). Current regulations should be re-assessed with a simple lens: "Does the regulation enhance or hinder growth and job creation" and if the latter, "Do the benefits far outweigh the costs?" Today, we have the chance to "clean sheet" Puerto Rico's regulatory regime and start over with a set of regulations that advance Puerto Rico's economic and fiscal strategies. The result will be a lower cost of living for the People of Puerto Rico and a more open competitive economy where entrepreneurs are rewarded for delivering the best product or service.

**Infrastructure and Public Private Partnerships.** Puerto Rico's infrastructure is in need of significant upgrade and repair. The Island is ranked 51st among U.S. states and territories on road roughness (an indicator of road quality) and 45th in traffic congestion. Much of Puerto Rico's core infrastructure could be built and more efficiently provided by putting in place programs to attract private financing and expertise into capital delivery and infrastructure operations. Puerto Rico has a successful track record of attracting private sector investment in roads and airports (such as roads PR-22 and PR-5 and the Luis Muñoz Marín International Airport), but it has been hampered by a low-growth economy and lack of aggressive execution.

The fiscal plan should include a broad-based program to support growth in Puerto Rico by investing in infrastructure and partnering with the private sector. These partnerships can unlock new sources of capital, accelerate the delivery of projects and ensure ongoing operations and maintenance needs are addressed. The Government should build on its existing expertise and past successes to create a more centralized and efficient end-to-end project development program. A capital delivery program focused on prioritizing projects that support near-term economic growth and that can attract private capital will allow the Government to deliver more infrastructure and better services with less taxpayer funding. Through Title V of PROMESA and the Revitalization Coordinator the Board will provide support to the Government on expediting local and federal permitting process and supporting priority projects.

**2. Achieving sustainable fiscal balance.**

Structural reforms, as described above, are a necessary part of the Puerto Rico turnaround strategy. However, to eliminate the Island's massive budget gap, a comprehensive restructuring of the way the Government delivers services will also be necessary.

While Government spending will have to be reduced, essential services must be preserved for the People of Puerto Rico. Governments that run fiscal surpluses and have a thriving private sector can afford services beyond those that are essential. Puerto Rico is not in that situation. Puerto Rico's government can no longer afford to provide non-essential services. The Government should focus on improving the quality of government services by delivering them more efficiently, as well as on improving the efficiency of revenue collection without imposing new taxes or fees. Despite significant potential gains from making government more efficient, the Government will need to make substantial, necessary cuts and revenue changes to balance its budget.

**Right sizing Government.** Puerto Rico has had a public sector-led economy since the 1940s. As the economy modernized, Puerto Rico continued to grow its public sector insfrastructure and made its processes increasingly complex. Today's Government is fragmented, complex and duplicative. For example:

- There are 70 treasury units with no centralized accounting system;

- There is no central office to manage federal funds and optimize use of proceeds;

- Central procurement manages purchases for only some of the Government not all of its instrumentalities.

This complexity makes it challenging for the Government to deliver the services citizens need as efficiently and cost effectively as possible. Puerto Rico needs to transform its Government to be better positioned to deliver only essential services (such as public safety, education, healthcare and welfare) more efficiently. We will work in the coming days and weeks to identify non-essential services, opportunities to consolidate agencies and to centralize functions.

Education and healthcare are two of the largest areas of expenditure for the Government. While both areas are essential, the fiscal condition requires they be reduced substantially. A similar adjustment should be considered for the correctional system.

In education, Puerto Rico needs major out-of-the-box thinking and comprehensive reforms to achieve the dual objectives of improving K-12 outcomes across the board and right-sizing the public school footprint to better fit a declining student population. This alone would unlock potential savings of more than $1 billion over 10 years.

For higher education, Puerto Rico should implement a means-tested tuition policy that aims to improve graduation rates and time to degree and supports the elimination of the current funding formula. Additionally, today there are exciting innovations in education that could reduce costs materially while improving education. Their applicability and benefits should be explored.

On healthcare, Puerto Rico should focus on determining the amount of resources it can afford to invest on a long-term sustainable basis and the most efficient allocation of those resources. In the near term, to reduce the current expenditure on healthcare, the Government should look to reduce healthcare operational costs (e.g., procurement and delivery structure) and the scope of insurance coverage (e.g., eligibility, scope of benefits and cost sharing). In the long-term Puerto Rico should pursue value-based care opportunities to improve patient outcomes while lowering total cost of care.

Many of these needed changes are well understood and in some cases progress has already been made. We must, without distraction or delay, design and implement these necessary changes. Temporary fixes like furloughs and freezes may be necessary bridges to capture savings in the short-term as the long-term foundation is built. All of these steps will require political leadership and the support of the People of Puerto Rico.

**Right pricing services.** For decades, Puerto Rican citizens have paid virtually the same price for all sorts of Government-provided services, whether it be heavily subsidized ferry trips to Vieques where passengers pay a tiny fraction of the true trip costs, or a University of Puerto Rico tuition level that requires substantial subsidies from the central government.

Right-pricing does not mean a regressive system that punishes low-income students and working families; instead it means thoughtful economic strategies, such as means-based university tuition, supplemented with Pell Grants, or mechanisms to protect prices, such as charging tourists higher prices more aligned with the real price of improved ferry services. In the current environment, all Government fees and subsidies need to be reevaluated and right-priced based on the true cost of delivery and the ability to pay.

**Monetizing assets.** By privatizing a number of government assets, such as real estate, the state insurance fund and ports, for example, Puerto Rico could fund near-term initiatives on a one-time basis, and potentially achieve better service levels at a lower cost. Government assets should be monetized with the specific aim of funding one-time investments in infrastructure development, like upgrading to broadband internet connections, and not funding continuous operations.

**3. Restructuring long-term liabilities**

Given the budget gap, long-term liabilities will need to be restructured under a fiscal plan in compliance with PROMESA. Structural reforms will not be sufficient to allow Puerto Rico to fund its long-term liabilities as they currently stand. The Government budget is simply not large enough to allow it to provide essential services and pay debt service as currently structured, even if it implements extensive fiscal initiatives.

The restructuring must greatly simplify the complex debt structure currently in place, which will serve to improve debt management and enhance transparency to assure investors about Puerto Rico's fiscal health going forward. Our efforts to update the current fiscal gap, as well as define a framework for analysis and various potential initiatives, should lay the groundwork to evaluate the best approach to address the debt burden, while ensuring continued access to capital markets for the Government of Puerto Rico and hundreds of Puerto Rican companies. Change is also needed to ensure the pension costs are sustainable and to address the massive pension liabilities built up over decades. We will work closely with the Government to establish a transparent and orderly restructuring process in compliance with PROMESA and where high quality information is clearly communicated to all stakeholders and the legal tools available are used as necessary to implement equitable solutions.

As the Oversight Board had anticipated in its November meeting, it will start coordinating good faith conversations with creditors this week.

**PATH FORWARD TO CERTIFY A FISCAL PLAN AS IMMEDIATE NEXT STEP**

Puerto Rico's fiscal and economic problems are severe and could have dire consequences to its people and society if left unattended. However, there are a number of policies and actions that can help address the situation. Their timing and sequence will be critical to the success of the fiscal and economic growth plan. We have outlined a fiscal and economic framework within which we can work jointly with the duly elected Government of Puerto Rico to develop a certifiable fiscal plan. The fiscal plan is not a mere exercise of achieving a balanced budget, but a living and dynamic document that provides a framework for achieving concrete goals that make a difference in improving the lives of everyone in Puerto Rico.

To that end, we will be contacting Governor-Elect Rosselló Nevares shortly to discuss his proposed government initiatives and the next steps necessary to achieve a certifiable fiscal plan by no later than January 31, 2017.

Specifically, we will request that the incoming administration establish a high-level task force during its first week in office dedicated to working on the fiscal plan. We will also request that a package of legislation and administrative reforms implementing some priority measures identified in the fiscal plan be developed immediately and considered by the Puerto Rico Legislature by February 15, 2017. Such priority measures should be the subject of discussion with Governor Rosselló Nevares in the coming weeks.

We strongly recommend that the incoming administration make the fiscal plan and implementing the reforms and initiatives included in the fiscal plan a stated priority for all new appointees and Government employees by incorporating them in their performance evaluation. We trust the incoming Administration shares the Oversight Board's sense of urgency to collaborate swiftly and boldly on this effort.

Please know that the Oversight Board stands ready to assist the Government of Puerto Rico in defining the necessary structural reforms, responsibly managing its long-term obligations and restoring economic growth and opportunity for the People of Puerto Rico.

José B. Carrión, *Chair*

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

# Exhibit L

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



**SENT VIA ELECTRONIC MAIL**

January 18, 2017

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

Dear Governor Rosselló Nevares:

Thank you for your letter of January 12, 2017 outlining the actions your Administration has taken in its first days in office and for Mr. Sánchez-Sifonte's January 4, 2017 letter in response to our letter of December 20, 2016. We appreciate the degree of alignment between your Administration's public policy platform and the policy guidelines outlined in our letter, as evidenced in your correspondence.

Thank you also for the opportunity to meet with you last Friday, January 13, in your office. As discussed at that meeting, the purpose of this letter is to provide you with more detailed information on the specific goals and objectives that we believe ought to be incorporated into a viable fiscal plan that we may certify, as well as to provide the fiscal parameters for that plan. We also would like to inform you of our preliminary determination regarding your request for an extension of both the time in which to submit the fiscal plan and the stay provided for under PROMESA.

As you are aware, and as we stated in our last letter, the Government of Puerto Rico faces a daunting fiscal challenge. The revised fiscal plan baseline released by the prior administration estimated that, unless significant fiscal and structural measures are implemented, the Government will have an **annual average fiscal gap of $7.0 billion** from fiscal year 2019 to fiscal year 2026.

Verifying this number is a priority for us, and we understand it is an immediate priority for your Administration as well. In the coming days, we expect to complete the engagement of a forensic accounting firm to: (1) validate the bridge between the Commonwealth's last audited financial statements as of June 30, 2014 and the fiscal plan, and (2) provide an independent report on the total outstanding indebtedness for the Commonwealth by issuer, list of all debt issues by issuer, use of proceeds of each debt issuance, contractual debt service schedule and debt service currently in default.

Based on our review, however, we believe the $7.0 billion figure is a reasonable estimate for setting the fiscal plan's targets and guidelines and as a parameter to engage in Title VI negotiations with the Commonwealth's creditors.

## FISCAL PLAN TARGETS AND GUIDELINES

At the outset, we find it appropriate to remind you that at its November 18, 2016 public meeting here in Puerto Rico, the Oversight Board adopted and communicated publicly a set of five principles to evaluate the Government of Puerto Rico's proposed fiscal plan and to assess the degree to which the plan meets the 14 criteria established by PROMESA. This set of five principles adopted by the Oversight Board and the 14 criteria established by PROMESA regarding the elaboration of the fiscal plan are set forth in Schedule I to this letter.

We believe the fiscal plan must target a structurally **balanced budget by fiscal year 2019** and must articulate a clear path to achieving that goal, while simultaneously pursuing restoration of Puerto Rico's access to the capital markets. In accordance with PROMESA, the fiscal plan must ensure funding of essential government services, provide adequate funding for pension systems and provide capital expenditures and investments necessary to promote economic growth in Puerto Rico.

We expect that the fiscal plan will also contain aspirational goals for Puerto Rico and its people—such as returning the Island to a path of economic growth and bettering the lives of its people—as well as the reforms that you will be undertaking to achieve those goals.

With these guidelines in mind, and focusing on the objective of aligning recurring revenues and expenditures by fiscal year 2019, below we outline a path to achieve this goal with a mix of fiscal initiatives and structural reform proposals. Both components are equally important to foster growth: while fiscal initiatives optimize government revenue and expenditures to create a positive fiscal balance that attracts investment, structural reforms represent longer-term changes that ensure Puerto Rico will regain economic growth for decades to come.

That path requires action in at least five principal areas: 1) revenue enhancements; 2) government right-sizing, efficiency and reduction; 3) reducing health care spending; 4) reducing higher education spending; and 5) pension reform, as summarized in the following table.

| $ in billions | **FY 2019 Fiscal Gap** | | |
|---|---|---|---|
| Total Baseline Revenues[1] | $15.4 | | |
| Total Non-Debt Service Expenses[2] | -19.1 | | |
| **Primary Balance before Debt Service and Measures** | **-3.7** | | |
| Contractual Debt Service | -3.9 | | |
| **Fiscal Gap** | **-7.6** | | |
| **Proposed Impact of Fiscal Measures** | | **Measures ($)** | **% change to Baseline[3]** |
| 1. Revenue Enhancements[4] | | +$1.5 | +15% |
| 2. Government Right-sizing, Efficiency and Reduction[5] | | +1.5 | -22% |
| 3. Reducing Health Care Spending[6] | | +1.0 | -28% |
| 4. Reducing Higher Education Spending | | +0.3 | -27% |
| 5. Pension Reform | | +0.2 | -10% |
| **Impact of Fiscal Measures[7]** | | **+$4.5** | |
| **Implied Primary Surplus after Measures Available for Debt Service[8]** | **$0.8** | | |

Notes:
1. Source is Government baseline released in December. Assumes GNP contraction of 16.2% in fiscal year 2018 and 1.2% in fiscal year 2019 in real terms. Includes $9.8 billion of non-federal revenue.
2. Includes $13.5 billion of non-federal expenditure.
3. % increase or decrease versus baseline forecasts for each area.
4. Includes Act 154 extension and review of tax regime for Act 154 companies, improve tax compliance and right-sizing of government fees and other sources of revenue.
5. Includes reducing non-essential government services through consolidation and headcount reduction, reducing total government compensation, right-sizing K-12 education expenditures to the current student population, eliminating subsidies to municipalities and private sector and introducing other efficiency measures. This target is net of impact from potential increased pension cost from government headcount reduction and social security expenditure for police and teachers not included in baseline projections.
6. Includes miSalud expenditures and other non-federal expenditures for healthcare related agencies.
7. Implies a 15% net revenue increase from baseline non-federal revenue of $9.8 billion and a 22% net expenditure reduction from baseline non-federal expenditure of $13.5 billion.
8. The implied primary surplus is based on aligning ongoing revenues and expenditures for fiscal year 2019. It does not reflect likely carry-in deficits and thus may overstate available resources in fiscal year 2019.

See Attachment A for more details.

Please note that even with the immediate successful implementation of these measures the **Implied Primary Surplus Available for Debt Service on fiscal year 2019—before taking into account any legacy deficits**—is **$0.8 billion**, which represents only 21% of the contractual debt service of $3.9 billion for fiscal year 2019.[1]

To be totally transparent and with the aim of certifying a fiscal plan as quickly as possible, we lay out below in more detail the set of initiatives and accompanying revenue and savings targets that we expect the Government's fiscal plan to incorporate in order **to achieve a structurally balanced budget by fiscal year 2019,** which will accomplish PROMESA's objective of balancing the Government's budget. The proposed initiatives also include, however, structural reforms that will set up the Puerto Rican economy for long-term growth.

These recommendations are based on our collective experience with fiscal crises and analyses conducted by our advisors. To be clear, presenting a plan that can achieve at least this level of savings is a pre-requisite to certifying a fiscal plan. The Government may, however, determine to employ other initiatives and make trade-offs that differ from those described below, but arrive at a similar equilibrium.

## 1. Revenue Enhancements

To optimize revenue, the Government should make adjustments to the tax system, improve tax administration and compliance, and right-size government fees, among other revenue enhancement measures. The Government should design a tax regime that:

- Increases compliance through improved audit functions and systematically addresses leakage in the form of non-compliance and evasion.
- Widens the taxable base through a reduction in exemptions.
- Improves property tax collection through reappraisals and property registration efforts (and lowers municipal subsidies accordingly).
- Enhances tax administration through improved training and technology and reduced amnesties.

Together, we expect these initiatives to **increase government revenues by $1.5 billion annually by fiscal year 2019**. This estimate incorporates your Administration's Act 154 extension and assumes a prospective review of the tax regime for Act 154 companies.

---

[1] In this letter, the Board takes no position on the outcome of the GO-COFINA dispute, and recognizes any restructuring will have to reflect a consensual or judicial resolution of that dispute. Any certified fiscal plan will contemplate fulfilling all of PROMESA's requirements, including those relating to essential services, pensions, secured claims, and priorities. This letter is not intended to imply how funds will be allocated to satisfy those requirements.

**<u>2. Government Right-sizing, Efficiency and Reduction</u>**

Today, the Government directly provides and subsidizes many services, including security, transportation, and other activities that could be provided by the private sector. The Government has the opportunity to provide some services more efficiently and eliminate some services entirely, while maintaining an adequate level of essential services. Overall, we have estimated that government right-sizing, efficiency and reduction should generate approximately **$1.5 billion annually by fiscal year 2019**.

To realize these net savings, the Government should consider taking the following actions:

- Reducing non-personnel expenditure by at least 10% by re-negotiating large contracts, centralizing purchasing, and implementing other procurement best practices, such as clean sheeting and demand management, among others.
- Reducing payroll costs by approximately 30% by substantially eliminating positions and making other reductions to total public labor compensation, including consolidating and significantly reducing non-essential Government services.
- Eliminating municipal and private sector subsidies.
- Right-sizing K-12 education expenditures to the current student population.

From your executive orders declaring a fiscal emergency, imposing salary freezes, limiting the number of non-career personnel and other labor cost reductions and requiring agencies to build zero-based budgets, it appears that your administration shares this priority. Indeed, we would welcome further detail on the projected expenditure savings of your executive orders. Yet, we must be candid and stress that, to get closer to fiscal balance, a lot more will need to be done beyond the measures already adopted by your Administration.

**<u>3. Reducing Health Care Spending</u>**

MiSalud is a critical element of Puerto Rico's safety net and is fundamental to the stability of the health care delivery system. However, like other states and many businesses, the government of Puerto Rico has been challenged by rapidly rising health care costs that far outpace realistic revenue growth. The size of Puerto Rico's fiscal challenge, the loss of federal Medicaid funds and the fundamental imbalance between the growth in health spending and achievable revenue growth, makes significant reductions in health care spending necessary.

In fact, unless additional federal funding is provided after the expiration of funding under the Affordable Care Act, miSALUD will face a ballooning operating deficit expected to reach at least $1.0 billion in 2020. While the Oversight Board supports initiatives to seek additional federal healthcare funding, we do not believe that at this time it would be a prudent budgetary practice to include in the fiscal plan any such potential additional federal healthcare funding. Therefore, the Board believes the Government of Puerto Rico should include measures in the fiscal plan that would **generate annual savings in health care spending of $1.0 billion by fiscal year 2019**, such as implementing:

- A set of initiatives to increase efficiencies, which may include measures to reduce utilization / shift care to a lower cost setting, enhance fraud waste and abuse program, and optimize state-owned provider footprint.
- Additional significant cuts in coverage and benefits through miSALUD, and/or other health spending will be needed to yield additional savings.

**4. Reducing Higher Education Spending**

The University of Puerto Rico is one of the island's most important and revered assets, known for its high-quality programs and commitment to access for all students. However, there is an opportunity to increase tuition and reduce costs without compromising UPR's mission of providing equal access to all students or its quality of education.

The Government can **realize approximately $0.3 billion in annual savings** from reduced subsidies to UPR by:

- Moving to means-based tuition via higher per class credit prices, complemented by a more extensive use of federal government financial aid.
- Increasing the number of higher-paying international and mainland U.S. students, alumni gifts and federal grant funding.
- Right-sizing faculty and administrative staff, and reducing operating and maintenance costs.

**5. Pension Reform**

It is our goal that the Government pension plans become financially sustainable and that any pension reform protect the neediest and impose larger cuts on those with the largest benefits. Given the deep spending cuts and sacrifices required in all other areas of Government, we consider a reduction of approximately **10% in pension costs and related expenses may be necessary**, for savings of **$0.2 billion by fiscal year 2019**. The Oversight Board encourages a consensual approach to pension reforms which may involve new payment sources and mechanisms. We also propose the following actions:

- Enroll public safety and education employees in the Social Security system to provide them with diversified sources of retirement income.
- Segregate future contributions in accounts owned by employees to ensure employees' contributions will be available to pay their future retirement.

In addition to the five areas outlined above, it would be important for the fiscal plan to include measures to improve capital efficiency and other structural reforms, as described below.

**Improving Capital Efficiency**

There is a substantial opportunity to improve Puerto Rico's infrastructure. The World Economic Forum ranks the island's infrastructure quality below a 5.0, which puts it in the bottom third of jurisdictions reviewed, and below jurisdictions with a similar per capita income.

Additional investments to ensure that Puerto Rico's infrastructure catches up to the global median may be required and may be funded by one-time asset sales or similar means.

Specifically, we encourage the government to adopt the following measures:

- Increase focus on priority projects that directly support economic growth in Puerto Rico.
- Improve maintenance and delivery efficiency and optimize capital spending.
- Focus on using Public-Private Partnerships (P3s).

Two of your administration's new executive orders, establishing an infrastructure state of emergency to accelerate permitting and an interagency committee to coordinate the same, give us confidence you are prioritizing infrastructure development. Your letter announced you had introduced amendments to the P3 law to, among other things, allow private entities to propose P3 transactions and allow public employees' retirement systems to invest and participate in P3 agreements, which amendments were recently enacted. Clearly, we are aligned on placing a high priority on infrastructure. We look forward to working together to identify the best measures to achieve that shared goal.

**Structural Reforms**

As mentioned earlier, a main objective of the fiscal plan is to create a pro-growth environment in Puerto Rico. In addition to the labor reform that your Administration has already proposed, we want to highlight two key structural reforms needed to accomplish this goal:

- Energy reform that catalyzes third party investment, accelerates the permitting process and right-sizes power supply to actual trends in power demand. [2]

- Improve ease of doing business in Puerto Rico by optimizing the permitting process and improving coordination with the federal government.

The measures listed above make up one ambitious but viable proposal. The Board welcomes the prospect of your Government's role in the development of a fiscal plan and remains prepared to certify a fiscal plan that it deems sustainable and workable according to PROMESA and the guidance described above. We also welcome the opportunity to work with your Administration

---

[2] The Board has reviewed, but has not taken a position on the PREPA restructuring support agreement (the "RSA"), in deference to your Administration's statement that it will promptly be providing its policy decisions concerning PREPA's business model, board of directors, and the RSA.

to develop and implement the necessary reforms and the terms of the debt restructuring that will allow Puerto Rico to achieve fiscal balance and regain access to credit markets at reasonable interest rates. The Board is providing you with the fiscal framework, and within such framework we expect that you and your Administration will make the public policy determinations consistent with PROMESA.

## EXTENSION TO SUBMIT FISCAL PLAN

As described above, we welcome a collaborative approach with the Government in arriving at a workable and sustainable fiscal plan the Board can certify. As per your request, the Board is favorably inclined to extend the deadline for submitting your fiscal plan to the Board until **February 28, 2017** such that the Board may certify the fiscal plan by no later than **March 15, 2017**. This extension will be formally considered at the Board's next public meeting later this month and would be contingent upon the Government meeting and adhering to a set of conditions and timelines, including:

- Your 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.
- 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.
- 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.
- 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.
- The Government will adhere to a schedule of important milestones (including the above) to be provided by the Board by January 23, 2017.
- The Government and the Board (and their advisors) will establish a clear joint working arrangement, information sharing protocol and work plan to be finalized by January 23, 2017. (Our advisor McKinsey and AAFAF are already working on these.)
- 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.

**EXTENSION OF THE STAY**

Furthermore, as per your request, the Board is favorably inclined, in accordance with PROMESA, to extend the PROMESA automatic stay until **May 1, 2017**. We understand that extending the stay enables your Administration to develop a sustainable and workable fiscal plan and engage in Title VI negotiations with creditors.[3] This extension will also be formally considered at the Board's next public meeting later this month and would be contingent upon the Government meeting and adhering to the set of conditions and timelines listed above.

**RESTRUCTURING PROCESS**

Starting with meetings that occurred before you took office, we have advised all creditors requesting meetings that the Board is in a "listen and learn" mode. Since you took office, we have invited your representatives to every meeting. We have not made or responded to any offers. To date, the meetings have been very constructive on that basis.

Now that you are in office, our intention is to support and collaborate with your Administration's leadership in on-going restructuring conversations. Because PROMESA does not allow for any restructurings not approved by the Board, we believe close coordination is the most efficient way to conduct these conversations and to ensure negotiated agreements conform with the fiscal plan. This means creditors will want to know the Board's position during negotiations so that any agreement reached doesn't have to be later renegotiated.

Accordingly, the Board is willing to engage in these discussions alongside your representatives. We believe we will deliver a better restructuring for Puerto Rico if we work together. To that end, we would like to establish a clear timeline, and work plan for the Board, the Government and their respective advisors by January 20th.

**PATH FORWARD**

As implied above, we believe working together to develop a fiscal plan and a debt restructuring process will provide us with the highest chances of successfully addressing Puerto Rico's fiscal crisis. That said, nothing contained in this letter should be construed as waiving any right the Oversight Board has, or limiting any action the Oversight Board might take, under PROMESA.

On the fiscal plan, we recommend that your Administration, as the duly-elected Government of Puerto Rico, formulate the required policy decisions adhering to the guidance laid out above. To facilitate the timely certification of the fiscal plan, we are providing you in Attachment B the Board's guidelines as to the content and structure of the fiscal plan. The Board will use its own financial model and assumptions (including macro-economic assumptions), and will work in close coordination with your designated high-level taskforce. As per our December 20, 2016

---

[3] We are encouraged by your administration's swift efforts to renew negotiations with creditor constituencies which began under the prior administration and did not result in a successful resolution of the differences among the parties.

letter, we await your formal designation of such high-level taskforce and your response to our recommendation that your Administration makes the fiscal plan and implementing the reforms and initiatives included in it a stated priority for all new appointees and Government employees.

We commend you on your sense of urgency, as we all agree that time is of the essence, and look forward to continuing our productive working relationship with you and your Administration.

José B. Carrión
Chair

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

C: Elías F. Sánchez-Sifonte

Attachments

**SCHEDULE I**

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

At its November 18, 2016 public meeting, the Financial Oversight and Management Board for Puerto Rico adopted the following principles to evaluate the Government of Puerto Rico's proposed fiscal plan and assess the degree to which the plan meets the 14 criteria established by PROMESA (see attachment). These five principles are:

> <u>Principle 1</u>: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

> <u>Principle 2</u>: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

> <u>Principle 3</u>: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

> <u>Principle 4</u>: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

> <u>Principle 5</u>: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

## PROMESA 14 CRITERIA FOR FISCAL PLANS

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;

2. Ensure the funding of essential public services;

3. Provide adequate funding for public pension systems;

4. Provide for the elimination of structural deficits;

5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;

6. Improve fiscal governance, accountability, and internal controls;

7. Enable the achievement of fiscal targets;

8. Create independent forecasts of revenue for the period covered by the fiscal plan;

9. Include a debt sustainability analysis;

10. Provide for capital expenditures and investments necessary to promote economic growth;

11. Adopt appropriate recommendations submitted by the Oversight Board;

12. Include such additional information as the Oversight Board deems necessary;

13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and

14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.

Attachment A

# Fiscal Initiatives Description and Sizing

Revenue area
Expenditure area

PRELIMINARY
NON-EXHAUSTIVE

| Initiative name | | 2019 current baseline budget item (% of total) | Description | 2019 fiscal impact | % change to baseline |
|---|---|---|---|---|---|
| Revenue Enhancements | | $9.8B (100%) | Bring taxes to appropriate levels and right price fees / special taxes:<br>▪ Act 154 extension and review of tax regime for Act 154 companies<br>▪ Improve tax compliance<br>▪ Right-size government fees and other sources of revenue (e.g. excise taxes and tolls) | ▪ $1.5B | ▪ 15% |
| **Total non-federal revenue[1]** | | **$9.8B** | | | |
| Right-size Gov't and Efficiency[3] | Personnel | ~$3.9B (29%) | ▪ Reduce non-essential services through consolidation and headcount reduction<br>▪ Reduce total compensation | ▪ $0.9B[5] | ▪ ~(23%)[5] |
| | Subsidies | $0.4B (3%) | ▪ Eliminate subsidies to municipalities upon revision of property tax regime and eliminate private subsidies to private sector | ▪ $0.4B | ▪ (100%) |
| | Other operating expenditure | ~$2.4B (18%) | ▪ Centralize procurement to save at least 10% (average across categories) on goods and services | ▪ $0.2B | ▪ ~(10%) |
| Reducing Health Care Spending | | $3.6B[2] (27%) | Address loss of federal ACA funding and reduce overall healthcare spend:<br>▪ Increase cost sharing, reduce utilization / shift care to lower cost setting, optimize procurement, address fraud, waste and abuse, and optimize state-owned provider footprint<br>▪ Additional cuts required in coverage and benefits through Mi Salud, and/or other health spend | ▪ $1.0B | ▪ (28%) |
| Reducing Higher Education Spending | | $1.0B (7%) | Reduce government outlays to UPR by increasing revenue and reducing costs:<br>▪ Raise tuition and adopt means-based financial support<br>▪ Reduce operating costs by raising faculty- and admin-to-student ratios<br>▪ Implement additional initiatives, including increasing number of higher-paying international / mainland U.S. students, optimizing procurement, alumni gifts and federal grant funding | ▪ $0.3B | ▪ (27%) |
| Pension Reform | | $2.1B (16%) | ▪ Total pension costs to be reduced by 10% (can be done in a progressive way) | ▪ $0.2B | ▪ (10%) |
| **Total non-federal expenditure[4]** | | **$13.5B** | | | |

1 Excludes PREPA and PRASA and includes ($1.3B) assumed effect of economic contraction
2 Includes Mi Salud expenditure and other non-federal expenditures for healthcare-related agencies.
3 Baseline includes all other non-federal spend excluding PREPA, PRASA, healthcare and UPR spend categories (e.g., education, public safety).
4 Figure may be understated as it includes multiple public corporations and funds are shown 'net' (therefore may not reflect total revenue/expense baseline).
5 Net of impact from increased pension and social security expenditure due to personnel reductions not included in baseline projections

Attachment B

# Fiscal Plan Table of Contents

(Subject to the appropriate allocation of responsibilities and resources between the Govt. of PR and the Oversight Board)

| | | |
|---|---|---|
| **Overview** | | ▪ Clarify objectives of the plan – to outline the guideposts for achieving fiscal health / return to capital markets and a detailed path to the aspiration for Puerto Rico |
| **Vision for PR** | | ▪ Describe the aspirational vision for Puerto Rico in 5 and 10 years from now that provides a growing economic environment and improves the lives of people in Puerto Rico |
| **Outlook** | | ▪ Present the baseline released in December 2016, as updated, including the bridge between 2014 audited financial statements and fiscal plan, and economic projections and assumptions |
| **Reform areas** | Overview | ▪ Outline fiscal balance targets and amount available for debt service |
| | Revenue enhancement | ▪ Adjustments to tax system, improve tax compliance and right-price fees |
| | Right-size gov't / efficiency | ▪ Reduce expenditures on public labor, procurement and subsidies |
| | Reducing healthcare spending | ▪ Reduce spend with efficiency initiatives and cuts in Mi Salud coverage benefits |
| | Reducing higher education spending | ▪ Increase tuition revenue, cut operating costs, and implement strategic initiatives |
| | Structural reforms | ▪ Introduce legislation to kick-start economic growth and improve quality of live |
| **Financial control reforms** | | ▪ Define a timeline for providing audited statements<br>▪ Create visibility into Government's liquidity situation and take actions to ensure that funding remains available for critical services<br>▪ Create plans for improving financial oversight, controls, reporting, systems and processes |
| **Implementation** | | ▪ Outline high-level plan for how Government will implement fiscal plan reforms<br>▪ Provide timelines for detailed implementation plans |
| **Long-term liabilities** | | ▪ Describe proposed reforms for pensions, future obligations and expansion of social security<br>▪ Define principles for restructuring process and amount available for debt service, including debt sustainability analysis |
| **Appendices** | | ▪ Assumption detail for:<br>– Baseline projection (revenue, expenditure, debt obligations)<br>– Fiscal plan (effect of measures on primary balance, economic growth, market access, interest rates, public debt) |

# Exhibit M

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



**SENT VIA ELECTRONIC MAIL**

March 9, 2017

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

Dear Governor Rosselló Nevares:

The Board has received the Government's proposed fiscal plan (the "Proposed Plan") and recognizes the many difficult decisions put forth to move Puerto Rico's financial condition in the right direction. Nonetheless, the Board has determined that the Proposed Plan does not comply with the requirements set forth in PROMESA.[1] Specifically, the Proposed Plan is based on unrealistic projections of economic growth, substantially underestimates spending, and reflects overly optimistic revenue projections. The Proposed Plan also fails to provide for the scale and timing of expenditure reduction required to achieve medium-term structural balance and near-term liquidity. As such, the Proposed Plan does not provide a path to restructuring debt and pension obligations to reach a sustainable level, and ensuring funding of essential services for the people of Puerto Rico. The Proposed Plan also does not provide the specificity of implementation detail required to fully evaluate the feasibility of most measures.

PROMESA provides the Government with a powerful tool to restore economic growth and opportunity to the people of Puerto Rico. Debt restructuring is necessary, but it alone is neither sufficient nor a sustainable solution. The scope of the Government's response to these fiscal challenges must be commensurate with the magnitude of the fiscal imbalance.

---

[1] For the reasons stated in this letter, the Board has determined the Proposed Plan does not provide a method to achieve fiscal responsibility and access to the capital markets because it does not satisfy adequately PROMESA § 201(b)(1)(B), (D), (E), (F), (G), and (I). Additionally, it does not provide sufficient data to determine whether it satisfies PROMESA § 201(b)(1)(M) and (N), although the Board understands compliance with those sections is dependent on future debt restructuring negotiations and other events. The Board's recommended revisions for the violations are also included in this letter.

***Baseline***

The Board has concluded that the revenue projections used by the Government to calculate structural deficits are overly optimistic in terms of: a) economic growth rates and the time to return to nominal economic growth; and, b) the failure to reflect near-certain declines in baseline revenues associated with corporate taxes and non-resident withholding taxes. In addition, based on the Ernst & Young analysis, the Board has concluded that the Government's FY17 expenditures could be understated by an amount ranging from $60 to $510 million, with a cumulative impact much greater over the next ten years. The Government's liquidity projection is further understated by $300 million in FY17.

The Board recommends that the FY17 General Fund Expenses ($8.3 billion per page 129 of the February 28th Proposed Plan) be increased by $585 million, based on recent historical expenditure trends. The impact of this adjustment over the next ten years is modeled in *Table 1* below.

*Table 1: Board guidance for adjustments to baseline expenditures on page 129 of the Proposed Plan*

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Expense reconciliation adjustment, $M** | (585) | (592) | (598) | (604) | (610) | (618) | (627) | (637) | (647) | (657) |

The Board recommends the following annual GNP and inflation rates included in *Table 2*:

*Table 2: Guidance on nominal annual GNP and inflation growth rates*

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| **PR Nominal GNP growth factor, %** | *(2.2%)* | *(2.8%)* | *(2.4%)* | *(0.5%)* | *(0.4%)* | *0.3%* | *1.0%* | *1.6%* | *2.1%* | *2.6%* |
| **PR inflation rate factor, %** | *(0.2%)* | *1.2%* | *1.0%* | *1.0%* | *1.1%* | *1.3%* | *1.5%* | *1.5%* | *1.6%* | *1.6%* |

***Recommendations regarding revenues, subsidies and pensions***

The Board believes the Proposed Plan is headed in the right direction for the key reform areas of pensions, subsidy reductions (municipal, UPR, and private transfers), and improving tax compliance while committing to replacing and improving the corporate tax code. There are, however, a few areas where the Board requires corrections or supporting data, to reach certification:

- **Revenues:** The Board appreciates and supports efforts by the Government to continue to address tax non-compliance through improved audit and collections programs, particularly with regard to the sales and use tax and the income tax. The Board is concerned, however, that the aggressive pace of revenue enhancement included in the Proposed Plan is not supported by sufficient detail to justify these assumptions. The Board has concluded that a compliance uplift of around $150 million in FY18 and $300 million in FY19 is more achievable. The Board has also concluded that the rate of implementation for corporate tax reform as a replacement for Act 154 revenues is also too ambitious and that the revenues are overstated by at least $250 million in FY19. Moreover, as noted earlier, the Board believes the baseline growth assumptions in the

Proposed Plan are too optimistic, which in turn results in unrealistic projections for the impact of these measures on future revenues. Puerto Rico has been in a steady state of economic decline for the past 10 years and there is insufficient economic evidence to suggest a turnaround in revenues at the level envisioned in the Proposed Plan.

- **Higher education.** The Board is supportive of the Governor's difficult decision to reduce subsidies to the University of Puerto Rico by $300 million in FY19. The magnitude of the Government's structural deficit, however, requires that this reduction in annual subsidy grow to a minimum of $450 million by FY21 as a result of: (1) application of measures to a growing expenditure baseline; and, (2) the phasing-in of additional measures related to tuition, other revenue enhancements, and operational improvements.

- **Pensions.** The Board agrees with the Government's proposal to shift active employees to a defined contribution system in which employee contributions would be segregated from funds used to pay benefits to current retirees, and employees would receive the full investment return on their accounts (versus currently receiving only 80 percent of investment returns in the ERS). The Board also supports the Government's proposal to reduce pension costs in a progressive way that protects the most vulnerable citizens. However these principles are inadequately implemented in the Proposed Plan. The Proposed Plan does not budget for the segregation of employee pension contributions. Unless contributions are immediately segregated, employees face the risk that their contributions will not be saved and invested to pay their future benefits. Additionally, the reductions in benefit costs proposed in the Proposed Plan are insufficient. Pension cost reductions substantially lower than the 10% benchmark set by the Board will shift an excessive amount of cost burdens to other stakeholders, including those who already are suffering from reductions in government outlays to health, education and other priorities. Benefit adjustments should be implemented in a manner that accounts for differences in Social Security coverage among different classes of Government employees. More detailed implementation plans for pension reforms are required, including provisions to ensure that the administrator chosen to manage employee accounts does so in a responsible way at the lowest possible cost to employees.

***Recommendations regarding healthcare and right-sizing***

There are two reform areas where the Proposed Plan needs significant improvement in terms of specificity, scale and timing, to achieve structural balance.

- **Healthcare reforms focused on "bending the cost curve".** While the Board supports efforts to curb fraud, waste and abuse in the Puerto Rican healthcare system, lasting and scaled reductions in healthcare expenditure on the Island require reforms focused on actually shifting care to lower cost sites, reducing unnecessary utilization of the health system and otherwise making the system more efficient. Further, in light of the fiscal cliff pending with the reduction in Affordable Care Act ("ACA") funding, the Government will need to implement further actions around cost-sharing and elimination of optional benefits. The Board suggests the Government include in its Proposed Plan interim milestones to create targeted per member per month ("PMPM") ceilings to optimize government hospital traffic and a pathway to curb prescription drug costs. Further, while the Board would like to expand coverage on the Island, it does not believe the current fiscal situation allows for expansion of coverage during this period of fiscal crisis. Bottom line, the Government should achieve at least $100 million in annual expenditure reductions in healthcare in FY18; $300 million in FY19, and $750 million by FY21.

- **Government right-sizing that is sustainable in the short and long-term.** The Board agrees that employee benefits offered by public corporations should match those offered in other public agencies. However, the right-sizing measures are deficient in two dimensions: (1) there is a need for aggressive, emergency measures to reduce Government spending starting in FY18 (e.g., furloughs, greater reductions to Christmas bonuses, reduction of professional service fees and other contracts, and other measures outlined in the Board's March 8th letter); and (2) over the medium-term, the Proposed Plan lacks sufficient detail to demonstrate how consolidation and externalization measures will save sufficient funds in personnel and procurement expenses to close the structural deficit. Specifically, there need to be expenditure reductions in the legislative and executive branches of government, commensurate with those required of the executive branch, of at least 20%, as well as efforts to consolidate schools to align to the decline in student population. The Government will need to achieve personnel-related expenditure reductions of at least $550 million by FY18, $900 million by FY19, and $1.3 billion by FY21.

***Timing to reach fiscal balance***

Our review of the Proposed Plan leads us to the conclusion that the Government's structural reform measures will not achieve fiscal balance in two years. In order to achieve the right balance between mitigating the near-term economic crisis while also needing to rapidly address the near-term liquidity and debt sustainability needs of the Island, the Board has updated its guidance to recommend an additional year to achieve fiscal equilibrium. The Government needs to implement reforms to accomplish three objectives: (1) near-term liquidity; (2) medium-term structural balance; and (3) long-term economic recovery and growth.

***Structural Reforms***

The Board agrees with many of the structural reforms proposed by the Government to achieve long-term growth, particularly reforms to private labor and the Government permitting process. The levels of structural reforms laid out in the Proposed Plan are, however, insufficient to achieve the necessary rate of GNP growth. Specifically, the Government should strengthen its plans for lowering energy prices and improving labor force participation. Reforms should include, but not be limited to: reforming welfare and other public assistance programs to encourage work, removing anti-competitive regulations, reducing transaction costs associated with property registry, and creating a professional, technocratic government workforce. The Commonwealth must provide additional detail on the implementation and sequencing of each of its proposed measures.

The Board appreciates the focus in the Proposed Plan on delivering the Government's capital projects more efficiently, including even greater utilization of public-private partnerships (P3s). When successfully executed, innovative procurement approaches can reduce costs, accelerate delivery and introduce new technologies. As the Government builds out a more specific project pipeline, it is critical that objective criteria be established that include projected return on investment or benefit/cost ratio as a foundational element for each investment. The Government should also continue to focus on building overall capital procurement and delivery capabilities (not just for P3 projects). In addition, while executive actions related to accelerated permitting are encouraging, the Government will need to build management systems (supported by adequate information technology) to drive faster decisions, focus on the way agencies coordinate with each other on the front lines, and develop project and program-level performance metrics related to approval speeds.

***Conclusion***

The Board recognizes the difficulties implicit in these policy decisions, as well as the long path to return Puerto Rico to fiscal stability. Reaching this goal will take time, enormous effort and the full commitment of Puerto Rico's political leadership, but done properly and in a sustained manner it will put Puerto Rico on the path to a better future. The Board specifies 9:00am AST on Saturday, March 11$^{th}$ as the deadline for submitting a revised, proposed fiscal plan.

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: Elías F. Sánchez-Sifontes

# Exhibit N

**BOARD RESOLUTION ADOPTED ON MARCH 13, 2017**

**(FISCAL PLAN CERTIFICATION)**

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was enacted; and

WHEREAS section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico ("the Board"); and

WHEREAS section 201 of PROMESA establishes a multi-step procedure for the development, review, and approval of a fiscal plan for Puerto Rico, requiring that (*i*) the Governor must submit a proposed fiscal plan to the Board; (*ii*) the Board must review the proposed plan and determine either that it satisfies PROMESA's requirements or that it does not, in which case, the Board must issue a notice of violation and recommended revisions giving the Governor an opportunity to correct the violations; (*iii*) the Governor may then submit a revised proposed plan to the Board; and (*iv*) if the Governor fails to submit timely a proposed plan the Board determines in its sole discretion satisfies PROMESA's requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

WHEREAS, at the Board's public meeting on November 18, 2016, the Board adopted five principles furnished to the Government which the Board would apply to determine whether a proposed fiscal plan complies with PROMESA; and

WHEREAS, by letter dated December 20, 2016, the Board advised the then Governor-elect of a detailed "Framework for the Government of Puerto Rio to Develop Policies and Plans to Address the Current Fiscal and Economic Problem," and

WHEREAS, by letter dated January 18, 2017 to the Governor, the Board provided the fiscal plan targets and guidelines, on a category-by-category basis, that the certified fiscal plan should satisfy; and

WHEREAS, at the Board's public meeting on January 28, 2017, the Board approved the Governor's request that it extend the PROMESA stay through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short term liquidity loans that could restrict fiscal options; and

WHEREAS, on February 28, 2017, the Governor submitted a proposed fiscal plan to the Board; and

WHEREAS, after reviewing the proposed plan with the Governor's representatives and analyzing and deliberating over it with the Board's members, economist, consultants, and attorneys, the Board informed the Governor on March 9, 2017 that the Board had determined the Governor's proposed fiscal plan did not satisfy PROMESA's requirements, and the Board recommended revisions; and

WHEREAS the Board's notice to the Governor described the violations that the Board had identified; and

WHEREAS, on March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan; and

WHEREAS representatives of the Governor and the Board's experts, consultants, and attorneys engaged in extensive discussions on March 11 and 12, 2017 about the Governor's proposed fiscal plan and the Board's concerns about the plan, resulting in further changes incorporated into the Government's proposed plan; and

WHEREAS, on March 13, 2017, the Board held an open meeting at which the Governor's representatives presented his final proposed fiscal plan to the Board and the public; and

WHEREAS the Board has had the opportunity to consider the Governor's latest proposed plan and discuss it with its experts, consultants, and attorneys, and believes that, with certain amendments, it complies with PROMESA; and

WHEREAS the Board provided an opportunity for public comment on the Governor's proposed fiscal plan and on the Board's recommended modifications to such fiscal plan; and

WHEREAS, after substantial deliberations, the Board has determined to approve and certify the Governor's latest proposed fiscal plan, as modified by the following amendments; provided, however, that in approving and certifying the fiscal plan the Board does not adopt statements that are not fiscal measures, baseline projections, or other assertions necessary to satisfy PROMESA's criteria for a certifiable fiscal plan:

**Amendment No. 1:**

**Furlough and Christmas Bonus Amendment to the Commonwealth's Proposed Fiscal Plan:**

The Government's Fiscal Plan requires additional safeguards to ensure that sufficient liquidity and budgetary savings are realized to fund essential services in FY 18.

Accordingly, the fiscal plan for the Commonwealth that the Oversight Board certifies should be the Government's fiscal plan amended to include the use of (a) a furlough program and (b) removal of all Christmas bonuses, to achieve necessary liquidity and budgetary savings.

The furlough program shall be formulated to:

- Achieve $35 million to 40 million in monthly savings, through furloughs equivalent to
  - 4 days per month for most Executive branch government personnel; and
  - 2 days per month for teachers and frontline personnel at 24-hour institutions.

- Frontline law enforcement personnel shall be exempt from the furlough program.

During fiscal year 2018, the Christmas bonus shall be eliminated, and the furlough program shall take effect on July 1, 2017, unless either or both of the bonus elimination and furlough program are subsequently repealed or decreased on occurrence of the following respective conditions:

1. Furlough Program – July 1, 2017

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing measures, as well as a liquidity plan, reasonably expected to generate an additional $200MM cash reserve by June 30, 2017, there shall be no furloughs commencing July 1, 2017, with all furloughs for the fiscal year 2018 to commence September 1, 2017 unless fully or partially eliminated in accordance with the criteria below.

2. Furlough Program – September 1, 2017

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing personnel measures reasonably expected to generate sufficient savings, there shall be no furloughs commencing September 1, 2017.

If in the Board's sole discretion, the Government's plan is not reasonably expected to generate sufficient savings, then depending on the level of savings the Board determines is likely to be achieved, the Board shall determine whether the full furlough program commencing September 1, 2017 shall be decreased or eliminated.

3. Christmas Bonus Elimination – September 30, 2017

If in the Board's sole discretion to be exercised no later than September 30, 2017, the trend of the Commonwealth's personnel costs as of September 1, 2017 indicates sufficient savings have been and will timely be achieved through the Government's right-sizing measures, the Board shall determine whether the full elimination of the Christmas bonus shall be modified into (a) a partial reduction of the bonus or (b) no elimination of the bonus.

**Amendment No. 2:**

**Pension Amendment to the Commonwealth's Proposed Fiscal Plan:**

All or virtually all pension fund assets will be depleted before 2022. ERS, TRS, and JRS have combined liabilities of at least $50 billion and a combined funded ratio below 8%.

Despite previous reform efforts, Puerto Rico's pension systems have not stabilized. Structural changes are required to ensure long-term stability and restore public confidence in the pension system.

Accordingly, the public pension systems must be overhauled through the measures in the Commonwealth's proposed fiscal plan, supplemented to provide for progressively reduced total pension outlays by 10% by fiscal year 2020, to ensure the system can meet its obligations, with protections to ensure that no member is pushed below the federal poverty line as a result of the reductions.

The system overhaul shall be formulated by the Commonwealth and the Board on or before June 30, 2017, and be guided by the following principles:

1. Fund existing pension obligations on a "paygo" basis, liquidating assets to help fund benefits and using general fund revenues to pay benefits owed under previous plans

2. Enroll all active members and new hires in defined contribution accounts that segregate and protect their contributions to pay for their own future benefits, and:

    a. Offer employees diversified, low-cost "index funds" similar to the federal government's Thrift Savings Plan

    b. Ensure that employees retain the full return on their contributions, without the 20% "tax" currently charged by hybrid plans; and

3. Beginning in 2020, enroll all newly-hired teachers and public safety workers in Social Security, and, to the extent practicable, enroll current teachers and public safety employees under age 40 in Social Security.

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT the Board approves and certifies the Governor's latest proposed fiscal plan pursuant to PROMESA § 201(e), as modified by Amendment No. 1 and Amendment No. 2; and it is

FURTHER RESOLVED that the Board shall issue a compliance certification for the fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

# Exhibit O

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



BY ELECTRONIC MAIL

April 25, 2017

U.S. Senator Thom Tillis
c/o Towers_Mingledorff@Tillis.senate.gov

U.S. Senator Tom Cotton
c/o Brian_Colas@Cotton.senate.gov

Re: FOMB Response to Your Letter dated April 7, 2017 (the "Letter")

Dear Senators Tillis and Cotton:

The Financial Oversight and Management Board for Puerto Rico ("FOMB") has received and reviewed your Letter and very much appreciates this opportunity to respond.[1]

FOMB's Statutory Mission:

The Mission: PROMESA section 101(a) provides the purpose of the FOMB is to provide a method for Puerto Rico to achieve fiscal responsibility and to restore access to the capital markets.

Returns to Creditors: Subject to the objectives of achieving fiscal balance and market access, which can only be achieved by ensuring economic growth in

[1] The Letter expresses concerns stemming from certain responses we recently provided at the March 22 hearing of the House Committee on Natural Resources Subcommittee on Indian, Insular, and Alaska Native Affairs.

Puerto Rico, the FOMB intends to maximize returns to creditors. The nub of the issue with the creditors alluded to in your Letter is the size of the economic pie available to be divided. The creditors insist that the pie is larger than FOMB's economists and consultants believe it to be. The FOMB shares the creditors' desires to enlarge the funds available for debt service, but cannot adopt lofty assumptions for available funds without violating PROMESA § 101(a) because PROMESA §§ 104(i) and 314(b) both require outcomes consistent with a certified fiscal plan's debt sustainability analysis.

To address the questions in your Letter, after the Executive Summary we provide the material facts and economic principles at issue, and then an explanation of how the facts and economic principles answer your questions and concerns.

<u>Executive Summary</u>:

1. <u>Fiscal Plan Increases Revenues and Cuts Expenses to the Maximum</u>: The fiscal plan the FOMB certified starts by increasing revenues and cutting virtually *all* expense areas, including education, healthcare, pension, employment, and even legislative expenses.

    a. <u>The FOMB Pushed Revenues, Expenses, and Clawbacks to the Limits of Where they Will Maximize Funds for Debt Service without Preventing Necessary Economic Growth</u>: The one undisputed economic principle governing the fiscal plan is that *no* solution to Puerto Rico's fiscal distress is possible if its negative economic growth is not reversed. The FOMB has cut *all* categories of expenses up to the point where its economists have determined that further material annual cuts for the foreseeable future would (a) prevent growth from reaching levels needed to ensure fiscal sustainability, and (b) create minimally larger short-term savings at the expense of a significantly lower resource envelope over the medium and long-term. Put differently, trying to impose additional cuts would create the opposite effect than creditors want. It would render Puerto Rico's viability impossible because further short run savings would lead to an unstoppable downward fiscal spiral in the long run.

2. <u>Fiscal Plan Confronts Two Fiscal Cliffs</u>: (a) Puerto Rico has unfunded pension liabilities to public employees approaching $50 billion and its three

public pension funds are each either already out of funding or will be out of funding in summer 2017. Average pension benefits are $14,000 per year, and roughly one-third of employees are ineligible for Social Security benefits. Therefore, Puerto Rico will need to begin paying pensions of nearly $1 billion per year that in recent years were paid out of a drawdown of pension system assets. (b) In December 2017, Puerto Rico will exhaust its supplemental Medicaid funding from the federal government. This imposes new healthcare coverage demands on Puerto Rico's own resources of approximately $850 million in the next fiscal year (FY 18, July 2017-June 2018) that is projected to reach almost $2.4 billion a year by FY 26.

3. <u>The Fiscal Plan Does Not Elevate All Spending over Debt Service, and Does Respect Priorities</u>: The creditors' concerns reported in the Letter are that all non-debt spending is elevated above debt service and there is no differentiation between non-essential and essential services. The creditors have it in reverse. The fiscal plan first reduces spending and increases revenue to the maximum extents possible without preventing the essential reversal of Puerto Rico's fiscal sustainability, and then computes the funds available for debt service. The whole purpose of increasing revenues, cutting expenses and reallocating tax revenues to the Commonwealth is to respect priorities and to maximize funds for debt service.

4. <u>The Fiscal Plan Computes Debt Capacity *after* Raising Revenues and Cutting Expenses</u>: The fiscal plan shows $7.873 billion available for debt service on $51.2 billion of debt[2] for the ten fiscal years through 2026, or an average of $787 million per year. Including the amendments introduced by the Board with the certified the fiscal plan, at a 4.5% interest rate, this would service interest and limited amortization of approximately $15 billion of debt.

5. <u>The FOMB Would Only Support a Self-Correcting Restructuring Plan</u>: While the FOMB does not believe the fiscal plan understates cash available for debt service in the first 10 years, it understands creditors are skeptical. To assure creditors they will receive the maximum available, the FOMB has advised creditors from the outset that it wants any restructuring plan to

[2] The certified fiscal plan covers the Commonwealth, PBA, COFINA, HTA, PRIFA, PRCCDA, PFC, UPR, ERS, GDB, and PRIDCO.

provide a mechanism for creditors to be paid more to the extent actual results exceed projections.

6. The Real Issue is the Size of the Economic Pie, Not any Lack of Desire to Negotiate: Your letter reports creditor concerns that the FOMB has failed to negotiate and to respond to creditor attempts to negotiate settlements. In fact, the FOMB and government held more than 30 meetings with creditor representatives from December 2016 through March 2017. The current governor was inaugurated January 2, 2017 and proposed a fiscal plan on February 28, 2017. On March 13, 2017, the FOMB certified an amended version of the governor's plan, which provided for the first time a debt capacity analysis, which was necessary to determine how much debt the government could offer creditors. Thereafter, creditors have requested a new fiscal plan that allows issuing them more fixed-payment debt. The FOMB and government convened a mediation on April 13, 2017. Mediation efforts are ongoing.

7. The FOMB Prioritizes Title VI Settlements: Your letter reports the creditors' concern that the FOMB is violating the letter and spirit of PROMESA by failing to pursue Title VI settlements. As the preceding paragraph demonstrates, the FOMB has endeavored to follow both the letter and spirit of the law. The creditors have refused to pursue Title VI settlements unless the FOMB certifies a fiscal plan providing more funds available for debt service. The PROMESA stay terminates by May 2, 2017. PROMESA does not allow the restructuring of pensions or any non-bond or non-financial contract in Title VI. Puerto Rico has $48 billion in unfunded pension liabilities that require restructuring, or else less money will be available for the creditors you have heard from. To deal with this reality, the FOMB has made clear that it may have to commence Title III cases to extend the stay and to restructure non-financial debt. If that were to occur, the FOMB would fold into its Title III plans any Title VI settlements reached with financial creditors. This is the most the FOMB can possibly do to foster Title VI settlements. Title VI settlements require both the FOMB and creditors to agree.

Puerto Rico's Current Economic Condition:

Economic Decline since 2006: From fiscal years 2006 through 2015, Puerto Rico's real GNP fell every year except one.[3] The Economic Activity Index comprised of four factors (payroll employment, electric power generation, cement sales, and gasoline consumption) fell from 160.0 to 124.1 between August 2005 and August 2016.[4]

Population Decline since 2003: From 2003, Puerto Rico's population has declined over 9% down to less than 3.5 million people in 2015.[5]

Poverty and Unemployment: According to the U.S. Census Bureau's 2015 community survey, 46.1% of Puerto Rico's residents live below the federal poverty level compared to the national average of 14.7%,[6] and 36% of the residents of Detroit,[7] whose financial distress was viewed by many as uniquely devastating. Puerto Rico's is more so. For Puerto Rico children under age 5, 63.7% live under the federal poverty level, compared to the national average of 22.8%.[8] Median household income in Puerto Rico was $18,626 in 2015, compared to $56,515 in the United States,[9] and to $27,862 in Detroit in 2011.[10] In October 2016, Puerto Rico's unemployment rate was 12.1%, and only 987,606 persons were employed, down 23% from 1,277,559 employed persons in December 2006.[11]

---

[3] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

[4] *Id*. at 10.

[5] Puerto Rico Population, retrieved at: http://www.countrymeters.info/en/Puerto_Rico/; FactTank, "Historic Population Losses Continue across Puerto Rico" (Pew Research Center), retrieved at: http://www.pewresearch.org/fact-tank/2016/03/24/historic-population-losses-continue-across-puerto-rico/; Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 13.

[6] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

[7] Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 100, retrieved at: http://www.kccllc.net/detroit/document/1353846140416000000000062

[8] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 9.

[9] *Id.* at 11.

[10] Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 100, retrieved at: http://www.kccllc.net/detroit/document/1353846140416000000000062

[11] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at p. 11.

Public Debt as a Percentage of Income: Puerto Rico has approximately $74.5 billion of bond debt and $48 billion of unfunded pension liabilities.[12] As of 2012, Puerto Rico's public debt as a percentage of aggregate income was 100.7%, as compared to 29% for New York, which has the highest ratio of public debt to income in the United States (the average is 16.8%).[13]

Immediate New Cash Needs:

The Pension Funding Cliff: As of June 30, 2015, the largest public pension fund (ERS), owing $33.2 billion, was negative 1.8% funded.[14] The highest funded public pension was 8.1% funded, and as a practical matter, virtually all public pension funding will be exhausted this summer for all pension plans, forcing the Puerto Rico government to pay public pensions or welfare out of general revenues. In fiscal year 2018, this will cost the Puerto Rico $989 million.[15]

To put Puerto Rico's $48 billion unfunded pension liability in perspective, the unfunded actuarial accrued liabilities in Detroit in 2013 were approximately $3.474 billion and the public pension funds were over 70% funded.[16]

Notwithstanding that the average pension benefit payment for government retirees in Puerto Rico is about $14,000 – about half the benefit of government retirees in the U.S., as shown below, the certified fiscal plan reduces pension payments to the extent combined pension and Social Security benefits exceed the federal poverty threshold of $1,000 per month.

The Medicaid Cliff: The Affordable Care Act provided supplemental Medicaid funding for territories, of which Puerto Rico drew an average of $917

[12] Certified Fiscal Plan for Puerto Rico (March 13, 2017) at 26; footnote 13 below.
[13] An Update on the Competitiveness of Puerto Rico's Economy by the Federal Reserve Bank of New York (July 31, 2014) at 16 (Figure 12).
[14] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at pp. 12-13.
[15] Commonwealth Fiscal Plan certified March 13, 2017 at p. 13.
[16] Second Amended Disclosure Statement with respect to Second Amended Plan for the Adjustment of Debts of the City of Detroit, at 91-93, retrieved at:
http://www.kccllc.net/detroit/document/1353846140416000000000062

million per year from fiscal years 2012 through 2016.[17] Puerto Rico drew $1.3 billion in fiscal year 2016. The balance of the supplemental funding will be spent by the end of calendar year 2017.[18] There is no replacement funding thereafter. As the Congressional Task Force on Economic Growth in Puerto Rico reported in December 2016:

> "The government of Puerto Rico, which currently lacks the ability to borrow money in the capital markets to fill the large hole that will be left by the loss of federal funding, would presumably be compelled either to drop hundreds of thousands of current enrollees from the Medicaid program (harming quality of life and spurring outmigration) or to reallocate funds from other areas, such as payments to creditors and the provision of public services. *** Given its magnitude, the cliff is certain to disrupt any existing stability in the provision of health care services in Puerto Rico for a large number of beneficiaries."[19]

Additional Cash Need:

The fiscal plan takes into account these fiscal cliffs, as well as Puerto Rico's repeated understatement of its expenses in its annual budgets. The FOMB retained Ernst & Young ("E&Y") to bridge the last audited financials to the present. In its report, E&Y determined that the government's fiscal year 2017 expenditures could be understated by a range of $360 million to $810 million. The fiscal plan uses $585 million, the midpoint of this range, and adopts a variety of stringent measures to fill the gaps created by the fiscal cliffs and understatement of expenses.

Certain Savings Measures Taken by Government or Imposed by FOMB:

The certified fiscal plan provides within three years for:

(i) Self Sufficient Municipalities: a 100% reduction in subsidies to municipalities, amounting to approximately $375 million per year.

[17] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at 19 n.23.
[18] *Id*. at 19.
[19] *Id*. at 20.

(ii) Savings in Higher Education: a 50% reduction in contributions to higher education, amounting to approximately $475 million per year.

(iii) Savings in Personnel and Operating Expenses and Sectoral Subsidies: a 35% reduction in personnel and operating expense, amounting to approximately $1.6 billion per year and reductions in firm-specific subsidies in various sectors of $100 million per year.

(iv) Healthcare Savings: a 30% reduction in healthcare costs, amounting to approximately $800 million per year.

(v) Pension Savings: an average 10% reduction in pension expenses implemented in a progressive manner, amounting to approximately $250 million per year.

(vi) Cancellation of Christmas Bonus if certain liquidity targets are not satisfied.

(vii) Four-Day per Month Furlough if certain liquidity targets are not satisfied.

34% Overall Savings: After five years, the certified fiscal plan saves about $3.6 billion per year off the structural budget, starting with more than $1.1 billion of savings in its first year. The $3.6 billion savings represents a 28% reduction off projected structural spending levels in the Commonwealth of Puerto Rico's $12.85 billion of non-federal expenses in fiscal year 2022.

Reasons for Less Money Available for Debt Service than the FOMB and Creditors Want:

One undisputed principle guiding this restructuring is that the government and the FOMB cannot accomplish PROMESA's twin mandate for Puerto Rico to achieve fiscal responsibility and to restore access to the capital markets if we do not end Puerto Rico's negative economic growth and grow sufficiently.

Further Cost Cutting and Revenue Raising Produce Small Benefits for 10 Years and Detriments for the Next 32 Years: Virtually all the measures available for balancing the budget in the short term worsen economic growth, without which adequate debt service payments are impossible. As the certified fiscal plan provides, the savings measures negatively impact growth through FY 21 and real economic growth does not turn positive until FY 24, when the positive impact of the authorities' structural reform agenda (downplayed by the creditors) begins to take hold.[20]

The FOMB retained economists and consultants to gauge the impact on Puerto Rico's real growth outlook of the measures the FOMB is requiring to attain fiscal responsibility. The savings measures summarized above are so large that our advisors warn that (1) additional short-term cuts might produce slightly higher resources over the first 10 years, but never do over the longer 2018-60 period; (2) the amount of additional cutting is limited as the policies needed to generate annually further material resources is not consistent with a sustainable growth and primary balance path; and (3) with all the other downside risk, we cannot push the baseline path to the minimum of the viable range.

<u>FOMB Discussions with Creditors</u>:

<u>Creditor Meetings</u>: From December 2016 through March 2017, FOMB's members and advisors participated in over 30 meetings with representatives of the different creditor groups. Most groups met with the FOMB more than once. The Government joined the FOMB in most of those meetings and held many additional meetings. The FOMB did not decline to meet with any creditor group requesting a meeting.

<u>Timing of Formulation of Restructuring Proposals</u>: Pursuant to PROMESA § 104(i)(1), FOMB can only certify a Title VI restructuring agreement if it is consistent with the entity's debt sustainability. To determine debt sustainability, either a fiscal plan or most of the work for a fiscal plan needs to be completed. Puerto Rico's prior governor proposed a fiscal plan in 2016, but declined to remedy the PROMESA violations that the FOMB identified. Puerto Rico's current governor, Governor Rosselló Nevares, was inaugurated January 2, 2017 and proposed a fiscal plan on February 28, 2017. The FOMB amended and certified the governor's fiscal plan on March 13, 2017, less than three months after the new governor took office.

<u>Restructuring Proposals</u>: Promptly after certification of the fiscal plan, the FOMB and the government undertook a joint effort to formulate restructuring

[20] Certified Fiscal Plan for Puerto Rico (March 13, 2017) at 10.

proposals for all major credits, based on the debt sustainability analysis in the certified fiscal plan.

Creditor Resistance to FOMB/Government Making Restructuring Proposals: The certified fiscal plan's debt sustainability analysis makes plain the funds available for debt service. Creditors responded by asking the FOMB to certify a new fiscal plan with more frothy and optimistic assumptions.

Mediation: In March 2017, the FOMB and the government requested holders of General Obligation debt ("GO debt") and COFINA debt to participate in a mediation with the FOMB and the government commencing April 3, 2017. Those debts together account for approximately 55% of the total bond debt to be restructured. Ultimately, the mediation commenced April 13, 2017 under the auspices of former Bankruptcy Judge Allan Gropper, nominated by a plurality of creditors. The FOMB remains hopeful that the mediation will lead to consensual resolutions at some point.

The Creditor Concerns Reported in Your Letter Form Part of Current Negotiations:

It is important to recognize that the creditors whose concerns you reported in your Letter are in the midst of negotiations with the FOMB and government. When viewed in the full context of facts set forth above, it becomes clear that airing those concerns is part of their negotiating strategy. In fact, the creditors already know most of the answers in this response.

Negotiations: Your Letter mentions that creditors have alleged the FOMB and the government have not attempted to negotiate and have failed to respond to creditors' attempts to initiate negotiations. As set forth above:

1. The FOMB and the government held over 30 meetings with creditors from December 2016 through March 2017.
2. The FOMB never declined any creditor's request to discuss its claims.
3. Because the prior governor would not cure violations in his fiscal plan, and the new governor was not inaugurated until January 2, 2017 and initiated a new business plan, a debt sustainability analysis could not be completed before March 13, 2017.
4. Creditors who made the same complaints to us as reported in your Letter are the same creditors who asked us to take more time to redo the fiscal plan.

Title VI is the Spirit of PROMESA: Contrary to complaints that the FOMB has violated PROMESA's emphasis on Title VI, the FOMB has actively pursued Title VI settlements in the following ways:

1. The FOMB and the government have been attempting to negotiate.
2. The FOMB has been steadfast from the outset that it favors Title VI over Title III.
3. Congress crafted PROMESA so that the stay terminates on May 2, 2017. The only means of obtaining a general stay after May 1, 2017 is to commence a Title III case.
4. Congress crafted PROMESA so that pension liabilities and other liabilities not constituting bond debt or other financial debt likely cannot be resolved in Title VI, and likely can only be resolved in Title III. As explained above, there is $48 billion of unfunded pension debt the government cannot pay in full.
5. To carry out the spirit of PROMESA notwithstanding that only Title III can provide a stay and restructure pension debt, the FOMB has told bondholders for many months that even if it must resort to Title III, it would continue negotiating with bondholders and would incorporate into a plan under Title III any Title VI-type settlement it makes with bondholders.

Whether the Fiscal Plan Legally Complies with a Statute Is a Legal Question: Your Letter states that during the House Subcommittee on Indian, Insular, and Alaska Native Affairs' March 22 hearing I was asked whether the certified fiscal plan complies with PROMESA. I said it does, because that is my belief. When it appeared the same question was being repeated, I believed the subcommittee might be referring to the COFINA-GO dispute, and I responded that the FOMB had not taken a position on that dispute. But, your Letter asserts my response was "unsatisfactory," and that I did not explain why the fiscal plan is compliant. While I am not a lawyer, I am advised that PROMESA section 201(b) governs the compliance requirements, and that it has fourteen subdivisions, which would make it difficult for me to give a complete explanation in the context of a hearing even if I had fully appreciated the focus of the question.

PROMESA Is on Track to have Puerto Rico Achieve Fiscal Responsibility and Access to the Capital Markets: Your letter provides that because of my response (discussed above) and the creditors' reports of their concerns, you are concerned PROMESA is not on track to have Puerto Rico achieve fiscal responsibility and access to the capital markets. As explained above, that a non-lawyer did not provide a legal explanation to a complex legal question is not a cause for concern. But, more importantly, the very fact that creditors demanding that Puerto Rico pay them more complain that the FOMB has not accommodated them, demonstrates that the FOMB is assuring that Puerto Rico will achieve fiscal responsibility and access to the capital markets. If the FOMB had yielded and approved higher payments, Puerto Rico would again be overleveraged and almost assuredly locked out of the capital markets.

Your Request for Compliance Certification, PROMESA § 201(b)(1) Analysis, and Meeting with Your Staffs: Your letter requests a compliance certification of the fiscal plan. Pursuant to PROMESA § 201(e), the FOMB provided a compliance certification to the governor and legislature, a copy of which is enclosed herewith. Additionally, your Letter requests that the FOMB meet with your staffs about current progress under PROMESA on several fronts, and we are pleased to arrange such a meeting.

Finally, your Letter requests an explanation stating in detail how each requirement of PROMESA § 201(b)(1) is satisfied. This letter addresses in detail the issue you raised under PROMESA § 201(b)(1), namely how the fiscal plan "respects" local priorities and the like. As you know, Congress deployed the word "respect," while consciously twice declining to use "comply with."[21] "Respect" provides flexibility and is different than the words Congress used for other fiscal plan requirements, such as to "ensure" the funding of essential public services, "provide" adequate funding for public pension systems, and "provide" for the elimination of structural deficits. I assume this is the requirement you are most concerned with, and I have explained throughout this letter how the fiscal plan respects priorities by reallocating tax revenues to the Commonwealth, increasing revenues, and cutting expenses. If you would like the FOMB and its advisors to address some of the other requirements, we would be happy to meet with you or your staffs.

What Congress Can Do:

The FOMB invites Congress to help enlarge the pie, such as by renewing the flow of Medicaid funds under the Affordable Care Act to Puerto Rico, which funds

[21] 162 Cong. Rec. H3600-01, 162 Cong. Rec. H3600-01, H3601.

will otherwise be exhausted in December 2017. The bipartisan Congressional Task Force on Economic Growth in Puerto Rico unanimously reported:

> "…However, Task Force members agree that, irrespective of these larger policy disagreements and the congressional debates they will continue to generate in the coming years, an equitable and sustainable legislative solution to the financing of Puerto Rico's Medicaid program should be enacted early in 2017."[22]

Similarly, the FOMB encourages Congress to consider other Task Force recommendations.

<u>Conclusion</u>:

In summary, PROMESA requires the FOMB to achieve for Puerto Rico fiscal responsibility and market access. Subject to those requirements, the FOMB wants to maximize returns to creditors and to ensure economic growth. The FOMB is balancing fairness to Puerto Rico's people with paying creditors while not allowing debt to exceed levels that would prevent fiscal responsibility and market access.

We trust this letter adequately addresses your concerns, and as always, we are at your service.

Sincerely,

José B. Carrión, Chair
& all Members of the FOMB

C: Elías Sánchez Sifonte
Natalie Jaresko

[22] Report to the House and Senate by the Congressional Task Force on Economic Growth in Puerto Rico, 114th Congress (December 20, 2016) at 17.

# Exhibit P

# ***Puerto Rico Department of Treasury***

*Treasury Single Account ("TSA") Cash Flow Actual-to-Forecast Comparison*

*As of May 26, 2017*

**Puerto Rico Department of Treasury**
*TSA Cash Flow Actual + Re-Forecast*

As of May 26, 2017

| | *Cash Flows Before Cliffs, Measures and Debt* (figures in $mm) | Actual 5/26 | Fcst - 1 6/2 | Fcst - 2 6/9 | Fcst - 3 6/16 | Fcst - 4 6/23 | Fcst - 5 6/30 | Total FY 2017 |
|---|---|---|---|---|---|---|---|---|
| 1 | General Collections | $81 | $37 | $52 | $127 | $512 | $50 | $8,485 |
| 2 | Sales and Use Tax | 110 | 4 | 5 | 18 | 14 | 171 | 1,703 |
| 3 | Excise Tax through Banco Popular | – | – | – | 57 | – | – | 619 |
| 4 | Rum Tax | – | 14 | – | – | 24 | – | 217 |
| 5 | Electronic Lottery | – | – | – | – | 14 | 17 | 166 |
| 6 | Subtotal | $191 | $56 | $57 | $202 | $564 | $238 | $11,191 |
| 7 | Employee/Judiciary Retirement Admin. | – | – | – | 56 | – | – | 635 |
| 8 | Teachers Retirement System | – | – | – | – | – | – | 272 |
| 9 | Retirement System Transfers | – | – | – | $56 | – | – | $906 |
| 10 | Federal Funds | 83 | 36 | 96 | 99 | 103 | 116 | 5,580 |
| 11 | Other Inflows | 1 | 2 | 3 | 13 | 3 | 3 | 320 |
| 12 | Tax Revenue Anticipation Notes | – | – | – | – | – | – | 400 |
| 13 | **Total Inflows** | **$275** | **$93** | **$156** | **$370** | **$670** | **$356** | **$18,398** |
| 14 | Payroll and Related Costs | (75) | (20) | (22) | (106) | (52) | (111) | (3,575) |
| 15 | Pension Benefits | (85) | – | – | (82) | – | (87) | (2,059) |
| 16 | Health Insurance Administration - ASES | (19) | (1) | (53) | (53) | (53) | (62) | (2,608) |
| 17 | University of Puerto Rico - UPR | (15) | (31) | (18) | (18) | (18) | (24) | (872) |
| 18 | Muni. Revenue Collection Center - CRIM | (17) | – | (15) | (15) | (0) | (19) | (430) |
| 19 | Highway Transportation Authority - HTA | (19) | – | – | – | – | (19) | (155) |
| 20 | Public Buildings Authority - PBA / AEP | (7) | (6) | (4) | (4) | (4) | (4) | (162) |
| 21 | Other Governmental Entities | (9) | (28) | (3) | (22) | (6) | (68) | (715) |
| 22 | Subtotal - Government Entity Transfers | ($86) | ($66) | ($93) | ($112) | ($81) | ($197) | ($4,942) |
| 23 | Supplier Payments | (70) | (62) | (61) | (61) | (61) | (59) | (3,284) |
| 24 | Other Legislative Appropriations | (2) | (4) | (12) | (20) | (6) | (5) | (555) |
| 25 | Tax Refunds | (16) | (21) | (16) | – | – | – | (651) |
| 26 | Nutrition Assistance Program | (44) | (16) | (37) | (30) | (70) | (20) | (2,010) |
| 27 | Other Disbursements | – | – | – | – | – | – | (16) |
| 28 | Contingency | (71) | (65) | (65) | (65) | (65) | (65) | (395) |
| 29 | Tax Revenue Anticipation Notes (a) | – | – | – | – | – | – | – |
| 30 | **Total Outflows** | **($449)** | **($254)** | **($305)** | **($476)** | **($335)** | **($543)** | **($17,492)** |
| 31 | **Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures** | **($174)** | **($161)** | **($150)** | **($106)** | **$335** | **($187)** | **$905** |
| 32 | Bank Cash Position, Beginning (b) | $1,591 | $1,418 | $1,257 | $1,107 | $1,001 | $1,336 | $244 |
| 33 | **Bank Cash Position, Ending (b)** | **$1,418** | **$1,257** | **$1,107** | **$1,001** | **$1,336** | **$1,150** | **$1,150** |

Footnotes:
*(a) Perforbearance agreement signed the week of 4/28/17, repayment of TRANs has been deferred.*
*(b) Excludes BPPR Clawback Account (for clawback revenues prior to June 2016) of $146 million.*

Puerto Rico Department of Treasury
*TSA Cash Flow Actual-to-Forecast Comparison*

As of May 26, 2017

| | ***Favorable / (Unfavorable) Variance in Cash*** *(figures in $mm)* | Actual 5/26 | Fcst - 1 6/2 | Fcst - 2 6/9 | Fcst - 3 6/16 | Fcst - 4 6/23 | Fcst - 5 6/30 |
|---|---|---|---|---|---|---|---|
| 1 | General Collections | $22 | ($7) | ($7) | ($7) | ($8) | ($7) |
| 2 | Sales and Use Tax | (57) | – | – | – | – | – |
| 3 | Excise Tax through Banco Popular | – | – | – | – | – | – |
| 4 | Rum Tax | – | 14 | – | – | 2 | – |
| 5 | Electronic Lottery | – | – | – | – | – | (20) |
| 6 | Subtotal | ($35) | $8 | ($7) | ($7) | ($6) | ($27) |
| 7 | Employee/Judiciary Retirement Admin. | – | – | – | – | – | – |
| 8 | Teachers Retirement System | – | – | – | – | – | – |
| 9 | Retirement System Transfers | – | – | – | – | – | – |
| 10 | Federal Funds | (40) | (13) | (3) | (8) | (4) | (5) |
| 11 | Other Inflows | 1 | (10) | 3 | 13 | 3 | (9) |
| 12 | Tax Revenue Anticipation Notes | – | – | – | – | – | – |
| 13 | **Total Inflows** | **($75)** | **($15)** | **($8)** | **($3)** | **($7)** | **($40)** |
| 14 | Payroll and Related Costs | 21 | (1) | – | (11) | 4 | (5) |
| 15 | Pension Benefits | 2 | – | – | – | – | – |
| 16 | Health Insurance Administration - ASES | 33 | 6 | – | – | – | (8) |
| 17 | University of Puerto Rico - UPR | 3 | (26) | (18) | 18 | – | – |
| 18 | Muni. Revenue Collection Center - CRIM | (9) | – | (15) | – | 8 | 8 |
| 19 | Highway Transportation Authority - HTA | (19) | 19 | – | – | 19 | – |
| 20 | Public Buildings Authority - PBA / AEP | (7) | (2) | – | – | – | – |
| 21 | Governmental Development Bank - GDB / BGF | – | (2) | – | – | – | – |
| 21 | Medical Services Administration - PRMSA / ASEM | 5 | (7) | – | – | – | – |
| 21 | Agricultural Enterprises Development Admin. - AEDA | (2) | 2 | – | 0 | (0) | (6) |
| 21 | PR Integrated Transport Authority - PRITA / ATI | 1 | (0) | – | – | – | 1 |
| 21 | PR Fiscal Agency and Financial Advisory Authority - AAFAF | (3) | – | – | 1 | – | – |
| 21 | Automobile Accident Compensation Admin. - AACA | (3) | 3 | – | (3) | 3 | – |
| 21 | Compulsory Liability Insurance | 3 | – | – | – | – | – |
| 21 | PRIDCO | 2 | (6) | – | – | – | – |
| 22 | Subtotal - Government Entity Transfers | $4 | ($12) | ($33) | $16 | $30 | ($6) |
| 23 | Supplier Payments | (3) | (8) | 4 | 4 | 4 | 7 |
| 24 | Other Legislative Appropriations | 3 | (0) | (12) | (4) | 16 | – |
| 25 | Tax Refunds | 15 | (19) | (15) | 4 | 6 | 41 |
| 26 | Nutrition Assistance Program - PAN / EBT | (8) | 0 | – | – | – | – |
| 27 | Other Disbursements | – | 4 | – | – | – | 4 |
| 28 | Contingency | (42) | (42) | (42) | (42) | (42) | (42) |
| 29 | Tax Revenue Anticipation Notes (a) | – | 137 | – | – | – | 135 |
| 30 | **Total Outflows** | **($7)** | **$58** | **($98)** | **($33)** | **$18** | **$133** |
| 31 | **Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures** | **($82)** | **$43** | **($105)** | **($36)** | **$11** | **$93** |
| 32 | Bank Cash Position, Beginning (b) | $935 | $853 | $896 | $791 | $755 | $766 |
| 33 | **Bank Cash Position, Ending (b)** | **$853** | **$896** | **$791** | **$755** | **$766** | **$859** |

Footnotes:
*(a) Per forbearance agreement signed the week of 4/28/17, repayment of TRANs has been deferred.*
*(b) Excludes BPPR Clawback Account (for clawback revenues prior to June 2016) of $146 million.*

## Accounts Payable Summary

*As of May 26, 2017*

*Figures in $000s*

| | Checks in Vault (a) | Recorded AP (b) | Unrecorded AP (c) | Total AP |
|---|---|---|---|---|
| Department of Education | $3,535 | $26,627 | $115,114 | $145,276 |
| PRIFAS 7.5 | 10,984 | 57,432 | 64,491 | 132,906 |
| Department of Health | 3,000 | 24,353 | 57,056 | 84,409 |
| ASSMCA | – | 763 | 1,465 | 2,228 |
| JCA | – | 1,534 | 4,559 | 6,093 |
| Treasury Department CKS | 3 | 2,236 | – | 2,240 |
| **Total** | **$17,522** | **$112,945** | **$242,686** | **$373,152** |

Footnotes:

*(a) Refers to checks issued but kept in vault.*

*(b) Refers to invoices/vouchers approved for payment by the agencies but checks not released.*

*(c ) Refers to invoices not recorded in the system for payment.*

# Exhibit Q

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



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.

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 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.

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

# Exhibit R

# Financial Oversight and Management Board for Puerto Rico

## Financial Bridge Analysis

March 7, 2017

Building a better working world

# Disclaimer

This report (the "Report") has been prepared by Ernst & Young Puerto Rico LLC ("EY"), from information and material supplied by the Oversight Board (or the "Board") and the Government of Puerto Rico and its advisors (collectively, the "Government") for the sole purpose of assisting the Board in analyzing the Fiscal Plan Comparison to Historical Results (the "Bridge") prepared by the Government.

The nature and scope of our services was determined solely by the Agreement between EY and the Board dated 15 February 2017 (the "Agreement"). Our procedures were limited to those described in that Agreement. Our work was performed only for the use and benefit of the Board and should not be used or relied on by anyone else. Other persons who read this Report who are not a party to the Agreement do so at their own risk and are not entitled to rely on it for any purpose. We assume no duty, obligation or responsibility whatsoever to any other parties that may obtain access to the Report.

The services we performed were advisory in nature. While EY's work in connection with this Report was performed under the standards of the American Institute of Certified Public Accountants (the "AICPA"), EY did not render an assurance report or opinion under the Agreement, nor did our services constitute an audit, review, examination, forecast, projection or any other form of attestation as those terms are defined by the AICPA. None of the services we provided constituted any legal opinion or advice. This Report is not being issued in connection with any issuance of debt or other financing transaction.

In the preparation of this Report, EY relied on information provided by the Board, the Government or publicly available resources, and such information was presumed to be current, accurate and complete. EY has not conducted an independent assessment or verification of the completeness, accuracy or validity of the information obtained. Any assumptions, forecasts or projections contained in this Report are solely those of the Government and any underlying data were produced solely by the Government.

The Board has the knowledge, experience and ability to form its own conclusions. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. EY takes no responsibility for the achievement of projected results.

# Table of Contents





EY

# Introduction

Building a better
working world

# Overall support and acknowledgement

As a part of this mandate, the EY team was provided open access to the majority of the relevant parties as well as the data available for FY14 – FY17. We want to acknowledge the assistance provided by the Government team in the preparation of our Report.

It is important to emphasize that the comments in the Report about the lack of adequate supporting information are not meant to be critical of the new Government team or any of the advisors, but to underscore the point that the quality of information especially for FY15 and FY16 is still subject to significant changes which makes a meaningful comparison to FY17 very challenging.

We thank the following teams that we met with while preparing this Report:

- Hacienda – (Raul Maldonado Gautier, Roxana Cruz, Omar Rodriguez, Reylam Guerra Goderich)
- AAFAF – (Gerardo Portela, Mohammad Yassin Mahmud)
- Office of Management and Budget ("OMB") – (Jose Marrero, Jose Rodriguez, Rebeca Maldonado Morales)
- Conway Mackenzie
- KPMG

# EY's scope included an analysis of the Bridge methodology, documentation, and historical trends to comment on FY17 projections

| EY Scope | Approach |
| --- | --- |
| Methodology and adjustments | • Analyzed Bridge methodology to ensure consistency of entities included and comparability of actual financial results to projections<br>• Analyzed adjustments made to normalize historical financial information:<br>    • Exclusion of debt service, capital expenditures and retirement contributions<br>    • One-time items and excluded entities<br>    • Working capital adjustments<br>• Analyzed Governmental Funds and Component Units separately |
| Substance of Bridge documentation | • Comparison of FY14 Audited Financial Statements (or "Audited Financial Statements") to Bridge amounts<br>• Comparison of FY17 Budget prepared by the Government to FY17 Fiscal Plan projections prepared by the Government and dated December 20, 2016 (the "Fiscal Plan," "Plan," or "FY17 Plan") and to Bridge amounts<br>• Analyzed source information used to present FY15 and FY16 financial results, including system-generated data, system adjustments and manual adjustments |
| Historical revenue and expenditure trends | • Analyzed historical revenues by source<br>• Analyzed historical expenditures by agency and by expense type<br>• Compared historical trends (FY14 – FY16) to FY17 projections<br>• Majority of the effort was expended on the analysis of normalized Governmental Funds revenues and expenditures, as defined in the Bridge |

# EY worked closely with the Government team to analyze the detailed information supporting the Bridge

| | |
|---|---|
| On-Site Work | • EY's restructuring team commenced work in San Juan on February 15 and has worked full-time at the Hacienda offices<br>• EY submitted a detailed data/document request to the Government, and, as discussed on the prior pages, these parties were generally timely and diligent in fulfilling this request to the extent the information was readily available |
| Analyzed public, private, and system-generated data to provide observations on methodology and trends | • EY analyzed several publicly available documents as well as financial models/forecasts and various reports generated through the Government's systems<br>• EY evaluated the consistency of information presented for the Governmental Funds and Component Funds |
| FY14 – FY17 Bridge | • Encouraged enhanced mapping of actual results to Fiscal Plan and documentation of adjustments made to historical results sourced from the Government system<br>• Improved Bridge format to present revenues and expenditures by category, allowing for better visibility into trends<br>• Majority of the effort was expended on the analysis of normalized Governmental Funds revenues and expenditures, as defined in the Bridge |

# Executive Summary

Building a better
working world

# Key Takeaways

1

The Bridge was prepared by the Government at the request of the Board to confirm the Government's baseline projections for FY17. While the FY14 financial results are audited, the FY15 and FY16 information in the Bridge relies on material adjustments and estimates made by the Government that are still preliminary

2

FY17 general fund revenues are in line with historical and year-to-date trends:

- The increase in Sales and Use Tax as a result of the increase in rates in FY16 has been mostly offset by a constant decline in Income Taxes from FY14 to FY17

3

FY17 general fund expenditures could be understated by a range of $360m to $810m, based on:

- Government's Fiscal Plan observations that cost of Government has not decreased
- Analysis of historical trends of normalized general fund expenditures
    - A hypothetical extrapolation of historical general fund expenditures suggests a potential understatement of FY17 general fund expenditures in the range of $467m to $809m
- Discussions with the Government





EY

# Key Takeaway 1: FY15 and FY16 information relies on material adjustments and estimates made by the Government that are still preliminary

| | |
|---|---|
| Source of FY15 and FY16 information | • The FY15 and FY16 data was initially sourced from the Commonwealth Financial Information and Operating Data Report dated December 2016<br>• The Government determined that this source had significant estimates and adjustments, making it unreliable, and decided to source it instead from system-generated data |
| Material weaknesses in FY15 and FY16 data | • The FY15 system-generated data is preliminary and subject to audit and other adjustments<br>• The FY16 system-generated data requires account reconciliations and adjustments to become a more reliable source<br>• The information presented in the Bridge includes the Government's significant adjustments to the system-generated data, and includes material estimates without adequate supporting documentation<br>    • Accrual and other adjustments have not been completed for FY16. The Government's assumption in the Bridge is that FY16 accrual adjustments will be the same as FY15 adjustments<br>    • Certain FY16 accounts were adjusted to reflect a consistent trend as compared to FY15, without further documentation<br>    • Certain FY15 entries were reclassified to FY16 as a result of an incorrect bank reconciliation adjustment |

The absolute value of manual adjustments to system-generated data were as follows:

- $663m in FY15
- $1,668m in FY16

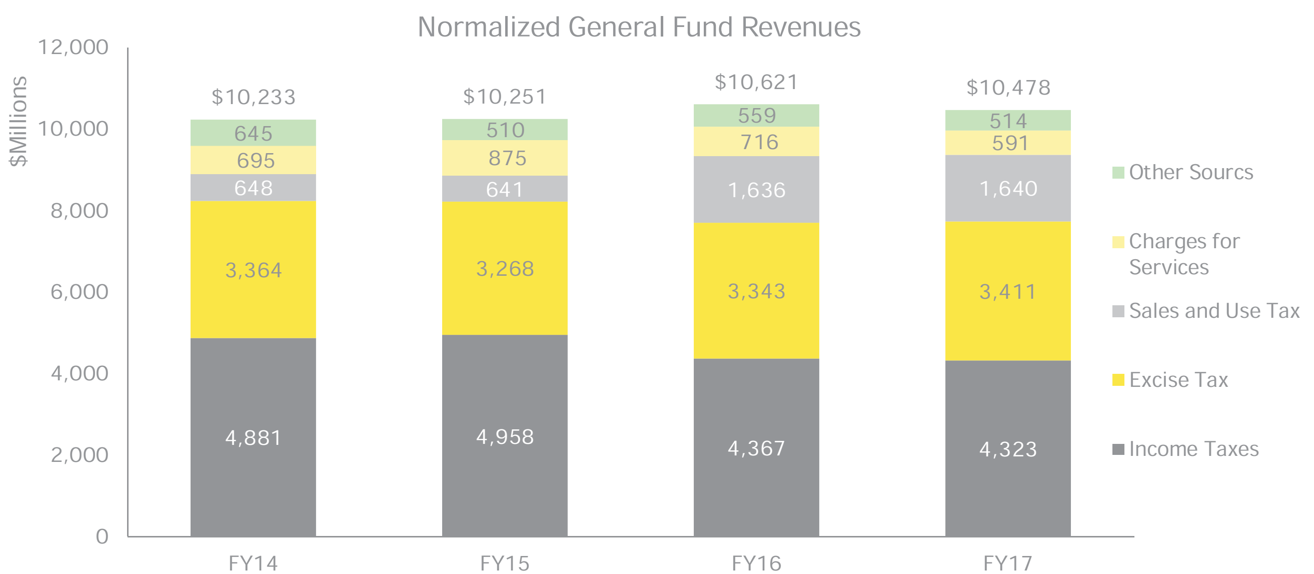


EY

# Key Takeaway 2:
# FY17 general fund revenues are in line with historical and year-to-date trends

The following chart represents the "Normalized General Fund Revenue" (includes Special Revenue Fund Revenues), broken out by major revenue sources (inclusive of applicable adjustments).

General Fund revenues show a modest increase from FY14 to FY17, driven by the increase in SUT rate, which was mostly offset by decreases in income taxes and other revenues



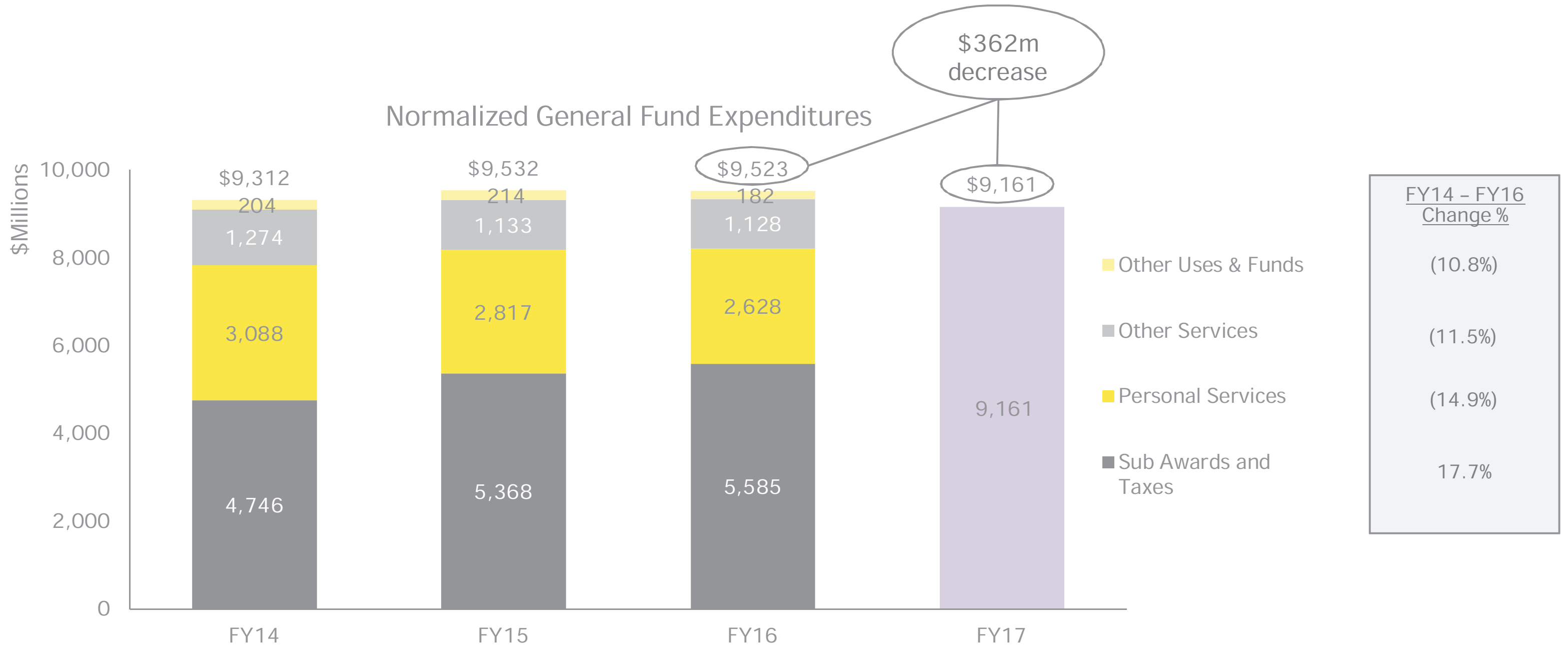

| FY14 – FY17 Change % | |
|---|---|
| Other Sourcs | (20.3%) |
| Charges for Services | (15.0%) |
| Sales and Use Tax | 153.1% |
| Excise Tax | 1.4% |
| Income Taxes | (11.4%) |

Source: PRIFAS, Fiscal Plan

# Key Takeaway 3: FY17 expenditures could be understated by a range of $360m to $810m FY17 general fund expenditures show a $362m reduction as compared to FY16

The following chart represents the "Normalized General Fund Expenditures" (includes Special Revenue Fund Expenditures) broken out by major expenditure categories (inclusive of applicable adjustments). Note that data for FY17 is not available in comparable detail.

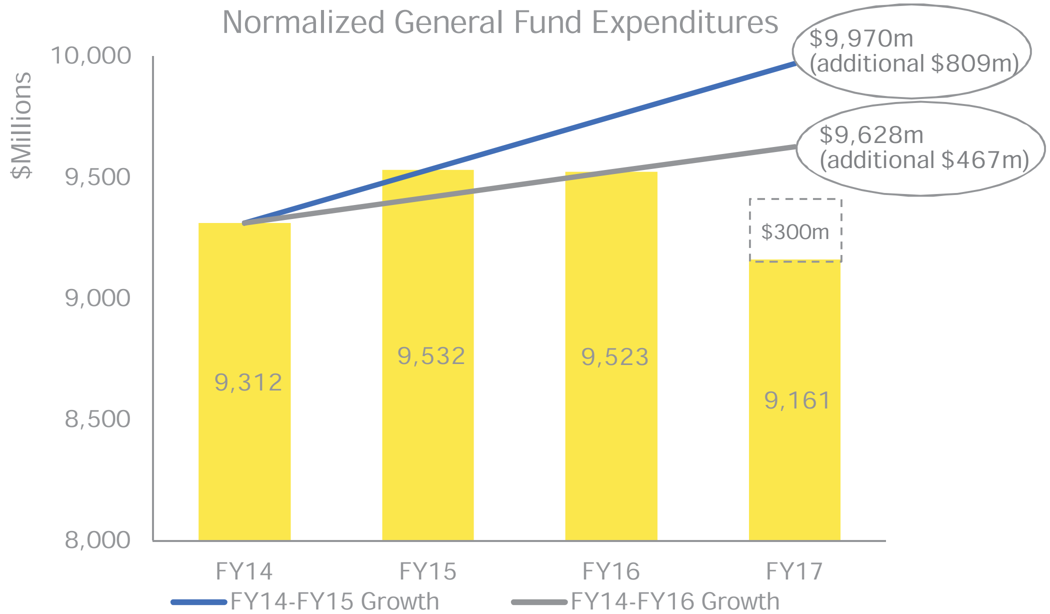
Total operating expenditures have increased from FY14 to FY16 despite reductions in payroll and other services




Source: PRIFAS, Fiscal Plan Comparison to Historical Results

# Key Takeaway 3: A hypothetical extrapolation of historical expenditures suggests a potential understatement in the range of $467m to $809m

- A hypothetical extrapolation of historical general fund expenditures suggests a potential understatement of general fund expenditures in the FY17 projections
    - A two year trend (FY14-FY16) results in FY17 expenditures of $9,628m, a potential understatement of $467m
    - A two year trend (FY14-FY15) results in FY17 expenditures of $9,970m, a potential understatement of $809m
- It is important to note that the FY17 expenditures of $9,161 exclude a "Reconciliation Adjustment" of $300m, that would partially offset the potential understatement




Source: Fiscal Plan Comparison to Historical Results

- The potential expenditure understatement could be mitigated by expenditure reduction initiatives undertaken by the Government since FY15, including but not limited to:
    - School consolidations and reduction in school transportation costs
    - Payroll expense reductions (attrition, Christmas bonus, elimination of excess sick leave payment)
    - Freeze of automatic increases on budget formulas and CBA wage increases
- The financial impact of these initiatives remains uncertain. However, the Fiscal Plan indicates that:
    - The cost of government has increased (page 5 of Fiscal Plan)
    - The reduction in public sector workforce has not translated to payroll-related expenditure reductions given the employment of temporary hires and compensation raises (page 39 of Fiscal Plan)

# Bridge Analysis

EY
Building a better
working world

# Summary version of the Bridge as provided on February 28th

Fiscal Plan Governmental Funds Projections - Modified Accrual ($ millions)

| | | Historical | | | Fiscal Plan |
|---|---|---|---|---|---|
| | | 2014A | 2015A | 2016A | 2017P |
| | Governmental Funds Revenues | | | | |
| 1 | General Fund Revenue | $10,644 | $10,511 | $10,792 | $10,496 |
| 2 | Federal Funds Revenue | 6,093 | 6,216 | 5,986 | 6,020 |
| 3 | Adjustments | (411) | (260) | (171) | (18) |
| 4 | Subtotal General Fund | 16,326 | 16,466 | 16,607 | 16,498 |
| 5 | Other Governmental Funds Revenue | $826 | $883 | $954 | $942 |
| 6 | Adjustments | (53) | (55) | (57) | (117) |
| 7 | Subtotal Other Governmental Funds Revenue | 773 | 828 | 896 | 825 |
| 8 | Adjusted Governmental Funds Revenues (Lines 4 + 7) | $17,099 | $17,295 | $17,503 | $17,323 |
| | Governmental Funds Expenditures | | | | |
| 9 | General Fund (ex. Debt Service, Capital, Pensions and SUT (FAM portion) | $10,182 | $10,139 | $9,974 | $9,698 |
| 10 | Federal Funds Expenditures | 5,766 | 5,930 | 5,954 | 6,000 |
| 11 | Adjustments | (870) | (607) | (451) | (537) |
| 12 | Subtotal General Fund (ex. Debt Service, Capital, Pensions and SUT (FAM portion) | 15,079 | 15,462 | 15,477 | 15,161 |
| 13 | General Fund (Debt Service, Capital, Pensions and SUT (FAM portion) | 2,324 | 351 | 105 | 2,695 |
| 14 | Adjustments | (2,296) | (331) | (77) | (2,695) |
| 15 | Subtotal General Fund (Debt Service, Capital, Pensions and SUT (FAM portion) | 28 | 21 | 28 | – |
| 16 | Subtotal General Fund | 15,106 | 15,482 | 15,505 | 15,161 |
| 17 | Non-major Governmental Funds | $3,096 | $2,942 | $2,341 | $159 |
| 18 | Adjustments | (2,932) | (2,817) | (2,203) | – |
| 19 | Subtotal Non-major Governmental Funds | 164 | 125 | 138 | 159 |
| 20 | Adjusted Governmental Funds Expenditures (Lines 16 + 19) | $15,270 | $15,607 | $15,643 | $15,320 |
| 21 | Normalized Governmental Funds, Net (Lines 8 - 20) | $1,829 | $1,687 | $1,860 | $2,003 |

Memo: For purposes of illustrative analysis, Federal Funds Revenue and Expenditures were excluded to normalize revenues and expenditures.

| | | 2014A | 2015A | 2016A | 2017P |
|---|---|---|---|---|---|
| 22 | Normalized Revenues (Lines 4 - 2) | $10,233 | $10,251 | $10,621 | $10,478 |
| 23 | Normalized Expenditures (Lines 12 - 10) | $9,312 | $9,532 | $9,523 | $9,161 |

Source: Fiscal Plan Comparison to Historical Results

# FY14 is based on audited financials. Material assumptions and adjustments impact the reliability of the FY15 and FY16 results

| | FY14 | FY15 | FY16 | FY17 |
|---|---|---|---|---|
| Source of Data | • Revenue: 2014 Audited Financial Statements, Commonwealth report<br>• Expenditures for General Fund: Based on the 2014 Audited Financial Statements and the Commonwealth report. Itemization was prepared by Government.<br>• Expenditures for Blended Component Units: 2014 Audited Financial Statements | • Revenues and Expenditures where system-generated<br>• System data contains most adjustments but is lacking audit adjustments | • Both Revenues and Expenditures where system-generated<br>• FY16 data is very preliminary and required significant adjustments | • Fiscal Plan |
| Quality of data | • High for Revenue and blended component units<br>• Medium for Expenditures. Itemization prepared by Government and cannot be verified via the 2014 Audited Financial Statements | • Low - Audit adjustments have not been yet developed and recorded | • Low – Government needs to reconcile accounts and record adjustments to get the data to be audit-ready | • Based on FY17 Budget<br>• Expenditures could be understated |
| Discrete Component Units ("CU") source of Data | • FY14 data based on the 2014 Audited Financial Statements and the financial statements of the individual CUs | • Certain CUs have audited financials and others have draft audits | • Data for some is unavailable, for others it is either system-generated or draft audit | • Some CUs are independently forecasted and others are averages of prior years |

Source: 2014 Audited Financial Statements, Commonwealth Report, discussions with Government, Component Unit financial statements, Fiscal Plan

# Methodology: The Bridge includes normalizing adjustments with the objective of (a) reflecting operating run rates and (b) allowing for comparability to FY17 projections

**Begin: Total Governmental Activities**

- Less: Capital Outlays
- Less: Debt Service
- Less: Retirement Contributions
- Less: Working Capital Changes
- Less: Non-reoccurring items, excluded entities, and other financing sources / (uses)

**End: Normalized Governmental Activities**

Risks:

- The Government's FY15 and FY16 data is preliminary and is subject to material change
- While it is possible to assess the Government's financial adjustments, it is more difficult to confirm that all the necessary adjustments are being made

Analyses Undertaken Included:

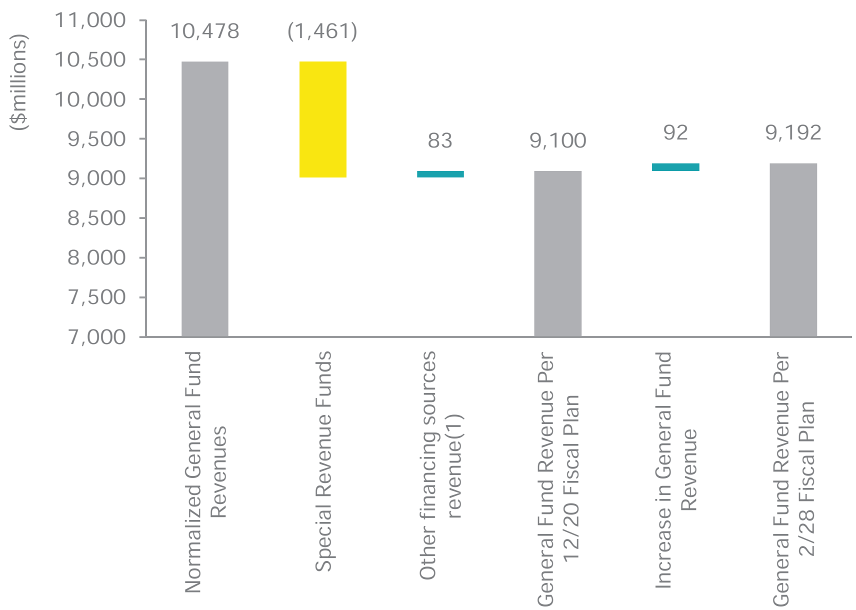
- Revision of the Bridge presentation to more closely align with the Fiscal Plan
- Analysis of key trends and adjustments to financials
- Identified items for further consideration
    - Resulted in Government making additional adjustments

Source: Fiscal Plan Comparison to Historical Results

# Various adjustments were made to walk from the normalized General Fund revenues and expenditures in this report to the 2/28 Fiscal Plan projections

## Normalized revenues to 2/28 Fiscal Plan

- The chart below details the walk from normalized general fund revenues to general fund revenues in the 2/28 Fiscal Plan
- Revenue in the 2/28 Fiscal Plan increased by $92m when compared to the December Fiscal Plan reflecting an update based on year-to-date activity

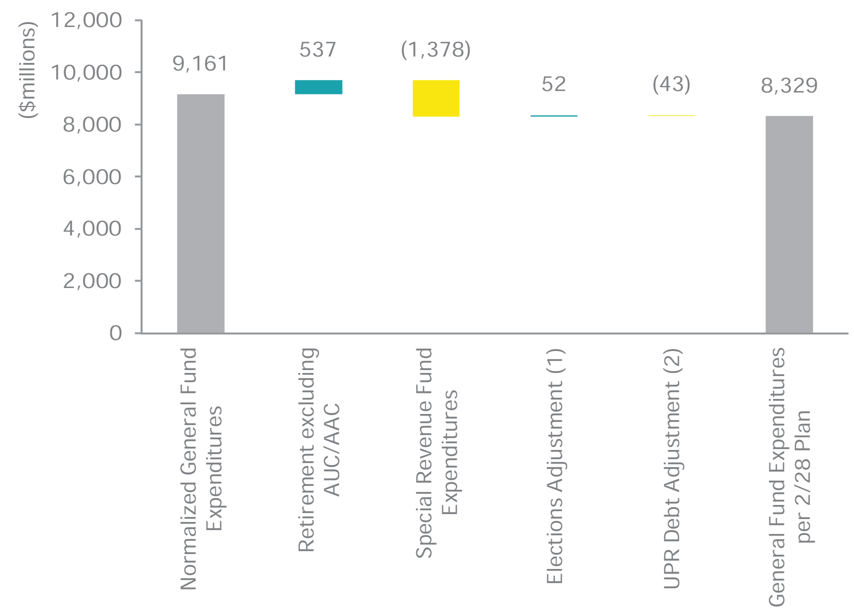



(1) Other Financing Sources revenue was excluded from the bridge

Source: Fiscal Plan Comparison to Historical Results, 2/28 Fiscal Plan

## Normalized expenditures to 2/28 Fiscal Plan

- The chart below details the walk from normalized general fund expenditures to general fund expenditures in the 2/28 Fiscal Plan
- General Fund Expenditures remain at the same level in the two Fiscal Plans




(1) "Elections" expenses were excluded from the Bridge as they only occur every fourth year
(2) Given that the University of Puerto Rico ("UPR") cannot make debt payments without the appropriated funds from the Government, the Fiscal Plan treats $43m of the UPR appropriation as debt. For purposes of the Bridge, the $43m was included to be more comparable to historical years

# Various measures and formal legislative changes have impacted historical results that directly impact the FY17 projection

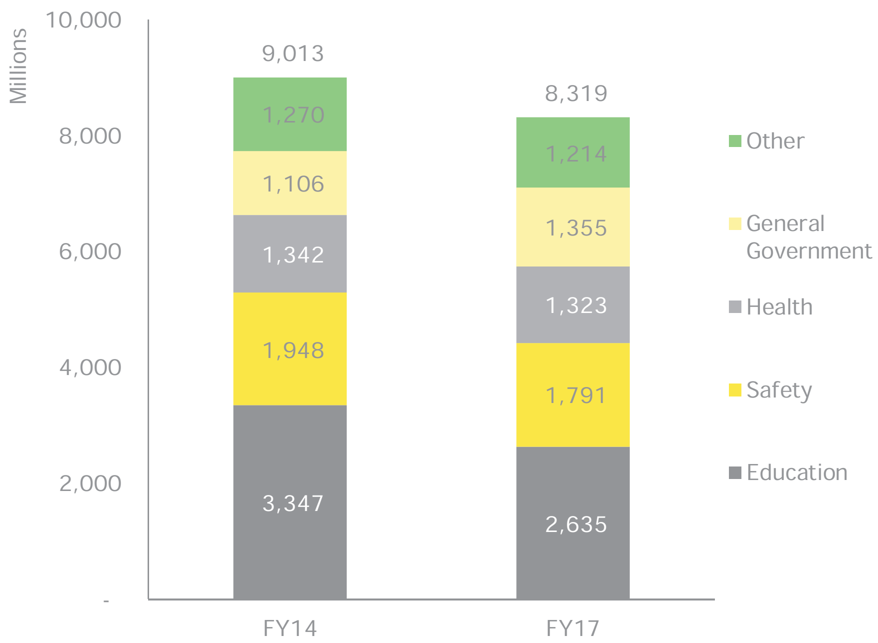
| | |
|---|---|
| Act No. 66-2014 | • Enacted in June 2014 to freeze new hires, salaries, utility rates paid to PRASA, and formula-based appropriations (due to expire in June 2017)<br>• The Fiscal Plan extends most of Act 66's fiscal control measures and proposes to permanently repeal formula appropriations and convert them to fixed amounts adjusted annually by inflation |
| Sales and Use Tax | • In 2016, Sales and Use Tax increased from 7.0% to 11.5%, resulting in a substantial increase in related revenues (approximately \$641m in 2015 to approximately \$1.6b in 2016 (per the Bridge))<br>• The Fiscal Plan assumes approximately \$1.6b in FY17 |
| Petroleum Tax | • Petroleum products tax increased from \$9.25 to \$15.50 per barrel in 2015, increasing revenues to be used for debt service on debt raised by HTA and PRIFA<br>• The Fiscal Plan assumes this tax increase in FY17 |
| General revenue and expenditure measures | • Various revenue enhancement and cost control measures undertaken from FY14 through FY16 that impact FY17<br>• The Fiscal Plan assumes the continuation of the elimination of earned income tax credit, reduction in senior citizen bonus, reduction in school transportation costs and school consolidations, judicial and legislative budget reductions, freezing of utility payments, incremental payroll expense reductions, etc. |

Source: Commonwealth of Puerto Rico Fiscal Plan (October 14, 2016), No. 66-2014 (Approved June 17, 2014), Bloomberg.com, discussions with Government

# A comparison of FY14 and FY17 expenditures by agency shows a significant decline in Department of Education expenditures

- The reduction in Department of Education expenditure is partly driven by reductions in salary, transportation-related expenditures, and teaching materials costs

FY14 to FY17 Comparison




FY 14

- Based on General Fund (Operating Fund) per Audited Financial Statements
- Excludes:
  - Transfer Outs for Debt Service (per Audited Financial Statements)
  - AUC / AAC (per Bridge)
  - GDB appropriated debt (per Bridge)

FY 17

- Based on "Subtotal General Fund (ex. Debt Service, Capital, Pensions and SUT (FAM portion))" (per Bridge)
- Excludes:
  - Special Revenue Fund (per Fiscal Plan)

Source: 2017 Adopted Budget, Fiscal Plan Comparison to Historical Results

# Appendix

Building a better
working world

# (A) Analysis of Governmental Funds

Building a better
working world

# There have been five versions of the Bridge submitted in the last four weeks, with adjustments amounting to hundreds of millions of dollars

| | Date | Gov. Funds – Change in Net Position ($ in millions) | | | | Comments |
|---|---|---|---|---|---|---|
| | | FY14 | FY15 | FY16 | FY17 | |
| v1 | Jan 28th | $963 | $1,030 | $1,419 | $1,318 | • FY14 data sourced from the Audited Financial Statements<br>• FY17 sourced from Fiscal Plan<br>• FY15 and FY16 data sourced mostly from Commonwealth Financial Information and Operating Data Report from December 2016<br>• Commonwealth report included significant estimates for FY15 and FY16 |
| v2 | Feb 15th | $1,600 | $1,221 | $3,117 | $2,022 | • Pension contributions were subtracted from Change in Net Position.<br>• $167m of debt service in FY17 was corrected<br>• FY15 and FY16 data sourced from system-generated information<br>• FY15 data is almost ready to be audited and therefore appears to be more reliable than the FY16 data<br>• FY16 data requires additional work to be a more reliable source of information |
| v3 | Feb 22nd | $1,248 | $880 | $1,089 | $1,468 | • Pension contributions were added to expenditures due to lack of clarity around historical contributions<br>• FY14 accruals timing difference removed<br>• FY15 and FY16 include material adjustments to system-generated data |
| v4 | Feb 27th | $1,829 | $1,754 | $1,971 | $2,003 | • Material manual adjustments were made to FY15 and FY16 data to soften revenue and expenditure trends |
| v5 | Feb 28th | $1,829 | $1,687 | $1,860 | $2,003 | • Refinement of manual adjustments to FY15 and FY16 data to soften revenue and expenditure trends |

# Certain entities were excluded from the Bridge analysis to make it consistent with the Fiscal Plan projections

See below for the entities that were included and excluded from the analyses:

| | Governmental Activities | Component Units |
|---|---|---|
| Included | • General Fund :<br>  • General Operating Fund<br>  • Entities with Independent Treasuries<br>  • Non Budgetary Funds (Special Revenue Funds, Internal Revenue Funds and Other General-Type Funds)<br>• Blended Component Units<br>• Other Governmental Funds: Debt Service and Capital Projects | • Business-Type Activities<br>• Discretely Presented Component Units<br>• Fiduciary Funds (retirement system fiduciary funds)<br>• (See Appendix B for complete list of included component units) |
| Excluded | • The Children's Trust Fund (Blended Component Unit) | • Business-Type Activities Excluded:<br>  • Water Pollution Control Revolving Fund<br>  • Safe Drinking Water Treatment Revolving Loan Fund<br>• Discretely Presented Component Units Excluded:<br>  • Aqueduct and Sewer Authority (PRASA)<br>  • Electric Power Authority (PREPA)<br>  • Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (COSSEC)<br>  • Municipal Finance Agency (MFA)<br>• Fiduciary Funds Excluded:<br>  • Agency Fund (Special Deposit Fund) |

Source: Fiscal Plan Comparison to Historical Results

# EY analyzed the Bridge revenue methodology and specific adjustments to determine if the normalization is inclusive of all the correct items

EY compared revenue details to source documents and analyzed the normalizing adjustments for consistency in presentation.

In addition, see Appendix C for a detailed explanation of the line items in the Bridge.

| | FY14 | FY15 & FY16 | FY17 |
|---|---|---|---|
| Governmental Fund Revenue | • EY confirmed each line item to the 2014 Audited Financial Statements and to the Commonwealth Report<br>• EY analyzed system-generated detail by source | • EY analyzed the system-generated revenue by source to:<br>  • Understand historical revenue trends<br>  • Understand adjustments made to system-generated revenue | • EY confirmed each Bridge line item to the Fiscal Plan source |
| Normalization Adjustments | • EY analyzed each adjustment to:<br>  • Confirm the adjustment was consistent across each period<br>  • Confirm the adjustment was consistent with the methodology used to develop the Fiscal Plan | | |

# EY analyzed the Bridge expenditure methodology and specific adjustments to determine if the normalization is inclusive of all the correct items

EY analyzed the expenditures in each period included in the Bridge.

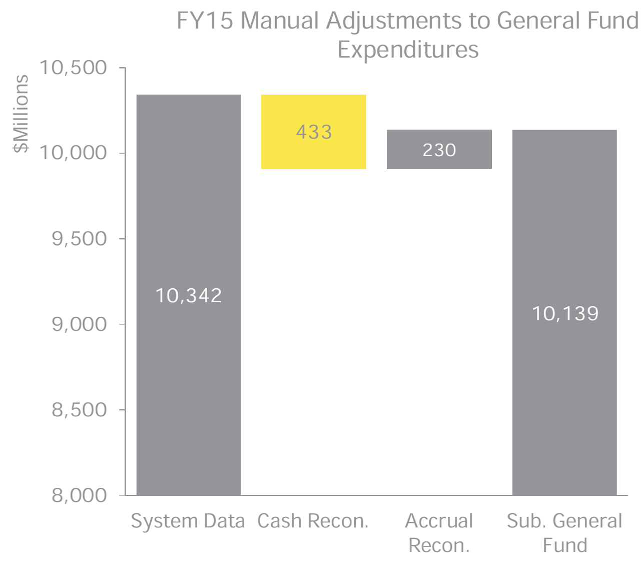
In addition, see Appendix C for a detailed explanation of the line items in the Bridge.

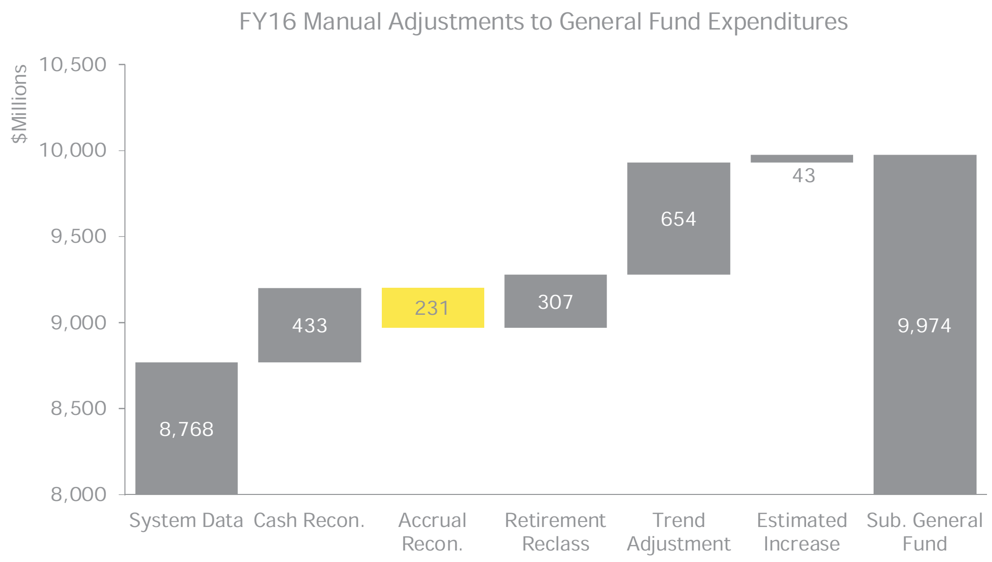
| | FY14 | FY15 & FY16 | FY17 |
|---|---|---|---|
| Governmental Fund Expenditures | • EY analyzed the system-generated expenditures by agency and expense type | • EY analyzed the system-generated expenditures by agency and concept of spend to:<br>• Understand historical expenditure trends<br>• Understand adjustments made to system-generated expenditures | • EY analyzed the FY17 Adopted Budget and the General Fund expenditures in the Fiscal Plan |
| Normalization Adjustments | • EY analyzed each adjustment to:<br>• Confirm the adjustment was consistent across each period<br>• Confirm the adjustment was consistent with the methodology used to develop the Fiscal Plan | | |

# FY15 and FY16 information was sourced from the Government's accounting system. Material adjustments were made to system data to arrive at the expenditures in the Bridge

Material manual adjustments were made to FY15 and FY16 to account for account reconciliations, accruals and reclassifications.

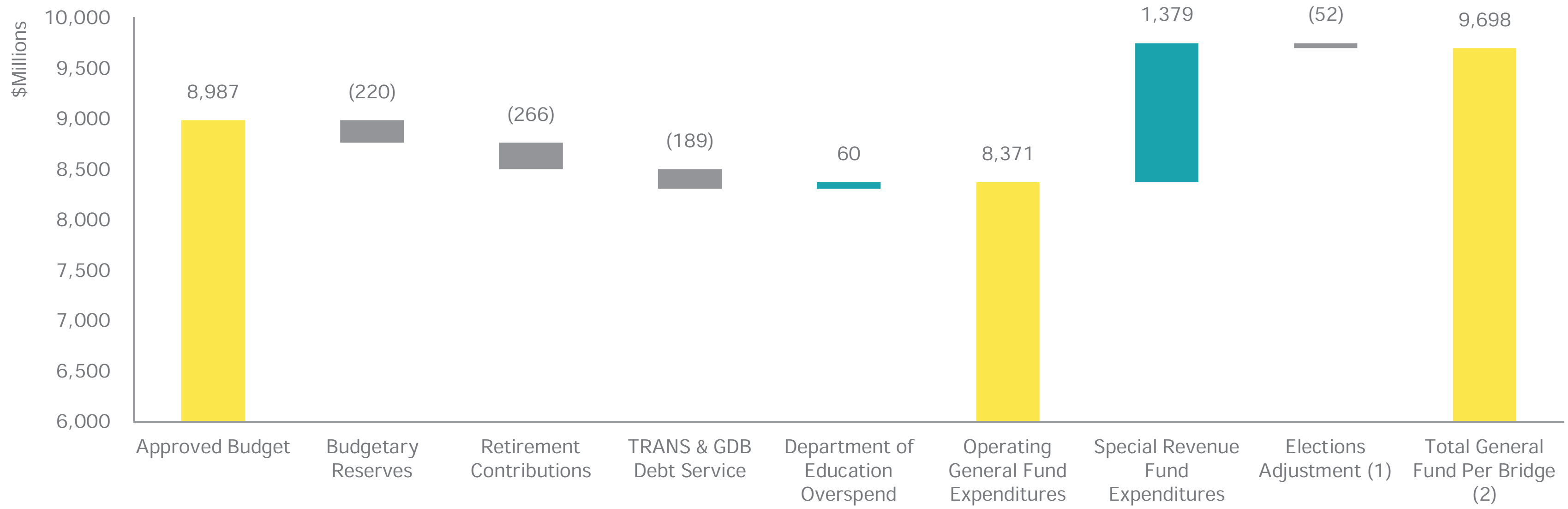
- FY15 data is in the process of being analyzed in order to have it ready to be audited
- FY16 data is very raw and required more than $1 billion in adjustments to arrive at normalized results




Source: Fiscal Plan Comparison to Historical Results, discussions with Government, PRIFAS

# The FY17 Fiscal Plan is based on the FY17 Approved Budget with the addition of certain adjustments



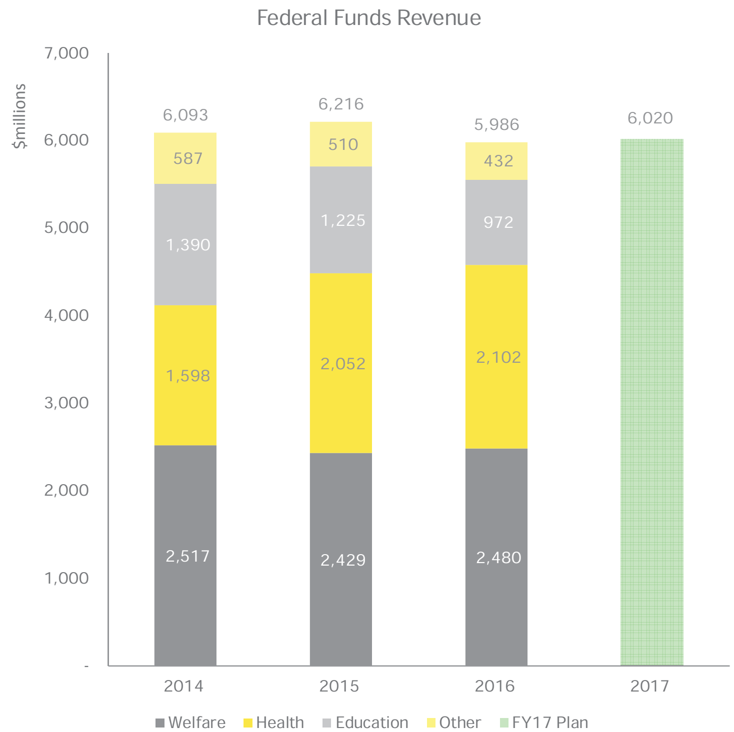

(1) "Elections" expenses were excluded from the Bridge as they only occur every fourth year
(2) Given that the University of Puerto Rico ("UPR") cannot make debt payments without the appropriated funds from the Government, the Fiscal Plan treats $43m of the UPR appropriation as debt. For purposes of the Bridge, the $43m was included to be more comparable to historical years

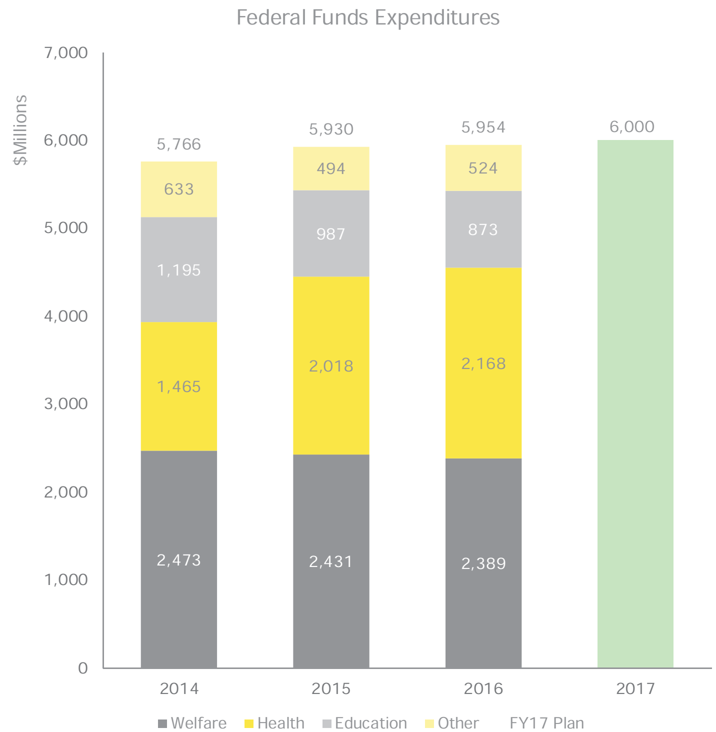
Source: 2017 Adopted Budget, Fiscal Plan Comparison to Historical Results

# Historical Federal Funds revenue trends are consistent with historical Federal Funds expenditure trends

EY analyzed the revenue and expenditure line items for Federal Funds to compare if the historical trends for FY14 – FY16 were consistent.

- Health-related expenditures increased by approximately $700M, driven almost entirely by an increase in payments for ASES health premiums
- Education-related expenditures decreased by approximately $322M, driven by a reduction in salaries, professional services, and food




Source: PRIFAS and Fiscal Plan

# (B) Analysis of Component Units

Building a better
working world

# EY analyzed methodology used to present the Component Units in the Bridge

- EY analyzed all material normalization adjustments to historical financials and Fiscal Plan Projections for Component Units
- EY analyzed the financial models used for independently forecasted component units
  - FY15 and FY16 financial information is preliminary or unavailable making it challenging to validate the FY17 trends
  - Supporting information required to explain the trends for the Highway Transportation Authority and the Puerto Rico Industrial Company was not provided
  - Expenditure trends for several Component Units included increased pension costs and reduced utility expenses partially due to decreasing rates

Historical Trend of Change in Net Position - Component Unit / Enterprise Funds ($ Millions)

| | | Historical | | | Fiscal Plan |
|---|---|---|---|---|---|
| | | 2014A | 2015A | 2016A | 2017P |
| | Change in Net Position | | | | |
| 1 | Component Units | ($3,471) | ($458) | ($618) | $647 |
| 2 | Enterprise Funds | (6) | 118 | 108 | (17) |
| 3 | Total Change in Net Position | ($3,477) | ($340) | ($511) | $630 |
| 4 | ( - ) Entities Excluded from Fiscal Plan | 315 | 316 | 455 | (62) |
| 5 | Total for Entities Incl. in Fiscal Plan | ($3,162) | ($24) | ($56) | $569 |
| 6 | ( + ) Depreciation, Amortization & Interest Expense | 1,444 | 1,467 | 1,349 | 0 |
| 7 | ( + ) Normalization Adjustments | 2,551 | (363) | (256) | 143 |
| 8 | Normalized Change in Net Position | $832 | $1,080 | $1,037 | $712 |
| 9 | Less: GDB (Normalized Change in Net Position) | ($252) | ($286) | ($243) | $98 |
| 10 | Normalized Change in Net Position Ex. GDB | $580 | $794 | $794 | $810 |

Source: Fiscal Plan Comparison to Historical Results

# Component units included in the plan

## Major Component Units Included in the Fiscal Plan

- Government Development Bank
- Highway Transportation Authority
- University of Puerto Rico
- Puerto Rico Health Insurance Administration

## Enterprise Funds (Business-Type Activities)

- Lotteries
- Puerto Rico Medical Service Administration
- 9-1-1 Fund

## Non-Major Component Units Included in the Fiscal Plan

- Puerto Rico Ports Authority
- Puerto Rico Industrial Development Company
- Company for the Integral Development of the "Península de Cantera"
- Integrated Transit Authority
- Port of the Americas Authority
- Puerto Rico Tourism Company
- Agricultural Enterprises Development Administration
- Puerto Rico Public Private Partnerships Authority
- Puerto Rico Council on Education
- Puerto Rico Convention Center District Authority
- Puerto Rico Conservatory of Music Corporation
- Puerto Rico Public Broadcasting Corporation
- Farm Insurance Corporation of Puerto Rico
- Corporation for the "Caño Martin Peña" Enlace Project
- Corporation for the Development of the Arts, Science and Film Industry
- Puerto Rico Trade and Export Company
- Land Authority of Puerto Rico
- Local Redevelopment Authority of the Lands and Facilities of Naval Station
- Fine Arts Center Corporation
- Puerto Rico School of Plastic Arts
- National Parks Company of Puerto Rico
- Cardiovascular Center Corporation of Puerto Rico and the Caribbean
- University of Puerto Rico Comprehensive Cancer Center
- Puerto Rico Land Administration
- Puerto Rico Telephone Authority
- Musical Arts Corporation
- AFICA
- Employment and Training Enterprises Corporation
- Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
- Institute of Puerto Rican Culture
- Culebra Conservation and Development Authority
- Solid Waste Authority
- Automobile Accidents Compensation Administration
- Institutional Trust of the National Guard of Puerto Rico

# Evaluation of independently forecasted Major Component units

| Component Unit | Normalized EBITDA | | | Fiscal Plan FY17 | Comments |
|---|---|---|---|---|---|
| | FY14 | FY15 | FY16 | | |
| Puerto Rico Health Insurance Administration ("ASES") | ($82) | $16 | $87 | $134 | • In FY15, ASES changed from a "third-party administrator" model in which the Government is responsible for the cost of health services provided, to a "managed care organization" in which ASES pays the insurers a fixed premium for each insured beneficiary and the insurers are responsible for the cost of such services<br>• This change resulted in higher Federal Funds reimbursements<br>• In February 2017, ASES reaffirmed the FY17 financial projections |
| University of Puerto Rico ("UPR") | $106 | $139 | $159 | $109 | • FY14 – FY16 revenue has remained fairly steady while expenditures have decreased primarily due to salaries and utilities<br>• The FY17 Fiscal Plan includes increased payroll costs and higher utilities expenditure levels compared to FY16 |
| Government Development Bank for Puerto Rico ("GDB") | $252 | $286 | $243 | ($98) | • GDB previously served as interim lender to Government entities but no longer performs this role<br>• As a result, in FY17, GDB is no longer projected to receive revenue from most of its previous sources of income including its loans to select public corporations and its investment income<br>• However, the GDB continues to project income from government municipalities and a small portfolio of private entities and certain loans guaranteed by the Tourism Development Fund. This income is projected to fall by 24% from the FY16 level. Total revenue has fallen by 57%<br>• Although the GDB is no longer underwriting new loans, it but will still honor limited deposit withdrawal requests from municipalities and entities outside the FEGP<br>• GDB's operating expenses have fallen by 40% |
| Highway Transportation Authority ("HTA") | $501 | $566 | $482 | $540 | • Supporting information required to explain the projected $58m increase from FY16 to FY17 has not been provided |

Source: Fiscal Plan Comparison to Historical Results
Note: Yellow highlighted cells indicated financial data is unavailable and green highlighted cells indicate data is preliminary

# Evaluation of independently forecasted Non- Major Component units

| Component Unit | Normalized EBITDA | | | Fiscal Plan FY17 | Comments |
|---|---|---|---|---|---|
| | FY14 | FY15 | FY16 | | |
| Autoridad de los Puertos ("Port Authority") | ($2) | ($1) | $9 | $9 | • FY17 projections are in line with FY16<br>• The improvement in FY16 EBITDA is primarily due to a decrease in general and administrative expenses due in part to lower rates for light and power |
| Compañía de Turismo ("Tourism") | $12 | $7 | $15 | $3 | • FY17 Fiscal Plan EBITDA decreases due to slightly lower total revenue and higher expenditures related to pension contribution |
| Agricultural Enterprises Development Administration ("AEDA") | $20 | $3 | $3 | $1 | • FY13 – FY16 Revenue and expenditures have remained fairly steady except for the increase in pension expense (~$9.6 million/year) beginning in 2015 |
| Corporacion del Centro Cardiovascular de Puerto Rico y del Caribe ("Cardio") | ($2) | ($1) | ($6) | ($5) | • Net patient revenue has fallen from FY14 – FY16 due to insurance carriers purchasing devices directly. Government expects to slowly begin reversing this trend in FY17 and beyond with nuclear medicine, ER redesign, and medical tourism growth.<br>• Otherwise, the historical financials have been rather consistent |
| Integrated Transit Authority ("PRITA") | ($18) | ($9) | ($9) | ($31) | • PRITA was created to integrate the Puerto Rico and Municipal Island Maritime Transport Authority and the Metropolitan Bus Authority. These entities were reported separately in FY14 and FY15<br>• PRITA commenced operations in FY16 and resulted in additional management overhead expenses which impacted FY17 |
| Puerto Rico Industrial Development Company ("PRIDCO") | $20 | $16 | $23 | $22 | • Supporting information required to explain the increase from FY15 to FY16 was not provided |

Source: Fiscal Plan Comparison to Historical Results
Note: Yellow highlighted cells indicated financial data is unavailable and green highlighted cells indicate data is preliminary

# Evaluation of independently forecasted Enterprise Funds units

| Entity | Normalized EBITDA | | | Fiscal Plan FY17 | Comments |
|---|---|---|---|---|---|
| | FY14 | FY15 | FY16 | | |
| Lotteries | $4 | $17 | $17 | $0 | • FY17 Normalized EBITDA decreases compared to historical as the Plan includes lower revenues<br>• Actual Electronic Lottery revenue through January 2017 is also lower compared to FY16, reaffirming the lower revenue estimate in the Plan |
| Puerto Rico Medical Services Administration | ($28) | ($8) | ($17) | ($25) | • FY17 revenue is fairly consistent with FY16 however, expenditures have increased due to pension costs |
| 9-1-1 Fund | ($4) | ($4) | ($5) | ($6) | • FY17 revenues and expenditures are in line with normalized historical financials. |

Source: Fiscal Plan Comparison to Historical Results
Note: Yellow highlighted cells indicated financial data is unavailable and green highlighted cells indicate data is preliminary

# (C) Bridge Line Item Explanations

# Revenue methodology summary by line item

| | Governmental Funds Revenues | Comment |
|---|---|---|
| 1 | Income Taxes | Major items include: Individuals, Corporations, Withholdings from non-residents |
| 2 | Sales and Use Tax | General Fund Only |
| 3 | Excise Taxes | Major items include: Alcoholic Beverages, Act 154, Tobacco and Motor Vehicles |
| 4 | Property Taxes | Includes only an additional real property tax on residential and commercial real properties with appraised values in excess of approximately $210,000 |
| 5 | Other Taxes | Major items include: Motor vehicle licenses, slot machines, alcoholic beverage license |
| 6 | Charges for Services | Fees for Trademarks, Permits, Documents Rights |
| 7 | Revenue from Global Tobacco Settlement | Related to the Children's Trust |
| 8 | Revenue from Component Units | Primarily includes transfers from the State Insurance Fund, the Tourism Company and the Puerto Rico Automobile Accidents Compensation Administration |
| 9 | Intergovernmental Revenue | Primarily includes Federal Grants and Subsidies |
| 10 | Offshore Rum Excise Tax | Includes customs duties collected in Puerto Rico and excise taxes on shipments of rum from Puerto Rico to the United States mainland |
| 11 | Interest and Investment Earnings | Consists primarily of interest, dividends and other distributions on investments held by the Commonwealth and its Blended Component Units |
| 12 | Other | Includes some general fund and special revenue fund items |
| 13 | Subtotal General Fund | Sum of lines 1-12 |
| 14 | Sales and Use Tax (Debt Related) | COFINA SUT |
| 15 | Sales and Use Tax (FAM portion) | Portion of SUT tax for municipalities. This is not included in the governmental funds |
| 16 | Revenue from Component Units | Revenue related to the Puerto Rico Infrastructure Financing Authority Debt Service Fund |
| 17 | Municipal Property Tax | Property taxes are assessed, determined and collected for the benefit of the municipalities by the Municipal Revenues Collection Center ("CRIM") |
| 18 | Other Intergovernmental Revenue | Public Buildings Authority debt service revenues |
| 19 | Interest and Investment Earnings | Interest and Investment from Blended Component Units |
| 20 | Other | Other Blended Component Unit Revenue |
| 21 | Subtotal Other Governmental Funds | Sum of lines 14-20 |
| 22 | Governmental Funds Revenues | Lines 13+21 |
| | Adjustments to Governmental Funds Revenues | |
| 23 | Revenue from Global Tobacco Settlement | Removed - related to Children's Trust which is not part of the plan |
| 24 | Revenue from Component Units | Primarily transfers from the State Insurance Fund and the plan does not forecast more transfers |
| 25 | Interest and Investment Earnings | Excluded - Interest income is not considered in the fiscal plan. |
| 26 | SRF gross-up adjustment | Government adjustment to remove special revenue transferred to Component units |
| 27 | Reclassification of unemployment related transfers to "transfers in" | Removed - unemployment related transfers should be charged to "Other financing sources (uses)" |
| 28 | HTA related increase in petroleum taxes | Clawed back petroleum taxes added back to normalize historical trends |
| 29 | 2014 Special Dividend | Special dividend declared by the Compulsory Insurance Joint Association |
| 30 | Sales and Use Tax (FAM) | Portion of SUT tax for municipalities. Removed - not included in the governmental funds |
| 31 | Revenue from Component Units | Removed - related to Puerto Rico Infrastructure Financing Authority debt service |
| 32 | Other Intergovernmental Revenue | Removed - related to Public Buildings Authority debt service |
| 33 | Interest and Investment Earnings | Related to Interest which is not included in the plan |
| 34 | Adjustments to Governmental Funds Revenues | Sum of lines 23-33 |
| 35 | Adjusted Governmental Funds Revenues | Lines 22 + 34 |

Source: Commonwealth Report, Audited Financial Statements, and conversations with Management

# Expenditure methodology summary by line item

| | Governmental Funds Expenditures | Comment |
|---|---|---|
| 1 | Sub Awards and Taxes | Primarily related to subsidies to the University of Puerto Rico, Road Authority and the Health Administration, |
| 2 | Personal Services | Primarily related to salaries, payments to professionals and consultants, and temporary wages |
| 3 | Other Services | Primarily related to employee medical insurance, workers compensation and other benefits |
| 4 | Materials and Supplies | Primarily related to drugs and medicine, food, and office materials |
| 5 | Other Uses | Primarily related to computer equipment |
| 6 | Other Funds (Operating expenses ex CapEx and Debt for OMEP, CRUV, LDA, CIRIO, and PHA) | Operating expenses for entities with separate treasuries |
| 7 | Subtotal General Fund (ex. Debt Service, Capital, Pensions and SUT (FAM portion) | Sum of lines 1-6 |
| 8 | Capital Outlay | Expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets |
| 9 | Equipment Purchases | Primarily related to expenditures for computer equipment and software. However, not all expenditures meet the capitalization threshold |
| 10 | Principal | Principal payments related to long term debt, lines of credit with GDB, appropriation bonds, G.O. bonds and revenue bonds |
| 11 | Interest and Other | Interest payments on debt issued |
| 12 | Other Funds (CapEx for OMEP, CRUV, LDA, CIRIO, and PHA) | Capital expenditures for entities with separate treasuries |
| 13 | Other Funds (Debt Service for OMEP, CRUV, LDA, CIRIO, and PHA) | Debt service for entities with separate treasuries |
| 14 | Sales and Use Tax (FAM portion) | Portion of SUT tax for municipalities. This is not included in the governmental funds |
| 15 | Subtotal General Fund (Debt Service, Capital, Pensions and SUT (FAM portion) | Sum of lines 8-14 |
| 16 | Federal Funds | Expenditures related to federal grants and subsidies |
| 17 | Subtotal General Fund | Lines 7+15+16 |
| 18 | Public Buildings Authority (ex. Capital Expenditures and Debt) | General expenditures for the Public Buildings Authority (a blended component unit) |
| 19 | Infrastructure Financing Authority | General and capital expenditures for the Puerto Rico Infrastructure Financing Authority. FY15 & FY16 include the issuance of Bond Anticipation Notes. (a blended component unit) |
| 20 | Special Communities Perpetual Trust | General expenditures for the Special Communities Perpetual Trust (a blended component unit) |
| 21 | The Children's Trust | General expenditures for the Children's Trust (a blended component unit) |
| 22 | Maritime Shipping Authority | General expenditures for the Maritime Shipping Authority (a blended component unit) |
| 23 | Commonwealth of Puerto Rico | Capital projects fund for the Commonwealth of Puerto Rico |
| 24 | Capital Outlays | Capital projects for the blended component units |
| 25 | Intergovernmental | Intergovernmental expenditures for the blended component units |
| 26 | Debt Service | Principal and Interest payments for COFINA, debt service fund and blended component units |
| 27 | Subtotal Non-major Governmental Funds | Sum of lines 18-26 |
| 28 | Governmental Funds Expenditures | Lines 17+27 |

Source: Commonwealth Report, Audited Financial Statements, and conversations with Management

# Expenditure methodology summary by line item

| | Governmental Funds Expenditures | Comment |
|---|---|---|
| | Adjustments to Governmental Funds Expenditures | |
| 29 | Retirement excluding AUC/AAC | Excluded - focus of the bridge was on the operational expenditures |
| 30 | AUC/AAC | Excluded - Fiscal Plan assumes that the Commonwealth no longer makes AUC/AAC payments |
| 31 | GDB appropriated debt | Represents appropriation for GDB related debt |
| 32 | SRF gross-up adjustment | Government adjustment to remove special revenue transferred to Component units |
| 33 | HTA related increase in petroleum taxes | Clawed back petroleum taxes added back to normalize historical trends |
| 34 | Audit adjustments (unrecorded liabilities) | Government adjustment for unrecorded liabilities |
| 35 | Equipment Purchases | Excludes only the capitalized equipment expenditures that meet the capitalization threshold |
| 36 | Capital Outlay | Excluded - focus of the bridge was on operational expenditures |
| 37 | Principal | Excluded - focus of the bridge was on operational expenditures |
| 38 | Interest and Other | Excluded - focus of the bridge was on operational expenditures |
| 39 | Other Funds (CapEx) | Excluded - focus of the bridge was on operational expenditures |
| 40 | Other Funds (Debt Service) | Excluded - focus of the bridge was on operational expenditures |
| 41 | Sales and Use Tax (FAM portion) | Excluded - not part of governmental funds. |
| 42 | The Children's Trust | Excluded - Children's Trust is not part of the fiscal plan |
| 43 | Intergovernmental | Excluded - relates to capital projects for blended component units and the Children's Trust |
| 44 | Commonwealth of Puerto Rico | Excluded - relates to capital projects fund |
| 45 | Non-major Governmental Funds Capital Outlays | Excluded - relates to capital projects for blended component units |
| 46 | Infrastructure Financing Authority (HTA Transfer) | Excluded - relates to the Bond Anticipation Notes in FY15 and FY16 |
| 47 | Non-major Governmental Funds Debt Service | Excluded - relates to the blended funds principal and interest payments |
| 48 | Adjustments to Governmental Funds Expenditures | Sum of lines 29-47 |
| 49 | Adjusted Governmental Funds Expenditures | Lines 28 + 48 |
| 50 | Normalized Governmental Funds, Net | Line35 of Revenues - Line 49 of Expenditures |

Source: Commonwealth Report, Audited Financial Statements, and conversations with Management

This page intentionally left blank

# Exhibit S

GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

May 2, 2017

**Mr. José Carrión**
Chairman
Financial Oversight and Management Board

Dear Chairman Carrión:

I am hereby making this submission to the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), as appointed under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), representing that as of the date hereof the Government of Puerto Rico (the "Government") for the reasons stated below desires to effect a plan to adjust its debts under Title III of PROMESA.[1]

There are additional Government entities and instrumentalities, which under the supervision of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") pursuant to Act 2-2017, will be similarly representing to the Oversight Board a desire to effect a plan of adjustment of their debts under Title III of PROMESA. Additionally, there may be certain Government entities and instrumentalities that will seek to implement a consensual restructuring pursuant to Title VI of PROMESA. Those entities will be identified in time as necessary and appropriate.

As the Oversight Board is aware, the Government has made good-faith efforts to reach a consensual restructuring with its creditors. Unfortunately, these discussions and negotiations have not demonstrated sufficient progress so as to achieve a sustainable level of debt under the Fiscal Plan as certified by the Oversight Board on March 13, 2017 (the "Fiscal Plan"). In that regard, the Government has given its creditors access to voluminous financial information concerning the Government and its operations as related to the Fiscal Plan. In addition, the Government has made its representatives and financial advisors available to answer questions concerning its financial projections and assumptions with respect to the Fiscal Plan.

1 This representation is made to satisfy the requirement set forth in PROMESA section 302(3).

GOVERNOR OF PUERTO RICO
Ricardo Rosselló Nevares

The Government's Fiscal Plan satisfied the 14 guidelines set forth in PROMESA section 201(b) through certain revenue raising measures and significant expenditure reductions. The Fiscal Plan as implemented through the budgetary process will require great sacrifice by the people of Puerto Rico. However, Puerto Rico's creditors have not demonstrated a sufficient willingness to fairly share in such sacrifice through a necessary reduction in their debt to a sustainable level under the Fiscal Plan.

While the Government remains willing to continue to pursue good-faith dialogue and negotiations with its creditors, the recent expiration of the PROMESA stay imposed against enforcement of creditor liability claims dictates that the best course of action is for the Government to enter into Title III for the purpose of adjusting its debts to a sustainable level consistent with the Fiscal Plan. It is my hope that the Government's Title III proceedings will accelerate the negotiation process, leading to as much creditor consensus where possible and achieving where necessary a prompt and efficient judicial resolution of any issues or disputes.

Respectfully submitted,

**Ricardo Rosselló Nevares**
**Governor**

# Exhibit T

# Governor Rosselló announces protection under Title III of PROMESA to ensure essential services



Gov. Ricardo Rosselló and Elías Sánchez, Government's Representative to the Fiscal Oversight Board to the Fiscal Oversight Board (FOB) that the Government of Puerto Rico wishes to seek protection under Title III of the PROMESA Act.

After extensive discussions in good faith and the opening of the financial books of the Government of Puerto Rico to the creditors, there has not been sufficient progress in the negotiations, so that Title III of the PROMESA Act allows for a special court to restructure the public debt of Puerto Rico.

“We remain committed to maintaining negotiations in good faith to reach agreements with creditors. The best example that shows we can have dialogue is the Restructuring Support Agreement (RSA) recently established with the creditors of the Puerto Rico Electric Power Authority (PREPA). However, given the deficit that we have inherited, it is my responsibility to guarantee the best interests of the Puerto Rican people,” said the chief executive at a press conference.

Rosselló noted that during the transition hearings of the government in December of last year, it transpired that the government deficit reached $7.6 billion and not the $3.2 billion that had been reported by the previous Administration.

“We are here to address the problems of Puerto Rico, not to look at the past, and I am convinced that our Island will be able to resume the path of economic development with the correct steps by the Government and the determination of each of its residents,” added the governor.

The governor emphasized that his Administration, in a responsible manner, seeks to fulfill debt payments to the creditors of nearly $800 million per year, as it is contemplated in the Fiscal Plan certified by the FOB on March 13, 2017. This represents an 80% cut in the payment of the service of the debt originally agreed with the creditors by past administrations.

The first executive announced that there are other entities under the supervision of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) that may be seeking a consensual restructuring agreement under Title VI of the PROMESA Law.

“While the Government remains willing to continue to pursue good-faith dialogue and negotiations with its creditors, the recent expiration of the PROMESA stay imposed against enforcement of creditor liability claims dictates that the best course of action is for the Government to enter into Title III for the purpose of adjusting its debts to a sustainable level consistent with the Fiscal Plan,” expressed the governor.

“It is my hope that the Government’s Title III proceedings will accelerate the negotiation process, leading to as much creditor consensus where possible and achieving where necessary a prompt and efficient judicial resolution of any issues or disputes,” concluded Rosselló.

The governor reaffirmed that this measure guarantees the continuity of payments to government employees and suppliers.

# Exhibit U

Reorg Research

Fri 05/05/2017 15:22 PM

Puerto Rico

# AAFAF Says Title III Won't Touch Supplier Payments as Treasury Sends out $70M in Checks This Week

Fiscal Agency and Financial Advisory Authority Executive Director Gerardo Portela said Friday that the Title III filing on behalf of the commonwealth government won't affect its payments to suppliers.

"The government has the commitment and, more importantly, the ability to pay suppliers and providers as usual. All of the government's bills will be processed under the ordinary process," Portela said in an emailed statement.

Unlike in a traditional corporate bankruptcy, under Title III the government is authorized to pay suppliers and providers as contemplated in the commonwealth fiscal plan certified by the PROMESA oversight board in March.

In this manner, Title III allows the government to continue its operations without interruption regardless of whether the obligations were incurred before or after the Title III filing, according to the AAFAF chief.

"The government appreciates its suppliers and providers for their continued commitment to Puerto Rico. We will meet those payments to continue government operations as allowed under PROMESA," Portela said.

In a separate press release, Treasury Secretary Raúl Maldonado announced that $70 million in payments to suppliers went out this week.

"Our commitment is to pay suppliers as established in the fiscal plan," he said, adding that next week the Treasury expects to send out another $70 million next week, or between $14 million and $17 million per day.

The Treasury secretary said $2.5 billion in supplier payments were made through the first 10 months of fiscal 2017 (through April).

"These payments guarantee the services needed to maintain government operations," Maldonado said.

# Exhibit V

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

BY ELECTRONIC MAIL

May 31, 2017

**Natalie A. Jaresko**
Executive Director
Financial Oversight and Management Board for Puerto Rico

Dear Ms. Jaresko:

Reference is hereby made to your letter dated May 29, 2017, whereby the Fiscal Oversight and Management Board for Puerto Rico (the "FOMB") made certain revisions to the revenue forecast for the fiscal year 2018, pursuant to its statutory right under Section 202(b) of PROMESA.

The Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA"), on behalf of the Government of Puerto Rico (the "Government"), hereby requests that the certified Fiscal Plan be amended in accordance with the revised revenue forecast as follows:

- **Revised revenue estimates**. Revenues for fiscal year 2018 should be reduced by $215 million. This reduction takes into consideration the impact of various fiscal measures being enacted by the Government in fiscal year 2018. The reduction is offset by an improvement due to higher revenue collections in fiscal year 2017 the Government anticipates will reoccur in fiscal year 2018. A full list of the changes required is included in Appendix A.
- **Limitation on access to Sales and Use Tax revenues.** Fiscal year 2018 non-general fund Sales and Use Tax revenues should be reduced by $519.
- **One-time additional healthcare revenues**. As a result of the recent enactment of the Consolidated Appropriations Act in Congress (Public Law No: 115-31), Puerto Rico will receive an additional $295.9 million in one-time funding for its Medicaid program.
- **Pay-Go Reimbursements General Fund.** Additional revenue of $390 million should be added to the general fund due to pension reimbursements from other agencies and asset sales subject to continuing diligence.
- **Pay-Go Reimbursements Other Income.** Additional revenue of $344 million should be added to the other income fund due to pension reimbursements from other agencies and asset sales subject to continuing diligence.

It should be noted that the Pay-Go Reimbursements will be revenue neutral when considering the offsetting effect of the pension expense. Furthermore, the revised revenue estimates and other recent developments have been incorporated in the fiscal year 2018 proposed budget. FAFAA will be updating and forwarding the corresponding documents accordingly.

The Government is fully committed to comply with PROMESA and to put Puerto Rico on a path of sustainable economic growth. We look forward to continue this collaboration.

***Cordially,***

**Gerardo J. Portela Franco**
Executive Director

c. Elías F. Sánchez-Sifonte, Esq.
Members of the FOMB

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Appendix A[1]

| Fiscal year ending June 30 ($ in millions) | Certified FP 2018 | Revised 2018 |
|---|---|---|
| General Fund Revenues: | | |
| Individual Income Taxes | $ 1,760 | $ 1,800 |
| Corporate Income Taxes | 1,473 | 1,510 |
| Non-Resident Withholdings | 666 | 640 |
| Alcoholic Beverages | 260 | 257 |
| Cigarettes | 109 | 110 |
| Motor Vehicles | 321 | 318 |
| Excises on Off-Shore Shipment Rum | 173 | 149 |
| PayGo Reimbursement | - | 390 |
| Other General Fund Revenue | 386 | 363 |
| General Fund Portion of SUT (10.5%) | 1,655 | 1,567 |
| Net Act 154 | 1,556 | 1,533 |
| **General Fund Revenue** | **$ 8,359** | **$ 8,637** |
| Additional SUT (COFINA, FAM & Cine) | 877 | 358 |
| PayGo Reimbursement | - | 344 |
| Other Tax Revenues | 1,396 | 1,294 |
| Other Non-Tax Revenues | 576 | 575 |
| Federal Transfers | 7,168 | 7,168 |
| Loss of Affordable Care Act ("ACA") Funding | (865) | (865) |
| Additional Medicaid Funding | - | 296 |
| **Revenues before Measures** | **$ 17,511** | **$ 17,807** |
| Revenue Measures | $ 924 | $ 924 |
| **Total Revenues after Measures** | **$ 18,435** | **$ 18,731** |

[1] As provided by the FOMB on its letter dated May 29, 2017.

# Exhibit X

**Mensaje de Presupuesto del Gobernador de Puerto Rico**

**Honorable Ricardo Rosselló Nevares**

**El Capitolio, San Juan, Puerto Rico**

31 de mayo de 2017

Conforme lo dispone la Ley federal de Supervisión, Administración y Estabilidad Económica de Puerto Rico, conocida como "PROMESA", y quedando una vez más evidenciada la condición colonial en que se encuentra Puerto Rico, el pasado 30 abril referimos a la Junta de Supervisión Fiscal el Borrador del Presupuesto que hoy someto ante la consideración de la Asamblea Legislativa.

Al primer presupuesto del nuevo gobierno le antecede la falta de controles en el gasto público; unido a las erradas políticas de improvisación contributivas, y a la irresponsable administración de las finanzas públicas durante el pasado. Afortunadamente, la política pública de nuestra Administración es precisamente lo contrario.

Este presupuesto que les presento, es uno completo, validado, que por su naturaleza contiene mucha profundidad. Esta noche les presentare los elementos globales y fundamentales del mismo.

Durante el proceso de análisis del presupuesto, contarán con la participación del equipo fiscal y económico de nuestra Administración, a los fines de aclarar cualquier duda sobre el proyecto que hoy estamos sometiendo ante su consideración. No obstante, les adelanto que los números reflejan lo que hemos estado discutiendo por los últimos meses y lo que fue certificado en nuestro plan fiscal. Adicionalmente, como medida de transparencia total, nuestro presupuesto estará disponible posterior a este mensaje, para todos los ciudadanos en fortaleza.pr.gov y en nuestra plataforma de redes sociales.

La confección del proyecto de presupuesto que hoy radicamos, viene precedida de una serie de iniciativas ejecutivas que deseo resaltar, con el propósito de que se comprenda el gran esfuerzo que estamos realizando para poner en orden las finanzas y la administración del gobierno.

El Presupuesto que hoy les someto ante su consideración, forma parte de una política pública de cumplimiento con el Plan Fiscal, que evita la aplicación de contingencias que afectarían al pueblo.

Una de las diferencias más importantes de éste presupuesto, es que contrario a los anteriores, el mismo está realmente balanceado. En el pasado, simplemente se tomaba el presupuesto anterior y se añadían gastos nuevos. En el pasado, se tomaba dinero de áreas, aumentando el gasto presupuestado y escondiendo la deuda. Eso se acabó.

Este presupuesto será uno bien estructurado y cuenta con componentes basados en la metodología de un presupuesto base cero, para la operación de un gobierno donde todas las transacciones fiscales sean visibles y sean justificadas. Nada se estará realizando a escondidas o por debajo de la mesa.

Otra diferencia significativa es que el nuevo presupuesto asume TODO EL PAGO DE LAS PENSIONES. Esto provoca que los números sean muy distintos a presupuestos en el pasado. Si, hemos tenido que tomar decisiones fuertes; estamos reduciendo el gasto y en gran medida, ha sido necesario para proteger a uno de los sectores más vulnerables de nuestro pueblo: Nuestros pensionados, quienes corrían el riesgo de perder totalmente su pensión.

Antes, las pensiones eran pagadas por un fondo de activos, el cual fue defalcado en varias ocasiones, y prácticamente se quedó en cero. De hecho, en varios meses, se quedaba sin recursos para pagarle a los pensionados. En este presupuesto asumimos el pago de pensiones de sobre 2 billones de dólares. Así tomamos un paso difícil para el presupuesto, pero garantizamos las pensiones de todos nuestros retirados.

En éste Presupuesto transparente, no se repetirán las transacciones oscuras que el pueblo no vio, como la utilización de sobre 580 millones de dólares de activos de los pensionados para gastos gubernamentales. Eso se acabó.

Ahora tendremos un presupuesto con visibilidad, donde no habrán partidas escondidas y donde el pueblo verá cómo y en dónde se utiliza el dinero.

Iniciamos nuestra gestión en La Fortaleza recibiendo un gobierno con un déficit superior a los siete mil quinientos millones de dólares - una cifra sin precedentes - que casi triplicaba cualquier déficit previo ante un cambio de administración.

Ante esa incuestionable realidad, respondimos con una serie de órdenes ejecutivas y medidas legislativas dirigidas a lograr las economías necesarias que nos han permitido mantener el gobierno operando, ofreciéndole los servicios esenciales al pueblo de una manera más eficiente y garantizando los empleos en el sector público. Todo esto, mientras nos dirigimos a la construcción de un gobierno innovador, basado en la ciencia, en las métricas y la tecnología; que aspira lograr más con menos.

A manera de ejemplo deseo recordarles que mediante las órdenes ejecutivas 2017-001; la 2017-009 y la Ley 3-2017, hemos logrado hasta el momento los siguientes ahorros con cargo al Fondo General:

- Reducciones de nómina y costos relacionados - **$5,274,000**
- Reducciones en gastos operacionales - **$19,153,000**
- Reducciones en gastos por servicios - **$13,838,000**

Asimismo, se proyectan los siguientes ahorros por concepto de otros orígenes de recursos, como los son: fondos especiales estatales, e ingresos propios, que no se reducen con cargos a fondos federales:

- Reducciones de nómina y costos relacionados - **$1,975,500**
- Reducciones en gastos operacionales - **$102,003,000**
- Reducciones en gastos por servicios - **$56,566,000**

Por concepto de órdenes ejecutivas y legislación aprobadas dirigidas al control de gastos y eficiencia gubernamental, nuestra Administración ha logrado economías que ascenderán a **200 millones de dólares anuales**.

No obstante a esas medidas que les indicara, las condiciones en que asumimos el gobierno han provocado otros contratiempos financieros que hemos atendido de manera urgente. Hace más de un año que el Gobierno de Puerto Rico carece de liquidez y, bajo la pasada Administración, se utilizaron los reintegros, pagos de los contratistas, el dinero de los pensionados y préstamos intra-gubernamentales para sustituir las fuentes de liquidez y gastar más dinero que los fondos que se tenían disponibles.

Es de conocimiento público que el Banco Gubernamental de Fomento incumplió sus obligaciones con los bonistas desde el 1 de mayo de 2016. El BGF, que desde el 2015 dejó de operar como un banco, ya no cumple su rol de proveer liquidez al gobierno, ni tampoco contamos con acceso a los mercados financieros.

El panorama también es crítico para los sistemas de retiro, que se encuentran insolventes y es nuestra responsabilidad defender a los más vulnerables que trabajaron toda una vida para el gobierno.

Ante esa situación y para proteger los fondos depositados en el Departamento de Hacienda, los cuales estaban expuestos a demandas de acreedores del gobierno, recurrimos a solicitar la protección del Título III de la Ley PROMESA. Con esa oportuna acción, garantizamos la continuidad del pago de las pensiones y la operación del gobierno de Puerto Rico.

Esa acción no impide, y así lo hemos comprobado, que podamos continuar renegociando los términos de la deuda de Puerto Rico, recobrando la credibilidad en el gobierno y protegiendo los fondos necesarios para continuar la prestación de los servicios al Pueblo.

Los recientes acuerdos logrados con los grupos de bonistas, entre los que se encuentra un importante sector de los puertorriqueños que depositaron sus ahorros en bonos del Banco Gubernamental de Fomento, evidencian que hay confianza y credibilidad en el nuevo gobierno de Puerto Rico.

La implementación de nuestra política pública para restablecer el orden administrativo en el gobierno no se detiene. A esos efectos, la Autoridad de Asesoría Financiera y Agente Fiscal (AAFAF) emitió la *Orden Administrativa 2017-001*, identificando el origen de los fondos de asignaciones realizadas previo al 2017; controlando los desembolsos realizados por el Departamento de Hacienda con cargo al Fondo General. Eso, unido a otras medidas, ha tenido el efecto de mejorar el flujo de efectivo del Tesoro Estatal, facilitándose así el pago de los reintegros que les corresponden a los ciudadanos que cumplen con su responsabilidad contributiva.

Hasta el momento el Departamento de Hacienda le ha pagado al Pueblo la cantidad de 140 millones de dólares en reintegros, de los cuales, gran parte de esa cantidad correspondía a dinero que el pasado gobierno le retuvo a los ciudadanos que responsablemente cumplieron. **Si los puertorriqueños y puertorriqueñas cumplen, el gobierno también tiene que cumplir.**

Me complace informarles que durante el mes de junio el Departamento de Hacienda estará emitiendo pagos de reintegros por la cantidad de 35 millones de dólares adicionales.

De igual forma me satisface informarles que los recaudos acumulados en Hacienda para el mes de abril, superaron lo proyectado por la cantidad de 230 millones de dólares; cumpliendo además con la reserva de 200 millones requerida por la Junta de Supervisión Fiscal. Puerto Rico tiene un nuevo gobierno; más responsable y eficiente en la administración de sus finanzas.

Cumpliendo con esa política pública y mediante la aprobación de la *Ley 26-2017*, se eliminaron las asignaciones especiales multianuales con cargo al Fondo General, para que no puedan ser utilizados fuera del año en que fueron asignados y se dispuso que los fondos especiales serán depositados y administrados bajo el control del Departamento de Hacienda.

El uso correcto de los fondos públicos se ha definido como un principio fundamental en el nuevo gobierno de Puerto Rico. Los años del despilfarro y la indolencia en la administración de los fondos del pueblo quedaron atrás. Con nuestras acciones y el resultado de las mismas, estamos recobrando la credibilidad perdida en el gobierno.

Uno de los primeros desafíos que tuvimos que superar en defensa del pueblo de Puerto Rico, fue la aprobación de un Plan Fiscal que respondiera a la situación de crisis encontrada, pero que también respondiera a nuestra política pública de proteger a los más vulnerables de nuestra sociedad.

Logramos que la Junta de Supervisión Fiscal aprobara nuestra versión de un Plan que evitó el despido de más de 45 mil empleados públicos; protegiendo además las pensiones de los más vulnerables y evitando el colapso del sistema de salud en Puerto Rico.

**Las medidas implementadas en éste Presupuesto son las que habíamos establecido en el Plan Fiscal.**

Esa batalla en defensa de los mejores intereses de nuestro pueblo es continua y sin pausa, pero debo afirmar, que lo hacemos interactuando con la Junta de Supervisión Fiscal de una manera responsable, prudente y firme en representación del pueblo de Puerto Rico. Quiero agradecer al Licenciado José Marrero, Director de OGP, y a nuestro equipo fiscal, por el trabajo extraordinario que han hecho en esta gestión.

En ese esfuerzo no puedo pasar por alto la participación que han tenido ustedes, los legisladores y legisladoras que representan al pueblo en la cámara y el senado - a sus presidentes Johnny Méndez y Thomas Rivera Schatz - por la aprobación de importantes medidas legislativas, necesarias para que Puerto Rico pueda superar la crisis.

La ley de cumplimiento, denominada como la *"Ley de Emergencia Financiera y Responsabilidad Fiscal de 2017"* y la Ley que define el concepto del "Empleador Único" en el gobierno, entre otras, han sido medidas que han facilitado la continuidad de las operaciones gubernamentales, logrando considerables economías, sin despedir empleados públicos y evitando la reducción de la jornada laboral. Definitivamente, hay unidad de propósitos trabajando por nuestro Pueblo. ***Hay un nuevo gobierno trabajando en Puerto Rico***.

La legislación aprobada durante estos primeros cinco meses responde a nuestros compromisos con el pueblo para reactivar nuestra economía y facilitar la creación de empleos. La base sobre la cual se producirá ese cambio favorable para Puerto Rico ya se legisló.

La reforma laboral facilita el desarrollo de mayor actividad comercial y por ende, nuevas oportunidades de empleos. La nueva ley de permisos y el uso de la tecnología en la aplicación de la misma, permite que ya se pueda sacar un permiso automático en Puerto Rico a través de una página web. Un cambio dramático en el proceso de obtención de permisos.

Por décadas, en la búsqueda de mayores recursos, los gobiernos en Puerto Rico han alterado el sistema contributivo, convirtiendo el mismo en uno de los más complejos del mundo, e injusto para el ciudadano. Llegó el momento de simplificarlo para beneficio de la gente.

Puerto Rico no puede continuar siendo una de las jurisdicciones donde más contribuciones se pagan bajo la bandera americana. Esa es otra de las consecuencias provocadas por el injusto sistema colonial. A esos efectos, les anuncio que estaré sometiendo legislación para reformar el sistema contributivo y hacerle justicia a nuestro pueblo.

La reforma que estaré sometiendo ante la consideración de la Asamblea Legislativa incluirá lo siguiente:

- Alivios contributivos para los individuos asalariados que totalizarán sobre 200 millones de dólares, ampliando los renglones de ingresos y reduciendo la tasa efectiva. Repito: En éste ambiente fiscal feroz, hemos encontrado la manera de bajarle la carga contributiva a la mayoría de los puertorriqueños, principalmente a la clase media y a los más vulnerables.

- Con nuestra Reforma más de 400 mil contribuyentes no tendrán que radicar planillas, pues implementando una política de retención en el origen de sus salarios, quedará cubierta su responsabilidad contributiva.

- Igualmente, los trabajadores por cuenta propia que rinden por servicios profesionales tendrán la posibilidad de optar por la retención en el origen, eliminando así su obligación de radicar la planilla.

- Los primeros 12,500 dólares en ingresos para todo individuo no pagarán contribuciones y aumentaremos la exención para los pensionados de 15,000 a 25,000 dólares, reafirmando nuevamente nuestro compromiso con los jubilados.

- Estableceremos un crédito de 100 dólares por dependiente para aquellos ingresos hasta 80,000 dólares anuales.

- Cumpliendo nuestro compromiso, reduciremos el impuesto conocido como el B2B por la **mitad**, de 4 a 2%, como la primera fase para la eliminación total de ese impuesto.

Con esas medidas estamos simplificando y modernizando el sistema contributivo, de manera que sea más justo para el ciudadano, y a su vez, facilite la eficiencia del Departamento de Hacienda. Con el nuevo sistema el ciudadano tendrá la opción de sustituir el tedioso proceso de llenar y radicar una planilla, por la sencilla acción de tocar un botón. ***Hay un nuevo gobierno trabajando en Puerto Rico***.

La *Orden Ejecutiva 2017-005*, define los criterios para elaborar nuestro primer Presupuesto Base Cero. Esa metodología presupuestaria le requiere a las agencias e instrumentalidades del Gobierno evaluar con detenimiento los gastos proyectados y justificar los mismos, asegurándose de cumplir con su misión, con la política pública de la Administración y manteniendo la calidad en los servicios al pueblo.

Como parte de los esfuerzos para presentar un presupuesto consolidado balanceado - lo que hace décadas no ocurre en Puerto Rico - aprobamos legislación que nos permite reducir gastos y generar ingresos adicionales, de forma tal que nuestra Administración pueda ejecutar el programa de gobierno que el pueblo validó en las urnas y cumplir con el Plan Fiscal certificado por la Junta. Ejemplo de lo anterior son las siguientes medidas:

- Ley 8-2017: es una las piezas esenciales en el proceso de trasformación del gobierno de Puerto Rico, convirtiéndolo en el empleador único y permitiendo la movilidad de los recursos humanos disponibles, según las necesidades de servicio que se tenga. Mediante esa legislación se logran economías de alrededor de unos 100 millones de dólares por concepto de movilidad y "*attrition*".

- La Ley 20-2017, mediante la cual comienza el proceso de re-estructuración del Gobierno de Puerto Rico, creando el Departamento de Seguridad Pública. Esto permitirá desarrollar un sistema de seguridad más rápido, coherente y eficiente para toda la comunidad y que a su vez redundará en ahorros aproximados de sobre 25 millones de dólares.

- Ley 24-2017, la cual enmendó la Ley de Tránsito brindando mayor seguridad en las carreteras y abonando un estimado de 13 millones de dólares adicionales.

- Ley 25-2017, la cual regulará las ventas por internet haciendo justicia a nuestros pequeños y medianos comerciantes y trayendo ingresos adicionales estimados entre unos 35 a 55 millones de dólares.

- Ley 26-2017, aprobada en cumplimiento con el Plan Fiscal, uniforma los beneficios marginales que reciben todos los empleados y servidores públicos y genera ahorros que se estiman en unos 130 millones de dólares. Cónsono con la política pública de salubridad, se lograrán ingresos adicionales al erario de unos 50 millones de dólares provenientes del aumento en el costo del tabaco y sus derivados.

- Próximamente estaremos presentando nueva legislación que propone consolidaciones en los componentes del Departamento de la Familia y del Departamento de Desarrollo Económico y Comercio (DDEC). Esto nos permitirá seguir desarrollando un gobierno más ágil y eficiente para beneficio de todo nuestro Pueblo.

El presupuesto recomendado correspondiente al Año Fiscal 2017-2018, es otro paso en el camino hacia la estabilidad fiscal y la recuperación económica de Puerto Rico. El nuevo presupuesto, incluyendo los más de 2 mil millones para el pago de pensiones, asciende a la cantidad de 9,562 mil millones de dólares.

Nuestro primer presupuesto está enmarcado en la disciplina fiscal; asegurando los servicios esenciales para nuestro pueblo, y facilitando las condiciones para activar la económica y la generación de nuevos empleos en Puerto Rico. En el mismo se refleja una reducción de un 9.1% en los gastos de funcionamiento del gobierno.

En cumplimiento con el Plan Fiscal, en el nuevo Presupuesto se reduce en un 32% las partidas correspondientes a mercadeo y publicidad. Reducimos además un 40% en compras de materiales; un 13% en la administración de la nómina y un 47% por concepto de subsidios y donativos.

Señoras y señores legisladores: El Presupuesto que estarán analizando, no tiene marco de referencia, ya que la confección del mismo responde a criterios de transparencia y políticas públicas diferentes a las de gobiernos anteriores. Otro ejemplo que así lo evidencia, es que en éste Presupuesto asumiremos el pago de todas las pensiones de los sistemas de retiro. El pago para nuestros pensionados está garantizado en éste Presupuesto. ***Hay un nuevo gobierno trabajando en Puerto Rico*.**

Los exhorto a analizar el nuevo Presupuesto como una pieza adicional para lograr la transformación de un Puerto Rico moderno; más justo y progresista.

Los invito a aspirar a un Puerto Rico con una educación de calibre global, transformando el sistema deficiente actual, en uno diseñado para maximizar el aprovechamiento del estudiante. Añadiendo a las posibilidades de nuestros estudiantes, distintas opciones para ellos y para sus padres; estableciendo las escuelas de la comunidad, colaborando con organizaciones sin fines de lucro para proveer servicios y descentralizando el Departamento de Educación para que las decisiones que beneficien a los estudiantes se puedan ejecutar con agilidad y eficiencia, eliminando la excesiva burocracia.

Vamos a llevar la tecnología al salón de clases y llevar mediante recursos de educación a distancia nuevas experiencias académicas a nuestros estudiantes.

Aprovecho la ocasión para informarle a los maestros, que por iniciativa de la Secretaria de Educación, gestionamos y conseguimos los fondos federales necesarios para otorgarle un bono de **mil dólares** a los maestros en las áreas de matemáticas, ciencias, inglés y español, del grupo calificado como excedente, que de manera voluntaria acepten laborar en las receptoras y más necesitadas.

Los invito a que juntos aspiremos tener un Puerto Rico saludable, desarrollando un sistema de salud centrado en el paciente y con acceso para todos los ciudadanos a los mejores servicios disponibles. Vamos a desarrollar un sistema preventivo que eduque al paciente sobre el cuido de su salud y modernizar los servicios mediante el record médico único. Por ello, aumentaremos las partidas en nuestro sistema de salud.

Hace unos días regrese de Washington y New York, donde sostuvimos importantes reuniones, tanto en el congreso como con directores de Medicaid, reclamando mayores recursos para los programas de salud en Puerto Rico. Nos sentimos confiados en que vamos a lograr aumentos en los fondos Medicaid, pero debemos tener claro, que la única forma de garantizar la paridad y el trato igual que los estados en las asignaciones de fondos para los programas de salud, es siendo un estado. NO hay otra forma. La ruta hacia la igualdad en los programas de salud está trazada y en ese camino nos encontramos.

Los invito a lograr un Puerto Rico seguro; donde podamos integrar de manera efectiva los recursos del gobierno estatal con el federal, para vencer al crimen organizado y el narcotráfico. Vamos a modernizar nuestra Policía, integrando los adelantos tecnológicos y la capacitación a los miembros de la fuerza.

Vamos a desarrollar de manera efectiva el policía de la comunidad; integrar los recursos de la Policía Estatal con las municipales y atender el problema de seguridad pública de manera integrada, a través del nuevo Departamento de Seguridad que agrupa a siete agencias del gobierno central.

Les exhorto a que colaboremos para empoderar comunidades, como se ha estado haciendo con el esfuerzo de Fortaleza para Ti, liderado por mi esposa Beatriz; uniendo al gobierno, al sector privado y a las organizaciones sin fines de lucro.

Los invito hacer de Puerto Rico un importante centro de innovación tecnológica y desarrollo económico; posicionando a nuestra Isla como el puente que une las culturas del hemisferio americano. Estamos creando las condiciones para facilitar el desarrollo de negocios, la inversión en nuestra Isla y la creación de empleos.

Señoras y señores legisladores: Ese mejor Puerto Rico es posible y juntos lo podemos hacer una realidad. El Proyecto de Presupuesto que hoy sometemos ante su consideración, está fundamentado en esos objetivos. Estamos demostrando que desde el gobierno se puede hacer más, con menos. ***Hay un nuevo gobierno trabajando en Puerto Rico***.

No debo pasar por alto esta comparecencia ante la Asamblea Legislativa, para expresarme sobre el futuro inmediato de nuestra patria.

Los puertorriqueños no estamos ajenos a las dificultades que viven otros pueblos del mundo. Todos tienen sus retos; sus problemas y situaciones políticas que superar.

Un ejemplo cercano a nuestra Isla es la situación actual en Venezuela, donde se violentan los derechos a la libertad de expresión, a la libertad de asociación y hasta los derechos fundamentales de los seres humanos.

En Puerto Rico tendremos la oportunidad de dejar atrás las limitaciones del indigno sistema colonial y aspirar a la igualdad de derechos en la nación que representa el símbolo de la libertad y la democracia en el mundo.

En un esfuerzo por lograr la inclusión de todos los sectores políticos y en respuesta a la solicitud formulada por el Departamento de Justicia federal, enmendamos la ley que ordena la celebración del Plebiscito el 11 de junio, a los fines de incluir en la papeleta la opción de la actual condición territorial.

Ahora no hay excusa para no participar en el Plebiscito. En la democracia prevalece la mayoría que participa en los procesos electorales. Como gobernador exhorto al pueblo a participar en el Plebiscito que definirá el reclamo descolonizador que le formularemos al gobierno federal y al Congreso de los Estados Unidos.

El 11 de junio Puerto Rico tendrá la oportunidad de darse a respetar ante el gobierno federal y ante el mundo, como un pueblo que exige su autodeterminación política.

La efectividad y la seriedad de los liderazgos políticos se demuestran asumiendo posiciones claras, y defendiendo los principios en que uno cree, con firmeza y respeto hacia aquellos que no piensan de la misma forma.
Quienes a falta de votos recurran al discurso de la confusión y la promoción del desorden, se quedarán cada día más solos y alejados de la mayoría de los puertorriqueños de buena voluntad, que deseamos un mejor mañana para cada hijo de esta tierra.

Los invito a que aspiremos a la igualdad de derechos como puertorriqueños ciudadanos de los Estados Unidos, reclamando con firmeza la dignidad que nos corresponde como un pueblo noble, trabajador y comprometido con los mejores valores del ser humano.

Thomas Jefferson, uno de los principales fundadores de los Estados Unidos, dijo una vez, y lo cito, *"me gustan más los sueños del futuro, que la historia del pasado"*...

Dejemos atrás la colonia y miramos hacia el futuro con optimismo, convencidos que un mejor Puerto Rico es posible. El momento de la definición llegó. El momento de actuar llegó. El momento de votar para la descolonización de Puerto Rico llegó. El momento para el progreso de Puerto Rico, llegó.

Que Dios bendiga a nuestra Patria.

Buenas noches.

Cabo San Lucas, Baja California Sur, Mexico

I, Jason Schrier, am fluent in the Spanish and English languages. I have been translating documents for over 10 years. I am a federal Spanish/English legal interpreter certified by the Administrative Office of United States Courts. My certificate number is 10-067. I am also a NYU certified Spanish-English legal translator. I am competent to translate from Spanish into English.

I hereby certify that the following are, to the best of my knowledge and belief, true and accurate translations of the attached "Mensaje de Presupuesto del Gobernador de Puerto Rico" from Spanish into English.

I declare under penalty of perjury that the foregoing is true and correct.

Jason S

Jason Schrier

Executed on this 22th day of June, 2017.

[seal:] GOVERNOR OF PUERTO RICO

**Budget Message from the Governor of Puerto Rico**

**Honorable Ricardo Rosselló Nevares**

**The Capitol Building, San Juan, Puerto Rico**

**May 31, 2017**

Pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") and as Puerto Rico's colonial status has become increasingly more evident, last April 30 we sent the Budget Draft to the Fiscal Oversight Board, which we today submit for the consideration of the Legislative Assembly.

The first budget of the new government was preceded by a lack of control in public spending, along with misguided improvised tax policies and irresponsible administration of public finances in the past. Fortunately, the public policy of our Administration is the complete opposite.

The budget I present you is complete, legitimate and by nature robust. Tonight I will provide you with its overall fundamental features.

During the budget analysis process, you can count on our Administration's fiscal and economic team to clear up any questions about the bill that we are submitting today for your consideration. However, I would like to inform you that the numbers reflect what we have been discussing in recent months and what was certified in our fiscal plan. In addition, as a measure of total transparency, after this message, our budget will be available for all citizens at fortaleza.pr.gov and on our social media platforms.

The prepared budget bill we are presenting today has been preceded by a series of executive initiatives that I wish to highlight in order to understand the great effort we are making to put the government's finances and administration in order.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

The budget I am submitting today for your consideration is part of a public policy that complies with the Fiscal Plan, which avoids implementing contingencies that would affect the public.

One of the most important differences in this budget is that, unlike previous ones, it is truly balanced. In the past, the previous budget was simply taken and new expenses were added. In the past, money was taken from areas, budgeted expenses were increased and the debt was hidden. That is over.

This budget will be well structured and include components from the zero-based budgeting method so that all fiscal transactions in the government's operations are transparent and justified. Nothing will be hidden or done under the table.

Another significant difference is that the new budget includes PAYMENT OF ALL PENSIONS. Because of this the numbers are very different from budgets in the past. Yes, we have had to make tough decisions; we are reducing spending, and to a great extent, it has been necessary to protect one of the most vulnerable sectors of our public: our pensioners, who were running the risk of losing their pensions completely.

Before, pensions were paid for by a fund that was subject to embezzlement on several occasions and practically went bankrupt. In fact, for several months, there were no funds to pay pensioners. This budget includes payments for pensions of over $2 billion. Thus, we are taking a difficult step for the budget, but we are guaranteeing the pensions of all of our retirees.

In this transparent budget, dubious transactions that were once hidden from the public eye will not be repeated, such as using over $580 million from pension funds to pay government expenses. That is over.

Now we will have a transparent budget, where there will be no hidden entries and where the public will see how and where the money is used.

We began our administration at La Fortaleza with a deficit over seven billion, five hundred million dollars - an unprecedented figure - which was almost three times greater than any previous existing deficit during an administration change.

In view of this unquestionable reality, we responded with a series of executive orders and legislative measures aimed at achieving enough savings to allow us to keep the government operating, to offer the public essential services in a more efficient way and to guarantee public sector jobs. All of this was done while we built an innovative government based on science, metrics and technology, a government that aspires to do more with less.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

As an example, I would like to remind you that through executive orders 2017-001 and 2017-009, and Act 3-2017, we have thus far achieved the following savings for the General Fund:

- Reductions in payroll and related costs - **$5,274,000**
- Reductions in operating costs - **$19,153,000**
- Reductions in service costs - **$13,838,000**

In addition, the following savings are projected for other sources of funds, such as: special state funds and self-generated revenue, which do not decrease with charges to federal funds:

- Reductions in payroll and related costs - **$1,975,500**
- Reductions in operating costs - **$102,003,000**
- Reductions in service costs - **$56,566,000**

In accordance with executive orders and approved legislation aimed at controlling government spending and efficiency, our Administration has achieved annual savings totaling **$200 million**.

Notwithstanding the measures I have mentioned, the conditions under which we have taken office have caused other financial setbacks that we have dealt with urgently. The Government of Puerto Rico has lacked liquidity for more than a year, and under the previous administration, tax refunds, payments for contractors, money for pensioners and intra-governmental loans were used as a substitute for the lack of liquidity and more money was spent than was available.

It is public knowledge that the Governmental Development Bank has failed to fulfill its obligations with bondholders since May 1, 2016. The GDB, which has stopped operating as a bank since 2015, no longer fulfills its role of providing liquidity to the government, nor do we have access to financial markets.

The outlook is also critical for retirement systems, which are insolvent, and it is our responsibility to defend the most vulnerable people have who worked their whole lives for the government.

In view of this situation and in order to protect the funds deposited in the Treasury Department, which were exposed to claims of government creditors, we again request protection under Title III of PROMESA. By taking this timely action, we guarantee the Puerto Rican government will continue to operate and pay its pensions.

This action does not prevent us – and we have so demonstrated – from continuing to renegotiate Puerto Rico's terms of debt, rebuilding the government's credibility and protecting the funds necessary to continue providing services to the public.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

Recent agreements reached with groups of bondholders, which include an important sector of Puerto Ricans who deposited their savings in Government Development Bank bonds, prove that there is trust and credibility in the new government of Puerto Rico.

The implementation of our new public policy to reestablish administrative order in the government continues forward. For these purposes, the Fiscal Agency and Financial Advisory Authority (FAFAA) issued *Administrative Order 2017-001*, which identifies the funding source of appropriations made prior to 2017 and monitors payments made by the Treasury Department to the General Fund. This, along with other measures, has had the effect of improved cash flows at the Treasury, thus facilitating the payment of refunds corresponding to citizens who fulfill their tax obligations.

Thus far, the Treasury Department has paid the public $140 million in refunds. A large portion of this corresponds to money that the previous administration withheld from citizens who met their tax obligations. **If Puerto Ricans fulfill their duties, the government must fulfill its duties, too.**

I am pleased to inform you that during the month of June, the Treasury Department will be issuing additional refunds in the amount of $35 million.

Likewise, I am pleased to inform you that the collections made in the Treasury Department for the month of April exceeded projections by $230 million, meeting the Fiscal Oversight Board's requirement of $200 million in reserves. Puerto Rico has a new administration that is more responsible and efficient in managing its finances.

Pursuant to this public policy, and as approved by *Act 26-2017*, the special multi-annual appropriations charged to the General Fund were eliminated to prevent them from being used outside of the year in which they were appropriated, and an order was issued directing special funds to be deposited and managed by the Treasury Department.

The correct use of public funds has been defined as a fundamental principle in the new Puerto Rican government. The years of wastefulness and neglect in managing government funds are a thing of the past. With our actions and the results thereof, we are rebuilding the credibility the government has lost.

One of the first challenges we had to overcome in defending the people of Puerto Rico was the Fiscal Plan approved in response to the crisis encountered, which also affected our public policy of protecting the most vulnerable people of our society.

We were able to convince the Fiscal Oversight Board to approve our version of a plan that avoided dismissing over 45,000 public employees, protected the pensions of the most vulnerable people and also avoided a collapse of the Puerto Rican health system.

**The measures implemented in this budget are those that we had established in the Fiscal Plan.**

This battle in defense of our people's best interests continues on uninterrupted, but I must state we are doing it by interacting with the Fiscal Oversight Board in a responsible, prudent and firm manner on behalf of the Puerto Rican people. I want to thank José Marrero, the director of the Office of Management and Budget, and our fiscal team for the extraordinary work they have done in this process.

In this effort, I cannot overlook the contributions made by you all, the legislators who represent the public in the House and the Senate - your chairmen Johnny Méndez and Thomas Rivera Schatz - for approving the important legislative measures necessary for Puerto Rico to overcome the crisis.

The regulatory law entitled the *"The Financial Emergency and Fiscal Responsibility Act of 2017"* and the law defining the concept of government as the "Sole Employer," among others, are measures that have helped keep the government operating and achieve considerable savings, while retaining public employees and avoiding reductions in the workday. Without a doubt, there are common goals working for the benefit of our people. ***There is a new government at work in Puerto Rico.***

The legislation approved during these first five months stems from our commitments to the public to reactivate our economy and facilitate job creation. The foundation for bringing about positive change in Puerto Rico has already been legislated.

The labor reform facilitates the development of greater business activity and, thus, new job opportunities. The new permits law, and the use of technology when applying for them, means that permits can be taken out in Puerto Rico from a web page automatically. This is a dramatic change in the process for obtaining permits.

For decades, in seeking greater funding, Puerto Rican governments have altered the tax system, making it into one of the world's most complex, one that is unfair to the public. The time has come to simplify it for the benefit of the people.

Puerto Rico cannot continue being one of the jurisdictions where the highest taxes under the American flag are paid. This is another of the consequences caused by an unjust colonial system. For these reasons, I am announcing to you that I will be submitting legislation to reform the tax system and do our people justice.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

The reform I will be submitting for the consideration of the Legislative Assembly will include the following:

- Tax relief for salaried individuals over $200 million that will increase income and reduce the effective tax rate. I repeat: In this ferocious fiscal environment, we have found a way to lower the tax burden on the majority of Puerto Ricans, primarily on the middle class and the most vulnerable.
- With our reform, more than 400,000 taxpayers will not have to file tax returns. By implementing a policy that withholds taxes at the source of payment, their tax liability will be covered.
- Likewise, independent contractors who render professional services will have the ability to choose to have their taxes withheld at the source, thus eliminating their obligation to file tax returns.
- Individuals will not pay taxes on the first $12,500 of income, and we will increase the exemption for pensioners from $15,000 to $25,000, thus again reaffirming our commitment to retirees.
- We will establish a credit of $100 per dependent for any annual income up to $80,000.
- By keeping our commitment, we will reduce the B2B tax by **half**, from 4% to 2%, as part of the first phase to fully eliminate this tax.

With these measures we are simplifying and modernizing the tax system so that it will be fairer for the public and, in turn, will facilitate efficiency in the Treasury Department. With this new system, the public will have the option to replace the tedious process of filling out and filing tax returns with the simple action of pressing a button. ***There is a new government at work in Puerto Rico.***

*Executive Order 2017-005* defines the requirements for preparing our first zero-based budget. This budgeting methodology requires government agencies and instrumentalities to carefully assess projected expenses and justify them, thus ensuring they fulfill their mission, comply with the administration's public policy and maintain the quality of public services.

As part of the efforts to present a balanced consolidated budget - which has not occurred in Puerto Rico for decades - we approved legislation that allows us to reduce spending and generate additional revenues so that our administration can implement the government program ratified by the public at the polls and comply with the Fiscal Plan certified by the Board.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

The measures below are an example of this:

- o Act 8-2017: An essential piece in the Puerto Rican government's transformation process, this law makes it the sole employer and allows it to move available human resources based on its service needs. Under this legislation, there are savings of around $100 million due to mobility and attrition.

- o Act 20-2017, which began the Government of Puerto Rico's restructuring process, created the Department of Public Safety. This will make it possible to develop a faster, more coherent and more efficient security system for the entire community that, in turn, will result in an approximate savings of over $25 million.

- o Act 24-2017, which amended the Transit Act, provides greater safety on highways and generates an estimated additional $13 million.

- o Act 25-2017, which will govern internet sales, does justice for our small and medium companies and brings in additional estimated revenues of $35 to $55 million.

- o Act 26-2017, approved in accordance with the Fiscal Plan, standardizes the fringe benefits received by all public servants and employees and generates savings estimated at around $130 million. In accordance with public health policy, additional revenues of around $50 million will be generated for public funds from an increase in the cost of tobacco and its derivatives.

- o Soon we will submit new legislation that proposes consolidating portions of the Department of Family and the Department of Economic Development and Commerce (DEDC). This will allow us to continue developing a more agile and efficient government, to the benefit of all of our people.

The recommended budget for Fiscal Year 2017-2018 is another step on the path toward Puerto Rico's fiscal stability and economic recovery. The new budget, which includes more than $2 billion pension payments, totals $9.562 billion.

Our first budget is an example of fiscal discipline, ensures essential services for our people and facilitates conditions for activating the economy and generating new jobs in Puerto Rico. It shows a 9.1% decrease in the government's operating costs.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

Under the Fiscal Plan, the new budget reduces marketing and advertising expenses by 32%. We also reduce materials purchases by 40%, payroll administration by 13% and subsidies and donations by 47%.

Dear legislators: The budget that you will be reviewing does not have a frame of reference, since the preparation thereof addresses transparency and public policy requirements different from those of previous administrations. Another example of this is that in this budget we will assume all pension payments for the retirement systems. Payments to our pensioners are guaranteed in this budget. ***There is a new government at work in Puerto Rico.***

I kindly ask you to consider the new budget as one more piece needed to make Puerto Rico more modern, progressive and fair.

I invite you to aim for a Puerto Rico with world-class education and transform the deficient system we have now into a system designed to maximize student performance, a system that gives students and their parents additional opportunities, a system that builds community schools, collaborates with non-profit organizations to provide services, and decentralizes the Department of Education so that decisions benefiting students can be implemented swiftly and efficiently, eliminating excessive bureaucracy.

We are going to bring technology to the classrooms and provide our students with new academic experiences using distance-learning resources.

I want to use this occasion to inform teachers that, under a Department of Education initiative, we took steps and successfully raised enough federal funds to grant a **<u>one-thousand-dollar</u>** bond to any math, science, English and Spanish teachers – from those qualified as surplus – who voluntarily agree to work at recipient schools most in need.

I invite you to join in making a healthy Puerto Rico, to develop a patient-focused health system that allows all citizens access to the best possible services. We are going to develop a preventative system that teaches patients to care for their health, a system that modernizes services using a single medical record. For this reason, we will be increasing spending on our health system.

I returned from Washington and New York a few days ago, where we held important meetings, both in Congress and with Medicaid directors, where I demanded greater resources for health programs in Puerto Rico. We feel confident we'll achieve increases in Medicaid funding, but we it must clearly understood that the only way to guarantee parity and the same treatment as the states receiving health program appropriations is by being a state. There is NO other way. The path toward equality in health programs has been outlined and we are on that path.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

I invite you to make a safe Puerto Rico, where we can effectively integrate state and federal resources to defeat organized crime and drug trafficking. We are going to modernize our police by integrating technological advances and by training members of the police force.

We are going to effectively develop community police officers, integrate State Police resources with municipal police resources and address the problem of public safety in an integrated manner, in collaboration with the new Department of Safety, which groups together seven agencies from the central government.

I urge you to collaborate to empower communities, as has been done with the recent efforts by "Fortaleza for You," led by my wife Beatriz, which brings the government, the private sector and non-profit organizations together.

I invite you to make Puerto Rico an important center for technological innovation and economic development and position Puerto Rico as a bridge that brings cultures in the American hemisphere together. We are creating conditions to facilitate business development, investment and job creation in Puerto Rico.

Dear legislators: This better Puerto Rico is possible, and together we can make it a reality. The budget bill we are submitting today for your consideration is based on these goals. We are demonstrating that the government can do more with less. ***There is a new government at work in Puerto Rico.***

I must not forget to use this appearance before the Legislative Assembly to talk about the immediate future of our fatherland.

We Puerto Ricans are not indifferent to the problems that other people in the world are living through. Everyone has their challenges, their problems and political situations to overcome.

An example close to our Island is the current situation in Venezuela, where the right to freedom of expression, the right to freedom of association and even fundamental human rights are being violated.

In Puerto Rico, we will have the opportunity to leave behind the limitations of a shameful colonial system and aspire to equal rights in a nation that symbolizes freedom and democracy around the world.

In an effort to include all political sectors and in response to the request made by the Department of Justice, we amended the law ordering the referendum to be held on June 11, in order to include the option regarding the current territorial status on the ballot.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

There is no excuse not to participate in the referendum now. In democracy, the majority that participates in the electoral process prevails. As governor, I urge the public to participate in the referendum, which will define the demand for decolonization we plan to submit to the federal government and the United States Congress.

On June 11, Puerto Rico will have the opportunity to earn the respect of the federal government, and the world, as a people who demand the right to political self-determination.

Effective and serious political leadership is demonstrated by taking clear positions and defending the principles one believes in, while firmly respecting those who do not think the same way.

Those who, in the absence of votes, resort to a discourse of confusion and promote disorder will find themselves increasingly lonely and isolated from the majority of Puerto Ricans, who, in good faith, wish for a better tomorrow for each and every child of this land.

I invite us to aspire to equal rights as Puerto Ricans, as citizens of the United States, and to firmly claim the dignity we are entitled to as noble, hard-working and committed people who possess the best of human values.

Thomas Jefferson, one of the United States' founding fathers, once said, and I quote, *"I like the dreams of the future better than the history of the past"* ...

Let us leave colonialism behind and look toward a future with optimism, convinced that a better Puerto Rico is possible. The time to decide has come. The time to act has come. The time to vote for Puerto Rican decolonization has come. The time for Puerto Rican progress has come.

God bless our Fatherland.

Good night.

I, Jason Schrier, USCCI # 10-067/translator, certify that the forgoing is a true and accurate translation to the best of my abilities, of the document in Spanish which I have seen.

# Exhibit Y

Puerto Rico

# Budget Includes Significant Funding for Unspecified 'Other Operational Costs'

Gov. Ricardo Rosselló's fiscal 2018 budget proposal includes hundreds of millions of dollars in agency-level earmarks for unspecified "other operational costs" that could be used to pay down legacy debts, Office of Management and Budget Director José Iván Marrero said Wednesday as legislative hearings on the spending package got under way at the Capitol.

Marrero told Reorg Research after the eight-hour hearing that the earmarks count as expenditures rather than reserves and that earmarks could be used to amortize bills left pending from previous budgets.

"We're pursuing a public policy that ends the practice of carrying debts over between budgets," the OMB chief said. Marrero added that it would not be accurate to characterize the earmarks as reserves on top of a $190 million liquidity reserve required by the PROMESA oversight board and included in the governor's proposed $9.56 billion general fund budget for the fiscal year that starts July 1.

Marrero said the allotments are not related to what some bondholders have criticized as a 10-year, $6.2 billion reconciliation adjustment implied in the certified fiscal plan that would serve as a cushion for cost overruns. "No, they are expenditures," Marrero said.

House Minority Leader Rafael "Tatito" Hernández circulated a list of such earmarks totaling $525 million at 13 agencies that he referred to as "fiscal plan reconciliation adjustments." The earmarks cited range from a low of $3 million at the Fire Department to highs of $75 million at the Education Department, $90 million at the Treasury Department and $100 million at the Health Department.

Hernández, who chaired the House Treasury Committee during the previous governing term, questioned members of the administration's fiscal team as to whether the earmarks could be tapped if U.S. District Judge Laura Taylor Swain were to order the commonwealth debtors to make debt service payments above the level contemplated in the proposed budget and/or certified fiscal plan as part of the debtors' ongoing Title III proceedings.

Mohammad Yassin, general counsel at the Fiscal Agency and Financial Advisory Authority, answered that section 305 of PROMESA would block the judge from making such a move. "The judge doesn't have that authority," Yassin said.

Marrero told lawmakers in the joint hearing by the House Treasury Committee and Senate Treasury Committee that it is difficult to pinpoint how the earmarks may be spent, given the lag in audited financial statements, adding that they were based on historic budget woes at given agencies.

Puerto Rico government fiscal officials pointed to a lack of sound, updated financial data as a chief challenge in drafting Rosselló's fiscal 2018 budget proposal.

"One of the biggest challenges was the lag in audited financials. We didn't have reliable sources of information on government spending to draw on," Marrero testified, noting that the most recent comprehensive annual financial report dates back to fiscal 2014. Administration officials are working to get the fiscal 2015 and fiscal 2016 CAFRs out by this fall.

Marrero also pointed to a disjointed government accounting system as a hurdle to budgeting and financial disclosure processes, citing as an example the accounting system at the sprawling Education Department that cannot "communicate" directly with the Treasury Department.

Fiscal Agency and Financial Advisory Authority Executive Director Gerardo Portela signaled that efforts under way to shore up information technology infrastructure would improve financial reporting that is key to complying with PROMESA and the certified fiscal plan, as well as regaining credibility on the capital markets.

Portela noted that a "blueprint" for improved financial reporting will be in place by August, when the Puerto Rico government, in conjunction with the PROMESA board, is tasked with developing a work itinerary for the governor to present and certify to the PROMESA board a range of monthly and quarterly reports as stipulated in Joint Resolution 187, one of four budget bills filed by the governor. Those reports are in addition to those that the governor must present to the board under Section 203 of PROMESA.

Marrero told lawmakers that the fiscal 2018 budget proposal was atypical because, among other reasons, the revenue estimates underpinning it were provided by the PROMESA oversight board. "Typically we would wait for revenue estimates from the Treasury Department. This time they ran through the PROMESA oversight board," he said, pointing to section 202(b) of the federal statute.

House Treasury Committee Chairman Antonio Soto stressed that the revenue estimates were set by the PROMESA board, and he questioned the fiscal officials on that process.

Treasury Secretary Raúl Maldonado said the revenue projections were hammered out in daily meetings with PROMESA board consultants that entailed "line-by-line" analysis of existing taxes, new revenue measures and non-legislative measures including those based on input from the U.S. Treasury Department.

Marrero said in prepared testimony - which was also signed by the heads of AAFAF, Treasury and the Government Development Bank - that net revenue to the general fund "has particular importance."

The estimate of $9.172 billion in net revenue to the general fund in fiscal 2018 is $84 million less than the $9.256 billion target for the current fiscal year that ends June 30. The projected total for fiscal 2018 includes $924 million from "additional income measures," so projections tied to current taxes reach $8.248 billion.

The revenue projections include significant declines in sales-and-use tax collections (down to $1.567 billion in fiscal 2018 from $1.701 billion this year) and the Law 154 excise tax on offshore manufacturers (down to $1.533 billion from $2.052 billion). The other revenue targets are lower across the board, including the corporate income tax, individual income tax, non-resident withholdings and taxes on alcoholic beverages, cigarettes, automobiles, rum shipments and "others."

Maldonado and Marrero both said the revenue targets were set using the most conservative macroeconomic projections. The Planning Board had been scheduled to testify during the opening hearing on Wednesday but did not, and it was not clear that its testimony would be rescheduled.

Faced with anticipated revenue declines, the Treasury Department is ramping up compliance efforts, according to Maldonado, who said that 200 to 300 commonwealth employees would be transferred in under the new "single employer" law to work on tax collection efforts. The Treasury chief told Reorg Research that the agency has weighed a range of tax reform scenarios that are being presented to the governor with an eye toward the filing of legislation within two weeks.

The general fund fund budget proposal of $9.562 billion is $575 million more than current fiscal 2017 budget and is $390 million more than the $9.172 billion in projected tax revenue for the coming fiscal year. That $390 million gap will be bridged with the proceeds of pension system asset sales, $390 million of which is earmarked for the general fund to help cover pension payments as established in Joint Resolution 188.

The prepared testimony provided a breakdown of the $25.569 billion consolidated budget for fiscal 2018:

- **General fund net revenue** – $9.172 billion
- **General fund other assignments** – $390 million
- **Federal funds** – $6.371 billion
- **Other incomes** – $2.037 billion
- **Own incomes** – $7.059 billion
- **Special state funds** – $515 million
- **Public improvements fund** – $0
- **Loans and bond issues** – $25 million.

While net revenues for the general fund would edge up 2% from the current fiscal year, nearly all of the other categories would decline. The lone exception among them is the "other incomes" category, which would surge nearly 181% to $2.037 billion from the current year's $726 million.

The prepared testimony said the most significant changes in the consolidated budget include a decrease of $1.173 billion, or 7%, in consolidated operational spending, and a decrease of $1.403 billion, or 21.8%, in subsidies. These cuts would be offset by converting the pension system into a pay-go "subsidy" of the government of $2.552 billion.

Senate Treasury Committee Chairwoman Migdalia Padilla said budget adjustments required by the PROMESA board would be addressed during the legislative process, but she declined to detail them during the hearing, under pressure from minority lawmakers.

Fiscal officials were asked about the board's recertification of the fiscal plan that incorporated the revised revenue forecasts, including the elimination of some $519 million in non-general-fund sales-and-use tax revenue.

"That $519 million is COFINA money," AAFAF Director Portela said.

---

# Exhibit Z

GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

June 20, 2017

**Mr. José B. Carrión**
Chair
Financial Oversight and Management Board

Dear Mr. Chairman:

We have received your letter, dated June 16, 2017 (the "Letter"), in which the Financial Oversight and Management Board for Puerto Rico (the "Board") states that "we are at a critical juncture that requires that we collectively strengthen [our] resolve" towards the successful implementation of the *Puerto Rico Oversight, Management, and Economic Stability Act* ("PROMESA") while raising concerns that: (1) the collaborative efforts between the Board and the Government of Puerto Rico (the "Government") may be waning; and (2) recent public discourse mischaracterizes the dire fiscal situation facing Puerto Rico.

As an initial matter, we find the letter to be confusing and in many respects troubling. The allegation that the Government has not been publicly forthright with respect to Puerto Rico's financial and economic crisis is simply untrue. Moreover, the letter ignores the Government's good-faith efforts and accomplishments in meeting the short deadlines for submissions to the Board of the Fiscal Plan and Budget (each as defined below), including producing extensive back-up documentation. Additionally, the Government has made available its staff, professionals, and advisors to assist in the preparation for filing Title III cases and the Board's subsequent prosecution of those cases. Putting aside the Letter's mixed and ambiguous messaging, the Government assumes that the Board is sincere in its desire "to continue working with [the Government] and the Legislature to accomplish the considerable remaining requirements and goals of PROMESA." On the basis that the goals of the Board and the Government should be truly the same, we write in response to the Board's concerns.

The Letter asserts that the "close and positive collaboration between the Board and the administration—and their respective teams of advisors—may be receding." This statement does not reflect reality, especially, when considering that for the past few months the Government, Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Department of Treasury of Puerto Rico (the "Treasury Department"), and the Puerto Rico Office of Management and Budget (the "OMB"), and their advisers have held, and continue to hold, meetings and conference calls on a daily basis with the Board's advisors in order to complete and certify the 2017-2018 fiscal budget (the "Budget").

GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

Furthermore, the letter seems to suggest that the Government is oblivious to the severity of the fiscal crisis confronting Puerto Rico. In that regard, the Board has failed to recognize or acknowledge the many significant actions taken by the Government over the last six months, beyond those required by PROMESA and the Board, directed at correcting Puerto Rico's dire financial situation.[1] All of these actions have called upon the people of Puerto Rico to bear their fair share of sacrifices necessary to address the crisis.

The Government is fully committed to taking all necessary measures in order to achieve the certification of the Budget in time for the start of the 2017-2018 fiscal year pursuant to PROMESA and in conformance with the March 13, 2017's certified fiscal plan, as amended (the "Fiscal Plan"). This commitment also includes working toward the timely Board certification of the corresponding liquidity and implementation plans (the "Liquidity and Implementation Plans") which are indispensable for the effective implementation of both the Fiscal Plan and the Budget.

As you correctly note, "[t]ransparency is a guiding principle specifically mandated by PROMESA . . . [and is] a guiding principle of the Governor's administration." However, we disagree with your assertion that the Government has failed to live up to its own principle of transparency, stating 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

---

1 These actions include: (i) directing government agencies to cut their total fiscal year 2017 budgets by 10% from January to June 2017 pursuant to Executive Order 2017-001; (ii) creating a Center for Federal Opportunities within the Governor's office to provide consulting services to agencies and NGOs to better take advantage of federal funding opportunities pursuant to Executive Order 2017-002; (iii) declaring an infrastructure state of emergency and providing an expedited process for approval and implementation of critical infrastructure projects pursuant to Executive Order 2017-003; (iv) creating an interagency group to coordinate work by various agencies to streamline permitting and regulatory approvals for critical infrastructure projects pursuant to Executive Order 2017-004; (v) establishing a public policy requirement that government agencies have zero-based budgets starting in fiscal year 2018 pursuant to Executive Order 2017-005; (vi) ordering additional budget cuts of 5% in all Government acquisitions, pursuant to Executive Order 2017-009; (vii) enacting Law 3-2017, which allows for taking immediate emergency and cost cutting measures to reduce the Government's operating expenses; (viii) enacting the *Puerto Rico Financial Emergency and Fiscal Responsibility Act* (Act 5-2017), which amended the prior Act 21-2016 to prioritize essential services over debt payments and extended the emergency period for revenue clawbacks to August 1, 2017 pursuant to Executive Order 2017-31; (ix) directing executive branch agencies to submit reports detailing steps taken and savings achieved under fiscal control orders pursuant to AAFAF Administrative Order 2017-02; (x) authorizing AAFAF, the OMB, and the Treasury Department to supervise the implementation of the budget control measures, pursuant to Executive Order 2017-033; (xi) enacting Law 8-2017, which allows for the transfer of workers across the Government to save $100 million through mobility and attrition; (xii) enacting Law 20-2017, which consolidates law enforcement and other public safety agencies under a Public Safety Department, saving $25 million; (xiii) enacting Law 25-2017, which provides measures for enforcing collection of sales taxes on internet transactions to generate $35 million to $55 million in new revenue; and (xiv) enacting Law 26-2017, which levels out marginal benefits across the Government and its instrumentalities to generate $130 million in savings, increase revenues, and expedite the process of asset disposition.

impact of some of the fiscal responsibility measures mandated in the fiscal plan." From this administration's first day in office, the Government has at all times been transparent with both the Board, its creditors, and the people of Puerto Rico. In fact, on June 15 the Board filed a status report in the Commonwealth's Title III cases stating that AAFAF has opened a dataroom and provided detailed disclosure to creditors regarding the Government's financial situation.[2]

Indeed, the local media's reporting with respect to the Government's supposed enhanced liquidity situation was unexpected. However, in response to those reports, AAFAF quickly emphasized in a press release projected liquidity therefrom as reflected in the latest TSA report were due to ***"extraordinary and non-recurrent"*** and ***"do not represent that the Government of Puerto Rico is in a better financial position"*** (emphasis added). AAFAF's press release contained a clear warning that the Government's recent measures would not put Puerto Rico in a better financial position. In addition, the media appearances on behalf of the Government quickly and diligently explained why the liquidity numbers being reported by the local media should ***not*** be construed in any way to suggest that the Commonwealth is now in a better financial position.

The Oversight Board, in its oversight capacity, has not requested the Government to publically disclose any information that should have been properly disclosed in connection with the Fiscal Plan or budgetary process. Nor is the Government aware of any statements or actions it has taken to date that would indicate a lack of diligence or effort in transparently providing critical financial information to the Board and all interested parties. More so, this administration's commitment to transparency is unequivocally demonstrated by his sponsorship of Senate Bill 561/House Bill 1095 (A-034), pending before the Puerto Rico Legislative Assembly, for establishing a statutory right for citizens to request access to all public records. Furthermore, and within days after taking office, this administration instructed Government agencies to timely respond to requests for access to public records, pursuant to Executive Order 2017-010.

The Letter also requests the Government "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." We respectfully draw the Board's attention to the fact that the Board approved and certified the Fiscal Plan submitted to it by the Government, which was premised upon ensuring the "funding of essential public services." *See* PROMESA § 201(b)(1)(B). Unfortunately, the letter conveys the impression that the Government and the Board did not work closely together in determining the resources necessary to fund essential public services and were not in agreement as to the necessary level of funding to ensure that essential public services be

---

2 *See* Debtors' Status Report Regarding (A) Financial Disclosures to Creditors and (B) Status of Settlement Discussions, *In re Commonwealth of Puerto Rico*, Case No. 17 BK 3283-LTS (D. P.R. Jun. 15, 2017) [D.I. 350], at ¶¶ 14-15.

made available under the Budget. In fact, the Government is currently, and will continue, working with the Board to finalize the fiscal year 2018 Budget, which will make approximately $1 billion in expenditure cuts, including education and health, as mandated by the Fiscal Plan.

While we acknowledge and appreciate the extra time that the Board provided to the Government to develop the Fiscal Plan and Budget, we wish to remind each Board member that the Government has accommodated the Board at every turn, including by submitting the Fiscal Plan to the Board within the first 58 days of this administration and accommodating the Board's strongly held views regarding revenue projections and subsequent amendments to the Fiscal Plan.

The Government remains fully committed to working with the Board on the successful implementation of the Fiscal Plan and its continued compliance with the statutory provisions of PROMESA, including the certification of the Budget and the Liquidity and Implementation Plans that comply with all of the Board's requirements. Toward that end, the Government will continue to work cooperatively with the Board to accomplish the goals of PROMESA and to put Puerto Rico on the path towards sustainable economic growth and fiscal responsibility. We look forward to continue in this close collaboration for the benefit of the People of Puerto Rico and all stakeholders.

Sincerely,

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico

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

cc. Andrew G. Biggs
Carlos M. García
Arthur J. González

GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

José R. González
Ana J. Matosantos
David A. Skeel, Jr.
Elías F. Sánchez-Sifonte
Natalie Jaresko
Gerardo Portela Franco

exact repetition of what was provided in the Organic Act, but they did not present said matter in the debates. The socialist sector originally supported the same solution, but it also had no objection to make to the popular proposal.

## 9. RESTRICTIONS TO THE USE OF PROPERTIES AND PUBLIC FUNDS: SECTION 9 OF ARTICLE VI

This section has already been commented in discussing the freedom of religion and the principle of separation of Church and State.[80]

---

78 See Prop. No. 103, Art. XXXIX.

79 See Prop. No. 94, Art. X, Sec. 3

80 Ante, Chapter XXXV, 4.

Certified to be a true and correct translation from its original.

Aida Torres

Aida Torres, USCCI
Tel. 787.723.4644/787.225.8218
Fax: 787.723.9488

10/21/15

# Exhibit AA

DEBTWIRE

# Puerto Rico allocating budget resources to ease University of Puerto Rico funding cut (translated)

16 June 2017 | 15:12 EDT

Puerto Rico's fiscal team has identified budget resources to ease the cut in government funding for the University of Puerto Rico to USD 160m from a previously forecast USD 202m.

The government announced the revised budget cut projection in a Spanish-language press release today which cited Public Affairs and Public Policy Secretary Ramon Rosario Cortes.

Government budget resources amounting to USD 15m in new special funds for operational costs, another USD 15m to fund permanent improvements and an additional USD 10m for training and technical assistance will be contributed to the university, Rosario Cortes was cited as saying in the press release.

The additional funds will allow the Puerto Rican government to provide the university with more resources than what was recommended by the Financial Oversight and Management Board (FOMB) and will lower the FOMB's projected USD 202m cut in government funding for the university to roughly USD 160m, the press release said.

The government's fiscal team met today with university representatives to discuss the additional budget allocations, Rosario Cortes noted.

The government is complying with Puerto Rico Governor Ricardo Rossello's instructions to make all of the government's expert resources available to the university, which the governor intends to maintain operating to produce the benefits Puerto Rico will need in the 21st century, Rosario Cortes added.

**Municipals**

Government
Puerto Rico

**Issuer**
Government Of Puerto Rico

**Financial Advisor(S)**
Ankura Consulting Group, LLC
Conway MacKenzie

**Financial Advisor(S)**
Greenberg Traurig LLP
O'Melveny & Myers LLP

**Lawyer(S)**
Bernstein, Shur, Sawyer & Nelson, P.A.
Dentons
Dykema Gossett PLLC

**Restructuring Advisor(S)**
Fox Rothschild LLP

**Issuer**
University Of Puerto Rico

**Other**
Ambac Assurance Corporation

**Other**
Assured Guaranty Limited

**Other**
Financial Guaranty Insurance Company (FGIC)

**Other**
National Public Finance Guarantee Corporation

**Other**
Syncora Guarantee Inc.

**Obligor**
Government Of Puerto Rico

**Obligor**
University Of Puerto Rico

# Exhibit BB

Reorg Research

Fri 06/09/2017 06:19 AM

Puerto Rico

# House Treasury Committee Chief Says PROMESA Board Concerns Factored Into Budget Process

Legislative leaders and the PROMESA oversight board are getting on the "same page" on the budget approval process after a meeting this week to discuss the board's concerns over Gov. Ricardo Rosselló's proposed spending package for fiscal 2018, House Treasury Committee Chairman Antonio Soto told Reorg Research on Thursday.

Soto met with the PROMESA board's "technical team" on Tuesday to discuss the concerns and required adjustments sketched out by the board in a letter last week to Rosselló, Senate President Thomas Rivera Schatz and House Speaker Carlos "Johnny" Méndez.

"It was a good meeting. Obviously we worked on the issues cited in their letter, specifically their concerns over special assignments and discretional spending in the budget as well as certain metrics related to cost-cutting by the commonwealth government," Soto told Reorg Research during a break in the second day of budget hearings at the Capitol.

"We took up all of their concerns so we can get on the same page in terms of working the budget in keeping with those concerns," he said.

Soto, who is steering approval of the budget in the legislature, has said he expects the process to further define what is considered essential services.

"The special assignments flagged by the board are expenditures or assignments that they see as excessive or non-essential," he told Reorg Research.

Asked for examples, Soto cited festivals, carnivals and "programs that maybe aren't clearly defined as essential services."

"Some of these programs funded by special assignments are open to the incorrect interpretation that they are not essential services when they are. So the board may see them as fat that can be cut," he said.

The House Treasury Committee chief said earmarks in the budget for unspecified "other operational costs" are largely spoken for, saying many of them are already destined for a range of uses including information technology investments and other specific measures at the agency level.

DPR MODIFIED PROMESA B1040 (FORM 1040) (05/17)

| **PROMESA COVER SHEET**<br>(Instructions on Reverse) | **CASE NUMBER**<br>(Court Use Only) |
|---|---|
| **PLAINTIFFS (DEBTOR, if Title III Petition; ISSUER, if Title VI Application)**<br>ACP Master, Ltd., Aurelius Capital Master, Ltd., Aurelius Convergence Master, Ltd., Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, Autonomy Master Fund Limited, Corbin Opportunity Fund, L.P., FCO Special Opportunities (A1) LP, FCO Special Opportunities (D1) LP, FCO Special Opportunities (E1) LLC – Master Series 1, Fundamental Credit Opportunities Master Fund LP, Jacana Holdings I LLC, Jacana Holdings II LLC, Jacana Holdings III LLC, Jacana Holdings IV LLC, Jacana Holdings V LLC, Lex Claims, LLC, LMAP 903 Limited, MCP Holdings Master LP, Monarch Alternative, Solutions Master Fund Ltd, Monarch Capital Master Partners II LP, Monarch Capital Master Partners III LP, Monarch Capital Master Partners IV LP, Monarch Debt Recovery Master Fund Ltd, Monarch Special Opportunities Master Fund Ltd, MPR Investors LLC, P Monarch Recovery Ltd, P STONE LION IE, a fund of Permal Managed Account Platform ICAV, Permal Stone Lion Fund Ltd., Pinehurst Partners, L.P., Prisma SPC Holdings Ltd.—Segregated Portfolio AG, RRW I LLC, Senator Global Opportunity Master Fund LP, SL Liquidation Fund L.P., SL Puerto Rico Fund II L.P., and SL Puerto Rico Fund L.P. | **DEFENDANTS**<br>Commonwealth of Puerto Rico<br>Financial Oversight Management Board |
| **ATTORNEYS** (Firm Name, Address, and Telephone No.)<br>Mark T. Stancil<br>Lawrence S. Robbins (admitted *pro hac vice*)<br>Mark T. Stancil (admitted *pro hac vice*)<br>Gary A. Orseck (admitted *pro hac vice*)<br>Kathy S. Zecca (admitted *pro hac vice*)<br>Ariel N. Lavinbuk (admitted *pro hac vice*)<br>Donald Burke (admitted *pro hac vice*)<br>ROBBINS, RUSSELL, ENGLERT, ORSECK, UNTEREINER & SAUBER LLP<br>1801 K Street, NW<br>Washington, D.C. 20006<br>Telephone: (202) 775-4500<br><br>Andrew N. Rosenberg<br>Andrew N. Rosenberg (admitted *pro hac vice*)<br>Walter Rieman (admitted *pro hac vice*)<br>Richard A. Rosen (admitted *pro hac vice*)<br>Kyle J. Kimpler (admitted *pro hac vice*)<br>Karen R. Zeituni (admitted *pro hac vice*)<br>PAUL,WEISS, RIFKIND,WHARTON & GARRISON LLP<br>1285 Avenue of the Americas<br>New York, NY 10019<br>Telephone: (212) 373-3000<br><br>J. Ramón Rivera Morales<br>Po Box 366104<br>San Juan, PR 00936 | **ATTORNEYS** (If Known)<br>Proskauer Rose, LLP<br>Martin Bienenstock, Esq.<br><br>O'Neil & Borges, LLC<br>Herman Bauer, Esq. |

DPR MODIFIED PROMESA B1040 (FORM 1040) (05/17)

| **PARTY** (Check One Box Only) | **PARTY** (Check One Box Only) |
|---|---|
| ☐ Debtor<br>X Creditor<br>☐ Trustee<br>☐ U.S. Trustee/Bankruptcy Admin<br>☐ Other | X Debtor<br>☐ Creditor<br>☐ Trustee<br>☐ U.S. Trustee/Bankruptcy Admin<br>☐ Other |

**CAUSE OF ACTION** (WRITE A BRIEF STATEMENT OF CAUSE OF ACTION, INCLUDING ALL U.S. STATUTES INVOLVED)

Declaratory and equitable relief on Enforcement of Rights 48 USC 2170 Adversary Proceeding; 48 USC 2166

## NATURE OF SUIT

☐ PROMESA Title III Petition ☐ PROMESA Title VI Application for Approval of Modifications
☐ Other Federal Question X Adversary Proceeding ☐ Demand $ ____________

*If Adversary Proceeding is checked, number up to five (5) boxes starting with lead cause of action as 1, first alternative cause as 2, second alternative cause as 3, etc., below:*

**FRBP 7001(1) – Recovery of Money/Property**
☐ 11-Recovery of money/property - §542 turnover of property
☐ 12-Recovery of money/property - §547 preference
☐ 13-Recovery of money/property - §548 fraudulent transfer
☐ 14-Recovery of money/property – other

**FRBP 7001(2) - Validity, Priority or Extent of Lien**
☐ 21-Validity, priority or extent of lien or other interest in property

**FRBP 7001(5) – Revocation of Confirmation**
☐ 51-Revocation of confirmation

**FRBP 7001(7) – Injunctive Relief**
☐ 71-Injunctive relief - imposition of stay
X 72-Injunctive relief - other

**FRBP 7001(8) Subordination of Claim or Interest**
☐ 81-Subordination of claim or interest

**FRBP 7001(9) Declaratory Judgment**
☐ 91-Declaratory judgment

**FRBP 7001(10) Determination of Removed Action**
☐ 01-Determination of removed claim or cause

**Other**
☐ 02-Other (e.g. other actions that would have been brought in state court if unrelated to bankruptcy case)

## TITLE III CASE IN WHICH THIS ADVERSARY PROCEEDING ARISES

| NAME OF DEBTOR | CASE NO. | |
|---|---|---|
| Commonwealth of Puerto Rico | 17-BK-3283 | |
| DISTRICT IN WHICH CASE IS PENDING | DIVISION OFFICE | NAME OF JUDGE |
| Puerto Rico | SJ | LTS |

| RELATED ADVERSARY PROCEEDING (IF ANY) | | |
|---|---|---|
| PLAINTIFF | DEFENDANT | ADVERSARY PROCEEDING NO. |
| DISTRICT IN WHICH CASE IS PENDING | DIVISION OFFICE | NAME OF JUDGE |
| SIGNATURE OF ATTORNEY (OR PLAINTIFF) | | |
| DATE<br>27 June 2017 | PRINT NAME OF ATTORNEY (OR PLAINTIFF)<br>/s/ Ramón Rivera Morales | |

THIS FORM IS TO BE USED EXCLUSIVELY FOR FILINGS RELATING TO THE PUERTO RICO OVERSIGHT MANAGEMENT AND ECONOMIC STABILITY ACT (PROMESA). FOR ADMINISTRATION PURPOSES ONLY, THE PUBLIC DOCKETS FOR PROMESA PROCEEDINGS UNDER TITLE III AND ADVERSARY PROCEEDINGS WILL BE MAINTAINED ON THE CASE MANAGEMENT/ELECTRONIC CASE FILING (CM/ECF) SYSTEM OF THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF PUERTO RICO. THESE CASES ARE UNDER THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF PUERTO RICO.

# Exhibit W

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

**UNANIMOUS WRITTEN CONSENT APPROVING CERTIFIED FISCAL PLAN, AS CORRECTED**

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was enacted; and

WHEREAS section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico (the "Board"); and

WHEREAS section 201 of PROMESA establishes a multi-step procedure for the development, review, and approval of a fiscal plan for Puerto Rico, requiring that (*i*) the Governor must submit a proposed fiscal plan to the Board; (*ii*) the Board must review the proposed fiscal plan and determine either that it satisfies PROMESA's requirements or that it does not, in which case the Board must issue a notice of violation and recommended revisions, giving the Governor an opportunity to correct the violations; (*iii*) the Governor may then submit a revised proposed fiscal plan to the Board; and (*iv*) if the Governor fails to timely submit a proposed fiscal plan that the Board determines in its sole discretion satisfies PROMESA's requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

WHEREAS, on March 13, 2017, the Board held a public hearing on the most recent proposed fiscal plan submitted by the Governor; and

WHEREAS, after substantial deliberations, and after having received public comment on the Governor's proposed fiscal plan and the Board's recommended modifications to it, the Board certified the Governor's proposed fiscal plan, subject to certain amendments adopted at the March 13, 2017 meeting; and

WHEREAS, after the March 13, 2017 meeting, the Board approved and re-certified the fiscal plan to correct certain typographical and formatting errors and adopted other minor changes thereto; and

WHEREAS, the Governor has proposed certain revisions to the certified fiscal plan, which revisions are set forth in the letter attached as Exhibit A hereto; and

WHEREAS the Board has had the opportunity to consider the Governor's proposed revisions to the certified fiscal plan and discuss them with its experts, consultants, and attorneys, and believes that they are satisfactory; and

WHEREAS, after substantial deliberations, the Board has determined to approve the Governor's proposed revisions and certify the fiscal plan as so revised; and

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT the Board approves and certifies the revisions proposed by the Governor and certifies the fiscal plan as so revised

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

José B. Carrión, Chair

Dated: May 31, 2017

Andrew G. Biggs

Dated: May 31, 2017

Carlos M. García

Dated: May 31, 2017

Arthur J. González

Dated: May 31, 2017

José R. González

Dated: May 31, 2017

Ana J. Matosantos

Dated: May 31, 2017

David A. Skeel, Jr.

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

________________________________
José B. Carrión, Chair

Dated: May 31, 2017

________________________________
Andrew G. Biggs

Dated: May 31, 2017

________________________________
Carlos M. García

Dated: May 31, 2017

________________________________
Arthur J. González

Dated: May 31, 2017

________________________________
José R. González

Dated: May 31, 2017

________________________________
Ana J. Matosantos

Dated: May 31, 2017

________________________________
David A. Skeel, Jr.

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

________________________________
José B. Carrión, Chair

Dated: May 31, 2017

________________________________
Andrew G. Biggs

Dated: May 31, 2017

________________________________
Carlos M. García

Dated: May 31, 2017

________________________________
Arthur J. González

Dated: May 31, 2017

________________________________
José R. González

Dated: May 31, 2017

________________________________
Ana J. Matosantos

Dated: May 31, 2017

________________________________
David A. Skeel, Jr.

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

José B. Carrión, Chair

Dated: May 31, 2017

Andrew G. Biggs

Dated: May 31, 2017

Carlos M. García

Dated: May 31, 2017

Arthur J. González

Dated: May 31, 2017

José R. González

Dated: May 31, 2017

Ana J. Matosantos

Dated: May 31, 2017

David A. Skeel, Jr.

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

José B. Carrión, Chair

Dated: May 31, 2017

Andrew G. Biggs

Dated: May 31, 2017

Carlos M. García

Dated: May 31, 2017

Arthur J. González

Dated: May 31, 2017

José R. González

Dated: May 31, 2017

Ana J. Matosantos

Dated: May 31, 2017

David A. Skeel, Jr.

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

______________________________
José B. Carrión, Chair

Dated: May 31, 2017

______________________________
Andrew G. Biggs

Dated: May 31, 2017

______________________________
Carlos M. García

Dated: May 31, 2017

______________________________
Arthur J. González

Dated: May 31, 2017

______________________________
José B. González

Dated: May 31, 2017

______________________________
Ana J. Matosantos

Dated: May 31, 2017

______________________________
David A. Skeel, Jr.

pursuant to PROMESA § 201(e), as modified by the amendments adopted at the March 13, 2017 public meeting; and it is

FURTHER RESOLVED that the Board will issue a compliance certification for the revised fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: May 31, 2017

José B. Carrión, Chair

Dated: May 31, 2017

Andrew G. Biggs

Dated: May 31, 2017

Carlos M. García

Dated: May 31, 2017

Arthur J. González

Dated: May 31, 2017

José R. González

Dated: May 31, 2017

Ana J. Matosantos

David Skeel

Dated: May 31, 2017

David A. Skeel, Jr.