

Congress of the United States

Washington, DC 20515

October 30, 2018

Mr. José B. Carrión III
Chairman
Financial Oversight and Management Board for Puerto Rico
P.O. Box 192018
San Juan, PR 00919-2018

Dear Chairman Carrión:

We write with grave concern about the future of Puerto Rico as a result of the revised fiscal plans you certified last week. It is imperative that the Financial Oversight and Management Board (FOMB) immediately reconsider the impact overly generous debt service will have on the economy of the Island, and the devastating impact continued austerity will have on our fellow U.S. citizens going forward.

As you are well aware, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was crafted as a holistic solution to Puerto Rico's dire economic situation. The law aimed to provide Puerto Rico with an orderly way to reduce its debt, the ability to continue paying its employees and pensioners during the restructuring process, and ultimately emerge fiscally sound. Section 201(b) includes a mandate to ensure the funding of essential public services and provide adequate funding for public pension systems. Congress never intended PROMESA to be used to grant Puerto Rico's creditors a priority, yet your fiscal plans would appear to do so, which is a clear contravention of Congressional intent.

The revised Commonwealth fiscal plan for Puerto Rico – misleadingly labeled “Restoring Growth and Prosperity” – imposes a reduction of \$629 million in government spending for fiscal year 2019 with total reductions reaching \$1.6 billion in fiscal year 2020¹. You expect the government to achieve these savings by reducing spending in education, pensions and healthcare, among other austerity measures. However, the fiscal plan also projects a \$30 billion surplus during the next 15 years, driven in large part by the approximate \$80 billion in disaster relief funding following the hurricanes. As a result, Puerto Rico bonds have been among the best-performing debt investments in 2018. The general obligation bonds, many of them bought at a steep discount, rallied strongly upon release of your plan.

¹ See Financial Oversight and Management Board for Puerto Rico “New Fiscal Plan for Puerto Rico: Restoring Growth and Prosperity,” October 23, 2018, at Exhibit 84.

In fact, pre-hurricane Maria, the amount potentially available for debt service through 2023 was approximately \$4.5 billion.² Under last week's fiscal plan, the amount increases to approximately \$17 billion³, an approximate 275% jump (and the difference is even greater, given the separate treatment of COFINA under the new Commonwealth fiscal plan). Siphoning federal funds intended to benefit the people of Puerto Rico to creditors would be simply unacceptable. To the contrary, the \$30 billion surplus should be invested in growth initiatives and a reduction of austerity measures, so that the economy has a chance to grow for the long-term, and avoid the long-term perpetual deficits that are forecast by the plan.

The COFINA restructuring deal that was recently reached is a case in point. It imposes escalating debt payments for the next 20 years despite no clear path for the Island's economic growth. It presents a windfall for investors in the junior COFINA bonds, which traded as low as 8.2 cents on the dollar in November 2017 and are projected to recover 56 cents in the agreement. Structuring generous deals for bondholders in the short-term, while imposing severe long-term austerity measures on the people of Puerto Rico, does not comport with the spirit of PROMESA and raises more questions than answers.

These arrangements raise serious questions, which we request a written response to by November 2, 2018:

1. How do you achieve fiscal responsibility when using your own figures to project a massive surplus for the first ten years and then declining projections for 7 years⁴ and perpetual deficits thereafter?
2. How do you establish fiscal targets that create a deficit even if the local government was to implement all your suggested structural reforms?⁵
3. Why impose any pension cuts as an additional austerity measure that would impact the economy and literally prevent retirees from putting food on their tables?
4. What specific studies have been conducted to confirm that the labor reform you strongly propose would attract new companies to the Island?
5. How do you determine that depriving many underpaid employees of an annual bonus is worth the detrimental impact that it can have on the local economy?
6. How do you justify the reductions in funds to the University of Puerto Rico when education on the Island is of paramount importance?
7. What assurance can you provide that the \$30 billion surplus will not be used to fund overly generous deals with bondholders, effectively diverting federal funds intended to benefit the people of Puerto Rico to bail out creditors?
8. What measures are under consideration to stimulate long-term growth of the economy, instead of the perpetual deficits that you forecast, aside from structural reforms?

We remind you that an estimated 3,000 American citizens in Puerto Rico died as a result of Hurricane Maria and its aftermath. Puerto Rico is still recovering from a catastrophic storm that

² See Financial Oversight and Management Board for Puerto Rico "Fiscal Plan for Puerto Rico," March 13, 2017, at page 10.


³ See supra note 1.


⁴ The New Commonwealth Fiscal Plan projects deficits as of fiscal year 2034 onward.

⁵ The New Commonwealth Fiscal Plan, Exhibit 21.


impacted the lives of so many and contributes to the ongoing exodus from the Island. The Oversight Board was established to help shepherd Puerto Rico back to financial health, not to protect the interests of Wall Street investors. We urge you to fulfill that mandate.

Sincerely,


Nydia M. Velázquez
Member of Congress


José E. Serrano
Member of Congress


Elizabeth Warren
United States Senator


Darren Soto
Member of Congress

Cc:

- Natalie Jaresko, Executive Director, FOMB
- Andrew G. Biggs, Member, FOMB
- Carlos M. García, Member, FOMB
- Arthur J. González, Member, FOMB
- José R. González, Member, FOMB
- Ana J. Matosantos, Member, FOMB
- David A. Skeel, Member, FOMB
- Christian Sobrino Vega, Ex-officio Member, FOMB