

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



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*Natalie A. Jaresko*  
Executive Director

**BY ELECTRONIC MAIL**

December 27, 2018

The Honorable Mark Pocan  
U.S. House of Representatives

The Honorable Nydia Velázquez  
U.S. House of Representatives

The Honorable Pramila Jayapal  
U.S. House of Representatives

The Honorable José Serrano  
U.S. House of Representatives

The Honorable Raul Grijalva  
U.S. House of Representatives

The Honorable Bernie Sanders  
U.S. Senate

Dear Representatives Pocan, Jayapal, Grijalva, Velazquez, Serrano and Senator Sanders:

The Financial Oversight and Management Board for Puerto Rico has received and reviewed your letter, dated December 6, 2018, concerning the certified Fiscal Plan for the Commonwealth of Puerto Rico, and appreciates this opportunity to respond.

As the Oversight Board previously stated in its letter to certain members of Congress, dated November 14, 2018, the Fiscal Plan does not provide for the Commonwealth making any particular amount of debt payments, other than those already contemplated as part of the agreement reached with creditors of COFINA. Rather, the Fiscal Plan simply projects the expected primary surplus over the fiscal plan period – again, after taking into consideration the agreement reached with creditors of COFINA – without committing any of that expected primary surplus to debt service. Indeed, because the Fiscal Plan projects the Commonwealth will face significant deficits after 2033, the Fiscal Plan makes it clear that the Commonwealth must take affirmative steps to implement additional structural reforms and use shorter-term surpluses to manage longer-term deficits. Doing so would enable the Commonwealth to reach fiscal balance, improve the Island’s competitiveness, and increase the resources available for managing the Commonwealth’s long-term liabilities and, critically, reinvestment in the people of Puerto Rico.

Public investment is essential to the Fiscal Plan and to the future of Puerto Rico. The Fiscal Plan projects over \$80 billion in capital investment, funded by the federal government and private insurance proceeds, and requires that the Commonwealth and its public corporations, such as the electric, water, and highway authorities, prioritize their capital investment programs. Moreover, the Fiscal Plan committed the Commonwealth to investing over \$400 million in capital expenditures annually starting last year so that Puerto Rico adequately maintains its new, resilient

infrastructure. All of these investment initiatives, when efficiently executed, will contribute to a safer, cleaner, healthier, and more prosperous Puerto Rico for its people and businesses.

- The Fiscal Plan for the Commonwealth provides for not only capital expenditures but also, critically, reinvestment in public safety and education. The Fiscal Plan provides that all sworn police officers should receive a raise this year and sets aside \$122 million per year for the next three years sufficient to repay debts owed to the police from previous fiscal years. As for education, the Fiscal Plan budgets for new educational materials, such as new textbooks, and teacher development and retention through more, higher quality training, targeted skill development, and higher teacher salaries. The Fiscal Plan also takes the money saved from reductions to the budgets of the Oversight Board and certain Government entities, worth approximately \$35 million each year of the Fiscal Plan, and invests it in a need-based scholarship fund for students at the University of Puerto Rico, which is supplemental to the scholarship funding already available in the UPR budget.
- The fiscal plan for the electric utility provides for an approximately \$12 billion capital investment program funded by federal disaster-related funds over the next six years to help achieve the goals of low-cost, reliable, and resilient power. Historically, the electric utility has failed to make necessary investments in its infrastructure, leading it to rely on inefficient and dirty generation plants and an outdated and inadequate grid. Only with a wholesale transformation of the electric utility, which the fiscal plan projects will require approximately \$12 billion of capital investment, will the people and businesses of Puerto Rico get the power sector they deserve.
- The fiscal plan for the water utility requires a \$2 billion capital program of local and federal funds over the next six years with roughly \$1 billion focused on investment in projects to improve water quality and reliability through upgraded filtration plants, new transmission and distribution pipelines, upgraded wastewater treatment plants, and more sanitary truck sewers and collection systems. To execute on this significant capital improvement program, the fiscal plan for the water utility permitted it to hire hundreds of new employees. However, instead of hiring 100 new employees to be able to invest the funds in water quality and reliability projects, the water utility elected to spend that money on Christmas bonuses for its existing employees.
- The fiscal plan for the highway authority requires a \$3 billion capital program of local and federal funds over the next six years with over \$2 billion spent on highway-related improvements, about \$150 million allocated for transit-related improvements, and the rest on Hurricane Maria-related repair expenditures. However, recent reporting from the Government indicates that less than half of the non-emergency capital projects that the fiscal plan anticipated for this fiscal year are ongoing, and even emergency recovery capital programs have been delayed. The Oversight Board has repeatedly emphasized, as recently as today, that the highway authority must execute on the significant capital investment program in its fiscal plan to improve Puerto Rico's transportation network.

In addition to reinvestment, the Fiscal Plan requires the Government to undergo a responsible amount of rightsizing to adjust Government to a level commensurate with the Island's population and to provide better, more efficient services. This amount of rightsizing was determined based on benchmarks from comparable jurisdictions in the United States and adjusted to the specifics of

Puerto Rico in collaboration with the Government. In many cases, the level and approach of rightsizing in the Fiscal Plan comes directly from the agency that is subject to rightsizing. This does not make the Fiscal Plan an austerity-based plan.

These rightsizing measures in the Fiscal Plan, combined with the significant reinvestment that it calls for and projects, persuaded the Oversight Board unanimously to certify it as complying with all of PROMESA's mandates, particularly Section 201(b)(1)(B) ("ensure the funding of essential public services"), Section 201(b)(1)(C) ("provide adequate funding for public pension systems"), Section 201(b)(1)(E) ("... provide for a debt burden that is sustainable"), and Section 201(b)(1)(J) ("provide for capital expenditures and investments necessary to promote economic growth").

We have three final points. *First*, asserting that the Fiscal Plan set aside \$1.5 billion for operating costs for the Oversight Board over fiscal years 2018-2023 is a mischaracterization. The Fiscal Plan projects that is how much all Commonwealth restructuring-related expenditures will cost including the Oversight Board's operating expenses. Over two-thirds of that amount comprises restructuring-related expenditures for the Title III professionals for the Government, official creditor committees, and the Oversight Board. *Second*, the Oversight Board rejects any suggestion of conflicts of interest between the work of the Oversight Board or its members and Banco Popular, Santander Securities, or the Government Development Bank. Each of the Oversight Board's members were carefully vetted by the Obama Administration before they were appointed. Moreover, to address any concern of the appearance of a conflict, the Oversight Board created special independent committees<sup>1</sup> to investigate Puerto Rico's debt issuances and to pursue any causes of action that the Commonwealth may have in connection therewith, no matter the advisor or institution. *Third*, Local Act 22 is a state-based contract with individuals that has been supported by recent administrations of the Government. The Oversight Board has never "endorse[d]" Local Act 22 or expressed any view on it other than to project the revenues it will create for the Commonwealth as part of the Fiscal Plan.

We thank you for your continued support for Puerto Rico and trust this letter adequately addresses your concerns.

Sincerely,



José B. Carrión

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

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<sup>1</sup> The members of the special independent committees include Andrew G. Biggs, Arthur J. González, Ana J. Matosantos, and David A. Skeel, Jr.

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CC: Natalie A. Jaresko  
Christian Sobrino Vega  
The Honorable Kristen Gillibrand  
The Honorable Elizabeth Warren  
The Honorable Maxine Waters  
The Honorable Jerrold Nadler  
The Honorable Frank Pallone  
The Honorable Luis Gutiérrez  
The Honorable Darren Soto  
The Honorable Adriano Espaillat  
The Honorable Yvette Clarke  
The Honorable Grace Napolitano  
The Honorable Lucille Roybal-Allard  
The Honorable Robert Brady  
The Honorable Albio Sires  
The Honorable Zoe Lofgren  
The Honorable Jan Schakowsky  
The Honorable Sean Patrick Maloney  
The Honorable Eleanor Holmes Norton  
The Honorable James McGovern  
The Honorable Frederica Wilson  
The Honorable John Lewis  
The Honorable Donald Norcross  
The Honorable David Cicilline  
The Honorable Kathy Castor  
The Honorable Barbara Lee  
The Honorable Henry Johnson, Jr.  
The Honorable Jared Huffman  
The Honorable Chellie Pingree  
The Honorable Peter Welch