



GOVERNOR OF PUERTO RICO
Ricardo Rosselló Nevares

April 5, 2018

VIA EMAIL AND OVERNIGHT COURIER

Mr. José B. Carrión III
Chairman
The Financial Oversight and Management Board for Puerto Rico

Re: Submission of Revised Fiscal Plan for Puerto Rico

Dear Mr. Carrión:

The Government of Puerto Rico (the “Government”) and our advisors have reviewed the Board’s March 28, 2018 letter identifying areas of proposed revision to the Government’s fiscal plan, as submitted on March 23, 2018. In that regard, we are submitting for the Board’s consideration a revised draft fiscal plan for the Commonwealth of Puerto Rico (the “Revised Fiscal Plan”). Attached hereto please find a summary of additional changes and revisions that have been incorporated in the Revised Fiscal Plan.

In moving forward with completion of the fiscal plan revision process a number of important observations are in order. The Oversight Board and the Government in working together over the past several months have made good progress toward achieving consensus where we previously had differing opinions and positions concerning the Revised Fiscal Plan. For example, we have incorporated most of the baseline components you have recommended so there is now little difference as to the baseline projections. Notably, as a result of our good faith and extensive dialogue relating to the important area of government right-sizing measures, there now exists a difference of only approximately \$100 million annually between our respective projections of anticipated savings.

Notwithstanding the many areas of alignment we have achieved, there still remain certain important areas of disagreement. For the reasons set forth in my April 2, 2018 letter to you, the Government continues to decline to adopt in its Revised Fiscal Plan those recommendations made by the Board which impermissibly interfere with the Government’s exercise of its political, governmental, and operational powers and responsibilities.

There are certain recommendations advocated by the Board that cannot be achieved without legislative action or action that is inconsistent with Puerto Rico law. For example, as we have consistently explained, the Board cannot reduce unilaterally pension benefits through the fiscal plan. As a matter of policy, we hold that such an action would have a detrimental impact on the wellbeing of pensioners and the local economy that outweighs any possible savings. Furthermore, retirees rights to continued pension payments are recognized property rights under Puerto Rico law.

As the fiscal plan process reaches its final stage there are two separate paths the Board may take: (i) certify a fiscal plan that is fundamentally at odds with PROMESA's acknowledgment that the Government retains the right to exercise its political and governmental powers without interference or (ii) conclude the process with a fiscal plan that is executable and consistent with the spirit and intent of PROMESA, respecting the duly elected Government's space to establish policy within the certified fiscal plan's framework.

Going forward I urge the Board to follow the second path, which will avoid further distractions and controversies. The primary objective of the Government and Oversight Board must always be the wellbeing of the people of Puerto Rico. Both parties are responsible for seeking such wellbeing from their respective roles under applicable law.

There is no doubt that the Board and the Government share an important and related objective: enabling the Government to emerge from Title III as soon as possible. Allowing the Title III case to linger will only exacerbate the proliferation of professional fees and delay Puerto Rico's efforts to achieve sustainable economic growth and renewed access to the capital markets. For this reason, the process cannot be indefinite.

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We look forward to continuing to work with you cooperatively and collaboratively as we have on many issues. In the meantime, please do not hesitate to reach out with any questions you may have.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Ricardo Rosselló', with a stylized flourish at the end.

Ricardo Rosselló Nevares
Governor of Puerto Rico

cc: Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.
Natalie A. Jaresko
Jaime El Koury

SUMMARY OF CHANGES AND REVISIONS

- **Disaster Recovery Spend Passthrough** – The percentage of disaster recovery spending that impacts the Puerto Rican economy was adjusted down from 12.5% to 12.0% as suggested by the FOMB. CDBG Funding is delayed to begin in FY2019 utilizing the same spending as all federally funded disaster spend.
- **Private Insurance Funding** – Private insurance funding has been adjusted down 24%, from \$21.9bn to \$15.8bn, to account for business interruption insurance payouts to large multinationals, that would be unlikely to impact the local economy.
- **Baseline Growth Rates** – Aligned growth rates of various baseline line items with FOMB suggestions.
- **EITC Timing** – EITC implementation timing has been changed from the third quarter of FY19 to the first quarter of FY19.
- **Traffic Relief** – Included specific initiatives to improve congestion management.
- **Revenue Measures** – Tax Compliance revenue measures have been adjusted to amount to 5% of revenues; separately, the government and FOMB are now aligned on tax and fee adjustments.
- **Power Sector Reform** – Additional detail on power sector reform has been provided to align with FOMB.
- Included macroeconomic indicators and revenue assumptions for the 30 year projections.