



Financial Oversight and Management Board for Puerto Rico

For Immediate Release

OVERSIGHT BOARD ALERTS GOVERNMENT'S LIQUIDITY POSITION IS CRITICALLY LOW; WILL RUN OUT OF MONEY IN FEW MONTHS

*Recommends emergency measures to ensure money is available for essential services like
education, health care and public safety*

(San Juan, PR – March 8, 2017) – The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) created under the bipartisan Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA” or the “Act”) today alerted Gov. Ricardo Rosselló Nevares that the Government of Puerto Rico’s cash position is so critically low that unless emergency actions are taken immediately, in a matter of months it will run out of money to pay for essential services such as education, healthcare and public safety.

“Even as we continue to analyze the Fiscal Plan we want to bring to the forefront our concern regarding the current liquidity situation. We believe that without major emergency actions the Commonwealth soon will be unable to pay essential services, including pensions, education, healthcare and public safety, in a matter of months. This requires our collective and immediate attention,” reads the letter signed by Oversight Board Chair José Carrión.

With the letter, the Oversight Board delivered a report dated today by auditing firm Ernst & Young on the Government’s bridge between the 2014 audited financial statements and the 2017 baseline numbers the Government used in its proposed Fiscal Plan. According to the E&Y report, the Government’s fiscal year 2017 expenditures could be understated by an amount ranging from \$360 to \$810 million based on historical expenditure trends.

Therefore, the Oversight Board concluded that the Commonwealth could face a cash deficit of approximately \$190 million by beginning of July 2017.

The Commonwealth will face this reality, having already defaulted on its debts, having no access to the capital markets on normalized terms and having exhausted many extraordinary cash management measures. In addition, before the end of calendar year 2017 the Employee Retirement System (“ERS”) pension fund will be depleted, the Teachers Retirement System (“TRS”) fund will be depleted, and the government will begin the overdue segregation of employee contributions, requiring the Commonwealth to make approximately \$1.2 billion in pension payments out of its operating budget. The Commonwealth will also lose approximately

\$800 million of Affordable Care Act funding for its healthcare system during the fiscal year 2018, beginning in the end of calendar year 2017.

“While we appreciate your focus on addressing Puerto Rico’s long-term fiscal and economic challenges, we think far more needs to be done immediately to reduce spending and avoid this critical cash shortfall. Given Puerto Rico’s lack of normal capital market access and our need to focus on a sustainable restructuring of debt it is neither practical nor prudent to address this cash shortfall with new short-term borrowing,” said the Board.

The Oversight Board noted that even assuming the nonpayment of debt, and expeditious implementation of cash and budgetary measures included in the Government’s Fiscal Plan, it believes more needs to be done and recommended the following measures:

- Immediate implementation of a furlough program to achieve \$35-40 million in monthly savings, through the 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 should be exempted from the furlough program.
- Reductions comparable to the Executive branch furlough savings described above for other entities across the government, including public corporations and instrumentalities and the Legislative and Judicial branches.
- Reductions in professional service contract expenditures of up to 50 percent and significant reductions in all Government contract expenditures.
- Reductions in healthcare costs, by negotiating drug pricing and reductions of rates to health plans and providers.

Lastly, the Oversight Board recommended that, to address the cash crisis, the Governor should direct the Fiscal Agency and Financial Advisory Administration (“AAFAF”, by its Spanish acronym) to immediately control all accounts, revenues and expenditures of the Government of Puerto Rico and its instrumentalities to implement a new liquidity plan consistent with the guidance in the Board’s letter.

###

Contact:

José Luis Cedeño

787-400-9245

jcedeno@forculuspr.com

info@forculuspr.com

Board’s Contact Information:

E-mail: comments@oversightboard.pr.gov

Website: www.oversightboard.pr.gov