



Financial Oversight and Management Board for Puerto Rico

PRESS RELEASE

For Immediate Release

BOARD ISSUES NOTICE OF VIOLATION ON PROPOSED BUDGET

Most of the Proposed Budget deemed compliant; but spending in several areas found inconsistent with Fiscal Plan and not compliant with Board guidance; calls for corrective actions, provides opportunity to correct violations

(San Juan, PR – June 27, 2017) – The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) created by Congress under the bipartisan Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA” or the “Act”) informed today that after analysis of the Proposed Budget submitted by the Puerto Rico Legislature the Oversight Board determined that “most of the Proposed Budget can be deemed compliant with the certified Fiscal Plan and reflects great advancement towards achieving fiscal responsibility” but, nonetheless, issued a Notice of Violation pursuant to PROMESA §202(c)(1)(B) because the Proposed Budget “includes spending in several areas that are inconsistent with the Fiscal Plan and not compliant with Board guidance.”

The Notice, sent to the President of the Senate and the Speaker of the House, with copy to the Governor of Puerto Rico, includes a description of necessary corrective actions and provides an opportunity to correct the violations in accordance with PROMESA. The Board’s analysis of the Proposed Budget and its determination was based on the four resolutions approved by the Legislature on June 23, 2017, namely Legislature Resolutions 186, 187, 188 and 189.

“The Proposed Budget takes several important steps to meet [the Fiscal Plan’s] objectives. A majority of appropriations are dedicated to education, public safety, healthcare and welfare needs. Pensions convert to a pay-as-you-go basis. Additional funds are budgeted toward the healthcare system to offset the loss of Federal funds. To protect against liquidity shortfalls, budget reserves are restricted and can only be used after obtaining approval

from the Board. After adjusting for the need to maintain pension payments to current retirees, the Proposed Budget reflects a reduction in spending from FY2017 of \$804 million, or more than 9 percent. This reflects significant progress in closing Puerto Rico's historical structural budget deficit. Consequently, most of the Proposed Budget can be deemed compliant with the certified Fiscal Plan and reflects great advancement towards achieving fiscal responsibility," said Oversight Board Chair Jose Carrión. "The Proposed Budget, however, also includes spending in a few areas that are inconsistent with the Fiscal Plan and are not compliant with Board guidance. Given the gravity of Puerto Rico's fiscal and liquidity situation, further adjustments to the Proposed Budget are needed," he added.

The Notice of Violation noted that the Proposed Budget includes overspending and ineligible expenditures in three categories that total approximately \$119 million. It therefore calls for corrective actions to reduce the Legislature's aggregate spending to \$131 million, completely eliminate the additional spending of \$78 million in non-legislative expenditures added to the Proposed Budget as part of the Legislature Resolutions and achieve additional savings totaling \$25 million on certain appropriations to subsidize various industries, mayoral associations, marathons, and festivals, among others.

The Notice of Violation also notes that the Proposed Budget does not adequately provide for at least \$200 million in specific reforms required to implement the rightsizing requirement in the certified Fiscal Plan. It notes that consistent with the Fiscal Plan, the Proposed Budget included savings of \$440 million generated from personnel and non-personnel government rightsizing targets. Of that amount, however, at least \$200 million of potential savings lacked specific implementation plans that demonstrate the types of agency level operational and structural reforms needed to reduce the size of the government and eliminate non-critical services.

The Notice outlines several alternatives to correct the \$319 million deficiency. "The first, and preferred, alternative is for the government to reduce spending in accordance with the guidelines provided in this notice of violation. This must be supplemented with specific agency level operational and structural rightsizing reforms to reduce the size of government and eliminate non-critical services," noted Carrión.

Should the shortfall not be addressed appropriately, additional measures, such as furloughs and the reduction or elimination of the Christmas bonus, as well as commensurate savings from the Legislature's appropriations, will need to be considered prior to the Board's certification of the Proposed Budget.

The Notice of Violation cites that the Board will reserve its right to review progress of the rightsizing measures in 60 days to determine which measures still have not been validated and to finalize the level of furlough and Christmas bonus reductions/eliminations that are required to make the budget compliant with the Fiscal Plan.

The deadline to comply with the Notice of Violation is 5:00 pm on Thursday, June 29th. Failure to comply will result in the Board certifying its own budget that will be deemed compliant with the Fiscal Plan.

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