



Financial Oversight and Management Board for Puerto Rico

PRESS RELEASE

For Immediate Release

OVERSIGHT BOARD PUBLISHES NEW COMMONWEALTH, PREPA & PRASA PROPOSED FISCAL PLANS CHARTING PUERTO RICO'S TURNAROUND AND TRANSFORMATION

(San Juan, PR – April 18, 2018) – 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”) today released the draft text of the Proposed New Fiscal Plans for the Commonwealth, the Puerto Rico Electric Power Authority (PREPA), and the Puerto Rico Aqueduct and Sewer Authority (PRASA) that it expects to certify on April 19. The proposed plans provide a detailed roadmap to achieve fiscal balance and sustainability; revitalize Puerto Rico’s economy after more than a decade of recession; and enable an affordable solution to its debt crisis so that it can regain access to capital markets.

“The Proposed New Fiscal Plans map the transformative change agenda Puerto Rico needs,” said José Carrión, Chairman of the Oversight Board. “Several years of economic decline, excessive borrowing, and fiscal mismanagement drove thousands of people and businesses to leave the Island. Then the historic Hurricanes Irma and María forced even more to leave Puerto Rico as it struggled to recover from the storms’ catastrophic devastation. These plans offer a once-in-a-generation opportunity to do things right and turn these trends around.”

The expected certifications of the Proposed New Fiscal Plans fulfill a key Board mandate under PROMESA and represent a major milestone in Puerto Rico’s recovery, which was significantly disrupted by Hurricanes Irma and María in September of last year. The Proposed New Fiscal Plans make clear that Puerto Rico’s problems are not new or temporary – they are long-standing and structural – and that the solutions that Puerto Rico needs are similarly long-term focused and structural. That means strategic reinvestment in the people of Puerto Rico and the robust implementation of pro-growth, structural reforms.

The plans published today will be considered for certification at the Board’s 12th public meeting in Puerto Rico on April 19. They are: the [Commonwealth](#); [PREPA](#); and [PRASA](#).

“We commend Governor Rosselló and his team for their arduous work and clear commitment to the people of Puerto Rico,” Carrión said. “We now urge the Government to move decisively on implementation of these necessary reforms upon certification of the Proposed New Fiscal Plans. Only with bold structural reforms, reinvestment in the people of Puerto Rico, and necessary fiscal measures can Puerto Rico avoid ongoing deterioration of its economy and ensure the fiscal ability to provide services to the residents and businesses of the Island.”

Proposed New Commonwealth Fiscal Plan

The Proposed New Commonwealth Fiscal Plan covers a period of six fiscal years from 2018 to 2023 and provides the framework for achieving lasting growth to enable the Government of Puerto Rico to provide services to its residents, invest in the well-being and future of its people and businesses, fund pensions payments, and restructure Puerto Rico’s debt in a sustainable fashion. The plan takes into account over \$50 billion in federal assistance that is expected to be provided to Puerto Rico for recovery and rebuilding efforts following Hurricanes Irma and María. This federal support will provide a critical temporary boost to the economy during which time the Government of Puerto Rico must tackle the hard work of changing the underlying fundamentals of Puerto Rico’s economy.

This requires broad and deep structural reforms that will lay the groundwork for a new, growing, resilient and competitive economy. It is through the execution of both the outlined structural reforms and fiscal measures, implemented alongside a sustainable resolution of the debt crisis, that Puerto Rico can reinvest more in its people to improve their social welfare. Specifically, the plan lays out that if labor reform is implemented, Puerto Rico can afford to reinvest over \$500 million over the next three years in healthcare and education, and that through additional right-sizing initiatives, the Government of Puerto Rico can create and fund a significant endowment for needs-based scholarships at the UPR. The plan provides for important reinvestments back into these key sectors of our economy totaling more than \$1.1 billion.

The plan’s structural reforms are critical for renewed economic growth over the six years of the plan and absolutely essential over the longer-term 30-year outlook. If implemented, structural reforms are projected to result in a sustained 1.8% real annual GNP growth by FY23, amounting to \$80-\$90 billion in increased revenues for the Commonwealth over 30 years that would provide for the elimination of structural deficits. They include:

- **Human capital and labor reform:** increasing labor force participation from today’s 40 percent level through flexible private sector labor regulations, creating greater incentives to work, and providing comprehensive workforce development opportunities.
- **Ease of doing business reform:** promoting economic activity and reducing the burden for starting and sustaining business in Puerto Rico by improving World Bank’s Ease of Doing Business Index in critical factors, such as paying taxes, registering property, and permitting processes.

- **Power sector reform:** providing more cost-effective and resilient energy at a target rate of less than 20 cents per kilowatt hour, through the transformation of PREPA and independent energy regulator.
- **Infrastructure reform:** enhancing and modernizing infrastructure and long-term capital planning efforts, as well as maximizing impact of federal disaster spending.

The plan also proposes fiscal measures, which seek to make government affordable and efficient. These measures are projected to drive \$12.3 billion in increased revenues and reduced expenditures through FY23, and up to \$142 billion in fiscal benefit over the 30-year period.

- **Enhancing tax compliance and additional tax initiatives:** launching initiatives to increase tax compliance through better use of technology, best practices, addressing leakage, lowering certain corporate, individual and sales and use tax rates, while expanding the tax base through alternative minimum taxes and reducing incentives and subsidies.
- **Governmental rightsizing:** pursuing agency consolidations and rightsizing of government services.
- **Healthcare reform:** bending the curve of healthcare cost inflation through a comprehensive new healthcare model that prioritizes quality relative to cost.
- **Reduction of appropriations:** decreasing appropriations granted from the central government to municipalities and the UPR.
- **Comprehensive pension reform:** improving the financial stability of public employees' retirement funds and protecting pensions for the most vulnerable.
- **Office of the Chief Financial Officer (CFO):** improving fiscal controls, budgeting, procurement practices and accountability.

PUERTO RICO ELECTRIC POWER AUTHORITY (PREPA)

Consistent with the Government of Puerto Rico's announced priorities, the Proposed New Fiscal Plan for PREPA provides for its transformation and includes restructuring the power generation mix to leverage low-cost sources of power, rebuilding and modernizing the power grid, achieving an operational cost transformation, executing a large-scale capital investment program with billions of dollars in Federal funds and private sector investments, restructuring the power industry by leveraging private operators, and establishing a new rate structure to allocate costs fairly and equitably across customers. The plan establishes a target rate of below 20 cents per kWh, as well as reliability and resiliency targets, and is premised on a transformation of the energy sector tied to a transaction timeline of at least 18 months.

PUERTO RICO AQUEDUCT & SEWER AUTHORITY (PRASA)

The Proposed New Fiscal Plan for PRASA is based on the Government of Puerto Rico's submitted plan and outlines a path to fiscal sustainability so that it can achieve its mandate

– made ever more difficult by Hurricane María and its aftermath – of providing high-quality and safe-drinking water at affordable prices, as well as wastewater services, prudent environmental stewardship, and making the right investments so that it is prepared for future natural or human-made disasters.

The Oversight Board will publish Drafts of the Proposed New Fiscal Plans for the University of Puerto Rico (UPR), the Highway and Transportation Authority (HTA), the Government Development Bank (GDB), and the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC), before the Board's 13th public meeting on April 20, in which they will be considered for certification.

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