



Financial Oversight and Management Board for Puerto Rico

PRESS RELEASE

For Immediate Release

OVERSIGHT BOARD CERTIFIES COMMONWEALTH, PREPA & PRASA FISCAL PLANS

New Fiscal Plans chart Puerto Rico's economic turnaround and transformation

(San Juan, PR – April 19, 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 certified the Fiscal Plans for the Commonwealth, the Puerto Rico Electric Power Authority (PREPA), and the Puerto Rico Aqueduct and Sewer Authority (PRASA).

The plans, approved at the Board’s 12th public meeting, provide a detailed roadmap to achieving fiscal balance and sustainability; revitalizing Puerto Rico’s economy after more than a decade of recession; and enabling an affordable solution to its debt crisis so that it can regain access to capital markets.

“These new Fiscal Plans offer a once-in-a-generation opportunity for Puerto Rico to turn around years of economic decline and fiscal mismanagement,” said José Carrión, Chairman of the Oversight Board. “Their full implementation will give Puerto Rican residents what they need and deserve – a growing economy with more and better jobs, a twenty-first century electricity grid, resilient infrastructure, and an effective and efficient public sector.”

The certifications of these 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. They make clear that Puerto Rico’s problems are not new or temporary – they are long-standing and structural – and that the solutions 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.

Carrión thanked Governor Rosselló and his team for all their hard work but urged the Government to move decisively on the implementation of these reforms upon certification of the new Fiscal Plans.

“Only with bold structural reforms, reinvestment in the people of Puerto Rico, and strong 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,” Carrion said.

New Commonwealth Fiscal Plan

The 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 way. The plan takes into account the nearly \$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.

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 billion – \$90 billion in increased revenues for the Commonwealth over 30 years. 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.
- **Government 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 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.

“The Commonwealth Fiscal Plan is the blueprint of the structural reforms and fiscal measures that, once implemented, will restore growth, opportunity and prosperity to the people and businesses of Puerto Rico,” added Carrión. “By adopting and implementing them—supported by targeted short-term investments in healthcare and education outcomes—Puerto Rico can have the opportunity for a better tomorrow.”

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 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.

Earlier today, the Board published 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 \(COSSEC\)](#) ahead of its 13th public meeting on April 20, during which they will be considered for certification.

The final certified plans will be posted on the Board's [website](#) later today.

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Contact:

Forculus Strategic Communications

José Luis Cedeño

787-400-9245

jcedeno@forculuspr.com

info@forculuspr.com

Contact (Mainland):

APCO Worldwide

Gabriella Zen

202-778-1056

gzen@apcoworldwide.com

Board's Contact Information:

E-mail: comments@oversightboard.pr.gov

PO Box 192018 San Juan, PR 00919-2018; www.oversightboard.pr.gov;

comments@oversightboard.pr.gov