

## Appendix A



### Financial Oversight and Management Board for Puerto Rico

#### Fifth Meeting of the Board

March 13, 2017

9:00 a.m. EST

Alexander Hamilton US Custom House, New York City

#### Opening the Meeting

At 9:00 a.m., Jose B. Carrion, introduces himself as Chair of the Board and welcomed all present and took a roll call to determine which members were present.

- Andrew G. Biggs
- Carlos M. García
- Arthur J. González
- José R. González
- Ana J. Matosantos
- **David A. Skeel, Jr.**
- *Ex Officio* Member and Governor Rosselló-Nevarés' representative, Elías Sánchez-Sifonte

- Determines that quorum is present. (A quorum requires a majority of the voting members of the Board.)

Each answered that he or she was present. Mr. Carrion determined that a quorum was present, and called the meeting to order.

We announced that **Mr. Jaime A. El Koury** had been selected and appointed the Board's General Counsel and thanked Mr. El Koury for undertaking this important assignment. He asked Mr. El Koury to act as Secretary for this meeting. Mr. El Koury agreed.

Mr. Carrion recognized the presence of **Mr. Gerardo Portela**, Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority.

Mr. Carrion thanked those who were attending the Board's fifth meeting in person or via the Board's website ([www.oversightboard.pr.gov](http://www.oversightboard.pr.gov)), where a livestream was available in English and in simultaneous Spanish translation.

Mr. Carrion outlined seven agenda items for the meeting:

1. **Approval of 1/28/2017 meeting minutes**
2. **Report by Board Chair**
3. **Administrative Matters**
4. **Presentation by the Commonwealth of the Government's Proposed Fiscal Plan**
5. **Assessment and Recommendations on the Government's Proposed Fiscal Plan**
6. **Public comment**
7. **Discussion and Certification of the Fiscal Plan for the Commonwealth**

## 6. Public comment

## 7. Discussion and Certification of the Fiscal Plan for the Commonwealth of Puerto Rico

Mr. Carrion described the main areas of focus for the meeting in more detail:

**(1) Presentation of Government's Proposed Fiscal Plan.** On February 28, 2017, the Governor of Puerto Rico delivered to the Board the Commonwealth's proposed fiscal plan. After reviewing the proposed plan with the Governor's representatives and analyzing and deliberating over it, the Board informed the Governor on March 9, 2017 that the Board had determined the Governor's proposed fiscal plan did not satisfy PROMESA's requirements, recommended revisions to the same and gave the Governor the opportunity to revise the proposed fiscal plan. On March 11, 2017, the Governor submitted a revised proposed fiscal plan and promptly thereafter representatives of the Governor and the Board's experts, consultants, and attorneys engaged in extensive discussions to arrive at a common understanding about the Governor's proposed fiscal plan. Today, the Government will make a presentation of its proposed fiscal plan, which takes into account those discussions and deliberations.

**(2) Assessment and Recommendations on the Government's Proposed Fiscal Plan.** The Board has assessed the Government's proposed fiscal plan and will make a presentation of its assessment and certain recommendations to said plan.

**(3) Public Comments.** After these presentations, we will open the floor for questions and comments from the audience.

**(4) Discussion and Certification of the Fiscal Plan for the Commonwealth of Puerto Rico.** Pursuant to Section 201 (e) of PROMESA, the Board will then proceed to discuss the Government's proposed fiscal plan and vote on the certification thereof. Each member of the Board will be given the opportunity to express his or her views prior to voting on certification.

### Agenda Items

#### 1. Approval of the Minutes of the Last Meeting

Mr. Carrion asked if there were any questions about the proposed minutes of the Board's last meeting, held on January 28, 2017. There being no questions, Ms. Matosantos moved to approve the minutes in the form presented, and Mr. Garcia seconded the motion. Mr. Carrion asked for a vote by a voice vote – first those in favor– then those opposed, and Mr. Carrion announced the minutes had been approved.

#### 2. Report by the Board Chair

- Mr. Carrion explained the Board was established under PROMESA – the Puerto Rico Oversight, Management and Economic Stability Act - and the Board's purpose is to provide a method for Puerto Rico to achieve fiscal responsibility, including pro-growth fiscal reforms [section 701], access to the capital markets [section 101 (a)] and infrastructure revitalization. The Board is also tasked with working with the people and Government of Puerto Rico to create the necessary foundation for economic growth and to restore opportunity to the people of Puerto Rico.
- Mr. Carrion observed that at the Board's previous public meetings he have recounted the Board's steps, as required or allowed by PROMESA, to accomplish its statutory mandates. He said he would now restrict his remarks to progress made after the fourth public meeting on January 28, 2017.
- Mr. Carrion reported that, at that meeting, the Board extended to February 28, 2017

- Mr. Carrion reported that, at that meeting, the Board extended to February 28, 2017 the deadline for the Commonwealth to submit a fiscal plan to the Board, as well as extending the PROMESA stay through May 1, 2017. He also reported that since that meeting, the Board had worked extensively with its advisors to be in a position to review the Government's proposed fiscal plan, which it received on February 28. As recounted earlier, the Board acted swiftly to review the proposed fiscal plan and on March 9 presented a series of recommendations to the Governor and gave him the opportunity to revise the plan. Mr. Carrion congratulated the Government of Puerto Rico on the significant progress it has made and said it awaited eagerly its presentation today of the Government's proposed fiscal plan. Mr. Carrion recalled that he had said at the Board's last meeting that the fiscal plan that the Board is required by PROMESA to certify must be based on solid savings and revenue projections, a "once and done" approach and not simply on hopes or predictions that various changes will generate more revenues in the future.

Mr. Carrion then asked Mr. Arthur González to provide an update as to litigation activities.

**Mr. Arthur Gonzalez provided the following report.**

- As previously reported, lift stay motions in seven litigations were resolved prior to the Oversight Board's last meeting. On February 17, 2017, the district court granted the Oversight Board, certain other groups of COFINA bondholders, and a monoline insurer leave to intervene in the eighth action (Lex Claims, LLC v. Garcia-Padilla, et al.). In the same decision, the district court confirmed that the PROMESA stay applies to nine of the 13 causes of action asserted by plaintiffs, but found, as plaintiffs had argued, that plaintiffs' claims that the Moratorium Act and Executive Order 2016-30 violate PROMESA itself are not stayed. The district court also denied the Oversight Board's and the Commonwealth's motions to stay the entire litigation pursuant to the district court's inherent power to control its docket. The Oversight Board has appealed the district court's decision to the US Court of Appeals for the First Circuit, and is considering other options available to it. The Oversight Board is required to file an answer to plaintiffs' complaint by March 20, 2017.

**3. Administrative Matters**

Mr. Carrion provided an update on certain recent appointments made by the Board.

- Mr. Carrion stated that, as previously mentioned, the Board was pleased to announce that, after an extensive search process, **Mr. Jaime A. El Koury**, was selected and appointed the Board's General Counsel. Mr. El Koury was born and raised in Puerto Rico, graduated from Yale Law School and practiced law in New York for 35 years. He is a member of the bars of Puerto Rico and New York. Mr. Carrion asked Mr. Arthur Gonzalez to present a resolution approving Mr. El Koury's appointment.

**MOTION: Mr. Arthur Gonzalez made the following motion:**

**Resolved: Pursuant to PROMESA § 103(b) and section 6.6 of the Board's Bylaws, the Board confirms and approves the Employment Agreement dated as of February 17, 2017 with Jaime A. El Koury to serve as General Counsel.**

**Mr. David Skeel seconded the motion.**

**Mr. Carrion asked for a vote by a voice vote – first those in favor– then those opposed.**

**Mr. Carrión announced the Resolution passed unanimously.**

## **Mr. Carrión announced the Resolution passed unanimously.**

- Mr. Carrion further stated that the Board was pleased to announce the appointment of **Ms. Andrea Bonime-Blanc** as the Board's Ethics Advisor. Ms. Bonime-Blanc is the founder and CEO of GEC Risk Advisory, a global strategic governance, ethics and risk advisory firm, is chair emeritus of the Ethics & Compliance Initiative, the leading global association of ethics and compliance officers, and is Adjunct Professor at New York University. Ms. Bonime-Blanc holds a joint Juris Doctor in law and PhD in political science from Columbia University and received her Baccalaureate degree from Colegio Teresianas and Insituto Espinel in Malaga, Spain. The Board has extensive ethics responsibilities under PROMESA, its Bylaws and its Code of Conduct. We are pleased to count on Ms. Bonime-Blanc's experience and knowledge in the ethics and governance fields to assist us in meeting the high ethical expectations that we as a public entity place on ourselves.

Mr. Carrion said that he was pleased to announce that, since the Board's last meeting, the members of the Board and its staff have publicly released on the Board's website their financial disclosure forms. Mr. Carrion explained that this is a commitment the Board had made at the last meeting and that the Board was pleased to have fulfilled and will continue to fulfill. The Board's governance documents, including PROMESA itself, our Bylaws and our Code of Conduct, require disclosure of conflict of interests, an obligation that Mr. Carrion said the Board planned to adhere to faithfully. He stated that the Board has also disclosed contracts that it has entered into with its advisors.

Finally, Mr. Carrion reported that the Board had received proposed fiscal plans for the following Covered Territorial Instrumentalities:

**Puerto Rico Electric Power Authority (PREPA)**  
**Puerto Rico Aqueduct and Sewer Authority (PRASA)**  
**Puerto Rico Highways and Transportation Authority (HTA)**  
**Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (COSSEC)**  
**Government Development Bank for Puerto Rico (GDB)**

Mr. Carrion stated that the Board had commenced its review of the above proposed fiscal plans.

### **1. Presentation by the Commonwealth of the Government's Proposed Fiscal Plan**

Mr. Gerardo Portela, Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority, presented the Government's proposed fiscal plan. Following Mr. Portela's presentation, the Board engaged in a question and answer period with Mr. Portela and other Government representatives and advisors.

### **2. Assessment and Recommendations on the Government's Proposed Fiscal Plan**

**Mr. Ramón Ruiz-Comas, Executive Director of the Board, explained the process by which the Board reviewed and assessed the Government's proposed fiscal plan and presented to the Board certain recommendations with respect to the fiscal plan. In his presentation, Mr. Ruiz-Comas was accompanied by Mr. Juan Santambrogio and Mr. Gaurav Malhotra, partners of Ernst & Young, Mr. Tyler Duvall and Mr. Thomas Dohrmann, partners of McKinsey & Co., our Strategic Advisor, Mr. Andrew Wolfe and Mr. Joaquin Villamil, the Board's economic consultants, and Mr. Thomas H. Green, Managing Director of Citigroup, our financial advisors.**

### 3. Public Comment

Mr. Carrion opened the floor for public comments. Each person had up to 3 minutes to express their views.

### 4. Discussion and Certification of the Fiscal Plan for the Commonwealth of Puerto Rico

Mr. Carrion explained that in light of the importance of the decision by the Board to be taken at the meeting to certify the Fiscal Plan for the Government of Puerto Rico, the Board members had asked for the opportunity to express their opinion about the Plan. Mr. Carrion called on each member to express his or her view:

Mr. Carrion recognized Mr. Elías Sánchez-Sifonte as the first to address the meeting in light of his position as representative of the Governor of Puerto Rico. Following Mr. Sanchez-Sifonte, the following members expressed their views:

Andrew G. Biggs  
Carlos M. García  
Arthur J. González  
José R. González  
Ana J. Matosantos  
David A. Skeel, Jr.

Mr. Carrion requested the Board's Executive Director, on the basis of the report presented by him on the Government's proposed fiscal plan, and his recommendations thereon, including the proposed amendments to the Government's proposed fiscal plan which he summarized in his presentation, whether he would like to propose a resolution for the Board to consider and vote upon.

Mr. Ruiz-Comas answered that he did want to propose such a resolution, and requested Mr. El Koury to read the same into the record.

#### **Mr. El Koury read the following resolution:**

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was enacted; and

WHEREAS section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico ("the Board"); and

WHEREAS section 201 of PROMESA establishes a multi-step procedure for the development, review, and approval of a fiscal plan for Puerto Rico, requiring that (i) the Governor must submit a proposed fiscal plan to the Board; (ii) the Board must review the proposed plan and determine either that it satisfies PROMESA's requirements or that it does not, in which case, the Board must issue a notice of violation and recommended revisions giving the Governor an opportunity to correct the violations; (iii) the Governor may then submit a revised proposed plan to the Board; and (iv) if the Governor fails to submit timely a proposed plan the Board determines in its sole discretion satisfies PROMESA's requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

PROMESA's requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

WHEREAS, at the Board's public meeting on November 18, 2016, the Board adopted five principles furnished to the Government which the Board would apply to determine whether a proposed fiscal plan complies with PROMESA; and

WHEREAS, by letter dated December 20, 2016, the Board advised the then Governor-elect of a detailed "Framework for the Government of Puerto Rico to Develop Policies and Plans to Address the Current Fiscal and Economic Problem," and

WHEREAS, by letter dated January 18, 2017 to the Governor, the Board provided the fiscal plan targets and guidelines, on a category-by-category basis, that the certified fiscal plan should satisfy; and

WHEREAS, at the Board's public meeting on January 28, 2017, the Board approved the Governor's request that it extend the PROMESA stay through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short term liquidity loans that could restrict fiscal options; and

WHEREAS, on February 28, 2017, the Governor submitted a proposed fiscal plan to the Board; and

WHEREAS, after reviewing the proposed plan with the Governor's representatives and analyzing and deliberating over it with the Board's members, economist, consultants, and attorneys, the Board informed the Governor on March 9, 2017 that the Board had determined the Governor's proposed fiscal plan did not satisfy PROMESA's requirements, and the Board recommended revisions; and

WHEREAS the Board's notice to the Governor described the violations that the Board had identified; and

WHEREAS, on March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan; and

WHEREAS representatives of the Governor and the Board's experts, consultants, and attorneys engaged in extensive discussions on March 11 and 12, 2017 about the Governor's proposed fiscal plan and the Board's concerns about the plan, resulting in further changes incorporated into the Government's proposed plan; and

WHEREAS, on March 13, 2017, the Board held an open meeting at which the Governor's representatives presented his final proposed fiscal plan to the Board and the public; and

WHEREAS the Board has had the opportunity to consider the Governor's latest proposed plan and discuss it with its experts, consultants, and attorneys, and believes that, with certain amendments, it complies with PROMESA; and

WHEREAS the Board provided an opportunity for public comment on the Governor's proposed fiscal plan and on the Board's recommended modifications to such fiscal plan; and

WHEREAS, after substantial deliberations, the Board has determined to approve and certify the Governor's latest proposed fiscal plan, as modified by the following amendments; provided, however, that in approving and certifying the fiscal plan the Board does not adopt statements that are not fiscal measures, baseline projections, or other assertions necessary to satisfy PROMESA's criteria for a certifiable fiscal plan:

**Amendment No. 1:**

## **Amendment No. 1:**

### **Furlough and Christmas Bonus Amendment to the Commonwealth's Proposed Fiscal Plan:**

The Government's Fiscal Plan requires additional safeguards to ensure that sufficient liquidity and budgetary savings are realized to fund essential services in FY 18.

Accordingly, the fiscal plan for the Commonwealth that the Oversight Board certifies should be the Government's fiscal plan amended to include the use of (a) a furlough program and (b) removal of all Christmas bonuses, to achieve necessary liquidity and budgetary savings.

The furlough program shall be formulated to:

- Achieve \$35 million to 40 million in monthly savings, through furloughs 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 shall be exempt from the furlough program.

During fiscal year 2018, the Christmas bonus shall be eliminated, and the furlough program shall take effect on July 1, 2017, unless either or both of the bonus elimination and furlough program are subsequently repealed or decreased on occurrence of the following respective conditions:

#### **1. Furlough Program – July 1, 2017**

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing measures, as well as a liquidity plan, reasonably expected to generate an additional \$200MM cash reserve by June 30, 2017, there shall be no furloughs commencing July 1, 2017, with all furloughs for the fiscal year 2018 to commence September 1, 2017 unless fully or partially eliminated in accordance with the criteria below.

#### **2. Furlough Program – September 1, 2017**

If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing personnel measures reasonably expected to generate sufficient savings, there shall be no furloughs commencing September 1, 2017.

If in the Board's sole discretion, the Government's plan is not reasonably expected to generate sufficient savings, then depending on the level of savings the Board determines is likely to be achieved, the Board shall determine whether the full furlough program commencing September 1, 2017 shall be decreased or eliminated.

#### **3. Christmas Bonus Elimination – September 30, 2017**

If in the Board's sole discretion to be exercised no later than September 30, 2017, the trend of the Commonwealth's personnel costs as of September 1, 2017 indicates sufficient savings have been and will timely be achieved through the Government's right-sizing measures, the Board shall determine whether the full elimination of the Christmas bonus shall be modified into (a) a partial reduction of the bonus or (b) no elimination of the bonus.

## **Amendment No. 2:**

### **Pension Amendment to the Commonwealth's Proposed Fiscal Plan:**

## **Pension Amendment to the Commonwealth's Proposed Fiscal Plan:**

All or virtually all pension fund assets will be depleted before 2022. ERS, TRS, and JRS have combined liabilities of at least \$50 billion and a combined funded ratio below 8%.

Despite previous reform efforts, Puerto Rico's pension systems have not stabilized. Structural changes are required to ensure long-term stability and restore public confidence in the pension system.

Accordingly, the public pension systems must be overhauled through the measures in the Commonwealth's proposed fiscal plan, supplemented to provide for progressively reduced total pension outlays by 10% by fiscal year 2020, to ensure the system can meet its obligations, with protections to ensure that no member is pushed below the federal poverty line as a result of the reductions.

The system overhaul shall be formulated by the Commonwealth and the Board on or before June 30, 2017, and be guided by the following principles:

1. Fund existing pension obligations on a "paygo" basis, liquidating assets to help fund benefits and using general fund revenues to pay benefits owed under previous plans
2. Enroll all active members and new hires in defined contribution accounts that segregate and protect their contributions to pay for their own future benefits, and:
  - a. Offer employees diversified, low-cost "index funds" similar to the federal government's Thrift Savings Plan
  - b. Ensure that employees retain the full return on their contributions, without the 20% "tax" currently charged by hybrid plans; and
3. Beginning in 2020, enroll all newly-hired teachers and public safety workers in Social Security, and, to the extent practicable, enroll current teachers and public safety employees under age 40 in Social Security.

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT the Board approves and certifies the Governor's latest proposed fiscal plan pursuant to PROMESA § 201(e), as modified by Amendment No. 1 and Amendment No. 2; and it is

**FURTHER RESOLVED that the Board shall issue a compliance certification for the fiscal plan, as amended, to the Governor and the Legislature pursuant to PROMESA § 201(e).**

**Mr. Jose R. Gonzalez moved that the resolution be approved.**

**Mr. Andrew Biggs seconded the motion.**

**Mr. Carrion asked for a vote by a voice vote – first those in favor– then those opposed.**

**Mr. Carrion announced that the Resolution passed unanimously.**

**Ms. Matosantos made the following motion:**

**RESOLVED, the Board requests of the Governor of Puerto Rico to provide the Board by no later than April 30, 2017 with (1) the proposed Budget for the Commonwealth of Puerto Rico as contemplated by Section 202 of PROMESA; (2) a detailed**



by no later than April 30, 2017 with (1) the proposed Budget for the Commonwealth of Puerto Rico as contemplated by Section 202 of PROMESA; (2) a detailed implementation plan for the measures contained in the certified Fiscal Plan; and (3) a revised Liquidity Plan for the Commonwealth of Puerto Rico, including measures to generate a \$200 million cash reserve by June 30, 2017 above the balance reflected in the certified Fiscal Plan.

Mr. David Skeel seconded the motion.

Mr. Carrion asked for a vote by a voice vote – first those in favor– then those opposed.

Mr. Carrion announces that the Resolution passed unanimously.

#### **Adjournment**

**Motion:** With no further matters to discuss, Mr. Carrion moved to adjourn the meeting.

Mr. Arthur Gonzalez seconded the motion.

Mr. Carrion asked for a vote by a voice vote – first those in favor– then those opposed.

Mr. Carrion concluded that with all members having voted in favor, the meeting was adjourned at approximately 11:35 a.m.

#### **Adjournment**

Respectfully submitted,  
s/Jaime A. El Koury  
Jaime A. El Koury  
Acting Secretary