

**Appendix A**



**Financial Oversight and Management Board for Puerto Rico**

**Minutes of the Third Meeting of the Board**

**November 18, 2016**

**8:30 a.m. AST**

**Business Center, El Conquistador, Fajardo, Puerto Rico**

**Opening the Meeting**

At 8:27 a.m., José B. Carrión, introduced himself as Chair of the Board, 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.

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

Mr. Carrión asked Board member David Skeel at to act as Secretary for this meeting. Mr. Skeel agreed.

Mr. Carrión recognized the presence of Mr. Víctor Suárez, Secretary of State of Puerto Rico and executive director of the Fiscal Agency and Financial Advisory Authority of Puerto Rico, as representative of the Governor of Puerto Rico in this meeting. Mr. Carrión noted that Mr. Richard Ravitch, ex officio representative, had previously notified the Board that he was unable to attend the meeting.

Mr. Carrión thanked those who were attending the Board's first meeting in Puerto Rico 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.

At 8:30 a.m., Mr. Carrión outlined eight agenda items for the meeting:

6. Approval of 10/14 Meeting Minutes
7. Report by Board Chair
8. Administrative Matters
9. Procedures to Approve Transactions of Covered Entities under PROMESA Act
10. Presentation about Government Liquidity and Q&A – Conway MacKenzie
11. Public Testimony on Fiscal and Economic Growth Plan (FEGP) of the Central Government
12. FEGP Guiding Principles & Timeline
13. Presentation PRASA and Q&A

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

**(1) The LIQUIDITY of the Government of Puerto Rico** [agenda item 5]. Mr. Carrión noted that Conway MacKenzie, an expert firm that had been tracking the liquidity and cash situation of the Government of Puerto Rico, would provide a detailed liquidity report. Mr. Carrión emphasized that understanding the current cash situation of the Government of Puerto Rico and the challenges ahead is essential to all stakeholders.

**(2) Moving Forward with the Fiscal and Economic Growth Plan of the Central Government of Puerto Rico** [agenda items 6 and 7]. Mr. Carrión stated that a wide variety of stakeholders would offer their comments on the Fiscal and Economic Growth Plan for the Central Government of Puerto Rico proposed by the Government of Puerto Rico. The speakers would include representatives of the third sector, education and health, professional and trade associations, local and national economists and local creditors. Mr. Carrión said that the Board hoped to hear from representatives of the labor union movement but they declined the invitation.

Mr. Carrión noted that Board had received 73 comments, and nearly 50 completed surveys, in response to its November 10<sup>th</sup> request for comment on the Government’s proposed fiscal plan. The survey responses are described more fully under item 7 of the Board’s meeting agenda.

Mr. Carrión said the Board would conclude the consideration of the proposed Fiscal plan by sharing its guiding principles for evaluating the plan. Each Member would then offer comments about the plan.

Mr. Carrión identified the Board’s target date for confirming a comprehensive and inclusive Fiscal and Economic Growth Plan as January 31, 2017.

### **Agenda Items**

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

At 8:34 a.m., Mr. Carrión asked if there were any questions about the proposed minutes for the Board's last meeting, held on October 14, 2016. There being no questions, Ms. Matosantos moved to approve the minutes in the form presented, and Mr. Garcia seconded the motion. Mr. Carrión asked for a vote by a show of hands – first of those in favor – then of those opposed. All seven members voted in favor of the motion, and Mr. Carrión announced that the minutes had been approved.

## **2. Report by the Board Chair**

At 8:34 a.m., Mr. Carrión commenced his report as Board chair. Mr. Carrión described the Board's first two meetings, which had attendance of more than 150 and 100 respectively. Mr. Carrión noted that the Board's public website, in Spanish at [www.juntasupervision.pr.gov](http://www.juntasupervision.pr.gov) and in English is [www.oversightboard.pr.gov](http://www.oversightboard.pr.gov), continues to be the Board's principal means of communication. He reported that the website had received to date over 96,000 page views by over 19,000 users.

Mr. Carrión said that the Board submitted on October 30<sup>th</sup> to the Governor of Puerto Rico, Alejandro García Padilla, the names of three candidates for possible designation as Revitalization Coordinator. The three candidates, Aaron Bielenberg, Joseph Fontana and Riz Shah, were selected from a pool of names received from professional services proposals and referrals received by the Board. On November 9<sup>th</sup>, the Governor of Puerto Rico appointed Aaron Bielenberg as Revitalization Coordinator. Mr. Carrión said that Mr. Bielenberg, an Expert Associate Partner in McKinsey & Co.'s Infrastructure Practice, based in the Washington DC office, would provide an initial framework for evaluating critical infrastructure projects within the next 60-90 days.

Mr. Carrión confirmed that, as previously announced, the Board had begun a search and selection process, overseen by the executive search firm Heidrick & Struggles, for other important positions created under PROMESA, including Executive Director, Internal Legal Counsel and permanent Revitalization Coordinator. Mr. Carrión encouraged the public to submit names of qualified candidates to Heidrick & Struggles ([promesa@heidrick.com](mailto:promesa@heidrick.com)). Mr. Carrión reported that, as part of the executive search process, the Board expects to re-submit to the Governor of Puerto Rico, during the first quarter of 2017, a list of at least three candidates for the position of Revitalization Coordinator to carry forward the initial foundational work begun by Mr. Bielenberg.

At 8:41 a.m., Mr. Carrión asked Judge González to provide an update of the Board's litigation activities. Judge González reported that the Board had moved to intervene in eight actions pending in the United States District Court for the District of Puerto Rico in order to oppose motions filed in each of the actions seeking to lift

the PROMESA stay. Although the Court denied the Board's motions in seven of the actions, it also denied the Plaintiffs' motions, finding that the Plaintiffs had not established "cause" to lift the stay. The net result was that the actions remain stayed, as the Board sought.

### **3. Administrative Matters**

At 8:42 a.m., Mr. Carrión reported that the Board had received eighteen proposals in response to its Request for Proposals for Strategic Consulting Firms and nearly fifty proposals in response to its Request for Proposals for Outside Legal Counsel, both dated October 20, 2016.

Mr. Carrión said that the selection committee for Strategic Consulting Firms, consisting of Carlos García; José González; and Ana Matosantos reviewed the eighteen proposals for Strategic Consulting Services, interviewed a short list of three firms, and unanimously recommended one of the firms to the Board. Mr. Carrión reported that the Board expected to announce the selection the following week, as soon as the Board negotiated contracts with the firm.

Mr. Carrión said that the selection committee for Outside Legal Counsel, consisting of Arthur González; José González (who was added to the Committee after the proposals were submitted); and David Skeel reviewed the nearly fifty proposals, selected a short-list of nine firms, interviewed the nine firms, and unanimously recommended two firms to the board, one national firm and one local Puerto Rico firm. Mr. Carrión reported that the Board expected to announce the selection the following week, as soon as the Board negotiated contracts with the firms.

### **4. Presentation about Government Liquidity and Q&A - Conway MacKenzie**

At 8:47 a.m., Mr. Carrión invited the team from Conway MacKenzie to provide their presentation of Puerto Rico's current liquidity and the liquidity assumptions embedded in the Government's fiscal plan. The representatives of Conway MacKenzie gave a detailed explanation of the liquidity pressures the Government is facing, the Commonwealth's cash projections, the assumptions embedded in the Government's projections, and other issues related to the Government's liquidity management. They estimated the Commonwealth would face a cash deficit of \$1.3 billion upon the expiration of the moratorium in February and a projected deficit ranging between \$2.2 billion and \$3 billion by the end of the fiscal year. The Conway MacKenzie team also addressed questions from the Board. In response to Mr. González's question regarding how hard it was for Conway MacKenzie to identify and assess the relevant information needed to determine the Commonwealth's current liquidity, the team described the process as very difficult.

### **5.a. Procedures to Approve Transactions of Covered Entities under PROMESA Act**

At 10:01a.m, after noting that the Board had designated certain Puerto Rico public agencies, instrumentalities, public corporations as “Covered Territorial Instrumentalities” subject to PROMESA, and that section 207 of PROMESA prohibits Covered Territorial Instrumentalities from proceeding with any transaction out of the ordinary course of business or that could have a material financial impact without the prior approval of the Board, Mr. Carrión proposed the following approval procedures:

- Transactions of Covered Instrumentalities that are subject to Approval under the PROMESA Act must be submitted to the Board by the Office of the Governor of Puerto Rico no less than 15 calendar days prior to its required approval. The clock for such 15 calendar days of review will start when the Board confirms that it has received all the information required for its review. The Board reserves the right to require additional time for its review in the case of complex transactions or in the case that the Board believes it requires additional information for its review of the transaction.
- The request for approval must include, at a minimum, the following information:
  - A detailed memorandum signed by the Covered Instrumentality’s highest responsible executive in office explaining all the details of the transaction, including, but not limited to, the purpose of the transaction, reasons why the transaction is in the best public interest, the financial resources required to carry such transaction, and a summary of all principal legal documents required to execute the transaction.
  - The memorandum should be accompanied by a letter or memorandum evidencing the approval by the Fiscal Agency and Financial Advisory Authority of Puerto Rico and its rationale for approval and, also, a letter from the Office of the Governor of Puerto Rico endorsing the transaction and the rationale for such endorsement.
  - A legal opinion that supports the reasons why the transaction is covered under PROMESA and under what legal basis the transaction can be approved by the Board.

Mr. González voiced his support for the procedures, stating that it is critical that they be followed.

Mr. Biggs then made the following motion:

**RESOLVED, that consistent with the PROMESA Act the procedure proposed by the Chair of the Board to Approve Transactions of Covered Entities under PROMESA Act be adopted, and further**

**RESOLVED, that the Board shall notify in writing to the Governor of Puerto Rico of such procedure for its compliance by the Commonwealth of Puerto Rico and all Covered Territorial Instrumentalities.**

Judge González seconded the motion. Mr. Carrión asked for a vote by a show of hands – first of those in favor – then of those opposed. All seven members voted in favor of the motion, and Mr. Carrión announced that the motion had been approved.

#### **5.b. Separate Fiscal Plans from Covered Instrumentalities.**

At 10:08 a.m., Mr. Carrión said that one of the duties of the Board [section 210 (a) of PROMESA] is to review and approve Fiscal Plans of the Commonwealth of Puerto Rico and of its Covered Territorial Instrumentalities; that the Commonwealth's Fiscal Plan would be the subject of public testimony later in the meeting; and that at its last meeting the Board had requested that the following Covered Territorial Instrumentalities begin developing separate Fiscal Plans:

1. Aqueduct and Sewer Authority
2. Electric Power Authority
3. Government Development Bank
4. Highway and Transportation Authority
5. Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC)
6. University of Puerto Rico

Mr. Carrión reported that the executive team of the Aqueduct and Sewer Authority would be giving an update of its progress and that members of the Board had received an initial briefing from the Electric Power Authority the previous week.

Mr. Carrión asked Mr. Suárez, Secretary of State of Puerto Rico and executive director of the Fiscal Agency and Financial Advisory Authority of Puerto Rico, whether any actions taken under Executive Order No. 2016-44, which called for an extraordinary session of the Puerto Rico legislature, would be in compliance with PROMESA. Mr. Suárez said they would.

## **6. Public Testimony on Fiscal and Economic Growth Plan (FEGP) of the Central Government.**

At 10:18 a.m., Mr. Carrión introduced the first of two panels who had been invited to give public testimony on the Central Government Fiscal and Economic Growth Plan proposed by the Governor on October 14<sup>th</sup>. After noting that each panelist would be given five minutes to provide his/her public testimony, and that the Board would then ask questions, Mr. Carrión introduced the first panel.

### Panel #1

1. **Christian Arvelo Forteza**, Law and Public Administration Student, University of Puerto Rico (Río Piedras Campus, Former Member of UPR Governing Board and Former President General Student Council, UPR-Río Piedras (tentatively confirmed)
2. **Jorge Irizarry**, Bonistas del Patio
3. **Alicia Lamboy**, President-Elect, Puerto Rico Chamber of Commerce
4. **Eric LeCompte**, Executive Director, Jubilee USA
5. **Rodrigo Masses**, President, Puerto Rico Manufacturers Association

After the presentations, the Board members and panelists engaged in a lengthy discussion about the proposed fiscal plan.

At 11:29 a.m., Mr. Carrión introduced the Second panel:

### Panel #2

6. **CPA José Orta**, President-Elect, Certified Public Accountants Society
7. **Jaime Plá**, Executive President, Puerto Rico Hospital Association
8. **Néstor Ortiz**, Chairman of the Government Affairs Committee of the Pharmaceutical Industry Association
9. **J. Joaquín Villamil**, Chairman, Estudios Técnicos
10. **Andrew Wolfe**, Anne Krueger & Assoc.

After the presentations, the Board members and panelists engaged in a lengthy discussion about the proposed fiscal plan.

## **6. FEGP Guiding Principles & Timeline**

At 12:47a.m., Mr. Carrión asked Ms. Matosantos to present to the Board a set of guiding principles to evaluate the Government of Puerto Rico's proposed Fiscal Plan that Ms. Matosantos and Mr. García had developed with the assistance of Board staff.

Ms. Matosantos proposed the following principles:

Principle 1: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria; see below). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario in the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension, no reliance on unsustainable Act 154 revenues, etc.). Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

Principle 4: The fiscal plan must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges. Further, the plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes.

After Ms. Matosantos read the principles, Mr. García stated that these principles should be viewed as in the context of PROMESA's mandate (in section 201(b)) that a fiscal plan cover at least five fiscal years, provide a method to achieve fiscal responsibility and access to the capital markets, and meet the following fourteen requirements:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;

3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and
14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.

After the presentation, Mr. Skeel made the following motion:

**RESOLVED, that the Board adopts the five principles presented by Ms. Matosantos, and further**

**RESOLVED, that the Board shall notify in writing to the Governor of Puerto Rico of such principles for its compliance by the Commonwealth of Puerto Rico and all Covered Territorial Instrumentalities that have to prepare a fiscal plan.**

Mr. González seconded the motion. Mr. Carrión asked for a vote by a show of hands – first of those in favor – then of those opposed. All seven members voted in favor of the motion, and Mr. Carrión announced that the motion had been approved.

Mr. Carrión asked Mr. Luyen Tran, who was part of the Board’s staff and on loan from the U.S. Treasury Department, to provide a summary and his analysis of the 47 submissions received from individuals and organizations as a result of the Board’s Invitation to Comment on the Fiscal Plan. Mr. Tran reported that the Board received 47 submissions from the following respondent types:

10	(21%)	Puerto Rico resident
1	(2%)	Employee of the Government of Puerto Rico
9	(19%)	Creditor
14	(30%)	Trade association or organization
<u>13</u>	<u>(28%)</u>	Other (mainly consultants and think tanks)
<b>47</b>	<b>(100%)</b>	<b>Total</b>

Mr. Tran stated that, in his view, several themes emerged from this first batch of submissions, including the following:

- Short of PROMESA requirements – Practically all respondents indicated that the Government of Puerto Rico Fiscal Plan did not meet the requirements of PROMESA, although there were a range of views on how far the Fiscal Plan fell short of specific PROMESA components.
- A balanced approach – Most respondents believed that the Fiscal Plan must be multi-dimensional, applying roughly the same priority weights to structural reforms, fiscal consolidation, and debt restructuring. Where there was differentiation – mostly from creditors – respondents prioritized structural reform and fiscal adjustment over debt restructuring, with some emphasizing the urgency of developing a credible growth plan and others prioritizing a return to the capital markets (brought about by a smaller adjustment burden on creditors, which includes local individuals/investors).
- More structural reforms – Respondents generally concluded that the Government of Puerto Rico could have done a better job of proposing deeper structural reforms. These include more aggressive measures to address the deteriorating business climate, which would help promote greater infrastructure investment. Respondents also pressed for greater clarity on a credible development plan or vision for restoring sustainable growth to the island; these respondents noted the tendency of the Fiscal Plan to place too much reliance on government spending – whether productive or not – to stimulate growth.

- Better financial controls – Nearly all respondents supported the Fiscal Plan’s emphasis on improving the Government of Puerto Rico’s financial management and controls as a core component of fiscal consolidation. Many respondents suggested additional measures (e.g., staffing cuts) given their view that more “fat” was available to trim from the budget. Creditors thought the Government of Puerto Rico could have gone even further in cutting back expenditures.
- Reliance on federal support – There were some views expressed on the need to rely on federal support. One respondent encouraged the Board to “think outside of the box” and use this as an opportunity to change the current economic model for the Island. Others, however, urged a more realistic outlook, arguing that it would not be possible to assume away federal support.
- Caution against speedy debt restructuring timeline – Respondents focused on the economic growth assumptions urged the Board not to prioritize a debt deal at the expense of giving time for the economy to return to growth. A restructuring timeline that is too aggressive will increase the risk of follow-on restructurings and could jeopardize efforts to restore the economy to growth.
- Specifics – Many respondents commented that the Fiscal Plan lacked specifics and greater attention should have been paid to articulating an economic growth vision or credible development plan.

At 12:57, Mr. Carrión asked each Board member to provide a brief statement as to his/her view of the proposed Fiscal Plan. Each member gave brief remarks, as did Mr. Carrión. Each concluded that the proposed Fiscal Plan did not satisfy the requirements of PROMESA.

At 1:16 p.m., Mr. Carrión proposed the following timeline for the review and certification of the Commonwealth’s Fiscal Plan:

<b>November 23<sup>rd</sup></b>	Last day to Receive Comments from Stakeholders on FEGP
<b>Week of November 28<sup>th</sup></b>	Working Session on FEGP
<b>Week of December 5<sup>th</sup></b>	Working Session on FEGP
<b>December 15<sup>th</sup></b>	Revised version of FEGP to be submitted to the Board
<b>Week of January 16<sup>th</sup></b> (after MLK day)	Meeting to Discuss the revised version of FEGP
<b>January 31<sup>st</sup></b>	Target Date for Certification of FEGP

Mr. González made the following motion:

**RESOLVED, that the Board adopts the target timeline proposed by the Board's Chair, and further**

**RESOLVED, that the Board shall notify in writing to the Governor of Puerto Rico and the Governor Elect of the proposed target timeline for certification of the Commonwealth's Fiscal Plan.**

Judge González seconded the motion, Mr. Carrión asked for a vote by a show of hands – first of those in favor – then of those opposed. All seven members voted in favor of the motion, and Mr. Carrión announced that the motion had been approved.

## **7. Presentation PRASA and Q&A**

At 1:17 p.m., Mr. Carrión asked the executive team of the Puerto Rico Aqueduct and Sewer Authority to make their presentation. During and after the PRASA team's presentation, the team and the Board members engaged in extensive conversation about the status of PRASA and the prospects for its fiscal plan.

## **Adjournment**

At 1:59 p.m., Mr. Carrión moved that the meeting be adjourned. Mr. Skeel seconded the motion. Mr. Carrión asked for a vote by a show of hands – first of those in favor – then of those opposed. All seven members voted in favor of the motion, and Mr. Carrión announced that the motion had been approved.

The meeting was adjourned at 1:59 p.m.

Respectfully submitted,

David Skeel  
Secretary