



REMARKS OF

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at

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Thank you, Alex, for that kind introduction. And good afternoon to you all.

I would like to express my appreciation to the American Enterprise Institute for inviting me to this **AEI Conference on Puerto Rico Policy after Hurricane María** and to my fellow Oversight Board member and AEI Resident Scholar, Andrew Biggs, for his leadership and support in facilitating this opportunity.

Introduction

When I last spoke here six months ago, I briefed you on the significant progress the Oversight Board had made in fulfilling our mandate under the Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA. I told you of the enormous amount of work that had gone into marshalling and putting in place the resources we needed to do our job; the assistance and guidance we had provided Government of Puerto Rico officials so they could do their job and the very concrete result of that sometimes-smooth-sometimes-challenging-but-always-productive collaboration: the certification of a 10-year Fiscal Plan for the Commonwealth of Puerto Rico as well as fiscal plans for a number of its covered instrumentalities.

They were months of hard work by dozens of the very best professionals in the world working in unison towards the basic goal set forth in PROMESA of building a path to fiscal stability, economic growth, equitable restructuring of the government's debt and restored access to capital markets.

And then came María. And María turned everything—or almost everything—upside down.

Oversight Board actions after María

I will spare you a description of the devastation of this worse-in-80 years hurricane. Suffice it to say that its aftermath is forcing EVERYONE in Puerto Rico—citizens, small businesses, large corporations, government, not-for profits...EVERYONE—to rethink EVERYTHING.

The Oversight Board is no exception. The minute María was done doing her damage, we knew we would have to adjust our policies, procedures and workplan to a new reality if we were to be successful in implementing PROMESA's mandate.

So, here are the actions we took immediately in response to the challenge:

1. Right after Hurricane Maria hit, the Oversight Board authorized the Government of Puerto Rico to “reallocate” up to \$1 billion of its budget for emergency funding to recover from the hurricane's effects and to ensure it had resources to begin immediate emergency response and recovery efforts in anticipation of federal funds.
2. On October 4th, the Oversight Board withdrew the litigation it had initiated to enforce in court the Government of Puerto Rico's compliance with certain measures in the certified Fiscal Plan and postponed the implementation of any furloughs measures for at least a year.
3. We have been active here in Washington D.C. advocating for the necessary resources to support Puerto Rico's recovery, critical rebuilding efforts, and necessary liquidity to maintain services. To that end, I have written to the President, the Secretary of the Treasury and the Congressional Leadership formally requesting that support pursuant to PROMESA.
4. Specifically, regarding liquidity, we have collaborated with the Government of Puerto Rico to provide short term (one quarter) and medium term (seven quarters) liquidity estimates in light of the revenue shortfalls that the Commonwealth is experiencing, and to address the monies that will be needed to advance rebuilding efforts.
5. The Oversight Board has initiated a Contracts Review Policy pursuant to section 204(b)(2) of PROMESA to ensure utmost transparency in all contracting processes.
6. And as we announced the week before last, we asked the Title III court to approve the appointment of Noel Zamot as Chief Transformation Officer of the Puerto Rico Electric Power Authority (PREPA). Upon confirmation by the court, Noel's task will be to marshal the necessary resources to speed up the rebuilding of the Island's electric infrastructure devastated by María and lead the transformation of PREPA to make Puerto Rico's energy sector more reliable, cost effective, and resilient.

In the immediate future, we will focus on the following:

1. First, in light of Puerto Rico's new reality, we need to revise the fiscal plans we had previously certified for the Commonwealth and its covered instrumentalities. At our 10th Public Meeting last week, we issued parameters for revising those plans, which I will review in a

minute. We are committed to collaborating with the Government to promptly revise these fiscal plans under a new work schedule that includes listening sessions and new deadlines.

2. Second, the Oversight Board will continue to advocate for Puerto Rico in Washington, DC as it joins meetings with the Administration and Congress.

3. Third, we will continue to work on liquidity monitoring to ensure we are responsible stewards of the people of Puerto Rico's money and that necessary actions are taken to avoid interruption in services.

4. Fourth, hopeful of having a court-appointed Chief Transformation Officer at PREPA soon, the Oversight Board will be redoubling its efforts to work with the Government and all stakeholders to restore electric services as soon as possible, and to reform the energy sector.

5. And fifth, our work towards restructuring the debt as soon as possible—one of the main objectives of PROMESA—will continue in earnest.

Revision of Fiscal Plans

The certified Fiscal Plan for the Commonwealth and those for its covered instrumentalities charted a path toward fiscal balance and economic growth without additional federal funding. The fiscal and structural reform measures—from transforming the energy sector and modernizing labor laws to reducing government spending by 30 percent over three years—were ambitious and required unprecedented levels of effort by the government over the period of the plan.

Hurricanes Irma and María have changed Puerto Rico's reality, but they have not altered the core purposes of PROMESA or the importance that they be fulfilled. In fact, they have underscored the importance of returning the Island to economic vitality. Working closely with the Government of Puerto Rico, it is essential that we use the process of revising Fiscal Plans to return to the PROMESA goals of fiscal responsibility, access to private capital markets and a sustainable economy.

The process of thinking through the nature and scope of the changes to Puerto Rico's economy post-Hurricanes has already begun. Fiscal and structural reforms need to be reviewed in light of the new baseline that results from this disaster. Two of the most important variables in the fiscal plan revision process are (i) the extent and distribution of damage that Puerto Rico suffered and (ii) the type, timing, and magnitude of federal support, both immediate disaster relief and permanent infrastructure funds, that Puerto Rico will receive. We understand we will have more clarity on each of these two variables later this year.

In short, revisions to the existing fiscal plans are necessary due to four primary reasons: First, the Commonwealth's ability to collect revenues has been significantly compromised as a result of the serious negative effect of infrastructure damage and population outflows on underlying economic activity.

Second, recovery-related expenses are substantial, not all will be reimbursed by federal aid, especially if local share requirements are not waived, and are not currently accounted for in the existing fiscal plans.

Third, many of the cost-saving measures built into the budgets—the reduction in certain subsidies incorporated into the certified budget, for example—must be looked at with a fresh perspective given the demands of the recovery process.

And fourth, the “federal line” will be significantly larger than in the existing Fiscal Plans. It is important to note that the revised plans will reflect any and all capital expenditures funded by FEMA or other federal recovery assistance. It will also involve any revisions to Medicaid funding.

A careful, principled and transparent revision of the fiscal plans is essential. The revision process of the Commonwealth’s Fiscal Plan, specifically, is based on three key components:

1. Revising macroeconomic driver effects on revenue and expenses;
2. Adapting fiscal and structural reform schedules based on the recovery timeline and feasibility; and
3. Integrating recovery funds and reimbursement timing with a capital plan.

During our 10th Public Meeting last week, we adopted the following general principles to evaluate the revisions to the fiscal plans of the Commonwealth and Covered Territorial Instrumentalities and the degree to which the plans meet the 14 criteria established by PROMESA. We will provide these principles to the Government of Puerto Rico’s staff and advisors to help inform their work and facilitate timely responses to the Board’s information requests.

Principle 1: The fiscal plan must reflect the current demographic trends, economic challenges, hurricane damage assessments, federal funding commitments, and a government, both central and municipal, sized to this post-hurricane reality.

Principle 2: The revised fiscal plan must cover five fiscal years, the first fiscal year being FY18 and concluding with FY22.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law. Nevertheless, fiscal plans should be adjusted as additional federal funding is committed.

Principle 4: The revised fiscal plan must provide sufficient resources to ensure appropriate immediate emergency response and recovery effort in anticipation of federal funds, including provision of public safety, healthcare and education, in order to avoid increased outmigration—

particularly by working families and working age populations. The fiscal plan must include metrics focused on the improvement of living standards, e.g. education, healthcare, job creation.

Principle 5: Pension reform, corporate tax reform, and other structural reforms necessary to improve the business climate must remain priorities in the fiscal plan.

Principle 6: Based on available and dedicated resources, the capital expenditure plan must provide the basis for a long-term economic recovery plan for Puerto Rico, focusing on increased and expedited support for rebuilding critical infrastructure such as energy, water, transportation and housing.

Principle 7: The fiscal plan must include the resources to complete the FY15 Commonwealth consolidated audited financial statements by no later than December 31, 2017, and FY16 and FY17 Commonwealth consolidated audited financial statements by no later than June 30, 2018. Thereafter, Commonwealth consolidated audited financial statements should be issued no later than within six months of the fiscal year-end.

Principle 8: Structural balance should be achieved as soon as possible, in any event by no later than FY22, after taking into account the period of time required for the stabilization of Puerto Rico's humanitarian crisis.

Principle 9: The fiscal plan must be accompanied by a long-term debt sustainability analysis (DSA) and detailed economic projections, reflecting a 30-year period.

Time schedule

The Oversight Board will hold three listening sessions to which all stakeholders are invited to provide input to the Fiscal Plans as part of the revision process. They will be a full day each, two of them in Puerto Rico, and one in New York City. Session dates are pending confirmation but should be within one week of the following:

November 16 – Listening session on macro effects on revenue/expenses, with the key issues being: population, GNP, and fiscal multiplier effects.

November 28 – Listening session on fiscal measures, with the key issues being: composition, magnitude, structure and timing of changes to fiscal practices.

December 4 – Listening session on economic development with the key issues being: capital/infrastructure investment, labor reforms, recovery funding and reimbursement timing, and other factors.

In addition, under the creditor mediation arrangements, we will hold two sessions to obtain creditor feedback on the fiscal plan revision process.

The deadline for the Commonwealth, PREPA, and PRASA to submit draft Fiscal Plans to the Oversight Board is December 22nd, 2017 with review and revision ongoing through the certification date of February 2nd, 2018.

The deadline for the University of Puerto Rico, HTA, GDB, and COSSEC to submit draft Fiscal Plans to the Oversight Board is January 26th, 2018 with review and revision ongoing through the certification date of March 2nd, 2018.

In closing, let me underscore that notwithstanding the undeniable set back brought upon the Island by Hurricanes Irma and, especially, María, the Board remains hopeful for the future of Puerto Rico. The Island's spirit and resources, if properly applied, foretell a much better life for our children and grandchildren. But we must build tomorrow's economy by making now—in this even more challenging and demanding scenario—the difficult choices we have long known are necessary and, finally, start building a better Puerto Rico for this and future generations.

Thank you.

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