

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

January 10, 2017

The Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

We are writing to express our concern about the proposed Emergency Municipalities Assistance Act (the “Act”), as currently drafted, and the negative fiscal consequences it would have on the Commonwealth. While the Oversight Board recognizes that many municipalities are in dire financial straits, the Act as it now stands is not financially prudent for the Commonwealth for three key reasons: (1) to our knowledge offsetting savings or new resources, not accounted for in the certified budget, have not yet been identified to support this new expense; (2) subsidies are not directly tied to lost revenue and liquidity needs of municipalities; and (3) the proposal is not an option of last resort as it does not require that eligible municipalities access available federal financing first.

We recommend the following changes to ensure the legislation is in compliance with the certified budget:

First, prior to appropriating any funding to the Emergency Municipalities Assistance Act, the Commonwealth should take emergency liquidity management measures to support municipalities that have a certified liquidity need by advancing the remaining budgeted subsidies included in the FY18 certified budget to those identified municipalities. In order to do so, a transparent eligibility requirement based on lost revenues due to the hurricane should be established.

Second, we urge your administration to work closely with the U.S. federal government agencies responsible for implementation of the legislated Community Disaster Loans (“CDLs”) to understand eligibility and documentation requirements, terms and conditions, and general

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framework of CDL availability for municipalities in Puerto Rico. Given the liquidity and budgetary situation of the Commonwealth, it would be preferable for municipalities to have access to the CDLs which were created for this very set of circumstances.

Third, we urge the proposed Act to require that any disbursements from the Commonwealth to municipalities be made only if a documented liquidity need and revenue loss exceeds the statutory limit for CDLs or is otherwise unmet by the CDL program. Further, disbursements should be structured as loans, not grants, that can be forgiven only if the municipality has a documented inability to repay the loan in subsequent fiscal years based on criteria that align to the CDL statute. Not addressing this in the Act, and other legislation as required, would put undue pressure on the already precarious Commonwealth budgetary and liquidity situation.

Fourth, for any such proposed Act to be deemed compliant with the Fiscal Plan and Territory Budget, the Government of Puerto Rico and Legislature must clearly establish which account or accounts within the General Fund will be decreased to make the funds available as necessary for the Act to be implemented.

Finally, if you deem it necessary to proceed with such a proposed Act, we urge you to ensure the transparency and necessity of each additional loan or subsidy. We recommend that any such proposed Act require that the liquidity need of any municipality be certified by AAFAF, or other fiscal agency within the Government of Puerto Rico, to ensure that the need and its size is a result of the devastating impact from Hurricanes Irma and María.

We trust that when considering the Act, you will take into account our strongly held view that as currently drafted the Act could have a significant negative fiscal impact on the Commonwealth, which would be particularly imprudent at this time.

Sincerely,



José B. Carrión
Chair

CC: Hon. Thomas Rivera Schatz, President of the Senate of Puerto Rico
Hon. Carlos Méndez Núñez, Speaker of the House of Representatives of Puerto Rico
Hon. José O. González Mercado, President, House Municipal Affairs Commission
Mr. Christian Sobrino Vega, Ex Oficio FOMB Member
Mr. Gerardo Portela Franco, FAAFA Director
Ms. Natalie A. Jaresko, FOMB Executive Director