



KEYNOTE

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at the
2018 Puerto Rico Investment Summit

Pedro J. Rosselló Puerto Rico Convention Center
Monday, February 12, 2018

Thank you very much. Good morning to all...

Before I start, I would like to express my gratitude to the organizers of this 2018 Puerto Rico Investment Summit: Nick Prouty, CEO of Putnam Bridge Funding, who is one of the primary forces behind it and, of course, Brenda González, who has done such a super job in putting it together. Thank you for hosting us. And, of course, thanks to all of you for being here today.

In the short time we have, I would like to summarize for you briefly the most recent developments in the process of recovering, restoring and repowering Puerto Rico using the tools provided by the federal law PROMESA and, in particular, the actions taken by the Oversight Board during the past four-and-a-half months in the wake of hurricanes Irma and Maria. Then I would like to say a few words about the path forward by focusing on two major topics: the transformation of Puerto Rico's electric energy system and the revision of the fiscal plans.

Introduction

I won't bore you with a lengthy inventory of all the initiatives undertaken by the Oversight Board since its inception in September of 2016. Suffice it to say that during the first year of our tenure we focused on achieving two of PROMESA's fundamental objectives: 1) the certification of fiscal plans for the Commonwealth of Puerto Rico and a number of its public instrumentalities (such as the Electric Power Authority, the Aqueduct and Sewer Authority and the Highway and Transportation Authority, among others) to put Puerto Rico on the path to fiscal responsibility and budgetary balance and 2) commencing the complex and delicate process of restructuring the public debt of the central government and of some of its instrumentalities under Title III of PROMESA.

Despite the many challenges, to have set forth both of these processes constituted a significant achievement in the pursuit of the goals mandated by PROMESA, namely: fiscal stability, a fair restructuring of the debt to sustainable levels, regaining access to the capital markets and economic growth for Puerto Rico.

And at that juncture...almost exactly a year after having started our functions, Irma and María hit us...and hit us hard, turning everything upside down. With them, an important part of the work that had been done and the goals that had been reached was, literally, gone with the wind.

Board actions after María

The minute that María had finished doing its harm we knew that we would have to adjust our policies, procedures and work plan to a new reality in order to comply with the mandates of PROMESA for the benefit of all Puerto Ricans. And, more specifically, we would have to completely revise the fiscal plans that had cost both the Government and the Board so much hard work to achieve.

Immediately, and in the months following María, we did the following:

- 1) We authorized the Government of Puerto Rico to re-assign up to \$1,000 from the budget as emergency hurricane recovery funds, to ensure it would have the necessary resources to begin the immediate response to the emergency while federal funds made their way to the Island.
- 2) The Board withdrew the litigation it had filed to ensure compliance by the Government of Puerto Rico of certain measures contained in the certified Fiscal Plan.
- 3) We adopted a Government Contract Revision Policy, under PROMESA, to ensure the utmost transparency in all contracting processes.
- 4) We worked earnestly in Washington to ensure the approval of a federal legislative initiative to provide liquidity support to Puerto Rico.
- 5) We set forth a process to conduct an independent revision of the debt issued by the Government of Puerto Rico and its instrumentalities and are currently setting forth a process to examine the liquidity levels in hundreds of government accounts.
- 6) In view of the fiscal plan revision process, we held four public Listening Sessions—two in Puerto Rico, and two in New York—to receive input from a wide range of sectors and stakeholders on a broad range of topics...from the effect on revenue and expenses of macro factors like population and gross product...to the impact on economic development of key factors such as capital infrastructure investment, labor reforms, and recovery funding...to the transformation of the Puerto Rico energy sector.

At present, the Oversight Board is focused on the following agenda:

- 1) First, in light of Puerto Rico's new reality, we are revising the fiscal plans we had certified for the central Government as well as its instrumentalities. Last October, we articulated and approved parameters to carry out such revisions. We established a schedule that we have applied with flexibility to give the Government the opportunity to do the best possible work in circumstances we all recognize are very adverse.

A couple of weeks ago, the Government finally submitted revised fiscal plans for the Government of Puerto Rico, the Electric Power Authority and the Aqueduct and Sewer Authority. At present, and in the next few days, we will continue collaborating with the Government in the revision of such plans with the objective of having certified revised fiscal plans by February 23.

Subsequently, on or before March 9 we should receive revised fiscal plans for the University of Puerto Rico, the Highway Transportation Authority, COSSEC and the Government Development Bank with the objective of certifying them by April 20.

- 2) Second, the Oversight Board will continue to participate actively in meetings with the Administration and Congress in Washington on behalf of Puerto Rico.
- 3) Third, we will continue to monitor liquidity to ensure that the money of the People of Puerto Rico is managed responsibly and that the necessary measures are taken to avoid the interruption of government services.
- 4) Fourth, we will continue working earnestly to achieve one of the principal objectives of PROMESA: restructuring the public debt in a fair, reasonable and sustainable manner as soon as possible. This will allow Puerto Rico to regain access to the capital markets and reduce the real and perceived risks that stem from uncertainty in the business climate.
- 5) And fifth, we will continue working to strengthen the electric energy infrastructure through the expedited development of Critical Projects under Title V of PROMESA and will support the Government in its effort to transform permanently the energy sector following the vision recently articulated by the Governor.

Transformation of the energy sector

Now, if you allow me, I would like to make some comments precisely on the subject of the transformation of the electric energy system in Puerto Rico.

Of all the realities Irma and María confronted us with, beyond any doubt, the most evident is that Puerto Rico's electric energy system doesn't work...and whatever doesn't work needs to be changed.

This is not an original idea. It has been raised many times throughout the years. But in the past, whenever someone said the electric energy system didn't work and needed to be changed, apologists of the system would immediately spring up in opposition, offering myriad excuses for the inexcusable, simply so that we would look the other way...so that we would not see the reality.

But Irma and María uncovered the veil of all those excuses, of all those falsehoods, and have shown us reality as it is.

None of this should be interpreted as an indictment of thousands of dedicated Prepa workers. To the contrary, through the years, most of them have given their very best to keep the public corporation afloat despite its being controlled by political patronage, bankrupted by the incompetence of its administrators and even abused economically by corruption.

Even when, as we all hope, electric service is eventually restored to 100 percent of Prepa's customers, the same deficiencies that have dragged the utility for decades will remain latent. And that should not be an option for any self-respecting Puerto Rican. Ultimately, it's a matter of dignity: Puerto Rico does not deserve the electric system that for so many years we have been condemned to suffer.

A couple of weeks ago, the Governor announced his vision of the transformation of Puerto Rico's energy system. He proposed to expand the participation of private companies in the energy generation function—beyond the present 30 percent—opening up to private sector investment and competition through the privatization of Prepa's assets currently dedicated to generation and granting a long-term concession for the transmission and distribution functions.

There's a dual goal in this process: to reduce the cost of electricity and to enhance the reliability of the system by diversifying fuel sources and improving operational efficiency.

The Oversight Board backs this public policy decision by the Governor and reiterates its commitment to support the Administration in this initiative.

We further believe that this process of opening up the energy sector to private sector investment and competition should have as a prudent counterweight the responsible, apolitical and transparent endeavor of a robust and independent regulator. This entity should serve as a balance to ensure that the interests of all sectors—including consumers and workers—are duly looked after.

The process will not be free of obstacles and challenges. But we trust that with the Governor's leadership and the Board's support, Prepa's transformation will finally be a reality to ensure an energy sector that is more efficient, more modern, more resilient and less costly.

Revision of the Fiscal Plans

The Government of Puerto Rico's Fiscal Plan certified last year, as well as those of its instrumentalities, established a clear path towards fiscal balance and economic growth without the need of additional federal funds. The fiscal and structural reform measures contained in the certified Fiscal Plan—from the transformation of the energy sector to the modernization of labor laws to the reduction of government expenses by 30 percent in three years—were ambitious and required unprecedented effort on the government's part.

Irma and María radically altered the bases on which those plans were built. Thus, the need to completely revise them while keeping unaltered PROMESA's basic objectives of achieving fiscal responsibility, regaining access to the capital markets and fostering economic sustainability.

We have already advanced in the process of rethinking the nature and scope of the changes that Puerto Rico's economy will experience as a result of the hurricanes. The fiscal and structural reforms have to be revised in light of a new base scenario resulting from the disaster. Two of the most important variables in the process of revising the fiscal plan are (i) the extent and distribution of the damage and (ii) the nature, magnitude and timing of the federal assistance that Puerto Rico will receive, both immediate disaster recovery aid as well as longer-term funding for infrastructure.

More specifically, the fiscal plans need to be revised because of four principal reasons:

- 1) First, the central Government's collection capacity has been reduced significantly as a result of the serious negative effect that both the damages to infrastructure and population migration patterns have had on economic activity.
- 2) Second, the costs of the recovery will be substantial, not all will be reimbursed by the federal government and they were not contemplated in the certified Fiscal Plan.
- 3) Third, many of the savings measures incorporated in the budgets encompassed in the Fiscal Plan—like, for example, the reduction of certain subsidies—will have to be revised from a new perspective bearing in mind the demands of the recovery process.
- 4) And, fourth, the federal allotment will be significantly larger than in the existing fiscal plans. It is important to point out that the revised plans will reflect all capital expenditures covered by FEMA as well as other federal recovery aid.

A careful, honest and transparent revision of the fiscal plans is essential. The revision of the central Government's Fiscal Plan, specifically, will be based on three key components:

- 1) Review the effect of the macroeconomic variables on revenue and expenses;
- 2) Adapt the itinerary of fiscal and structural reforms according to their viability within the recovery schedule; and
- 3) Incorporate within a capital plan the amount and timing of recovery funding and reimbursement.

As most of you know, last week we sent letters to the Governor and legislative leaders calling for revisions to the proposed Commonwealth, Prepa, and Prasa fiscal plans, including changes and further clarifications to proposed structural reforms, fiscal measures, and baseline projections.

For example, although the Commonwealth's proposed Fiscal Plan includes many important proposals needed to move Puerto Rico to fiscal sustainability and economic growth, some changes and further clarification are needed with respect to structural reforms in the areas of Ease of Doing Business, labor market and labor reform, tax reform, infrastructure reform and capital investment, human capital, and power sector reform.

Today, I will not make any further comment on the fiscal plans that the Government has submitted since in the next few days we will continue working with the Government on the basis of the documents that have been presented to us.

Part of the work in the days ahead for both the Government and the Oversight Board will be to incorporate into the fiscal plans the impact of the federal budget resolution passed by Congress and signed by the President last week. Without going into too much detail, as a result of that agreement, Puerto Rico stands to receive some additional \$15 billion in federal funds for health, housing and infrastructure over the next few years.

While decidedly good news, we must resist the temptation to think that the influx of even such a significant appropriation of federal money—not contemplated as recently as last week—will be the solution to all of Puerto Rico's problems. It will not be. It will lighten our burden on the tough road ahead, but it will not spare us the hard work of fixing Puerto Rico's structural inadequacies.

Irma and María radically changed Puerto Rico's reality, and the new appropriation of federal money is a welcome new tool to start addressing that reality. But neither one nor the other changed the need to adopt the structural reforms necessary to repower and boost Puerto Rico's economy and pull us up from the depression we have endured for the past 12 years. To the contrary, in any event, the impact of Irma and María made it even more important to adopt these structural reforms without delay as part of the fiscal plan, even as we welcome the addition of new federal money.

Changes such as a true labor reform that will allow us to compete effectively with other jurisdictions when it comes to attracting investment and creating jobs...a corporate tax reform that fosters investment...a permitting reform that improves the business climate in Puerto Rico...a welfare-to-work reform that incentivizes work instead of dependency...these are structural reforms that cannot wait...that we must adopt now! So that our economy may grow again, so that we may generate more wealth and, YES, so that we may pay back a fair, reasonable and sustainable portion of the debt we have with our creditors who one day believed in Puerto Rico.

We are fully aware that some of these structural reforms are not politically palatable, but that doesn't make them any less indispensable and urgent. We are also aware that since we on the Board are not politicians, we have more liberty than elected officials to call for these changes that all of you know are necessary.

But I invite you, and I invite the administration, to think about all of these structural reforms in the same way we are looking now at the privatization of Prepa. It is an indispensable

transformation for Puerto Rico's economic development, one that politicians historically had stayed away from fearing its political repercussions, even though all of us knew we had to do it. Now, finally, a step forward has been taken, with courage, to do what is best for Puerto Rico. Well then, the same applies to all those other structural reforms that we must adopt without delay so that our economy may again move forward.

In conclusion, allow me to emphasize that notwithstanding the undeniably hit that Puerto Rico has taken in the wake of Irma and María, the Oversight Board remains firmly hopeful about Puerto Rico's future. This island's resources and, above all, the spirit of its people, if correctly applied, practically guarantee a better quality of life for future generations.

The Government and the Oversight Board must do their part. But the private sector also must do theirs. Whether you are already part of Puerto Rico's private sector, or you are an outside investor looking for opportunities on this Island, my message to you is this: your active involvement is crucial for Puerto Rico to achieve its transformation. You must take a stand, roll up your sleeves, support that which you know is best for Puerto Rico, and move forward.

We must build the economy of the future taking today—in this challenging and complex scenario—the decisions that for so long we have known must be taken so that, finally, we may build a better Puerto Rico for all.

Thank you.

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