

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



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BY ELECTRONIC MAIL

March 28, 2018

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

RE: PRASA Fiscal Plan

Dear Governor Rosselló Nevares:

Since the Board sent its Notice of Violation for the Proposed Fiscal Plan for PRASA, dated February 5, 2018, we have worked cooperatively and collaboratively with you and your advisors to address the violations detailed therein, as well as additional requirements that we have outlined in correspondence, oral and written, with you and your advisors. After carefully reviewing the most recent proposed Fiscal Plan for PRASA, dated March 23, 2018 (the “Latest Fiscal Plan”), the Board has concluded that the following issues must be addressed through revisions to the Latest Fiscal Plan before the Board can certify that the Latest Fiscal Plan satisfies the requirements set forth in Section 201(b)(1) of PROMESA. The Board is also sending, under separate cover, a technical appendix that provide additional details on these issues.

- **Recalculate financial projections using the Board’s macroeconomic variables:** The cash flows projected in the Latest Fiscal Plan must be adjusted to be consistent with the Board’s macroeconomic projections, which includes PREPA’s final rate projections.
- **Post-certification reporting requirements:** In the interest of providing more transparency on the recovery and transformation detailed in the Latest Fiscal Plan, the Latest Fiscal Plan must include plans for reporting on Capital Improvement Program revisions and implementation plan tracking, liquidity tracking, budget-to-actuals, resiliency and reliability goals and KPIs, water quality KPIs. The Latest Fiscal Plan must also include an implementation schedule for the measures detailed therein. The CIP implementation plan must also include a public report with project-level status, cost, and schedule updates to be provided quarterly.

- **Pension savings initiative:** PRASA's employees' pensions are part of ERS. As set forth in the Board's requirement for the Commonwealth's Fiscal Plan, where employees' pensions are also part of ERS, the Board requires that the Latest Fiscal Plan include the following pension savings measures and reflect them in financial projections: benefit accruals are frozen and all employees are enrolled in defined contribution plans with segregated, self-directed accounts, and benefits are reduced progressively so that on average the reduction is 10% for the entire group of retirement system members, but there is no reduction for those with combined retirement plan and Social Security benefits below the poverty level of \$1,000 per month.

The Board requires that PRASA submit a revised version of the Latest Fiscal Plan, in .pdf and .ppt, that addresses the foregoing issues, along with accompanying financial models, debt sustainability analysis, and all supporting materials, by April 5, 2018 at 5:00 p.m. AST.

Sincerely,



José B. Carrión III

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

CC: Natalie A. Jaresko
Christian Sobrino Vega
Gerardo Portela Franco