



Financial Oversight and Management Board for Puerto Rico

RESPONSE OF NATALIE JARESKO, EXECUTIVE DIRECTOR, FINANCIAL OVERSIGHT and MANAGEMENT BOARD FOR PUERTO RICO TO ADDITIONAL QUESTIONS PRESENTED FOR THE RECORD

before the

House Committee on Natural Resources

“The Status of the Puerto Rico Oversight, Management, and Economic Stability Act
(PROMESA): Lessons Learned Three Years Later”

Answers to questions from Chairman Grijalva

- 1. Section 2141 (b)(1)(B) of PROMESA requires that Fiscal Plans approved by the FOMB "ensure the funding of essential public services." In your testimony, you mentioned that the FOMB has not defined the term. That is particularly worrisome, given that the FOMB has certified fiscal without defining any sort of funding baseline necessary to ensure essential public services.**

Please see the answer to #2.

- 2. What is the FOMB's definition of the essential public services that any government should guarantee to provide for the care and well-being of its citizens? Why is the FOMB promoting the approval of debt adjustment plans without defining those essential public services? How do the fiscal plans certified by the FOMB reflect a commitment to guaranteeing human rights and basic needs of residents of Puerto Rico? Also, do you oppose PROMESA being amended to include a more specific definition of "essential public services"?**

The FOMB is deeply committed to ensuring the funding of essential public services as PROMESA requires. The FOMB has determined that every fiscal plan that it has certified has satisfied all of the requirements of a fiscal plan as provided in Section 201(b)(1) of PROMESA, including that the fiscal plan ensures the funding of essential public services. At a minimum, essential public services include public health, education, and safety. For example, the fiscal plan for the Commonwealth that the FOMB certified last week provides salary increases for police, teachers, and firefighters, increased funding for Medicaid and hospitals, and scholarship funds for

UPR students. The FOMB does not support any amendments to PROMESA, including any modification to the provisions in Section 201(b)(1). See page Appendix [A] for a complete list of investments.

3. Upon the departure of Mr. Noel Zamot, you assumed the role of Revitalization Coordinator for the Financial Oversight and Management Board (FOMB). What critical infrastructure projects is the FOMB considering?

There are two projects in the pipeline at the moment, but neither comply with Title V's requirements. Generally speaking most projects are disaster related and are being channeled through the Government rather than the Revitalization Coordinator.

4. Please provide a list of the FOMB's registered lobbying firms. Include the total authorized annual cost, the duration of the contract, and what each firm is lobbying for or against.

Firm 1: Holland & Knight

Fee: \$40,000 per month

Estimated spend for FY19: \$240,000

Scope: See Appendix [B] for the contract with the firm

Firm 2: Offhill Strategies

Fee: \$35,000 per month

Estimated spend for FY19: \$420,000

Scope: See Appendix [C] for the contract with the firm

Our spending on registered lobbying firms (one was replaced mid-year) has not changed as a result of the *Aurelius* opinion from the First Circuit or the Board-member nomination process, nor have the scopes of work changed for the firms engaged.

We would like to clarify that the claim brought by the Government that FOMB spends more than the Government itself in lobbying is false and misleading. The Government has several of government relations contracts across different agencies.

5. In your testimony, you mentioned that proposed budget cuts to the University of Puerto Rico would only result in a consolidation of "back-office functions". In addition, you mentioned that if certain administrative savings and a new focus on improving revenues are implemented, then no cuts to faculty or student services are necessary.

The Government and FOMB jointly determined in 2017 to reduce the appropriation for UPR. The plan was to determine reasonable, sustainable measures to bring UPR closer to U.S. mainland public university tuition and administrative cost benchmarks without compromising the quality of the instruction or experience. Our recommendations of cost efficiencies at UPR include consolidation of administrative services or back offices

among the 11 campuses on the Island. For example, rather than maintain 11 accounting, budget, finance, human resources, and procurement offices, it would be more efficient to provide these administrative services via four campuses on the Island.

UPR's Fiscal Plan makes every effort to minimize the increase of tuition and fees that could jeopardize affordability and access to quality higher education on the Island. Some examples of additional revenue measures discussed are federal grants and awards, IP and patent monetization, ancillary service fees for providing training to external institutions including government services, as well as encouraging raising funds from alumni and "out-of-state" student tuition.

The UPR and Commonwealth Fiscal Plans provide that no student would be denied a UPR education because the following funds are made available for means-tested scholarships:

- FY2019: \$9 million in UPR Fiscal Plan and budget, in addition to \$35 million in the Commonwealth Fiscal Plan and budget.
- FY2020: \$11 million in UPR Fiscal Plan and budget, in addition to \$39 million in the Commonwealth Fiscal Plan and budget.
- The needs-based scholarship fund at the Commonwealth level amount to up to \$214 million over the period of the Fiscal Plan.

6. Has the FOMB or its consultants performed a study to assess the feasibility of consolidating back-office functions and reaching target administrative savings? Please share the results of the assessment.

Target administrative savings were based on case studies from other public and private sector examples, benchmarks from other jurisdictions, and analysis of government organization and operations. In some cases (e.g., education, health, public safety), the target savings were developed through a joint effort with the Government.

7. The FOMB has challenged the legality of more than \$6 billion in General Obligation (GO) debt issued after 2012. Almost simultaneously, the FOMB declined to challenge the legal basis for the COFINA deal. What process and rationale did the Board follow to decide which debt issuances to challenge?

Shortly after PROMESA was enacted, certain bondholders challenged the legality of the COFINA bonds. In the summer of 2017, the FOMB supported the establishment of a court-supervised process to resolve the legal challenges asserted against the COFINA bonds. As part of this process, the Title III court heard numerous arguments regarding whether the COFINA bonds were valid. Eventually, the court-supervised process produced a settlement of the litigation that had been filed in connection with the COFINA bonds. The FOMB developed and proposed a plan of adjustment for COFINA based on that settlement. Accordingly, the plan of adjustment for COFINA was a product of challenges of the COFINA bonds that had been asserted, litigated, and

negotiated. By contrast, no such litigation or court-supervised process existed for the \$6 billion in GO bonds issued after 2012.

- 8. What specific measures, if any, has the FOMB implemented to identify and redress conflicts of interest in its decision-making, advising, and investigative processes?**

Please see Appendix [D] for a statement from the FOMB's Ethics Advisor.

- 9. Were FOMB members checked for personal and professional conflicts of interest at the time of their appointment and have these background checks been made public?**

Yes, the White House and Treasury Department conducted background checks for personal and professional conflicts of interest prior to the appointments being made. To the best of our knowledge, those background checks have not been made public.

- 10. Section 104(0) of PROMESA establishes that "the Oversight Board may investigate the disclosure and selling practices in connection with the purchase of bonds issued by a covered territory for or on behalf of any retail investors including any underrepresentation of risk for such investors and any relationships or conflicts of interest maintained by such broker, dealer, or investment adviser as provided in applicable laws and regulations." In addition, Section 104(p) establishes that the "Oversight Board shall make public the findings of any investigation references in subsection (o)."**

Please see Appendix [E] for a copy of the Kobre & Kim independent debt investigative report. This report has been publicly available on our website in both English and Spanish since it was released in August 2018.

- 11. Why did the FOMB request to hide the identity of individuals, corporations, and institutions potentially responsible for issuing illegal debt as part of a list of possible defendants submitted to the U.S. District Court for Puerto Rico in April 2019?**

Only those individuals, corporations, and institutions that signed a tolling agreement to extend the deadline by which certain claims must be filed have had their identities kept confidential. The reason is the FOMB has not determined whether to pursue litigation against such entities and, given that they have signed a tolling agreement, it would be prejudicial to accuse them publicly of wrongdoing without first making that determination. The names of those who have not entered into tolling agreements are public.

- 12. The Government of Puerto Rico - at least the elected part vs. the federally-imposed part - appears to be matching the FOMB's spending on outside lawyers and financial consultants dollar for dollar, even though PROMESA provides for the FOMB to represent the territory on debt matters. Have you tried to work out**

joint hiring of lawyers, financial consultants, and others to save Puerto Rican taxpayers hundreds of millions a year?

The FOMB and Government of Puerto Rico have worked closely and cooperatively to reduce the exorbitant cost associated with the debt restructuring. We continue to explore ways to eliminate duplication and minimize professional fees. Unfortunately, the Title III court has at times required separate counsel for each government entity, which necessarily leads to excessive costs.

- 13. Can you explain why the 2017 Fiscal Plan that was released before the hurricane called for large reductions in debt repayment - between 75 and 85 cents on the dollar -- while the current plan appears not to be as aggressive?**

The fiscal stimulus from the federal disaster recovery funds and the insurance proceeds has the impact of increased economic growth that translates into more tax revenues for the Commonwealth. While no federal monies are being used to pay debt, the Commonwealth's new reality is that the Government will collect more revenue during the period of the Fiscal Plan.

- 14. One of the FOMB's biggest and most consistent complaints about the Government of Puerto Rico is the Government not adopting what the Board terms "labor reforms." Chief among these is the Government not repealing the longstanding law that requires severance pay for employees fired without cause. The Chairman of the Board wrote an op-ed in the New York Post reiterating this complaint just this week.**

The FOMB has laid out a series of structural reforms that would improve the competitive nature of Puerto Rico's economy so that the Island's economy can grow again and produce plentiful, good jobs. Labor reform is just one structural reform, and the repeal of Law 80 is just one aspect of a comprehensive labor reform package. Eliminating the onerous severance requirement for firing employees without cause is not a panacea for Puerto Rico's economy, though it is something that is part of the labor market in 49 of the 50 states.

- 15. Why did the FOMB repeatedly refer to an agreement with the Governor as an agreement with the Government? Doesn't it understand the separation of powers in a republican form of government?**

The Governor represented that he was leading negotiations on behalf of himself and the Legislature. The FOMB held many meetings with the Legislature on this topic as well.

- 16. Why didn't the FOMB negotiate a proposed change in law with the Legislative Assembly, which writes the laws?**

The FOMB held meetings with both the Governor and leaders of the Legislature on this topic.

17. **How do the income and economic growth projections included in the certified Fiscal Plans compare with the actual reports on income generated by the Government of Puerto Rico? If the income and economic growth projections included in the certified Fiscal Plans are not met, does the FOMB have a Plan B to ensure funding for essential public services and compliance with debt adjustment plans?**

The revenue and economic growth projections in the Fiscal Plan have been updated to reflect the Government revenue collections and the Government's delayed implementation on fiscal and structural reforms. The growth projections are based on latest economic data available, disaster relief funding amounts, and roll out per FEMA. To date, the FOMB's projections have been more conservative than actual collections, i.e. revenues have been stronger than projected. However, if at any time the established targets are not met the Government would need to reduce spending in some less critical areas to properly fund spending on priority areas such as health, education, and safety.

18. **The FOMB's certified Fiscal Plan for the territory as a whole would require the Government of Puerto Rico to spend \$1.162 billion of Puerto Rican tax dollars on Medicaid during the fiscal year that begins July 1st and \$2.294 billion in Fiscal Year 2021. Those would be increases from zero this territorial fiscal year and \$123 million in FY 2018. To spend the amount dictated by the FOMB, the Government of Puerto Rico will have to cut spending in other areas to generate these amounts for Medicaid.**

The Fiscal Plan projections are based on current law. In FY2019 and FY2018 supplemental funding from ACA and BBA nearly eliminated the need for the Government of Puerto Rico to pay for Medicaid. The ACA and BBA supplemental funding are due to phase out in FY2020. Therefore, the Fiscal Plan projects a funding cliff that begins in FY2020 and gets worse in FY2021. To avoid the fiscal impact of the projected cliff the FOMB has established a series of value-based reforms the Government needs to implement to reduce the per member per month cost. Assuming the Government implements these reforms, the Government is projected to spend \$865 million in FY2020 and \$1.800 billion in FY2021. We are not sure where the \$1.162 billion and \$2.294 billion figures in the question come from.

19. **Do you recognize that you have constructed a Fiscal Plan that insists its spending limits across the board are enough, so that increasing Federal funding for Medicaid in Puerto Rico would increase the budget surplus from which bond creditors could claim they should be?**

If additional revenues of any type, including Federal funds, occur in any year, they would be characterized as excess primary surplus. However, the FOMB is basing its assessment of what a sustainable debt burden is for the Commonwealth on projected revenues, and the Fiscal Plan projects revenues on current not potential law.

20. **The Puerto Rico Sales Tax Financing Corporation - "COFINA" - is an instrumentality of the Government of Puerto Rico. It was created a dozen years ago in response to a budget crisis solely to enable the territory to borrow more than permitted by its constitution. COFINA bonds of close to \$18 billion totaled a quarter of the territory's bonded debt and a third of the debt that the FOMB wants to adjust.**
Please see the answers to #24-27.
21. **Another quarter and third of the debt are "General Obligation" or "GO" bonds issued or guaranteed by the Government of Puerto Rico itself. According to the territory's constitution, payment on these bonds must be made before any other expenditure of the Government.**
Please see the answers to #24-27.
22. **Section 201 (a) of PROMESA requires the FOMB to "respect the relative lawful priorities or lawful liens ... in the constitution, other laws, or agreements" of Puerto Rico. The FOMB has asked the PROMESA bankruptcy court to void more than \$6 billion of the nearly \$18 billion in GO bonds because it exceeds the constitutional limit on borrowing.**
Please see the answers to #24-27.
23. **The FOMB's settlement with COFINA creditors is paying senior COFINA bond holders 94 cents of face value and junior COFINA holders 56 cents - with a 3.5% bonus for the big owners, with which it primarily worked out the deal. Among these are hedge funds that bought the bonds for far less than the amount that they will be paid under the deal. Many Puerto Rican credit unions, other institutions, and individuals, especially retirees own junior COFINAs. Some hedge fund speculators with which the FOMB worked out the COFINA deal are making profits of more than \$1 billion.**
Please see the answers to #24-27.
24. **Why doesn't the FOMB limit recoveries to what bond creditors paid for the debt?**
PROMESA establishes that the adjustment of debts follows a legal process that is similar to what the U.S. bankruptcy code provides. This legal process does not grant the FOMB the power to "limit recoveries to what bond creditors [are] paid." Rather, the bond creditors have legal rights that must be respected and considered as part of the debt adjustment process. However, the FOMB conducts and maintains a debt sustainability analysis for the Commonwealth to ensure that the total amount of debt that the Commonwealth supports is sustainable and allows for the Commonwealth to provide for and invest in its residents and businesses and to fulfill the mandates of PROMESA.

25. Why did the FOMB work out a deal with COFINA creditors that allows windfall profits before working out a deal with GO bondholders?

As stated in response to #7, in the summer of 2017, the FOMB supported the establishment of a court-supervised process to resolve the legal challenges asserted against the COFINA bonds. As part of this process, the Title III court heard numerous arguments, including from GO bondholders, regarding whether the COFINA bonds were valid. Eventually, the court-supervised process produced a settlement of the litigation that had been filed in connection with the COFINA bonds. The FOMB developed and proposed a plan of adjustment for COFINA based on that settlement. The COFINA plan of adjustment resolved issues relating to the ownership of certain proceeds of the sales and use tax revenue stream, which was a necessary predicate to determining what resources the Commonwealth has to meet its various obligations, including those to GO bondholders.

26. Are you confident that the Puerto Rican economy will be able to sustain both the new COFINA bond payments and the payments that will need to be made on other bonds?

The FOMB is confident that by the end of the various debt restructurings, the Commonwealth will have a sustainable debt burden that allows for the Commonwealth to provide for and invest in its residents and businesses and to fulfill the mandates of PROMESA.

27. How does so much COFINA revenue going to bondholders affect the ability of the Government of Puerto Rico to make payments on the priority bonds issued or guaranteed by the territory?

As a result of the COFINA debt restructuring, the Commonwealth achieved a 32% reduction in COFINA debt, over \$17 billion in debt service savings, and access to \$425 million annually, on average, for the next 40 years that was otherwise going to be used to pay COFINA debt. These savings and additional resources will help the Commonwealth to restructure the GO bonds in a sustainable way and allows for the Commonwealth to provide for and invest in its residents and businesses and to fulfill the mandates of PROMESA.

28. Current piecemeal debt negotiations have neglected to look at Puerto Rico's ability to sustainably repay all its debt. A Debt Sustainability Analysis authored by economist Martin Guzman indicates: "the generosity with the COFINA bondholders can only be sustained if the reduction on the rest of the public debt lies between roughly 85% and 95%-a conclusion that rests on the assumption that the entire public debt restructuring is designed with the goal of restoring debt sustainability."

Notwithstanding, in the hearing you expressed your goal of using approximately 10 percent of Puerto Rico's own resources to debt service.

How do you suppose Puerto Rico could be left with a debt load comparable only with the richest states, such as that of Florida, which has a with a population of little over 21 million and own re venues of almost \$41 billion versus that of Puerto Rico, which has a population of roughly 3.2 million and general revenues of roughly \$10 billion? If you look at the whole picture, how much of the debt stock will be reduced? How do you prevent the island from falling prey to a future default on its debt?

As outlined in the certified fiscal plan for the Commonwealth, the FOMB considers a variety of metrics commonly used by ratings agencies to ascertain what a sustainable debt burden is for the Commonwealth. One such metric is the ratio of net tax-supported debt to own-source revenues. Because this metric is a ratio based on a jurisdiction's own-source revenues, it takes into consideration the fact that some jurisdictions are more prosperous or more populous than others. If the FOMB were to restructure the Commonwealth's debt such that it is equivalent to 10 percent of Puerto Rico's own-source revenues, and Florida had a debt burden equivalent to 10 percent of its own-source revenues, the total amount of debt sustained by Puerto Rico would be a fraction of that for Florida, which recognizes that Florida has a larger economy and larger population.

Answers to questions from Rep. Horsford

- 1. In helping Puerto Rico out of its debt crisis, it is essential that Puerto Rico be better prepared for natural disasters like Hurricane Maria, which caused an estimated \$94 billion in damages to a country already more than \$70 billion in debt. If Puerto Rico's infrastructure is not improved with resiliency to hurricanes and other disasters, Puerto Rico could be destroyed again and sent back into a whirlwind of debt. How can Congress help to mitigate and prepare Puerto Rico for impending hurricanes and other natural disasters?**

Congress can help to mitigate and prepare Puerto Rico for impending hurricanes and other natural disasters by providing timely and well-invested disaster reconstruction funds per the Stafford Act and the Bipartisan Budget Act and by ensuring the flow of funds is as streamlined as possible.

Answers to questions from Ranking Member Bishop

- 1. The Oversight Board notified the Governor that his agencies had not achieved the required amount of savings in their budget to issue Christmas bonuses for government workers, yet the Governor issued the bonuses anyway. Did that action have any effect on government operation and public services in Puerto Rico? How about the effect on the economy?**

The certified budget for this year did not budget funds for the payment of a Christmas bonus. The Government implemented a voluntary transition program ("VTP") that reduced headcount by ~5,000 employees which produced significant savings. While

the Government was able to afford the Christmas bonus as a result of these savings, many of the employees that left through this VTP were teachers and sworn officers affecting core Governmental services. The FOMB has been clear that VTP for core services is not an efficient way of reducing the Government's personnel costs.

2. What could be done to create more of an ease in doing business in Puerto Rico?

The competitive environment in Puerto Rico requires improvement if it is to compete with other investment destinations, specifically by reducing a variety of inefficiencies related to building, expanding and attracting businesses. Easier-to-navigate regulations, less complex and faster investment and permitting mechanisms, and streamlined tax administration systems can encourage new businesses to hire employees and invest in growth. These outcomes can be achieved by making necessary administrative and legislative changes and by investing in digitization. Please see Chapter 8 of the Fiscal Plan for more information.

3. What factors in Puerto Rico contribute to the low labor force participation rate of only forty percent?

Puerto Rico's historically low levels of formal labor force participation cannot be attributed to any single factor but rather a range of public policies that have served to reduce employment on the Island. Perhaps the biggest barrier to hiring in Puerto Rico is its lack of "at-will employment," which would lower the cost of any new hire, encourage additional hiring, and make it easier for employers to dismiss unsatisfactory employees improving employee morale and productivity. While there are variations in labor laws among the 50 mainland states, 49 of them have adopted some form of at-will employment.

In addition to the Island's labor laws, Puerto Rico residents may also face disincentives to participate in the formal labor market due to rules attached to various welfare benefits, including the Nutritional Assistance Program (NAP), Medicaid, Section 8 public housing, TANF, WIC, and other programs. These benefits are sometimes stereotyped with a claim that "welfare pays more than work." While this may be true in isolated cases, the broader problem occurs when welfare beneficiaries work in the formal sector and receive earnings that trigger a reduction in their benefits. The phase-out of government transfer benefits as earned income increases acts as a tax to disincentivize formal employment, as effective hourly wage (income received by working minus the loss of benefits) can be substantially lower than the formal hourly wages received. For many residents, working in the informal sector and collecting transfer benefits can often result in higher effective income than working in the formal sector. On this basis, the FOMB included a welfare to work program in the structural reforms of the Certified Fiscal Plan.

4. What sort of structural reforms could the local government take to improve economic health and stability?

In addition to those that are part of the Fiscal Plan, the Government could do the following:

- Labor reform, generating an additional 0.50% GNP growth over two years, by repealing Law 80, reducing paid leave, and eliminating the Christmas Bonus. Key reforms could require incentives, such as wage subsidies for low-income workers and training programs to address identifiable skills gaps. The reform is projected to increase the 30-year surplus by \$13 billion if implemented after 10 years (FY2029) and by \$4 billion if implemented within 20 years (FY2039).
- Ease of Doing Business reform, generating an additional 0.15% GNP growth, based on instituting Trading Across Borders reform to improve customs processes and congestion and repealing restrictive laws (e.g., Laws 21 and 75 dictating terms for terminating commercial supplier relationships). The 30-year surplus is projected to increase by \$4 billion if implemented after 10 years (FY2029) and by \$1 billion if implementation lags by 20 years (FY2039).
- Overhaul of the tax system of Puerto Rico to stimulate growth, requiring short-term investment (lower revenues in short-term) for long-term growth benefits up to 0.5% spread over 5 years. The reform is projected to increase the 30-year surplus by \$10 billion if implemented after 10 years (FY2029) and by \$2 billion if implementation lags by 20 years (FY2039).

5. What happens if structural reforms are delayed or not implemented at all?

Implementation of structural reforms is key to restoring the economy and promoting growth on the Island. The latest Fiscal Plan accounts for the already delayed implementation of the structural reforms. Structural reforms contribute more than \$300 million in increase government revenues between FY19-24, and over \$34 billion in the Fiscal Plan's thirty-year forecast. However, even after fiscal measures and structural reforms and before contractual debt service, the Fiscal Plan projects an annual deficit starting in FY2038, in large part due to insufficient structural reforms.

6. Has the government been successful in implementing reforms?

The Government has implemented reforms in some areas but is delayed implementing the structural reforms required by the Fiscal Plan, as measured by progress against implementation milestones included in the plan.

The impact of human capital and welfare reforms have been delayed from FY2021 to FY2025 to reflect the 4-year implementation ramp the Government is planning for NAP work requirement implementation. Ease of doing business reforms were projected to add 0.5% to economic growth in the 2019 Fiscal Plan (downgraded already from 1.0% in prior Fiscal Plans), and delayed from having an impact in FY20 to FY22. The impact of power sector reform has also been delayed and spread out, from 0.30% in FY2020 to 0.10% in each year FY2021-2023, though the Government is making progress toward meaningful reform of the power utility.

To date, implementation progress and engagement has varied across Government agencies. The lack of consolidation legislation is hampering agencies from achieving savings, despite efforts to reduce personnel and non-personnel spend through diverse initiatives. Some agencies are developing meaningful tools and creative solutions to achieve savings (e.g., the Department of Agriculture planning digital solutions to reduce personnel or the Department of Environment's green tourism initiative which could create job opportunities and tax revenues) but many have done little to no planning at all.

Agencies have reduced personnel through the VTP program, but have not provided evidence to suggest that this has driven efficiencies in operations and in some cases has caused vacancies in key roles (e.g., sworn officers).

7. How many total agencies are in Puerto Rico's current government structure? Are any of these agencies redundant in their mission and function to the government?

There is a total of 114 agencies in the Commonwealth of Puerto Rico, excluding some public corporations. As part of the fiscal plan process, the Government presented to the FOMB a proposal to consolidate these agencies into 42 departments or groupings to avoid redundancies and provide a more efficient service. Unfortunately, there is uneven implementation of these proposed consolidations to date. Unequivocally, there is redundancy in the mission and function of many of these agencies, which is the reason why the Government and the FOMB aligned in reducing the back-office costs of government agencies.

In some cases, the consolidations are designed to better focus the competing efforts of multiple agencies, such as the Economic Development grouping, which will consolidate ten agencies into one. In other cases, the consolidations should serve to move services closer to residents, such as the Healthcare grouping, which will consolidate access points to important services like Medicaid.

8. Should some of these agencies be consolidated? Does Puerto Rico have any issues with 'rightsizing' their government?

Yes. As part of the Fiscal Plan process the Government presented to the Oversight Board a proposal to consolidate many of the agencies to avoid redundancies and provide more efficient services to the people of Puerto Rico. Unfortunately, the implementation of these plans has been delayed, and some have been cancelled altogether.

9. How challenging has it been for the Board to encourage the government to undertake this important initiative?

The Government and the FOMB are aligned in many areas of the Fiscal Plan. However, in other areas we have asked the Government to be more aggressive in implementing

plans that will ultimately benefit the people of Puerto Rico. The FOMB is constantly monitoring the implementation of the Fiscal Plan, and as such, is monitoring over 120 individual implementation plans. In some areas, like the implementation of an EITC, there is progress. In others, however, like welfare-to-work, the implementation is much delayed.

10. How is the Board proposing to reduce spending in the University of Puerto Rico system?

Please see answer to question #5 from Chairman Grijalva.

11. Has the Board ever interfered in any way with funding for public safety like police, fire emergency management or coroner services?

No. In fact, we have worked collaboratively with the Government to identify unspent resources within the budget that can be reapportioned to fund critical services from the Institute of Forensic Sciences, Firefighters, and other public safety providers.

12. Has the Board ever prevented the government from spending money to help repair any homes or help people?

No. The Board has never been asked for any reapportionment of funds for these purposes.

13. Why have so many funds have been expended on law enforcement and public education in Puerto Rico while law enforcement officers and teachers are still disproportionately underpaid in Puerto Rico?

It is a matter of allocation of resources and *how* money is spent, rather than *how much* money is spent. For years, the Government was spending billions of dollars in services, but educational and safety outcomes do not seem to reflect the amount of money spent, nor were law enforcement officers and teachers adequately compensated. The FOMB has been working with the Government to prioritize funding to key areas such as salaries, textbooks, equipment, among others.

For example, in terms of the police: based on recent reports, over 2,000 of the 13,000 sworn officers in the police are still fulfilling administrative roles. This situation, accompanied by the heavy attrition of sworn officers, led to a 2013 consent decree agreement with the U.S. Department of Justice on reform measures, which compelled the police bureau to conduct a staffing allocation and resources study to assess the proper size of the police force. Based on these findings, the police bureau needs to rebalance the workforce and move sworn officers to non-administrative roles to improve personnel resource allocation and maximize public safety.

The Fiscal Plan provides funds to make compensation more competitive for both police and teachers. Police received a \$1,500 per officer increase in FY2019 and will receive an ~\$11,500 salary and required benefits increase over the next two years. In addition,

they will receive an additional \$250 contribution per year per sworn officer for improved life and disability insurance starting in FY20. For teachers and directors, there was initially a ~\$46M provided for salary increases. The Fiscal Plan provides an additional \$500 salary increase plus required benefits totaling ~\$14M annually.

- 14. COFINA was the largest bond issuer and the Board successfully restructured those debts and the market reaction has been positive. How important is restructuring the GO bonds, and is it true that the rating agencies won't rate Puerto Rico until the GO credit is re-established?**

The FOMB is working diligently on an approach to restructuring the GO bonds and expects to file a plan of adjustment for the Commonwealth as soon as reasonably possible. To the best of our knowledge, the ratings agencies do not have a blanket policy against rating Puerto Rico credits before the GO credit is re-established.

- 15. Do you think the lack of compensation is an issue for current board members? Do you believe it is an obstacle to attracting new board members? If so, what do you believe would be appropriate compensation?**

The FOMB does not support any changes to PROMESA at this time.

- 16. Some creditors have claimed that the decisions and actions the Oversight Board has taken over the last three years to restructure some of Puerto Rico's debt in Title III will have detrimental impacts on how other municipalities across the US will be able to borrow considering the reactions of rating agencies and credit analyst paying attention to the outcomes with Puerto Rico's circumstances. Does the Oversight Board take into account or conduct any analysis of how potential actions and decisions that are made with regards to the debt restructuring strategy implemented will affect the broader US municipal bond market? Why or why not?**

The FOMB is committed to restructuring Puerto Rico's debt in a manner that is in Puerto Rico's best interests and is consistent with PROMESA. That is what the FOMB is focused on in developing its approach to restructuring Puerto Rico's debt.

Answers to questions from Rep. Hice

- 1. When we last met in this committee I asked you about PREPA's decision to refuse an offer from creditors for a five-year debt holiday and to instead pursue a bankruptcy strategy. You told me that after the hurricane you felt that was the best course of action due to what would have resulted in unbearable electricity costs. You also mentioned that you had engaged in a new dialog with those creditors and were working on a plan. Can you please update me on the outcome of those conversations here roughly a year-and-a-half later?**

Shortly after the Hearing, the FOMB and Government of Puerto Rico announced that we had entered into a restructuring support agreement ("RSA") with the Ad Hoc Group

of PREPA bondholders and Assured Guaranty to restructure PREPA's bonds. This RSA puts PREPA on a path to exiting Title III with a substantially reduced and more predictable debt burden and is a necessary step toward transforming PREPA into a cleaner, cheaper, more reliable energy utility. The RSA reduces PREPA's debt by over 30% and protects consumers from uncapped debt-related charges. Relative to the prior RSA that the FOMB rejected in 2017, the current agreement would save PREPA and the Puerto Rican residents who depend on its electricity supply about \$3 billion in debt service payments over the next 10 years alone.

2. **We will be entering hurricane season in a few short months, and a second disaster could spell doom for both rebuilding the island and for solving this debt crisis. Can you tell me what the Board has done to mitigate that threat? And furthermore, do you feel that the Puerto Rican government and or PREPA has executed its responsibilities to ensure hurricane preparedness for 2019 and beyond?**

Through the Fiscal Plan and Budget development process, as well as through the follow-up implementation tracking efforts, the FOMB has attempted to ensure that PREPA undertakes the required operational reforms to be better prepared to respond to a future emergency event. Some of these reforms include the development and implementation of vegetation management and system maintenance programs and the development of a labor capacity assessment to determine optimal staffing levels, so that PREPA has the personnel necessary to respond to weather events promptly and effectively. Through our budgetary oversight, the FOMB has also sought to ensure that funding is made available for maintenance projects and underutilized funds are reallocated to priority areas, such as the acquisition of mobile generators, which will help PREPA increase generation capacity near large load centers during emergencies or peaking hours, which increases emergency responsiveness and overall system resiliency and reliability.

There is still much work to be done, as some, but not all, of the reforms necessary for a resilient and stormproof energy system have been fully implemented and executed. Within its authority, the FOMB has and will continue to ensure that all necessary reforms are accounted for and appropriately funded through the certified Fiscal Plan and Budget. However, ultimate implementation of these reforms falls squarely with PREPA.

The successful conclusion of ongoing efforts to contract with a private party to manage and operate the T&D System is also an important step in the medium and long-term efforts towards hurricane preparedness and resiliency. An appropriately incentivized operator will look towards incorporating those upgrades necessary to increase the T&D System's ability to withstand hurricanes, as well as dedicate the resources necessary to maintain those upgrades on par with applicable quality standards. Recently enacted Act 17-2019 provides a clear mandate to both PREPA and the private operator to take the

necessary measures to strengthen the system and develop and maintain an appropriate emergency response plan, subject to the periodical oversight of an independent regulator.

Finally, providing visibility and reaching a final resolution on the allocation of federal disaster funding will enable Puerto Rico to accelerate the pace at which it makes the necessary upgrades to reduce the impact of future hurricanes.

Answers to questions from Rep. Johnson

- 1. Ms. Jaresko, in your testimony, you note that Puerto Rico law enforcement officers have slower response times than that of their U.S. mainland counterparts. As you know, Puerto Rico saw a spike in crime in the aftermath of Hurricane Maria as police officers called in sick to protest a lack of payment for overtime service. In your view, why were officers not paid what they were owed in Puerto Rico? Was this due to a lack of funds or a misuse of funds?**

I cannot tell you why police officers argue they were not paid for their overtime service. That is a question only the Department of Public Safety can answer. It was not due to a lack of appropriated funds in the budget at the time.

Moreover, the FOMB firmly believes that in order to promote economic growth on the island, public safety needs to be a priority. As part of this commitment, the FOMB included \$122 million in the FY19 budget to cover the back pay owed to sworn cops as part of a three-year payment plan (amounting to \$366 million) to completely repay this obligation.

- 2. According to the World Bank, the labor force participation rate in the United States is 62%. Puerto Rico's labor force participation rate measures 41%, and the island's labor force participation rate was low even before the 2017 hurricane season- it measured 45% in 1990. What factors do you believe contribute to this discrepancy between Puerto Rico and the United States as a whole?**

Please see the answer to question #3 from Rep. Bishop.

- 3. The FOMB has now been in place for three years. What are the top structural reforms that must be enacted to bring long-term economic stability to Puerto Rico?**

Please see the answer to question #4 from Rep. Bishop.