TESTIMONY OF
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FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO

before the Indian, Insular and Alaska Native Affairs Subcommittee
of the House Committee on Natural Resources, at the oversight hearing on
"The Status of the Puerto Rico Electric Power Authority Restructuring Support Agreement"
Wednesday, March 22, 2017, 10:00 a.m.
Room 1324, Longworth House Office Building

Good morning. My name is José Carrión. I am the Chairman of the Financial Oversight and Management Board for Puerto Rico.

I would like to thank Chairman LaMalfa for his leadership in holding this oversight hearing on *"The Status of the Puerto Rico Electric Power Authority Restructuring Support Agreement."* I would also like to recognize and thank Ranking Member Torres, Vice Chair González-Colón and, indeed, all the members of this Subcommittee for their interest in and attention to this matter.

Before addressing the specific subject of this hearing, though, I would like to take this opportunity to apprise the Subcommittee of the important progress the Board has accomplished since its appointment on August 31st of last year.

During the debates leading to the enactment last June of the bipartisan Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") that created the Oversight Board, Puerto Rico's devastating financial crisis was constantly in the news. Since then, however, there has been relatively little coverage outside of Puerto Rico.

So it is fair to ask: what kind of progress has the Oversight Board made in the last few months?

The short answer is "a lot."

At our five public board meetings thus far—two in Puerto Rico and three in New York—we have adopted the Board's bylaws and Code of Ethics, identified a number of Puerto Rico entities—including the Puerto Rico Electric Power Authority ("PREPA")—as subject to the financial oversight requirements of PROMESA, carefully assessed the fiscal plan initially proposed by the prior governor of Puerto Rico, and listened to testimony from a wide range of stakeholders. In addition to the public meetings, the Board has met constantly both in person and by phone.

One of the most difficult issues the Oversight Board has had to tackle in advancing the PROMESA agenda has been determining as accurately as possible just what the Government of Puerto Rico's revenues and expenses are. This is a far more challenging task than you, as federal lawmakers, may imagine. The Government's most recent audited financial statements cover the period ending June 30, 2014. If Puerto Rico's finances were straightforward, it might not be difficult to bring these numbers up to date. But the Government of Puerto Rico has well over a hundred different governmental entities, and there are eighteen different issuers of debt.

To assist in the process, we have hired a remarkable group of advisors, including two key senior staff officers, interim executive director Ramón Ruiz-Comas and general counsel Jaime El Koury, as well as a strategic advisory firm, two economists, a financial advisory firm, and an accounting firm, as well as an outside law firm and local Puerto Rico legal counsel. The Oversight Board and its advisors have worked closely with the government of Puerto Rico and its advisors, first with former Governor Alejandro García Padilla and, since January, with the new administration of Governor Ricardo Rosselló Nevares.

Although assessing Puerto Rico's revenues and expenses and setting the parameters for the fiscal plan have been our primary objectives, we also have participated with Governor Rosselló's advisors in dozens of meetings with Puerto Rico's creditor groups, resuming conversations that were commenced in the prior administration.

On January 18, we sent Governor Rosselló a substantial letter outlining the "baseline scenario" for a fiscal plan—that is, the difference between Puerto Rico's revenues and expenditures, assuming that Puerto Rico does not receive any new funding from Congress. Our findings confirmed just how dire Puerto Rico's financial crisis is. The average expected deficit is $7 billion each year over the next ten years. The letter outlined the kinds of savings that would need to be made and the additional revenue that would have to be generated in order to obtain fiscal balance.

At Governor Rosselló's request, during our January 28, 2017 meeting, we extended the stay on creditor enforcement efforts from February 15 to May 1, as we were authorized to do under PROMESA, and gave the new administration a short extension of our original deadline for certifying a fiscal plan to March 15, 2017.

On February 28, the Governor and his advisors submitted their proposed fiscal plan. Upon careful evaluation, we notified the Governor of certain deficiencies that would have to be corrected in order for the plan to comply with the fourteen requirements set forth in PROMESA. On March 8, the Board released an independent analysis conducted by Ernst & Young to confirm the Government's baseline projections for the fiscal plan and also the bridge between the last audited financial statements of fiscal year 2014 and the fiscal year 2017 projections. Shortly thereafter, the Governor submitted an amended fiscal plan which the Board certified—with a couple of additional amendments—last Monday, March 13.

The certified Fiscal Plan charts a path to achieve fiscal equilibrium in three years, provide adequate funding of essential services, maintain the solvency of government pension plans, restructure the Government's long-term debts and obligations, and adopt the structural reforms necessary to restore economic growth and opportunity to all in Puerto Rico.

Achieving these objectives will not be easy. The cuts are deep and, in some instances, will be painful.

Overtime, the government has made commitments to its constituents—including employees, pensioners, college students, enrollees in health care programs, bondholders and others—that cannot be met based on a realistic measure of the tax revenues the economy can currently support. However we define the problem, whether in terms of budget deficits, indebtedness, unfunded pensions, or the imminent risk of simply running out of money to pay bills, Puerto Rico faces a nearly existential financial shortfall.

In any financial crisis, there is the temptation to believe that one can emerge without undue sacrifice if only others would bear the costs or if the elusive economic turn-around finally happened. The fact is that any real solution must involve all parties sharing in the effort, especially if it is painful. But all should also share in the opportunity for a better, more secure and prosperous future.

Now, with a certified Fiscal Plan in place, the administration and the Board can discuss specific restructuring proposals with creditor groups. We hope to secure consensual restructurings under the provisions of Title VI of PROMESA. This is the main focus of the Board in the coming weeks. We believe that discussions with creditor groups need to yield a viable restructuring path on or before May 1, when the PROMESA stay expires, and before other tools under PROMESA are utilized, such as Title III.

Throughout the process, the Board has been strongly committed to a "once and done" approach to Puerto Rico's financial crisis. This means establishing a set of policy changes and debt restructuring agreements that, at least in expectation, should put the budget and economy back on track. We believe such an approach is necessary for Puerto Rico to effectively use the tools PROMESA has provided to genuinely solve Puerto Rico's longstanding crisis, and to put the island on the path to a better future.

PROMESA was enacted to build a path to fiscal stability, economic growth, equitable restructuring of the government's debt and restored access to capital markets. Make no mistake: without the bipartisan PROMESA legislation, the island would be facing a financial and legal chaos right now, without hope of reversing the economic decline, and the sad exodus of more Puerto Ricans seeking to build a prosperous life for their families. Without truly massive changes, though, and without using the tools provided under PROMESA, Puerto Rico would face continued decline and deprivation. The people of Puerto Rico deserve better than that, and the Board has pledged its efforts to work toward a better future for everyone on the Island.

We are fully aware of how much work remains to be done. But the certification of a detailed fiscal plan on March 13 was a major milestone, one that we trust will provide the foundation for real economic growth and, over time, restore opportunity to the people of Puerto Rico.

As a matter of fact, the restoration of economic growth for the Island is at the core of the Board's position in support of the Government of Puerto Rico's stated intention to review the terms of the PREPA Restructuring Support Agreement ("RSA") subject of this hearing.

One thing that every economist and consultant has agreed on is that PROMESA's objectives for Puerto Rico cannot be attained without returning to positive economic growth. Even as we pursue and accomplish the required objectives of fiscal equilibrium, balanced budgets and debt restructuring, Puerto Rico will hardly come out of its economic and fiscal crisis unless it also manages to restore economic growth.

To that end, the Oversight Board continues to work pursuant to PROMESA on formulating actions Puerto Rico can take to promote economic growth, including commercialization and privatization.

In that spirit, recognizing the importance of reversing the economic contraction that has afflicted Puerto Rico's economy for far too many years, the Board supports the administration's stated objective of negotiating amendments to the PREPA RSA to lower the projected increases in energy costs that it requires.

The efficient production of electricity is critical to the economic recovery of Puerto Rico, which in turn has a strong correlation to Government tax revenue growth, and would have a significant impact in the future Primary Surplus Available for Debt Service on Puerto Rico debt obligations. For this reason, the Board supports an expedited PREPA RSA negotiation between the Government and creditors that results in the lowest electric power rate possible.

A lower Transition Charge and a more efficient PREPA are the two components that could result in retail rates that are affordable for consumers and low enough to attract and sustain commerce and industry in Puerto Rico.

Finally, the Oversight Board also supports initiatives to support and strengthen the Puerto Rico Energy Commission. Although it has a relatively short track record, as it was created only a couple of years ago, we believe that the model of an independent Commission with oversight authority over the utility is the right approach to providing the necessary checks and balances as PREPA moves forward in its transformation process.

Thank you, Mr. Chairman, for your leadership. And thanks to all the members for your interest in and attention to this matter.