



Fiscal Accountability: Two Years of Results

HONORABLE RICARDO A. ROSSELLÓ



SUNDAY, JUNE 9, 2019

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The exercise of governing effectively lies in leading and managing the state by listening to the will of the people. Such will requires being channeled in a budget that fulfills our island's objective of investing in initiatives that improve the quality of life of our citizens and stimulate the highest level of economic development possible. The new budget for fiscal year 2019-2020 seeks to incorporate substantial improvements to Puerto Rico's fiscal situation, establishing clear priorities that are fiscally sustainable.

My administration has faced unimaginable challenges. Thanks to our commitment to sound financial discipline coupled with a clear set of priorities that address the will of the people, the signs of progress are clear. Our budget for fiscal year 2019-2020 proposes an 11% reduction in government spending, compared to fiscal year 2016-2017. It also features a reduction of over 20% in the public employee payroll, compared to fiscal year 2016-2017. This is the equivalent of 23,501 fewer job positions in the public sector. In just two years we have reduced public debt by over 10% and increased the liquidity of the Treasury Department by over \$6.4 billion, or fifteen times the amount I inherited when I was sworn in as governor in January 2017.

Our budget for fiscal year 2019-2020 leverages the fruits of recent positive economic activity to invest in a clear set of priorities: (1) our education system; (2) our police and public safety; (3) our health and quality of life; and (4) fulfill a moral obligation to our retirees. Today, official indicators and statistics show that growth in economic activity is at a 13-year high. Therefore, the budget we submit for the Legislative Assembly's consideration totals \$9,624,000,000, still less than forecasted collections.

The federal PROMESA law requires the government of Puerto Rico to achieve fiscal responsibility and reestablish access to capital markets. This requires, inevitably, that the establishing of priorities and public policy remain in the hands of democratically elected public officials. Otherwise, our financial planning will remain subject to the constant errors of the Fiscal Oversight Board, which does not respond to our sound values.

The Fiscal Oversight Board has conducted an erroneous fiscal planning process that has dilated the reconstruction process and led to unnecessary litigation. Over the past three years we have been obligated to submit 35 fiscal plans for the Central Government and its instrumentalities. It is precisely this erratic behavior that has led the Fiscal Oversight Board to certify six fiscal plans for the Central Government. To date, none have lasted more than six months without revisions required by the Board. This, in addition to the fact that the Fiscal Oversight Board has certified budgets it created, immediately recognizing their deficiencies.

Since taking oath in 2017, my administration and the Legislative Assembly have been ironclad defenders of retiree pensions. We have categorically and consistently made clear that we will not allow pension cuts, for both moral and legal reasons. In recent years, the Government of Puerto Rico has implemented significant pension reforms and has undertaken savings measures that are expected to achieve savings of over \$1.0 billion over the next thirty years. Within this context, retiree pension cuts that put at risk the quality of life and economic support of the most vulnerable population group in Puerto Rico, cannot be justified under any circumstance.

Therefore, I do not support any debt adjustment plan that seeks to impose cuts to Puerto Rico's retirees.

We have recently been accused of not financing the pension system or not having a plan to protect pensions. This is categorically false. On the contrary, my administration has taken extraordinary measures to guarantee that retirees receive their pensions and remedy years of the retirement system's decapitalization.

On August 23 of 2017, I signed Law 106-2017 to transform the government pension system into a direct payment program, or "pay-as-you-go." After years of administrations that did not adequately finance the retirement systems, the Government of Puerto Rico, through its General Fund, effectively assumed all pension obligations. This is how we fulfilled the moral commitment to provide a dignified retirement to our civil servants. No state in the U.S. has undertaken such a definitive effort to protect pensions.

The Fiscal Oversight Board has required pension cuts since January 2017. Even though Puerto Rico's economic improvement has meant better income for the Island's other creditors, the Fiscal Oversight Board continues to require the same level of cuts to our retiree's pensions. This is fiscally, morally, and economically unjustifiable.

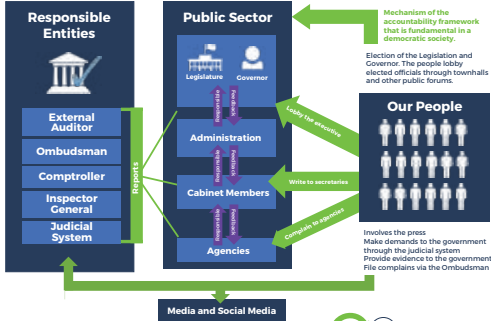
Attached you will find the proposed budget for fiscal year 2019-2020 and the message.

Also, for the sake of transparency and evidence-based discussion, we include in this report a wealth of data that substantiates our claim: In the face of catastrophic situations and the stumbles of the Board, we have taken action to achieve unprecedented transformation, stabilize the government structure, and place ourselves in a position to grow and build a new Puerto Rico.

United for the causes of our people, we will achieve it.

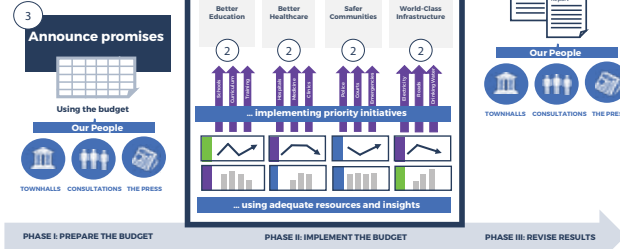
Performance-based Budget

Accountability framework for Puerto Rico
Empowering our citizens to demand results from our government.



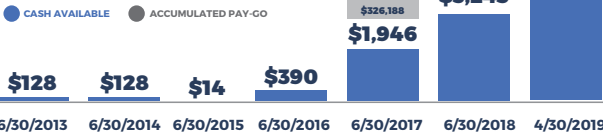
Performance-based Budget

A performance-based budget creates consequences for good and bad results.



Cash on hand at the Treasury

Since the beginning of our administration, the Treasury's liquidity has increased by 15 times the amount we inherited when we took oath in January 2017.



Submitted Fiscal Plans

Entity	2016	2017	2018	2019	TOTAL
Central Government	1	2	6	2	11
UPR	0	0	3	2	5
Highways	0	1	2	1	4
PREPA	0	1	3	0	4
PRASA	0	1	3	0	4
COFINA	0	0	2	0	2
GDB	0	1	1	0	2
COSSECC	0	2	1	0	3
TOTAL	1	8	21	5	35

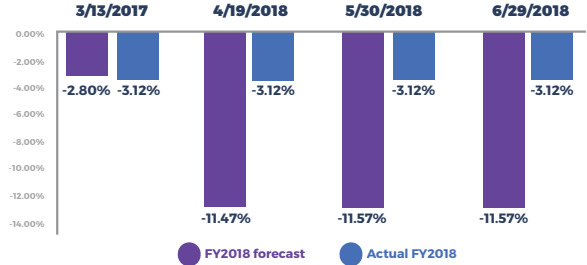
6 CERTIFIED COMMONWEALTH PLANS

35 FISCAL PLANS SUBMITTED

11 COMMONWEALTH PLANS

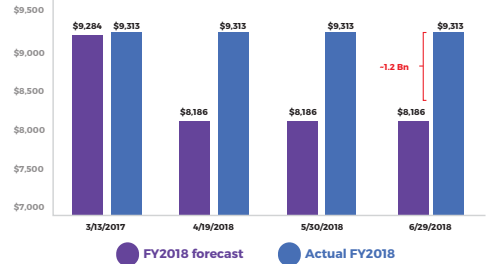
Erroneous forecasts made by the FOMB PR - GNP Growth FY2018

The Board has underestimated GNP growth in three of its four previous forecasts. In three of the four previous plans, the Board has underestimated growth forecasts on more than three occasions.

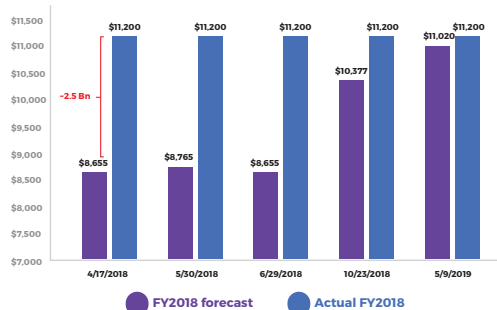


Erroneous forecasts made by the FOMB General Fund Income for FY2018

Three of the previous four certified fiscal plans had underestimated income to the General Fund for FY2018 by at least \$1.0 billion and by as much as \$2.5 billion. The Board had also underestimated income to the General Fund for FY2019 in each of the last five certified fiscal plans, according to FY2019 preliminary data provided by the Treasury.

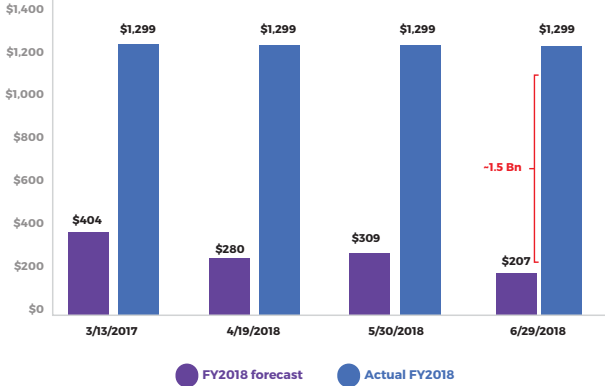


Erroneous forecasts made by the FOMB General Fund Income for FY2018



Erroneous forecasts made by the FOMB FY2018 Surplus

The Board has consistently underestimated FY2018 surplus



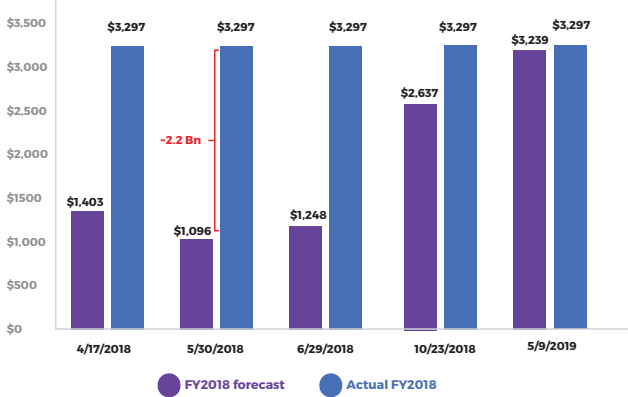
Erroneous forecasts made by the FOMB Cash 2019

The Board's erroneous forecasts have caused an underestimation of cash levels.

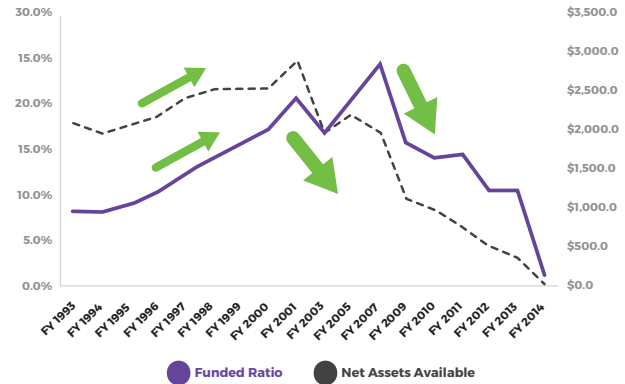


Erroneous forecasts made by the FOMB FY2019 Surplus

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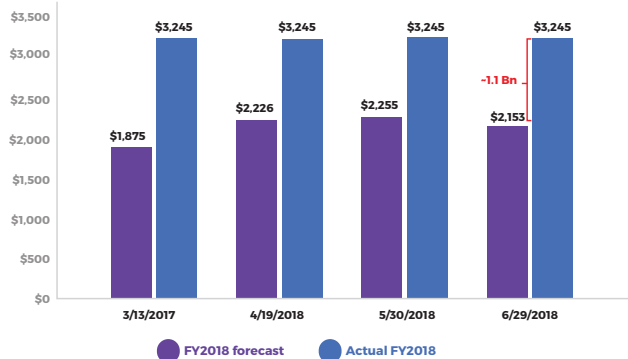


Decapitalization of the Retirement System



Erroneous forecasts made by the FOMB Cash 2018

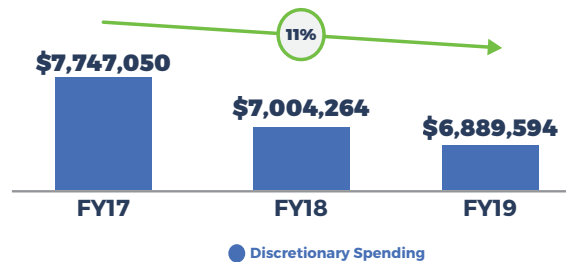
The Board's erroneous forecasts have caused an underestimation of cash levels.



Cuts in government spending

Areas of significant cuts:

- Payroll
- Advertising
- Contracts
- Et al

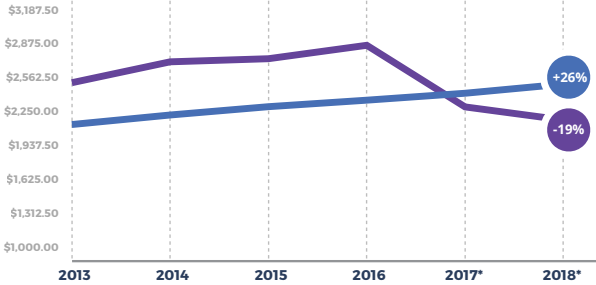


Cuts in government spending vs. Other Jurisdictions

Areas of significant cuts:

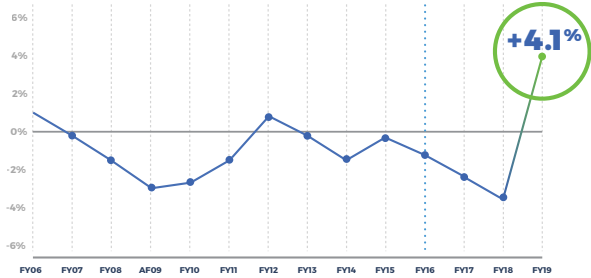
- Payroll
- Advertising
- Contracts
- Et al

- Spending from the average state General Fund, per capita
- Spending from the Puerto Rico General Fund, per capita



We have made adjustments so that the Government become more efficient and render services in a more cost-effective manner. Our adjustments have been more significant than those made by U.S. states.

Economic Growth (GNP)

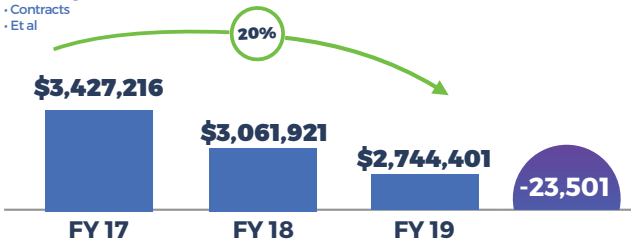


Significant reduction in operating expenses including payroll

Areas of significant cuts:

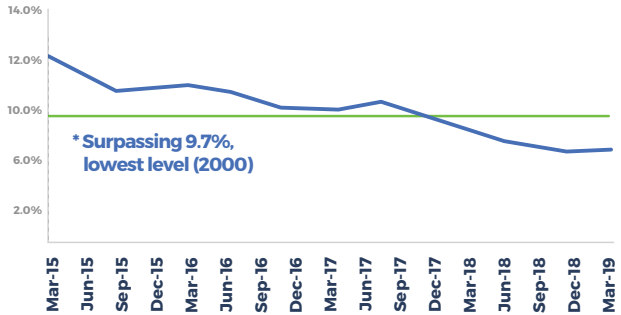
- Payroll
- Advertising
- Contracts
- Et al

- Public Employees



Unemployment Rate

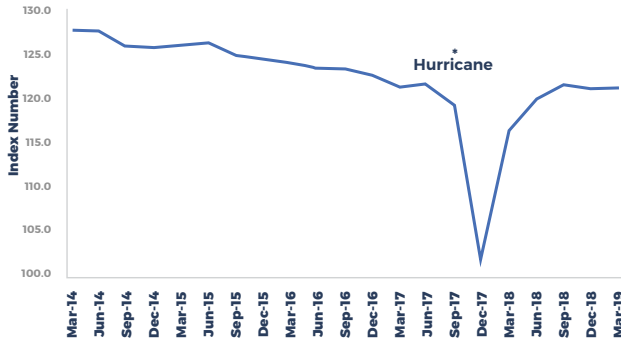
* Lowest level in history



Economic Activity Index

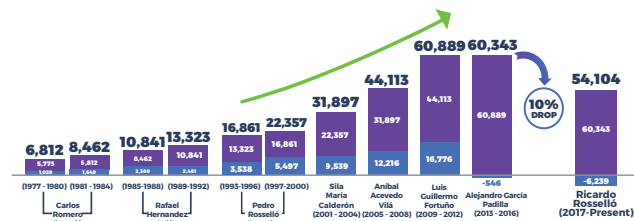
* Rapid recovery after the hurricane

It took Louisiana almost a decade to return to the same level of economic activity prior to the storm. It only took Puerto Rico 18 months.



Public Debt: History

(in billions)



● Increase in public debt during the Administration

● Outstanding public debt at the beginning of each Administration

Fiscal & Economic Reforms

- **Public Private Partnership Framework**
- **Labor Reform**
- **Human Resource Reform**
- **Permits Reform**
- **Creation of Destination Marketing Organization**
- **Creation of Invest PR**
- **Pensions Reform to Pay-As-You-Go System**
- **Energy Transformation Transaction Reform**
- **Education Reform**
- **Energy Policy Bill**
- **Climate Change Policy Bill**
- **Procurement Reform**
- **Code of Incentives***
- **New Healthcare Model with Open Access and Choice**
- **Strategic and Critical Infrastructure Projects**
- **Local Tax Reform**



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