



October 16, 2015

## **Working Group Proposes Establishment of Puerto Rico Fiscal Oversight and Economic Recovery Board**

### ***Independent, Non-Political Body Will Ensure Compliance with Fiscal and Economic Growth Plan***

San Juan, P.R. – The Working Group for the Fiscal and Economic Recovery of Puerto Rico (the “Working Group”) today announced that Governor Alejandro Garcia Padilla has presented to the legislature the Puerto Rico Fiscal Responsibility and Economic Revitalization Act (the “Act”), which will establish the Puerto Rico Fiscal Oversight and Economic Recovery Board (the “Board”).

The Act and the establishment of the Board will support Puerto Rico’s efforts to address its immediate fiscal crisis by seeking to restore public confidence in the Commonwealth, while also remaining in compliance with the Commonwealth’s constitution.

Along with the Working Group, the Board will facilitate a return to long-term fiscal sustainability and economic growth and provide Puerto Rico’s creditors with assurance that conditions agreed to as part of any comprehensive debt restructuring agreement, as well as compliance with the Working Group’s Fiscal and Economic Growth Plan (“FEGP”), will be monitored by an independent, non-political body.

The Board will be comprised of five members appointed by the Governor and approved by the Senate. The members will select a chairperson from amongst themselves. The Board will have fiscal oversight authority over “Covered Entities,” which include: the Commonwealth; each individual department and agency of the Commonwealth; and each public corporation or instrumentality, other than the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority, unless they are designated as a Covered Entity by the Governor. In order to respect their constitutionally protected independence, the judicial branch, the legislative branch, and the Office of the Comptroller are not Covered Entities under the Act. The Government Ethics Office and the Office of the Special Independent Prosecutor are also not considered Covered Entities.

The Act will require the Working Group to submit a proposed Commonwealth-wide, consolidated five-year fiscal and economic growth plan to the Board for approval at the later of the end of the second quarter of 2016 or after all of the members of the Board shall have taken office.

The Board will then be required to determine whether the Working Group’s plan complies with the objectives set forth in the Act, including:

- Implementing structural reforms with the goal of restoring economic growth and competitiveness in the Commonwealth;

- Eliminating, over time, of the financing gaps and reducing of the debt burden of the Covered Entities to sustainable levels; and
- Improving institutional credibility across all government entities through improved budget formulation and execution, and data transparency.

If the Board concludes that the proposed fiscal and economic growth plan meets the objectives of the Act, the Working Group will submit the plan to the Governor for review and approval. If the Board withholds approval, it may provide recommendations for revisions to the proposal in order for the plan to meet the objectives of the Act.

Further, under the Act, each entity must submit a proposed annual budget to the Board by no later than March 1 or such later date determined by the Board, in its sole discretion. The proposal must be accompanied by a report from the Office of Management and Budget identifying the individual measures of revenue increase and expense reductions included in the budget that conform to the approved Fiscal and Economic Growth Plan for that fiscal year.

The Board shall have 30 days after the receipt of each budget to determine if the proposal complies with the Fiscal and Economic Growth Plan. The Board will be provided with information gathering authority in order to monitor each entity's compliance with the Fiscal and Economic Growth Plan, and to approve annual budgets and monitor their compliance. The Act also imposes certain automatic expense control mechanisms and other measures to address non-compliance with approved budgets and with the Plan generally.

Finally, the Act amends certain provisions of the Organic Act of the Office of Management and Budget and the Government Accounting Act for the purpose of, among other things, (a) implementing the requirement that the revenue estimates used to prepare the Commonwealth's budget must be certified by an independent third-party selected by the Board, (b) providing that the Commonwealth's budget shall identify certain appropriations, to be known as "Sequestered Appropriations," representing 2.5% of the total appropriations for operating expenses and special appropriations included in the Commonwealth's budget, which Sequestered Appropriations shall be released or cancelled in accordance with the Act, and (c) implementing other measures aimed at ensuring sound fiscal and accounting practices.

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### ***Forward-Looking Statements***

The information included in this statement contains certain forward-looking statements. These forward looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward looking.

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