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## FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



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Executive Director

### **BY ELECTRONIC MAIL**

March 15, 2021

Honorable Pedro Pierluisi  
Governor of Commonwealth of Puerto Rico  
La Fortaleza  
P.O. Box 9020082  
San Juan, PR 00902-0082

Dear Governor Pierluisi:

The Oversight Board is in receipt of the Commonwealth's Proposed Fiscal Plan as of March 8, 2021 (the "Proposed Plan"). We appreciate the spirit of close cooperation with the Oversight Board that the Governor and his staff have demonstrated during these past months, including the work on the Proposed Plan and the many areas of compliance. We look forward to continuing our constructive collaboration with you on the Proposed Plan, and are confident that we will make positive progress towards achieving a Fiscal Plan that will redound to the benefit of the people of Puerto Rico.

It is in that spirit that after careful review of the updates made to baseline economic and fiscal assumptions, as well as to structural reforms and fiscal measures, the Oversight Board has determined that the Proposed Plan requires certain significant revisions and additional supporting information before the Oversight Board can certify it as compliant with the requirements of PROMESA. The Oversight Board looks forward to continuing to discuss the Proposed Plan, and the violations detailed herein, with the Government in the coming weeks<sup>1</sup>.

The Oversight Board reiterates that Puerto Rico must seize this moment—as the Island recovers from COVID-19 and continues to receive significant amounts of short-term stimulus from federal sources—to fundamentally reform the economy via structural reforms to generate long-term growth, pursue the operational reforms needed to make the Government more effective, and enable

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<sup>1</sup> This letter serves as the notice of violation pursuant to Section 201(c)(3)(B).

Puerto Rico to regain access to capital markets. The May 2020 Certified Fiscal Plan (“Certified Fiscal Plan”) and previous Fiscal Plans have already identified the structural reforms and fiscal measures that are necessary to comply with PROMESA and to enhance Puerto Rico’s long-term economic growth prospects. However, the Proposed Plan includes assumptions that are inconsistent with PROMESA’s mandate of fiscal responsibility, including assuming significant Medicaid federal funds that are not currently legislated.

The Governor and Government have a real opportunity to make serious progress on the transformational changes outlined in the previous Certified Fiscal Plans. Previous Governments over the past four years have failed to drive these badly needed changes in the operations of government and in economic reform and development, despite having received a “pause” in budget reductions in FY2021 to provide agencies more time to pursue such efforts. It is our hope that the Governor’s leadership will enable a serious effort and success in core reforms, enabling economic development and growth on the Island and putting an end to the long-term fiscal sustainability risks facing Puerto Rico today.

Below the Oversight Board identifies and details the Proposed Plan’s primary points of noncompliance.

### ***Macroeconomic projections<sup>2</sup> and disaster relief funding***

The Oversight Board requires the following changes to and/or explanations of the macroeconomic and disaster relief funding projections.

**Baseline macroeconomic trajectory and population projection:** To help clarify technical assumptions and calculation methodologies, a working session between the FOMB and the Government and its economic advisors is required. Topics to cover in the meeting would include: projections for US economy, commodity prices, federal transfers to Puerto Rico, gross fixed capital formation, Puerto Rico’s output gap projection, and population projection methodology.

**Disaster relief funding totals:** The Proposed Plan updates total funding amounts across FEMA sub-categories, adding a total of \$2.6 billion in total disaster relief funding. Please detail the approach to estimating total funding numbers and share any pertinent assumptions and evidence for this estimate.

**Disaster relief funding roll-out:** The Proposed Plan shows \$26.5 billion of FEMA Public Assistance entering the economy between FY2021-FY2025, with the remaining funds disbursed by FY2030. This assumes a significant ramp up in the pace of disbursements (e.g., assuming FY21 disbursements will increase 3-fold over FY2020 levels reported by COR3). Similarly, the Proposed Plan shows ~\$3.1 billion spend of CDBG-DR funding entering the economy by FY2021, despite actual disbursements reported by PRDOH reaching only \$170 million as of January 2021. Additionally, the Proposed Plan reports spending of the CDBG-DR PREPA funding in FY20-21. Please provide details to justify the ramp up in the pace of disbursements and share any pertinent

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<sup>2</sup> Sections 201(b)(1)(D),(G),(H)

assumptions and evidence for this estimate.

**Disaster relief funding pass-through:** The Proposed Plan includes a pass-through rate of 18% across FEMA Public Assistance, HUD CDBG-DR, FEMA Individual Assistance, Other Federal Funding, and Private Insurance. This standardized pass-through approach across programs does not reflect how different types of capital projects and federal spend may impact the economy in different ways. Please provide justification for the pass-through rates that vary from the 2020 CFP.

**CDBG-DR cost share offset assumptions:** The Proposed Plan assumes \$2.4 billion available from CDBG-DR funds to be allocated to offset the Commonwealth and instrumentality FEMA-related cost share requirements. This estimate is not consistent with the latest CDBG-DR and CDBG-MIT action plans, which allocate \$1.7 billion and \$1 billion of funding for cost match offset, respectively. Please provide justification for the cost share coverage assumptions.

**COVID-19 pandemic net impact:** The Proposed Plan does not include enough information on the assumptions behind the net effect of the COVID-19 pandemic lockdown and the offsetting impact of the local and federal stimulus packages. Please provide details on the data sources and estimation assumptions (e.g., pass-through rates of stimulus funds, spending terms and rollout) used to determine the final figures included in the Proposed Plan, as well as the model used and referenced in the document.

**American Rescue Plan Act (ARPA):** On March 11th, 2021, President Biden signed the American Rescue Plan Act, which includes significant funds for the Puerto Rico Government as well as individuals and businesses on Island, including expansion of the Earned Income Tax Credit and Child Tax Credit programs. The Oversight Board understands that the Proposed Plan was submitted prior to the act becoming law. Please include the economic and fiscal effects of this stimulus package and these tax credit programs in the revisions to the Proposed Plan.

## ***Structural reforms<sup>3</sup>***

The Oversight Board requires the following changes and/or explanations related to structural reforms in the Proposed Plan.

### ***Human capital and welfare reform***

For all reforms, please provide specific evidence of progress to date – both milestones achieved and outcomes from these actions. Further, please outline specific future milestones with associated dates to demonstrate there is a detailed plan to achieve each aspired outcome. In addition:

**EITC:** The Proposed Plan claims the Government has engaged in a widespread campaign that has had the intended effect on labor participation, but does not provide any data or evidence to support this assertion. Further, the Proposed Plan says the Government will promote the EITC through ADSEF but does not provide a set of concrete milestones that the Government intends to reach

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<sup>3</sup> Sections 201(b)(1)(B),(D),(G)

over the next five years (through FY2026). Please provide evidence and details on the initiatives and promotional campaign undertaken during the last year and their results. In addition, please provide the detailed plan for broad public outreach to enable EITC to be recognized and incorporated into decision-making by those contemplating, entering or leaving the formal workforce, including specific milestones to be achieved and deadlines to be met during the next five years by ADSEF.

**NAP:** The Proposed Plan maintains a 4-year implementation of the NAP work requirement. Please reconsider a 2-year plan for implementing the NAP work requirement versus the proposed 4-year plan given the importance of higher labor force participation to the overall economy's potential growth.

**CTC:** The Proposed Plan proposes a Puerto Rico Child Tax Credit that matches the program on the mainland, mentioning that such a Bill is being considered in the House of Representatives. Before such a program could be considered, the Government would need to provide a cost estimate to ensure it would be fiscally sustainable for the Commonwealth. However, it is important to note that the recent American Rescue Plan Act includes a Child Tax Credit program that will be available to Puerto Rican families and should be incorporated in the fiscal plan.

**Workforce development:** The Proposed Plan proposes a \$30.5 million investment to support workforce participation among recent graduates and retirees and to hire more social workers. The Oversight Board requests that the Government provide more information on these programs, Federal funds already available for workforce development, their associated investments, and their projected impact.

### ***Ease of Doing Business reform***

For all reforms, please provide specific evidence of progress to date – both milestones achieved and outcomes from these actions. Further, please outline specific future milestones with associated dates to demonstrate there is a detailed plan to achieve each aspired outcome. Finally, please provide justification for why the Government has maintained the same projected GNP growth impact / timing from this reform despite its acknowledgement that there have been delays within permitting and other areas. In addition:

**Property registration and on-Island freights:** The Proposed Plan removes all content related to overhauling property registration and the elimination of inefficient on-Island freight regulation initiatives. Previous Certified Fiscal Plans had determined that both of them would significantly contribute to achieve the business environment that would allow Puerto Rico to adequately compete with other investment destinations. Please provide an explanation on the removal of the aforementioned initiatives and restore the language to include the details on the Government's plans to implement and track every initiative's progress and impact.

### ***Energy reform***

Please update the Proposed Plan to include a discussion on the progress made to date in transforming the Island's energy sector, including the execution of the agreement with LUMA and the commencement of a process to select one or more operators for PREPA's legacy generation assets. Proposed Section 9.3.5 should include a discussion of the following topics: (i) compliance with Act 17's mandate for reorganizing PREPA and the Island's energy sector; (ii) modernization of T&D and generation resources, including a high-level discussion of the Integrated Resource Plan approved by PREB; (iii) the expected roles and responsibilities of LUMA and the legacy generation operators; and (iv) oversight responsibilities of PREB and the P3A under a transformed energy sector.

Additionally, please include a section discussing the roles and responsibilities allocated to PREB and the Oversight Board under Commonwealth law and PROMESA to oversee the energy sector's transformation, as such section was reflected in the Certified Fiscal Plan.

The Proposed Plan should include updated milestones for achieving each of the energy sector transformation objectives with clearly defined milestones.

### *Education reform*

The Proposed Plan maintains a 0.01% uptick in GNP from FY2037 onwards, despite not providing any specific strategies, initiatives, or milestones necessary for the Government to implement education reforms across the K-12 education system. Please update the Proposed Plan to include a transformation roadmap to improve K-12 student outcomes on the Island, including specific strategies, initiatives, and milestones to strengthen system-wide accountability among educators and administrators, facilitate data-driven leadership, focus on back-to-school efforts and distance learning capabilities, and increase PRDE's responsiveness to the needs of the whole child and the broader community on the Island.

Please also update the Proposed Plan to include benchmarks that show the progress and performance on student achievement in the past years, and include best practices used by other school districts in the US mainland and other countries to improve student outcomes.

### *Infrastructure reform*

For all reforms, please provide specific evidence of progress to date – both milestones achieved and outcomes from these actions. Further, please outline specific future milestones with associated dates to demonstrate there is a detailed plan to achieve each aspired outcome. In addition:

**Transportation Sector Reorganization and P3s:** On January 29, 2021, the Oversight Board outlined a recommendation to the Government regarding the Transportation Sector Reorganization, under Section 205 of PROMESA. Please restore the section of the plan related to the Public transportation, taking the Board's recommendation under consideration when doing so. The Government should enhance its discussion of the benefits and opportunities of P3s to improve the Island's infrastructure with list of priority projects (both currently proposed – i.e. cruise ship, regional airports, etc. – as well as additional projects that may be considered. The Government

should reflect, or otherwise provide greater clarity, as to the effects (on both revenues and expenditures) of the P3 agreement between MTA and HMS for the operation and maintenance of MTA's ferry system.

## ***Revenue projections<sup>4</sup>***

The Oversight Board requires the following changes to and/or explanations of the revenue projections.

**Revenue baseline:** The Proposed Plan contains substantive updates to General Fund revenue which require further information.

- *Reporting of the General Fund in the Fiscal Plan:* The Oversight Board has requested that Hacienda report monthly General Fund revenue with a new breakdown starting in March 2021. This breakdown includes details for Other Tax Revenue as stated in the annual Budget, including: Economic Incentives Fund Law (FEDE), Excise Taxes (e.g., Cigarette taxes, Petroleum Products, Gasoline, etc.), SUT FAM and CINE, Cruise Ship Incentives, Green Energy Incentives, Export Development, Development Funds, CRIM Property Tax Inflows, and others. Please update the General Fund revenue in the Proposed Plan with the aforementioned breakdown provided to Hacienda on March 5th, 2021.
- *Act 154:* The Proposed Plan states that Corporate Income Tax forecasts include certain adjustments attributable to the forecasted decline in Act 154 companies. Please provide further detail on these adjustments as well as explanations as to how the Proposed Plan model estimates, if any, the impact of the recent U.S. Department of Treasury notice of proposed rulemaking referenced in the Proposed Plan. In light of these developments, please include a plan with milestones for reforming the export sector tax regime to replace the Act 154 excise tax with a structure that maintains revenues and, to the extent possible, is creditable for U.S. federal income tax purposes.
- *Other General Funds:* For the past years, Hacienda has reported revenue collections in this category well above prevailing economic trends. In order to understand how the Proposed Plan is incorporating and forecasting the different categories within Other General Funds, please provide an annual breakdown of the forecast for each of the main categories, including: Partnerships, Other Excise Taxes, Miscellaneous, Insurance premiums and any other relevant revenue stream. In addition, please provide:
  - The rationale of the \$100 million of non-recurring revenue in FY21, including which line items are included in this amount and the amounts for each (e.g., partnerships, other excise taxes, etc.).
  - Details and rationale for the Other Excise taxes and Partnerships forecast (including if there are any other adjustments made in other revenue lines, e.g. Corporate Income Tax, as a result of this new forecast).
- *Impact of COVID-19:* The Proposed Plan states that Personal income taxes will be impacted by higher-than-normal unemployment levels, while Consumption taxes will be impacted by lower overall economic activity. Please provide additional information on the actual impact expected per revenue stream.

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<sup>4</sup> Sections 201(b)(1)(A),(H)

**Earned Income Tax Credit (EITC):** In addition to the information requested for EITC in the structural reforms section above, please provide: annual expected EITC incorporated into the baseline of Personal Income Tax revenues.

**Revenue measures:** The Proposed Plan states that the Government “has implemented various initiatives to enhance right-rating taxes and fees related to gaming machines, tobacco products, Airbnb taxes, medical marijuana, and other licenses and fees” and that this has been incorporated into the baseline. Please provide additional information on the incremental revenue received due to right-rating and fees related to gaming machines, tobacco products and other licenses and fees.

**Tax cuts:** The Proposed Plan includes a 20% cut to corporate and personal income taxes from FY22-FY46, described as a movement toward statehood parity. Please provide the underlying assumptions, projections and rationale for this proposed change, with specific details around the expected outcomes of this change to the tax law on economic growth and long-term revenues. Please also provide the underlying assumptions around the scope of corporate tax income affected and how this change to the tax law would interact with Government’s efforts to address risks to the Act 154 revenue base.

## ***Medicaid***

**Federal Funding:** The Proposed Plan states that the Government will attempt to resolve the Medicaid disparity in Puerto Rico and it also indicates that it expects Puerto Rico to be treated similar to other U.S. jurisdictions in terms of Medicaid Funding and program requirement. As such, the Proposed Plan projects an average FMAP of 86% for FY22-24 starting in the first quarter of FY2022, and assumes an average of \$8 billion in annual federal funds for Medicaid over the course of FY22-46. This amount is higher than the statutory funds provided under Social Security Act Section 1108, the federal CHIP program and the Enhanced Allotment Plan (EAP) by several billion dollars per year. This is a laudable goal, however, fiscal responsibility requires the Proposed Plan only reflect actually legislated funds. Please amend the Proposed Plan to reflect only currently enacted legislation, removing the increase in FMAP beyond the first quarter of FY2022.

**Medicaid enrollment:** The Proposed Plan includes incremental expenditures resulting from the expansion of eligible and enrolled Medicaid populations from the adjustment of the Puerto Rico Poverty Line for the full period of the Plan (FY2022-46), rather than just through September 2021 (Q1 FY2022) as agreed with the Oversight Board. Please remove any changes to the Puerto Rico Poverty Line after the first quarter of FY2022. Meanwhile, even without the additional enrollees due to the PRPL adjustment, the Proposed Plan shows a significantly higher Medicaid population than in previous years though overall Puerto Rico population is declining. Please provide the underlying data and justification for these projections, especially in the context of overall population decline.

**Per capita cost projections:** The implied PMPMs in the Proposed Plan’s ASES expenditure build grow at a rate significantly higher than those projected for FY2022 and beyond in the Certified Fiscal Plan and require the following clarifications:

- *Additional investments:* The Oversight Board agreed to provide enhanced benefits (e.g., increases in hospital reimbursements, provider reimbursement rates, and coverage for Hepatitis C drugs) through September 2021 (Q1 FY2022), when the supplementary federal funds expire. The Proposed Plan extends these benefits through FY2046 and adds new premium benefits, namely coverage for Medicare Part A and B premiums and benefits for Long Term Services and Support. Finally, the plan adds non-premium expenditures related to undocumented pregnant women and correctional inpatient claims. Please provide detailed supporting cost projections for each of these investments and identify sources of funding or savings to cover these expenditures (outside of unlegislated federal funding).
- *Healthcare reform measures:* As detailed in the new Island healthcare model, the Proposed Plan must tie projected savings to specific measures, specifically: implementation of value-based payment reforms, improvements in enrollment verification, and implementation of fraud, waste, and abuse measures. The proposed plan includes only savings derived from implementation of fraud, waste and abuse reforms. However, the proposed plan demonstrates no savings from measures related to value-based payment reforms (including ASES' proposed Diagnosis Related Group (DRG)-based payment model) or improvements in enrollment verification. Please provide a detailed implementation plan for implementing the DRG-based payment model, including details on the savings that will accrue to the Commonwealth both near-term and long-term, and reflect these savings in the Medicaid expenditures model. Please also provide a detailed implementation plan for the execution of enrollment verification reforms, including details on the savings that will accrue to the Commonwealth both near-term and long-term, and reflect these savings in the Medicaid expenditures model. Additionally, please provide the source for the healthcare inflation rate used.

**Third party contributions to ASES:** The Proposed Plan eliminates all contributions from Municipalities and Government Employers for the full fiscal year. Please amend the proposed plan to include Municipality payments with a relief during Q1 of FY22 based on incremental Federal Funding and include an estimate for Government Employer Contributions. Additionally, please provide supporting justification and assumptions used to calculate the total forecast for Prescription Drug Rebates with respect to the island's coming participation in the Medicaid Drug Rebate Program, as required by the Centers for Medicare and Medicaid Services (CMS).

## *Pensions*<sup>5</sup>

**Pension reform measures:** The Proposed Plan does not include any of the pension reforms included in the Plan of Adjustment filed on March 8, 2021, including the reduction in monthly pension benefits and the freeze on benefit accruals for TRS and JRS plan participants. Further, it notes that the Government will provide pension benefits of at least 50% of the retired public employee's salary. Please reflect all Plan of Adjustment pension reform provisions in the Proposed Plan and remove the additional pension contributions.

**Social Security:** The Proposed Plan establishes that the Government will protect police officers

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<sup>5</sup> Sections 201(b)(1)(B),(C),(D),(F),(G)



who did not contribute to Social Security in the past. Please remove this incremental expenditure, aligning with the Certified Fiscal Plan.

## ***Municipalities and UPR***

**Municipal Medicaid contribution:** The Proposed Plan provides an exemption to municipalities from having to contribute to Puerto Rico’s Medicaid program. Please reinstate municipal contributions to the Medicaid program.

**Municipalities Appropriation:** The Proposed Plan removes further reductions to the municipal appropriations. Please schedule a working session with the Oversight Board to explain the assumptions and rationale behind this proposal.

**UPR Appropriation:** The Proposed Plan removes any further reductions to UPR’s operating subsidy from the Commonwealth. The Government fixes \$560 million as UPR’s annual appropriation, when the total appropriation in the Certified Fiscal plan for FY22 is \$466 million. Please schedule a working session with the Oversight Board to explain the assumptions and rationale behind this proposal.

## ***Agency efficiencies<sup>6</sup>***

The Proposed Plan includes several deviations within the agency efficiency measures from the Certified Fiscal Plan.

**Agency operation efficiencies and improvements:** The Proposed Plan does not include a section that explains cross-cutting personnel expenditure reductions. Please revise the Proposed Plan to include the following initiatives: (1) maintaining a payroll freeze, (2) standardizing healthcare provided to government employees, and (3) reducing additional outsized non-salary compensation paid to employees.

**Agency consolidations:** While the Proposed Plan claims progress in passing 10 reorganization plans through legislation (for agency consolidations), savings have been slow to materialize due to lack of, or delays in, rationalizing positions and are not reported. Please provide detail on the actual consolidation results of back-office/administration in each of the ten legislated reorganization plans. Further, the Proposed Plan removes any further consolidations, which are an important driver of streamlining Government operations and expenditures; please restore the list of proposed consolidations to align with the Certified Fiscal Plan.

**PRDE:** There is no mention of PRDE efficiency measures in the Proposed Plan, despite the need for operational reform to improve system operations and student outcomes. As such, please provide:

- A guide for PRDE to achieve operational efficiencies and management improvements, along with the required personnel and non-personnel savings targets until FY2023.

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<sup>6</sup> Sections 201(b)(1)(B),(C),(D),(F),(G)

- details on the specific agency efficiency measures to be implemented by PRDE. Particularly, the measures of (1) student-teacher ratio, (2) personnel and non-personnel school consolidations, (3) rightsizing regional and central offices, (4) reducing procurement spend, and (5) Special Education professional services costs.
- Details on progress made, or lack thereof, by PRDE in the past years. Currently, the Proposed Plan does not hold PRDE accountable for mismanagement of funds, failed or delayed implementation of major initiatives and investments, and the potential impact this had on student outcomes.

**DPS:** There is no mention of DPS efficiency measures in the Proposed Plan, despite the need for operational reform to improve public safety on the Island. As such, please provide:

- A guide for DPS to achieve operational efficiencies and management improvements, along with the required personnel and non-personnel savings targets until FY2023.
- Details on the specific agency efficiency measures to be implemented by DPS. Particularly, the measures of (1) PRPD sworn officer efficiencies, (2) PRPD overtime savings, (3) PRPD civilianization, (4) PRPD first sworn officer increase, (5) PRPD compensation increase, (6) PRPD baseline personnel baseline adjustment, (7) Firefighters \$1,500 raise, (8) All public safety (excluding PRPD, Firefighters, EMS) Transitory savings, (9) All public safety (excluding PRPD) headcount reduction, (10) All public safety non-personnel reductions, (11) Special Investigations support staff payroll reductions, (12) Special Investigations Procurement Centralization, and (12) 9-1-1 Services Governing Board reductions.
- Details on progress made, or lack thereof, by DPS in the past years. Currently, the Proposed Plan does not hold DPS accountable for failed or delayed implementation of major initiatives and investments, and the potential impact.

**DCR:** There is no mention of DCR efficiency measures in the Proposed Plan, despite the need for operational reform to improve the correctional system on the Island. As such, please provide:

- A guide for DCR to achieve operational efficiencies and management improvements, along with the required personnel and non-personnel savings targets until FY2023.
- Details on the specific agency efficiency measures to be implemented by DCR. Particularly, the measures of (1) Non-personnel efficiencies through facility consolidations, (2) Personnel efficiencies through improved FTE-to-inmate ratio, (3) Non-personnel efficiencies through procurement optimization, and (4) Correctional Healthcare spend per inmate optimization.
- Details on progress made, or lack thereof, by DCR in the past years. Currently, the Proposed Plan does not hold DCR accountable for lack of implementation of major initiatives and investments.

**All other agencies:** The plan does not clearly lay out anticipated savings for other agencies, nor does it overview progress to date or anticipated progress to achieve the savings included in the Certified Fiscal Plan. As such, please provide an update on progress made to date in reaching savings targets, and include detailed milestones for how agencies will achieve future savings targets.

**OCFO:** The Proposed Plan does not provide details of how to achieve OCFO objectives. Please provide details of the OCFO design parameters (e.g., responsibilities, and composition), structure, agency efficiency measures, efficiencies savings to be achieved, required implementation actions, and updated data on ERP implementation progress and expected dates for future milestones, as well as audited financial statements.

**Uniform health measure:** The Proposed Plan does not reflect any detail on proposed uniform healthcare measures, nor does it reference the Proposed Plan of Adjustment provision that increases the employer healthcare contribution to \$170 per employee per month for select groups (AFSCME, UAW, Teachers, etc.). Please outline what employer healthcare contributions are included in the Proposed Plan (e.g., what amounts will be offered to each agency / group of employees) and align these with the Certified Fiscal Plan and Proposed Plan of Adjustment.

**Uniform Remuneration Plan:** The Proposed Plan includes ~\$53 million per year to institute a Uniform Remuneration Plan (includes \$3M of annual implementation cost assigned to Human resources management & transformation agency). Please schedule a working session with the Oversight Board to explain assumptions, source of funding and rationale behind this proposal.

**Parametric Insurance:** The Proposed Plan describes the Government's plan to acquire parametric insurance coverage to protect public assets from natural disasters costing an estimated \$82million/year, grown annually with inflation. Please explain how the proposed parametric insurance policy fits within the Government's overall insurance indemnity structure and is expected to interact with the Government's traditional indemnity insurance policies. Additionally, please elaborate the type of coverage and policy characteristics the Government expects to receive and whether it will cover not only wind and earthquake damages, but also fire, flood, mechanical breakdown, theft, vandalism, and other events. Further, please explain why the Government concluded parametric insurance is required, why a parametric insurance policy is a better alternative than other options such as a catastrophe bond, and how the proposed parametric insurance policy is expected to meet FEMA's Obtain and Maintain requirement. Finally, please outline how covered entities that are not part of the Commonwealth will reimburse the central government for parametric insurance coverage.

**Other investments:** The Proposed Plan includes almost \$4 billion in additional investments across agencies to cover a range of priorities (e.g., special fund to address the Gender Violence emergency, recent graduate opportunities, etc.). Please schedule a working session with the Oversight Board to explain assumptions and rationale behind each proposed investment.

## *Other*<sup>7</sup>

**Fiscal Plan forecast period:** The Proposed Plan only includes financial projections for FY2021-2046. Please extend projections through FY2049 to ensure consistency with the forecast period of previous fiscal plans.

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<sup>7</sup> Sections 201(b)(1)(B),(C),(F),(L)

**Political status:** The Proposed Plan includes references to the political status of Puerto Rico, which would have to be excluded from the certified Fiscal Plan given the non-political role of the Oversight Board.

## ***Conclusion***

The Oversight Board recognizes the difficulties implicit in these decisions, as well as the long path to return the Commonwealth to fiscal stability and economic prosperity. Achieving these goals will take above all a full commitment from the Government's leadership to drive real efficiencies and reforms for the long-term benefit of the people of Puerto Rico. Our hope is that through the process of re-certifying the Fiscal Plan, the Government re-commits to taking the actions necessary to put the Commonwealth on the path to a better future. Pursuant to section 201 (d)(1) of PROMESA, the Oversight Board specifies 6:00 pm AST on March 26, 2021, as the deadline for submitting a revised, proposed fiscal plan, including all financial, economic and rightsizing models.

Sincerely,



Natalie A. Jaresko

David A Skeel, Jr.  
Andrew G. Biggs  
Arthur J. González  
Antonio L. Medina  
John E. Nixon  
Justin M. Peterson  
Betty E. Rosa

CC: Mr. Omar Marrero Díaz