



COMMONWEALTH OF
PUERTO RICO
GOVERNOR

ALEJANDRO J. GARCÍA-PADILLA

November 29, 2016

VIA ELECTRONIC MAIL

Mr. José B. Carrión III
Chair
Financial Oversight and Management Board for Puerto Rico

Dear Mr. Carrión III:

Thank you for your letter dated November 23, 2016, conveying the Board's preliminary assessment of the Commonwealth of Puerto Rico's fiscal plan, the timeline for the certification of such plan, and the Board's procedures related to the approval of transactions by covered entities.

I believe that as you continue to analyze our fiscal crisis you will come to understand a series of undisputable realities that control Puerto Rico's outlook:

1. Without federal action (congressional and/or administrative) related to the creditability of the Act 154 excise tax and Medicaid funding, Puerto Rico will not have enough resources to service any debt.
2. As you know, the creditability of the Act 154 excise tax constitutes one fourth of the revenues of the Commonwealth. Moreover, the manufacturing operations that employ a significant part of our workforce depends on the continued creditability of the excise tax.
3. The Commonwealth is subject to all federal health related regulations and it cannot comply with them - as no state could - without the federal support that accompanies such regulations. The federal government must take the actions necessary to ensure Puerto Rico's capacity to provide adequate healthcare to its population.
4. There is a serious risk to the social stability of Puerto Rico if we were to agree to any debt restructuring deal without having certainty regarding Washington's actions. Unless the U.S. Government provides tools for economic growth and equitable Medicaid treatment, Puerto Rico will continue to suffer economic contraction and massive outmigration to the mainland. It may be unwise to design a fiscal plan for the Commonwealth of Puerto Rico taking as a premise a no-action attitude in Washington that will only lead to massive emigration of Puerto Ricans to the United States and, thus, to the further undermining of the stability of our economy and the feasibility of the plan itself.

I am encouraged to know that, as you convey in your letter, "the Board supports efforts to extend Affordable Care Act funds and Medicaid parity for Puerto Rico". This is a great step forward and I urge you to carry your support further to the appropriate fora. I will be meeting with members of the PROMESA Task Force and other members of Congress this week to boost these efforts, and I would be pleased to join you and the Governor elect in Washington at your earliest convenience to urge the Administration and the Congress to promptly address these issues so critical to the 3.5 million US citizens living on the Island.

Through the remainder of my term, I am willing to work collegially with the Board and with the Governor elect so that we can all move ahead responsibly in this process. In doing so my team is ready to assist the Board in modelling different scenarios that the Board may propose consistent with the principles raised in your letter. However, I must reiterate that if any such scenario implies reductions in government spending, it will result in further deterioration of our economy and worsen the death spiral. Thus, we must leave behind the consideration of self-defeating austerity measures that affect the people of Puerto Rico. We all know what is at stake and getting a fiscal plan certified is of the utmost importance. We must all work together in preparing the foundation of Puerto Rico's recovery. We cannot fail the people of Puerto Rico in this endeavor.

Sincerely,

The Governor of the Commonwealth of Puerto Rico,



Alejandro J. García Padilla