

Memorandum for Policymakers from the Ad Hoc Group of Puerto Rico General Obligation Bondholders

Re: The Oversight Board's "Tough Talk" on Puerto Rico's Budget is a Charade

June 29, 2017

THE SPIN: "The Proposed Budget includes overspending and ineligible expenditures in three categories that total approximately \$119 million...Please correct the Proposed Budget accordingly and submit a revised adopted version on or before Thursday, June 29, 2017, at 5:00 PM." – Oversight Board Letter to the Puerto Rican Legislature, June 27, 2017

The Oversight Board might be talking tough and trying to cover its tracks now that Puerto Rico's budget shell game has been exposed, but in fact, it isn't asking for any real spending cuts.

THE FACTS:

- On June 2 the Oversight Board approved "the aggregate spending level in the Governor's proposed budget" (i.e. – \$9.562bn), but also specified that they did not approve its "specific allocations". **This budget represents a year-over-year increase of \$575mm, or 6.4%, relative to the previous year – a big increase for a government that claims it can't pay its debts.**
- This week, the Puerto Rico Legislature passed a revised budget, which redistributed some money from the original budget to different line items. **Importantly, the total expenditure of \$9.562bn does not change in the revised budget.**

\$ MMs	Original	Revised	Increase / (Decrease)
	FY18 Budget	FY18 Budget	
University of Puerto Rico	620	668	48
Department of Education	1,454	1,478	24
Department of the Treasury	203	224	21
Legislative Assembly	131	148	16
Department of Transportation and Public Works ("DTOP")	49	64	15
Other Net Expenses	4,891	4,915	24
Reconciliation Adjustment	545	545	-
Pension Appropriations in OMB Custody	1,365	1,315	(50)
Liquidity Reserves	305	205	(100)
Total	\$9,562	\$9,562	-

- In its letter to the Legislature on June 27, the Oversight Board objected to \$119 million of those redistributions. **The Oversight Board did not explicitly object to the overall \$9.562bn of expenditure, which it had already approved.**
- It appears the Oversight Board is not asking the Commonwealth to make any cuts to spending – only that it undo some of the redistributions present in the revised budget. **This is simply a continuation of Puerto Rico's budget shell game. The Oversight Board still endorses a \$575mm increase in spending year-over-year.**