

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

Re: Governor Rosselló's Budget Shenanigans

August 21, 2017

THE SPIN: Treasury Secretary Raul Maldonado claims that despite building up a massive cash position of approximately \$1.8 billion, this money is “not available” to pay the Commonwealth’s Constitutional Debtholders because “every dollar is already committed based on the Fiscal Plan.”

This is a fairytale made-up by Governor Rosselló and his administration.

In an effort to walk back their acknowledgment that the government is flush with cash – **an estimated \$1.5 billion more than what was accounted for in the Fiscal Plan** – the Governor and his administration have resorted to literally making things up. The truth of the matter is that the Commonwealth has surpassed the revenue and liquidity projections in the Fiscal Plan.

THE FACTS:

- The discrepancy between the *projected* cash on hand under the Fiscal Plan – \$291 million – and the *actual* amount of cash on hand – approximately \$1.8 billion – is striking. **This means that there is over a \$1.5 billion improvement in projected cash on hand.** This is a fact that was even acknowledged by Cristian Sobrino, the Governor’s representative to the Oversight Board, who stated at the last Oversight Board meeting on August 4, “[T]he [liquidity projection] number was surpassed by \$1.6 billion.”
- The Fiscal Plan contemplates paying \$1.3 billion in deferred payables over the entire projected period, however, **from the beginning of the fiscal year through the end of May the Commonwealth had reduced outstanding third-party accounts payable by \$1.2 billion.** Nevertheless, Secretary Maldonado claimed that the new cash reserve is due to delaying payments to suppliers and contractors. Then on August 18th, Public Affairs and Policy Secretary Ramon Rosario claimed that since Governor Rosselló took office, **“suppliers have been paid almost \$2 billion.”** This suggests, at a minimum, suppliers are being paid thus contradicting comments made by Secretary Maldonado. So it raises the question, who is telling the truth?
- Secretary Maldonado further claims that this liquidity already “has a first and last name,” alluding to \$2.5 billion in forthcoming pension payments. **This is just more fabrication from the Rosselló Administration, because the pensions payments are already contemplated and accounted for in the Fiscal Plan.**
- Together, the facts indicate that there has been at least a \$2.7 billion net improvement in the Commonwealth’s finances in fiscal year 2017 alone.

- The \$1.5 billion improvement in projected cash on hand is further evidence that the Commonwealth could have made interest payments on Constitutional Debt in fiscal year 2017 and still maintained substantial liquidity. This demonstrates that Governor Rosselló was right when he stated during his campaign that the Constitutional Debt could be paid.

Governor Rosselló's administration cannot keep its story straight. While the Commonwealth argues that this money is "*all earmarked*" under the Fiscal Plan, this is simply not true. Merely two weeks ago, Mr. Sobrino was adamant that "*there will be no furloughs,*" because Puerto Rico exceeded the Fiscal Plan's liquidity projections so significantly that there was no need to impose such measures. Now that the idea of using this massive cash reserve to pay Constitutional Debtholders is being raised, however, the government is changing its tune, maintaining that these funds were appropriated under the Fiscal Plan. The government cannot have it both ways.

The only way for the Oversight Board and the Governor to back up these claims would be to disclose the data behind the Fiscal Plan and budget. To date, they have refused to do so. Until that happens, the Oversight Board and Governor Rosselló will continue to engage in budget subterfuge enabling the Commonwealth to increase non-debt expenditures and default on its Constitutional Debt, in clear violation of PROMESA and Puerto Rico's Constitution.