

# FOMB releases Debt Investigation Report

Headline Story

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## Fiscal Oversight Board releases the Debt Investigation Report

Headline Story

On August 20, 2018, a special investigation committee of the Financial Oversight Board released the Puerto Rico Debt Investigation Report, which was prepared by an independent investigator, the law firm Kobre & Kim LLP.

According to the 608-page report, Puerto Rico had \$74 billion in bond debt and \$49 billion in unfunded pension liabilities as of May 2017, which according to the independent investigator, the burden of this debt has been catastrophic for the economy of Puerto Rico. Of the \$74 billion in bond debt, \$17.6 billion was issued by the Puerto Rico Sales Tax Financing Corp. ("COFINA"), \$13.3 billion was from general obligation bonds ("GO's"), \$9 billion was issued by the Puerto Rico Electric Power Authority ("PREPA"), and \$3.2 billion was debt issued by the pension fund.

It was noted in the report that nearly \$3 billion of the Employees Retirement System ("ERS") bonds issued in the first half of 2008 were payable from and allegedly secured by the employer contributions that government employers were required by statute to make to ERS. According to the report, those bond payments were supposed to be infested to improve unfunded pension liabilities due to the fact that as of June 2005, ERS was only 19% funded, and today its assets are depleted.

The report stated that Puerto Rico's political branches and the Government Development Bank ("GDB") turned to the debt markets for short-term fixes, instead of implementing long-term plans to stimulate the island's economy, balancing the budget and to fund the ERS.

The "short-term fixes" according to the report included creating a sales tax source for revenue and debt issuance, swap arrangements, increased deficit financing, and issuing bonds "purportedly secured" by ERS contributions.

The independent investigator stated that the strategy of borrowing against future employer contributions and investing the proceeds may have succeeded in improving both ERS's shorter-term cash positions and long-term underfunding problem, if reasonable projections about market behavior and other variables had held true, which they did not.

The COFINA debt, according to the report, became a "comparatively accessible source of liquidity that staved off the need for Puerto Rico to find a more permanent solution to its financial problems", while also suffering from insufficient checks and balances to encourage fiscal discipline.

According to John Couriel, of Kobre & Kim, the ten-month investigation involved an extensive evaluation of evidence from many sources, including over one hundred witness interviews. The special investigation committee will hold a public hearing on September 18, 2018 to discuss the results of the Report.





## FEMA approves nearly \$110 Million in additional assistance for PREPA and CORR

The Federal Emergency Management Agency (“FEMA”) announced last week that it awarded nearly \$110 million in additional Public Assistance to the Puerto Rico Electric Power Authority (“PREPA”) and the Central Office for Recovery and Reconstruction of Puerto Rico (“CORR”). The agency informed that as of August 2018, the FEMA Public Assistance program has assigned more than \$3.4 Billion in total funding to the Government of Puerto Rico and its municipalities.

Of the \$110 million in additional Public Assistance, more than \$89 million were awarded to the CORR and more than \$20 million were granted to PREPA. These grants are for emergency protective measures and management costs associated with Hurricane María, which plummeted the island on September of last year.

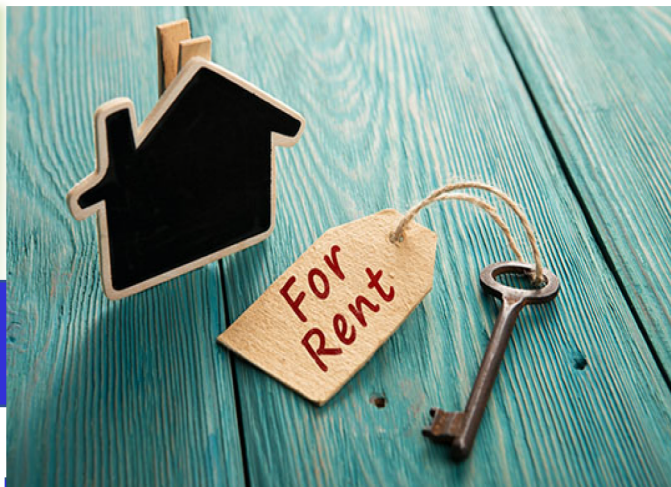
FEMA defines “emergency protective measures” as actions taken to eliminate or lessen immediate threats to either lives, public health or safety, or significant additional damage to public or private property in a cost-effective manner.

The program also encourages protection of damaged facilities from future events by providing assistance for hazard mitigation measures during the recovery process.

This announcement by FEMA comes less than a month after the agency announced that it had awarded more than \$140 million in Public Assistance grants for debris removal and emergency protective measures to PREPA, the Puerto Rico Police Department, the Puerto Rico Emergency Management Agency, the Puerto Rico Department of Education, and several municipalities, and three weeks after the U.S Department of Housing and Urban Development (“HUD”) announced that it has approved a \$1.5 billion disaster recovery plan aimed at helping Puerto Rico recover from hurricanes Irma and María.

On September of last year the President of the United States signed the Additional Supplemental Appropriations for Disaster Relief Requirements Act, which appropriated \$7.4 Billion in CDBG-DR funding for major disasters declared in 2017. This was followed in February of 2018 with a \$1.5 Billion grant to address the needs in Puerto Rico and a \$18.5 Billion grant in April of 2018 to further support recovery in Puerto Rico.

FEMA and HUD have said that these funds have the potential to help many Puerto Ricans struggling to recover from these natural disasters.



## Airbnb presents its Open Homes Program in Puerto Rico

On August 6 and 7, Airbnb and International Rescue Group held events at the Mayaguez Campus of the University of Puerto Rico and at the Engineers and Land Surveyors Association to promote Airbnb’s Open Homes Program.

As part of the program, hosts can use extra space such as a spare bedroom and offer temporary housing free of charge to people displaced by natural disasters such as a hurricane or flood or to relief workers deployed to respond to a natural disaster. According to Airbnb, hosts have already offered temporary housing to over 11,000 people displaced by natural disasters, conflict or illness, through its Open Homes Program.

The Puerto Rico Tourism Corporation (“PRTC”) Director, Carla Campos, mentioned in a press release that “the extension of the Open Homes Program to Puerto Rico demonstrates a firm commitment by Airbnb to join the preparation and response plans for emergency situations or natural disasters”.

The PRTC Director also mentioned that since a formal alliance was established between the PRTC and Airbnb, in August of last year, the entity has managed to raise about \$2.7 million to date in room-occupancy taxes through the platform and have also kept working in close collaboration to bring innovative concepts and programs to the island, strengthening Puerto Rico’s tourism offer.

Airbnb hosts, and anyone who might be willing to put up people in emergencies, can now register so that they will be available on “standby” lists.





## New Chief of Staff and Treasury Secretary appointed by Governor Ricardo Rosselló in latest shake-up to its Cabinet

On July 31, 2018, Governor Ricardo Rosselló announced new changes to its Cabinet by appointing Treasury Secretary, Raúl Maldonado, who will continue to be the Government's Chief Financial Officer, as his new Chief of Staff. That position was being held temporarily by the Secretary of State, Luis Gerardo Rivera Marín, who will remain as Secretary of State and will also be appointed as Senior Economic Advisor to the Governor.

With Maldonado's appointment as Chief of Staff, the Governor appointed Teresita Fuentes, who is currently a Senior Advisor to the Puerto Rico Treasury Department and was Deputy Treasury Secretary from 1992 to 1996, as well as a Partner in Ernst & Young, as Treasury Secretary.

In addition to Maldonado's appointment to the Chief of Staff position, the Governor appointed the Trade & Export Corporation Director, Ricardo Llerandi, as the Deputy Chief of Staff. Llerandi will also continue as the Trade & Export Corporation Director.

The Director to the Fiscal Agency and Financial Advisory Authority ("FAFAA"), Gerardo Portela, will become the Investment Officer of the Government and will be replaced by Christian Sobrino, who is currently the Senior Economic and Fiscal Advisor to the Governor, the Governor's representative to the Financial Oversight and Management Board ("FOMB"), as well as the President of the Government Development Bank ("GDB").

During the announcement, Governor Rosselló mentioned that the administration's priorities include hurricane reconstruction, tax reform, education reform, debt restructuring and revamping the power sector as the Puerto Rico Electric Power Authority ("PREPA") moves towards privatization. On July 30, 2018, Government officials announced that a tentative deal had been reached with a bondholder group that holds more than \$3 Billion in debt from PREPA.

The Governor's Chief of Staff, who will also stay as the Government's Chief Financial Officer, said that the agency will be revamped and will now assign resources to other state departments using revenue from internal savings. Maldonado stated that the Government is at a point where it needs to execute all these plans and mentioned that Puerto Rico not only needs a financial rebirth but also a community rebirth.

Treasury Secretary Fuentes was confirmed by the Senate on August 20, during the first day of the legislative session. The Secretary explained at her confirmation hearing that the Treasury Department is providing information to the legislative chambers about tax reform and budget estimates but admitted that there is a reliability problem with the systems and the collected data that are being used in the decision-making processes of both the government and the FOMB.

Governor Rosselló thanked the team for their commitment and availability to serve the People of Puerto Rico and stated that with the new government structure, the administration will strengthen the firm pace of the fiscal and economic recovery in order to guarantee a better service to the citizens.



Raúl Maldonado



Teresita Fuentes