By Electronic Mail

May 1st, 2020

Ms. Natalie A. Jaresko
Executive Director
Financial Oversight and
Management Board for Puerto Rico

Dear Ms. Jaresko:

We acknowledge receipt of your letter dated April 28th, 2020, in which the Financial Oversight and Management Board details their proposal to remedy the near-term impact of Law 29 in Fiscal Year 2020 (FY2020).

As you are aware, United States District Judge Laura Taylor Swain delayed the effective date of the Opinion and Order issued on April 15th, 2020, stating the following:

“At the March 5, 2020, Omnibus Hearing counsel for Defendants requested that if the Court were inclined to nullify Law 29, the Court delay the effective date of its order for two weeks “so that the municipalities, the Oversight Boards, and the government can work together to try to come up with another solution to the problem.” (Docket Entry No. 105, Hr’g Tr. At 36:11-19). The Oversight Board consented to Defendants’ request. (Id, at 39:20-21.). In light of the additional challenges facing the parties during the COVID-19 public health crisis, the Court hereby delays the effective date of this Opinions and Order for three weeks, through May 6, 2020.

Pursuant to the parties agreement and the clear purpose for delaying the effectiveness of the Order, CRIM’s Governing Board requested an urgent meeting with the Oversight Board. The meeting was held on April 16, 2020. The President and Vice-president of the Mayors’ Federation and Mayors’ Association, respectively, also participated. In the meeting, the CRIM presented various alternatives to the Oversight Board, all of which could solve the municipalities’ dire economic scenario.

Subsequently, CRIM maintained constant communication with the Oversight Board and its technical advisors, providing all information requested and discussing the proposed alternatives to manage the effect of the nullification of Act 29 for the current fiscal year. The Government also submitted proposals to the Oversight Board.
On April 22nd, 2020, the Oversight Board notified the Governor of Puerto Rico and the Presidents of both legislative bodies about the negotiation process with CRIM and expressed that it would inform its position by April 28th, 2020.

On April 28th, 2020, the parties held the aforementioned meeting. The solution presented by the Oversight Board to the Government, CRIM, and the representatives from both mayoral associations, is summarized in the April 28th, 2020 letter.

On April 30th, 2020, CRIM’s Governing Board held an extraordinary meeting. After extensive evaluation of the Oversight Board’s solution, CRIM proposes the following alternatives:

- Alternative 1: CRIM uses Step 4 of the waterfall repayment alternative (offset outstanding obligation against the collection of aged accounts receivables) as the **sole source of repayment** of the municipalities’ outstanding PayGo and ASES obligations.

- Alternative 2: CRIM allocates the $132 million Commonwealth transfer, and the outstanding $66 million balance is paid from the proceeds of the sale of the portfolio of accounts receivables.

The Governing Board proposes the aforementioned alternatives due to the challenges CRIM would face complying with Steps 1 to 3 of the Oversight Board’s waterfall repayment solution, specifically:

a) The $17.6 million of Electronic Lottery proceeds from FY2016 & FY2017 were included in the Estimated Lottery Income for the Equalization Fund of fiscal years 2016 and 2017. The final liquidation of both fiscal years was audited and approved with those amounts distributed to municipalities. The remittances were disbursed to municipalities based on total estimated amounts. CRIM has been unable to pay that final liquidation because it has not received the funds yet. Municipalities accounted these final liquidation amounts as account receivables from CRIM. Some municipalities are counting on said liquidation to pay their Pay-go obligations from previous fiscal years.

b) AAFAF is the entity responsible for the evaluation and determination of the excess CAE of each municipality, based on the financing structure of each municipality. In addition, municipalities prepare their operational budgets including the estimated excess CAE as an income budget item, based on their estimates of property tax collections and annual bonds payments. This payment option has a direct effect on the current municipality budgets.

c) The offset option against the final FY2020 liquidation could have a negative impact on municipalities that are making collections efforts to increase their property tax income. *What motivation will these municipalities have to increase their collection efforts if those efforts are going to be used to pay other municipalities’ debts?* Generally, the excess liquidation amount goes to municipalities that have a strong and structured collection procedure. This option contradicts the Oversight Board’s position requiring municipal governments to increase their collections efforts.
In accordance with CRIM’s proposals, the Governing Board has resumed the portfolio sale project, and has activated the Advisory Committee to initiate the process of identifying experts for the evaluation of the accounts receivable value. This step is essential to maximize the offers CRIM can receive from potential investors.

On the other hand, regarding the Oversight Board’s proposal to manage COVID-19 impact on CRIM’s liquidity, we inform you that the Governing Board members agree that a credit line option must be implemented. However, as anticipated via telephone call, CRIM proposes an increase to $200 million.

Finally, we assure you that CRIM is aware of Puerto Rico’s financial situation, and the need for municipalities to implement adjustments in order to remain financially viable. However, unforeseen circumstances, such as two hurricanes, an earthquake and a pandemic in a span of two and half years, has delayed the municipalities’ ability to implement the necessary adjustments. The above included proposal takes into consideration both realities. As always, CRIM is available to discuss its proposal with the Oversight Board.

If you have any questions, please contact us directly.

Sincerely,

Reinaldo Paniagua Latimer
Executive Director
CRIM

CC: Hon. Javier Carrasquillo Cruz, President of the CRIM Governing Board