

ECONOMY

FOMB certifies Fiscal Plans for central government



Think Strategically: The Weight of Another's Burden

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P.R.'s path forward: The New Fiscal Plans

Does anyone remember the Puerto Rican Lucha Libre wrestling league and those memorable death matches between Chicky Starr and Invader No. 1, only to see them afterward at a local restaurant enjoying dinner? Well, this past Thursday, they began to fight yet again. However, they were in disguise: The Government of Puerto Rico as Chicky Starr and Financial Oversight & Management Board (FOMB) as Invader No 1.

As expected this past April 19 & 20, the FOMB held its 13th public hearing that certified the Fiscal Plans for the central government and several instrumentalities, of which the list includes:

- Commonwealth of Puerto Rico New Fiscal Plan
- P.R. Electric Power Authority (Prepa)
- P.R. Aqueduct & Sewer Authority (Prasa)
- Government Development Bank (GDB)
- University of Puerto Rico (UPR)

- P.R. Highways & Transportation Authority (HTA)

The FOMB is also considering the fiscal plan for the Cooperatives Supervision & Insurance Corp. (Cossec) and postponed its certification to complete a broader analysis.

The plans are the results of months of study, analysis and discussion with a diverse group of stakeholders. According to José Carrión, FOMB chair, "The certified Fiscal Plans offer Puerto Rico the opportunity to build more efficient and less bureaucratic institutions, and they deliver a blueprint for attaining quality and an affordable engine for development."

Often in life, no one knows the weight of another's burden, as is apparently the case with Puerto Rico's troubles, and no one can dispute that the island needed a new set of rules to implement a renewed sense of fiscal discipline that had eluded us for the past three decades. Do you wonder if the FOMB has gone too far in its deliberations? To address this question, we attempt to review the certified Fiscal Plans to offer a view as to the most significant changes that Puerto Rico must address. The certified plans create a multiyear fiscal roadmap to extract the island from its 12-year-long

recession by reducing spending and reducing the size of the government.

The FOMB decision to implement reductions in Government employees' pensions sets up a direct conflict with Gov. Ricardo Rosselló, who balked at the thought of allowing the pension benefits to be reduced by 10 percent starting in 2020. The Governor stated that the FOMB has no authority to implement the proposed reduction in the pension payouts. FOMB member Ana Matosantos voted against the massive cuts saying, "The cuts implement too much pain with too little promise."

The Certified Fiscal Plan's principal purpose is to serve as the primary tool to negotiate with Puerto Rico's creditors in Title III bankruptcy and how its \$70 billion debt must face restructuring.

The review of the Commonwealth of Puerto Rico New Fiscal Plan is divided into two areas, Structural and Fiscal reforms.

Structural Reforms: These reforms are created to improve the economy and seek sustained growth.

Human Capital & Labor Reform: Focus on increasing the labor-participation rate in the formal labor force and creating incentives to work

through Earned Income Tax Credit (EITC) benefits and welfare reform. The changes are projected to increase economic growth by one percent by fiscal year (FY) 2022.

Ease of Doing Business Reforms: Eliminate obstacles to start and sustain a business in Puerto Rico, minimize tax-compliance costs, register property and obtain permits. These changes are projected to drive half a percent of overall growth by FY2021.

Energy Reform: Provide low-cost and reliable energy through Prepa's transformation and establishment of an independent, expert and well-funded energy regulator. The changes are projected to increase growth by three-tenths of a percent starting in FY2020.

Infrastructure Reform: Create basis to modernize infrastructure and rebuild roads while improving flow of traffic and goods and services.

Fiscal Measures: The Fiscal Plan adds a set of budgetary actions the Government must take to increase revenues and reduce expenses while enhancing tax compliance using technology and other practices to increase the tax base and reduce fraud.

Right-Rating Taxes & Fees: Adjust existing taxes and fees to

capture revenues from underleveraged sources, such as the excise tax on crude oil ("la crudita").

Tax Reform Initiatives: Reduce corporate, individual and sales & use tax rates, and eliminate nonrevenue-generating incentives and subsidies while maintaining revenue neutrality.

Right-Sizing Government & Agency Efficiencies: Consolidate agencies and deploy new management tools and practices to deliver better government services at a substantially lower cost.

Pension Reform: Seek financial stability of retirement funds and ensure payment of pensions. Some retirees will receive 10 percent reduction in payouts.

Reduction of Appropriations: Lower fiscal burden of central government while encouraging sound financial self-management, and reduce grants to municipalities and the UPR.

Healthcare Reform: Simplify system with a single region, consolidate health agencies and implement cost and fraud controls.

Office of the CFO: Centralize accounting, fiscal controls, accountability, reduce unique revenue fund deficits and improve governance and transparency.

Final Word: The 101 percent principle

As mentioned at the beginning of this column, the FOMB certified the plans for Prepa, Prasa, the UPR, the GDB and the HTA. In forthcoming columns, each plan will be discussed in detail, with all agencies experiencing transformative changes to their structures, governance, pricing, assets, focus and performance metrics. While it is clear the pain for Government employees will be severe, and the impact on the economy will be hard, this is the price Puerto Rico needs to pay to change its fiscal recklessness and enhance its activities.

The painful process Puerto Rico is embarking on reminds me of words of wisdom by author John Maxwell, which say, "Practice the 101 percent principle: Find the one thing you agree on with another person, and then give it 100 percent of your encouragement." In our case, Puerto Rico is that one thing we all agree on, and only 100 percent support and encouragement will do.

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