

## Unrealistic Assumptions Result in Flawed Fiscal Plans by Puerto Rico's Financial Oversight Board

Puerto Rico needs a straightforward and realistic Fiscal Plan to recover, revitalize and work toward a more sustainable economic future. Instead, the Oversight Board created by PROMESA to be in charge of the Commonwealth's recovery has developed Fiscal Plans based on unreliable data and assumptions. To begin, no current financial statements with clean audits exist.

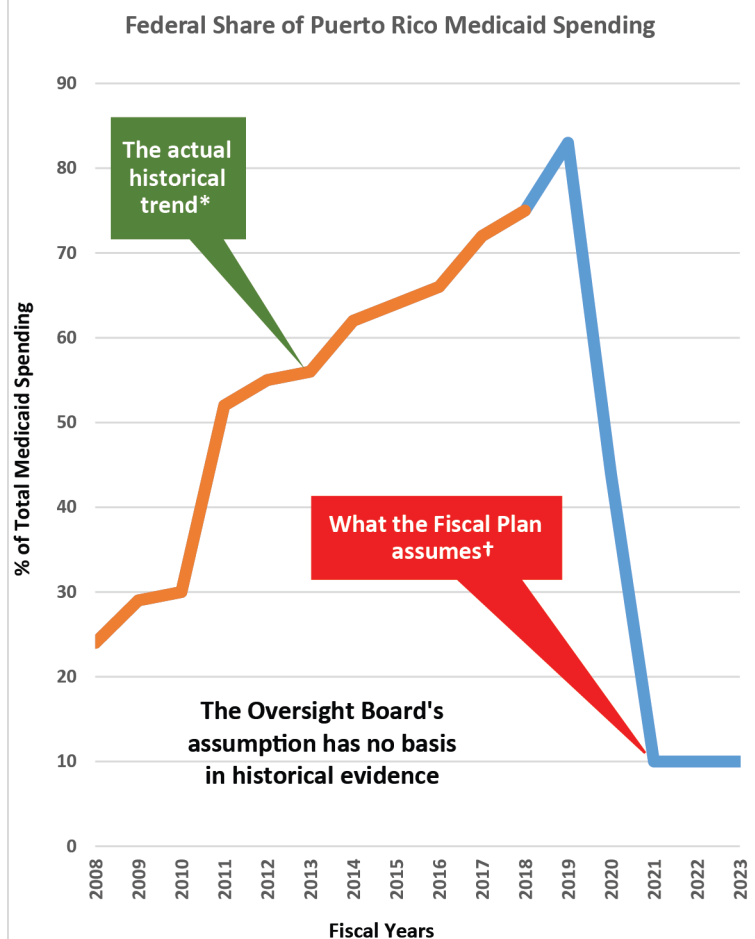
Moreover, many of the assumptions underlying the economic and financial projections in the Fiscal Plan have not been fully disclosed and/or have no historical basis.

### Medicaid Assumptions Have No Connection to Actual Experience

For example, federal Medicaid funding has a critical role in providing affordable health care to the people of Puerto Rico, especially as the island works toward a sustainable recovery, and Congress has provided substantial support for the program in recent years.

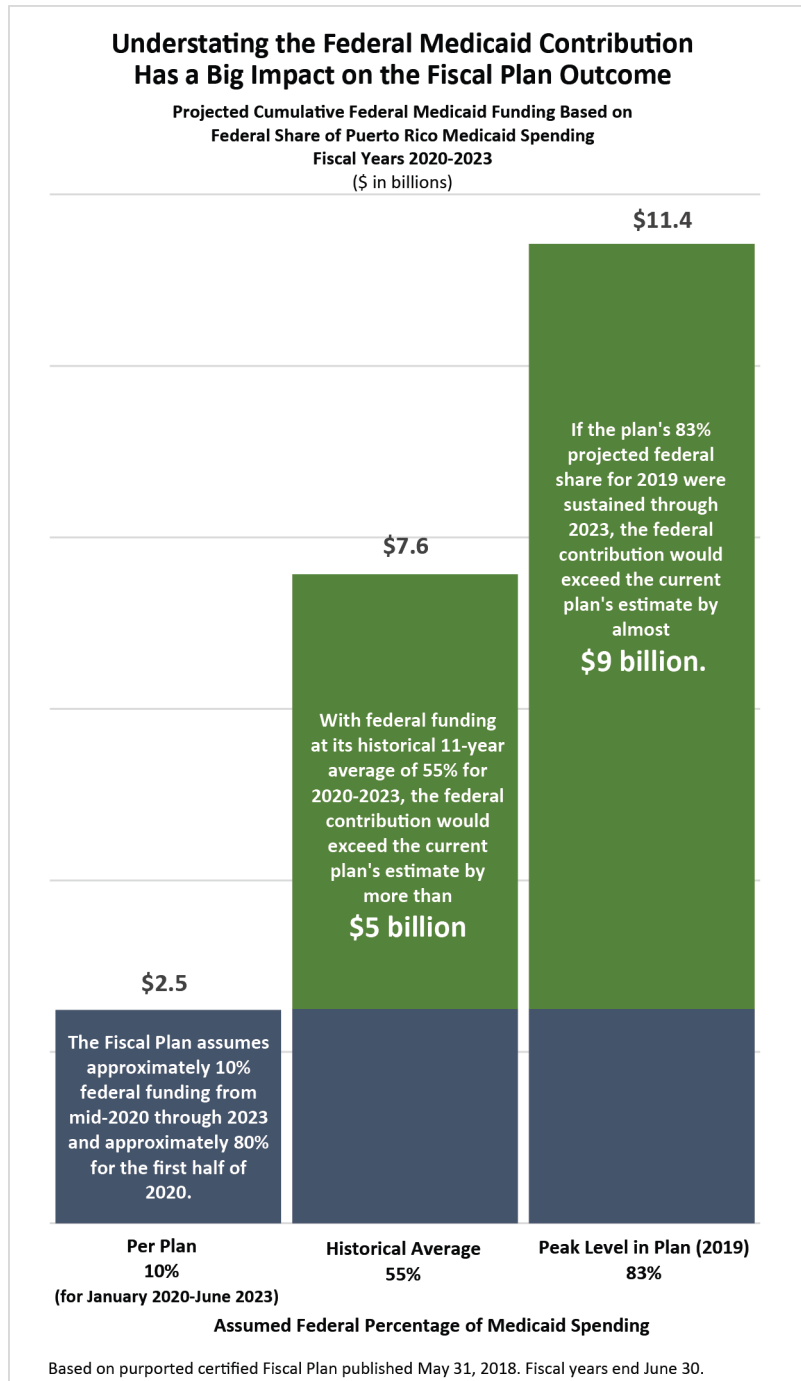
Yet, despite this history, **the Oversight Board's current purportedly certified Fiscal Plan illogically assumes that annual federal funding will fall from approximately 83% of the territory's total Medicaid spend for fiscal year 2019 to only roughly 10% for fiscal years 2021 to 2023** (with 2020 receiving only a partial year of funding at the higher level), even though **the average federal share of Puerto Rico Medicaid spending has been 55% over the last 11 years.**

### Why Does the Oversight Board Assume Congress Will Drastically Reduce Puerto Rico's Medicaid Funding?



\* Estimated from public sources. †Based on purported certified Fiscal Plan published May 31, 2018

**What's more, the Oversight Board counterintuitively accepted the implausible assumption that as Puerto Rico's population declines by almost 6% from fiscal 2018 to 2023, Medicaid spending will rise 35%.**



The so-called “Medicaid fiscal cliff” built into the Fiscal Plan assumes Congress will take no action to protect the American citizens in Puerto Rico from the sunset in 2019 of Affordable Care Act funding for the territory, leaving its federal funding restricted to a statutory cap. But Congress has repeatedly stepped up over the last 15 years to increase Puerto Rico’s federal Medicaid funding above the cap. In fact, through mid-2020, Congress has already appropriated substantial additional funding beyond what was provided under the ACA.

Based on projected fiscal year 2021 Medicaid spending of \$3.3 billion in the Fiscal Plan, the projected decline of federal support from 83% to 10% represents a \$2.4 billion reduction in that year’s federal reimbursements. Cumulatively, from 2020 through 2023, this reduction in federal funding would exceed \$8.9 billion.

While it may be optimistic to assume fiscal 2019’s projected federal share of 83% will apply to subsequent years, it is

unreasonable to assume that share will be less than Congress has ever provided.

If the federal government provides at least the 11-year average federal share of Medicaid spending, 55%, the result would be a cumulative incremental surplus of over \$5 billion through 2023, based on the plan’s financial projections.

**In fact, there is no period in Puerto Rico’s recent history when the federal share of Puerto Rico’s total Medicaid spend dipped as low as the Oversight Board’s projections. As a result, the projections significantly understate the funds available in the Fiscal Plan.**

Rational and defensible Fiscal Plan assumptions are a critical starting point for reaching consensual agreements to resolve Puerto Rico’s debts and to end costly litigation paid for by Puerto Rico’s already-struggling taxpayers.

**Flawed and inadequately disclosed Fiscal Plan assumptions stand in the way of achieving fiscal responsibility and regaining capital market access - the tenets of PROMESA - which are essential for a sustainable recovery and brighter future for Puerto Rico’s residents.**

\* The Oversight Board may accept revised projections in the future but has not done so as of October 10, 2018.

**The Revitalize Puerto Rico effort is funded by Assured Guaranty.** Assured Guaranty helps provide funding for public projects such as the construction of hospitals, schools, roads and bridges. We have done this in Puerto Rico and in cities and communities across America. Our goals are to help municipal governments gain access to funding for essential public projects at more affordable rates and to protect investors in the bonds we insure from defaults on principal or interest payments. Once we insure a bond, we are committed to make up any shortfalls in payments by the issuer until the bond matures, which means we have a long-term investment in the health of the Puerto Rico economy.