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**APPENDIX A**

United States Court of Appeals  
For the First Circuit

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No. 18-2154

IN RE: THE FINANCIAL OVERSIGHT AND MAN-  
AGEMENT BOARD FOR PUERTO RICO, as repre-  
sentative for the Commonwealth of Puerto Rico;  
THE FINANCIAL OVERSIGHT AND MANAGE-  
MENT BOARD FOR PUERTO RICO, as representa-  
tive for the Puerto Rico Highways and Transporta-  
tion Authority,  
Debtors.

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HON. WANDA VÁZQUEZ-GARCED (in her official  
capacity);<sup>1</sup> THE PUERTO RICO FISCAL AGENCY  
AND FINANCIAL ADVISORY AUTHORITY,

Plaintiffs, Appellants,

v.

THE FINANCIAL OVERSIGHT AND MANAGE-  
MENT BOARD FOR PUERTO RICO; JOSÉ B.  
CARRIÓN, III; ANDREW G. BIGGS; CARLOS M.  
GARCÍA; ARTHUR J. GONZÁLEZ; JOSE R. GON-  
ZÁLEZ; ANA J. MATOSANTOS; DAVID A. SKEEL,  
JR.; NATALIE A. JARESKO,

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<sup>1</sup> Pursuant to Fed. R. App. 43(c)(2), Hon. Wanda Vázquez-Garced is substituted for former Governor Ricardo Rosselló Nevares.

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Defendants, Appellees,  
OFFICIAL COMMITTEE OF UNSECURED CRED-  
ITORS,  
Intervenor, Appellee.

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APPEAL FROM THE UNITED STATES DISTRICT  
COURT FOR THE DISTRICT OF PUERTO RICO

[Hon. Laura Taylor Swain, U.S. District Judge<sup>2</sup>]

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Before  
Howard, Chief Judge,  
Torruella and Kayatta, Circuit Judges.

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Peter Friedman, with whom John J. Rapisardi,  
Elizabeth L. McKeen, O'Melveny & Myers LLP, Luis  
C. Marini-Biaggi, Carolina Velaz-Rivero, and Marini  
Pietrantonio Muñiz LLC were on brief, for appellants.

Timothy W. Mungovan, with whom John E. Rob-  
erts, Guy Brenner, Martin J. Bienenstock, Stephen L.  
Ratner, Mark D. Harris, Kevin J. Perra, and Pros-  
kauer Rose LLP were on brief, for defendants, appel-  
lees.

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December 18, 2019

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<sup>2</sup> Of the Southern District of New York, sitting by designation.

**KAYATTA, Circuit Judge.** The Puerto Rico Oversight, Management, and Economic Security Act ("PROMESA") established a board known as the Financial Oversight and Management Board for Puerto Rico ("the Board").<sup>1</sup> Under PROMESA sections 201 and 202 ("Sections 201 and 202"),<sup>2</sup> the Board developed and certified both a fiscal plan for the Commonwealth and a Commonwealth budget for fiscal year 2019-2020. Several provisions of both the fiscal plan and the budget elicited objections from the Governor of Puerto Rico, who, together with the Puerto Rico Fiscal Agency and Financial Advisory Authority (a Commonwealth entity), filed a complaint against the Board in the United States District Court for the District of Puerto Rico, seeking a declaration striking those provisions.

One of the provisions to which the Governor objected barred "reprogramming": i.e., spending during the 2019-2020 fiscal year money that had been authorized but not actually spent in a prior fiscal year. In challenging the bar on reprogramming, the Governor argued that because the Board had unsuccessfully recommended that the Governor agree to such a bar, the Board could not thereafter adopt the bar as binding over the Governor's objection. In ruling on the Board's motion to dismiss the complaint for failure to state a claim, the district court sustained the bar on reprogramming, deciding as a matter of law that the Board did not surrender its

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<sup>1</sup> 48 U.S.C. § 2121.

<sup>2</sup> 48 U.S.C. §§ 2141-2142.

powers to act unilaterally regarding a policy proposal by first seeking agreement from the Governor and that, in any event, the Board’s “certification of a budget under PROMESA precludes reprogramming of previously-authorized expenditures from prior years.” In re Fin. Oversight & Mgmt. Bd. for P.R., No. 18-ap-080, at 5-6 (D.P.R. Oct. 9, 2018) (order certifying certain aspects for interlocutory appeal). The district court did not dismiss the complaint as it applied to subjects other than the Board’s ability to impose rejected recommendations and to bar reprogramming. It nevertheless certified for immediate appeal its dismissal of paragraphs 78 and 79 of Count I of the Complaint and paragraphs 88 and 91 of Count II. By the time of oral argument on appeal, the parties’ positions more precisely limited the scope of appeal to the legal rulings upon which the district court relied in rejecting the Governor’s challenge to the reprogramming bar.

We accept jurisdiction over this interlocutory appeal pursuant to PROMESA section 306(e)(3), which, among other things, authorizes “an immediate appeal” when it “may materially advance the progress of the case or proceeding in which the appeal is taken.” 48 U.S.C. § 2166(e)(3)(A)(iii). The potential use by the Government of so-called reprogrammed funds is apparently a subject of continuing dispute, and its resolution now will likely assist the district court in assessing other existing and future disputes regarding the relationship between the Board and the Governor.

## I.

We review a dismissal for failure to state a claim de novo. Cardigan Mountain Sch. v. N.H. Ins. Co., 787 F.3d 82, 84 (1st Cir. 2015). The reviewing court “accept[s] as true all well-pled facts alleged in the complaint and draw[s] all reasonable inferences in [the plaintiff’s] favor.” Evergreen Partnering Grp., Inc. v. Pactiv Corp., 720 F.3d 33, 36 (1st Cir. 2013). A Rule 12(b)(6) motion fails if the complaint contains “enough facts to state a claim to relief that is plausible on its face.” Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007).

#### A.

The Governor’s argument on this appeal rests in the first instance on the Governor’s view of how PROMESA section 205 (“Section 205”)<sup>3</sup> works. Subsection 205(a) allows the Board to submit at any time “recommendations to the Governor or the Legislature on actions the territorial government may take to ensure compliance with the Fiscal Plan, or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency of the territorial government.” The rest of Section 205 contains no limitations on the nature or substance of the recommendations that the Board may make. Subsections (a)(1)–(10) instead provide a non-exclusive list of ten subject matters about which the Board may make recommendations. Subsection 205(b) then requires the Governor or the legislature, as the case may be, to accept or reject such recommendations

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<sup>3</sup> 48 U.S.C. § 2145.

and to provide explanations for rejecting any recommendations that the territorial government otherwise could have agreed to. The Governor contends that the Board had previously recommended under subsection 205(a) a prohibition on spending reprogrammed funds, among other things, and that the Governor rejected that recommendation. Therefore, the Governor reasons, the Board could not turn around and unilaterally adopt the rejected recommendation as a binding policy in the certified fiscal plan or budget.

This reasoning is puzzling to say the least. There is no language at all in Section 205 suggesting that, by first seeking the Governor's agreement on a matter, the Board somehow loses whatever ability it otherwise had to act unilaterally on the matter. The Governor points, instead, to subsection 201(b)(1)(K), allowing the Board to “adopt appropriate recommendations” in developing and submitting a fiscal plan. Again, though, we see nothing in this language that precludes the Board from adopting a rejected recommendation if it otherwise has the power to adopt the recommended action on its own.

Nor do we agree with the Governor's contention that we should draw a salient negative inference from the fact that an early version of the draft bill that became PROMESA gave the Board broader power than it now has. See S. 2381, 114th Cong. (2015); House Discussion Draft, 114th Cong. (Mar. 29, 2016). The Board's argument here limits its asserted authority to the law as enacted, making no claim to any broader powers considered but not enacted by Congress.

We also reject the Governor's claim that the Board's reading of the statute renders Section 205 a "dead letter." There are certainly policies and actions that can be adopted and pursued only with the Governor's approval. And even with respect to matters on which the Board needs no consent, Section 205 serves as a reminder that PROMESA favors collaboration when possible. PROMESA encourages the Board to engage in an iterative exchange with the Governor in developing a fiscal plan and budget. Indeed, subsections 201(c), (d)(2), and (e)(2) call for the Governor to prepare the first draft of a fiscal plan, while nevertheless reserving to the Board the ultimate power to "develop and submit" a fiscal plan, which is then deemed approved by the Governor.<sup>4</sup> To rule that the Board loses its power to act unilaterally on a matter by first seeking the Governor's agreement would be to discourage the Board from first seeking common ground and listening to the Governor's reaction before finally deciding to act. Nothing to which the Governor points persuades us to construe the statute in such a manner.

In short, even assuming that the Board first sought the Governor's agreement to adopt a policy (here a ban on reprogramming),<sup>5</sup> the Board in doing so certainly lost no power that it otherwise might

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<sup>4</sup> Section 202 contains similar provisions for budgets.

<sup>5</sup> It appears doubtful from the record before us that the Board ever actually recommended that the Governor agree to any bar on action concerning reprogramming.

have had to include that policy in the fiscal plan (or budget).<sup>6</sup>

### **B.**

As the foregoing makes clear, any evidence that the Board recommended that the Governor adopt a ban on certain reprogramming can make no difference to the outcome of this appeal. The relevant question, instead, is whether the Board in the first instance possessed the authority to impose unilaterally such a ban. As to that question, the Governor contends that the Board lacks such authority for three reasons: (1) PROMESA section 204(c) (“Section 204”)<sup>7</sup> implicitly rejects the notion of a categorical bar to reprogramming because it allows the territorial government to, in the Governor’s words, “seek reprogramming at any time,” albeit subject to the Board’s approval; (2) the reprogramming suspension provisions are contrary to existing Puerto Rico statutes and Article III, section 18 of the Puerto Rico Constitution; and (3) the reprogramming suspension provisions are impermissible “substantive budget resolutions.”

These arguments all miss the mark. As the district court explained, PROMESA prohibits the Governor from spending any funds that are not budgeted regardless of whether the recommendation had

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<sup>6</sup> The Governor does not seem to have disclosed exactly what funds its office proposes to use for what purposes.

<sup>7</sup> 48 U.S.C. § 2144.



been adopted. We quote the district court's cogent explanation:

It beggars reason, and would run contrary to the reliability and transparency mandates of PROMESA, to suppose that a budget for a fiscal year could be designed to do anything less than comprehend all projected revenues and financial resources, and all expenditures, for the fiscal year. Since a certified budget is in full effect as of the first day of the covered period, means and sources of government spending are necessarily rendered unavailable if they are not provided for within the budget. A prior year authorization for spending that is not covered by the budget is inconsistent with PROMESA's declaration that the Oversight Board-certified budget for the fiscal year is in full force and effect, and is therefore preempted by that statutory provision by force of Section 4 of PROMESA. Accordingly, the Fiscal Plan language regarding suspension of authority to approve off-budget reprogramming may well be superfluous, and in any event merely has the same effect as PROMESA's explicit provisions. The exclusive scope of a certified budget also makes pellucid the reason that Section 204(c)'s reprogramming provision speaks only to the then-current fiscal year -- the budget does not make any other resources available for reprogramming.

In re Fin. Oversight & Mgmt. Bd. for P.R., 330 F. Supp. 3d 685, 704 (D.P.R. 2018) (emphasis added).

In short, the district court concluded that PROMESA subsection 202(e)(4)(C) itself precludes the territorial government from reprogramming funds from prior fiscal years except to the extent such reprogrammed expenditures are authorized in a subsequent budget approved by the Board, and any Puerto Rico law to the contrary is preempted by virtue of PROMESA section 4. See 48 U.S.C. § 2103 (“The provisions of this chapter shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this chapter.”). Simply put, if a certified budget is to have “full force and effect,” subsection 202(e)(3)(C), there can be no spending from sources not listed in that budget, regardless of what any territorial laws say. Here, it is undisputed that the budget adopted by the Board does not authorize whatever unknown expenditures that the Governor apparently has in mind. The fact that subsection 204(c)(1) allows the Governor to “request” a reprogramming of “any amounts provided in a certified Budget” simply confirms that the final choice whether to allow reprogramming rests with the Board. In re Fin. Oversight & Mgmt. Bd. for P.R., 330 F. Supp. 3d at 704 (emphasis in original) (quoting 48 U.S.C. § 2144(c)).<sup>8</sup> And because the Governor cannot reprogram funds, at least without the Board’s express permission, it is irrelevant whether the proposals are “substantive budget resolutions.” We therefore agree with the

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<sup>8</sup> We do not address the possibility that the Board may amend a budget to make provision for use of unspent funds that the Board identifies.

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district court that the reprogramming provisions in the fiscal plan and budget are at worst superfluous and are, in any event, entirely valid as consistent with PROMESA, so the Governor's arguments fail.

**II.**

For the foregoing reasons, we affirm the district court's dismissal of the reprogramming suspension provision challenges, and we remand for further proceedings.

**APPENDIX B**

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PUERTO RICO**

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In re:

THE FINANCIAL OVER- SIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,	PROMESA Title III  Case No. 17- 3283 (LTS) (Jointly Admin- istered)
As representative of	
THE COMMONWEALTH OF PUERTO RICO,	

Debtors.<sup>1</sup>

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HON. RICARDO ANTONIO ROSSELLÓ NEVARES (in his official capacity), and THE PUERTO RICO FISCAL	Adv. Proc. No. 18-080-LTS in
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<sup>1</sup> The Debtors in the underlying Title III Case, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747).

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AGENCY AND FINANCIAL  
ADVISORY AUTHORITY,

17 BK 3283-  
LTS

Plaintiffs,

v.

THE FINANCIAL OVER-  
SIGHT AND MANAGEMENT  
BOARD FOR PUERTO RICO;  
JOSÉ B. CARRIÓN, III; AN-  
DREW G. BIGGS; CARLOS M.  
GARCÍA; ARTHUR J. GON-  
ZÁLEZ; JOSE R. GONZÁLEZ;  
ANA J. MATOSANTOS; DA-  
VID A. SKEEL, JR.; and NA-  
TALIE A. JARESKO (in their  
official capacities),

Defendants.

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**CORRECTED OPINION AND ORDER GRANTING  
IN PART DEFENDANTS'  
MOTION TO DISMISS THE COMPLAINT\***

## APPEARANCES:

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\* This opinion and order corrected certain typographical errors in and supersedes the *Opinion and Order Granting in Part Defendants' Motion to Dismiss the Complaint* (Docket Entry No. 33).

*and*

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tos, David A. Skeel, Jr.,  
and Natalie A. Jaresko  
(in their official capaci-  
ties)*

LAURA TAYLOR SWAIN,  
United States District Judge

Before the Court is the Defendants' *Motion Pursuant to Fed. R. Civ. P. 12(b)(1) and 12(b)(6) to Dismiss Plaintiffs' Complaint Dated July 5, 2018* (Docket Entry No. 16 in Adversary Proceeding No. 18-00080, the "Motion"),<sup>2</sup> filed by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), José B. Carrión III, Andrew G. Biggs, Carlos M. García, Arthur J. González, José R. González, Ana J. Matosantos, David A. Skeel, Jr., and Natalie A. Jaresko (collectively, and together with the Oversight Board, the "Defendants"). The Court heard argument on the Motion on July 25, 2018 (the "Hearing"), and has considered carefully all of the arguments and submissions made in connection with the Motion.<sup>3</sup> Except as explained below, the Court has subject matter jurisdiction of this action pursuant to 48 U.S.C. § 2166. For the following reasons, the Motion is granted in part and denied in part.<sup>4</sup>

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<sup>2</sup> All docket entry references are to entries in Adversary Proceeding No. 18-00080, unless otherwise specified.

<sup>3</sup> The Court has received and reviewed the *Tendered Legal Brief of Amicus Curiae Popular Democratic Party Caucus of the Puerto Rico Senate in Support of the Commonwealth of Puerto Rico* (Docket Entry No. 31, Ex. A, the "Amicus Brief"). The motion for leave to file the brief is granted, and the Court has considered the Amicus Brief in connection with its determination of the Motion to dismiss the Complaint.

<sup>4</sup> The Court also heard oral argument at the Hearing in connection with a motion to dismiss the complaint in Rivera-Schatz et al. v. Financial Oversight and Management Board for Puerto



BACKGROUND

The following recitation of facts is drawn from the *Adversary Complaint for Declaratory and Injunctive Relief* (Docket Entry No. 1, the “Complaint”), filed on July 5, 2018, by the Honorable Ricardo Antonio Rosselló Nevares (the “Governor”) in his official capacity as the Governor of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) and the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF” and, together with the Governor, “Plaintiffs”), except where otherwise noted.

A. Certification of the Fiscal Plan and Budget

On June 30, 2016, the United States Congress (“Congress”) enacted the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) to “stabilize Puerto Rico’s economy by establishing oversight of the Government’s budget and fiscal policies and by providing a mechanism for the Commonwealth to restructure its debts.” (Compl. ¶ 21.)<sup>5</sup> PROMESA created the Over-

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Rico et al., 18-AP-081-LTS (D.P.R.) (the “Legislative Assembly Lawsuit”), an adversary proceeding filed in the Commonwealth’s Title III case that raises issues related to those argued in connection with this Motion. The Court will address separately the motion to dismiss the Legislative Assembly Lawsuit.

<sup>5</sup> PROMESA is codified at 48 U.S.C. § 2101 et seq. References to “PROMESA” section numbers in the remainder of this opinion are to the uncodified version of the legislation.

sight Board as “an entity within the territorial government” of Puerto Rico and tasked the Oversight Board with developing “a method [for Puerto Rico] to achieve fiscal responsibility and access to the capital markets.” 48 U.S.C.A. §§ 2121(a), (c)(1) (West 2017). In aid of that purpose, PROMESA empowers the Oversight Board to, among other things, certify the fiscal plans and budgets of the Commonwealth and its instrumentalities, override Commonwealth executive and legislative actions that are inconsistent with certified fiscal plans and budgets, and commence a bankruptcy-type proceeding in federal court on behalf of the Commonwealth or its instrumentalities. *Id.* §§ 2141–2152; 2175(a).

On May 3, 2017, the Oversight Board commenced a debt adjustment proceeding on behalf of the Commonwealth by filing a petition in this Court under Title III of PROMESA.<sup>6</sup> (See Docket Entry No. 1 in Case No. 17-03283). Shortly thereafter, the Oversight Board commenced Title III proceedings on behalf of certain Puerto Rican government instrumentalities.

Between January 24, 2018, and April 5, 2018, the Governor submitted four versions of a proposed Commonwealth fiscal plan for fiscal year 2019 to the Oversight Board for its approval. (Compl. ¶¶ 46, 47, 48, 50 (detailing fiscal plans submitted by the Governor to the Oversight Board on January 24, 2018, February 12, 2018, March 23, 2018, and April 5, 2018).) The Oversight Board rejected each proposed

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<sup>6</sup> See 48 U.S.C.A. §§ 2164; 2172-2174 (West 2017).

fiscal plan. (Id. ¶¶ 46-51.) On April 19, 2018, in connection with the Oversight Board’s rejection of the Governor’s fourth proposed Commonwealth fiscal plan (the “Governor’s April 2018 Fiscal Plan”), the Oversight Board certified its own fiscal plan for the Commonwealth (the “April 2018 Board Fiscal Plan”) pursuant to Sections 202(d)(2) and 202(e)(2) of PROMESA. (Id. ¶ 51.) The April 2018 Board Fiscal Plan was substantially similar to the Governor’s April 2018 Fiscal Plan, but included certain policy initiatives that had previously been rejected by the Governor and that accounted for an additional 1.7 percent of the incremental savings contemplated by the April 2018 Board Fiscal Plan. (Id.)

On April 26, 2018, the Oversight Board sent the Governor a letter dated April 24, 2018, setting forth a proposed schedule for developing and certifying the Commonwealth’s fiscal year 2019 budget and a revenue forecast for fiscal year 2019. (Id. ¶ 56.) On May 2, 2018, the Oversight Board sent a letter to AAFAF (i) describing detailed expense reductions and right-sizing measures aimed at achieving savings of \$345 million in fiscal year 2019, (ii) including a draft budget resolution for adoption by the Legislative Assembly of the Commonwealth of Puerto Rico (the “Legislature”), and (iii) proposing detailed expense measures that set forth line-by-line amounts for expense items, including right-sizing measures, healthcare measures, subsidy reductions, and specific personnel and non-personnel expenditure amounts for each Commonwealth agency or instrumentality covered by the Commonwealth budget. (Id. ¶ 57.) On May 4, 2018, the Governor

submitted a proposed Commonwealth budget for fiscal year 2019 (the “Governor’s Proposed Budget”) to the Oversight Board. (Id. ¶ 58.)

On May 6, 2018, the Governor submitted a written statement, pursuant to Section 205(b)(3) of PROMESA, to the Oversight Board, the President of the United States, and leaders of Congress. (Id. ¶ 59.) In this written statement, the Governor explained that certain “policy initiatives” outlined by the Oversight Board in connection with the April 2018 Board Fiscal Plan were, in fact, “recommendations” under Section 205 of PROMESA that could not be imposed by the Oversight Board on the elected government of Puerto Rico. (Id.) Specifically, the Governor identified five measures included in the April 2018 Board Fiscal Plan that he had rejected: (i) private-sector human-capital and labor reforms, (ii) pension reforms, (iii) government agency consolidations, (iv) compensation related initiatives, and (v) reductions in appropriations to the University of Puerto Rico (“UPR”). (Id.) The Governor asserted that the Oversight Board lacks power to impose these measures on the Government.<sup>7</sup> (Id.)

On May 10, 2018, the Oversight Board issued a notice of violation under PROMESA Section 202(c)(1)(B)(i) to the Governor, stating that the Governor’s Proposed Budget was not compliant with the April 2018 Board Fiscal Plan and requesting that the Governor submit a revised budget. (Id. ¶ 60.)

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<sup>7</sup> As used in this Opinion and Order, the term “the Government” is a collective reference to the Governor and members of the Legislative Assembly.

The notice identified several inconsistencies between the April 2018 Board Fiscal Plan and the Governor's Proposed Budget, including (i) the Governor's failure to include UPR and workforce development reinvestments generated from comprehensive labor reform, (ii) the Governor's inclusion of Christmas bonuses for government employees, and (iii) a number of informational deficiencies in the Governor's Proposed Budget. (Id.)

After a period of negotiations, on May 20, 2018, the Governor and the Oversight Board agreed that the Oversight Board would amend and recertify the April 2018 Board Fiscal Plan to include a \$101 million reduction of the projected annual surplus for fiscal year 2019 and to exclude the Oversight Board's prior measures reducing the minimum number of vacation and sick days for private sector employees and eliminating Christmas bonuses. (Id. ¶ 63.) In exchange, the Governor agreed to present a bill to repeal Puerto Rico's Wrongful Termination Act, Law No. 80 of May 30, 1976 (as amended, "Law 80"), for approval by the Legislature by June 27, 2018. (Id.) On May 28, 2018, the Governor submitted to the Legislature a standalone bill to repeal Law 80. (Id. ¶ 64.) On May 30, 2018, the Oversight Board certified an amended version of the April 2018 Board Fiscal Plan, which contained the agreed-upon revisions. (Id. ¶ 65.) The Oversight Board delivered a compliance certification letter and a copy of the May 30, 2018, fiscal plan to the Governor, the President of the Senate of Puerto

Rico, and the Speaker of the House of Representatives of Puerto Rico as required by PROMESA Section 201(e)(2). (Id. ¶ 66.)

On June 4, 2018, the Oversight Board submitted a letter to the Honorable Jorge Navarro Suárez, the President of the Government Commission of the Puerto Rico House of Representatives, stating that, if the Legislature failed to repeal Law 80, the Oversight Board would revert to its April 2018 Board Fiscal Plan and would submit a budget consistent with that earlier fiscal plan to the Governor and the Legislature. (Id. ¶ 67.) The Oversight Board also stated its intent, if Law 80 were not repealed, to impose a budget eliminating certain appropriations and maintaining the elimination of the Christmas bonus and cuts to the Legislature and Judiciary budgets. (Id.)

After the failure of the Legislature to repeal Law 80, the Oversight Board certified a revised Commonwealth fiscal plan on June 29, 2018 (the “Fiscal Plan,” Compl. Ex. 5) that is substantially similar to the April 2018 Board Fiscal Plan. (Id. ¶ 68.) The Oversight Board delivered a compliance certification letter as required by PROMESA Section 201(e)(2) on the same day. (Id.)

On June 29, 2018, the Puerto Rico House of Representatives and the Senate of Puerto Rico voted to approve a fiscal year 2019 Commonwealth budget, which the Governor later signed and which did not provide for Law 80’s repeal. (Id. ¶ 70.) On June 30, 2018, the Oversight Board certified a separate Commonwealth budget for fiscal year 2019 (the

“Budget”). (Id. ¶ 71.) The Budget incorporates four legislative resolutions, two of which are at issue here: (i) a joint resolution authorizing expenditures from the General Fund (the “General Fund Resolution,” Compl. Ex. 6), and (ii) a joint resolution authorizing expenditures for certain special, permanent, or temporary programs (the “Special Resolution,” Compl. Ex. 7 and, together with the General Fund Resolution, the “Challenged Budget Resolutions”). (Id. ¶ 72.)

#### B. The Challenged Provisions

The Fiscal Plan and the Challenged Budget Resolutions collectively incorporate certain measures (the “Challenged Provisions”) which are challenged by the Governor. First, both the Fiscal Plan and the Challenged Budget Resolutions provide for the suspension of any power of the Puerto Rico Treasury, budget, and financial authorities to authorize reprogramming or extensions of budget appropriations from prior fiscal years. (Id. ¶¶ 69, 73.) Specifically, Section 11.2.1 of the Fiscal Plan provides that:

Any power of [the Office of Management and Budget (“OMB”)], [AAFAF] or the Department of the Treasury, including the authorities granted under [Act 230], to authorize the reprogramming or extension of appropriations of prior fiscal years is hereby suspended. Notwithstanding this section, the appropriations approved in the budget certified by the Oversight Board may be modified or reprogrammed with the approval of the Oversight Board.

(Fiscal Plan § 11.2.1.) Section 7 of each Challenged Budget Resolution includes identical language, and Section 10 of the General Fund Resolution further provides that OMB may withhold from any of the allocations to the Commonwealth’s executive agencies “the amounts necessary to pay for the pay-go contribution, unemployment insurance, or taxes withheld from their employees, when OMB determines that such a withholding is necessary to ensure compliance with these obligations by the agencies concerned. Any such amounts withheld by OMB shall solely be reprogrammed to pay the corresponding outstanding obligations . . . as allowed in this Section.” (General Fund Resolution §§ 7, 10; Special Resolution § 7.)

The second Challenged Provision is a Fiscal Plan provision that is characterized by Plaintiffs as requiring government agency consolidations (the “Consolidation Measure”). Section 12.1 of the Fiscal Plan, which is captioned “Changes to agency operational expenditures,” includes the following language: “the right-sized Government of the future should wherever possible reflect mainland U.S. benchmarks in terms of both number of agencies and size of agencies themselves to deliver services in as efficient a manner possible . . . the Government should consolidate the 114 agencies into 22 groupings and a number of independent agencies.” (Fiscal Plan § 12.1 (emphasis removed).)

The third Challenged Provision is a section of the Fiscal Plan that contemplates automatic budget reductions and workforce reductions for fiscal years following any such year in which the third-quarter actual figures for “efficiency savings” for particular



agency groupings fall short of budgeted projections. Section 12.3 of the Fiscal Plan provides that:

If, after the third fiscal quarter of any fiscal year there remains unrealized agency efficiency savings for any grouping relative to the projected agency efficiency savings in the New Fiscal Plan for the applicable fiscal year, the Oversight Board will automatically reduce the budget for the corresponding grouping for the following fiscal year in the amount equal to the unrealized agency efficiency savings. In particular, if the Oversight Board determines that there is material underperformance in agency efficiency savings relative to the projections set forth in the New Fiscal Plan, intentional workforce reductions will be necessary to meet the agency efficiency savings targets set forth herein.

(Fiscal Plan § 12.3.)

The fourth category of Challenged Provisions includes the following (collectively, the “Employee Benefits Reduction Measure”): (i) the Fiscal Plan’s characterization of a hiring freeze, limitations on paid holidays, restrictions on sick and vacation days, and elimination of the Christmas bonus as policies that the Government must continue, and (ii) the Challenged Budget Resolutions’ alleged elimination of the Christmas bonus. (*Plaintiffs’ Opposition to Defendants’ Motion to Dismiss* (the “Opposition”), Docket Entry No. 22, § II.C.1.) The Christmas bonuses are mandatory under Puerto Rico’s

Christmas Bonus Act, Law No. 148 of June 30, 1969, as amended. (Compl. ¶ 69.)

The fifth Challenged Provision requires specific types of corrective action in the event of budgetary noncompliance, and declares that spending in excess of budgetary appropriations is a violation of an existing Puerto Rico criminal statute. At issue in this regard are four provisions of the Challenged Budget Resolutions. Section 15 of General Fund Resolution and Section 14 of the Special Resolution provide that:

If during the fiscal year the government fails to comply with the liquidity and budgetary savings measures required by the New Fiscal Plan for Puerto Rico certified by the Oversight Board, the Government shall take all necessary corrective action, including the measures provided in PROMESA sections 203 and 204.

(General Fund Resolution § 15; see also Special Resolution § 14.) Additionally, Section 16 of the General Fund Resolution and Section 15 of the Special Resolution prohibit territorial entities from “spending or encumbering during fiscal year 2019 any amount that exceeds the appropriations authorized for such year,” and provide that any “violation of this prohibition shall constitute a violation of [the Resolutions] and Act 230.” (General Fund Resolution § 16; see also Special Resolution § 15.)

Plaintiffs assert that, in his May 6, 2018 communication to the Oversight Board and federal government officials, the Governor had objected to each of

the Challenged Provisions as a “non-binding recommendation” under Section 205(a) of PROMESA, and that the communication constituted a formal rejection of each of the Challenged Provisions pursuant to the procedures set forth in Section 205(b) of PROMESA.<sup>8</sup> (See Opp’n at 27.) Plaintiffs argue that compliance with such rejected recommendations cannot be mandated by a fiscal plan or a budget imposed unilaterally by the Oversight Board.

## II.

### DISCUSSION

Defendants move pursuant to Federal Rules of Civil Procedure 12(b)(1) and 12(b)(6)<sup>9</sup> to dismiss Plaintiffs’ Complaint for lack of subject matter jurisdiction and for failure to state a claim upon which relief may be granted. A court presented with motions to dismiss under both Rules 12(b)(1) and 12(b)(6) should ordinarily decide jurisdictional questions before addressing the merits. Deniz v. Municipality of Guaynabo, 285 F.3d 142, 149 (1st Cir. 2002). The party invoking the jurisdiction of a federal court carries the burden of proving the existence of proper grounds for the exercise of jurisdiction. Johansen v. United States, 506 F.3d 65, 68 (1st Cir. 2007). The Court also has an independent

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<sup>8</sup> Sections 205(a) and (b) of PROMESA are discussed in further detail infra.

<sup>9</sup> Rules 12(b)(1) and 12(b)(6) are applicable to this adversary proceeding pursuant to Federal Rule of Bankruptcy Procedure 7012.

duty to assess whether it has subject matter jurisdiction of an action. See Fed. R. Civ. P. 12(h)(3); FW/PBS, Inc. v. City of Dallas, 493 U.S. 215, 231 (1990).

Plaintiffs' Complaint pleads the following three Counts. In Count One, Plaintiffs seek declarations that certain Challenged Provisions incorporated into the Fiscal Plan are merely recommendations that cannot be mandated and enforced by the Oversight Board, and general declarations regarding the status of certain types of Fiscal Plan provisions as non-binding recommendations. In Count Two, Plaintiffs seek similar relief with respect to certain Challenged Provisions incorporated into the Challenged Budget Resolutions and certain types of budgetary provisions. In Count Three, Plaintiffs seek injunctive relief prohibiting the implementation and enforcement of the Fiscal Plan and Challenged Budget Resolution provisions Plaintiffs characterize as policy recommendations that the Governor has rejected, and such provisions that Plaintiffs contend exceed the Oversight Board's powers under PROMESA's budget-related provisions.

A. Rule 12(b)(1): Subject Matter Jurisdiction

The crux of the issues raised in Plaintiffs' Complaint is whether PROMESA grants the Oversight Board the power to include mandates in the Fiscal Plan and Budget that are premised on public policy decisions with which the Governor of Puerto Rico does not agree. Related to this issue is the relationship between the Oversight Board's fiscal plan and budgetary powers and pre-existing Puerto Rico law

– whether the Oversight Board’s actions can modify, suspend, or override certain features of Puerto Rico law that were in place prior to the enactment of PROMESA. Defendants assert that the declaratory and injunctive relief Plaintiffs seek would result in decertification of the certified Fiscal Plan, and that the Court is prohibited from entertaining their claims by Section 106(e) of PROMESA. (Docket Entry No. 17 (“Defs.’ Mem.”), at 27.) Defendants also contend that Plaintiffs’ requested declarations are improper requests for advisory opinions. (*Id.*)

1. Limitations on Jurisdiction Under PROMESA Section 106(e)

Section 106(e) of PROMESA provides that:

There shall be no jurisdiction in any United States district court to review challenges to the Oversight Board’s certification determinations under this [Act].

48 U.S.C.A. § 2126(e) (West 2017). Defendants argue that the Court lacks subject matter jurisdiction of Plaintiffs’ claims because they implicitly seek invalidation of the certified Fiscal Plan and Budget.<sup>10</sup>

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<sup>10</sup> Defendants also argue that Plaintiffs are judicially estopped from asserting that the Court has jurisdiction of their claims in this adversary proceeding because Plaintiffs argued in a prior adversary proceeding that fiscal plans and budgets are beyond challenge under Section 106(e) of PROMESA. (Defs.’ Mem. at 28.) In response, Plaintiffs argue that they are not judicially estopped from asserting that jurisdiction exists in this case because the issues in this case are not identical to those in prior cases. (Opp’n at 29.) As explained herein, Plaintiffs’ positions are not truly inconsistent because Plaintiffs advance different legal arguments in this adversary proceeding. Accordingly, Plaintiffs

(Defs.' Mem. at 28 (citing Ambac Assurance Corp. v. Commonwealth of P.R. (In re Fin. Oversight & Mgmt. Bd. for P.R.), 297 F. Supp. 3d 269, 284 (D.P.R. 2018) (holding that the Court lacks subject matter jurisdiction of claims that “implicitly or explicitly[] seek invalidation of the certification of the Fiscal Plan”)).) Plaintiffs assert, however, that they “do not challenge the [Oversight] Board’s certification decisions or contest that the fiscal plan meets PROMESA’s certification criteria.” (Opp’n at 29.) Instead, Plaintiffs argue, the “sole issue presented by this action is the effect” and enforceability of certain provisions of the certified Fiscal Plan and Challenged Budget Resolutions. (Id. at 28.) Plaintiffs’ characterization of their claims is accurate and, for the following reasons, Section 106(e) does not preclude the Court from exercising jurisdiction of this action.

Although PROMESA grants the Oversight Board exclusive authority to certify fiscal plans and “also insulates the Oversight Board’s certification determinations . . . from challenge by denying all federal district courts jurisdiction to review such challenges,” Section 106(e) does not deprive the district court of jurisdiction to entertain all conceivable litigation touching on certified documents. See Ambac,

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are not judicially estopped from asserting that jurisdiction exists here. See United States v. Levasseur, 846 F.2d 786, 794 (1st Cir. 1988) (finding judicial estoppel did not apply because “the doctrine is applied only when the positions are truly inconsistent . . . for the invocation of the doctrine, the two positions must be diametrically opposed”) (internal citations omitted). In any event, the Court is obligated to make its own determination as to subject matter jurisdiction. See Fed. R. Civ. P. 12(h)(3).

297 F. Supp. 3d at 283-84 (holding that PROMESA Section 106(e) did not preclude consideration of federal constitutional challenges to fiscal plan). Here, Plaintiffs seek determinations as to whether PROMESA grants the Oversight Board authority to promulgate certain provisions of the certified Fiscal Plan and Budget, and as to whether such challenged provisions of those documents are merely, as a matter of law, recommendations that the Governor and Legislature are free to ignore. There is a material difference between an action seeking review of the Oversight Board's determination that a plan or budget meets the requirements for certification or is compliant with particular aspects of PROMESA Section 201(b) (specifying required features of a fiscal plan), and litigation seeking clarification as to the effect of particular provisions of a certified fiscal plan or budget on preexisting Puerto Rico law, or on the powers of the executive and legislative branches of the government of Puerto Rico. The questions before the Court implicate the impact, rather than the propriety, of the certification of the Fiscal Plan and Budget, and their determination is not precluded by Section 106(e).<sup>11</sup>

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<sup>11</sup> This reasoning is not inconsistent with this Court's prior decision in Ambac and in related prior cases. In Ambac, this Court held that Section 106(e) of PROMESA bars any claim that challenges the Oversight Board's certification decision itself and any implicit challenges of a certification decision as violating the requirements set forth in Section 201(b) of PROMESA. See Ambac, 297 F. Supp. 3d at 284. Here, Plaintiffs do not challenge the Oversight Board's certification decisions with respect to either the Fiscal Plan or Budget. Moreover, Plaintiffs do not dispute that the Fiscal Plan complies with the requirements of Section

2. Case or Controversy Requirement – Do Plaintiffs Seek Advisory Opinions?

Article III, Section 2 of the Constitution of the United States limits the exercise of federal judicial power to actual cases and controversies. U.S. Const. art. III, § 2; Aetna Life Ins. Co. of Hartford, Conn. v. Haworth, 300 U.S. 227, 239-41 (1937). The authority conferred on federal courts by the Declaratory Judgment Act, 28 U.S.C. § 2201, is likewise limited to controversies that are within the constitutionally-constrained scope of federal jurisdiction. Aetna, 300 U.S. at 240. A justiciable controversy must be “a real and substantial controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.” Aetna, 300 U.S. at 241. Federal courts are not empowered to issue advisory opinions where there is no such actual controversy. See id.; Golden v. Zwickler, 394 U.S. 103, 108 (1969); Shell Oil Co. v. Noel, 608 F.2d 208, 213 (1st Cir. 1979).

The constitutional requirement that controversies be justiciable and “admit[] of specific relief through a decree of a conclusive character” requires more than strong or even significant disagreement,

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201(b) of PROMESA. (Opp’n at 29.) Instead, Plaintiffs seek a determination regarding the effect and enforceability of a discrete set of provisions contained within the certified Fiscal Plan and Budget. Even if the Court were to determine that certain of the Challenged Provisions constitute non-binding recommendations, decertification of the Fiscal Plan and Budget would not be required.



however high the stakes, to obtain declaratory relief. The issue must be raised, and the relief sought, in a fashion that would address a specific live controversy of sufficient immediacy and reality to warrant the issuance of a declaratory judgment. See Golden, 394 U.S. at 108, 110. Rulings on isolated or abstract principles that will merely be useful in formulating or litigating future choices that might or might not be made are outside the authorized scope of declaratory relief.

*i. The Consolidation Measure*

As detailed in Section I, supra, Plaintiffs' claims focus on five Challenged Provisions. The Consolidation Measure is one of those Challenged Provisions. Plaintiffs argue that the proposed agency consolidation constitutes an improper attempt by the Oversight Board to "dictate how the Government will organize itself to conduct day-to-day operations." (Compl. ¶ 69.) However, as Defendants point out in their response, the challenged Fiscal Plan language is not posed in mandatory terms -- "the statement in the Fiscal Plan that the Government should consolidate the agencies does not compel Plaintiffs to do anything . . . There is no significant dispute here and certainly no imposition." (Defs.' Mem. at 22; see also Reply at 14.) At oral argument, counsel for Plaintiffs conceded this point, agreeing that the budget could provide funding for less than the full current complement of agencies, forcing the Government to make choices in order to stay within the budget allocation, without violating the law.

Accordingly, there is no case or controversy as to whether the Fiscal Plan improperly mandates agency consolidations and Paragraph 80 of Count One of the Complaint, which seeks a declaration that “the provisions seeking to impose Government agency consolidations under Board Fiscal Plan section 12 . . . are non-binding recommendations” is dismissed pursuant to Federal Rule of Civil Procedure 12(b)(1), for lack of a justiciable case or controversy.

*ii. The Employee Benefits Reduction Measure*

Paragraph 82 of Count II demands a declaration that “the provision requiring the elimination of certain mandatory benefits under Board Fiscal Plan section 12.4 – which ‘places controls on expenditures for personnel’ and ‘reduc[es] benefit costs’ under PROMESA section 205(a)(1) – is a non-binding recommendation that the Oversight Board cannot unilaterally alter through the Board Fiscal Plan and force on the Government.” Section 12.4 of the Fiscal Plan, titled “Compensation-related initiatives,” sets forth three initiatives related to employee benefits that the motion briefing and argument indicate are challenged by Plaintiffs: (i) the institution of a payroll freeze, (ii) the standardization of healthcare provided to government employees, and (iii) the reduction of certain non-salary compensation paid to employees and other personnel policies. (See Fiscal Plan at 69-70.) Specifically, Section 12.4 mandates that the “measure to freeze all payroll expenses” included in the March 2017 Commonwealth Fiscal Plan “**must be continued** through

the duration of the New Fiscal Plan.” Id. (emphasis in original). The Fiscal Plan also requires that the Government continue to enforce certain policies related to non-salary compensation paid to employees, including “asserting a hiring freeze,” “prohibiting any future liquidation of sick and vacation days,” and “eliminating the Christmas bonus for all public employees.” (Id.) The healthcare provision calls for adjustment of the amount spent by the Commonwealth for healthcare for each public employee to \$100 per month. (Id.)

Plaintiffs argue that Section 12.4 of the Fiscal Plan “places controls on expenditures” and “reduc[es] benefit costs” within the meaning of PROMESA Section 205(a)(1), and that this Section should therefore be considered a non-binding policy recommendation because it is among the types of measures enumerated in PROMESA’s non-exhaustive description of the types of measures regarding which the Oversight Board can submit recommendations to the Governor under Section 205. Defendants proffer, and Plaintiffs do not contest, that the measures other than the hiring freeze and the elimination of the Christmas bonus are already provided for under Commonwealth law. Defendants argue that the hiring freeze mandated by Section 12.4 of the Fiscal Plan is a means to “enable the achievement of fiscal targets” pursuant to Section 201(b)(1)(G) of PROMESA, and that the elimination of the Christmas bonus for all public employees serves to advance the aims of the Fiscal Plan pursuant to PROMESA Sections 201(b)(1)(D), (F), and (G). (Defs.’ Mem. at 20; Reply at 13.) With respect

to the elimination of Christmas bonuses, Defendants also assert, and Plaintiffs do not deny, that the budget does not prohibit payment of the bonus. Rather, the payroll amounts provided are ones that are insufficient to cover current compensation of the full current complement of employees plus Christmas bonuses and, as Plaintiffs' counsel put it at oral argument, "It's the Governor who has to make some difficult choices, because he's the one who has to answer to the people. The Oversight Board is just, here's how much money you get. If people have to be let go, if Christmas bonuses don't get paid because of that, that's on us. That's on the chief executive officer of Puerto Rico to make a determination how to implement that budget guideline." (Tr. at 127:2-8.)

Because the parties agree that the current budget does not eliminate Christmas bonuses or impose a hiring freeze, there is no ripe case or controversy as to the Board's ability to make such measures mandatory. Nor does there appear to be any justiciable controversy as to the other enumerated salary and benefit measures, which appear to be consistent with current Commonwealth law. Accordingly, the Court lacks subject matter jurisdiction of the issues raised in Paragraph 82 of Count I and the similar claim asserted in Paragraph 87 of Count II of the Complaint and Defendants' Motion will be granted pursuant to Federal Rule of Civil Procedure 12(b)(1) insofar as it is directed to those paragraphs.

*iii. The Remaining Challenged Provisions*

Plaintiffs' claims as to the other three Challenged Provisions (the "Remaining Challenged Provisions") present justiciable issues that are capable of conclusively and immediately resolving the disputes as to the extent to which the Government must act in accordance with the certified Fiscal Plan and Budget. The question of whether the Oversight Board has the power to impose those Remaining Challenged Provisions as mandatory presents a ripe controversy that must be resolved to clarify for operational purposes the scope and limitations of the Oversight Board's power and its relationship to the role and powers of the elected Government of Puerto Rico, so that the parties can proceed with proper implementation of the budget for the current fiscal year and work effectively with each other to accomplish the restorative purposes of PROMESA. This is an issue of practical immediacy for the parties and for the people of Puerto Rico. Certain of Plaintiffs' requests for legal determinations are, however, of a speculative and abstract nature and are thus, as explained below, of insufficient immediacy to rise to the constitutional level of justiciability.

The Court now turns to Plaintiffs' specific claims and requests for relief as set forth in the Complaint, examining whether they are ripe for determination or seek advisory opinions, and, for those that are ripe, whether they state claims upon which relief may be granted.

B. The Remaining Challenged Provisions and Requests for Relief

To survive a motion to dismiss for failure to state a claim upon which relief can be granted under Rule 12(b)(6), a complaint must plead “enough facts to state a claim to relief that is plausible on its face.” Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 570 (2007). The court accepts as true the non-conclusory factual allegations in the complaint and makes all reasonable inferences in the plaintiff’s favor. Miss. Pub. Emps.’ Ret. Sys. v. Boston Scientific Corp., 523 F.3d 75, 85 (1st Cir. 2008). The court may consider “documents the authenticity of which are not disputed by the parties . . . documents central to plaintiffs’ claim, [and] documents sufficiently referred to in the complaint.” Id. at 86 (citations omitted). The complaint must allege enough factual content to nudge a claim “across the line from conceivable to plausible.” Ashcroft v. Iqbal, 556 U.S. 662, 680 (2009) (citing Twombly, 550 U.S. at 570).

As detailed in Section I, supra, Plaintiffs’ claims focus on certain Challenged Provisions and foundational questions of whether the Oversight Board can, through fiscal plans and budgets, mandate actions implementing policies that have specifically been rejected by the Governor, and whether the Oversight Board’s budget can modify or override pre-PROMESA Commonwealth law. Prior to examining the Remaining Challenged Provisions, an overview of the relevant statutory framework is in order.

### 1. Statutory Framework

At the core of this dispute are questions of statutory interpretation regarding the interplay of Sections 205 and 201(b)(1)(K) of PROMESA, the effect of certification of an Oversight Board-developed budget under Section 202 of PROMESA, the Oversight Board's powers to sanction non-compliance with such a certified budget, and the scope of PROMESA's preemption of pre-existing Commonwealth law.

Section 205(a) of PROMESA authorizes the Oversight Board to "submit recommendations" to the Governor or the Legislature of Puerto Rico at any time "on actions the territorial government may take to ensure compliance with the Fiscal Plan, or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency of" the Government. 48 U.S.C.A. § 2145(a) (West 2017). Section 205(a) provides a non-exhaustive list of matters that implicate significant policy choices about the direction and operation of the government of Puerto Rico. Specifically, such matters include managing territorial financial affairs, placing controls on personnel expenditures and reducing benefit costs, reforming procurement practices, controlling the structural relationships among entities within the territorial government, establishing alternative means of meeting pension obligations, and modifying the types of services rendered directly by the territorial government or through alternative service delivery mechanisms. See id. Section 205(b) requires the rel-

evant government entity to respond to the Oversight Board within 90 days with a statement as to whether the Government will adopt the recommendations. Id. § 2145(b). If the recommendations are to be adopted, the statement must include a written plan and timetable for implementation of the recommendations. Id. If the Government declines to adopt the recommendation, the Governor or the Legislature must include in the statement “explanations for the rejection of the recommendations,” and that statement must be submitted to the President and Congress of the United States as well as to the Oversight Board. Id. Section 205 does not address further the fate of rejected recommendations.

Section 201 of PROMESA governs the development, approval, and certification of territorial and instrumentality fiscal plans covering periods of five or more fiscal years. In relevant part, it first contemplates a process in which the Governor formulates and proposes a plan to the Oversight Board, the Oversight Board comments and recommends revisions, and the Governor proposes revisions (multiple times, if necessary). If the Oversight Board ultimately determines, in its sole discretion, that the Governor’s proposed plan meets the fiscal plan specifications identified in Section 201(b) of the statute, the Oversight Board certifies the plan and delivers a compliance certification to the Governor and the Legislature. See 48 U.S.C.A. § 2141(e)(1) (West 2017). In the event the Oversight Board determines “in its sole discretion” that the Governor’s proposed plan is not satisfactory, the Oversight Board must develop and submit to the Governor and Legislature



its own fiscal plan that satisfies the statutory specifications. In such event, the Oversight Board’s plan is deemed approved by the Governor, and the Oversight Board issues a compliance certification for its plan to the Governor and the Legislature. Id. §§ 2141(c)(3), (d)(2).<sup>12</sup> Section 201(b) identifies fourteen specific objectives and requirements that a fiscal plan must meet. As relevant here, Section 201(b)(1)(K) expressly provides that a fiscal plan shall “adopt appropriate recommendations submitted by the Oversight Board under [Section 205(a)].” Id. § 2141(b)(1)(K) (West 2017). Section 201(c)(3) provides the Oversight Board with “sole discretion” to determine whether a proposed fiscal plan satisfies the requirements of Section 201(b). Id. § 2141(c).

The parties generally agree that Section 205 allows the Oversight Board to make policy “recommendations” to the Government “at any time” and that such recommendations may be proposed as standalone policy considerations or as part of a certified fiscal plan. (Compl. ¶¶ 5, 29; Defs.’ Mem. at 11-12.) Plaintiffs argue, however, that such provisions can never be more than “‘recommendations’ under PROMESA section 205, which the Government is free to reject,” even when they are included in a fiscal plan. (Compl. ¶ 5; id. ¶¶ 38-43.) Defendants argue that Section 201(b)(1)(K) empowers the Oversight Board to “adopt” in a certified fiscal plan,

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<sup>12</sup> A plan developed jointly by the Governor and the Oversight Board for a fiscal year may also be certified. See 48 U.S.C.A. § 2141(f) (West 2018).

and thus make binding, any recommendation that the Oversight Board deems appropriate. (Defs.' Mem. at 11-12.)<sup>13</sup> Defendants rely principally on PROMESA Section 201(b)(1)(K) and point also to Section 201(e)(2), which expressly provides that a fiscal plan certified by the Oversight Board is "deemed approved by the Governor." (Id. at 12.)

Section 202 of PROMESA governs the development of budgets, which must cover at least one fiscal year. Following certification of a fiscal plan, Section 202(c)(1) places the initial responsibility to develop proposed budgets that are consistent with the applicable fiscal plan in the hands of the Governor and the Legislature. See 48 U.S.C. §§ 2142(c)(1),

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<sup>13</sup> Defendants acknowledge that the Oversight Board's power to make recommended measures binding through fiscal plan adoption is not unlimited. Recognizing that certification results in deemed approval by the Governor but not the Legislature, Defendants do not claim the ability to use a fiscal plan to impose measures that would have to be implemented through new legislation. (Defs.' Mem. at 11-12.)

Alternatively, Defendants argue that the Challenged Provisions are not "recommendations" within the meaning of Section 205 of PROMESA, such that the process of soliciting the views of the Governor or the Legislature was unnecessary and that the disputed measures could have been mandated unilaterally under the authority of more general provisions of Section 201(b). (See generally, Defs.' Mem. § II.C.) Because all of the Challenged Provisions are measures comprehended by the categories enumerated under Section 205 and were aired with the Governor, who provided written objections, prior to their incorporation into the Fiscal Plan, the Court need not reach the Oversight Board's alternative proposition to resolve this motion practice.

(d)(1) (West 2017). PROMESA provides the Oversight Board with authority to review any such proposed budget to determine whether it is compliant with the applicable fiscal plan and, if so, to certify it. See id. § 2142(e)(1). As with the process for development of a fiscal plan, the Oversight Board can notify the Governor and Legislature of its views as to noncompliance and request corrective measures, and the Governor and Legislature are afforded multiple opportunities to submit revised proposed budgets. Id. §§ 2141(c), (d). Absent submission of a compliant proposed budget, the Oversight Board is required to develop and submit a compliant budget of its own no later than the day before the beginning of the fiscal year to which the budget is being developed. See id. §§ 2142(c)(2), (d)(2). PROMESA expressly provides that a budget developed and certified by the Oversight Board as compliant with the fiscal plan is deemed approved by the Governor and the Legislature and goes into “full force and effect” beginning on the first day of the applicable fiscal year. See id. § 2142(e)(3). Section 4 of PROMESA provides that the Act’s provisions “shall prevail over any general or specific provisions of territory law . . . or regulation that is inconsistent with [the Act].” Id. § 2103. Section 108(a)(2) of PROMESA prohibits the Governor and Legislature from exercising any supervision or control over the Oversight Board or its activities, and from enacting, implementing or enforcing any “statute, resolution, policy, or rule that would impair or defeat the purposes of [PROMESA], as determined by the Oversight Board.” Id. § 2128(a).

Courts must construe statutes as a whole, in light of all of their provisions, and giving effect to each part. See, e.g., United Savs. Ass'n of Tex. v. Timbers of Inwood Forest Assocs., Ltd., 484 U.S. 365, 371 (1988) (noting that “[s]tatutory construction . . . is a holistic endeavor”); Kelly v. Robinson, 479 U.S. 36, 43 (1986) (in interpreting a statute, a court “must not be guided by a single sentence or member of a sentence, but look to the provisions of the whole law, and to its object and policy” (internal quotation marks omitted)).

The power bestowed on the Oversight Board by Section 201(b)(1)(K) of PROMESA allows the Oversight Board to make binding policy choices for the Commonwealth, notwithstanding the Governor’s rejection of Section 205 recommendations. This power is consistent with PROMESA’s framework, particularly in light of (i) the mandate that the Oversight Board “provide a method for [Puerto Rico] to achieve fiscal responsibility and access to the capital markets” (48 U.S.C.A. §2121(a) (West 2017)), (ii) the Oversight Board’s “sole discretion” to certify fiscal plans and put budgets of its own devising into effect (id. §§ 2141, 2142), (iii) PROMESA’s preemption of laws inconsistent with its provisions (id. § 2103), and (iv) PROMESA’s prohibition of gubernatorial oversight and of implementation of any policy that would “impair or defeat the purposes of [PROMESA] as determined by the Oversight Board” (id. § 2128(a)(2)). “[A]ppropriate,” as used in Section 201(b)(1)(K), means appropriate in the judgment of the Oversight Board, which has sole discretion as to

fiscal plan and budget certification and the determination of whether and to what extent policies would impair or defeat the purposes of PROMESA, as informed by the Governor’s articulated reasons for opposing the recommendation. Section 201(b)(1)(K) does not distinguish between recommendations that are ultimately approved by the Government and those that are rejected. Instead, Section 201(b)(1)(K) speaks only of recommendations that were “submitted” by the Oversight Board, regardless of whether or not they were rejected by the Government. Consistent with this structure, PROMESA also provides that a budget or fiscal plan that is certified by the Oversight Board is “deemed approved by” the Governor. *Id.* § 2141(e)(2). Something that is “deemed approved” by the Governor need not actually have been approved by the Governor.

That this powerful authority to make certain important policy determinations ultimately rests with the Oversight Board does not, however, render the elected Governor irrelevant or toothless. PROMESA requires the Oversight Board to look first to the elected government for fiscal plan and budgetary direction, and requires extensive and specific communications, with opportunities for revision of proposals, in the event the Oversight Board considers a proposed plan or budget violative of PROMESA or of the fiscal plan, as the case may be. The parties acknowledge that there were extensive discussions and negotiations prior to the Oversight Board’s certification of its Fiscal Plan and Budget, and it is a testament to their hard work and good faith that

only five areas of disagreement are currently in contention. Indeed, as Plaintiffs' counsel noted at the Hearing, the Fiscal Plan spans "113" pages, and a "tremendous amount of working together" and "of listening" has narrowed the current dispute to the five issues. (Tr. at 128:25-129:4.)

Any fiscal plan provision adopting a recommendation over the Governor's objection can be certified only after the Governor has had a formal opportunity to make his objections public and, indeed, to communicate any such objections to Congress and to the President. Those bodies could take negative legislative action or exercise powers affecting the composition of the Oversight Board were they to believe that the Governor had the better of the argument. Furthermore, the Oversight Board, in adopting a policy over such objections, faces the challenge of managing implementation of the policy in a way that garners the genuine cooperation of Puerto Rico's elected government and the citizens of the island who voted for them, as well as the confidence of stakeholders and potential new investors whose interest in doing business with the Commonwealth will be crucial to the Oversight Board's ability to fulfill its charge of providing a method to achieve access to the capital markets.

It is thus clear that the Oversight Board's ability to impose a rejected policy is not one to be exercised lightly. Nor is it, as a practical matter, one that is unconstrained. Although a budget approved and adopted by the Oversight Board as compliant with a certified fiscal plan becomes law insofar as it is in full force and effect without further action on the

part of the Governor or the Legislature, and inconsistent Commonwealth laws are preempted, the Oversight Board has not been given power to affirmatively legislate. Thus, with respect to policy measures that would require the adoption of new legislation or the repeal or modification of existing Commonwealth law, the Oversight Board has only budgetary tools and negotiations to use to elicit any necessary buy-in from the elected officials and legislators. Elected officials and legislators, on the other hand, have the ability to obstruct implementation altogether, or complicate it in such a way as to cripple Puerto Rico's ability to use it to promote the needed return to fiscal responsibility and access to capital markets. PROMESA is an awkward power-sharing arrangement and, as the Court noted in its decision rejecting the Oversight Board's attempt to appoint a Chief Transformation Officer for PREPA, is "fraught with potential for mutual sabotage." In re Fin. Oversight & Mgmt. Bd. for P.R., 583 B.R. 626, 637 (D.P.R. 2017). "These negative possibilities should," as the Court stated in that opinion, "motivate the parties to work together, quickly, for positive change" within the statutory structure in which neither of them holds all of the cards. Id.

Although this governance structure infringes on the scope of the authority of the elected Government, it was nonetheless contemplated and written into law by Congress. As the parties have noted in their submissions, Congress considered imposing an even more powerful board, similar to the one that was put in place for a time in the District of Colum-

bia, when developing the legislation that was ultimately enacted as PROMESA. While Congress revised the precursor of Section 205 to remove a provision that unambiguously allowed the Oversight Board to override the Government’s judgment, it simultaneously added Section 201(b)(1)(K) which, as described above, has a similar practical effect. Commentary in the legislative history of PROMESA is generally consistent with the view that certified fiscal plans would be able to adopt recommendations even absent approval by the Government. See H.R. Rep. No. 114-602 (2016), reprinted in 2016 WL 3124840, at \*46 (“The Oversight Board may incorporate any recommendations—even those not adopted by the Legislature or Governor—into the development of Fiscal Plans.”); 162 Cong. Rec. S4690-02, S4695 (June 29, 2016) (statement of Sen. Menendez), reprinted in 2016 WL 3544524 (“While this section calls these comments recommendations, another section allows the board to ‘adopt appropriate recommendations’ submitted by the Oversight Board under section 205. So, in essence, they can adopt the very essence of what they are saying is a recommendation.”); Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA): Markup Memorandum H.R. 5278 From Majority Committee Staff of H. Comm. on Natural Resources, 114th Cong. 3 (2016) (“The Board’s broad powers include: the imposition of legislative or executive recommendations . . .”).<sup>14</sup> Plaintiffs’ argument that

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<sup>14</sup> Although Puerto Rico’s non-voting member of the United States House of Representatives submitted a statement asserting that the final versions of Section 201 and Section 205 had



Section 303 of PROMESA, which reserves governance powers of a territory, precludes mandatory adoption of rejected recommendations thus fails, because Section 303’s reservation is explicitly made “[s]ubject to the limitations set forth in [Titles] I and II” of PROMESA (48 U.S.C.A. § 2163 (West 2017)), and Section 202, which is part of Title II, permits the Oversight Board to adopt recommendations without any requirement of gubernatorial approval (*id.* § 2142).

The Court turns now to the viability of Plaintiffs’ attack on the Remaining Challenged Provisions.

## 2. Remaining Challenged Provisions

### *i. Budgetary Reprogramming*

Section 11.2.1 of the Fiscal Plan is titled “Enforcement of the budget” and provides, in relevant part, that any power of AAFAF, the OMB, or the Department of the Treasury, “including the authorities granted under Act 230-1974, as amended, known as the ‘Puerto Rico Government Accounting Act’ (‘Act 230’), to authorize the reprogramming or extension of appropriations of prior fiscal years is hereby suspended.” (Fiscal Plan § 11.2.1.) Section 7 of the General Fund Resolution and Section 7 of the Special

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removed a provision “empowering the oversight board to impose its recommendations over the objection of the Puerto Rico government,” H.R. Rep. No. 114-602 (2016), reprinted in 2016 WL 3124840, at \*114, his comment did not acknowledge, much less address directly, the simultaneous addition of Section 205(1)(1)(K) to the bill.

Resolution incorporate this same language. Plaintiffs also challenge Section 10 of the General Fund Resolution, which grants OMB the ability to withhold from any allocations to the executive agencies the amounts necessary to pay for the pay-go contribution, unemployment insurance, or taxes withheld from their employees, “when OMB determines that such a withholding is necessary to ensure compliance with these obligations by the agencies concerned,” and provides that “[a]ny such amounts withheld by OMB shall solely be reprogrammed to pay the corresponding outstanding obligations related to pay-go contributions, unemployment insurance, or taxes withheld from employees as allowed in” Section 10. (See General Fund Resolution §§ 7 and 10; Special Resolution § 7.) Plaintiffs argue that these Challenged Provisions (i.e., Fiscal Plan Section 11.2.1, General Fund Resolution Sections 7 and 10, and Special Resolution Section 7) are merely optional recommendations, because they “place controls on expenditures” and alter “the management of the [Commonwealth’s] financial affairs” within the meaning of Section 205(a)(1) of PROMESA. (Opp’n at 22.) Plaintiffs also contend that these provisions of the Fiscal Plan and the Challenged Budget Resolutions are beyond the powers granted to the Oversight Board by PROMESA because they are inconsistent with the PROMESA provision that specifically addresses reprogramming. That provision, set forth in PROMESA Section 204(c), reads as follows:

If the Governor submits a request to the Legislature for the reprogramming of any amounts

provided in a certified Budget, the Governor shall submit such request to the Oversight Board, which shall analyze whether the proposed reprogramming is significantly inconsistent with the Budget, and submit its analysis to the Legislature as soon as practicable after receiving the request. . . . The Legislature shall not adopt a reprogramming, and no officer or employee of the territorial government may carry out any reprogramming, until the Oversight Board has provided the Legislature with an analysis that certifies such reprogramming will not be inconsistent with the Fiscal Plan and Budget.

48 U.S.C.A. 2144(c) (West 2017) (emphasis added). Because the reprogramming provision of the statute addresses only amounts that are provided for within a particular budget, Plaintiffs argue that PROMESA does not prohibit the Governor and territorial officials from reprogramming unused appropriations from prior fiscal years. (See Compl. ¶¶ 79, 88.) Defendants, who define reprogramming as “moving funds from one budget appropriation to another, or using funds appropriated in a prior year in a subsequent year,” argue that power to restrict reprogramming of appropriations from prior years is inherent in the Oversight Board’s power and obligation to certify that a fiscal plan satisfies Sections 201(b)(1)(A), (D), (F), and (G) of PROMESA, and that its authority to include such restriction in a budget follows from Section 202(c)(1) of PROMESA. (Defs.’ Mem. at 17-18; see also Docket Entry No. 28, Defendants’ Reply (the “Reply”), at 11.)

In Paragraph 79 of Count I of the Complaint, Plaintiffs seek a declaration that “the suspension of Act 230 and reprogramming authorization for prior fiscal years under Board Fiscal Plan section 11.2.1 . . . is a non-binding recommendation because (i) it is inconsistent with the reprogramming standard under PROMESA section 204(c), which does not prohibit reprogramming requests for prior fiscal years, (ii) inappropriately attempts to modify AAFAF’s powers under Law 2-2017 and Act 230, among others, without following PROMESA’s provisions for reviewing legislation, and (iii) is an inappropriate use of the Board’s budget power to shift responsibilities of Government officials.” Paragraph 88 of Count II seeks a substantially identical declaration regarding the corresponding budgetary resolution provisions. These aspects of the Complaint fail as a matter of law to state claims upon which relief may be granted.

PROMESA grants the Oversight Board the exclusive authority to certify a fiscal plan, and to certify a budget for periods covering one or more fiscal years. See 48 U.S.C.A. §§ 2141(c), 2142(e) (West 2017). Among the mandatory purposes of the certified fiscal plan with which the budget must comply are “to ensure the funding of essential public services,” “provide for the elimination of structural deficits,” and “improve fiscal governance, accountability and internal controls.” Id. § 2141(b). A budget must cover a specific fiscal year or years. It beggars reason, and would run contrary to the reliability and transparency mandates of PROMESA, to suppose that a budget for a fiscal year could be designed

to do anything less than comprehend all projected revenues and financial resources, and all expenditures, for the fiscal year. Since a certified budget is in full effect as of the first day of the covered period, means and sources of government spending are necessarily rendered unavailable if they are not provided for within the budget. A prior year authorization for spending that is not covered by the budget is inconsistent with PROMESA's declaration that the Oversight Board-certified budget for the fiscal year is in full force and effect, and is therefore preempted by that statutory provision by force of Section 4 of PROMESA. Accordingly, the Fiscal Plan language regarding suspension of authority to approve off-budget reprogramming may well be superfluous, and in any event merely has the same effect as PROMESA's explicit provisions. The exclusive scope of a certified budget also makes pellucid the reason that Section 204(c)'s reprogramming provision speaks only to the then-current fiscal year – the budget does not make any other resources available for reprogramming.

Accordingly, Paragraph 79 of Count I and Paragraph 88 of Count II the Complaint fail to state claims upon which relief may be granted and are for that reason dismissed pursuant to Federal Rule of Civil Procedure 12(b)(6).

*ii. Automatic Budget Reductions*

Section 12.3 of the Fiscal Plan provides the following:

If, after the third fiscal quarter of any fiscal year there remains unrealized agency efficiency savings for any grouping relative to the projected agency efficiency savings in the New Fiscal Plan for the applicable fiscal year, the Oversight Board will automatically reduce the budget for the corresponding grouping for the following fiscal year in the amount equal to the unrealized agency efficiency savings. In particular, if the Oversight Board determines that there is material underperformance in agency efficiency savings relative to the projections set forth in the New Fiscal Plan, intentional workforce reductions will be necessary to meet the agency efficiency savings targets set forth herein.

(Fiscal Plan at 68-69.) In Paragraph 81 of Count I of the Complaint, Plaintiffs assert that they are entitled to a declaration that “the provision requiring automatic budget reductions for future fiscal years (including intentional workforce reductions) under Board Fiscal Plan section 12.3 – which ‘places controls on expenditures’ under PROMESA section 205(a)(1) – is a non-binding recommendation because (i) the Board cannot mandate workforce reduction through the budget process, and (ii) nothing in PROMESA allows the Oversight Board to dictate personnel decisions for the Commonwealth.” Defendants contend that the imposition of automatic budget reductions is within the Oversight Board’s power to mandate “improve[ments in] fiscal governance, accountability, and internal controls” pursuant to a fiscal plan under Section 201(b)(1)(F) of PROMESA and its authority to

impose certain expenditure reductions pursuant to PROMESA Section 203(d)(1) in the event of noncompliance with a certified budget. (Defs.' Mem. at 22; Reply at 14.)

While it is true that PROMESA Section 201(b)(1)(F) provides that a certified fiscal plan shall “improve fiscal governance, accountability, and internal controls” (11 U.S.C.A. § 2141(b)(1)(F) (West 2017)) and recommendations that the Oversight Board could adopt in a Fiscal Plan include “placing controls on expenditures for personnel” (*id.* § 2145(a)(1)), Section 201(b) does not explicitly authorize building triggers into one budget that automatically restrict appropriations in a subsequent budget. Section 203, on the other hand, explicitly provides a protocol for assessing compliance with a budget on a quarterly basis, including assessment of third quarter performance, that requires the Oversight Board to determine whether there is an inconsistency between actual and budget figures, advise the territorial government to correct any such inconsistency and certify any uncorrected inconsistency to the President, certain Congressional Committees, the Governor, and the Legislature, and authorizes the Oversight Board to make appropriate reductions in non-debt expenditures to true up actual revenues and expenditures with approved budgetary provisions for the relevant period. For subsequent fiscal years that are not covered by the certified budget, Section 202 of PROMESA requires the interactive process of soliciting proposals and revisions from the Government before the Oversight Board can impose unilateral measures. Nothing in

the statute authorizes automatic budgetary or personnel restrictions across separate budgets.

Paragraph 81 of Count I thus states a claim upon which relief may be granted, and Defendants' Motion to dismiss the Complaint is denied insofar as it is directed to Paragraph 81 thereof.

*iii. Corrective Measures*

Section 15 of the General Fund Resolution and Section 14 of the Special Resolution provide that, “[i]f during the fiscal year the government fails to comply with the liquidity and budgetary savings measures required by the [fiscal plan] certified by the Oversight Board, the Government shall take all necessary corrective action, including the measures provided in PROMESA sections 203 and 204.” (General Fund Resolution § 15; Special Resolution § 14.) Additionally, Section 16 of the General Fund Resolution and Section 15 of the Special Resolution provide that:

The Secretary of Treasury, the treasurer and Executive Directors of each agency or Public Corporation covered by the New Fiscal Plan for Puerto Rico certified by the Oversight Board, and the Director of the OMB (or their respective successors) shall be responsible for not spending or encumbering during fiscal year 2019 any amount that exceeds the appropriations authorized for such year. This prohibition applies to every appropriation set forth in this Joint Resolution, including appropriations for payroll and related costs. Any violation of this



prohibition shall constitute a violation of this Joint Resolution and Act 230.

(General Fund Resolution § 16; see also Special Resolution § 15.)

Plaintiffs argue that because the Budget, by invoking Act 230, makes spending funds in excess of appropriations a misdemeanor and also alters Act 230 by making excess spending a strict liability criminal offense, General Fund Resolution Section 15 and Special Resolution Section 14 affect “the territory’s laws . . . on the operations of the territorial government” and are therefore recommendations pursuant to PROMESA Section 205(a)(7). 48 U.S.C.A. § 2145(a)(7) (West 2017). Plaintiffs also contend that General Fund Resolution Section 16 and Special Resolution Section 15 exceed the Oversight Board’s powers under PROMESA because they “(i) amend existing legislation to expand criminal penalties under Act 230 and (ii) go beyond the Board’s limited power to discipline Government officials under PROMESA section 104(l).” (Opp’n at 21.) Defendants argue that the measures at issue serve to “improve fiscal governance, accountability, and internal controls” in keeping with PROMESA § 201(b)(1)(F). (Defs.’ Mem. at 23.) Additionally, Defendants rely on PROMESA Sections 203 and 204 for the proposition that the Oversight Board has the authority to require corrective measures in the event that the Governor fails to comply with a certified budget. (Id.) In any event, Defendants argue, the penalties set forth in Section 16 of the General

Fund Resolution and Section 15 of the Special Resolution merely restate existing Commonwealth law under Act 230. (Id. at 24.)

Paragraph 89 of Count II of the Complaint seeks a declaration that “the provision in the Board Budget requiring the Government to take all necessary and corrective action to comply with the Board Fiscal Plan measures under General Fund Resolution section 15 and Special Resolution section 14 – which ‘places controls on expenditures’ under PROMESA section 205(a)(1) is not enforceable because such provisions are (i) an impermissible attempt to expand the Board’s limited budget enforcement powers under PROMESA section 203(d)(1), (ii), inconsistent with the reprogramming procedure under [PROMESA] section 204(c), and (iii) an abuse of the Board’s budget powers as a backdoor attempt to legislate.”

In Paragraph 90 of Count II, Plaintiffs assert that they are “entitled to a judicial declaration . . . that the provision expanding the Board’s punishment powers for non-compliance under General Fund Resolution section 16 and Special Fund Resolution section 15 which would ‘effect the territory’s laws . . . on the operation of the territorial government’ is not enforceable because (i) such provisions seek to impose Act 230 punishments on appropriation violations, which include criminal punishments that can only be established by the Legislature, and (ii) the Board’s punishment powers for budget non-compliance are limited to PROMESA section 104(l), which does not include the power to apply criminal punishment to the actions of Government officials.”

Sections 203 and 204 of PROMESA prescribe procedures and limited remedies in the event of noncompliance with certified budgets and fiscal plans. Neither authorizes the Oversight Board to write into the law of Puerto Rico a general declaration that violations of the provisions of the appropriations provisions of the budget are an independent violation of law and, while PROMESA specifies certain consequences upon the Commonwealth's failure to correct an inconsistency of expenditures versus the budget, the statute itself does not impose affirmative obligations on the Commonwealth or any or its officers or agents to take corrective action. Nor does PROMESA, by virtue of its provision rendering an Oversight Board-certified budget effective, create new liability under Puerto Rico law for violations of the budget. Defendants disclaim any intent effectively to amend Act 230 (the criminal provision) or claim prosecutorial authority, asserting at oral argument that the resolutions merely state the Oversight Board's position that a violation of the certified budget is a crime within the meaning of the statute. (See Reply § III.D; Tr. at 113:19-25.) Nonetheless, these provisions of the Resolutions, read in the light most favorable to Plaintiffs, appear to claim powers and impose consequences in excess of those authorized by PROMESA. Accordingly, Paragraphs 89 and 90 Count II state claims upon which relief may be granted and Defendants' Motion is denied to the extent it is directed to those paragraphs.

### 3. Remaining Relief Sought

The remaining relief-related provisions of the Complaint seek declarations of a more general nature. Paragraph 78 of Count I demands a declaration that “the rejected policy recommendations in the Board Fiscal Plan are non-binding recommendations and that the Government is not obligated to implement any of these policies, and that the Oversight Board may not take any actions to force compliance with such recommendations.” As explained above, the Oversight Board is not precluded from adopting the rejected policy recommendations in a fiscal plan. The Complaint therefore fails to state a claim upon which relief may be granted with respect to the Challenged Provisions, and Defendants’ Motion is granted insofar as it is directed to the claim asserted in Paragraph 78 of Count I.

In Paragraph 83 of Count I and Paragraph 91 of Count II, Plaintiffs essentially seek declarations that any fiscal plan or budgetary provision that the Governor determines in his discretion is a policy recommendation and rejects, now or in the future (whether identified in the Complaint or otherwise) is not binding on the Commonwealth and need not be implemented by the Governor. For substantially the reasons already explained above, this broad proposition fails to state a claim upon which relief may be granted, and Defendants’ Motion is granted insofar as it is directed to these aspects of Counts I and II.

Plaintiffs’ final declaratory judgment claim is set forth in Paragraph 92 of Count II, which seeks a

declaration “that any provisions of the Board Budget that exceed the Board’s powers under PROMESA § 202 are invalid.” Plaintiffs do not specify what provisions are challenged in this connection, nor do they identify the powers with which they are concerned. Plaintiff’s Complaint is, accordingly, too abstract in this regard to frame a justiciable case or controversy or, to the extent it can be read to satisfy the constitutional requisite for standing, it lacks sufficient grounding in specific factual pleading to state plausibly a claim upon which relief may be granted. The declaratory judgment claim asserted in Paragraph 92 of the Complaint is, accordingly, dismissed.

Plaintiffs’ final Count pleads an entitlement to injunctive relief “prohibiting the Defendants from implementing and enforcing the Oversight Board’s policy recommendations contained in the Board Fiscal Plan and Board Budget . . . .” (Paragraph 93, Count III.) Because Plaintiffs have stated some claims upon which relief may be granted, the possibility of propriety of injunctive relief is not so remote that dismissal of Count III is warranted at this juncture. Defendants’ Motion is denied insofar as it is directed to Count III of the Complaint.

#### CONCLUSION

For the foregoing reasons, the Motion is granted pursuant to Federal Rule of Civil Procedure 12(b)(6) insofar as it seeks dismissal of the claims asserted in Paragraphs 78, 79, and 83 of Count I, and those asserted in Paragraphs 88 and 91 of Count II. The Motion is granted pursuant to Federal Rule of Civil

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Procedure 12(b)(1) insofar as it seeks dismissal of the claims asserted in Paragraphs 80 and 82 of Count I and Paragraphs 87 and 92 of Count II. Defendants' Motion is denied in all other respects. This adversary proceeding remains referred to Magistrate Judge Dein for general pretrial management.

This Opinion and Order resolves Docket Entry Nos. 16 and 31.

SO ORDERED.

Dated: August 27,  
2018

/s/ Laura Taylor Swain  
LAURA TAYLOR SWAIN  
United States District  
Judge

**APPENDIX C****STATUTES****Public Law 114-187, 130 Stat. 549 (June 30, 2016)****Section 4. Supremacy. (48 U.S.C. § 2104)**

The provisions of this Act shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this Act.

**Section 201. Approval of Fiscal Plans. (48 U.S.C. § 2141)**

(a) IN GENERAL.—As soon as practicable after all of the members and the Chair have been appointed to the Oversight Board in accordance with section 101(e) in the fiscal year in which the Oversight Board is established, and in each fiscal year thereafter during which the Oversight Board is in operation, the Oversight Board shall deliver a notice to the Governor providing a schedule for the process of development, submission, approval, and certification of Fiscal Plans. The notice may also set forth a schedule for revisions to any Fiscal Plan that has already been certified, which revisions must be subject to subsequent approval and certification by the Oversight Board. The Oversight Board shall consult with the Governor in establishing a schedule, but the Oversight Board shall retain sole discretion to set or, by delivery of a subsequent notice to the Governor, change the dates of such schedule as it deems appropriate and reasonably feasible.

(b) REQUIREMENTS.—

(1) IN GENERAL.—A Fiscal Plan developed under this section shall, with respect to the territorial government or covered territorial instrumentality, provide a method to achieve fiscal responsibility and access to the capital markets, and—

(A) provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on—

(i) applicable laws; or

(ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan;

(B) ensure the funding of essential public services;

(C) provide adequate funding for public pension systems;

(D) provide for the elimination of structural deficits;

(E) for fiscal years covered by a Fiscal Plan in which a stay under titles III or IV is not effective, provide for a debt burden that is sustainable;

(F) improve fiscal governance, accountability, and internal controls;

(G) enable the achievement of fiscal targets;

(H) create independent forecasts of revenue for the period covered by the Fiscal Plan;

(I) include a debt sustainability analysis;



(J) provide for capital expenditures and investments necessary to promote economic growth;

(K) adopt appropriate recommendations submitted by the Oversight Board under section 205(a);

(L) include such additional information as the Oversight Board deems necessary;

(M) ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted by the constitution of the territory, an approved plan of adjustment under title III, or a Qualifying Modification approved under title VI; and

(N) respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of this Act.

(2) TERM.—A Fiscal Plan developed under this section shall cover a period of fiscal years as determined by the Oversight Board in its sole discretion but in any case a period of not less than 5 fiscal years from the fiscal year in which it is certified by the Oversight Board.

(c) DEVELOPMENT, REVIEW, APPROVAL, AND CERTIFICATION OF FISCAL PLANS.—

(1) **TIMING REQUIREMENT.**—The Governor may not submit to the Legislature a Territory Budget under section 202 for a fiscal year unless the Oversight Board has certified the Territory Fiscal Plan for that fiscal year in accordance with this subsection, unless the Oversight Board in its sole discretion waives this requirement.

(2) **FISCAL PLAN DEVELOPED BY GOVERNOR.**—The Governor shall submit to the Oversight Board any proposed Fiscal Plan required by the Oversight Board by the time specified in the notice delivered under subsection (a).

(3) **REVIEW BY THE OVERSIGHT BOARD.**—The Oversight Board shall review any proposed Fiscal Plan to determine whether it satisfies the requirements set forth in subsection (b) and, if the Oversight Board determines in its sole discretion that the proposed Fiscal Plan—

(A) satisfies such requirements, the Oversight Board shall approve the proposed Fiscal Plan; or

(B) does not satisfy such requirements, the Oversight Board shall provide to the Governor—

(i) a notice of violation that includes recommendations for revisions to the applicable Fiscal Plan; and

(ii) an opportunity to correct the violation in accordance with subsection (d)(1).

(d) **REVISED FISCAL PLAN.**—

(1) **IN GENERAL.**—If the Governor receives a notice of violation under subsection (c)(3), the Governor

shall submit to the Oversight Board a revised proposed Fiscal Plan in accordance with subsection (b) by the time specified in the notice delivered under subsection (a). The Governor may submit as many revised Fiscal Plans to the Oversight Board as the schedule established in the notice delivered under subsection (a) permits.

(2) DEVELOPMENT BY OVERSIGHT BOARD.— If the Governor fails to submit to the Oversight Board a Fiscal Plan that the Oversight Board determines in its sole discretion satisfies the requirements set forth in subsection (b) by the time specified in the notice delivered under subsection (a), the Oversight Board shall develop and submit to the Governor and the Legislature a Fiscal Plan that satisfies the requirements set forth in subsection (b).

(e) APPROVAL AND CERTIFICATION.—

(1) APPROVAL OF FISCAL PLAN DEVELOPED BY GOVERNOR.— If the Oversight Board approves a Fiscal Plan under subsection(c)(3), it shall deliver a compliance certification for such Fiscal Plan to the Governor and the Legislature.

(2) DEEMED APPROVAL OF FISCAL PLAN DEVELOPED BY OVERSIGHT BOARD.— If the Oversight Board develops a Fiscal Plan under subsection (d)(2), such Fiscal Plan shall be deemed approved by the Governor, and the Oversight Board shall issue a compliance certification for such Fiscal Plan to the Governor and the Legislature.

(f) JOINT DEVELOPMENT OF FISCAL PLAN.— Notwithstanding any other provision of this section,

if the Governor and the Oversight Board jointly develop a Fiscal Plan for the fiscal year that meets the requirements under this section, and that the Governor and the Oversight Board certify that the fiscal plan reflects a consensus between the Governor and the Oversight Board, then such Fiscal Plan shall serve as the Fiscal Plan for the territory or territorial instrumentality for that fiscal year.

**Section 202. Approval of Budgets (48 U.S.C. § 2142)**

(a) REASONABLE SCHEDULE FOR DEVELOPMENT OF BUDGETS.—As soon as practicable after all of the members and the Chair have been appointed to the Oversight Board in the fiscal year in which the Oversight Board is established, and in each fiscal year thereafter during which the Oversight Board is in operation, the Oversight Board shall deliver a notice to the Governor and the Legislature providing a schedule for developing, submitting, approving, and certifying Budgets for a period of fiscal years as determined by the Oversight Board in its sole discretion but in any case a period of not less than one fiscal year following the fiscal year in which the notice is delivered. The notice may also set forth a schedule for revisions to Budgets that have already been certified, which revisions must be subject to subsequent approval and certification by the Oversight Board. The Oversight Board shall consult with the Governor and the Legislature in establishing a schedule, but the Oversight Board shall retain sole discretion to set or, by delivery of a subsequent notice to the Governor and the Legislature, change the dates of such schedule as it deems appropriate and reasonably feasible.

(b) REVENUE FORECAST.—The Oversight Board shall submit to the Governor and Legislature a forecast of revenues for the period covered by the Budgets by the time specified in the notice delivered under subsection (a), for use by the Governor in developing the Budget under subsection (c).

(c) BUDGETS DEVELOPED BY GOVERNOR.—

(1) GOVERNOR'S PROPOSED BUDGETS. The Governor shall submit to the Oversight Board proposed Budgets by the time specified in the notice delivered under subsection (a). In consultation with the Governor in accordance with the process specified in the notice delivered under subsection (a), the Oversight Board shall determine in its sole discretion whether each proposed Budget is compliant with the applicable Fiscal Plan and—

(A) if a proposed Budget is a compliant budget, the Oversight Board shall—

(i) approve the Budget; and

(ii) if the Budget is a Territory Budget, submit the Territory Budget to the Legislature; or

(B) if the Oversight Board determines that the Budget is not a compliant budget, the Oversight Board shall provide to the Governor—

(i) a notice of violation that includes a description of any necessary corrective action; and

(ii) an opportunity to correct the violation in accordance with paragraph (2).

(2) GOVERNOR'S REVISIONS.—The Governor may correct any violations identified by the Oversight Board and submit a revised proposed Budget to the Oversight Board in accordance with paragraph (1). The Governor may submit as many revised Budgets to the Oversight Board as the schedule established in the notice delivered under subsection (a) permits. If the Governor fails to develop a Budget that the Oversight Board determines is a compliant budget by the time specified in the notice delivered under subsection (a), the Oversight Board shall develop and submit to the Governor, in the case of an Instrumentality Budget, and to the Governor and the Legislature, in the case of a Territory Budget, a revised compliant budget.

(d) BUDGET APPROVAL BY LEGISLATURE.—

(1) LEGISLATURE ADOPTED BUDGET.—The Legislature shall submit to the Oversight Board the Territory Budget adopted by the Legislature by the time specified in the notice delivered under subsection (a). The Oversight Board shall determine whether the adopted Territory Budget is a compliant budget and—

(A) if the adopted Territory Budget is a compliant budget, the Oversight Board shall issue a compliance certification for such compliant budget pursuant to subsection (e); and

(B) if the adopted Territory Budget is not a compliant budget, the Oversight Board shall provide to the Legislature—

(i) a notice of violation that includes a description of any necessary corrective action; and

(ii) an opportunity to correct the violation in accordance with paragraph (2).

(2) LEGISLATURE'S REVISIONS.—The Legislature may correct any violations identified by the Oversight Board and submit a revised Territory Budget to the Oversight Board in accordance with the process established under paragraph (1) and by the time specified in the notice delivered under subsection (a). The Legislature may submit as many revised adopted Territory Budgets to the Oversight Board as the schedule established in the notice delivered under subsection (a) permits. If the Legislature fails to adopt a Territory Budget that the Oversight Board determines is a compliant budget by the time specified in the notice delivered under subsection (a), the Oversight Board shall develop a revised Territory Budget that is a compliant budget and submit it to the Governor and the Legislature.

(e) CERTIFICATION OF BUDGETS.—

(1) CERTIFICATION OF DEVELOPED AND APPROVED TERRITORY BUDGETS.—If the Governor and the Legislature develop and approve a Territory Budget that is a compliant budget by the day before the first day of the fiscal year for which the Territory Budget is being developed and in accordance with the process established under subsections (c) and (d), the Oversight Board shall

issue a compliance certification to the Governor and the Legislature for such Territory Budget.

(2) CERTIFICATION OF DEVELOPED INSTRUMENTALITY BUDGETS.—If the Governor develops an Instrumentality Budget that is a compliant budget by the day before the first day of the fiscal year for which the Instrumentality Budget is being developed and in accordance with the process established under subsection (c), the Oversight Board shall issue a compliance certification to the Governor for such Instrumentality Budget.

(3) DEEMED CERTIFICATION OF TERRITORY BUDGETS.—If the Governor and the Legislature fail to develop and approve a Territory Budget that is a compliant budget by the day before the first day of the fiscal year for which the Territory Budget is being developed, the Oversight Board shall submit a Budget to the Governor and the Legislature (including any revision to the Territory Budget made by the Oversight Board pursuant to subsection (d)(2)) and such Budget shall be—

(A) deemed to be approved by the Governor and the Legislature;

(B) the subject of a compliance certification issued by the Oversight Board to the Governor and the Legislature; and

(C) in full force and effect beginning on the first day of the applicable fiscal year.

(4) DEEMED CERTIFICATION OF INSTRUMENTALITY BUDGETS.—If the Governor fails



to develop an Instrumentality Budget that is a compliant budget by the day before the first day of the fiscal year for which the Instrumentality Budget is being developed, the Oversight Board shall submit an Instrumentality Budget to the Governor (including any revision to the Instrumentality Budget made by the Oversight Board pursuant to subsection (c)(2)) and such Budget shall be—

(A) deemed to be approved by the Governor;

(B) the subject of a compliance certification issued by the Oversight Board to the Governor; and

(C) in full force and effect beginning on the first day of the applicable fiscal year.

(f) **JOINT DEVELOPMENT OF BUDGETS.**— Notwithstanding any other provision of this section, if, in the case of a Territory Budget, the Governor, the Legislature, and the Oversight Board, or in the case of an Instrumentality Budget, the Governor and the Oversight Board, jointly develop such Budget for the fiscal year that meets the requirements under this section, and that the relevant parties certify that such budget reflects a consensus among them, then such Budget shall serve as the Budget for the territory or territorial instrumentality for that fiscal year.

**Section 204. Review of Activities to Ensure Compliance with Fiscal Plan. (48 U.S.C. § 2144)**

(a) **SUBMISSION OF LEGISLATIVE ACTS TO OVERSIGHT BOARD.**—

(1) SUBMISSION OF ACTS.—Except to the extent that the Oversight Board may provide otherwise in its bylaws, rules, and procedures, not later than 7 business days after a territorial government duly enacts any law during any fiscal year in which the Oversight Board is in operation, the Governor shall submit the law to the Oversight Board.

(2) COST ESTIMATE; CERTIFICATION OF COMPLIANCE OR NONCOMPLIANCE.—The Governor shall include with each law submitted to the Oversight Board under paragraph (1) the following:

(A) A formal estimate prepared by an appropriate entity of the territorial government with expertise in budgets and financial management of the impact, if any, that the law will have on expenditures and revenues.

(B) If the appropriate entity described in subparagraph (A) finds that the law is not significantly inconsistent with the Fiscal Plan for the fiscal year, it shall issue a certification of such finding.

(C) If the appropriate entity described in subparagraph (A) finds that the law is significantly inconsistent with the Fiscal Plan for the fiscal year, it shall issue a certification of such finding, together with the entity's reasons for such finding.

(3) NOTIFICATION.—The Oversight Board shall send a notification to the Governor and the Legislature if—

(A) the Governor submits a law to the Oversight Board under this subsection that is not accompanied by the estimate required under paragraph (2)(A);

(B) the Governor submits a law to the Oversight Board under this subsection that is not accompanied by either a certification described in paragraph (2)(B) or (2)(C); or

(C) the Governor submits a law to the Oversight Board under this subsection that is accompanied by a certification described in paragraph (2)(C) that the law is significantly inconsistent with the Fiscal Plan.

(4) OPPORTUNITY TO RESPOND TO NOTIFICATION.—

(A) FAILURE TO PROVIDE ESTIMATE OR CERTIFICATION.— After sending a notification to the Governor and the Legislature under paragraph (3)(A) or (3)(B) with respect to a law, the Oversight Board may direct the Governor to provide the missing estimate or certification (as the case may be), in accordance with such procedures as the Oversight Board may establish.

(B) SUBMISSION OF CERTIFICATION OF SIGNIFICANT INCONSISTENCY WITH FISCAL PLAN AND BUDGET.—In accordance with such procedures as the Oversight

Board may establish, after sending a notification to the Governor and Legislature under paragraph (3)(C) that a law is significantly inconsistent with the Fiscal Plan, the Oversight Board shall direct the territorial government to—

(i) correct the law to eliminate the inconsistency; or

(ii) provide an explanation for the inconsistency that the Oversight Board finds reasonable and appropriate.

(5) FAILURE TO COMPLY.—If the territorial government fails to comply with a direction given by the Oversight Board under paragraph (4) with respect to a law, the Oversight Board may take such actions as it considers necessary, consistent with this Act, to ensure that the enactment or enforcement of the law will not adversely affect the territorial government's compliance with the Fiscal Plan, including preventing the enforcement or application of the law.

(6) PRELIMINARY REVIEW OF PROPOSED ACTS.—At the request of the Legislature, the Oversight Board may conduct a preliminary review of proposed legislation before the Legislature to determine whether the legislation as proposed would be consistent with the applicable Fiscal Plan under this subtitle, except that any such preliminary review shall not be binding on the Oversight Board in reviewing any law subsequently submitted under this subsection.

(b) EFFECT OF APPROVED FISCAL PLAN ON CONTRACTS, RULES, AND REGULATIONS.—

(1) TRANSPARENCY IN CONTRACTING.—

The Oversight Board shall work with a covered territory's office of the comptroller or any functionally equivalent entity to promote compliance with the applicable law of any covered territory that requires agencies and instrumentalities of the territorial government to maintain a registry of all contracts executed, including amendments thereto, and to remit a copy to the office of the comptroller for inclusion in a comprehensive database available to the public. With respect to Puerto Rico, the term "applicable law" refers to 2 L.P.R.A. 97, as amended.

(2) AUTHORITY TO REVIEW CERTAIN CONTRACTS.—The Oversight Board may establish policies to require prior Oversight Board approval of certain contracts, including leases and contracts to a governmental entity or government-owned corporations rather than private enterprises that are proposed to be executed by the territorial government, to ensure such proposed contracts promote market competition and are not inconsistent with the approved Fiscal Plan.

(3) SENSE OF CONGRESS.—It is the sense of Congress that any policies established by the Oversight Board pursuant to paragraph (2) should be designed to make the government contracting process more effective, to increase the public's faith in this process, to make appropriate use of the Oversight Board's time and resources, to make

the territorial government a facilitator and not a competitor to private enterprise, and to avoid creating any additional bureaucratic obstacles to efficient contracting.

(4) **AUTHORITY TO REVIEW CERTAIN RULES, REGULATIONS, AND EXECUTIVE ORDERS.**—The provisions of this paragraph shall apply with respect to a rule, regulation, or executive order proposed to be issued by the Governor (or the head of any department or agency of the territorial government) in the same manner as such provisions apply to a contract.

(5) **FAILURE TO COMPLY.**—If a contract, rule, regulation, or executive order fails to comply with policies established by the Oversight Board under this subsection, the Oversight Board may take such actions as it considers necessary to ensure that such contract, rule, executive order or regulation will not adversely affect the territorial government's compliance with the Fiscal Plan, including by preventing the execution or enforcement of the contract, rule, executive order or regulation.

(c) **RESTRICTIONS ON BUDGETARY ADJUSTMENTS.**—

(1) **SUBMISSIONS OF REQUESTS TO OVERSIGHT BOARD.**—If the Governor submits a request to the Legislature for the reprogramming of any amounts provided in a certified Budget, the Governor shall submit such request to the Oversight Board, which shall analyze whether the proposed reprogramming is significantly inconsistent

with the Budget, and submit its analysis to the Legislature as soon as practicable after receiving the request.

(2) NO ACTION PERMITTED UNTIL ANALYSIS RECEIVED.—The Legislature shall not adopt a reprogramming, and no officer or employee of the territorial government may carry out any reprogramming, until the Oversight Board has provided the Legislature with an analysis that certifies such reprogramming will not be inconsistent with the Fiscal Plan and Budget.

(3) PROHIBITION ON ACTION UNTIL OVERSIGHT BOARD IS APPOINTED.—

(A) During the period after a territory becomes a covered territory and prior to the appointment of all members and the Chair of the Oversight Board, such covered territory shall not enact new laws that either permit the transfer of any funds or assets outside the ordinary course of business or that are inconsistent with the constitution or laws of the territory as of the date of enactment of this Act, provided that any executive or legislative action authorizing the movement of funds or assets during this time period may be subject to review and rescission by the Oversight Board upon appointment of the Oversight Board's full membership.

(B) Upon appointment of the Oversight Board's full membership, the Oversight Board may review, and in its sole discretion, rescind, any law that—

(i) was enacted during the period between, with respect to Puerto Rico, May 4, 2016; or with respect to any other territory, 45 days prior to the establishment of the Oversight Board for such territory, and the date of appointment of all members and the Chair of the Oversight Board; and

(ii) alters pre-existing priorities of creditors in a manner outside the ordinary course of business or inconsistent with the territory's constitution or the laws of the territory as of, in the case of Puerto Rico, May 4, 2016, or with respect to any other territory, 45 days prior to the establishment of the Oversight Board for such territory; but such rescission shall only be to the extent that the law alters such priorities.

(d) IMPLEMENTATION OF FEDERAL PROGRAMS.—In taking actions under this Act, the Oversight Board shall not exercise applicable authorities to impede territorial actions taken to—

(1) comply with a court-issued consent decree or injunction, or an administrative order or settlement with a Federal agency, with respect to Federal programs;

(2) implement a federally authorized or federally delegated program;

(3) implement territorial laws, which are consistent with a certified Fiscal Plan, that execute Federal requirements and standards; or



- (4) preserve and maintain federally funded mass transportation assets.

**Section 205. Recommendations on Financial Stability and Management Responsibility (48 U.S.C. § 2145)**

(a) IN GENERAL.—The Oversight Board may at any time submit recommendations to the Governor or the Legislature on actions the territorial government may take to ensure compliance with the Fiscal Plan, or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency of the territorial government, including recommendations relating to—

- (1) the management of the territorial government’s financial affairs, including economic forecasting and multiyear fiscal forecasting capabilities, information technology, placing controls on expenditures for personnel, reducing benefit costs, reforming procurement practices, and placing other controls on expenditures;

- (2) the structural relationship of departments, agencies, and independent agencies within the territorial government;

- (3) the modification of existing revenue structures, or the establishment of additional revenue structures;

- (4) the establishment of alternatives for meeting obligations to pay for the pensions of territorial government employees;

(5) modifications or transfers of the types of services that are the responsibility of, and are delivered by the territorial government;

(6) modifications of the types of services that are delivered by entities other than the territorial government under alternative service delivery mechanisms;

(7) the effects of the territory's laws and court orders on the operations of the territorial government;

(8) the establishment of a personnel system for employees of the territorial government that is based upon employee performance standards;

(9) the improvement of personnel training and proficiency, the adjustment of staffing levels, and the improvement of training and performance of management and supervisory personnel; and

(10) the privatization and commercialization of entities within the territorial government.

**(b) RESPONSE TO RECOMMENDATIONS BY THE TERRITORIAL GOVERNMENT.—**

(1) **IN GENERAL.**—In the case of any recommendations submitted under subsection (a) that are within the authority of the territorial government to adopt, not later than 90 days after receiving the recommendations, the Governor or the Legislature (whichever has the authority to adopt the recommendation) shall submit a statement to the Oversight Board that provides notice as to

whether the territorial government will adopt the recommendations.

(2) **IMPLEMENTATION PLAN REQUIRED FOR ADOPTED RECOMMENDATIONS.**— If the Governor or the Legislature (whichever is applicable) notifies the Oversight Board under paragraph (1) that the territorial government will adopt any of the recommendations submitted under subsection (a), the Governor or the Legislature (whichever is applicable) shall include in the statement a written plan to implement the recommendation that includes—

(A) specific performance measures to determine the extent to which the territorial government has adopted the recommendation; and

(B) a clear and specific timetable pursuant to which the territorial government will implement the recommendation.

(3) **EXPLANATIONS REQUIRED FOR RECOMMENDATIONS NOT ADOPTED.**—If the Governor or the Legislature (whichever is applicable) notifies the Oversight Board under paragraph (1) that the territorial government will not adopt any recommendation submitted under subsection (a) that the territorial government has authority to adopt, the Governor or the Legislature shall include in the statement explanations for the rejection of the recommendations, and the Governor or the Legislature shall submit such statement of explanations to the President and Congress.

**Section 303. Reservation of Territorial Power to Control Territory and Territorial Instrumentalities. (48 U.S.C. § 2163)**

Subject to the limitations set forth in titles I and II of this Act, this title does not limit or impair the power of a covered territory to control, by legislation or otherwise, the territory or any territorial instrumentality thereof in the exercise of the political or governmental powers of the territory or territorial instrumentality, including expenditures for such exercise, but whether or not a case has been or can be commenced under this title—

(1) a territory law prescribing a method of composition of indebtedness or a moratorium law, but solely to the extent that it prohibits the payment of principal or interest by an entity not described in section 109(b)(2) of title 11, United States Code, may not bind any creditor of a covered territory or any covered territorial instrumentality thereof that does not consent to the composition or moratorium;

(2) a judgment entered under a law described in paragraph (1) may not bind a creditor that does not consent to the composition; and

(3) unlawful executive orders that alter, amend, or modify rights of holders of any debt of the territory or territorial instrumentality, or that divert funds from one territorial instrumentality to another or to the territory, shall be preempted by this Act.