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Executive Director

BY ELECTRONIC MAIL

October 28, 2026

The Honorable Jenniffer A. González Colón
Governor of Puerto Rico

The Honorable Thomas Rivera Schatz
President of the Senate of Puerto Rico

The Honorable Carlos Méndez Núñez
Speaker of the House of Representatives of Puerto Rico

Dear Governor González Colón, President Rivera Schatz, and Speaker Méndez Núñez,

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) is writing regarding the proposal the Governor announced publicly on Friday, October 23, 2026, and that the Puerto Rico Department of the Treasury (“PRDT”) outlined to the Oversight Board the same day in a preliminary fiscal estimate: a temporary suspension of the 6% Commonwealth portion of the sales and use tax (“SUT”) on prepared foods, carbonated beverages, candy, and confectionery products from November 1 through December 31, 2026. PRDT’s preliminary estimate puts the cost at approximately \$56.8 million in foregone revenue.

The Government is responding to rising energy prices, a serious issue around the world that burdens Puerto Rico families and businesses particularly heavily given electricity rates already high after decades of mismanagement of the energy system. The Oversight Board fully understands the desire to afford families and businesses some relief in this difficult time.

The proposal was not raised during our meeting on Wednesday, October 21, 2026, two days before it was announced. This is the second time this calendar year that tax relief has been announced outside the budget process, before its cost was identified or its effect on the certified budget and

the five-year financial plan analyzed. The amount at stake in this proposal is not the issue; the practice is.

Less than five months ago, the Oversight Board approved \$554 million in tax relief for Puerto Rico's workers and middle class under Joint Resolution 6-2026. The relief was funded entirely from identified, non-recurring sources, it did not affect the current budget, and it was paired with the Government's commitment to enact specific permanent fiscal safeguards: a statutory budget stabilization fund, a dedicated capital fund, and a credible, transparent five-year financial plan.

The Governor said as much when introducing the bills on May 7, 2026: "Por primera vez en nuestra historia, hoy presento legislación que formalmente establece un fondo de estabilización," and described the creation of the Budget Stabilization Reserve Fund and the Capital Fund as "otro paso importante de esta Administración en su compromiso de responsabilidad fiscal." The Oversight Board said the same day that one-time relief without permanent safeguards would signal that Puerto Rico has not institutionalized the changes needed to avoid the practices that drove its fiscal crisis.

The relief was delivered; the safeguards were not. The Legislative Assembly passed House Bills 1261 and 1262 unanimously in June with amendments the Governor had not agreed to, and the bills lapsed without the Governor's signature. The bills were reintroduced this session as House Bills 1391 and 1392 and have yet to move. Puerto Rico still has no funded budget stabilization fund in statute, no dedicated capital fund, and no five-year financial plan required by law. The Oversight Board is prepared to work with the Governor and the Legislative Assembly to enact them this session. What Puerto Rico needs is a law. Safeguards that are announced but never enacted are not safeguards, and they tell taxpayers and the capital markets that Puerto Rico has not changed.

The fiscal picture has not improved. Tax collections have been essentially flat for four consecutive fiscal years, the economy has slowed, and revenues no longer generate the kind of surplus the Government could deploy in previous years. What remains is largely restricted or committed: to the Commonwealth Plan of Adjustment, to the Plan of Adjustment for the Puerto Rico Electric Power Authority ("PREPA"), and to prior-year fund extensions already committed. At the same time, new recurring spending continues to be proposed without any recurring source to pay for it:

- Legislation to increase pension benefits, scored at over \$230 million per year, was introduced with no recurring funding source identified, less than two months after the budget for fiscal year 2027 was certified.
- The Puerto Rico Office of Management and Budget has before it multiple collective bargaining agreements, including negotiated salary increases, with a combined estimated cost of over \$100 million and no identified source of funds.
- The Puerto Rico Department of Education reports that it does not have sufficient funds to pay its current obligations, while it continues to identify prior-year liabilities that were not previously reported and for which no funding was set aside.
- Working together, the Government and the Oversight Board approved salary increases for the Puerto Rico Police with recurring funding in the fiscal year 2027 budget. Those

increases must stay fully funded, and police overtime, which has not declined as expected, continues to run above budget with no identified source of funds.

- The current level of federal Medicaid funding expires in fiscal year 2028, and no contingency plan exists to address the resulting potential gap.

Against that backdrop, a two-month SUT suspension on prepared food addresses a symptom not the cause: the absence of lower-cost generation. Electricity prices will come down when the cost of fuel goes down and or Puerto Rico adds new, lower-cost generation: the renewable projects stuck in planning for years, conversion of existing plants to natural gas, and new gas-fired capacity. A temporary SUT suspension does not change the cost of electricity, which restaurants will continue to face after it expires on December 31, 2026.

Temporary relief is not a substitute for tax reform, and neither is adjusting a rate here or there. The Oversight Board said in its January 30, 2026, statement that the proposal to lower individual income tax rates was not the comprehensive, holistic reform Puerto Rico needs: a simpler, fairer, and more efficient tax code that is one of the most direct tools available to stimulate economic growth. The Oversight Board supported one-time relief in May precisely because it could be funded responsibly while that broader reform was developed. That reform remains outstanding. Suspending one tax statute or another for a few months, outside a disciplined budget process, is the kind of ad hoc measure the Oversight Board has consistently opposed.

The Governor has said publicly that the proposal is now in the hands of the Oversight Board. PRDT submitted the draft Administrative Determination to the Oversight Board yesterday, on October 27, 2026, for review under Section 204(b)(4) of PROMESA. The submission does not identify a source of funds to offset the revenue loss. The Oversight Board will apply the same standard it applied in May: an identified, non-recurring funding source, consistency with the certified budget, and a fiscal impact evaluated across the five-year planning period. The Oversight Board has approved relief on those terms before and will again. The suspension should not take effect before that review is complete.

The practice of announcing relief and spending first and identifying the funding later, without a balanced five-year financial plan, is the practice that led Puerto Rico not to prosperity, but into bankruptcy. If the Government and the Legislative Assembly wish to meet PROMESA's mandate of fiscal responsibility and access to the capital markets, and to bring the Oversight Board's work to an end, this exercise has to be taken seriously. Rating agencies and investors will look for reserves protected by statute, recurring revenues aligned with recurring expenditures, and multi-year planning that outlasts any administration.

The Oversight Board therefore asks the Governor and the Legislative Assembly to work with it to (i) enact House Bills 1391 and 1392 into law in the current legislative session; (ii) supplement the Administrative Determination with the specific, non-recurring sources that offset its full cost and an analysis of its effect on the certified budget; and (iii) begin a serious discussion of comprehensive tax reform and a five-year financial plan that accounts for the pressures above, so that relief can last.

Hon. González Colón, Hon. Rivera Schatz, Hon. Méndez Nuñez

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We look forward to a productive discussion to find fiscally responsible solutions to the current challenges and to continue our work together for the benefit of the people of Puerto Rico.

Sincerely,



Robert F. Mujica Jr.
Executive Director

CC: The Honorable Ángel L. Pantoja-Rodríguez
Mr. Orlando Rivera Berríos
Ms. Norma Burgos Andújar
Ms. Vicky González Vega