

**Written Statement**  
**Hon. Ricardo Rosselló**  
**Governor of Puerto Rico**  
**U.S. Senate – Committee on Energy & Natural Resources**  
**Hearing, "Examine the State of U.S. Territories"**  
**February 26, 2019**

Good morning Chairwoman Murkowski, Ranking Member Manchin, and members of the Committee:

Thank you for the opportunity to appear before you today to discuss the state of the U.S. territory of Puerto Rico. As you are aware, Puerto Rico is confronting a number of very serious challenges, but I believe we are also at the cusp of a transformational moment that can shape our future and unlock the potential of our 3.2 million U.S. citizens for decades to come. It is not an overstatement to say that the actions my Administration, the U.S. Congress and the Executive Branch are taking today will either open the doors to equality, progress and success for Puerto Rico, or continue to yield social and economic stagnation that will further exacerbate existing demographic trends of mass outmigration and possibly lead to the further degradation and collapse of our island's society as we know it.

I am dedicating every waking moment of my Administration to advancing the former and preventing the latter. Today I invite you, indeed I implore you, to join me in this mission. Let's re-imagine, re-invent, re-capitalize and re-build a new Puerto Rico, one that can serve as a beacon of hope for the collective future of not only our island residents, but for America as a whole.

My testimony will focus on the following: (1) Puerto Rico's ongoing fiscal and debt restructuring under PROMESA; (2) the process of economic and disaster recovery and reconstruction, including the reconstruction of our entire energy sector; and (3) the need for equality under federal laws and programs, and the need for new tools to spur economic development and competitiveness. However, although all of these are necessary, none will be sufficient in unlocking the full potential of Puerto Rico unless Congress works with us to end the current unequal and undemocratic territory status and place Puerto Rico on the definitive path to full equality through statehood.

**Restructuring Debts, Restoring Fiscal Stability & PROMESA's Promise of Economic Growth:**

Long before Hurricanes Irma and Maria ever struck, Puerto Rico has suffered from decades of economic, fiscal, and demographic challenges. Due in large part to its unequal treatment under federal laws as a U.S. territory, as well as years of mismanagement both on and off the Island, Puerto Rico and certain of its instrumentalities had accrued over \$72 billion in public debt and over \$50 billions of dollars in unfunded pension liability that could not be satisfied with available revenues. Recognizing the need for Puerto Rico to restructure its debts, achieve fiscal stability, and regain economic growth, in 2016 the U.S. Congress passed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), P.L. 114-187.

• **Power Sharing and Debt Restructuring Under PROMESA**

Since taking office in 2017, I have confronted the challenging and time-consuming process of Puerto Rico's fiscal, economic and debt restructuring under PROMESA head on. We started out with the most complex municipal bankruptcy in U.S. history, which was further complicated by an untested statutory scheme that incorporated a unique power-sharing arrangement between the entire elected Government of Puerto Rico and the seven person, federally appointed Financial Oversight & Management Board ("Oversight Board"). That arrangement, which was only made possible by Congress' use of the

territorial clause of the U.S. Constitution<sup>1</sup>, has led to the Oversight Board repeatedly attempting to substitute its views of public policy for those of Puerto Rico's elected officials, and seeking to exercise control over the manner in which the Government operates or implements the fiscal plans which they are required by PROMESA to certify. Although this type of governance arrangement should have no place in a democracy, we have followed the rule of law, stuck to the process, and worked to make the best out of it.

Notwithstanding tensions and disagreements with the Oversight Board and aggressive litigation from certain of our creditors, I am proud that we have made real progress towards fiscal responsibility and renewed access to the capital markets. In the past four months alone, we have restructured more than \$21 billion in funded debt obligations. And we have done it largely consensually, balancing the needs and legal rights of Puerto Rico with the rights of the creditors. My Administration has been at the forefront in negotiating with creditors and executing on complex new bond issuances.

Specifically, in November of 2018, we consummated a deal that restructured more than \$4 billion in bonds issued by the Government Development Bank for Puerto Rico (GDB). We reached consensus with on-Island and mainland financial creditors in a highly innovative transaction that represented the first-ever use of Title VI of PROMESA. We also recently obtained court approval of a Title III plan adjusting more than \$17 billion of COFINA debt. We brought together bondholders, insurers and other parties to provide recoveries for creditors (many of whom are American citizens residing in Puerto Rico who invested their retirement funds in COFINA) in a deal that reduced debt and provided the central government with access to billions of dollars in revenue over the next 40 years. This money can be used to shore up our finances and take care of our most vulnerable residents.

In addition to our success in restructuring GDB and COFINA, we have also entered into a preliminary restructuring support agreement with an ad hoc group of Puerto Rico Electric Power Authority (PREPA) and are proceeding with negotiations with the ad hoc group and other creditors in an effort to complete the definitive agreements related the PREPA restructuring.

After years of hesitancy from the capital markets, we are seeing investors and investment begin to flow back to the Island, and we are determined to ensure that the human capital will follow. This marks a critical first step on our road to financial recovery.

- **Fiscal Plans and Structural Reforms**

Again and again, Puerto Rico has demonstrated a willingness to make the sacrifices needed to achieve fiscal responsibility and achieve meaningful structural change. We have worked with the Oversight Board to craft and adjust the Fiscal Plan (and certified budgets under it) to meet the evolving needs of Puerto Rico in a way that not only addresses the fiscal imbalances of the past, but that prioritizes pro-growth structural reforms in our economy as well as reforming our government structures to better reflect and respond to the needs and carrying capacity of our society.

Our commitment to collaboration with the Oversight Board is evidenced by our near constant dialogue with them and their advisors. The Government and its advisors have joined the Oversight Board's Executive Director in weekly meetings where Government officials agree to undertake tasks and assignments to produce information for the Oversight Board or to carry out necessary financial analysis. We have also complied with the Oversight Board's contract compliance policy and offered to provide the Oversight Board full visibility into Government requests for federal funds.

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<sup>1</sup> Section 101 of P.L. 114-187 states that, "The Congress enacts this Act pursuant to article IV, section 3 of the Constitution of the United States, which provides Congress the power to dispose of and make all needful rules and regulations for territories."

Regarding structural reforms, we have consolidated numerous agencies through legislation, and strengthened our underfunded pension system by moving to a PayGo retirement system. I am also proud to report that we have fulfilled my “Pledge for Puerto Rico” to reduce the size of the territorial government without firing anyone, while making it more efficient. We have reduced by 10.7% the number of government employees without firing anyone and are working to support those employees’ transition to the private sector. We have implemented the largest budget reduction from one year to the next in the last 40 years in all of the United States. Additionally, we have passed local tax reform to reduce rates, simplify the tax code and broaden the tax base, as well as executing countless other reforms that seek to increase the ease of doing business and spur private sector investment. Much remains to be done, but we are already seeing positive reactions within the economy.

- **Concerns and Risks with PROMESA**

It is critical to the legitimacy of this process that the Government of Puerto Rico always retain its democratically derived powers and I am committed to continue restoring our island’s credibility through concrete actions and a firm commitment to transparency and accountability. Yet, recent reports of a lack of transparency and potential conflicts of interests of the Oversight Board’s consultants are deeply concerning. We are reviewing the Oversight Board’s report to the U.S. District Court about how it intends to deal with these issues and hope that a meaningful resolution can be brought to bear in that venue. However, our Government also supports efforts to apply basic transparency principles to the Oversight Board through federal legislation as well.

As many of you know, the U.S. Court of Appeals for the First Circuit recently held that the method of appointing Oversight Board Members is unconstitutional. Although we whole-heartedly agree with that Court’s criticisms of the Insular Cases and believe that legal precedent was wrong when decided and has no place in America today, we are still evaluating our options for how to manage the practical impacts of this decision. But we anticipate needing further engagement with both Congress and the Executive Branch to ensure that the corresponding actions do not imperil the progress we have made to date and can support Puerto Rico’s continued advancement toward the core goals of PROMESA.

- **Congress Must Make Good on the Promise of Economic Growth Under PROMESA**

As Congress itself has repeatedly recognized, the need to restore Puerto Rico’s competitiveness and capacity to achieve economic growth is fundamental to the success of PROMESA. Yet while Puerto Rico has been busy making hard choices and taking concrete actions to advance steadily toward those objectives, Congress has so far failed to address the vast majority of the recommendations presented by the Congressional Task Force on Economic Growth for Puerto Rico.<sup>2</sup> The inescapable reality is that federal laws, policies and regulations set the boundaries of what is possible to accomplish in Puerto Rico’s economy. As countless economists and experts have noted, austerity alone will never accomplish the goals of PROMESA. Therefore, Congress must take robust and timely action to provide Puerto Rico with the tools to grow and prosper. I stand ready to work with this Committee and all of Congress to help make that happen.

**From Total Disaster and Devastation to Comprehensive Recovery and Reconstruction:**

The massive devastation caused by Hurricanes Irma and Maria in September 2017 has been documented amply before this Committee, Congress and in the national press. These events were total

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<sup>2</sup> Congressional Task Force on Economic Growth for Puerto Rico, “Report to House and Senate, 114<sup>th</sup> Congress,” December 20, 2016; <https://www.finance.senate.gov/imo/media/doc/Bipartisan%20Congressional%20Task%20Force%20on%20Economic%20Growth%20in%20Puerto%20Rico%20Releases%20Final%20Report.pdf>.

game changers for Puerto Rico -- laying bare the vulnerability caused by decades of underinvestment and deficient maintenance of the territory's critical infrastructure, and the immense challenges of responding to a disaster of this scale. The catastrophe and its aftermath have taught us that the lives, safety and security of the 3.2 million U.S. citizens of Puerto Rico depend as much on our local capacity to respond to the immediate emergency needs, as it does on the capacity to muster a proportionate and timely response from the federal government. Unfortunately, as academic studies have found, the federal response was faster and more generous across measures of money and staffing to Hurricanes Harvey and Irma in Texas and Florida, compared with Hurricane Maria in Puerto Rico.<sup>3</sup> And, although a number of factors publicly acknowledged by the Federal Emergency Management Agency (FEMA) led to this disparate and deadly outcome,<sup>4</sup> it is impossible to assert that Puerto Rico's lack of full voting rights and equal political power at the federal level because of our current territorial condition was not a major reason for this result.

Now 17 months into our recovery, and dealing with over \$100 billion in damages, we are seeing that the lack of equality for Puerto Rico is also a threat to our capacity to ensure that a comprehensive process of recovery and reconstruction takes place so that no future disaster will ever bring the same level of devastation to the island as Maria did. Earlier this month, in compliance with P.L. 115-123, the Bipartisan Budget Act of 2018 (BBA), I submitted to Congress a detailed status report on our federally mandated Economic and Disaster Recovery Plan for Puerto Rico.<sup>5</sup> The report includes details on both the progress and challenges of our recovery. Therefore, I will summarize a few key points from that document and then focus on the progress in reconstructing Puerto Rico's energy sector, which I know is of great interest to this Committee.

- **Implementation of the Recovery Plan**

The Recovery Plan set forth an ambitious and far-reaching vision for the future of Puerto Rico.<sup>6</sup> Beyond mere recovery, the vision expressed in the plan seeks to rebuild Puerto Rico's infrastructure in a way that not only achieves resilience, but that can help us create a new engine to drive the island's economic future. The plan emphasizes improved safety and disaster response capacity, but also reflects our vision of Puerto Rico's competitiveness within the global economy and our expanded value to the United States as an economic hub for the Caribbean and Latin America regions. Through integrated planning, government reform, public engagement, and a 21st century approach based on technological innovation, Puerto Rico is working to leverage its intellectual and physical resources to maximize investment in the Island's recovery, renewal, and future growth. Toward this end, the Recovery Plan identifies 276 Courses of Action (COAs) grouped into Capital Investments and Strategic Initiatives.

The Capital Investments focus on the following foundational areas: Energy; Communication/Information Technology; Water; Transportation; Housing; Public Buildings; Education; Health and Social Services; and, Natural and Cultural Resources. The Strategic Initiatives are designed to move beyond infrastructure recovery and focus on the following areas of long-term social and economic growth: Enhancing the Ocean and Visitor Economies; Modernization of

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<sup>3</sup> Willison CE, Singer PM, Creary MS, et al, "Quantifying inequities in US federal response to hurricane disaster in Texas and Florida compared with Puerto Rico," *BMJ Global Health* 2019; <https://gh.bmj.com/content/4/1/e001191>.

<sup>4</sup> Federal Emergency Management Agency, "2017 Hurricane Season FEMA After-Action Report," July 12, 2018, <https://www.fema.gov/media-library-data/1531743865541-d16794d43d3082544435e1471da07880/2017FEMAHurricaneAAR.pdf>.

<sup>5</sup> Gov. Ricardo Rosselló to Leaders of U.S. House and Senate, "Progress Report on Economic and Disaster Recovery Plan," February 14, 2019.

<sup>6</sup> Central Office for Recovery, Reconstruction and Resiliency, "Transformation and Innovation in the Wake of Devastation: Economic and Disaster Recovery Plan for Puerto Rico," August 8, 2018, <https://cor3.pr/assets/documents/pr-transformation-innovation-plan-congressional-submission-080818.pdf>.

Emergency Services; Agricultural Transformation; Digital Transformation; Transition to a 21<sup>st</sup> Century Workforce; Entrepreneurship Expansion; and, Reduction of Policy and Structural Barriers to Support Advanced Manufacturing.

Last year, we took the first steps by assigning each COA to a state government agency to act as the lead entity in its implementation. A total of 30 agencies were selected to be COA leads. Currently, each of the selected agencies has been tasked with developing specific action plans for the accomplishment of each COA under their purview. Each plan will describe the projects and related steps that must be taken, identify the funding sources, and lay out a timeline for completion.

- **Central Office of Recovery, Reconstruction and Resiliency (COR3)**

To ensure proper oversight, coordination, and execution of the COAs, I established the Central Office of Recovery, Reconstruction and Resiliency (COR3) in December 2017 with all necessary authority, powers, and capability to manage the post-disaster reconstruction. Recognizing the need for expert support to ensure the success of COR3, we underwent an extensive proposal process to contract a group of highly qualified third-party specialists with years of disaster recovery and reconstruction experience. In the last six months, COR3 established a comprehensive and effective digital information system designed to manage federal funding while also promoting accountability and transparency to all stakeholders. The Disaster Recovery System (DRS) is owned and operated by COR3 and is designed to have an independent data source, protections for data integrity, and system of record that can be used to reconcile discrepancies and push accountability as both federal and state partners work toward effective coordination and collaboration in the execution of all recovery programs. To increase the accessibility of the complex data within DRS as well as to support public awareness, COR3 has established a Transparency Portal website (<https://www.recovery.pr/en/home.aspx>) with the purpose of documenting and demonstrating the status of the recovery.

- **Challenges that Threaten Puerto Rico's Recovery and Reconstruction**

A series of decisions by federal agencies have slowed our post-disaster recovery, compared to the post-disaster recovery in other jurisdictions stateside, which threatens the timely and successful execution of our recovery plan. Among these are: inconsistencies in FEMA guidance with respect to the implementation of Section 428 Alternative Procedures for permanent work Public Assistance; significant delays in fixed cost estimate approvals by FEMA; unnecessary requirement of duplication in damage description and dimension analysis by FEMA; and, a lack of willingness by FEMA to end the 270 Manual Drawdown Process. Our reconstruction depends on us completing these processes as diligently and quickly as possible, and we rely on FEMA to get the job done. Puerto Rico has only had approximately 45 "Permanent Work" projects approved in the 17 months that have followed the Hurricanes. In stark contrast, in the same timeframe, over 13,000 projects were approved for Louisiana and Mississippi in the wake of Hurricane Katrina. The discrepancy is startling.

Additionally, we are deeply concerned by the Administration's departure from the New Orleans precedent in FEMA's denial of Puerto Rico's request for an extension of the 100% federal cost share on Categories A & B for emergency work. We have appealed the decision and the appeal has been denied, exhausting our administrative remedies and leaving only legislative options for relief.

Another area of grave concern to us are actions that appear to defy Congressional intent regarding FEMA's authority to provide assistance to restore disaster-damaged facilities or systems to industry standard and to restore functionality of the disaster-damaged facility or system without regard to pre-disaster condition. In the BBA, Congress crafted Section 20601 to ensure that the large investment of federal taxpayer monies into the recovery efforts on Puerto Rico and the U.S. Virgin Islands do not

end up throwing “good money after bad” by restoring facilities to a condition that would only cause them to continue to deteriorate, put people back into at-risk situations in sub-standard facilities, and result in both buildings and infrastructure not being reconstructed in a manner that meets current best-practices and standards. To do otherwise would be shortsighted and would not only waste the many billions of dollars of taxpayer funds that would be invested in Puerto Rico and the U.S. Virgin Islands, but also put the taxpayer at extraordinary risk the next time a hurricane or other natural disaster caused widespread impacts to the islands.

- **Need for Additional Disaster Supplemental Legislation**

To this day, the post-disaster needs of the U.S. citizens in Puerto Rico remain pronounced, and the House of Representatives recognized those needs with its passage of a Fiscal Year 2019 disaster relief supplemental appropriations bill - a bill that awaits Senate action and Presidential signature. Of the critical elements included in the House-passed bill, two stand out: an extension of the 100% Federal Cost-Share for FEMA Categories A & B and an additional \$600 million in funding for the Nutritional Assistance Program (NAP). Both of these requests are the direct consequence of Hurricanes Irma and Maria, and the absence of immediate Congressional action will only further delay the recovery of the nearly 3.2 million U.S. citizens of Puerto Rico.

The Category A & B work on the island is still not anywhere near complete, and our Government continues to face a critical financial situation exacerbated by the Hurricanes, island-wide economic recovery and the constraints of PROMESA. The extension we request is no different from the extension that was granted after Hurricane Katrina.

With regard to food security on the island in the near term, the House-passed disaster supplemental also included \$600 million in NAP funding, which would allow the Government of Puerto Rico to provide the same basic nutritional assistance that other states receive through the end of fiscal year 2019. Since 1982, Puerto Rico has been treated differently than the other States and Territories that participate in the U.S. Department of Agriculture’s Supplemental Nutrition Assistance Program (SNAP). Puerto Rico’s NAP block grant provides significantly lower benefits, has a much lower poverty threshold for eligibility, and leaves many vulnerable individuals and families in need without the food security that they would have if they were living in the states. The Hurricanes of 2017 greatly exacerbated the food insecurity on the island, and the pronounced need to address food insecurity still persists today as the island continues to struggle to recover and rebuild. The need will become even more acute very soon, since the \$1.27 billion in disaster NAP funding provided by P.L. 115-72, the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017, is projected to expire at the end of March 2019. In about a month’s time, nearly 230,000 NAP participants will either lose benefits or see a reduction in benefits. Congressional action on the additional \$600 million for NAP is needed to ensure the most vulnerable populations in Puerto Rico do not lose their critical nutritional assistance at the end of next month.

- **Transforming the Energy System**

Although power has been fully restored to homes and businesses in Puerto Rico after the island-wide blackout, the fact that it took almost a year to complete is absolutely unacceptable for me or my constituents. Access to reliable and affordable energy is fundamental to the functioning of our society and economy, and what this experience taught us is that Puerto Rico must never go through that again. Thankfully, we have made real progress toward the transformation of Puerto Rico’s energy system. Last June, I signed into law a bill to begin the process of privatizing PREPA and, as discussed below, we are making steady progress in that direction. The process seeks to carry out a concession for the transmission and distribution (T&D) functions, while simultaneously privatizing the development of

new generation capacity. This will allow for the hardening, modernization and standardization of our energy system as it is being rebuilt. The goal for the T&D reconstruction is that it will be designed to be able to withstand an extreme category 4 storm (such as Maria) with sufficient margins to ensure high survivability for a category 5 storm. The goals for the generation plan are significant savings of close to \$1 billion per year in energy costs for consumers on the island, as well as reductions in CO<sub>2</sub> emissions of approximately 50 percent in 10 years.

The process to privatize the T&D system is well underway. In late October 2018, the Puerto Rico Public-Private Partnerships Authority (P3 Authority) issued a Request for Qualifications (RFQ) seeking statements of qualification from companies and consortia interested in managing and operating Puerto Rico's electric power transmission and distribution system. The RFQ defined the project goals as: (i) delivery of low-cost electricity to ratepayers of Puerto Rico; (ii) increasing system resiliency and reliability; (iii) deployment of new technologies; and (iv) implementation of industry best practices and operational excellence. Four qualified RFQ respondents - Duke Energy Corporation, Exelon Corporation, PSEG Services Corporation, and a consortium formed by ATCO, Ltd, IRM and Quanta Services - were invited to submit responses to a Request for Proposal (RFP) issued in late January 2019. The process of developing RFP responses is ongoing.

We are also addressing the generation assets as part of remaking our energy sector. Our objectives with regard to generation include:

- Transfer of existing generation assets to private ownership and/or operations; establish framework wherein future generation assets are privately owned/operated;
- Reducing reliance on fuel oil and overall fuel cost;
- Modernizing the generation fleet, retiring inefficient units and increasing the development of renewable energy and natural gas-fired facilities;
- Investing in facility repairs and enhancements to improve system resiliency
- Leveraging proven energy storage, distributed energy, and “mini-grid” technologies to provide greater flexibility, reliability, and resiliency of energy supply;
- Improving dispatch capabilities by implementing modern technologies; and
- Improving overall system operational flexibility

Consistent with these objectives, we expect all new generation assets will be owned and/or operated by private entities and existing generation to be sold or otherwise privately managed. Although the ultimate plan for the privatization of the existing generation assets has not yet been finalized, we have taken two concrete steps toward this process: (i) the recent San Juan natural gas conversion contract, which should provide a framework for future fuel supply conversion, and (ii) development of the new Integrated Resource Plan (IRP).

The fuel conversion project involves upgrading Units 5 and 6 of the San Juan Combined Cycle Power Plant so that those units can operate on liquefied natural gas (LNG). The transaction, announced in December 2018, is one of the most flexible LNG/gas agreements in the world and undeniably the most flexible fuel supply agreement in PREPA's portfolio. This transaction should produce material savings for PREPA customers.

In addition, on February 13, 2019, PREPA filed a new Integrated Resource Plan (“IRP”) with the Puerto Rico Energy Bureau for review and approval.<sup>7</sup> The new IRP envisions the establishment of a

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<sup>7</sup> Siemens PTI, “Puerto Rico Integrated Resource Plan 2018-2019 Draft for the Review of the Puerto Rico Energy Bureau,” Prepared for Puerto Rico Electric Power Authority, February 12, 2019; <http://energia.pr.gov/wp-content/uploads/2019/02/PREPA-Ex.-1.0-IRP-2019-PREPA-IRP-Report.pdf>.

series of mini-grids, which are a design for energy transmission and distribution networks that systematically improves resiliency by separating the existing grid into pockets of critical loads served by distributed resources that can operate in both grid-connected and islanded modes. These mini-grids are distinguished from microgrids in that they utilize existing distribution infrastructure and can be sized much larger than typical microgrids; for example, one mini-grid will encompass the San Juan region. The proposed eight mini-grids will cover most of the island and will be able to withstand or recover very quickly from a catastrophic weather event. Putting in place the mini-grid concept, adding more distributed generation resources, including more renewable resources, and adding new, highly efficient natural gas-fired generating facilities, as the IRP envisions, will significantly reduce Puerto Rico's vulnerability to hurricanes and other weather events, and permit the island to respond quickly and effectively when they occur. At the same time, the planned changes to Puerto Rico's electric infrastructure will improve energy efficiency, reduce fuel costs and dramatically reduce air emissions. We are excited by the opportunity to lead the way into a future in which electric systems are more efficient, more reliable, more resilient and greener.

### **Equality in Federal Programs & Tools for Economic Growth:**

A fundamental limitation for Puerto Rico as it seeks to address the multiple overlapping crisis (economic, fiscal, demographic, political and disaster recovery) is that our current territorial status allows for structural inequality. As you are aware, under Puerto Rico's territorial status Congress can and does treat the island unequally under multiple federal laws, programs (such as Medicaid, Medicare, Nutritional Assistance, Child Tax Credit, Earned Income Tax Credit), and many other policies. This means that the Government and U.S. citizens of Puerto Rico cannot count on the same amount of federal support that state governments and residents receive and are expected to perform economically in an uneven playing field. The inequitable policies also lead to an overall quality of life in Puerto Rico that is below the standard in the states in multiple respects. Given the mobility of Puerto Rico residents, which as U.S. citizens can travel freely between the island and the states, and the growing population of stateside Puerto Ricans, island residents are keenly aware of the discrepancy in quality of life. As one would expect from rational persons, Puerto Rico residents aspire to attain a standard of living in the island equal to that afforded to our fellow citizens in the states and if they cannot obtain that on the island they simply leave and move stateside. The ongoing loss of population is detrimental to Puerto Rico's tax base, labor force, consumer demand, debt repayment capacity, and overall prospects for economic growth. In order for Puerto Rico to retain its population, attract newcomers and compete for new investments on an equal playing field, we need federal support that is in line with that provided to other U.S. citizens in the states.

- **Saving the Healthcare System**

The most notable areas of unequal treatment of Puerto Rico, which requires immediate Congressional action is federal healthcare funding. The federal government's inconsistent and incoherent healthcare funding and policy decisions toward Puerto Rico put the stability of the island's entire healthcare system at risk and have contributed to a mass exodus of medical and health professionals which cannot be easily replaced. This applies to Medicaid as well as to Medicare. For the Government of Puerto Rico, the Medicaid funding cliff represents a massive threat because on September 30, 2019, 7 months from now, the federal funding approved for the program after Hurricane Maria will expire. Along with the expiring of these funds, the federal matching for the program will be reduced from 100% to 55%, meaning that Puerto Rico will have to once again have to contribute a much larger share of its own funds than any other State with similar demographics. The current projection is that the remaining federal funds that are appropriated after September 30, 2019, will only cover 5 months of the federal share for the program. What this means is that Puerto Rico will not have enough federal funds to be able to provide benefits for the 1.3 million Medicaid enrollees in the next federal fiscal year.



The Medicaid cliff is already affecting the program and the continuation of our new healthcare model, it also creates great uncertainty for all of those who participate in it, including our hard-working healthcare professionals. This also places in jeopardy the extraordinary efforts and commitment to reinforce program integrity and federal visibility, such as establishing the Medicaid Fraud Control Unit and the Medicaid Management Information System (MMIS), which the U.S. Department of Health and Human Services (HHS) recognized as the fastest implementation for any MMIS program. Should Congress fail to act in a timely fashion, over 425,000 children will not have guaranteed access to their pediatricians, 305,000 of our elderly and disabled will have to survive without the care they deserve, 17,000 pregnant women will not be able to receive pre-natal care, and 12,000 newborns will enter this world without the assurance that they will survive their first year of life.

It is time for urgent action by Congress to fully fund Puerto Rico's Medicaid program and put an end to territorial inequality once and for all. Only this will allow the U.S. citizens that count on the Puerto Rico Medicaid to have guaranteed access to essential healthcare services. Congress must also end the inequalities in Puerto Rico's Medicare and Medicare Advantage programs, which also contribute significantly to the underfunding of our healthcare sector on the island and diminish the quality of life of our elderly.

- **Federal Tax Law Should Help Spur Economic Growth**

Another drawback of Puerto Rico's current status as an unincorporated territory is the inconsistency in how we are treated under federal tax laws where for some matters we are considered domestic and foreign for others. Although some argue that this has worked to our benefit because of the lack of federal income tax for island residents on their Puerto Rico derived income, this seeming advantage is nullified for the vast majority of island residents because of their unequal treatment or outright exclusion in federal programs and tax benefits like the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC).

The passage of P.L. 115-97, the Tax Cuts and Jobs Act of 2017, added yet another challenge to Puerto Rico with the imposition of the Global Intangible Low-Taxed Income Tax (GILTI) as if we were a foreign jurisdiction. While we do not yet know the full impact GILTI will have on Puerto Rico's manufacturing sector and the local tax revenues they generate, it's clear that the way this new tax was applied will do nothing to help Puerto Rico attract new investment and economic activity. Recognizing this, Congress should work to include other economic development tools for Puerto Rico, such as the application of a tourism industry tax credit and EITC to the island in any upcoming legislative vehicle with tax provisions or technical fixes before the end of this year. Credit is due however for Congress' effort to include almost the totality of Puerto Rico as an Opportunity Zone in tax reform. We are grateful for this policy and are aggressively working to utilize Opportunity Zones to attract new private sector investment to the island.

**Resolution of Undemocratic & Unequal Territorial Status:**

The question of Puerto Rico's ultimate political status and relationship with the Federal Government is intimately linked to the island's prospects for economic growth, fiscal stability, and successful disaster recovery. By allowing Congress and the federal Executive Branch to treat Puerto Rico differently and in ways that discriminate against the island and its residents, the current territorial status inherently limits our chances of success. It does this by allowing the propagation of federal laws and policies toward the territory that lack the coherence and consistency required to provide for the island's sustained socioeconomic development and growth. The democratic deficit generated by the lack of voting representation at the federal level results in an inability of the elected officials from Puerto Rico to exert sufficient influence in the federal policy and regulatory making process to be able to ensure that the island's needs, conditions and aspirations are duly considered and accounted for.

The unfortunate reality is that federal policy towards Puerto Rico is oftentimes executed as an afterthought and without a proper understanding of the circumstances of the island and its residents. There are countless examples of federal policies and practices that harm or limit Puerto Rico's economic development potential. Among these are the disparate treatment and sometimes-outright exclusion of Puerto Rico from a variety of federal programs, the island's exclusion from a multitude of federal studies and statistics, the disproportionately low level of federal procurement from businesses in Puerto Rico, and unnecessary regulations that limit interstate commerce such as the Electronic Export Information requirement.

Another factor that negatively impacts the island's economy is the significant levels of political and policy uncertainty and risk created by the territorial status at both the local and federal levels. For businesses making investment decisions this political and policy risk decreases the desirability of making investments on the island and it also increases the borrowing cost for the government and private businesses on the island.

The current reform process happening in Puerto Rico under PROMESA, and the post-disaster recovery and reconstruction, present an ideal opportunity to finally define the ultimate political future of Puerto Rico, and to begin a transition toward that end. Congress must act definitively to resolve Puerto Rico's future political status, because extending the failed 121-year-old territory status will only further delay the island's full economic, fiscal and demographic recovery as well as its reconstruction. Congress must resolve Puerto Rico's status to unleash its full potential and should implement the democratically expressed will of voters who have expressed twice in the last six years a clear desire to end the current territory status and to achieve statehood for Puerto Rico. Indeed, for America and Puerto Rico both, statehood is the best possible answer and the best path forward out of this century old issue and into a new century of economic growth and prosperity.

### **Conclusion:**

Despite our many challenges, the state of the U.S. territory of Puerto Rico is optimistic, determined and full of potential. In the 17 months since the Hurricanes of 2017 and nearly three years since Congress passed PROMESA, Puerto Rico has been challenged by the most damaging storms in U.S. history, significant population loss, as well as an island-wide recession. Despite these long odds, Puerto Rico continues to endure and recover. Our goal is to re-imagine, revitalize and rebuild Puerto Rico so that it can develop to its full capacity for the benefit of not only island residents, but for America as a whole. To do this we must recognize and acknowledge our past mistakes and work together diligently to correct them. If America's most challenged jurisdiction, Puerto Rico, can turn itself around and be transformed into a place of thriving prosperity, it can serve as a beacon of hope for all Americans, and a sign to the world that the best is yet to come. Statehood for Puerto Rico is not only about realizing Puerto Rico's full potential. It is about America living up to its most noble values by creating *a more perfect Union*.