



GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR

**Written Statement
Hon. Pedro R. Pierluisi
Governor of Puerto Rico
House Committee on Natural Resources
Hearing on "Build Back Better and the Territories."
March 24, 2021**

I. INTRODUCTION

Chairman Grijalva, Ranking Member Westerman, and members of the Committee:

Thank you for the opportunity to testify before you today to discuss how to improve the lives of the 3.1 million American citizens that call Puerto Rico their home. Puerto Rico is an extraordinary place, and in recent years, my constituents have faced numerous challenges. We have endured multiple natural disasters, a governance disruption, and the struggles related to the COVID-19 pandemic, which began over a year ago. All of these factors have added to an already complex environment, including the creation and operation of the Financial Oversight and Management Board (FOMB), as an effort to improve the Puerto Rico's fiscal and economic situation and the restructuring of its public debt. Even with the significant disruptions caused by all of these unprecedented events, we have made considerable progress.

On the debt restructuring front, Puerto Rico successfully restructured the financial obligations of its Government Development Bank, covering the first \$5 billion of Puerto Rico's \$74 billion bonded debt. Shortly thereafter, Puerto Rico was able to restructure the bonds issued by several of its instrumentalities, COFINA, Puerto Rico Aqueduct and Sewer Authority (PRASA), and Puerto Rico Infrastructure Financing Authority (PRIFA)-Ports, all with the backdrop of multiple creditor-initiated litigations involving the Government and the Oversight Board. As an example of the progress achieved to date,

Puerto Rico's Fiscal Agency and Financial Advisory Authority (FAFAA) and the PRASA have successfully refinanced \$1.4 billion of the utility's outstanding public debt, generating \$350 million in total debt service savings and approximately \$13 million in average annual debt service savings.

We are now at a crucial moment in our quest to end our government's bankruptcy proceedings and to be able to set our path forward to progress, since the Oversight Board recently submitted a Plan of Adjustment to restructure the largest portion of our bonded debt. My administration supports the financial terms of the plan presented before the Title III Court, except for the Oversight Board's proposed cuts to Puerto Rico's public pensions. As I have repeatedly stated, there is no need or justification for those cuts, since the Commonwealth's principal pension system was comprehensively reformed and Puerto Rico's public retirees already suffered significant cuts to their benefits before the creation of the Oversight Board.

Although we recognize that more work is needed, Puerto Rico has made great strides, and our government is heading in the right direction. We have met important milestones towards fiscal responsibility, including a significant reduction of government expenses, increasing cash balances, creating a PayGo system in order to honor the government's pension obligations, completing government agency consolidations, increasing transparency on the use of public funds, as well as advancing in the implementation of structural reforms.

It is important to note, that all that work was done while still reeling from two unprecedented hurricanes, historic earthquakes, a global pandemic, and a bureaucratic maze to access federal funding. But there is new hope. President Biden and Vice President Harris have made clear that the American citizens in Puerto Rico deserve to be treated with dignity and respect. That we deserve an equal chance to get ahead, and a government that treats all its citizens equally and has their back when the going gets tough.

According to the Build Back Better plan, the Biden/Harris Administration pledged assistance in Puerto Rico's recovery and renewal by:



- Supporting a full recovery and infrastructure reconstruction to modern standards;
- Investing in Puerto Rico’s future through economic development initiatives and support for families;
- Providing relief from unsustainable debt; and,
- Expanding access to education and workforce development.

II. SUPPORTING A FULL RECOVERY & INFRASTRUCTURE RECONSTRUCTION TO MODERN STANDARDS

Before assuming office, President Biden promised to ensure that Puerto Rico receives the federal disaster reconstruction funding that we urgently need to support the long-term recovery of the Island and increase our ability to withstand any future natural disasters. He specifically pledged to accelerate reconstruction funding, to ensure that recovery funds promote the development of local businesses and to help rebuild Puerto Rico’s infrastructure. And his Administration has already taken concrete steps to make this a reality.

Since I took office, my Administration has worked closely with the White House and federal agencies to ensure that federal funding is deployed efficiently, effectively, and in full compliance with appropriate laws and regulations. We are currently working with the Federal Emergency Management Agency (FEMA) and the Department of Housing and Urban Development (HUD) to remove onerous restrictions imposed on Puerto Rico that limit access to federal recovery funds, including Community Development Block Grants and Disaster Relief funding (“CDBG-DR”), and to accelerate approval of CDBG-MIT funds to mitigate potential future damages to our infrastructure.

As of September 2018, approximately 10 percent of federal relief and recovery spending was going to Puerto Rico businesses in the form of contracts and purchases. The Biden/Harris Administration is committed to ensuring that the Stafford Act’s preferences for local businesses for recovery work are followed and that federal agencies give additional incentives to provide contracts to Puerto Rico businesses, as called for in the Small Business Contracting Credit Act of 2019.



A cornerstone of President Biden's economic plan is an infrastructure package that will rebuild our Nation's roads and bridges, schools, utilities, ports, public transit, and other infrastructure. Since Puerto Rico's infrastructure has endured years of limited investment, which harms our potential for economic growth and development, we need to work together with Congress and the Administration to ensure that Puerto Rico's critical infrastructure and coastal habitats are rebuilt in ways that increase our capacity and resiliency to withstand any future natural disasters, in particular, promoting the transformation of our electric grid and power generation structure.

III. INVESTING IN PUERTO RICO'S FUTURE THROUGH ECONOMIC DEVELOPMENT INITIATIVES AND SUPPORT FOR FAMILIES

I would like to take this moment to thank the members of this Committee, Congressional leadership, and all the individuals and organizations who advocated for the enactment of the American Rescue Plan Act ("ARPA"). The Plan includes provisions that will significantly benefit Puerto Rico, as the Island continues to battle COVID-19. Specifically, it provides several historic changes to the Child Tax Credit ("CTC") and Earned Income Tax Credit ("EITC") programs that will have a huge impact on our most vulnerable population.

ARPA includes necessary provisions to help Puerto Rico recover from the effects of COVID-19 on our economy and quality of life. As a result, we can now put dollars into working families' pockets while also directing funds to the sectors of our economy that have been bearing the brunt of the crisis.

When President Biden and Vice President Harris arrived at the White House, our Nation was confronting the worst pandemic in modern history; in the past year, we have lost too many to the COVID-19 virus, and thanks to your leadership, we have begun to see the light at the end of the tunnel. You all made a promise to the American people, and you certainly delivered!

With appropriate federal support, Puerto Rico can get back on its feet and maintain a healthy, vibrant, self-sufficient economy. This means invigorating leading industries, including manufacturing. It also means providing steady employment and offering critical



support to dramatically improve the living standards of the American citizens of Puerto Rico.

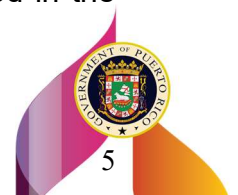
In addition, in accordance with the Build Back Better plan, the Biden/Harris Administration has pledged support to improve access to affordable, quality health care. The impacts of the COVID-19 pandemic have demonstrated the need for quality health care accessibility and a robust Medicaid program to address the needs of the medically indigent in our society. However, without continued federal funding of Puerto Rico's Medicaid program, Puerto Rico will not be able to provide adequate healthcare to all its citizens falling below the federal poverty level.

The Federal Government caps annual Medicaid funding for Puerto Rico and contributes to its Medicaid program at a far lower rate than if federal matching funds for Puerto Rico were determined the same way as in the states. Puerto Rico's Medicaid program, *Vital*, caps eligibility at 85 percent (85 %) of the eligible income level in the states, provides only 10 of 17 essential services, pays providers less, and spends less per enrollee. I will continue to advocate for equal treatment of Puerto Rico's Medicaid program with an FMAP based on Puerto Rico's per capita income.

The Build Back Better Plan includes expanding investment in community health centers and increasing the pipeline of health care providers. Community health centers are a critical part of the Puerto Rico's health care system, serving almost 360,000 patients. President Biden has promised to double the federal investment in community health centers – translating to an investment of an additional \$100 million per year.

I will fight to ensure that we are able to attain adequate long-term funding to provide the life-saving services patients require to meet their medical needs and to retain medical specialists by providing competitive reimbursements. Without proper federal funding, there will be a reduction of health care services exacerbating the ongoing medical crisis. Thus, I look forward to working with Congressional leadership and committees of jurisdiction to meet the health care needs of vulnerable U.S. citizens in Puerto Rico.

Moreover, according to a 2015 study, an alarmingly high proportion – roughly 33 percent – of adults in Puerto Rico are food insecure, a share that has increased in the



aftermath of subsequent natural disasters. While those living in U.S. states who meet SNAP eligibility criteria are guaranteed food support, families in Puerto Rico must make do with an annual block grant program that does not automatically adjust in higher need times. Also, funding for the program is inadequate to meet Puerto Rico's needs and is substantially lower than what would be spent if Puerto Rico were treated the same as a state.

Recent actions from Congress have provided temporary increases that have been very helpful to needy families. I look forward to working together with Congress and the Administration to make Puerto Rico eligible for SNAP and ensure that families in Puerto Rico who meet SNAP's eligibility criteria are given the same support they would receive on the U.S. mainland.

Also, equal treatment in Supplemental Security Income benefits would provide social justice to many vulnerable American citizens on the Island. The U.S. Court of Appeals for the First Circuit recently ruled that Puerto Rico residents should be eligible for the Supplemental Security Income ("SSI") program, yet the federal government appealed the ruling and the U.S. Supreme Court will review the case.

I join the members of this Committee who have publicly called for the U.S. Department of Justice to stop defending the disparate treatment that the American citizens of Puerto Rico receive in that and other federal programs.

IV. EXPANDING ACCESS TO EDUCATION AND WORKFORCE DEVELOPMENT

In order to fuel the modernization and growth of Puerto Rico's economy, the Federal Government must help strengthen Puerto Rico's public education system at all levels. The newly confirmed Secretary of Education, Dr. Miguel Cardona, has already pledged this assistance, for which I am very grateful. The Biden/Harris Administration has committed to help invest in and rebuild the public school system. In particular, Puerto Rico has a higher percentage of students receiving special education services than any state, which is why President Biden's national plan to triple Title I funding for schools



servicing children from low-income families and fully fund the Individuals with Disabilities Education Act (“IDEA”) is the right way to go.

Puerto Rico’s schools have been devastated by natural disasters and will take years to rebuild. Too many of Puerto Rico’s public schools do not meet current building codes for earthquake safety. President Biden’s infrastructure plan will provide \$100 billion for school construction, including funding specifically designated for Puerto Rico. This investment will enable Puerto Rico to make significant progress towards all students attending school in safe, healthy learning environments.

Additionally, keeping students in school and providing them with opportunities after high school requires strengthening the synergy between high schools, the University of Puerto Rico and community colleges, and employers; and giving every student the opportunity to earn college credit or a workforce credential in high school. A cross-agency Puerto Rico task force within the Biden-Harris Administration will provide guidance and technical assistance to help Puerto Rico leverage resources from the Department of Education, the Department of Labor, and the Department of Health and Human Services to support these goals. We must also promote work-based learning opportunities to ensure that workers in Puerto Rico can access individual career services that help find a job, develop a career plan, or get other forms of career coaching.

This must also include investment in the University of Puerto Rico as an engine of economic growth. As part of his Plan for Education Beyond High School, President Biden promised to commit over \$70 billion to Minority-Serving Institutions (“MSIs”) like the University of Puerto Rico.

There is no doubt that the pandemic exacerbated the need for increased mental health support. Trauma and disruption from hurricanes, earthquakes, and ongoing school closures have profoundly impacted Puerto Rico’s students. In the immediate aftermath of Hurricane Maria, approximately one-third of children reported feeling that their lives were at risk. Rates of post-traumatic stress disorder among children were twice as high as the rate in the general population. The Build Back Better plan would dramatically increase investment in students’ mental health, doubling the number of psychologists, school



counselors, nurses, social workers, and other health professionals in Puerto Rico's schools.

V. PROVIDING RELIEF FROM UNSUSTAINABLE DEBT

In his Build Back Better plan, President Biden recognized that to assure Puerto Rico's future, we must reduce our unsustainable debt burden; Puerto Rico's annual debt service is 28 percent of revenues, more than five times that of the average state. PROMESA aimed to address this crisis by providing tools to restructure Puerto Rico's debt and lead Puerto Rico's economic recovery. But when PROMESA was enacted, no one envisioned two devastating hurricanes, earthquakes, and a once-in-a-century pandemic.

The Plan of Adjustment I mentioned earlier seeks to reduce our annual debt service to a more manageable 7.5 percent of revenues, which is the average of the states with significant debt burdens. Sustainability is key and Puerto Rico needs to be able to keep our debt level controlled so that we can have a workable government and promote economic development on the Island. On the other hand, protecting public pensions is the right thing to do. Since 2013, public pensioners in Puerto Rico have seen dramatic reductions in their benefits: retirement ages have been increased, employee contributions increased, cost of living increases eliminated, and pensions outright cut. We must stand together to protect Puerto Rico's public retirees in the context of the pending debt restructuring.

In light of these current conditions and the advances in fiscal responsibility and management improvements still underway, the Financial Oversight and Management Board ("FOMB") needs a meaningful shift in approach. Significant headcount reductions and severe funding cuts have clearly undermined the government's need to improve its efficiency. Budgetary constraints have delayed reform implementations and some oversight processes have added unnecessary bureaucracy, in particular with regards to routine reprogramming of budgeted expenses. The FOMB should concentrate on assisting the Government on the adoption of accounting best practices, the continuation



of fiscal responsibility measures, prevention of unnecessary expenditures, improvement of technological expertise, and increased transparency.

President Biden pledged to support a review of FOMB policies, and to partner with the Government of Puerto Rico to make investments that promote economic growth, renew local infrastructure, and protect essential services. Therefore, we must work together to resolve Puerto Rico's financial challenges in a way that respects the authority of Puerto Rico's elected leaders to govern and establish public policy.

VI. COMMITMENT TO END 123 YEARS OF COLONIAL AND TERRITORIAL STATUS

Moving forward to a future of renewal and respect is not wholly possible without addressing the issue of Puerto Rico's political status, which has been debated for over a century. Even if Puerto Rico were given state-like treatment in all federal programs, it would fall short. The American citizens of Puerto Rico deserve equal political rights as well, representation in Congress and the right to vote for our President and Vice President.

This past November 3, in a straightforward Yes or No vote, a clear majority of Puerto Rico's voters declared, in no uncertain terms, that they want equality and no longer consent to being second class citizens. Fifty-two and a half (52.5%) percent out of the Island's 1.2 million voters chose statehood as the best option to solve Puerto Rico's status issue.

To ignore the plebiscite results is undemocratic and un-American. It is time for Congress to act on the moral and political imperative conveyed by our clear message. A few weeks ago, on the date we commemorated 104 years of United States citizenship, our democratically elected Resident Commissioner Jenniffer González-Colon and our friend Congressman Darren Soto filed a bi-partisan bill that represents the answer our people deserve. H.R. 1522 sets forth the process for Puerto Rico to become a state of the Union.



This is not the time to be talking about other options and convoluted processes mandated by Congress. The American citizens of Puerto Rico already chose their preferred process for self-determination. I respect those who advocate for other status options, but the Puerto Rican people made a clear, democratic choice expressing that statehood is their preferred path forward. Today, there can be no doubt about where the majority of the American citizens of Puerto Rico stand. It is Congress's responsibility to respond to that vote.

Everyone was able to express themselves. Those who want equality under the American flag voted Yes. All those who oppose statehood, for any reason, voted No. Our people said yes to joining the Union on the same terms as their fellow citizens in the states. We had the courage to hold an up or down vote on statehood, and the people chose statehood. Now we reassert that courage by asking Congress to offer statehood to the American citizens of Puerto Rico. Proposals for a new process to resolve the Island's status, because some didn't like the result, show a lack of respect to the people's vote.

I hear some say that we need consensus. Those of us who want equality can never consent to discrimination and unequal treatment. There can never be consensus for second class citizenship. The majority rules in our democratic system. And the majority in Puerto Rico wants statehood. It is up to Congress now to show the world that the democratic principles of equality apply to all American citizens. Puerto Ricans have earned it and we will fight for it until we achieve it.

