



Lee Saunders
President

Elissa McBride
Secretary-Treasurer

Vice Presidents

Se'Adoreia K. Brown
Miami Springs, FL

Richard L. Caponi
Pittsburgh, PA

Stacy Chamberlain
Portland, OR

Connie Derr
Albuquerque, NM

Greg Devereux
Olympia, WA

Danny Donohue
Albany, NY

Denise Duncan
San Dimas, CA

David R. Fillman
Harrisburg, PA

Henry A. Garrido
New York, NY

Mattie Harrell
Franklinville, NJ

Johanna Puno Hester
San Diego, CA

Danny J. Homan
Des Moines, IA

Nicholas J. LaMorte
Cammack, NY

Salvatore Luciano
New Britain, CT

John A. Lyall
Worthington, OH

Kathryn Lybarger
Oakland, CA

Roberta Lynch
Chicago, IL

Christopher Mabe
Westerville, OH

Glenard S. Middleton Sr.
Baltimore, MD

Victoria E. Mitchell
New York, NY

Douglas Moore Jr.
San Diego, CA

Frank Moroney
Boston, MA

Michael Newman
Chicago, IL

Henry Nicholas
Philadelphia, PA

Randy Perreira
Honolulu, HI

Steven Quick Sr.
Indianapolis, IN

Lawrence A. Roehrig
Lansing, MI

Joseph P. Rugola
Columbus, OH

Eliot Seide
South St. Paul, MN

Alan F. Shanahan
Los Angeles, CA

Paul Spink
Milwaukee, WI

Mary E. Sullivan
Albany, NY

Braulio Torres
San Juan, PR

Anthony Wells
New York, NY

Testimony of Steven Kreisberg Director of Research and Collective Bargaining Services

of the

American Federation of State, County and Municipal Employees

before the

Natural Resources Committee of the U.S. House of Representatives

for the Forum on

Puerto Rico's Ongoing Financial and Humanitarian Crisis: Economy, Debt-Restructuring, and Options for Recovery

May 2, 2017

American Federation of State, County and Municipal Employees, AFL-CIO

TEL (202) 429-1000 FAX (202) 429-1293 TDD (202) 659-0446 WEB afscme.org 1625 L Street, NW, Washington, DC 20036-5687



*Testimony of Steven Kreisberg
Director of Research and Collective Bargaining Services
American Federation of State, County and Municipal Employees (AFSCME)
before the
Natural Resources Committee of the U.S. House of Representatives
for the Forum on
Puerto Rico's Ongoing Financial and Humanitarian Crisis: Economy, Debt-Restructuring, and
Options for Recovery
May 2, 2017*

AFSCME is extremely concerned with the financial, social, health and safety, and personal upheaval resulting from Puerto Rico's continuing economic, fiscal and humanitarian crises. These problems afflict both Puerto Rico's institutions and nearly all Puerto Rico's 3.5 million citizens. AFSCME Council 95 (Servidores Públicos Unidos de Puerto Rico Council 95) leadership in Puerto Rico is very active and advocating daily along with AFSCME members, labor unions, and allied stakeholders to improve the situation. AFSCME President Lee Saunders is personally vested in this fight and, for example, met last week with Puerto Rico Governor Rossello on these issues. AFSCME is committed at the highest levels to see Puerto Rico through this crisis and to ensure we help rebuild the Commonwealth through a just and equitable process that creates opportunity for Puerto Rico's people.

While AFSCME shares the broad economic goal of strengthening the Commonwealth's overall economy and fiscal condition and is willing to contribute our share, it is generally acknowledged that Puerto Rico's workers have already paid a very steep price in this crisis. Thus, as we look ahead, it is important to highlight the need to protect public services and the workers who provide them; preserve the earned pension benefits of Puerto Rico government employees and retirees – especially fixed income seniors; ensure continued Medicaid and healthcare services; and prevent unnecessary and counterproductive privatization that will slow overall recovery efforts. Puerto Rico cannot cut its way out of its current challenges; the solution lies in economic growth and every action taken by the government and Oversight Board must be in pursuit of economic growth.

Puerto Rico's large debt and related issues are pressuring reductions to benefits, pensions, and the economic livelihood of working families and retirees. We hope to avoid a damaging austerity agenda and the resulting downward vicious cycle that would impoverish workers and retirees. We fear an austerity agenda could destroy the fragile economy and further cripple Puerto Rico for a generation.

We are extremely concerned with the fiscal plan proposed by the Governor and adopted, with amendments, by the Oversight Board. The Board amendments punitively triples the proposed pension reductions from, on average, 3 percent to 10 percent. The Board also amended the fiscal plan to require an additional \$200 million in personnel related reductions. This is in addition to the Governor's proposed personnel reductions of more than \$600 million for FY 2018. Combined, the personnel reductions are an \$800 million bailout to bondholders who, not satisfied with that payment on the backs of workers, are demanding even deeper cuts. Unfortunately, it appears the Governor and the Oversight Board seem intent on satisfying the voracious appetites of the bondholders. In FY 2019, the fiscal plan requires an additional \$900 million in personnel cuts. In aggregate, we estimate that one in four public workers could lose their jobs in order to bail out the investment of the bondholders.

To implement this plan, Puerto Rico's legislature adopted HB-938, which is an attack on collective bargaining agreements and collectively bargained benefits. AFSCME opposed the initial legislation and despite grassroots protests that forced amendments to remove its worst provisions, we remain very concerned with the bill. During a discussion with AFSCME President Saunders, Governor Rosello committed to working more closely with our local union in Puerto Rico and we have expressed our willingness to work with his government despite our numerous differences of opinion.

One such difference of opinion concerns the Governor's efforts to negotiate a settlement with bondholders. As reported this past weekend, the Governor has proposed a far too generous offer to the holder of General Obligation (GO) and sales tax backed (COFINA) debt. Make no mistake, the entirety of the Governor's proposed payments to these bondholders stems from personnel reductions and cuts in employee compensation. We believe these payments to bondholders is counterproductive as most of the payments will be transferred off-Island and will impair economic growth. For example, it is estimated that 80 percent of GO bondholders are off-Island.

However, AFSCME is very concerned about a PROMESA Title III filing based on the current fiscal plan which, as I have noted, is deficient in key respects. AFSCME supports the Title III process and encourages Puerto Rico to start as soon as possible, but the fiscal plan must first be fixed or addressed after the Title III adjustment process is invoked. AFSCME has working experience with the broad contours of restructuring in other jurisdictions, including the recent process in Detroit, which affected nearly one million Detroit residents, including more than 10,000 AFSCME members. In Puerto Rico, AFSCME represents approximately 12,000 active members and 13,000 retirees. We seek beneficial outcomes for AFSCME members, all working families and retirees, and Puerto Rico's broader economy. Unlike the bondholders, our members' roots in the community are both deep and broad.

Frankly, we are troubled that large profitable Wall Street financial firms are buying influence and trying to force wrong decisions that would benefit large institutional bondholders at the expense of Puerto Rico's workers and retirees, which would be a tragedy. A number of speculators are betting that they can use their economic and political influence to make good on a "buy low, sell high" strategy. Early indications are promising for them: the Governor's proposal this past weekend could provide bondholders with returns in excess of current market prices.

AFSCME greatly appreciates the leadership demonstrated by the House Natural Resources Committee Democrats and the Congressional Hispanic Caucus in co-sponsoring this Forum. We thank each Congressman and staff for their interest, time, and energy invested in developing and championing equitable sustainable solutions to help Puerto Rico's recovery. In particular, we appreciate your efforts to secure the Medicaid funding for Puerto Rico in the Continuing Resolution.