



**TESTIMONY BY MS. LILIANA CUBANO,  
ON BEHALF OF THE  
PUERTO RICO PRIVATE SECTOR COALITION  
before the  
U.S. House Natural Resources Committee**

***Full Committee Hearing: Full Committee Legislative Hearing – PROMESA:  
Discussion Draft (Day Two)***

**October 30, 2019**

**Chairman Grijalva, Ranking Member Bishop and Committee Members:**

Good afternoon and thank you for the opportunity to appear today before your Committee, and especially for your interest in the 3.2 million U.S. Citizens residing in Puerto Rico, a US jurisdiction larger in population than twenty states,.

I currently serve as the elected President of the Puerto Rico Products Association which is made up of several hundred local companies operating in Puerto Rico. I am a woman entrepreneur, business owner, and a Board Member of the Puerto Rico Private Sector Coalition which today is my privilege to represent. The Private Sector Coalition of Puerto Rico is comprised of 30 leading businesses, trade and professional organizations which constitute up to 90 percent of our islands' \$103 billion local GDP and 75 percent of the local jobs.



We appreciate the Chairman's efforts to reform PROMESA and the initiative to shift the focus away from austerity to one focused on economic growth as noted in Section Four of the Amendments to PROMESA Act of 2019.

We believe it is time to recognize that economic growth is the only true solution to the long-term challenges faced by Puerto Rico. Economic growth is critical to addressing the difficulties facing our island. Restoring economic growth will help create meaningful and well-paying jobs, stop the emigration and loss of our talented young people, expand our middle class, and generate revenues sorely needed by the local government that enable it to provide services and maintain infrastructure. Accomplishing this is the only way to successfully take Puerto Rico out of Bankruptcy.

We cannot lose sight of two key factors: One being that, since 2006 and prior to the 2017 hurricanes, our economy had been in free fall, losing 15% of GDP. Reconstruction was needed, not just from the hurricane, but from a long and deep economic contraction. Our infrastructure is crumbling under the impact of over 13 years of economic contraction and the effects of two major hurricanes in two weeks' time. The other factor is that the delay to obligate federal disaster recovery funds is delaying economic benefits to the people of Puerto Rico. Also, it is important to stimulate the productive capacity of the Island. In short, in order for Puerto Rico to recover a sustained growth path much more needs to be done than is currently underway



Let's state the obvious; Puerto Rico needs an agreed upon, holistic, long term economic growth strategy. We all recognize that meaningful economic growth in the productive sector is the only true solution to Puerto Rico's challenges of labor participation and tax revenue to support government services.

**RECOMMENDED SHORT TERM ACTION AGENDA FOR CONGRESS:**

While I will share our recommendations to our local elected officials as well as the Federal Oversight Management Board (FOMB) later in my statement, there are some important actions where Congress can be instrumental in putting Puerto Rico's economy on the path to growth in the short-term, including;

1. Prevent the impending Medicaid Cliff by enacting the bipartisan "Territories Health Improvement Act" advanced by a unanimous vote of the House Energy & Commerce Committee. The Medicaid funding provided in this package is critical to ensuring a vital health care system in Puerto Rico where every hospital, doctor and clinic is a Medicaid provider. If the Medicaid Cliff occurs, many local hospitals will be forced into bankruptcy and close to a million US Citizens will lose their Medicaid coverage.
2. We ask Congress to work to ensure that the flow of federal disaster recovery funds to the Island is maintained in a transparent and timely fashion. These funds have moved far too slow due to unnecessary delays. It is of particular importance that HUD complies with what Congress required under the 2019 Disaster Appropriations Act of 2019 and publish requirements for CDBR-DR



and mitigation funds. Of similar importance is that FEMA comply with Section 428 of the Stafford Act and allow PR professionally licensed engineers to certify cost estimates and expedite the project formulation process. There is still much reconstruction work to be done that should be dealt with immediately in order to be better prepared for the effects of a changing climate. Notably, almost 24,000 families still live under “blue tarps” over two years after Hurricane Maria.

3. We also recommend that Congress require that decisions made by the FOMB must be made with full consideration of the direct and indirect impact on the economy of Puerto Rico and our island’s ability to be competitive. Our islands need to achieve a goal of being a top ten jurisdiction in competitiveness and ease of doing business. The most obvious example of why this is needed is the PREPA RSA being advocated by the FOMB which will impose up to 48% increase on Puerto Rico’s already sky-high electricity rates. Imagine the impact of electricity rates of over 30 cents/kwh in your State. We need to substitute an inefficient public monopoly with an energy market that paves the way to an economic renaissance.

**RECOMMENDED SHORT TERM ACTION AGENDA BY THE GOVERNMENT OF PUERTO RICO AND THE FOMB:**

Puerto Rico is at a historical juncture and faces great socio-economic challenges. Recent studies conducted by the Federal Reserve Bank of New York show that, in



real terms, the economy of the Island contracted by more than 15 percent during the last decade. The analyses posed the following competitive challenges for the Island:

- **Improve labor market opportunities:** Puerto Rico's labor participation rate is among the lowest in the world, with less than half of the eligible workers participating in the formal economy. In addition, the unemployment rate has been persistently well above the median of the United States. The unemployment rate is especially high for young people.
- **Develop human capital:** We have the second most productive workforce in the hemisphere, second only to the mainland US. Although the workforce of the Island in general is among the most educated in the world, having one of the largest rates of college graduates in the nation, Puerto Rico is still lagging compared to the United States and other countries in terms of skills. There is a particularly high abundance of low-skilled workers. There is also a growing concern that the quality of the education system has deteriorated, especially at the primary and secondary levels. We need to develop a workforce that graduates from high school "work-ready" by the strengthening of pre-apprenticeship, apprenticeship programs.
- **Reduce the costs of doing business:** The business regulatory environment in Puerto Rico makes it expensive and cumbersome to establish and grow new businesses and expand existing ones. In particular, regulations, the high



cost of electricity, a cumbersome permitting process and expensive underdeveloped transport infrastructure are barriers to a more dynamic environment

Other entities such as the World Economic Forum and the World Bank point to the great potential and positive impact for the expansion of the Puerto Rican local business sector if true reforms are enacted.

Puerto Rico has a diverse, vigorous business class capable of generating wealth, and eager to make progress. It is vitally important to expand efforts to take advantage of the considerable strengths that Puerto Rico has, including a bilingual and well-educated adult population, an open economy that occupies a central position in the Caribbean, extensive experience as a host of multinational corporations and close ties with the United States. The public sector and the private sector must work together to make Puerto Rico's economic environment to support growth, development and innovation.

Given the background described above, economic activity and job creation in the short and medium term are of great importance.

**IT'S TIME FOR THE LOCAL GOVERNMENT AND THE FOMB TO ACT ON ECONOMIC REFORMS:**

**Our Recommendations:** Formulate and implement, during the next 30 days, an Action Plan that includes the following key actions which will advance sustained economic growth for Puerto Rico:

**1. PERMIT REFORMS - Simplify, and enhance the efficiency and effectiveness of the government building and business operating permits process in Puerto Rico**

- Streamline of permit procedures, differentiate between complexity of types of applications, reduce time and cost to complete all formalities and improve the quality control and safety mechanisms in the construction permitting system.

**2. TAXES - Reduce and simplify the tax code that suppresses the business climate in Puerto Rico.**

- Eliminate business inventory tax:
- Eliminate B2B taxes to stimulate the hiring of the services of local companies.
- Eliminate charges to cargo terminal transport trucks used in the inspection process (scanning) that is already carried out by the US Border Patrol. This duplicity is unnecessary and adds unnecessary costs at the ports.
- Conduct tax elasticity studies to assess which taxes negatively impact the business climate and consumption patterns in Puerto Rico.

**3. AIR CARGO TRANSHIPMENT HUB - Pursue with the US Department of Transportation an application for expanded cargo flexibility at its international airports to promote the use of the airports and our former**

**military airfields as international hubs for air cargo transportation between Latin America and Europe.**

- Puerto Rico is at the crossroads of the Caribbean and is a logical connecting point on air routes between Europe and Central and South America.
- Encourage international cargo carriers to use Puerto Rico airports as connecting hubs.
- The Puerto Rican tourism industry also stands to gain substantially from approval of the application. Puerto Rico has the potential to become one of the great tourist destinations of the world but lags behind our neighbors. We need to triple our current hospitality stock.

**4. EDUCATION**

- Maximize pre-apprenticeship and apprenticeship programs in order to obtain a certified and “work-ready” workforce.
- Implement Lifelong Learning concepts in order to develop the human capital of Puerto Rico. This would include initiatives to develop world-class practices of doing business (ease-of-doing business), promoting the internationalization and export of Puerto Rican products and services, and developing a culture of innovation.

**5. ENERGY AND INFRASTRUCTURE – Re-evaluate and restructure the proposed Puerto Rico Power Authority Restructuring Support Agreement (RSA) advocated by the FOMB.**

- The RSA, designed and approved by the FOMB, does not promote the economic development of Puerto Rico. Instead, its implementation could





result in the loss of over 170,000 jobs, a 22% decrease in our island's GNP, and create high inflationary pressures.

- Establish an energy open market and eliminate PREPA's role as the intermediary and unbundle tariffs.
- Promote clean energy and recycling initiatives as a priority of PREPA and other Puerto Rico government entities.
- Diversify energy sources – waste to energy as a way to help solve landfill problems, and seek a Jones Act exemption for LNG. To date, there are no US built vessels that can transport clean and economical LNG from the US Mainland to Puerto Rico. This will help to ensure our energy security and dramatically lower our generation costs.
- Create regional infrastructure commissions aimed at structuring recommendations that help the continuous improvement of the energy infrastructure in terms of maintenance, cleaning and repair needs.

**6. ECONOMIC POLICY – Seek input from the long standing private sector organizations representing local business, manufacturing and employees in policy discussions as solutions are assembled to Puerto Rico's challenges.**

- Establish a permanent Joint Economic Development Board, comprised by private and public sector representatives, with the authority to recommend and supervise the implementation of these and future key economic development strategies and initiatives that will promote Puerto Rico's competitiveness.



**7. TRADE – EXPORTS AND TRADE ARE A KEY COMPONENT NEEDED FOR GROWTH; LET’S BETTER POSITION PUERTO RICO WITH AN AGGRESSIVE EXPORT AGENDA.**

- Actively promote trade with Puerto Rico as a priority objective for all US commercial missions abroad and especially in the Caribbean and Latin America region.

**8. LABOR COSTS – Request the FOMB to exercise their powers to review and repeal Local Executive Order 2018-033 which compelled government-sponsored construction projects in Puerto Rico to instantaneous and disproportionately increase labor costs.**

Again, I want to thank the Committee for the opportunity to represent the Private Sector Coalition of Puerto Rico you today. The Private Sector Coalition of argues that economic growth is the only real solution to Puerto Rico’s challenges and we look forward to working with your Committee and the Congress to advance real solutions.

Attachments:

1. Private Sector Coalition Letter on Medicaid
2. Private Sector Letter to Governor on PREPA RSA



September 4, 2019

Hon. Charles Grassley  
Chairman, Finance Committee  
United States Senate  
Washington, DC

Mr. Chairman:

The Private Sector Coalition of Puerto Rico is comprised of over thirty business, trade and professional organizations representing the primary job creators and taxpayers of Puerto Rico. We are committed to fostering policies that advance the interests of the 3.4 million U.S. Citizens who reside on our island and promoting economic growth.

Our letter serves to express our support for the provisions contained in the "Territories Health Improvement Act" as approved by the House Energy & Commerce Committee on July 23rd. We appreciate the bipartisan work of this Committee and look forward to working with you to enact this vital legislation into law.

We note that the availability of quality of health care is an important component of our strategy to grow our local economy and retain our workforce. Every family considers health care availability as a factor in choosing where to live and work and we seek certainty and stability for our local health care system. We continue to argue that economic growth is the only true solution to the challenges faced by Puerto Rico.

We welcome the Finance Committee's attention to the impending "Medicaid Cliff" facing Puerto Rico's Medicaid system in the third quarter of 2019. Without immediate action by Congress, we face a devastating loss of 85% of our Federal Medicaid funding likely forcing a large number of Medicaid enrollees to lose their coverage and also jeopardize the financial stability of every hospital and health care provider in Puerto Rico.

While we have always advocated for a permanent solution to the recurring issue of the Medicaid Cliff and the need to more fairly allocate funding for Puerto Rico's Medicaid program, we note that the House Energy & Commerce Committee advanced legislation will provide four years of increased Federal funding totaling \$12 Billion and give our local Medicaid program the stability to address key issues impacting providers; especially our local hospitals and our patients. Every Puerto Rico health willing care provider is a Medicaid provider and after many years it's time for a rate increase in reimbursements for local hospitals and providers, which among other is part of the intent of the "Territories Health Improvement Act".



The Private Sector Coalition has also long supported efforts by Congress to ensure the integrity of the Medicaid program and its administration in Puerto Rico. We appreciate your desire to ensure proper administration of Medicaid funding by the local government and look forward to collaborating with you to design these additional requirements to ensure the Government of Puerto Rico protects the integrity of the program with no resulting harm to patients, to local providers and their ability to deliver quality care for every Medicaid eligible patients.

It's important to point out that health care providers in Puerto Rico are forced to operate with much lower reimbursement rates than their counterparts in the States. In fact, our Medicaid reimbursements are barely one-half or less than the U.S. average and our local hospitals have not received a rate increase since 2011.

The Medicaid Cliff and the uncertainty it has created over the past decade has been a major contributing factor to the loss of doctors, specialists and health care professionals who have been recruited away by stateside health care systems offering more generous compensation packages. The uncertainty and financial squeeze imposed on Puerto Rico's health care providers has made it very difficult to offer attractive and competitive compensation packages to retain our experienced, bilingual medical staff and professionals. The inability of our Medicaid system to provide a reimbursement increase for hospitals and other providers since 2011 due to the combination of a significantly lower level of Federal funding along with uncertainty of the impending Medicaid Cliff has been a primary factor for this loss. This has certainly impacted the ability of Puerto Rico's health care system to provide readily available care to the Medicaid population as well as to the general population throughout Puerto Rico.

Another consequence of the uncertainty created by the Medicaid Cliff is the impact on the ability of Puerto Rico's hospitals and clinics to modernize and upgrade their physical plant and facilities as well as medical diagnostic and treatment technologies. Approximately, 90% of local hospitals are privately owned and have 30 – 40 year old buildings and physical plant. These hospitals are dependent on bank financing to make physical improvements and upgrades. However, the short-term approach to addressing the Medicaid Cliff has resulted in local banks being hesitant to provide financing for improvements. Puerto Rico's providers are willing to invest and want the most state-of-the-art facilities and equipment to provide quality health care. We must remember that banks always look at the long-term ability of their clients to repay their loans and without the guarantees provided by a permanent solution to the Medicaid Cliff, bank financing has been limited. This lack of financing has delayed and frozen the ability of local hospitals and clinics to modernize and obtain the best medical technologies.

In addition to the main issue of the Medicaid Cliff, In May of this year, the Government of Puerto Rico, together with private sector leaders, outlined a list of critical sustainability measures to provide essential health services to Puerto Rico's Medicaid recipients. They are very specific and have been enclosed with this letter.

# COALICIÓN del Sector Privado

Again, we are grateful for your leadership you have shown on issues impacting the U.S. Citizens residing in Puerto Rico. We look forward to working with you towards the timely enactment of a real solution to the Medicaid Cliff and ensuring quality health care for the 3.4 million US Citizens residing in Puerto Rico.

Best Regards,

*Puerto Rico Private Sector Coalition*

Cc: Ranking Member Wyden

## Puerto Rico Private Sector Coalition



Puerto Rico Hospital Association



Puerto Rico Farm Bureau



Puerto Rico Manufacturers Association



Puerto Rico Chamber of Commerce



Puerto Rico Products Association



Puerto Rico Hotel & Tourism Association



Puerto Rico Builders Association



Puerto Rico Society of CPAs



Puerto Rico Business Retailers Association



United Retailers Association



Puerto Rico Automobile Distributors Association



Puerto Rico Restaurant Association



Puerto Rico Shippers Association



Society for Human Resources Management



Medical Devices Cluster

# COALICIÓN del Sector Privado



Latin American Business Council



Puerto Rico Chamber of  
Marketing, Industry, and  
Distribution of Food



## MESSAGE TO THE GOVERNOR:

### **RETHINK PREPA'S RESTRUCTURING AGREEMENT (RSA) AND OTHER MEASURES IN PREPA'S FISCAL PLAN TO PROMOTE PUERTO RICO'S ECONOMIC DEVELOPMENT**

Dear Governor Vázquez Garced:

Puerto Rico's economy is in jeopardy of being further weakened by the actions of the Federal Oversight and Management Board (FOMB) imposing significantly higher electricity (almost 10 cents / kilowatt-hour) rates on consumers and business over the next five years.

The RSA, and other measures in the PREPA Fiscal Plan, as conceived and approved by the Fiscal Oversight and Management Board, does not help to promote the economic development of Puerto Rico. In fact, the implementation of these measures is projected to cause over the next 5 years:

- 1. Loss of over 170,000 jobs.**
- 2. 22% decrease in the Puerto Rico Gross National Product.**
- 3. Triple the inflation rate and continues to increase further on**

These significant increases in operating costs will have the following negative effects on the economy:

1. In commerce, the increase is normally transferred to consumers, reducing the purchasing power of the general population and increasing incentives for migration.
2. In manufacturing, it reduces the ability to compete in international markets.
3. In the government, it will aggravate the present fiscal crisis.

The study developed by the respected economist Ramón Cao-García PhD. and commissioned by the Consumers Representative on the PREPA Governing Board is the only report and analysis that has been published detailing the effects of the RSA agreement and the other measures in the PREPA Fiscal Plan. This study provides the basis and starting point of a broad discussion and responsible evaluation leading to solutions and alternatives. We urge your Government to analyze Dr. Cao's study, present any alternative study currently available in the Government, and from the open analysis, Puerto Rico will benefit.

The Private Sector Coalition urges that the debt restructuring agreement with bondholders (RSA) be openly discussed and reevaluated, and if there are no documents or credible studies that support said agreement, that it be withdrawn and re-submitted again after proper revisions.

The Puerto Rico Energy Bureau is the proper entity for jurisdiction over the periodical review of the debt restructuring charge and should be given authority to adjust it to respond to changes



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in consumption. The chart of pre-established Transition Charge increases included in the RSA which showed increases in the charge by 64.5%, should not be used.

The additional measures included in the PREPA Fiscal Plan should be discussed with the Fiscal Oversight and Management Board to avoid or redistribute them outside the electricity rate, to promote the sustainability of our electrical system and the economic development of Puerto Rico.

PREPA must pay its debt. However, it is important to consider how much Puerto Rico can pay without overly restricting its financial capabilities, and also considering the consequences these costs have on the economy. This agreement must put consumers and the competitiveness of Puerto Rico's business sector first in order to ensure our sustainability and competitiveness.

Dr. Cao-García's study provided a reasonable alternative and proposes a moderate increase of 1.91 cents per kilowatt-hour, instead of the close to 10 cents / kilowatt-hour resulting from the RSA and the other measures in the Fiscal Plan. This increase is equivalent to an annual debt service payment of \$ 281 million, corresponding to a restructured debt of \$ 4,668 million, with a maturity of 40 years at an interest rate of 5.25%.

The effects, over a period of five (5) years, of the moderate rate increase of 1.91 cents / kilowatt-hour proposed on the Cao-García report compared to the increase of 10 cents / kilowatt-hour in the RSA and Fiscal Plan, are as follows:

- 1. Employment:**
  - a. Increase of 2,294 jobs**, instead of a loss of over 170,000 jobs.
- 2. Gross National Product:**
  - a. Decrease in the Gross National Product of 4.43% (with a trend of economic growth) instead of a 22% decrease (with a tendency to decrease in economic growth).**
- 3. Production Costs:**
  - a. Increase for the wholesale and retail sector of 0.22% (a minimum increase) instead of an increase of 2.7%, which is equivalent in many cases to the profit of a small and medium business.**





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- b. Increase in the manufacturing sector of 0.19% (a minimum increase) instead of an increase of 1%, which is significant considering global competitiveness.

Madam Governor, the RSA and the measures included in the Fiscal Plan of PREPA go against the economic development of Puerto Rico. We want to meet with you as soon as possible to identify ways to mitigate the impact of the proposed increases in electricity costs to an already fragile Puerto Rican economy.

Respectfully,

**Board of Directors  
Puerto Rico Private Sector Coalition**

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**CARLOS M. RODRIGUEZ**  
PRESIDENT  
PUERTO RICO MANUFACTURERS ASSOCIATION  
ASSOCIATION

**LILIANA CUBANO**  
PRESIDENT  
PUERTO RICO PRODUCTS



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**JOSE LEDESMA-FUENTES**  
PRESIDENT  
PUERTO RICO CHAMBER OF COMMERCE

**EMILIO COLON-ZAVALA, PE**  
CHAIRMAN  
PUERTO RICO BUILDERS ASSOCIATION