

TESTIMONY OF
OMAR MARRERO, ESQ., CHIEF FINANCIAL OFFICER FOR THE GOVERNMENT
OF PUERTO RICO
AND
EXECUTIVE DIRECTOR OF THE PUERTO RICO FISCAL AGENCY AND
FINANCIAL ADVISORY AUTHORITY (AAFAF)

before the

House Committee on Natural Resources
Hearing on Proposed Amendments to the Puerto Rico Oversight, Management, and
Economic Stability Act (PROMESA)

Hearing Date: October 22, 2019

Chairman Grijalva, Ranking Member Bishop, and Members of the Committee, I am Omar Marrero, Chief Financial Officer for the Government of Puerto Rico and Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF). I am honored to appear before you today on behalf of Wanda Vázquez Garced, Governor of Puerto Rico. Thank you for the opportunity to provide this oral testimony on the proposed amendments to PROMESA.

The proposed amendments are a good faith attempt to address certain specific issues that have arisen in the implementation of PROMESA and many of them are worthy of consideration. I am concerned, however, that certain of the proposed amendments do not address critical issues that have hindered the effectiveness of PROMESA and impose unnecessary bureaucracy in areas where we are already making progress. I address those issues here.

Fiscal Plan and Budgeting Process

The proposed amendments do not address the flawed fiscal plan and budgeting process. PROMESA created a power-sharing arrangement that contemplates the Oversight Board setting spending caps or limits within which the Government of Puerto Rico determines spending in line with its public policy. In certain instances, the Oversight Board has used its fiscal plan and budgetary power to impose detailed spending restrictions that have the effect of dictating public policy - an approach that undermines the Government's powers and turns the Oversight Board into something more akin to a control board. The lack of a forum for the Government of Puerto Rico to challenge the Oversight Board's decision to certify a fiscal plan or budget exacerbates this problem. While we are working diligently with the current Oversight Board to establish a more effective process, this concern with PROMESA is broader than our current relationship and will impact how future administrations and future oversight boards work together.

To address this issue, I submit that sections 201 and 202 of PROMESA should be amended to make clear that the Oversight Board's fiscal plan and budgetary powers do not extend to determining day-to-day operating level expenditures. In addition, section 106(e) of PROMESA should be amended to provide a mechanism for the Government of Puerto Rico (but not other third parties) to review and potentially challenge Oversight Board fiscal plan and budget certifications. This would (1) allow the Government of Puerto Rico to enforce the key provisions required in fiscal plan and budgets and (2) prevent abuses of power that strip the Government of Puerto Rico of its ability to make operational decisions.

Additional Bureaucracy

The proposed amendments would create additional bureaucracy in the form of a Puerto Rico Public Credit Comprehensive Audit Commission, an Office of Reconstruction Coordinator for Puerto Rico, and a Revitalization Coordinator for Puerto Rico Electric Power Authority. These functions are either unnecessary or are already being addressed by the Government of Puerto Rico and/or the Oversight Board.

Puerto Rico Public Credit Comprehensive Audit Commission. The Oversight Board has already completed and published a comprehensive audit of Puerto Rico's debt and commenced litigation to invalidate certain bond issues based on that audit. Repeating that exercise would only result in an unnecessary expense and create a strain on resources. Nor is such a Commission necessary to address future debt obligations as we are working with the Oversight Board to incorporate certain debt management policies into the Title III plan of adjustment that will limit Puerto Rico's ability to incur debt in the future to an appropriate level.

Office of Reconstruction Coordinator for Puerto Rico. Establishing another agency to manage Puerto Rico's use of recovery funds is likewise unnecessary. Puerto Rico established the COR3 to promote and implement reconstruction efforts with efficiency, effectiveness, and transparency. Among its many other functions, COR3 established a transparency portal (found at <https://www.recovery.pr/home>) that provides detailed information about the uses of federal recovery funds provided to the island. COR3 has

been very successful in its mission and has provided unprecedented transparency on the use of recovery funds.

The challenges with regard to federal funding relate primarily to the difficulties in coordinating the various federal agencies that provide funding. The requirements for receiving the appropriated funding are often opaque and seem to change regularly. I believe that Puerto Rico would benefit from the federal Government providing a coordinator who could work with the various federal agencies as a liaison to assist the Puerto Rico Government in accessing the federal funding sources.

Revitalization Coordinator for Puerto Rico Electric Power Authority. The Government of Puerto Rico and the Oversight Board share a common goal of transforming the electric system in Puerto Rico. We are working to bring private management to the transmission and distribution system, encouraging private investment in and building of new generation, and creating a strong and predictable regulator. We have made substantial progress with well-known and qualified private parties toward a contract for management of the transmission and distribution system and hope to select a counterparty and begin implementation of that transaction early in 2020. We have also established the Puerto Rico Energy Bureau and begun the revamping of the generation assets. Our goal is to address PREPA's liabilities through a plan of adjustment in 2020 concurrently with the transition to a private operator of the transmission and distribution system. We expect the transition to the private operator to start in early 2020 and be

completed by year-end. Appointing a Revitalization Coordinator for PREPA would disrupt the on-going process and potentially damage Puerto Rico's overall recovery efforts.

I appreciate the efforts of the Committee to make PROMESA a more effective law that can better meet the needs of Puerto Rico. I look forward to working with you to achieve a brighter future for the people of Puerto Rico and look forward to your questions.