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United States Department of the Treasury
House Committee on Natural Resources
Legislative Hearing on a Discussion Draft of the
Puerto Rico Oversight, Management, and Economic Stability Act
April 13, 2016**

Chairman Bishop, Ranking Member Grijalva, and Members of the Committee:

Thank you for inviting Treasury to testify today. We are encouraged by the seriousness of purpose that the Committee has brought to this task. Significant progress has been made in designing the elements of the bill. But more work is required to ensure a responsible solution to the escalating crisis in Puerto Rico.

We look forward to continue working with you and your staff to further refine the legislation immediately following today's hearing.

URGENT SITUATION IN PUERTO RICO

As this Committee is well aware, Puerto Rico is already in distress. The Commonwealth has already defaulted on its debt. Litigation is mounting. Puerto Rico has no access to credit markets, even the costliest ones. Puerto Rico's debt trades at prices between 10 and 70 cents on the dollar.

The effects of the crisis become more evident by the day. Health, education, and public safety services have been curtailed because the government is out of cash and cannot pay its bills. Suppliers are owed more than \$2 billion. Hospitals have closed floors and terminated employees. The largest private hospital system in Puerto Rico recently notified its staff that it must layoff nearly 500 workers, 10 percent of its workforce.

There are inadequate funds to respond to the spreading Zika virus. Fuel supplies for the government's ambulances, police cars, and fire trucks are dangerously close to being cut off.

Last week, the governor was forced to declare a state of emergency for the Government Development Bank (GDB), the Commonwealth's key fiscal agent and lender of last resort. That action restricts the ability of Puerto Rico's agencies, municipalities, and other public instrumentalities from withdrawing deposits held at the Bank. It also threatens to disrupt many programs and services throughout the Island.

A moratorium on all debts of the Commonwealth has been authorized and may be invoked for the GDB, which has a major payment coming due in two weeks.

COMMENTS ON THE PROPOSED LEGISLATION

In October of last year, the Administration introduced a comprehensive plan that included four core elements: broad restructuring authorities, independent oversight, adequate funding of healthcare services, and incentives to drive economic growth.¹

While the Administration believes all elements of its legislative proposal are essential to arrest the crisis in Puerto Rico and set the stage for economic renewal, the legislation under consideration today attempts to address the two most urgent requirements: debt restructuring and fiscal oversight.

I commend the Committee for producing draft legislation that seeks to provide Puerto Rico with those essential tools and attempts to do so in a way that provides the ability to reach a sustainable solution across all of Puerto Rico's debts. However, despite the progress that has been made, there are still vital questions of workability in the draft bill that must be resolved.

First, we support tools that facilitate voluntary restructurings. But the bill's version of a collective action clause imposes an unworkable, mandatory process that will only delay the ability to reach a comprehensive resolution. Under the proposed approach, all of Puerto Rico's numerous debtors would have to complete a complicated process before any single entity could begin to restructure.

Second, any stay on litigation must ensure that the Commonwealth has sufficient breathing space to allow for voluntary negotiations. A stay must also allow for a transition without interruption from voluntary negotiations to a period of restructuring, if needed. As drafted, there is a risk the stay may terminate prior to the commencement of a restructuring, resulting in a chaotic race to the courthouse.

Third, the process for entering restructuring should not require a super-majority vote of the Board. A minority of the Board should not have veto power at the critical juncture when all other options have been exhausted.

Finally, the legislation must more evenly balance competing policy priorities. Undermining the minimum wage and overtime rules in Puerto Rico, thereby increasing the disparities in pay between Puerto Rico and the mainland, is not a recipe for economic growth. Rather, we believe a locally administered Earned Income Tax Credit is a more powerful and effective way to stimulate the economy and encourage work. The Administration also opposes efforts to undermine the protection of the Vieques National Wildlife Refuge and other wildlife refuges nationally from development and environmental destruction.

And, the legislation must offer a responsible process to ensure the retirement security of the 330,000 citizens in Puerto Rico that will depend on their pension benefits.

CONCLUSION

In short, while the Committee has made progress, there is additional work to do. If Congress does not act, the situation will only get worse. Action is required now to protect the safety and economic well-being of the 3.5 million American citizens in Puerto Rico.

ⁱ Addressing Puerto Rico's Economic and Fiscal Crisis and Creating a Path to Recovery: Roadmap for Congressional Action." Dated October 21, 2015. Available at: https://www.whitehouse.gov/sites/default/files/roadmap_for_congressional_action_puerto_rico_final.pdf.