

Written Testimony of Anthony A. Williams, Senior Strategic Advisor to Dentons, US LLP, former Mayor of Washington, D.C., Submitted to the Subcommittee on Indian, Insular and Alaska Affairs In Conjunction with the January 26, 2016 Oversight Hearing to Consider “*The Need for Establishment of a Puerto Rico Financial Stability and Economic Growth Authority.*”

On January 26th, I submitted testimony to this Committee in support of a bill the purpose of which was to provide federal support to constructively address Puerto Rico's fiscal challenges and assist in its economic recovery. At the time, there was no bill, and, as such, my comments, drawn from my experience in working in concert with the control board that Congress created for Washington DC, and later as its Mayor, were necessarily to provide a set of general considerations that this Committee ought to consider in fashioning legislation. Now, only two months later, with much thanks for the earnest efforts of this Committee and its seasoned and highly skilled professional staff, with the benefit of important insights and perspectives offered by the leadership at Treasury, there is such a bill and I wish to supplement my prior testimony to comment on it.

I am most pleased about the contents of the draft legislation and I come before this Committee to endorse both its balance and the bipartisan efforts that necessarily were at the cornerstone of crafting it. Like most bills that gain support from competing perspectives, this bill, which offers a realistic set of provisions than can lead to a sustainable solution and a vibrant and financially healthy Puerto Rico, has aspects that each constituency likes and others that are less desired by the same constituency. Other constituencies have yet different likes about the bill and aspects they wish could be otherwise. But such is the nature of compromise, just as fostering compromise and consensual agreement are also to be at the heart of the contemplated oversight board's role if the legislation is enacted.

So why do I endorse the proposed bill and urge its adoption? At the outset, permit me to observe that many of the concepts that I felt would be fundamental to fiscal recovery legislation for Puerto Rico when I last spoke to this Committee are in fact present in the proposed bill. Because many of the principles that made DC's board successful are also key elements of the Puerto Rican oversight legislation, I wish to highlight them as well as a couple of additional components that are especially well suited to address Puerto Rico's fiscal challenges.

First, the criteria established for selecting the oversight board's composition will assure input from seven well experienced professional members who will understand the complexities of government budgeting and operations and relevant legal and financial considerations that arise in fiscal distress situations. Importantly, too, some of its members are expected to either now live, grew up on the Island or have been involved in businesses there, and, as such, will have a deep appreciation for the culture and values of its people and institutions.

Second, the board is going to be fully staffed with an executive director and other important senior officials; and that's critical. There is much to be done; and to do its work, the board needs to develop a comprehensive understanding of the structures, workings and financial processes of the executive and legislative branches of Puerto Rico's government. Assembling a meaningful complement of sophisticated board employees, some importantly drawn from the Island's populace, is needed. Then, too, the board needs a talented team of legal and financial

professionals to interface with similar professional who have been representing the Puerto Rican government and its creditors; and the legislation anticipates such retentions as well.

As for the board's offices, the legislation contemplates that the board will be well staffed both in DC and in San Juan, and that, too, is vital to the board's success.

Third, Title II of the draft legislation gives the board a robust set of tools to work with Puerto Rican officials to develop viable cost saving solutions; and, clearly, the intent of the legislation is to have the board forge cooperation and reach a consensus among the government entities and their creditors to implement a series of well-conceived initiatives that are both tangible and attainable from the Commonwealth's perspective, yet also factor in and respect the perspective of the Commonwealth's creditors. Unquestionably, there will need to be some belt-tightening if the board is to effectively fulfill its mandate; and the legislation confers on the board the means to fashion real solutions that will narrow the budgetary gaps being experienced by many of Puerto Rico's territorial-level government components---and, to the fullest extent possible, accomplish its cost containment goals through hands-on consensus building.

This leads to a fourth virtue of the legislation, namely, that before there were to be any allocation of creditor concessions that might be needed to achieve the legislatively-required balanced budgets, whether any such concessions would need to come from labor interests or from bondholders, all reasonable means should first be employed to narrow the extent of budget deficits. As such, the centerpiece of the board's work will be to look for ways to makes budget narrowing initiatives as palatable and constructive as possible, recognizing that accomplishing what the government can itself achieve through fiscal discipline is its fundamental obligation before being entitled to ask others to contribute to a solution.

Fifth, and related, Title III of the bill vests the board with the ability to exercise debt adjustment powers, something that I stated in my prior testimony is a vitally necessary if the oversight board is to be effective. But, importantly, the legislation clearly directs the board to invoke its debt adjustment powers only as a last resort. What the bill, instead, unmistakably favors is that the board act as a facilitator and honest broker in assisting creditors and the Commonwealth's various governments in reaching an equitable resolution to allocate any shortfall that cannot be solved through operational efficiencies and other cost saving. While having such debt adjustment powers is vital to the board's ability to effectively encourage the parties to reach consensual accords, a resolution borne out of compromise is always preferable. Settlement of the challenging and complex issues that will arise is certainly favored by the bill's requirement that all consensual solutions be exhausted before any resort to the board's debt adjustment authority can be invoked. Implicit in that directive is the recognition that reaching an agreed set of solutions not only expedites the resolution process, it reduces both the cost and delays of an adversarial process, and brings with it finality and certainty. The experience of contested proceedings in similar types of matters teaches that each of the benefits that can be achieved through a consensual and non-judicial resolution process are real and meaningful, and far preferable to a litigated battle over competing perspectives about what is fair.

With those observations about what commends adoption of this Committee's well-conceived legislative proposal, afford me to conclude with two other observations:

While not in the present bill, I'd like to see Congress also consider legislation that can provide economic incentives for new and meaningful investment in the Island's economy. Too many talented people of Puerto Rico have found it necessary to leave their homeland in search of jobs in the states; and affording a constructive and financially feasible opportunity for those who would like to return is both the right thing to do and could bring with it real excitement for businesses and entrepreneurs to invest in the Island's future. Puerto Rico has a rich and healthy past, and there are compelling reasons for its economy to once again flourish. Legislation that can help promote real economic growth opportunities on the Island ought to be something Congress ought soon adopt.

Let me close by addressing again the anxieties that naturally arise when some form of government oversight is part of a resolution process. Yes, every situation is unique; and while Puerto Rico's situation is clearly not the same as Washington, Detroit, New York, Cleveland or Harrisburg, all of which have been under some form of an oversight regime, at the outset of every such oversight process, there has always been strenuously voiced complaints about having an additional governmentally-created body be given authority to assist local elected leaders in finding and guiding needed solutions. But the lessons drawn from other notable places that were subject to oversight does instruct that if done with due respect for those in public office, and with keen awareness of both community leadership and an eye on business interests, good and sustainable solutions can and have occurred. New York, once in serious financial troubles in the late 70s, is as vibrant and financially robust as any large city in the world; and first hand I can attest to the fiscal distress that was the marque of this City and that led Congress to act only 20 years ago; but look at us now.

So, too, I believe if the oversight board does its job well, rather than disaffecting the populace simply because it has been called into action, it can instead help forge hope, cooperation, belief in a strong future, and generate a real desire of the people of Puerto Rico to get behind and be part of the Island's financial and economic rebirth. Unquestionably, these goals clearly stand at the heart of the proposed legislation; and I do believe it will not be long before we will be looking back at today, appreciating both the bipartisan leadership of Congress as well as the understanding of the Commonwealth Government and its creditors, who with their hard work and in the spirit of compromise have collectively brought us the legislation now proposed--- legislation poised to help foster an exciting and sustainable future that Puerto Rico justly deserves while fairly treating its creditors.