



WRITTEN TESTIMONY OF
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before the

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

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Chairman Grijalva, Ranking Member Bishop, Congresswoman González-Colón, and Members of the Committee. My name is Rodrigo Masses-Artze, and I'm here on behalf of the Private Alliance for the Economic Growth of Puerto Rico (A4G). I am honored to once again appear before the Committee, this time to present our position on this most critical matter for the people of Puerto Rico, and most grateful for the opportunity you have given me to do so.

A4G was created by a group of businesspeople and other private sector stakeholders concerned about the rapidly deteriorating economic and social conditions in Puerto Rico, the absence of a clear roadmap to a better future for the Island, and a dysfunctional political establishment that has shown, to date, very little inclination to address and implement the profound structural challenges required for Puerto Rico to realize its full potential as the economic powerhouse of the Caribbean. A4G is comprised of representatives from all key sectors in the Island's economy and is already actively involved in the development of important initiatives and proposals to drive Puerto Rico's sustainable economic development. It has also offered its support and expertise to the Governor and her administration to provide needed advice on economic matters.



I know that the Committee is fully aware of recent events on the Island, of the still ongoing recovery and reconstruction efforts and the many problems confronted, including the snail's pace at which Congressionally allocated federal funds have been disbursed. Likewise, I am certain that, PROMESA being a creature of this Committee, you are familiar with all the controversies and criticism surrounding the Financial Oversight and Management Board (FOMB), and the PROMESA legislation itself. Evidently, this is why we are here today.

However, the fact is that, putting these controversies aside, there is no more urgent issue before us than the reconstruction of Puerto Rico, not just from the devastation of Hurricanes Irma and María but, perhaps more importantly, from the prolonged economic contraction of the last decade. This fiscal crisis has eroded our institutions and provoked the mass exodus of hundreds of thousands of Puerto Ricans to the U.S. mainland, searching for opportunities in the States that are unavailable to them back home.

Righting this ship – a ship carrying 3.2 million American citizens whose lives and well-being are at stake – will require creativity, outside of the box thinking, and close collaboration between the Federal Government (Congress and the Executive Branch), the Government of Puerto Rico, the FOMB, and the private sector.

PROMESA AND THE FOMB.

I am well aware that PROMESA created the FOMB to ensure that Puerto Rico's long standing fiscal mess was brought under control, that the debt issue be dealt with, and that the Island could once again have a healthy fiscal situation that would allow its return to the capital markets. In short, it was established as a temporary means to provide much needed stability that could lead to sustainable economic success. However, if one were



to do a cost-benefit assessment of PROMESA and the FOMB, I am afraid that the outcome would be inclined towards a not so favorable result.

A conservative estimate is that, since its inception, PROMESA has cost the people of Puerto Rico well in excess of \$600 million, precious resources that could have been better invested in more productive activities. So far, the results of this investment have been meager. Granted, some progress has been achieved under Title III, and some agreements have been attained with creditors, but the cost to Puerto Rico and its business community has been immense. Furthermore, the FOMB's insistence on pension cuts, eliminating municipal subsidies, steamrolling over major institutions such as the University of Puerto Rico, and reducing essential services, will likely result in very concerning short and long-term social repercussions. Were it not for the limited recovery and reconstruction funds already on the ground, I have absolutely no doubt that Puerto Rico's economy would have contracted even more and more profoundly than it has as a result, at least partially, of the FOMB's actions.

Rather than just proposing cuts, the FOMB should be, jointly with other government and private stakeholders, laying the groundwork for sustained economic growth on the Island, as cuts alone will not achieve the desired long-term outcomes. Congress recognized this need for economic growth when enacting PROMESA. It did so by establishing a bipartisan Congressional Task Force on Economic Growth in Puerto Rico, and requiring it to produce a report regarding: "(1) impediments in current Federal law and programs to economic growth in Puerto Rico including equitable access to Federal health care programs; (2) recommended changes to Federal law and programs that, if adopted, would serve to spur sustainable long-term economic growth, job creation, reduce child poverty, and attract investment in Puerto Rico." As mandated by PROMESA, the Task Force unanimously issued a report on December 2016, with numerous recommendations on very specific and realistic actions Congress could take to assist Puerto Rico. To date,



Congress has failed to consider, much less enact, most if any of them. And the FOMB, while actively engaged in other undisclosed lobbying efforts in Washington, has only provided a very timid support to these critical initiatives. That needs to change, and the FOMB must be accountable to someone, perhaps this Committee.

That being said, it is also true that Puerto Rico cannot just seat and wait for Congress to come up with all the solutions and for the federal recovery and reconstruction funds to flow into the Island. The Government of Puerto Rico must also do its share. There are a number of initiatives that the Government of Puerto Rico, in collaboration with the Federal Government and the private sector, could implement to steer the Island back in the right direction. Let me briefly enumerate some of them.

COMPLETE TRANSPARENCY IN THE CONTRACTING PROCESS WITH FULL ACCESS TO THE PRESS.

First of all, we need to make certain that Federal reconstruction funds allocated to Puerto Rico are used effectively and efficiently as Congress intended. The agile and swift allocation of these funds to specific projects is critical, as is that municipalities are granted a much more prominent role in the decision making and use of these funds. There is ample evidence that municipal governments have been able to deliver a number of services more efficiently and expeditiously than central government agencies, including infrastructure projects. Municipalities, however, have been sidelined from the process of fund allocation, totally handled at the central government level. This is a mistake and must be addressed.

A second area in which much can be done to improve the process of fund allocation relates to the manner in which contracts for reconstruction of the housing stock and infrastructure are being issued. This has opened the door to corruption, both local and



stateside, as evidenced by the recent arrest of former top FEMA officials who worked in Puerto Rico during the island's recovery from Hurricane María as part of a Federal corruption investigation. What A4G feels is needed is a competitive, open, transparent process for all reconstruction projects, with strenuous oversight and accountability. In addition, A4G feels that local contractors should be much more involved in the reconstruction process. This has not been the case, as evidenced by the FOMB and independent analysts who have estimated that only 13 cents out of every dollar of Federal recovery spending has actually benefited the local economy.

WOMEN ENTREPRENEURSHIP.

Puerto Rico has a very low labor force participation rate (LFPR) mainly because of gender discrimination and the absence of a clear-cut policy to support women. It is clearly established that providing support to women with children with day care centers and other such assistance will not only help women leave welfare programs and improve their standard of living, but will constitute a powerful stimulus for economic development. This is particularly important since over 60% of single women with children on the Island live below the poverty level and women's LFPR is only around 33%.

MOUNTAIN CONSORTIUM: TRANSFORMATION OF ENERGY AND WATER MONOPOLIES.

Puerto Rico was devastated by Hurricanes Irma and María, and the Island's reconstruction has been slow and will probably leave us with an infrastructure not much better, if at all, than what we had prior to the storms. But the problem with our infrastructure is not just its physical and archaic condition. The fact is that the Island's energy and water systems are both government monopolies that have, unfortunately, acted as such for decades. Just recently, a new increase in the power rate was



announced only to be subsequently reversed after Governor Vázquez intervened because no assessment of costs was made. The transformation of these two monopolies is essential if we want Puerto Rico to end up with an efficient, modern, and sustainable energy and water infrastructure. A4G also feels that Puerto Rico should aim at a power rate of no more than 15 cents per kWh. This could be accomplished if PREPA would expeditiously begin working towards the implementation of the government’s much publicized public policy of achieving 100% renewable energy production by 2050. But just a few days ago, PREPA unilaterally suspended the ongoing year-long negotiations with all the renewable energy shovel-ready projects, some of which have signed PPOAs dating back to 2010. Thus, these goals are achievable, but only if the aforementioned transformation leads to privatizing both entities.

Further, it is important in defining policies to deal with infrastructure that municipalities be brought into the process. An excellent example of what can be done is provided by a consortium of municipalities in the mountainous central Puerto Rico, led by the mayor of Villalba, to construct a mini-grid that will power, not only his municipality, but also Morovis, Orocovis, Ciales, and Barranquitas. These municipalities constituted the “last mile” in the post María power restoration.

ZERO WASTE.

Solid waste disposal is an area that has already reached a critical stage. Most of the Island’s landfills do not meet EPA standards and those that do have a very short lifespan. Puerto Rico desperately needs a well-designed policy aimed at recycling, minimizing solid waste, and ensuring that materials used in construction and embedded in consumption products are environmentally safe. For a relatively small island such as Puerto Rico, having an excellent environmental quality is not only an objective by itself to improve quality of life, but is also necessary as a determinant of competitiveness. Thus, not taking



proper care of our beaches will ultimately impact tourism, not taking care of our solid waste disposal system will eventually increase costs to our producers and thus reduce our capacity to compete for investment.

CONTINUOUS AND UNINTERRUPTED CONNECTIVITY.

We are fortunate that the private firms that operate the telecommunications system have taken it into themselves to provide a much better, reliable and resilient system. Much remains to be done and doing so will require a change in the manner in which the government intervenes with the system. Although there has been some improvement, the focus on the government's part has been to regulate rather than stimulate the industry. Puerto Rico needs a telecoms public policy that recognizes the sector not only as infrastructure that needs to be regulated, but as an enabling technology depository that will stimulate economic growth.

NEW ECONOMIC PROMOTION APPROACH.

Having said all of the above, the fact is that Puerto Rico urgently needs a Development Roadmap focused on the post reconstruction process. I understand that the government's attention is now on the reconstruction process. That is correct, but it means that developing that Roadmap should be a concern not only of the private sector but is something that the FOMB should be paying attention to, at a minimum, by assuring that its actions do not have a negative impact on sustained economic growth.

A new approach to development for Puerto Rico must be based on thorough knowledge of global conditions and anticipated changes in them. It must provide for inclusive governance that incorporates municipalities and community-based organizations. There is much to learn from others: Ireland's Social Partnership, Pittsburgh's use of community



resources to stimulate its transformation, Singapore's emphasis on education as a key component of any development roadmap. Puerto needs to not only protect, but enhance its manufacturing base and make possible the development of advanced manufacturing activities. It also needs to promote innovation across the complete spectrum of economic activities but with special emphasis on local small and medium size firms.

Additionally, Puerto Rico has significant competitive advantages that it can lever to achieve sustained growth: our access to the U.S. markets, a highly trained labor force, a strong manufacturing base and, increasingly, a dynamic technology sector that is already exporting services globally and providing needed technological foundations to local entities in health services, education, and other areas.

TOURISM.

The opportunity for growth and development of the tourism industry should be an immediate priority of the Committee, the local government, and the FOMB. The hotel industry, by its nature, is a labor-intensive industry. Direct and indirect jobs, local food chain and supply purchasing, and construction and redevelopment are direct by-products of successful tourism. Efforts to develop the potential that Puerto Rico has in this segment of the economy should be addressed. Puerto Rico has the wherewithal to be competitive in the tourism industry and its promotion can have immediate impacts on our economy.

ACCOUNTABILITY.

We respectfully ask the Committee to require the Governor of Puerto Rico to have those agencies responsible for economic affairs to present to the public a progress report every 60 days on what has been achieved or not in their particular areas. This report should be



made public by a respected entity such as the Comptroller's Office so as to avoid the political paraphernalia that typically accompany these announcements.

Mr. Chairman. As I indicated at the beginning of my testimony, the need to restart the Puerto Rican economy's engine is an urgent matter. Not to do so is to condemn the Island to continued loss of population and its young people leaving the Island in search of a better quality of life in the States. This will require close collaboration between the Federal and Puerto Rican governments, the FOMB, and the private sector. If the Committee intends to move forward with this effort to change PROMESA, I urge you to consider amendments that will make it possible to use PROMESA and the FOMB's unquestioned influence in securing a better future for Puerto Rico. The 3.2 million American citizens of Puerto Rico deserve no less.

Thank you.
