

**House Committee On Natural Resources**  
**Testimony for 9 April 2019**  
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**President, Atabey Group**

Chairman Grijalva, Congressman Bishop, Congresswoman Gonzalez, members of the Committee:

Thank you for the opportunity to share my experience and thoughts on Puerto Rico's reconstruction. My name is Noel Zamot, former Revitalization Coordinator for the Financial Oversight and Management Board for Puerto Rico, a role that I proudly served on until a few weeks ago. I was born and raised in Puerto Rico. I am a combat veteran, a former executive in the US Defense industry, and a business owner. I would like to share brief thoughts on Puerto Rico's recovery almost eighteen months after the onslaught of Hurricane Maria.

Given my background and my love for Puerto Rico, I am here today in my personal capacity to **support the concept of a Federal Coordinator for recovery efforts in Puerto Rico**. The people of Puerto Rico desperately need the Federal disaster funds already appropriated to the island, but many believe the local government currently does not have the capacity, controls, systems or processes - nor perhaps the trust of the Federal government - to manage these funds with transparency and efficiency. A Federal Coordinator for recovery funding may provide the transparency and advocacy needed to properly execute the funds, without resorting to additional bureaucratic layers, and without diminishing, delaying or disrupting the execution of Federal funds.

### **Background**

One of the proudest moments of my professional career was being asked to serve, once again, in my birthplace as Revitalization Coordinator for the Financial Oversight and Management Board for Puerto Rico. During a 25-year military career I had visited Puerto Rico regularly to visit family and friends, and to bring up our two sons (both serving or about to serve in the military) close to their Puerto Rican heritage. Over those decades, I saw Puerto Rico rise, and unfortunately fall, as the unsustainable debt burden eroded a once thriving economy and community. That burden served as the catalyst for PROMESA. Coming back to serve in an Economic Development role with the Financial Oversight and Management Board for Puerto Rico was the opportunity of a lifetime.

As with any new role, the initial weeks were chaotic and full of discovery. Then Hurricane Maria hit, and the focus quickly turned to recovery from this historical disaster. After several months working PREPA transformation efforts, I refocused my team on developing - essentially from the ground up - a process to accept investment projects for critical infrastructure under the statutory requirements of Title 5 of PROMESA. We were successful in creating an open, transparent, digital process to accept, evaluate, recommend and designate much needed infrastructure projects as Critical. Over the lifetime of the process we accepted approximately \$9.1B in interested private capital. Unfortunately, we were able to designate only one project out of that - a \$25 million public housing project that addressed both urban transportation and emerging housing needs post-Maria. For scale, that represents a meager 0.2% of projects accepted.

The reasons for that number being so disastrously small provide a view into the challenges that remain with Puerto Rico's recovery. Was PROMESA's Title V successful? It succeeded in creating a platform that was transparent and accountable for accepting infrastructure projects. It succeeded in attracting an unprecedented amount of interest and putting PR's critical infrastructure needs in the limelight. ***And yet it failed in changing the paradigms that are at the root of the local institution's inability to catalyze investment in the island.***

## **Challenges to Recovery**

I left my role on 15 March due to what our Executive Director, Ms. Natalie Jaresko, accurately described as "frustration" with the situation in Puerto Rico. I left in part because I could no longer do my statutory job under PROMESA. The reasons had nothing to do with the Oversight Board. ***They had to do with the impossibility of working in an environment where difficulties in doing business cause an astounding flight of private capital that the American citizens in Puerto Rico desperately deserve.*** Let me emphasize that the issues I will share with the committee have nothing to do with the PEOPLE of Puerto Rico, and far more to do with the STRUCTURE and PROCESSES of the territorial government. Furthermore, they predate the current territorial government by DECADES. Lack of local government effectiveness or transparency is not something the current administration in Puerto Rico invented. ***It has been inherited over decades of slow degradation and mismanagement of federal and local resources.*** I will not pretend to take the responsibility to develop policy away from elected officials. But as a former military officer, industry executive, entrepreneur and most recently, a creature of Congress, I cannot "walk past a problem." I cannot ignore situations when national resources are not used properly.

The examples of systemic inefficiency are everywhere in Puerto Rico.

- **Education:** Puerto Rico spends \$1800 more per student on education than the average in the 50 states<sup>1</sup>. However educational outcomes in Puerto Rico are 53rd - below all 50 states, Washington DC and the Dept of Defense schools. This is not due to higher salaries for teachers, since the average salary for a teacher in Puerto Rico (~\$32,047) is almost 70% lower than the average salary in the US (~\$55,580). This is a key indicator of the lack of efficiency with which the territorial government operates.
- **Public Safety and Security:** In the past few years I have found a disturbingly high number of police officers having to resort to the “gig economy” to make ends meet. So it was surprising to find out that Puerto Rico spends over twice the amount Kentucky spends per citizen on its police force<sup>2</sup>. This is not due to salary, since though the typical police officer in Puerto Rico makes almost 40% less (\$31,430 average salary) than their counterparts in the US (\$43,637). However, the homicide rate (per 100,000 residents) in Puerto Rico is almost FOUR TIMES HIGHER (20.6) than state of Ohio at 5.6, a state with “high violent crime rate” according to FBI national data.
- **Energy:** PREPA uses approximately six times<sup>3</sup> more employees per megawatt generated than comparable public utilities in the continental United States. Yet the energy cost is higher than almost every state and has the lowest reliability (measured in percentage and duration of outages) than every other comparable utility.
- There are similar examples for **transportation, permitting, obtaining a driver's license, starting a business, obtaining health care**, and more.

In summary: Although Puerto Rico desperately needs federal funding, this it isn't about the money. ***It is about using that taxpayer money wisely.*** It is about the local Government being accountable to the public in using resources effectively. Local initiatives to address this deep problem abound, yet there is little credible change.

The Financial Oversight and Management Board for Puerto Rico has taken on some of these shortcomings, and rightly so. However, incessant litigation and pushback by the territorial government creates an environment where urgently needed process reforms are not accomplished due to endless litigation. The FOMB is doing everything it possibly can to

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<sup>1</sup> Data from National Center for Educational Statistics, [www.nces.ed.gov](http://www.nces.ed.gov)

<sup>2</sup> Data from PR Budget, [presupuesto.pr.gov](http://presupuesto.pr.gov); and FBI Uniform Crime Reporting Program, [www.ucr.fbi.gov/crime-in-the-us](http://www.ucr.fbi.gov/crime-in-the-us)

<sup>3</sup> Data from US Energy Information Administration, [www.eia.gov/electricity](http://www.eia.gov/electricity)

ensure PR's return to the capital markets via debt restructuring and fiscal planning, but it does not benefit from the statutory authority needed to enact necessary changes required for transparency and efficacy. This is no fault of the FOMB, but rather a widely acknowledged limitation of the PROMESA statute. As one example, in both the DC and Detroit Control Board examples, the jurisdictional Chief Financial Officer was effectively named by the Control (not Oversight) Board.

### **Federal Coordinator for Recovery funds as a Possible Solution**

A possible solution is to use the upcoming disbursement of Federal dollars as a catalyst for change. One key area with broad impact is procurement reform. Currently there is a perception from the private sector - warranted due to widespread reports - that doling out contracts to political allies has been a historically effective way for the territorial government to retain political power and increase political party funding. These allegations again predate the current territorial administration, and have been the focus of several past investigations, indictments and penalties. I have heard from investors and developers first hand how pressure from extra governmental actors has a chilling effect on economic growth. A truly transparent procurement process would have an enormous impact on the island, on private investment, on fiscal stability, on perception of trust from capital markets, and on Federal trust in the territorial government. It would also ensure that every Federal recovery dollar would be used responsibly and efficiently.

There has been much discussion recently on creating an Office of the Federal Coordinator to provide "sunlight pressure" on the disbursement of disaster funds to Puerto Rico. This approach, supported by a bipartisan group of Senators and Congressional Representatives, is patterned after the precedent from Katrina. It is envisioned to act as a catalyst and not an additional layer of bureaucracy.

***The core activity of the Federal Coordinator would be for its representatives to be present at any territorial procurement activity that uses Federal Recovery funding.*** It would act on behalf of the Federal Government by being a trusted third party ensuring that taxpayer dollars are put to good use. It would likewise act on behalf of Government of Puerto Rico - for the people of Puerto Rico - ensuring that when the local government does implement and execute the appropriate controls, that the Federal agencies are both aware and take steps to release funds. This office would work closely with the Congress and the Executive branch - as well as private stakeholders - providing credible, third party information regarding the actual implementation of transparent processes. When procurements are carried out with complete

transparency, the Federal Coordinator would be the first to report to all stakeholders, In the words of former President Reagan, the role of the Office of the Federal Coordinator is to **“trust, but verify.”**

I support this concept because it is a straightforward, cost effective, and streamlined method to ensure transparency in the execution of Federal disaster recovery funds.

- **It does not require additional legislation**, since it can be accomplished via Executive Order, in accordance with precedent from Katrina.
- **It does not slow down the process**, since it does not add another step in the process for disbursements.
- **It is cost effective**, since it can be easily funded from the administrative overhead allowed under HUD rules for CDBG funding.

Having a trusted third party report on the “truth on the ground” to Congress, the Executive branch, and private and public stakeholders is the best way to insure transparency and breed efficiency. Once that happens, Federal funds can flow knowing that they will be used effectively. Private investment capital will follow, reducing the burden on the US taxpayer and improving lives for millions of Puerto Ricans. And this office would have an expiration date. When the territorial government has their procurement processes under control, this Office of the Federal Coordinator would report to Congress and close up shop.

The Government of Puerto Rico is rapidly running out of options. It has no access to the capital markets. It cannot fund critical infrastructure because of an inability to issue bonds. And it does not yet have the transparency and controls necessary to attract private capital at scale, nor ensure proper use of Federal funds. The Recovery Coordinator can work with existing agencies and the FOMB to ensure continued flow of Federal Funds, which will continue to be the catalyst for economic recovery for years.

Thank you for the opportunity to share thought with the committee today. I look forward to answering your questions.