

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.*"

As the former CFO of Washington, D.C., appointed by the Congressionally established financial control board for the District, working at the direction of both, and having subsequently served for two terms as the Mayor of our Nation's Capital, I appreciate the opportunity to share my views with the Subcommittee regarding the significant merits for creating an authority for what the Subcommittee has noticed for hearing.

The people of Puerto Rico are entitled to a prosperous and sustainable economic future. Taking the necessary steps to assist the Commonwealth in timely implementing solutions to its well-recognized financial challenges is important not only to the Island but to the Nation as a whole; and I believe that the legislative actions being considered by this Subcommittee, as well as other legislative initiatives that are the province of yet other House Committees, hopefully with bipartisan support, can provide the impetus and foundation for returning the Island to a position of fiscal strength and a pathway to its economic independence.

Puerto Rico is not alone in having to address serious financial distress. For various reasons often unique to each locale, and despite best intentions, such financial challenges have arisen in other highly respected communities that today are financially successful. In addition to Washington, D.C. which when I assumed its reins as CFO was facing deep and persistent fiscal challenges, several of our other major cities--notably, New York, Philadelphia and Cleveland---each also benefitted from having a financial control board assist them in emerging from deep financial distress and foster their successful and sustained economic recoveries.

Before providing some focused observations regarding the scope of responsibilities of the federal authority which this subcommittee is considering, as well as other important aspects that are critical to its success, I wish to speak to the concerns that will unquestionably surface, just as they did when Congress created a federal board to assume responsibility for DC's distressed fiscal affairs. Naturally, the assertion will be made that permitting another government to provide some assistance and leadership denies the populace their voice in self-determination. But while it is easy to adopt that rhetoric, our history and my personal experience as Washington's CFO, teaches that whatever negative hue and cry is initially heard, readily erodes as positive developments achieved by a neutral body start taking hold. This was the case with the independent financial board created for DC, as well as with the Metropolitan Assistance Corporation created for NY in the 1970s; and has proved true more recently when state fiscal responsibility for the cities of Detroit and Pennsylvania's capital city, Harrisburg, were reposed in state-appointed managers. In each of these situations, the residents, community leaders, civic organizations and business interests came to accept and indeed support the expertise and fresh perspective offered by the independent neutrals; and I firmly believe that such will be the case if Congress were to take similar action to meaningfully bolster Puerto Rico's prospect for prosperity and fiscal independence.

Rather than independent leadership being seen in hindsight as troublesome, all these situations illustrate that creating something new, fresh with ideas, and not wedded to the notions of any particular constituency, can help build the belief in a bright and vibrant future for a financially troubled government and provide the path by which once divergent interests can come to a consensual understanding. Viewed from real examples of success and not premised on fears of divisiveness, Congressional action to create legislation for the type of authority that is contemplated by this Subcommittee is properly perceived as the optimal means, as expeditiously as possible, to resolve the Commonwealth's current financial difficulties. Perhaps more importantly, this Congressional effort can be accepted as the start of real and meaningful solutions to grow the Commonwealth's economy, create private sector jobs and encourage many who have left the Island to return, ultimately making the people of Puerto Rico secure and proud.

In my view, the time is now for Congress to create an authority that would have as its goals both achieving financial stability and a balanced budget for the Island, while also focusing on economic growth strategies that over time can assist the Island in gaining true financial independence.

Regarding the need for a federal government authority to provide fiscal stability leadership, both the current inability of the GDB and the Island's Administration to solve imminent defaults, as well as the sheer magnitude of the debt liabilities, alone justify Congressional action. Especially this is so when we also factor in the number of distinct bond issues that are expected to suffer defaults, the fact that the Puerto Rican Administration very recently predicted even greater current budget shortfalls than what it saw as the case only a few months earlier and, significantly, the recognition that apart from impending bond defaults, there looms both quickly growing unfunded healthcare costs as well as an enormous underfunded public employee pension liability that some have estimated to be in the \$50 Billion range.

Additionally, with \$72 Billion in Puerto Rican bond obligations at stake, Congress needs to be mindful of the consequences to the cost of municipal credit across our Nation if the Island's debt obligations are not resolved in a manner that the municipal bond market sees as fair and equitable. Our states and cities have for well over a century benefitted from the low cost of credit extended by the bond market to fund essential capital expenses; and with our aging infrastructure and widespread concerns over the level of pension underfunding--exacerbated by recent turmoil in the equity markets---the need for the continuation of relatively low cost of credit for our states and cities cannot be overstated. In this context, Puerto Rico's fiscal challenges and their resolution are the Nation's concern since anything less than a balanced and fair solution to Puerto Rico's debt problems runs the real risk of driving up the cost of credit for our cities and states just at a time when they will need to borrow more.

I recognize and acknowledge that the Puerto Rican government has been expending significant efforts to develop workable solutions to the Island's serious fiscal challenges, and that it has devoted focused attention to this process in earnest for the past two years. But the time and effort that has been devoted to date, with the lack of any clear comprehensive set of solutions at present, certainly merit pursuit of a new and different approach and underscores the need for a

federally created authority composed of independent professionals to help fashion a resolution that all constituencies can come to perceive as both sustainable and balanced.

I am most pleased that this Subcommittee is not only focusing on creating an authority designed to solve the current budgetary shortfalls, but has also recognized that economic growth for Puerto Rico is key to the Island's future. Maximizing the extent to which budget shortfalls can be meaningfully narrowed over time through real growth in the Island's tax base is certainly preferable to relying on concessions from creditors, be they bondholders, the Government's current labor force or public employee retirees, as the only means to bring current and future budgets into balance. Growing Puerto Rico's way out of its fiscal distress over time by relying on the revenues derived from an increase of its tax base is not only the most honorable path; excitement about the Commonwealth's economic resurgence can build on itself and make the Island a vibrant and attractive environment fostering fresh investments which, in turn, can create new well-paying jobs, reverse the recent trend of out-migration and bring back many who left the Island in search of opportunities.

Believing that economic growth is one of several key components that can help address the Island's current fiscal distress I must be candid to observe that I do not believe that the authority which this Subcommittee contemplates creating can alone provide the means to attract new in-bound investment in the Island's economy. Unquestionably, solving the Island's fiscal instability and looming government defaults is essential, because the current environment is certainly not conducive to attracting substantial investments. But solving the immediate fiscal crisis, while absolutely essential, will not alone be sufficient to bring the Island back to the position of economic self-sufficiency that it enjoyed as recently as a decade ago. Other Congressional legislation is needed.

Costs of production in Puerto Rico, not unlike other island economies, are significantly higher than on the Mainland; and without here belaboring the various causes of such incremental production and related transportation costs, resulting in them being meaningfully higher than similar Mainland production, in my opinion some form of favorable tax-based incentives need to be offered to businesses willing to locate operations on the Island to offset these higher production and transportation costs. Such tax incentive measures that were previously adopted by Congress worked to attract significant investment in the Commonwealth's economy; and taking those incentives away, as occurred in 2006, in hindsight has proven ill-advised. While another Committee of the House, acting in concert with this Subcommittee, will have to assess the merits of adopting carefully considered new tax incentive measures and their details, I believe that such legislation is essential if the authority contemplated by this Subcommittee to oversee the Island's return to financial stability and economic independence is to be afforded the tools that will allow it, acting in close cooperation with the Commonwealth's economic growth professionals, to significantly attract meaningful in-bound investment. If so, there can be real hope that over time such investments can produce the level of tax-base growth that can play a meaningful role in reducing Puerto Rico's budgetary imbalances and serve as a key component in Puerto Rico's fiscal recovery and financial self-sufficiency.

Having addressed the overarching considerations that I believe merit the wisdom behind creating the kind of authority that this Subcommittee is currently considering, let me complete my

testimony by offering some general observations regarding the duties of such an authority, its duration and the composition of its membership.

Starting with its duties, and without attempting here to set forth every component of the authority's powers, responsibilities and obligations, let me first briefly observe what I see as the prudent steps that the authority will wish to undertake to accomplish its Congressionally established mandates. An essential first step is developing an agreed set of realistic and current financial data regarding the revenues and expenses of each unit of government experiencing budgetary challenges. Despite the best of intentions, the current environment is such that neither Congress nor any of its creditor constituencies have confidence in the existing and promulgated data; and, whether that lack of confidence is accurate or misperceived, it is critical that all constituencies come to agreement on an agreed set of financials. Clearly, the authority will play a vital role in assuring that all the data is transparent and that all constituencies can have confidence in the data that will be used to formulate appropriate courses of action.

With an accurate handle on all current revenue sources, debts and operating expenses, the authority will then turn its intention to two immediate and challenging tasks; first, to explore all possible means to raise or collect additional tax or fee revenues and reduce operating costs; and second, short of developing a comprehensive fiscal recovery plan that will require considerable time to fashion and then negotiate, determine how best to address the near term anticipated financial defaults, while longer range solutions that can maximize the repayment of what Puerto Rico has borrowed are fully explored. Make no mistake, these initial tasks are formidable; and Congress ought to vest the authority with an array of powers that will permit it to do its work and that will both foster the willingness of all affected parties to actively participate in designing and implementing the optimal means to achieve sustainable increases in revenues and reductions in operating costs, and, at the same time, permit the authority to implement with bond creditor cooperation fair interim solutions that address anticipated bond payment defaults, thereby avoiding what most would consider non-productive related litigation.

As all potential incremental revenue sources are explored, the authority ought to determine what currently non-utilized public capital assets are available, and the possible means to monetize those assets through joint ventures with private market investors. Such monetizations ought to be designed to provide the Puerto Rican government over time with additional cash flows that can be used to help narrow budget shortfalls. Moreover, such joint ventures should be in interim solutions to the bond payment defaults structured to provide the Puerto Rican government with additional upsides based on contractual mechanisms that permit it to share in the increased value of such monetized assets as its economy recovers and expands.

In assessing new revenue that can be a source of funding future budgets, the authority will also want to develop realistic projections regarding the broadened tax base that can be achieved through tax-incentivized in-bound investment. This will require significant tangible proof regarding the extent and timing of additional revenues that these economic incentives once put in place can generate; and the financial markets, the Puerto Rican government and the credit rating agencies will all need to come to a consensus about these projections based on actual commitments from leading Mainland companies to invest on the Island.

Ultimately, after the authority works with the cooperation of both the Puerto Rican Government and all affected parties to implement every available means to increase revenues and reduce the operating expenses of each of the government units, it will become necessary to assess whether and to what extent, net of such revenue improvements and operating expense reductions, some budget shortfalls may still exist, factoring into the analysis both future underfunded pension liabilities and unfunded and rising healthcare obligations. Here again, we must be realistic and recognize that despite best efforts, some concessions may well be required. In such event, likely the most challenging aspect of the authority's work will be to address how to fairly and equitably allocate the need for some concessions among all constituencies. If that is the case, ideally, the authority can foster an atmosphere where required concessions can be consensually negotiated; and here again Congress ought to provide the authority with a variety of tools that both foster the authority's ability to enhance the prospect of consent and that afford it the flexibility to address complex issues. In the final analysis, all affected parties will hopefully see the virtues of negotiating an agreed, and therefore certain, resolution as far preferable to the cost and delays associated with protracted and uncertain litigation if the authority were to be forced to exercise available remedies to compel concessions.

In the final analysis, the extensive work that will be required, the complexity of the issues presented, the need to harmonize divergent views about what is fair and the breadth of assignments that the authority will be required to undertake as it pursues a sustainable and comprehensive resolution of Puerto Rico's financial recovery are formidable. Unquestionably, tasking the authority with these challenges is a tall order. But, in my opinion, anything less robust than the work of such an authority is not going to provide a sustainable solution to Puerto Rico's serious financial challenges; and waiting any longer to see if somehow the situation self corrects is fundamentally misguided.

Regarding the period of time that the authority might need to be kept in place, much depends on the time needed to successfully solve the budget deficits and the growth of the Puerto Rican economy. It is premature to know now when the role of the authority can be terminated or under what circumstances its functions and oversights can be narrowed. Unquestionably, if part of the debt solution will require the time for repayment of borrowings to be extended, bondholders are going to require that the authority monitor actual performance to the pro forma projections, and have the ability to fashion revised solutions if, despite best intentions, the established benchmarks are not being met. This kind of residual right to monitor and adjust actions, key to other similar control authorities, even if never utilized, provides the kind of comfort that creditors will justifiably demand and is fundamental to constituencies agreeing to the restructuring of Puerto Rico's financial obligations.

Finally, permit me to comment on the composition of the authority. Naturally, the starting point is to assure that its members possess the hands-on experience and/or professional training that brings sophistication, experience and expertise to address Puerto Rico's financial distress. The size of the authority's membership should be sufficient to allow for different perspectives and diverse backgrounds, but not so unwieldy as to make the very active work of the authority unmanageable. Perhaps five, but not more than seven, members would seem to balance these competing considerations.

In my view, it is essential to have some of the membership of the authority be comprised of people who can offer the Puerto Rican perspective. While it is vitally important that all of the members be independent, and not perceived as having a conflict by reason of being part of the Government of Puerto Rico or a creditor thereof, I think it is critically important to the process that Congress assure that some portion of the authority's membership be selected either from Puerto Rican residents or from those who have lived and worked for some time in and are of Puerto Rican ancestry. Having in-depth experience with Puerto Rico's economy is yet another attribute that also ought to be considered in selecting membership on the authority. Importantly, too, Congress ought to look to members that well understand the workings of the financial markets.

Realistically, the authority's members will need to be prepared to devote significant time every week to meetings or conferences, especially so in the beginning several months; and members ought to be vetted to confirm their willingness to devote substantial energies to the authority's work. Certainly, the authority will require and rely upon a staff of financial and legal professionals that can provide advice to the members but, as importantly, also undertake or work on a variety of tasks at the direction of the authority's members. I also see considerable wisdom in the members selecting a CFO to coordinate the staff, but also actively interface regularly with the Puerto Rican Administration on numerous matters while also frequently meeting with various creditor constituencies. Perhaps other duties will require additional appointments such as an information officer; but the members can consider these additional appointments as the circumstances may appear to warrant.

In conclusion, I sincerely appreciate the opportunity this Subcommittee has afforded me to address the important fiscal challenges that the Commonwealth of Puerto Rico is facing. Paramount in my view is securing a bright economic future for the people of Puerto Rico; and I hope my views are seen as motivated by that goal.

Anthony A. Williams

EDUCATION:

Graduate: **Kennedy School of Government, Harvard University**
Master of Public Policy, 1987

Courses: As prescribed, with special emphasis on management and public safety.

Legal: **Harvard Law School, Harvard University**
Juris Doctor, 1987

Courses: As prescribed with special emphasis on federal litigation and local government.

Activities: Ames Competition, Black Law Students Association (BLSA), Harvard College Freshman Proctor

College: **Yale College, Yale University**
Bachelor of Arts, Political Science, Magna cum Laude, 1979

Scholarship: Senior year devoted to manuscript for book: *Toward the Neighborhood Ideal*, a comprehensive comparative community study of the Dwight and Fair Haven neighborhoods of New Haven, CT. Study addressed two models of community development and mobilization.

Activities: Dwight Hall Volunteer, Troup Middle School Truancy Program, 1975-76; Dwight School Group Work Program, 1975-77; Coordinator, Dwight Hall Bike Shop, A Program for Juvenile Rehabilitation; Yale College Council, 1976-77; President, St. Anthony Hall, 1976-77; Host, Community Affairs Program, WYBC-FM Radio, 1981-82.

EXPERIENCE:

2012 – Present

Federal City Council of Washington DC
CEO and Executive Director

Serving as a catalyst for progress, the council enhances the nation's capital by focusing the creative and administrative talents of Washington's business and professional leaders on major problems and opportunities that are facing the city. Working without publicity, the council enables local and federal government agencies meet community needs, offering the knowledge, experience, and skills of its members; prompt research capacity; and the ability to act expeditiously. Further, the Council commits to the long-term, recognizing that the fundamental structural improvements in the city's economic, physical and social welfare system require years of dedicated, relentless effort.

2011 – Present

Dentons LLP
Senior Strategic Advisor and Independent Consultant

Provide advice and counsel on public sector to international law firm with more than 575 attorneys and public policy advisors in 13 offices and 11 markets, representing clients in the areas of complex litigation, corporate law, energy, environment, finance, government contracts, health care, infrastructure, insurance, intellectual property, private client services, public policy, real estate, and technology.

2009 – 2012

Corporate Executive Board
Executive Director of Global Government Practice

As part of a premier, network-based knowledge resource, provided public sector professionals worldwide with the authoritative and timely guidance needed to excel in their roles, take decisive action, and improve organization performance. Powered by a member network that spans more than 50 countries and representing more than 80% of the world's Fortune 500 companies, offered its unique research insights along with an integrated suite of members-only tools and resources to enable the world's leading governmental entities to deliver superior business outcomes.

2009 – 2012

Harvard Kennedy School
William H. Bloomberg Lecturer in Public Management
Senior Advisor, Urban Policy Advisory Group
Innovations in Government, Ash Center

In addition to instruction in public management subjects, facilitated participation in activities linking student learning and professional insights with real-time problem solving.

2009 – 2010

Arent Fox LLP
Senior Advisor Intergovernmental Practice

2007 – 2008

Primum Public Realty Trust
Chief Executive Officer

Launched new financing vehicle in partnership with leading investment bank to bring creative financing strategies to state and local governments, as well as the non-profit community. Developed strategy for triple-net sale-leaseback alternatives to allow agencies to monetize the value of their real property assets. Also provide strategic advisory services to help jurisdictions with strategic planning in areas such as asset management and community redevelopment. Maintained funding arrangements with third-party financing vehicles to review acquisition opportunities suitable for their unique portfolios and strategies. Initial pipeline of approximately \$10M included a broad array of jurisdictions and organizations.

1999 – 2007

Washington, District of Columbia
Mayor

Served two terms as elected chief executive of our nation's capital, a governmental entity with the combined functions and responsibilities of a city, county, and state. Drafted to serve by a citywide coalition to lead a city written off and abandoned as ungovernable, transformed Washington into a competitive city, reducing crime, instituting fiscal integrity, fostering school accountability, improving city services, and lifting all human service agencies from court receivership. Generated over 30B in investment, converting a 600M deficit into a 1.5B general fund surplus over 11 years (as CFO and Mayor). While debate continues over who benefited, both admirers and critics widely credit my service with beginning, if not fully realizing, the transformation of the city. Elected President of the National League of Cities, Vice-Chairman (on track for chairmanship) of Washington Council of Governments, and Fellow of the National Academy of Public Administration. Awards from organizations ranging from Manhattan Institute to Metropolitan Labor Council.

1995 – 1998

Washington, District of Columbia
Chief Financial Officer

Appointed to lead the District to financial recovery, restored fiscal accountability to District agencies, and balanced the city's budget in 1987 with a \$285M surplus, putting the city on track for a return to self-government two years earlier than projected. Led the Office of CFO in fundamental and substantial improvements in cash management, budget execution, and revenue collections. Designated Public Official of the Year for 1997 by Governing Magazine.

1993 – 1995

U.S. Department of Agriculture
Chief Financial Officer

Appointed by President Bill Clinton and confirmed by U.S. Senate as the department's first chief financial officer pursuant to CFO Act of 1990. Responsible for a budget of \$62.3B, provided financial management and oversight for 29 federal agencies, 75 foreign country operations, and approximately 2,500 county-based offices in the United States. Responsible for the National Finance Center, a facility providing financial services to a large segment of the federal government. Guided efforts to implement CFO Act throughout the federal government as Vice-Chairman of the U.S. CFO Council.

1992 – 1993

School of International and Public Affairs, Columbia University
Adjunct Professor

Taught course in public finance, with examples from actual experiences in the areas of revenue forecasting, budget execution, performance measurement, and financial organization and processes as an expression of strategy or lack thereof. Left position due to presidential appointment to U.S.D.A.

1991 – 1993

State of Connecticut
Deputy Comptroller

Acted as General Deputy/COO of the Office of State Comptroller, managing 250 separate state funds; state budget and accounting services; and, state financial information and retirement systems. Positioned office as center of robust, independent fiscal oversight while managing state's accounting and budget execution during fiscal crisis of 1991, occasioned by legislative stalemate associated with Governor Lowell Weicker's successful introduction of first state income tax.

1989 – 1991

Community Development Agency – St. Louis, MO
Executive Director

Directed the \$22M community development efforts of the City of St. Louis utilizing private and public funds. Responsible for all neighborhood development research, planning, and housing implementation (approximately 1,000 housing units a year). Initiated a program management, accounting, and reporting system that met the agency's program needs. Management program resulted in the production of neighborhood plans. Production of four new housing manuals and neighborhood plans. Supervised over 60 employees and 50 subcontractors.

1988 – 1989

Boston Redevelopment Authority – Boston, MA
Assistant Director

Headed the Department of Neighborhood Housing and Development, one of the authority's four primary divisions. Responsible for neighborhood planning and development program of approximately \$1.5B, including the city's linkage program, parcel to parcel linkage projects, some 5,000 units of housing, 3 neighborhood master plans, and selected economic development initiatives. Supervised a staff of over 30 persons, while implementing a comprehensive management reporting and accounting system recognized as the authority's best.

1987 – 1988

Hon. David S. Nelson – U.S. District Court
District of Massachusetts, First Circuit
Law Clerk

1980 – 1983

New Haven Board of Aldermen – New Haven, CT
President Pro Tempore (1981-83)

Member: Chairman, Community Development Committee (1981 – 83)
Legislative Committee (1981 – 83)
Finance Committee (1980)
Municipal Services Committee (1980)

As third ranking official in city, in absence of chairman presided over full board deliberations, managing debate and general oversight functions. As chairman of the Community Development

Committee, supervised review and analysis, and organized citizen participation in, ongoing Redevelopment Authority and Development Administration activities, including *all* federal

assistance programs, economic development plans, housing projects, and community development block grant budgets.

Also organized and sponsored designation of area as historic district, improvement of major artery as commercial revitalization area, and rehabilitation of major supermarket into the largest neighborhood food cooperative in the U. S. at that time. Appointed to board of directors of Neighborhood Housing Associates (developer of major Section 8 rehabilitation project); Uptown Council; and Upper Chapel Association.

1982 – 1983

Speaker of the House - State of Connecticut
Director of Communications

Served as chief media adviser and press secretary to Speaker of House and Democratic House Majority. Left position to attend Harvard University Kennedy School and Law School.

1982

Bill Curry for Congress - New Britain, CT
Issues Director

Served as issues director for general election campaign in Connecticut's 6th Congressional District. Issues positions cited in *New York Times* and *Hartford Courant*.

1982

Steve Wareck for Congress - New Haven, CT
Director of Communications

Worked as chief media advisor and press secretary for primary election in Connecticut's 3rd Congressional District.

MILITARY SERVICE:

1971 – 1974

U.S. Air Force, Honorable Discharge

354th Tactical Fighter Wing, Myrtle Beach AFB
Command and Control Specialist

Assigned as aide to wing commander and battle staff. Assignment involved assistance in preparation and execution of wing operations plans, maintenance of dashboard for combat flight operations, military airlift activities, and wing information process. Assisted in weekly briefing to wing battle staff.

U.S.A.F. Academy Preparatory School, Colorado
Appointment to U.S. Air Force Academy

Awards: Appointment to U.S.A.F. Academy; Cadet Candidate Squadron Commander. Outstanding English Student; President, Student Council.

U.S. Defense Information School, Fort Benjamin Harrison, Indianapolis, IN
Information Specialist

Received intensive and comprehensive media training, including both print and broadcast.

93rd Bombardment Wing, Castle AFB
Feature Editor, Valley Bomber

Assigned as feature editor of weekly base newspaper of training center of USAF Strategic Air Command.

OTHER ACTIVITIES:

Non-Profit Boards and Associations

Catholic University of America
Chesapeake Bay Foundation
Fight for Children
Harvard Kennedy School, Taubman Center
for State and Local Governments
Newseum
Urban Institute
U. S. Conference of Catholic Bishops

For Profit Boards and Associations

Freddie Mac, *McLean VA*
Weston Solutions, Inc., *Westchester, PA*
Calvert Investments, *Bethesda, MD*