



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

Written Submission
U.S. Senate Committee on Energy and Natural Resources
Full Committee Hearing to Examine the State of the U.S. Territories
February 9, 2023

Chairman Manchin, Ranking Member Barrasso, and Members of the Committee: Thank you for the invitation to testify before you today and share an overview of the state of the United States territory of Puerto Rico.

I am pleased to report that Puerto Rico has entered a new era of economic progress and optimism. Since last year's hearing, much work has been done towards the reconstruction and recovery of our Island and there is great momentum as we continue to move forward. We successfully restructured the government's debt to sustainable levels, our economy grew 4% last year, we are strategically employing federal funding across the Island, and government revenues are surpassing estimates.

In fact, all economic indicators have consistently been on the rise during the past two years, we have 150,000 additional jobs since 2021, the labor participation rate has increased by 5 percentage points, we now have the lowest unemployment rate in our history, and we are expecting similar figures for 2023.

I. FISCAL RESPONSIBILITY

a. PROMESA Title III Restructuring Process

Since we last met, the Government of Puerto Rico has achieved significant milestones in its debt restructuring process and fiscal reforms.

Those milestones have allowed Puerto Rico to emerge from many of its Title III cases under the *Puerto Rico Oversight, Management, and Economic Stability Act of 2016* ("PROMESA") with sustainable debt levels and balanced annual budgets. Puerto Rico is now entering a new chapter with fiscal strength and optimism for a prosperous future.

During 2022, Puerto Rico completed two historic Title III restructurings: (i) a joint Title III plan of adjustment for the Government of Puerto Rico (PR POA), the Employees'



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

Retirement System (“ERS”) and the Public Buildings Authority (“PBA”); and (ii) a Title III plan of adjustment for the Puerto Rico Highways and Transportation Authority (“HTA”) (“HTA Plan”).”

The PR POA reduced Puerto Rico’s debt obligations related to the Central Government, ERS, PBA, and HTA from \$35 billion to \$9 billion, representing a total aggregate debt reduction of 74%. In addition, we completed three out-of-court restructurings under Title VI of PROMESA (known as Qualifying Modifications) for the Puerto Rico Infrastructure Financing Authority (“PRIFA”), the Puerto Rico Convention Center District Authority (“PRCCDA”), and the Puerto Rico Public Finance Corporation (“PFC”).

Each of these restructurings has added to our prior successes, including (i) the Title III plan for COFINA that went effective in February 2019, reducing COFINA’s debt from \$18 billion to \$12 billion, and (ii) the Title VI Qualifying Modification for Government Development Bank (“GDB”) that went effective in November 2018, reducing GDB’s debt from \$5 billion to \$3 billion. These Title III Plans and Title VI Qualifying Modifications collectively accomplished the most significant public debt restructuring in U.S. history by reducing approximately \$64 billion in claims to \$29 billion in new debt, an overall 55% reduction in Puerto Rico’s pre-PROMESA debt. And further debt reductions are anticipated in 2023.

Additionally, in July 2019, the Puerto Rico Aqueduct and Sewer Authority (“PRASA”) completed the modification of almost \$1 billion in debt obligations with the Clean and Drinking Water State Revolving Funds, administered by the EPA, and USDA-Rural Development (the “Federal Lenders”). The modification resulted in substantial benefits for PRASA, the Government and the people of Puerto Rico, and the Federal Lenders, including: (i) debt service relief to PRASA of approximately \$380 million over the next ten years, (ii) renewed access to sources of funds under federal programs for infrastructure projects, (iii) elimination of approximately \$1 billion in Commonwealth guarantees over the Federal Debt, and (iv) adequate protection of the interests of the Federal Lenders by elevating such debt to senior status, on parity with other senior lenders of PRASA.

Following the modification of the Federal debt, PRASA was able to complete refinancing of its senior obligations in 2020 and 2021 resulting in total debt service savings of \$917 million, which validated the capital markets recognition of PRASA’s achievements and return to the capital markets.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

As a result of these accomplishments, Puerto Rico now has the momentum it needs for fiscal stability and progress-oriented policies that is restoring investor confidence on the Island and transforming Puerto Rico's economy for generations to come.

b. Other PROMESA Restructurings in Progress

The Puerto Rico Electric Power Authority ("PREPA") is the only Puerto Rico entity remaining in a pending Title III process and we are making significant progress toward achieving a plan of adjustment by the end of 2023.

In March of 2022, the Government of Puerto Rico, terminated the previous PREPA Restructuring Support Agreement because its implementation was no longer feasible nor in the best interest of Puerto Rico under its then-existing terms. Notably, the prevailing circumstances when the PREPA RSA was negotiated had changed significantly, including changes to worldwide economic conditions, such as rising inflation and surges in crude oil prices.

Shortly after the PREPA RSA terminated, U.S. District Court Judge Laura Taylor Swain entered an order appointing a mediation team to facilitate confidential negotiations between the Financial Oversight and Management Board ("the Oversight Board" or "the Board"), AAFAF, and PREPA's creditors to develop a Title III plan of adjustment for PREPA. As a result of the mediation process, the Board filed PREPA's Title III plan of adjustment (the "PREPA Plan") on December 16, 2022, and a related disclosure statement. The proposed PREPA Plan incorporates settlements between the Oversight Board and two critical groups of PREPA creditors. The Oversight Board has also indicated that it has agreed in principle on the terms of a settlement with one of PREPA's monoline insurers.

The current schedule for the PREPA Plan's confirmation process is a disclosure statement hearing on February 28, 2023, and a confirmation hearing proposed to start on July 17, 2023. However, the confirmation process also runs parallel with litigation in case the PREPA Plan is not confirmed. Although it is uncertain whether the Title III Court will ultimately approve the PREPA Plan, and while the Government continues to evaluate the proposed PREPA Plan to ensure its terms conform to the Government's public policy of ensuring that Puerto Rico residents have reliable and affordable electric power, we are hopeful that the confirmation process will stay on track to be completed before the end of 2023.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

If successful, Puerto Rico will no longer have any pending Title III cases by the end of this year.

c. **Effect on P.R. Economy**

Over the last six years, the uncertainty of Puerto Rico's Title III bankruptcy process created additional caution from investors and lenders when considering Puerto Rico as a potential investment opportunity. The resolution of all our Title III cases and other out-of-court restructurings under Title VI has significantly reduced that uncertainty, making Puerto Rico a more stable investment environment. In addition, as Puerto Rico becomes a less risky investment, the cost of capital in Puerto Rico will also go down. This will create a better environment for businesses to grow and thrive.

d. **The End of the FOMB**

The emergence of crucial Puerto Rico entities from their Title III cases signals the beginning of the process to dissolve the FOMB, according to Section 209 of PROMESA. Terminating the FOMB will attract more investments to Puerto Rico by doing away with the uncertainty that a parallel structure to our duly and the democratically elected government has generated. Moreover, the end of the FOMB will significantly reduce our government expenses since the GPR will save approximately **\$65 million per year** in FOMB's operational expenses.

In the next several years, we will leverage our successful debt restructuring and employ these new capital sources to expand and strengthen our economy so that we can strategically allocate additional resources to provide better government services and support expanded job creation

e. **Audited Financial Statements**

I am also proud to report that my administration has prioritized fiscal responsibility and, in the past two years, has already issued three audited Annual Financial Statements for Fiscal Years ending in 2018, 2019, and 2020. Next month, we expect to publish the Audited Financial Statements for Fiscal Year 2021 and, in the summer, the Audited Financial Statement for Fiscal Year 2022. This will mark another important milestone in our economic recovery.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

f. Balanced Budgets and Government Efficiency

Our budgets are now formulated in phases with a responsible exercise of planning and development of the requested budget in which the agencies actively participate. During the evaluation phases, the amount of the budget spent to date, the current budget, the initiatives, and the "baseline" established by the Fiscal Oversight and Management Board (FOMB) were considered in the budget request from the Governor.

This budget process also includes an analysis of ARPA, CRF, CDBG-DR, FEMA, and other federal funds. These plans lay the groundwork for agencies to prepare a more accurate budget, maximize the use of funds, and achieve better public management policy and fiscal responsibility.

One example of best practices is integrating and consolidating processes between agencies during the budget formulation. As a result of the first phase of this strategy, the General Services Administration (ASG, Spanish acronym) and the "Puerto Rico Innovation and Technology Service" (PRITS) were incorporated into the Annual Procurement Plan and Annual Technology Plan. This was done to avoid a duplication of reports and streamline functionality with the agencies. As a result, the EPBCS platform will now have two additional areas that will specifically direct them to the preparation of the procurement plan and the technology section. Both entities have access to this platform so they will collect the data from the information presented by the agencies. In terms of technology, the entity must include an overview of the equipment, personnel, and services included in the requested budget. On the other hand, the Procurement Plan must include the projection of purchases that will be made in the new fiscal year.

The integration and centralization of the infrastructure of the information systems, including cloud storage and software licenses, will enable PRITS to achieve a significant reduction in operational costs while also improving oversight, effective use of available resources, and the value of IT investment.

Furthermore, we were able to implement initiatives, such as the Grants Management Office (GMO) of the Government of Puerto Rico, to provide guidance and technical assistance to agencies and municipalities with the managing their federal funds and programs.

The GMO seeks to develop best practices by identifying risks and assisting state entities in taking steps to prevent noncompliance and possible losses of funding opportunities, as well as providing the necessary knowledge. Hence, Puerto Rico's federal programs ensure that all awarded funds are accounted for. We want



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

pooled budgets to complement state and federal funding sources in compliance with applicable laws and regulations.

This will be achieved by focusing on six main objectives: risk assessment, capacity building, policymaking, fiscal guidance, and data analysis, in addition to serving as a facilitator between the local and federal governments. With GMO providing support between local agencies and their national counterparts, a consistent exchange of information will further expand the knowledge in the local government, improving compliance and streamlining disbursements.

During the past months, significant advances have been made by maximizing available technological tools to improve the development, administration, and analysis of GPR's budget. Such improvements are more evident in budgetary items such as employee roster data, capital Expenditures Planning & Oversight, Revenue Measures, Expenditures Projections, and Budgetary Requests, among others. We have implemented best practices and strategies to maximize administrative tasks in public agencies and entities, prioritizing using technology to design standard templates and procedures. Similarly, we have emphasized using statistics and the project management method in the budget process to achieve a justified funding request aligned with the Administration's vision for the fiscal year 2023-2024.

Also, one of our priorities is to improve the communication channels between the Government of PR and the US Government at the federal and state level to facilitate access to best practices and ensure continuity of efforts. We worked dynamically with the JSF team to initiate a process of knowledge transfer and a corrective action plan. Limiting ourselves to data exchange efforts with budget metrics but not addressing execution would not guarantee that we can have standardized structures that, among other things, entail correct budget management in government entities to ensure transparency, implementation of cutting-edge public policy, and a post-PROMESA government.

II. RECOVERY & RESILIENCY

a. FEMA Funding

Over 5 years have gone by since the devastation of Hurricanes Irma and Maria, since then we have made significant progress towards building back our island despite numerous subsequent disasters. Even though Hurricane Fiona, last



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

September, caused more damage to the power system, as well as to other critical infrastructure such as housing, roads and bridges, the Government of Puerto Rico, in conjunction with the federal government, is much better positioned today to respond and assist in this post-disaster reconstruction than it was 5 years ago. The current primary focus of the Government of Puerto Rico continues to be the advancement of permanent works, in particular for a reliable and efficient power grid as fast as possible.

Hurricanes Irma and María resulted in the largest and most complex disaster response and recovery effort in U.S. history. To make matters worse, Puerto Rico suffered two additional major disasters—major earthquakes that shocked the Island beginning in late 2019 and lasting over six months and the COVID-19 Pandemic.

Despite these challenges, with the help of the federal government, Puerto Rico worked diligently to accelerate permanent work. Before our administration began in 2021, permanent work projects were slow to develop. In fact, through 2020, no PREPA permanent work projects were obligated by FEMA. However through FEMA's FAASt program \$9.5 billion was approved, and today over \$1.6 billion has been drawn down and disbursed for the power grid for emergency work and 93 permanent work projects have been obligated for a total cost of over \$579 million. The FAASt obligations were a major turning point as it moved the Island out of response and into recovery.

With the majority of emergency work completed for Hurricanes Maria and Irma, Puerto Rico's disaster response transitioned to long-term recovery, with its primary focus on the formulation and execution of permanent work projects.

By its nature, long-term infrastructure recovery is a slower process, as it requires the development of the design and engineering of projects, obtention of environmental approvals and permits, procurement of construction contracts, and ultimately construction. This could not be truer in Puerto Rico. Our main goal and motto is to build back better, which requires making sure damages are not repeated in the case of future disasters. To be able to reach this goal, the development of projects also includes careful and precise planning as well as designing which takes a bigger toll on the overall process. However, this is necessary in order to protect the federal government's investment in the island.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

All indications show significant momentum since 2021. Through September 2022 there were more than 7,000 projects commenced totaling \$3.2 billion, this includes 2,400 projects under construction. Under FAASt, FEMA, COR3 and subrecipients PREPA, PRASA, Department of Education and Department of Public Housing have worked together to obligate 248 projects for a total cost of over \$2.2 billion. Construction projects are being completed in accordance with applicable codes, standards, and industry best practices, and in the majority of the cases, with added measures to mitigate hazards and built additional resilience.

It is important to note that since 2021 alone Puerto Rico has successfully disbursed over \$954 million in permanent work, a huge jump from \$153 million disbursed from 2017-2020. Also, in 2022 COR3 was able to disburse \$1.4 billion for all subrecipients across multiple disasters.

As discussed earlier, a major obstacle to recovery in Puerto Rico has been access to working capital to the cash flow needs of our subrecipients, especially for large infrastructure and construction projects, since FEMA disaster recovery programs are based on a reimbursement model. As we transition to the recovery phase where these projects are an even greater focus, a successful plan to address these issues is of the utmost importance. Puerto Rico has therefore developed and is now working to implement several strategies to provide the necessary support for these projects.

The most critical strategy developed and implemented by COR3, in consultation and approval by FEMA, is the Working Capital Advance Program (WCA). This program was implemented specifically to provide a mechanism to advance the federal share of funds reimbursed for permanent work projects under FEMA's Public Assistance program and HMGP projects for incurred damages as a result of Hurricane María. It also applies to the 2020 Earthquake disaster and will eventually apply to large permanent work projects under Hurricane Fiona disaster.

The WCA was launched in June 2022, after receiving formal approval from FEMA in May 2022, and is already demonstrating significant support for the recovery effort. As such, in less than a year, COR3 has successfully disbursed over \$716.4 million which have impacted 650 permanent work projects across all permanent work categories (C thru G) of FEMA's Public Assistance program, including municipalities, multiple state agencies, and private non-profits.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

On September 18, 2022, Hurricane Fiona made landfall in southwest Puerto Rico bringing heavy rains and 90 mile per hour sustained winds impacting power and infrastructure across the island. The 30+ inches of rain that fell caused devastating flooding that damaged homes and washed out newly constructed roads and bridges. The winds also caused severe damaged to the power grid, causing an island-wide blackout and left much of the island without power and water for weeks.

Hurricane Fiona not only exacerbated the prior disaster damage to the power grid, but also caused new damage. Despite the fact that Hurricane Fiona was a much smaller storm, it caused a cascading effect that is compounding the difficulty of the recovery from the multiple disasters that Puerto Rico has endured within the last five years.

To date, COR3 has already obligated 87 projects for well over \$100 million for the recovery of Fiona. During this time, in coordination with the DOE, FEMA, EPA we have develop the Grid Stabilization Plan to provide temporary power generation and conduct emergency repairs to the generation and transmission system. Further demonstrating how we have applied best practices and leveraged our experience with Irma and Maria.

It has been a difficult journey, but Puerto Rico is on the road to recovery and resilience. The future of our recovery is bright, and we have set high but achievable goals for 2023. As to our grants management team, our goal is to disburse \$2 billion at years end by driving large projects in top agencies and providing key and more sophisticated trainings to all subrecipients. In addition, our plan is to close-out and submit all Category A and B projects from Hurricane Maria, increase site visits, strengthen collaboration with state and federal entities and hold a major compliance event.

b. Community Development Block Grants CDBG Funding

In 2018 the Puerto Rico Department of Housing (**PRDOH**) was designated by the Government of Puerto Rico as the Grantee of the CDBG-DR funds. PRDOH is currently responsible for managing various recovery allocations such as CDBG-DR (approximately \$10 billion), CDBG-Mitigation (\$8.2 billion), CDBG-DR for the Optimization of Puerto Rico's Electrical Power System (\$1.9 billion), and CDBG-DR



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

Earthquakes (\$221.05M). Together, these allocations address the damages caused by the impacts of Hurricanes Irma and María and the earthquake disasters while making Puerto Rico more resilient and mitigating the effects of future disasters. So that this honorable commission may have complete and detailed information on the funds allocated in this area, we include the following breakdown:

i. Community Development Block Grants - Disaster Recovery (CDBG-DR)

Through the establishment of twenty (20) programs designed to provide grant opportunities to citizens, small businesses, municipalities, agencies, and non-governmental organizations, PRDOH has successfully disbursed the CDBG-DR funds creating a significant impact on housing, infrastructure, economic, and planning sectors.

When my administration came into office in 2020, PRDOH had obligated and disbursed the following amounts:

12/2020- Obligated - \$1,529,899,629 12/2020- Disbursed - \$152,180,957

Two years later, the obligated and disbursed amounts are:

1/2023 - Obligated - \$7,297,644,759 1/2023-Disbursed - \$1,510,886,250

This represents a 377% increase in obligations and an 893% increase in disbursements.

- CDBG-DR Programs such as the Home Repair, Reconstruction or Relocation (R3) Program continue to provide assistance to families in need of repairs or reconstruction of homes, as well as offering relocation assistance to eligible homeowners located in hazard zones. At the moment, the R3 Program has a total of 4,762 homes completed, an additional 1,148 homes under construction and 854 homes in the design and permitting process. The program has also provided a total of 2,340 relocation vouchers to families in need of relocation.
- The housing reconstruction programs have also generated healthy economic activity by employing local contractors across the island. The construction sector generates hundreds of thousands of dollars of gain, which supports materials suppliers and laborers across the supply chain.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

- The Gap to Low-Income Housing Tax Credits (**LIHTC**) Program has a budget of \$1.2 billion. The Program's objective is to leverage LIHTC to amplify the impact of CDBG-DR funding with the aim of increasing the inventory of affordable multifamily and elderly rental units. This makes federal dollars stretch further.
- Under the Phase 1 of the LIHTC Program (9% tax credit for rehabilitation and new construction projects), there are 6 projects with 851 affordable rental units in development. Of those, 363 units have been completed and are placed in service by the developers. The percentages of construction completion are: Caguas Multifamily 83.63%, Caguas Elderly 70.01%, Coamo Multifamily 100%, San Juan 100%, Río Piedras 55%, and Humacao Elderly 59.69%. A total of \$78,077,348 funds has been disbursed in this phase. In Phase 2 (4% tax credit for new construction and rehabilitation of existing housing), there are 17 potential projects with 2,535 rental units and an estimated total CDBG-DR Gap of \$415 million. The first of the 17 Phase 2 projects has entered the construction phase, with the rest scheduled to start construction this year.
- The City Revitalization Program (CRP) has a budget of \$1.29 billion, from which approximately \$1.07 has been obligated. All the 78 municipalities in Puerto Rico are subrecipients under the CRP program.
- The CRP, as of January 26, 2023, has 330 projects in the Approved Project phase, 135 Projects in Design, 4 Bids in Progress, and 3 Projects in Construction. This pipeline represents a diligent project approval process to ensure project viability, eligibility, cost reasonableness and 2 CFR 200 compliant procurement processes in accordance with federal requirements.
- The CRP Program has disbursed \$21,399,669 and expects to increase the disbursement to approximately \$281 million, as projects are expected to start construction or begin the bid process by the end of this year. The statuses of the projects may vary depending on their complexity, but Municipalities are continuously working on identifying and evaluating additional projects to move to the bid and construction phases.
- PRDOH has a portfolio of programs between its CDBG-DR, CDBG-Mitigation, and CDBG-DR Energy allocations that may serve to provide energy and infrastructure resilience in various ways.
- The Community Energy and Water Resilience Installations (**CEWRI-DR**) Program promotes resilience and addresses the energy and water system vulnerabilities of single-family homeowners referred by the R3 Program by installing residential PV systems with battery backup for critical loads and water storage systems.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

- The CEWRI Program in CDBG-DR addresses the need at the residential scale, CEWRI-MIT serves the need at the municipal or regional level, and for the CDBG-DR Energy, the need is addressed at the energy system level. These programs together provide energy solutions and resilience at different scales:

Scale	Impact	Grant	Program(s)	Budget	Outcome
Small	Individual, single-family homes	CDBG-DR	CEWRI	\$300M	10,000 households
		CDBG-MIT	CEWRI-HERI	\$350M	12,000 households
			CEWRI-IP	\$100M	
Medium	Community scale projects	CDBG-MIT	CEWRI-CI	\$50M	20 communities
Large	Grid Scale	CDBG-DR Energy	ER1 (DR-Elec)	\$500M	-
			ER2 (DR-Elec)	\$1.3B	600 MW of generation

- The CEWRI-DR Program continues to deliver energy solutions to the 3,758 home projects completed under the R3 Program.

ii. Community Development Block Grants - Mitigation (CDBG-MIT)

- Puerto Rico received the largest CDBG-MIT allocation of all HUD's grantees. This grant has been allocated through the Federal Register Notice 85 FR 4676, issued specifically to perform mitigation activities for benefit of the people of Puerto Rico. In May 2021, PRDOH and HUD signed the Grant Agreement that secures Puerto Rico's access to the \$8.285 billion in mitigation funds. Additionally, PRDOH has continued to provide status updates on the progress of the CDBG-MIT Programs that are scheduled to be launched by the end of the year. PRDOH has been meeting with HUD through scheduled monthly meetings with the Community Planning and Development Office in Puerto Rico to discuss program updates and ensure federal oversight in the implementation of the programs.
- The CDBG-MIT Action Plan contains nine (9) programs, three (3) subprograms, and two (2) set-asides, which are currently in the pre-



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

implementation phase. The timeline established by HUD for the mitigation grant is 12 years, as informed by best practices for large-scale infrastructure projects set by federal partners such as the Federal Emergency Management Agency (**FEMA**).

- Under the Infra-MIT Program, PRDOH secured the approval of the first covered project in the CDBG-MIT 2017 class, with an estimated cost of approximately \$552 million in CDBG-MIT funds for the PR-10 Highway. A covered project an infrastructure project having a total project cost of one hundred million dollars (\$100,000,000) or more, with at least fifty million dollars (\$50,000,000) of CDBG funds and a detailed Benefit Cost Analysis is required to be posted for public comment and receive federal approval, which may include partner agencies.
- The PR-10 Highway will include design and construction of segments II, III, IV and V of Highway PR-10 along the municipalities of Utuado and Adjuntas, providing uninterrupted freeway travel to users traveling from north to south, and vice versa, connecting with PR22 in the north and with PR-52 in the south, resulting in improved travel times and roadway safety for passenger cars and trucks.
- PR-10 is an important element of the Puerto Rico transportation network since it is an interface between the industrial centers of the PR-2 North Corridor (Arecibo – Aguadilla) and the PR-52 South Corridor (Ponce – Salinas) providing north-south connection to promote the industrial development of both centers and of the adjacent municipalities. Having the Port of Las Americas and Mercedita International airport in Ponce, and an emerging industrial region coupled with the international airport in Aguadilla, PR-10 will become the catalyst needed to boost the industrial development of Puerto Rico.
- PRDOH included two (2) additional Covered Projects in the CDBG-MIT Action Plan Amendment 2 (Substantial), for an estimated cost of \$558 million and \$257.4 million.
- Regarding CDBG-MIT Energy Programs, there are three (3) subprograms within the CEWRI-MIT Program: 1) Home Energy Resilience Improvements (**CEWRI-HERI**), 2) Incentive Program (**CEWRI-IP**), and 3) Community Installations (**CEWRI-CI**). The first two subprograms (CEWRI-HERI and CEWRI-IP) focus on providing assistance to vulnerable populations and households for the installation of



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

photovoltaic systems with battery backup.¹ On the other hand, the CEWRI-CI program is focused on communities to complement the home-based improvements or reduce household barriers to mitigation on a larger scale.

- The CEWRI-HERI and the CEWRI-IP Programs are scheduled to launch this quarter (Q1-2023).

iii. Community Development Block Grants - Electrical System Enhancements (CDBG-DR Energy)

- On June 22, 2021, PRDOH was granted an allocation of \$1.9 billion of CDBG-DR funds for Electrical Power System Enhancements and Improvements in Puerto Rico.
- On January 24, 2022, PRDOH submitted the Action Plan for HUD review and approval of two programs: 1) The Energy Grid Rehabilitation and Reconstruction (**ER1**) Cost Share program (\$500,000,000), and 2) the Electrical Power Reliability and Resilience (**ER2**) Program (\$1,316,406,180). On March 25, 2022, HUD partially approved the Action Plan, leaving ER1 on hold for a subsequent amendment.
- The CDBG-DR Electrical Power System Improvements APA1 was published on November 15, 2022, and the 30-day public comment period ended on December 16, 2022. The purpose of this amendment was to include Appendix H.1, which provides a detailed analysis, budgets, maps, and methodology regarding how the ER1 program will consider vulnerable populations, as requested by HUD in its partial approval letter dated March 25, 2022. The approach considered guidance received from HUD in collaborative work sessions with HUD and LUMA Energy.
- PRDOH reviewed the public comments, drafted a response, and the APA1 is expected to be submitted to HUD for approval in the following days. HUD will then have a 60-day review period for approval of the APA1.
- The purpose of the **ER1 Program** is to maximize the benefit of federal grant programs by positioning CDBG-DR as a local match to other federal funding

¹ Both programs will be administered under one (1) unified structure referred to in Program Guidelines as the Community Energy and Water Resilience Installations – Household (**CEWRI – HH**) Program. Therefore, CEWRI-HH is comprised of the CEWRI-CI and CEWRI-IP programs, which focus on households and LMI persons, while the CEWRI-CI is design to assist communities in alignment to home-based improvements.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

streams, in this case, the FEMA Public Assistance allocation for electrical grid reconstruction.

- Through the matching of funding provided by other federal agencies, critical infrastructure needs will be addressed, making the island more adaptable to changing conditions and able to withstand and recover rapidly from disruptions caused by future disasters.
- The **ER2 Program** will provide assistance to communities through public/private and non-profit support to create electrical system reliability and resilience through the implementation of decentralized renewable energy resources, including, but not limited to, both small and large microgrid projects as allowed under Puerto Rico Energy policy.
- PRDOH will prioritize projects that provide maximum integration of renewable energy sources for each project, as required by the Federal Register Notice.
- Projects will be evaluated to identify opportunities for alignment with efforts to increase energy efficiency. PRDOH anticipates that approximately 80% of projects funded under ER2 will qualify as distributed energy, microgrids, and similar projects.
- Since August 2021, PRDOH has met with relevant federal agencies, including the federal members of the Technical Coordination Team (**TCT**), as well as with various stakeholders such as municipalities, residents, non-profit organizations, academic institutions, and local government agencies to receive their input during the Action Plan development process.
- The TCT team, co-led by the U.S. Department of Energy and FEMA, consists of a variety of key federal agencies, such as the US Army Corps of Engineers (**USACE**), the Environmental Protection Agency (**EPA**), the U.S. Department of Agriculture (**USDA**), the Federal Communications Commission (**FCC**), Government Accountability Office (**GAO**) and the U.S. Treasury amongst others. We appreciate the valuable input these agencies have provided in the development of our energy recovery strategy.
- We are also fortunate to have a regulatory agency, the Puerto Rico Energy Bureau (**PREB**), which has emerged as a leader in Puerto Rico's renewable energy goals, and a partner to us in this process.
- A key project for the ER2 Program is the Centro Medico Microgrid which will provide the complex with increased energy reliability and resilience. The



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

Request for Proposals for this project is expected to be published in Q1 2023 (February).

iv. Community Development Block Grants - Earthquakes and Storm (CDBG-DR Earthquakes & Storm)

- On September 23, 2021, HUD approved PRDOH's Action Plan for the CDBG-DR funds allocated with the purpose of helping in the long-term recovery from the disasters caused by the 2019-2020 earthquakes. This allocation of \$36.4M will mainly be distributed for the recovery of the following municipalities in southern Puerto Rico: Ponce, Guayanilla, Yauco, Guánica, Peñuelas, and Lajas. These funds will primarily address the unmet housing recovery needs of the most impacted municipalities identified by HUD.
- On November 1, 2021, HUD also allocated \$184.6 million of CDBG-DR funds to Puerto Rico to provide assistance to low- and moderate-income residences affected by the earthquakes and Tropical Storm Isaias.
- On September 30, 2022, PRDOH executed a Subrecipient Agreement with the Municipal Governments that have self-organized into the Southern Consortium for Management and Administration of Federal Earthquake Damage Funds from January 2020 (CONSUR, for its Spanish acronym). PRDOH has held, coordinated, and participated in multiple targeted engagement efforts with the CONSUR in close collaboration with HUD. These engagement events have sought to increase transparency and continue taking collaborative steps towards the successful execution of the Action Plan's programmatic outcomes.
- The municipalities have been in direct contact with the communities impacted by the disasters, and they know first-hand of the hardships and damages they suffered. That is why when preparing the Action Plan, HUD requires the grantee to consult not only with affected citizens and stakeholders but also with local governments to be able to assess and determine the unmet needs to be addressed with the CDBG-DR funds. PRDOH believes that this close relationship between the Municipalities and the affected communities and building from the existing relationship between PRDOH and the Municipalities, serves as a solid foundation for the CONSUR to deliver an impactful implementation of recovery efforts as the CDBG-DR grantee for these two allocations.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

III. ENERGY TRANSFORMATION

After Hurricanes Irma and Maria, as well as recent Hurricane Fiona, the weakness of our electrical system was evident.

On January 24, 2023, the Puerto Rico Private Partnerships Authority ("P3A"), together with the Puerto Rico Electric Power Authority ("PREPA"), signed a Partnership Agreement ("Generation Agreement") with Genera PR (a subsidiary of New Fortress Energy Inc.) under *Puerto Rico's Public-Private Partnerships Act* (Act 29-2009) and *Puerto Rico Electric Power System Transformation Act* (Act 120-2018). Through the Generation Agreement, Genera will undertake the operation and maintenance of PREPA's legacy generation assets ("LGAs") until they're decommissioned following the Integrated Resource Plan approved by Puerto Rico's Energy Bureau ("PREB").

The Generation Agreement with Genera marks another milestone in the transformation of Puerto Rico's electric system. The first milestone took place on June 22, 2020, when the P3A, PREPA, LUMA Energy ServCo LLC, and LUMA Energy LLC (the last two collectively, "LUMA") executed the Puerto Rico Transmission and Distribution Operation & Maintenance Agreement ("T&D Agreement"), which transferred all the responsibilities over PREPA's transmission and distribution system ("T&D System") as well as customer service duties to LUMA for them to manage during a fifteen (15) year period.

The Generation Agreement provides that Genera will oversee the day-to-day operation and maintenance (including any significant maintenance) of the LGAs to generate electricity and deliver it into the T&D System during a ten (10) year period. Genera will also be tasked with procuring and managing the delivery and quality testing of fuel, and, relevantly, the Generation Agreement's compensation approach is structured in a way that Genera is to receive incentive payments based upon the demonstration of actual realized savings in fuel costs during each contract year.

The procurement process was designed to comply with Puerto Rico's energy public policy, laws, regulations, and the Integrated Resource Plan approved by PREB. Also, due to the impact of the transaction with PREPA's Title III proceedings, the procurement process was carried out in coordination with the FOMB, given the need to align the strategy with the efforts to address PREPA's financial challenges and the Certified Fiscal Plan.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

LUMA continues repairing and restoring PREPA's electric grid and carrying out much-needed capital projects. Notably, since undertaking the operation and maintenance of PREPA's T&D system in the Summer of 2021 and as of November 2022, LUMA had replaced 580+ utility poles bringing the total poles replaced to over 3,500. It had also completed a total of 12,718 streetlight replacements in the municipalities of Guánica, Aguada, Lajas, Luquillo, and Maunabo; submitted 142 projects/program initial Scope of Works (SOWs) to PREB, representing an estimated \$8.4 billion in reconstruction work, and had received FEMA obligation for 38 projects, representing 200 million dollars. LUMA also continues to contribute to the transitioning path to sustainable energy. As of November 2022, LUMA had activated net metering for 8,500 rooftop solar installations representing over 40MW. A total of 27,894 renewable distributed generation systems were interconnected to the grid during 2022. This number of interconnections represents 41% of the 68,336 systems interconnected to the grid by the end of 2022. The amount of distributed generation interconnections continues increasing each month by over 2,000.

LUMA also continued work on Tranche 1 interconnection studies for the additional Battery Energy Storage System projects approved by the PREB. Also, it continues to improve customer service for PREPA's customers. The average speed of answer of customer's phone calls is under 5 minutes, and LUMA also opened an additional Contact Center in the town of Isabela.

In compliance with the Integrated Resource Plan, during 2022 PREPA awarded a total of 18 contracts for the development of approximately 845MW of renewable energy and 200MW of energy storage at utility scale level. These projects represent the result of the first tranche from an aggressive ongoing procurement schedule. During December 5th, 2022, new proposals were received as part of the second tranche that looks for additional 1,000MW of renewable energy and 500MW of energy storage.

During 2022 Ciro One project at Salinas initiated construction phase to add a total of 90MW of solar renewable energy, this project is one of two legacy solar power purchase and operation agreement PPOA from procurements before tranche 1 process.

Punta Lima wind farm at Naguabo is a 26MW project originally built in 2012. This project was heavily affected by Hurricane María during 2017 and it was rebuilt during 2022. It's expected that the project to be back online approximately during Q2 of 2023.



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

IV. Renewable Energy-continuing cooperation with DOE

In the wake of Hurricane Fiona, President Biden asked Secretary of the Department of Energy (DOE) Jennifer Granholm to put together a Puerto Rican Grid Recovery and Modernization Team. Since then, we have been working closely with the DOE to advance the transformation of our energy system. Furthermore, the Government of Puerto Rico signed a Memorandum of Understanding (MOU) with the Department of Energy (DOE), the Department of Housing and Urban Development (HUD), and the Department of Homeland Security (DHS) to make sure the usage of the federal funds for the repair of the electrical system is in alignment with the goals of transitioning to 100% renewable energy. As part of this effort, the DOE initiated the PR100 study to identify the different alternatives for Puerto Rico to achieve the energy goals. This study includes the collaboration of six (6) National Labs, energy-related stakeholders, and community input.

For the past couple of months, the Government of Puerto Rico (through the P3A and the Fiscal Agency and Financial Advisory Authority of Puerto Rico ("AAFAF")) has been engaged in discussions with the Loan Program Office ("LPO") from the Department of Energy ("DOE") to produce a revised version of a Power Purchase Order Agreement ("PPOA") to be used for Tranche II onwards. The goal of the parties is to come up with a PPOA with acceptable terms to both the Government of Puerto Rico and the LPO to allow bidders in the upcoming tranches to become eligible for financing under DOE's Loan Program and to make the PPOAs transaction more bankable in overall, therefore increasing market participation in the procurement processes for the integration of renewable energy to meet the targets in Act 17-2019.

Additionally, as part of the available programs funded by the Infrastructure Investment and Jobs Act (IIJA), Puerto Rico submitted concept papers for three DOE competitive grants under the Grid Resilience and Innovation Partnership Program. The focus of the concept papers is to enhance the flexibility and improve the resilience of the grid.

Since 2009, Puerto Rico has been included as part of the formula allocation of the Weatherization Assistance Program (WAP) that support low-income households to replace old or inefficient appliances with energy-saving equipment and measures. The annual allocation assigned to Puerto Rico is of approximately \$1.2 million, which impacts approximately 200 low-income households. Under IIJA,



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

Puerto Rico received an allocation of approximately \$38 million for the next five years to extend the WAP. The outreach and application process is scheduled to begin during Q2-Q3 of 2023.

Moreover, with an allocation of \$20 million from ARPA funds, the government developed an incentive program to support small business in the development of renewable and energy conservation projects. During 2022, a total of 888 small businesses received incentives under this program, and currently more than 400 installations have been completed. A new allocation of \$30 million from CDBG funds will be assigned during the Q2 – Q3 of 2023 to continue supporting small businesses.

VI. Broadband

The public policy of my administration prioritizes closing the digital divide by promoting access to high-speed broadband infrastructure, universal inclusion across all segments of society, and increased utilization in key strategic sectors, such as education, healthcare, and government services.

The Puerto Rico Broadband Program (PRBP) is using federal funds to create a comprehensive Five-Year Action Plan that will identify Puerto Rico's broadband access, affordability, equity, and adoption needs. Parallel to residential and business infrastructure investment, the PRBP will focus on gigabit connections to schools, community internet centers, high-speed municipal Wi-Fi, government facilities and emergency management localities, among other community institutions that serve as anchors to the 78 municipalities in Puerto Rico.

VII. STATUS

On December 15, 2022, the U.S. House of Representatives, on a bi-partisan vote, passed the Puerto Rico Status Act, H.R. 8393, to authorize a plebiscite that, once and for all, would resolve the century-long political status question that hinders progress and economic development on the Island. H.R. 8393 provides that **on November 5, 2023**, the 3.2 million American citizens residing in Puerto Rico would be able to choose among the following non-territorial political status options as alternatives to the current territorial status: independence, sovereignty in free association, or statehood. President Biden expressed support for the bill by stating: "For far too long, the residents of Puerto Rico—over 3 million U.S. citizens—have been deprived of the opportunity to determine their political future and have not



GOVERNOR OF PUERTO RICO
Pedro R. Pierluisi

received the full rights and benefits of their citizenship because they reside in a U.S. territory.”

The people of Puerto Rico have repeatedly voted to end the Island's current territorial status, and an absolute majority of them want Puerto Rico to become a state of the Union. Ignoring their quest for equal rights, including the right to vote for president and to have voting representation in Congress, goes against the democratic ideals this Nation was built on.

For far too long, the U.S. Senate has looked the other way to avoid righting the colonial nature of Puerto Rico's status. This is an affront to the American democratic values that hundreds of thousands of Puerto Rican soldiers have defended around the world while wearing the Stars and Stripes on their arm alongside their fellow Americans.

If you believe in equality, you cannot expect the American citizens in Puerto Rico to consent to discrimination and unequal treatment. It is up to this new Congress to show Puerto Rico, our fellow citizens of the states, and the world that the democratic principles of equality professed by our Nation apply to **all** American citizens. **As Governor of Puerto Rico, I will continue to demand equal treatment for my constituents until they have it.**

I urge you to continue the important work of H.R. 8393 in this Congress and not allow this important opportunity to pass by. 125 years of unequal treatment towards the American citizens living in Puerto Rico have taken a toll on our society. And it is important to realize that even after the successful restructuring of our public finances and the rebuilding of our infrastructure, Puerto Rico will remain hindered until our century-long status question is resolved.

Thank you for your attention to these issues, which will significantly impact the 3.2 million American citizens in Puerto Rico. I look forward to working together with you to address these requests for the benefit of Puerto Rico and our Nation.

Attachment: Letter from the Governor of Puerto Rico, Hon. Pedro R. Pierluisi, to the congressional leadership dated January 27, 2023.