



GOVERNMENT OF PUERTO RICO  
OFFICE OF THE GOVERNOR

**Hon. Pedro R. Pierluisi - Governor of Puerto Rico**  
**Written Submission**  
**U.S. Senate Committee on Energy and Natural Resources**  
**Full Committee Hearing to Examine the State of the U.S. Territories**  
**February 1<sup>st</sup>, 2022**

Chairman Manchin, Ranking Member Barrasso, and Members of the Committee:

Thank you for holding today's hearing regarding the state of the U.S. territory of Puerto Rico. I am pleased to report that Puerto Rico is emerging from a challenging period with strength and optimism. The U.S. District Court in San Juan has just confirmed the Plan of Adjustment that restructures our government's debt, the rebuilding from the devastation caused by the Hurricanes is well under way, and our COVID vaccination rates are amongst the highest in the country.

But much work remains to be done. We have strategically allocated federal funds related to the pandemic to mitigate the effect on our public health and our economy. This has helped provide a sustained rise in economic activity indexes for the past ten months. Even the Federal Reserve Bank of New York reported that Puerto Rico has been the jurisdiction that has recovered best in its region, highlighting the considerable drop in unemployment, increase in job creation to greater than pre-pandemic levels, and positive economic growth that had not been seen in years.

As our economy recovers and we continue to promote our socioeconomic development, we must also ensure that Puerto Rico's power grid is reliable and resilient, we must speed up our reconstruction, continue to protect the health of our people, and most critically, work with Congress to receive fair treatment in domestic social programs such as Medicaid and Medicare.

## **PROMESA**

Puerto Rico has recently reached the most important milestone of the debt restructuring process with the now confirmed Plan of Adjustment (POA). In short, the successful restructuring means that the total amount of central government debt now goes from \$34 billion to \$7.4 billion, a 78% reduction. The POA makes debt repayment possible by cutting Puerto Rico's maximum annual debt service payments from as much as \$4.2 billion to \$1.15 billion a year, meaning that the government before had to devote 28 cents of every dollar to debt repayment, and now it will be only 7.8 cents.

A fair, sustainable and consensual agreement and a great collective achievement for Puerto Rico just happened thanks to our government's fiscal and economic team, the Financial Oversight and Management Board (FOMB), the Legislature, and many others who worked towards achieving this goal. This paves the way for Puerto Rico to exit its bankruptcy process with a stable and sustainable balance sheet and prudent management of our public finances in the future.

The POA confirmation encourages investment by restoring investors' confidence in Puerto Rico, which in turn will promote economic development and job creation. Importantly, the Plan avoids the pitfall of cutting public sector pensions and provides for the creation of a pension reserve trust to collateralize the Territory's future pension obligations, thus providing additional protections in case of future financial difficulties.

This past week, the FOMB, in collaboration with my administration, approved a revised fiscal plan that incorporates the mandates of the POA and puts our Island's economy on a path towards growth again. While the POA and the revised Fiscal Plan are foundational milestones, I would like to open a dialogue with the Committee regarding the role of the FOMB moving forward.

The Oversight Board has had positive impacts on our financial management structures and Puerto Rico has greatly advanced in its budgetary controls, transparency and efficiency. However, the Board has become another layer of bureaucracy that frequently delays, and sometimes even impedes, government execution, and that imposes public policies that do not reflect the will of the people.

For example, the Board must approve each and every line-item budgetary adjustment, even within agencies, and the process can take weeks and even months. Its contract review policy also causes great delays, including contracts related to the ongoing reconstruction efforts, affecting our economic climate and impeding the government agility our people need, particularly in light of the time that has passed since the hurricanes. Moreover, lack of clarity as to when the Board should end its work on the Island is something that needs to be addressed.

Commendably, this Committee and Congress have recently passed the PRRADA (Puerto Rico Recovery Accuracy in Disclosures Act), which protects the Puerto Rican taxpayers from potential conflicts of interests during the debt restructuring process. My administration is committed to working with you to protect the democratic rights of the people of Puerto Rico to be governed by those they elect.

## **RECOVERY & RESILIENCY**

Puerto Rico, this Committee, Congress, and the Biden Administration have committed significant resources to Puerto Rico's own Build Back Better campaign after the ravages of the



2017 Hurricanes and their human and economic toll. I am pleased to report significant advances in these efforts during my administration.

The Puerto Rico Department of Housing (PRDOH), as the designated CDBG-DR Grantee, and the Central Office for Recovery, Reconstruction and Resiliency (COR3), as the designated FEMA Grantee, are working nonstop for the recovery of the Island.

Last year, PRDOH secured access to the totality of the second tranche of \$8.2B in CDBG-DR funds through the second amendment to the CDBG-DR grant agreement, which removed onerous and restrictive conditions and allowed PRDOH to streamline and facilitate the disbursement of CDBG-DR funds.

The assistance by the Biden Administration to speed up access to these funds has been instrumental. To date, we have successfully obligated over 50% (approximately \$5.3 billion) of the more than \$10 billion in disaster recovery funds and are well underway in the reconstruction process. With access to the complete funding budgeted in the Action Plan and the elimination of bureaucratic hurdles, PRDOH has been able to implement disaster recovery programs that the people of Puerto Rico direly need, including ones that help residents and businesses install renewable energy systems.

Additionally, 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 CDBG-DR funds, thus creating a significant impact on the local housing, infrastructure, economic, and planning sectors.

As of today, FEMA Public Assistance has obligated \$26.6 billion of the federal share, of which \$4.8 billion has been disbursed. 2021 experienced a significant increase of key obligations for infrastructure projects of Puerto Rico's central government, as well as dozens of municipalities and private non-profit organizations (PNP's).

A major focus of my administration has been to accelerate the progress of over 7,300 projects with permanent work funding with a total obligation of \$20.1 billion of federal share. As such, over 330 projects have already been completed, and over 500 are currently under construction. We expect that in 2022 at least 2,000 projects with a construction value of over \$4 billion will be either in construction bids or in construction activity, including the first projects to repair the electrical transmission and distribution system, as well as water aqueducts and plants, roads, schools, industrial buildings, recreational parks, sport installations, and hospitals.

Parallel to the abovementioned efforts, along with FEMA, we have made significant progress in 2021 in the southwestern region's seismic recovery. 504 projects were obligated by FEMA in 2021 compared to 46 in 2020 for a \$551 million investment, mostly for school reconstruction,



including seismic mitigation measures. The plan for 2022 is to complete the remaining temporary facilities for public schools, accelerate the architectural and engineering design for hundreds of school repair or construction projects, and begin with the first wave of permanent work projects.

In addition to the Public Assistance funding for hurricane and earthquake disasters, FEMA has allocated over \$4 billion for hazard mitigation projects under Section 404 of the Stafford Act. At present, a total funding allocation of \$1.84 billion includes new electric power generation projects and dam repairs. FEMA is currently also evaluating over 128 projects totalizing \$1.1 billion and COR3 expects to submit over \$1 billion worth of projects to FEMA before April 30, 2022.

## **ENERGY TRANSFORMATION**

Just as our nation wrestles with a transition to a new energy future, so is Puerto Rico. Saddled with an antiquated infrastructure that was devastated by the storms, Puerto Rico is leading the way towards the next generation in its transmission and distribution system, as well as moving away from fossil fuels energy generation and towards renewables.

By way of background, on June 20, 2018, the Government of Puerto Rico signed the “Puerto Rico Electric Power System Transformation Act, Act No. 120-2018 (“Act 120”) into law, with the stated goal of transforming Puerto Rico's energy system into a modern, sustainable, reliable, efficient, resilient, and cost-effective system. On April 11, 2019, the Government of Puerto Rico then enacted Act 17-2019 (“Act 17”), further advancing our public policy, which mandates the delegation or transfer of the operation of the Puerto Rico Power Authority (“PREPA”) electric power generation, transmission and distribution, commercialization, and operation systems to the private sector through the execution of public-private partnership contracts (“P3 Contracts”), all to be done within certain specific milestones.

The first P3 Contract in connection with Puerto Rico's energy transformation was executed between PREPA, the P3 Authority, and LUMA Energy. The contract is a fifteen (15) year Operation and Maintenance Agreement for the management, operation, maintenance, repair, restoration and replacement of Puerto Rico's transmission and distribution system.

And while we recognize that change comes with growing pains, the path towards modernization has been set and we are committed to providing modern and reliable electric service to all on the island. The grid reconstruction is well underway, with hundreds of substations repaired, thousands of poles and streetlights replaced, and over 15,000 new solar customers connected. Also, more than 130 FEMA funded projects totaling over \$7.4 billion are in design and contracting stages, and work continues to safely integrate 1,000 MW of utility-scale renewable energy generation. We are confident that with the federal funding and private sector



collaboration, Puerto Rico's electric system will be up to the standards our people need and deserve.

## **EQUAL TREATMENT IN SOCIAL PROGRAMS**

While the Government of Puerto Rico is working to rebuild the island's economy and its infrastructure, there remain certain long-term fundamental inequities that need to be addressed with the same urgency as our rebuilding. Several of these inequities are in social programs, and they cannot be addressed in Puerto Rico alone. Medicaid is a good example of how these inequities uniquely affect Puerto Rico.

Medicaid provides fundamental healthcare to approximately 75 million Americans in the mainland United States. Any American that is eligible receives the benefit on the same basis – except for those American citizens who reside in Puerto Rico and the other U.S. territories. Puerto Rico must contend with a program based on capped federal funding and additional short-term funding that lurches from 'cliff' to 'cliff'. Specifically, Medicaid funding for Puerto Rico is subject to a hard cap that has been insufficient to support a program that should provide comparable benefits and should serve the same populations as in the states and the District of Columbia. In addition, Puerto Rico currently is required to contribute 45% of Medicaid expenditures under the cap (a 55% FMAP), while states with similar economic circumstances benefit from far higher federal contribution levels. If Puerto Rico were subject to the same rules as the states, the federal contribution would be 83%. Ironically, Puerto Rico's 55% FMAP is comparable to the 50% FMAP that applies to the Nation's wealthiest states.

I must mention that the Biden administration has been fully supportive of providing fair treatment to the American citizens of Puerto Rico. Furthermore, members of this Committee have also sponsored bills to rectify the inequities our Island suffers, and CMS and MACPAC have studied the feasibility of equal treatment for Puerto Rico.

After all, the purpose of Medicaid is to provide vital healthcare services to populations that cannot otherwise afford them, and healthcare should be the same for all American citizens, regardless of where they live within the United States. The simple reality is this: federal Medicaid funding in the fifty states and the District of Columbia does not run out and states with similar economic circumstances are required to contribute far smaller matching amounts than Puerto Rico.

Unless these issues are addressed, hopefully as part of the much-needed Build Back Better legislation, before June 30, 2022, the end of our current fiscal year, Puerto Rico will be forced to make some very difficult choices amongst competing needs that will impact the availability and quality of our public healthcare system. I ask this Committee to ensure that the Medicaid program basically apply to Puerto Rico as in the states.



## **STATUS CONCLUSION**

124 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.

The people of Puerto Rico voted and chose permanent union with the United States through statehood as their path forward. So many Puerto Ricans have defended American democratic values at home and abroad that lack of representation and voting rights, as well as congressional inaction, are unacceptable.

Congress must call for a vote on the political future of Puerto Rico and commit to implementing the will of the majority. That is what democracy is all about. It is time to act.

Thank you.

