

# **Public Testimony to the Financial Oversight and Management Board for Puerto Rico**

Third Meeting  
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El Conquistador Resort  
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(Remarks as Prepared for Delivery)

Governor García, Chairperson Carrión and Members of the Oversight Board:

On behalf of the more than 650 faith communities and national religious institutions that Jubilee USA represents, thank you for the opportunity to address you this morning. I believe you have received my letter which outlines several thoughts about the Governor's fiscal plan and issues around restructuring Puerto Rico's debt. What I would like to do this morning, is offer some additional specific and more technical thoughts around the proposed plan and regarding the restructuring of Puerto Rico's debt. I will then close with a brief statement given to me from Monsignor Roberto González Nieves, Archbishop of San Juan and the General Secretary of Puerto Rico's Bible Society – Reverend Heriberto Martínez.

Jubilee USA along with the US Conference of Catholic Bishops, Catholic Charities and the US National Latino Evangelical Coalition, supported the passage of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). We did this in partnership with several of the island's primary religious leaders, including the Archbishop of the Diocese of San Juan de Puerto Rico and the General Secretary of the Puerto Rico Bible Society. Further the amendments we supported and passed to the PROMESA legislation regarding child poverty reduction, austerity prevention and support for the work of the debt audit committee, received unilateral support from almost all of our US religious partners. This includes

groups such as the United Church of Christ to the Presbyterian Church USA to American Jewish World Service to Islamic Relief.

The analysis of Jubilee USA comes with the experience of 20 years of debt restructuring that protects vulnerable populations and brings debt levels back to sustainability. AND this is also our bias: We believe that any plans, policies and debt restructurings must be judged in view of how they will impact vulnerable populations, social programs and how they will reduce child poverty.

We recognize that those who did nothing to create this crisis are bearing the brunt of some of the worst aspects of the crisis.

I would like to first offer one insight to you around PROMESA and the work of your board. Even among people of good will and the educated, many people still do not understand what PROMESA does do and what it doesn't do. Many people don't understand your mandate, the powers you have and the very particular ways your hands are tied. This is an unfortunate reality in which we are all operating. Admittedly, one of the challenges in even getting to this moment was helping Members of Congress understand what bankruptcy and debt restructuring actually means. You still face these challenges, and I invite you – as you feel appropriate – to educate the public on these issues, your mandate, what you can do and what you can't do.

This is also why it is crucial that you listen to the varied civil sectors in Puerto Rico. This is why it is essential that we listen to those who have experienced some of the worst aspects of this crisis.

In my letter to you we offered comments on austerity prevention, promoting public budget transparency, carefully considering any possible consolidations of hospitals and our support for maintaining healthcare spending. I also wish to reiterate that full repayment of the public pension fund is both a legal and moral obligation. Our interpretation of PROMESA reinforces this understanding. Additionally, it's important to note that any

reduction in pensions will further delay economic growth. As you study the pensions, we believe you will see that these are not “Cadillac” pensions, but a basic measure of support for Puerto Rico’s people.

Here are some additional thoughts we would highlight around the fiscal plan and broader budget transparency issues:

- The plan needs to seriously review revenue collection. In particular, there needs to be further analysis around issues of tax evasion and tax avoidance on the island. Puerto Rico continually has failed to collect adequate tax revenue and we are concerned by how corporations avoid taxes and the very wealthy find routes and shelters to avoid taxes. We are in agreement with several creditors that this is a serious problem on the island and that revenue streams actually exist that we are failing to capitalize on. The fiscal plan seems to focus more on streamlining agencies and does not focus enough on improving tax collection. A 2012 GAO report found that the IRS could increase revenues by better targeting their enforcement resources.
- We would also reiterate that plans and budgets must have healthy investments in new energy sources and renewable energy sources. Puerto Rico is rich in sun and wind, and even though investment has been promised, it has not been realized. This has significant implications for every single sector in Puerto Rican Society. This is one of the most important areas for long-term, sustainable economic growth.
- We believe that while it is essential to address leakage and some areas of duplication in Puerto Rico’s government, we need to protect public sector jobs as an essential job sector.
- Around Public Budget Transparency and Accountability Issues, we would encourage the board to work in tandem and understand the role of the US Treasury Office of Technical Assistance in Puerto Rico. We believe their role is essential in auditing, budget transparency and

revenue collection. Since Congress established their authority on the island, I am encouraged by their efforts and their progress. Please also support and learn from the multi-sector represented debt audit committee. However you move forward in this regard, the role of Puerto Rico's Government and Legislature is essential in the passage of public budget transparency laws for the long term.

- The last concrete suggestion we would offer around the plan is around performance measures and benchmarks, which the plan acknowledges that it needs. The Governor, Board and Legislature may want to take a look at a system the State of Maryland instituted under Governor O'Malley when he became governor. It's called State Stat.

I'd like to now turn to some specific thoughts around debt restructuring. I first want to acknowledge, that PROMESA requires a debt sustainability analysis be submitted. To our knowledge this has not taken place yet and we believe it is essential to start reviewing these analyses as soon as possible. We are reticent to offer what haircut we need to bring the debt back to sustainable levels based on the incomplete data we have. However we would note, based on the very limited data we have reviewed, we believe the debt should be reduced in some range between 50 and 60 percent.

I'd also invite the board to be innovative in any voluntary debt restructuring that they authorize. Here are some key considerations:

- Although we believe a robust debt haircut is necessary, any debt restructuring must take into account that the island of Puerto Rico is incredibly vulnerable to external shocks. These shocks include hurricanes, earthquakes and global and regional financial crisis. In the recent debt restructuring in Grenada that Jubilee USA participated in, we saw a 50% haircut of private sector debt. While the amounts of debt in Grenada are considerably less, the debt restructuring was no less complex. An innovation to deal with external

shocks in the Grenada debt restructuring that I invite you to study, review and utilize – is the “Hurricane Clause.” When certain external shocks impact Grenada, the clause creates a debt payment moratorium. Any debt restructuring in Puerto Rico should include contract clauses like this.

- Next, it is critical that we learn from other debt restructurings. While some overall debt restructuring is necessary and some level of parity is needed among creditors, the board needs to review the impact of high haircuts on civil entities in Puerto Rico that own bonds. In the Greece restructuring, some protections were put in place for these civil entities in order to not deter economic growth. While some level of debt reduction needs to take place with all creditors, we need to seriously review if civil groups should face the same level of reduction that external creditors will need to take.
- The last suggestion we would offer for the review of all stakeholders, is the possibility of GDP linked bonds in a debt restructuring. This pegs greater return to creditors and investors if we see greater economic growth. This deters the type of predatory behavior that we are all concerned about. This also establishes that we are all in this together, and a successful Puerto Rico means success for everyone – success for investors, for Puerto Rico’s people and most assuredly for Puerto Rico’s children. While the use of these instruments has been limited and novel, studies by financial institutions and investors should be reviewed as we believe Puerto Rico could be an ideal candidate for this type of instrument.

My final comment before reading the brief closing statement from the Archbishop and General Secretary – is that we must act very quickly to restructure Puerto Rico’s debt. The debt payment moratorium clock is ticking. If authorized voluntary restructurings fail, you must authorize the court facilitated bankruptcy process.

In closing, I have a statement to read from Monsignor Roberto González Nieves, Archbishop of San Juan de Puerto Rico and Reverend Heriberto Martínez, General Secretary of Puerto Rico's Bible Society – they write:

"We are pleased you are meeting in Puerto Rico. We encourage you to meet Puerto Rico's people and talk to ordinary workers, families and the poor. It is important that you learn from them and learn how the crisis impacts them.

Our people are suffering.

Nearly 60% of kids on our island live in poverty. In your important work in addressing the island's financial and evolving humanitarian crisis, we pray you will weigh any decision that you make in light of how it impacts our children and the children of future generations. This crisis was not of their making yet they are inheriting this crisis.

We pray that in the years to come, this crisis will be solved in ways that protect the vulnerable and that lift our children. We pray the crisis will be solved in ways that lift our people who are trapped in poverty and who wish to overcome dependency, but can only do so step by step.

Our homeland, this island, NUESTRA PATRIA, PUERTO RICO, is sacred ground for us and our people. While you are here, we invite you to learn about this sacred land and sow hope in the hearts of the people of this land, our people who wish for a more dignified future.

May the Lord bless you with wisdom."

Thank-you again for the opportunity to address you.