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February 25, 2015

The Honorable Bob Goodlatte, Chairman
House Committee on the Judiciary
The Honorable Tom Marino, Chairman
Subcommittee on Regulatory Reform, Commercial and Antitrust Law
House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

The Honorable John Conyers, Jr., Ranking Member
House Committee on the Judiciary
The Honorable Henry C. “Hank” Johnson, Ranking Member
Subcommittee on Regulatory Reform, Commercial and Antitrust Law
B-351 Rayburn House Office Building
Washington, DC 20515

Dear Members of Congress:

This is a written submission in opposition to the bill (H.R. 870) which would amend Title 11 of the United States Code to define Puerto Rico as a “State” for purposes of Chapter 9 of such title, enabling the Commonwealth to restructure the indebtedness of its municipalities, namely, its political subdivisions and public agencies and instrumentalities [as per 11 U.S.C. 101(40)].

In my expert opinion, this bill is damaging to what little investor confidence is left in Puerto Rico’s ability and willingness to service its debt obligations. The bill is also unnecessary to deal with the financial problems of state-owned entities in the island. And finally, the bill represents a misallocation of congressional effort, which would be better spent establishing a Financial Control Board capable of addressing the root causes of Puerto Rico’s urgent economic, financial, and leadership problems.

1) H.R. 870 is yet another confidence-destroying change in the “rules of the game” applicable to investors.

One year ago this month, the debt obligations of the Commonwealth of Puerto Rico and its agencies and instrumentalities lost their coveted “investment grade.” This action included the Commonwealth’s general-obligation (GO) bonds, which are a full-faith and credit

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obligation benefiting from a constitutional first-claim on the Commonwealth's revenues. Fitch Ratings, Moody's Investors Service, and Standard & Poor's all agreed that debt previously rated BBB-, Baa3, and BBB-, respectively, had been degraded and was now more properly assessed one or two notches lower as BB, Ba2, and BB+ obligations, respectively. In their explanations for why Puerto Rico's government debt was no longer suitable for conservative investors, the three agencies pointed to a loss of confidence in Puerto Rico among mainstream investors starting in mid-2013, as well as to a deterioration in economic and fiscal fundamentals over a period of many years, one which could not easily be reversed.¹

To put the significance of Puerto Rico's pre-downgrade, BBB rating in its proper context, and to highlight the extraordinary nature of its subsequent slide into "junk" territory, consider that as of mid-September 2014, of the more than 4,000 U.S. local-government credits rated by Standard & Poor's, the average credit rating was AA-, and that a mere three percent of the total universe was rated BBB or lower.² Furthermore, in the past decade, not a single one of the 50 U.S. states have been assigned a rating lower than A-. Therefore, Puerto Rico's loss of creditworthiness is a stunning aberration – and a painful one for U.S. investors, given that the rated universe of Commonwealth bonds exceeds \$70 billion, of which about \$45 billion are tax-supported obligations, a figure exceeded only by the tax-supported debt issued by the states of California (about \$90 billion) and New York (\$52 billion).³

Investor and rating-agency confidence in Puerto Rico were further damaged in the summer of 2014. On June 25, Governor Alejandro García Padilla proposed the "Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"), which was hastily approved by the legislature within a couple of days. Its stated purpose was "to establish a debt enforcement, recovery, and restructuring regime for the public corporations and other instrumentalities of the Commonwealth of Puerto Rico during an economic emergency" such as the one that the island is experiencing.⁴ It was justified by the alleged fact that "there is no Commonwealth statute providing an orderly recovery regime for public corporations that may become insolvent," and also because "the provisions of the federal laws applicable

¹ Typical of the three agencies, Moody's wrote: "The two-notch downgrade was not prompted by a single action or trigger, but rather by a review of the Commonwealth's recent and projected financial performance, in the context of big-picture fundamental elements. ... Long-term credit spreads on [Puerto Rico's] outstanding bonds have widened sharply, and we believe the current market for its debt is limited largely to hedge funds and other non-traditional investors." Moody's Investors Service, "Key Drivers: Commonwealth of Puerto Rico Downgrade," February 13, 2004.

² Standard & Poor's, "U.S. Local Government Rating Review Shows Varied Economic Conditions Being Met with Sound Financial Underpinnings," December 10, 2014. The universe includes the District of Columbia, cities, counties, towns, villages, townships, and boroughs, but not U.S. states or territories.

³ Standard & Poor's, "2014 U.S. State Debt Review: New Issuance Remains a Lower Priority," October 13, 2014.

⁴ English version of the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, http://www.gdbpr.com/investors_resources/documents/ley-71-28-Jun-2014.pdf, p. 75.

to corporations in state of insolvency are inapplicable to the Commonwealth's public corporations.”⁵

The Recovery Act gave state-owned companies two ways to obtain debt forgiveness. First, they could negotiate new terms that are binding on all parties, upon court approval, if creditors representing at least 50 percent of the debt in a given class vote on the plan, and if at least 75 percent of participating voters approve it. Therefore, as few as 38 percent of creditors could impose losses on the remainder. Second, a court in Puerto Rico could force creditors to grant debt forgiveness subject to the vote of a qualified majority of just one class of creditors. The law could be used to reject or modify collective-bargaining agreements, but pension and retiree health benefits cannot be affected, and workers' wages and related benefits must be honored.⁶

The immediate reaction of investors and the rating agencies to the passage of the Recovery Act was quite negative. As bond prices plunged, especially on debt issued by state-owned companies, the average yield-to-maturity of the S&P Municipal Bond Puerto Rico Index jumped from less than 7 percent in the several weeks before Governor García Padilla's announcement to about 8¼ percent by early July.

On June 26, 2014, even before the legislature had finished voting on the Recovery Act, Fitch Ratings downgraded the credit of the Puerto Rico Electric Power Authority (PREPA) a whopping nine notches, to CC from BB, because the company had been plagued by weak financial performance and “bondholders now face a probable financial restructuring or default by [PREPA] in light of newly proposed legislation in Puerto Rico.”⁷ Fitch went on to downgrade other Puerto Rico bond categories in early July.

On June 27, 2014, even before the Recovery Act was signed into law, Standard & Poor's lowered its rating on PREPA bonds two notches, to BB from BBB-, to reflect their view “of the risk to bondholders posed by the law passed by the legislature of Puerto Rico.”⁸ In the following couple of weeks, the agency went on to downgrade PREPA bonds a further four notches to B-; the obligations of the Puerto Rico Highways and Transportation Authority (PRHTA) four notches, to B from BB+; and the Commonwealth's GO rating one notch, to BB from BB+. On July 31, PREPA bonds were downgraded a further two notches by S&P, to CCC from B-.

For its part, on July 1, 2014, Moody's announced that it had decided to cut the Commonwealth of Puerto Rico's rating three notches, to B2 from Ba2, and the rating of PREPA five notches, to Caa2 from Ba3, while PRHTA and the Puerto Rico Aqueduct and

⁵ Ibid. p. 80.

⁶ Ibid. pp. 84-134.

⁷ Fitch Ratings, “Fitch Downgrades Puerto Rico Electric Power Authority's Revenue Bonds; Maintains Watch Negative,” June 27, 2014.

⁸ Standard & Poor's, “Puerto Rico Electric Power Authority Revenue Bonds Downgraded to ‘BB’ on Legislative Passage of Debt Law,” June 27, 2014.

Sewer Authority (PRASA) were downgraded four notches, to Caa1 from Ba3. As Moody's explained, "by providing for defaults by certain issuers that the central government has long supported, Puerto Rico's new law marks the end of the commonwealth's long history of taking actions needed to support its debt. It signals a depleted capacity for revenue increases and austerity measures, and a new preference for shifting fiscal pressures to creditors, which, in our view, has implications for all of Puerto Rico's debt, including that of the central government."⁹

In sum, Governor García Padilla's attempt last year "to establish a debt enforcement, recovery, and restructuring regime for the public corporations and other instrumentalities of the Commonwealth of Puerto Rico" managed to undermine what little investor confidence there was as of mid-2014, and it prompted the credit-rating agencies to take an even dimmer view of the ability and willingness of the island's government to meet its lawful obligations.

To make matters worse, the Governor's destructive initiative was for naught. Once the legality of the Recovery Act was challenged by major institutional investors in the federal courts, it was declared unconstitutional on February 6 of this year. Judge Francisco Besosa of the U.S. District Court for the District of Puerto Rico ruled that such a debt enforcement, recovery, and restructuring regime is expressly preempted by Section 903 of the U.S. Bankruptcy Code.¹⁰

And it is this ruling that has now motivated the authorities in Puerto Rico, acting through Resident Commissioner Pedro Pierluisi, to introduce H.R. 870 on February 11 – an undesirable alternative solution to empower them to inflict losses on bondholders, this time under the cover of Chapter 9 of the federal Bankruptcy Code.

As was the case last summer, this latest attempt to change, with retroactive effect, the "rules of the game" under which investors have bought the Commonwealth's debt is already doing more harm than good. The immediate market reaction to Judge Besosa's ruling should have been a major relief rally in the bonds of Puerto Rico, but yields on Commonwealth bonds actually climbed to record heights on the first trading day after his ruling. For example, GOs maturing in July 2035 traded with average yields above 10 percent, the highest since they were issued in March 2014.¹¹

Likewise, the credit-rating agencies should have welcomed Judge Besosa's decision, but they too turned their thumbs down once the García Padilla Administration said it would appeal and once the Chapter 9 alternative of H.R. 870 was floated. On February 12, Puerto Rico's

⁹ Moody's Investors Service, "Moody's Downgrades Puerto Rico GOs to B2 from Ba2, Outlook Negative," July 1, 2014. Moody's downgraded PREPA's rating further to Caa3 on September 17, 2014.

¹⁰ Edward Krudy, "U.S. Federal Judge Strikes Down Puerto Rico's Restructuring Law," *Reuters*, February 6, 2015.

¹¹ Michelle Kaske, "Puerto Rico Yields at Record High as Setbacks Mount," *Bloomberg News*, February 9, 2015. PREPA bonds did gain, reflecting the perception of a better fate for those bondholders after the judge's ruling.

credit rating was cut deeper into “junk” by Standard & Poor’s, with GO debt now set three notches lower at B rather than BB, and with a negative outlook. “We believe Puerto Rico’s current economic and financial trajectory is now more susceptible to adverse financial, economic, and market conditions that could ultimately impair the commonwealth’s ability to fund services and its debt commitments.”¹²

Not to be outdone, Moody’s, which has been more pessimistic on Puerto Rico all along, soon followed with its own additional downgrade: on February 19, it cut the Commonwealth’s GO bonds two notches to Caa1 from B2, as well as other obligors such as the Government Development Bank for Puerto Rico (GDB) to Caa1 from B3, and PRHTA’s senior bonds to Caa2 from Caa1.¹³

In conclusion, Puerto Rico’s vicious cycle downwards during the past twelve months strongly suggests that attempts to erode fundamental investor protections have backfired. Therefore, the U.S. Congress should refrain from making matters worse by passing H.R. 870.

2) H.R. 870 is unnecessary to deal with the financial problems of state-owned entities in Puerto Rico.

The flawed Recovery Act was put forth by Governor García Padilla because allegedly “there is no Commonwealth statute providing an orderly recovery regime for public corporations that may become insolvent,” as noted previously. And now H.R. 870 is being submitted for congressional deliberation to make available to Puerto Rico “the provisions of the federal laws applicable to [municipal] corporations in state of insolvency,” the absence of which the preamble to the Recovery Act lamented.¹⁴

However, the impression given is misleading, if not false, because the enabling acts of state-owned concerns like PREPA and PRASA, for example, contain provisions that contemplate the court appointment of a receiver should the entities find themselves facing liquidity or solvency problems. The receiver would then take over management of these entities and apply operating revenues in the manner ordered by the court with a view to curing any and all defaults.

As Judge Besosa observed in his ruling striking down the Recovery Act, in the case of PREPA, specifically, its founding Authority Act of May 1941 included such a provision, and its indebtedness under a Trust Agreement dated January 1974, as amended and supplemented through August 2011, made explicit reference to it. PREPA pledged its

¹² Standard & Poor’s, “Puerto Rico General Obligation Debt Rating Lowered to ‘B’ from ‘BB’ on Potential Inability to Meet Debt Commitments,” February 12, 2015.

¹³ Moody’s Investors Service, “Moody’s Downgrades Puerto Rico GO Bonds to Caa1 from B2, COFINA to B3/Caa1 from Ba3/B1,” February 19, 2015.

¹⁴ See footnote #5, *supra*.

present and future revenues, granting its creditors the right to accelerate payments in an event of default and to seek the appointment of a receiver as authorized by the Authority Act. More generally, in PREPA's founding charter, the Commonwealth expressly pledged to PREPA bondholders "that it will not limit or alter the rights or powers hereby vested in [PREPA] until all such bonds at any time issued, together with the interest thereon, are fully met and discharged."¹⁵

So why did Governor García Padilla claim that these provisions "are inadequate to address the complexities involved in a recovery process in the event of an insolvency"?¹⁶ He did so because he is beholden to the labor unions entrenched in Puerto Rico's state-owned companies, and thus he wanted to prioritize their jobs and pensions over the contractual rights of creditors – rights that include having the public utilities restructured by a receiver to enable them to meet their financial obligations.¹⁷ The Governor's pro-labor favoritism was obvious last year when a Chief Restructuring Officer (Ms. Lisa J. Donahue) was appointed "to develop, organize and manage a financial and operational restructuring of PREPA on terms to be approved by the Board [of Directors]."¹⁸ Governor García Padilla made it known (ahead of her appointment) that the CRO could recommend corrective measures but that rate hikes, changes to collective-bargaining agreements, and layoffs would not be approved by PREPA's Board.¹⁹ Unfortunately, these are precisely some of the critical areas that a sound restructuring plan should address, as the case of PREPA vividly illustrates.

PREPA is the monopoly provider of electricity on the island of Puerto Rico, and while its board of directors has had full authority to set electricity rates necessary to pay expenses and meet debt-service obligations, it has not done so in recent years. PREPA has kept its base rate of less than six cents per kilowatt-hour (kWh) frozen since 1989, although rates for residential customers have often been raised to reflect the (until recently) higher world oil prices, its key input.²⁰ Nevertheless, income has tended to fall short of expenses such that the utility has been operating at a loss since at least 2007, borrowing in the capital markets in order to stay afloat. Its long-term debt outstanding is on the order of \$9 billion. To meet its

¹⁵ Civ. Nos. 14-1518 and 14-1569 (ECF No. 119), pp. 2-3, available at <http://cases.justia.com/federal/district-courts/puerto-rico/prdce/3:2014cv01518/111423/119/0.pdf?ts=1423304308>

¹⁶ See footnote #5, *supra*, p. 80.

¹⁷ It should be recalled that in November 2012, Governor García Padilla narrowly defeated the incumbent, Gov. Luis Fortuño, thanks in part to support from labor unions angered when Fortuño laid off more than 20,000 government workers to help close the budget deficit. Danica Coto, "Puerto Rico Inaugurates Governor Alejandro Garcia Padilla, Marking Ideological Shift," *Huffington Post*, January 2, 2013.

¹⁸ The CRO's job description, issued on August 19, 2014, appears at <http://www.gdb-pur.com/documents/CRO-081914.pdf>

¹⁹ "Governor: PREPA CRO Can't Raise Rates," *Caribbean Business*, August 21, 2014.

²⁰ However, from December 2011 through October 2012, then Governor Fortuño, asked PREPA to refrain from raising rates, and this under-recovery of fuel costs reduced the company's net income and forced it to incur additional debt. Standard & Poor's, "Summary: Puerto Rico Electric Power Authority," June 21, 2013.

debt covenants, the company has relied on accounting measures such as capitalizing interest payments and using non-cash revenues and cost savings.²¹

The company is inefficient and overstaffed, with 9,550 employees, of whom more than 70 percent are unionized.²² For example, PREPA's 250-person Human Resources and Labor Relations Department is out of proportion to its peers, consuming 2.7 percent of total operating expenses versus the industry benchmark of 0.56 percent. Its Customer Service Department is likewise bloated and services provided are fewer when compared with relevant benchmarks: PREPA's customer-service expense per customer is more than double the median cost, and more than four times the customer-service cost of the best-performing utilities. A 2012 report commissioned by the Government Development Bank found that instituting a biometric system in which employees have to "punch in and punch out" of work could deliver savings from now careless timekeeping and excessive overtime, but staunch opposition to the move by organized labor has blocked its implementation. In addition, pension benefits are overly generous and PREPA's long-term pension liabilities are unfunded.²³

PREPA also has an excessively lenient collections-compliance policy, such that its accounts receivables have been increasing year after year and reached \$1.75 billion as of September 30, 2014. This was the equivalent of 36 percent of FY 2013 operating revenues and five times the amount of annual operating income.²⁴ Of the almost \$945 million owed by residential, commercial, and industrial energy users, approximately 57 percent represented bills aged 120 or more days. Receivables from municipalities, public corporations, government agencies, and federal agencies in Puerto Rico were nearly \$760 million. About 70 percent of receivables from state-owned corporations were more than 120 days old, but no enforcement actions are taken against them. Major drivers of abnormally large late payments include lack of collection efforts on accounts once they have been cut-off from service; failure to perform credit checks on new accounts or to report delinquent accounts to credit bureaus; minimal fees for late payments and for reconnections; and lack of contact with customers between when bills are due and a shutoff of service takes place.²⁵

²¹ Moody's Investors Service, "Moody's Downgrades PREPA's Ratings to Ba3 from Ba2," June 26, 2014. The recent collapse in world oil prices obviously provides PREPA with a great opportunity to raise cash by slowing down rate cuts to its residential customers, in compensation for what it was forced to do in 2012.

²² PREPA, http://www.prepa.com/aecees_eng.asp

²³ Bernard L. Weinstein, Nicholas Saliba, and Oleg Kareev, The Financial Outlook for the Puerto Rico Electric Power Authority: Challenges and Opportunities, Maguire Energy Institute, Cox School of Business, Southern Methodist University, November 2014, pp. 4-5.

²⁴ FY 2013 data from Ernst & Young, "[PREPA] Financial Statements, Required Supplementary Information, and Supplemental Schedules, Years Ended June 30, 2013 and 2012," January 16, 2014. As of the date of this submission, no financial statements are available for FY 2014.

²⁵ FTI Capital Advisors, "[PREPA] Accounts Receivable and CILT Report," November 14, 2014. This exhaustive report, which runs to 98 pages, focuses on actions and initiatives to enhance collections by PREPA.

In conclusion, the Commonwealth of Puerto Rico and its creditors already have the proper legal framework to deal with the financial problems of state-owned entities in Puerto Rico. Therefore, the U.S. Congress does not need to pass H.R. 870.

3) H.R. 870 represents a misallocation of congressional effort, which would be better spent establishing a Financial Control Board capable of addressing the root causes of Puerto Rico's urgent economic, financial, and leadership problems.

With the benefit of hindsight, it is painfully clear that the Commonwealth of Puerto Rico took excessive advantage of its privilege to issue bonds paying tax-exempt interest in all fifty U.S. states. And it did so to the recent detriment of tens of millions of investors from throughout the country who have suffered major mark-to-market losses – and who may yet suffer permanent losses of principal and interest, especially under a Chapter 9 “solution.”

After incurring operating budget deficits for most of the past decade-and-a-half, equivalent to about 16 percent of revenues during 2008-2013, Puerto Rico's debt burden is by now off-the-charts when compared with any of the 50 U.S. states. The Commonwealth's net tax-supported debt represents nearly 90 percent of personal income in Puerto Rico, compared with a 2.6 percent median for U.S. states, excluding overlapping municipal and federal debt burdens. The debt is also equivalent to almost 95 percent of economic output in Puerto Rico, compared with a median 2.4 percent debt-to-GDP ratio among the 50 states.²⁶ These are highly relevant metrics of the depth of the fiscal problem, especially since H.R. 870 proposes to treat Puerto Rico as a “State” for the purposes of Chapter 9 of the U.S. Bankruptcy Code.

The seemingly irreversible loss of investor and rating-agency confidence in Puerto Rico's ability and willingness to pay, especially given timid and misguided political leadership in the island, raises the question of whether the U.S. Congress should be focusing on establishing a federal oversight board to manage the Commonwealth's grave fiscal situation – much like it did for the District of Columbia in the mid-1990s. Congress is certainly empowered to do it for Puerto Rico under Article IV, Section 3, Clause 2 of the Constitution.²⁷

State-appointed financial control boards and financial managers have offered a tried and tested approach to municipal insolvency. They have been created repeatedly to help troubled cities or other sub-state entities overcome their financial constraints, by overseeing their affairs for several years, making the unpopular revenue-raising and expenditure-cutting decisions that can balance budgets and pave the way for a restoration of access to funding.

²⁶ “Moody's Downgrades Puerto Rico GO Bonds to Caa1 from B2, COFINA to B3/Caa1 from Ba3/B1,” see footnote #13, *supra*.

²⁷ “The Congress shall have power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States; and nothing in this Constitution shall be so construed as to Prejudice any Claims of the United States, or of any particular State.”

Most states do not have clear criteria as to when a board should be established or a manager should be appointed, and the decision often depends on the political situation in both the state and the affected municipality or entity. Usually, states decide to intervene only after a borrower's credit rating falls below investment-grade, or when the municipal city or agency is no longer able to finance its operating expenses – at least not on sustainable terms.²⁸

In early 1995, when Congress started to consider the advisability of intervening in a District of Columbia that had deteriorated financially and otherwise, it drew inspiration from five financial control boards which had been imposed in the two decades since 1974 on the Chicago School District and the cities of Cleveland, New York, Philadelphia, and Yonkers.²⁹ In those prior cases, the precipitating event had been the loss of access to the municipal bond market occasioned by operating deficits and deteriorating economic fundamentals. And by 1995, the District of Columbia had lost its investment grade: its ratings had been slashed from A-/Baa/A- (Fitch/Moody's/S&P, respectively) to BB/Ba/B.³⁰ The broader context was an exodus of middle-class DC residents to Maryland and Virginia after becoming tired of mismanaged public finances, inadequate municipal services, underachieving public schools, high crime rates, and dropping property values.

By the time (April 1995) that President Bill Clinton signed the law passed by a Republican-controlled Congress creating the District of Columbia Financial Responsibility and Management Assistance Authority, the District had not been downgraded as close to the bottom of the credit-ratings scale as the Commonwealth of Puerto Rico, and particularly its main public utilities and agencies, have already been downgraded.³¹

In terms of the underlying fundamentals, the economy of Puerto Rico has been shriveling up for eight years running, such that the latest measure of the island's monthly real GDP as of December 2014 was 80.5 percent of its level in December 2006 – all the way down to a

²⁸ “Missed Opportunity: Urban Fiscal Crises and Financial Control Boards,” *Harvard Law Review*, Vol. 110, 1997, pp. 733-750; and James E. Spiotto, “The Role of the State in Supervising and Assisting Municipalities, Especially in Times of Financial Distress,” *Municipal Finance Journal*, Vol. 34, 2013, pp. 1-31.

²⁹ Nonna A. Noto and Lillian Rymarowicz, “CRS Report for Congress: Financial Control Boards for Cities in Distress,” in Actions Taken by Five Cities to Restore Their Financial Health, Hearing Before the Subcommittee on the District of Columbia of the House Committee on Government Reform and Oversight, 104th Congress, First Session, 1995, pp. 46-83.

³⁰ Office of the Chief Financial Officer, District of Columbia, “District of Columbia Surplus and Bond Rating History,” available at <http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Surplus%20Bond%20Rating%20History%20Chart%20092914.pdf>

³¹ For additional background on federal intervention in the District of Columbia, see Stephen R. Cook, “Tough Love in the District: Management Reform Under the District of Columbia Financial Responsibility and Management Assistance Act,” *The American University Law Review*, Vol. 47, 1997-98, pp. 993-1028; and “The D.C. Revitalization Act: History, Provisions and Promises,” in Building the Best Capital City in the World: A Report by DC Appleseed and Our Nation's Capital, Appendix One and Two, 2008, available at <http://www.brookings.edu/~media/Research/Files/Reports/2008/12/18%20dc%20revitalization%20garrison%20rivlin/appendix.PDF>

point not seen since 1994, two decades ago.³² The unemployment rate stood at 13.7 percent in December of last year and averaged 14 percent for all of 2014, up from 10.6 percent in 2006. The essential reason for the economic contraction has been a steady exodus of population and jobs: total employment in 2014 stood 26.5 percent below its 2006 average.³³ The exodus of inhabitants and jobs, in turn, has led to an erosion of the tax base and to growing political pressure to salvage government jobs and help vulnerable populations.

Behind every fiscal crisis there is a shortfall of political skill and forceful leadership, and the García Padilla Administration is looking increasingly inept relative to the huge challenge it inherited. The Governor's plan to balance the Commonwealth's budget by tinkering with revenue measures and curbing employee compensation, while avoiding layoffs and the restructuring with intent to privatize inefficient state-owned companies, is insufficiently aggressive. Seven months into the current fiscal year, the plan is already short of target. Given the current morass, the time is rapidly approaching when the U.S. Congress may well have to take matters in its own hands and establish a Financial Control Board to take the unpopular austerity and reform measures that the very bad circumstances warrant.

In conclusion, the economic, financial, and leadership deterioration witnessed in Puerto Rico is in many respects worse than that observed in the District of Columbia in the mid-1990s and in other troubled municipalities before and since then. Instead of approving H.R. 870, Congress should consider establishing a Financial Control Board capable of addressing the root causes of Puerto Rico's problems.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Arturo C. Porzecanski', with a large, stylized initial 'A' and 'P'.

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³² The Economic Activity Index is from the Government Development Bank for Puerto Rico, available at <http://www.gdb-pur.com/economy/documents/16-EAI-2015-02-02.xls>

³³ The unemployment rate and employment levels, seasonally adjusted, are from the U.S. Bureau of Labor Statistics, available at <http://www.gdb-pur.com/economy/documents/01-LABOR-2015-02-02.xls>