



The Hon. Pedro R. Pierluisi
Opening Statement As Prepared for Delivery
“The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth
Authority”
Subcommittee on Indian, Insular and Alaska Native Affairs of the House Natural Resources
February 2, 2016

Thank you, Chairman Young.

Following this hearing, the Natural Resources Committee will spearhead an effort to craft legislation on Puerto Rico.

To become law, the bill must be bipartisan and balanced. A bad bill will not be approved by both chambers of Congress and signed into law by the President.

So we are either going to pass a good bill or no bill at all.

If no bill is enacted, the already-grave situation in Puerto Rico, a U.S. territory home to 3.5 million Americans, will get worse. That would not be in the national interest, in the interest of my constituents, or in the interest of Puerto Rico’s creditors, many of whom are also my constituents. Therefore, this Congress should act swiftly and wisely.

The drafting process should be informed by two bills that Congress enacted for Washington, DC in the 1990s—the *District of Columbia Financial Responsibility and Management Assistance Act of 1995* and the *National Capital Revitalization and Self-Government Improvement Act of 1997*, which are best viewed as a single legislative package. However, Washington, DC and Puerto Rico are different in material respects, so the DC package should guide—but not dictate—the contents of the Puerto Rico bill.

To actually address the problem, the legislation must be holistic, containing three essential elements.

First, the Puerto Rico government has a record of fiscal mismanagement. We must acknowledge this painful fact, vow to do better for our constituents, and accept some temporary assistance along the way. Accordingly, I would support the creation of an independent board to approve the Puerto Rico government’s long-term financial plan and annual budgets, to help ensure that that the Puerto Rico government adheres to both throughout the fiscal year, and to make certain that the Puerto Rico

government publishes accurate and timely financial information. A good board can serve as a bridge to a brighter future, helping the Puerto Rico government to perform more effectively and to regain access to the credit markets. As Mayor Williams can attest, the DC oversight board—which was active for five years—was successful in instilling fiscal discipline only because it had “buy-in” from the DC government, business leaders, and labor leaders. To achieve similar support, the Puerto Rico board must be carefully calibrated. As a territory, Puerto Rico has no democracy at the national level. If the forthcoming bill seeks to extinguish rather than enhance our democracy at the local level, I will do everything within my power to defeat it.

Second, the Puerto Rico government must restructure its bonded debt. I say this with genuine regret. Individuals and institutions loaned Puerto Rico money, and Puerto Rico promised to pay them back with interest. So you will never hear me vilify creditors. But the reality is that, while bond-issuing entities in Puerto Rico can pay some of this debt, they cannot pay all of this debt, based on its current terms and conditions, without compromising quality of life and economic growth in the territory to an unacceptable degree. I don’t believe this assertion is subject to reasonable dispute.

Unlike the states, Puerto Rico has no authority under federal law to restructure any of its debt. There is a virtual consensus among objective observers that Congress should grant Puerto Rico such authority, a measure that would cost the federal government and U.S. taxpayers nothing. As Mr. Spiotto demonstrates in his written testimony, there are different debt restructuring models that Congress can adopt for the territory. For example, I would be open to a provision that requires the oversight board to appoint a neutral third-party to mediate consensual debt restructuring negotiations between bond-issuing entities in Puerto Rico and their creditors in order to reach agreements that (1) restructure Puerto Rico’s outstanding debt so that it is sustainable, (2) provide creditors with fair and appropriate treatment, and (3) can be confirmed and enforced by a federal court. In short, when it comes to debt adjustment, I will be flexible regarding the means to the end, but not regarding the end itself.

Finally, the legislation should provide Puerto Rico with more equitable—that is, more state-like—treatment under federal spending and tax credit programs, because decades of neglect from Washington is the single greatest cause of the territory’s economic, fiscal and migration problems. This is the furthest thing from charity or a “bailout.” This is about fundamental justice. The reality is that, if Puerto Rico were a state, the problems that the island confronts today would not exist, or at least would not exist in such severe form. As a state, Puerto Rico would have seven voting representatives in Congress to defend its interests, Puerto Rico would have parity under all federal programs, and Puerto Rico would have access to Chapter 9 of the federal bankruptcy code. Island leaders would not have to come, hat in hand, imploring this Congress to grant Puerto Rico rights and powers that every state takes for granted.

More equitable treatment for Puerto Rico is fully consistent with precedent. The legislative package for Washington, DC—in particular, the 1997 *Revitalization Act*—has injected billions of dollars into the capital city and reduced the DC government’s financial burden by billions of dollars as well. I

recognize that the forthcoming bill cannot eliminate all of the disparities that Puerto Rico faces—because only statehood can accomplish that—but the legislation should make a meaningful effort to mitigate some of the key disparities.

Let me close with an appeal to my colleagues from both parties. Before you try to come up with all sorts of clever and convoluted ways to respond to the crisis in Puerto Rico, you should simply extend to the territory those federal programs and policies that have already proven effective in the states that you represent. This is not the time to experiment; equality is the best policy.

Thank you.