



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 15, 2016

The Honorable Paul Ryan
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

I write to update you and your colleagues on Puerto Rico's debt crisis. I appreciate the recent commitment by congressional leadership to produce a responsible solution for Puerto Rico. In order to assist the 3.5 million Americans living in Puerto Rico, Congress must pass legislation for the President to sign into law before the end of March.

Although there are many ways this crisis could escalate further, it is clear that Puerto Rico is already in the midst of an economic collapse. As part of the Administration's longstanding engagement with the Commonwealth, I will meet with community and business leaders in Puerto Rico on the immense challenges the Commonwealth faces, and at Treasury we will continue to bring our full capabilities to bear in the provision and delivery of assistance to Puerto Rico. But our existing tools are not sufficient for a comprehensive solution.

Puerto Rico is already in default. It is shifting funds from one creditor to pay another and has stopped payment altogether on several of its debts. As predicted, creditors are filing lawsuits. The Government Development Bank, which provides critical banking and fiscal services to the central government, only avoided depleting its liquidity by halting lending activity and sweeping in additional deposits from other Puerto Rico governmental entities. A large debt payment of \$400 million is due on May 1, and a broader set of payments are due at the end of June.

Puerto Rico has been shut out of the municipal bond market for more than two years and ran out of the funding sources traditionally used to finance government operations more than six months ago. In response to the crisis, Puerto Rico has taken a series of dramatic steps to raise revenues and reduce costs. Government spending, net of debt service, has already been cut to the lowest level since 2005. More than 70 percent of the remaining central government employees are teachers, nurses, firefighters, police officers, or other public safety workers.

More recently, Puerto Rico has resorted to a series of onerous and unsustainable emergency liquidity measures, including selling assets from already depleted pension funds; borrowing from the workers compensation and other insurance funds; and withholding hundreds of millions of dollars in tax refunds owed to its citizens. Not only do these actions affect the most vulnerable citizens in Puerto Rico, the unpaid obligations do not go away; they simply accumulate and make long-term recovery even harder to achieve.

The worsening fiscal and economic situation means real suffering for the people of Puerto Rico: basic healthcare, legal, and education services have been impaired. For example, the government's cash flow squeeze has caused some hospitals to begin closing floors and curtailing services. The unemployment rate, at over 12 percent, is more than double the U.S. average. Nearly 10 percent of the population has left since 2006. In the first six months of 2015, each week nearly 3,000 Puerto Ricans left the Island in search of better opportunities on the mainland.

To address the crisis, Puerto Rico needs federal legislation that pairs an orderly process to restructure its debts with strong, independent fiscal oversight to remedy its history of fiscal mismanagement. This combination is not new and has proven effective in other jurisdictions in the United States addressing financial crises like that facing Puerto Rico today. Federally legislated restructuring and oversight would cost taxpayers nothing and is essential to put Puerto Rico on a sustainable path forward. In addition, legislation that improves health care policies and encourages work would help solve Puerto Rico's longer-run challenges. A broad array of business, labor, and community leaders strongly support this package of proposals.

No administrative authority can put an end to this emergency; only Congress can enact the legislative measures necessary to fully resolve this problem. Six congressional hearings have been held by five different committees in the past year, with another hearing scheduled for later this month. It is time for Congress to act to provide order to a chaotic and worsening situation. The Administration remains committed to working with you and your colleagues to help put Puerto Rico on a sustainable path forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", written in a cursive style.

Jacob J. Lew

Identical letter sent to:

The Honorable Nancy Pelosi, House Democratic Leader
The Honorable Mitch McConnell, Senate Majority Leader
The Honorable Harry Reid, Senate Democratic Leader