

**Congress of the United States**  
**Washington, DC 20515**

December 6, 2018

Members of the Financial Oversight and Management Board for Puerto Rico  
c/o The Honorable José B. Carrión III, Chairman  
P.O Box 192018  
San Juan, PR 00919-2018

Dear members of Puerto Rico's Financial Oversight and Management Board:

Over a year after Hurricane Maria struck Puerto Rico, we are deeply troubled by the enduring damage and formidable challenges that continue to plague the island. News reports indicate that thousands of families still live under blue tarps; bridges and other infrastructure are on the verge of collapse; numerous residents and public institutions remain without reliable access to basic utilities; and hundreds of schools have been shuttered. We are concerned that the Fiscal Plan put forth by the Financial Oversight and Management Board (FOMB) is needlessly prolonging Puerto Rico's difficulties.

Even before Puerto Rico was devastated by Hurricane Maria, the island's economic situation was in dire straits, with a 46 percent poverty rate and a government in bankruptcy.<sup>1</sup> The storm destroyed much of the island's infrastructure, and the governor's office has estimated that it will take at least \$139 billion just to rebuild.<sup>2</sup> Putting the island back on track for economic recovery will require significant additional public investment.

However, instead of prioritizing the reconstruction of Puerto Rico, public investments, and the safety and well-being of its citizens, the FOMB appears to have promoted fiscal policies that only worsen the island's ongoing recession and undermine efforts to rebuild.<sup>3</sup> We seek clarification regarding the merits of the austerity-based approach to the FOMB's Fiscal Plan, which significantly cuts public spending, makes almost no new investments, assumes almost no negative feedback from these cuts, and does not provide significant debt relief. Economic experts have warned that this approach is likely to exacerbate a downward economic spiral and population loss that has afflicted Puerto Rico for over a decade—particularly in light of the island's dire post-Hurricane Maria needs.

This policy approach appears to directly contradict the mission with which the Board was entrusted by the Congress. The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) clearly establishes that the Fiscal Plan must “ensure funding of essential public

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<sup>1</sup> Merling, Lara, Kevin Cashman, Jake Johnston, and Mark Weisbrot. 2017. “Life After Debt in Puerto Rico: How Many More Lost Decades?” Washington, DC: Center for Economic and Policy Research. July. <http://cepr.net/images/stories/reports/puerto-rico-2017-07.pdf>

<sup>2</sup> Pierog, Karen. 2018. “Puerto Rico sends costlier reconstruction plan to U.S. Congress.” Reuters. Aug 8. <https://www.reuters.com/article/us-usa-puertorico-congress/puerto-rico-sends-costlier-reconstruction-plan-to-u-s-congress-idUSKBN1KT2KF>

<sup>3</sup> Merling, Lara and Jake Johnston. “Puerto Rico's New Fiscal Plan: Certain Pain, Uncertain Gain.” Washington, DC: Center for Economic and Policy Research. June. <http://cepr.net/images/stories/reports/puerto-rico-fiscal-plan-2018-06.pdf>

services,” restructure the debt and “provide for a debt burden that is sustainable,” and allow for “investments necessary to promote growth.”

We seek your prompt response regarding the FOMB’s compliance with this congressional mandate, as it appears that the Board’s Fiscal Plan adheres to none of the provisions mentioned above. Basic public services remain unreliable for the majority of Puerto Ricans, and the Fiscal Plan will lead to further cuts to healthcare, education and public safety.<sup>4</sup>

To our great surprise and consternation, in spite of the far-reaching devastation caused by Hurricane Maria, the FOMB now estimates that even more funds will be available for creditors to claim than before the storm.<sup>5</sup> We are concerned that the FOMB’s debt-restructuring plan—far from aggressively seeking concessions from Puerto Rico’s creditors on high-interest loans—will actually facilitate high recovery rates for the creditors, resulting in unsustainable debt levels.<sup>6</sup> For example, a current proposal agreed to by the FOMB on a portion of Puerto Rico’s debt would offer creditors \$33 billion on a principal of just \$17.5 billion.<sup>7</sup> A realistic assessment of future economic growth and Puerto Rico’s debt repayment capacity is needed in order to prevent another default in the future.

We strongly urge you to adjust your current policy approach to ensure that it complies with PROMESA, and welcome your prompt response regarding the Fiscal Plan’s apparent violations of key provisions in the law.<sup>8</sup> Deep cuts to public spending and the prioritization of debt repayment over the basic needs of the population will only deepen the island’s economic distress and depopulation.<sup>9</sup>

We furthermore seek an accounting and a justification for the \$1.5 billion the FOMB has set aside for its operating costs over fiscal years 2018-2023, particularly in light of the \$10 billion in cuts that the Fiscal Plan requires over the same period, targeting education, health care, and public pensions.<sup>10</sup> We also wish to obtain a response from the FOMB regarding any potential conflicts of interest, such as familial, professional, financial and lobbying ties of its members and

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<sup>4</sup> Financial Oversight and Management Board for Puerto Rico. 2018. “New Fiscal Plan for Puerto Rico: Restoring Growth and Prosperity.” October 23. <https://drive.google.com/file/d/17ca0ALe7vpYn0jEzTz3RfykpsFSM0ujK/view>.

<sup>5</sup> Merling, Lara. 2018. “Puerto Rico’s New Fiscal Plan: Certain pain, Uncertain Gain.” The Philly Inquirer. June 20. <http://www2.philly.com/philly/opinion/commentary/hurricane-maria-puerto-rico-recovery-audit-creditors-20180620.html>

<sup>6</sup> Gluzmann, Pablo, Martin Guzman, and Joseph E. Stiglitz. 2018. Cambridge, MA: National Bureau of Economic Research. November. <https://www.nber.org/papers/w25256.pdf>.

Weiss, Antonio, Setser Brad W., and Lahman, Desmond. 2018. “Puerto Rico Needs a Better Debt Deal.” October 9. <https://www.bloomberg.com/view/articles/2018-10-08/puerto-rico-needs-a-better-debt-deal>

<sup>7</sup> Sester, Brad. 2018. “Will the Proposed Restructuring of COFINA Bonds Assure Puerto Rico’s Return to Debt Sustainability?” September 29. <https://www.cfr.org/blog/will-proposed-restructuring-cofina-bonds-assure-puerto-ricos-return-debt-sustainability>;

Aronoff, Kate. 2018. “Vulture Funds Stand to Make Millions in Wake of Hurricane Maria.” The Intercept. September 28. <https://theintercept.com/2018/09/28/puerto-rico-hurricane-maria-recovery-funds/>

<sup>8</sup> U.S. Congress. 2016. “Puerto Rico Oversight, Management, and Economic Stability Act or PROMESA, S.2328.” Section 201. <https://www.congress.gov/bills/114th-congress/senate-bill/2328>

<sup>9</sup> Acemoglu, Daron, Alan A. Aja, Robert Blecker, José Caraballo Cueto, Hector Cordero-Guzman, William “Sandy” Darity, Alberto Dávila, et al. 2018. “A Fiscal Plan for Puerto Rico Recovery.” January. <http://recovery4pr.org/>

<sup>10</sup> Financial Oversight and Management Board for Puerto Rico. 2018. “New Fiscal Plan for Puerto Rico: Restoring Growth and Prosperity.” October 23.

potential beneficiaries of its fiscal policies, such as Banco Popular, Government Development Bank, and Santander Securities.<sup>11</sup>

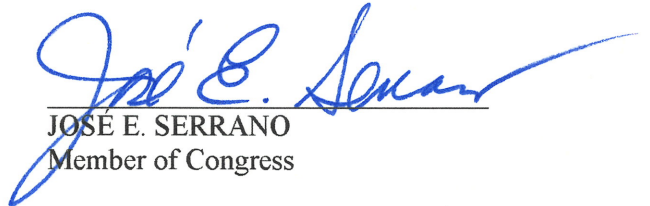
In addition, with regard to the need for revenues, we note that working families on the island are bearing a significant tax burden while laws like Local Act 22 allow the ultra-rich to reside in Puerto Rico part-time to avoid paying taxes on income from capital gains, interest, and dividends. The FOMB should not endorse the continuation of these tax avoidance schemes that result in lost potential revenue for both Puerto Rico and the federal government.

Finally, we strongly urge the Board to publicly support a suspension of all debt payments until Puerto Rican families are in safe conditions and have access to electricity, clean water, primary and secondary education and basic healthcare.

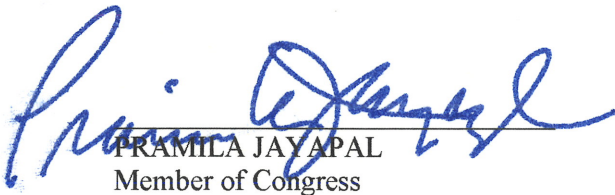
Sincerely,



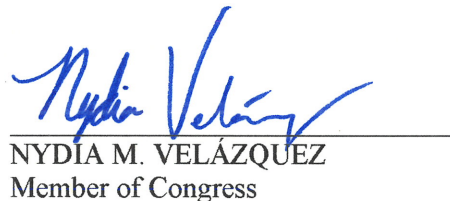
MARK POCAN  
Member of Congress



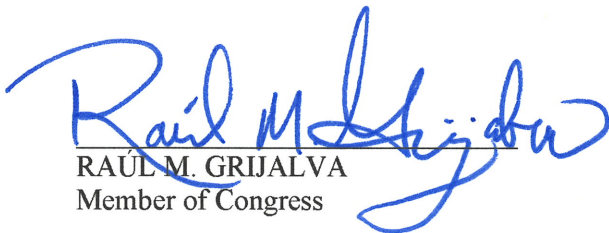
JOSE E. SERRANO  
Member of Congress




PRAMILA JAYAPAL  
Member of Congress



NYDIA M. VELÁZQUEZ  
Member of Congress



RAÚL M. GRIJALVA  
Member of Congress



BERNARD SANDERS  
United States Senator

<sup>11</sup> Aronoff, Kate. 2018. "Vulture Funds Stand to Make Millions in Wake of Hurricane Maria." The Intercept. September 28. <https://theintercept.com/2018/09/28/puerto-rico-hurricane-maria-recovery-funds/>



*Kirsten Gillibrand*

KIRSTEN GILLIBRAND  
United States Senator

*Elizabeth Warren*

ELIZABETH WARREN  
United States Senator

*Maxine Waters*

MAXINE WATERS  
Member of Congress

*Jerrold Nadler*

JERROLD NADLER  
Member of Congress

*Frank Pallone Jr.*

FRANK PALLONE, JR.  
Member of Congress

*Luis V. Guterres*

LUIS V. GUTIÉRREZ  
Member of Congress

*Darren Soto*

DARREN SOTO  
Member of Congress

*Adriano Espaillat*

ADRIANO ESPAILLAT  
Member of Congress

*Yvette D. Clarke*

YVETTE D. CLARKE  
Member of Congress

*Grace F. Napolitano*

GRACE F. NAPOLITANO  
Member of Congress

*Lucille Robal Allard*

LUCILLE ROYBAL-ALLARD  
Member of Congress

*Peter Welch*

PETER WELCH  
Member of Congress

*Robert A. Brady*

ROBERT A. BRADY  
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ALBIO SIRES  
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*Zoe Lofgren*

ZOE LOFGREN  
Member of Congress

*Jan Schakowsky*

JAN SCHAKOWSKY  
Member of Congress

*Sean Patrick Maloney*

SEAN PATRICK MALONEY  
Member of Congress

*Eleanor Holmes Norton*

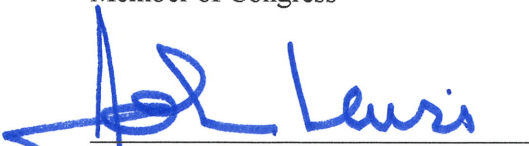
ELEANOR HOLMES NORTON  
Member of Congress



JAMES P. MCGOVERN  
Member of Congress



FREDERICA S. WILSON  
Member of Congress

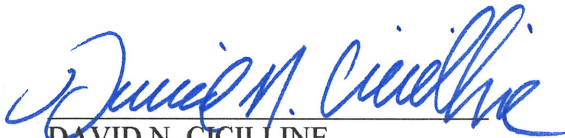


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JOHN LEWIS  
Member of Congress



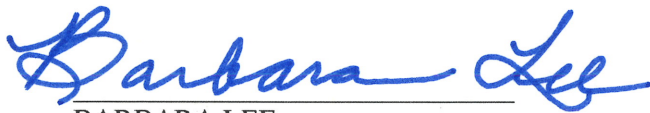
DONALD NORCROSS  
Member of Congress



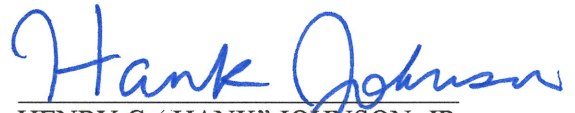
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Member of Congress



BARBARA LEE  
Member of Congress



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Member of Congress



JARED HUFFMAN  
Member of Congress



CHELLIE PINGREE  
Member of Congress