



Written Statement
Hon. Ricardo Rosselló
Governor of Puerto Rico
U.S. House of Representatives - Committee on Natural Resources
Oversight Hearing, "The Need for Transparent Financial Accountability in Territories'
Disaster Recovery Efforts"
November 14, 2017

Introduction of Hurricanes Irma and Maria

Hurricane Irma struck Puerto Rico on September 6, 2017 leaving over 70% of the people of Puerto Rico without power for a substantial time. Two weeks later on the morning of September 20, 2017 Hurricane Maria, the strongest hurricane to hit Puerto Rico in close to 100 years, made landfall south of Yabucoa. The storm moved west-northwest across Puerto Rico pounding us with torrential rain and sustained winds of roughly 150 mph for the next 30 hours.

It is impossible to describe the fury and violence of the storm to people who did not experience it, but the aftermath told the devastating story. The storm left no corner of Puerto Rico untouched. The electric grid experienced a complete failure with damage to every major transmission line, thousands of towers and poles were down, and generation facilities were damaged. For a significant period of time, 100% of the electric grid was down throughout the island. The communications networks were almost all destroyed, meaning 100% of the island had no traditional cellphone service for a period of time. All of the island's ports and airports were unable to operate. Nearly 100 % of fields and crops were wiped out—a devastating blow for a society that already imported much of its food. Small and large businesses were forced to close, wiping out any source of economic activity and revenue for the Government of Puerto Rico. Roads and bridges were swept away. Supplies were limited and the ability to get critical items to the Island was challenged by the lack of access caused by the damage to the infrastructure.

AIR a worldwide, a global leader in catastrophic risk modeling, estimates that the damages caused by Maria correspond to a storm that happens once in 250 to 1,000 years, while Moody's has estimated the damages to be up to \$95 billion.

This is an event that has no parallel in modern American history. During Hurricane Andrew, Tallahassee was up and running, Katrina left Baton Rouge functioning, and Harvey left Austin unscathed. Unfortunately, Maria left all of Puerto Rico completely devastated. For the people of Puerto Rico Maria was not a disaster, it was a catastrophe. A catastrophe whose origins can be traced not only to the storm's horrible winds, waves and rains, but to the societal conditions that Puerto Rico has been subjected to for over a century.

Puerto Rico's Economic Situation Pre-Hurricane

I became Governor earlier this year with the unenviable task of correcting years of misplaced priorities and insufficient leadership, because as you know long before this hurricane season had started Puerto Rico and its people had been battered by a decades long storm of economic, fiscal, and demographic challenges.

A decade-long recession resulted in a loss of over half of the manufacturing jobs. More than half of the population was living below the federal poverty line. Puerto Rico lacked sufficient capital to repair and modernize its energy transmission infrastructure, which was vulnerable to outages, even under normal conditions. On the eve of Hurricane Maria, Puerto Rico was literally bankrupt—having sought Title III protection for the Commonwealth and certain of its instrumentalities, including the Puerto Rico Electric Power Authority (PREPA), due to a mountain of over \$80 billion of debt that it could no longer service with available revenues.

The dire financial condition of the island created an outmigration movement to the United States that has been underway for a decade now. During the last ten years, roughly 500,000 people have left Puerto Rico for the mainland. In the last year alone, that number has jumped to over 70,000 people leaving Puerto Rico. As you know, outmigration and the loss of human capital only makes rejuvenating the economy of Puerto Rico that much more difficult. That said, my administration entered office leaning on the strength of the people of Puerto Rico and determined to address the myriad of issues ailing the island.

Although local mismanagement was certainly a significant factor in those crises, their root causes can ultimately be traced to the unequal treatment of the U.S. citizens of Puerto Rico by the federal government. It is an undeniable fact that under Puerto Rico's current territorial status Congress can and does treat the island unequally under multiple federal laws, programs, and other policies. Laws that we are subject to, even though we have no voting representation in the U.S. Congress that makes them, and cannot vote to elect the President that is responsible for executing them.

As the recent passage of Veterans Day reminds us, for over a century in times of war when America has needed us the most, the brave U.S. citizens of Puerto Rico have served, bled, and died for this country. Yet somehow, the people of Puerto Rico cannot count on an equal amount of federal support to what citizens stateside receive, but we are still expected to perform economically at the same level while being subjected to an uneven playing field.

It is evident that the cumulative impact of this unequal treatment and incoherent federal territorial policies were fundamental factors that limited investment in Puerto Rico's critical infrastructure, debilitated our response capacity, and rendered the territory more vulnerable than necessary in the face of this massive hurricane.

Governor Rossello's Reforms Following PROMESA

Recognizing the importance of addressing Puerto Rico's pre-hurricane challenges, I've worked tirelessly to bring forth strong local leadership and a clear vision for our island. Upon taking

office just ten months ago I embarked on an aggressive agenda of fiscal, economic, and government reforms. Within three months of being in office my administration obtained the approval of Puerto Rico's 10-year Fiscal Plan by the Financial Oversight and Management Board as required by PROMESA, and three months later we enacted the first PROMESA-compliant state budget. All of this with the goals of putting Puerto Rico on a path to fiscal sustainability, responsibly restructuring our debts, rightsizing and modernizing our local government, and restoring the island to economic growth by unleashing the full potential of our talented and passionate people through the private sector. However, even with all this progress the extraordinary destruction and devastation that Hurricane Maria created in Puerto Rico has created a situation where without a massive federal investment there is no way Puerto Rico will ever fully recover.

Request To Congress & Commitment to Transparency

Therefore, I call on Congress to approve by December an emergency supplemental legislation that provides equal treatment for Puerto Rico compared to what any state in the country should expect if they experienced a similar level of devastation. Attached to my written testimony I have provided an extensive analysis and documentation of the devastation caused by the hurricanes and the federal resources necessary to build a more resilient Puerto Rico.

In doing this I commit to you today that I will lead the most transparent disaster reconstruction in American history. Toward that end I have issued an executive order creating the Central Office of Recovery and Reconstruction of Puerto Rico, which has been tasked with ensuring full accountability and transparency for all state and federal funds directed toward the island's reconstruction. To foster a culture of accountability we will create a Recovery Transparency Portal that will not only track the status of recovery, but will also provide information to the public about how and where funds are being used.

Puerto Rico needs swift and robust action from Congress to show the 3.4 million American citizens still in Puerto Rico that there is hope for a better future.

FEMA and the Stafford Act Moving Forward

I would also like to speak to the immediate disaster response by this administration and specifically Administrator Brock Long and FEMA. Administrator Long with other top officials have been in close contact with me and my government throughout this recovery process. Thousands of relief workers have been working hard to save lives and alleviate human suffering long into the night for seven days a week for well over a month now. These efforts must not go unnoticed, the people of Puerto Rico are truly grateful for the work and sacrifices made by these heroic first responders.

That said, the initial response from the federal government was far too slow. This delay has nothing to do with the efforts of the first responders, but rather the spirit of the Stafford Act and Congressional failure to envision a storm the magnitude of Maria hitting Puerto Rico. Unlike normal disasters facing the United States, such as Katrina in Louisiana, which left Baton Rouge

fully functioning, or Harvey in Texas which left Austin firing on all cylinders, Maria wiped out San Juan, leaving our state government unable to communicate and effectively in the dark.

Specifically, the Stafford Act authorizes FEMA to work in conjunction with the state and local governments to respond to a disaster. Therefore, much of the bureaucratic red tape and arcane agency approval process of FEMA is driven by the assumption that the state level government dealing with a disaster will have functioning computers, telephones, and workforce that can navigate these obstacles. Furthermore, FEMA is set up to purely assist the state level government, therefore when the state level employees become first responders themselves, it leaves FEMA paralyzed to jump into action. One example is the backlog we experienced at our ports due to a lack of available truck drivers in Puerto Rico. Under a more robust Stafford Act, FEMA and the federal government would have been able to better help deal with this situation, whether it be in pre-disaster funding and planning or with providing more help to resolve the situation on the ground. Simply put, a more robust Stafford Act that helps state and local governments work with FEMA more closely pre-disaster, while also expanding FEMA's authorities in the most severe disasters is something that is necessary.

I would like to work with Congress and Administrator Long to help improve the Stafford Act so that the federal government can learn from the difficulties that first responders faced in the immediate aftermath of Hurricane Maria.

The Task of Rebuilding Puerto Rico

The reality of the conditions on the ground highlights the fact that the job of rebuilding Puerto Rico is the responsibility of its people and elected leaders, including myself. Outside support from the federal government, this Committee, volunteers, relief agencies, and the Oversight Board are critical and of tremendous benefit. They are, however, temporary. Puerto Rico's people and government are enduring. Outside assistance, while welcomed, cannot substitute or displace the self-determination and self-governance necessary to truly create a sustainable recovery and future for Puerto Rico that will benefit all its stakeholders.

I know that the government has the will, vision and commitment to achieve this. We are prepared to chart the course for our future, in collaboration with the Oversight Board, and the support of this Committee, Congress, FEMA, the Army Corps of Engineers, and other federal relief agencies that are hard at work to assist us. In this time of humanitarian crisis, it is important that we work together and with respect—not seek to replace or diminish the government elected by the people of Puerto Rico—to achieve those goals.

The Government of Puerto Rico Is Leading the Recovery Effort

Despite the difficult and challenging circumstances, the Government of Puerto Rico has led the Island's recovery efforts in close collaboration with the federal government, relief organizations, and other states to procure emergency funding necessary for the immediate implementation of emergency projects. We have a long road ahead but much has been accomplished, in extremely difficult and challenging circumstances.

In the less than two months since Hurricane Maria, I am proud of the fact that the airports and ports are working, that the reconstruction of the water supply is over 85% complete, that over 70% of the communications and cell towers are back in operation, and almost 90% of the supermarkets and 85% of the gas stations are open. Over 42% of the power grid has been restored and, despite substantial disruption to the process, the restoration efforts met the initial targets that I established. Some approximate numbers follow:

- Approximately 15,000 federal civilian personnel and military service members, including approximately 2,000 FEMA personnel, are on the ground in Puerto Rico engaged in response and recovery operations from hurricanes Irma and Maria.
- 35 states are supporting 143 requests for mutual aid in Puerto Rico.
- Aid relief and personnel have been put to good, constructive use.
- Approximately 85% of wastewater treatment plants are working on generator power. Improvement will come as the electrical grid is restored.
- Approximately 80% of banks are open.
- The San Juan financial district is fully connected to the electrical grid.
- Approximately 400 generators have been installed in Puerto Rico by the U.S. Army Corps of Engineers for critical infrastructure.
- Approximately 1,507 miles of Puerto Rico's 5,073 miles of roads are open, allowing for passage through the outer ring of the Island.
- Over 95% of hospitals are open in Puerto Rico.

The work continues every day and progress is being made. We are working tirelessly and will not stop until the job is done.

Puerto Rico Has Implemented Compliance Measures

In order to ensure that aid and financial resources are properly utilized, I have appointed an independent compliance officer with a background in procurement for the Government. In addition, the Government is developing a Contracting and Procurement Protocol consistent with the Oversight Board's contract approval rights as adopted at its last meeting on October 31, 2017. Pursuant to this Protocol, all contracts with a value in excess of \$10 million will be submitted to the Oversight Board for approval, and the Oversight Board has committed to responding to such approval requests within 7 days, so as to avoid delay in the recovery process.

Financial Restructuring and the Role of the Oversight Board

As we rebuild our infrastructure, the work of financial restructuring continues. The new facts and circumstances that emerge from Title III even more important for Puerto Rico. Without near-term certainty about the economic future of Puerto Rico, the inherent economic problems that existed prior to the hurricanes will continue and become increasingly more difficult to solve.

There is no doubt that the March Fiscal Plan will require significant revisions, including new assumptions and revisions to Puerto Rico's future growth trajectory. These will likely be negative. The Government is working to gather information and make revised projections so that we can revise the fiscal plans and resubmit to the Oversight Board. The Government is also

committed to providing transparent information to creditors regarding the assumptions used in revised projections. Although most creditors will not like the outputs, we will ensure that they know and understand the inputs.

The Oversight Board can help Puerto Rico through revising the Fiscal Plan, lobbying, moving the Title III case forward, and offering helpful recommendations, as it is permitted to do under Section II of PROMESA. The Oversight Board can also expedite the permitting process as it relates to PREPA and other critical infrastructure projects as provided for under Title V of PROMESA.

But disaster recovery remains within the sole purview of the Government, which comprises elected officials responsible for coordination across the multiple entities and agencies that are rebuilding Puerto Rico. The Government should continue to have the responsibility to set and execute its policies within the confines of the certified Fiscal Plan and subject to Board review and approval rights. The Oversight Board would be an inefficient and ineffective mechanism for driving the policy choices underlying the reconstruction of Puerto Rico.

Although PROMESA provides a mechanism for the Oversight Board to be involved in emergency response, the Government is supposed to and must lead recovery efforts with the Oversight Board, reviewing and assessing Government actions to ensure compliance with the certified fiscal plans and budgets. The Oversight Board is entitled to review Government actions and to be informed of all recovery efforts in real time. However, even the Oversight Board, in an October 19 letter to me, stated that it “does not intend to impede the Government’s implementation of any federal programs, particularly those related to disaster response and recovery.” Accordingly, instead of expanding the Oversight Board’s powers to take over Government functions, this Committee should in the first instance focus on what the Government has been doing to lead the recovery efforts (as previously discussed) and how the Oversight Board can be utilized to assist and enhance those efforts. Collaboration, not control, is the key to a successful future for Puerto Rico.

Despite these challenges, at the moment Hurricane Maria hit Puerto Rico, the Government was making good progress with the Financial Oversight and Management Board on the road to achieve fiscal responsibility and access to the capital markets within the context of the statutorily mandated requirements of PROMESA, which became effective June 30 of last year. Over the last ten months we have worked collaboratively with the Oversight Board. For example:

- On February 28, 2017 (only 58 days after taking office), my administration submitted a proposed fiscal plan to the Oversight Board. On March 13, 2017, after extensive collaboration and negotiation, the Oversight Board certified the fiscal plan submitted by the Government. Thereafter, the Government proposed and the Oversight Board certified fiscal plans for PREPA and the Puerto Rico Highways Transportation Authority (“HTA”), among other entities. In that regard, we have succeeded where my predecessor failed.
- Then in July 2017, the Government and Oversight Board again worked together to develop and approve the Commonwealth’s budget for fiscal year 2018.

- This past Summer, Title III cases were commenced by the Oversight Board for the Commonwealth, HTA, PREPA, the Puerto Rico Sales Tax Financing Authority, and Employees Retirement System of the Government of Puerto Rico at the request of those entities. Our professional advisors worked closely with the Oversight Board's advisors to prepare those entities for Title III.
- Almost from the start of those Title III cases, the bondholders unleashed, unrelenting litigation against both the Oversight Board and Government disputing nearly every issue in the case. The Oversight Board and Government worked closely together in responding to litigation fending off attacks by a multitude of law firms and professionals representing various bondholder constituencies.
- The Government and the Oversight Board are completely aligned in defending against fundamental legal challenges raised by the bondholders concerning the legality of the fiscal plans certified by the Oversight Board and the constitutionality of PROMESA under the Appointments Clause of the Constitution.
- The Oversight Board and the Government have worked collaboratively with the mediation panel of five federal judges appointed in the Title III cases to work with the bondholders to reach a consensual resolution of disputed issues.

Clearly, the storms have altered the dynamics of the restructuring process, given the uncertainty of the impact of economic growth over the life of the Government's fiscal plans. While both the Government and Board are still assessing the impact of the storms' damage and the impact of that damage on the Island's future economic health, we have agreed that the Title III proceedings should not be delayed.

Moreover, the Government has been completely transparent with the Oversight Board from the beginning of my administration.

- We have endeavored to respond promptly to all requests for information from the Oversight Board and have never withheld information from the Board that it requested.
- The Government has and continues to submit periodic status reports to the Oversight Board.
- In addition to requests for documents and other information, the Government and its advisors have engaged in near constant dialogue with the Oversight Board and its advisors. The Government and its advisors have joined the Executive Director in weekly meetings where tasks and assignments are given for the Government officials to produce information to the Oversight Board or to undertake necessary financial analysis. Working groups have also been formed with Government representatives and Board representatives meeting to develop long-term plans with points of agreement for PREPA and HTA.

- The Government has agreed to comply with the Oversight Board’s contract compliance policy as recently announced at its tenth public meeting and is willing to give the Oversight Board transparency into Government requests for federal funds. All contracts with a value in excess of \$10 million will be submitted to the Oversight Board for approval, and the Oversight Board has committed to responding to such approval requests within 7 days, so as to avoid delay in the recovery process.
- Moreover, I recently issued an executive order directing the appointment of an independent compliance officer at PREPA with a background in procurement.
- The Government has also worked closely with the Oversight Board to advance transparency and provide information to the creditors. To that end, thousands of documents have been made available to creditors in a data room.

Yet I must express disappointment that in the face of the great lengths the Government has gone to cooperate with the Board, my ex officio designee to the board has been routinely excluded from executive sessions and not given the benefit of gaining insight into the Board’s deliberative thinking as well as the Board hearing my positions and views on issues vital to Puerto Rico. The fact is that the Oversight Board is not on the ground dealing with everyday issues and problems in the recovery effort. In order for the Oversight Board to be fully engaged with the Government, it is essential that my designee be given better access to information so as to avoid confusion and misperceptions. In other words, transparency works best when it goes both ways.

I realize that there continue to be disagreements with the Oversight Board with respect to certain narrow issues under PROMESA, but the fact is that the Oversight Board and Government have been united on a vast majority of issues. I respectfully disagree with the Executive Director’s statement that these “disagreements between the Oversight Board and Government have resulted in costly delay and litigation.”

PROMESA intended that the Oversight Board and the Government work together in the spirit of collaboration to return Puerto Rico to fiscal responsibility and not as “petty rivals for power.” Our current point of disagreement with the Oversight Board relates to the appointment of a Chief Transformation Officer for PREPA. There is no other litigation in which the Oversight Board and the Government are adversaries in any of the other Title III cases, including that of the Commonwealth. The real source of litigation delay and cost has been the widespread bondholder litigation that both the Oversight Board and the Government have jointly defended and countered.

We believe that the Oversight Board’s request that Congress intervene by mandating the appointment of a CTO for PREPA and other proposed changes because its mission has organically changed from fiscal recovery to disaster recovery is seriously misplaced. In particular, Ms. Jaresko requested that Congress take four actions to expand the Oversight Board’s powers under PROMESA:

1. Require that the Oversight Board “certify all requests for liquidity advances” from federal loans or relief funds;

2. Provide additional tools to monitor the expenditure of federal funds as part of a plan that makes sense for Puerto Rico's future;
3. Grant the Oversight Board the authority to control the Government and its instrumentalities through the appointment of chief executive officers that are accountable only to the Board; and
4. Grant the Oversight Board authority to veto legislation enacted by the Puerto Rico legislature to the extent the Board determines, in its sole discretion, that such legislation is inconsistent with the fiscal plan.

If the Oversight Board's proposals to this Committee are adopted or somehow acknowledged or linked as a condition to future critical funding for Puerto Rico, they would effectively undermine the Government's disaster recovery efforts and create unnecessary confusion. In effect, the Oversight Board as an unelected body with no connection to the people of Puerto Rico would displace a government of elected leaders at a time it was addressing an unprecedented humanitarian crisis.

For these reasons, I would urge that no such actions be taken by Congress. Instead, the Government and the Oversight Board should be left to resolve any differences themselves without resort to litigation given that there is much more that unites than divides us in delivering for the people of Puerto Rico at this most critical hour.

Conclusion

This is a transformative moment in the history of Puerto Rico. We recognize that your leadership, along with that of leaders from both parties, will be essential to our recovery, and the future economic and fiscal health of the island. To that end, we are committed to fully engaging leaders from the private sector and Non-Governmental Organizations in the design and implementation of this rebuilding program. We will Build Back Better, not just in terms of the physical and economic reconstruction of the island, but through a true public-private partnership with a process that is open, transparent and accountable to our community, to the Federal government and the American people, who are showing such tremendous and heartfelt support for our efforts.

Puerto Rico has been treated equally in times of war, sacrificing like any other state, now in our time of greatest need we call on Congress to treat us equally as we work to recover, and ultimately rebuild a new and stronger Puerto Rico. We have the will and the spirit needed to continue contributing as part of the great American family. Help us help ourselves, and in doing so you can live up to America's greatest ideals. Our future is in your hands.

With sustained federal assistance and your leadership and support, I am confident that in time the people of Puerto Rico will recover and grow stronger than ever.