

Policy Memorandum

Recommendations to the Governor of Puerto Rico



Executive Summary

Puerto Rico is facing several simultaneous crises, each one superimposed on top of the other. This situation demands a robust response from the government of Puerto Rico precisely when its capacity to execute is limited by bankruptcy, the politicization of public employment, years of austerity policies, and corruption. This conjunction of an overwhelming agenda and a lack of human and financial resources requires that clear work priorities be established. In this memorandum, we present some suggestions on what those priorities should be and how to address them.

COVID-19 Pandemic

This is the most urgent and important issue facing your administration in the short term. We recommend:

- **To continue educating** citizens about the importance of wearing masks, maintaining social distance and avoiding crowds in public places.
- **Redoubling efforts to continue testing and contact tracing** people who may have been exposed to the virus.

Puerto Rico has made progress in the **vaccination process**, but some logistical problems are foreseeable in the short term. To address them, we recommend:

- Setting up multiple vaccination centers at the local level, not only in hospitals, CDTs, and pharmacies, but also in community centers and other easily accessible facilities around the island.
- Training and authorizing dentists, emergency technicians and paramedics, and other appropriately trained personnel, to vaccinate against COVID-19.

Finally, it is necessary to **continue supporting small and medium-sized business owners**, as well as people who have been unemployed due to the pandemic. We recommend:

- Designing local programs properly to help those most in need and populations that for a variety of reasons are not covered by the federal government plan.

Reconstruction

The delay in rebuilding the capital stock destroyed by the hurricanes of 2017 and the earthquakes of 2020 is a drag on Puerto Rico's economy. We recommend:

- Advocating for the federal Office of Management and Budget to accelerate the process of apportioning congressional appropriations to allow their use.
- Amending the arbitrary conditions for the disbursement of CDBG-DR funds set forth in the grant agreements with the Department of Housing and Urban Development to establish a reasonable and non-discriminatory control process.

Beyond **accelerating the disbursement of funds for reconstruction**, we recommend that priority be given to the areas of housing and energy.

Housing

As we detail in our housing initiative report, Blueprint, the long process of post-disaster reconstruction will be defined primarily by pressing housing needs. Given this situation, we need a **comprehensive planning and public policy framework** that is based, at a minimum, on the following principles:

1. providing decent, safe and affordable housing for all,
2. developing inclusive, healthy communities with full opportunities for social mobility, and
3. encouraging community participation in all decision-making processes.

The ravages of the pandemic have delayed reconstruction programs and worsened the residential vulnerability of hundreds of thousands of families in Puerto Rico. Given this crass slowness it is essential that the government of Puerto Rico:

- take advantage of and administer, quickly and effectively, the \$325 million earmarked for Puerto Rico under the “Emergency Rental Assistance Program” that was created through the Coronavirus Relief Fund, and
- review and amend the design of the main housing reconstruction programs to, among other things:
 - speed up the pace,
 - ensure that local communities are fully involved in all decision-making processes, and
 - that government investments benefit entire communities and not just a select group of households.

Energy

To date, **there are currently four important processes running in parallel**, each of which will affect the future of Puerto Rico's electrical system:

- the Integrated Resource Plan (“IRP”) of the Electric Power Authority (“PREPA”) has been approved by the Puerto Rico Energy Bureau (“PREB”) and its implementation is about to begin;
- PREPA has presented a plan to modernize and reconfigure Puerto Rico's electrical grid as part of a broader effort to rebuild the island's infrastructure;
- the terms of PREPA's debt with its bondholders and other creditors are being renegotiated under Title III of PROMESA; and

- the government of Puerto Rico has executed an agreement to transfer the administration and operation of the electricity transmission and distribution system to a private entity and has begun the process to do the same with the generation capacity.

It is imperative that the reconstruction of the electricity grid, the restructuring of PREPA's debt, and the privatization of the administration and operation of the system be executed in a manner that is consistent with the IRP, which is the long-term master plan for Puerto Rico's electricity system. At the moment there are two plans – the “System Remediation Plan” (“SRP”) and the Infrastructure Modernization Plan (“IMP”) – which are currently being executed as two projects in parallel and which will effectively result in a duplication of efforts and wasted funds.

We recommend, therefore:

1. that you appoint a coordinator who reports directly to your Chief of Staff and who has the authority to coordinate these four processes so that they are carried out in an orderly, efficient and rational manner;
2. that the PREB hold public hearings for PREPA to explain how the SRP and the 10-year IMP will be coordinated, and how it will avoid the duplication of efforts and the waste of funds; and
3. that your administration does not approve the new construction of storage infrastructure for or electricity generation with natural gas, unless it is consistent with the requirements of the IRP.

Debt Restructuring

PROMESA requires Puerto Rico to submit a viable Plan of Adjustment (“POA”) to successfully exit the Title III process and Judge Taylor Swain has given the parties until February 10, 2021 to agree on the basic terms of a POA.

As part of the POA process, the Fiscal Oversight and Management Board (“FOMB”) is negotiating a restructuring of the General Obligation Bonds (“GOB”) and other debt whose source of repayment ultimately depends on the general fund (approximately \$35 billion). In October 2020, the FOMB revised its offer to creditors to reduce this debt to approximately \$11.9 billion, consisting of (1) \$6 billion in cash; (2) \$4.9 billion in new GOB; and (3) \$1 billion in the form of a **Contingent Value Instrument (“CVI”)**.

In the current context, the introduction of a CVI is an innovative step since it provides an alternative to mitigate the high level of uncertainty, offering investors a greater recovery, should the economy perform better, while protecting the government and residents of Puerto Rico in case government revenues are below expectations.

In the final analysis, **it is a win-win proposition**, since investors participate in any potential upside economic scenario; Puerto Rico is left with a sustainable debt load; and both parties mitigate the risk of a new default in the short-term.

Washington, D.C. Agenda

Government officials must re-commit to **ensuring equitable access to all federal programs for Puerto Rico**, especially with regard to:

- Medicaid funds,
- the extension of an Earned Income Credit (“EITC”),
- improved access to Supplemental Security Income (“SSI”) and
- a thoughtful transition to the Supplemental Nutrition Assistance Program (“SNAP”).

It is important that, in parallel, local officials help **eliminate public stigma and negative discourse** around populations participating in social safety net programs.

Medium and Long-Term Economic Growth

Puerto Rico's economy has been in secular decline for fifteen years. It is important, therefore, to start thinking [about a 21st century industrial policy](#) for Puerto Rico. A modern industrial policy seeks to identify economic sectors, for example, high-tech agriculture, advanced or specialized services, or sophisticated manufacturing, in which a country has the opportunity to create greater added value and thus generate economic growth, as well as new and better jobs.

According to Robert Devlin, effective industrial policies have at least three elements in common:

1. to establish a national strategic vision for the medium and long term,
2. effective collaboration with the private sector, and
3. consistency in the implementation of industrial policy over time.

The idea is to think of industrial policy as an **interactive process of strategic cooperation between the private sector and the government**, that, on the one hand, serves to obtain information on business opportunities and limitations and, on the other, generates public policy initiatives in response.