



July 1, 2021

Hon. Raúl M. Grijalva, Chairman
House Natural Resources Committee
1324 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman,

We, the undersigned, president of the Puerto Rico Mayors Association (PRMA) and the Puerto Rico Federation of Municipalities (PRFM), the two largest organizations that represent mayors in the Island, write to express support for the reintroduction of the Amendments to PROMESA Act 2020 (H.R. 6975, MAY 22, 2020, 116th Congress) with modifications that will much improve the flawed underlying law. These enhancements will ease the pain of austerity on the people of Puerto Rico and help deliver necessary and essential services at the local government level. Furthermore, the legislation should include language that excludes municipalities from the Covered Territorial Instrumentalities definition. We ask that you enact pro-growth measures based on recommendations from the Bipartisan Task Force on Economic Growth in Puerto Rico. We support an approach that would reinvigorate Puerto Rico's manufacturing base, which represents the linchpin to our economy and the best opportunity to put Puerto Rico on an upward economic trajectory through new investments in advanced manufacturing and jobs to Puerto Rico. Finally, we ask that you abbreviate the lifecycle of the Financial Oversight and Management Board (FOMB) created by PROMESA to 6 months following debt restructuring agreements over a covered instrumentality.

Puerto Rico's municipal governments represent the frontline of providing critical services to individuals in need. They also contribute nearly \$500 million in transfers to the Commonwealth distributed among the Puerto Rico Health Insurance Reform Program (referred to initially as Reforma and now known as Plan Vital), the Commonwealth Employee Retirement System and the Commonwealth debt service thru the Commonwealth Redemption Fund. The latter comes from the property tax, that although is supposed to be a municipal source of income, by law the Puerto Rico government gets \$120 million annually to pay its bond debts (not municipal debt). On top of that, municipalities in Puerto Rico historically provide services, like road and school maintenance, and social services that by law are the responsibility of the state government.

Many of the services provided by the municipalities rely upon the Equalization Fund, which was established many years ago to, among other reasons, replenish municipal revenues that were exempted by central government driven incentives for companies locating in Puerto Rico. Recently, budget austerity measures put in place by the FOMB in the Commonwealth Fiscal Plan put severe limitations against the Equalization Fund and mandates its eventual elimination which will practically make 30 municipalities nonoperational. Recognizing the negative effects of these cuts, on June 8, 2021, you cosigned a letter to the Chairman and members of the FOMB with other members of Congress asking the FOMB to suspend further budgetary cuts to this Fund. Nevertheless, the Board has moved forward with those cuts, that are strongly objected by the mayors, the Governor, and the Legislative Assembly of Puerto Rico.

To restore efficiently and transparently providing services at the local level, we ask that you include in your new bill language similar to the one included on H.R. 6975, Section 7 establishing a rule of basic funding for the University of Puerto Rico. We specifically recommend a minimum of \$300 millions annually to maintain the Equalization Fund which allows the seventy-eight municipalities of Puerto Rico “to fulfill its major role as an essential public service and to comply effectively with its obligations” (H.R. 6975, Sec. 7)”.

PROMESA was designed to address the central governments and public utility bankruptcies. It was not intended to delve into municipal government finance and operations in Puerto Rico. Designating all municipalities as Covered Territorial Instrumentalities seems excessive and an arbitrary exercise of discretion in the application of PROMESA particularly when none of the municipal governments were the source of the \$72 billion debt that prompted the enactment of PROMESA. As a matter of fact, municipal governments’ financial obligations to the Government Development Bank (GDB) were met as agreed and mandated by the Puerto Rico Municipal Code, which requires a one-year prior prepayment in these obligations.

The FOMB needs to be limited in scope and function and so we ask that you exempt municipalities from the reach of the FOMB and PROMESA statute.

One of the worst things about PROMESA is not what it provided, but what it failed to provide. As you know, the legislation called for a task force to make recommendations to Congress on ways to foster economic growth in Puerto Rico. Recommendations were put forth as directed. Regarding federal tax policy toward business the Task Force recommended:


- The Task Force believes that Puerto Rico is too often relegated to an afterthought in congressional deliberations over federal business tax reform legislation. The Task Force recommends that Congress make Puerto Rico integral to any future deliberations over tax reform legislation.
- The Task Force recommends that Congress continue to be mindful of the fact that Puerto Rico and the other territories are U.S. jurisdictions, home to U.S. citizens or nationals, and that jobs in Puerto Rico and the other territories are American jobs.
- The Task Force is open to the prospect of Congress providing U.S. companies that invest in Puerto Rico with more competitive tax treatment as long as appropriate guardrails are designed to ensure the company is creating real economic activity and employment on the island. (PROMESA Congressional Task Force Report, December 20, 2016, pages 36-37.)

Congress has failed to act. In fact, Congress, just after the recommendations were include in a report and just after Hurricane Maria wreaked deadly destruction in Puerto Rico, enacted tax law that made Puerto Rico a less attractive jurisdiction for investment and job growth.

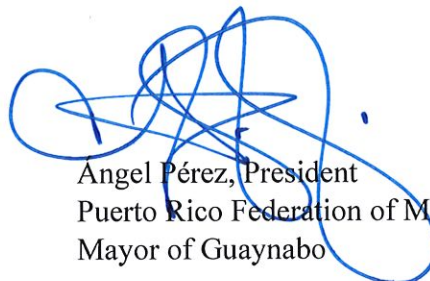
We need to reverse course in Puerto Rico. We urge you to included language that would provide for a tax credit derived dollar for dollar from investments and new jobs in Puerto Rico. It would treat Puerto Rico with distinction versus truly foreign jurisdictions that we compete against for manufacturing jobs. The tax credit approach would reverse the outward migration of jobs from Puerto Rico to overseas jurisdictions and help to bring jobs back under the US flag in Puerto Rico. Sensitive product lines of pharmaceuticals and medical devices made in Puerto Rico is a way for Puerto Rico through its talented hardworking people and advanced manufacturing hubs to help the US receive these critical products under the US flag, within US Customs Zone and under the Food and Drug Administration oversight by US citizens employees in Puerto Rico. Jobs and revenue growth is the missing ingredient to a lasting solution in Puerto Rico. We urge you to work with tax writers engaged in this space to solve the revenue problem and bring new opportunities to Puerto Rican workers and their families, help retirees and creditor interests alike, and to give back democratic rule.

Finally, please limit the length of time for the FOMB to remain after a covered entity restructures its debt to six months. It's time we work to enact these and other amendments to PROMESA to bring closure to the restructuring and fiscal oversight process so we can govern and enjoy viable opportunities for our people.

Sincerely,



Luis Javier Hernández, President
Puerto Rico Mayors Association
Mayor of Villalba



Angel Pérez, President
Puerto Rico Federation of Mayors
Mayor of Guaynabo

Cc:

Hon. Jenniffer González
Hon. Nydia Velazquez
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