

Partido Nuevo Progresista

Monday August 29th, 2016

Chairman Orrin G. Hatch
Committee on Finance
United States Senate
Washington, DC 20510-6200

Dear Chairman Hatch,

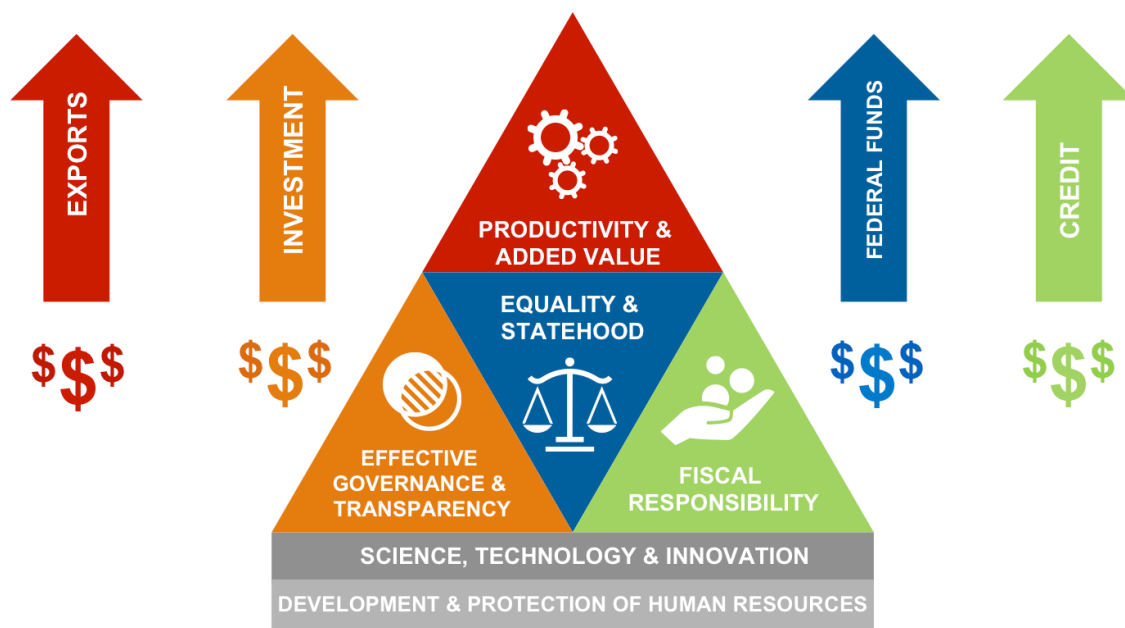
We write to you in your capacity as Chairman of the bicameral and bipartisan Congressional Task Force created under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) to report on impediments in current Federal law to economic growth in Puerto Rico. We are encouraged by your appointment as Chairman of the Task Force and by your continued personal commitment to resolving the many issues that affect the lives of the 3.5 million American citizens residing in Puerto Rico.

As we have discussed, we have always emphasized the need to look beyond the current fiscal crisis, which is primarily a liquidity crisis brought about by rising debt levels and a loss of investor confidence in the government's policies and actions, by addressing the structural mismatch between recurring revenues and expenses throughout the government and focusing on restoring real growth to Puerto Rico's economy. We believe the current Administration in Puerto Rico has pursued an approach that seeks to evade provisions of Puerto Rico's Constitution, its contractual obligations, which undermines the rule of law and the foundation of Puerto Rico's credit in the capital markets. The policies we have consistently advocated throughout our campaigns and in our various written statements to Congress include upholding the rule of law when it comes to fulfilling our obligations to creditors by working collaboratively with the same investors we will rely upon to regain access to the markets and focusing on economic development and growth. It is critical to Puerto Rico's recovery that we protect our ability to attract foreign direct investment and maintain our reputation as a safe jurisdiction for capital deployment and accumulation.

We have also always been proponents of the need for greater collaboration with the Federal Government for Puerto Rico to restore investor confidence, address the budget imbalance between revenues and expenses, and implement a coherent economic development strategy. The American citizens that live in Puerto Rico are not seeking any special treatment, but rather equal treatment with the 50 States in Federal programs and regulations. As the next Governor and Resident Commissioner from Puerto Rico, we will seek to secure that equal treatment in order to reverse the massive relocation trend that is currently underway from the Territory to the mainland United States in search of greater economic opportunities and a better quality of life. We believe that the most effective and sustainable

way to help Puerto Rico economically is to resolve the question of the territory's ultimate status, transitioning Puerto Rico into becoming a State of the Union as has already been expressed by the will of the people. In addition, the Federal Government can and should act quickly to ensure that the accessibility and quality of the public education, health, and social services on the Island do not lag those of the States nor put an excessive burden on the government's budget. It should guarantee the safety, security, and access to justice for the American citizens living in Puerto Rico. It should also work with Puerto Rico to provide the same incentives for workers to join the formal economy that they would receive if they moved to any State on the mainland

Puerto Rico and its residents should be granted equal treatment in all Federal programs as a measure of social justice that also promotes economic development. This equal treatment is a central pillar of the socioeconomic transformation model that we have developed as a result of having spent the last four years meeting with community and business leaders across the Island and analyzing their ideas and proposals for Puerto Rico's recovery.



This model seeks to organize and align the many initiatives of our *Plan for Puerto Rico* that we will pursue to successfully compete, as part of the United States, in the modern and globalized economy. At its base, we have the development and protection of our most valuable asset, our people, by ensuring the quality of their education, their health, and their safety. We also highlight the role that technology and innovation must have in everything that we do in both the public and private sectors in order to be competitive. As we have witnessed over the last few years, a jurisdiction like Puerto Rico cannot thrive if its government is not effective and fiscally responsible. Transparency is critical to ensuring both of these conditions. Finally, based on this solid foundation, the private sector must be revitalized and become the engine of economic growth by producing goods and providing services that people value and need. Implementing the initiatives in this model will attract the much-needed flow of funds to the

Island's economy from exports and investments, while maximizing their recirculation on the Island through the consumption of local products and services and the productive investment of local capital. This will form the basis for sustainable economic growth.

There are many initiatives in addition to providing equal treatment in Federal programs that only the Federal Government can do to support Puerto Rico in the implementation of this model, starting with the elimination of the Electronic Exchange Information (EEI) requirement for shipments between the mainland United States and Puerto Rico. The requirement of EEI filings for shipments perpetuates the mischaracterization of Puerto Rico as a foreign country, imposes an unnecessary cost and administrative burden on companies engaged in interstate commerce, increases the cost of living on the Island, and hinders our economic development. Eliminating this discriminatory requirement will not only finally make trade between the Island and the mainland truly domestic, but it will also require American companies to treat Puerto Rican consumers equally as those on the mainland United States when it comes to product availability, price, and service level.

Another inconsistency that can be quickly resolved is the exclusion of Puerto Rico under the updated Income Tax Convention with Spain for the Avoidance of Double Taxation. Spain is a natural source of foreign direct investment for Puerto Rico and the Island is a hub for economic activity between Spain, Latin America, and the US, yet the provisions of this important agreement between the US and Spain do not extend to Puerto Rico and place an additional burden on Spanish companies operating on the Island.

Perhaps the most immediate mechanism that the Federal Government can implement to help spark real economic activity on the Island is to increase the direct commerce between the Federal Government and companies based in Puerto Rico. Puerto Rican based companies offer a win-win value proposition to the Federal government with lower operating costs than those on the mainland, a highly skilled technical workforce, and compliance with all of the legal and regulatory provisions that apply to Federal contractors. However, Puerto Rico's share of Federal contracts ranges around 0.20%, which is well below what it should be based on Puerto Rico's share of the US population. We believe Puerto Rico's lack of full Congressional representation contributes to Puerto Rico's disproportionately low share of Federal contracts, which is why we need Congress' full support in ensuring that Puerto Rican companies are always fairly considered. As an example, an increase to 0.50% would add close to 1.7 billion dollars to the Puerto Rican economy, not as a bailout, but rather for quality services rendered to the Federal Government.

In addition to these initiatives, our model seeks to establish Public-Private-People Partnerships (P4s) for some of the services currently provided by the government, ranging from the generation of electricity to the provision of social services, the collection and publication of public documents and statistics, and the promotion of Puerto Rico as an investment and tourism destination. PROMESA recognizes the important role that revitalizing our electric power generation and distribution infrastructure in order to reduce the cost of electricity on the island will have on restoring Puerto Rico's competitiveness.

However P4s can only be successful when they are conducted with absolute transparency and when potential investors are assured that political considerations will remain entirely outside of the decision-making process. Although no meaningful partnerships were completed during the 4 years of this Administration, Puerto Rico has a solid track record of successful public-private partnerships based on the process established by Act 29-2009, which resulted in the concessions of a major toll-road in 2011, and the island's principal airport in 2012. In order to accommodate the interests of key public sector stakeholders such as labor unions and employee retirement systems that have traditionally been at odds with privatization efforts, P4s can be structured to include these stakeholders as investors and thus align their interests with those of the private investors.

To restore investor confidence in Puerto Rico by providing an unprecedented level of transparency and access to public information, we propose the establishment of a Freedom of Information Act (FOIA) at the local level and the externalization of its implementation and enforcement to an independent non-governmental organization. This entity will be charged with helping the government modernize its processes and systems when it comes to complying with requests for public documents and data. This organization will also have the power and the independence to keep the government honest in upholding this fundamental right of the people in a democracy. It will also be responsible for collecting and publishing public information and serve as a clearing-house for information that is critical to investors and bondholders. The many benefits that this strategic initiative will produce include improved access to capital markets and lower borrowing costs, increased levels of investment, more engaged and empowered citizens, and a reduction in waste and corruption. The Federal Government can make a meaningful contribution to this initiative by providing technical assistance and financial support for its immediate implementation. The Task Force and the Oversight Board can also accelerate the process of restoring investor confidence by requiring that the information that has been shared with certain bondholders under confidentiality agreements be published for all creditors and stakeholders to examine and that subsequent negotiations be conducted based on publically available data.

It is no secret that Puerto Rico's economy has historically been stimulated by Federal and local tax incentives. We intend to overhaul the complex and antiquated system of local tax incentives, credits, grants, and subsidies and consolidate and rationalize them into a single incentives code. This process will bring to light all of these various incentives and subject them to formal scrutiny in order to ensure that they have not become subsidies that no longer produce the intended economic returns. As a result, we will liberate capacity to continue to promote the most productive incentives and create new ones such as an incentive to attract high-tech startups that receive Federal research grants to conduct their research and commercialization activities in Puerto Rico. These startup companies will find in Puerto Rico the full protection of their intellectual property rights under Federal law, a vast supply of highly skilled and bilingual technical talent in many disciplines, and a rich local entrepreneurial ecosystem that will help them become the American multinationals of tomorrow. This new code will also simplify the process of obtaining these incentives and the process of validating compliance with

their terms. It will also serve as a comprehensive promotional tool for attracting new companies to invest in Puerto Rico.

A critical aspect of providing security to companies that make significant investments in Puerto Rico is knowing what will happen if Puerto Rico were to become a State. Many of these incentives are currently negotiated, granted, and secured through tax decrees, contracts between the company and the Government of Puerto Rico that guarantee those benefits for a predetermined number of years. This mechanism protects companies against subsequent changes in public policy after they make their decisions to invest in the Island. Predictability and enforceability are foundational aspects of a jurisdiction's competitiveness and we believe that the tax decree system that has been in place in Puerto Rico for decades and upheld by the courts has been proven to provide this. We propose that these contracts should be grandfathered for the duration of their terms when it comes to the imposition of new Federal and State taxes as part of a transition to Statehood. The Federal Government could provide great certainty to current and new investors by providing guidance that supports this position.

Our comprehensive plan includes many other economic development initiatives and structural reforms that I hope to collaborate with the Task Force to pursue over the coming months. Some of these include:

- modernizing Puerto Rico's physical infrastructure and investing in its human capital by emphasizing bilingual education and the STEAM disciplines;
- stimulating high-potential economic activities and sectors such as the visitor economy, life-sciences R&D and manufacturing, information technology and professional services, and the diversified aerospace industry;
- reducing the burden of excessive regulation, bureaucracy, and unsustainable government spending on Puerto Rico's economy, without the need to fire public employees;
- and resolving the fiscal crisis collaboratively with investors as equitably and as quickly as possible in order to suspend and reverse the damage it is inflicting on the Island's economy.

In our various written statements to Congress during the drafting of PROMESA we emphasized the need to prioritize economic development tools and equal treatment as a State as critical components of addressing the fiscal crisis. Puerto Rico's economy is fragile and its economic model based on special Federal and local tax incentives no longer mitigates the structural disadvantages of its territorial status. We cannot cut and restructure our way to solvency and sustainability if we don't also stimulate private sector economic activity and job creation that will ultimately expand the tax base. Washington DC's return to economic prosperity following the establishment of its control board was made possible by combining balanced budgets with the deliberate implementation of a strategic economic development plan. The development and implementation of the plan genuinely integrated many industry and

community stakeholders in order to create a sense of empowerment and ownership for its success. Funding was provided and projects were selected transparently and based on their long-term feasibility and how much additional private capital they attracted. The plan addressed the city's structural disadvantages even when it meant disrupting entrenched political or economic interests. It leveraged the city's assets and strengths, and invested in developing and connecting its human capital. This is the formula that must be repeated in Puerto Rico.

Additionally, we have mentioned several times that Puerto Rico needs to be treated equally in all Federal programs. Below we have included a list of the specific programs that should be extended to provide equal treatment to Puerto Rico and its residents, which would spur job creation, investment, and economic activity on the Islands, while we make a transition towards becoming a State of the Union:

Extend the tax credits for wages and capital investments and the capital gains income exclusions of programs for underdeveloped and distressed communities in the States - Extension of the job-creating investment incentives provided in programs such as Empowerment and Enterprise Zones, Renewal Communities, and the New Markets Tax Credit in the States would partially fulfill the requirement that the Task Force recommend legislation that would spur job creation and attract investment in Puerto Rico.

Extend the refundable portion of the Earned Income Tax Credit - This would partially fulfill the requirements that the Task Force recommend legislation that would spur job creation and reduce child poverty in Puerto Rico. These funds would circulate in Puerto Rico's economy since they would be spent by individuals for basic needs.

Extend the refundable portion of the Child Tax Credit for workers with one child or two - It already applies to those with three or more children. The proposal would partially fulfill the requirements that the Task Force recommend legislation that would spur job creation and reduce child poverty. Again, these funds would circulate in Puerto Rico's economy since they would be spent by individuals for basic needs.

Phase in equal treatment of Puerto Rico with the States and DC in Medicaid - Eliminating the cap on Federal contributions and applying the same cost-sharing formula. In addition to the current unequal funding, Puerto Rico's present Medicaid funding will decrease by approximately three quarters by 2018. This proposal would partially fulfill the requirement that the Task Force identify impediments to equitable access to Federal health care programs in Puerto Rico.

Treat Puerto Rico equally with the States and DC in Medicare Part D - The territorial government receives an inadequately-funded grant to subsidize medicine for the impoverished aged and disabled in lieu of their purchases of medicine being directly subsidized by Medicare under Part D. This proposal would partially fulfill the requirement that the Task Force identify impediments to equitable access to Federal health care programs.

Treat Puerto Ricans equally with residents of the States and DC in Medicare Part B - Puerto Ricans, alone among the Americans of the territories, are not automatically enrolled in Medicare Part B, which covers out-patient services. They must personally sign-up. This proposal would partially fulfill the requirement that the Task Force identify impediments to equitable access to Federal health care programs.

Treat Puerto Rico equally in the health insurance exchange program - Funding for Puerto Rico was capped (\$925 million for FYs 14-19) unlike in the States and at such a low level that the law establishing the program authorized the territorial government to use the money for Medicaid instead. It did. Thus, uninsured and under-insured Puerto Ricans cannot receive health insurance premium subsidies. This proposal would partially fulfill the requirement that the Task Force identify impediments to equitable access to Federal health care programs.

Make permanent the Domestic Production Tax Deduction for income from domestic company operations in Puerto Rico of companies based in the States - It is temporary for income from Puerto Rico so it is not an investment incentive but it is permanent for income from the States and DC. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur job creation and attract investment.

Authorize the Treasury Department to guarantee PR bonds and the Federal Reserve to buy Puerto Rico tax revenue anticipation notes - In June, Treasury guaranteed up to \$500 million in loans to Tunisia. It did the same in 2014 and backed \$485 million of Tunisian debt in 2012. PROMESA's control board would ensure repayment. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur sustainable long-term economic growth by alleviating pressure on the territorial government.

Extend the Supplemental Security Income program for the impoverished aged and disabled - The predecessor program for Aid to the Aged, Blind, and Disabled still applies in Puerto Rico. It provides a grant to the Government of Puerto Rico instead of direct assistance to people who cannot support themselves in an amount that only enables a tiny fraction of the assistance provided in the States and in the territory of the Northern Mariana Islands. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur sustainable long-term economic growth because the funds would be circulated in Puerto Rico's economy to purchase basic needs.

Phase-in the Supplemental Nutrition Assistance Program over five years - Puerto Rico receives grants for a lesser Nutrition Assistance Program. One of the justifications has been that there is more flexibility in the use of its benefits. Effective October 1st, the primary flexibility - that 25% of the benefits be paid to recipients in cash - will be phased out over five years. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur sustainable long-term economic growth because the funds would be circulated in Puerto Rico's economy for needed food.

Extend Child Care and Development Mandatory and Matching Grants - This proposal would partially fulfill the requirement that the Task Force recommend legislation that would reduce child poverty and

its requirement for legislation that would spur sustainable long-term economic growth because the funds would be circulated in Puerto Rico's economy.

Extend Temporary Assistance for Needy Families Supplemental and Contingency Grants - This proposal would partially fulfill the requirement that the Task Force recommend legislation that would reduce child poverty and its requirement for legislation that would spur sustainable long-term economic growth because the funds would be circulated in Puerto Rico's economy.

Require the Census Bureau and other Federal agencies to include Puerto Rico in all surveys and reports - Since Puerto Rico is not a part of the U.S. under all laws, it is excluded from some Federal data gathering used in business. This would partially fulfill the requirement that the Task Force recommend legislation that would spur job creation and attract investment in Puerto Rico by providing businesses the data they need to establish their operations on the Islands.

Amend the qualifying requirements for local contractors on federal construction bids, particularly with regards to prior experience, in order to increase competition by local businesses and avoid concentrating bids on only a small number of enterprises. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur job creation and attract investment.

Modify the local matching funds requirement for federal construction projects to adapt to the Puerto Rico reality, while the Fiscal Board is in effect, either by allowing full funding by the federal government or by at least establishing the same 80/20 treatment for Puerto Rico as for the States, while continuing to allow the local government to count toll credits, in-kind contributions, and use of other non-financial resources towards the match. This proposal would partially fulfill the requirement that the Task Force recommend legislation that would spur job creation and attract investment. Additionally, our incoming administration will seek to establish a new structure called the Federal Opportunities Center for accessing Federal funds, including the creation of a capital trust for the purpose of providing matching funds, once Puerto Rico's credit is restored.

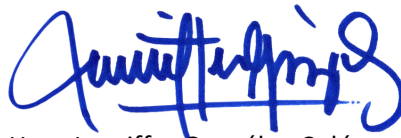
Before closing, we would like to call the Task Force's attention to the budget approved by the Government of Puerto Rico for the current fiscal year, FY 2017. The approximately \$9.5 billion dollar General Fund budget conveniently excludes most of the funds required to pay the over \$1 billion dollars of General Obligation and other contractually, and Constitutionally guaranteed debt service that is due during FY2017 and reassigns a portion of those funds, approximately \$800 million, to increased government spending. This represents a 9.5% year over year increase in General Fund expenses, excluding debt service, which is the largest increase in 5 years. In doing so, the government is in clear violation of the Puerto Rico Constitution and is exploiting the litigation stay created by PROMESA in order to deplete the remaining funds before the commencement of the Board's operations and oversight. We request that an urgent yet careful review of the current budget and its implementation be performed in order to ensure that the government's limited remaining liquidity is not squandered.

Now that Congress has acted, our goal is to work with the Task Force and the Oversight Board to chart a new course for Puerto Rico that includes restoring credibility, reforming the government, developing the economy, fulfilling our obligations to residents and investors alike, and quickly returning to a governance model that respects the democratic will of the People of Puerto Rico. This also includes embarking on a path towards equality and sovereignty as a State of the United States. We look forward to the next opportunity to discuss these and any other topics in more detail with you and the other members of the Task Force.

Sincerely,

A handwritten signature in blue ink that reads "RICARDO ROSSELLÓ". The letters are stylized and connected.

Ricardo Rosselló Nevares, PhD
Candidate for Governor of Puerto Rico
Partido Nuevo Progresista (PNP)

A handwritten signature in blue ink that reads "Jenniffer González-Colón". The signature is highly stylized and cursive.

Hon. Jenniffer González-Colón
Puerto Rico's House Minority Leader &
Candidate for Resident Commissioner of Puerto Rico
Partido Nuevo Progresista (PNP)

CC:

Senator Marco Rubio of Florida
Senator Bill Nelson of Florida
Senator Bob Menendez of New Jersey
Representative Tom MacArthur of New Jersey
Representative Sean Duffy of Wisconsin
Representative Nydia Velazquez of New York
Resident Commissioner Pedro Pierluisi of Puerto Rico