



August 26, 2016

The Honorable Orrin Hatch  
United States Senate  
Washington, DC 20510

Dear Senator Hatch:

We are writing to you and the other members of the Congressional Task Force on Economic Growth in Puerto Rico to underscore the urgency of putting in place policies that restore growth to Puerto Rico. We appreciate that Congress responded to our call for action by enacting the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) into law and are prepared to continue to work together to promote economic growth.

### **PROMESA**

As a result of PROMESA, Puerto Rico now has access to a restructuring process to adjust its debts to a sustainable level with no carve-outs for powerful financial interests. And the independent fiscal oversight board established by the law will help restore credibility to Puerto Rico's budgeting and fiscal decision making processes. Restructuring of Puerto Rico's debts is essential to establish a foundation for growth, including by ensuring that the government of Puerto Rico has the resources necessary for essential services, pensions, and important public investments.

PROMESA also included several preliminary steps to restore economic growth in Puerto Rico. For instance, a majority of Puerto Rico is now eligible for a Historically Underutilized Business Zone (HUBZone) certification, which should create new job opportunities by increasing the percentage of federal contracting sourced in Puerto Rico. The legislation also permits Puerto Rico's government and municipalities to purchase many of their goods and services using the General Services Administration (GSA) purchasing schedules. This should enable the procurement of equipment, licenses, and services from GSA at affordable rates and provide better transparency in the purchasing process. Education efforts on these new opportunities are already being developed so local businesses know how to qualify.

## **NEXT STEPS FOR ECONOMIC GROWTH**

The law, however, is only the first step towards Puerto Rico's recovery. More work remains. As proposed in the Administration's roadmap last fall, only Congress has the power to address two critical issues: inadequate funding for healthcare in Puerto Rico and incentives to support workers and bring them into the formal labor market. The Administration has reviewed and analyzed a wide range of proposals to support Puerto Rico, and found that the policies we ultimately proposed provide the most powerful tools to support economic growth and long-term stability.

Going forward, addressing Puerto Rico's inadequate treatment under the federal Medicaid program is critical. Congress recognized this and directed the Task Force's final report to include findings regarding "impediments in current Federal law and programs to economic growth in Puerto Rico including equitable access to Federal health care programs."

### ***Strengthening Healthcare***

Given the current treatment of Puerto Rico under federal law, the 3.5 million Americans in Puerto Rico do not have access to healthcare services considered standard in the rest of the nation. In particular, Medicaid in Puerto Rico is fundamentally different from Medicaid in the 50 states. Medicaid funding in Puerto Rico is capped; beneficiaries are offered fewer benefits; and the federal government contributes less on a per-capita basis than it does to recipients in the rest of the nation. Puerto Rico provides health insurance coverage to more than 1.6 million Americans through Medicaid and the Children's Health Insurance Program, representing nearly half of its total population. When one-time additional funds provided by the Affordable Care Act (ACA) are exhausted in Puerto Rico, as early as December 2017, up to 900,000 Americans living in Puerto Rico could lose their healthcare coverage.

The loss of these funds will create a disruption in cash flow and affect the operations of providers that participate in the Commonwealth's health insurance program, impairing access to care for all age groups. This disruption will reduce cash flow and force hospitals to reduce services, lay off staff, and delay payments to suppliers. As recently as May 2016, two hospital systems and two tertiary hospitals already announced layoffs and service reductions as a result of cash flow disruptions. While the loss of access to healthcare services is important for all citizens of Puerto Rico, it is especially important for those with chronic diseases which are estimated to account for more than 50 percent of the Medicaid population (including patients with asthma, diabetes, hypertension, cardiovascular disease, and dementia).

This deterioration in services is especially concerning given the public health threat of Zika, in particular to pregnant women, since Zika is a cause of microcephaly and other severe fetal brain defects. As of August 17, the Centers for Disease Control and Prevention (CDC) has recorded 7,889 Zika virus cases in Puerto Rico. Because approximately 80 percent of people infected with Zika do not have symptoms, this likely represents only a fraction of those who may be infected to date. CDC estimates that a quarter of Puerto Rico's population may be infected with Zika by the end of the year. Despite this imminent threat, financial constraints have complicated the timely and comprehensive response required.

Congress needs to act to avoid these consequences. Puerto Rico's Medicaid program must be reformed to raise the standard of care, strengthen program integrity, prevent unstable Medicaid financing from exacerbating Puerto Rico's economic crisis, and avoid a drop in coverage when one-time funds from the ACA expire. Reforms should include removing the cap on Puerto Rico's Medicaid program and gradually increasing the federal support Puerto Rico receives through the federal Medicaid match. In conjunction with increased federal support, Puerto Rico also should develop the more robust infrastructure required to offer new Medicaid benefits and strengthen its internal accountability, financial management, and program integrity controls.

One service area Puerto Rico will need to improve to strengthen its Medicaid program is long-term services and supports. The Medicaid program in the Commonwealth currently does not cover long-term care in nursing facilities or in the community. Increasing long-term care capacity will both support the care needs of Medicaid enrollees in Puerto Rico and strengthen the economy through job creation, including in healthcare.

### ***Improving Labor Market Participation and Rewarding Work***

In addition to fixing Puerto Rico's inadequate healthcare treatment, Congress must enact proven, bipartisan tools for stimulating economic growth and rewarding work. Puerto Rico residents currently are not eligible for Earned Income Tax Credit (EITC), and a large body of economic research has found that the EITC is one of the most powerful policy tools to meet those objectives. At 40 percent, Puerto Rico has the lowest labor market participation in the United States; indeed, participation rates in Puerto Rico are about two-thirds of the U.S. average, which stunts economic growth and undermines Puerto Rico's economic and fiscal reform efforts. A federally-financed, locally-administered EITC would create incentives for work and increase participation in the formal economy. Adopting a locally-administered EITC consistent with the President's budget proposal would pull 54,000 Puerto Ricans out of poverty and increase Puerto Rico's Gross National Product by \$1.05 billion, or 1.5 percent. The EITC also can be expected to increase tax compliance and tax revenues, improving Puerto Rico's fiscal position. An expanded Child Tax Credit could supplement this effort.

### ***Measuring Economic Growth***

The ability to benchmark, measure, and track economic growth in Puerto Rico is also critical. PROMESA laid important groundwork by encouraging the Census Bureau to conduct a study on the feasibility of including Puerto Rico in the Current Population Survey, a primary source of labor force statistics in the United States. However, this is only a first step: updating Puerto Rico's statistical methodologies and including Puerto Rico in other data sets is essential. Congress should encourage the Census Bureau to explore including Puerto Rico in the Census of Governments, which is the primary source for benchmark data on the scope and nature of local government organizations, powers, and activities, as well as the authoritative benchmark for government employment and government finance. Given the importance of the agricultural industry to Puerto Rico's economic vitality, the National Agricultural Statistics Service also should determine whether it is feasible to include Puerto Rico in its surveys, which are the authoritative source for agricultural statistics.

### ***Building on Federal Initiatives in Key Industries***

As described in the examples below, efforts also should build on existing federal initiatives to accelerate progress in key industries such as aerospace, export services, information and bio technology, pharmaceuticals, medical devices, agriculture, infrastructure, and manufacturing:

- With the help of Vice President Biden and the Department of Commerce’s SelectUSA, Puerto Rico attracted Lufthansa to open a new maintenance and repair operations facility in Aguadilla to repair and maintain aircraft, creating hundreds of new jobs. JetBlue, Spirit, and other airlines already use the facility, and expanding capacity would create more jobs and spur further growth. Additional expansions in aerospace and defense research and development technologies could complement growth in this sector as well.
- Similarly, the Department of Transportation identified more than \$750 million in available toll credits for Puerto Rico to use in funding new infrastructure projects. And earlier this year, Secretary of Transportation Foxx announced a memorandum of understanding with Puerto Rico to unlock more than \$400 million annually in federal funds to sustain work on infrastructure projects in Puerto Rico that otherwise risked becoming stalled. The agency also is working to add Highway 22, one of Puerto Rico’s most traveled highways, to the President’s Federal Infrastructure Projects Dashboard, which would expedite federal environmental reviews and permit decisions. Strategic investment in infrastructure projects could help the economy grow and create jobs.
- Finally, the Department of Agriculture recently selected Roosevelt Roads in northeastern Puerto Rico as a federal “Promise Zone.” This designation will provide Puerto Rico with greater access to federal resources and support from government partners, including assistance with critical infrastructure needs. In addition, the Department of Agriculture recently launched a strike force initiative in Puerto Rico to help establish new businesses locally, and to address Puerto Rico’s food security; rural economic development; and the needs of community facilities, from the importation of fresh foods to molasses manufacturing and coffee production. Work is also underway to strengthen Puerto Rico’s nutrition assistance program to further encourage and support participants entering the workforce. Further collaboration could accelerate the progress of those projects.

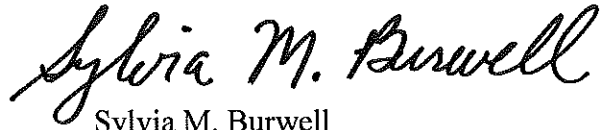
We are encouraged by Congress’s attention to the need for additional action to enable growth in Puerto Rico, building on the strong foundation PROMESA established. Any serious proposal for Puerto Rico’s future growth starts with addressing the inadequacies of Puerto Rico’s treatment in the Medicaid program; without addressing that challenge, a return to growth and opportunity will be a significant challenge. In addition, an EITC is the single most powerful tool to support growth and encourage work, while also supporting fiscal reforms. The work of the Task Force can help lay a strong foundation for economic growth in Puerto Rico. We expect that the Task Force will examine and consider a range of additional proposals as it works to recommend changes to federal law and programs that would spur sustainable long-term economic growth, encourage job creation, reduce child poverty, and attract investment in Puerto Rico.

We stand ready to work with the Task Force as it carries out its important mission. By working together and with Puerto Rico, we can help Puerto Rico return to growth.

Sincerely,



Jacob J. Lew  
Secretary  
Department of the Treasury



Sylvia M. Burwell  
Secretary  
Department of Health and Human Services

Identical letter sent to:

The Honorable Marco Rubio  
The Honorable Robert Menéndez  
The Honorable Bill Nelson  
The Honorable Sean Duffy  
The Honorable Tom MacArthur  
The Honorable Nydia Velázquez  
The Honorable Pedro Pierluisi