

## **Puerto Rico Hill Update – Fiscal and Economic Data February 11, 2016**

### Timeline for Action

As Secretary Lew has noted, in order to assist the 3.5 million Americans living in Puerto Rico, Congress must pass legislation for the President to sign into law before the end of March. This timing is paramount to have the necessary safeguards in place to prevent further disorder and chaos. The longer it takes for Congress to act, the more costly and damaging the crisis will become.

### Summary of Puerto Rico's Fiscal and Economic Crisis

Puerto Rico is in the midst of a fiscal and economic crisis that requires Congressional action to resolve. In particular:

- Puerto Rico's debt is unsustainable. The Commonwealth spends more than \$1 out of every \$3 on debt service. No other jurisdiction in the United States comes close. There will be no path to economic recovery and sustainable growth until this issue is addressed.
- Puerto Rico is already in default. The Commonwealth is out of cash and lost access to the markets several years ago. It has resorted to shifting funds from one creditor to pay another and has stopped payment altogether on several of its debts. As predicted, the race to the courthouse has begun and creditors are filing lawsuits.
- Outmigration has doubled and is accelerating. Today, more Puerto Ricans live on the mainland in states like Pennsylvania, New York, and Florida than live in the Commonwealth. More than 80,000 people left Puerto Rico in 2014, and data suggest that the pace of outmigration doubled in 2015. In total, that will mean that more than 7% of Puerto Rico's population left the island in a two year period.
- Puerto Rico is relying on drastic measures to stay afloat. To secure cash for debt payments and government operations, Puerto Rico has withdrawn \$400 million from its proprietary insurance funds and workers' compensation funds; redirected \$580 million of pension system assets to fund government operations; delayed payments on \$300 million in 2014 income tax refunds; and owes suppliers an estimated \$1.8 billion in payments.
- Puerto Rico is out of time. Puerto Rico's Government Development Bank (GDB) faces \$422 million in debt payments on May 1. The GDB is at the heart of Puerto Rico's financial system, as the entity responsible for holding government deposits, managing the Commonwealth's finances, and clearing payments. Its solvency and uninterrupted operation are critical to the overall economy and the financial operations of the government.

## The Necessary Tools to Address the Crisis

Puerto Rico needs federal legislation that at a minimum pairs an orderly process to restructure all of its debts with strong, independent fiscal oversight. This combination has proven effective in responding to past financial crises, costs taxpayers nothing, and is a prerequisite to put Puerto Rico on a sustainable path forward. Read about the Administration's [proposal](#) to help solve Puerto Rico's financial problems [here](#).

Topic #1: Update on the Crisis' Impact on Essential Services. Essential services are in jeopardy. In recent weeks, news stories show how emergency measures taken by the government are causing backlogs in the health, safety, and welfare of residents. For instance:

- The island's only children's [hospital](#), whose budget has been cut by 14% in the past two years, lacks CT and MRI machines and has 70 vacant nursing [positions](#).
- Therapy sessions for special education students are at risk of being [halted](#) and security guards for the school system have gone [unpaid](#) for months.
- Earlier this year the supplier of gasoline to their ambulances, police cars, and fire engines nearly cut off fuel [supplies](#).
- After a valve broke, a town on the west coast was without its water supply for several days because the contractor refused to fix the break due to lack of payment on prior bills.
- Food supply for nearly 12,500 inmates in Puerto Rico's 37 prisons was almost [interrupted](#) after the food vendor threatened cut supplies because they were owed more than \$12 million.
- Suppliers now wait on average four months or more for the government to pay their bills. After facing payment delays, some suppliers are threatening or have shut off the provision of important public services.
- Supplier payments may be delayed even longer because of recent [guidance](#) from Puerto Rico's Secretary of Treasury that requires payments to be prioritized in a particular sequence.

## Upcoming Debt Service Payments

Puerto Rico's Government Development Bank has a large debt payment of \$422 million due on May 1st, including \$400 million for principal repayment.

On July 1st, the Commonwealth has another large payment of approximately \$2 billion due, including \$800 million of General Obligation (G.O.) debt.

On August 1st, the Commonwealth's Sales Tax Financing Corporation, also known as COFINA, has a debt payment of roughly \$350 million due.

The appendix of the updated [Fiscal and Economic Growth Plan](#) details debt service by issuer. It shows Puerto Rico's debt burden will total nearly \$24 billion over the next ten years.