



# THE NEW YORK STATE ASSEMBLY PUERTO RICAN/HISPANIC TASK FORCE



**AS PUERTO RICO GOES, SO GOES THE NATION**  
*From the Chairman Marcos A. Crespo  
Carl E. Heastie, Speaker*

Both Puerto Rico and Puerto Ricans are intertwined with the well-being of New York State and our nation. The complex relationship began with a payment to Spain in 1898 for a sum of \$570 million in 2015 dollars. The island's residents became U.S. citizens in 1917, and Puerto Rico became a commonwealth of the United States in 1952.

Now, over 116 years after the U.S. Congress ratified the Treaty of Paris, which handed over the once Spanish-controlled territory, the complex relationship between Puerto Rico and the United States continues. Facing a daunting set of economic problems, the island finds itself owing as much as its total annual gross domestic product (GDP) and is using billions of its economic output to service a debt of over \$72 billion. Simultaneously, migration to the U.S. mainland has accelerated, further shrinking its tax base.

Puerto Rico's population has fallen 4.7 percent since 2010 to 3.5 million, a period when the overall U.S. population grew 3 percent. If current rates continue, Puerto Rico will lose over 250,000 residents this decade alone, and its population is set to decline to 3 million by 2050.

To put this problem in perspective, California has a population of 35 million and Puerto Rico has accumulated a debt nearly half as large as that state.

Combine this problem with years of low federal reimbursement rates for health care services to the island's indigent population, and we now have Puerto Ricans fleeing the island to obtain health care services on the mainland. New York State is home to 1 million Puerto Ricans and is a prime destination for Puerto Ricans seeking medical care in our hospital system. The impact and strain on New York's health care system and funding mechanisms are and will continue to be significant unless the federal government moves to equalize its health care reimbursement rates for island residents.

In both Mississippi and Puerto Rico, over 52 percent of children are living in poverty, and the island has the highest overall poverty rate in the nation at 44.2 percent. Yet 83 percent of Mississippi's health care costs for the indigent are covered by Washington, while Puerto Rico only receives 55 percent in assistance. This formula is leading to the closing of health care facilities and the rationing of health care. For a population where 68% depend on government-funded health care, this situation is beyond dangerous.

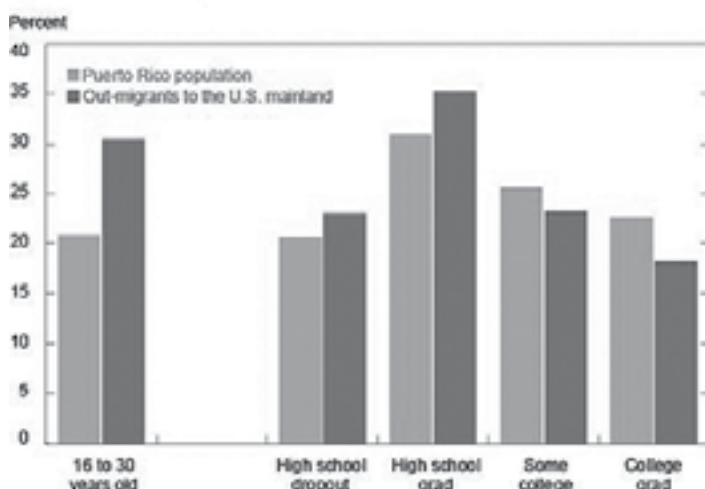
The current debt crisis and health care quandary the island faces was enabled by policies originating in Washington. So it is clear that the solutions also rest with action by Washington.

However, like on so many other issues important to Americans, Washington has failed to act diligently and with resolve. Congress enabled this borrowing spree by granting Puerto Rico the unique power to issue bonds that are exempt from federal, state or local taxes. The island's health care crisis was created by federal bureaucrats who decided to underfund the island's health care system for decades. Puerto Rico has taken austerity measures to deal with the economic policies dictated by Washington, leading to mass protests and more pain for our fellow Americans.

As the members of the New York State Assembly's Puerto Rican/Hispanic Task Force travel to the island for its 28th annual fall conference in early November, this situation is a priority issue which leads the list of important conversations we will be having on a wide range of topics that will have a direct impact on Puerto Rico, New York and our nation.

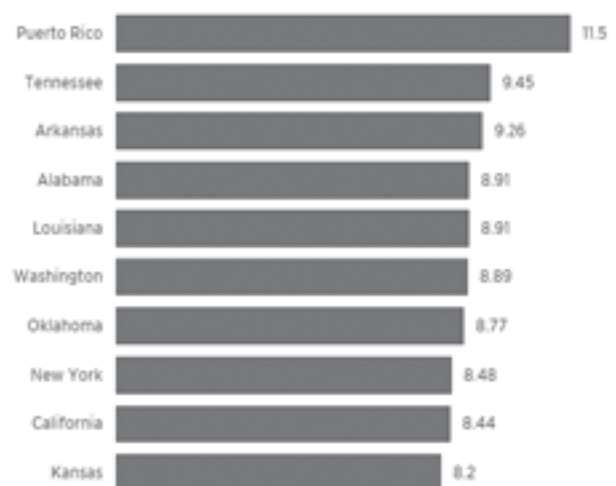
In our view, as the health and well-being of Puerto Rico goes, so goes the health and well-being of the mainland.

Share of Puerto Rican Population and Out-Migrants by Age and Education, 2011-13



Sources: U.S. Census Bureau, American Community Survey; Puerto Rico Community Survey; Moody's Analytics.

Top 10 highest combined sales taxes in the US (%)



Source: Tax Foundation, AP

# ANATOMY OF A RESPONSE:

## Timeline of Action by Government Leaders on Puerto Rico's Worsening Economy & Health Care Crisis

### April 2014

Puerto Rico is able to defer interest costs on new \$3.5 billion of general obligation bonds due 2035 by capitalizing part of it for the first three years. The government vowed to aggressively pay down its debt, but under current repayment schedule it will take more than 25 years before interest payments alone are on par with payments on principle owed.

### July 2014

Puerto Rico representative to Congress Pedro R. Pierluisi introduces H.R. 5303. The bill would amend title 11 of the United States Code to treat Puerto Rico as a State for purposes of Chapter 9 of such title relating to the adjustment of debts of municipalities. With its \$72 billion debt consuming almost 90% of the island's GDP, Puerto Rico sees this as only option to prevent defaulting on loans.

### February 2015

Puerto Rico representative to Congress Pedro R. Pierluisi re-introduces H.R. 5303 (now H.R. 870). The bill would amend title 11 of the United States Code to treat Puerto Rico as a State for purposes of Chapter 9 of such title relating to the adjustment of debts of municipalities. With no action by Congress or the Obama Administration, Puerto Rico inches closer to defaulting on billions in loans.

### May 2015

US Senator Schumer (D-NY) convenes meeting with NYS elected officials to review Puerto Rico's fiscal crisis and pending default on loans.

### June 2015

Assemblyman Marcos Crespo, Chair of the Assembly Puerto Rican/Hispanic Task Force sends letter to entire New York State Congressional delegation highlighting need for action by Washington.

### June 2015

Assemblyman Crespo and members of the NYS Assembly Puerto Rican/Hispanic Task Force send letter to Federal Department of Health and Human Services Secretary demanding federal Medicaid and Medicare reimbursement rates for island reach parity with states, while warning that current funding formula is leading to the closing of clinics and hospitals and cuts in health services leading to mass exodus from the commonwealth.

### July 2015

Assemblyman Crespo recommends a list of actions state agencies can take to address large exodus of island residents to New York in need of jobs, housing and health care.

### August 2015

Puerto Rico announced it has defaulted on loan payments for its first time. The island paid just \$628,000 of \$58 million of interest and principal which was due. An estimated \$5 billion of principal and interest are due over the next 12 months as the island confronts a negative cash flow.

### September 2015

Two competing teams of former International Monetary Fund (IMF) economists announce options to solve debt crisis in Puerto Rico. One report, commissioned by the commonwealth's Government Development Bank, recommends imposing some debt restructuring on the island's bondholders. An opposing report, commissioned by a group of hedge funds that hold some of Puerto Rico's debt, wants to impose strict fiscal austerity measures, which would mean increased public sector layoffs, closing of government offices, schools and health facilities.

### September 2015

Puerto Rico Gov. Alejandro Garcia Padilla warned Washington and Wall Street that his government will run out of cash by the end of November. At that point, the island will have no money to pay \$350 million in debt payments due on December 1. He warns that the default will reverberate throughout the U.S. municipal bond market.

### September 2015

Concern over the lending practices which allowed Puerto Rico to accumulate tens of billions of debt increases and legislation that would subject Puerto Rico mutual funds to the same regulations as mainland funds is announced by Congresswoman Nydia Velazquez, (D-NY). The proposed law aims to establish federal oversight for Puerto Rico's mutual-fund industry as investors in Puerto Rico municipal-bond funds sustain heavy losses as the island's fiscal crisis deepens.

### September 2015

Gov. Cuomo and delegation returned to New York from visit to Puerto Rico. Cuomo said he would press Congress to allow Puerto Rico access to Chapter 9 bankruptcy to help it manage its \$72 billion dollars of debt, as well as direct the State Department of Health to provide technical expertise on how to help the island reduce its health care costs through Medicaid and Medicare savings.

### August 2015

Gov. Andrew Cuomo announces he will travel to Puerto Rico in September to discuss the commonwealth's dire economic situation and health-care challenges. Assembly Speaker Carl Heastie, Attorney General Eric Schneiderman, members of Congress and Assemblyman Crespo were part of the delegation from New York which met with island officials.

### October 2015

As promised, Gov. Andrew Cuomo sends his top health officials to Puerto Rico to help improve the commonwealth's healthcare system. While there, New York officials toured a hospital, a clinic and medical offices to learn more about the island's health care system. Lt. Gov. Kathy Hochul, Secretary of State Cesar Perales, Health Commissioner Dr. Howard Zucker, state Medicaid Director Jason Helgeson and Assemblymen Marco Crespo and Assembly Health Committee Chair Richard Gottfried, as well as Elisabeth Wynn, a senior vice president of Health Economics and Finance for Greater New York Hospital Association, and Terry Bischoff of the Puerto Rico Health Care Crisis Coalition attended.

### October 2015

Reps. Nydia Velazquez of New York and Luis Guterrez of Chicago spearheaded the unprecedented meeting in Orlando, Florida. It included mayors, city council members and state lawmakers from Connecticut, New Jersey, Massachusetts, Pennsylvania and Florida. Meeting organizers said the group wants same kind of legal protections and federal assistance for Puerto Rico's 3.5 million U.S. citizens as currently exist for the other 50 states.

### October 2015

Emergency Puerto Rico Summit held in Orlando, Florida yields renewed calls for equity and parity for the commonwealth:

- Equal treatment under federal health programs, such as Medicare, Medicaid and the Affordable Care Act.
- Extension of the federal earned income tax credit program to Puerto Ricans living on the island.
- Approval of legislation to allow distressed agencies and municipalities in Puerto Rico to file for bankruptcy under Chapter 9 of the U.S. bankruptcy code.
- Exemption of Puerto Rico from the Jones Act (coastwise shipping laws which require the use of the most expensive U.S. vessels for trade).
- Addition of a new Section 933A to permit U.S.-owned businesses in Puerto Rico to elect to be treated as U.S. domestic corporations.
- Enactment of an economic activity tax credit for U.S. investment in Puerto Rico for Puerto Rico's 3.5 million U.S. citizens as currently exist for the other 50 states.

### October 2015

Joseph E. Stiglitz, Nobel Memorial Prize winning economist, Columbia University Professor and former member and chair of the United States President's Council of Economic Advisors joins academics and journalists in discussion on island's fiscal issues. The current crisis was triggered by an increase in government borrowing starting in 2006. The inability to pay the spiraling debt has led to a steep economic downturn and government layoffs with devastating results, including a considerable increase of unemployment and crime, school closings, and mass migration to the United States.

### October 2015

Puerto Rico's Government Development Bank (GDB) ends talks with a group of bondholders without reaching a deal to restructure the \$72 billion debt. The GDB lends to Puerto Rico's government agencies and has a bond payment of more than \$350 million due December 1, 2015.

### October 2015

With loan payment imminently due and after months of intense pressure from elected officials and community leaders across the nation, the White House, through the Department of the Treasury, proposes to Congress actions to address the debt crisis, health care dilemma, and poverty in Puerto Rico.

The Obama administration's proposal:

- Goes beyond legislation already introduced in Congress, which would allow for restructuring debt issued by municipal entities but not the obligations of the commonwealth itself.
- Calls for a debt restructuring formula that goes beyond the tools available to U.S. municipalities and states by allowing the island's central government access to a court-administered restructuring process.
- The Treasury Department has said it isn't considering financial guarantees of Puerto Rico's debt, and that the White House proposal does not include any such bailout assistance.
- Recommends an overhaul of the island's Medicaid program and access to the earned-income tax credit (EITC), a fiscal tool designed to boost workforce participation among the poor. EITC is available in all the states but not US territories even though Puerto Rico has a poverty rate of over 44% and child poverty rate of 57%.

### October 2015

The U.S. Senate Energy and Natural Resources Committee hold a hearing on the Puerto Rico debt crisis. Testifying on issue are high ranking representatives of the island and the US Treasury Department. However, it is widely reported that the Committee did not seem compelled to act on any of the solutions proposed, even as a complete default is imminent.

**For more information about this or any other issue, please contact Guillermo Martinez, Legislative Director of the Puerto Rican/Hispanic Task Force at 518-455-5514.**

# PUERTO RICO:

## An overview of its ailing economy and health care crisis

### Population:

3.5 million in 2014 down from almost 4 million in 2005.

Unemployment rate was 11.8% in March of 2015. However, it was 16% in 2011 and there is large scale exodus from the Island.

Only 42% of Puerto Rican adults on the island participate in the labor market. Combined with a mass exodus of the young, well educated and professionals to the mainland, the current economic situation will worsen.

Puerto Rico now has an almost \$87 billion of debt, counting pensions, or \$23,000 for every man woman and child on the island. Its population is on track to decline to 3 million over next 25 years, leaving a smaller, and poorer, group behind to shoulder the burden.

Annual budget deficits which have triggered mass borrowing for years have created a \$72 billion debt with hundreds of millions of dollars due monthly in debt service payments alone. The Governor of Puerto Rico has stated that the December 1, 2015 debt payment of \$350 million can not be paid because of insufficient funds.

**Closing the budget deficit, restoring economic growth and lowering unemployment remain the central concerns of the government.**

### Gross Domestic Product has been falling for past half decade:

(Source: U.S. Central Intelligence Agency)

\$64.84 billion (2010 est.)

\$68.84 billion (2009 est.)

\$71.51 billion (2008 est.)

### Per Capita has also been falling for past half decade:

GDP - per capita (PPP):

\$16,300 (2010 est.)

\$17,400 (2009 est.)

\$18,100 (2008 est.)

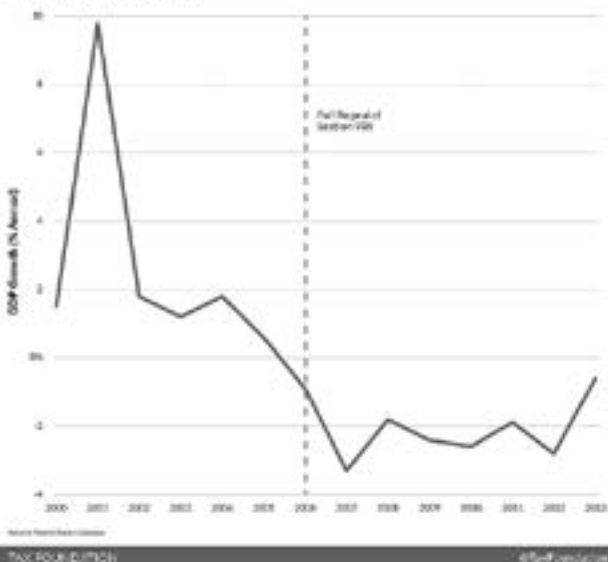
**Industrial production on the island is down by: -5.2% (2014)**

### Public Debt:

93.6% of GDP in 2014 or \$72 billion; 91.8% of GDP in 2013

In March of 2014, Puerto Rico restructured some of its debt as a temporary fix. This will force the island, for the next 20 years, to pay twice the amount of debt servicing previously due each month.

Puerto Rico's Growth Before & After Repeal of Section 936 in the U.S. Internal Revenue Code



### 936: The Beginning of the End

In 1976, Section 936 of the tax code granted U.S. corporations a tax exemption from income originating from U.S. territories and Puerto Rican tax law allowed a subsidiary, more the 80% owned by a foreign entity, to deduct 100% of the dividends paid to its parent company. This allowed subsidiaries in Puerto Rico to pay no corporate income tax liability.

Because it was seen as a way for corporations to avoid taxes, Section 936 became increasingly unpopular. Then in 1996, President Clinton signed legislation that phased out section 936 over a ten year period, leaving it to be fully repealed at the beginning of 2006. The graph above shows the devastating impact of the repeal of Section 936 on the Puerto Rican economy.

Roots of the Crisis: Puerto Rico's Swelling Public Debt  
Tab Grew as Government Borrowed to Pay Bills

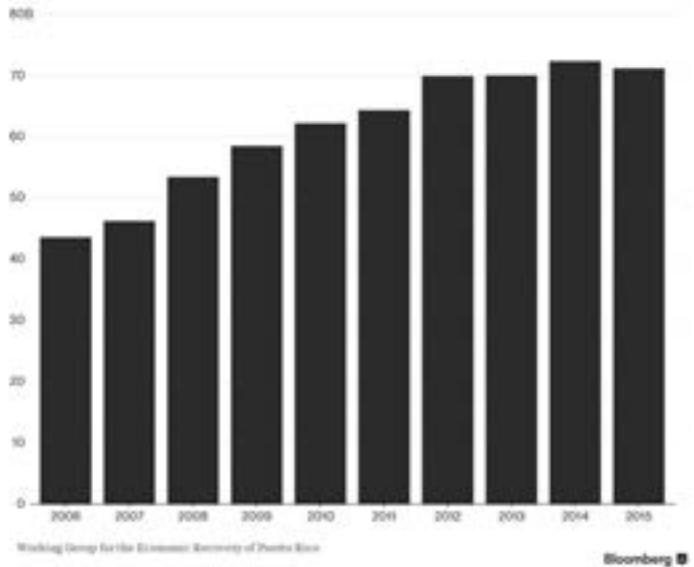
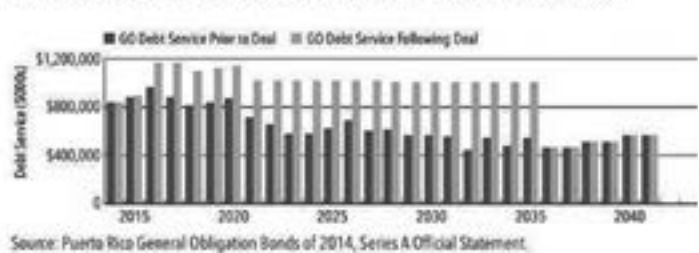


Exhibit 2: Puerto Rico's GO Debt Service Before and After March 2014 Deal



### The Health Care Crisis:

There is a healthcare crisis facing over 3.5 million Americans living in Puerto Rico.

Puerto Ricans are U.S. citizens, but although they pay the same Medicare and Social Security tax as mainland residents, they get dramatically less federal funding for healthcare.

This chronic underfunding is causing the island's healthcare system to almost collapse. The healthcare industry represents 20 percent of Puerto Rico's GDP; this collapse will have a catastrophic effect on Puerto Rico's already fragile economy.

Sixty percent of the island's population—over 2 million patients—receives their care through Medicare, Medicare Advantage or Medicaid.

The inequity in federal funding for these programs is startling. **Puerto Rico's Medicaid reimbursement rate is 70 percent lower than any mainland state.**

**The Medicare Advantage (MA) program is paid just 60 percent of the average rate in the states**, despite having the highest enrollment percentage in the U.S.

As if the situation wasn't dire enough, this funding gap is due to get even worse when the Center for Medicaid and Medicare Services (CMS) implements an 11 percent cut to Puerto Rico's MA premiums, which was announced earlier this year. **CMS approved these drastic cuts for Puerto Ricans, but it increased rates to the 50 mainland states by three percent.**

If Washington refuses to act, Puerto Rico will suffer the immediate loss of half a billion dollars to the healthcare system:

1. hospitals will lose \$150 million;
2. doctors will lose \$115 million;
3. pharmaceutical companies will lose \$65 million; and
4. Mi Salud, the Island's Medicaid program, will suffer a loss of \$400-800 million.

**The disastrously low reimbursement rates are being temporarily supplemented by a federal grant that will soon expire.**

This program is already experiencing severe cash flow problems and, without intervention, the government of Puerto Rico will have to come up with \$1.8 billion in 2018 or dramatically reduce eligibility and services, putting healthcare out of reach for hundreds of thousands of families.