



## GOVERNOR GARCÍA PADILLA ADDRESSES THE PUBLIC ON THE COMMONWEALTH'S FISCAL CONDITION

### *To The People Of Puerto Rico*

June 29, 2015

La Fortaleza, San Juan

---

My fellow Puerto Ricans,

I come to your home this afternoon to speak about Puerto Rico's economic and fiscal situation. The news I must convey are not easy. But as always, and just like you, I am convinced that we can overcome any crisis when we are united.

This afternoon, I want to speak about the planned path that will allow us, with much effort and sacrifice, to reestablish growth for you and your children. So that your work does not go only towards paying the debt assumed in the past, but towards allowing the Commonwealth to prosper, as it always has, with the sweat of every hard working Puerto Rican.

Today, my administration made public a very important report, prepared at the request of my administration, by a group of economists and experts whose experience in managing situations similar to ours is unquestionable. It is the first time that a thorough analysis of our fiscal situation ten years down the line and that takes into account the totality of our government and not just our general fund has ever been prepared.

The report puts us face to face with a harsh reality. Our public debt, considering the current level of economic activity, is unpayable. Furthermore, the size of that debt impedes us from exiting the cycle of recession and contraction. Facing a situation like this, we must all assume our responsibility.

Let me be clear: This is not about politics. This is about math.

The level of debt today is essentially the same as two and half years ago. We inherited a debt of approximately \$70 billion and it remains nearly the same, which is why no one can say, in all fairness, that this is the result of loans assumed by this administration.

Even then, when I say we must all assume our responsibility, I really mean everyone. For the past two years, my government has made hard but brave choices, and always without laying off public employees, that for many years other administrations postponed. These measures were necessary and the report confirms so. Yet, these measures have shown to be insufficient in the face of the scope and persistence of the fiscal and economic crisis we inherited, and

which all experts recognize as the biggest any governor has faced, since the one Luis Muñoz Marín successfully dealt with.

The report focuses on our reality in a more precise form than any other recent analysis. It found antiquated methods of accounting, public corporations without their own form of income, and a lack of fiscal controls and reliable statistics, that among many other factors conspired against the goodwill of many public servants to produce the reality we now face.

The past administration could deal with these problems by sweeping them under the rug, leaving the solutions for later, and taking out more loans. Now, it is time to face these problems and solve them once and for all. The inherited debt is so large we cannot access the financial markets and our economy does not generate enough income to repay the debts we assumed.

As the report states, even if we increased taxes and cut back spending, the magnitude of the problem is such because of the weight of the debt we carry, that it would solve nothing.

On the other hand, if we continue to assume debt to cover the deficits of government agencies, corporations or the pension funds, the report reveals that by 2025 the debt will have doubled. So, from a little over \$70 billion today, to over \$140 billion in only ten years – a sum which would be equal to over \$40,000 owed by every single man, woman and child in Puerto Rico.

The only way that we can climb out of this mire is if we come together and are willing – bondholders included - to assume shared sacrifices today, so that tomorrow we may all share the benefits of a growing economy. Yes, it is time that those who lent to us also come to the table of sacrifices, at which we are already seated, so that later we can all together share the fruits of that sacrifice.

Even recognizing this, I must also say that I do not agree with all the proposals included in the report. I will not approve, for example, the consideration of education as an expense and not an investment, nor will I foster changes that affect the minimum wage for workers, and I will defend jobs as a principal objective during this process. But the majority of the series of reforms do merit serious consideration.

Puerto Rico needs, and I propose, a plan of restructuring and development that is comprehensive and complete, that attends to, in the long and not the short term, in definitive fashion the immense problem we face today. If this is not achieved, the option is the unplanned and unilateral default of our obligations, with all the negative consequences that this implies for each and every one of us. We must act now, in order for that not to happen.

The first, and most important step, will be to reestablish economic growth. Even though more fiscal reforms will be necessary, it is now clear that without an aggressive increment in production in Puerto Rico, we will never come out of the vicious cycle of contraction, emigration, austerity and taxes. The economic agenda set by my administration has achieved progress in job creation in the manufacturing, agriculture, the aerospace, health services and research and development industries, and this is reflected in the decrease in unemployment, but again, much, much more must be done.

To once again generate prosperity, I will promote local legislation that will make our laws more competitive and align them to the reality of today so they will promote job creation with a major expansion of the private sector. I will lobby at the federal level for a reform of the current welfare system, which together will create the conditions for employers and investors to hire more employees, and for work in Puerto Rico to be more lucrative than simply receiving public assistance.

The private sector, and not the government, has to be the main promoter of job creation in Puerto Rico. Because of this, we will facilitate investment in construction and new business and pave the way for a new generation of local entrepreneurs.

We will promote strategic investments, which will provide economic returns for the country. For every dollar invested in public works we must generate an additional one from private economic activity. That is the right choice, not what is politically convenient.

This leads me to the second pillar of the plan.

I said that getting back on the path to growth would require some sacrifices from all of us. To be able to invest in our economy, today I created by executive order, the Working Group for the Economic Recovery of Puerto Rico, led by Victor Suarez, Melba Acosta, Cesar Miranda, and the Presidents of the Senate and House, Eduardo Bhatia and Jaime Perello, who will begin conversations to achieve, with transparency and consensus, the restructuring of our public debt. The ultimate goal is a negotiated agreement with bondholders for a postponement of payments on the debt for a number of years so that the money can be invested here in Puerto Rico.

We are not restructuring the debt in a vacuum. All the measures we have taken in the last two years reflect our willingness to pay and, had we not taken them, we would not be in a position today to request restructuring. We have done all that was within our power, but, as the report makes clear, the next step must be to ensure more favorable terms for the repayment of our debt.

It is by sharing the sacrifice *with* our creditors that we will be able to forge ahead.

The failure of this strategy does not benefit anyone. Today, Puerto Rico does not have the capacity to continue paying under the present terms. That is simply not good for us or for those who lent to us.

It is our responsibility to offer a fundamental change in the way the government operates. This is about better utilizing the resources of the government, which leads me to the third point I wish to present to you today. The Working Group for the Economic Recovery will also have the task of preparing, in coordination with the legislative branch, a long term fiscal agenda geared towards:

1. Establishing the parameters for a five-year fiscal plan;

2. Proposing additional cuts in spending – including cuts in some services – to avoid an increase in taxes;
3. Restructuring the Department of Treasury to increase the efficiency of income gathering;
4. Promoting alliances with the private sector to provide some of the services that are today provided by the public sector, such as the successful projects like the Moscoso bridge, the airport, and the highway to Arecibo;
5. Radically changing the way in which we work with government finances and economic statistics, to establish greater transparency and credibility;
6. Guaranteeing our citizens essential services and our pensioners a just income;
7. Creating a Fiscal Board which, outside political considerations, will guarantee the continuity and honor of the commitments agreed upon by us during the restructuring process. This board must carry out its responsibilities in an uninterrupted fashion and outside of electoral cycles.

The Working Group for the Economic Recovery will have until August 30th to develop, in dialogue with an ample representation of those interested, the legislative plan focused on the economic reforms and fiscal adjustments for consideration and approval in the coming legislative session, which begins in mid-August.

I know that this is not easy. But I also know that we have no other alternative and that these shared sacrifices, will put us back on the path to recovery.

The principles which will guide this process are, first, to look out for the interests of you and your family; second, that these sacrifices must be shared, and; third, and that all parts must be treated equally and justly under the law.

The sacrifice must be shared with the bondholders who share part in the responsibility of our debt. The creditors who wish to cooperate in good faith are welcome to do so. That said, those who attempt to exploit this situation to gain a financial or political advantage on the backs of our people, I say to them, Puerto Rico will be united against you.

Many countries, cities, and states, have faced, or face today, situations like ours, or even worse. Puerto Rico is not today in a situation any different from the one that New York faced in the 70s or Detroit faced, only a few years ago. The success that New York and Detroit had, had its foundation in the united will to recover. All sectors – unions, the government, banks, bondholders, and everyday citizens – shared in the sacrifice, and thus today, share the prosperity. The alternative – unacceptable to Puerto Rico – is that we all share the crisis.

This is not the moment for recriminations. It is not the moment for those who assumed the debt to complain about the measures taken to attend to the problems it caused. It is not a moment for partisan politics. It is not a moment to be thinking about next year's elections.

It is a moment for patriotism. It is the time for immediate action and unity.

We cannot allow the heavy weight of the debt to bring us to our knees. We cannot allow the situation to force us to choose between paying our creditor, and paying our policemen, teachers and nurses. Another way is possible. We must act now, together. We must all share the responsibility, and the sacrifice, so that we can share in the benefits of a growing Puerto Rican economy.

It is time for us to ask for concerted actions from Washington, in one voice, now. Action wherein changes can finally be made to Chapter 9, so that Puerto Rico can count on the same protections as other jurisdictions.

Action so that the Medicare is allotted to Puerto Rico under equal terms, just as we pay for it in equal terms. Action so that we have the tools to bring foreign investment to Puerto Rico, and action so that we can be excluded from the Jones Act Cabotage Laws.

On some of these issues there has been consensus between my administration and my legislative leadership – the President of the Senate Eduardo Bhatia and the President of the House Jaime Perello – with leaders of the political opposition. That is the example that must be followed as we continue to face this crisis.

It is time for all of us to be on the side of workers, local businessmen and investors, and those, who even though they are not from here, believe in Puerto Rico. It is time for us to show our capacity to come together and agree. Approving budgets and together furthering solutions to the problems the country faces.

It is time to force the government to face a profound change that will allow citizens, the working class, and those who risk their savings to start a business, the ability to contribute to the growth of the country. It is with them that we will grow. We owe ourselves to those heroes, not to the institutions that have failed us.

Just as the problems that we face were not created from one day to the next, the change I propose will not take place within a short time frame. It will be change that will require many years. In the instance that we are able to negotiate terms with our creditors, we will have the tools for continued development. The decisions we make today will define our tomorrow, and will force future governments to honor those commitments.

That is why I want to once again speak of the call to action I expressed in my last State of the Nation Address. We have exhausted all the alternatives available to our government.

What we need is for all of us to do our part: citizens, businessmen, bondholders, the other political parties and even future governments. For this to work, as it has worked in so many other places around the world, it is needed, more than ever, for us to unite with one purpose.

We need to think about our people and their future.

Starting tomorrow, you will see me take meetings with leaders from all political parties, with religious leaders, business, unions, non-profits and social leaders. I will ask sacrifice from all

of them. But I will give each of them my commitment that no matter who they are or what they represent, their ideas will be heard, and if they are in sync with the principle of a just agreement between all parts, they will be heeded.

I trust that we have the capacity within ourselves, here on our Island, to unite and prevail. We must surpass political divisions and personal agendas.

I am sure that just like Wilma and I, you are willing to make personal sacrifices for your children and grandchildren. In the end, all I have spoken about has to do with what you individually do for your children, but in its collective expression, working together, for the children of all. Our children represent Puerto Rico's future. In our hands rests the decision to continue on the path we were, acquiring more debt, or if we negotiate our debts, to leave them as an inheritance, a land of opportunities.

These are not easy times that we have had to live. But if we battle together, against any enemy, against any crisis, united, Puerto Rico will prevail.

May God bless you and God bless Puerto Rico.