

The Associated General Contractors of America
Puerto Rico Chapter

501 Perseo Street, Suite 211
San Juan, Puerto Rico 00920



OFICIALES

ING. NEYSSA VARELA
Presidente

ING. FRANCISCO DÍAZ MASSÓ
Primer Vicepresidente

ING. FRANCISCO RODRÍGUEZ
Segundo Vicepresidente

ING. IVÁN FERNÁNDEZ
Secretario

ING. TOMÁS MONTALVO
Tesorero

ING. MANUEL A. SUÁREZ MIRANDA
Subtesorero

ING. ALEJANDRO ABRAMS
Director

ING. CARLOS RODRÍGUEZ
Director

ING. JORGE JOSÉ FUENTES
Director

SR. JOSÉ FULLANA
Director

ING. MICHAEL PABÓN
Director

SR. REGIS COLÓN
Director

ING. SANTIAGO DOMENECH
Director

ING. HUMBERTO REYNOLDS
Pasado Presidente

April 11, 2016

By Fax: (202)-225-5329

Hon. Rob Bishop
Chairman
House Committee on Natural Resources
1324 Longworth House Office Building
Washington, D.C. 20515

Re: Puerto Rico Oversight, Management and Economic Stability Act
("PROMESA")

Honorable Chairman Bishop:

The Puerto Rico Chapter of the Washington, D.C based Association of General Contractors of America ("AGC-PR") wishes to thank you, members of the Committee and staff for the work and effort related to Puerto Rico, its current crisis and the potential solutions. In connection therewith, we hereby formally express particular support for a fiscal control board for Puerto Rico to address the current fiscal and economic crisis. We also express our strong support for Title V of PROMESA¹ (as it relates to infrastructure investment and economic development), which undeniably is at the center of the current crisis and the key to any sustainable solution.

Any federal structure that may be legislated to help Puerto Rico address the current crisis must not only address the issue of debt but – at the same time and possibly with greater emphasis and priority – must ensure sustainable economic growth, development and certainty. This includes contractual certainty (rule of law) to enable small, medium and large investors and business concerns to invest, perform and receive payments therefor. Without this, any debt or fiscal restructuring will only postpone the inevitable, to the detriment of all U.S. citizens still residing on the Island as well as those who have invested in Puerto Rico instruments.

¹ The discussion draft released by the House Committee on Natural Resources on March 29, 2016.



It is widely known that our infrastructure, whether energy², water and sewer³, solid waste management⁴, roads and bridges⁵ and low income housing,⁶ is in need of replacement, modernization or new construction. The Committee is well aware that Puerto Rico's permitting process poses significant challenges for the Island's general competitiveness – resulting in long and inefficient practices that generate uncertainty and discourage investment. Permitting reform is needed and should also contemplate government restructuring in order to achieve sustainable efficiencies and government transparency. Recent studies commissioned by the current administration expressly recognize the need to address permitting issues in order to improve and achieve sustainable economic growth.⁷ Puerto Rico has the necessary statutory and regulatory

² The power generation fleet of the Puerto Rico Electric Power Authority is very aged and inefficient (median generating plant age is 44 years vs. an industry average of 18 years).

³ Potable water reservoir capacity around most of the island is severely impaired given a lack of maintenance; water and sewer treatment and distribution facilities require significant capital investments (for federal environmental compliance, efficiency and related factors) for which the Puerto Rico Aqueduct and Sewer Authority does not have the funds or even the current ability to access the capital markets.

⁴ As recent as March 2016, EPA informed that 20 of the 27 landfills in operation on the Island are not in compliance with local or federal regulations that protect human health and the environment – and as such, pose a direct threat to surface and ground-waters (potential or actual drinking water sources), soils and air, in and around communities near these noncompliant facilities.

⁵ The Puerto Rico Highway & Transportation Authority lacks the funds for the construction of new roads and/or bridges or their adequate maintenance.

⁶ [_____]

⁷ The Kruger Report states:

26. A lot can be done to lighten the burden of doing business, which is particularly important when reforms are aiming to move the economy in new directions. To date, the term business-friendly in Puerto Rico has referred to efforts to offset high input costs with tax breaks and subsidies. As input costs are brought down, the focus should shift to ensuring a level playing field and greater ease of doing business, including permits for new businesses. This is always an on-going task but a start could be made by addressing the three weakest areas identified by the World Bank: the difficulty in registering property, in paying taxes, and in obtaining construction permits... (Emphasis ours).

See Puerto Rico – A Way Forward, Anne O. Krueger, Ranjit Teja, and Andrew Wolfe, June 29, 2015, <http://www.bgfpr.com/documents/puertoricoawayforward.pdf>; See Page 27 of the Puerto Rico Fiscal and Economic Growth Plan prepared by the Working Group for the Fiscal and Economic Recovery of Puerto Rico Pursuant to Executive Order 2015-022, September 9, 2015;

<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>.



structure to reform permitting. Any final version of PROMESA (Title V) should ensure that Puerto Rico immediately undertakes (implements and maintains) the permitting reforms needed to ensure economic growth, investment, jobs and infrastructure capable of providing citizens quality services as well as protecting the environment and human health.

The AGC-PR represents 80% of the overall economic activity in construction and has 300 members with diverse professional backgrounds and experience covering construction industry areas that include but are not limited to energy, roads, water and sewer, housing, tourism, and facilities for the manufacture of pharmaceutical and other products as well as technology and research and development.

Our historic role and impact on the local economy was very significant as compared with today.

Following are some telling data points:

<u>Area</u>	<u>Historic</u>	<u>Current</u>
Jobs	90,000	20,000
Gross National Product	10%	3%
Investment	\$6B	\$2B

The local construction industry's situation is evidently aggravated by the current fiscal crisis, as by the Administration's delay in paying government contractors for services rendered⁸. Furthermore, very recent government actions like the highly controversial enactment of Act 21-2016 (Moratorium Act) last week and ongoing discussions by local government officials about bankruptcy, defaults and the ability to expropriate private property and services without proper procedures has only added to the general uncertainty of citizens and the business community – confirming the investing community's perception that Puerto Rico, a U.S. Commonwealth, is a high risk investment jurisdiction.

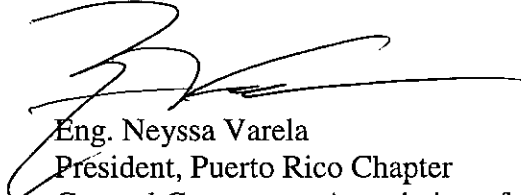
⁸ It was unofficially stated (by the Secretary of Treasury) last week that the total debt due to Government service providers has reached the amount of over \$2.2 Billion. With respect to PR-AGC members, as of March 2016 the Puerto Rico Aqueduct and Sewer Authority alone owes multiple members over \$160 Million, with no near term capacity to pay these amounts.



PROMESA will undoubtedly provide Puerto Rico with the necessary structure, and immediate credibility, to quickly begin addressing the most fundamental budgeting, cost-control, efficiency and transparency requirements of a fair and equitable government. Similarly, Title V will help implement and maintain the regulatory conditions necessary to facilitate critical infrastructure projects, related investments and economic and job growth. We trust and support that the final version of PROMESA and Title V be designed to ensure that Puerto Rico can retake the path of a supportive government while allowing the private sector to jumpstart economic development, create jobs and provide opportunity to thousands of citizen on the Island. We urgently need a climate of credibility, transparency and certainty that maximizes Puerto Rico's ability to overcome the current crisis.

Again, thank you and the Committee for its work and efforts related to Puerto Rico. We stand ready and available to assist in any way the Committee deems relevant and appropriate.

Sincerely,



Eng. Neyssa Varela
President, Puerto Rico Chapter
General Contractors Association of America