

# National Day of Action for Puerto Rico



hispanic**federation**

toolkit

## Policy Backgrounder

The current and future livelihood of millions of American citizens living in Puerto Rico are in danger as a result of the island's economic crisis. This situation demands an immediate Federal response, including a government-led plan to restructure the island's debt and create sustainable economic growth.

### THE CRISIS

In June 2015, Puerto Rico's Governor Alejandro García Padilla declared the Commonwealth's \$72 billion debt "not payable," with the island effectively running out of cash to keep the government operating. The situation is putting at risk essential services such as police and fire protection, medical services and social supports.

The crisis has forced a second "Great Migration" much like after World War II, with more than 250,000 Puerto Ricans leaving the island since 2010.

### BACKGROUND

Governor García Padilla's declaration comes after years of poor budgetary practices, low labor participation rates, an economy that prioritizes tax over comparative advantages, inequities in federal health care, and predatory lending by hedge funds. Underlying it all is the complicated and oft unjust relationship between the U.S. and the island.

Puerto Rico has taken extraordinary measures to address the situation, including shuttering more than one hundred public schools, delaying people's tax refunds, increasing the retirement age, borrowing from the worker's compensation fund and even withholding holiday bonuses. It has passed a draconian 2015 budget which increased the sales tax from 7% to 11.5% and further reduced public investment by \$674 million.

However, Puerto Rico cannot "cut and tax" its way out of the crisis because more cuts will force more migration, which will further erode the tax base and feed a "death spiral" of ever-decreasing tax revenue and ever-increasing debt.

### CONCLUSION

Puerto Rico and its citizens are inextricably intertwined with the United States by history, emigration and economics, fighting valiantly in every war since World War I. Its diaspora – five million strong - are a visible presence in communities throughout the fifty States of the Union.

Given the interpenetration of the Puerto Rican population and economy with the U.S., if the federal government does not act, Puerto Rico will be forced to enact more draconian cuts to its budget, with incalculable repercussions not only on the island, but also on communities, towns and cities stateside.

### OUR REQUEST

Federal Government needs to take strong, substantive and constructive action now to stabilize Puerto Rico and protect the current and future livelihood of millions of American citizens living on the island. At a minimum, Congress needs to work with the Obama Administration to pass the following reforms:

#### 1) Bankruptcy and Debt Restructuring Protections

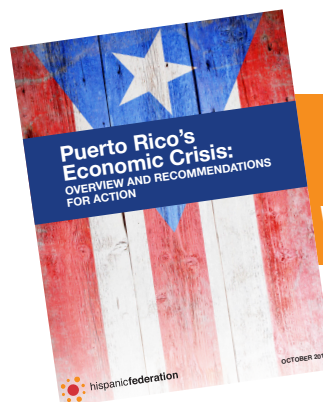
Pass legislation granting Puerto Rico the right to declare Chapter 9 bankruptcy, including expanded debt restructuring powers for all public services in order to renegotiate the debt and establish a fair repayment plan.

#### 2) Health Care Equity

Bolster Puerto Rico's healthcare safety net by approving the Health and Human Services Administration's recommendation to eliminate the annual Medicaid/Mi Salud funding cap on Puerto Rico in favor of funding based on FMAP per-capita income.

#### 3) Tax Reform

Institute tax policies that foster economically-diverse and living-wage job creation. Support local government implementation of an Earned Income Tax Credit (EITC) and an expanded Child Tax Credit that rewards work and supplements earnings to low-income workers in Puerto Rico.



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## Bankruptcy Protection & Debt Restructuring

**The current and future livelihood of millions of American citizens living in Puerto Rico is in danger as a result of the island's economic crisis and the massive, unpayable \$72 billion debt. This situation demands an immediate Federal response, including a government-led plan to restructure the island's entire debt. Congress should pass legislation granting Puerto Rico the right to declare Chapter 9 bankruptcy, including expanded debt restructuring powers for all public services, in order to renegotiate the debt and establish a fair repayment plan.**

- Puerto Rico's fiscal and economic crisis has been decades in the making and comes after years of poor budgetary practices, low labor participation rates, an economy that prioritizes tax over comparative advantages, inequities in federal health care, and predatory lending by hedge funds. Underlying it all is the complicated and oft unjust relationship between the U.S. and the island. More importantly, this situation will not be resolved overnight.
- Puerto Rico has taken extraordinary measures to address the situation, including shuttering more than one hundred public schools, delaying people's tax refunds, increasing the retirement age, borrowing from the worker's compensation fund and even withholding holiday bonuses. It has passed a draconian 2015 budget which increased the sales tax from 7% to 11.5% and further reduced public investment by \$674 million.
- However, Puerto Rico cannot "cut and tax" its way out of the crisis because more cuts will force more migration, which will further erode the tax base and feed a "death spiral" of ever-decreasing tax revenue and ever-increasing debt.
- On December 1, the Commonwealth defied expectations by making over \$350 million in debt payments despite effectively being out of cash and at the expense of mounting costs for basic public services. This last ditch, good faith effort further demonstrates Puerto Rico's willingness to act as a responsible fiscal entity in the hopes of reaching a fair debt restructuring and repayment plan. To make this payment, the Commonwealth employed onerous and extraordinary steps to generate these funds including delaying tax refunds, borrowing from workers' compensation funds and liquidating pension assets. As there are no more rabbits to pull out of a hat, now more than ever Congress must act to equip the island with the necessary tools to resolve this crisis.
- The Chapter 9 bankruptcy protection and debt restructuring plan proposed by the US Treasury Department would grant the Commonwealth the option to file for bankruptcy for the entire government debt portfolio and ultimately ensure all sides reach a fair deal on any debt repayment plan. This proposal would solely grant bankruptcy protection to US territories like Puerto Rico, much like cities across the U.S. enjoy, but NOT afford it to states.
- Chapter 9 bankruptcy protection is not a bail out. Puerto Rico had bankruptcy protection until the early 1980's. It is a legal framework that will help the island restructure its \$72 billion debt.
- Without Congressional action granting Puerto Rico bankruptcy protection and debt restructuring powers, US bond and retiree account holders invested in Puerto Rico debt could be in danger. Chapter 9 bankruptcy protection that includes provisions to protect earned pensions for government employees and retirees is the only viable solution to begin a path through this fiscal crisis.
- Congress must act so that Puerto Rico has every tool at its disposal. The bottom line is that in order to grow Puerto Rico's economy, the government needs to invest its resources in education, infrastructure and innovation. Without Chapter 9 bankruptcy protection, this is not an option.

## Healthcare Parity

**Severe underfunding of Puerto Rico's healthcare system is pushing it to the brink of collapse and is already threatening patient care. Congress should bolster Puerto Rico's healthcare safety net by approving the Health and Human Services Administration's recommendation to eliminate the annual Medicaid/*Mi Salud* funding cap on Puerto Rico in favor of funding based on FMAP per-capita income.**

- Congress should approve the Health and Human Services Administration's plan to improve quality and create sustainability for the Medicaid program in US territories by eliminating the cap on federal contributions to Medicaid and by offering access to additional core services Medicaid beneficiaries would receive if they were living on the mainland.
- Puerto Rico receives half the rate of federal healthcare funding while the island's U.S. citizens pay the same Medicare tax as mainland residents.
- The severe federal funding cuts the Island is currently facing could amount to \$3 billion in the next two years.
- The Medicare Advantage program may no longer be viable next year if funding to insurers isn't restored.
- The Medicare Advantage system's collapse will cause the migration of low-income seniors to *Mi Salud*, the island's Medicaid program. *Mi Salud*, which relies on both federal and commonwealth funds, is unprepared to absorb the Medicare Advantage transfers and is poised to run out of money as early as the end of 2016, resulting in 900,000 people being dropped from the program.
- In addition to systematic underfunding, Puerto Rico will have to make the tough choice of scaling back Medicaid services or paying \$1.8 billion when the Affordable Care Act Medicaid grant runs out in 2017.
- Sixty-eight percent of the island's population - over 2.37 million patients - receives their care through Medicare, Medicare Advantage (MA) or Medicaid.
- The healthcare industry represents 20 percent of Puerto Rico's GDP, amounting to \$11 billion dollars, and around 100,000 people working in the industry. A collapse will not only jeopardize care for millions of these U.S. citizens, but could result in a dramatic blow to Puerto Rico's weak economy.

### WHAT'S AT STAKE

- A huge number of doctors are moving to the U.S. where they are paid more for their services simply because mainland reimbursement rates are far superior. In the last five years, over 3,000 medical professionals have left Puerto Rico.
- The predicted loss of health coverage for nearly 1 million people living on the island will generate an additional wave of migration to the mainland, which will have fiscal implications for many states.
- The medical staffing crisis has caused a drop in quality of care and an increase in wait times for services, threatening the health and lives of even the most vulnerable patients, including babies and children with severe medical issues.
- There will be an increase in copays and deductibles for patients, who cannot afford to pay their health insurance.
- Hospitals will have to reduce staff, impacting the quality and quantity of services they can provide.

## Earned Income Tax Credit and Child Tax Credit

The Federal Government should institute tax policies that foster economically-diverse and living-wage job creation. We support local government implementation of an Earned Income Tax Credit (EITC) and an expanded Child Tax Credit that rewards work and supplements earnings to low-income workers in Puerto Rico.

- Congress should provide access to an Earned Income Tax Credit (EITC) to Puerto Rico. The EITC is already available to Americans living in the fifty states and the District of Columbia.
- At present, residents of Puerto Rico can qualify for the Child Tax Credit only if they have three or more children, although low-income workers in the States with one child or two children can also obtain the benefits. The Child Tax Credit should be extended to low-income Puerto Rican workers with one child or two children.
- The EITC is a proven and effective anti-poverty measure to promote employment. An EITC would create incentives for work and increase participation in the formal economy.
- At forty percent, Puerto Rico has the lowest labor market participation in the United States and the territories – participation rates are about two-thirds the U.S. average. Low participation in the formal economy stunts economic growth and undermines Puerto Rico’s economic reform efforts.
- While Puerto Rico’s employment numbers have somewhat increased, applying the EITC to the Island will encourage the much needed labor participation to grow the economy.
- An EITC would increase employment in the formal/official sector instead of the informal/black market economy by providing higher incomes to workers who file taxes. The EITC would help increase tax compliance and revenues.
- The EITC is a time-tested, bipartisan job creation tool that has garnered broad support. President Reagan proposed a major EITC expansion that was included in his 1986 Tax Reform Act, which he argued was “the best antipoverty, the best pro-family, the best job creation measure to come out of Congress.”