



JOSÉ ENRIQUE MELÉNDEZ ORTIZ
Representative at Large

January 17th, 2014

The Honorable John Boehner
Speaker
United States House of Representatives
H-232
The Capitol
Washington, DC 20515

Dear Mr. Speaker:

It is with the utmost sense of gravity and profound concern that I write to you today regarding the fiscal situation of Puerto Rico.

As you may surmise, many of our Island's problems are more complex than they are in any of the states, given the far-reaching legal and political limitations of our current Commonwealth territorial arrangement. Because of that, many of your fellow citizens who reside in Puerto Rico continue working with Congress and the Obama Administration in order to bring a resolution to this centuries old dilemma. As Chairman Wyden and Senator Murkowski indicated in their letter to the Party Presidents, dated December 13, 2013, with regards to the results of the first question in the November 2012 ballot, ever more there is a growing consensus among the various ideological factions that Puerto Rico's unresolved status situation needs to be addressed responsibly and decisively, both in Puerto Rico and in Washington, DC. Maintaining our current status relationship is no longer an option as voters withdrew whatever alleged consent it may have had before.

In the meantime, the situation in the Island is very dire. Our economy has been underperforming dramatically when compared to that of the individual states, with practically no hope of coming out of a seven year-old recession. Unemployment keeps hovering around 15%, yet underemployment is far more severe. Many of your fellow citizens have lost hope, and either migrate to the mainland, as tens of thousands have done during the past few years, or fall completely off the unemployment and welfare rolls. A true measure of the

problem is the fact that our labor force participation is just 41% of our population, as opposed to 63% in the mainland. Furthermore, the situation is much gloomier if you take into consideration that the government is, by far, Puerto Rico's biggest source of employment. Given these glimpses of our reality, it does not surprise most people in the Island to see how our ever shrinking economy only surpasses those of Libya and Cyprus when measuring the level of downsizing or contraction of their respective economies.¹

Regretfully, the picture that I am compelled to continue to present to you gets even worse. Our public debt is so high, that it is very difficult to see the light at the end of the tunnel. As reported less than two weeks ago in Forbes

Puerto Rico's public debt of \$53 billion is nearly \$15,000 per person, but when [you] add inter-governmental debt the mountain rises to \$70 billion, or \$17,500 per person... [add the] under-funded pension and healthcare obligations, the noose approaches \$160 billion.²

Given this situation, the Commonwealth government has lost access to the US capital markets and can only borrow nowadays at much higher interest rates. Not only has this had the effect of affecting the liquidity of the Government Development Bank, but its ripple effects have also put our local banks in a much more tenuous fiscal situation. In the coming weeks the three main credit agencies will review the fiscal and economic situation in our Island, and most here are bracing themselves for a probable credit downgrade of the Commonwealth's debt to "junk" status. This possible outcome has led well respected publications, such as Barron's, Bloomberg News, Forbes, Wall Street Journal, The Financial Times, The Economist, US News & World Report and the Washington Post, among others, to report within the last few days and couple of weeks about Puerto Rico's impending fiscal crisis.

As mentioned in the Forbes article, will Puerto Rico become the US version of Greece and/or Cyprus? What would be the implications to the US economy and taxpayer; but particularly to the \$4 trillion municipal bond market if the Commonwealth government defaults in its debt repayments? In order to put it in the appropriate perspective, keep in mind that 75% of all muni bond funds in the United States are investing money in Puerto Rico's municipal debt. Furthermore, what sort of broad bailout would be necessary from the US government? And what would be the implications to the US taxpayer in your state and throughout our Nation? I'd rather not speculate, and sincerely hope that, for the sake of all

¹ The Economist, January 4, 2014, *GDP Forecasts*.

² Forbes, January 3, 2014, *Could a Puerto Rico Default Hammer the \$3.7 Trillion U.S. Muni Bond Market in 2014?*

involved, Puerto Ricans and the US taxpayer alike, the credit agencies begin to see the light at the end of the tunnel.

As you may see, inaction on this matter may be too risky to even ponder and, consequently not an option. Therefore, given the US House of Representatives jurisdiction and responsibility over most matters pertaining to Puerto Rico,³ I truly believe that this potential crisis merits your full and immediate attention.

Finally, I sincerely hope that your efforts may receive the full support of all political factions in Puerto Rico, and particularly, from the Commonwealth government, which may have very few opportunities remaining to undertake the right policy decisions in order to start getting us out of this crisis.

Let me conclude by expressing my gratitude for your attention to this matter.

Sincerely,



Handwritten signature of José Enrique Meléndez, consisting of stylized initials and a long horizontal flourish.

José Enrique Meléndez

³ In full accordance to the US Constitution's Territory Clause (Article IV, Section 3, Clause 2).