



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

July 28, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Hatch:

Thank you for your recent letter on the challenges facing Puerto Rico. I welcome the opportunity to have a constructive dialogue with you and your colleagues on this important matter. As the Administration has made clear, no one is contemplating a federal bailout for Puerto Rico. I also fully agree with your assessment that Puerto Rico needs an orderly process to restructure its unsustainable liabilities. I do believe that the federal government has a critical role to play to help Puerto Rico achieve the best possible outcome for its people.

As you are aware, Puerto Rico's fiscal situation is urgent, and I believe it requires the immediate attention of Congress. Puerto Rico is home to over 3.5 million U.S. citizens and is struggling with a confluence of factors that you identified in your letter, including persistently high unemployment, labor market challenges, as well as elevated energy and transportation costs, all of which have been exacerbated by a history of less than adequate fiscal policy choices. Despite having taken many measures to address these financial challenges, the Governor of Puerto Rico, Alejandro Garcia Padilla, recently declared that Puerto Rico's debt load — which now approaches \$73 billion — is not payable.

Any effort to return Puerto Rico to a sustainable economic path should begin with the development of a long-term comprehensive fiscal plan that addresses Puerto Rico's financial challenges. Governor Padilla recently took an important first step in this direction, by creating a new Working Group for the Economic Recovery of Puerto Rico to create such a plan. For it to be most effective, the plan should include input from a range of stakeholders and have credible assumptions for long-run revenue collections, expense outlays, and growth. The fiscal plan should also be supplemented by a realistic and robust economic growth strategy that encourages new private investment, increases Puerto Rico's competitiveness, and strengthens its economic structure.

As you suggest, Puerto Rico also needs an orderly process to address its liabilities. Without our collective action, I am deeply concerned that a protracted and disorderly restructuring process will cause long-term damage to the health, safety, and financial well-being of the families living and working in Puerto Rico. For that reason, a central element of any federal response should include a tested legal bankruptcy regime that enables Puerto Rico to manage its financial

challenges in an orderly way. Puerto Rico currently does not have access to the federal bankruptcy courts to restructure its financial obligations. Local officials tried to address this shortfall on their own by passing a law to provide a bankruptcy-like process, but the United States Court of Appeals for the First Circuit held that federal law preempts the local legislation. Further, the Court held that only Congress may grant Puerto Rico access to bankruptcy protection. Under the status quo, without a tested legal regime in place, a resolution of Puerto Rico's financial obligations would likely be chaotic, protracted, and costly both for Puerto Rico and more broadly for the United States.

Allowing Puerto Rico to resolve its liabilities under the supervision of a bankruptcy court involves no federal financial assistance and is in no way a federal bailout. An untested and potentially disruptive process with numerous creditor lawsuits and years of litigation would depress the local economy, increase costs, and make long-term recovery harder to achieve. It also makes it likely that more residents of Puerto Rico will seek assistance from federal employment, health, housing, and temporary assistance programs. Moreover, the continued deterioration of Puerto Rico's economic and financial conditions has the potential to further harm retiree investment portfolios across the country. A significant portion of Puerto Rico's debt is still held directly by individual retail investors or indirectly through the municipal bond funds they own.

We believe that Puerto Rico can and will emerge from the current crisis and return to growth. The fundamental question is when and at what cost to its economy, residents, creditors, and at what additional cost in federal government benefits to U.S. citizens in Puerto Rico who continue to suffer through these challenging times. By granting Puerto Rico access to an orderly bankruptcy regime as soon as possible, Congress can help put Puerto Rico — and the millions of U.S. citizens who live there — on the best path to a sustained recovery.

The Administration remains in daily communication with Puerto Rico's officials to ensure we are bringing our full capabilities, within the limit of our authorities, to bear in our effort to assist the people of Puerto Rico and ensure that they have appropriate access to available federal programs. Treasury has dedicated a federal team to evaluate Puerto Rico's fiscal outlook and to share its expertise with the local officials who oversee Puerto Rico's economic policies. As Puerto Rico's fiscal challenges have deepened, many other federal agencies have also enhanced their coordination with local counterparts and dedicated more resources to ensure the accountability and flow of federal funds to Puerto Rico is maintained.

I appreciate your letter, and I look forward to a constructive, bipartisan dialogue to identify ways we can work together to provide Puerto Rico with the tools it needs to manage through these difficult times, beginning with the prompt passage of a tested, legal framework for Puerto Rico to address its financial challenges in an orderly way.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", written in a cursive style.

Jacob J. Lew