



July 18, 2017

Rep. Nydia Velázquez
U.S. House of Representatives
Congress of the United States
2302 Rayburn House Office Building
Washington, DC20515

SUBJECT: THE FUTURE OF PUERTO RICO'S ECONOMY

Dear Rep. Nydia Velázquez:

Greetings from the Puerto Rico Institute of Statistics (PRIS).

I. Introduction

PRIS is an independent public entity of the Government of Puerto Rico with authority over the statistical policy of Puerto Rico public entities. We work to ensure universal and timely access to comprehensive and reliable statistics on Puerto Rico.

PRIS began operations in 2007, at the start of Puerto Rico's current fiscal crisis and economic recession. We have worked intensely on implementing the PRIS Charter Law, since the beginning of operations just about 10 years ago. During this time, as a result of the fiscal crisis and the need to operate as an independent entity that is not beholden to political interests, the Government of Puerto Rico has only assigned about a quarter of the budgetary resources that were approved in the PRIS Charter Law, a factor which has greatly limited our efforts.

Even under these conditions, since its inception, PRIS has been able to comply with its duties without incurring in budget deficits, without emitting debt of any nature, and without a single audit finding from the Puerto Rico's Comptroller's Office. PRIS is administered as a lean technologically-inspired and technically-centered territorial instrumentality.

Nevertheless, with an average annual budget of just about \$1 million during these 9 years, PRIS has had numerous achievements. Here are just a few:

- We corrected Puerto Rico's mortality statistics, in collaboration with the National Center for Health Statistics (NCHS), to incorporate thousands of deaths that had been previously excluded from the Puerto Rico Department of Health's mortality data, and improved the precision, comparability, and efficiency of the cause-of-death classification methods used.

- In collaboration with the U.S. Bureau of Labor Statistics (BLS), PRIS eliminated an upward bias in Puerto Rico's Consumer Price Index, as had been reported by the Puerto Rico Department of Labor, which overestimated the rate of inflation by more than double during a 15-year period.
- PRIS has identified millions of dollars in recurrent cost savings for the Government of Puerto Rico in the purchase of data (Planning Board) and in the use of technology to identify waste, fraud, and abuse (Medicaid).
- PRIS has identified and documented a statistical bias in the formulas used by the Centers for Medicare and Medicaid Services (CMS) to compensate doctors in Puerto Rico for providing services under the Medicare Program, which tipped the scales against physicians, patients, and providers in Puerto Rico to the tune of about \$120 million annually between 2012 and 2016.
- By law, PRIS serves as liaison with federal statistical agencies, such as the U.S. Census Bureau (2020 Census, 2017 Puerto Rico Economic Census, Puerto Rico Community Survey, Foreign Trade Statistics, Annual Population Estimates, State Data Center, among other initiatives), the National Agricultural Statistical Service (2017 Agricultural Census), amongst many other agencies (Puerto Rico Act No. 154-2015). This was a significant departure in policy from the past, when these functions had been delegated to the Puerto Rico Planning Board.
- PRIS has provided training to several hundred government statisticians in Puerto Rico in the use of modern software for database management and statistical analysis.
- We developed and undertake a monthly Purchasing Managers Index survey in close collaboration with Puerto Rico's Manufacturing Association and with the technical assistance of the Federal Reserve Bank of New York to serve as a timely indicator of business conditions in Puerto Rico's largest economic sector.
- PRIS administers the Puerto Rico Inventory of Statistics (<http://www.statistics.pr>), a website that facilitates access to over 300 statistical products on Puerto Rico, as well as the Commonwealth's Open Data platform (<http://Data.PR.gov>) where Puerto Rico public entities can share their datasets with other agencies or the public.
- Currently, PRIS is developing the Interagency Validation Site for Granting Incentives for the Economic Development of Puerto Rico, as mandated under the recently approved Puerto Rico Act No. 187-2015. The Site will serve as a clearinghouse for information on the incentives and other tax benefits that private sector entities apply for, under a variety of economic development legislation. The result will be comprehensive information on the economic activity promoted by these incentives, which can serve for informed decision-making about these policies, as well as improved detection of fraud, waste, and abuse.
- In accordance with its duty to promote transparency and to facilitate access to public data, PRIS launched a Financial Transparency initiative through which it publishes detailed

transaction-level data on its expenditures and incomes. See <http://www.TransparenciaFinanciera.PR>. During the past couple of months, we have been in negotiations with several Puerto Rico public entities to join the transparency effort by providing us their financial data on an ongoing basis.

Despite our efforts, during these past 10 years, the economic and fiscal crisis of Puerto Rico has only deepened, making more difficult efforts to raise the quality of Puerto Rico data and statistics.

II. Why do we need to raise the quality of Puerto Rico data and statistics as part of any solution to Puerto Rico's economic and fiscal crisis?

Let me give you an example that is very much to the point.

By the 1970s, personal consumption and retail trade became an important component of the economy of Puerto Rico. Puerto Rico did not participate in the Monthly Retail Trade Survey of the U.S. Census Bureau, so the Government of Puerto Rico began performing a Monthly Retail Trade Survey, in order to gauge the evolution of this important sector.

Between 2005 and 2007, this Survey underwent a benchmark methodological revision. However, implementation of the Survey methodology was incomplete and underfunded, in part as a result of the economic recession and fiscal crisis that was just getting started back then. Nevertheless, results were published every month since then.

After the revision, the technical staff of the Survey lacked clear guidance as to what to do when a sampled establishment closed and stopped reporting sales. As a result, the sales values of many closed establishments were imputed using historical data, which in part was responsible for generating an overestimation of the total estimated value of retail sales in Puerto Rico.

In 2007, in order to deal with its fiscal crisis, Puerto Rico established a retail sales tax for the first time. When the Government and the investor community tried to estimate how much money the new sales tax would raise, they turned to Puerto Rico's Monthly Retail Trade Survey.

By 2009, PRIS had begun operations and our efforts were geared towards educating the Government of Puerto Rico about the need to perform a new benchmark revision of the Survey.

In 2013, the Government requested that PRIS perform such a revision.

In 2014, PRIS internal research anticipated the possibility of a significant overestimation. It took the Government of Puerto Rico 3 years to implement the new methodology to prove whether we were right.

The results, which were announced just last week, suggest that the estimated value of retail sales in Puerto Rico was overestimated by about one third. This situation may have lead creditors to overestimate the revenue that the sales tax could raise.

While we are excited about the announcement, much work remains to be done, and it is unacceptable that Puerto Rico allowed this problem to accumulate for so long.

With inaccurate retail sales data, not only did investors lend Puerto Rico more money than perhaps they should have, but many businesses made incorrect investment decisions in the retail trade industry.

At the end of the day, low-quality statistics mean that all stakeholders face greater uncertainty about the fundamentals of Puerto Rico's economy, making it difficult to make informed policy and investment decisions, thereby generating less growth than potential.

III. Report of the Congressional Task Force on Economic Growth in Puerto Rico

The Puerto Rico Oversight, Management and Economic Stabilization Act (PROMESA) of 2016 established the Congressional Task Force on Economic Growth in Puerto Rico. In December 2016, the Task Force rendered its final report, which included a detailed analysis of the Federal Statistical Programs in which Puerto Rico is excluded.

We commend the Task Force for taking seriously the impact that Federal Statistical Programs can have on the way the Puerto Rico debate is shaped. We also believe that there are important steps that Congress can take to improve the quality and availability of the statistics prepared by the Federal Government with regards to Puerto Rico.

For instance, this year, with sufficient funding, Puerto Rico could have been included in the Census of Governments 2017. This important program of the U.S. Census Bureau gathers data on the structure, employees, and finances at all levels of government every 5 years, and is an essential source on comparable benchmark statistics for credit markets.

Puerto Rico last participated in the Census of Governments in 1982, which means Puerto Rico's creditors and related stakeholders lack key data that would allow them to compare the financial challenges faced by the Government of Puerto Rico vis-à-vis state and local governments across the United States.

In fact, in its final report, the Congressional Task Force on the Economic Growth in Puerto Rico recommended that:

“(T)he Census Bureau take all reasonable steps to include Puerto Rico in its federal statistical programs, including the quinquennial Census of Governments (and its associated annual and quarterly surveys and summaries regarding public employment and payroll, public pensions, state government tax collections, and state and local government finances); the Survey of Business Owners and Self-Employed Persons (SBO); the Building Permits Survey (BPS), which is currently published monthly for the states but only annually for Puerto Rico; and the Quarterly Workforce Indicators (QWI).”

However, despite these efforts last year, Puerto Rico was once again excluded from the Census of Governments, this time for the present year 2017, yet again leaving the investor community with

incomplete information about the risks and potential benefits associated with investing in Puerto Rico.

The Congressional Task Force on the Economic Growth in Puerto Rico also recommended the inclusion of Puerto Rico in numerous other surveys, such as the American Housing Survey (AHS), the Construction Progress Reporting Survey (CPRS), the Housing Vacancy Survey (HVS), the Manufactured Housing Survey (MHS), and the Value of Construction Put in Place Survey (VIP), amongst others. These surveys are essential to gaining a better understanding of how Puerto Rico's construction sector is contributing to economic growth, as well as informed economic policymaking. Just last year, the exclusion of Puerto Rico from the American Housing Survey meant federal policymakers could not estimate how many houses in Puerto Rico had air conditioning, which impaired their ability to determine where and how quickly the Zika virus would spread in Puerto Rico.

Puerto Rico is also excluded from statistical programs in a diverse set of other federal agencies, such as the National Center for Education Statistics, Bureau of Justice Statistics, Substance Abuse and Mental Health Services Administration, National Center for Health Statistics, and Energy Information Administration, amongst others. These programs provide essential data to understand the challenges faced by key sectors in Puerto Rico, including education, health, and energy. The Task Force also recommended actions geared towards including Puerto Rico in these programs.

In the case of the National Agricultural Statistical Service, Puerto Rico is included in only 1 of its over 50 surveys: the quinquennial Agricultural Census. As a result, Puerto Rico lacks reliable annual data on its agricultural sector. This is quite unfortunate as Puerto Rico's tropical climate is a relatively unique asset within the United States, which allows farming all-year round. In order to maximize the benefit obtained from this unique agricultural asset, farmers in Puerto Rico, just like their counterparts' stateside, need annual data on crop yields, organic agriculture, and dairy products, amongst many others.

In fact, given the current state of affairs, even if agriculture turned around and began boosting Puerto Rico's economic growth, it is very possible that such a transition would go largely unmeasured and unnoticed for 5 years until the next Agricultural Census, and it would take an additional 5 years to confirm the possibility of an upward trend.

Unfortunately, without action from the Federal Government, Puerto Rico's crisis of confidence will continue to generate a vicious cycle in which low-quality data and statistics lead local policymakers to invest even less resources in improving the data, which in and of itself also reduces the quality of the data.

In fact, despite calls from the Congressional Task Force on Economic Growth directed to the Government of Puerto Rico to consider appropriating a level of funding to PRIS that is commensurate with its important responsibilities, the budget that was recently approved by the Puerto Rico Fiscal Oversight and Management Board reduced funding for PRIS. In addition, budgets were cut for other important Puerto Rico entities that are responsible for producing key economic statistics for Puerto Rico.

IV. Fiscal Oversight and Management Board

Good governance requires a continuous flow of universally accessible data and information that can create a level-playing field where all stakeholders can negotiate on equal terms. Finding common ground is made more difficult when data about society's problems and potential solutions are made more difficult to obtain and use.

In fact, in Puerto Rico's case this problem is quite extreme. Not only do we lack transparent information to convince the citizenry of the need to accept reductions in government services, but we also lack credible information to convince our creditors of our own illiquid financial situation.

With this concern in mind, in October 2016, we wrote the Puerto Rico Fiscal Oversight and Management Board (Board) with several recommendations that can facilitate improvements to the quality of the financial reporting of the Government of Puerto Rico. Amongst others, we recommended that the Board:

- 1) Empower the Puerto Rico Institute of Statistics to serve as technical advisor for the analysis and processing of agency-reported data

Many of the public entities of the Government of Puerto Rico lack the technical human capital to analyze data and statistics in a way that is useful for informed decision-making. These entities require a technical advisor that can help turn their agency information into the data requested by the Board. PRIS stands ready to assist the Board in this effort. We believe that similar efforts, such as the StateStat program in Maryland, a state-level performance management system, can be implemented in Puerto Rico.

- 2) Require the use of a common chart of accounts by all entities of the Government of Puerto Rico

The Government of Puerto Rico has more than 100 component units, and a significant portion of these units are outside of the central government's accounting system. As a result, the financial information is contained in separate systems using separate charts of accounts. This complicates and delays the preparation of Puerto Rico's Annual Financial Statements.

While the Puerto Rico Treasury does use a common chart of accounts for all units within its accounting system, the Government of Puerto Rico has, as far we know, never required the remaining component units to use this common chart of accounts. So, one simple step that the Board can take is to take needed action where the Government of Puerto Rico has not: require the use of a common chart of accounts by all component units.

- 3) Require Puerto Rico public entities to join the Financial Transparency initiative of the PRIS

In order to improve the transparency of the finances of the Government of Puerto Rico, PRIS developed a Financial Transparency website where public entities can publish transaction-level data on their expenditures and incomes. We have invited all Puerto Rico public entities to make available their financial data through the Financial Transparency website at no cost. So far, only a

limited number of entities have joined. So, we take this opportunity to recommend Congress step in to compel the Government of Puerto Rico to make its financial reporting more transparent through PRIS's Financial Transparency initiative.

In fact, the Financial Transparency initiative of PRIS can also help the Puerto Rico Fiscal Oversight and Management Board be fully transparent about how it is using Puerto Rico taxpayers' money. A lack of financial transparency is at the heart of Puerto Rico's fiscal and economic crisis. In order to lead Puerto Rico out of its dire financial situation, the Board must lead by example and show that it is ready to operate under the highest standards of transparency and ethics.

To date, as far as we know, the Board has not taken any of these common sense steps to help solve the serious quality issues in Puerto Rico's financial reporting.

V. Conclusions

Puerto Rico's economy finds itself at a historic juncture. Puerto Rico can have a prosperous and productive economy with a business-friendly climate. But, all stakeholders have to put their part.

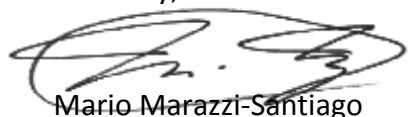
First and foremost, the Government of Puerto Rico has to do its part. This includes numerous technical objectives that need to be achieved so that Puerto Rico's economic statistics can re-establish their credibility in financial markets and so that they can be fruitfully used for economic policymaking.

As long as PRIS is allowed to function without being beholden to political or economic interests, we stand ready to assist the Government of Puerto Rico in achieving successful implementation of these objectives or to implement these objectives on our own. While the current state of affairs allows us to continue this important work, the truth is that PRIS continues to receive appropriations that are far less than needed to complete its mission in a timely fashion, and it continues to face challenges to its operation as a public entity that is independent from other political and economic interests.

At the same time, the Federal Government has to do its part, and Congress must lead the way. In fact, under the current arrangement, Congress has an essential role to play in determining the future of the economy of Puerto Rico. It would be a mistake to shirk this responsibility. We have mentioned several ways that the Federal Government can make a significant difference in the quality of the data and the statistics available for investing and for policymaking in Puerto Rico.

Thank you for the opportunity to share these thoughts with you. If you have any questions, please feel free to reach me by phone at (787) 209-0906 or by email at mario.marazzi@estadisticas.pr.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mario Marazzi-Santiago', written over a light blue horizontal line.