



Proposals to Assist Puerto Rico in Recovery and Rebuilding

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Policy Brief

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Introduction

Hurricane Maria struck Puerto Rico on September 20, 2017 as a Category 4 hurricane — the strongest storm to make landfall in the Commonwealth in 85 years. The immediate impacts were catastrophic. Storm surge rose across the island, flooding communities, destroying homes, and uprooting lives. Puerto Rico's already troubled power grid collapsed, and other critical infrastructure was severely damaged. Early estimates indicate dozens of lives were lost.

Puerto Ricans were left with no electricity, no telephone or internet service, and — in many areas — no potable water. These challenges have been compounded by a response from Washington that has been too slow and inadequate to meet the needs of the island. The fact remains that, three weeks after the storm first made landfall, our fellow Americans in Puerto Rico are still in dire need of assistance.

It is clear that, in the short term, the Federal government must continue its rescue and recovery operations. Congressional leaders, however, must also think about the long term and start developing innovative strategies to help rebuild Puerto Rico. This policy brief outlines six proposals that can help finance rebuilding efforts, ease pressures on the Commonwealth's budget, and provide resources for displaced Puerto Rican residents.

Federal Loan Guarantees for Public Sector Infrastructure Rebuilding

In addition to grant funding through FEMA and CDBG-Disaster Recovery (CDBG-DR) funds, Congress should consider providing federal loan guarantees for public sector infrastructure rebuilding in Puerto Rico. One of Puerto Rico's most urgent recovery needs is to restore the island's devastated infrastructure, including power, water, roads, and digital connectivity. Unfortunately, given the island's complex financial challenges, it is unlikely to be able to access the credit markets on its own. Federal loan guarantees could help address this challenge and ensure access to credit markets as Puerto Rico begins the arduous process of rebuilding. Insured entities could include the Puerto Rico Highways and Transportation Authority (PRHTA), the Puerto Rico Electric Power Authority (PREPA), and the Puerto Rico Aqueducts and Sewers Authority (PRASA). Because all of these issuers are currently in workout situations with existing bondholders, guarantees of new loans would have to be part of an overall financing plan.

Disaster Recovery Private Activity Bonds

To assist in Puerto Rico's longer-term economic recovery, Congress should consider enacting a private activity disaster recovery bonds program, similar to the Liberty Bonds program that was so successful in New York after September 11, and elsewhere following other disasters, including Hurricanes Katrina and Ike. The terrorist attack of September 11 resulted in the destruction of an estimated 13 million square feet of office, retail and residential space in Lower Manhattan. Like Puerto Rico today, existing financing vehicles for rebuilding were simply inadequate to the magnitude of the rebuilding task, with rebuilding estimates in Puerto Rico reaching as high as \$95 billion.

Congress responded by creating a new type of private activity bond, outside of the usual annual allocation, to help finance the reconstruction of commercial and residential property in the area. As with tax-exempt municipal bonds and private activity bonds, disaster recovery bonds are exempt from federal taxes on interest – including the Alternative Minimum Tax, in the case of 9/11 and Katrina. Typically, a somewhat broader set of uses is allowed than under private activity bond rules, and have included utilities, hospitals, hotels, housing, and commercial office buildings, among others. Liberty Bond proceeds were available for acquisition, construction, reconstruction, or renovation of nonresidential real property, residential rental housing, or public utility property. Recipient firms and organizations are entirely responsible for repayment.

These investments helped reverse a decline in residential and commercial occupancy in the impacted area, creating a thriving new community that is powering New York City's economy. A similar program could have the same kinds of long-term benefits for Puerto Rico.

Fair Access to Federal Funding

The federal government should also change longstanding policies that have restricted Puerto Ricans' access to vital safety net programs. These changes — which would provide both access to urgently needed social assistance and budgetary relief to the Puerto Rican government — could be implemented on a temporary basis to help respond to Hurricane Maria, but should ultimately be made permanent.

Medicaid. In the short run, to address Puerto Rico's urgent liquidity crisis, the federal government should assume full responsibility for Medicaid funding on the island by waiving the local matching requirement. Federal funding for Puerto Rico's Medicaid program is capped, resulting in a far lower effective federal matching share than would be the case if Puerto Rico were treated like a State. On a more permanent basis, increasing the federal match for Medicaid could provide much-needed budgetary relief to the government of Puerto Rico. While the Affordable Care Act (ACA) provided additional Medicaid funds for Puerto Rico, those funds are projected to run out in federal FY 2018, leaving a shortfall of roughly \$900 million in the island's Medicaid budget. Setting the federal share (FMAP) at 83%, what Puerto Rico would

likely be entitled to as a State, would eliminate the pending “cliff” and provide roughly \$400 million annually in budgetary relief to the Puerto Rican government.

With the island’s economy devastated, the need for additional financial assistance to households has become particularly acute. At least three other proven federal programs should be expanded to include residents of Puerto Rico now and in the future:

SNAP. Puerto Rico operates a separate nutrition assistance program (NAP) from the Supplemental Nutrition Assistance Program (SNAP) available to States. The program is funded through a block grant, rather than as an entitlement. Temporarily extending the SNAP program to Puerto Rico could help more families access necessary nutrition assistance. Currently, despite a 45% poverty rate, only about 26% of Puerto Rican residents benefit from NAP.

EITC. Most Puerto Ricans do not pay federal income tax and are unable to claim the refundable Earned Income Tax Credit (EITC), which helps lift millions of U.S. families out of poverty. Congress should authorize the IRS to allow residents of the island to apply for the EITC for tax years beginning with January 1, 2017.

Child Tax Credit. Under current law, only Puerto Rican households with three or more children whose federal payroll (Social Security and Medicare) taxes exceed the earned income credit are eligible for the Child Tax Credit of \$1,000 per child. This limitation should be removed so that Puerto Ricans with smaller families are eligible to receive the refundable credit.

Addressing the Needs of Displaced Puerto Ricans

In addition to the above, several program were put in place following Hurricane Katrina that ensured that states and localities that received displaced residents of New Orleans could adequately meet their needs. These, or similar programs, could be enacted or reauthorized to aid Puerto Ricans displaced by Hurricanes Irma and Maria.

Education Aid to Serve Displaced Students

Following Hurricane Katrina, Congress created the Temporary Emergency Impact Aid for Displaced Students program and appropriated \$880 million in three separate appropriations for school districts and private schools educating displaced students. Funds from this program could be used for a number of educational purposes, including teachers, teaching materials, portable classrooms, counseling, and transportation.

Education Aid to Serve Displaced Homeless Students

Congress also provided funding after Hurricane Katrina to support school districts serving homeless students displaced by the disaster. This aid took two forms:

- A \$5 million increase in funding for programs authorized by the McKinney-Vento Homeless Assistance Act, and
- A new \$15 million program called the Homeless Education Disaster Assistance program that provided funds to school districts which saw an increase in the number of homeless students due to hurricanes, floods, or other natural disasters, and for which the President declared a major disaster under Title IV of the Stafford Act. Funding was distributed through McKinney-Vento Act programs.

Higher Education Aid to Serve Displaced Students

Congress provided significant funds to support institutions of higher education in the region impacted by Hurricane Katrina. In addition, money was appropriated to help colleges/universities outside the immediate disaster area with the enrollment of displaced students. New York, among other states, received a portion of these funds.