

Puerto Rico Hill Update – Humanitarian Crisis

April 19, 2016

Puerto Rico is in crisis

It has begun defaulting on its debt, and no longer has access to credit markets. Large upcoming debt payments on May 1st threaten to worsen the crisis. Health, education, and public safety services have been curtailed because the government cannot pay all of its bills. Hospitals are closing floors and people and businesses are leaving the Island. Congress must take action to assist the 3.5 million Americans living in Puerto Rico.

The Necessary Tools to Address the Crisis

The Administration has put forward a [comprehensive proposal](#) to help solve Puerto Rico's financial problems. The proposal includes a debt restructuring mechanism paired with fiscal oversight, healthcare transformation, and tax incentives to reward work and encourage economic growth. While we believe all elements of our plan are essential to Puerto Rico's recovery and long-term growth, legislation is most urgently needed to provide a workable comprehensive restructuring authority and appropriate oversight. This combination has proven effective in responding to past financial crises, costs taxpayers nothing, and is a prerequisite to put Puerto Rico on a sustainable path forward.

Today's Update: Humanitarian Consequences of Puerto Rico's Financial Distress

As Puerto Rico's crisis has deepened with each passing day, the burdens imposed on its residents continue to grow. Budget cuts have substantially reduced education, healthcare, and social services. Puerto Rico has closed over 150 schools, and its largest university, subject to recent cuts, has reduced services. Several hospitals have been forced to lay off workers, shut down floors, and some even closed temporarily to conserve cash. Suppliers, who now have to wait four months to get paid on average, have threatened the shutdown of key services such as gasoline for police and fire safety workers.

This deterioration in the provision of services is particularly concerning given the Zika virus outbreak in Puerto Rico; the [Center for Disease Control](#) (CDC) estimates that a quarter of the island's population will be infected with Zika by the end of the year. Despite this imminent threat, financial constraints have complicated the timely and comprehensive response required; septic tanks in schools where mosquito larvae breed, for example, are overflowing because the government does not have enough money to pay contractors to empty them.

Given the liquidity crunch and urgency to respond, the legislature passed the [Emergency Moratorium Act and Financial Rehabilitation of Puerto Rico Act](#), which authorized the Governor to invoke an emergency period to preserve the provision of essential services by key government entities to declare a temporary moratorium on debt service through January 31, 2017.

On April 8, the Governor issued an [Executive Order](#) declaring a state of emergency for the Government Development Bank (GDB), Puerto Rico's central bank that prioritizes payments for essential services for the residents of Puerto Rico and to stabilize the economy.

In Depth Discussion of Humanitarian Consequences of Puerto Rico's Financial Distress

The Department of the Treasury and the National Economic Council have compiled the following list of humanitarian consequences from public data and local press reports in recent months.

Austerity Measures

- Budget cuts have substantially reduced education, healthcare, and social services. Government employment is [down 27 percent](#) since 2008.
- Disbursements to municipalities and public corporations from the Government Development Bank are limited to [\\$10 million per week](#). After hitting the weekly ceiling, only outflows related to essential services are permitted.
- Repeated revenue shortfalls caused Puerto Rico to reduce this year's General Fund budget by [\\$508 million](#). General Fund expenses, excluding debt service, are now at their lowest level since 2004.
- Taxes and fees have also increased significantly, including an increase in the sales tax to [11.5 percent](#), the highest in the country, a [65 percent](#) increase in water rates and a [quintupling](#) of a local tax on petroleum.
- The budget cuts this year include a [\\$6.8 million](#) reduction to the Comprehensive Cancer Center and a [\\$7.7 million](#) cut to the Administration for Families and Children, which oversees the Island's foster care system, juvenile detention centers, and nursing homes.
- Puerto Rico Legal Services, which helps defend the poor against evictions, custody disputes, and other civil matters, was forced to lay off [56 of its 288](#) employees in response to the budget cuts.
- Public pensions, with over 330,000 members and which provides the primary income for over 150,000 retirees, have been grossly [underfunded](#) by the government, and, as a result, are expected to run out of cash within the next three years.
- Puerto Rico's State Insurance Fund, with roughly 50,000 members, is at risk of [insolvency](#) due to loans made to the central government and public agencies that have yet to be repaid.

Education

- Puerto Rico has [closed 150 schools](#), and anticipates this number will grow to nearly 600 over the next five years, closing [almost half of the Island's public schools](#). Currently, there are [1,387 schools](#).
- Disabled students were unable to get to school for a period of time because the bus company [stopped providing transportation](#) to them as a result of not having been paid.
- Students of the largest university system in the Island conducted a strike on March 18 that led the Treasury Department to [close its daily operations](#).
- In mid-March, the Department of Education issued [\\$2.5 million](#) of payments to school transporters in order to prevent thousands of students to stay without transportation. Some school bus companies have stopped [providing services](#) until they are paid for invoices due.

Hospitals and Healthcare

- Puerto Rico's financial challenges are causing hospitals to suffer as well. The Iglesia Episcopal hospital's liquidity is dangerously low with [less than 12 days](#) of cash on hand.

- HIMA San Pablo Hospitals will [lay off 470 employees](#), or 9 percent of its 5,300 employees as a result of the government debt and the island's outmigration.
- Electricity at the Santa Rosa Hospital [was temporarily suspended](#) on March 10, because it could not pay its utility bill.
- San Jorge Children's Hospital, Puerto Rico's largest children's hospital, has been forced to [close two wings and 40 rooms](#), reduce hours and cut pay for all employees and cannot fund [70 vacant nursing positions](#).
- The Forensic Psychiatric Hospital has lost more than [half its staff](#).
- Although there are more than [325 confirmed cases](#) of the Zika virus in Puerto Rico, and up to 20 percent of the population could become infected, there is only limited funding available to fight the growing epidemic.
- In a press call held on March 16, the Governor expressed concern over controlling the spread of the Zika virus due to financial constraints. Septic tanks in schools, for example, where mosquito larvae breed, [are overflowing](#) because the government does not have enough money to pay contractors to empty them. Puerto Rico has 500,000 septic tanks, each of which can produce up to [1,500 mosquitoes](#).
- A health insurance provider is [close to being liquidated](#) by its local regulator.

Suppliers & Essential Services

- Suppliers to the government are collectively owed more than [\\$2 billion](#).
- Since it now takes [four months](#) to get paid, suppliers are threatening to stop providing services. For instance, the supplier of gasoline for ambulances, police cars, and fire engines nearly [cut off fuel supplies](#).
- Also, the prison food supply for approximately [12,500 inmates](#) in Puerto Rico's 37 prisons was nearly interrupted after the vendor almost stopped providing food because the company was [owed more than \\$12 million](#).
- The local water authority has halted its capital improvement program because it owes more than [\\$150 million](#) to suppliers.
- The University of Puerto Rico has [\\$171 million in uncollected debt](#), including \$42 million owed by public corporations and another \$25 million owed by public agencies.

Housing

- There are only approximately 6,000 new homes are being constructed each year, [down from 16,000](#) before Puerto Rico's recession.

- The massive outmigration to the U.S. mainland that Puerto Rico also has caused people to abandon their homes; [22% of the housing units on the island are vacant](#).
- House prices also [continue to slide](#), declining by almost 20 percent since the peak during the housing boom.
- Foreclosures remain among the highest in the country, with [6.5 percent](#) of mortgage loans somewhere in the foreclosure process. This compares with only 2 percent nationally.
- There are also [20,150 properties in foreclosure](#), the highest in at least six years. [4,123 homes](#) were foreclosed on in 2015, just 80 homes less than the record of 4,207 homes foreclosed on in 2013.
- Every day, on average, [12](#) Puerto Rican families lose their homes.
- The delinquency rate on mortgage payments in Puerto Rico is [14.25 percent](#), versus 6.0 percent in the mainland.

Economy

- Puerto Rico has lost more than [10 percent](#) of its population in the past decade, and more than [2.5 percent](#) of the population, 85,000 people, left in 2015. The population is now at the same level it was in 1990. Since World War II, no U.S. state has experienced a [10-year decline](#) this large.
- A recent NPR report tallied the figure for doctors leaving the island [at one a day](#). The average waiting period to see an adult rheumatologist in Puerto Rico can be anywhere from [four to five months](#).
- The people leaving are [young, working age](#) Puerto Ricans who move with their children in search of opportunity. More than [77 percent](#) of the people leaving are under the age of 45 and most of the rest are under 65.
- Seniors – those ages 60 and over – already represent more than [23 percent](#) of the population, one of the highest ratios in the country, and the number of children under five has decreased [37 percent](#) since 2000.
- At [\\$19,000](#), median annual household income in Puerto Rico is approximately one-third the U.S. median. In fact, [45 percent](#) of the population, including [57 percent](#) of children, [70 percent](#) of single mothers, and [39 percent](#) of seniors, live in poverty.
- The unemployment rate is [11.7 percent](#), double the national average. This is despite the fact more than [300,000 people](#) left the Island's labor force in the past decade.
- According to the Bureau of Labor Statistics, in the economy of Puerto Rico lost an average of 26,350 jobs in 2014 and 2015. The fall has been such that in 2015, the average total employment in Puerto Rico was around 899,958, the [lowest number in 11 years](#).
- According to Puerto Rico's Economic Activity Index ([EAI](#)), Puerto Rico's economy contracted by 1.6% on a year-over-year basis in February. Additionally, the index was [revised down](#) for fiscal year 2016 to a 1.2% monthly decline from a 0.1% monthly increase on average.