

**FOR THE RECORD**



September 25, 2015

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New York City Council  
Committee on State and Federal Legislation  
City Hall  
New York, New York

Re: Endorsement of NYC Council Proposed Resolutions

Dear Chairman:

The Puerto Rican Bar Association endorses and fully supports the proposed Resolutions of the New York City Council Committee on State and Federal Legislation calling upon the United States Congress to pass and the President to sign legislation as follows:

1. Allowing an economic hardship exemption for Puerto Rico from the Merchant Marine Act of 1920, commonly known as the "Jones Act".
2. Resolution No. 767 – Resolution calling upon the United States Congress to pass and the President to sign H.R. 870, also known as the Puerto Rico Chapter 9 Uniformity Act of 2015.
3. Resolution No. 818 – Resolution calling upon the United States Congress to pass and the President to sign the Improving the Treatment of the U.S. Territories Under Federal Health Programs Act of 2015 (H.R. 2635) which would make improvements to the treatment of the United States territories under the Medicare and Medicaid Programs.

Respectfully submitted,

  
Betty Lugo  
President

BL/ts



## *The Need for Federal Action to Address Puerto Rico's Fiscal, Debt and Economic Crisis*

September 25, 2015

Testimony before the New York City Council  
Committee on State and Federal Legislation  
by James A. Parrott, Ph.D., Deputy Director and Chief Economist  
**Fiscal Policy Institute**

Madame Chair and Members of the Committee on State and Federal Legislation, thank you for the opportunity to testify today. My name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI), a nonpartisan nonprofit education and research organization focused on New York economic and fiscal policy issues.

### **The broad crisis and the need for a comprehensive strategy**

The immediate crisis is that the Commonwealth of Puerto Rico cannot pay interest on its \$72 billion in combined outstanding debt, which has grown more than twice as fast as the island's GNP over the past 15 years. Its debt was downgraded in early 2014 to below investment grade, the Government Development Bank (GDB) last borrowed at rates in the mid-teens, and its recent failure to make debt payments has virtually closed off credit market access. But the debt crisis is inseparable from a broader fiscal and economic crisis.

Among others, the June report from former IMF economist Anne Krueger and colleagues describes the inter-related dimensions of the crisis and notes that “the debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability.”<sup>1</sup> The latest fiscal report from the Center for a New Economy (CNE) highlights the imperative for not only a credible fiscal adjustment plan but also the comprehensive restructuring of the three insolvent infrastructure public authorities<sup>2</sup> (including their debt), and the recapitalization of the Government Development Bank (GDB, the government's fiscal agent).<sup>3</sup>

As the CNE puts it: even were Puerto Rico to achieve sustainable budget stability (i.e., no operating deficits in the general fund or authority budgets), it cannot service its debt without robust economic growth that CNE pegs at 6.8% annually. Growth of that magnitude is a far cry from the average 1% nominal GNP growth of the past 3 years. In this context, it would be “rational” for Puerto Rico's debtors to accept a debt write-down because that will increase the

<sup>1</sup> Anne O. Krueger, Ranjit Teja, and Andrew Wolfe, *Puerto Rico—A Way forward*, June 29, 2015, p. 1.

<sup>2</sup> Puerto Rico Electric Power Authority (PREPA), Puerto Rico Aqueduct and Sewer Authority (PRASA), and Puerto Rico Highways and Transportation Authority (PRHTA).

<sup>3</sup> Sergio M. Marxuach, *Analysis of the Governor's Budget Request for Fiscal Year 2016*, Center for a New Economy, June 2015, pp. 33-34.

likelihood of the investment and economic growth needed to come close to servicing the adjusted debt.

To return economic growth to the 5-7% range last achieved in the early 2000s, a new mix of economic and labor market policies is needed, along with restructuring and revitalizing key economic sectors, including electric generation, transportation, agriculture, health care, tourism and higher education. As the unsustainability of the debt became apparent in recent years, Puerto Rico has adopted dramatic fiscal and other changes including steep budget cuts and major tax reforms, and yet shrinking the structural budget deficit is not sufficient. Broad economic reforms are also essential. Budget austerity, the elimination of the Work Tax Credit and increased consumption taxation without a mechanism to lessen the burden on low-income communities are extracting a heavy toll from those least able to bear it, and will make sustained economic growth harder to achieve.

### **Puerto Rico's political status and the political-economic context**

Puerto Rico's unique political status vis-à-vis the Federal government compounds its challenges in addressing the crisis. Puerto Rico is denied voting representation in either house of Congress even though more U.S. citizens (3.5 million) reside there than in two-fifths (21) of the states. Puerto Rico does not have an autonomous currency,<sup>4</sup> nor access to international financial authorities such as the IMF that could provide emergency lending assistance.<sup>5</sup> Puerto Ricans have uneven access to federal programs. They are covered by Social Security, Medicare, and Federal food stamps, and while Puerto Rico does participate in Medicaid, it receives a much lower Federal match than its relatively low per capita income would otherwise entitle it to if it were a state. While Puerto Ricans pay payroll taxes, most do not pay Federal income taxes.

One of the biggest obstacles at present is that Federal law does not authorize the Puerto Rican government to allow its distressed public authorities to file bankruptcy under Chapter 9 of the U.S. Bankruptcy Code, authority that would give Puerto Rico access to a well-structured process under Federal court supervision to re-negotiate certain categories of its debt.<sup>6</sup>

Without, in Nobel economist Joseph Stiglitz's words, the "privileges of a state or the powers of a sovereign," Puerto Rico leads a quasi-colonial existence too often treated mainly as an offshore tax haven by the United States.<sup>7</sup> Washington bears considerable responsibility for the economic decline that figures so prominently in Puerto Rico's current crisis. The passage of NAFTA in 1993 and the 1996 repeal of the federal possessions tax credit (with a 10-year phase-out) that was claimed by many of the U.S. corporations dominating Puerto Rican's manufacturing sector into the late 1990s resulted in a significant decline in manufacturing activity on the island.<sup>8</sup> Between

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<sup>4</sup> For independent countries not part of currency unions such as the Euro, debt crises typically are addressed through currency devaluation.

<sup>5</sup> Joseph E. Stiglitz and Mark Medish, "What the United States Owes Puerto Rico," *Wall Street Journal*, August 14, 2015. IMF involvement could provide emergency lending that could facilitate some form of debt restructuring.

<sup>6</sup> Center for a New Economy, *Chapter 9 for Puerto Rico: Necessary but not Sufficient*, July 29, 2015.

<sup>7</sup> Stiglitz and Medish.

<sup>8</sup> U.S. Government Accountability Office, *Fiscal Relations with the Federal Government and Economic Trends during the Phase out of the Possessions Tax Credit*, May 2006. See, also, Juan Gonzalez, "Puerto Rico's economic 'death spiral' can be helped if Washington allows the island to declare bankruptcy," *The New York Daily News*, August 4, 2015.

1996 and 2014, manufacturing employment dropped by nearly half.<sup>9</sup> Washington has failed to work with Puerto Rico to craft a viable alternative economic strategy in the wake of NAFTA and the possessions tax credit repeal.

Over the past decade, the size of Puerto Rico's economy has declined by roughly 20 percent, and the accelerating out-migration of Puerto Ricans to the mainland has reduced the island's total population by nearly 7 percent.<sup>10</sup>

### **Addressing the fiscal-debt-economic crisis**

The fiscal-debt-economic crisis facing Puerto Rico is monumental and a path forward requires far-reaching actions on many fronts. Debt restructuring and relief is in the interests of bondholders as much as those living on the island. No level of debt is sustainable without economic growth, and economic growth is unlikely as long as the debt is unsustainable. But there is little chance for such debt restructuring without comprehensive and difficult fiscal and economic changes. A far-reaching and credible fiscal plan with convincing expenditure, revenue and budget management changes is essential. Severe fiscal austerity, however, will impede any economic rebound.

There is merit in the suggestion for an independent fiscal oversight board to advise on the budget and oversee its implementation as one component of a comprehensive strategy. A state-authorized financial control board that brought together the major elected leaders and private sector representation played a key role in New York City's recovery from its mid-1970s fiscal crisis by establishing a structure for budget discipline and transparency that provided some measure of reassurance to bondholders and credit rating agencies without usurping accountability to the electorate. It is essential that any such independent financial board include representation from low- and moderate-income Puerto Ricans.

Puerto Rico's tax structure, riddled as it is with a large number of individual and business tax breaks, is in need of a complete overhaul. KPMG concluded its in-depth examination of the island's tax system by calling for aggressive measures to curb a deep-seated culture of tax evasion.<sup>11</sup>

The Federal government needs to take several urgent steps to redress the third-class treatment of the health care needs of the 60 percent of the island's population that depends on Medicare or Medicaid. Puerto Rico's Medicare reimbursement rates are 40 percent lower compared to the mainland and the Medicaid program receives 70 percent less than any state and is capped. Further drastic cuts in Medicare and Medicaid payments, including for the Medicare Advantage program are scheduled for 2016. Without Federal changes, the viability of Puerto Rico's vital health care system is in jeopardy. The health care sector accounts for about a fifth of the island's

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<sup>9</sup> James Surowiecki, "The Puerto Rican Problem," *The New Yorker*, April 6, 2015.

<sup>10</sup> *Puerto Rico Fiscal and Economic Growth Plan*, Prepared by the Working Group for the fiscal and Economic Recovery of Puerto Rico Pursuant to Executive Order 2015-022, September 9, 2015, pp. 8-9. According to the 2014 American Community Survey, Puerto Rico's total population fell by 67,000 in 2014.

<sup>11</sup> KPMG, Commonwealth of Puerto Rico Tax Reform Assessment Project, *Unified Tax Code of Puerto Rico: Tax Policy Implementation Options Executive Summary*, October 31, 2014.

economy, and it has already suffered a substantial exodus of doctors to the mainland in recent years.<sup>12</sup>

### **New York City Council Resolutions Urging Federal Action**

The three resolutions<sup>13</sup> before this Committee speak to essential actions needed by the U.S. Congress and the President. The resolutions address the need to extend to Puerto Rico the authority to use bankruptcy as a vehicle to orderly restructure the debt of its major authorities, to improve Puerto Rico's treatment under the Medicare and Medicaid programs, and to exempt the island from the Merchant Marine Act of 1920 (aka the "Jones Act") that significantly increases shipping costs to and from the island and that has hampered Puerto Rico's economic performance.

I support these resolutions and applaud the Council for raising these important issues that bear so heavily on Puerto Rico's economic and political viability.

Thank you for the opportunity to testify today.

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<sup>12</sup> Lizette Alvarez and Abby Goodnough, "Puerto Ricans Brace for Crisis in Health Care," *The New York Times*, August 2, 2015; Puerto Rico Healthcare Crisis Coalition, "The Issue," <http://puertoricohealthcarecrisis.com/the-issue/>

<sup>13</sup> New York City Council *Res. No. 767*, Resolution calling upon the United States Congress to pass and the President to sign H.R. 870, also known as, the Puerto Rico Chapter 9 Uniformity Act of 2015; *Res. No. 818*, Resolution calling upon the United States Congress to pass and the President to sign the Improving the Treatment of the U.S. Territories under Federal Health Programs Act of 2015 (H.R. 2635), which would make improvements to the treatment of the United States territories under the Medicare and Medicaid programs; and *Res. No. 836*, Resolution calling upon the United States Congress to pass and the President to sign legislation allowing an economic hardship exemption for Puerto Rico from the Merchant Marine Act of 1920, commonly known as the Jones Act."

# 1199SEIU

United Healthcare Workers East

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## TESTIMONY BEFORE THE NEW YORK CITY COUNCIL COMMITTEE ON STATE AND FEDERAL LEGISLATION SEPTEMBER 25, 2015

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CHIEF FINANCIAL OFFICER &  
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Thank you for this opportunity to testify on Puerto Rico's economic crisis and its impact on the healthcare system. Puerto Rico has a population of over 3.6 million people, 25% of whom live in *extreme poverty*. 60% rely on Medicaid, Medicare, or the "Mi Salud" program for medical coverage.

The reimbursement rates for medical doctors have caused an exodus of healthcare professionals, leaving behind severe staffing shortages in medical fields that will be felt for generations. The situation is so dire, that someone requiring *emergency* heart surgery can wait for over two weeks before a hospital admission is possible.

The so-called "Medicaid Cliff" is looming. We must come together – leaders here in New York working with leaders in Puerto Rico – to find long term solutions. Hundreds of thousands of lives depend on it. We cannot afford to wait until the health care industry collapses before we act.

We support Resolution No. 818 calling for enactment of important legislation that will bring parity in federal funding to US territories that mirror the formula applied to states. We also agree that Resolutions No. 767 and 836, supporting the Chapter 9 Uniformity Act and amending the Jones Act, will provide relief. However, we need to also discuss a program simply referred to as "936."

IRS Code Section 936 provided federal income tax exemptions to U.S. companies on income they earned in Puerto Rico. A multitude of corporations moved to and created jobs in Puerto Rico until 936 was abolished in the mid-1990s. At the time, many argued against the plan, and its critics predicted today's economic downturn, to no avail.

Without 936, most corporations either shut down or downsized their operations. Oil refineries that sustained municipal economies are now abandoned eliminating thousands of jobs, while the price of imported gasoline hovers at \$3.50 per gallon. Industrial parks stand deserted as the loss of tax breaks forced factories to close, taking 165,000 jobs with them. The resulting housing foreclosures devastated the real estate market, leaving ghost towns in once

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thriving municipalities. The lack of economic vitality outside of San Juan's Metropolitan Area, is shocking.

With the loss of jobs over the past 20 years, the widespread foreclosures, and the resulting decline in population, we know that recovery will take time. We believe that by reinstating 936, quality jobs will again be created, reversing the decline in population and improving the tax revenue base for the island. Job creation is of the utmost importance to reverse the current situation.

Thank you again for this opportunity. We look forward to working with the City Council and with our brothers and sisters here and in Puerto Rico toward finding viable solutions to the economic crisis.

1199 represents 400,000 healthcare workers in New York as well as New Jersey, Massachusetts, Maryland, Washington, DC, and Florida.

**Testimony Before the New York City Council  
Committee on State and Federal Legislation Hearing  
September 25, 2015**

Good Afternoon. My name is Jose Davila and I am the Vice President for Policy and Government Relations for the Hispanic Federation. I would like to thank Council Speaker Melissa Mark-Viverito, Chairperson Koslowitz and members of the State and Federal Legislation Committee for the opportunity to testify today on behalf of our network of 100 community-based organizations and a broad coalition of institutional partners who favor the passage of the following resolutions:

- Resolution calling upon the United States Congress to pass and the President to sign legislation allowing an economic hardship exemption for Puerto Rico from the Merchant Marine Act of 1920, commonly known as the "Jones Act."
- Res. No. 767 - Resolution calling upon the United States Congress to pass and the President to sign H.R. 870, also known as, the Puerto Rico Chapter 9 Uniformity Act of 2015.
- Res. No. 818 - Resolution calling upon the United States Congress to pass and the President to sign the Improving the Treatment of the U.S. Territories Under Federal Health Programs Act of 2015 (H.R. 2635), which would make improvements to the treatment of the United States territories under the Medicare and Medicaid programs.

Hispanic Federation is the nation's premier Latino membership organization with a mission to advance and empower the Hispanic community locally and nationally. For over 25 years, Hispanic Federation has provided critical nonprofit capacity-building grants, launched innovative community programs and led public advocacy efforts in the areas of education, health, immigration, economic empowerment, civic engagement, civil rights and the environment.

Recently, Hispanic Federation has been helping to lead efforts to support Puerto Rico and its 3.5 million U.S. citizens, along with an extensive coalition of Latino, labor, environmental, health and economic justice advocates from across the nation. With our partners, we have organized press conferences in several cities from Hartford to Orlando – and of course here in New York City – and we are currently working to get 100,000 signatures on a White House petition calling for the President to respond to the crisis and organizing a congressional briefing to inform our nation's leaders about the situation on the island. We strongly believe the federal government bears a social, moral and economic responsibility to directly address the Puerto Rican debt crisis, which is why we wholeheartedly support the City Council Resolutions being debated today. We will also be releasing a policy brief next week that will lay out specific actions the federal government must take to support the island through this fiscal crisis.

As Puerto Rico continues to endure a growing economic crisis that includes a \$72 billion debt, major unemployment and population drain, Puerto Ricans and Latinos on the mainland are growing impatient with Washington as leaders have failed to step up to assist millions of American citizens living on the island. New York is home to over 1 million Puerto Ricans and 3.5 million





Latinos, many of whom are also watching closely to see how government leaders respond to the growing economic crisis on the island. Puerto Rico should not have to stand alone in solving this crisis. We are grateful that this body and its many progressive leaders recognize this fact and are urging federal action that will ensure economic justice for the people of Puerto Rico.

The resolutions presented by our city representatives are aligned with our recommendations to President Obama and Congress. The Jones Act unfairly increases the prices of imports and exports to and from Puerto Rico. The President should grant a temporary waiver and Congress should pass legislation that amends these costly shipping mandates. Resolution No. 767 addresses the Puerto Rico Chapter 9 Uniformity Act of 2015, which would grant Puerto Rico the right to declare Chapter 9 bankruptcy or another orderly and fair alternative in order to renegotiate the debt and establish a fair repayment plan. Resolution No. 818 supports H.R. 2635, which would bolster Puerto Rico's health care safety net by eliminating the annual Medicaid/Mi Salud funding cap on Puerto Rico in favor of funding based on FMAP per-capita income. Congress should include all U.S. territories in this legislation.

Thank you for your time and attention to these important issues. It is our hope that passing these resolutions will put additional public pressure on the Congress and the President to pass legislation that protects, supports and helps uplift Puerto Rico now and well into the future.



## New York City Council's Resolutions on Puerto Rico

September 25, 2015

**HUNTER**

My name is Edwin Melendez, I am the Director of the Center for Puerto Rican Studies (Centro) and a Professor of Urban Affairs and Planning at Hunter College, the City University of New York. Centro is a research center devoted to the study of the Puerto Rican community in the U.S. Our famed library and archives is the only repository in America that holds works dedicated solely to the Puerto Rican experience, including the largest collection of books, personal and government papers, graphics, special collections, documents, oral histories and ephemera.

Puerto Rico is in a prolonged recession that has resulted in massive migration to the U.S. and declining population in the island as well as crushing debt obligations. These factors in turn have resulted in a sizeable decline in tax revenues and wide-ranging austerity measures. Currently, the unemployment rate in Puerto Rico remains at over 11%, and the poverty rate at about 45%; both indicators are substantially higher than any state.

Any understanding of the structural factors contributing to the current economic crisis in Puerto Rico must fully consider its territorial status. The Commonwealth government lacks authority to regulate important economic areas as an independent nation would, such as manipulation of its currency to satisfy debt obligations or the transport of products to its ports. Though clearly decades of over-borrowing, mismanagement of government resources and other local contributors to the economic crisis need to be considered as part of any comprehensive analysis, it is also evident that Congressional and Presidential action is required to overcome the economic crisis in Puerto Rico.

The motivation for the New York City Council hearings today is clear: "Puerto Rico's financial plight is also distressing to the many New York City residents who have called the island their home, or have family and friends who live there." The economic and fiscal crisis in Puerto Rico directly affects more than 700,000 New Yorkers.

The New York City Council Resolutions under consideration support legislation introduced in Congress, petitions to the President and Treasury Secretary, and other initiatives undertaken by the Commonwealth.

New York City Council Resolution No. 767 calls upon the United States Congress to pass and the President to sign legislation extending federal bankruptcy law to Puerto Rico is an important and timely

resolution. Puerto Rico's territory status places all responsibility in establishing an orderly legal process for the restructuring of the debt on the U.S. authorities. An orderly bilateral resolution of the crisis between debtors and creditors is unlikely and will only come at an unacceptably high human costs. Resolution No. 767 establishes that all New Yorkers recognize the gravity of the situation, the threat to the lives and welfare of millions of Puerto Ricans, and support an urgent call for action from the American people.

City Council Resolution No. 818 calls upon the United States Congress to pass and the President to sign legislation improving the treatment of the United States territories under the Medicare and Medicaid programs. The proposed bill H. R. 2635 would treat territories as any other state removing the 50 percent cap for Medicaid reimbursements. American citizens paying similar Medicaid and Medicare taxes as other Americans should not be treated differently because they are residents in a U.S. territory. Other than Congressional and Presidential action, there are not too many options to prevent the expected collapse of the health system in Puerto Rico. Resolution No. 818 establishes that all New Yorkers recognize the gravity of the situation and the threat of the Medicare "cliff" to the lives and welfare of millions of Puerto Ricans, and supports an urgent call for action from the American people.

City Council Resolution No. 0836 calling upon the United States Congress to pass and the President to sign legislation allowing an economic hardship exemption for Puerto Rico from the Merchant Marine Act of 1920, commonly known as the "Jones Act." The proposed bill H.R. 2838 of 2013 would allow vessels built outside of the United States to transport energy supplies, among other bulk cargo, between ports in Puerto Rico and other ports in the U.S. Resolution No. xxx establishes that all New Yorkers recognize the gravity of the situation and that the increase in qualified cargo vessels would lower energy costs and support the economic recovery of Puerto Rico, and supports an urgent call for action from the American people.

The U.S Congress and the President are key actors in addressing and mitigating the plight of 3.5 million Puerto Rican citizens. Puerto Rico should be extended the legal mechanism to repay its debt while ensuring the implementation of an emergency program to end a decade long recession. Residents in Puerto Rico pay the same Medicare taxes as all other Americans, they should enjoy the same benefits from the program as other Americans do. Finally, Puerto Rico should receive an economic hardship exemption to transport oil and natural gas from U.S. ports in vessels built outside of the United States to lower energy costs and support economic recovery.

I congratulate the City Council of New York for advancing these three resolutions that establish that all New Yorkers recognize the gravity of Puerto Rico's situation and the urgent need to call for Congressional and Presidential action to support the economic recovery of Puerto Rico and to support an urgent call for action from the all the Puerto Rican community in the United States and all the American people.

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. 818 Res. No. \_\_\_\_\_

in favor  in opposition

Date: \_\_\_\_\_

(PLEASE PRINT)

Name: Lillie Carino

Address: \_\_\_\_\_

I represent: 1199 SEIU

Address: 310 W 43 St

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: 9/25/14

(PLEASE PRINT)

Name: José Davila

Address: 55 Exchange Place NY, NY 10005

I represent: Hispanic Federation

Address: (same)

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THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: \_\_\_\_\_

(PLEASE PRINT)

Name: Edwin Melendez

Address: edwinjmv@gmail.com

I represent: \_\_\_\_\_

Address: \_\_\_\_\_

Please complete this card and return to the Sergeant-at-Arms

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THE CITY OF NEW YORK**

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I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: \_\_\_\_\_

(PLEASE PRINT)

Name: JAMES PARROTT

Address: 11 Park Place

I represent: Fiscal Policy Institute

Address: \_\_\_\_\_

**THE COUNCIL  
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Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: \_\_\_\_\_

(PLEASE PRINT)

Name: Diana Ayala

Address: 250 Broadway

I represent: Speaker Melissa M. K-Viverto

Address: 250 Broadway

**THE COUNCIL  
THE CITY OF NEW YORK**

Appearance Card

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

in favor  in opposition

Date: \_\_\_\_\_

(PLEASE PRINT)

Name: MELVILLE SIMON

Address: 626 CLEVELAND ST.

I represent: \_\_\_\_\_

Address: \_\_\_\_\_

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