



Think Strategically: Governor Rosselló's Performance After 20 months

By Francisco Rodriguez-Castro November 4, 2018

President & CEO of Birling Capital Advisors LLC

www.birlingcapital.com

Measuring Government with Unbiased Benchmarks

As all financial firms we use mathematical, financial and economic metrics to measure performance, and on that note, this issue of Think Strategically is dedicated to evaluating how the Puerto Rico economy has performed after 20 months under Governor Rosselló. It is important to note that measuring a successful governorship, takes much more than these metrics but they do allow us to measure the overall direction of our economic well-being.

No one can dispute that Governor Ricardo Rosselló inherited a Puerto Rico that is bankrupt, with a Financial Oversight and Management Board to deal with, and an economy in retraction and without access to Capital Markets. We have developed this measurement scorecard as an aide for achieving success and to helping to recognize it.

On Governor Rosselló's Inauguration Day on January 2, 2017, he inherited the following Puerto Rico benchmarks, and after 20 months these are the results:

Benchmarks for Puerto Rico			
	Oct-18	Jan-17	Change
Price Per Liter Regular Gasoline	\$0.76	\$0.65	17.10%
PR Stock Index	2,420	2,552	-5.17%
Unemployment	8.40%	11.70%	-28.21%
Average GNP Growth Rate in office	-1.27%	-2.20%	73.23%
Labor-force participation rate	40.60%	40.50%	0.25%
Home ownership rate	62.90%	62.90%	0.00%
Median household income	\$20,078	\$18,826	6.65%
National debt	\$69 Billion +	\$69 Billion+	Unchanged
Credit Ratings	D	D	Unchanged
Access to markets	No access	No Access	Unchanged

Even with all the Headwinds improvements are Present

We see improvements in unemployment with a decrease of 24.7% over the past 20 months. Also, our labor participation rate increased almost 0.25% during the same period, it's worth mentioning the by October 2017 it had stood at 38.5% due to the impact of Maria. The median household income was also impacted with an increase of 2.87%, and concerning GNP growth the results for fiscal 2018, positive or near zero growth, reflect much better performance than the previously projected -13.0%.

The aftermath of Hurricane Maria has elevated the fragility of most essential services to new levels. During the crisis, the Governor has been able to attract to the island the President, Vice-President, Speaker of the House and hundreds of Congressmen, Senators and even some Governors such as NY's Governor Cuomo and FL's Governor Scott, who have become essential allies for Puerto Rico. There is no doubt that Maria was the most devastating hurricane in Puerto Rico's modern history, as evidenced with 2,975 deaths caused, in many ways, by the event. After analyzing pre-Maria and post-Maria trends as well as preliminary damage and economic impact estimates it appears that the economic impact of hurricane Maria was initially overstated, and the following aid package reflect this stance.

Even as disruptive as the aftermath of Maria was, both in the **U.S. and Puerto Rico has seen a Governor that works hard for his people and is committed, with a sense of urgency and work ethic that is unquestionable.**

In our view, his advances are as follows:

- **Placing Puerto Rico on the Washington agenda for hurricane relief & FEMA-** for decades Puerto Rico was absent from the Washington agenda, Governor Rossello and Maria changed this.
- **Seeking Medicare and Medicaid parity-** Puerto Ricans pay 100% of the Medicare and Medicaid insurance costs, yet we receive less than 40% of the benefits due to us, that in any book is a discriminatory practice, the Governor has taken that message to the point that parity may be in the horizon.
- **The inflow of reconstruction funds is significant:** over \$54.0 billion in Federal recovery funds and an additional \$8.0 billion from private insurance. As of August 2018, FEMA estimates that it has disbursed or approved \$8.1 billion in public and private assistance funding. The total expected over ten years is \$62.4 Billion.
- **Total employment, including the self-employed-** had been declining since 2007. This trend continued into 2017 as total employment reached 964,000 in August of 2017, just before hurricane Maria. This trend has reversed since hurricane Maria with total employment increasing since then. In July of 2018 Over 1,000,000 residents reported having work, the highest level since February of 2017.
- **Manufacturing Increasing:** Post-Maria de PMI has averaged over 53, suggesting an expansion in manufacturing activity, particularly noticeable in the last six months. The New Orders index has averaged over 55 Post Maria. This means that further increases in manufacturing activity are expected over the coming months.

On the negative side, the Governors challenges came in full light after the Hurricane, below some observations:

- **Establishing that 95% of Puerto Rico would have electricity by December 15, 2017-** Even as hopeful as this goal was it created expectations to people that were desperate, a less aggressive goal would have been better. Power was restored entirely by August 24, 2018.
- **Not working with the legislature and the Financial Oversight and Management Board as a team-** The best way to cure the financial crisis the has affected Puerto Rico is by reaching agreements with the FOMB, Legislature, and the U.S. Congress. Doing so will allow Puerto Rico to accomplish the needed five years of balanced budgets and the eventual return to the capital markets. This will imply significant budget cuts and changes to the way Puerto Rico conducts its operations.
- **Puerto Rico's growth in GNP may be temporary-** Favorable growth rates of real GNP are anticipated for fiscal years 2019 and 2020. Nevertheless, with current and expected growth rates, according to Estudios Técnicos, Inc., "it would not be until the fiscal year 2026 when the level of real GNP would approach that of fiscal 2006." There is no say on the plan to develop a permanent economic activity once the ad-hoc funds run out and Puerto Rico Must reach a sustainable rate of economic growth. Former New York Fed President William Dudley warned : "Don't be seduced by temporary reconstruction dollars." Puerto Rico must find a more permanent economic growth model.
- **Puerto's Rico Debt Burden-** the still mostly unresolved issues related to the Government's debt will affect the government's advances in other areas.
- **Puerto Rico Systemic Risk in Healthcare-**the challenges facing Puerto Rico hospitals and even those in the U.S. is the fact that they are being forced to either reduce costs at the expense of creating potentially devastating impacts on the communities served or take less aggressive cost-cutting measures and risk facing severe financial hardships. This scenario to this indubitable Hobsons Choice has developed through profound public policy and market moves that transfer financial risk into local healthcare systems. With little or no financing available in Puerto Rico, we have considerable similarity to the systemic risk crisis of 2008. Despite detailing the need to improve the health service industry, there is no stronghold activity within the plan to use reconstruction funds. (i.e., CDBG-DR)
- **Demographic Changes and loss of Population-** Although the recent data suggests that it will not be as severe as expected, there is a consensus that by 2025 our population will be near 3.1 million. The difference of some 700,000 from the population of the year 2000 and almost 1.0 million below projections done in that year for 2025 of some 4.0 million. The consequences on demand are significant but also, given a much older and a very low-income population, the need for government health and social services will be higher and will require considerable changes.
- **The Federal Tax Reform-** A new challenge for Puerto Rico is the federal tax reform approved in December 2017 that will require Puerto Rico to radically alter its industrial promotion approach and take steps to mitigate its impact on the Island's industrial sector and the overall economy. Much of what will occur in the economy in the mid and long term will depend on how successful we are in reinventing our economic growth and development strategies.
- **The recent Governor's Executive Order increasing the minimum wage for the construction workers to \$15.00 an hour-** at the lowest base level produces a cascade effect in all other payroll levels and other industries closely related to the construction sector. Increases by over 85% the average labor costs of any government construction project.
- **The Puerto Rico Tax Reform-** this tax reform is ill-timed, it would have been more advisable to postpone it to 2020.

- **The 2,975 Deaths Caused by Hurricane Maria**- it took the Government one year to accept the number of deaths instead of 64 deaths.

The Final Word: What will be the challenge that will make us work harder and faster?

We must find ways to strengthen the way the government is managed, and this is done if we have the appropriate metrics. Benchmarking is a necessary function of government as It can enhance oversight and accountability of programs, improve effectiveness and efficiency of services, and assess what works and what doesn't while providing critical information needed for making difficult policy decisions.

As for challenges should we wonder what will be the next thing that challenges our Island? What will be the challenge that will make us work harder and faster? Nothing is more important than rising to respond to these questions.

Industrialist Efraín D. Vassallo may he rest in peace used to say, "Last names do not make the person, it is the person that makes the Last Name." The Governor has a once in a lifetime opportunity to make his mark in Puerto Rico's history.

