

# ECONOMY

PayGo has accrued debt of \$340 million since implementation in 2017

THINK STRATEGICALLY:

## The Beacon of Knowledge & Wisdom

Puerto Rico Mourns Rafael Hernández Colón

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Former Gov. Rafael Hernández Colón

As we learned the sad news that former Gov. Rafael Hernández Colón (RHC) had lost his fight against leukemia, I could only remember those good times we shared with him. To us, he was “Cuchin,” with whom our family had a lifelong friendship, along with his first wife, Lila, his brothers, César and José (RIP), and the whole family.

Following the news of his passing, what came to mind were some anecdotes in which he played an integral part, and I want to share one.

In 2002, I was being considered to become president of the Economic Development Bank (BDE, by its Spanish initials). The research I had done on the BDE and Hernández Colón’s intention when he created it were quite

different from what was then happening at the bank.

I called him to see if we could discuss the BDE and its future. He told me to come over on Oct. 31 at 9:30 a.m. to his house at Sol 9 in Ponce. We discussed his views and ideas of the bank and his opinion was to have two large government banks, one for the fiscal agency and bond issuances, and the other to finance economic development and all private sector needs. He suggested we open branches, to examine if the bank could grant credit cards to provide easier access to borrowers. He told me to take the bank to every corner of Puerto Rico and to develop specialized centers to help entrepreneurs. As our discussion wrapped up around 12:30 p.m.,

we walked to a nearby restaurant and had an exceptional lunch.

When we returned to the house, he gave me detailed instructions on how to handle myself if I did become the BDE president; I still have that file and always use it.

That very same day, at 5 p.m., I was asked to go to La Fortaleza for a discussion with then-Gov. Sila Calderón and César Miranda, the chief of staff at the time. Following the interview, as I was heading home, it must have been 8 p.m., I received another call from La Fortaleza informing me that the Governor was to announce my appointment the next day. I made two calls, one to my wife and the other to Gov. Hernández Colón. When I told him the news, he said: “Paco Pepe, you are ready; make me and Ponce proud.”

This past Saturday, as Ponce gave RHC his final goodbyes from his foundation and the Ponce Cathedral, we all realized we were in the sight of Greatness, with front-row seats to history, to building a nation, to developing a better Puerto Rico using all the tools that fiscal autonomy had provided Puerto Rico. As I reviewed his speeches and writings this past week, I found a quote in one of his earliest statements as Senate president that describes his love of Puerto Rico: “Every nation has an idea and sentiment that makes life in the world. It is the reason for being, its mission, its soul. The Greatness and durability of our nation are dependent on the roles each citizen must play.” He will always be the “Beacon of Knowledge & Wisdom,” and we will miss him dearly.

### Week in markets: Consumer confidence, jobs growth impact markets

This past week, the economic calendar was full of critical financial data and dozens of corporate earnings reports. Reports this week were on personal income, consumer spending, core inflation, the Federal Open Market Committee statement, jobless claims and jobs growth, among others. These reports forced the stock market to take a breather to absorb all the data and position itself in relation to the new direction. Overall, the news included positive consumer confidence, and productivity rose and unemployment hit a new low at 3.6 percent. The Dow Jones Industrial Average closed the week at 26,504.95, a loss of 38.38, or 0.14 percent, with a year-to-date (YTD) return of 13.60 percent; and the S&P 500 closed at 2,945.64, with a gain of 5.76, or 0.20 percent, and a YTD performance of 17.50 percent. The Nasdaq closed at 8,164.00, an increase of 17.60, or 0.22 percent, and a YTD return of 23.00 percent. Meanwhile, the U.S. Treasury’s 10-year note fell to 2.53 percent with a YTD return of minus-0.16 percent.

### U.S. stock market drivers

The U.S. economy continues to produce stronger-than-expected returns that have forced the market to adopt a more contemplative outlook. The factors having an impact include:

- A healthy dose of 263,000 new jobs created in the U.S. economy in April. This figure is much larger than forecast and also includes notable rising wages across the U.S.
- Federal Reserve Bank maintains rates for now. The Fed maintained its patient but vigilant perspective on setting rate increases and kept interest rates steady as of Thursday, May 2. Even as the Fed’s stance remained consistent, most stocks sold off initially.
- U.S. BLS: Unemployment down to 3.6 percent. The unemployment rate declined by 0.2 percentage points to 3.6 percent in April, the lowest rate since December 1969, or 50 years ago, the U.S. Bureau of Labor Statistics (BLS) reported May 3. The

number of unemployed people decreased by 387,000.

### Final word: P.R. gov’t not paying PayGo

The Financial Oversight & Management Board (FOMB) issued a letter regarding the monthly pension report from the Fiscal Agency & Financial Advisory Authority. The report lists all PayGo fees owed by municipalities and public corporations to the central government for payment of retiree pension benefits.

The central government has mismanaged the pension funds for decades. As the government went bankrupt, the FOMB and government implemented a pension PayGo system to ensure adequate funding of the pensions. According to the FOMB, maintaining funding for all retirees’ pension benefits is one of its highest priorities. Even though the government claims transparency and compliance, the evidence shows otherwise. Two practices continue to have an impact on the pension system:

- The method of not transferring employee contributions that by law are required to be set aside.
- The failure of many municipalities and public corporations to remit their required monthly PayGo fees.

The FOMB found there was \$340 million in accrued debt from 28 public corporations and 66 municipalities since the PayGo system was implemented in 2017. This shortfall includes both failures by municipalities and public corporations to make the required PayGo charge as well as failures to remit individual employee payroll withholdings.

Among the accrued debts due to the central government are:

- San Juan, \$72 million
- P.R. Aqueduct & Sewer Authority, \$67 million
- Ports Authority, \$31 million
- State Insurance Fund, \$24 million
- Ponce, \$10 million
- Carolina, \$8 million
- Toa Baja, \$6 million

If Puerto Rico is to correct its imprudent fiscal actions, moves such as keeping the money to be paid for retirees and using it for other matters is irresponsible and ill-advised.

Market Close Comparison	4/26/19	5/3/19	Change	YTD %
Dow Jones Industrial Average	26,543.33	26,504.95	-0.14%	13.60%
Standard & Poor’s 500	2,939.88	2,945.64	0.20%	17.50%
Nasdaq	8,146.40	8,164.00	0.22%	23.00%
U.S. Treasury 10-Year Note	2.50%	2.53%	1.20%	-0.16%

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