

## Insight



# Sanders' Progressive Approach to Rebuilding Puerto Rico and U.S. Virgin Islands

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## Introduction

Tuesday, Senator Bernie Sanders, along with six Senate cosponsors, unveiled legislation to rebuild Puerto Rico and the U.S. Virgin Islands in the wake of Hurricane Maria. The hurricane caused at least [58 deaths](#) in Puerto Rico, knocked out power for the entire island, and left [nearly 1.4 million](#) Puerto Ricans without clean drinking water. While power is slowly being restored and the federal government is moving resources to the island, Puerto Rico is still in need of help. Sanders' legislation aims to provide immediate relief, as well as a significant investment in economic development and infrastructure. It would forgive Puerto Rico's debt, prevent privatization of public entities, and significantly reform the funding structure of all U.S. territories' Medicaid and Medicare programs.

## What's in The Bill?

The Puerto Rico and Virgin Islands Equitable Rebuild Act is an ambitious \$146-billion bill that would give Puerto Rico and the Virgin Islands \$27 billion for infrastructure, including \$13 billion to repair or replace the electric systems in the territories; \$51 billion for economic development; \$62 billion in emergency funding to the territories' governments as the territories recover from the storms; and millions more for education and environmental remediation. The bill focuses the majority of the proposed assistance and relief funding to Puerto Rico. It further calls on Congress to forgive Puerto Rico's debt, and includes provisions to prevent the privatization of public entities in Puerto Rico (such as the nation's heavily troubled power authority) and the U.S. Virgin Islands.

The legislation's most controversial measure, however, is the establishment of Medicaid and Medicare parity for the territories. Currently, the federal government matches Medicaid spending at a [55 percent rate](#) for U.S. territories. But unlike in the 50 U.S. states, total Medicaid spending in territories is subject to annual caps. Sanders' bill would eliminate general Medicaid funding limitations for territories. This includes eliminating the funding cap and the specific 55 percent federal matching rate for Medicaid in territories effective FY 2019. The bill would also temporarily raise the matching rate to 100 percent for FY 2018 and FY 2019 for the U.S. Virgin Islands and Puerto Rico. It would further make the territories eligible for [Medicaid disproportionate share hospital \(DSH\) payments](#) beginning fiscal year 2019, make numerous changes to Medicare for the territories, and temporarily increase social services block grants for both Puerto Rico and the U.S. Virgin Islands.

## What Will It Cost Taxpayers?

Beyond the upfront price tag of \$146 billion, Sanders' bill includes provisions that will have significant costs to the federal government. The largest cost would likely be the Medicaid and Medicare parity. Prior to Hurricane Maria, about [two-thirds](#) of Puerto Ricans relied on Medicare and/or Medicaid for health coverage. A [2004 study](#) by the Government Accountability Office (GAO) reviewed the potential fiscal implications for federal programs if Puerto Rico were to become a state. The GAO estimated that federal spending for Medicare and Medicaid in FY 2010 would have increased by \$415 million to \$3.4 billion.

As a territory, Puerto Rico possesses greater autonomy from the federal government than states; for example, Puerto Rican citizens are not required to pay federal income taxes. Therefore, it makes sense that they would not receive the same benefits as citizens of U.S. states. However, Sanders' bill aims to provide citizens of Puerto Rico the same benefits as state citizens without requiring them to pay the same costs.

Sanders' bill also suggests Congress should relieve Puerto Rico's [\\$70 billion](#) debt, although the bill does not specify how much of the debt should be relieved. Sanders fails to acknowledge that this debt won't simply disappear, and U.S. taxpayers will likely be responsible for paying it. Furthermore, financial relief will not address the significant underlying problems in Puerto Rico. For example, the Puerto Rican fiscal oversight board has mandated that Puerto Rico implement various measures aimed to reduce government spending, such as furloughs on government workers and cuts to pensions that would have achieved \$218 million in savings for F2018. Regrettably, Governor Ricardo Rosselló has refused to implement them. The governor's reticence to cooperate with the oversight board highlights the political challenges in Puerto Rico that have perpetuated the island's economic crisis.

The political crisis in Puerto Rico is best captured by examining its power company, Puerto Rico Electric Power Authority (PREPA). PREPA currently holds [\\$9 billion](#) in debt and filed for bankruptcy a few months ago. PREPA's debt can be attributed to its mismanagement. Members of its board of directors are appointed by the governor, with advice and consent of the Senate. However, the board's composition changes whenever a new party takes power. The structure of PREPA's board and the fact it is a public entity subjects PREPA to the governor and the political party in power at the time, effectively making the electric utility a partisan tool. PREPA has numerous agreements with for-profit-companies and mayors to provide electricity to buildings at [no cost](#), transferring the costs to rate payers or taxpayers. [Previous AAF research](#) has acknowledged that for Puerto Rico to have stable electric infrastructure, PREPA must undergo reform. Several members of Puerto Rico's fiscal oversight board have called for parts of [PREPA to be privatized](#). The bill's provision prohibiting public entities in Puerto Rico and the Virgin Islands from privatizing increases the likelihood of continued mismanagement of agencies, which could prove costly to taxpayers and citizens of these territories.

## Conclusion

Two months after being directly hit by Hurricane Maria, Puerto Rico still faces a long road to recovery. Forty percent of the island's electricity generation has resumed, however, PREPA officials are [uncertain how many people have power](#). The island also faces an ongoing medical crisis and food shortage. While Puerto Rico needs additional relief, Senator Sanders' \$146 billion bill far surpasses the nearly [\\$95 billion](#) in aid Puerto Rico Governor Ricardo Rosselló requested of Congress, and is too far reaching and unfocused. In short, the bill is not a reasonable or effective approach to addressing either Puerto Rico or the Virgin Islands' near- or longer-term needs.