



August 30, 2016

Dear Members of the Congressional Task Force:

As we all know, the Commonwealth of Puerto Rico entered a financial crisis in 2006 from which it has not recovered. After many years of well-documented financial problems, the economy has been decimated, the population is in decline, household capital has vanished through the real estate crisis, and basic social services have been affected. This does not take into account the potential threat the Zika virus poses to the residents of Puerto Rico.

Puerto Rico needs to jump-start its economy in order to repay the billions of dollars it has borrowed over decades, reduce the cost of doing business and create efficiencies that increase the speed of services and decrease the cost of government at all levels.

Puerto Rico can look at specific areas to reignite its economic development and growth. A new, long-term economic model based on a knowledge-fueled service economy, leveraging geography, logistics and IT infrastructure may be one area to pursue. This requires rethinking the educational system and raising the profile of key financial and legal frameworks.

A core and immediate impact strategy to increase capital would be to maximize the availability and use of Federal and local funds. Unfortunately, Puerto Rico has traditionally faced important challenges sourcing, managing, utilizing, appropriating and executing on federal funds transfers, and finding and implementing operational efficiencies to capture additional revenue, reduce costs and promote economic growth.

We recommend that the Federal Oversight Board implement the following public policies for federal funds assigned to Puerto Rico:

- 1. Centralize the management of all federal funds received by Puerto Rico;**
- 2. Implement a Public/Private approach for management of federal funds;**
- 3. Effectively integrate these approaches with a working, government-wide ERP system for full visibility of sourcing and use of financial assets.**
- 4. Implement modern technology and optimize business processes to capture efficiencies, reduce waste and costs, improve services and insure transparency in the use of federal and local funds.**

We believe the successful implementation of these policies would be transformational for Puerto Rico.



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We believe these policies would significantly increase the amount of public capital available in the market, creating a multiplier effect in the local economy.

We are ready to provide additional information and expand on these ideas at your convenience.

Thank you for your consideration.

Jesus J. Suarez

Chief Executive Officer and President of CSA Group

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Executive Summary

Due to its decentralized approach, optimizing the acquisition and deployment of Federal Funds in Puerto Rico is inefficient. Most government agencies and municipalities have their own federal funds program office. The central government has lacked a cohesive and strategic plan for qualifying, using and/or maximizing federal funding opportunities.

Puerto Rico is thus missing valuable economic opportunities due to, prior mishandling and misuse of federal fund assignments, missed opportunities to pursue many federal competitive grants opportunities, having to return millions of dollars each year due to its inability to implement federal funds within the allocated time frames, among others

It is estimated that Puerto Rico is not tapping hundreds of millions of dollars each year by missing the opportunity to bid for available competitive federal grants, by not spending grants in an accelerated way, due to lack of use or non-compliance, and having non-aligned groups and processes managing such funds.

An exception to this recurrent situation occurred when in 2009, the government of Puerto Rico decided to take a completely different approach to optimize its share of the ARRA funds. The administration established a centralized Program Management Office to facilitate and expedite the investment of the \$7bb funds awarded to Puerto Rico under ARRA, ensuring the compliance of all reporting and pertinent requirements.

As a result, the contract awarded to CSA Group required the structuring, integration, management, compliance, training and data management of over 300 grants, 121 grantees, 300 sub grantees, 300 non-governmental organizations, 78 municipalities and 130 government entities of Puerto Rico during a 4 year period. The main objective of the program was to maximize the federal funding opportunities, optimizing their return on investment, expedite the execution of funded initiatives and projects, and assure compliance with Federal and State laws and regulations.

CSA Group created the technology systems and operational structure that allowed for the efficient and transparent utilization of these funds, in full compliance with Federal and State guidelines, achieving timely and accurate reporting. Federal Grants were consistently utilized according to grant terms and conditions with an average disbursement of 90% of the allocated funds. It was accomplished in part by the adoption of guidelines such as:

- Grant programmatic and financial planning
- Establishment of a centralized data base management system
- Establishment of uniform document control best practices

- Establishment of uniform quality control processes to meet grant requirements and reporting guidelines

It is recommended that recurrent federal funds in Puerto Rico be managed following the proven, successful approach used during the ARRA program.

Current Situation

There is no need to rehash the current economic situation in Puerto Rico, nor its root causes. That is well documented. According to economic theory, one needs a combination of instruments to grow an economy: arguably five ways you can grow an economy:

1. Access to capital
2. Population growth
3. Productivity gain
4. Strong regulatory framework
5. Access to natural resources

All things being equal, one of the few places Puerto Rico really has an opportunity to obtain capital for economic growth is through the maximization of the use of federal funds. We believe a combination of a strong regulatory framework being implemented by the Federal Fiscal Oversight Board and the maximization of the allowable and allocated federal funds will help Puerto Rico get over its fiscal problems.

Unfortunately, the use of federal funds in Puerto Rico has a sketchy history. For many reasons, including language barriers, Puerto Rico has very infrequently competed for federal programs that allow for grants for different types of projects: from infrastructure to social programs. In addition, in many instances, the funds that Puerto Rico actually received through allocation goes unused and returned due to lack of strong project management techniques. Finally, in some instances, as a result of negligence or intent, Puerto Rico has lost federal funds, and its agencies have lost funds and been put on audit status by the federal agencies that provide the funds.

For example, if we establish a relationship between the amount of federal project grant funds entering the Island to Puerto Rico's population share (based on the 2010 US Census data) we can estimate the missed federal funding opportunities. Puerto Rico possesses 1.2% of the total US population according the 2010 US Census. If we apply this percentage to the federal project funds distributed nationally, we can clearly identify the gap of missed funding opportunities for Puerto Rico. There is a \$4-5 billion gap

from what Puerto Rico may receive and what it actually has received. We believe that most of this gap is a result of not aggressively pursuing competitive grants, or leveraging local interagency opportunities. Although we understand that Puerto Rico may not be eligible to all of the additional \$4-5 billion worth of programs, it is reasonable to assume that a 20% target of this gap, or \$1 billion per year, is an achievable goal. In addition, a 5-10% fast tracking of many current grant awards can result in approximately \$500 million dollars of additional cash flow into the economy.

As part of additional analysis, we evaluated Puerto Rico's expenditure ranking compared with the 50 states. Based on the information obtained from US Census of 2010, the potential of improvement is substantial. We reviewed Puerto Rico's ranking in two areas which demonstrate the potential opportunity:

- Grants Expenditures - When comparing Puerto Rico's expenditure per capital amount to that of the 50 states, we ranked equal to state #49 with an expenditure per capita of \$1,694. The median grant expenditures per capita was \$2,189.78, belonging to the state of Kentucky. If Puerto Rico obtains just 50% of the difference between its current amount and the median, it would represent an additional \$922 million of funds for Puerto Rico.
- Procurement - Puerto Rico's procurement per capital amount was \$280.02; ranking in last place if compared to the 50 states. The median procurement per capita grant expenditures was \$1,164.29, belonging to the state of New Jersey. If Puerto Rico could double its current amount of allocated federal contracts it would represent 48% of the median amount and translate into a potential additional \$1 billion of additional federal funds impacting the economy of Puerto Rico.

Recommendation

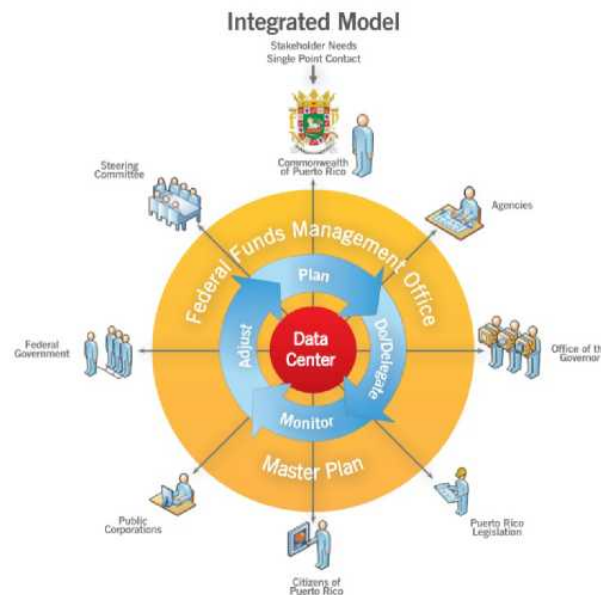
Puerto Rico needs to maximize the allocation of federal funds and structure a robust federal funds management program to maximize and manage these more efficiently. To maintain the viability of State Infrastructure and Social Services programs, effective identification and pursuit of Federal funds is a crucial component to finance on-going and future projects in Puerto Rico.

The proper use and maximization of allocation of federal funds would have a positive impact on two deeply rooted problems in Puerto Rico; the economy and job creation Recommended Management Structure for Optimizing Recurrent Federal Funding

The required federal grant management process can be complex due to the thorough coordination needed amongst stakeholders, detailed fiscal and programmatic planning and most perplexing, the somewhat overwhelming nature of Federal government regulatory and legal requirements. Once awarded, most Federally-funded projects also stipulate stringent compliance and reporting statutes

We recommend the creation of a centralized Federal Funds Management Office for Puerto Rico (PRFMO), which shall operate using an integrated model applying proven Program Management practices and continuous improvement principles in the organization. The objectives of this office would be to:

- ✓ Maximize federal funding
- ✓ Maximize and accelerate the disbursement of allocated federal funds
- ✓ Comply with federal laws, grant terms and conditions
- ✓ Apply technology systems to enhance transparency in the use of funds
- ✓ Increase the efficiency and pro activeness in managing federal funding
- ✓ Monitor and benchmark performance to establish accountability



The PRFMO would focus on standardizing processes, technology tools, aligning funding objectives with central government goals and researching/requesting additional funding through competitive opportunities. The basic objective of the PRFMO would be to Pull-Push-Comply-Provide Transparency:

- "Pull" funds
 - Obtain as much funding as possible from federal fund grantors; mainly competitive funds, but also formula funds were Puerto Rico may be under-represented.
- "Push" funds
 - Maximize and accelerate the disbursement of all available funds by implementing uniform and

proven project management best practices.

- "Comply" with the law
 - Ensure all pertinent regulations and guidelines are met including reporting requirements.
- "Transparency"
 - Provide a centralized data management system to produce dashboards, reports, etc. in order to maintain all stakeholders informed with real-time data and ensuring transparency of the use of fund.

Proven, Successful Results of a Centralized Approach

Following are some of the achievements achieved by Puerto Rico's ARRA program:

- ✓ Funding – An allocation of \$7 billion was achieved from an anticipated goal of \$5 billion, exceeding the projected goal by \$2 billion.
- ✓ Reporting – All Puerto Rico local agencies' ARRA 1512 Reports from 2009 to January 2013 were consistently completed and submitted on time to the Federal Government. This task involved the submittal of over 100 grant reports simultaneously. Before reporting all quarterly data, the information was validated through a standardized QA/QC process allowing the local agencies to receive an appropriate, proactive assessment of the data prior to reporting thus avoiding potential non-compliance observations from the Federal Government.
- ✓ Fund utilization – Grants were consistently utilized according to the grant terms and conditions with an average disbursement of 90% of the allocated funds. This was accomplished in part by the adoption of guidelines established for the Program.
- ✓ Grant specific accomplishments:
 - Energy Affairs Administration – Puerto Rico was the first US jurisdiction to receive the Weatherization Program approval. Over 15,000 homes were successfully implemented.
 - Department of Education – Puerto Rico was among the first US jurisdictions receiving the State Fiscal Stabilization Fund approval.
 - Treasury Department – Puerto Rico was the first US jurisdiction receiving funds from the Making Work Pay Tax Credit grant.
 - Competitive Grants – As a result of the technical assistance provided in the ARRA program, it was possible to receive additional federal funds through competitive grants, including, but not limited to:



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- Departamento de Transportación y Obras Públicas obtained the Transit and Rail Security Grant (\$965,193.00);
- Municipalities benefited from COPS program to hire and to retain municipal police personnel (\$5,055,555.00).

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About CSA Group

CSA Group (www.CSAGroup.com) is a full service project and program management, engineering and consulting firm in business since 1956 headquartered in Puerto Rico, and with offices in New York, New Jersey, Pennsylvania, Washington, DC, Florida, Puerto Rico, Panama and Argentina. The firm is consistently ranked amount the top 50 Program Management firms in the country by ENR magazine.

CSA Group has successfully executed various programs in very complex areas, assisting our clients in the management, compliance, reporting, financial and legislative framework of their projects. Over the years, CSA Group has developed a particular expertise in managing emergency situations. Its experience includes managing federal funds after natural catastrophes (hurricanes and earthquakes) in Puerto Rico, Florida, Honduras, Haiti and New York. In addition, CSA Group applied the same emergency response program management and federal funds management to the fiscal crisis of 2008 - 09. CSA Group assisted the government of Puerto Rico manage the almost \$7 billion it received in federal funds assuring the maximization of funds available to Puerto Rico, efficiently deploying those funds in order to maximize their effectiveness and implementing strict compliance and monitoring systems and processes to insure correct use of those funds.