



Chairman DeFazio, Ranking Member Graves, Chairwoman Titus, and Ranking Member Meadows, thank you for the opportunity to speak before you today.

I come to you not only as the Secretary of the Puerto Rico Department of Housing (PRDOH), but as one of the 3.2 million American citizens who have suffered one of the greatest natural disasters in United States history.

In September of 2017, the devastating landfall of Hurricanes Irma and María caused unprecedented damage to Puerto Rico's housing stock, the economy, and our infrastructure; destroying the landscape of the Island for decades to come. From this devastation, and due in large part to the work of this Congress, Puerto Rico has been promised the resources it needs to recover and thrive. As the Secretary of the Puerto Rico Department of Housing, along with Ottmar Chavez, the director of the Central Office of Recovery, Reconstruction and Resilience, known as COR3, my partner in recovery, it is our job to manage this recovery and ensure the resources appropriated by this Congress are used to rebuild our communities.

The Puerto Rico Department of Housing, PRDOH, is the agency appointed by the government of Puerto Rico as the grantee for administration of the Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. COR3's primary focus is on the FEMA and other streams of funding. Because of the very different and distinct regulatory requirements involved with CDBG-DR and FEMA dollars, the responsibility for the administration of these funds has been divided. Having said that, Mr. Chavez and I work very closely to coordinate our efforts. I think my fellow panelist Mr. Sprayberry can attest to how distinct these monies are and how difficult they are to spend. So, again, on behalf of Mr. Chavez and myself, thank you so much for the invitation to attend today. I am pleased to come before you to discuss our joint efforts.

First, let me address our progress with CDBG-DR funding. As you are aware, the U.S. Department of Housing and Urban Development (HUD) is the federal oversight agency for these funds, which are intended to provide financial assistance to address unmet needs that arise and are not covered by other sources of financial aid. Through the Supplemental Appropriations for Disaster Relief Requirements Act, 2017, signed into law September 8, 2017 (Pub. L. 115-56), Congress made available \$1.5 billion in CDBG-DR funds for necessary expenses related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization, followed by the second tranche of \$8.2 billion announced through Federal Register 83 FR 40314, \$8.3 billion for mitigation and approximately \$1.9 billion for the electrical grid. Only the initial \$1.5 billion has been released to Puerto Rico. I will speak to you today regarding the progress of the CDBG-DR program, in conjunction with the Federal Emergency Management Agency (FEMA) activities overseen by COR3.

Since execution of the Grant Agreement with HUD for the first \$1.5 billion a little more than one year ago<sup>1</sup>, the PRDOH has:

- Created a division with the sole purpose of managing the CDBG-DR grant, with eighty-five (85) employees on board and more under hire;

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<sup>1</sup> Although the grant agreement was executed on September 20, 2018, access to the first portion of the line of credit in DRGR for the \$1.5 billion CDBG-DR Action Plan was granted by HUD on January 30, 2019, with 80% of the housing funds held in restricted balance until released by HUD on February 4, 2019.



- Developed detailed policies, standard operating procedures, and workflows, including HUD-approved procurement policies;
- Developed automated systems for applicant intake and eligibility using highly specialized software and mobile applications, allowing us to receive almost 20,539 homeowner housing applications to date;
- Put into place an electronic accounting system with enhanced internal controls, built on the same platform that is used by many other jurisdictions, as well as HUD;
- Launched the first cohort of programs, including: The Home Repair, Reconstruction, or Relocation Program (R3), Title Clearance Program, Housing Counseling Program, Low-Income Housing Tax Credit (LIHTC) Program, Municipal Recovery Planning Program (MRP), and the Whole Community Resilience Program (WCR);
- Started disbursements and obligated and procured **over one billion dollars** in critical recovery efforts, putting us on pace to be fully obligated to our current funds in the near future.

The PRDOH dedicates itself to delivering unparalleled service to our communities, and our employees have been working hard to meet the goal set, respond to our fellow citizens, and provide them with the assistance they need and be the government agency they deserve.

Now, on behalf of Ottmar Chavez, let me discuss the progress we are making with regard to FEMA and other funding. While the total of FEMA's commitment to Puerto Rico has been an issue of debate, the President continues to use a number of \$91B. We certainly take him at his word and appreciate his commitment of those dollars. The federal government has obligated \$16,36B to date (not inclusive of CDBG). Of that \$6,291,349,836 has been disbursed in PA and IA dollars to assist in Puerto Rico's recovery. In addition, Congress and the Administration have provided, and clarified, additional authorities for FEMA to more effectively fund our recovery. Both the Additional Supplemental Appropriations for Disaster Relief Act, H.R. 2157, P.L. 116-20, as well as the Bipartisan Budget Act (BBA) of 2018, P.L. 115-123, provide for the administration of much needed relief and enable a more thorough recovery for Puerto Rico.

Let me pause here to thank the incredible professionals at FEMA. They have worked closely with us from day one. And let me add a special thank you to the current FEMA leadership on the island: Mr. Alex Amparo and Nick Russo. To expedite the current pace of recovery, the COR3 has prioritized strengthening Puerto Rico's working relationship with FEMA and these gentlemen have been incredibly fair parties to deal with. They certainly see things from the FEMA perspective which we don't always agree with, but they are outstanding professionals who we enjoy working with. In fact, in the first 45 days of Governor Vázquez Garced's administration, we have seen the progress that can be made by collaborating closely with our federal partners. With the help and support of Congress and FEMA, we have lifted the Manual Drawdown Process (OMB's Standard Form 270) requirement for the second time and received approval to begin work on small projects using traditional Public Assistance rules.

- **Removal of 270:** Since taking office in August, the Administration has taken necessary steps to implement fiscal controls, accounting procedures, and project administration procedures at the recipient and sub-recipient levels. These measures demonstrate that the Government of Puerto Rico's (GPR) new leaders are ready, willing, and able to assume the responsibility and access to the Federal grant funds, including the execution of all phases of the GPR's grants management



process. As a result, FEMA has communicated that they will formally remove the Manual Drawdown Process, releasing important projects from additional administrative burdens.

- **Small Projects:** For the first two years of recovery, FEMA made no distinction in the project development process between small projects and large projects, further delaying recovery progress under Section 428 Public Assistance (PA) Alternative Procedures. Pending official communication from FEMA, Version 2 of FEMA Recovery Policy FP 104-009-5, *Implementing Section 20601 of the 2018 Bipartisan Budget Act*, will allow us to begin permanent work on small projects under Section 406 standard PA procedures. Small projects (defined by the FEMA Public Assistance Program Policy Guide as projects with an estimated cost of less than \$123,000) are not required to meet the same application requirements before approval for reimbursement, reducing the initial administrative burdens and allowing projects to start sooner. This revision to FEMA's Recovery Policy will allow Puerto Rico to begin work on 5,000 small projects that were previously stagnated.

As we look to build on these successes, we recognize that the Island's past remains a weight on our recovery. Long before the 2017 Hurricanes, Puerto Rico was struggling from decades of fiscal mismanagement, economic distress, and demographic challenges, all of which resulted in fiscal and economic crisis. With over \$72 billion in public debts and \$50 billion in unfunded pension liabilities, any hope for restoring financial stability and providing a future for the people of Puerto Rico requires that disaster recovery be inextricably tied to recovering the financial stability of our Island. While FEMA has committed to provide the funds required to rebuild infrastructure and facilities, sustaining recovery and establishing an economic future for our Island requires that we are ultimately able to access bond markets and secure investment in our future. Additionally, the release of the remainder of CDBG-DR funds will be critical to ensuring that recovery can take place in a holistic manner with limited breaks in service.

One of the first acts of the new administration was to direct the development of a 45-day plan for recovery on the Island, focused on three priorities:

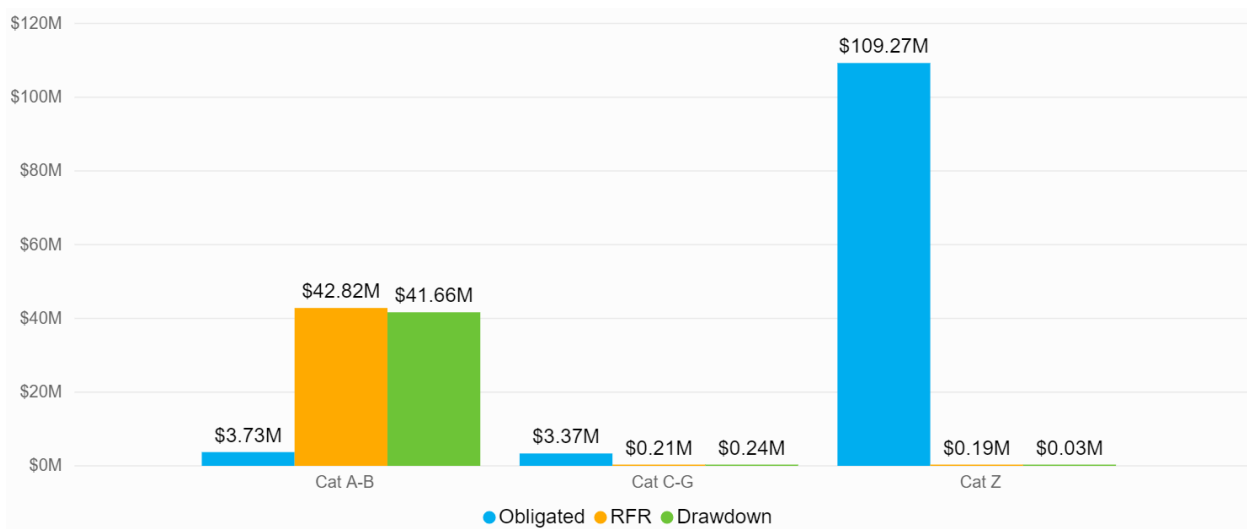
- **Priority 1:** Identify and mitigate areas of risk for the responsible management of federal funds. We remain keenly aware that the cornerstone of a successful recovery process is in the careful disbursement of federal funding. The Government of Puerto Rico is determined to be a good steward of the investment that the Federal Government and our fellow United States citizens have made to rebuild our Island.
- **Priority 2:** Identify bottlenecks in the process. Understanding where and why the many thousands of projects are stalled will allow us to develop a strategy to more efficiently move them through the various stages required to begin the actual work of rebuilding the Island.
- **Priority 3:** Identify solutions to enable our much-delayed recovery to meaningfully begin –starting with the rollout of a Grid-Modernization plan recognizing the centrality of a reliable and resilient power grid as the foundation of our recovery and economic future.

We have made significant progress in these past 45-days on these three priorities. COR<sup>3</sup> has successfully led efforts to process projects through FEMA's workflow, resulting in \$3.73M in obligated funding, with



an additional \$42.82M requested, and \$41.66M drawn-down towards Categories A-B (“Emergency Work”). Critical to “building back better,” we have focused on driving progress in Categories C-G (“Permanent Work”), and in response FEMA has obligated \$3.37M and COR<sup>3</sup> has requested an additional \$0.21M, and drawn down \$0.24M. Figure 1 is a graphical representation of the funds obligated, requested, and drawn down by project category. For reference, since Hurricane Maria struck in September 2017, a total of \$3.68B have been drawn down for emergency work and \$38.73M have been drawn down for permanent work.

**Figure 1:** Funds obligated, requested [Request for Reimbursement (RFR)], and drawn down by project category since 08/05/2019



The progress we have achieved is, in large part, the result of our attention to Priority 2—identifying and removing bottlenecks in the project workflow. Priority 2 has positioned COR<sup>3</sup> to accelerate the movement of projects through the project workflow. It has been a data-driven and data-enabled approach. By focusing on resolving bottlenecks, COR<sup>3</sup> has successfully initiated 407 new projects, 665 Damage Description and Dimensions (DDD), 285 Project Worksheets (PW), and 44 Fixed Cost Estimates (FCE) in only 45 days. Figure 2 demonstrates the progress made in 45 days compared to the cumulative amount from the baseline of when the recovery efforts began. Moving projects through the project workflow will continue to be a top priority for Puerto Rico.

**Figure 2:** Progress towards Priority 2 (moving projects through the project workflow).

Process Step	Baseline As of: 08/14/2019	Current-State As of: 09/23/2019	Our Progress Current-State – Baseline
<b>Total Projects</b>	8,947	9,354	<b>+ 407</b>
<b>Damage, Descriptions, and Dimensions (DDD)</b>	1,362	2,027	<b>+ 665</b>
<b>Statement of Work (SOW)</b>	417	702	<b>+ 285</b>
<b>Fixed Cost Estimates (FCE)</b>	105	149	<b>+ 44</b>



There are some bottlenecks, however, that are beyond the control of Puerto Rico, and even local FEMA personnel. Since the critical passage of the Disaster Recovery Reform Act, very little guidance has been published by FEMA for its implementation. This tremendous roadblock continues to delay the cost estimates across the Island.

Despite this delay, Puerto Rico's three strategic priorities support the objectives of the Recovery Plan, as demonstrated through progress in our five priority sectors: Water, Energy, Transportation, Education, and Health and Social Services. Four [4] of these five [5] sectors, Water, Energy, Education, and Health and Social Services, are appropriately considered critical services both by the GPR and the Federal Government. Although Transportation is not defined as a critical service by the Federal Government, the GPR has established it to be the fifth priority of recovery. In the first month and a half of this Administration, COR<sup>3</sup> has continued to execute on the Recovery Plan with these five priority sectors at the forefront.

In the past 45 days alone, the Island has seen promising progress towards recovery, but many obstacles remain. As part of Priority 3 we have identified solutions that we have proposed to the FEMA Administrator in a recent letter. The extension of FCE deadlines are still under review by FEMA, introducing uncertainty in advancing our recovery. Given that industry standards have not yet been determined by FEMA, the ability to move forward on FCEs remains at a standstill and, as such, a blanket extension approved by FEMA before the October 11, 2019 deadline is a crucial and time-sensitive need.

To work towards this resolution, Puerto Rico will continue to work in close coordination with our federal partners. Our recent visit to Washington, D.C. was instrumental in securing the removal of the 270 requirement and the approval to move forward with small projects, and with a continued spirit of collaboration and mutual support we can similarly overcome the hurdles that still lie ahead.

FEMA has informed us that a new FEMA-State Agreement (FSA) must be negotiated as a result of the transition of leadership on the Island and the circumstances which led to it. To that end, we have requested that FEMA identify a federal representative to work with the Governor's Appointed Representative and COR<sup>3</sup> to amend the FSA. In developing the new FSA, COR<sup>3</sup> and FEMA's representative can chart a path forward to find a productive solution to the implementation of Section 428, the FCE challenge, and any other roadblocks we may encounter as we progress down the road to recovery together. We are also hopeful that the FEMA Administrator will have approved our recent requests and we can incorporate those approvals into this new FSA.

In order to provide adequate time and space for negotiating this new FSA, we are requesting that FEMA provide a blanket extension to the FCE deadline of six months. Key to our discussion will be identifying a way forward regarding the utilization of Section 428 Alternative Procedures. We recognize that application of Section 428 will be necessary in many areas of our recovery. However, Section 428 remains a pilot program without an established and consistent regulatory framework and the process has been slowed by unforeseen difficulties with the large-scale rollout of a still maturing policy. Further, despite the combined efforts of COR<sup>3</sup> and FEMA, permanent repairs have been stalled under the constraints of this pilot program. The use of Section 428 Alternative Procedures does enable the undertaking of essential capital-intensive recovery projects that would not be attainable under traditional PA, such as the reconstruction of schools, rebuilding safer hospitals and medical centers, and the modernization of the electrical grid. However, to move forward with vital recovery efforts, COR<sup>3</sup> and FEMA must work together to adjust the blanket state-wide use of Section 428 Alternative Procedures and allow more projects to move forward using the standard Section 406 PA process so that long awaited permanent recovery work can begin.



The FEMA recovery projects and the CDBG-DR activities go hand-in-hand. My priorities for the CDBG-DR program include:

- **Priority 1:** Executing the grant agreement for the \$8.2 billion announced through Federal Register 83 FR 40314. The activities for this allocation have already been prescribed in the CDBG-DR Action Plan for Disaster Recovery amendment approved by HUD on February 28, 2019. Puerto Rico cannot initiate program activities for which funds are not available, so continued delay of these funds hinders the provision of critical recovery programs which are poised for implementation.
- **Priority 2:** Initiate program design related to the \$8.3 billion for mitigation. Understanding that developing a mitigation needs assessment and CDBG-DR Mitigation Action Plan take time and require public participation, we need to build our mitigation approach within the context of the regulatory guidance and allowable activities for those funds. This will enable us to build a compliant, well-grounded approach to address pressing mitigation and resilience needs. Unfortunately, this work is further delayed by the fact that HUD has not yet completed their work on this notice more than 20 months after the Congress appropriated these funds.
- **Priority 3:** Continue our close partnership with federal partners to increase our expenditure ratio and ensure our lines of communication remain open and collaborative. We have and will continue to work closely with HUD and other oversight agencies to ensure compliance with regulations while we remain focused on delivering much-needed recovery programs in a timely fashion.

Despite our many challenges, Puerto Rico is optimistic, determined, and full of potential. On behalf of the American citizens who make Puerto Rico their home, I once again thank you for your support. I look forward to our continued engagement on these important issues and will provide another update to you through the Congressional Report Puerto Rico provides every six months to Congress.