

Remarks of Hector M. Pesquera

Secretary of the Puerto Rico Department of Public Safety
And State Coordinating Officer for DR-4336 (Irma) and DR-4339 (Maria)

Before the

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Thank you for inviting me to present my comments and observations to the Board related to the response phase of Hurricanes Irma and Maria, and some initial information about the recovery of Puerto Rico under the Governor's Central Recovery and Reconstruction Office (CRRO).

As you know, Puerto Rico has experienced a disaster that is not only unprecedented in our history, but one that is unprecedented anywhere in the United States. We were hit by two major hurricanes hit within weeks of each other – something that has never happened before in U.S. history.

Never before has 100% of a State or Territory been devastated like that which has occurred here, with every man, woman, child, business, and government entity impacted. Never before has the disaster response period for a large or catastrophic event lasted as long as it has here in Puerto Rico, where even today -- nearly 75 days later -- we are still in response mode for portions of the island. It is unprecedented that an entire State population lost power, water, and basic services, with devastation so extreme that it could take months to fully restore them. Add to that the fact that Puerto Rico is an island, which means that none of the solutions to our challenges are easy and the logistics chain to bring in needed resources is long, expensive and time consuming. In many ways, this is the first truly catastrophic disaster in U.S. history. To put this into context, early estimates of the cost by FEMA alone...which we are told are likely to rise... indicate that the Hurricanes represent an event with impact that's 2.5 times the size of Hurricane Katrina as measured on a per-capita basis.

No state anywhere is organized in peacetime to handle this magnitude of situation on their own, at least not at the beginning. In fact, the nation's emergency management structure is specifically designed on this premise, under the common understanding that it is impossible and impractical to maintain an apparatus of that size and complexity just in case a disaster occurs. To do otherwise is neither reasonable nor fiscally responsible.

Here in Puerto Rico, we had plans in place and teams of personnel in PREMA and other agencies who engaged before, during and after the storms, and have worked alongside their FEMA and other federal counterparts on immediate response. But like everyone else on the island, government capacity was itself a casualty of these catastrophic storms, and it has taken us time to reconstitute our teams.

This is why you saw the large federal response to the hurricanes in Puerto Rico. Our emergency management system is designed on the basis that disaster response starts at the local level, and assistance becomes available at progressively higher levels of government as capabilities get exceeded and resources are depleted.

That is also why our counterparts from across the country are here helping with response. Long prior to the hurricanes, Puerto Rico joined the Emergency Management Assistance Compact, or EMAC, which is a nationally-adopted mutual aid agreement among states to share resources during times of need. We moved aggressively in the aftermath of Irma and Maria to tap into this resource to help supplement our response organization with seasoned and trained experts, as well as to deliver key assistance in the field for activities such as power restoration, security, water, and other critical needs where State and local government was understandably overwhelmed.

This is all part of the plan – the design – of how emergency management works in our country. And this is why PREMA and the State agencies have been rapidly building capacity, both organically and through the engagement of expert contractor support, and are ramping up their efforts to restore government operations and deliver increased assistance to support the response and recovery efforts.

With all that in mind, I am providing you with some slides that will give you an update on where things stand today with our efforts.

Delivery of Assistance

In the face of this catastrophic incident, we have moved aggressively to build a capacity to provide technical assistance to those state agencies, municipalities and PNPs who experienced damages and are in need of financial assistance.

At the Grantee level, we have put in place and continue to build a team, augmented by some of the most qualified FEMA and recovery consultants in the country, to assist with managing the grants process.

The organization we've built and which we continue to expand provides not only command-and-control capability, but also expert staffing who are reviewing every request for resources, project worksheet, or hazard mitigation application that is being developed at the State or municipal level. Also, we have and will continue to provide technical assistance to State agencies and local applicants that is tailored to their specific needs. To do this, the team is being organized around specific areas of interest so that we can meet the needs of every

applicant in every region of the country. We have dedicated teams established for state agencies, PNPs, and municipalities divided up into eastern, central, and western zones. By organizing in that manner, the people on each team can maintain continuity with their applicants and help resolve funding issues throughout the response and recovery period. We can also shift resources between teams as priorities or requirements change.

This structure is one that has been tested and utilized as a “best practice” across the United States.

Using this structure, we have already moved quickly to deliver assistance for response and to initiate recovery. As you are probably aware, FEMA only approved funding for debris removal and emergency protective measures initially under this disaster declaration, and only recently approved permanent work. That said, we have made a good deal of progress getting funding to those most in need to cover related expenses:

- As of the end of last week, we obligated over \$426.7 million to 166 state agencies, municipalities and PNPs.
- \$377.3 million of the total amount of obligated funding has already disbursed to those state agencies and municipalities most in need.
- For permanent work on public buildings and infrastructure, FEMA and the Government of Puerto Rico are planning to implement an alternative approach under Section 428 of the Stafford Act that will allow us to develop cost estimates for eligible projects and establish a “capped” amount of funding (including hazard mitigation) that can then be used to build-back in a manner that addresses Puerto Rico’s current and future requirements rather than simply building back what was there before. This is a novel approach that was first implemented after Superstorm Sandy, but which has never been done across an entire disaster. As a result, we are working with FEMA on developing the guidance on how this will be implemented across all of Puerto Rico, and are beginning the engagement process with municipalities as early as this week to share information and seek feedback. We are hopeful that the use of Section 428 will streamline the time it takes to build back and help us do so to achieve greater efficiencies and resiliency in the years to come.

Longer-Term Recovery

Although we continue to be involved in active response operations in many parts of the island nearly 75 days into the hurricane disasters, we have also been preparing aggressively for recovery, building upon best-practices both nationally and internationally.

Toward this end, the Governor issued an Executive Order about four weeks to establish a Central Recovery and Reconstruction Office (CRRO) for Puerto Rico. The CRRO’s mission, simply put, is to obtain resources, provide financial accountability and oversight for recovery dollars and programs, coordinate government efforts supporting the recovery, provide

guidance and technical assistance, and direct the overall recovery effort. Omar Marrero, the current Executive Director of the Public-Private-Partnerships Authority, the Ports Authority, and the Convention Center District, was selected by the Governor to lead this organization and the longer-term recovery effort on behalf of the Government. Mr. Marrero will be extracting himself from most of his prior obligations to work on the disaster recovery effort on a full-time basis.

Since he was named by the Governor for this significant new role, Mr. Marrero has been hard at work developing the organizational structure, budget, and work plan for the CRRO, and in fact the P3 Authority will be officially creating the organization within its organizational construct tomorrow (December 6). The P3 Authority was chosen as the home for the CRRO due to its track record of success, its demonstrated capability managing and implementing large-scale construction projects, and its experience working across all of government and the private sector to achieve results. Mr. Marrero also led a government-wide effort to develop Puerto Rico's first request for Federal supplemental appropriations for recovery, which is currently before the Congress. That request was designed to give Congress an idea of the overall scope and magnitude of the needs we expect to have in the coming years, including for funding to support building back a more resilient Puerto Rico, and we remain hopeful that Congress will provide an initial down-payment on that request during the month of December.

The Supplemental Request is a good example of part of the role for the CRRO as envisioned by the Governor. Simply put, the CRRO is charged with speaking with "one voice" on behalf of Puerto Rico's recovery needs. But in addition to that mandate, the CRRO is committed to making this disaster recovery the most transparent one in U.S. history, providing unmatched accountability for the use of funds. It is also meant to break down the "stove-pipes" of the traditional government structure to allow Puerto Rico to address recovery needs holistically, across issue areas and agencies.

The need for this type of entity to coordinate and direct recovery efforts here in Puerto Rico is clear, but it is also considered a best practice after large disasters where substantial new funding is made available and recovery issues are highly complex. Similar organizations were developed and implemented in places such as Louisiana and Mississippi after Hurricane Katrina; Iowa after the 2008 Midwest Floods; New York and New Jersey after Superstorm Sandy; and several other multi-billion dollar events. The Governor looked at these and other recovery organizations in an effort to take the best from each, and then strengthened the model to allow Puerto Rico to have increased control over recovery priorities and programs, exercise additional oversight, offer greater transparency, and implement stronger financial management controls.

I am pleased to report that we coordinated closely with Mike Byrne, the Federal Coordinating Officer for the two Puerto Rico disasters, on the development of this new organization. In fact, Mike told us this weekend that he believed an organization like this is absolutely necessary, and that he supports the concept of the CRRO and the opportunity that it will provide to ensure transparency and work seamlessly with the federal community.

I know that the PROMESA Board has a great deal of interest in the controls being implemented. I am pleased to say that what the Governor and Omar Marrero are doing with the CRRO provides by all accounts – including FEMA – the strongest control structure ever implemented after a major disaster. But there's more:

- Puerto Rico will be engaging an internationally-recognized accounting firm to help us develop financial controls, policies, and procedures; provide ongoing QA/QC; and conduct assessments to protect against duplication of benefits and fraud;
- As part of Government reform and restructuring, the Governor has advanced the establishment of a centralized procurement office within the Puerto Rico Fiscal Agency & Financial Advisory Authority, or AAFAF. This group will be staffed by procurement experts whose sole mission will be to implement the procurement process on behalf of the Government and ensure that all contracting meets the requirements of both Puerto Rico and the federal government, including the requirements of 2CFR Part 200. They will also serve as the coordination point with the PROMESA Board for any contracts over \$10 million in value;
- Puerto Rico is and will be utilizing expert third-party consultants with expertise in managing FEMA, HUD, and other federal program funds to augment Puerto Rico staffing so that the Commonwealth will have more capacity and can properly manage grant dollars;
- The CRRO and the Puerto Rico Office of Management and Budget have established multiple checks-and-balances for the approval of both contracts and payments to provide accountability. Each action in these areas will require review and approval by the heads of the Office of Management and Budget and the CRRO, and will be reviewed by an internationally-recognized accounting firm as described earlier;
- Both the CRRO and the GAR have committed to utilizing proven grants management software systems that capture project documentation and provide business process controls related to the grant preparation, review, and approval processes, as well as addresses grant program requirements and protects against duplication of benefits; and
- The CRRO has announced its plans to develop and implement a transparency portal that will provide visibility related to how funds are being used and where.

In addition to the steps being taken by Puerto Rico, you should also understand that Federal oversight of the response and recovery funds will be stringent as well – something that we welcome. In fact, we are working with FEMA and the other federal agencies to ensure enhanced accountability. As you would expect, each funding agency will continue to implement their existing policies and protocols to oversee funds and activities implemented through their programs. But in an unprecedented action, Puerto Rico has agreed to allow FEMA to approve every drawdown of Public Assistance and Hazard Mitigation Grant Program funds, consistent with FEMA's guidelines developed specifically for Puerto Rico. Normally, after

FEMA approves a project for funding, the State government can draw down funds as required without additional FEMA approval.

To provide enhanced accountability, Omar Marrero and his team have already met with the Inspectors General (IG) offices from several funding agencies, and is inviting them to provide oversight and maintain a presence in the CRRO to make sure they understand how funds are being used and can raise concerns should any exist.

Also, in the structure of the CRRO, Puerto Rico is welcoming of Federal involvement and is including multiple coordination points in the organizational structure so that Federal departments and agencies can have some level of visibility and participation in the recovery planning and implementation process.

Conclusion

Hurricanes Irma and Maria present an unprecedented challenge, but we are doing what needs to be done and are making progress toward delivering needed assistance, stabilizing the situation here in Puerto Rico, and setting the stage for disaster recovery.

It is important to remember that it's been only about ten weeks since not one, but two Category 5 hurricane disasters impacted our island, and despite the fact that we all are survivors whose lives have been impacted and communities have been devastated, we have done a remarkable amount in a very short time.

There is still a tremendous amount of work that needs to be done, and we continue to build and grow the operation that we will need to manage response and recovery efforts in the weeks, months and years to come.

But I remain confident that "we've got this." We will be able to manage this disaster, deliver needed financial and technical assistance, and all the while maintain the necessary controls to provide financial accountability.