

# ECONOMY

All sectors united  
is the way out of our mess



## Think Strategically: The Positive Revolution

BY FRANCISCO RODRÍGUEZ-CASTRO  
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### Detroit into the light

As Puerto Rico processes the so-called “Puerto Rico Paro” of May 1, which opposed the actions of the Financial Oversight & Management Board (FOMB), the Government, Legislature and Private Sector, the people of Detroit are celebrating a more positive revolution. On April 30, the State Financial Review Commission (FRC), created in 2014 to oversee Detroit’s finances as it emerged from bankruptcy, unanimously approved an end to active oversight after the city delivered its third-consecutive audited balanced budget. Through the three years of oversight, the FRC was responsible for certifying all city budgets, collective bargaining agreements and any contract larger than \$750,000. While the Detroit FRC will

continue to exist for its slated 10-year term, it will not play an active role in the city’s management. The city is still required to present monthly financial reports and each year adopt a budget with a four-year financial plan. The city must maintain its fiscal responsibility with balanced budgets and meet specific predetermined budgetary requirements, and as it does so, the FRC will stay inactive until the end of its term.

Marking the end of active oversight management cuts the last strings of the city’s bankruptcy process and brings to a halt more than 40 years of state oversight over parts of the city’s operations.

Detroit’s oversight by a state or federal entity included:

- 36 years of federal court review of the Water & Sewerage Department related to environmental issues;

- A decade of U.S. Justice Department oversight of the Police Department

regarding law enforcement’s use of force and lockup conditions; and

Nearly a decade of Housing & Urban Development control of the Detroit Housing Commission.

As Detroit regains its ability to manage its operations, negotiate contracts and approve budgets without any oversight, it must maintain its fiscal prudence, and a process for financial planning and budget approval.

Mayor Mike Duggan, in a statement, expressed: “Today is an important day in the history of our city. Now, with the dormancy of the FRC and a reduction in state oversight, local control is returning to our city, and its elected officials can assume the role that voters expect us to carry out.”

### How did Detroit clean up its act?

Not only was the city obligated to deliver three balanced budgets

with surpluses, but it also created a 10-year budget forecast to ensure continued stability, with which it obtained approval from the credit-rating agencies, and upgraded the city’s bond rating.

### Detroit’s Financial Highlights & Fiscal Position

- Three-consecutive years of balanced budgets and operating surpluses (FY 2015, FY 2016, FY 2017) and FY 2018 expected to end with an operating surplus of about \$36 million;
- Total general fund balance of \$592.8 million at the end of FY 2017 vs. a \$73 million overall fund deficit at the end of FY 2013.
- Two credit-rating upgrades in less than three years.
- Income-tax revenue has increased 15 percent over four years.
- The property-tax collection rate increased to more than 80 percent in FY 2018.

- The FY 2017 Comprehensive Annual Financial Report (CAFR) finished four months earlier than the prior two years.
- The FY 2017 single audit of federal grant awards was completed at the same time as the CAFR.
- Created a budget reserve fund, which the city must maintain with a minimum balance equal to 5 percent of annual expenditures.
- Executing a strategy to address legacy pension contributions that resume in FY 2024.
- The mayor and city council passed new legislation to create the Retiree Protection Fund (RPF), an irrevocable Internal Revenue Code (IRC) Section 115 trust, to gradually build up assets and budget capacity of RPF contributions to total \$335 million (plus interest) through FY 2023, with \$105 million provided.

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- Began taking actions to reduce recurring debt-service expenses.

### Implementation of Financial Management Infrastructure

- State law established a Chief Financial Officer (CFO) position vested with authority over all financial and budget activities;
- Restructured all finance, budget, procurement, property assessment and grants-management functions and created a new centralized financial-management organization called the Office of the Chief Financial Officer (OCFO) based on leading government practices and industry standards;
- State law established an independent, permanent Revenue Estimating Conference to review and certify city revenues. Revenue Conference participants include: The city's CFO, the state Treasurer or designee and

a person affiliated with another public entity, including a state institution of higher education, with experience in economic forecasting;

- Replaced the annual budget with a four-year financial plan, which ensures the city will have a balanced budget annually;
- Established vital budget principals to provide long-term budget balance;
- Created a system for documenting, issuing and implementing fundamental process flows, policies, standard operating procedures and detailed work instructions for all operations within the OCFO;
- Implemented new grants-management, e-procurement and cloud-based financial management systems. Implementing new human resources and payroll system.

Source: City of Detroit

As can be seen, the Detroit Fiscal Oversight process and Puerto Rico's FOMB have many similarities. For Puerto Rico, as a commonwealth,

its taxing power and broader assets and revenues provide a more extensive-scale opportunity to exit the fiscal imprudence that has become common in Puerto Rican politics. While we debate if the FOMB is good or bad, democratic or not, Detroit faced the music, spearheaded pension cuts, and gut government staff, services, parks, recreation centers and even street sweepers. Detroit filed for bankruptcy on July 13, 2013 and, in more or less than five years, restored its credit and reputation as both a city and as a bond issuer. On June 29, 2015, Puerto Rico's then-Gov. Alejandro García Padilla stated the island's debt was not payable and, on June 30, 2016, Promesa was signed into law creating the FOMB. If we are to emerge from our self-inflicted bankruptcy, we must stop our bickering and start executing the certified fiscal plans. There is no more excellent evidence of self-determination than proving others wrong. My message to all parties involved is talking less and doing more.

### Final Word: The Positive Revolution

A revolution is a dramatic change in power or organizational structure that takes place in a short period. Over the course of the past two years, we have seen many oppose the changes that need to occur in Puerto Rico, from government employees to the University of Puerto Rico, seeking to maintain jobs we can no longer afford or, in the UPR's case, supporting byzantine pricing structures that have damaged the university.

The thought of a Positive Revolution is not uncommon. Dr. Martin Luther King became the face of nonviolent action as he led the civil rights movement.

The only way Puerto Rico can win is if we can turn around our finances—just like the city of Detroit recently managed to accomplish. We cannot continue to be petulant ingrates who oppose every single action the FOMB takes. As much as it pains me to admit it, politicians from all parties



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got us into this bankruptcy, and politicians will not willingly get us out of this mess. It is for this reason that the FOMB and its members exist, although performing their services for free, and understanding a higher purpose will always be vilified by protesters and politicians.

This Positive Revolution of which I write is not a set of promises; it is a set of challenges. The Positive Revolution is what every Puerto Rican must propose and execute to create a new Puerto

Rico. The Positive Revolution is how we unite all sectors to improve our way of life. The Positive Revolution is the sacrifice. The Positive Revolution is hard work and long hours. The Positive Revolution is a scarcity mentality and frugality. The Positive Revolution is educating our children as our most precious asset. The Positive Revolution is becoming good neighbors and respecting one another. The Positive Revolution is every citizen aspiring to be a change agent. The Positive Revolution is what Puerto Rico needs to mature, grow and prosper.

As a final thought, we share the words of Indira Gandhi, who stated: "You cannot shake hands with a clenched fist." Puerto Rico cannot change its ways without an open mind.

*Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.*

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Sé parte del evento que reúne a los compradores y suplidores más importantes de la Industria de Alimentos en Puerto Rico



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