

**Statement of Congressman Pedro R. Pierluisi**  
**Committee on the Budget**  
*March 11, 2009*

Chairman Spratt, Ranking Member Ryan, and distinguished Members of the Committee:

Thank you for the opportunity to comment on the Fiscal Year 2010 Budget. I will begin with a general remark on the President's Budget as outlined to Congress and then briefly highlight several matters of particular importance to the four million U.S. citizens I represent. I respectfully ask that you address these issues in your report and funding allocations.

First, the general comment. I believe President Obama's submission to Congress represents a sound plan to jump-start the national economy in the short term and to lay a new foundation for growth over the long term. The Budget Resolution should embrace the President's plan in its broad contours.

Moving from the general to the specific, I urge the Committee to consider the following issues that are unique to Puerto Rico—or that are unique to Puerto Rico and the other U.S. territories.

## **Health Care Reform**

The first subject is health care. The President's Budget reflects his commitment to fundamentally reform our health care system to provide quality care to all Americans. For Puerto Rico, genuine reform will be impossible unless changes are made to the way the Island is treated under Medicaid and Medicare. Recognizing this fact, President Obama has pledged—most recently in a letter to Governor Luis Fortuño—to “seek equal coverage of Puerto Rico” under these two programs.

## ***Medicaid***

With respect to Medicaid, Puerto Rico is subject to a cap that limits the amount the federal government can contribute to the Island's Medicaid program each year. No such cap applies in the states. Because Puerto Rico's cap is so low, the actual federal contribution to the Island's Medicaid program—its effective FMAP—is about 22%. The Puerto Rico government is responsible for the remaining 78%. By contrast, the minimum federal share for any state is 50%, and Medicaid programs in the poorest states can receive more than three-quarters of their funding from the federal government. The harm caused to patients in Puerto Rico and to the local government's finances is difficult to overstate. For this reason, President Obama has pledged “to continually raise[] the cap on federal contributions to Medicaid in Puerto Rico until it disappears.” I respectfully request that the Budget Resolution honor this commitment and provide for a phase-in of equal funding.

## ***Medicare***

President Obama has also pledged to phase in equal treatment of Puerto Rico under Medicare. Although Island residents pay the same Medicare payroll taxes as their fellow citizens in the states, Puerto Rico is treated worse than a state under this federal program in at least four respects.

First, Puerto Rico is the only jurisdiction under the Prospective Payment System where hospitals do not receive 100% of the national payment rates. Instead, payments to Island hospitals are based on a blended formula derived from a blended formula based on 75% of the national rates and 25% on local costs. This formula yields per patient payments to Puerto Rico hospitals that are considerably lower than the payments made to stateside hospitals.

Second, Puerto Rico hospitals serving large numbers of low-income patients do not receive fair DSH reimbursement because SSI, a major factor in calculating such payments, has not been extended to the Island. A commonsense short-term solution—to simply adjust the DSH formula to account for Puerto Rico's particular situation—has not been adopted by Congress to date.

Third, Puerto Rico is the only U.S. jurisdiction where individuals enrolled in Part A are not automatically enrolled in Part B. The upshot is that Puerto Rico has the lowest Part B participation in the country and Puerto Rico seniors pay millions of dollars in recurring late enrollment fees each year.

Fourth, whereas the states receive federal subsidies—based on need—to help their low-income residents purchase prescription drugs under Part D, Puerto Rico receives only a limited block grant for this purpose.

In light of these disparities, as well as President Obama’s pledge, I respectfully ask that the Budget Resolution phase in equal treatment for Puerto Rico under Medicare.

### **Assistance for Working Families and Students**

The second subject is federal assistance for working families and students.

First, the refundable child tax credit. Workers in Puerto Rico with three or more children are eligible for CTC assistance based on payroll taxes, but Island workers with one or two children are not. The President has pledged to extend this assistance to low-income Puerto Rico workers with one or two children, and his Budget would expand the refundable child credit. The final federal budget should reflect the pledge made by the President to Puerto Rico families.

Second, both the Making Work Pay credit for workers and the refundable portion of the American Opportunity credit for students have been extended to Puerto Rico through a block grant that enables the Island’s local treasury to provide the assistance. The President’s budget would make both forms of assistance permanent, and the final budget should be calculated with the respective grants to Puerto Rico in mind.

Third, the President has pledged to extend Earned Income Credit assistance based on payroll taxes to low-income Puerto Rican workers. His budget would expand the EITC. The final budget should reflect the President's pledge on this score.

### **Other Tax Issues and Programs**

The third, and final, subject involves certain other tax-related programs.

First, for over 90 years, a percentage of the excise tax collected by the federal government on rum produced in Puerto Rico and imported to the states has been transferred to the Island's treasury. Current law provides for \$13.25 of the \$13.50 per proof gallon tax to be "covered over" in this manner. The provision of law providing for \$2.75 of this amount to be transferred will expire at the end of this fiscal year. That provision has been regularly extended in the past. The final budget should account for a further extension.

Second, manufacturing is twice as important to Puerto Rico's economy as it is to the economy of the states. The Island has been particularly hard-hit in recent years as labor-intensive manufacturing jobs are shipped overseas—due primarily to free trade agreements. The President's budget proposes to reform the deferral regime under which income from controlled foreign corporations, including CFCs in Puerto Rico, generally is not taxed by the United States until it is repatriated. The goal is to discourage companies from shipping jobs to foreign countries. By contrast, the President has pledged to

propose to Congress—by this summer—measures to encourage investments to create jobs for the U.S. citizens of Puerto Rico. The final budget should anticipate and accommodate such measures.

Finally, Section 199 of the Internal Revenue Code provides a tax deduction for domestic manufacturing. It applies to income from domestic subsidiaries in Puerto Rico of companies based in the states. That deduction expires at the end of the fiscal year. It has been extended in the past. In order to provide parity with the states, the final federal Budget should provide for a permanent extension.

Mr. Chairman and Members of the Committee: thank you for hearing me out. And thank you for your consideration of these requests.

