



September 2, 2016

Senator Orrin Hatch
Chairperson
Congressional Task Force on
Economic Growth in Puerto Rico
U.S. Congress
Washington, DC

Dear Chairman Hatch & Task Force Members:

Thank you for the opportunity to present to the Task Force our ideas and recommendations to restore economic growth, create new industries and initiatives in Puerto Rico, USA that would create thousands of well-paying jobs, reduce migration, and ensure an efficient smaller government, with a greater focus on fiscal discipline, all for the benefit of 3.6 million of American Citizens living in Puerto Rico, USA. The private sector represents a major employer, trade and business engine that generates most private sector jobs. The private sector is also the principal source of local tax revenue.

We note from a historical perspective that US policy has driven the economy of Puerto Rico, USA since 1940. When this policy was withdrawn in 1996, our economy has suffered and when it has been in place it has grown and provided job opportunities and better wages for workers. We note that these historical policies have created a very unique manufacturing intensive economy where today direct and indirect manufacturing employment represents one-half of our GDP and serves as our primary taxpayer.

Our initial recommendation must be that must create long term goals, goals that are respected, supported and understood by every citizen. We could call them **Supra-National Goals**, these are goals that will go above and beyond any government or political party and they must be goals that everyone in Puerto Rico, USA should understand, protect and preserve.

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Supra-National Goals

- Transform Puerto Rico, USA into a high-growth, increased development area by increasing the GDP to 4% in 2 years.
- Create 150,000 new American Jobs in 6 years.
- Increase our labor participation rate to 55% in 6 years.
- Reduce our unemployment rate to less than 7% in 6 years
- Reduce our current government by transferring every activity that the government is currently involved in to the private sector using the Public Private Partnership Model.
- Transform our educational system from PK-12 into a system focused in entrepreneurship, trade school and aptitude development.
- Measure Puerto Rico's, USA progress with all available peer group comparison rating WEF, World Bank and others.

Below are some recommendations:

Section 245- Dividends received from certain foreign corporations- It's been well documented that major U.S. multinational corporations are stockpiling profits offshore to avoid U.S. taxes. Congressional hearings over the past few years have raised awareness of tax avoidance strategies of major technology corporations such as Apple and Microsoft, but, as this report shows, a diverse array of companies are using offshore tax havens, all told, American Fortune 500 corporations are **avoiding up to \$695 billion in U.S. federal income taxes by holding \$2.4 trillion of "permanently reinvested" profits offshore**. In their latest annual financial reports, 60 of these corporations reveal that they have paid an income tax rate of less than 10 percent in countries where these profits are officially held, indicating that most of these monies are likely in offshore tax havens.

1. **Puerto Rico, USA Economic Development Act-** We recommend the establishment of an economic development strategy with the creation of a tool to repatriate all funds of US corporation currently in foreign jurisdictions, by establishing the Puerto Rico Economic Development Act of 2016, this act would provide all US Corporations with the tool to repatriate all their foreign income to the US in a multi-year phase to promote the economic development of Puerto Rico, USA. **The main beneficiary of this new income will be the US Internal Revenue Service and Puerto Rico, USA only benefits with the creation of new American jobs and new industries.**

- (a) **How it works-** US Corporations selecting to repatriate funds would have to establish an operation in Puerto Rico, USA as point of entry to the US and creating a minimum of 100 employees or more, by doing so the corporation would receive a net effective tax rate of 7% if the US corporation's elects to establish operations in Puerto Rico, USA. These operations can

utilize the local act 73 or act 20 to further enhance their operations in Puerto Rico, USA.

- (b) **How to repatriate-** If the US corporation selects to establish operations in Puerto Rico, USA it must agree to do so for a minimum of 15 years and by doing so it would receive the tax rate benefit for the 15-year period, with the corporation being obligated to maintain in the Puerto Rico financial system a minimum of 50% of its foreign income in order to receive the tax benefit. Moreover, the corporation would receive additional benefits if it increases its headcount in Puerto Rico, USA.
 - (c) Puerto Rico, USA can become the point of entry to every US Corporation, wishing to repatriate.
 - (d) Auditing US Corporations will be easier and would follow GAAP Policies.
2. **Government Development Bank for Puerto Rico (GDB)-** Allow the GDB to become a NY Fed member for the same period that the PROMESA Board is in place and guarantee its solvency and operations to nurture its existence. Within the GDB there are assets with a value of over \$8 billion, these assets are currently affected by the fiscal crisis and the FED could develop a strategy similar to the Maiden Lane LLC transaction. **Maiden Lane LLC** was created when JPMorgan Chase took over Bear Stearns in early 2008. Bear Stearns held an asset portfolio that JPMorgan found too risky to assume in whole, and consequently the Federal Reserve Bank of New York created Maiden Lane LLC and extended a \$28.82 billion loan to it. JPMorgan lent an additional \$1.15 billion. Maiden Lane used the money to buy approximately \$30 billion of Bear Stearns's assets which it then sold "while refraining from disturbing general financial market conditions.
3. **Public Private Partnerships-** utilizing congressional legislative action or thru the PROMESA bill to promote, support and enact that the Puerto Rico Government divest thru Public Private Partnerships its interest in most public corporations. These could include:
- a. State Insurance Fund
 - b. Puerto Rico Electric Power Authority (PREPA)
 - c. Puerto Rico Aqueducts and Sewer Authority (PRASA)
 - d. Administration for the Compensation of Automobile Accidents.
 - e. Obligatory Insurance Fund.
 - f. University of Puerto Rico Assets.
 - g. Puerto Rico Ports Authority.
 - h. Local Redevelopment Authority for Naval Station Roosevelt Roads.
 - i. Convention Center District and Coliseum of Puerto Rico.
 - j. Corporation of Musical Arts, Center for Performing Arts Luis A. Ferre
 - k. Conservatorium of Music.

- l. Transfer the operations of all Government owned real state to an entity to administer and repurpose their operations and performance.
 - m. Convert into Public Private Partnerships the remaining highways such as PR52, PR66, PR30, PR2 and any other road needed to perform this task.
- 4. **Lifting Statutory caps on Medicaid and Reform the Medicare Reimbursement Formulas-** lifting the statutory cap on Federal Medicaid funding for Puerto Rico, USA. We also note that if this issue is not addressed in the coming fiscal year, Puerto Rico, USA is likely to face another serious crisis that will result from the exhaustion of an allocation of extra funding provided by Congress as an alternative to lifting the cap in 2010. When the "Medicaid Cliff "occurs in 2017, Puerto Rico, USA will lose 75% of its Federal Medicaid funds with crippling results on its low income population and health care providers. It is pertinent to mention that, according to the U.S. Census Bureau, 46% of the population in Puerto Rico, USA is at or below the poverty line. In tandem, we urge Congress to work with the Centers for Medicaid and Medicare Services (CMS) to reform the Wage Index and provide a proxy for the SSI that direct disparate treatment of Medicare reimbursements for our hospital, doctors and clinics. ensure stable and adequate Medicaid funding for Puerto Rico, USA into the foreseeable future.
- 5. **Reducing the cost of Doing Business in Puerto Rico, USA-** although this might be viewed as mostly a local endeavor, we must point out that there is large degree of duplicity between agencies of the local and Federal government that perform basically the same duties as the other, the task force should develop a strategy to reduce, eliminate duplicity or sign alliances to implement the agencies public policy while attempting to reduce the cost of doing business in Puerto Rico, USA.

In Conclusion

Puerto Rico, USA has been more than a decade in an economic contraction and even though the country has made several efforts to revamp our economy these efforts have not been positive. Now after two decades of fiscal imprudence, excessive spending, salary and benefits increases without metrics to all public employees, we must now add the liquidity crisis and absence of Access to the capital markets. Puerto Rico, USA has been facing a crisis of a magnitude no other US State or territory has faced.

A topic of recurrent analysis of Puerto Rico's Economy has been its weak performance for the past three decades. During this period our economy grew at a paltry pace of 2%, well below the rhythm of our peer group, something that is clearly evident when Puerto Rico, USA is measured by all international rankings.

Joseph Schumpeter, the famous Austrian economist, used the term "creative destruction" to describe the market forces and its function to promote constant innovation, by adopting this reality when our economic reality changes, the country must focus towards new industries and initiatives to reactivate the economic engine.

Now that PROMESA is about to begin its work we should expect that opinions against and in favor of the board have and/or will become more active. Already The Puerto Rico Chamber of Commerce organized the 1st PROMESA Conference held on August 31st, 2016 to inform its members and the community at large on how the law would impact the economy, businesses, and every sector of society. In the weeks prior to this event which both our firms created, sponsored and organized with the Chamber, a number of groups announced that protesters opposing PROMESA and the federally appointed board, would conduct acts of civil disobedience in front of the hotel hosting our event.

Cognizant of all American Citizens First Amendment rights to peacefully congregate and protest, we coordinated with the Puerto Rico Police Department (PRPD) to ensure protesters had a very visible assigned area for their protest while providing adequate access to people attending our event.

The reality captured by the media and many witnesses was very different. The videos and pictures sadly show too many American citizens in the island being verbally abused and physically harassed by protesters who obstructed them from exercising their own First Amendment rights. All of this happened under the watchful eye of over 100 PRPD police officers who didn't do much to protect conference-goer's rights. We can only suppose the PRPD police were under orders to protect the protesters rights over ours.

In order for PROMESA to fulfil its promise, everyone living in Puerto Rico needs to be ensured their rights to assemble and educate themselves on any matter regarding the PROMESA legislation. If the PRPD, or the Government of Puerto Rico, won't act to protect peaceful conference participants, then we must demand the federal government step in and protect us from thuggery.

As a final suggestion we recommend that the Task Force and the Board outline clearly these key questions.

- What does success look like? (based of world bench marks)
- Who will be accountable?
- What is required to succeed?
- How will we measure success?

As the founder and former Chairman of the Private Sector Coalition (2005-2013) and a key private sector voice seeking the constant economic development of Puerto Rico, we would like to offer our help and advice to the task force and the board to further improve the economic reality of Puerto Rico, its citizens and all constituents.

Sincerely yours,



Francisco Rodriguez-Castro
President & CEO
Birling Capital LLC



Luis De Jesus, CPA
President & CEO
Select Global Advisory Group

