

***Summary of Recommendations to the Congressional Task Force  
to Promote Economic Growth for Puerto Rico***

✓ **Encourage Disruptive Innovation and Change:** In the U.S. Congress, both the proposed “*Social Impact Partnership Act*” (H.R. 5170) and the “*Social Impact Bond Act*” (S. 1089) provide the framework for the prompt passage of meaningful legislation specifically tailored to encourage and support social entrepreneurship as a means to reform federal programs as applied to Puerto Rico. Pay-for-success contracts (PFS), also known as social impact bonds, establish and facilitate a substantive relationship between the public and private sectors. Social entrepreneurs can play the significant role of change agents by identifying social programs that work, ensuring that money is spent in ways that benefit both service recipients and taxpayers, and by helping improve the effectiveness of federal social programs as applied to Puerto Rico. Federal law must also grant the flexibility to scale-up successful models without the need to return to Congress. Key areas where this model can be used include:

- **Increases to Labor Force Participation Rate:** The PFS model is well suited to manage job training programs that help workers achieve full-time employment with competitive wages. Such programs can be quantitatively assessed through measurement of employment and wage data. As part of an overhaul of the federal welfare system as applied to Puerto Rico, that (1) includes an extension of federal tax credits such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to Puerto Rico residents, and (2) can be further expanded to conditioning benefits on common-sense work requirements (working, training, or volunteering on at least a part-time basis) for able-bodied childless adults, clear and significant cost savings for the federal government will ensue given the large amount of federal transfer payments relating to the unemployed or underemployed.
- **Improve Public School Education:** Federal law and programs relating to education as applied to Puerto Rico must promote a rapid transition to local accountability for the public education sector. Unlike the states, Puerto Rico lacks the experience with the governmental decentralization efforts that have allowed the states to retain and strengthen institutional frameworks for local accountability despite an increase in federal intervention and funding. Public school choice programs advance market accountability. By weakening the link between residential address and school assignment, market pressures are introduced into unresponsive districts, thereby improving education for all students. Public school choice is an area where social entrepreneurs have contributed to truly transformative and disruptive change.

- ✓ **Implement a Timely, Temporary and Targeted Stimulus Package:** In order to minimize “scarring” in Puerto Rico (i.e., long-lasting damage to individuals’ economic situations and the economy more broadly), supply-side reforms and incentives to increase labor force participation, combined with a kick start from a demand-side stimulus package, seems like the most promising combination to reverse an economic contraction that has resulted in an accumulated reduction in the Gross National Product (GNP) of 14% since 2006. Such a package would be (1) conditioned on Puerto Rico adopting supply-side reforms similar to those outlined in the Commonwealth’s Fiscal and Economic Growth Plan and (2) designed only to grant a transitional boost pending the full effects of such comprehensive supply-side reform. The contours of such a package should include:
  - *Adequate and Fair Participation in the Infrastructure Revitalization to Stimulate the U.S. Economy:* If such a program is adopted by Congress for the U.S. economy, Puerto Rico’s participation should be in the form of a block grant. To the extent that Congress predetermines allocation of funds based on spending categories, differences between the states and Puerto Rico must be accounted for, rather than once again relying on a one-size-fits-all approach. The role of the Revitalization Coordinator established by PROMESA could be expanded to assign priority to public works projects consistent with the Fiscal Plan.
  - *Payroll Tax Holiday:* The Task Force should revisit the payroll tax holiday previously proposed by Senator Orrin G. Hatch for Puerto Rico, subject to some modifications. While the efficacy of payroll tax cuts directed at employers has been questioned, this may be the best policy choice for Puerto Rico given its reliance on imports for consumption. Directing such a tax holiday to employers, rather than to employees, as proposed by Senator Hatch, and conditioning them on new hires, can have a forceful impact that grants a transitional boost pending the full effects of comprehensive supply-side reform. The effect on employers would be similar to that of reducing the minimum wage, but unlike a reduction of the minimum wage, it would not discourage work.
- ✓ **Adopt a “True” Territorial Tax System for Puerto Rico:** If Puerto Rico is to be granted a fair shot at competing in the globalized economy, the federal government must adopt a taxation system for Puerto Rico that reflects true tax neutrality, rather than perceiving Puerto Rico as a threat to its tax base. The role of direct foreign investment as catalyst for economic development in Puerto Rico cannot be underscored enough. Promoting such investment is, however, inextricably woven to federal law and policies. As a territory of the U.S., Puerto Rico must often compete for the type of “marginal opportunities” where taxation plays a significant factor in investment decisions. If Puerto

Rico is to be allowed to compete despite its political status, the U.S. must avoid a tax system for Puerto Rico that “violates neutrality to the extent it raises the minimum required pre-tax return on an investment and thus influences the business’s decision-making process regarding an investment.” Because only a “true” territorial tax system results in tax neutrality, the Task Force should recommend that the federal government apply such a system by excluding Puerto Rico source income from federal taxation, in lieu of the worldwide taxation model currently in place for businesses.

- ✓ **Foster Energy Competition in Puerto Rico:** With the exception of a couple of independent power producers (IPPs), all power generation, transmission, and distribution in Puerto Rico is currently performed by Puerto Rico Electric Power Authority (“PREPA”). As a vertically integrated and monopolistic utility that performs generation, transmission and distribution functions, currently struggling with its own fiscal crisis, PREPA has an incentive to privilege its own plans and investments before potentially exploring more competitive options, such as solar and other renewables. Through incentives or federal program participation requirements, the federal government should encourage the establishment of an independent system and market operator (“ISMO”) for Puerto Rico.
  - Stripping PREPA of planning, procurement and contracting of new power, and system operation creates a neutral and conflict free institution that will best allocate responsibility for capacity building between public and private institutions;
  - Housing the buyer or market operator function in the ISMO ensures that the purchaser has no preference to dispatch one generator over another, other than price and reliability; and
  - The introduction of an ISMO can isolate PREPA’s credit risk from new investment. Currently, Puerto Rico’s existing rate structure contemplates a charge billed to customers to be used solely for the purchase of fuel and energy. This charge could be transferred to the ISMO to pay for power generation resulting in lower costs for consumers by reducing payment risk to suppliers.
- ✓ **Healthcare Parity:** Puerto Rico is facing a significant health crisis. The time is always ripe to do the right thing, and denying U.S. citizens in Puerto Rico and the other U.S. territories equal healthcare benefits under long-established social welfare programs defies American values of fairness and equality.

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