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Puerto Rico Task Force Economic Maintenance and Development Priorities.

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The only way to assure the long term payment of the money owed by Puerto Rico to its creditors is to maintain the current primary income and wealth generating activities and if possible to increase these activities to maintain or increase the current treasury department revenues. Since manufacturing in Puerto Rico currently represent approximately 47.6% of the GDP, the manufacturers are paying directly approximately 33% of all the yearly tax revenues of Puerto Rico and generate approximately 220,000 direct and indirect well paid jobs that also pay taxes and provide primary income into the economy; it is therefore a priority to protect and promote activities in this important economic sector in Puerto Rico which has the highest potential for rapid growth and revenue generation as a priority. What is usually unaccounted is the continuous capital investments in the range of over 100 Million per year per manufacturing site and the fact that most all is primary or new income product of the sales of exports. Federal and local tax incentives are urgently needed as well as other measures to improve cost competitiveness of the island of Puerto Rico to maintain and attract manufacturing operations and other wealth generating activities of foreign and local capital alike.

Therefore, the following are important measures to maintain and attract new manufacturing operations some of which can be promptly applied.

1. The task force should promote federal legislation to modify the federal tax code to provide federal tax incentives to US companies that establish new manufacturing operations in Puerto Rico. The Puerto Rico manufacturers Association and the coalition of professional organizations have prepared a proposal of this nature named the Economic Growth Proposal that can be used as a starting point.
2. The current local tax decrees or tax contracts under Puerto Rico law 73 of 2008 made between the government of Puerto Rico and the investing manufacturers must be honored for the life of the agreement. The operations that hold a tax decree should not be subject to any new tax for the duration of the tax decree term as the spirit of the agreement is to establish the tax liability for the duration of the investment life and the decree. This is important for credibility and trustworthiness of the strategies.
3. In order to maintain and attract new manufacturing operations the provisions of law 73 of 2008 need to be maintained and if possible improved to improve the competitiveness of Puerto Rico against other jurisdictions such as Ireland, Singapore, Mexico, Dominican Republic and Costa Rica to name some competitors that are also offering incentives. New tax contracts or decrees must be promptly awarded to new qualifying

manufacturing expansions or new operations. The award or the agreements needs to be completed prior to the capital investment so that the investors can move forward with confidence. Renewal of expiring contract will also be important to maintain the current operations.

4. The task force should be receptive to promote facilitating new capital investment opportunities by supporting an express or rapid permitting process of these activities. A team should be assigned to be dedicated to the attention and rapid approval of wealth generating activities and opportunities. Wealthy generating activities refers to manufacturing not commerce or housing projects.
5. Government investments should support the needed utilities, and road and infrastructure improvements required by a committed new manufacturing capital investment opportunity. Investments should be made to ready industrial parks for more new manufacturing activities. The practice of developing building shells for lease by PRIDCO should continue.
6. The Task Force should also look into ways to help improve other costs such as those related to electrical power, potable water, waste water disposal, transportation, shipping and any other cost to make Puerto Rico more competitive than other competing jurisdictions such as Ireland, Singapore, Mexico, Dominican Republic and Costa Rica to name some competitors that are also improving their overall offering to attract economic wealth generating activities.

The local mechanism or economic development tool that has been used for decades to attract manufacturing operations in Puerto Rico includes the award of tax incentive contracts or tax decrees now under the provisions of local law 73 of 2008 or under the previous law that expired in December 2007. These tax contracts provide an agreement of the Puerto Rico government to offer a reduced tax rate and specific incentives to companies that agree to invest capital and generate wealth in the form of a manufacturing related business volume and/or employment revenue or count. The revenues and volumes and/or other measurable benefits to the Puerto Rico economy are part of the agreement or decree which has a typical life of 15 years. The concept of the tax decree is to provide the investors a way of establishing their total tax rate or tax liability for the life of the investment. Most manufacturing operations have a current tax decree and are also relaying on the provisions of the current economic development law 73 of 2008 to obtain new decrees for new expansions. These tax incentive measures are required because the rest of the world, our competitors are competing in the same manner. Puerto Rico also enjoyed Federal tax incentives to promote manufacturing most recently in the form of tax code section 931 granted in the 1956 to 1975 range then followed

later by section 936 granted in 1975 and scheduled to be phased out in 1995 with an end in 2006. Those who live and work in Puerto Rico and know our economic development history know that the reality is that this federal tax law change after more than 60 years of incentives and the changes to the local tax incentives laws over the years have been responsible for the economic growth decline side of the Puerto Rico crisis because **there has been and still is no substitute for the wealth and benefits that the manufacturing operations provide to the Puerto Rico economy.** Tourism with all of its promotion and visibility is only providing 7% of the GDP. This is good also but to replace the 46.7% of the GDP that manufacturing is providing as well as paying 33% of all taxes, you may need all of the tourist in the planet to come to Puerto Rico or at least to increase it by more than 600%. Promoting all primary wealth generating activities is good, but you must see that manufacturing is our best opportunity.

Puerto Rico already has a strong manufacturing base including human resources that are among the best in the world with local leaders that are capable of world class operational excellence and results. We also have an ecosystem of local supplier's and consultants that are among the best in the world and we still have a much better infrastructure than many competing jurisdictions in the world. All that we need is for the federal and local government to decisively promote and support the maintenance and growth of the largest wealth and primary income generating economic activity which is manufacturing.