



## **ATTACHMENT 1**

### **PROPOSED ECONOMIC GROWTH AND DEVELOPMENT STRATEGIES**

#### **Health**

The importance of the health care sector to the Puerto Rican economy and its 3.4 million U.S. citizens cannot be overstated. We appreciate your interest and your willingness to engage on issues of vital importance to the 3.4 million U.S. citizens living in the Commonwealth. We believe that any long term solutions to Puerto Rico's fiscal crisis must include equitable treatment in Medicaid, Medicare, and other health care laws.

*Background.* The health care sector is a vitally important component of the Puerto Rican economy, and 85,000 Puerto Ricans work in health care-related fields. Notably, the segment is also underfunded when compared to all the jurisdictions within the US healthcare system. Total resources average \$3,400 per capita compared to the national average of \$10,000. This difference is naturally of great concern, but also illustrates a clear context where the most cost-effective healthcare will still be provided even after significant funding increases. The Commonwealth is heavily reliant on federally sponsored health care programs: at least 60 percent of the island's population is enrolled in Medicare or Medicaid. The Island has more Medicare beneficiaries than 25 states, of whom 45 percent are low income, and has the 12th largest Medicaid program in the country. To break it down, there are 1.4 million Puerto Ricans enrolled in Medicaid, 570,000 in Medicare Advantage, and 280,000 who are dually eligible for Medicare and Medicaid. As detailed below, the Puerto Rican health care system is in crisis. Resolving its many problems is absolutely critical to addressing the Island's overall economy.

*Migration and Cost Indexes.* Dramatic pay disparities are motivating doctors and other health care professionals to leave Puerto Rico, moving to Florida and elsewhere in the United States. For example, a family or general practitioner practicing on the mainland earns an average of \$197,090 per year. In Puerto Rico, that same physician would earn \$73,300. As a result, Puerto Rico is losing an average of one physician per day. Consequently, US citizens residing in Puerto Ricans are losing access to both primary care physicians and specialists throughout the island and hospitals closing their doors.

Doctors and health care professionals are not the only ones choosing to migrate off the island. The Commonwealth's economic instability is contributing to the decision of many Puerto Ricans to seek employment opportunities on the mainland. Puerto Rico is the poorest jurisdiction in the United States, as measured by median income, and over the past five years, more than 350,000 Puerto Ricans have moved to the mainland in what is now being reference among scholars as the Second Great Migration.

Migration has the effect of increasing overall health care spending for the Medicare and Medicaid programs. According to the American Community Survey conducted by the US Census Bureau (2010-2014), the average annual health care cost for a Medicare beneficiary living in Puerto Rico

is \$5,856; when that beneficiary moves to the mainland, the nationwide average is \$9,636. Average annual Medicaid spending in Puerto Rico is \$1,980; the national average is \$6,060. This disconnect is particularly striking given that many of the core components of health care spending are more expensive in Puerto Rico than on the mainland. The cost of prescription drugs, equipment, supplies, electricity and other non-labor costs are all at or above national average levels. The cost of living in Puerto Rico is approximately 15 percent higher than in the mainland and yet the only way to manage program underfunding is to keep labor costs low. This creates a vicious cycle that suppresses the compensation of professional work in federal payment calculations.

Migration also reduces the size of the labor force and the available tax base, which in turn aggravates the fiscal situation of the government. The status quo is producing a dangerous spiral which undermines the financial stability of the Island's broader economy. In addition, migration to the mainland results in an increase in government spending by the host states as an increased population base requires increases in education, health care and other government services.

*Disparities.* Our concerns are not limited to pricing disparities; we also need to ensure appropriate access. Differences in program design and operation have resulted in very different health care outcomes. For example, our review of STARS quality measures performance in recent years point to lower ratings in Puerto Rico that can be tied to the lack of benefits levels that are available to similarly situated individuals elsewhere. Another reflection of the distinct scenario is the increasing prevalence of high utilizers with multiple complex health and social conditions, as identified by the Government's Health Insurance Plan (GHIP) program. We also face the highest prevalence of several chronic conditions, including hypertension, diabetes, asthma, and depression.

*Systemic Challenges.* While familiar programs such as Medicare, Medicaid, and the Affordable Care Act exist in Puerto Rico, they operate under different rules than those that apply to the rest of the country. Those differences serve to perpetuate disparities and contribute to economic destabilization on the island. We urge the Task Force to examine these systemic challenges as part of its work and to propose reforms that will bring stability and predictability to Puerto Rico's health care delivery system and, consequently, to the Island's broader economy.

*Medicare.* Puerto Rico has been included in the Medicare program since its inception. However, a number of key differences exist in the way the program is applied in Puerto Rico compared to the rest of the country. These differences result in lower provider payments and reduced benefits for beneficiaries. For example, no one living in Puerto Rico is eligible for the Supplemental Security Income program (SSI). Because SSI eligibility is used as a proxy indicator for particular payment formulas, Puerto Rico has lost hundreds of millions of dollars in funding over the years in the Medicare Disproportionate Share Hospital (DSH) program, which does apply to the island, according to the statute. Beneficiaries residing in Puerto Rico are also excluded from the Part D Low-Income Subsidy (LIS) program, which has limited access to prescription drugs for hundreds of thousands of beneficiaries. This leads to reduced medication adherence, which results in costlier health care services down the road.

Although individuals living in Puerto Rico pay the same Medicare payroll taxes as all other Americans, they are not automatically enrolled in Part B like individuals elsewhere and can face a

late enrollment penalty. Even when Puerto Ricans are enrolled in Medicare successfully, their access to traditional fee-for-service benefits is hindered by differing hospital payment policies, especially the wage index. For example, analysis performed by the respected actuaries at Milliman shows that Medicare inpatient hospital payments in Puerto Rico are 53 percent of the national average.

At the National level, Medicare Advantage benchmark payments for 2017 average \$826 per member per month. In Puerto Rico, the benchmark will average \$473 – 43 percent below the national average. The fee-for-service formula used to establish the Medicare Advantage benchmark in Puerto Rico is not representative of actual program costs for a number of technical and enrollment-related reasons, and the payment disparity is particularly problematic given the high level of program participation in Puerto Rico. While the national average enrollment in Medicare Advantage hovers around 30 percent, 75 percent of the island's Medicare beneficiaries choose to enroll in Medicare Advantage. We strongly question the alignment with policy and the actuarial soundness of setting payment rates for 90 percent of the population based on the health care needs of the 10 percent of Medicare A and B beneficiaries that has chosen to remain in fee-for-service Medicare.

*Medicaid.* From its inception, Medicaid has operated differently in Puerto Rico than in the rest of the United States. Rather than the traditional matching program that exists elsewhere, Puerto Rico operates under a fixed dollar cap for federal funds assigned to the implementation of the Medicaid program in Puerto Rico. Until the passage of the Affordable Care Act, which included a special supplemental Medicaid allotment for Puerto Rico, the effective federal Medicaid match rate in Puerto Rico was less than 20 percent, compared to a national average of 55 percent. Decades of Medicaid under-funding contributed significantly to Puerto Rico's financial crisis because the government was forced to issue bonds to raise funds to meet their Medicaid program obligations.

The Affordable Care Act's special allocation for Puerto Rico's Medicaid program provided a welcoming short-term relief, but that allocation is expected to expire very soon, by the end of 2017 or sooner. At that point, the federal contribution to the island's Medicaid program would be reduced by nearly 75 percent, reverting back to an annual level of approximately \$400 million.

That fall off the "cliff" will have a devastating effect on health care delivery, the fiscal situation of the Government, and the Puerto Rico economy. Indeed, there are already signs of instability in Medicaid access in Puerto Rico, with the Commonwealth making weekly payments to health plans to manage tight cash flow. In April, the Commonwealth missed making required payments for the first time. If Puerto Rico does not put up its portion of the required Medicaid funding, federal matching funds cannot be drawn down.

*Medicare Platino.* Platino is Puerto Rico's integrated Medicare-Medicaid program for individuals who are dually eligible. Platino relies on the Medicare Advantage program platform to provide coordinated, comprehensive services and serves as a model for the level of integrated care delivery low-income seniors need and deserve, not only for Puerto Rico but for the rest of the Nation. However, the continuing reductions in Medicare Advantage benchmarks, coupled with the imminent Medicaid funding cliff, places the continued operation of Platino very much in jeopardy. If Medicare Advantage rate reductions continue and the Platino program is no longer viable, the cost of care of those individuals currently enrolled would shift to Medicaid, resulting in an

additional annual cost to the government of Puerto Rico of approximately \$800 million. This cost could not be met under current circumstances.

*Affordable Care Act and the HIT.* The Affordable Care Act (“ACA”) does not apply in Puerto Rico in the same way it applies elsewhere. In 2014, the Department of Health and Human Services (“HHS”) determined that the Title 1 insurance reforms do not apply in Puerto Rico. There is no health insurance marketplace. There are no subsidies. There is no individual mandate to purchase health insurance, and no Medicaid expansion funding from 100% to 133% as applicable to states. However, the health insurance tax (“HIT”) is still being applied to plans operating in Puerto Rico. The 2016 HIT tax amounts to an approximately \$200 million obligation on Puerto Rico’s Government, its health plans and its citizens. We have presented this incongruence to the Administration and to Congress. Because Puerto Rico does not benefit from the positive aspects of subsidy access, and the resulting market expansions, it should not be asked to finance the marketplace structure.

*Zika.* The Zika virus poses a clear and present danger in Puerto Rico. According to the Center for Disease Control (“CDC”), as many as 50 pregnant women in Puerto Rico are becoming infected with Zika each day. As of early July, Puerto Rico has reported nearly 2,400 Zika cases, 44 hospitalizations, 16 cases of Guillain-Barre paralysis associated with Zika, and one death. The CDC recently recommended that Puerto Rico begin aerial spraying for mosquitos, citing multiple studies that show the virus is spreading so rapidly on the island that it could infect thousands of vulnerable residents. Puerto Rico needs funding for both prevention and treatment, and we cannot wait. Currently, there are no resources in any sector of our system – Medicaid, Medicare, or commercial – to manage the incremental health care risk of Zika.

### **Jones Act and Maritime Transportation Reform**

Being treated as an extension of the United States coastline by the protectionist merchant marine statutes has imposed a heavy and unfair cost on United States citizens in Puerto Rico.

Being an island, Puerto Rico does not have any alternative means of transportation than by sea for most of its commerce with the United States mainland. Thus, under the protection of federal statutes, a monopsony has been siphoning scarce resources from the poorest U.S. jurisdiction to sustain a segment of U.S. industry that has become uncompetitive due precisely to the protection it has enjoyed.

The Jones Act was passed in 1920. The justification for keeping it has always been national security. In a war, it is argued, America needs a merchant fleet, so the industry must be protected in times of peace. Although saving jobs is also touted as a justification, this can no longer be seriously argued due to the dwindling number that still remain, even under the protection of the statutes.

The Merchant Marine Acts of 1920 and 1936 constitute an anachronism in times when globalization has become synonymous with modernization. The United States has become a world leader promoting the dismantling of protectionist barriers that hurt competition and impose hidden taxes on American consumers. In this context, the continuation of a clearly protectionist set of measures that can no longer be justified in terms of any of its original objectives constitutes a policy contradiction that must be done away with. Moreover, Puerto Rico bears a disproportionate burden due to an industry subsidy that has become distorted and that does more harm than good to the industry it is supposed to help.

One of Puerto Rico's most strategically important national and economic assets is its harbor in San Juan. Given its central location in the Caribbean, this port has an excellent opportunity of developing into a key transshipment point. This goal is made more difficult by the additional costs and restrictions imposed as a result of the cabotage laws.

We therefore ask this Task Force to explore reform or modification of the Jones Act to promote the free market and a more competitive environment for Puerto Rico and, related to air cargo, to consider an amendment to Section 808 of Law 108-176 of December 12, 2003, also known as the Stevens Amendment, to include the Puerto Rico name next to Alaska, under 49 U.S.C. section 41703 (e) and reestablish "transit-without-visa" program on the island.

### **Energy**

PROMESA's Title V, Puerto Rico Infrastructure Revitalization, includes mechanisms to accelerate the permitting and define potential energy infrastructure projects "whose approval, consideration, permitting, and implementation shall be expedited and streamlined..." such as: "(i) reduce reliance on oil for electric generation in Puerto Rico; (ii) improve performance of energy infrastructure and overall energy efficiency; (iii) expedite the diversification and conversion of fuel sources for electric generation from oil to natural gas and renewables...; (iv) promote the development and utilization of energy sources found on Puerto Rico; (v) contribute to transitioning to privatized generation capacities...; (vi) support the Energy Commission of Puerto Rico in the achievement of its goal of reducing energy costs and ensuring affordable energy rates for consumers and business; or (vii) achieve in whole or in part the recommendations, if feasible, of the study in section 505 (d) of this title (Study of Electrical Rates) to the extent such study is completed and not inconsistent with studies or plans otherwise required under Puerto Rico laws."

Puerto Rico suffers electricity rates of 2-3 times the national average. It is essential for Puerto Rico's future competitiveness to make the necessary changes so our electric energy system operates at very high levels of efficiency that would make it possible to produce and distribute electricity at low costs. Although other key infrastructures also need improvement, electricity is our priority concern at the moment. U.S. electric energy costs for all sectors when we take the averages for October 2015, were 10.34¢/kwh while in Puerto Rico they were at 19.66¢/kwh, almost twice that of the U.S. Once global oil prices return to historical levels, we may see electricity costs at 3 to 4 times the U.S. average.

We believe that the best option for addressing Puerto Rico's sky high electricity costs is to extend the authority of the Federal Energy Regulatory Commission's (FERC) to review and regulate electricity generated by the government run monopoly, the Puerto Rico Electric Power Authority (PREPA). Congress must enact legislation to permit FERC's intervention in Puerto Rico.

In addition, we are asking to extend the Investment Tax Credit (ITC) for Renewable Energy in Puerto Rico until 2018; reinvigorate and provide funding for the current MOU with the US DOE designed to provide for the credible participation of NGOs in the ongoing Integrated Resources Review at the Puerto Rico Energy Commission (PREC); provide a funding allocation to the Department of Interior for studies and data modeling that will promote the active participation of all sectors in planning for the lowest possible

Base Energy Cost; and provide financial guarantees that will temporarily lower the cost to fuel and power suppliers as our Commonwealth transitions towards a modern, lower cost energy system.

### **Infrastructure Revitalization**

We are concentrating our recommendations for infrastructure revitalization on five critical key areas: Energy, Water, Homeland Security, Security and Health, and Transportation.

*Energy.* Privatization of facilities to diversify the energy offers. This initiative would include: Generation Facilities – new gas fired combined cycle power plant at or near Costa Sur area, and re-powering of generation at Costa Sur; Transmission and Distribution – improvements for the integration of renewable technologies, and increasing reliability of energy supply; LNG pipelines – Peñuelas to Aguirre, others.

*Water.* Improvements to: Comply with EPA Consent Decree – potable water systems and sanitary systems; Optimization of water production – reduction of losses and capture of incremental income.

*Homeland Security.* Building of a new maritime cargo port – preferably outside the triangle where today 80% of the economic activity occurs; facilitate decentralization of economic activity on the Island; provide greater security of food and materials supply for the population.

*Security and Health.* Build integrated data centers: create public data platforms for the population's health information and public security; consolidate data from all agencies – to facilitate information exchange throughout the government agencies, target reduction of abuse and crime; facilitate an efficient and cost-controlled government operation.

*Transportation.* An efficient mass transportation system: train, light rail, express buses; interconnection to existing train: coordinated with existing bus and other transportation service providers; one operator concept to increase efficiency and effectiveness – increase service reliability.

*Other possible projects.* Construction of a new medical center; Express lanes for roads; Parking structures in urban centers; Improvements to cruise ship ports; Improvements to cargo ports; Concession and maintenance contracts for regional airports; A limited number of rest areas on certain main roads; Electronic management of traffic violations; Consolidation and improvements to detention centers; Electronic management and collection of property taxes; Improve the physical facilities of public schools through reduction and consolidations.

See Attachment 2, “Potential PPP Projects for Puerto Rico”

### **Payroll Tax Holiday**

A six-year, 50% reduction in the social security tax for workers, employers and the self-employed in Puerto Rico is hereby proposed to raise the take-home pay of workers and reduce operating costs for businesses, thus helping to stabilize the island's economy during the implementation of PROMESA's fiscal adjustment program. The payroll tax holiday would provide a much needed stimulus to the local economy on both the demand side and the supply side. In addition, it would soften the short- and medium-term effects of the fiscal adjustment program on nearly one million American workers and thousands of private American businesses in the territory.

According to official data from the Puerto Rico Planning Board's Economic Report to the Governor, social security taxes paid by Puerto Rico's workers amounted to \$1,326 million in fiscal year 2015. In the same year, employers paid \$1,292 million as their share of the social security tax, for a combined contribution of \$2,618 million. The annual average for the five fiscal years in the 2011-2015 period was \$1,281 million paid by workers and \$1,273 million contributed by employers, for a total average annual contribution to the Social Security System of \$2,554 million by Puerto Rico's residents.

A 50% payroll tax holiday would mean about \$640 million annually in additional take-home pay for Puerto Rican workers, equivalent to a 2.3% pay raise, and an immediate reduction of \$647 million annually in operating costs for businesses. Over a six-year period, these savings would add up to a substantial injection to aggregate demand and a significant supply-side stimulus via lower production costs. The payroll tax holiday will have a much needed immediate impact on Puerto Rican workers and businesses.

### **Growth Proposal**

Our proposal seeks to provide Puerto Rico with an instrument that will improve its competitive advantage compared to its foreign competition and enable it to retain and attract manufacturing investment in a manner consistent with tax reform objectives. It is the Congress' stated objective to address indefinite deferral of taxes and foster repatriation of funds held by U.S. corporations abroad. Moving from a worldwide taxation regime to a territorial taxation regime has been identified by the key policymakers as an appropriate way of achieving this. What is being proposed is, essentially, that by adopting the Growth Proposal the Congress treat Puerto Rico as the first step of this concept.

The proposal entails exempting 85% of dividend income from federal income tax and the remaining 15% to be taxed at 50% of the federal corporate income tax rate. The income exempted must be Puerto Rico source income (Section 864). By approving the measure, the Federal Government would achieve the double objective of stimulating the return of funds held abroad because of the attractive tax environment and, at the same time, stimulating investment in Puerto Rico in order to generate Puerto Rico source income. In order to implement the measure a number of Sections of the Internal Revenue Code need to be amended, including Section 864, but also Sections 245, 901, 904 and 933A and 959.

The Growth Proposal described above would be beneficial for both Puerto Rico and the United States Treasury since it would provide an incentive to repatriate funds and promote investment in Puerto Rico that would otherwise be directed to foreign countries. It complies with the statements made by Members of Congress that remedies for Puerto Rico's fiscal situation cannot generate additional cost to the U.S. tax payers because we used mandatory repatriation as our pay-for. It is also in line with statements made by you and others that eliminating Section 936 of the U.S. Internal Revenue Code had a very negative impact on the Puerto Rican economy, evidenced by the fact that the manufacturing sector has lost 90,000 jobs since 1996 when it had 165,000 employees.

### **Private Sector Input and "Puerto Rico Empresa"**

The Private Sector must be included in deliberations impacting Puerto Rico's future. Include representatives of Puerto Rico's Private Sector when Congress conducts hearings on issues impacting Puerto Rico and seek the input from long-standing private sector organizations representing local

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businesses, manufacturing and employees in policy discussions as solutions are assembled to address Puerto Rico's challenges.

Puerto Rico Empresa's mission is to facilitate the implementation of mechanisms to diversify Puerto Rico's economy. It will provide a tool and structure to execute a collaborative partnership between the government and the private sector to attract, retain and grow investment and innovation, advancing Puerto Rico's economic development and provide a legal framework that promotes continuity and assures that medium and long-term strategies are kept going.

The PRCC proposes the implementation of these measures through a non-profit public-private corporation created by law registered, incorporated, organized, and operated in accordance with the laws of Puerto Rico, that is not a unit or entity of the government.

Puerto Rico Empresa will promote, collaborate, support, complement and enhance the efforts to advance the economic development of the Island, utilizing private sector and public sector expertise. It will focus on specific economic sectors, including: Manufacturing, Energy, Healthcare, Agriculture, Tourism, Retail/Wholesale and Advanced Services. Advanced services will include but not be limited to the following: construction management, engineering, financial and environmental services.

Puerto Rico Empresa has a single focus: to drive job creation and attract new capital investment.

#### **United States Congressional Task Force on Economic Growth in Puerto Rico**

The debacle that has brought Puerto Rico to its current situation did not happen overnight. We are convinced that the key to the Island's recovery depends on the economic growth initiatives that might be developed and implemented by the private sector and the Federal and local governments. Most of these initiatives require urgent consideration by Congress.

Therefore, we are recommending that the tenure of this U.S. Congressional Task Force on Economic Growth in Puerto Rico be extended past its planned December 31 2016 end date so that the flow of information on the progress of such economic growth initiatives mandated by Congress is secured.