

UNITED RETAILERS ASSOCIATION OF PUERTO RICO

Issues That Curtail Small Business Development In Puerto Rico



Presented to the U.S. Congress Fiscal Oversight Board

Nelson J. Ramírez, President



To: Members of the Bipartisan Congressional Task Force on Economic Growth in Puerto Rico ("Task Force")

From: Puerto Rico United Retailers Association (URA)

Date: September 2th, 2016

Re: Title IV - Section 409: Congressional Task Force on Economic Growth in Puerto Rico

As part of the Commonwealth of Puerto Rico's Private Sector, the **Puerto Rico United Retailers Association** ("URA") submits recommendations on Title IV - Section 409 of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), in particular to recommend urgent changes to federal laws to spur sustainable, long-term economic growth; under Section 408, help GAO to report on Small Business Administration Programs in Puerto Rico including HubZone, GSA Schedule, 8a, or any other vehicle that is deemed necessary to enforce and strengthen Puerto Rico's economic revamp. The URA brings to your attention the urgent need for a major improvement in the following areas: permitting processes, financial funding, high transportation costs, high energy costs, labor law requirements, Medicaid parity, and SNAP. As a result of these problems, small and medium sized enterprises (SMEs), in Puerto Rico, have an alarmingly high failure, loan delinquency, and foreclosure rate.

The **Puerto Rico United Retailers Association**, founded in 1891, with 125 years of continuous operation is the oldest, most diverse and representative private sector organization representing small and medium sized enterprises (SMEs) and microenterprises.

The sector we represent is the backbone of the economy, since 95% of local businesses are SMEs and employ approximately 286,665 people, with a payroll that reaches \$4.712 million, representing 32.4% of the total private sector payroll. SMEs contribute about 12.6% to the GDP of Puerto Rico, as measured by the proportion of

gross income of corporations and it is estimated that 87% of exporting corporations are SMEs.

Our memberships represents a wide range of industry sectors such as technology, food and beverage, security, gas stations, health providers, etc. 75% of SME establishments in 2015 were concentrated in six economic sectors: retail trade and food services (28.8%), health and social assistance (17.7%), professional, scientific and technical (10.1%), other services except public administration (8.2%) wholesale trade services (4.9%), and agriculture, forestry and fishing (4.7%).

The remaining 25% of SME establishments in 2015 were distributed in the following sectors: construction (4.1%), manufacturing (3.8%), real estate, rental or lease (3.7%), finance and insurance (3.6%), solid waste management services (3.4%), transport and storage (2.4%), educational services (1.4%), information (1.2%), arts, entertainment and recreation (1.1%), housing (0.5%), management of companies and enterprises (0.2%), electricity, water and gas (0.2%), mining (0.1%) and others (0.02%).

Current Situation

Retail sales in SMEs decreased by 515.7 million in 2015, reaching \$26,832.2 million. This represented a contraction of 1.9%, mainly caused by the significant drop in the population as a result of the high migration to the United States, the impact of high gas prices and changes in consumption patterns.

Double Dip Recession: The Planning Board of Puerto Rico reported that the economy of Puerto Rico began a cycle of contraction from FY2006 when the real gross domestic product grew by 0.5% followed by a significant fall to -3% in 2009, and it achieved a growth of 0.5% in FY2012; while for the 2015 fiscal year another significant drop of 1.9% was projected.

The SMEs are experiencing serious cash flow problems primarily because of the imposition of over 90 new taxes in the last 3 years, as well as the lack of payment to suppliers (products/services) to the Puerto Rican government, despite Law 62-2014, that guarantees the prompt-payment and penalizes late payments with an extra 1% of the unpaid amount.

Recommendations:

1. Enforce the implementation of a Fast Track Permit Process and establish the Office of Permits Coordinator:

The bureaucratic permit process for SMEs and microenterprises of Puerto Rico now takes 365 days for completion, **at best**.

The small business community in Puerto Rico needs a streamlined process that reduces the requirements and timeframe to a significantly less time period. For example, in Florida, a construction permit process could be completed in a few months or less. The Task Force could be helpful in considering the permit process reduction to foster the construction sector and the feasibility of economic revitalization.

Using Title V, Section 502 of the PROMESA Act, which calls for the creation of the position of Revitalization Coordinator. We propose, to use this section as precedent for the creation of the position of **Office of the Permits Coordinator**, to be appointed by the Governor of Puerto Rico, with the appropriate support staff, that will be responsible for Plan, direct and participate in the permit process including processing applications, tracking review results, scheduling inspection request, and supervising collection of fees.

2. Small Business Financial Funds: The Puerto Rico small business community needs financing instruments that, at an affordable interest rate and with low collateral requirements can: offer loan or equity capital; contribute to the creation of new SMEs and micro businesses; provide capital to startups in technology areas; and for small contractors developing existing housing rehabilitation, affordable new housing pre-development and development costs.

Enforce the implementation of the SBA (7a) Loan Programs & Grants, 504 or similar through Cooperatives or Non-traditional Banks. Since the banking industry is not lending to the private sector, unfortunately, small businesses are using financial instruments similar to factoring financing instruments that charge as high as 30% interest rate for short term financing to alleviate their cash flow problems. The United Retailers Association also recommends, the creation of a small business medium term financing fund, such as 7a, 504, or similar.

3. High Transportation Costs: The URA generally agrees, with the conclusions of the GAO Report 13-260 of March 2013 Characteristics of the Island Maritime Trade and possibly modifying the Jones Act. The GAO report explains the issue of transportation costs for Puerto Rico and offers a clear picture and diagnosis of the problem that the Jones Act implies for transportation costs from the mainland to Puerto Rico. Puerto Rico is subject to the Jones Act, which requires that maritime transport of cargo between points in the United States be carried by vessels that are (1) owned by U.S. citizens and registered in the United States, (2) built in the United States, and (3) operated with predominantly U.S.-citizen crews.

The GAO concluded that the use of Jones Act carriers for shipping in the Puerto Rico trade are higher than they otherwise would be, and that the reliance on waterborne transportation, has an adverse economic impact on Puerto Rico. Foreign carriers serving Puerto Rico from foreign ports operate under different rules, regulations, and supply and demand conditions and generally have lower costs to operate than Jones Act carriers have. Foreign-built vessels offer a cost advantage and as a result, the URA advocates for an exemption from the requirement for vessels to be built in the U.S. The availability of lower-cost, foreign-built vessels could encourage new carriers to enter the market.

A further example of the impact the Jones Act has on both the United States and Puerto Rico, is the inability to use foreign vessels, which forces Puerto Rico to purchase gas, gasoline, and diesel oil from non-U.S. sources. It is estimated that, on a monthly basis, Puerto Rico consumes 11 million gallons of gas, 66 million gallons of gasoline and 19.5 million gallons of diesel, this is an estimated 2.3 billion dollars that could have been purchased from US sources. We also propose, in the alternative, to provide Puerto Rico with the same treatment given to the US Virgin Islands, regarding the Jones Act.

4. High Energy Costs: The energy costs in Puerto Rico represent a big burden to SMEs and microenterprises and impacts the local economy competitiveness. The average citizen pays 20 cents per KWH, close to 200% the cost in comparison to the continental United States. In the U.S., the lowest energy costs (KWH) are paid by the industrial users, followed by commercial, and residential users. The opposite is

true in Puerto Rico, where industrial users pay the highest rates, followed by the commercial users. To reduce energy costs, the Puerto Rico power plants should be transformed to natural gas, which again presents the issue of The Jones Act which will impede purchasing natural gas from US sources.

The URA endorses the Puerto Rico Manufacturers Association's recommendations on energy policies for Puerto Rico regarding stimulating private investment and competition. It states that through the Federal Energy Regulatory Commission's (FERC) jurisdiction for Puerto Rico's electric power sector, the urgent conversion of outdated and inefficient oil-fired generating facilities to no less than 1,200 MW of new highly efficient generation. It's important that the Federal Government support Puerto Rico's Energy Commission in achieving its goal of reducing energy costs and ensuring affordable energy rates for consumers and businesses.

5. Labor Law Requirements: The complexity and requirements of the current Puerto Rico labor laws places a large burden on employers which decreases opportunities for jobs and as a result impedes economic development. Puerto Rico labor laws should be modeled after the US Federal Labor laws.

6. Parity in Medicaid Funding: During fiscal year 2015, approximately 1.7 million low-income residents of Puerto Rico receive Medicaid funded assistance at a cost of \$2.8 billion. Medicaid funding for Puerto Rico is limited in the following two ways:

- Puerto Rico receives the lowest Federal Medical Assistance Percentage ("FMAP") rate allowed by the Medicaid law.
- The amount of Medicaid assistance is subject to a strict funding cap.

As a result of the two limitations, Puerto Rico carries the financial burden of providing low-income residents with adequate health insurance coverage. As a result, these costs have been a major driver of Puerto Rico's chronic deficits.

The Administration's budget for fiscal year 2017, includes a proposal which includes removing the cap on

Medicaid funding in the territories, gradually increase the Federal support territories receive through the Federal Medicaid match by transitioning them to the same level that is received on the mainland, and expands eligibility to 100 percent of the Federal poverty level in territories currently below this level. The URA supports this proposal.

7. Supplemental Nutrition Assistance Program: Beginning this year, the 25% cash portion of the benefits received by NAP recipients will be reduced by 5% every year, for the next 5 years. The URA recommends that the cash portion of the benefits remain the same for the next 5 years. The principle reasons for maintaining the 25% are:

- To ensure NAP recipients who live in remote areas, face mobility or transportation problems can still purchase basic food items from the closest or easily accessible retailer, regardless if the retailer is certified or not.
- To allow retailers in remote areas of Puerto Rico to serve participants even if they do not have access to the technological infrastructure necessary to operate the EBT systems

Reducing the 25% cash portion significantly reduces spending and the flow of cash into the local economy.

Next Steps

On the behalf of the United Retailers Association, thank you for your review and support for our recommendations. We will appreciate the opportunity to meet with you or your designee to discuss in more detail our recommendation.

Cordially,

Nelson J. Ramirez
Chairman United Retailers Association