Revitalizing our urban centers

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We are among the most populated areas on earth. The proper use of our limited geographical space is one of our most important challenges. Yet, urban sprawl has characterized our development to the detriment of our countryside, forests, rivers and streams, our environment in general, and our quality of life in particular. With urban sprawl comes the intensive use of automobiles and all of the attendant problems of circulatory infrastructure and traffic congestion, plus the requirements of extended electric power, telephone, cable, water, sewers, and extended services such as police protection or garbage collection.

The lower cost of land further out from properly developed areas drives this type of development like an uncontrollable torrent of water cascading over zoning barriers supposed to control and direct development. The big losers from 50 years of uncontrolled urban sprawl have been the city centers, or as they are called in Spanish our *cascos urbanos*.

To meet this challenge, the Legislature approved in 2002, Law 212, which declared that city centers in Puerto Rico are in an alarming state of physical and environmental decay; they are losing population at an accelerated rate, affecting economic activity within them and their internal vitality; and they suffer a high delinquency rate, all of which affects the quality of life in all cities and towns in Puerto Rico.

Revitalizing our urban centers was declared public policy by the Legislature. This was to be done by housing construction; rehabilitation of commercial areas; developing parking lots, parks, and recreational areas; rehabilitating deteriorated buildings; and construction in vacant lots.

A Directory of Urbanism was created within the Department of Transportation & Public Works, which was empowered to delimit the urban centers in our cities or towns, to draw up rehabilitation plans for them to carry out public projects in such centers and to grant special incentives for private investment in projects within the centers.

Municipalities such as Ponce, where the city centers had been delimited through a declaration of a historic zone or through special area planning, were authorized to draw up their own rehabilitation plans and dispense the incentives.

The Legislature realized the key to revitalizing our urban centers was private investment. Therefore, Law 212 called for the development of creative instruments to engage the private sector in the rehabilitation process. Understanding that the economics of development in urban centers involve numerous governmental restrictions that impose costs not incurred in suburbia, the Legislature provided hefty fiscal incentives so investment in the centers would be attractive and profitable. This was the only way a turnaround in urban sprawl could be achieved.

The incentives were provided over the objections of the Treasury Department, which feared they could be a serious drain on the general revenue. The Treasury employs a static method of analysis to evaluate bills that provide tax incentives for investments. They count how much these investments will cost in revenue, but they don't take into account the economic activity that will be generated on account of the incentives and the revenue the Treasury will derive from that activity.

Law 212 provides that the incentives be granted by the Treasury when the project is completed. A construction project of some—not much—importance takes at least three years from design, to permits, to construction, to completion. During this time, there is ample economic activity which, in turn, generates revenue to the Treasury. This economic activity generates revenue from purchases of materials, wages paid to laborers, fees paid to professionals, earnings, and interest. It is economic activity that wouldn't be generated but for the incentives.

The controversy over the cost and effectiveness of tax incentives dates back to the early days of Fomento. One would think that with the experience the Treasury had with the economic *transforma* of Puerto Rico's agricultural economy in an industrial economy, it would have learned that at the end of the day tax incentives for investment mean more fiscal revenue. A shortsighted approach remains in that department, and the Legislature did well in disregarding its objections.

Law 212 defines the urban centers as the space comprising the heart of the cities or towns as determined by the Institute of Culture or an Area Plan from the municipality or by delimitation of the Directory of Urbanism. Building in the heart of the cities with their narrow and congested streets is costly. Land values are high, and the requirements imposed by the Institute of Culture or by the nature of the rehabilitation itself add considerable costs to the projects.

There is no significant investment in the urban centers because the costs are too high and the permitting process is more costly and time consuming due to the special regulations attending construction in those areas. The incentives must overcome these costs and yield a profit comparable to that in suburbia. The Legislature understood this well and provided such incentives.

One of the dangers with such generous incentives is everybody wants them. So, in the implementation stage of the law, developers with projects not within the urban centers have tried to get the directory and the municipalities to approve the incentives for such projects. This is a sure way to scuttle the strategy of Law 212, which relies on private investment. Private investment needs these incentives within the urban centers because investment in these centers is otherwise unprofitable.

Such isn't the case in other areas where investments are profitable without the incentives. The directory and the municipalities must be extremely careful to conform their delimitations to what Law 212 deems to be the *cascos urbanos* or hearts of our cities, otherwise the intent of the Legislature would be wasted. The Treasury would rightly say "I told you so" and would press for repeal of the incentives.

In the implementation of the law, the granting of incentives must be well-targeted to projects that will fall within the rehabilitation plans for the city centers. In my next column, I will go into these rehabilitation plans and the nature of the incentives provided to draw the private sector into the revitalization of our city centers.