

## TOP STORY

**CB/Gaither poll shows 75% of Puerto Ricans reject slot machines in public places** page 2

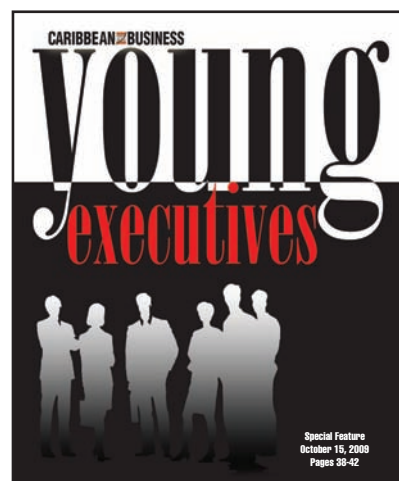
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## SPECIAL FEATURE



# Blazing new paths for economic development

*Economic Development & Commerce Secretary  
José Ramón Pérez-Riera*

**Legislation could spark more than \$2.38 billion investment in renewable energy, high-technology and the tourism waterfront project.**

By John Marino & Carlos Márquez pages 20-28



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# Building on a new economic development blueprint

## Pérez-Riera launches energy, high-tech initiatives; pushes San Juan waterfront project



BY JOHN MARINO  
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Economic Development & Commerce Secretary José Ramón Pérez-Riera, the top official charged with returning Puerto Rico's economy to growth, is backing up his words with actions.

In an exclusive interview with CARIBBEAN BUSINESS, the architect of the administration of Gov. Luis Fortuño's new economic development model shared important details of his plan to create 125,000 jobs over the next four years.

The new economic development blueprint, which shifts focus from providing tax-based incentives to lowering production costs, contains both short-term steps to stimulate the economy immediately and long-term strategies to assure Puerto Rico's future prosperity.

It embraces such long-held goals to boost exports of services and products and to create a knowledge-based

economy through increased research & development.

In order to enact the ambitious plan, Pérez-Riera and his staff are rolling up their sleeves and working to improve every aspect of the business climate in Puerto Rico.

"If we cease to capitalize on our advantages and allow for our disadvantages to grow, then companies are going to say Puerto Rico is not helping us be efficient as businesses and we are going to have to move elsewhere," Pérez-Riera warned. "That is why we have to reform everything related to doing business in Puerto Rico."

The Fortuño administration has methodically set about to reshape every aspect of the island's investment landscape as it strives to substantially improve Puerto Rico's competitiveness, and much of that work has fallen to Pérez-Riera and his young staff of economic development lieutenants as well as officials

from impacted agencies, in drawing up several of the reforms.

Legislation to promote and oversee the establishment of public-private partnerships (PPPs) has already been enacted, and both the House and Senate have passed a sweeping permit reform. Lawmakers hope to iron out differences between the versions in the coming weeks. Meanwhile, government reform legislation, through which the administration aims to streamline bureaucracy to cut costs and improve services, has cleared the House but is still pending approval in the Senate. Pérez-Riera's staff is already at work on wide-ranging tax and labor law reform legislation, which should be introduced during the next legislative session beginning in January.

This month, the Fortuño administration is expected to file key legislation drawn up by Pérez-Riera and his staff that promises real progress on long-term goals to develop new

sources of cheap, clean electricity and to spark development of research & development activities, which will work to create a knowledge-based economy.

The legislation will also help facilitate the investment of nearly \$2.4 billion in construction projects beginning early next year, which is expected to create 54,050 direct and indirect jobs.

"The governor has been very clear from the beginning about the problems that need to be addressed," Pérez-Riera said. "He's not looking to the next three months or six months. We all know that the billions in federal stimulus money that has started to come in will spur the economy in the short term. He's looking at where Puerto Rico is going to go over the next 20 years. That's something we need to focus on because the lack of vision in the past is exactly the reason for a lot of the current problems." ■



# Puerto Rico sees the light

## Island leaders hope to 'lead charge' across U.S. toward renewable energy

BY JOHN MARINO  
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Economic Development & Commerce Secretary José Ramón Pérez-Riera and other top officials believe that lowering and stabilizing the price of electricity is one of the best ways to lower production costs for businesses, which is a key goal of the administration's new economic development plan.

The proposed Renewable Energy Policy Law hopes to drive the development of \$2 billion in island renewable energy production projects over the next four years, creating some 46,000 jobs during that period. It will set renewable energy production targets and help establish ground rules for the new green energy plants. The legislation comes as the Puerto Rico Electric Power Authority (Prepa) gears up to implement the "wheeling" concept next year, which requires the government-owned utility to open its grid to independent producers who will either sell electricity directly to Prepa or to third parties. (See sidebar.)

"The world has been going in one direction and Puerto Rico in the other," Pérez-Riera said. "We need to turn around and go with the flow. What we are working on is sufficiently cutting edge and avant-garde in terms of what is being done

in the U.S. that we will be leading the charge rather than following other jurisdictions. That's what we are setting out to do. We have to be in front of this problem and not let it determine how we do things in Puerto Rico."

If successful, the legislation will bring more than 400 megawatts of renewable energy production online over the next four years, lifting the share of Puerto Rico's renewable power production to 6% of total power production from the less than 1% today. Officials envision about 200 megawatts of wind power, 100 megawatts of waste-to-energy power and the remaining 100 megawatts split between solar, hydroelectric power and other renewable technologies. The legislation adds new, innovative incentives into the current mix with the hope of leveraging local public investment through a federal American Recovery & Reinvestment Act (ARRA) program that could pay for up to one-third of the total estimated \$2 billion cost over the next four years.

The drive toward renewable energy stems from the need to diversify Puerto Rico's near total dependence on fossil fuel-based power production, with about 70% of plants using oil and the balance roughly split between natural gas and coal. The high and volatile price of oil makes



*Economic Development & Commerce Secretary José Ramón Pérez-Riera*

Puerto Rico power costs too expensive and unreliable, creating one of the island's biggest vulnerabilities on the economic development front, officials say.

Last year, the cost of power in Puerto Rico averaged about 21.5 cents per kilowatt hour, versus the average 10 cent U.S. rate. And because Puerto Rico is more susceptible to oil price fluctuations, the cost of island power has increased an average of 11.6% annually versus just 5.3% in the mainland U.S.

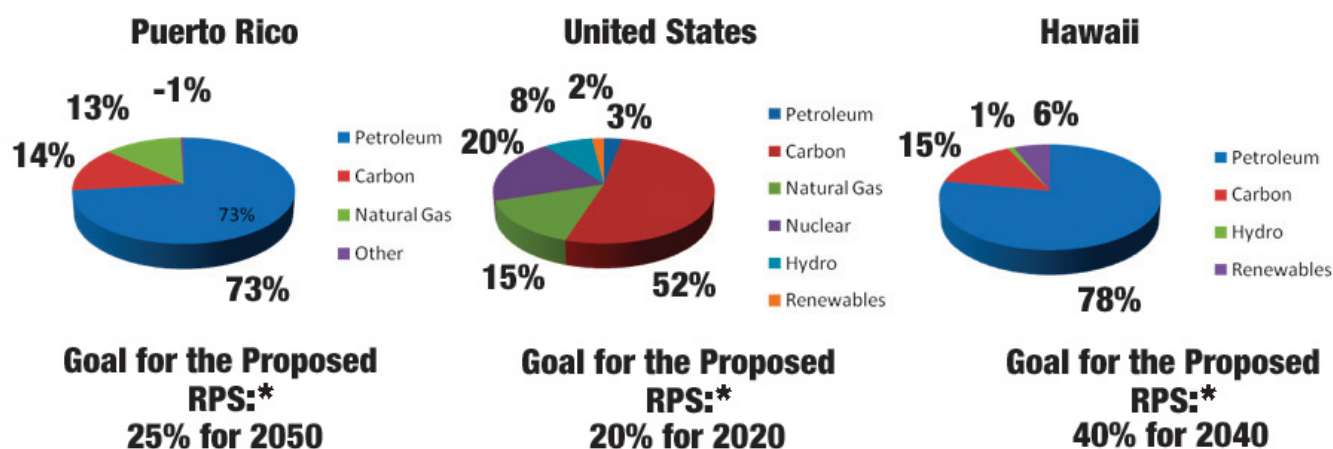
over the last four years, according to government figures. Worse, with the price of oil expected to increase to \$100 per barrel in 2011 and to \$140 in 2015, the price of power in Puerto Rico is projected to increase to 33 cents per kilowatt hour by then, versus 13 cents in the continental U.S.

"That will have a serious impact on Puerto Rico's ability to compete," said Sylvain Mansier, assistant Economic Development secretary. "That's why we have to do this now."

Over-reliance on foreign oil and fossil fuels also means the island pays an ever-increasing bill to offshore companies, which only diverts precious capital off island. Renewable energy, even if produced on the island by offshore firms, would refocus the majority of money spent on energy back into the island economy, and help spur increased local development. Currently, Puerto Rico's electric bill adds up to 8% of the gross national product, while overall energy costs are 16% of GNP. Besides the high cost and volatility of oil, Puerto Rico could face steep penalties in the near future for its heavy fossil-fuel production. The U.S. House already passed legislation that calls for an 80% cut in greenhouse gas emissions by 2050, and the U.S. Senate introduced legislation on the subject earlier this month. Meanwhile, the Environmental Protection Agency (EPA) announced its intention to begin regulating greenhouse gas emissions and the Obama administration is expected to pledge to cut the use of greenhouse gases during a United Nations global-warming summit later this year in Copenhagen.

Both President Barack Obama and EPA Administrator Lisa P. Jackson have said they would prefer to have Congress write up rules to cut greenhouse gas emissions, but it's clear the EPA will act if Congress does not. In either case, while the rules have yet to be written, it's likely that power plants and other facilities will have to substantially cut emission of greenhouse gases, or pay steep taxes or penalties. Puerto Rico's

### Electricity Generation by source



Sources: Prepa, Energy Information Administration, FERC

\* Renewable Portfolio Standard

Continued on page 22

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current 98% reliance on fossil-fuel production makes the island especially vulnerable in this evolving scenario. The new rules mean that Prepa's plans to retrofit or replace existing plants with natural gas or coal production will face greater federal environmental scrutiny, and may add to requirements. The rules will undergo a period of extensive review and public comment before becoming final, expected sometime next year. Currently, local environmental officials, including those in Puerto Rico, are taking an inventory of greenhouse gas polluters.

"We either diversify or we will be at the mercy of volatile oil prices and whatever happens in Congress. If Congress decides to start a carbon tax, with the majority of our power coming from fossil fuels, it is going to make it that much more expensive. It just won't be about production costs," Pérez-Riera said.

**SETTING NEW STANDARDS**  
Through the legislation, the island

will join 30 states and Washington, D.C. in establishing a Renewable Portfolio Standard (RPS), which will establish goals for renewable-energy production based on what is being contemplated in the federal sphere. While Department of Economic Development & Commerce (DEDC) aides cautioned that nothing was set in stone, in general terms the administration expected the standards to call for around 400 megawatts of power, or 6% of total generating capacity from renewable resources, by 2013, a figure that will ratchet up to 25% in 2025.

Those goals are pegged to federal RPS standards included in the American Clean Energy & Security Act of 2009 approved by the U.S. House. While the island government may be hard pressed to enforce sanctions against its own Prepa utility, the legislation will contain enforceable standards. Their real benefit, however, is in their aim of getting island power production in compliance with expected federal standards to avoid future penalties. Also, other jurisdictions have experienced a boom

in renewable-energy development after adopting RPS standards, with the DEDC providing figures showing more than double the renewable-energy investment during 2008 in RPS jurisdictions versus jurisdictions that have not adopted the standards.

"It tells investors we are serious," Mansier said. "Renewable Portfolio Standards create the environment for investment in renewable-energy projects. The record is clear. The numbers prove it."

A big caveat to the approach to peg the local RPS to evolving federal standards involves waste-to-energy (WTE) technology, which is not expected to be considered renewable energy under future U.S. rules. EPA officials have recognized the technology as a partial solution to the island's burgeoning solid waste management program, however, saying that WTE projects will emit less greenhouse gases than the landfills they aim to replace. While the proposed energy-reform legislation will extend incentives to the technology, energy generated from the WTE probably won't be able

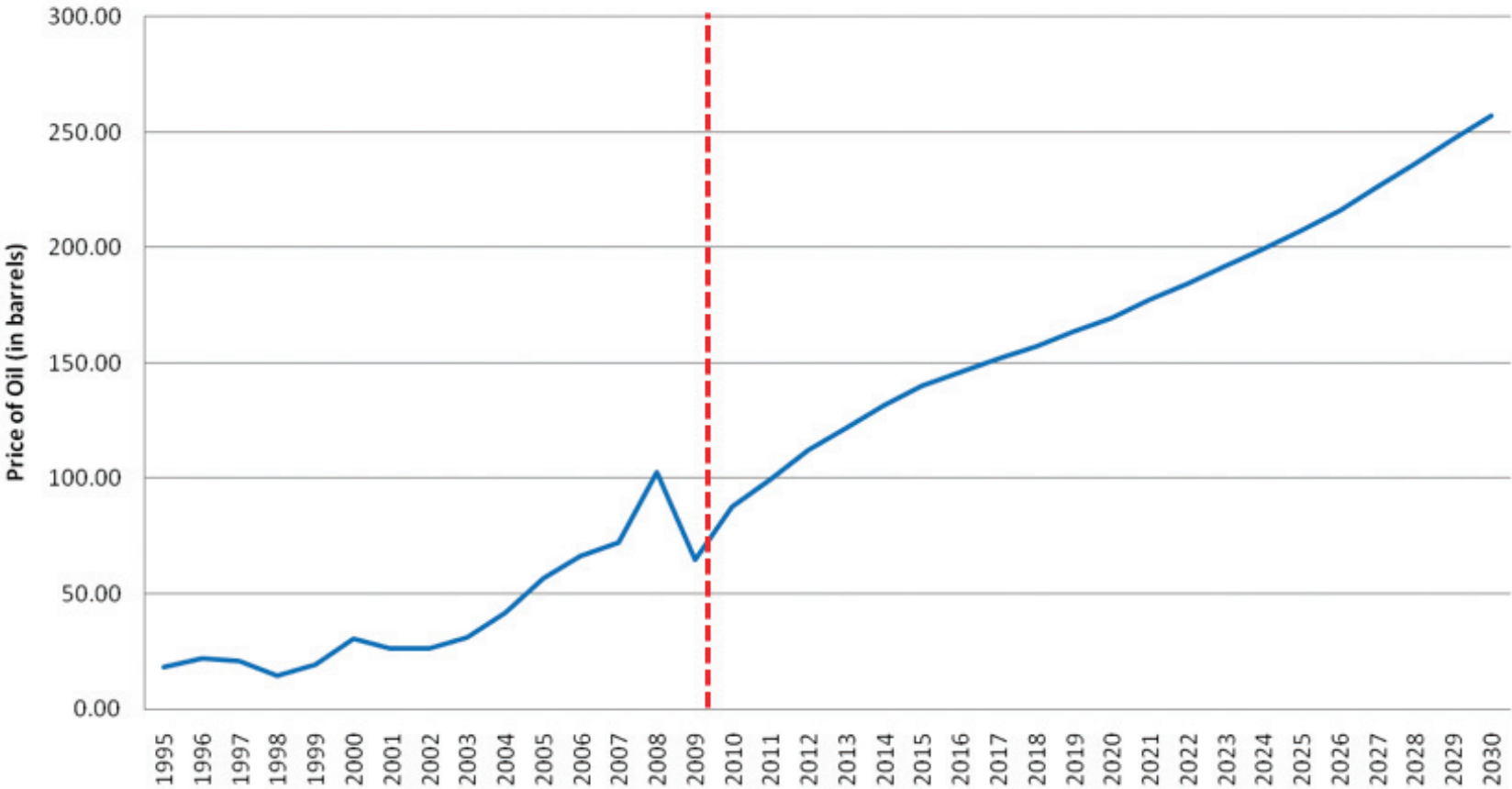
to help comply with future federal requirements.

A closely related development to the new standards will be the introduction of "wheeling" next year, which mandates that Prepa lease out its grid or purchase power from independent producers who set up shop here, who are expected to supply the new production of alternative energy sources. The regulations for the open energy market are currently being drawn up.

Prepa Executive Director Miguel Cordero said the new rules will force the government utility to increase efficiency or cease to exist. Cordero has been working hard to improve service and cut expenses since arriving in January, to both shore up the public corporation's shaky finances and prepare for competition. Prepa transmission, distribution and overhead costs add nearly 10 cents per kilowatt hour on top of the production price of island electricity, according to DEDC estimates, which puts the average production cost at

Continued on next page

# Projection in Oil Prices



Forecast assumes 3% inflation rate  
Sources: Energy Information Administration



Continued from previous page

12 cents per kilowatt hour, while the delivered cost is a whopping 21.5 cents. The spread is more than the nine-cent average cost over the last five years of delivered power in the mainland U.S., where transmission and related costs hover around two cents-to-three cents per kilowatt hour. Part of the reason for it stems from the \$280 million Prepa must grant annually in electricity subsidies and other payments to municipalities, hotels, public housing residents, agricultural businesses and other entities mandated by legislation. Cordero's goal is to drive down the price of electricity over the next four years so the utility can sell it at 12 cents per megawatt hour. The effort is being made through increased administrative and technological efficiency and diversification of production sources.

The RPS standards will also mirror local government development goals in this renewable-energy area. Officials foresee bringing online about 400 megawatts of renewable energy over the next four years to meet the 6% standard.

**A DIFFERENT KIND OF INCENTIVE**  
Through the establishment of the Green Energy Fund, officials have created an incentives program that aims to both develop alternative energy sources while decreasing and holding down power costs. The incentive is aimed at bridging the gap between the costs of renewable



Adriana Ramírez Martínez,  
DEDC legal advisor

power production and the price the independent producer would have to sell to Prepa in order for the utility to reach its 12-cent per kilowatt hour pricing target.

"We are giving a subsidy to green energy production so that Prepa does not have to increase costs to the end user," Pérez-Riera said. "It's allowing Prepa to buy energy from renewable resources without increasing the cost because green energy is initially going to be more expensive."

For the purposes of its incentives fund, the government is defining "green energy" as any renewable source of power generation (including solar, wind, ocean thermal and



Sylvain T. Mansier, assistant Economic  
Development secretary

currents, and biomass) as well as waste-to-energy power production, which uses garbage to generate power.

Instead of granting a traditional tax exemption, credit or construction grant, the legislation will create a production-based incentive through which the government will purchase a "renewable energy credit" (REC) for each unit of green energy a plant produces. The production incentive will be in the form of a long-term contract between the government and producer, with one REC purchased for each megawatt hour (mW h) of "green" energy produced. The program will provide an essential

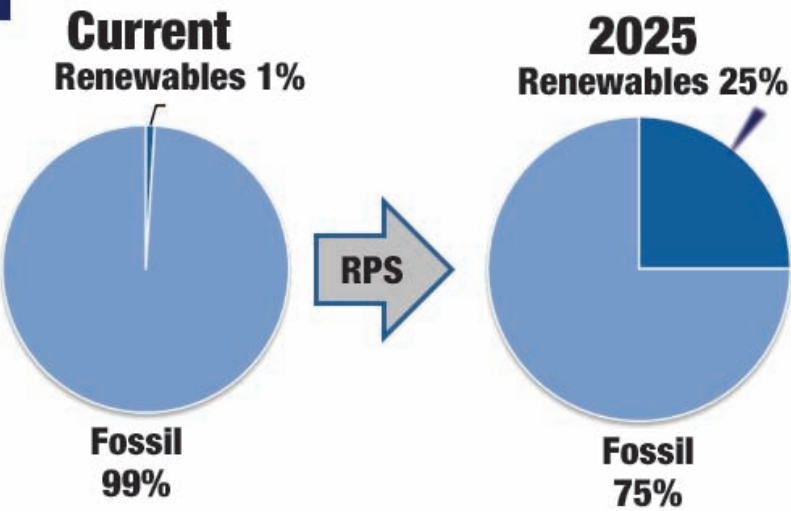
stream of revenue once the plant is operational, but more importantly the initial government commitment, together with a Prepa power purchase agreement, will allow developers to secure project financing.

While Prepa's goal is to sell power at 12 cents per kilowatt hour, it will have to decide on a power purchase price in order for the value of the RECs to be set. Regulations are expected to be drafted calling for an annual pricing review. Officials say there is likely to be a difference in the value of RECs granted to different technologies, although projects using the same technologies should receive RECs of the same value. That's because different technologies have different cost structures. DEDC officials estimate local wind energy costs to hover around 14 to 15 cents per kilowatt hour, while solar costs 20 cents per kilowatt hour. Because technologies are evolving, and pricing could change with new developers, officials say the government will seek to develop a mix of renewable options.

Other existing government incentives also apply to the new ventures. The ARRA program also offers up to one-third project financing in tax credits for projects completed by the end of 2013. For projects that get under way next year, the credits can be converted into cash grants. While local officials say permitting may make the deadlines challenging, particularly for WTE plants, they still expect the federal stimulus package to fund much of this development. The government figures the local incentives will cover \$300 million, while the federal incentives will cover up to \$600 million, leaving \$1.1 billion to be raised through private capital and financing.

Financing options for the government incentives are still being discussed, but the program may cost from \$300 million to \$400 million to provide the incentives necessary to fund the first \$2 billion in projects. The advantage for the government is the incentives will be doled out in annual doses of between \$30 million and \$40 million over a decade, making it much easier to finance given tight government finances. Also, the RECs will be a fully securitized, tradable commodity which has an economic value based on

Year	Percentage % of Renewable Energy
2012	6.0%
2013	6.0%
2014	9.5%
2015	9.5%
2016	13.0%
2017	13.0%
2018	16.5%
2019	16.5%
2020	20.0%
2025-2039	25.0%



Continued from page 23

the environmental attributes of the power production. They can help companies offset power produced either on the island or elsewhere through carbon sources. Because carbon-footprint reductions have become an increasingly important aspect of corporate social-responsibility programs, a “voluntary” market for RECs has already developed in the United States. This market is expected to become more developed as evolving federal carbon standards are enacted into law or new regulations are drafted.

The government could use the RECs it buys from the project developers to substantially lower the cost of its initial investment. It is expected to be able to resell the RECs to companies needing to offset their carbon production on the island or elsewhere, and could use the proceeds to refund the incentive program. Another possibility would be for the government to use the RECs to show compliance with future federal energy requirements. Pérez-Riera said the incentive, by targeting energy production rather than construction costs or tax breaks on profits, is designed to ensure that the new green energy producers are

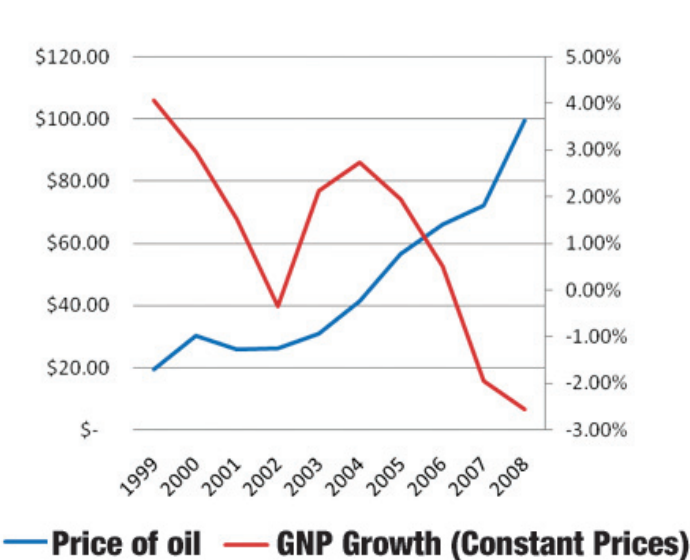
as efficient as possible.

“Here, in order for you to reap the benefits of the incentive, you need to produce, and the more you can produce, the bigger the benefits,” Pérez-Riera said.

The Green Energy Fund and REC purchases will be available to energy producers with the capacity to produce a megawatt or more of energy. The legislation also provides “installation credits” for alternative energy systems below a megawatt for businesses and consumers. The

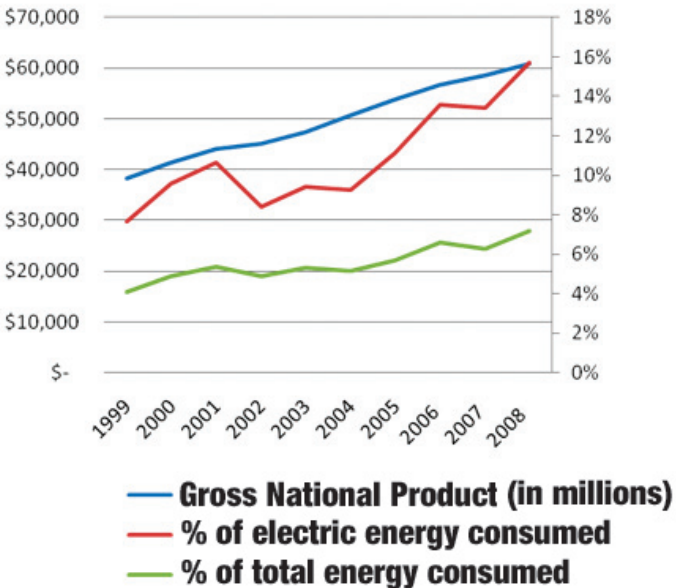
legislation calls for the Energy Affairs Administration to establish both the size of the installation credit (up to a 60% maximum annually) and market reference costs on an annual basis. ■

### Relation between GNP & Price of Oil



Sources: Energy Information Administration, Prepa, PR Institute of Statistics

### Cost of Energy in the Economy



## Competition comes to electric power production

BY JOHN MARINO  
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The Economic Incentives Law of 2008 mandates the introduction of “wheeling,” which is the retail sale of electric power. It means the Puerto Rico Electric Power Authority (Prepa) has to open up its network so that private power generators can sell electricity they produce over the island’s electric grid.

The law allows large firms to build their own power plants and to sell any excess power they generate over the Prepa grid to third parties or back to Prepa. It also allows private operators to build and construct power plants and sell the power directly to Prepa or third parties. While Prepa will get paid for

“leasing” its grid to private power producers, it also means the public utility will face competition for the first time. Wheeling is already exerting a force for increased efficiency inside Prepa as management prepares to compete against private industry. More importantly, it will allow for the cost reductions of privately produced power to be brought into the island electric system, over which Prepa has maintained a monopoly, controlling the transfer of electricity through its own grid, the generation of electricity and the price it pays for power generated by two private cogeneration plants.

Several large firms are expected to establish private power plants as a

means of lowering operating costs. The new wheeling rules, which are still being drawn up, are also allowing the government to tap private investment to begin the badly needed work of diversifying the island’s power base by building more renewable energy plants. This will bring the new power production online more quickly and efficiently than the cash-strapped government could accomplish alone, officials say.

“High energy costs affect industry, tourism, individuals in homes, schools, hospitals, commercial establishments, everyone—all because of Prepa’s inefficient monopoly,” Puerto Rico Manufacturers Association Executive Director

William Riefkohl recently told CARIBBEAN BUSINESS. “Now, we have an opportunity to move beyond this situation through wheeling, which, for the first time, breaks Prepa’s monopoly.”

In tandem with wheeling has been the introduction of “net metering,” which allows for the interconnection of home-based energy systems to the Prepa grid. Prepa Executive Director Miguel Cordero said a few dozen clients currently use net metering.

Under the concept, homeowners can sell the excess power they produce to Prepa, which will credit the customers and deduct it from the cost of any power the homeowners buy from the utility. ■



# Legislation to finance construction of ‘Science City’

## New high-tech district aims to spark development of knowledge-based economy

BY JOHN MARINO  
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Economic Development & Commerce Secretary José Ramón Pérez-Riera and his team will file legislation this month to push forward the so-called “Science City” project, which is aimed at driving the development of a knowledge-based economy, a long-held goal of island economic development planners.

The legislation will grant more “responsibilities and resources” to the Puerto Rico Science, Technology & Research Trust so that it “has the tools” to spark development of the island’s “Science City,” Pérez-Riera said. The project is the centerpiece of government efforts to attract more knowledge-based and research & development investment and foster its development locally.

The “Science City” moniker may change, but the plan drawn up under previous administrations to transform

the old Río Piedras State Penitentiary into a world-class research area will be pushed forward. The legislation aims to create a district body, similar to the Convention Center District Authority, surrounding the proposed development. It will give the Trust more power to chart its own development, and also take into account key area attributes such as the adjacent Río Piedras Medical Center, the University of Puerto Rico Molecular Sciences Building and the Botanical Garden.

Pérez-Riera and his Department of Economic Development & Commerce (DEDC) staff expect the legislation to allow for the groundbreaking on \$387 million in construction projects by next spring, with work getting started on basic infrastructure projects. The project will also include a base laboratory facility and parking area, a hotel conference center, a grammar school, and other predevelopment work for both residential and



Christopher McGrath, assistant Economic Development secretary

commercial areas. The construction should create some 8,050 jobs, according to government estimates.

Construction is already under way on the UPR Molecular Sciences Building. The UPR structure is the island’s first-ever molecular sciences facility, aimed at meeting the island’s scientific research needs for the next 25 years. The \$77 million, 149,000-square-foot, eight-story structure, being developed by the firm AMS Construction Managers, is slated for completion in December. It sits on a one-acre lot across the street from the Cupey Urban Train station. The \$75 million, 48,200-square-foot UPR Comprehensive Cancer Center, a joint initiative with the M.D. Anderson Center of the University of Texas, is being built to undertake research on the disease at the molecular level, treatment research and epidemiological studies construction will begin early next year.

Currently, the island’s pharmaceutical manufacturing industry is centered on production, which accounts for one-third the value of the final product, while research & development accounts for two-thirds of the value of the finished product.

“If we could bring some of that research investment to Puerto Rico, a lot of that money could stay here,” said Christopher McGrath, an assistant DEDC secretary. “This will create highly skilled, highly paid jobs.”

Yet, government officials say the potential for a knowledge-based economy goes well beyond the manufacturing sector, although Puerto Rico’s experience there and the presence of some of the world’s largest pharmaceuticals make it a natural focal point.

Officials also recognize that previous legislation has created a good base toward this goal, creating both the Puerto Rico Science, Technology & Research Trust, R&D incentives and granting the Trust title to the 70-acre former Río Piedras State Penitentiary, better known as *Oso Blanco*, which has a market value of about \$200 million.

The \$1.7 billion development plan is meant to drive this knowledge-

### Reforms address challenges regarding costs, efficiency and functionality, which currently reduce our economic competitiveness

COMPETITIVENESS

Reducing the cost of doing business and facilitating private-sector growth	
PPPs Reform	<div>Objective: <b>Approved</b> <b>Act 29 of 2009:</b> Creates new public policy related to infrastructure investment and public services</div>
Permits Reform	<div>Objective: <b>Submitted</b> <b>PC 1649:</b> Creates a new permits system that is transparent, agile, efficient and accurate</div>
Executive Branch Re-organization and Modernization	<div>Objective: <b>Submitted</b> <b>PC 1644:</b> Promotes a government structure that responds to current needs and fosters a better quality of life</div>
Energy Reform	<div>Objective: <b>Submitted</b> To establish a new energy public policy and programs to diversify the sources of energy by ARRA, RPS* and GEF**</div>
Tax Reform	<div>Objective: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates</div>
Labor Reform	<div>Objective: To incentivize work by increasing the participation rate and demand for labor in the private sector</div>

\*RPS is a regulatory policy that requires production increments from renewable energy sources, including the wind, solar, biomass, and geothermal.

\*\* GEF = Green Energy Fund



Continued from page 25

based development. The government aims to raise some \$370 million to construct the infrastructure and some anchor facilities, with the rest coming from private investment. If legislation is approved this session, the publicly funded work should get underway by next spring, McGrath said.

Its lofty aim is to house scientists and R&D companies from around the world to innovate and commercialize cutting-edge products, services and processes in various fields, including life sciences, aerospace technology and information systems.

A master plan has already been developed for the area, which is expected to create some 47,000 permanent jobs when completed. It calls for not only R&D facilities but also schools, housing, museums and other amenities that form a community to attract researchers from around the world.

The new legislation will create the "Science City District," which would include adjacent facilities like the University of Puerto Rico Molecular Sciences Building, the

UPR Botanical Gardens and the Río Piedras Medical Center. It also grants the Trust that oversees the district the ability to emit debt in order to finance development within the

the Puerto Rico Industrial Development Co. and establishes a \$5 million minimum commitment. Its funding will increase to 30% from 20% of the Economic Development

and use tax (IVU by its Spanish initials).

The legislation also contemplates granting the Trust, or perhaps a third-party operator, the right to deliver and charge for "value-added services," which might be gotten today through hiring a lawyer or consultant. And researchers working in the district would receive exemption from income taxes on the first \$250,000 they earn annually, and those who buy property within the district will be exempt from certain government fees that usually apply in the property registry process.

"We've seen from other jurisdictions that it's a big plus for industries to have those value-added services," added Adriana Ramírez Martínez, DEDC legal advisor. "We want scientists and researchers to come here to live and transfer their knowledge."

Pérez-Riera said the idea behind the "Science City" concept is to have a one-stop shop to develop new ideas into finished products, processes or services.

"Science City is going to spearhead the whole development of the knowledge-based economy," he said. ■

**'If we cease to capitalize on our advantages and allow for our disadvantages to grow, then companies are going to say Puerto Rico is not helping us be efficient as businesses, and we are going to have to move elsewhere. That is why we have to reform everything related to doing business in Puerto Rico.'**

— Economic Development & Commerce Secretary José Ramón Pérez-Riera

area, as well as to charge special assessments. The Trust would also create a finance committee under the new legislation, with two members from the public sector and one from the private sector, apparently to help it comply with the new financial responsibilities.

The legislation also increases the annual funding to the Trust from

Fund administered by Pridco that is financed through contributions by tax-exempt firms operating on the island. Additional incentives would exempt from excise taxes materials and articles to be used within the zone for scientific and R&D purposes. Also, construction materials or those related to R&D would be exempt from the sales



*Economic Development & Commerce Secretary José Ramón Pérez-Riera talks strategy during a meeting with members of his team.*



# Convention Center District Authority to develop Golden Triangle and San Juan Waterfront projects, Remaking the original vision as new team takes over

BY CARLOS MÁRQUEZ

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**T**he San Juan Waterfront (SJW) is in the midst of a stunning transformation, one that will require a \$1.5 billion investment of which approximately \$325 million will come from the government in essential infrastructure. Job creation is estimated at nearly 25,000.

The SJW is a 100-acre site just east of Old San Juan on the San Antonio Channel in the area known as Puerta de Tierra. The site includes nearly two miles of waterfront.

Some 21 blocks of obsolete piers and abandoned industrial buildings along the San Antonio Channel are giving way to a new 5.8-million-square-foot urban waterfront project that has been in the planning stage for decades.

CARIBBEAN BUSINESS learned the SJW concept will be expanded to encompass the original vision of the Golden Triangle project developed by Gov. Luis Fortuño when he was executive director of the Puerto Rico Tourism Co. and then Economic Development & Commerce secretary during the administration of former Gov. Pedro Rosselló (1992-2000).

The Golden Triangle is an ambitious urban redevelopment project that incorporates Old San Juan, Puerta de Tierra, Isla Grande (including the Puerto Rico Convention Center District), Miramar, Condado and other communities around San Juan Bay.

"We will make this vision a reality," Economic Development & Commerce Secretary José Ramón Pérez-Riera told CARIBBEAN BUSINESS.

"We will immediately jump-start all redevelopment efforts related to the SJW and forge a much larger vision for the Golden Triangle. This time around, San Juan Mayor Jorge Santini and his staff will be an integral part of the project. We are currently working with his staff to integrate his plan for a light-rail



*Carlos F. Amy,  
DEDC assistant secretary in  
charge of coordinating the  
Golden Triangle project*

collective transportation system in the redevelopment efforts in the area," Pérez-Riera said.

The goal is to develop the San Juan Bay into a tourism, recreation, commercial and residential sector as a major attraction for leisure and business travelers, both local and external, but integrated into the rest of the capital city.

"We have assembled a qualified and motivated team to move this project forward. It is of vital importance for San Juan and Puerto Rico's economic and social development and is a project that will have wide-reaching benefits for the entire Isleta," Pérez-Riera said.

"There is urgency as the project will help to correct the infrastructure and social problems afflicting the Isleta and stagnating its economic viability," he added.

Fortuño signed an executive order in April establishing a new government working group (GWG) helmed by the Department of Economic Development & Commerce (DEDC) chief to spearhead all government efforts related to the Golden Triangle project. The group is



comprised of representatives from a number of government agencies as well as the municipalities of San Juan, Guaynabo and Cataño.

## NEW TEAM

After an open request for qualifications (RFQ) process which attracted more than 30 initial bidders, Forest City Enterprises (FC) was selected as program manager last month. This is FC's second project in Puerto Rico, the first being the former U.S. Navy property at Sabana Seca.

Charles A. Ratner, FC president & chief executive officer, said, "This is precisely the type of project—including elements of urban infill, revitalization and waterfront redevelopment—that FC has experience with and does well. This selection also reflects our continued strategic expansion into asset management and third-party advisory services," he added.

FC is an \$11.7 billion real estate company and is listed on the New York Stock Exchange.

The core team also includes Atlanta-based Strategic Advisory Group (SAG) which will handle market analysis and financing strategies. The engineering and permitting agency coordination will be

handled by PG Engineering Solutions, which is headed by Carlos Pesquera, former Transportation & Public Works secretary during the Rosselló administration.

SAG has been involved in more than 250 projects in 150 cities worth \$25 billion. Local experience includes the Convention Center feasibility study (1990), Convention Center District refinancing (2006) and the hotel & casino market analysis for a planned, but never issued, slot-machine revenue bond offering (2008).

"In our experience, Puerto Rico has always been progressive creating projects through public-private partnerships," said Jeff Sachs, managing partner of SAG. "We hope to build upon that track record by bringing some of the unique financing tools utilized around the country to realize the vision of the Waterfront."

SAG will work alongside the FC's core team to create a finance plan for the project but more immediately for the Convention Center District Authority (CCDA), which is a key candidate to become the development entity as it has the required capabilities for infrastructure financing,

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land assemblage, bond financing and procurement flexibility.

Nevertheless, legislation is required to expand the geographical area of CCDA, and an administration bill is expected shortly.

Pérez-Riera said land assemblage is also a top priority as current ownership is scattered throughout multiple government agencies, public corporations, the Government Development Bank, private owners and the federal government. The U.S. Food & Drug Administration (FDA) and the U.S. Army Corps of Engineers are located within the planned development site.

### CAPITAL IMPROVEMENTS

#### A TOP PRIORITY

Development of a capital improvement program (CIP) that addresses the infrastructure needs for the whole Isleta is also a priority.

The CIP of main infrastructure agencies, such as the Puerto Rico Aqueduct & Sewer Authority, the Puerto Rico Electric Power Authority and the Highways and Transportation Authority must coordinate all the agencies with these high-priority projects.

"Construction of the SJW will facilitate the long-overdue upgrade and modernization of the existing utility and transportation infrastructure systems on the Isleta, resulting in increased reliability, enhanced service and a cleaner environment," said Pérez-Riera.

The government plans to actively pursue federal funds from the Federal Highway Administration, the Federal Transit Authority, the U.S. Department of Housing & Urban Development (HUD) and the Environmental Protection Agency (EPA).

"We must address issues related to the Intersection No. 5 challenge taking into consideration all transportation modes and the urban scale needed for the effective integration of the Golden Triangle," Pérez-Riera said.

The Baldorioty de Castro Expressway, Muñoz Rivera Avenue, Ponce de León Avenue and Fernandez Juncos Avenue converge at Intersection No. 5 to provide access to the Isleta and the Convention Center District.

### MASTER PLAN AND

#### PERMITTING TO BE UPDATED

The project requires enough flexibility to respond to market conditions and match infrastructure development with the different phases of the project.

"The current Master Plan for the SJW has many good elements. We have developed a permitting strategy that builds on these past efforts, allowing us to commence construction as soon as possible but providing enough flexibility to respond to evolving market conditions. We will review and modify (as necessary) the existing Site Consultation and the Environmental Impact Statement, both of which we expect to complete in 2010," said Carlos F. Amy, DEDC assistant secretary in charge of coordinating the Golden Triangle project.

"In addition we must increase lighting and landscaping, remove graffiti, provide maintenance, increase security and start selected demolition," Amy said.

"We are also working in coordination with the Puerto Rico Housing Department for the rehabilitation of the Isleta public housing projects to integrate them into the wider concept," said Pérez-Riera.

### IMMEDIATE TIMELINE

"The Administration is focused on immediately kick-starting development efforts on the Isleta. The Pier 6 improvement project on the western end of the SJW, already under construction, will be launched as the initial phase of the initiative. The DEDC is also in the process of implementing an immediate, tactical visual and environmental site improvement plan.

"Selected visual and environmental site improvements such as general cleanup, fence-line and sidewalk repair, painting and repaving of major thoroughfares are crucial early milestones. In addition we will improve lighting, landscape selected frontage, remove graffiti, provide maintenance, increase security and start demolition of selected abandoned properties," Amy added.

"We have already begun the implementation of a wide-reaching communications and outreach plan which actively engages government and community stakeholders



including area residents and existing businesses, affected parcel owners, community and professional associations, and most importantly, the Municipality of San Juan. We have also begun work on defining the legal and organizational structure for the project, which will culminate with filing the relevant law projects in early 2010. A preliminary financial plan and a strategy for property assemblage would be finalized by December. During 2010 we will modify the existing Strategic Plan, revise the Site Consultation and Environmental Impact Statement and finalize necessary permitting," explained the secretary.

The SJW master plan developed by Colliers International during the administration of former Gov. Aníbal Acevedo Vilá called for approximately 1,530 new residential units, more than 500,000 square feet of retail space, a Boutique Hotel District, 31 acres of public parks, a state-of-the-art marina with room

for nearly 100 megayachts and improved public transportation (including water-taxi service and increased bus routes). Pérez-Riera explained that due to market dynamics the density of residential units and the megayacht marina concept are under re-evaluation.

"Complete with new housing, a hotel district, restaurants and cafés, retail shops, a marina, public transportation and 31 acres of public parks and green space, the SJW has all the ingredients to make it a thriving urban community. The SJW will return more than two miles of waterfront to the people of Puerto Rico. It will enhance the quality of life for Puerta de Tierra residents. New businesses will open, providing a broad range of employment opportunities. New shops and entertainment destinations will provide the community with the services it has longed for in a safe environment," concluded Pérez-Riera. ■