

## Prasa to be privatized



Marcos Rodriguez-Ema  
Chairman of Government  
Privatization Committee

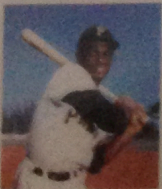
Plans are for Puerto Rico  
Aqueduct & Sewer Authority  
to be privatized as early  
as next year.

Story by Lida Estela Ruano  
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Clemente's life

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## Prasa to be privatized in 1998

By LIDA ESTELA RUIAÑO

The Puerto Rico Aqueduct & Sewer Authority (Prasa) will be completely managed and operated by a private-sector firm next year.

As part of a 20-year concession agreement, the government will retain full ownership of all existing and future infrastructure and the concessionaire — possibly Professional Services Group (PSG) — would be the manager and operator, with Prasa completely eliminated and the private-sector firm regulated by a full-time board.

Government Development Bank President Marcos Rodriguez-Ema, chairman of the government privatization committee, said the government will expedite conversations within the next three months to change the existing contract with PSG, the present Prasa management consulting company, to break all administrative barriers hindering PSG from helping Prasa provide good service. He added there should be no problem in meeting the September 1998 deadline set by the present five-year management contract with PSG. The goal is to give full management authority to PSG in 1998, eliminating the subordinate position they now have with Prasa management.

Rodriguez-Ema emphasized the Rossello administration "wants to break all paradigms at Prasa, to take drastic

limitations in the present contract. PSG and its parent company, *Compagnie General des Eaux*, providers of PSG's top management personnel, are recognized worldwide as leaders in the field of sewage and water resources management.

The new contract will mean Prasa employees, other than the 500 retained by the government, will be put under the complete supervision of PSG, and the contractor will not have to go through Prasa's lengthy decision-making process for purchases and other administrative matters.

If the concession contract prevails, Prasa, as it is now, will be completely eliminated and its functions assumed by a full-time, well-paid regulatory board, Rodriguez-Ema said. He added the board will have professionals with the technical know-how to verify everything from rates to time-table compliance for the construction of the \$1.3 billion capital works projects on the drawing board. Rodriguez-Ema added that water rates have not increased during the past 11 years. The regulatory board will also have a consumer component with its own funds to ensure consumer interests are well covered.

The cost of a concession contract is determined by benchmarking whatever projects are the priority of the water utility to earnings by the contractor.

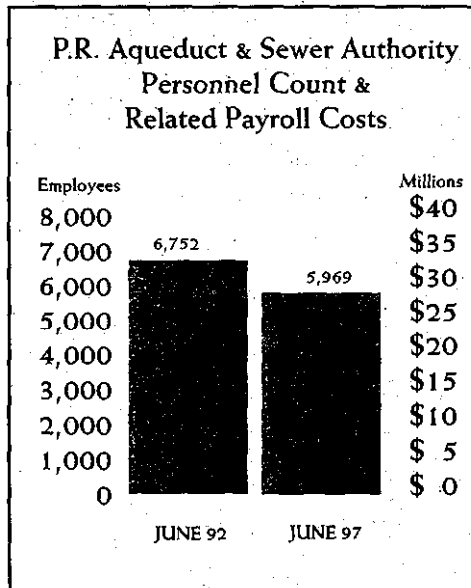
must allow PSG to function as it should, we must give them the tools. We cannot let this situation deteriorate and PSG to fall into inertia," he said.

Rodriguez-Ema added that on decision who will get the contract will depend on exactly how Prasa's island-wide system will be divided, whether as one entity, two or more. "If Prasa remains one entity, covering the whole island, one of the logical participants is PSG. Such a big privatization project would definitely need the involvement

authorities have between 3,000 to 4,000 employees. Prasa has 5,969. About \$218 million, or 57% of the total \$388 million Prasa expenses go to payroll.

How does he define Prasa's major problems right now? "Prasa is engulfed by very serious management and fiscal woes. Experience [the year and a half PSG has been managing Prasa] has shown this is a management problem, beyond the administrative level, which is not solved by merely placing people in a position. This is a question of authority. The gist of it is who hires, promotes or fires employees. PSG definitely has the capacity to manage. They unfortunately don't have the full authority under the present contract," Rodriguez-Ema said.

"Prasa's complexity and the union mentality that prevails make it difficult to break away from the existing mold. Management and union problems are so profound and have gone on for so long that it is impossible to resolve in slightly more than a year," he said. Rodriguez-Ema added that administrative personnels' ill feelings against management are based, for the most part, on the big benefits obtained by unionized personnel. "Unfortunately there's a mentality in government, which I have tried to correct at the bank, that discipline is imposed only on administrative personnel while unionized workers are untouchable — receiving only benefits. Consequently, the agency is divided in



of the Legislature and it is possible they will say it has to go through bids," Rodriguez-Ema said.

One of the biggest stumbling blocks when the Commonwealth government negotiated the five-year contract with PSG, signed in September 1995, was a U.S. Internal Revenue Service (IRS) clause limiting such contracts to five years, Rodriguez-Ema said. He added the IRS did not allow a longer-term contract due to existing Prasa bonds and the government had to opt for a management contract instead of full privatization. Now the IRS has changed its national policy and allows a 20-year contract. It was also the IRS that imposed a clause that at the end of three years, the government, not PSG, had the option to alter or rescind the contract.

Experience at Prasa has shown many key personnel who took advantage of the retirement window offered to reduce personnel have had to be replaced because their particular skills were not available among the remaining workers. As a result, Rodriguez-Ema said the exact number of employees to finally be retained through a concession contract cannot be anticipated. He did add however, that similar size, well-functioning water and sewage

	Total Employees	(1) Total Labor Cost Per Employee
Officers	39	\$73,000
Managers	908	\$43,000
HIEPAAA (union)	258	\$38,500
UIA (union)	4,447	\$35,000
Temporary	242	\$15,000
<b>TOTALS</b>	<b>5,969</b>	<b>\$36,500<sup>(2)</sup></b>

(1) Includes salaries, bonuses, overtime and fringe benefits  
(2) Revised 6/15/97.

two mentalities, union and non-union," he said.

At the same time, Rodriguez-Ema emphasized that labor must be made a part of the negotiation process for the new contract. "The role played by

### PUERTO RICO AQUEDUCT AND SEWER AUTHORITY

Outstanding debt for the years ended as of June 30, 1992, 1993, 1994, 1995 and 1996

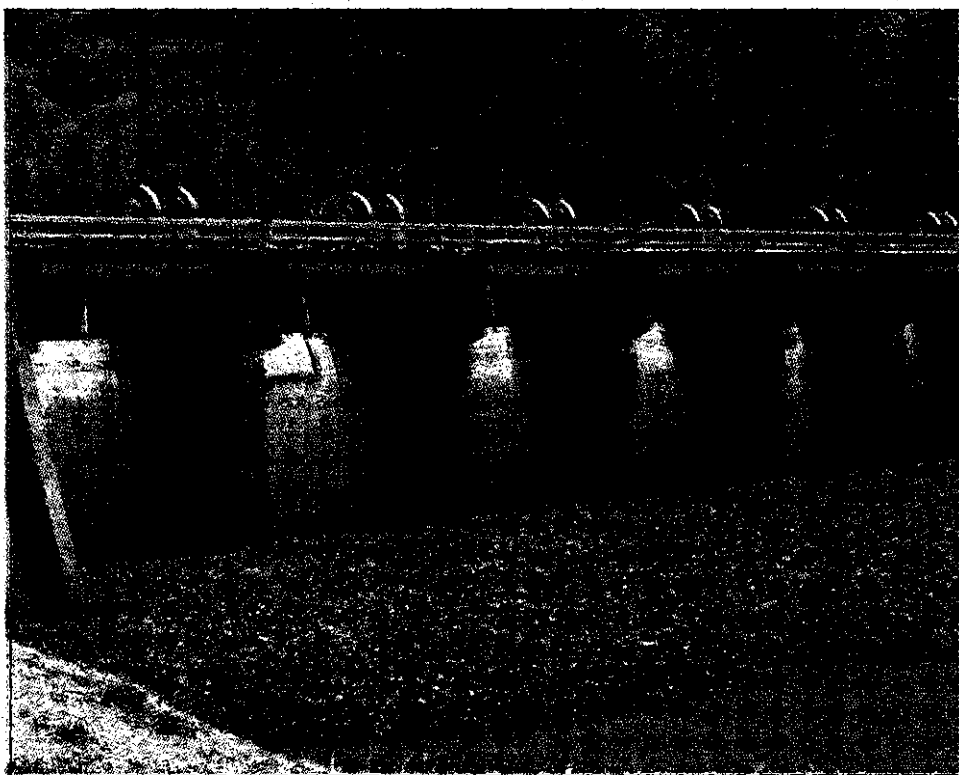
(IN THOUSANDS OF DOLLARS)

YEARS	1992	1993	1994	1995	1996
<b>TOTALS</b>	951,471	965,499	994,275	1,091,837	1,249,4541

measures to give consumers good, abundant water supply and excellent service." PSG's management contract has always been seen by the government as an intermediate step to full privatization. Whatever finally happens between now and September 1998, if the concession contract is not negotiated, it remains a certainty that PSG will take full control over management at Prasa anyway. A new stronger management contract will give PSG the ability to do what it was hired to do and not been able to accomplish due to

Rodriguez-Ema gave as examples that if the present loss of water is established at x% then if the contractor lowers it in one year to y%, he will earn more and if the second year it is lowered to z%, the earnings will be further increased.

Rodriguez-Ema emphasized throughout the interview that PSG is a world-class organization and because it is already partially involved in managing day-to-day affairs at Prasa, it is the logical candidate to continue with the concession contract that will give them total management responsibility. "One



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Hector Rene Lugo, president of the Hermandad Autentica de Empleados de Acueductos, during the negotiation of the 1995 PSG contract was crucial.

We must do the same now," he said. Prasa's fiscal situation continues in the red. Last year, the water utility lost \$90 million and this year it is expected

P.R. AQUEDUCT & SEWER AUTHORITY HISTORICAL FINANCIAL STATEMENT HIGHLIGHTS (\$ MILLION)		
FISCAL YEAR	OPERATING REVENUES	NET INCOME (LOSS)
1996/87	259.8	39.9
1987/88	264.1	5.8
1988/89	280.2	9.0
1989/90	283.6	8.9
1990/91	283.5	(21.0)
1991/92	287.0	(28.8)
1992/93	290.9	(49.0)
1993/94	289.5	(64.4)
1994/95	277.2	(60.5)
1995/96	291.8	(91.0)
1996/97 Budget	310.5	(34.5)
1995/96 Projected	315.8	(42.0)
1997/98 Budget	314.0	(43.8)
Cumulative Actual 10 years (1987-1996)	2,807.6	(251.1)

to lose between \$40 million and \$50 million, Rodriguez-Ema said. He acknowledged that CARIBBEAN BUSINESS' previous report that part of the \$90 million lost last year actually went to projects with no fiscal allocation was true. "The problem is that revenues have increased, PSG has increased its bill collection, and expenses. Prasa has not controlled its expenses. The numbers originally planned for personnel reductions have not materialized. There is no obligation on the part of PSG to lay off people. It was considered in the beginning but the idea was abandoned. Lay offs have to be considered as a possibility among the arsenal of measures that can be taken in the future. No private company with million-dollar losses continues without touching its personnel. Lay offs have a political cost but all paradigms must be broken at Prasa," he said.

"What we are seeking is to ensure the economic development of Puerto Rico. This is not politics or a war with the labor sector. We must revise

everything so the private company lowers its costs, makes a profit and the people have a safe, steady water supply. We must also look for other sources of water. Saving water is a prudent measure but not a solution. Dredging Lake Carraizo is excellent but it is a mere pond of water, not meant to supply today's San Juan metropolitan area needs. Its dredging will only increase supply by 23 days. That is why we need the Superaqueduct," he said.

"By 2005, Prasa cannot remotely resemble what it is today. The public is profoundly affected by this whole situation which has been deteriorating for the last 22 years," Rodriguez-Ema said. Over the next eight years he envisions a well-managed, totally privatized Prasa with a well functioning Superaqueduct, Lake Carraizo dredged and well maintained, new concessionaires building the North Aqueduct in Fajardo and an aggressive maintenance program to correct water leaks, theft and sewage problems. ■

**QUALITY OF POTABLE WATER AND SEWER SERVICES**

COUNTRY	CONTINUOUS SERVICE	BACTERIA QUALITY
ARGENTINA	GENERALLY	UNCERTAIN
BRAZIL	NOT ALWAYS	UNCERTAIN
CHILE	YES	ACCEPTABLE
COLOMBIA	GENERALLY	UNCERTAIN
MEXICO	NOT ALWAYS	UNCERTAIN
PERU	NOT ALWAYS	UNACCEPTABLE
PUERTO RICO	NOT ALWAYS	UNCERTAIN
VENEZUELA	NOT ALWAYS	UNCERTAIN
INDONESIA	NOT ALWAYS	UNCERTAIN
UNITED STATES	YES	ACCEPTABLE

**How Buenos Aires did it**

By LIDA ESTELA RUIA'NO

Metropolitan Buenos Aires — composed of some 10 million people — privatized its water system in 1993 through a 30-year concession contract with Compagnie Lyonnaise des Eaux, investing some \$130 million annually, and resulting in 700,000 more citizens receiving water and an additional 500,000 hooked to the sewage system. Gustavo L. Criscuolo, vice presi-

dent of the Ente Tripartito de Obras y Servicios Sanitarios, the 90-member board which makes sure the contract is enforced, said the board has a \$10 million annual budget, 60% of which is allocated for personnel. Self-financed through funds received from monthly consumer bills, the board receives 11,000 complaints monthly.

Criscuolo, who was in San Juan to address the Inter-American Association of Sanitary Engineering

and Environmental Sciences (Aidis, its Spanish acronym) shared his thoughts with CARIBBEAN BUSINESS on the successes and failures of Argentina's experience. The same day the contract was signed, he said, rates dropped 29% on the basis of the final bid. Of the 10 million citizens, 6 million receive water and 5 million have sewer service. The concessionaire has a \$10 million limit for purchases without previous authorization by the regulatory board.

The errors made by Argentina, he said, included not agreeing beforehand on rates, fixing them every five

years instead and not naming the board until the contract was signed when it should have been in place at least a year before. The consumer group was not formed and complaints came to the board instead of through a consumer representative. Now there is a consumer association financed by monthly bills. The kind of information the concessionaire must supply the board was not established "and we got a room full of information but not the 30 basic indicators which was all we needed."

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Among the pointers Puerto Rico should keep in mind when it decides to do a concession contract, he said, is to fix a reasonable limit to sign the contract. In Argentina's case it was two years which was set by President Carlos Menem. "It is more costly to do it so soon. It cost us \$7 million but we got it all back by charging \$500,000 per kit containing the contract," Criscuolo said. There were 16 companies which bought the kit, 11 actually bid. Of these, six were left after the first pre-selection process, another was eliminated during the second round and five were left for the final bid. The only question in the bid by that point was how much rates would be lowered. The runner-up was the English company, Thames Waters.

For Argentina, which was short of distribution pipes and suffered low water pressure, one of the best parts of the contract was the increased investment to \$130 million annually on a system that had endured a yearly average of \$20 million for the previous decade. The investment totals \$4 billion during the life of the contract. "Our countries certainly have good use for that money, which is now put up by the concessionaire," Criscuolo said.

## Prasa Board Vice President Armando Vivoni questions "everything is fine here" attitude at agency

By LIDA ESTELA RUAÑO

Imagine a private company that lost \$90 million giving away \$10 million in Christmas bonuses. Imagine expensive equipment at your business needing a \$2 bolt and you wait three months to get it but by then the machine has broken down beyond repair. What private company would keep \$50,000 petty cash because each Friday it pays employees cash for all per diems?

As vice president of the board of directors of the Puerto Rico Aqueduct & Sewer Authority (Prasa), Armando Vivoni, who has never worked in government, can't understand this mentality. "Everything about the agency, the regulations and laws have the end effect of not letting Prasa work efficiently," said the 72-year-old engineer, whose frank and open attitude is refreshing amid the "everything is fine here" attitude prevailing among Prasa's top management. He donates his \$25 per diem from Prasa to charities.

Vivoni describes the problems between Prasa and Professional Services Group (PSG), the management team that runs the agency, as "the typical differences in an arranged marriage. This is a marriage of convenience. It is a combination of private and public sector but with electronic surveillance bands on both wrists and ankles of PSG."

He admitted there are clauses in the contract that cause friction between Prasa Executive Director Benjamin Pomales and PSG President Regis Mesnier. Examples of these are the \$2,000 limit set as the top price allowed for PSG purchases without the need to go through Prasa's approval process, which in some cases has taken up to a year, and the gag forbidding PSG to speak to the press.

"Years ago when we (Rexach Construction) built the Bayamon filtration plant, a motor would cost \$30,000. How can PSG function with a \$2,000 limit? It would be unthinkable in the private sector. These controls were set following agency models probably created by

Some of Criscuolo's recommendations for Puerto Rico are:

- There is political pressure to influence rates. Don't give in to this and avoid it by educating everyone, the public, legislators and labor.
- The privatization process requires a lot of political backing. The 11-member privatization committee in Argentina had two representatives from Congress; three from the Economic Ministry; two from labor; one from the municipality of Buenos Aires; one from the province of Buenos Aires and two from the old water authority.
- Having labor, especially the unions at the Water Authority, involved in the process was very important.
- The winner of the concession contract should be announced the same day it is awarded and the criteria should be strictly based on numbers.
- The budget for the regulatory board should be previously established because later it will be very difficult to alter. It is important that the board receive its income from consumers' monthly bills to keep it free of political pressures. ■



Prasa Board  
Vice President  
Armando  
Vivoni

Sergio Cuevas Bustamante (the first Prasa executive director from 1945 to 1954), Vivoni said with his typical wit. He suggested establishing a realistic limit by calculating the average price of the purchases over the last two years.

Severn Trent, the English company contracted for five years to help Prasa change its work culture and assist in drafting the PSG contract, "said the agency should eliminate 3,000 employees. The average salary of all Prasa workers is \$36,500 a year. If we followed their advice, we would save \$90 million annually, exactly what was lost last year. But last year when the board suggested Prasa not give any bonus, we were told we could not do that. The most we were allowed was not to approve a bonus for the controller or the executive director," Vivoni said.

"It is very difficult for any company to operate efficiently under this restrictive frame and with such largesse when it comes to employee concessions," Vivoni said. He recalled an incident when he visited the Puerto Nuevo filtration plant and asked why the six-

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foot-tall grass had not been mowed. He was told the union contract prohibited plant workers from doing it and the request to have it trimmed had been placed three months before.

"When any corporation has a fiscal crisis as serious as Prasa they ask their employees for help. That's what Chrysler did and the unions accepted a salary cut. Today Chrysler is very healthy and the employees saved their own jobs. That's what is needed at Prasa. Nobody has talked to the unions about lowering salaries. What happens at Prasa is union employee demands are respected but nobody cares about the needs of Prasa or the people of Puerto Rico.

"The Prasa building does not need two janitors per floor to keep it clean, one would be more than enough. PSG gives us monthly reports on everything and they are lowering costs. But no matter how many jobs are eliminated, payroll remains the same because of salary increases guaranteed by union-negotiated contracts.

"Why don't we take the average pay in Puerto Rico and compare it with Prasa's \$36,500 average. If the company earns money then it's only fair employees share in the benefits, but when we are losing millions, year after year, it's not fair. The best example of productivity are the Guayama and Humacao plants which are identical and both operated by PSG. Guayama is run with nine persons and Humacao has 34. The first was negotiated under a private contract before PSG took on overall Prasa management.

"The root of the problem is a combination of

things. Perhaps the Rossello Administration has introduced too many changes at the same time. The contract with PSG had many ambitious goals and expectations were very high," Vivoni said. Despite all flaws, he feels only 15% of the contract is not working so what is needed is "to fix those branches that have bent under the strain. It was a well thought-out contract that took three years to negotiate. Let's work together to make it successful.

"The contract called for PSG to supervise employees, preparing the paperwork with recommendations that Pomales was supposed to sign but Prasa ended up supervising PSG. It's understandable that people may resent having foreigners come here to tell them what to do," Vivoni said. He readily admits not renewing Severn Trent's contract was a big mistake. "As rookies we paid the price because we needed a giant like Severn Trent to help us manage the contract with giant PSG. We thought we'd be saving money and that we were duplicating talent. In retrospect we really needed Severn Trent's knowledge and experience to make the PSG contract work," Vivoni said.

Asked about criticism that the board was too meddling in areas beyond its technical knowledge, Vivoni denies the charge. He said they could use more financial advice until Prasa gets out of its fiscal mire but the board is free to hire consultants which Prasa will pay. "Prasa has 30 bank accounts. A finance specialist could be on top of things, checking Prasa investments and outstanding accounts," Vivoni said. He added what was needed to understand Prasa and PSG reports to the board is common sense.

Vivoni sees the board's role "as an enforcer, to make sure things are done. The way things stand now, Pomales must sign everything. It's a wonder one of our executive directors has not dropped dead on the job. The pressures are tremendous."

One of the areas the board checks are consulting contracts. "The rules were drawn up under Emilio Colon (former Prasa executive director) patterned after those used by the Army Corps of Engineers. These are reasonable, although I can't certify their total purity because there is always a subjective element through which someone can favor a friend. I brought the rate list put out by the Engineers Association which says how much should be paid for different services. I am always checking the people out to make sure they don't operate out of a car trunk but are established and have a good reputation.

"Most boards meet every three months, but we have been meeting every other week. When we accepted the board seat none of us imagined we'd be giving Prasa so much of our time. We are all deeply concerned with Prasa's condition and we think PSG has tried to do a good job," Vivoni said. In his case, he also joins board president Nilda Muñoz de Vissepo for a weekly meeting set up more than a year ago to mediate between Pomales and Mesnier.

The board is not favoring a management or a concession contract, Vivoni concluded, "but one that works well permanently. We should check out successful models and pick up the best from each country. Let's not go to kindergarten but pick up a tutor to take us by the hand and get the best Puerto Rico deserves". ■

## Treating the disease...not the symptoms

The single biggest problem at the Puerto Rico Aqueduct & Sewer Authority (Prasa) is lack of top management and the inability to deal with Professional Services Group (PSG), the management contractor who is supposed to run Prasa. The problems arise because the contract is not a match among equals.

This is the opinion of Arthur Roath who headed the English company, Severn Trent, in Puerto Rico which tried for five years to change corporate culture at Prasa and helped negotiate the contract with PSG. "The contractor (PSG) is a strong contractor but Prasa is not in a position to manage PSG. It had to be a partnership of equals but when Emilio Colon [former Prasa executive director] left, they forgot to bring about the continuing corporate development changes that would have enabled them to manage the contract.

"Prasa is one of the largest, in terms of size, water systems in the world, among the top 100 worldwide. If you realize Prasa is big business, you have to take a big business approach — top quality management and management data systems — everything must be first-rate. A huge organization is not a one-man band; it requires an orchestra.

"This rubbish of the \$2,000 limitations [purchases above that require Prasa approval] and other contractual problems should have been

resolved by a partnership of equals. What makes you think you can be successful with another option if you have not learned to manage this one and you have not put in place the senior management nor the systems nor database needed? You could find yourself stepping out of the frying pan into the fire. What I'd do is manage the contract with PSG correctly. Prasa must strengthen inside as well as privatize to remove the daily pressure.

"The important thing to realize is that you must treat the disease and not the symptoms. The symptoms are poor maintenance, lack of funds — which is nothing more than expenditures exceeding income — failure to meet compliance standards, over-staffing, low productivity and low performance. Unless you get the management in place to formulate strategy, policy, action plans and implementation — meaning to implement correctly and effectively management plans — you won't cure the symptoms. If the management is not strong, unions come. I'm not suggesting weak unions but strong management and strong unions," Roath said.

Throughout the interview Roath emphasized the long hours and the dedication that all three former Prasa heads under which he worked, Margarita Irizarry, Emilio Colon and Benjamin Pomales, had for the agency. One of the problems that surfaced during the duration of the Severn

Trent contract was the high turnover; three executive directors, five or six finance division heads and more than eight directors of customer service.

"There is a management and professional short-

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fall at Prasa. It is difficult to recruit and keep good management because of the responsibility and long hours. The reason for the privatization trend worldwide is because it is not easy to attract top management and so you go to the people who already have the managerial and technical know-how. At Prasa there is a high turnover at senior [executive director] levels because of political pressures. Compare Prasa with Severn Trent, which ranks fourth worldwide in water management and number one in the United Kingdom, the number one person has been with the company 20 years, and I've been there longer than that," Roath concluded. ■

*"The important thing to realize is that you must treat the disease and not the symptoms. The symptoms are poor maintenance, lack of funds — which is nothing more than expenditures exceeding income — failure to meet compliance standards, overstaffing at worker level, low productivity and low performance."*

## If no rain soon, look for 48-hour rationing

By LIDA ESTELA RUANO

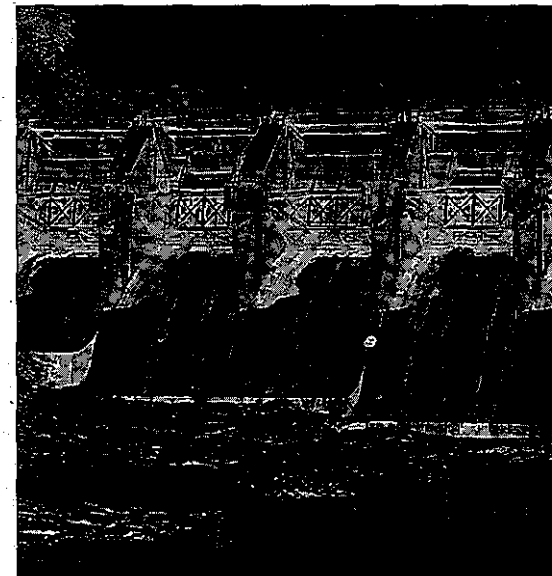
Rationing continued this week with no visible immediate change unless a significant amount of water pours over Lake Carraizo. This has yet to happen despite a tropical wave and another anticipated for this weekend.

On the other hand, sources at the Puerto Rico Aqueduct & Sewer Authority (Prasa) said if no considerable amount of rain falls, metropolitan San Juan will soon go into a 48-hour rationing plan instead of the existing 24-hour plan.

U.S. Weather Service meteorologist Miguel Sierra said the heavy showers pouring over metropolitan San Juan Monday were likely to have benefited Carraizo in Trujillo Alto. He estimated that between one-half to one inch of rain would fall Monday and Tuesday with perhaps about half an inch around the Lake Carraizo area. The rain, produced by a tropical wave, will be followed by another wave this weekend, which is likely to bring a similar amount of water to the island. Scattered showers, with no significant effect over Carraizo,

were expected between the tropical waves.

Prasa said the latest reading on Monday afternoon at Lake Carraizo was 35.99 meters, which compared unfavorably with the previous Friday's 36.15 meters of water. Lake La Plata in Naranjito, which supplies most of Bayamon and Guaynabo (not rationing so far), also registered a slight decrease. On Monday, La Plata had 46.99 meters while the previous Friday it had 47.22 meters of water. ■



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