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Governor of  
Puerto Rico  
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Economic Development &  
Commerce Secretary  
José Ramón Pérez-Riera

**With a \$13 billion injection, Fortuño is confident of a strong economic recovery starting soon.**

By John Marino & Carlos Márquez pages 16-20

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# Puerto Rico ready to return to market

**With an added \$13 billion economic injection, Fortuño confident of full recovery**



*Gov. Luis Fortuño, flanked by Government Development Bank President Carlos García and Economic Development & Commerce Secretary José Ramón Pérez-Riera, says Puerto Rico is open for business.*

BY JOHN MARINO & CARLOS MÁRQUEZ  
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**I**ntent on jump-starting the island economy, Gov. Luis Fortuño's administration is expected to return to Wall Street to raise an additional \$1.75 billion that should drive local capital improvements and economic development projects.

The administration will raise more than \$1 billion through a Puerto Rico Sales Tax Financing Authority (Cofina by its Spanish acronym) bond issue and a new low-cost federal bond program offers the possibility of a \$750 million issue to finance school construction projects.

The money will come on top of about \$6.1 billion in federal economic-stimulus funds under the American Recovery & Reinvestment Act (ARRA), more than half of which will pour into the economy over the next 10 months, a \$500 million local economic-stimulus package and about \$2 billion the government has on hand from previous borrowing.

The administration is also in hot pursuit of billions more in federal funding, both in increased healthcare funds as well as perhaps up to \$2 billion in federal Troubled Asset Relief Program (TARP) or Legacy Loan funding, which could help an effort being designed by Government

Development Bank President Carlos García to launch a program to help local banks rid their balance sheets of troubled loans so they can return to robust lending.

"The people of Puerto Rico and the business community are looking for short-term results and the results will be there. It's my commitment," Fortuño told CARIBBEAN BUSINESS. "Puerto Rico's economic reconstruction and recovery process has begun. I have absolute confidence that we will progress, and nobody should have any doubts about it."

"I have no doubt that with the actions we have taken, our economy will improve, our people will

overcome and we now can aspire again to a future of progress and well-being," the governor added.

The governor has reason to be optimistic. Puerto Rico's economy will receive an injection of about \$13 billion, when the federal and local stimulus packages and Wall Street offerings are included.

This investment, nearly equal to the annual direct federal funding received by Puerto Rico, is expected to get the economy going again and begin creating what the administration says will be 125,000 jobs over the next four years. By 2017, the administration expects 260,000 jobs to

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be created, which will stabilize the unemployment rate at around 10%.

Meanwhile, the capital-improvements program of the commonwealth's five main public corporations will add up to \$1.250 billion during the current fiscal year, which should create nearly 18,750 direct construction jobs and some 10,000 indirect jobs, according to Planning Board estimates.

"We have avoided an economic collapse. Now we are positioned to grow and look to a brighter future. That is what we will be focusing on, growing the economy and improving the quality of life of the people in concrete ways such as improvements in basic infrastructure, better roads and lower energy costs," Fortuño said. "We will see a dramatic change and improvement in economic conditions in the near future."

The governor told CARIBBEAN BUSINESS the seeds of economic growth have been planted, and the island economy will grow by 0.7% this fiscal year after falling off a precipice last year, shrinking by 5.5%—a historic drop. This year's growth estimate does not account for an extra \$1 billion in federal-stimulus funds, nor the money the administration will now raise on Wall Street.

Instead, it is based on a net \$576

million government investment this fiscal year after the negative impact of last week's layoffs and other cuts to government spending. This net positive impact could be expanded with the investment of the additional \$1.75 billion the government is intent on making. While the layoffs and the reduced government spending necessary to improve public finances have a negative economic effect, the actions the administration is taking to boost economic growth and the investments have more than made up for it.

While Puerto Rico's economy grew by 5% during the 1950s, by 6.9% during the 1960s, 3.7% during the 1970s, 1.8% during the 1980s, and 2.8% during the 1990s, it contracted by 0.2% since 2000—a lost decade, according to Planning Board figures.

The lost economic growth during the administrations of former Gov. Sila Calderón and former Gov. Anibal Acevedo Vilá occurred as the Puerto Rico government failed to live up to its promises to Wall Street, and the investment community lost faith in the island government. Since 2001, Standard & Poor's has downgraded Puerto Rico credit from A (a rating it had since 1983) to BBB-, while Moody's has downgraded it from Baa1 to Baa. The island is just one step away from the non-investment grade (junk bond) rating.



Gov. Luis Fortuño

"By this administration keeping our commitment to investors, we were able to raise \$5.5 billion through Cofina bonds this year and will be able to go to the bond market to raise an additional \$1.7 billion. That has been achieved by keeping our commitment to balance our budget," García said.

With the U.S. economy starting to recover, and the influx of new money, administration officials say they have no doubt that Puerto Rico will rise out of its recession, fully recovering by the end of this fiscal year

and returning to sustained growth in 2011 and beyond.

A BIGGER PUSH FOR THE ECONOMY

"We are ready to go to market immediately," said GDB chief García. He believes the government can issue "more than \$1 billion" in Cofina bonds if market conditions are favorable.

Meanwhile, through an ARRA-related stimulus program, the federal government is offering 15-year, interest-free qualified school construction bonds for school improvements. García said Puerto Rico has a \$750 million allocation and the administration is analyzing what agency or public corporation would have the borrowing capacity to float the bonds, but the Infrastructure Financing Authority is one candidate.

"The investment would be significant," García said. "We have done most of what we have to on the fiscal side. Now we are concentrating on growth. We are trying to rally the private sector now."

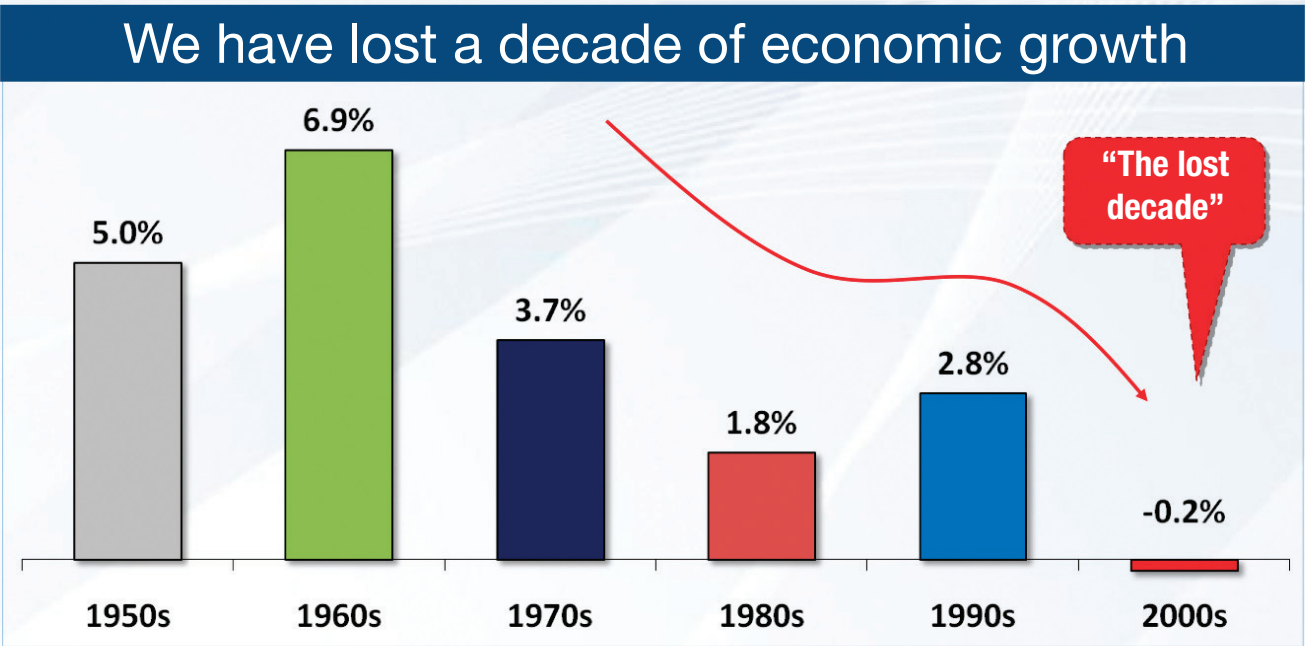
Not only does García feel comfortable returning to market, he expects an upgrade down the road as Puerto Rico continues to comply with its obligations.

"We are talking to the rating agencies, and if there is something that has gained the trust of the ratings agencies and the investors it is that we have done what we have committed to do. We committed to the plan, and the plan is being executed," García said. "In a few years, our rating will deserve an upgrade. That is what we are working toward."

With last week's public-employee layoffs—a net of more than 16,000, about half of original projections—the administration has achieved 60% of its goal to cut annual spending this fiscal year by \$2 billion. Still only in the first quarter of the fiscal year, officials are confident the rest can be covered through increased tax collections, expected savings through renegotiations of Health Reform insurance contracts and a government reform that aims to reduce 30% of government agencies.

The broken promises of previous administrations to Wall Street credit-rating agencies are the main reason Puerto Rico's general obligation (GO) government bonds are just one

We lost the first decade of the 21st Century. We can't lose another!



Source: Puerto Rico Planning Board

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notch above junk, or non-investment grade, status. By sticking to the savings plan it instituted, and keeping its promises to Wall Street, the administration can immediately return to the bond market to finance important infrastructure projects and invest in the economy, García explained.

Meanwhile, there are different federal programs that could be tapped to help finance a program to buy off “toxic” bank debt, to help local banks improve their balance sheets and return to lending.

“On the banking side, we are working on a so-called bad-bank concept. The government will support that. We are working with the banks and with the federal government and we are talking to everyone on different ways we could structure it,” García said.

The idea was part of the discussion in Washington between Fortuño and Obama administration officials and members of Congress last week, so they understand the impact that federal decisions could have on the local economy. The governor met with White House Chief Economic Advisor Lawrence Summers and

White House Director of Intergovernmental Affairs Cecilia Muñoz, among others.

“There are many efforts we are undertaking,” García said, adding the meetings were to explain the island’s entire economic panorama.

“We need an additional push to get out of this. That’s what we are telling them. The administration has to understand where Puerto Rico is, the steps we have taken,” García added.

“We are doing what we need to do. We are complying with our payments. The ARRA funds are going to help us but, as managers of the economy, we have to be worried about what is going to happen after ARRA. That’s part of the discussion. We have been in a recession for almost four years.”

The GDB chief said the government is saying “we need help on the financial side because you need viable banks to have a functioning economy.”

Providing more relief to the island’s battered banking sector “is one of our principal challenges right now, and we are currently working on several initiatives,” García said.

Another aspect of the plan is to



ARRA Interagency Working Group  
Director José Ortiz

pump additional capital into the Housing Finance Authority and the Economic Development Bank, which would allow the government entities to increase construction, housing and business loans until the banking initiative is enacted.

The establishment of a bad bank, which would allow local banks to get

rid of their nonperforming assets to help them start lending again, would require between \$1 billion and \$2 billion to purchase most of the nonperforming assets affecting island banks (CB Aug. 21).

Through the federal Legacy Loan Program, run by the Federal Deposit Insurance Corp. (FDIC) and U.S. Treasury Department, oversight is given for the “formation, funding, and operation” of new public-private investment funds. The program attracts investors through FDIC debt guarantees and Treasury equity co-investment.

ENERGY RELIEF A PRIORITY

The Fortuño administration continues to tweak its \$500 million local economic stimulus plan, which is aimed at complementing the federal economic stimulus plan. The cornerstone of the plan is in providing low-cost loans to businesses for cash flow needs and to consumers for home purchases, which is aimed at stimulating the construction and real estate sectors.

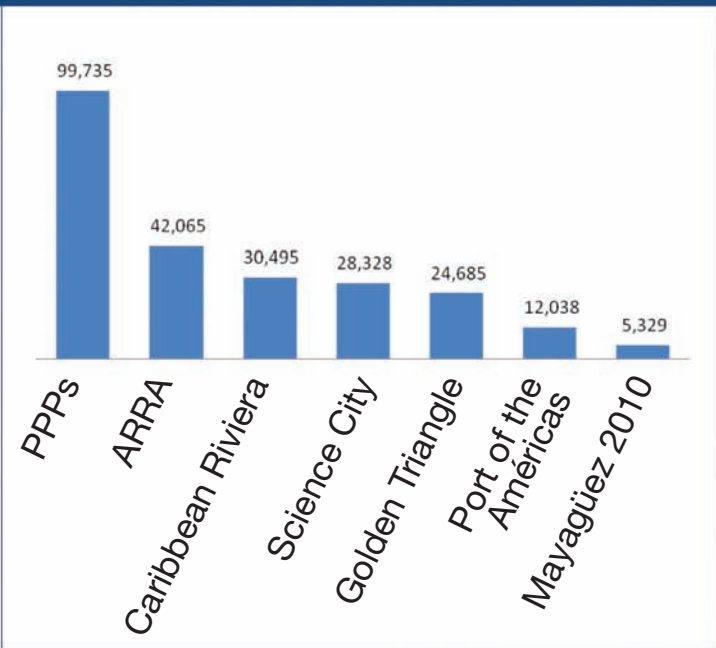
The administration is also pledging to provide businesses with quick relief from high energy costs. The Puerto Rico Electric Power Authority (Prepa) is modifying its industrial rate structure effective Oct. 5 with the aim of stimulating economic growth in Puerto Rico, Prepa Executive Director Miguel Cordero said.

The rate modification eliminates a surcharge that is applied when usage exceeds contracted demand. It is applied to the following rates: general service to primary distribution, transmission voltage, special transmission voltage, high-energy use industries and large-scale electricity producers. In the case of general service to primary distribution rates, the monthly demand charge is \$8.10 per kilovolt-amp (kVA) and the surcharge on excess use is \$10 per kVA. After the change, clients will be charged the same \$8.10 kVA on excess usage as well. This represents a savings of \$1.90 per kVA, Prepa officials said. In some cases, the reduction can reach \$3.60 per kVA.

Prepa originally created the surcharge when the public corporation lacked the generating capacity

PPPs, economic stimulus plans and strategic projects will create 243,000 jobs

Direct and indirect employment goal



Initiative	Jobs	Investment
PPPs	99.735	\$6.214 billion
ARRA	42.065	\$6.214 billion
Caribbean Riviera	30,495	\$1.900 billion
Science City	28,328	\$1.765 billion
Golden Triangle	24,685	\$1.538 billion
Port of the Américas	12,038	\$750 million
Mayagüez 2010	5,329	\$332 million
Aguadilla Airport	350	\$21.8 million
Total	243,025	\$18.565 billion

Source: Department of Economic Development & Commerce



Continued from previous page

to supply industrial clients, so the charge was a disincentive for clients to use energy in excess to avoid the collapse of the electrical system. That's no longer the case today with 1,000 megawatts available at any given time to satisfy the demand of industrial clients.

"Our mission is to offer efficient and reliable service at the lowest cost possible for all our clients, including our industrial clients, which are the motor that moves our economy," Cordero said. "The elimination of this additional charge can encourage this group of clients and others to decide to expand their operations on the island, which would give a strong boost to our economy."

Further action is expected, with García pledging a "specific initiative, over a very short term, which allows for a reduction of energy costs. The quicker we can lower energy costs, the greater the impact we will have on production costs."

The administration expects a \$2 billion investment in the energy sector.

#### FEDERAL STIMULUS

Knowing that many of its economic development strategies would not

have instant results, the Fortuño administration made getting the most out of ARRA a top priority, and it seems to have paid off, with Puerto Rico expected to get nearly \$6.1 billion under the federal stimulus package pushed by President Barack Obama, more than \$1 billion above original estimates.

José Ortiz, Puerto Rico Aqueduct & Sewer Authority president and the administration's lead man coordinating ARRA funds, told CARIBBEAN BUSINESS last Sunday that out of the \$6.04 billion approved, 14% has been disbursed and that before Dec. 31 he expects an input into the economy of \$1.778 billion. More than half of the \$6 billion is expected over the next 10 months, when \$3.79 billion will be injected into the economy.

The federal stimulus plan is expected to create or retain some 65,945 jobs in Puerto Rico, with 17,865 jobs created or retained between now and December and another 23,446 jobs created or retained during the first six months of next year.

A big chunk of the money about to pour into the island economy comes from the \$1.2 billion federal Making Work Pay Tax Credit, which began flowing into Puerto Rico last month. The first round of checks will be for



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

\$300 each, and the vast majority of workers are expected to receive them this month. An additional \$100 check will be mailed out to island workers in December. Then, in July 2010, workers will get an additional \$400 check.

Also being injected into the economy this fall is \$124.2 million in federal stimulus energy funding, offering employment opportunities for a range of professionals and

contractors, as well as financing grants and low-cost loans for businesses and homeowners to undertake renewable-energy or energy-efficiency projects.

Key aspects of the ARRA energy plan, slated to create 1,800 jobs, are:

- A \$49 million weatherization energy-saving program to give some 5,000 households grants of up to \$6,500 for energy-efficient appliances, solar water heaters and home improvements aimed at saving energy.

- Some \$33.9 million in Energy Efficiency & Conservation Block grants, mostly to island municipalities for a number of different alternative-energy projects, from installing solar-powered streetlights to massive solar-energy projects aimed at powering large municipal facilities.

- The \$37 million State Energy Program will funnel money through nine different subprograms all aimed at boosting energy efficiency on the island. It grants businesses, government entities and nonprofits low-cost loans and grants to undertake renewable-energy and energy-conservation projects.

In addition, ARRA is funding some \$467 million worth of infrastructure projects, which have either broken ground or will do so by year's end, creating 7,005 direct jobs and 3,736 indirect jobs. These include:

- \$70 million to fix up 208 public schools between now and December, with 80-to-100 schools to be patched up next year.

- \$105 million in transportation funds, including \$55 million for repaving work, the \$25.7 million conversion of the southern PR-2 into an expressway, the \$15.5 million completion of the Mayagüez west bypass and the \$11.5 million project to extend the PR-10 expressway in Adjuntas.

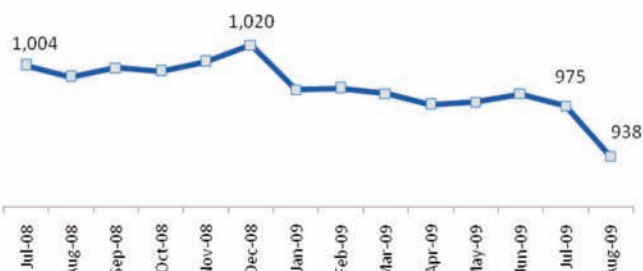
- \$185 million for improvements at 43 public-housing projects, including 16 slated for major renovations.

- \$90 million in ARRA funds for 18 drinking and wastewater projects, 14 of which should get underway before December. The projects include a new wastewater-treatment plant for Morovis and an upgrade of the Utuado water-treatment plant.

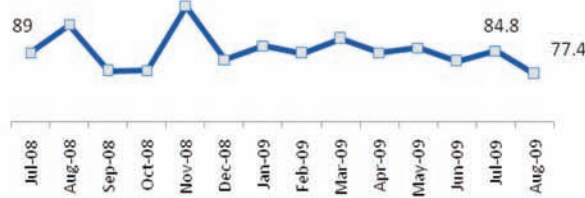
- \$16.9 million for improvements

## Economic Activity Index Components

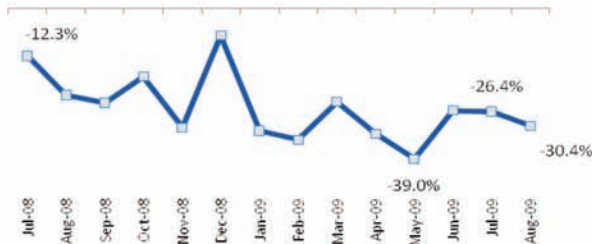
No. of salaried employees (thousands)



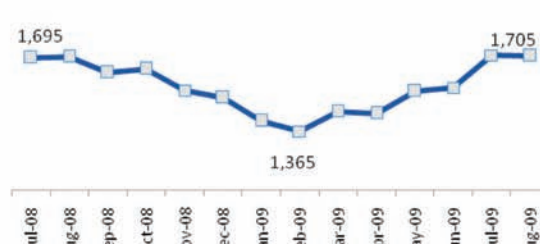
Gasoline consumption (millions of gallons sold)



Cement sales  
(percentage of growth in cement sack sales)



Electric power consumption  
(sale of energy in kilowatt hours)



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at 19 island health facilities.

- \$7 million Isla Grande airport runway upgrade.

### PPPs, STRATEGIC PROJECTS

To drive the economy after the ARRA funds are used up, the government is looking to public-private partnerships (PPPs), as well as strategic projects to drive the economy in fiscal year 2011 and beyond. It estimates that PPP investment could reach \$4.5 billion by 2013. The administration plans to have at least five projects committed during fiscal 2010.

This month the GDB is hosting a PPP conference with potential investors aimed at showcasing Puerto Rico's new PPP law and giving a "road show" of strategic government projects that could draw investment. García said the aim is to have five deals in negotiation by year-end and three signed by the end of the fiscal year next June.

"There are several things we are working on that will be unveiled Oct. 15," García said.

The Fortuño administration has already identified 28 strategic projects representing an estimated \$7 billion investment that it hopes to build over the next five years. The projects should create an estimated 130,000 direct and indirect jobs. The potential works include waste-to-energy projects, wind and solar ventures, highway extensions and mass transportation projects.

The administration is looking to PPPs for important infrastructure projects, but it is also looking to tap private investment through strategic projects, which it says could reach \$6.6 billion. The projects include the Golden Triangle in Miramar (\$1.5 billion of which \$318 million will be public funds), Caribbean Riviera in Ceiba (\$1.9 billion), Science City in Río Piedras (\$1.765 billion of which \$353 million will be public funds), Port of the Américas in Ponce (\$750 million), the 2010 Central American & Caribbean Games in Mayagüez (\$332 million) and the Rafael Hernández Airport in Aguadilla (\$21.8 million).

One of the biggest deals is the ongoing negotiations between the government and the South Korean group UCW America to finish construction

and then operate the Port of the Américas project on the south coast. Some \$70 million in ARRA funding has been requested for additional work. The project should create 5,000 jobs when operational. Overall required investment to get the port operational is estimated at \$200 million, which would create 3,000 construction jobs.

### A NEW ECONOMIC DEVELOPMENT MODEL

The Fortuño administration also released its new economic-development model this week, which shifts focus from providing tax-based incentives to lowering production costs. The initiatives are part of a new economic-development strategy centered on boosting exports and knowledge-based industries.

"Despite the challenges, we are convinced that Puerto Rico's economy can recover and move towards sustained economic growth," said Economic Development & Commerce Secretary José Ramón Pérez-Riera, who oversaw the drafting of the plan. "However, there is no doubt that to achieve these goals, we need to recognize the precarious economic state that Puerto Rico has passed through and the absolute need for all of us to make the required critical and fundamental adjustments."

While the plan encompasses the major thrusts of the administration's long-term economic development strategy, it also contains a number of measures aimed at sparking growth in specific industries.

These include:

- Approving and enacting the regulations under the Industrial Incentives Law to help foster manufacturing growth, while developing programs to lower costs and attract capital for manufacturing investment.
- To boost tourism, develop a brand for Puerto Rico to project it as the ideal place to visit, do business or live, while establishing the "Border Facilitation Pilot Program" to attract new international flights here. Also, an effort to recapitalize the Tourism Development Fund and the Hotel Development Corp. is underway to boost investment in the sector.
- Financial assistance and professional training programs aimed at facilitating commercial activities to spur island exports.
- Increase the development and



*Government Development Bank  
President Carlos García*

promotion of free trade zones.

- Boost agricultural development through measures that provide financing for investment, protection of land with agricultural value and expanded use of high technology.

The plan's main focus is on the longer-term strategy to lower production costs and improve Puerto Rico's competitiveness. This includes the permits overhaul legislation that has been approved by both chambers of the Legislature. The governor said the differences in both versions are minimal and should be approved shortly.

While the new permits system will provide a 90-day deadline for permits, it will take a year to get up and operating. In the meantime, an interagency team is working on getting out permits through the existing structure. It is working through an estimated backlog of 3,900 permit requests worth an estimated \$12 billion in potential investment.

Also, the Fortuño administration's government reform, which aims to eliminate 30% of the 134 government agencies, is another integral part of the economic development strategy. The plan will both improve government efficiency and reduce spending, which will enable it to devote more resources for economic-development strategies. While legislation still must be approved, Fortuño indicated the administration would forge ahead with measures like merging

the different advocate offices if it took too long.

García said the process to lay off employees was delayed because of a lack of reliable human resources information, but that the administration was genuinely getting its hands around the problem of government bureaucracy.

"Within a few months we have been able to get a grasp on the human resources situation in this government, and this is something that no one has been able to get done in a very long time," García said. "We found a totally chaotic human resources management system in practically all government agencies. Three-quarters of all agencies didn't even have an organizational chart showing where the employees are, and practically all employees have functions that are totally different from the job description. In other words, in order to carry out this process responsibly we've had to build from scratch the foundations of a human resources system for the whole government of Puerto Rico that simply didn't exist."

A metric the administration will use during the government reform is that every one of the government's 134 agencies should deliver a service.

"We need to devote more resources to the growth of our economy. If you have a government that pays 70% of its income to payroll you don't have enough to invest in economic development," he said.

The governor will also name in the coming weeks the members of two groups that will be responsible for drawing up proposed tax and labor reforms, which should take effect before the end of this four-year term.

The reforms will aim to lower the tax burden for individuals and corporations and look to eliminate many of the regulations that add to the cost of doing business in Puerto Rico and create a disincentive to providing jobs.

"Puerto Rico is open for business again. We have taken all the necessary steps to be fiscally responsible again. Puerto Rico will comply with its obligations, not only to bondholders but also to everyone who deals with the government," Fortuño concluded. "We have created the conditions for new investment, both locally and from the outside, to transform our infrastructure and to get our economy going again." ■