

OUR EXCLUSIVE INTERVIEW

NEXT FOR GOVERNOR FORTUÑO

ECONOMIC DEVELOPMENT:

*The need for a long-term,
job-creating strategy to put
Puerto Rico back on top!*

By John Marino
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Fortuño looks to permits, labor reform for future economic development

Governor says it's time to talk about growth; job creation seen in exports, energy, construction, biotech and manufacturing



BY JOHN MARINO
marino@caribbeanbusinesspr.com

In an exclusive interview at La Fortaleza, CARIBBEAN BUSINESS asked Gov. Luis Fortuño when he would be turning his attention to economic development for tomorrow and the future now that he has laid out a detailed plan to address the fiscal crisis confronting his administration.

It was pleasing to hear the process has already started, with different committees working on

different aspects of economic strategy that he is turning his attention to. He discussed some of these issues in general terms, pending final recommendations.

In fact, the administration will file permit reform legislation after the Easter legislative recess that will make it much easier and secure to open a business in Puerto Rico, Fortuño told CARIBBEAN BUSINESS. The package will be submitted to the Legislature after the expected approval of legislation promoting public-private partnerships (PPPs), which has been the subject

of lengthy Senate-La Fortaleza negotiations.

Together, the two measures comprise the governor's opening salvo in an effort to improve investment conditions on the island to foster long-term economic growth. It will be accompanied by a steady push toward cleaner and cheaper forms of energy and will be followed up by a proposed reform of island labor laws and then a major tax reform at midterm, expected to cut individual and corporate income tax rates, as well as review current industrial incentives.

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Gov. Luis Fortuño, left, listens to CARIBBEAN BUSINESS Publisher & Editor-in-Chief Manuel A. Casiano, right, during an interview as Government Editor John Marino, center, takes notes.

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“Now we have to execute. We’re done with the fiscal side. Now we can talk about growth,” Fortuño said, in explaining the effort.

There is nothing new about the governor’s plan to return the Puerto Rican economy to positive terrain, and to create the tens of thousands of new private-sector jobs needed to maintain that growth and foster renewed prosperity on the island. In fact, it is all about confronting the perennial problems on the island that have plagued and pestered would-be investors and business owners for decades.

Though the governor acknowledges the dismal economic outlook, and the reality of the tough global investment climate, he sees opportunity in the fiscal crisis because it is forcing the government to take steps that should have been taken long ago to cut down on bureaucracy and excessive regulation.

“We have a unique opportunity to fix things,” the governor said. “When you look at energy issues, tax structure, labor issues, this is a great opportunity for us.”

As his administration pushes reforms to improve the investment landscape, Fortuño said he would be an aggressive salesman for Puerto Rico at every opportunity.

He spoke to CARIBBEAN BUSINESS following a sit down with the world’s richest man, Microsoft founder Bill Gates, whose estimated investment on the island will exceed \$600 million over the next four years, and hours before attending a cast party for Johnny Depp’s new film, “The

Rum Diary,” to discuss with its director making future movies on the island.

Next month, Fortuño said he would meet with the 14 CEOs of the world’s largest pharmaceutical companies, and lay out the welcome mat for them too.

“I’m clear about what my job description is. I will just continue to go out there and promote investment in Puerto Rico. I will meet with whomever I need to meet with,” said Fortuño, adding he sees opportunities for job creation in construction and real estate, manufacturing and biotechnology, developing alternative sources of energy and increased exports of products and services.

“We have to build on our strengths. We have the tools; if we address the permits issue and the cost of energy in Puerto Rico, we have the tools to grow.”

LAYING THE FOUNDATION FOR PRIVATE INVESTMENT

The administration is hopeful the federal economic stimulus package, combined with local stimulus efforts, which will inject nearly \$7 billion in the economy over the next two years, will lift the island from the recession in which it has been wallowing for three years.

The governor said he is maximizing the infrastructure component of the federal stimulus package (some \$900 million) by directing most of his \$500 million “criollo” stimulus package toward that end, as well as directing that “95 percent” of a \$536.4 million education funding assignment under the federal plan is spent on school improvements. Infrastructure investment

has a greater multiplier effect on the economy than other forms of government spending, such as on programs, according to economists.

However, down the road, the government sees most investment coming from the private sector—even in areas traditionally undertaken by government. That is why the first order of business following Easter break, is passing the public-private partnership legislation that has been held up by Senate amendments and because of a few legal concerns.

It is “a great tool to attract private-sector investments in areas where I wish the government had the money to invest but doesn’t anymore,” Fortuño said. “We had it in the 1980s and the ’90s, but not anymore. So it has to be the private sector.”

Fortuño acknowledged concerns over “real constitutional issues” and the need to harmonize proposed Senate changes, but said they were being addressed and predicted swift passage after the Easter break.

“I called for a time-out,” Fortuño said. “I want to make sure the law can’t be successfully challenged once it is in place.”

Fortuño said the proposed legislation would protect the public’s interest in PPPs and also be “aggressive and attractive” for potential investors when compared to offerings by counterparts in the nation and elsewhere. About half of all U.S. states have similar legislation.

Fortuño sees PPPs as a way to tap private funds to construct large projects, as well as the waste-

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to-energy, wind and solar projects he says the administration will embrace in order to lower the cost of power in Puerto Rico.

However, he also sees opportunities in biotech development and manufacturing, in which the government would share risks with private investors through PPPs.

One likely PPP will be the Port of the Americas project in Ponce, where South Korean investors have already expressed interest in finishing and operating the transshipment port.

"The South Koreans are willing to invest the money, so let them invest the money, and we'll contract with them and move the project forward," Fortuño said.

He also said PPPs could be used on a number of energy projects, especially the new generation of waste-to-energy technology, which Fortuño called a "win-win" for helping resolve both the high cost of energy and the island's exploding solid waste problem.

The governor said he does not see the "huge savings" with natural gas that you get with "clean coal," and he said waste-to-energy was a "logical way to go" because it would lower energy costs and help resolve the island's mounting solid waste management problem.

"We don't have a choice. We have to deal with our solid waste problem, and if at the same time we can produce energy, that's a win-win situation," Fortuño said.

And the government will continue to encourage outside and local investment in real estate, hotels and residences, especially in the "Golden Triangle" area surrounding the Convention Center in Miramar.

"We are about to talk about that openly—expanding the purview of the Golden Triangle project and what we want to see happening there and create opportunity for developers locally and nationally," he said of the project launched under his tenure as Tourism Co. executive director back in the 1990s.

The governor also said he sees opportunities in increasing exports of island products and services, including professional expertise.

"We have not explored CAFTA-DR as an opportunity for us at all," he said of the free trade pact the neighboring Dominican Republic entered into with the U.S.

Fortuño also said the federal dollars available for energy projects under the economic stimulus package provide the funding to create the conditions for Puerto Rico to be a regional source of power.

"If we use the opportunities that there are under the stimulus package in energy we could be a source of alternative energy for the region and attract technology here that could be used for the region," Fortuño said.

The governor also said he intended to expand efforts to pursue opportunities in biotechnology started by the previous administration.

"We should continue to explore it," he said. "We can do clinical research here, but not as



much research as development. If we can get a commitment from the private sector we would match it. We would work in tandem with the private sector."

THE NEXT STAGE

Regardless of the potential, the governor said the permitting problem, the cost of energy and other barriers to investment such as the excessive labor legislation will need to be addressed if opportunities to attract investment are to be exploited.

"We are filing legislation in April regarding permits that will be aggressive and engaging. That's the next stage," the governor said. "It is badly needed. The World Economic Forum always talks about how bad it is in Puerto Rico because of this. Every time anyone talks about Puerto Rico, one of the negatives is the permitting process. It's just unbelievable."

Fortuño said his team was still fine-tuning the legislation, which would cut the number of permits required for most projects in half and impose a deadline on the government for acting on project requests. It would also include making permits less subject to judicial review, the governor said, pointing to recent problems at the Paseo Caribe project and elsewhere, where courts have stopped projects that are duly permitted and under construction.

"Even the judicial review of the permitting process has to change. That's part of the permitting process," the governor said, saying the reform would touch on the entire permitting process. "There has to be a judicial review, but let those who stop it pay for it."

He said that the Paseo Caribe project is the "poster child" for the problem, but it goes much further than that, saying several projects have wound up in court after getting permits and commencing construction.

"We want to bring certainty to the process. In order to attract capital, you need certainty," he said.

And while the finishing touches are being put on the proposed permitting reform, the governor said another team of advisers is preparing labor law reform legislation that would be introduced following the permits overhaul.

"Labor legislation will come after permitting and I won't stop until we finish," Fortuño said.

The governor said the reform would seek to create flexibility in labor legislation that would benefit employees, who might want to enter into "flexi-time" arrangements to schedule work hours around childcare and other family responsibilities.

The governor reiterated that all his fiscal efforts have been aimed at setting the conditions for the private sector to grow, aided by an upcoming tax reform.

"What we are doing is making sure that in the first time in a decade we have a balanced budget and create the conditions for the private sector to grow, not for the public sector to grow," the governor said. "We had some taxes in the package because we wanted a balanced package for our fiscal reconstruction but it goes against everything I believe in and we want a tax reform halfway through our term."

"Raising taxes is not an answer," he said.

Puerto Rico's chief executive also appears confident in the benefits of basic salesmanship, and the ability of his pledged ceaseless efforts in this area to pay off. He said he was personally calling the CEOs of the 25 international air carriers that landed at Luis Muñoz Marín International Airport when he was in charge of the Tourism Company and then the Economic Development & Commerce Department. Currently, there are just five international flights.

"This just needs a little tender loving care," he said.

The governor expects resistance from labor and environmental groups and political opponents to his proposed permit and labor reforms, but he said the voters who elected him "decided they wanted to move forward on the economy."

"The economy was the No. 1 issue by far during the campaign, and if there was a difference that was very much open and discussed, it was our approach on how to move the economy forward," he said of his gubernatorial race against former Gov. Aníbal Acevedo Vilá. "The voters decided they wanted change in this area. I won't go back on this. It's damn the torpedoes, full steam ahead." ■

Fortuño: 'I had a gun to my head'

Defends job cuts because of need for decisive action, a permanent fix

BY JOHN MARINO

marino@caribbeanbusinesspr.com

Gov. Luis Fortuño defended his decision to pare the public payroll by 30,000 employees over the next fiscal year, saying the urgency of the situation he inherited required “aggressive” action.

“I had a gun to my head. I met with the ratings agency in December. I needed to act aggressively. The previous administration had talked about a hiring freeze. They had heard that one before. A downgrade to junk status, the consequences would have been unthinkable,” the governor said.

Fortuño added: “We had no credibility with the ratings agencies. Promises had been made but weren’t implemented. I wish I had the leeway to not do something so dramatic. I did what I did not thinking of politics but to save the day and the credit rating of Puerto Rico for the benefit of our people. The surprise has been that the reaction has been much more positive than I thought it would be.”

The governor also said that cutting back the government payroll, rather than a temporary salary cut for all public workers or other proposals, also allowed the problem of the bloated public payroll to be fixed “once and for all. It can’t be temporary. We need a permanent fix,” he said.

Despite the economic pain caused by the job cuts, the governor noted that the fiscal emergency measures he took, which also included temporary taxes, were accompanied by measures aimed at stimulating the economy, and that on the whole, the package his administration presented fostered economic growth.

Fortuño also insisted the goal of the administration is to get these employees to “transition to the private sector,” rather than the unemployment line. That is why the government is offering incentives like paying for half an employee’s salary for a year and extending their health coverage for a year. Other incentives for employees leaving government include grants to pay for education, to open up a business or to relocate to start a new job.

While public-private partnerships (PPPs) will also likely absorb some public employees, large-scale deals are unlikely to be enacted during the next fiscal year, which runs from July 1 to June



30, 2010, when the 30,000 layoffs are scheduled to take effect, the governor said.

Rather, he sees large-scale public works projects, funded by the federal and local stimulus packages, as being a more likely source of job creation. “You’ll begin seeing the public bid notices. We are trying to re-energize the economy. We are hoping the private sector will be reignited,” he said.

The governor said slashing \$2 billion annually of government spending and other measures to bring a balanced budget would also result in greater private-sector growth. One of those measures, slapping a moratorium on tax credits granted to private businesses who invested in downtown municipal areas, drew criticism because it will cost these businesses money.

“Of course it will, when you have 100% tax credits and no limits. It makes no sense. You have municipalities giving away these credits but there is no accountability back to the Treasury Department. It is irresponsible to have approved legislation like that,” the governor said.

He said the difference with credits granted to manufacturing, tourism and film ventures, which remained intact under the fiscal emergency plan, is that there “are controls and limits.”

“I understand what they were trying to do, but great intentions often may lead to the wrong place,” the governor said of legislation granting credits for downtown area investment.

The governor reiterated that the “bitter medicine” of his fiscal emergency measures is being shared by all sectors.

Labor unions, meanwhile, have pledged protests and legal actions against Fortuño’s plan to eliminate 30,000 government jobs and to place a two-year moratorium on pay increases and other negotiated contract terms. The governor, however, said the labor leaders never complained when more than 30,000 private-sector jobs were lost last year, and 75,000 lost over the last two years.

“We all have to contribute. We all have to pitch in on this. And that’s what’s appalling about the message of some, that is, some labor leaders,” the governor said. “We are facing our most difficult moment since the 1930s. We all need to pitch in. By doing this, we will get out of this hole together and we will all gain.” ■

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