

CARIBBEAN BUSINESS

caribbeanbusinesspr.com

THURSDAY, JULY 2, 2009

WEEKLY \$2.00

©2009 CASIANO COMMUNICATIONS INC.

How you, and more than \$6 billion in government funds, can help create 250,000 new jobs over the next 4 years



An agency-by-agency review of their plans, and the opportunities they present... for you!

JAIME LÓPEZ DÍAZ
Tourism Co.

JAIME GONZÁLEZ
Portal Del Futuro

JOSÉ ORTIZ
Prasa

JOSÉ PÉREZ-RIERA
Econ.Dev. & Commerce

LIZZIE ROSSO
Econ. Dev. Bank

JAVIER VÁZQUEZ
Pridco

By CB STAFF
Pages 20-35

TOP STORY

CVS drugstore chain finally coming in with 100 stores; first six to open this year page 2

INSIDE

Fortuño expected to call special session for permits, other legislation page 7

Country Club to get \$5 million soccer stadium page 4

Applebee's to open at Plaza Las Américas page 4



Almost all island households have television sets page 12



Why pay \$2 ?
Subscribe and you'll save up to 57% off the cover price PLUS 12 months of FREE ACCESS to every feature of caribbeanbusinesspr.com
Subscribe at www.casiano.com today!

For up-to-the-minute local, national, international and economic news in English, go to **CARIBBEANBUSINESSPR.COM.**

Fortuño administration works two fronts to spur economy

The long and short of trying to create 250,000 jobs in four years



José Ortiz



Lizzie Rosso



José Ramón Pérez-Riera



Javier Vázquez



Jaime González



Jaime López Díaz

BY JOHN MARINO
marino@caribbeanbusinesspr.com

The administration of Gov. Luis Fortuño is working simultaneously on two fronts, one immediate and the other longer term, to lift the island economy from the recession it has languished in for more than three years.

The top officials charged with that mission follow a twin mantra of job creation and new investment and are consumed with creating the conditions to foster both.

It has been a baptism by fire for the administration that took office in January, inheriting a \$3.2 billion budget deficit, a shrinking economy, a surging unemployment rate and a deep recession developing in the U.S. and globally.

Any discussion of its economic development plans must be prefaced with the acknowledgment of the painful fiscal measures it began implementing upon assuming office, which include a \$2 billion annual spending cut, planned layoffs of at least 30,000 government employees this year and the creation

of a budget plan to restore sobriety to public finances. Those moves have been welcomed by Wall Street credit ratings agencies and halted a potential downgrade of the government's credit rating to "junk" status that would have plunged the island into further economic chaos.

"I know you, like the rest of our people, have approved of our handling of the first task we had to take on: saving all of us from assured bankruptcy," Fortuño recently told a group of business leaders at a government-sponsored economic forum. "At the same time, you have been anxious to find out what comes next. Now that we have saved our credit, how do we push our economy forward?"

The series of reports in the following pages of CARIBBEAN BUSINESS answers that question, providing details on the administration's plans to reignite the economy. Like all plans, many parts will take time to carry out, promising a brighter future perhaps, but scant immediate relief for businesses struggling to stay afloat during the island's lengthy and grueling recession.

We at CARIBBEAN BUSINESS decided the best way we could help push the economy forward was to lay out for our readers the specific plans of some of the key agency heads that can move this economy forward. The aim was to help our readers—the business community of Puerto Rico and thousands of businesspeople and investors in the states and around the world—see how they can fit in with these plans and come forward and let agency heads know how they can help lift our economy and at the same time take advantage of opportunities and grow their businesses and employ more people.

Most of these plans require input, innovative specific ideas and investment and, in the hands of potential investors and suppliers, can move this economy forward and create badly needed jobs.

The administration has pounced on opportunities with the same speed that it has confronted the fiscal crisis upon assuming office, and some of these are about to bear fruit. The biggest of them all, of course, is the American Recovery & Reinvestment

Act, the federal economic stimulus package pushed by President Barack Obama that will net the island more than \$5 billion in additional funds over the next two years.

Under the leadership of Puerto Rico Aqueduct & Sewer Authority Executive Director José Ortiz, the administration's point man overseeing the effort to solicit, channel and oversee the billions in federal dollars pouring into the island, Puerto Rico has exceeded original funding expectations by some \$743 million, boosting the expected total to \$5.743 billion. That money has already started to filter into our economy but will increase substantially by September. The island has also become a leader among U.S. jurisdictions in designing a system to oversee the process that ensures both transparency and expediency—the two main requirements of the federal stimulus plan.

An additional "boom" from the Obama billions will start to be felt in August, however, when island workers begin receiving stimulus

Continued on next page

Continued from previous page

checks and many of the construction projects funded under the plan will be underway.

“That’s when we will really take off,” Ortiz told CARIBBEAN BUSINESS.

To complement the Obama plan, the administration has also developed its own \$500 million *criollo* stimulus package, a mix of infrastructure spending, home purchase incentives and a commercial loan program aimed at helping keep businesses afloat or financing their expansion.

“Small and midsize businesses form the heart of the economy and generate the most employment,” said Economic Development Bank President Lizzie Rosso, who oversees the new

commercial lending program, which aims to facilitate some \$375 million in loans to businesses, and a variety of other lending programs aimed at sparking the economy. “We are very focused on job creation.”

Infrastructure spending, which can provide a quick economic lift because of its multiplier effect, will also get a boost from the passage of legislation setting the ground rules and promoting public-private partnerships. The government hopes to attract substantial investment in big projects—from highways to waterworks and energy projects to mass transit initiatives—which it cannot afford to finance and will depend on the private sector to fund these projects as partners with the government.

“We are expecting to create

250,000 jobs over the next four years,” said Economic Development & Commerce Secretary José Ramón Pérez-Riera, pointing to the combined federal-local stimulus packages and other initiatives the administration is implementing.

Acknowledging tough global economic conditions, the Economic Development chief has also been leading the effort to improve Puerto Rico’s investment climate, saying that the time to fix perennial problems affecting business is now. The Legislature is now considering a sweeping permits overhaul submitted by Pérez-Riera’s team, and the agency has just unveiled its “Green Island,” or “Isla Verde” initiative, which seeks to lower energy costs for business while moving Puerto

Rico toward clean, renewable energy production.

The manufacturing and tourism sectors remain an integral part of administration plans to create jobs and attract investment, and Puerto Rico Industrial Development Co. Executive Director Javier Vázquez and Tourism Co. Executive Director Jaime López discuss their new approaches to bring back lost luster to these stalwarts of the island economy.

“We need to create jobs in the private sector. The government isn’t there to create jobs. The government isn’t there to make investments,” said Pérez-Riera, summing up the administration’s philosophy. “The government is there to be a facilitator and provide the tools for the private sector to do its job.” ■

Funding for P.R. surges to \$5.74 billion under Obama plan Federal stimulus package is heating up the economy this summer

BY JOHN MARINO
marino@caribbeanbusinesspr.com

Get ready to strap on your seatbelts after your July vacation.

That’s the word from José Ortiz, the Fortuño administration’s point man on the American Recovery & Reinvestment Act (ARRA), the federal economic stimulus plan that will pour more than \$5 billion into the island’s economy over the next two years.

“The month of August is the real start. That’s when we turn on the motor,” Ortiz said of President Barack Obama’s plan to jolt the economy and create jobs.

The Puerto Rico Aqueduct & Sewer Authority executive director, who is doing double duty as the head of an interagency task force overseeing the channeling of the ARRA billions onto the island, sees a “boom” in August because several construction projects will be underway by then. Also, island workers will get the first \$500 million installment in direct cash payments that will add up to \$1.2 billion over the next two years. That’s \$300 for every worker in August. Those payments will be followed up by \$100 payments in December, and the same benefit will repeat itself next year.

During August alone, some \$348 million will be invested in infrastructure and government programs, creating some 3,795 jobs, according to government estimates. That will

push overall investment in these areas to \$865.52 million and overall employment generated by ARRA to 9,434 jobs.

So far, some \$540.61 million from the economic stimulus package has been spent and is flowing through the economy, according to the latest government figures. That’s nearly 11% of Puerto Rico’s expected take, while the national average in disbursements is about 6% of their assigned funding. “We are nearly twice the national average,” Ortiz said.

The good news from Ortiz, however, goes far beyond the fact that the Obama billions are beginning to take root on the island. Puerto Rico is getting much more money than originally thought. Assigned funding for Puerto Rico has climbed to \$5.743 billion, some \$743 million above original projections, and further growth is expected.

Puerto Rico is nearing the \$6 billion mark.

The island is being “very aggressive” in submitting proposals for competitive funding grants. “We are presenting more proposals than anyone, while many other states are still dealing with what has been assigned by formula. We are very far ahead, and that’s why we are injecting money into our economy before anyone,” Ortiz said.

“The whole idea is to move the economy. You may submit a better proposal than Puerto Rico, but if I

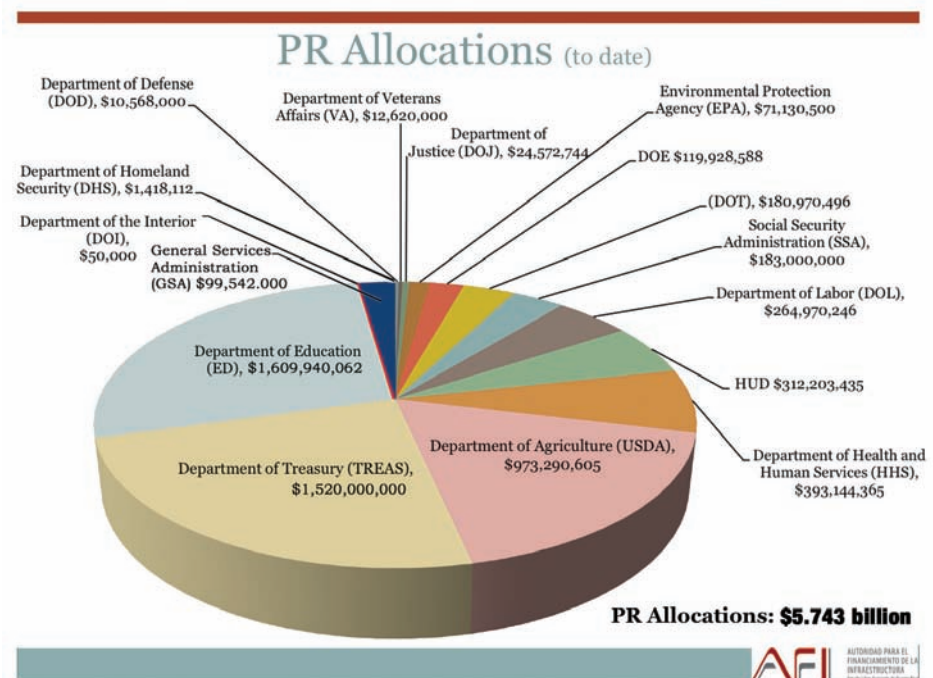
submit it three months before I have a better chance. Obama has said, ‘the economy is slow. Let’s move the economy,’” he added.

Of the original \$5 billion the government expected to receive, some \$2 billion was to be awarded through competitive grants. In all, Puerto Rico is expected to apply for some \$5.5 billion in competitive funding grants. Currently, government agencies still have pending 114 proposals for \$201.58 million in competitive grants, while island municipalities have 263 proposals pending for \$211.1 million. Ortiz said the only thing holding the island back from submitting more is the time it is



taking some federal agencies to develop regulations for requesting the

Continued on page 22



Continued from page 21

funds, which must be in place before an application can be filed.

"We continue submitting proposals. We are still waiting for the guidelines for many competitive grants," he added.

Ortiz credits Gov. Luis Fortuño with taking the decision early on to channel funds not destined for specific agencies into the Infrastructure Financing Authority (AFI) and to set up an interagency task force to channel and oversee the billions being assigned to the island. The multitasking Ortiz, who is also AFI Board chairman, was the logical choice to head the task force.

"One of the things that has helped us is we got organized before most states," Ortiz said. "We jumped right away, even before the federal government was ready. Today there are a lot of states guessing how they are going to do this."

A MODEL FOR THE FUTURE

The organization created to administer the ARRA funding in Puerto Rico bypassed existing government structures to request federal funding and to provide oversight to ensure the funds are being used according to strict federal guidelines. Ortiz said the experience should help the government in the future both request more federal funding and ensure it is used according to the rules.

"The area of compliance is very important. One of the things we learned from this organization should translate itself to all the local agencies for regular federal funding programs," Ortiz said.

Currently, each agency submits federal funding requests on its own and nobody is overseeing whether they are seeking all the funding they should or if it is administered appropriately.

"Even with agencies you would think are successful because they receive a lot of federal funds, we discovered available funding programs that were never solicited," Ortiz said. "We have many more federal funding options than what we are receiving and requesting."

As part of this push, the task force headed by Ortiz also monitors government entities to ensure proper compliance with applicable obligations and fund disbursements procedures. In another effort at transparency, it has also established a website <http://www.buengobiernopr>.

com providing up-to-date information about the implementation of the ARRA in Puerto Rico, including general information, bids, and information about seminars and competitive funding awards.

Besides working with government agencies and municipalities, the task force has also screened and helped orient about the opportunities under ARRA more than 800 non-profits, 350 of which never requested federal funding previously.

The ARRA organization headed by Ortiz is also being looked at as a model for other states to follow. Presentations of its efforts are being made to U.S. Rep. James Oberstar, D-Minn., the powerful chairman of the House Transportation & Infrastructure Committee, and other members of Congress that are key decision makers in awarding future infrastructure funding grants.

"The resident commissioner thinks this will help with future funding," Ortiz said.

SUMMER JOBS

July may be the month most islanders choose to take vacation, but for many in the construction industry, it's the time they are finally getting back to work or preparing to do so.

Already, roadways from Mayagüez to Humacao are being repaved with \$55 million in ARRA funding. Many projects are now underway, and the rest will get started before mid-July.

In August, repair work will begin at island public schools, with \$70 million assigned to undertake repairs at around 250 schools. Ortiz said the

plan is to spend about 60% of the funding this summer, with the rest being undertaken during the school year or next summer. "The idea is to do the projects in the summer that would bother students during classes," he said.

There is also \$185 million in ARRA funding for repairs at 43 public housing projects, with 16 slated for major renovations. Work on seven will get under way this summer, Ortiz said. Last week, Gov. Fortuño presided a groundbreaking ceremony for the \$12 million renovation of the Maximino Miranda public housing project in Villalba, which is expected to create 195 direct and 98 indirect jobs over the next two years. Others slated for renovation include: Santiago Iglesias, Jesús T. Piñero, Narciso Varona, Manuel Rossy, Maximino Miranda, Ramírez de Arellano and Alhambra.

Work is also getting underway on the \$7 million Isla Grande airport improvement project, which Fortuño has touted as a strategic project for the Golden Triangle redevelopment project along the San Juan waterfront from Miramar to Old San Juan.

Some \$76.7 million in ARRA funding will also finance highway projects that will break ground this summer and fall. The completion of the Mayagüez West Bypass should be underway by August, while the renovation of the Constitution Bridge and the conversion of Highway 2 into an expressway in Ponce will get underway in the fall.

Also, on tap is nearly \$16 million in water improvement projects, including a new water treatment plant

for Morovis and an upgrade to the Utuado water treatment plant.

Government officials say that ARRA funded construction projects will create some 13,000 jobs by December. These include 2,642 jobs in July, 3,232 jobs in August, 1,634 jobs in September, 1,640 jobs in October and 654 jobs in November.

ENERGIZING PUERTO RICO

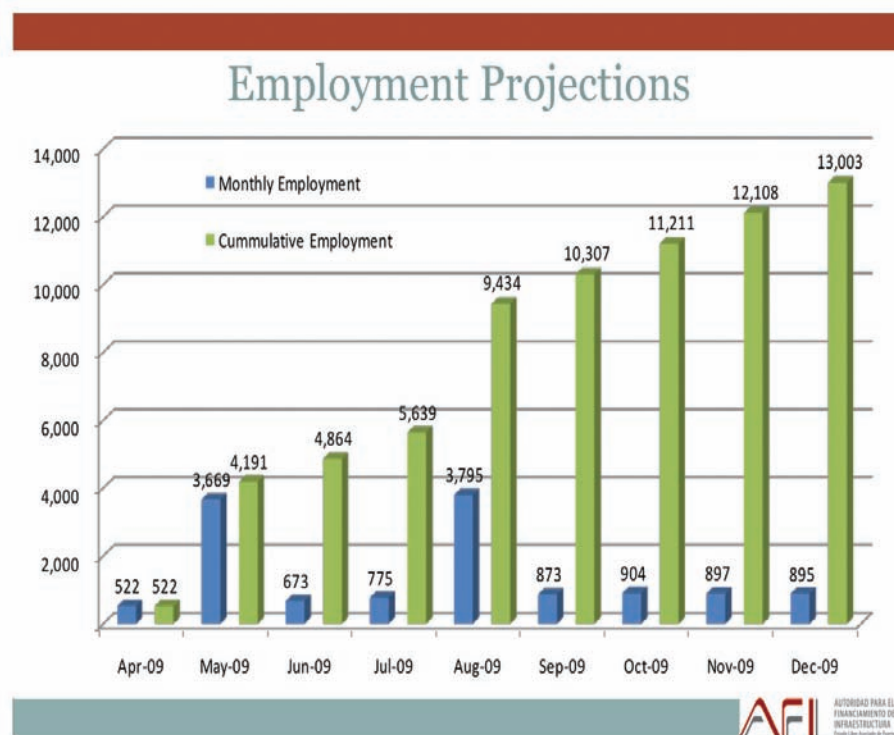
Some \$34 million in Energy Efficiency and Conservation Block Grants have been granted to island municipalities for assorted energy projects. The biggest recipient is San Juan, with \$4.3 million, followed by Bayamón with \$2.086 million. Bayamón will use the money for a \$6 million solar energy project aimed at powering the municipal sports complex and adjacent structures, which should save the city some \$1.5 million annually in electric costs. The funds can be used for anything from installing solar street lights to making city buildings more energy efficient.

The Obama plan also provides financing for up to 30% of alternative energy projects, such as wind, solar energy or waste-to-energy, but the benefit is granted in the form of tax credits, so would only benefit businesses with federal tax liabilities. The plan also requires that these projects be operational by 2012 which, because of time constraints, would be most helpful for solar projects since the permitting process is relatively swift, according to Ortiz.

The Obama plan also provides for a \$48.8 million weatherization assistance program aimed at low-to-middle-income families to help make their residences more energy efficient through the purchase of solar water heaters, energy efficient air conditioners and appliances and other items. Grants of up to \$6,500 are available under the program. Ortiz said the program will be most targeted to help working families, who have been hit by high energy costs. It will also generate a lot of jobs as demand for installation of the new equipment goes up.

As the federal funding pours into the island this summer, the island's economy will surely heat up. Ortiz, however, said another benefit is that the government is getting a lot of bang for its buck as construction companies, eager for work, are submitting extremely competitive bids.

"This is the time to undertake bids. People are crazy to get to work," Ortiz said. ■



Lizzie Rosso: Small businesses are the heart of the island's economy

Economic Development Bank president focused on cutting time for loan approvals, reducing delinquencies and generating \$375 million in loans in Fiscal 2010

BY JOSÉ L. CARMONA
josec@caribbeanbusinesspr.com

For Economic Development Bank (EDB) President Lizzie Rosso, small businesses are the heart of the island's economy and key for Puerto Rico's economic recovery.

The small and midsize business sector accounts for the biggest share of employment in Puerto Rico, noted Rosso, adding that job retention and creation are top priorities for the Fortuño administration.

Since her arrival at the EDB in January, Rosso has overseen a concerted effort to assist local small and midsize businesses navigate the recessionary waters as commercial banks cut back on lending.

"Since day one we have been executing our plan because there's a crisis out there in the sense that commercial banks have stopped lending, or are lending very little, right now. Banks are very cautious and the EDB has taken a much more active role in the economy, making sure we provide financing to those businesses, that are viable and that really need it to expand or develop a new business, or simply to survive by providing vital working capital," Rosso said during an exclusive interview with CARIBBEAN BUSINESS.

PICKING UP THE SLACK

The EDB's Loan Guarantee Program for Small Businesses is at the core of the administration's \$500 million *criollo* stimulus plan, of which \$180 million, or 36%, is earmarked directly to assist struggling, but viable local small businesses.

The \$180 million program is aimed at providing loan guarantees to local banks so that they in turn provide working capital loans to struggling, viable businesses at immediate risk of reducing or closing operations for lack of liquidity, she said.

Although the EDB's \$254 million loan portfolio is relatively small, during the first five months of this year the bank approved \$39 million in 480 new loans, impacting some 6,000 jobs across the island, she said. Through direct loans issued by

the bank, the EDB expects to lend another \$80 million in fiscal 2010, which began July 1. The EDB can extend loans of up to \$5 million.

The bank also has specific loan programs for start-ups as well as for women entrepreneurs. The EDB also provides credit to farmers to help them pay for the farmer's insurance.

The goal of the EDB's Loan Guarantee Program for Small Businesses, meanwhile, is to back \$375 million in loans, a new record for the bank. These are not direct loans through the EDB, but through guarantees to participating commercial banks. So far, the EDB has approved eight loans through this new program for a total of \$1 million. Rosso acknowledged the sum is small, but expected the new program to pick up speed once the learning curve stage is cleared.

The EDB expects to impact 15,000 direct and indirect jobs through its different loan programs and another 8,000 jobs through the loan guarantee program during fiscal 2010.

REGAINING BANKS' TRUST

"The reason we did it through commercial banks is that we wanted to make sure banks have some guarantee, an assurance, so that they could lend, because we need them. We are a small bank with limited resources as we are part of the public sector," Rosso said.

According to Rosso, the private sector needs to play a more proactive role in moving the local economy. The hope is that the EDB's loan guarantees will restore confidence among the banks to start lending again, she said.

"It has taken us a bit of work to gain back the banks' trust," she said. "We worked very hard on the agreement we signed with the banks to make sure they trusted we would pay them if the loan went bad for some reason."

Rosso explained the EDB was very flexible in the terms of the agreement, modifying it several times to make sure banks worked with the EDB as a team.

"One of the things that happened at the EDB was that it began competing with commercial banks, and that is not our purpose. Government should never compete with the private sector. The government is there to facilitate and provide alternatives when there are none," Rosso said.

"One of the things I'm working on is for banks to see us as partners. We are working with the commercial banks and cooperatives on a lot of loan participations originated by the banks. My main role is for commercial banks to see us not as competitors, but as facilitators," she added.

HOW THE GUARANTEE PROGRAM WORKS

The loan guarantee program will be managed by the EDB in a joint effort with participating local financial institutions including FirstBank, Banco Popular, BBVA, Santander, R-G Premier Bank, Eurobank, Oriental Financial Group, Westernbank and Scotiabank.

Under the program, the commercial banks will issue new working capital loans of up to \$250,000 per company, based on the number of full-time employees, at \$5,000 per employee (50-employee maximum). Part-time workers and contract employees will count for purposes of the loan, Rosso said.

Loans will be issued to natural and



juridical individuals, including corporations, societies, cooperatives, profit and nonprofit organizations dedicated to commerce, agriculture, manufacturing, tourism and related services which have been in business at least a year.

The loans will have a payment term of seven years (versus the usual five) and will only pay interest during the first 12 months. Beginning with month 13, businesses will begin to pay principal plus interest, with no penalty for early repayment. There's an initial charge of 3% to the issuing bank on the amount of the loan (for the guarantee).

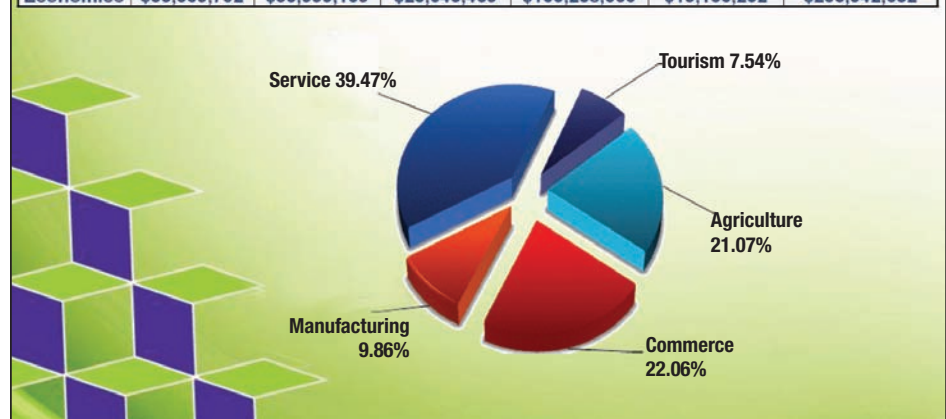
The EDB will guarantee the loan 100% the first year, and the percentage of the guarantee will be reduced gradually in the six subsequent years until the EDB's loan guarantee reaches zero.

"Basically, we are sharing the risks of these loans with the commercial banks. The idea is that commercial banks further develop that

Continued on page 24

Balance of Loans by Industry as of May 5, 2009

Sector	Agriculture	Commerce	Manufacturing	Service	Tourism	Total
Económico	\$53,509,792	\$55,999,109	\$25,045,469	\$100,238,060	\$19,150,202	\$253,942,632



Continued from page 23

relationship with their customers by providing working capital loans guaranteed by the EDB," said Rosso. "It's a win-win situation for everyone in which we help a struggling business pay payroll and its suppliers, we help banks provide credit and we help the local economy in the process."

Although the issuing bank will determine the interest rate, the rate can't exceed 2% over the prevailing preferential rate if it is a floating rate loan, or no more than 4% over the prevailing preferential rate if it is a fixed-rate loan.

The participating banks will process the application according to their own requirements and, if approved by the institution, the paperwork is then sent to the EDB for final processing of the loan guarantee. The EDB, noted Rosso, is committed to processing these loan guarantees in 10 working days and has designated a 10-member committee to evaluate the final loan guarantee decision.

"The approval committee will probably be meeting every day, including weekends, to evaluate these cases," said Rosso.

The EDB's headquarters is along the Martínez Nadal Expressway in Guaynabo and it has offices in Mayagüez, Ponce, Caguas, Lares and Naranjito, where business owners can go for information and assistance. The EDB will not process loan guarantee applications directly from business owners, but will refer them to banks participating in the program.

The EDB has 166 employees throughout the island.

EDB LAUNCHES NEW LOAN PROGRAMS

Later this month, Rosso will unveil the EDB's Micro Finance Corp. program in conjunction with the BBVA Foundation. The objective of the Micro Finance Corp., very popular in underdeveloped countries, is to foster economic development by helping low-income individuals migrate from government subsidy dependence and into self-employment.

The micro loan program provides truly small loans (up to \$5,000) to self-employed individuals to help them acquire equipment or inventory they need to start and run their small businesses.

"The mission of the program is to teach people that there's another way



to live through work ethics and end government dependence," explained Rosso. Loan activity is expected to begin during the fourth quarter of this year.

The EDB recently established a \$25,000 loan program for displaced government workers to help them create a business plan and establish their own businesses.

There's also a new green loan program by the EDB to assist businesses to establish renewable energy systems to reduce their energy costs. The loans are up to \$250,000 each for equipment purchase, and the program is funded through \$5 million from the EDB and another \$5 million from the American Reconstruction and Recovery Act (ARRA).

FOCUS ON THREE AREAS TO IMPROVE EDB

Rosso said there are three main areas in which she is currently working to improve the EDB's services. One of them is to shorten the time it takes the bank to approve a small-business loan, especially for start-ups. The bank, she added, is in the midst of restructuring its credit approval process to make it much more efficient.

"When I arrived in January, the lending process was the same as it was 15 years ago; slow and bureaucratic, with a six-month estimate to approve a loan. We definitely need

to reduce that time, because business owners can't wait that long," Rosso said, adding it should take no more than 30 days to approve or reject a loan application and 60 days to close it, if approved.

Another area the bank needs to address is accounts receivables. According to Rosso, loan delinquencies at the EDB (past due 90 days) now hover around 33%, up from 21% in January. The goal for this year is to bring delinquencies down to 25%.

Rosso said the increase was due to moratorium extensions, with some cases being extended five and six times over. The EDB, she added, is now working with these cases through a payment or loss mitigation plan, as well as increasing the bank's loan loss provisions and utilizing the U.S. Small Business Administration guarantee whenever possible.

"We are reinforcing our collection efforts and working with our clients to find ways they can meet their payments without affecting their credit, whether through refinancing or debt restructuring. We'll find a way for them to comply with their loan payment obligations," said the EDB president, who is working to bring the bank's risk management practices closer to those of the commercial banks.

As part of the restructuring of the credit approval process, the EDB

will require that new loan recipients receive continuing business education, its costs covered by the same loan.

"We need to make sure business owners have the necessary tools, skills and knowledge to run a business. They must also have an accounting system in place, whether it's a program or an accountant," Rosso said.

Since the EDB doesn't compete directly with commercial banks and doesn't require an advertising budget, Rosso said the bank is participating in a program in which the EDB, local and federal agencies, mayors, Puerto Rico Chamber of Commerce and MIDA work jointly to visit all the municipalities in a coordinated fashion so that local business owners can get information on all the loan products and educational services available.

So far, the EDB has provided orientation to more than 500 people over the past three weeks and has reached more than 6,000 people since January through the program, called *Empresarismo en Ruta* (entrepreneurship in route).

Rosso is also working with the Puerto Rico Bankers Association to inform bank employees (tellers, greeters) about the loan guarantee program so they can pass that information on to clients.

ROSSO BANKS ON MORE THAN 20 YEARS OF EXPERIENCE

With more than 20 years of banking experience under her belt, Rosso was tapped by Gov. Luis Fortuño to head the EDB in early January.

A certified public accountant and certified treasury professional, Rosso has held several important positions in the banking sector, most recently serving as senior vice president of consumer banking at Doral Bank. She was part of the team assembled by Doral Financial Corp. President Glen Wakeman to turn the bank around after confronting serious financial problems in 2006.

She previously worked at Banco Popular in various key positions in consumer banking, commercial banking and strategic planning. Her earlier career was marked by stints at leading accounting and consulting firms such as Ernst & Young and KPMG Peat Marwick.

Rosso earned a bachelor's degree in accounting and a master's degree in business administration from Drexel University in Philadelphia. ■

Pérez-Riera aims to reshape the investment landscape

Energy, labor reforms planned in push to rid obstacles to economic development

BY JOHN MARINO
marino@caribbeanbusinesspr.com

Economic Development & Commerce Secretary José Ramón Pérez-Riera finds himself in challenging circumstances but is employing a singular and concerted response.

“We need to realize that the economy is not in good shape, and we have to make sure that the private sector is the one that carries the day,” Pérez-Riera said. “The only thing the government can do is provide the tools and set up the platform so that the private sector can grow.

“I’m not going to lie to you. It’s not the ideal situation to find yourself in,” the Economic Development chief said, clicking off a number of economic storms that have buffeted the island, including a \$3.2 billion budget government deficit, stagnant local and world economies and the weakening or loss of Puerto Rico’s historical advantages at attracting offshore investment.

There’s no magic bullet available to set the conditions for the private sector to restore growth to Puerto Rico’s economy, and create the tens of thousands of new jobs needed to maintain that growth and foster renewed prosperity on the island. Achieving a goal of 250,000 jobs over the next four years will depend on confronting the perennial problems on the island that have plagued investors and businesses for the last few decades, and in other cases it will require new approaches to harness economic opportunities on the horizon, according to the Economic Development chief.

“There’s a series of things that we have to do. And that’s exactly the philosophy of this administration. You need to recognize and identify what it is the government can do. The government can’t fix all of the problems. It can certainly help get out of the way so that the private sector can do what it needs to do in order to thrive,” Pérez-Riera said.

“We know there have been a lot of obstacles over the past 30 years facing businesses. But in particular over the past 10-to-15 years, in terms of high energy costs and in terms of

the permitting process,” he added. “Government bureaucracy puts up obstacles so the private sector can’t develop. So you need to tackle high energy costs, you need to tackle permits and you need to tackle labor laws at some point.”

REMAKING THE INVESTMENT LANDSCAPE

The government restructuring being undertaken will improve the landscape by allowing government to lower taxes, increase efficiency and improve services, and provide the modern infrastructure required by business, according to Fortuño administration officials. The planned reduction this year of 30,000 government jobs and a longer-range government reform that contemplates eliminating and merging agencies has also helped maintain the government’s credit at investment grade, which allows it to continue accessing municipal bond markets for infrastructure financing.

In terms of attacking historical problems, Pérez-Riera’s team has already introduced a sweeping permits process overhaul that aims to significantly reduce both the number of permits required and the time and cost it takes developers to get the permits, given the estimated \$12 billion in projects awaiting approval.

It sets a deadline for most permits of 90 days, creates the new Oficina de Gerencia de Permisos y Endosos (OGPE), or the Permits & Endorsements Management Office, to replace the Regulations & Permits Administration (ARPE), and allows certified professionals to grant “ministerial permits where no discretion is required,” he said. The bill also creates the Oficina del Inspector General de Permisos (OIGP), or the Office of the Inspector General for Permits, to oversee the work of the certified inspectors, ensure the transparency of the permit process and receive any public complaints.

Critics, however, said the bill would infringe on constitutional protections of natural resources, limit access to legal remedies and curb citizens’ constitutional rights of participation, as well as clear the

way for construction in unsuitable areas including areas prone to flooding, and landslides and maritime zones. Since the bill is still under legislative consideration, some of its more controversial aspects, including a provision to limit the planning autonomy of Culebra, are unlikely to survive as proposed. But the major structural changes of the permits process are likely to win eventual approval, which should be enough to produce a profound change in the permits area, Pérez-Riera said, adding that the final version of the law will create “something better than we’ve ever had.”

The Fortuño administration is also working on a labor law reform. It will be a major legislative effort by La Fortaleza, as it is considered another major obstacle to business.

Another big obstacle to economic development on the island is the cost of power, which is one of the island’s chief competitive weaknesses, he said. Because the island is totally dependent on oil and other fossil fuel production, the costs of power will continue to rise until energy production is diversified. The island is still about 70% dependent on oil-generated electricity, with the balance split between natural gas and coal generated power.

The strategy is to move toward green energy, largely through the



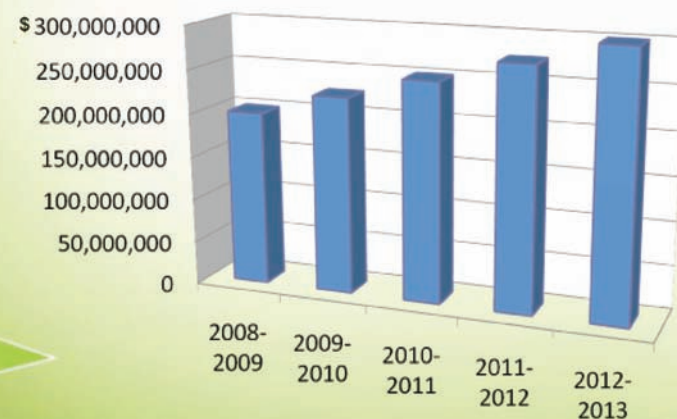
“Iniciativa Puerto Rico: Isla Verde,” or the Puerto Rico Green Island Initiative, an economic development plan that addresses the problems within the electricity sector that Pérez-Riera and his team are creating.

“The Green Island Initiative will include new policies and programs that will make Puerto Rico more competitive by ensuring that electricity on the island is affordable, reliable and sustainable,” Pérez-Riera said. “The initiative will reduce Puerto Rico’s dependence on fossil fuels, create ‘green jobs,’ bring energy investments in both infrastructure and industry, and help to preserve the environment.”

First announced by Gov. Luis Fortuño last month, the plan aims to take advantage of the millions of dollars the federal government is offering through the American Recovery & Reinvestment Act (ARRA) to

Continued on page 26

Capital Improvements in the next 4 years 2008-2009 to 2012-2013



Total: \$1,208,545,049

Continued from page 25

develop renewable energy projects, such as a 30% credit for such projects, provided they get underway and are operational under swift deadlines. To further lure U.S. green energy producers to the island, the administration is also considering the issuance of green energy certificates to lower production costs, until alternative energy becomes more competitive through technological advances and increasing density. Another aspect of the plan is to produce and manufacture locally the equipment and materials for the new renewable energy plants, with the hope that thousands of new jobs can be created.

Another major initiative is the public-private partnership (PPP) legislation that was approved after numerous changes by the Senate, Pérez-Riera said, indicating it gives the island added attraction for potential investors.

Agency chiefs have 90 days to submit a list of potential projects to be undertaken through PPPs, and the administration has already identified a list of 28 strategic projects. The goal is to have six PPPs approved and in varying stages of development by year's end, officials said. A key step is to constitute the board,

which consists of the GDB president, Treasury secretary, Planning Board president and two citizens representing the public interest, who are recommended by the Senate president and House speaker and nominated by the governor.

The 28 strategic projects represent an estimated \$7 billion investment to be built over the next five years. They include five highway extensions, the development of rapid bus transit and other mass-transit projects and developing areas adjacent to the Urban Train rail system. Other priority projects include two water-filtration plants, a desalination plant, four waste-to-energy plants and a number of renewable-energy ventures.

Pérez-Riera is also aiming to encourage regional economic development efforts, with large anchor projects like San Juan's Golden Triangle project and the proposed redevelopment of the shuttered Naval Station, Roosevelt Roads, into a gaming and tourism paradise.

AMBITIOUS JOB CREATION GOALS

Pérez-Riera expects some 250,000 jobs to be created over the next four years.

Some 30,000 of those jobs could come during the current fiscal year,



Gov. Luis Fortuño and other officials participate in a groundbreaking ceremony last month on a \$12 million renovation of Villalba's Maximino Miranda public housing complex, one of several construction projects being funded this summer by the American Recovery & Reinvestment Act.

as Pérez-Riera said he expected to create as many jobs during this current fiscal year in the private sector as will be let go in the government.

"We need to make sure on the private sector side that we can create at least that many jobs. The idea is to do much better than that," he said.

ARRA, the federal economic stimulus plan, will create some 13,500 construction jobs this year, while the local \$500 million economic stimulus plan is also adding an additional infrastructure investment of more than \$80 million. The strategic projects to be developed under the PPPs will create some 130,000 direct and indirect jobs. Some 51,000 jobs will be created under the highway projects alone, he added. Urban developments are expected to create 143,000 jobs. New Economic Development Bank loans are expected to either create or retain some 80,000 jobs. The large Roosevelt Roads redevelopment plan is expected to create 40,000 over a longer time frame, according to government planners.

The administration also plans to create 1,721 jobs through manufacturing expansions over the next two years and is zeroing in on the manufacture of solar and other green energy components and research-and-development-based manufacturing. Doing that, Pérez-Riera believes, can bring added luster to this traditional

economic powerhouse, with manufacturing still accounting for nearly 40% of the GDP. And it will also take advantage of the island's current strengths. Past industrial lures, such as cheap labor, tax incentives and access to the U.S. market, either no longer exist, or are no longer unique to Puerto Rico.

"Manufacturing, as it stands, can't be the pinnacle of our economy. We need to transform into something else," Pérez-Riera said. "What we have to offer is a sophisticated labor force. We have a skilled workforce. That's an advantage. We have a modern infrastructure. We have access to the capital markets."

So Puerto Rico will continue previous efforts to develop biotechnology and research-and-development-based manufacturing, which are more suited to the island's economic development goals and current strengths, officials said.

Pérez-Riera's major focus, however, appears to be on remaking the investment landscape for all business, ridding it of excessive regulation and other obstacles, rather than betting on any particular economic sector or project in particular.

"We are implementing a series of strategies that will be transformational for the private sector," Pérez-Riera said. "It will help the economy of Puerto Rico to grow and expand." ■



Administration officials hope to create new jobs through increased construction activity, which is expected to be fueled by the federal and local economic stimulus plans, plus the new Public Private Partnership laws.

Pridco chief pushing diversified job creation

Medical devices, informatics, pharmaceutical, R&D, renewable energy, and aerospace among top areas for projects to be promoted in 2009

BY LAWSON D. THURSTON
lawson@caribbeanbusinesspr.com

Puerto Rico Industrial Development Co. (Pridco) Executive Director Javier Vázquez has a key role to play in the Fortuño administration's ambitious strategy to create a more attractive investment climate in Puerto Rico.

Luring investment and promoting jobs top the Pridco chief's agenda as the administration pushes ahead with plans to overhaul the permits process, develop alternative energy and undertake labor reform: all intended to make Puerto Rico more attractive for doing business.

"We want to help facilitate a better business climate; help manufacturing companies to be more competitive by lowering their operational costs, which at the end of the day, makes Puerto Rico a more competitive jurisdiction," Vázquez said.

Although manufacturing permits are among the fastest granted in Puerto Rico, the Pridco chief said the administration's proposed permits overhaul would make them even quicker than the current average of three years.

"Permitting is a way of measuring competitiveness of all jurisdictions in the world," he said.

Vázquez explained that Pridco does a lot of the legwork to facilitate the permitting process for companies that it promotes. Time is money for businesses, and quicker permits mean lower operational costs, he said.

"Most of these projects are multi-million dollar investments, and these types of projects are given priority due to the impact that they have on economic development in Puerto Rico," he said.

AGGRESSIVE PLAN FOR PROMOTIONS

As head of Pridco, Vázquez's chief mission is to lure business investment to Puerto Rico to create much-needed new jobs.

"We have been very aggressive ever since we started. Over the past six months we have met with officials from many companies already

established on the island, including those with the potential to grow here, as well as other companies that may come to the island," he said.

The Pridco director said his team has been aggressively promoting the industrial-incentives law, trying to restore the luster that Puerto Rico has lost abroad, and presenting the administration's vision for economic development, particularly manufacturing, driven by the private sector.

"We have had some good results, and I think this is a reflection of our efforts. In the past five months, I have met with high-level executives from some 140 companies," he said.

Vázquez expects a minimum of 35 new promotions—which include new businesses and expansions—in 2009 to create a total of 1,721 new jobs. The 35 operations include 18 in medical-devices manufacturing, six in informatics, four in pharmaceuticals, three in research and development (R&D) and two in renewable energy.

"Out of a labor force of 104,000 in direct manufacturing jobs, 1,721 new jobs is a significant portion. We are still a leader in manufacturing, so it shouldn't be surprising that we are able to promote new investments and expansions in the manufacturing sector," Vázquez said.

"The first priority for us is the retention of existing operations and jobs in manufacturing," he said.

The Pridco chief signaled that the administration is also looking to new operations to shore up the traditional manufacturing powerhouses such as the island's pharmaceutical industry.

"We are working to continue to diversify our already very diversified industrial base—we want to bank on our diversity," said Vázquez.

The Pridco chief touted that Merck was breaking ground this week on a \$65 million R&D center.

"It's going to be one of the first official R&D centers by a pharmaceutical company in Puerto Rico," noted Vázquez.

Alternative energy production also presents a very real and immediate potential for job creation, he said.

The growth of biotechnology and the knowledge-based economy, meanwhile, should be viewed as avenues to diversify, not substitute, the island's traditional manufacturing sector, according to Vázquez.

"Puerto Rico historically has competed very well internationally because of our highly skilled labor, very attractive economic incentives and our islandwide infrastructure," he said.

Vázquez acknowledged Puerto Rico is not immune to upheaval in the global pharmaceutical industry and the lack of access to capital that has kept many companies from expanding as accustomed.

"However, we are very satisfied that we have been able to promote projects. It is a very diversified group of projects," Vázquez said.

Pridco is working to position Puerto Rico amid big shifts in the global pharmaceutical industry, especially the mergers trend, that have had an impact on the island's vital drug-manufacturing sector.

Vázquez met personally with Pfizer CEO Jeff Kindler earlier this year to discuss the impact of that company's merger with Wyeth. The two pharmaceutical firms each have three plants in Puerto Rico.

Vázquez acknowledged that the merger would probably have an



impact on local operations because the trend of these mergers is to consolidate and make operations more efficient.

"So we specifically discussed with Kindler our awareness and concerns about the affect of the merger locally. We discussed a pipeline of products that was put on hold at Wyeth Guayama because of the merger and spoke specifically about our interest that these products come through as originally planned," he said.

Vázquez and his team are also targeting various other sectors that have a great potential for growth in Puerto Rico including aerospace and federal procurement.

"The federal government buys a lot of products. There is a lot of room for expansion there. We are going to try to expand the locally produced products and services for the federal government," he said.

"With the great relationships that

Continued on page 28

Industry Commitment to Success:

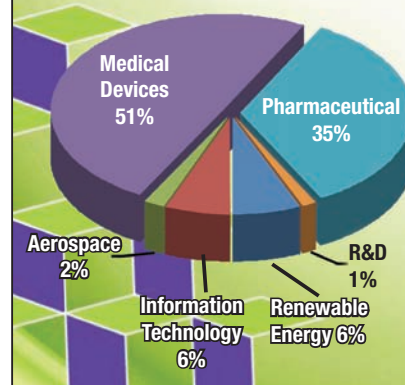
promoting investment, creating jobs

Industry promotion plan:

■ 35 new projected promotions in 2009

High impact projects promoted during 2009:

Sector	Projects	Jobs
Medical Devices	18	858
Information Technology	6	108
Pharmaceutical	4	591
R&D	3	25
Renewable Energy	2	109
Aerospace	2	30
TOTAL	35	1,721



Continued from page 27

Gov. Luis Fortuno has in Washington D.C., he has been a great promoter also," Vázquez said.

INTERNAL WORKINGS OF PRIDCO

Vázquez voiced some praise for the restructuring of Pridco by the previous administration in 2006 that slashed the number of employees at the job-creation agency by nearly half to its current staff of 320 or so.

"We agree that the restructuring created a more streamlined Pridco and made it more efficient. I think the business units that were created targeting these new segments that needed to be promoted in a more sophisticated way were a good approach," Vázquez said.

However, the restructuring effort presented some pitfalls, and further structural changes have been made at Pridco under his tenure, he said.

"For example, a customer service

unit was eliminated with the original reorganization. That unit not only served companies on all sorts of issues, but its staff also visited the plants, collected and updated data, and basically took the temperature of the companies," Vázquez said. "So that was something that we needed to restore and we did. We created a customer service task force that has been in operation since March. The right approach is to have a multi-disciplinary task force."

Vázquez has a team of 20 island-based promoters and two more posted stateside.

"I would like to have more promoters on the U.S. mainland, but we are trying to do more with less. We are going to be very proactive from Puerto Rico. The director of the Pridco New York office will also be making cross-marketing efforts between the Puerto Rico Tourism Co. and Pridco," he said.

Vázquez said Pridco is working to

strengthen its ties with the regional clusters to promote Puerto Rico.

"We need to acknowledge that the government cannot do it by itself," he said.

Vázquez indicated that the Pharmaceutical Industry Association (PIA) and the Industry University Consortium (Induniv) will soon merge, creating a greater synergy and resource for the manufacturing industry.

"Separately they have been contributing tremendously to Puerto Rico, but having them together with the same vision and resources will be even better," he said.

BIOTECH FUND UNDER CONSIDERATION

Vázquez said he is evaluating the possibility with the Government Development Bank of setting up a fund for biotech investments in Puerto Rico, noting that states like Maryland, Georgia, New Jersey and Florida have done so in recent years.

"The lack of access to capital for many of these startup biotech companies is what prevents them from growing. Many of these companies end up being acquired by the big pharma and biotech companies. There is certainly an opportunity there for Puerto Rico to provide access to capital for these types of companies. But we are in a very difficult situation in terms of government funds. We have to be very responsible about how we structure something along those lines," Vázquez said.

"We understand that if Puerto Rico can create some sort of fund for investment in startup biotechnology companies, that would give us access to them and would be a great opportunity for Puerto Rico," he said.

"I think it is a great opportunity because we know that other jurisdictions have been doing this, so we don't have to reinvent anything. We can look at other jurisdictions and see what they are doing," Vázquez said. ■



Caribbean Riviera to anchor eastern region's economic boom

\$1.9 billion mixed-use development to help create 42,500 jobs over 10-year period; ten potential investors line-up

BY FRANCES RYAN
frances@caribbeanbusinesspr.com

Gov. Luis Fortuño's administration is betting on the transformation of the old Naval Station Roosevelt Roads in Ceiba into a Caribbean Riviera to catapult the eastern region's economy with the creation of some 42,500 jobs over a 10-year period and an investment of \$1.9 billion, Portal del Futuro Director Jaime González told CARIBBEAN BUSINESS.

González acknowledged the ambitious plan is easier said than done, but stressed the big benefits if the bet pays off.

"This plan is a proven concept that has worked in other regions. Puerto Rico has all the necessary attributes to successfully become a high-end tourist entertainment destination; in some instances it has even better attributes than some of the places that already exist," he said, referring to other similar high-end destinations such as Grand Casino, Monte Carlo;

Atlantis, Bahamas; and Genting Sen-tosa, Singapore. This would be the first of its kind in the region.

"This project will put Puerto Rico on the global tourism map," he said.

Before any construction can begin, the government must first clear land title issues—negotiations are already under way to secure three parcels from the Navy—and successfully secure gaming law amendments that would give the proposed Caribbean Riviera district the incentives necessary to lure global high rollers.

The Navy wants to raise at least \$65 million from three parcels of land, covering roughly 3,000 acres it controls at the former Ceiba base; it had been planning to sell them to the highest bidder shortly. González said now that Navy officials have agreed to postpone the sale, the island government will begin negotiations for the land.

Once the land issue is settled and the legal groundwork is in place, González said the administration has

identified 10 potential investors who have already expressed interest in the Caribbean Riviera concept.

"All we need is one investor and there are at least 10 of them that have expressed interest. Some of them are investors and/or development partners on other similar projects such as Sun City in South Africa and Atlantis in the Bahamas," said González, adding one of the administration's main goals is to avoid parceling out the land to leverage the area's maximum potential.

"We have to move away from the old mentality of parceling out the land to avoid having a repeat performance of the Ramey Base in Aguadilla," explained González. "This project will enable us to leverage gaming not as a basic gambling activity, but rather as an economic engine to propel the development and sustainability of a world-class enclave, focus on job creation, enhance the tourism brand of Vieques, Culebra and Puerto Rico and utilize the inherent amenities of the Roosevelt Roads property to



articulate a compelling vision for Puerto Rico and the region."

Most importantly, González said, the Caribbean Riviera will deliver a true opportunity for sustainable job creation. While the Roosevelt Roads base was in operation, it supported 2,000 direct jobs and another 1,000 or so indirect jobs in the neighboring communities. The economic activity of surrounding municipalities depended heavily on the base's operations and has plummeted since its closure in April 2004.

"Imagine what kind of job creation, economic bonanza the region will see with a world-class project like this. Job creation will be a part of the area's sustainable economic activity," the Portal del Futuro chief said.

RIVIERA PLAN WOULD REACH OFFSHORE ISLANDS

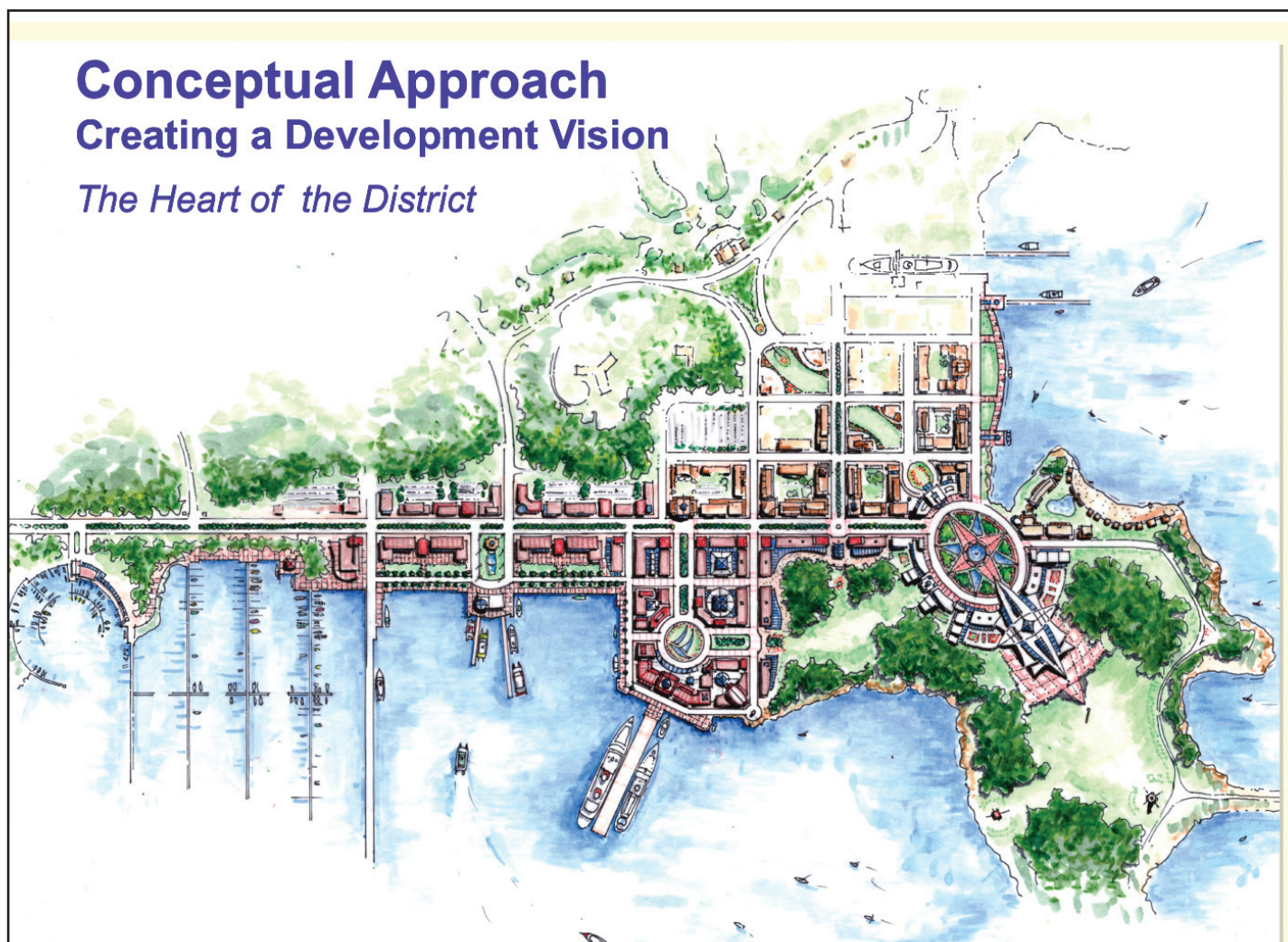
Included in the Fortuño administration's plans for the Caribbean Riviera are a 2,500-room hotel, a grand casino and entertainment complex, and an adjacent airport, a cruise ship port and passenger ferry terminal, which would link the resort to Vieques and Culebra. From a tourism standpoint, the Caribbean Riviera may sound like a departure from an earlier Fortuño plan to include the Ceiba development as part of the Golden Triangle.

Instead, González said, it is an evolution of that concept, an opportunity to enhance the tourism brand of the island by incorporating the entire eastern coast into the tourism development plans.

"By adding Vieques and Culebra to the Riviera concept we're expanding our tourist footprint in the

Conceptual Approach Creating a Development Vision

The Heart of the District



Continued from page 29

region in an integrated manner,” said González. “By the time the Caribbean Riviera project is completed, it would have added a high-quality gaming venue; a Riviera-style destination resort; another international airport and a cruise port facility; a partnership initiative with Vieques and Culebra; and stewardship with the Conservation Trust.

González went on to say that the first step would be for the project’s consultants to firmly establish the planned development’s “footprint.” He said that it’s possible that the government will just need two of the three parcels the Navy is selling. The plans will likely increase the value of the Navy property, so that will be an issue in the negotiations with the Navy, González said.

The Navy still spends \$10 million

a year to maintain the shuttered base, so another possibility is for the local government to cover those expenses as a “down payment” on the property, he added.

The commonwealth government and Navy are still also working out the transfer of the deep-water harbor facilities at the former base, and a number of other negotiations, he added.

CREATING A MAGNET FOR HIGH-ROLLERS

The project also calls for the creation of a gaming district, which will allow the huge casino being planned to operate with greater flexibility than existing gaming rules. This will require legislation to set the rules for gaming within this special district, which is another key hurdle the project must clear to begin to get off the ground.

“Imagine what kind of job creation, economic bonanza the region will see with a world-class project like this. Job creation will be a part of the area’s sustainable economic activity.”

—Portal del Futuro Director Jaime González

González would not discuss the required legislation in detail, except to say that it would have to allow the casino to compete against other exclusive

gaming destinations like Monte Carlo, Monaco; Sun City, South Africa; and the Atlantis development in the Bahamas, and would need to ease restrictions on betting limits and the type of games available.

“The financial motor behind this project is the gaming industry, the entertainment industry,” González said. “We need competitive gaming laws or this is not going anywhere.”

González said several island east coast mayors from both the New Progressive and Popular Democratic parties back the plan, but it has sparked opposition by community groups such as the Ceiba Development Alliance.

The Navy left its Ceiba base in 2003 when it abandoned its Vieques training ground following protests sparked by the accidental killing of a civilian security guard during Navy war games in 1999. ■

- A natural extension of the eco-tourism icon of El Yunque
- Linked with Vieques and Culebra to form a most unique cruising and recreational paradise
- Launch point for the islands, and other parts of the broader region
- Support for the Puerto Rico resorts and tourist amenities (including Bahia Beach, El Conquistador, Coco Beach, Palmas del Mar, “W” Vieques, Rio Mar, Cayo Largo)
- The heart of new employment and investment: on-site, off-site, across the region

Making Puerto Rico an “in” tourist destination again

A \$2.6 billion economic injection to boost tourism hotel room inventory by 2,433 rooms and help create over 13,000 new jobs during the next three years

BY FRANCES RYAN
frances@caribbeanbusinesspr.com

Developing Puerto Rico into an “in” destination again is what Tourism Co. Executive Director Jaime López Díaz is aiming for.

“I want people to think of Puerto Rico first when they consider traveling to the Caribbean either for business or leisure,” he told CARIBBEAN BUSINESS. To do so, he has worked first to stabilize a sector which had been hurt, like most industries, by the local economic recession as well as the economic crisis impacting the global tourism industry.

The Puerto Rico Tourism Co.’s (PRTC) economic development plans are anchored in the following initiatives: traditional tourism development (including new hotels, airlift, product diversification and marketing); and the Golden Triangle—which includes the San Juan Waterfront District and the growth of the Convention Center District.

In the short term, these initiatives will mean a \$2.6 billion investment over the next three years and support the creation of more than 13,000 new jobs. Most of this activity will come from new hotels, currently under construction, and the early works of the Golden Triangle developments.

Despite many obstacles, Puerto Rico’s \$3 billion tourism industry remains competitive. With roughly 14,000 endorsed guest rooms, tourism supports nearly 70,000 direct and indirect jobs in Puerto Rico. With another 2,433 rooms in different stages of construction, Puerto Rico’s room inventory will reach nearly 17,000 by 2010.

Many stable long-term jobs could be created if Puerto Rico had the kind of room inventory, product diversification, infrastructure and service culture it needs to retain its place as a premier Caribbean destination.

By the end of fiscal 2009, the PRTC’s room-tax revenue is expected to be 33% below budget, and another 12% drop is projected by the end of fiscal 2010, according to agency estimates. The PRTC’s room-tax

collection forecast for fiscal 2010 is \$52.7 million, the bulk of which (\$30 million) is allocated to cover the Convention Center debt. Another \$4.7 million, or 9%, of projected collections is allocated to the operations of the Puerto Rico Convention Center Bureau. Room tax collections have been low because hotels and paradors have had to reduce rates to keep the occupancy level from dropping more. This has helped hotels maintain much needed jobs.

Revenue from slot machines, which generate upwards of \$315 million annually for the Puerto Rican economy, is also down due to a combination of factors including the struggling economy and to a large degree from the proliferation of illegal slot-machine parlors around the island, now estimated to have more than 44,000 machines.

As a result, the PRTC is also adjusting its revenue projection from slot machines to a meager 3% increase for fiscal 2010, despite the fact that there are four new casinos scheduled to open during the fiscal year that began July 1. Slot-machine revenue allocation includes 15.5% for the Treasury Department, 45.5% to the education fund of University of Puerto Rico and 39% for the PRTC.

“Still, after undertaking a thorough cost-cutting exercise, we also cut politically appointed employee salaries by 34%, yielding significant savings that will help us close the gap due to the drop in revenue,” López Díaz said.

PUBLIC-PRIVATE PARTNERSHIPS DRIVE TOURISM PROJECTS

Contrary to other economic sectors that will soon benefit from public-private partnership (PPPs) opportunities, tourism projects for the most part are already public-private developments whereby the government acts as a facilitator for either the land or the initial development expenses, and private sector players—such as hotel chains, cruise ship lines and airlines—come on board to invest in the development of strategic projects. The new 500-room Sheraton Hotel and all four

hotel developments in the Convention Center District were developed as PPPs.

“In keeping with the new PPP law, we are also evaluating a number of tourism initiatives that could benefit from federal funds allocated by the Obama administration for shovel-ready infrastructure projects that could generate valuable jobs in the near future. We will submit our list prior to the September deadline,” said López Díaz.

Also, in partnership with the Ports Authority, López Díaz is working to increase airlift in and out of the island and secure the kind of ports infrastructure that will deliver a growing number of cruise ship passengers in the future. The transformation of the former Naval Station Roosevelt Roads in Ceiba into a “Caribbean Riviera” is another initiative that complements the Tourism Co.’s economic development agenda. (See related story on page 29.)

BUILDING THE HOTELS WE NEED

A no-nonsense López Díaz views managing new hotel development as essential in striking a balance between industry supply and demand to ensure the industry continues to grow in a sustainable fashion.

“Instead of opening hotels for the sake of opening them, which could lead us to artificially creating a demand that is not present in the long run, or stating there are so many thousands of rooms under way when permits or financing have not yet been secured, we need to promote the development of only the hotels we need,” the PRTC chief said.

“Indeed, more hotel rooms are needed in Puerto Rico, but we need to promote those that are consistent with both short- and long-term needs as well as those projects that are realistically viable and that support tourism’s economic development,” said López Díaz, adding he prefers to be realistic as opposed to over-promising and under-delivering.

To spur PRTC’s efforts, López Díaz will be focusing on top hotel developments currently under



construction, making sure to facilitate their completion. Currently, there are 24 projects in the hotel development pipeline, either under construction or approved to begin construction, that represent a combined investment of \$2.6 billion.

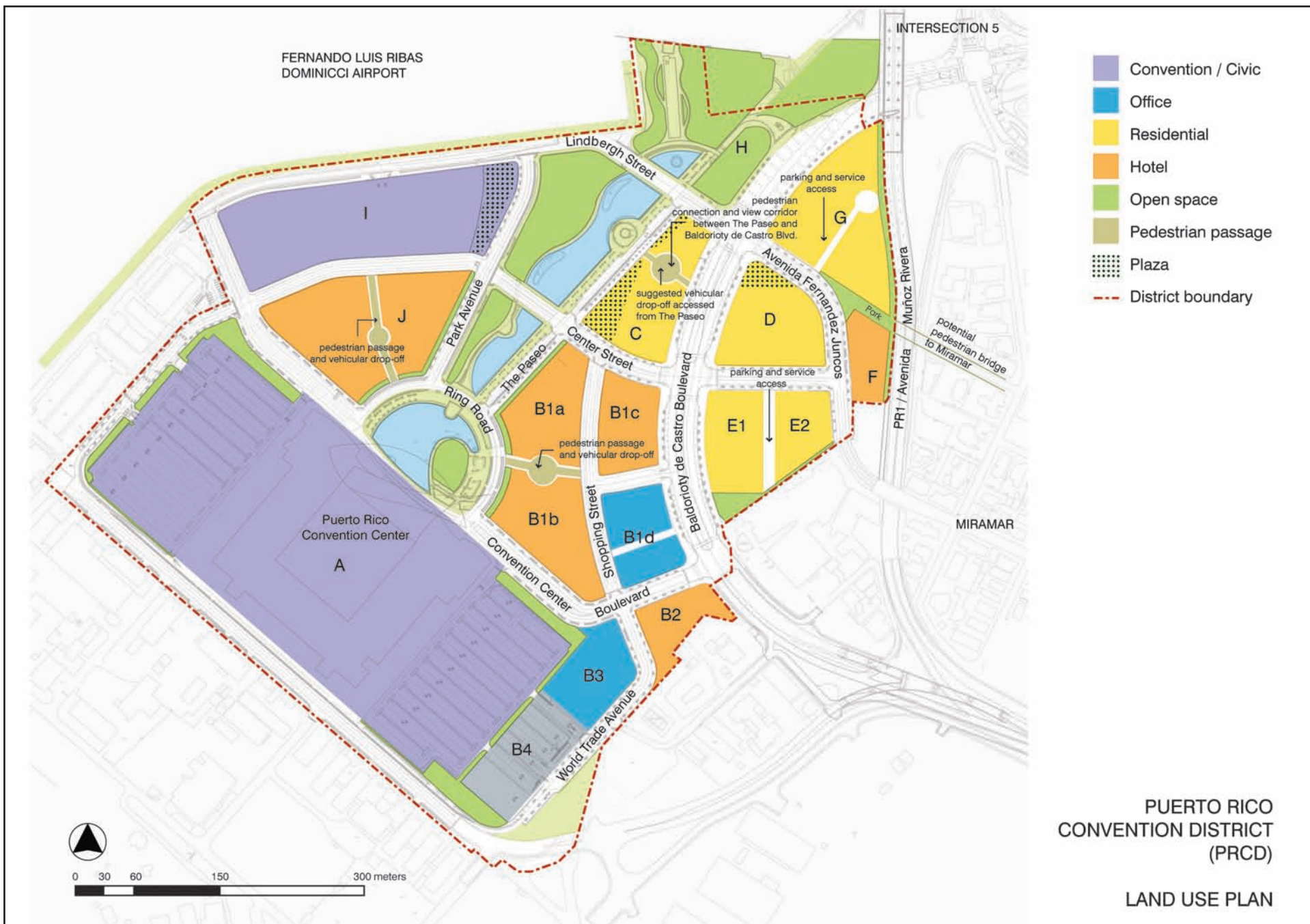
Of those, 11 are currently in advanced construction and expected to add 2,433 hotel rooms that will boost tourism’s inventory close to the 17,000 mark and support the creation of 13,000 new jobs within a couple of years. Of these, 9% are expansions of existing hotels, the rest are entirely new hotel inventory. (See list of hotels under construction on page 34.)

Some top projects that are currently under way or in the financing process include: the Sheraton in the Puerto Rico Convention Center District (PRCCD), scheduled to open this November; the Condado Vanderbilt, slated for summer 2010; Marriott Courtyard and an Aloft, both at the PRCCD; JW Marriott in Coco Beach; St. Regis in Río Grande; W Retreat and Spa, Vieques; Regent in Palmas del Mar; Ritz Reserve in Dorado; Mandarin Oriental in Humacao; and the Sol Meliá Club, 27 timeshare units, expected to be fully operational by the end of this year.

A NEW GOLDEN ERA

López Díaz also expects a revival of the Golden Triangle to anchor tourism development in the San Juan metropolitan area, attracting an additional \$500 million investment to generate 13,000 jobs during the construction stage and 2,500 permanent jobs. In the long run, the 10-15 year Golden Triangle initiative will attract a whopping \$1.7 billion investment and the creation of 20,000 direct and indirect jobs, “not

Continued on page 32



Continued from page 31

to mention the development of our ports infrastructure to guarantee long-term growth and the enormous contribution this will make so San Juan itself becomes a major urban destination.”

The government has received 30 management proposals from world-class companies, both local and international, interested in the Golden Triangle’s main component—the San Juan Waterfront District. López Díaz said that the PRTC is in the first phase of the process which includes transferring the project’s oversight from the Ports Authority to the Economic Development and Commerce Department, headed by José Pérez-Riera, and with the day-to-day oversight by López Díaz’ PRTC team.

Also, an environmental impact declaration request, already filed, will continue its course and there are efforts in place to secure the project’s

legal infrastructure. Some of the preliminary demolition works have already been initiated by the Ports Authority.

A CENTER FOR CONVENTIONS

The Convention Center District, another integral piece of the PRTC’s economic development agenda, is also expected to get a boost from the six hotel and commercial developments in the area, said López Díaz.

“We have a top-notch convention center that has been underutilized because of the lack of convenient room inventory to support new convention activity,” he said. “The Convention Center was built to attract conventions and large groups; instead we’ve been using it for smaller local events like weddings, corporate events, graduations and other activities that were previously typically absorbed by local hotels. New room inventory, which will start to be available in a few months, will enable us to welcome the types of conventions the

center was developed for.”

The combined investment of the six projects slated for the Convention Center District, all of which are either under construction or near construction, exceeds \$578 million including the 500-room Sheraton Hotel, an Interlink development; a mixed-use commercial and office building on land parcel C, a \$113 million project by Mora Development; and on land parcel D, another mixed-use \$90 million development by developer Joel Katz.

Also, the future home of the Puerto Rico World Trade Center, a \$65 million project, will be flanked by a new \$40 million Courtyard by Marriott (300 rooms) hotel and the \$70 million Aloft by Starwood, a lifestyle brand hotel.

“Combined, these new hotels will boost the district’s room inventory to about 2,000, which is much needed to fuel the growth of our convention business industry,” López Díaz explained.

Despite all of the current projects, there is still room for growth in the Convention Center District, he said.

“There are two reserved parcels on either side of our existing Convention Center, which can now service conventions from eight to 10,000 people. The additional parcels can grow the capacity up to 20,000 or more participants. Plus there are still other parcels within the district that are earmarked for more hotel project development and can be shifted to additional expansion space for the convention center if need be.”

UPGRADING PARADORS, PRODUCT DIVERSIFICATION

Paradors (country inns) represent perhaps a long overdue task that no PRTC executive director during the past 15 years has been able to properly address. In some cases, the small country inns hold on to the “endorsement” and promotional

Continued on next page

Continued from previous page

subsidy from the PRTC without truly delivering an up-to-par quality product. There are an estimated 1,500 rooms through Puerto Rico's paradors and guesthouses program.

"We are going to address the need to have a top-quality network of paradors. Not only do they complement our room inventory, but they also add to the visitors' overall experience by delivering the kind of regional, or niche experience, that the larger chains can't," said López Díaz. To that end, the PRTC will have a new division—Financial Advisory & Quality Control—solely dedicated to overseeing the operations of paradors.

"The goal is to provide ongoing support on matters of quality standards, operations, financial management, profit-and-loss analysis training, overall presentation and much more," he explained.

Although Puerto Rico's room inventory has remained stagnant for years, the island's hotel offerings have been diversified.

"Diversification is important, both on the product side as well as the offers within the destination. But we must ensure that we strike a balance in what we have set out to do; we can't become everything for everyone," said López Díaz, who agrees there is still development room for ultra luxury hotels and niche-marketing opportunities.

IMPROVING AIRLIFT VITAL TO BOOSTING TOURISM

Puerto Rico also needs airlift to boost its tourism industry to protect its air-transportation hub status. "Arguably, this is one of those areas where we [Puerto Rico] really dropped the ball losing many of its international airlines in recent years. In 2000, 21 international airlines were flying into LMMIA; now there are only six. There are just three nonstop flights a week to a single European capital.

"The agreement with Virgin Atlantic is already helping tremendously. We have seen American Eagle adding routes, originally slated for elimination, and increasing in frequency. Insel and Spirit, with three routes each, also are boosting regional airport arrivals. Jet Blue's investment in Puerto Rico continues to grow, also supporting regional travel," the PRTC chief noted.

The initial impact from Virgin



José (Peco) Suárez, president of International Hospitality Associates Inc. at the construction site of the future Condado Vanderbilt, slated to open November 2010. The 305 room five-star property will usher a new era in ultra luxury hospitality right in the heart of San Juan's premier tourist district, Condado.

Atlantic's arrival is estimated at \$30 million. And since López Díaz arrived at PRTC headquarters along the Paseo de la Princesa in Old San Juan, a total of 11,400 annual flights have been added to local airlift. However, there is still room for several national carriers as well as expansion to and from top European destinations.

Improving airlift also means improving the facilities at all ports. Ports Authority Executive Director Álvaro Pilar's plans call for an investment of approximately \$300 million over the next 10-12 years at Rafael Hernández Airport in Aguadilla. In addition, the new José Aponte de la Torre Airport at the former Naval Station Roosevelt Roads will be expanded to allow international flights.

With more than two million passengers in both 2007 and 2008, American Airlines continues to be the most active passenger carrier for the island. American Eagle follows with approximately 780,000 passengers in both 2007 and 2008. Other major carriers include Delta, Continental, US Airways, JetBlue, Spirit, AirTran, United, Northwest, Copa and Cape Air.

Since 2007, the two most popular departure points for passengers arriving in Puerto Rico have been Florida and New York. The U.S. Virgin Islands, New Jersey and Texas are other key departure points.

Pilar explained how PRTC and Ports have joined forces to bolster

the cruise industry, including meeting with industry stakeholders in the mainland U.S., Europe and Canada to promote pre- and post-cruise vacation packages; increasing marketing and sales activity in international markets; and working with U.S. Customs and Border Protection and cruise line authorities to accommodate new routes and secure longer docking times for ships.

"These efforts have resulted in the addition of new cruise lines, new routes and the signing of a cruise incentive program, which allocates \$10 million a year for the development of Puerto Rico's maritime industry," Pilar said.

'YO SOY PUERTO RICO' (I AM PUERTO RICO)

With budget cuts further challenging the PRTC's ability to compete in today's cutthroat market, "a smarter use of our dollars, seeking a bigger bang for our buck, is what will guide many of our marketing strategies," said López Díaz, adding he firmly believes promotions and marketing are at the core of any economic-development agency.

"Every dollar we spend must be measured against revenue generation, return on investment and the maximum exposure for our destination, by carefully selecting what we sponsor to ensure we have the greatest impact," he said, regarding the use of PRTC's estimated \$40 million advertising and promotions budget.

First, Puerto Rico will focus on its natural market, the 320 million U.S. mainland residents who already account for the majority of current visitors and remain the market with the greatest potential. Europe, through strategic partnerships like the one with Virgin Atlantic, Viajes El Corte Inglés and Viva Tours will also go a long way.

To capture the largest stateside audience, the current promotion features three executions: sun and beach; nature and adventure, and shopping and gastronomy.

"We simply expanded the previous "Explore Beyond the Shore" campaign by adding a sales call-to-action. We've also seen good results from our top cable television placements including spots on such top cable networks as CNN, ESPN, Food Network and HGTV. Print ads are being placed in the top-20 stateside publications including the Wall Street Journal and popular business weeklies. Spearheading the online marketing realm has also been top on our priority list," he said.

Meanwhile, the PRTC's role signature events like the World Baseball Classic are being renegotiated for greater impact.

"It is important to regain our pride for our tourism industry, and share in the responsibility that each one of us who lives on the island is an important part of making Puerto Rico a premier tourism destination," concluded López Díaz. ■

Hotel projects under construction

Region: Central East

Project name	Location	Rooms	Type	Investment	Jobs
Bahia Marina (expansion)	Culebra	48	Condo Hotel	\$12,000,000.00	7
Parador Mauna Caribe	Maunabo	52	Hotel	\$1,700,000.00	45
W Retreat- Starwood * (5 stars)	Vieques	156	Hotel	\$136,800,000.00	250
Cayo Largo	Fajardo	314	Hotel	\$195,000,000.00	180
Regent Punta Candelero (5 stars)	Humacao	143	Hotel	\$173,000,000.00	70
Bahía Beach, St Regis * (5 stars)	Rio Grande	139	Hotel	\$172,400,000.00	200
Sol Meliá Club (Timeshare) at Coco Beach	Río Grande	135	Condo Hotel	\$72,000,000.00	30
Subtotal		987		\$762,700,000.00	782

Region: Metro

Project name	Location	Rooms	Type	Investment	Jobs
Hotel La Playa	Carolina	15	Hotel	\$1,000,000.00	6
Hotel San Miguel (expansion)	Bayamon	20	Hotel	\$ 2,000,000.00	7
The Village Inn	Carolina	15	Hotel	\$2,000,000.00	8
Sunrise at Floral Park (medical tourism)	Hato Rey	27	Hotel	\$2,000,000.00	18
Cacique by the Sea (Ocean Park)	San Juan	11	Guest House	\$500,000.00	5
Condado Lagoon Villas (Phase 2)	San Juan	89	Hotel	\$10,000,000.00	36
Condado Vanderbilt * (5 stars)	San Juan	305	Hotel	\$106,000,000.00	580
Sheraton Hotel Convention District	San Juan	500	Hotel	\$211,000,000.00	200
Subtotal		982		\$334,500,000.00	860

Region: Porta del Sol (West)

Project name	Location	Rooms	Type	Investment	Jobs
Paso Fino (former River View Hotel)	Añasco	16	Hotel	\$402,000.00	10
Lighthouse Resort & Casino	Cabo Rojo	201	Hotel	\$40,000,000.00	60
Subtotal		217		\$40,402,000.00	70

Region: Porta Caribe (South)

Project name	Location	Rooms	Type	Investment	Jobs
Manatee Eco Resort	Salinas	26	Hotel	\$250,000.00	11
Pichís (expansion)	Guayanilla	152	Hotel	\$38,000,000.00	70
Hotel Ponce Plaza (Ramada)	Ponce	69	Hotel- Casino	\$14,300,000.00	30
Subtotal		247		\$52,550,000.00	111

Source: Puerto Rico Tourism Co.

TOTAL: 2,433 Hotel rooms under construction

Speaking as one, to defend the island's manufacturing sector

Politicians, private sector unite behind historic memorandum of agreement dubbed the 'American Jobs in Puerto Rico Defense Initiative'

BY LAWSON D. THURSTON
lawson@caribbeanbusinesspr.com

A bipartisan and business-backed memorandum of agreement (MOA) dubbed the "American Jobs in Puerto Rico Defense Initiative" may prove to be the island's most effective tool in ensuring that President Barack Obama's proposed crackdown on corporate tax havens won't hurt island manufacturers and other controlled foreign corporations (CFCs) operating here.

Gov. Luis Fortuño, legislative leaders from his New Progressive Party and the Popular Democratic Party and private-sector representatives signed the MOA last month to present a unified voice in the White House and Congress for efforts to defend the "American jobs" in Puerto Rico.

"I think it is a very historic initiative which gives us a unified voice, something much different than how Puerto Rico is usually seen in Congress—highly divided on issues of economic development. We should all have the same voice in economic development," said Puerto Rico Industrial Development Co. (Pridco) Executive Director Javier Vázquez.

Obama has pledged to clamp down on overseas tax havens used by corporations and wealthy individuals to avoid paying federal taxes, an effort he said would generate \$210 billion in revenue over the next decade. A key aim of the tighter rules would be to keep or bring jobs back to U.S. soil.

"I want to see our companies remain the most competitive in the world, but the way to make sure that happens is not to reward our companies for moving jobs off our shores or transferring profits to overseas tax havens," Obama said in announcing the initiative.

The Fortuño administration's proactive effort to shield the island is based chiefly on the fact that jobs in Puerto Rico are as American as any other. Also, that Puerto Rico is not a tax haven, these companies are actually creating thousands of jobs here. Island officials are framing

their effort around support for the Obama plan, saying the 100,000 manufacturing jobs in Puerto Rico should also be protected.

"What we have told and will continue to tell the Obama administration is that Puerto Rico is part of the U.S.; we are U.S. citizens, so creation and retention of American jobs in Puerto Rico supports the president's vision and policies," Vázquez said.

"We should all have the same voice in economic development."

—Javier Vázquez,
executive director of the Puerto Rico
Industrial Development Company (Pridco)

"We are not only American soil, but products made in Puerto Rico are products that carry the 'made in USA' label," he said.

While local officials and business leaders remain confident that the proposed crackdown on corporate tax havens won't take aim at island manufacturers and other CFCs operating here, they are preparing to battle any proposal that would do so.

"When the Obama administration announced the guidelines for this international tax reform, of course there was speculation as to the applicability of these proposed changes to Puerto Rico. We knew that this was coming because Obama, when he was still a U.S. senator, proposed some of these changes in Congress," said Vázquez.

Legislation has not yet been filed, so the impact on island operations is still unclear. Because Puerto Rico is a separate jurisdiction, however, most offshore companies operating here are controlled foreign corporations (CFCs).

While the details will be spelled out in future legislation, the Obama administration reportedly will not

propose to end tax deferral of CFC income, but instead to correct abuses and tighten reporting requirements. Still, some of the proposals under discussion may have some impact on island CFCs.

Obama wants to eliminate the ability of CFCs to deduct expenses on overseas income while deferring the payment of taxes on those profits. Another move under discussion would take away the ability of CFCs

accounting practices by many of the multinational companies doing business as CFCs that are taking jobs away from U.S. soil," Vázquez said.

"We stated that we completely share and support Obama's vision of bringing jobs back to American soil. Puerto Rico is part of the U.S., and we should be helping and promoting the creation and retention of American jobs in Puerto Rico by defending American jobs in Puerto Rico, and the States," the Pridco chief said.

PUERTO RICO DOESN'T FIT THE BILL

Vázquez argued that Puerto Rico and the CFCs operating here clearly don't fit the mold of jurisdictions and corporate operations likely to be targeted under the Obama crackdown.

"Puerto Rico is certainly not a tax haven," Vázquez said. "We are under the American flag, have an internal revenue code which mirrors the internal revenue code of the U.S. and have information sharing agreements with the federal Internal Revenue Service (IRS).

"So there are safeguards within Puerto Rico that give the IRS and the American government the assurance that companies doing business on the island are audited and supervised," Vázquez said.

Another aim of the Obama crackdown is to curtail the operations of many companies which actually use corporate structures in jurisdictions with no operations (shell companies). The president cited an example of 18,000 corporations registered under a single address in Grand Cayman.

"Puerto Rico is certainly not that kind of jurisdiction. We have real operations, manufacturing plants and jobs, all of which pay taxes in Puerto Rico," Vázquez said.

So-called tax-exempt companies in Puerto Rico actually do pay taxes, the Pridco chief said.

"They account for the highest payment of taxes collectively within the corporate sector of our Treasury Department," Vázquez said. ■

to claim a credit for foreign taxes paid, while another would make it more difficult for companies to transfer profits to tax havens to avoid federal taxation.

"We have been very proactive ever since the governor was elected in trying to assess the proposed changes that the president would make and their affect on Puerto Rico," Vázquez said.

In mid-May, the Pridco chief, Economic Development & Commerce Secretary José Ramón Pérez-Riera, Government Development Bank President Carlos García, Treasury Secretary Juan Carlos Puig and the outgoing head of the Puerto Rico Federal Affairs Administration (PR-FAA), Richard Figueroa met at the White House with an Obama economic affairs adviser.

"We spoke about how these changes might apply to and impact Puerto Rico in terms of existing manufacturing operations, in addition to the ability of Puerto Rico to attract new businesses. They acknowledged that Puerto Rico was not a target for the proposed changes, that the main targets are tax-haven jurisdictions and/or what they considered to be