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Chairman, Government
Development Bank



Jorge Silva Puras
Governor's Chief of Staff



Ricardo Rivera Cardona
Secretary of Economic
Development & Commerce



Boris Jaskille
Executive Director
Puerto Rico Industrial
Development Co.
(Pridco)

The Governor's Economic Team

This Government's Priorities

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José L. Carmona
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At \$132 million investment, new GDB headquarters to start construction in January Page 4

Prepa issues more than \$2.3 billion in bonds; some \$665 million in new money Page 34

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Over 100 gas stations shut down; faltering economy, market saturation blamed Page 50

SPECIAL REPORT



Absolutely no government shutdown this year! The cash flow will be there to meet the payroll

Economic team is confident the plans in place already and the \$4 billion in new funds to be pumped into the economy—which have started to flow already—will jump-start Puerto Rico's economy in the 2nd half of 2007



Left to right CARIBBEAN BUSINESS Chairman & Publisher Manuel A. Casiano, Editor in Chief Francisco J. Cimadevilla, Executive Editor, News Martha Dreyer; Associate Editor, Banking/Finance José Carmona; Associate Editor, Government Frances Ryan; Executive Editor, Economics Carlos Márquez; Governor's Chief of Staff Jorge Silva Puras; Chairman & Acting President, Government Development Bank, Alfredo Salazar; Secretary of Economic Development & Commerce Ricardo Rivera Cardona; Executive Director, Tourism Co., Terestella González Denton and Pridco Executive Director Boris Jaskille.

BY CARLOS MÁRQUEZ, FRANCES RYAN
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Undoubtedly, the past five years of a stagnant economy have deepened the island's collective sense of pessimism with no apparent end in sight. This is especially true for Puerto Rico's business community, the engine of the local economy, which continues to feel asphyxiated by more taxes, higher costs of doing business, more anti-job, anti-business legislation, a bureaucratic, backlogged permits process and the uncertainty that comes with a bickering-filled

political climate created by the Executive and Legislative branches.

Meanwhile, this paralyzing feeling continues to hinder Puerto Rico's collective ability to move forward and reassure business leaders that everything is being done to correct the situation. Everyday media clutter only offers partial answers in bits and pieces or confusing messages; and there hasn't been a single clear communication from the government as to exactly what they are doing to turn the situation around sooner rather than later. Questions surrounding the current fiscal situation such as, whether we will have an approved budget or not, or if

Puerto Rico will have to relive last year's government shutdown nightmare, have gone unanswered...until now.

"Make no mistake about it, for the Governor and for us (the economic development team) the economy is priority number 1, priority number 2 and priority number 3," said the Governor's Chief of Staff Jorge Silva Puras who totally agrees the economic situation has taken a tremendous toll on Puerto Rico's confidence and financial stability. "As the Governor likes to repeat: It's the economy, stupid! Now more than

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ever, we must show with our actions that the time for considering theories and projects in the abstract is gone. We have to show actual results.”

During an exclusive economic roundtable with CARIBBEAN BUSINESS, the Governor’s top economic development team including Chief of Staff Silva Puras; Alfredo Salazar, chairman and acting president of the Government Development Bank (GDB); Ricardo Rivera Cardona, secretary of the Department of Economic Development and Commerce (DEDC); Terestella González-Denton, executive director of the Puerto Rico Tourism Co. (PRTC) and Boris Jaskille, executive director of the Puerto Rico Industrial Development Co. (Pridco), shared specific details of initiatives already in place to reassure Puerto Ricans that “slowly but surely, we are starting to see a change in the (economic) mood, but the momentum has to continue and needs to be reinforced,” added Silva Puras.

The government’s economic team is confident that \$13 billion in government financing during the last two years; a \$10 billion investment in a five-year capital improvement plan, at least \$13.4 billion in upcoming bond issues, nearly 100% of all backlog projects solved by year end and the FY08 budget spending lower than the previous year will jumpstart Puerto Rico’s economy.

If it turns out that the government’s top economic team—which showed during the interview both a clear understanding of the severity of the situation and in-depth knowledge of how to solve it—sticks to a set of 10 economic recovery measures they have set out to accomplish, some of which are already under implementation, others to be launched within the next six to 12 months, Puerto Rico’s business leaders and almost everyone else will finally breathe more easily that in fact there is light at the end of the tunnel, instead of a train coming (CB Feb. 22):

THESE MEASURES ARE:

1. Not a chance of a government shutdown
2. No new taxes
3. Keeping the financial and fiscal house in order
4. Access to credit markets a top priority
5. A smaller FY08 government budget
6. Less government spending and more investment
7. A reduction of 20,000 government employees in this four-year administration
8. Permits backlog being resolved and streamlined
9. Private Public Partnerships in the works
10. Out of the recession during next fiscal year (July 1, 2007—June 30, 2008)

NO GOVERNMENT SHUTDOWN

“There is not going to be a government shutdown this year, neither partial nor of any other kind,” Silva Puras said adamantly while he left no room for speculation regarding one of the most haunting concerns facing Puerto Rico businesses. “This is something that we have been working at



“There is not going to be a government shutdown this year, neither partial nor of any other kind,” Chief of Staff Jorge Silva Puras said.

since July 1 (the start of the fiscal year). We created a budget reserve anticipating the possibility that revenue wouldn’t meet expenses. We created a cash-flow buffer that will avert a government shutdown this fiscal year,” he explained

“Last fiscal year, we had what we could describe as the ‘perfect storm,’ a budget deficit and a cash-flow deficit. There is a difference between budget and cash flow. This fiscal year, even if we end up with a slight budget deficit, we will not have a cash-flow deficiency, meaning that we would not have to close the government, as was the case last fiscal year,” Silva Puras explained confidently.

“Our obligation, as members of the Executive (branch), is to propose alternatives to finish the year with a balanced budget. The Legislature could be of a lot of help improving the government’s fiscal situation but we have taken the necessary steps so that irrespective of their decision the government won’t have to close,” he added, referring to a possible lockdown with the Legislature.

This year’s budget, according to Silva Puras, will be the second consecutive fiscal budget lower than the expenses for the previous year. Last year the approved budget was \$9.488 billion while the previous year’s expenses were \$9.683 billion. While he declined to unveil details of the Governor’s budget speech next week, he did confirm that the overall budget will be at least \$100 million less than the current one.

“All our debt service obligations will be met. The Treasury secretary will have enough money to pay his obligations. We will have enough money to pay the Tax Revenue Anticipation Notes (Trans) for this fiscal year and the revolving line of credit we have with the bank syndicate will be paid as it becomes due during the next few months,” remarked GDB’s Chairman of the Board and acting President, Alfredo Salazar.

The Trans principal and interest, approximately \$900 million, are payable in three equal installments during the last three months of the fiscal year (April, May and June.) Last fiscal year, the government shutdown was caused by a decision to pay either the May installment of the 2006 Trans or the payroll. Puerto Rico has never defaulted on its debt obligations.

On July 1, 2006 the Commonwealth entered into a revolving credit and term loan agreement with the Bank of Nova Scotia, BNP Paribas; Dexia Credit Local, Fortis Bank; Banco Popular de Puerto Rico; KBC Bank N.V.; Deutsche Bank (DB); Scotiabank de Puerto Rico; and Banco Bilbao Vizcaya Argentaria in which the banks advanced to the Commonwealth funds to cover cash requirements in anticipation of the issuance of the Trans.

The agreement was further amended and restated as of October 1, 2006, to remove DB and to add Banco Santander, and to allow the Commonwealth to borrow from the banks up to \$1.5 billion less the outstanding principal amount of the Trans. According to the last available report, the government has used approximately \$400 million of the credit line, meaning that \$200 million could still be available. “We just use what we need,” said Salazar.

“We are already working on a new transaction with the banks so it will be available in July. The banks have shown great interest in redoing the credit line and it will probably be the same bank syndicate, led by Scotiabank. If the bank syndicate thought they weren’t going to be paid they wouldn’t be talking to us. They will provide us with a new credit facility for next fiscal year,” confidently stated Salazar.

“Domestic and international banks have been instrumental in supporting our efforts. In the last few months, the GDB has been able to transfer to the private banks loans to government agencies (and public corporations) in excess of \$2.7 billion that otherwise would have stayed on the GDB books. The government alone can’t make all of this possible. It is a concerted effort between the public and the private sector and only together can we realize our full economic potential,” said Salazar.

“To make sure investment takes place we have to keep our financial and fiscal house in order. That means no more deficit financing, no more appropriation or extra constitutional debt. The only way the government can finance deficits is by borrowing from the GDB and this board of directors is not going to lend any more money for deficit financing (at least while he is there). It’s just not going to happen,” stated Salazar.

READ THEIR LIPS: “NO NEW TAXES”

No new taxes and not a chance that the sales and use tax (IVU, by its Spanish acronym) will be increased, Silva Puras confirmed. The special tax on corporations and on banks is “tax history” and will not be repeated or renewed, stated Silva Puras.

“Let me be unequivocal. The way we’re going

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to bridge this budgetary gap is with [economic] measures that won't require additional taxes," Silva Puras pointed out. "With respect to the possibility of increasing the IVU, it is zero. It has been completely discarded."

"More taxes are the wrong medicine for the ailment," added Salazar. "That's not an option, as it would get us deeper in the hole."

Initially approved legislation allowed an increase of the Sales Tax by up to 1% (from 7% to 8%) through an executive order by the Governor if certain provisions didn't generate \$1 billion in collections by December 31, 2006. Law No. 117 provided for special income-tax rates with respect to certain transactions occurring on and between July 1, 2006 and December 31, 2006.

The special tax rate of 5% tax ended up yielding Treasury \$264 million in revenue, but the provision allowing the Governor to impose an additional 1% was withdrawn when the approved bill was recalled. These special tax rates applied to eligible dividends declared by domestic corporations or partnerships and "built-in" gains associated with capital assets held for periods in excess of six months, as well as certain withdrawals from retirement accounts.

There is nothing wrong with borrowing money, up to a certain level, for the right reasons, when there is repayment capacity, but the GDB is not going to lend more money for deficit financing, insisted the GDB chairman. "The only way the government can finance a deficit is by borrowing from this bank [GDB], and I repeat, this bank is not going to lend any more money for deficit financing, period. It's not going to happen. In this room it's not going to be approved," Salazar emphasized, as he slapped his open hand on the gigantic GDB boardroom conference table.

If the government can't bring in more revenue or borrow more money from the GDB for deficit financing, then the solution to what it has to do is simple, asserted Salazar: make the economy grow.

"We need investments; we need the private sector to invest. But you can't expect them to invest if they don't see the government investing. The government has to be in a position to invest, but to do so we have to protect the credit of Puerto Rico, because it gives us access to the financial markets. There is nothing more important than the economy and there is nothing more important for the welfare of the island's economy than protecting our credit to ensure continued access to the capital markets," said Salazar.

Realizing the importance of protecting the island's credit for present and future generations, the government's economic development team, explained Salazar, meets with the credit rating agencies and bondholders to gain back their confidence by showing them "that we are transparent in everything we are doing, showing them the good and the bad and telling them the numbers as we see them."

The GDB chairman and acting president affirmed there is nothing wrong with the government issuing debt. Issuing debt for capital



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improvement projects, to develop infrastructure and to promote economic development projects is important, as the island's infrastructure is still a long way behind many other jurisdictions, domestic and foreign.

"To the extent that we have the capacity to borrow and investors are willing to lend us money, we will be able to contribute to economic development by investing resources in infrastructure. To the extent that the markets shut down on us either because we don't have our fiscal house in order or because we don't have the capacity to pay back our debt, then we will not be able to contribute to economic development," explained Salazar.

"By properly managing our debt we can expect continued support from the market and this will enable us to carry out our calendar of bond sales as planned for the near future. These issues are destined to restructure existing obligations more efficiently and also to provide new funds for the continued investment in infrastructure, vital to economic development and to fostering private capital investment," added Salazar.

KEEPING THE FISCAL HOUSE IN ORDER

"We faced significant pressures in our central government budget. Expenses simply exceeded our recurrent revenue, so we had to resort to a number of one-time measures to raise revenue while we implemented the stringent expense controls that are now in place," said Salazar.

The government's goal is to achieve fiscal balance in 2009 when estimated revenue and

estimated expenditure will match at \$9.51 billion. Reserves are expected to fill the gap in 2007 and 2008, if needed.

Budget imbalances, where recurring expenditures exceeded recurring revenue, were covered with loans from the GDB, financing transactions (including long-term bond issues payable from the general fund) and other nonrecurring resources. Between fiscal years 2003 and 2006 a total of \$2.066 billion was approved to cover budget deficits.

All of the government obligations now have certain capacity constraints or identified sources of repayment and are well within the government's repayment ability, assured Salazar.

"Next year's budget will not only be lower than this fiscal year's budget of \$9.488 billion, but will be lower than this year's actual expenses," he said. The government claims actual expenses this year of \$9.328 billion and Silva Puras assured CARIBBEAN BUSINESS the 2008 budget to be presented to the legislature next week will be at least \$100 million lower than this fiscal year. Fiscal year 2006's budget deficit was estimated by the government at \$1.4 billion.

"I have become paranoid about budgets, deficits, taxes and expense controls, because it is all about fiscal discipline. Fiscal discipline is what is required of us to continue to have access to the capital markets, and that access to the capital markets is a key component of economic development," said Salazar.

TREASURY IMPLEMENTING STRICT CASH-FLOW MANAGEMENT CONTROLS

According to the Trans' Official Statement, issued by the government last October, during the months of April, May and June the general fund is expected to receive approximately \$2.8 billion in revenue while at the same time it has to pay back approximately \$1.4 billion for the Transand, GO debt service and the line of credit and \$1.4 billion in payroll (a total of \$2.8 billion.) In addition, the Treasury will also have to reimburse approximately \$334 million in tax refunds.

Measures taken, such as the approximately \$160 million in expense reductions and the use of other resources, such as the \$240 million deposited in the GDB could reduce the cash deficiency substantially but the general fund also has to pay approximately \$730 million in other government expenses such "grants and subsidies," materials and supplies, equipment purchases and others.

Excess expenditures experienced during fiscal year 2006 (totaling \$1 billion) were partially covered with funds from the Emergency and Budgetary Funds (\$64 million) and a GDB loan (\$741 million). The remaining shortfall, totaling \$233 million, did not have a cash impact during fiscal year 2006 as a result of various cash management mechanisms, including the postponement of certain payments to third party vendors. This shortfall has had an impact on the Commonwealth's cash flow during fiscal year 2007.

The excess expenditures of \$1 billion don't include other expenditures related to fiscal year

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2006 which were excluded from the budget, such as certain vendor debts of \$268 million from prior fiscal years and \$368 million of debt service due during fiscal year 2006 on the GOs, which was paid from the proceeds of a GDB loan and refunded with the proceeds of the Commonwealth Public Improvement Refunding Bonds, Series 2006 B and C.

During the first quarter of fiscal year 2007, the government paid \$177 million corresponding to 2006. "This fiscal year the Treasury secretary is going deeper in his cash management efforts," said Silva Puras, meaning that millions in debt to vendors and suppliers will be paid during the first quarter of next fiscal year.

KEEPING THE CREDIT MARKETS OPEN

"Keeping the credit markets open to Puerto Rico is one of the most important things we have accomplished. If that hadn't happened, we probably wouldn't be sitting here today," said Salazar.

During fiscal years 2005 and 2007, government financing, including public corporations totaled more than \$13 billion. Out of that, \$6.12 billion was new money, \$4.445 billion was refinancing and \$2.713 billion were loans provided by commercial banks.

"The government has to continue to invest in infrastructure to provide the private sector with a well-educated workforce, the power lines, the roads, water and sewerage, cargo facilities—the infrastructure that is necessary for businesses to function and for services to the public to keep improving," added Salazar.

"That means that we are making sure that we maintain, and work hard towards improving our credit ratings. And it means that we must have transparency in our communications with the financial markets, tell it like it is, and explain everything we do and how we expect to address any challenges that we may encounter—so that investors can continue to support us," said Salazar.

During the last 12 months Puerto Rico has held face-to-face investors' conferences in New York, Boston, San Francisco and most recently, during the Puerto Rico Credit Forum, in San Juan.

RECENT CREDIT ACTIONS

On July 20, 2006, S&P confirmed its BBB and BBB- rating on the Commonwealth's general obligation debt and appropriation debt, respectively, and removed the rating from CreditWatch with negative implications, where it had been placed on March 22, 2006. S&P removed the Commonwealth from CreditWatch as a result of the approval of a 7% sales tax, the adoption of a \$9.488 billion budget for fiscal year 2007, and the development during fiscal year 2007 of a government-restructuring plan to control operating expenditure growth. S&P, however, maintained its negative outlook based on the Commonwealth's history of lax expenditure and budget controls.

On July 21, 2006, Moody's confirmed its Baa3 and Ba1 rating on the Commonwealth's general



Puerto Rico 5-year Capital Investment Plan As of March, 2007 (\$ in billions)

Agency	Amount
Puerto Rico Aqueduct & Sewer Authority	\$2.400
Puerto Rico Highways and Transportation Authority	2.200
Puerto Rico Electric Power Authority	2.200
Puerto Rico central government	2.000
Puerto Rico Infrastructure Financing Authority	0.527
Puerto Rico Ports Authority	0.586
University of Puerto Rico	0.186
Total	\$10.099

Source: Government Development Bank

obligation debt and appropriation debt, respectively, and removed the ratings from Watchlist with negative implications. The confirmation of the Commonwealth's debt rating reflected the approval of legislation enacting the tax and fiscal reform. However, Moody's outlook remained negative due to potential for continued fiscal strain and political conflict as the tax and fiscal reform, including the sales tax, are implemented.

"Our next goal is to change the credit outlook from Negative to Stable," said Salazar.

MARKETS HAVE SHOWN CONFIDENCE IN PUERTO RICO CREDIT

"It is important to understand our public debt or 'credit profile'. There is no doubt in my mind that we have the capacity to continue to finance our economic development as we have done in the past. In the past year and a half, there have been

clear signs that our financial capacity is very strong," said Salazar.

On Thursday of last week, the GDB placed a conference call for a \$2.375 billion bond issue of the Puerto Rico Electric Power Authority (Prepa). According to Salazar, it was a very positive investors' call that pointed to a very successful bond placement, which was expected to be oversold. (See related story on page 34)

"There were 91 investors participating in the call, and everyone we wanted to be on that call was there," stated Salazar, who added there were no questions pertaining to the local budget, only seven inquiries, all about technical issues regarding Prepa.

\$10 BILLION INVESTMENT IN A 5-YEAR CAPITAL IMPROVEMENT PLAN

To grow, Puerto Rico needs investments. We need to get the private sector to invest and they will invest when they see the government investing. You can't build a housing complex if you don't have access to the necessary support infrastructure such as roads, electrical power and water, the officials agreed.

Puerto Rico's \$10.1 billion 5-year capital improvement plan includes \$2.4 billion by the Puerto Rico Aqueduct and Sewer Authority, a total of \$4.4 billion by the Puerto Rico Highway Authority (PRHA) and the Puerto Rico Electric Power Authority (Prepa), \$2.2 billion each, \$586 million by the Ports Authority, \$527 million by the Puerto Rico Infrastructure Finance Authority, \$186 million by the University of Puerto Rico and approximately \$2 billion by the central government.

On a more mundane matter, but one that impacts the population's quality of life and pocketbooks every day, Silva Puras explained

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that the administration has identified resources, over \$10 million for its initial stage, to cover more than 30,000 holes in our highways and roads before the end of this calendar year. He was certain this goal will be attained.

UPCOMING BOND ISSUES COULD REACH \$19 BILLION

"Soon after this week's Prepa bond issue of more than \$2.3 billion, we will take to market the sales tax revenue bonds, between \$2 and \$5 billion, to pay down the existing extra constitutional debt," said Salazar. The fiscal 2007, \$500 million general obligations issue is still pending legislative approval.

"We will also do a \$120 million Tourism Co. (PRTC) bond sale in the local market, for the first time in the history of the PRTC. A \$6 to \$9 billion bond issue will provide liquidity to our government's employees' retirement system. If not by the end of this fiscal year, certainly soon thereafter, we will be ready to take to market for the first time in twenty years bonds of the Puerto Rico Aqueduct and Sewer Authority (Prasa) estimated at approximately \$930 million," Salazar explained.

The 2008 Trans (estimated between \$875 million and \$1.2 billion) will be issued soon after. All of this financing could bring the total to \$19.145 billion in new money and refunding.

IMPLEMENTING PPPs

"As we go forward we will engage the support of the private sector in our efforts to continue to invest in infrastructure. New ways of financing these investments through Public and Private Partnerships (PPPs) are increasingly being used

Puerto Rico Upcoming Financing Transactions

As of March, 2007

(\$ in billions)

Amount Range

Puerto Rico Electric Power Authority	\$2.375	\$2.375
Puerto Rico 2007 General Obligations	\$0.500	\$0.500
Sales tax revenue bonds	\$2.300	\$5.000
Puerto Rico Tourism Company	\$0.120	\$0.140
Employee's Retirement System	\$6.300	\$9.000
Puerto Rico Aqueduct & Sewer Authority	\$0.930	\$0.930
Trans 2008	\$0.875	\$1.200
Total	\$13.400	\$19.145

Source: Government Development Bank

by jurisdictions on the U.S. mainland and we are discussing several opportunities that may be available to us. As PPPs become available, we will be there, along with everybody else, exploring how these alternatives can provide additional capital for infrastructure," said Salazar.

Some of the exciting initiatives that will be eyed to utilize PPP financing include the new extension of Route 66 going up to Río Grande at a cost of \$250 million and the completion of PR 22 from Hatillo to Mayagüez. "These PPP initiatives are different from that of the Teodoro Moscoso bridge where there's a provision that if at any given time the developer doesn't want to operate the bridge anymore, they can simply return it to the government of Puerto Rico," explained Silva Puras. "These private-public partnerships, or PPPs, actually involve the selling of assets by the



In addition to the permit re-engineering process already underway, which will bring about a mid-term solution to our permits situation, our short-term initiative is aimed at reviewing 100% of the projects backlog in the system," noted Rivera Cardona.

government and they become the responsibility of the private sector partner. We have to be very careful as to have much of our future roads and other major infrastructure we want to develop through private ownership. But it is certainly an exciting new opportunity for us."

EXPEDITED PERMITS LIBERATE MILLIONS FROM PROJECT BACKLOG

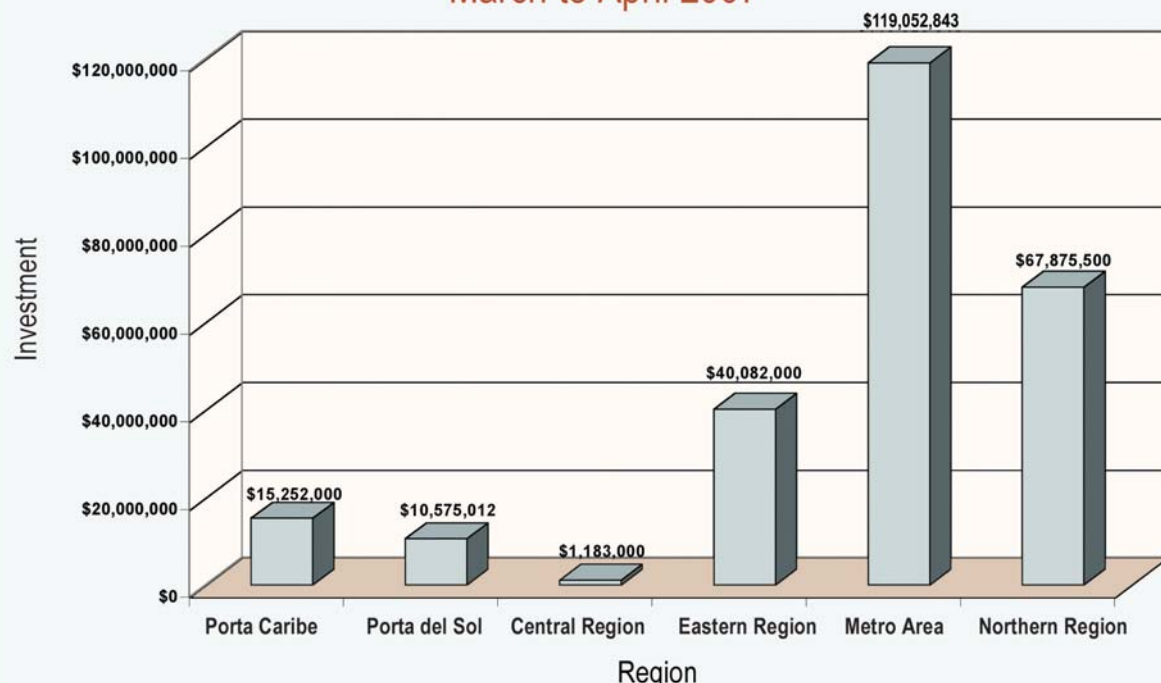
Finally! Puerto Rico will see real action from the government as it brings final resolution to an estimated \$12 billion in 1,000-plus infrastructure projects stuck in a backlog at the Planning Board and the Rules and Permits Administration (ARPE by its Spanish acronym). In a matter of months, the new 14-agency Economic Development Task Force, set outside the bureaucratic trap of the island's permits system and under the leadership of DEDC Secretary Ricardo Rivera Cardona, has already reviewed 277 of which only 21 have been denied for different reasons.

Approved projects from the backlog, most of them residential developments, could help generate in excess of \$304 million, or \$54 million more than the goal that had been set for June 30, explained Rivera Cardona. "We all know that one of the top complaints from the business community is Puerto Rico's cumbersome permits system. In addition to the permit re-engineering process already underway, which will bring about a mid-term solution to our permits situation, our short-term initiative is aimed at reviewing 100% of the projects backlog in the system," noted Rivera Cardona.

"This initiative is extremely important to our efforts to keep the economy moving forward but generating new investments which the Planning Board had not factored into its economic projections for this year," added Silva Puras, noting that the 0.8% economy growth projection from the

Economic impact of construction cases reviewed in project backlog (Economic Development Task Force)

March to April 2007



Source: Department of Economic Development and Commerce

CB graphic by: Héctor L. Siaca

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Planning Board for next fiscal year could be revised later on to include the projected income from approved projects that could begin construction as early as this year. (See sidebar.) These projects alone could generate an astounding 124,800 direct jobs.

Other areas under the DEDC that are already generating important economic development include the Convention Center District, where a series of commercial, tourism and housing projects are being developed attracting more than \$1.3 billion investment, \$900 million of which are from the private sector. These developments will help generate much-needed hotel rooms to keep attracting new convention business opportunities. The Convention Center, the District's anchor facility, will help book 17,739 room nights and generate more than \$10.6 million in economic impact from booked conventions and meetings between April and September of this year.

TOURISM: NEW HOTEL ROOMS ON TARGET

"To date 489 new hotel rooms have been built and 2,308 new rooms are under way representing over 50% of the 5,000-room goal set by the Acevedo Vilá administration for 2008. Investment of \$777 million in new development has already created 2,106 new direct jobs and approximately 4,275 indirect jobs," said Terestella González-Denton.

"Tourism has a promising pipeline for 2007-2008. It includes 2,052 hotel rooms to begin construction, an investment of \$445 million and 3,000 new jobs," added the executive director of the Tourism Company (PRTC.)

Puerto Rico has 13,577 rooms endorsed by the PRTC. Total room inventory on the island is 17,572, excluding 3,395 motel rooms.

"By December 2008, I expect to have exceeded the Governor's goal (120%) having 6,015 rooms well under way at an investment of \$1.865 billion and the creation of 6,722 much needed jobs," added González Denton.

PRIDCO: MAKING SURE 'PROMOTIONS' BECOME A REALITY

At the Puerto Rico Industrial Development Company (Pridco), Executive Director, Boris Jaskille is not only putting 3 million square feet and 3,000 *cuerdas* (1 *cuerda* = .97 acres) of excess inventory up for sale to facilitate economic activity in the private sector but he is making sure his promotions become reality.

"Forty percent of the promotions we announced during the June–December period have started operations which means that jobs have already been created and economic activity is being generated by these companies," said Jaskille.

"If this trend continues, 80% of the promotions in the pipeline will be a reality before the end of this fiscal year," he added. Companies usually have an 18-month period to start operations after being "promoted."



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REDUCTION OF 20,000 GOVERNMENT EMPLOYEES

"Reducing government by attrition is certainly one of the alternatives we have implemented to help reduce government size in an efficient manner. However, attrition programs while more cost-effective, take a long time. And time is of the essence here, so instead of relying on one method, we're considering all the options available to us including early retirement programs," explained Silva Puras, adding that he foresees a very delicate situation in terms of salary increases for government employees in Fiscal '08, beginning July 1.

Rather, it will be the new Law 103 of May 25, 2006, passed in the midst of last year's budget crisis, that may be Puerto Rico's saving grace by providing a path to steady financial recovery and eliminating the \$600 million-plus budget deficit. The law created the first legally mandated Government Job Registry, an ideal monitoring

resource to help reduce through attrition the all-time-high central government rolls—currently at nearly 194,000 employees—and deliver valuable statistical information for sound public administration and fiscal discipline. Under Law 103 the government will be reducing about 5,000 employees annually through attrition.

With nearly 194,000 employees in the central government, not including corporations, municipalities or employees from the legislative and judiciary branches, and about 14,000 fewer central government jobs today compared with official figures two years ago, there is an indication that government reduction efforts are beginning to make a difference.

"At this moment we clearly can't make a move to increase salaries significantly, because we have an unusual fiscal situation that we have to take care of," noted Silva Puras. "Fiscal year 2008 is possibly the most delicate, as we have \$350 million in personal income-tax reductions scheduled."

Nonetheless, Silva Puras indicated that in terms of the 18 negotiated collective bargain agreements to date (out of approximately 40), the salary increases are subject to the respective government agencies' budgets.

"In that sense, the salary increases are dependent on the agencies having enough in their budgets to honor the increases during this fiscal year," added Silva Puras. "The picture, however, looks much improved for Fiscal 2009, as we will be in a much better position to provide salary increases."

As for the increase in the monthly pension of former public employees and retired teachers promised by the Governor in his State of the

Puerto Rico Gross Product (GP) (\$ in billions)

Fiscal Year	Gross Product	% Change GP	Real % change in GP
2002	\$47.00	2.30%	-0.30%
2003	\$47.50	5.30%	2.10%
2004	\$50.70	6.80%	2.70%
2005	\$53.60	5.70%	1.90%
2006	\$56.70	5.80%	0.07%
2007 (p)	\$57.90	2.00%	-1.40%
2008 (p)	\$60.80	5.10%	0.80%

(p) = projected
Source: Government Development Bank

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Commonwealth address, Silva Puras said there are two bills already presented that deal with that issue.

"There is a bill for central government retired employees approved by the Senate that now goes to the House, while the bill for retired teachers is still in negotiations. We are talking about a 3% increase this year and a 3% increase the next, which is already budgeted for fiscal 2008," Silva Puras indicated.

COMING OUT OF THE DARK, NEXT YEAR

"Although economists like to deal with indicators in real terms (based on constant dollars, i.e. factoring out the effect of inflation over time) the reality is that the sales and use tax and other revenue are collected in nominal terms (current dollars) and we expect a 5% increase in revenue for next fiscal year," said Silva Puras.

The Puerto Rico Planning Board projects a negative real GP growth this fiscal year (to end June 30, 2007) of -1.4% and real GP growth for

FY 08 of merely 0.8%.

"Certain investments and initiatives that we are taking haven't yet been considered by the Planning Board in their estimates for next year, like for example, the tremendous progress the Economic Development secretary has done in moving forward those backlogged projects. In nominal terms, most of the increase will be based on 5% growth but that is without any adjustments. So the 0.8% if anything is expected to be revised upwards," concluded Silva Puras. ■

Permits task force reviews 278 projects in three months

Economic impact at \$304 million; task force to complete review of 1,000-plus backlogged projects, permit re-engineering process in legal phase, implementation to begin in June

BY FRANCES RYAN
(frances@casiano.com)

"We are on schedule and moving forward with the permit re-engineering process which began last December. However, that process will bring about a long-term and permanent solution to Puerto Rico's cumbersome permit situation," explained Ricardo Rivera Cardona, secretary of the Department of Economic Development and Commerce (DEDC). "In the meantime, we have a project backlog of hundreds of projects that can't wait until the permit re-engineering is

completed so we're moving forward with their expedited review."

Rivera Cardona was referring to the 14-agency Economic Development Task Force currently reviewing more than 1,000 development projects which had gotten entangled in the permit web of the Planning Board and the Rules and Permits Administration (ARPE by its Spanish acronym). In only three months since the task force was established and trained, a total of 277 cases have been reviewed, of which only 21 have been denied for various reasons. The majority of approved cases are residential developments "which also reflects the universe of projects to be

reviewed," noted Rivera Cardona. The immediate economic impact of approved projects to date represents an investment of \$304 million. (See chart.)

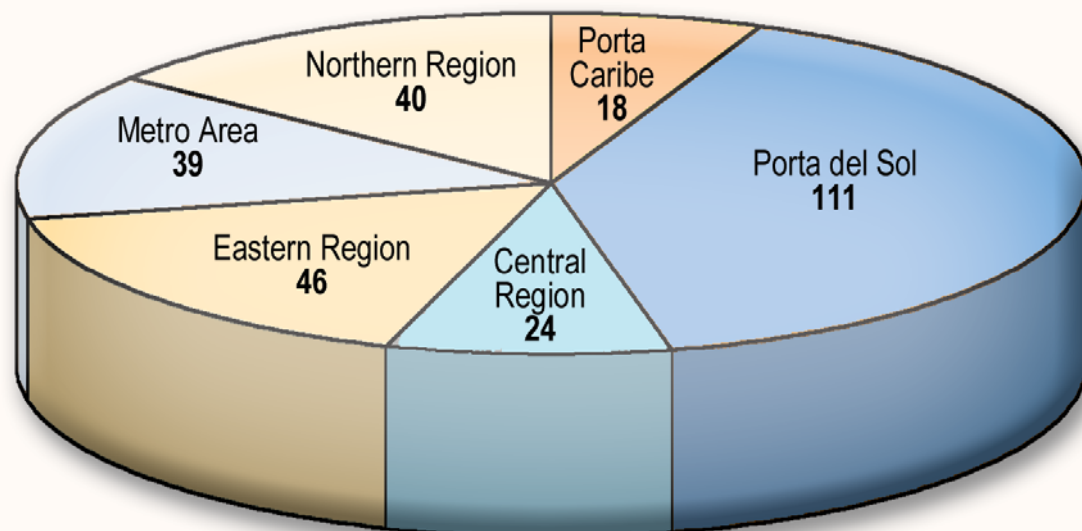
As first uncovered and reported by CARIBBEAN BUSINESS (CB Dec. 14, 2006), an internal Planning Board document revealed there are about 213 construction projects, each worth \$10 million or more, on hold somewhere in the web of Puerto Rico's planning and construction permit process. These projects alone are worth \$9.6 billion and could generate 124,800 direct jobs. Additional projects on hold worth under \$10 million, could represent another \$2 billion to \$3 billion in economic activity and help create 165,000 jobs.

Rivera Cardona added: "The inter-agency task force will stay in place until we review every single project and until such time as the permit re-engineering process is completed. The most important part of this exercise has been learning the lessons which we will incorporate during the implementation of the new permits system. For example, by reorganizing the communication flow during the project review process, the task force learned it was taking an average of two months in transit between one agency and another," said Rivera Cardona.

Currently there are at least 34 public agencies that intervene in the permits process in Puerto Rico, 119 procedures and 12 complicated stages that must be overcome just to secure one construction permit. On average, even the simplest of construction, commercial use and varied use permits can take up to five years. However, anecdotal information confirms there are projects, like the Costa Serena project in the Piñones area of Loíza, first proposed in the 1970s, that are still awaiting Planning Board approval.

278 construction permits cases reviewed

March and April - (by region)



Source: Department of Economic Development and Commerce

CB graphic by: Inda M. Rodríguez

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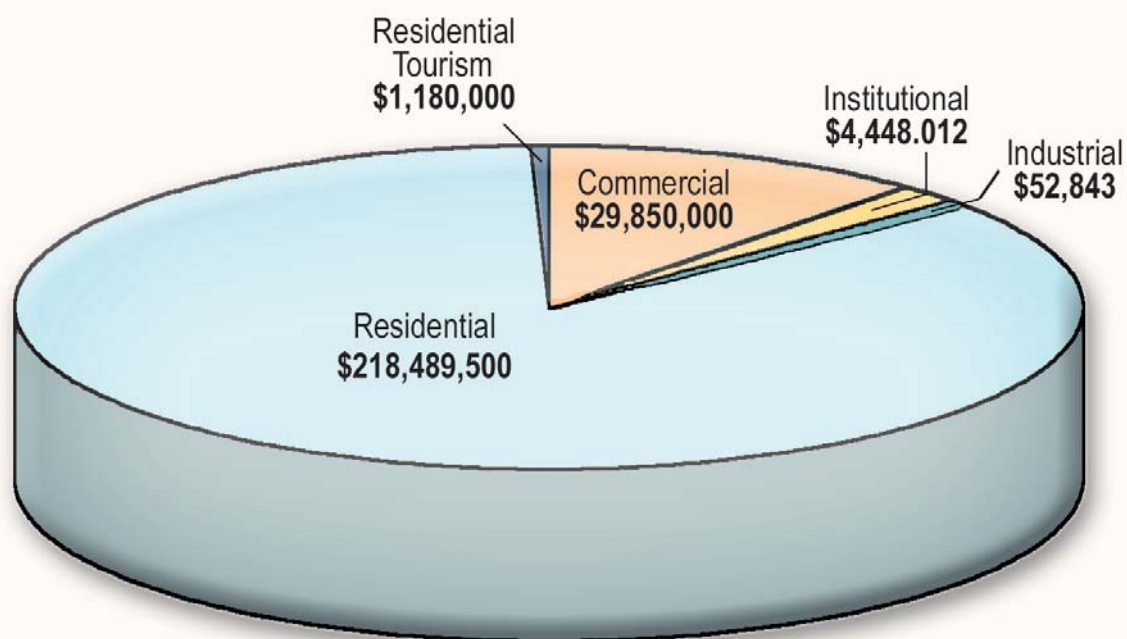
PHASE II PERMIT RE-ENGINEERING: LEGAL EAGLES SORT OUT PERMITS MESS

Already in place, the second phase of the permit re-engineering process concentrates on the Legal and Administrative Committee, which during Phase II of this re-engineering will sort out the permits mess by "diving into the permits system to determine which laws, regulations, permits, endorsements, processes and other permit-related activities must be modified, eliminated or added," said Rivera Cardona. "The Legal and Administrative team will take the work product from Phase I as the basis of its work and will have until May 2007 to complete its legal review and administrative process."

"The legal committee's biggest challenge will come from comparing recommendations against existing legal and regulatory systems to deliver its recommendations as to what needs to happen next. That set of recommendations will be captured in a document called: Roadmap to Change: Re-engineering of Permits Process in Puerto Rico," explained Rivera, adding the Legal committee must complete its work by May 2007. Phase III, implementation and benchmark of the new permits system is set to begin in June of this year. ■

Potential economic investment of cases reviewed (from March 1 to April 10, 2007)

Total Investment: \$254,020,355



Source: Department of Economic Development and Commerce

CB graphic by: Inda M. Rodríguez

WANTED

An explanation from *these* legislators of what in the world they were thinking when they recently introduced or supported new anti-business, anti-jobs legislation.

Remember these
faces when election
time comes.

If they ask for your
money or your vote,
JUST SAY NO.

We don't need
legislators who are
just appealing to
the masses with
anti-business legislation
that in the end is
just anti-job
creation legislation.



Albita Rivera Ramirez
NPP-at-large - San Juan



Carmen González González
PDP-27 - Coamo



Epifanio Jiménez Cruz
NPP-40 - Carolina



Héctor Ferrer Ríos
PDP-at-large



Jennifer González Colón
NPP-at-large



Pedro I. Cintrón Rodríguez
NPP-29 - Cayey



Rafael Rivera Ortega
NPP-28 Corozal



Ramón Reyes Oppenheimer
PDP-28 - Ponce