

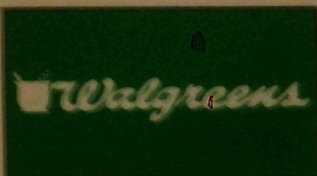
# CARIBBEAN BUSINESS

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## TOP STORY



**Carolina Walgreens  
No.1 in nation**

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# Making the right moves

**Government Development  
Bank President  
Marcos Rodriguez-Ema  
is on a mission.**

**The sale of the Puerto Rico  
Telephone Co. is only  
part of it.**

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Alexander F. Diaz  
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Photo: Boudier/Photo



# Calling the shots

GDB President Marcos Rodriguez-Ema wields considerable power in the sale of the PRTC, but his reach extends far beyond

By ALEXANDER F. DIAZ

The proposed sale of the Puerto Rico Telephone Co. (PRTC) drew lots of press coverage and raised lots of eyebrows. But for Marcos Rodriguez-Ema it was but part, albeit a particularly newsworthy one, of a much bigger process.

"We want to reshape the way Puerto Rico is governed, the size of government, the service it provides," Rodriguez-Ema told CARIBBEAN BUSINESS during an interview in which the normally reserved public official spoke his mind on a wide range of issues and problems affecting the island, particularly public corporations.

"This is about more than just the sale of one public corporation. Heck, we've been selling government assets since we came in [1993]," he continued, proudly recalling the list of sales: government shipping line Navieras, the Sugar Corp., the Lotus pineapple operation, hotels, health facilities and others. There has also been a record number of services contracted out to the private sector, he said, tasks government bureaucracy no longer needs to do.

As president of the Government Development Bank of Puerto Rico (GDB) and chairman of Gov. Pedro Rossello's Privatization Committee, Rodriguez-Ema is playing a leading role in enforcing the governor's smaller-government, pro-private-sector policies.

"Government should not offer a service that could be better provided by the private sector, and it shouldn't compete in sectors that have plenty of competitors already offering a product or service. That's the only way we're going to make Puerto Rico more competitive and create good jobs," he added, repeating Rossello's

*"We want to reshape the way Puerto Rico is governed, the size of government, the service it provides."*

— GOVERNMENT DEVELOPMENT BANK PRESIDENT  
MARCOS RODRIGUEZ-EMA.

often-stated official policy.

## THE TROIKA

For Rodriguez-Ema, this is more than mere policy. It is gospel, as it is for the other two members of the governor's powerful threesome. They call themselves the Fiscal Group — Rodriguez-Ema, Office of Management & Budget Executive Director Jorge Aponte and Treasury Secretary Manuel Diaz Saldaña. They meet often to coordinate efforts, set policy and call the shots.

"They are the enforcers of sound government and the governor's most treasured policies," said a source at La Fortaleza. "If something of any significance is to get done in Puerto Rico nowadays, it must first get past them. They control the money."

*"The fund will not just write blank checks to Prasa," cautioned Rodriguez-Ema. "It will evaluate projects on a case-by-case basis and extend financing based on merit."*

You can say that again. Diaz Saldaña collects internal revenue, Rodriguez-Ema raises debt and serves as fiscal advisor, Aponte allocates the whole thing and all three watch over everyone in government with a drive and passion rarely seen in Puerto Rico's history.

The Puerto Rico Telephone Co., it is now known, was in their sights months prior to the announced privatization two weeks ago. "As soon as the federal government enacted industry deregulation [in February

1996], the days of government ownership of PRTC were numbered," Rodriguez-Ema told CARIBBEAN BUSINESS.

"Government bureaucracy inhibits its ability to compete with giants now entering the field. The erosion of its earnings, market share and franchise value has already started, and competition has only barely begun. It is a war the PRTC is ill suited to fight. We should sell it now while we can still get a good sum for it."

## NO DOMINO EFFECT

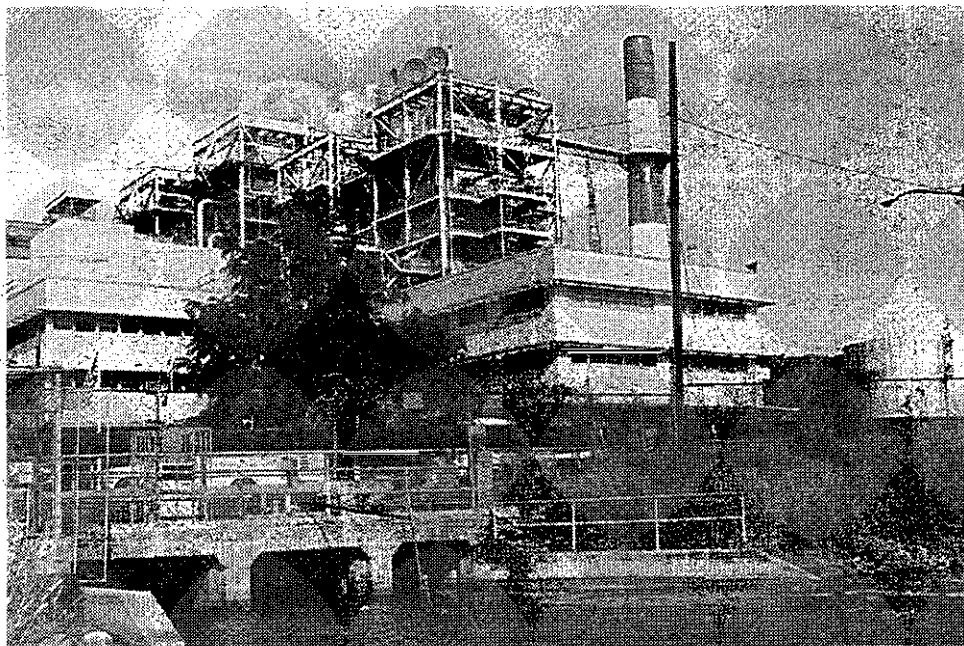
Readers of the Dec. 8, 1994 CARIBBEAN BUSINESS front page story were probably hoping the PRTC sale would be the opening salvo in the sale of most public corporations in Puerto Rico.

No such luck.

That article revealed a historic plan being worked on by Rodriguez-Ema and a special GDB team to privatize at least eight public corporations incrementally, by selling shares of the



"As soon as the federal government enacted industry deregulation [in February 1996], the days of government ownership of the Puerto Rico Telephone Co. were numbered," said Marcos Rodriguez-Ema.



Rodriguez-Ema said privatization is not being considered for the Puerto Rico Electric Power Authority, but highlighted what may be the most significant case of subcontracted privatization being planned in Puerto Rico: construction of two mega cogeneration plants to sell electricity to Prepa.

## Government entities sold since 1993

Navieras

The Sugar Corp.

Lotus

Hostal El Convento

Mayaguez Hilton Hotel & Casino

Sale in progress:  
Puerto Rico Telephone Co.

government-owned companies to private investors (mostly U.S. pension funds) in rounds, until the latter gained majority ownership.

To make each company attractive to stockholders, private management would first be brought in to clean house and improve performance, similar to the contract awarded to Professional Services Group to help manage the Puerto Rico Aqueduct & Sewer Authority (Prasa).

Such incremental privatization is one of the preferred strategies successfully employed by other emerging world markets to unload similar underperforming government assets.

"We decided it would not be prudent for Puerto Rico to proceed that way," lamented Rodriguez-Ema, "so instead we adopted a case-by-case approach to privatization. In evaluating the performance or situation of a given agency or public corporation, we will determine if complete or partial privatization is one of the steps that can help, based on each case's merits."

If it were entirely up to Rodriguez-

Ema, privatization would probably be the principal step. "There is so much more that can be privatized."

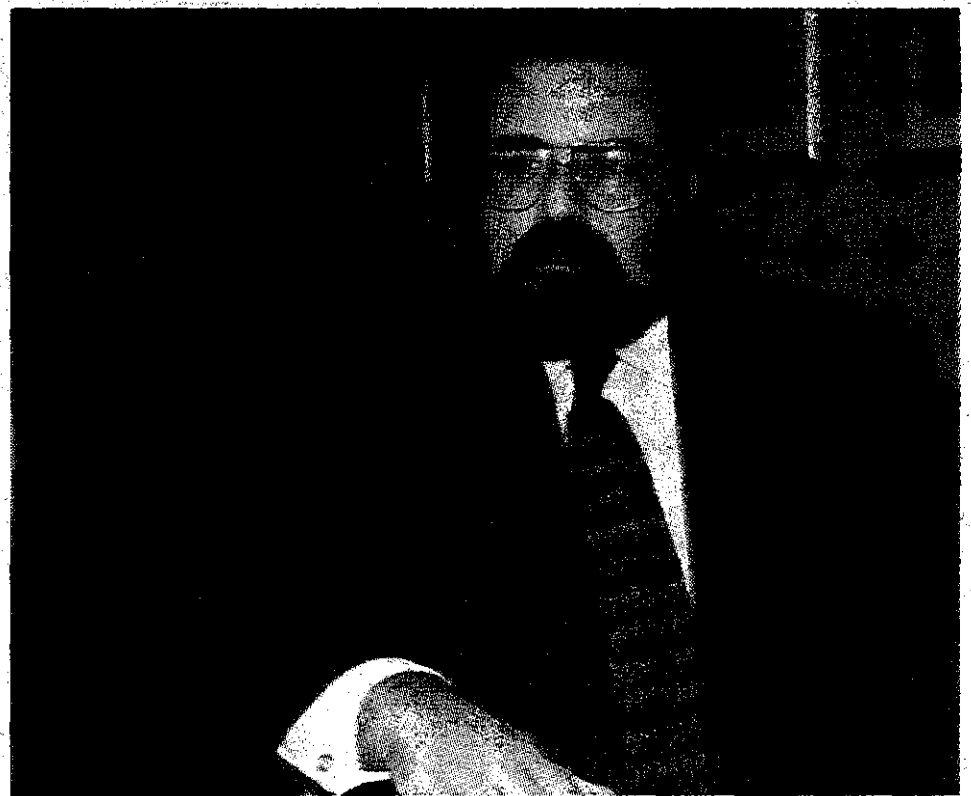
### PBA, PREPA

For starters, he would put the Public Buildings Authority (PBA) on the block. "I can see its original usefulness, when there weren't construction companies and engineers in Puerto Rico. But the island is full of those now. There is really no need for the PBA. Some would say that as a public corporation it can issue municipal bonds and raise low-interest money for construction. But the bureaucracy negates whatever interest savings are generated."

Of all other public corporations, the Puerto Rico Electric Power Authority (Prepa) is generally deemed ripe for transfer to private hands. Rodriguez-Ema said privatization is not being considered, but highlighted what may be the most significant case of subcontracted privatization being planned in Puerto Rico: construction of two mega cogeneration plants, one each in Guayama and Guayanilla, to sell electricity to Prepa and save the public corporation the capital and hassle of building two huge plants itself.

"Prepa lacks the resources to do it," Rodriguez-Ema said. "Cogeneration is as much unavoidable as it is good for Puerto Rico, since energy will be produced more efficiently."

Rodriguez-Ema was unaware, as are most local residents outside Prepa's top echelon, that Prepa has been operating in a competitive arena since enactment of the federal Energy Policy Act of 1992, the landmark law that eliminated energy monopolies and allowed independent power producers to sell elec-



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tricity directly to business and residential consumers, across state lines.

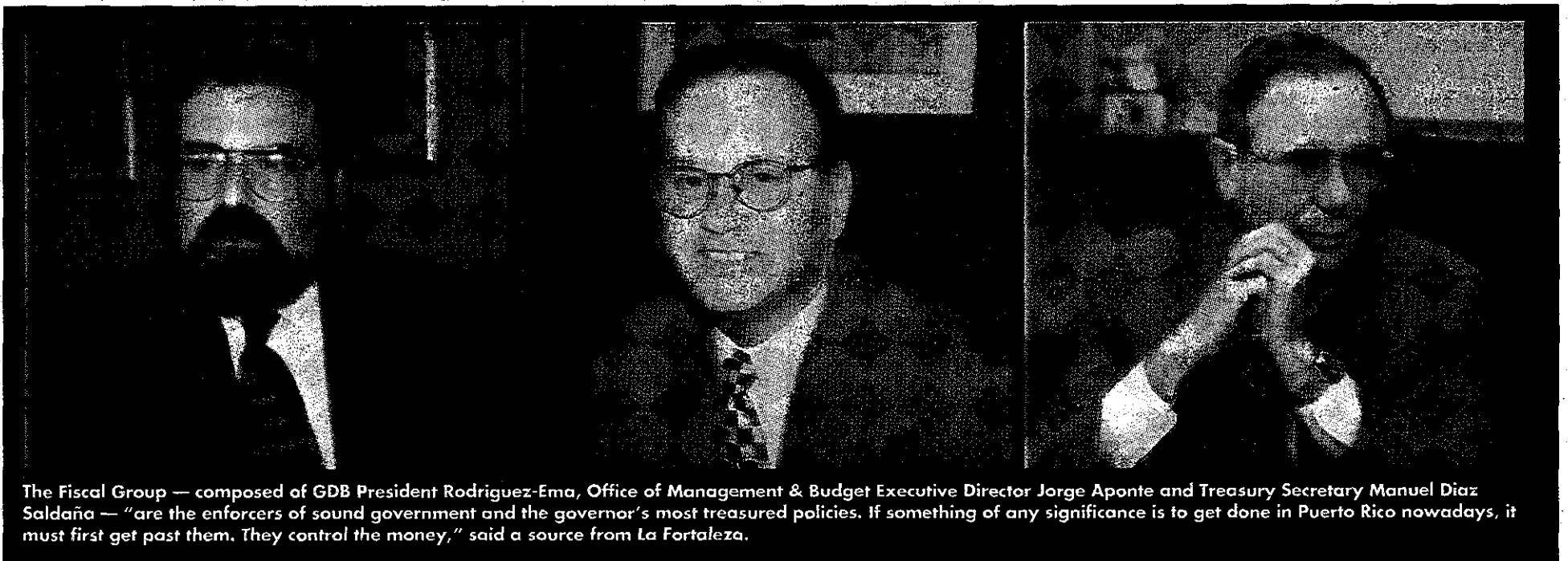
Similar to telecommunications deregulation four years later, dominant state power producers must make their distribution and transmission lines available for independents to send their electricity to end users, for a fee, of course. Since producers with plants on the mainland cannot distribute electricity to Puerto Rico via distribution lines across the ocean, Prepa has so far been lucky enough not to face the wave of competition sweeping the rest of the U.S.

But it has been smart enough, nonetheless, to guard against the likelihood of an independent producer setting up a plant on the island, not to sell electricity to

Prepa, as the cogenerators will do, but rather to sell directly to companies and households starving for lower rates and better service. How is Prepa guarding against this potential competition that even top Prepa officials admit is only a matter of time? By trying their best to become more efficient, diversify energy sources and place the agency in a position to reduce rates if it had to. (See CB Jan. 11, 1996.)

If competition came and Prepa found itself, as the PRTC does today, in a competitive arena, would the government move for privatization? Rodriguez-Ema, for one, did not care to speculate. "The only thing I can do at this stage is keep

Continued on next page



The Fiscal Group — composed of GDB President Rodriguez-Ema, Office of Management & Budget Executive Director Jorge Aponte and Treasury Secretary Manuel Diaz Saldaña — "are the enforcers of sound government and the governor's most treasured policies. If something of any significance is to get done in Puerto Rico nowadays, it must first get past them. They control the money," said a source from La Fortaleza.



Continued from previous page

my eyes and ears open and monitor the situation."

#### **WATER, PORTS AND GARBAGE**

Then there are the two most financially troubled public corporations: Prasa and the Ports Authority.

Neither is up for privatization, said Rodriguez-Ema, to whom both corporations must report their progress in removing themselves from states of emergencies declared by Rossello during his first term.

Neither agency has been able to issue bonds since 1993, given deep operating losses and seemingly intractable management difficulties. Yet each has its own ambitious, and desperately needed, infrastructure improvement program, much of which is frozen pending additional funding.

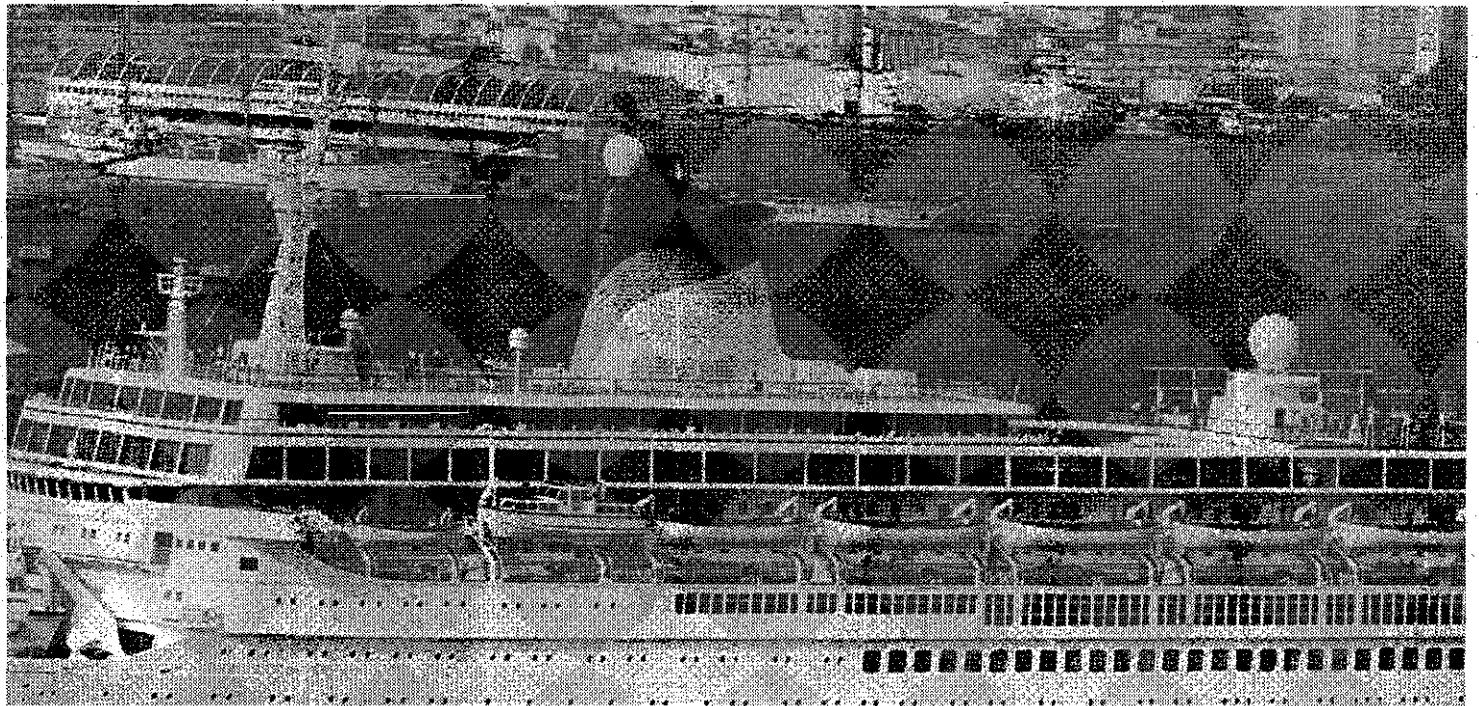
As **CARIBBEAN BUSINESS** reported in its front page story three weeks ago (Apr. 3), public corporations have a combined record \$10.7 billion in infrastructure improvements planned for the next five fiscal years, including the current one. "The money has been identified for just about all of that," confirmed Rodriguez-Ema. "Two of the agencies falling short at this point are Prasa and Ports."

As has already been announced, part of the proceeds from the PRTC sale will be included in a fund to help finance Prasa's program. "The fund will not just write blank checks to Prasa," cautioned the GDB president. "It will evaluate projects on a case-by-case basis and extend financing based on merit."

The Ports Authority, meanwhile, must submit a plan to the GDB outlining how Ports intends to remain solvent and resolve the most pressing drain on its resources: the money-losing ferries and regional ports and airports it can no longer subsidize with federally approved funds earmarked for Luis Muñoz Marín International Airport.

"I am waiting for their plan before deciding what to do about the Authority's reentry into the bond market." Where will the money come from if Ports cannot reenter? "I don't know. We'll have to weigh our options and decide."

The third agency that has yet to figure out where all the money will come from to finance its own ambitious infrastructure program is the Solid Waste Management Authority (SWMA). It recently approved a \$670 million plan to solve Puerto



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Rico's garbage time bomb, set to explode in coming years if suitable places to dump garbage are not found.

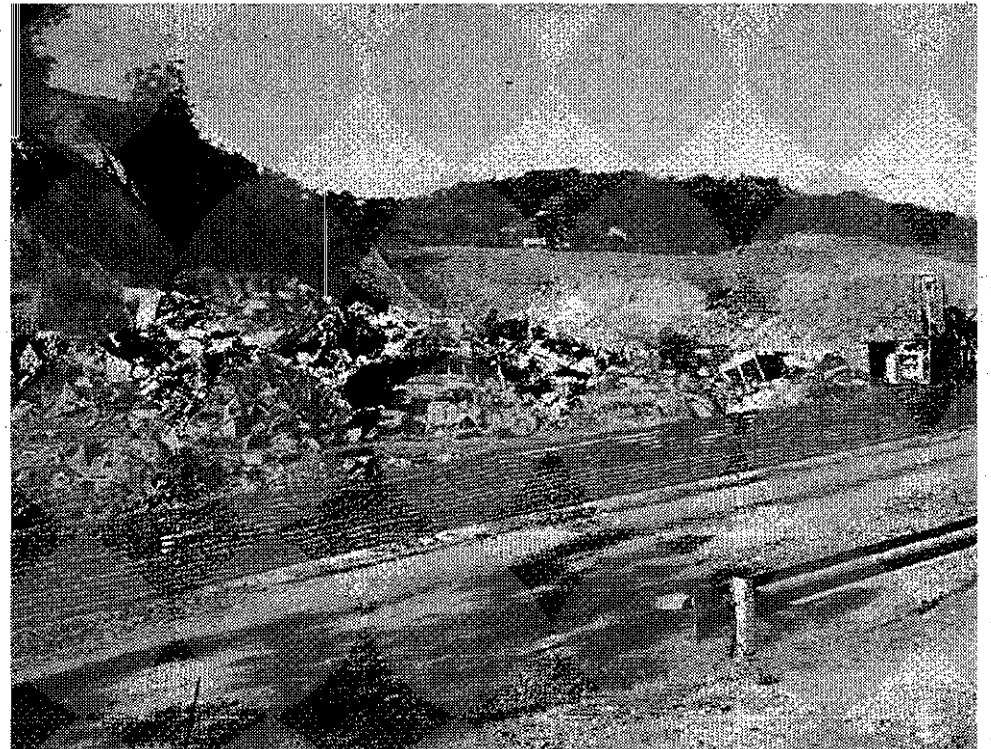
Now it's a matter of finding the money, a task Rodriguez-Ema is leaving up to SWMA and municipalities, for now. "They're grown adults. They should be able to solve this problem without us having to bail them out. We [the GDB] will contribute our share, but they have to put up theirs first. The consumer will have to bear part of the burden as well. Let's see what formula they come up with, and then we will act. One thing is certain, though: the money must be found, because the problem must be solved."

#### **CAPITAL REFORM**

As if dealing with these situations weren't enough, Rodriguez-Ema must lead a crucial effort to reform Puerto Rico's capital market to bring it up to date with the late 20th century, just in time for the 21st.

Upcoming steps include reducing the capital gains tax and imposing a tax on Ginnie Mae mortgage-backed securities issued and sold on the island. The former is designed to encourage more companies to issue publicly traded stock in U.S. stock markets, a step widely believed essential for local companies to have greater access to equity capital and grow more in Puerto Rico and overseas.

"As it stands today, the strategy our tax code encourages is for families and patriarchs to hold on to their companies and pass them on to their heirs, to avoid the capital gains tax," Rodriguez-Ema explained. "By lower-



Regarding the Solid Waste Management Authority's infrastructure plan, Rodriguez-Ema said, "They're grown adults. They should be able to solve this problem without us having to bail them out. We [the GDB] will contribute our share, but they have to put up theirs first."

ing the tax to 10%, we hope to stimulate more sale and public trading of companies."

The planned 17% tax on Ginnie Maes would bring the currently exempt and federally guaranteed securities on a par with other local investments taxed at 17%. "That will reduce the enormous competitive advantage enjoyed by Ginnie Maes today. So advantageous are they that too many investors don't even consider other investments."

Won't Ginnie Maes still be highly appealing even with the 17% tax, given their federal guarantee and therefore AAA rating? "We have to start somewhere," he responded,

smiling. "This is at least a good first step. Let's see what happens."

Recent steps to reform the local capital market include: liberal amendments to the 1988 venture capital funds law, the Government Development Bank's own venture capital fund, pension-fund reform, lower taxes in general (including no double taxation for most companies, which frees up capital for business purposes), interest-rate deregulation and others.

"This is just another form of freeing private capital and the private sector to create jobs and grow the economy," he concluded. "That's the only way to go." ■