



**BABSON**  
COLLEGE



# PUERTO RICO CONFERENCE

Entrepreneurship for Growth

# 2010

March 24, 2010 | Conrad San Juan Condado Plaza | 7:30 a.m. - 5:00 p.m.

P u e r t o R i c o C h a m b e r o f C o m m e r c e

# Strategic Model for a New Economy

GROWTH | COMPETITIVENESS | JOBS



*Government of Puerto Rico  
March 2010*

# Agenda

- 1. Economic Activity Highlights for 2009**
- 2. Strategic Model for a New Economy**
- 3. Implementation of the Strategic Model**

# 2009 has been full of challenges but Puerto Rico is on the path to an economic recovery

## The implementation of our Strategic Model is showing tangible positive results

- The divergence between the United States economy (-2.5%) and the economy of Puerto Rico (-3.7%) has narrowed by 4.4 percentage points in 2009 and the relationship is back to its historical levels
- The Governor's Economic Council, a group of independent economists, validated that we are seeing the early signs of an economic stabilization:
  - Non-farm payroll employment rose for four straight months from 941,000 in August to 956,000 in December (1.6%)
  - The unemployment rate has been decreasing in the past months from 16.4% in September to 15.8% in January and February (0.6 percentage points)
- Recent year-over-year increases in retail sales and auto sales may be an indication of an improvement in consumer confidence
- Certain sectors of the economy such as Tourism, Film, Insurance, Educational and Health Services, and Credit Unions have had a strong year in 2009

# Agenda

1. Economic Activity Highlights for 2009

**2. Strategic Model for a New Economy**

**3. Implementation of the Strategic Model**

# Conceptual framework of the Strategic Model for a New Economy

## **OBJECTIVE:** **Growth, Competitiveness and Jobs**

### **RESTORE GROWTH**

**Short-Term  
Stimuli**

**Long-Term  
Growth  
Measures**

**METRICS**  
Dashboard

### **INFRASTRUCTURE**

**Physical  
Infrastructure**

**Strategic /  
Regional Projects**

**METRICS**  
Dashboard

### **COMPETITIVENESS**

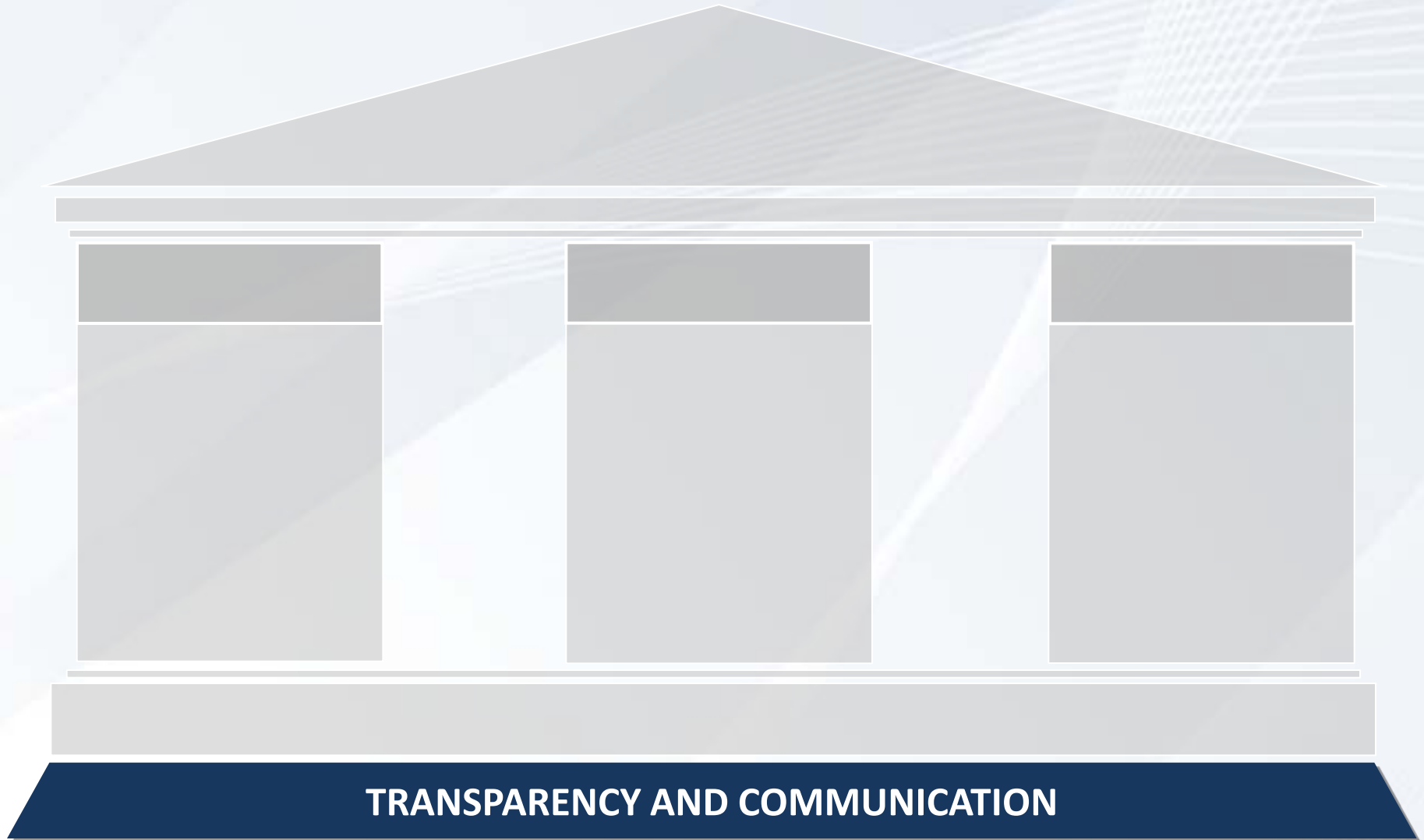
**Functional  
Infrastructure**

**Key Reforms /  
Cost Reduction**

**FISCAL AND CREDIT STABILIZATION**

**TRANSPARENCY AND COMMUNICATION**

# Conceptual framework of the Strategic Model for a New Economy



# The Strategic Model is based on the free flow of information to facilitate its widespread adoption



TRANSPARENCY &  
COMMUNICATION

## TRANSPARENCY

### Objectives of the Transparency Policy:

- To promote institutional accountability
- To foster trust in administrative procedures
- To eliminate environments that promote preferential treatment and favoritism
- To facilitate citizen oversight

**PROMOTE INVESTMENT and  
HEALTHY GOVERNMENT**

## COMMUNICATION

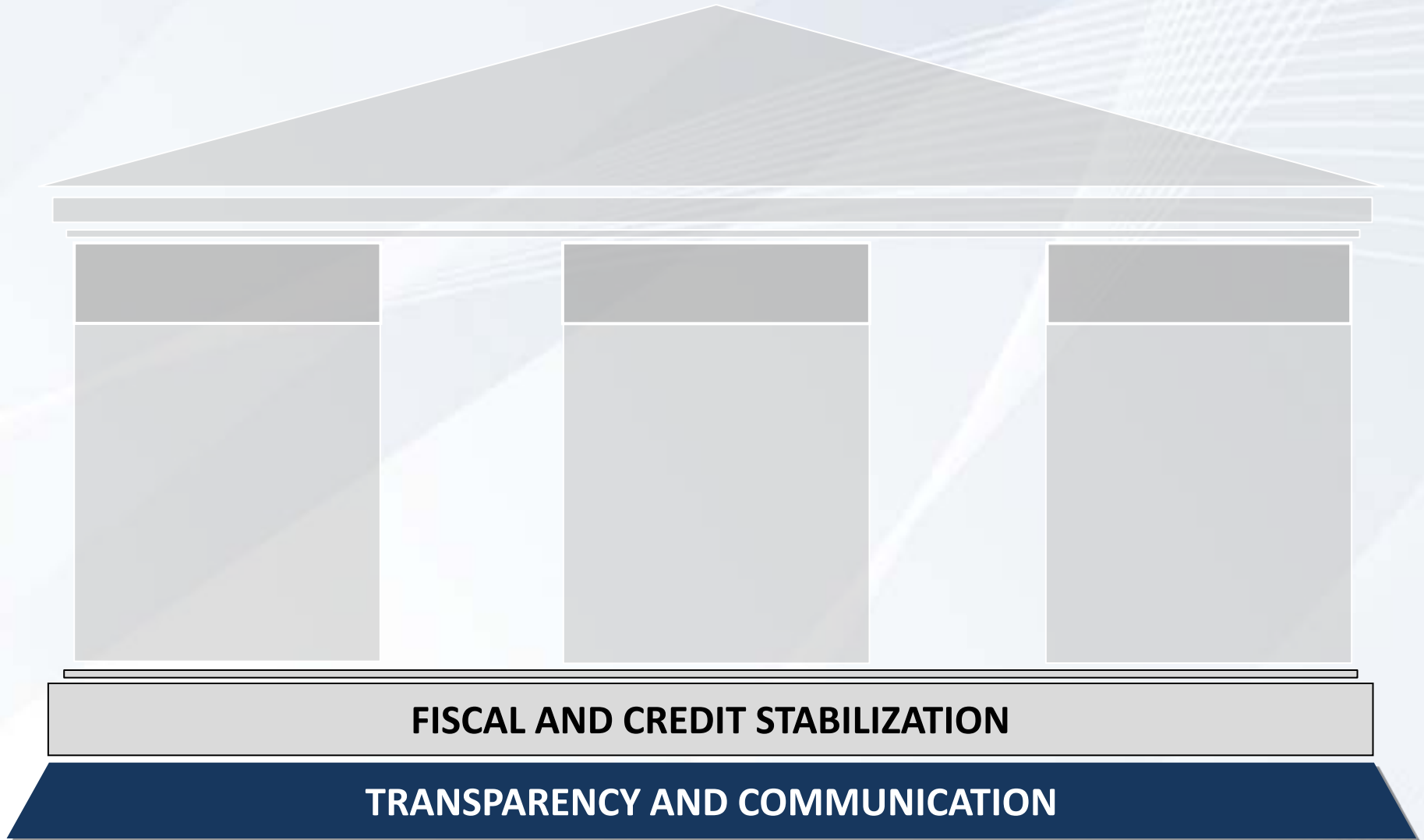
### Objectives of the Communication Policy:

- To promote open debate and collective participation
- To convey information about the Island's important events
- To regularly inform about efforts in economic development
- To promote understanding of the issues and the proposed solutions

**CONVEY THE VISION and  
A SENSE OF DIRECTION**



# Conceptual framework of the Strategic Model for a New Economy



# We have been able to stabilize the fiscal and credit conditions with the Fiscal Reconstruction Plan



FISCAL  
STABILIZATION

## Major Puerto Rico Credits

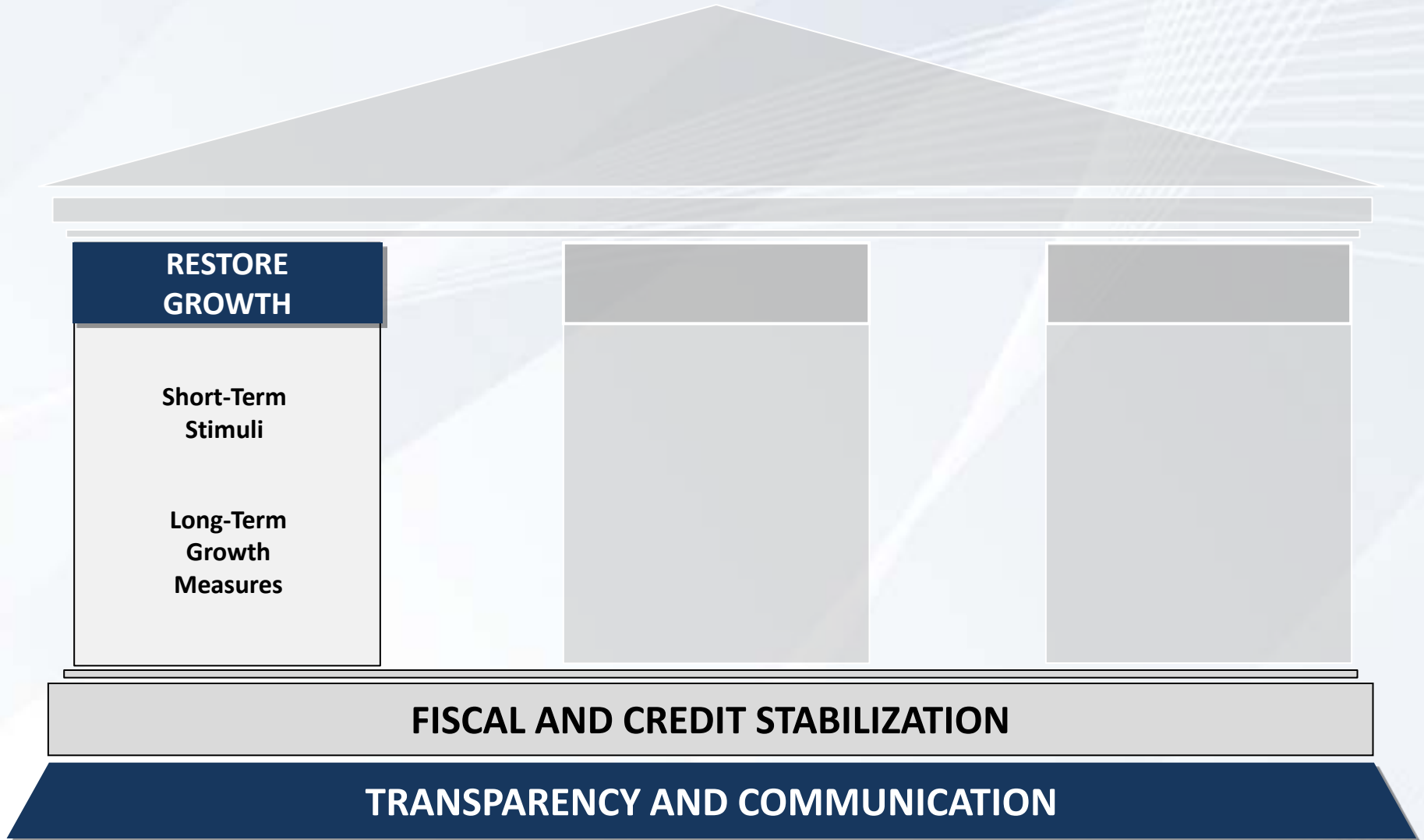
Entity	S&P	Moody's	Fitch	Outlook
COFINA Senior	AA-	Aa3	A+	Stable
COFINA Sub.	A+	A2	A	Stable
Commonwealth	BBB-	Baa3	N/R	Stable
GDB	BBB	Baa3	N/R	Stable

First major  
credit increase  
in 10 years

## Public Corporations:

PRASA	BBB-	Baa3	BBB-	Stable
PREPA	BBB+	A3	BBB+	Stable
PRHTA	BBB+	Baa2	N/R	Stable
Ports	BBB-	Baa3	N/R	Negative
PBA	BBB-	Baa3	N/R	Stable

# Conceptual framework of the Strategic Model for a New Economy



# Restoring economic growth is based on the effective implementation of short-term stimuli and the long-term development of the productive base



## A combination of measures to restore economic growth

### Short-Term Stimuli

#### Federal Stimulus Plan (ARRA\*)

- Objective: Invest \$6.4 B in the Puerto Rican economy, of which 40% have been disbursed

#### Local Stimulus Plan (PEC\*)

- Objective: Invest \$500 MM in stimuli at the local level, of which approximately \$100 MM are in the process of being disbursed

### Long-Term Growth Measures for All Sectors

#### Integration into the Global Economy

- Objective: Foster the development and strengthening of local companies capable of exporting competitive goods and services

#### Transition to a Knowledge based Economy

- Objective: Leverage the industrial base to create new jobs and businesses by creating new *clusters*\*\* and consortia with a focus on innovation

\* ARRA = American Recovery and Reinvestment Act; PEC = Spanish acronym for the Local Stimulus Plan.

\*\* Cluster = Groups of interdependent and complementary businesses and institutions that make up an important area of economic focus and activity (Michael E. Porter, The Competitive Advantage of Nations, 1990).

# There has been a disbursement of \$2.589 B or 40% of the Federal Stimulus Plan



## Disbursements

Local Agencies

\$1.625B

Municipalities

\$5.848 MM

Federal  
Agencies

\$958 MM

Private Sector

\$.90 MM

Total

\$2.589 B

## Allocations

Local Agencies

\$4.987 B

Municipalities

\$105 MM

Federal  
Agencies

\$1.287 B

Private Sector

\$53.4 MM

Total

\$6.433 B

## Performance

33%

5.6%

74%

2%

40%

# The Local Stimulus Plan has helped stabilize the local economy in various areas



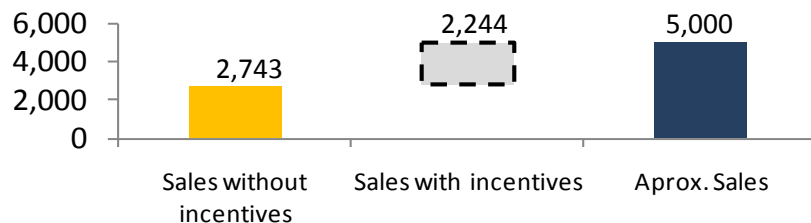
RESTORING  
GROWTH



## Housing Programs

### Stimulus for Buying a Home

- 2,244 housing loans or incentives awarded (approximately 45% of all homes sold in 2009)



## Infrastructure Projects

### Municipal Infrastructure

### Mayagüez 2010

- \$55 MM has been disbursed in 69 municipalities
- \$12.5 MM has been allocated to the Puerto Rico Aqueduct and Sewer Authority for Sanitary Sewer Systems in the Municipalities of Guánica and Yauco
- \$5 MM has been disbursed for the Mayagüez 2010 Games to be conducted this Summer which will attract 1 MM visitors

## Liquidity Programs

### Small Business Loans

- 68 loans to Small and Medium Businesses (SMBs) have been awarded

## Direct Stimulus

### Bonus for Retirees

- \$8.7 MM were disbursed directly to retirees

# \$190 MM of the Local Stimulus Plan has been reallocated to immediate investments in the economy, of which 70% are in infrastructure



## Redistribution of the Local Stimulus Plan

### TRANSPORTATION



Bus Rapid Transit  
North  
(\$5 MM)

Intersection 177  
Bayamon  
(\$5.5 MM)

### TOURISM



Golden Triangle  
(\$25.5 MM)

Construction of  
New Hotels  
(\$15 MM)

Aguadilla Airport  
(\$3 MM)

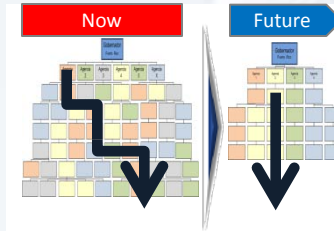
### P3 AND LANDFILLS



Pre-Development  
Cost – P3s  
(\$20.5 MM)

Landfill Closures  
(\$8 MM)

### GOVERNMENT TRANSFORMATION



Implementation of  
Permits Reform  
(\$4 MM)

### EMPOWERMENT TO ENTREPRENEURS



“Desarrollo Pa'l  
Pueblo”  
(\$9.5 MM)

Boost to SMBs  
(\$41.5 MM)

Bonus for Closing  
Costs  
(\$5 MM)

# In 2009, all sectors of the economy were stimulated to retain and create jobs



RESTORING  
GROWTH

## Focus on strategic sectors that will enhance production capacity

### Manufacturing

- Completed 74 promotions with a commitment of 3,842 jobs and \$110 MM in investment including:
  - The first Puerto Rican biotechnology company (CDI Laboratories, Inc.)
  - Research and Development Centers at Pfizer and Merck
  - Expansions of UPS Healthcare Logistics, Medtronic, Warner-Chilcott and Baxter
  - The first photovoltaic panels manufacturing plant (160 jobs / \$12.1 MM investment)
  - A new software service center (300 jobs / \$22 MM investment)

### Agriculture

- Granted \$107.1 MM in agricultural incentives and investments
- Awarded 31 projects for permanent works in rural zone areas totaling \$996,309
- Established the Agriculture Reserve of Yabucoa; three other Agricultural Corridors pending
- Assigned \$1.1 MM to invest in the development of irrigation infrastructure, drainage, and water storage in the South, Southeast, and Southwest zones in Puerto Rico

### Tourism and Entertainment

- Expansion and diversification of hotel products with the Sheraton Convention Center (600 jobs), and the La Concha The Suite Tower (50 jobs), and the upcoming W Vieques (240 jobs)
- Attracted over 250 additional weekly flights, including a new flight to London
- Increased 4Q 2009 occupancy by 6.5 percentage points (11%) compared to the previous year
- Royal Caribbean will inject \$82 MM of the \$250 MM that will be invested for cruise ships
- Launched the “See Puerto Rico Through the Eyes of an Artist” promotional campaign and the “Puerto Rico Does it Better” program to emphasize quality of service

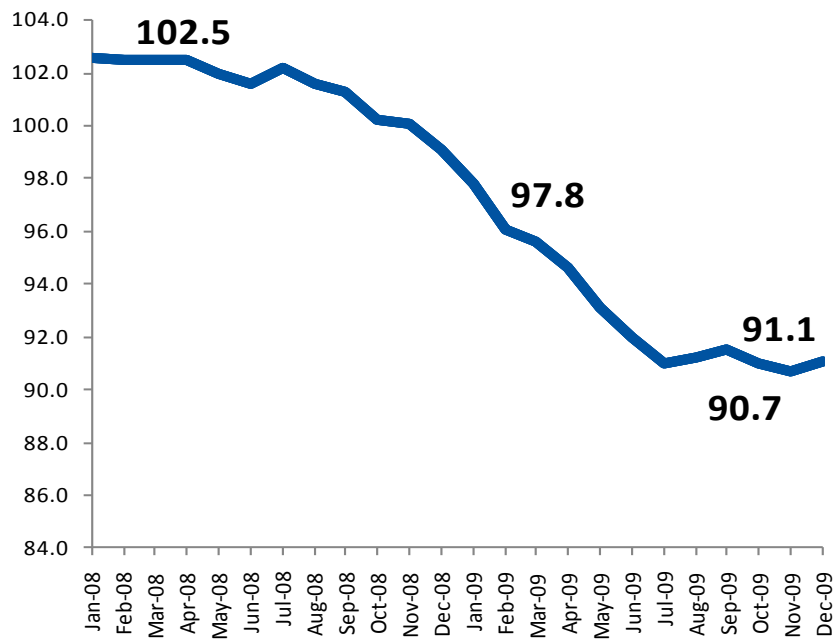


# Certain important indicators are showing signs of a broad-based stabilization in many sectors of the economy



## Employment in Manufacturing\*

(in thousands)

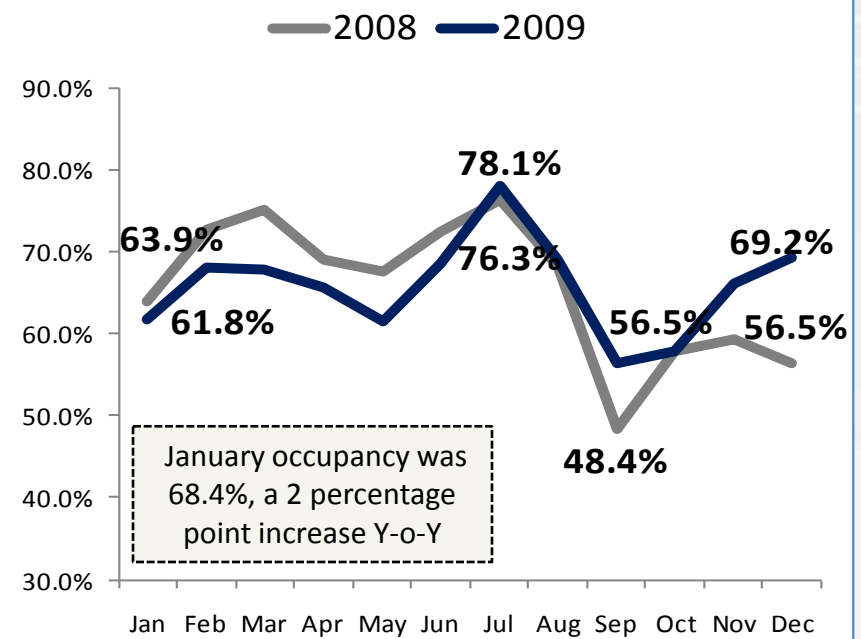


\* Puerto Rico Planning Board.

\*\* Puerto Rico Tourism Company.

## Hotel Occupancy Rate\*\*

(percentage)



**Manufacturing and Tourism indicators have improved in the second half of 2009**

# In 2009, all sectors of the economy were stimulated to retain and create jobs



RESTORING  
GROWTH

## Focus on strategic sectors that will enhance production capacity

### Commerce

- Completed 70 entrepreneurial training courses with over 1,250 participants
- Amended the “Closing Law” to extend operating hours and establish a new minimum salary for businesses that open on Sundays
- Established a micro business program for 200 entrepreneurial women
- Added over 100 new members to the Puerto Rico World Trade Center (PRWTC)
- Wal-Mart will create 1,000 jobs thanks to \$3.1 million received from WIA funds

### Banking, Insurance and Credit Unions

- The Economic Development Bank approved 562 loans for a total of \$106 MM
- Transferred the promotional functions of the International Insurance Center to DEDC and approved the establishment of 7 new international insurers
- Established 38 new diverse cooperatives creating over 1,200 new jobs

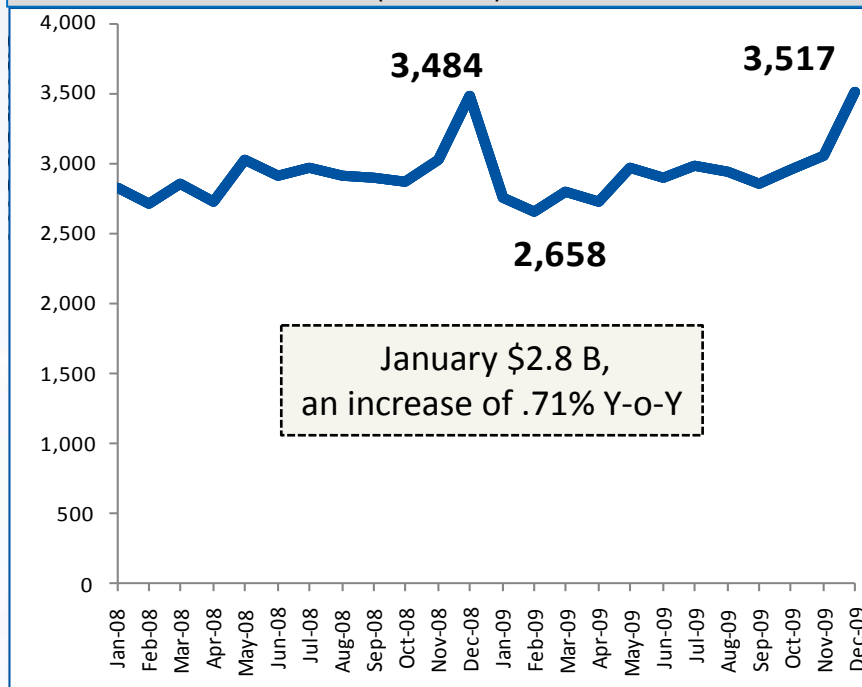
### Film and Creative Services

- Amended Law 362 to assure the competitive advantages of Puerto Rico for 10 more years
- Submitted amendments to P.R. Film Fund Law 121 to focus on profitable investments
- Achieved \$57.7 MM in investments from productions filmed in Puerto Rico
- Participated in 6 global film festivals/markets to promote Puerto Rico
- Invested \$350,000 in 9 training workshops

# The retail sector has begun to reflect a recovery indicating a potential improvement of consumer confidence

## Retail Sales

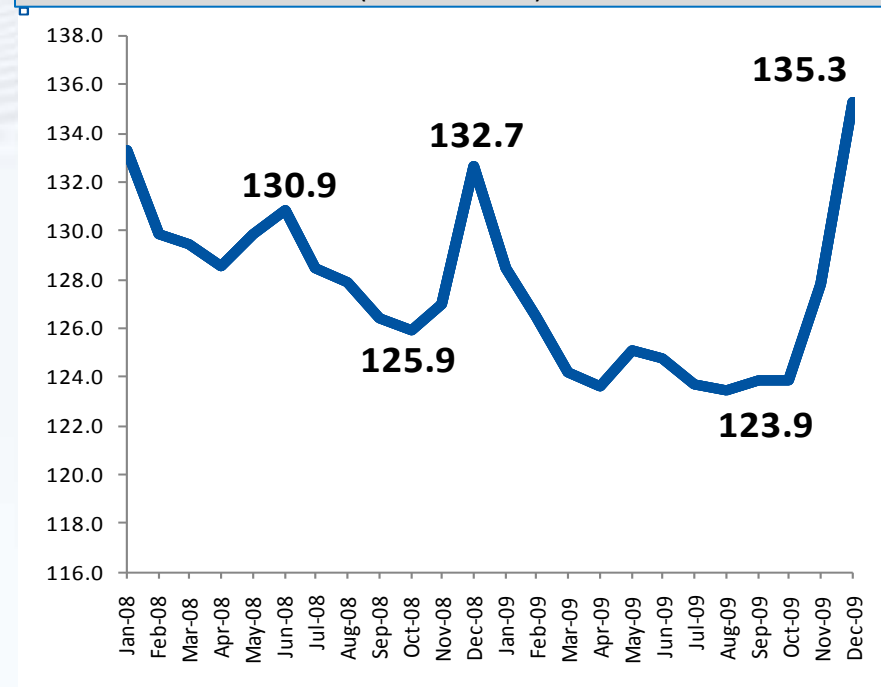
(in \$ MM)



Source: Puerto Rico Planning Board.

## Employment in Retail

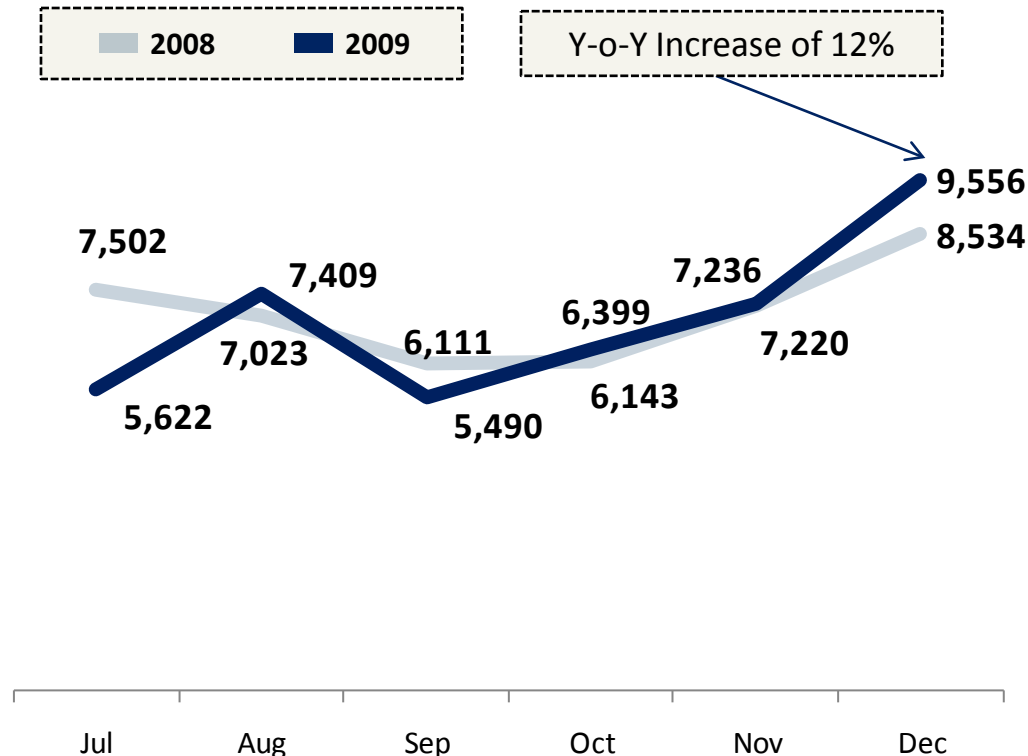
(in thousands)



**Retail Sales and Employment in Retail are at their highest point since December 2008**

# Auto sales have reflected an increase over the past 5 months indicating a potential improvement of consumer confidence

## Auto Sales in the second half of the year (2008 – 2009)



- Car Sales in February jumped 14.9% on a year-over-year basis from 5,763 units in 2009 to 6,654 units in 2010
- January showed a 16% increase on a year-over-year basis from 5,859 units in 2009 to 6,792 units in 2010
- Car sales are highly correlated with consumption of durable goods
- The increase in car sales was concentrated in Korean car brands

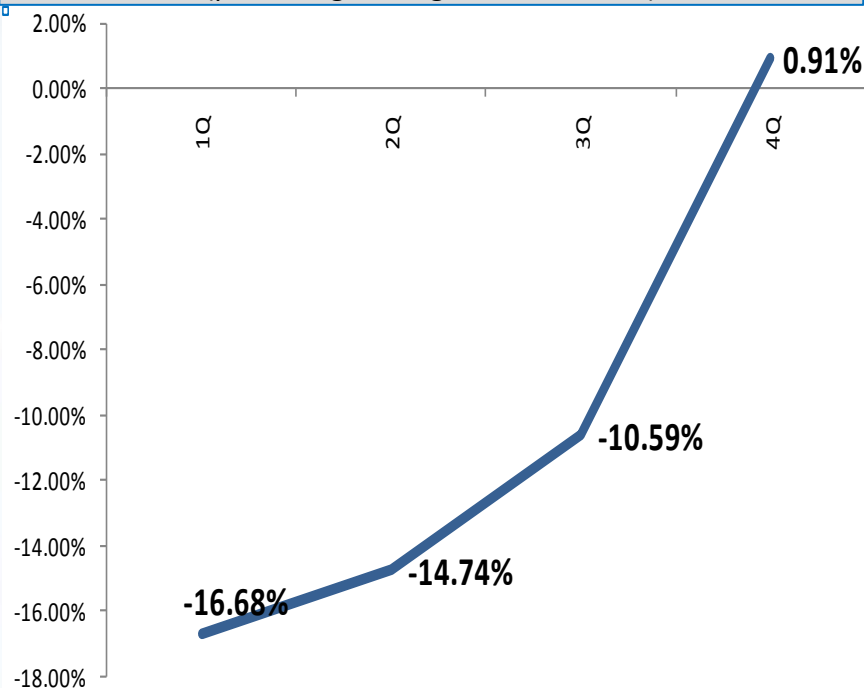
Source: GDB.

# Certain important indicators are showing signs of a broad-based stabilization in many sectors of the economy



## Total Mortgage Loan Originations\*

(percentage change 2008 vs. 2009)

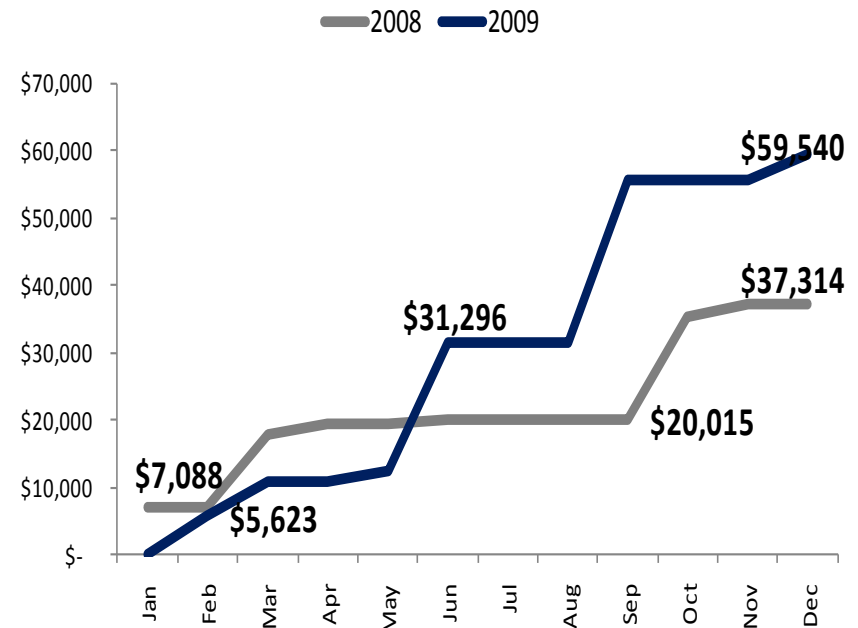


\* Commissioner of Financial Institutions of Puerto Rico.

\*\* Puerto Rico Film Commission.

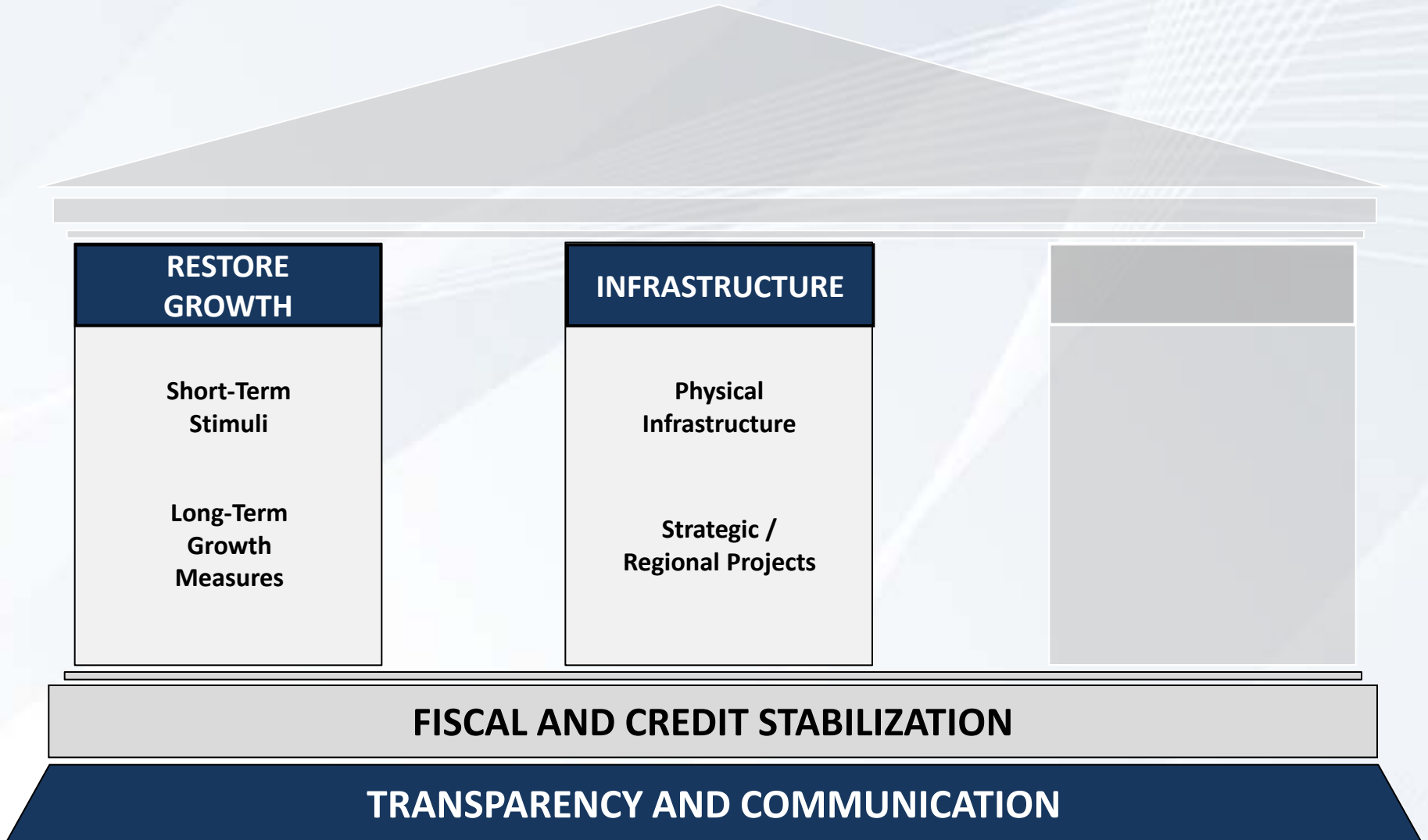
## Investments in Films\*\*

(in thousands)

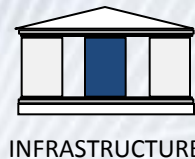


**Targeted programs and promotions in Financing and Film have yielded positive results**

# Conceptual framework of the Strategic Model for a New Economy



# Strategic projects will generate investments in all the regions of the Island to foster balanced economic development



## Strategic investments in infrastructure will support all sectors of the economy

### Golden Triangle

- Objective: To redevelop areas of Old San Juan, Puerta de Tierra, Isla Grande, the Convention District and Condado, among others

### Caribbean Riviera

- Objective: To develop a tourism complex, related to the concept of destinations of entertainment and gaming

### Science City

- Objective: To create a district to position Puerto Rico at the forefront of the science, technology and R&D industries

### Port of the Americas

- Objective: To create an international trans-shipment Post-Panamax port of global caliber with value-added zones in the southern region of Puerto Rico

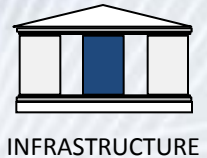
### Mayagüez 2010

- Objective: To develop the infrastructure to hold the XXI Central American and Caribbean Games in the summer of 2010

### Aguadilla Airport

- Objective: To redevelop the Aguadilla airport as the second most important international airport of P.R. and as a regional logistical center

# We have a concrete short term plan to start the San Juan Waterfront project



Item	Description
<b>Project Description:</b>	<ul style="list-style-type: none"> <li>Long term urban redevelopment of the San Antonio Canal that is an essential component of the Golden Triangle</li> </ul>
<b>Statistics:</b>	<ul style="list-style-type: none"> <li>Project foot print of approximately 100 acres</li> <li>Estimated investment at \$1.4 B</li> <li>24,700 direct and indirect jobs</li> </ul>
<b>Progress:</b>	<ul style="list-style-type: none"> <li>Executive Order signed to resume the project</li> <li>Selected and contracted a new project manager</li> <li>Developed and started to implement a community outreach and participation plan</li> <li>Updated Master Plan and Vision Book</li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>Implementation of immediate improvements program</li> <li>Definition of the financial and legal structure of the project</li> <li>Finalize the site consultation and the EIS strategy</li> <li>Request proposals for the construction of Phase 1</li> </ul>

## San Juan Waterfront is part of the Golden Triangle



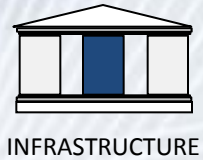
## Immediate Improvements Program



STARTING WORK ON PROJECT FOOTPRINT FOR SUMMER 2010



# A new concept for the development of Roosevelt Roads that includes Vieques and Culebra

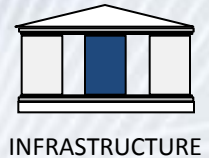


Item	Description
<b>Project Description:</b>	<ul style="list-style-type: none"> <li>Tourist complex development linked to the entertainment and gaming destination concept</li> </ul>
<b>Statistics:</b>	<ul style="list-style-type: none"> <li>Estimated investment of \$1.9 B</li> <li>30,495 direct and indirect jobs</li> </ul>
<b>Progress:</b>	<ul style="list-style-type: none"> <li>Presented new development plan at the Economic Development Summit</li> <li>Negotiated with federal authorities for the approval of the new development plan</li> <li>Filed PC 2250 "Tourism Incentives for Municipal Economic Development Act"</li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>Approval of incentives bill</li> <li>Amend Re-use plan</li> <li>Submit Zoning Plan</li> <li>Complete the transfer properties to the P.R. Government</li> <li>Start the transfer and management of the utilities to the Government of Puerto Rico</li> </ul>

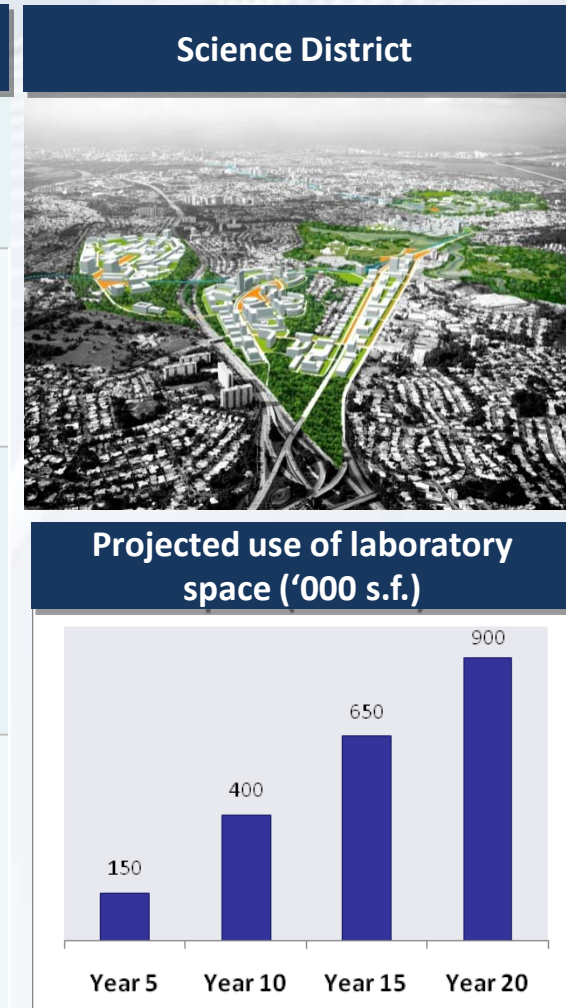


EXPECTING APPROVAL OF THE INCENTIVES LAW BY APRIL 2010

# Science City spearheads the transition to the knowledge economy

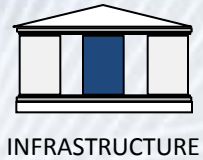


Item	Description
<b>Project Description:</b>	<ul style="list-style-type: none"> <li>Urban development of over 7.1 MM s.f., including 1.1 MM s.f. of laboratory space, over 800,000 s.f. of mixed-use space, a 100-room hotel and 3,100 housing units</li> </ul>
<b>Statistics:</b>	<ul style="list-style-type: none"> <li>Project footprint of approximately 78 acres</li> <li>Government investment estimated at \$353 MM</li> <li>Private investment estimated at \$1.4 B</li> <li>28,328 direct and indirect jobs</li> </ul>
<b>Progress:</b>	<ul style="list-style-type: none"> <li>Completed an economic viability study</li> <li>Drafted bill that creates the Science District of Puerto Rico</li> <li>Recruited a new Executive Director of the Science and Technology Trust</li> <li>Construction underway at MD Anderson Comprehensive Cancer Center</li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>File Science District of Puerto Rico bill</li> <li>Approval of the site consultation</li> <li>Start infrastructure and permanent improvements work</li> <li>Award first development concession</li> <li>Ensure first “anchor-tenant”</li> </ul>



**FILING LEGISLATION TO CREATE THE SCIENCE DISTRICT IN THIS LEGISLATIVE SESSION**

# 2009 was a year of action for the Port of the Americas full of important advances

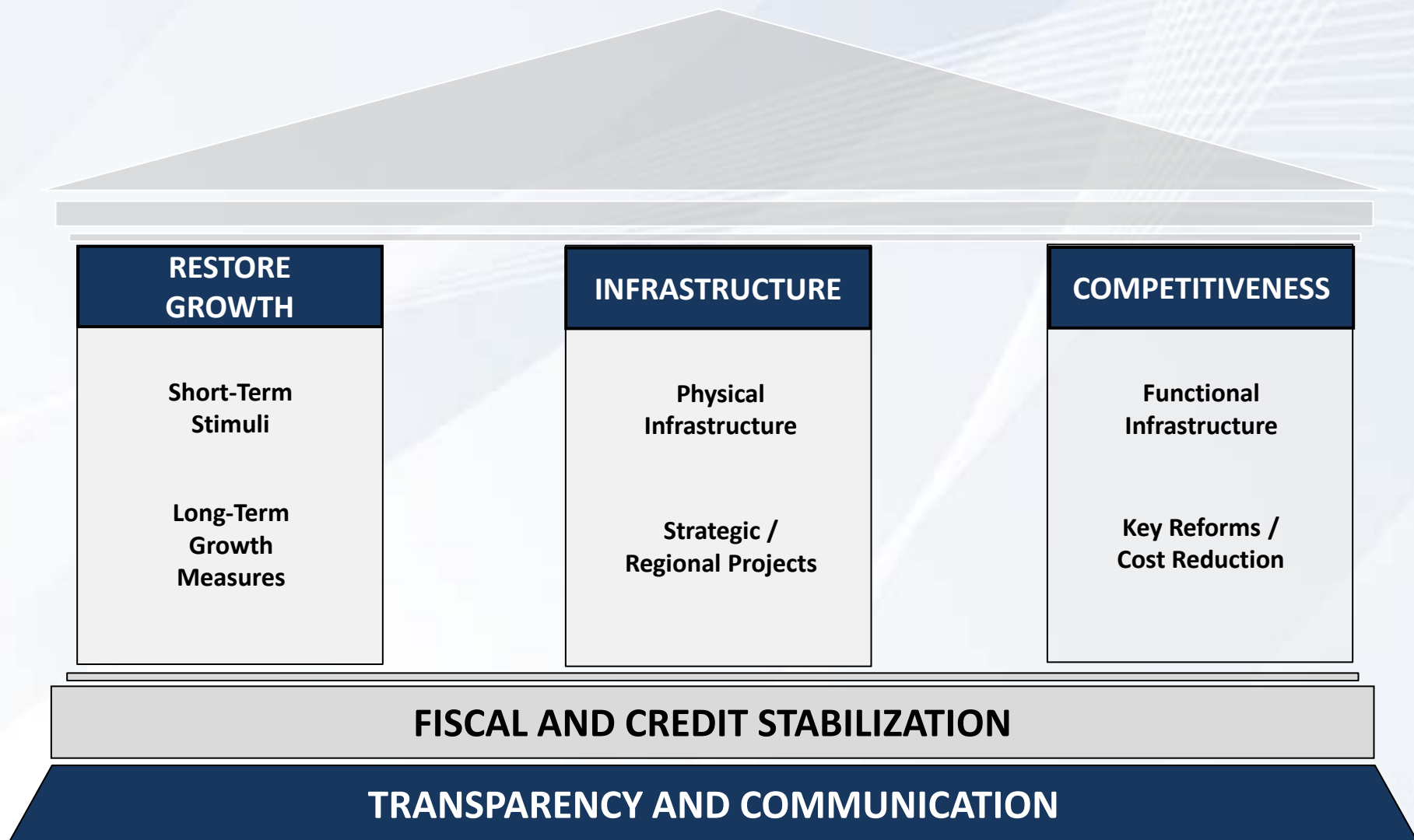


Item	Description
<b>Project Description:</b>	<ul style="list-style-type: none"> <li>A world class international trans-shipment Post-Panamax port with value added zones</li> </ul>
<b>Statistics:</b>	<ul style="list-style-type: none"> <li>Programmed government investment up to \$250 MM</li> <li>Total investment estimated at \$750 MM</li> <li>12,038 direct and indirect jobs</li> <li>350 permanent jobs when the Port opens</li> </ul>
<b>Progress:</b>	<ul style="list-style-type: none"> <li>Continue active negotiations with leading South Korean institutions</li> <li>Completed the purchase and delivery of two Super Post-Panamax cranes</li> <li>Completed the installations for handling up to 250,000 TEUs</li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>Complete negotiations for the operation of the Port</li> <li>Continue with the basic infrastructure investment program to accommodate up to 500,000 TEUs</li> <li>Attract international businesses to value added zones throughout the southern region of Puerto Rico</li> </ul>



VALIDATING THE INSTALATION OF THE ZPMC SUPER POST-PANAMAX CRANES BY MARCH 2010

# Conceptual framework of the Strategic Model for a New Economy



# These reforms address challenges regarding costs, efficiency and functionality, which currently reduce competitiveness in our economy



COMPETITIVENESS

## Reducing the costs of doing business and facilitating private sector growth

### PPPs Reform

- Objective: **Law 29 of 2009:** Creates new public policy related to infrastructure investment and public services

### Permits Reform

- Objective: **Law 161 of 2009:** Creates a new permits system that is transparent, agile, efficient and accurate

### Executive Branch Re-organization and Modernization

- Objective: **Law 182 of 2009:** Promotes a government structure that responds to current needs and fosters a better quality of life

### Energy Reform

- Objective: To establish a new energy public policy and programs to diversify the sources of energy through RPS\* and the GEF\*\*

### Tax Reform

- Objective: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates

### Labor Reform

- Objective: To incentivize work by increasing the participation rate and demand for labor in the private sector

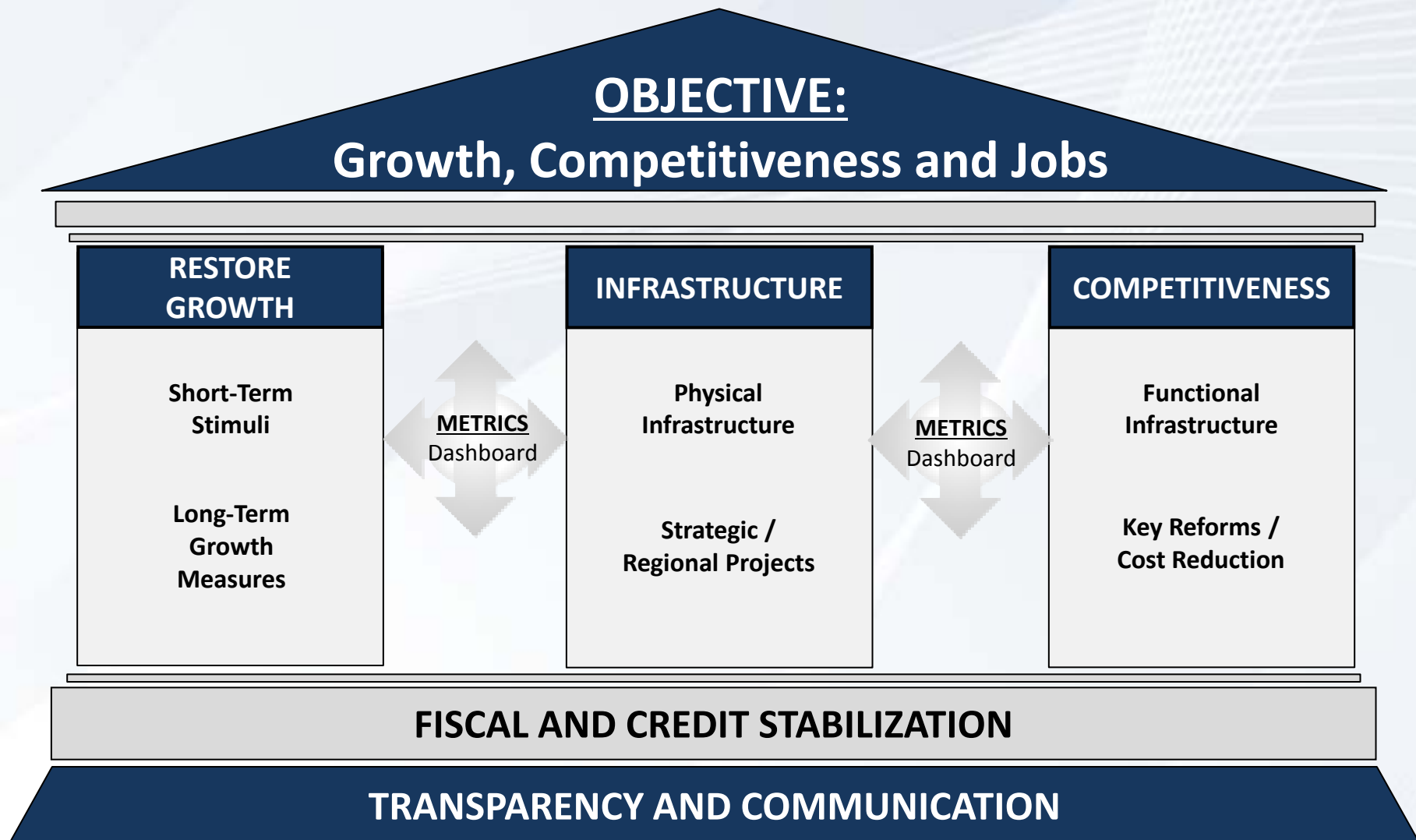
\*RPS is a regulatory policy that requires production increments from renewable energy sources, including wind, solar, biomass, and geothermal.

\*\* GEF = Green Energy Fund.



# Conceptual framework of the Strategic Model for a New Economy

## **OBJECTIVE:** **Growth, Competitiveness and Jobs**



# Agenda

1. Economic Activity Highlights for 2009

2. Strategic Model for a New Economy

**3. Implementation of the Strategic Model**

# Interagency coordination to ensure implementation and monitoring



## STEERING COMMITTEE OF THE STRATEGIC MODEL FOR A NEW ECONOMY

### EXECUTIVE COMMITTEE

DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE  
OFFICE OF THE GOVERNOR  
GOVERNMENT DEVELOPMENT BANK



DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE  
GOVERNMENT OF PUERTO RICO





# Summary:

## Growth, Competitiveness and Jobs

### We have a clear and comprehensive plan and are committed to reaching our goals

- We have responded diligently through our Fiscal Reconstruction Plan and the Strategic Model for a New Economy aimed at addressing the current fiscal and economic challenges
- We have stabilized the credit situation and there are several economic indicators that show signs of stabilization in the economy
- Funds are being made available for strategic projects to develop a world-class physical infrastructure to stimulate the economy and reduce the operational costs of doing business
- Laws are being passed and implemented to reform Puerto Rico's institutional and regulatory framework, to turn government into a facilitator and to strengthen the private sector
- Continued improvements in key sectors, capital injections in infrastructure projects and a rise in consumer confidence should drive the performance of the economy in 2010



**BABSON**  
COLLEGE



# PUERTO RICO CONFERENCE

Entrepreneurship for Growth

# 2010

March 24, 2010 | Conrad San Juan Condado Plaza | 7:30 a.m. - 5:00 p.m.

P u e r t o R i c o C h a m b e r o f C o m m e r c e