



Commonwealth of Puerto Rico

**ECONOMIC DEVELOPMENT AND  
GOVERNMENT TRANSFORMATION PLAN  
FOR PUERTO RICO**

**HON. ANÍBAL ACEVEDO VILÁ  
GOVERNOR**

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## I. VISION

Any Government plan, in order to be effective, must spring from a shared Vision of where we all want to lead Puerto Rico. A Vision of how to best protect the common good of all the residents of the Island; a vision based on achieving greater self-sufficiency and social justice.

Fortunately, part of the road leading to this common Vision has been traveled already. A number of extensive consultation projects, involving a diversity of segments in our society, have been undertaken, establishing the principles that should guide government and non-government activity. We want a Puerto Rico that fosters a highly developed, diversified economy that is integrated into the global economy, that looks after its natural resources, promotes social solidarity and nourishes a culture of equality and inclusion that encourages free and democratic participation of citizens in decisions crucial to their political future<sup>1</sup>.

**This Vision of Puerto Rico regards economic competitiveness as a requirement for financing the social, cultural, and physical infrastructure favored by all Puerto Ricans. This is why the Plan we propose attends primarily to the Island’s needs for economic development in terms of a vibrant economy that enhances the quality of life while bringing forth significant cultural values we share as a people<sup>2</sup>.** This Plan fundamentally addresses the need to implement immediate measures that will set us on the path towards accomplishing a diversified economy that rejects dependence on a single economic sector, the so-called single-crop harvest that has permeated Puerto Rico for centuries, where we went from one high-dependency sector to the next.

This is no time to dream of a better future; this is the time to work united. Ours is, thus, a Vision that demands “democratic commitment and a will for innovation from all sectors and citizens alike”<sup>3</sup>. To make this Vision a reality we need support from an efficient and effective public sector that will encourage and compensate Puerto Ricans who want to work honestly and earnestly.

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<sup>1</sup> *Puerto Rico 2025: A new vision for Puerto Rico’s future* -a report compiling a significant amount of such principles, gathered from a wide participation of citizens.

<sup>2</sup> Please note that, due to the reasons stated above, this Plan does not attempt to discuss all of our Puerto Rico’s issues and needs, but concentrates instead in a single one: economic development as a tool to achieve the social progress we need. Aspects of our Vision that go beyond economic development elements are set forth in other documents.

<sup>3</sup> *Ibid.*, at p. 11.

## II. OBJECTIVE

To implement the necessary institutional changes for Puerto Rico to reach the socio-economic growth it needs and ought to have in the 21st century, so that we may promote culture and the appreciation of work, a socio-economic environment with increased incentives and opportunities where skillful and capable Puerto Ricans will find and retain worthy and rewarding jobs. This Plan will allow the advancement of a truly multi-competent economy, in which the intellectual capacity and drive of our professionals and workforce, as well as small, mid-sized and large Puerto Rican entrepreneurs will play the leading role.

This Plan is based on the principle that our welfare depends on our own efforts, that work is good and dignifying, and that Government must become a true facilitator of the Island's economic progress. This will be accomplished when multiple sectors of Puerto Rico's economy compete successfully at the global level, generating more and better opportunities for the well-paid jobs that people need. Such a competitive and diversified economy, extensively composed of local entrepreneurs and sectors competing in the economy of knowledge, can be achieved only by exploiting, to its maximum capacity, our strongest resource: the intellectual capacity and creativity of the Puerto Rican people. Accomplishing this not only calls for a public policy that will facilitate the growth of the private sector, but also for profound changes in the manner in which governmental structure operates to make it more effective, sensitive, and agile, thus improving the quality of service to citizens, and setting in motion the island's economic development.

This Plan provides the steps that must be taken to implement said Vision of economic development and the changes in governmental structure that are necessary to make it a reality.

## III. PREMISES

1. We know what must be done, yet we have lacked the willpower to do it.
2. The objective of this Vision is to promote Puerto Rico's economic development so that determined citizens may achieve self-improvement and find worthy, honest, and rewarding employment.
3. What once was Puerto Rico's vigorous and enviable economic development has lost its power during the last thirty years.
4. The private sector must assume an increasingly important role in the development of our economy, and ought to become the principal engine of economic activity.
5. The Government, once the propeller of growth, has turned into an obstacle and a burden to the economy, and must be transformed to become a facilitator.

## IV. VALIDATION OF THIS VISION

This Vision is nourished by the input from diverse sectors in our society, together with a thorough analysis of at least fourteen (14) studies on Puerto Rico's economic development<sup>4</sup> conducted during the last three decades, including:

1. Echenique Report (1975)
2. Tobin Report (1976)
3. Kreps Report (1979)
4. Study on Puerto Rico's Economic Development - Carrión-Ferré Report (1984)
5. Towards the Second Economic Transformation (1989)
6. A New Model for Economic Development (1994)
7. Chamber of Commerce Report (1997)
8. Puerto Rico's Economic Future (1999)
9. Towards a Feasible Economy (2003)
10. The Puerto Rico Life Sciences Road Map (2003)
11. Project Puerto Rico 2025 (2004)
12. Puerto Rico's Challenges facing the 21<sup>st</sup> Century - CEPAL Study (2005)
13. GAO Study (2006)
14. Restoring Growth in Puerto Rico - Brookings Study (2006)

We have examined models from other jurisdictions, namely Singapore, Ireland, Korea, and Indiana, to absorb ideas, successful practices and strategies from different parts of the world. Additionally, and for this Vision to be accomplished, it must become a priority in the government's agenda, requiring the participation of citizens representing a variety of sectors. To elaborate this Vision, we discussed portions of this analysis and strategies with, among others, the following sectors of the Puerto Rican civil society:

**Public and Private Sector Economists:** Having evaluated the studies on Puerto Rico's economy, we summoned two groups for a total of 11 economists to discuss and validate the coinciding points found. This exercise revealed ample consensus between economists of both the public and private sectors in terms of what the studies propose and the action to be taken,<sup>5</sup> thus being incorporated into the strategies finally recommended herein.

**Private Sector Representatives:** Since one of the foremost elements in this Vision is the private sector's leading role in job creation, we summoned several groups representative of the Island's entrepreneurial sector to offer proposals that would lead to the desired economic development. Many of the ideas proposed were incorporated into the Plan.

**City Planning Advisory Board:** The Plan also incorporates recommendations by this Advisory Board, created to advise the Governor on city planning strategies and better use of lands<sup>6</sup>. The Board is composed of a Chairman, Architect Thomas Marvel, and the following members: Dr. Elías Gutiérrez, Eng. Fred Sánchez, Eng. José Domingo Pérez, Architect Andrés Mignucci, Dr. Gabriel Moreno, Atty. Omar Jiménez, Architect Liz Meléndez, and Architect Javier Isado.

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<sup>4</sup> See EXHIBIT A for a summary of the objectives and recommendations of each study.

<sup>5</sup> See EXHIBIT B for a summary of the recommendations made by these economists.

<sup>6</sup> See EXHIBIT C for a summary of the recommendations made by the Advisory Board.

**Labor Unions:** The principles proposed in this Plan were discussed with several labor union representatives in at least five meetings at La Fortaleza. One of the labor unions represented, United Public Servants (in Spanish, *Servidores Públicos Unidos* or SPU), organized a forum to discuss government reform at Harvard University, attended by government officials and staff members belonging to both the Executive (the Secretaries of Labor and of the Governorship) and Legislative branches (the Chairpersons for the Government Commissions of the House and the Senate). This forum recognized the need for a change towards greater efficiency, not only for the island as such, but also in terms of public service. Their recommendations form a part of this Vision.

**Representatives of the Legislative Branch:** Senators and Representatives of the two major political parties participated in the Harvard workshop and/or in previous and subsequent sessions held locally. In addition, the House and Senate Government Commissions led a consultation process among representatives of a diversity of sectors. These meetings, and others called by House minority leaders where representatives of professional associations participated as well, identified several legislative initiatives consonant with the strategies proposed in this Vision.

**Mayors:** The Vision, particularly its section on government transformation, incorporates multiple principles and suggestions presented by the island's Mayors, collected through several months of individual and collective exchanges with them. Some of these principles are listed in the proposal entitled *Regionalization and Government Decentralization* presented by the Mayors' Association (June 2006).

**Academia:** Apart from the economists consulted, the following university professors were consulted as well: Dra. Palmira Ríos and Prof. Mario Negrón Portillo, School of Public Administration, University of Puerto Rico; Prof. Linda Kaboolian, Prof. Richard B. Freeman, Prof. Merilee Grindle, Prof. John Donahue, Prof. Linda Bilmes, Prof. Robert Behn, Prof. Jerry Mechling, John F. Kennedy School of Government, Harvard University.

## V. PUERTO RICO'S PRINCIPAL NEEDS

The professionals consulted, the studies analyzed, and the experiences shared by many sectors of society, allow for a diagnosis of our needs as a People and point to what we must do to have a more competitive, efficient, and productive Puerto Rico in the 21st Century. Economists, members of the academia, union representatives, entrepreneurs, public servants, and community organizations, among others, have validated the coinciding points observed in these studies.

- We must promptly insert ourselves into the knowledge economy, with special emphasis on research and development in the biosciences, advanced technology, and computing sectors.
- We must diversify the economy, so as not to depend on limited industrial sectors, and strive for greater competitiveness in a diversity of sectors.
- We must encourage growth and capital of local enterprise, with emphasis on exportation.
- We must improve dramatically the quality of the public system of education.
- We must invest in a first-class infrastructure, including telecommunications, domestic transportation, maritime and airborne accessibility, sewers, and energy systems.
- We must reduce the cost of energy and our dependence on petroleum.
- We must diversify and improve our tourism offer.
- We must promote work to increase our low labor participation rate.
- We must speed up bureaucratic procedures and reduce the complexity of government, upgrading the quality of its direct services to citizens through innovation and decentralization.

## VI. THE SIX (6) PRINCIPAL STRATEGIES TO ACCOMPLISH THIS VISION

Faced with such a clear portrait of Puerto Rico's needs, ample consensus from multiple sectors of the island, and having analyzed the opportunities we have, this action plan concentrates on six (6) principal strategies that will help us accomplish our Vision. These strategies have three elements in common: first, they are **feasible**, through focus and discipline; second, they respond to **advantages** we have or can develop; and third, they **cannot be postponed** if we want our island to prosper.

As we shall see, there is a symbiotic relationship between the 6 strategies. Full economic development cannot be achieved without an effective Government, and an effective Government cannot be achieved without full economic development.

To advance these strategies, it is vital to have the support of all sectors of the Island, as this Agenda for the Future will shape us and help us attain the Puerto Rico we all want and deserve.

### **1. Advance a world-class infrastructure, while encouraging private investment with innovative financial models and an agile, effective evaluation processes.**

Puerto Rico must continue to develop a world-class infrastructure for the management of its water resources, energy, telecommunications, domestic transportation, and maritime and airborne access, in order to effectively compete in a globalized world. To successfully do so, this Plan proposes the development of much more public works following proven financial models—such as the **Public-Private Partnerships**—that allow successful increments in the number and cost of public and private projects. Furthermore, a much more effective, agile, and accurate project evaluation process is necessary, as well as a significant concentration of efforts and resources to set in motion those strategic projects that will foster orderly, well-planned growth, where sound city planning is encouraged.

### **2. Accelerate Puerto Rico's insertion into the knowledge economy, creating a center of excellence in Biotechnology, Engineering, and Computing.**

Puerto Rico has an outstanding competitive advantage in manufacturing that is the envy of our global competitors. We must capitalize on this competitive advantage, use our vast know-how and experience in the biosciences --and in other fields that demand expertise such as aerospace engineering and high technology --to increase investment in research and development. We must **capitalize on the Science and Technology Trust** to develop the physical and human infrastructure, and reposition Puerto Rico as regional leader through the intellectual capacity and productivity of our people.

### **3. Promote local enterprise while Supporting our Own (in Spanish, *Apoyo al de Aquí*) by providing innovative alternatives for financing and access to domestic and foreign markets.**

As the entrepreneurial spirit and capacity of our people are increasingly encouraged, the Puerto Rican economy becomes stronger, more diversified, and less vulnerable, since our entrepreneurs are committed to the Island and reinvest their business profits

here. In order for this important sector to succeed, we must give them the right tools, including: training, access to domestic and foreign markets (including sales to the Government with payment within reasonable time), swift transactions in the evaluation of permits and financing. In order to allow this, we are **increasing the government's capacity for *Venture Capital* investment** through the Economic Development Bank.

**4. Transform the tourism industry into a vehicle for Puerto Rico's economic development.**

Puerto Rico enjoys advantages that few destinations can offer in terms of the diversity of its tourism product. To continue fostering this diversity, it is crucial that we decentralize and extend tourism activity to all four corners of the island, strengthening and increasing the variety of lodging formats, from the small guest houses to the five stars world-class hotels and resorts. Thus, the Tourism Company and the Government Development Bank will be recapitalizing the **Hotel Development Corporation (in Spanish, *Corporación de Desarrollo Hotelero* or CDH) and the Tourism Development Fund (in Spanish, *Fondo para el Desarrollo Turístico* or FDT)** to prompt the development of hotel and tourism facilities.

**5. Diversify energy-generating sources to reduce dependence on petroleum by half.**

To accelerate the search for and implementation of less costly energy-generating alternatives that are environmentally friendly, offer lower energy costs to citizens, and reach industrial competitiveness, **reducing dependency on petroleum from the current 73% to approximately 50% over a period of 4 years**, that will result in savings between 14 to 25%. We will accomplish this by expanding the use of less costly alternatives such as natural gas, wind, thermal energy, *waste to energy*, among others, all of which are environmentally friendlier options.

**6. Transform our Government, without the need for layoffs or privatization, to a) offer first-class services to all citizens in a sensible, effective and agile manner, and b) contribute to Puerto Rico's socioeconomic development.**

The successful execution of the six aforementioned strategies necessitates a responsive, sensible, efficient, agile, and modern Government that provides an excellent service to all citizens. This calls for ample **organizational, structural, and operational reengineering of the governmental machinery** that will **facilitate development, without entailing dismissals or privatization, while at the same time offering the services that citizens deserve in an efficient manner and for a reasonable cost.** This transformation will continue to be executed with the best public governance and management practices so that our citizens feel satisfied with the quality of the public services received.

## STRATEGY 1

### **Advance a world-class infrastructure, while encouraging private investment with innovative financial models and an agile, effective evaluation processes.**

One of the principal engines of economic activity is the investment in construction projects, both public and private<sup>7</sup>. To abet this kind of investment, we need to have the following: 1) adequate financing mechanisms; 2) an efficient, accurate, and swift process for the evaluation of government permits; and 3) programs that act on the needs of the Puerto Rican people.

Faced with the need to expedite public and private infrastructure work in compliance with applicable laws and regulations, we are executing an action plan that includes:

1. The use of innovative financial models, such as the public-private partnership model (PPP)<sup>8</sup>, to modernize our aqueducts, roads, ports, airports, industrial parks, and urban infrastructure.
2. A revision of all internal processes, agency regulations and proceedings in relation to infrastructure projects in order to accelerate the evaluation on how each project benefits the island and endow the process of issuing permits with a higher degree of certainty<sup>9</sup>. Moreover, we will enhance the role of the Infrastructure Financing Authority<sup>10</sup>, a swift and efficient agency, to get involved in projects it previously did not partake in.
3. A vision where Puerto Rico will portray a lively metropolis, with a network of quality urban public areas<sup>11</sup>.

#### The PPS Model

To expand the Government's capacity for financing public works, **projects will be developed following the public-private partnership model, such as that employed in the successful Teodoro Moscoso Bridge project** completed in the early 1990's. This model allows for an injection of private funding into government-owned infrastructure projects that are consonant with public policy.

Following this model, before the end of the year we will issue a request for proposals for the second phase of construction of the East Corridor (Route 66) from Canóvanas to Río Grande. Right now we are evaluating proposals for the development of a Marina for

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<sup>7</sup>The following studies promote greater investment on infrastructure as a motor to the economy: *Economic Development Strategy* (1989), *New Economic Development Model* (1994), *Strategies for Economic Development* (1997), *Towards a Feasible Economy* (2003), *Brookings Study* (2006).

<sup>8</sup>The following studies propose that Government promote participation of the private sector in infrastructure financing: *Strategies for Economic Development* (1997) and *Towards a Feasible Economy* (2003).

<sup>9</sup>Each construction work, whether commercial, residential, industrial, tourism-related or governmental, demands quick and accurate decisions by government agencies regarding the feasibility or non-feasibility of such projects. As part of our efforts to accelerate this work in compliance with applicable laws and regulations, we are engaged in a process of reengineering our procedures, led by the Department of Economic and Commercial Development (DECD), which we will discuss in greater depth in our sixth economic development strategy.

<sup>10</sup>Recommended by the *Economic Development Strategy* (1989) study.

<sup>11</sup> See EXHIBIT C.

mega yachts in San Juan and the construction of the new headquarters for the Departments of Education, Justice, Family, and the Government Development Bank as part of *Ciudad Mayor*. Furthermore, other possibilities of the public-private partnership model are being examined, including the Hatillo-Mayagüez Expressway, several infrastructure projects related to water and electric power services, and the trains or street railways to Caguas, Carolina, and San Juan. We are also evaluating a model for the development of inter-urban highways through partnerships between the municipalities and the central government. We also propose the development of the following industrial parks (as PPPs between Pridco and private developers): Higuillar Industrial Park, Dorado; Las Américas Park in Moca/Aguadilla in association with Hewlett-Packard.

Following is an example of other key infrastructure projects utilizing the PPP model:

Las Américas Port (Government is the titleholder of the *Megapuerto*, run by a private firm);

Convention Center District (the Convention Center is a public project, while the Sheraton Hotel and the World Trade Center within its limits are being developed by private investors in Government land leased on a long term basis);

San Juan Waterfront (the Government invests a small portion of the total cost, particularly the aqueducts and sewer infrastructure, and leases the land long term for the development of commercial and hotel facilities, among other things);

Gateway to the Future (areas of high ecological value owned by the Government that are being managed by the Puerto Rico Conservation Trust, in agreement with the Puerto Rico Department of Natural and the Environmental Resources; in turn, important facilities like the Hospital will be developed and managed by a non-profit organization).

Other projects being evaluated with a potential to become PPPs include roads, medical facilities, and housing, to name a few.

The total of public work projects already under way **represent over \$8,000 million**<sup>12</sup>, including:

Aqueducts and Sewer Authority: Over \$1,200 million in aqueducts and sewer infrastructure works.

Electric Power Authority: Around \$2,188 million in their budget for major improvements.

Roads Authority: Around \$2,154 million in their budget for major improvements.

Urban Infrastructure Projects (including *Ciudad Mayor*, RAMA, *Ciudad Red*, San Juan Waterfront, Mayagüez 2010, Las Américas Port, among others): Over \$3,300 million.

The Ports Authority has established among its priorities turning Puerto Rico into the preferred transfer/transportation center of the Americas. This includes airborne and maritime transportation. To accomplish this, we are focusing on the following strategies:

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<sup>12</sup> See EXHIBIT D for a detailed description of the projects and the investment forecast.

In several years we will have invested over \$650 million in the development of the Las Américas Port in Ponce, using a diversity of investment models, among which private investment will play a significant role.

The Ceiba and Aguadilla airports are undergoing improvements to make them Puerto Rico's main cargo airports. The Master Plan for each of these airports for the next 20 years entails public (state/federal) and private investment between \$800MM and \$1,000MM, respectively.

The creation and preservation of jobs through this strategy goes beyond the respective ports/airports, by generating activity in new zones of added value, making Island-based manufacturing more competitive, and providing more options and direct destinations for the airborne and maritime transportation of merchandise.

To recognize that this initiative is one of the most important strategies for Puerto Rico's economic development and that it will help the public and private sector to focus on projects that will advance the success of the Las Américas Port, the Ceiba and Aguadilla airports, and the ensuing development components of these areas.

In sum, for the Government to effectively support economic development, it has to evolve, from a model in which the Government financed and set in motion the immense majority of infrastructure projects, to a model in which the private sector and/or non-profit organizations assume a more active role as initiators and propellers of projects traditionally driven by the Government.

## STRATEGY 2

### **Accelerate Puerto Rico's insertion into the knowledge economy, creating a center of excellence in Biotechnology, Engineering, and Computing.**

We must develop an economy based on knowledge, and profit from the competitive advantages we have due to our know-how and experience in the bio-sciences --and other fields that demand expertise such as aerospace engineering and high technology --to increase investment in research and development, and move Puerto Rico towards regional leadership in these fields<sup>13</sup>.

To do so, we are executing an action plan that should take Puerto Rico to a prominent position in the field, utilizing our greatest resource, the intellectual capacity of our people, in the following areas:

- Focus on the biosciences (the *Bio-Island*), computing, and engineering (aerospace and others).
- The New *PRIDCO* and the Science and Technology Trust as entities in charge of the strategy and execution of Operation Brainpower (*Operación Mentas a la Obra*).
- Incentives and physical and human infrastructure to encourage research and development.

Puerto Rico's worldwide competitive advantage comes from its product manufacturing know-how and experience in the biosciences field (biotechnology, pharmaceuticals, and medical devices). It is not surprising, therefore, that the manufacture of medications has helped create over 26 thousand direct jobs and 50 thousand indirect jobs. Also, 15 out of the 20 top-selling medicines in the world are manufactured in Puerto Rico, which, furthermore, hosts more than 60 pharmaceutical plants. We will exploit this advantage to the maximum by promoting Puerto Rico's economic development with a focus on attracting industry-related activity with strong intellectual content, such as research and development<sup>14</sup>.

Specifically, we aim to make Puerto Rico the *Bio-Island*: world leader in the manufacturing, study, research and development of new products and treatments in the biosciences field. Puerto Rico has the capacity to become a center of excellence, not just in the manufacture, but also in the development of new processes, research, clinical studies, and regional medical services, among others. Efforts to promote Puerto Rico as the *Bio-Island* have borne fruits already—the Island has been selected to host the Affiliated States Meeting of the Biotechnological Industry Organization next November.

By way of example of the kind of efforts we are undertaking at the *Bio-Island*, we recently announced the construction of the new Comprehensive Cancer Center, directing our efforts to the promotion of a knowledge economy by means of scientific research in collaboration with the National Institute of Cancer and the University of Texas MD

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<sup>13</sup> The following studies recommend focusing on an economy based on knowledge: *Carrión-Ferré Report for Economic Development* (1984), *Economic Development Strategy* (1989), *New Economic Development Model* (1994), *Strategies for Economic Development* (1997), *Towards a Feasible Economy* (2003), *P.R. Life Sciences Road Map* (2003), *Puerto Rico 2025* (2004), *Brookings Study* (2006).

<sup>14</sup> See EXHIBIT E for a list of efforts on how to make this strategy feasible.

Anderson Cancer Center. With an investment of \$75 million in combined funds provided by the Center, the government, and the private sector, it will accommodate 75 beds, six operating rooms, radiation therapy rooms, and ambulatory and short treatments, among other services. The Center will cover all the areas relative to cancer research and treatment including prevention, early detection, diagnosis, clinical treatment, and statistical records. This new center will allow the development of programs in the three research areas, and will generate more and better well-paid jobs for health professionals.

Some of the other efforts already under way are the construction of the Molecular Sciences Building at the University of Puerto Rico - Río Piedras Campus and the Biotechnology Center for Research and Training in Bioprocesses at the University's Mayagüez Campus.

This strategy, which we have called Operation Brainpower (*Operación Mentes a la Obra*), gets support from two key institutions: the newly-created Science and Technology Trust (STT) and the recently restructured Puerto Rico Industrial Development Company (PRIDCO), now referred to as The New *PRIDCO*.

The Science and Technology Trust: The creation of this Trust is a key action in the evolution towards a knowledge economy. This is so because the Trust has been created to provide the **necessary funds for science and technology research and development projects, providing tools for the commercialization of scientific discoveries, besides serving as financial support towards the construction of infrastructure projects** for research and development. Nations like Singapore and Ireland, and states like North Carolina, Indiana, California, and lately Florida, have invested billions of dollars to develop knowledge-based economies. Although our economic reality does not allow for similar investments, failure to invest significantly for that purpose could jeopardize even our current leadership in pharmaceutical manufacturing. Consequently, we are evaluating two options that will generate a multi-million dollar investment to adequately capitalize the Trust.<sup>15</sup> We are also exploring, through the Trust, the capacity to grant **incentives that will help us attract scientists** who will enhance the Island's reputation as a research and development center of excellence.

The New *PRIDCO*: Integrates multi-tasking promotional teams, highly specialized by industry, that are dedicated to the proactive strategic planning of Puerto Rico's industrial development. This new model encourages research and competitive intelligence activity that will lead to the early detection of emerging industries with a high potential for creating jobs, as well as the continuous monitoring of promotional efforts made by other countries that compete with us. The New *PRIDCO* has changed paradigms in order to expand its sphere of support and include, not only an increment of four times the number of scholarships in *PRIDCO*'s program for science and technology students pursuing masters and doctoral degrees, but the creation of a new science and mathematics scholarship program for teachers in the Puerto Rico public education system.

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<sup>15</sup> The first financing option comes from proceeds that could be generated by the development of the Corridor of Knowledge, (*Oso Blanco* Prison). This option is being studied in order to ascertain whether such project would be capable of generating enough funds to pay for the necessary infrastructure in support of the development proposed, while at the same time capitalizing the Trust. This option will require the transfer of *Oso Blanco* Prison's and other adjacent lands to the Trust. The second alternative consists in assigning funds from the sale of inventory of public properties that are no longer in use or are under-utilized. The Government Development Bank is ready to sell or develop the first ten properties under this program in order to measure its pace and economic potential. Once the potential of both options has been evaluated, their combination could represent considerable investment.

In sum, we will capitalize on our worldwide competitive advantage, a result of our know-how and experience in manufacturing products in the biosciences field (biotechnology, pharmaceuticals, and medical devices), to promote Puerto Rico's economic development by targeting industry-related activity with a strong intellectual content, such as research and development. At the same time, we already have started to develop a very sophisticated field: that of aerospace design and engineering—another sector in which we have a competitive advantage in terms of the talent supplied by local universities, besides the fact that we are an American jurisdiction.

## STRATEGY 3

### **Promote local enterprise while Supporting our Own (in Spanish, *Apoyo al de Aquí*) by providing innovative alternatives for financing and access to domestic and foreign markets.**

The Puerto Rican economy becomes stronger, more diversified, and less vulnerable, when we encourage the entrepreneurial spirit and capacity of our people, from small and medium businesses to large local enterprises.

Recognizing that our greatest resource is our people, we are moving from a public policy that relied primarily on external solutions to spur economic development, towards encouraging the growth of local enterprise, strengthening Small and Medium Businesses (in Spanish, *Pequeñas y Medianas Empresas* or *Pymes*).<sup>16</sup> In order to bolster this sector, we are pursuing a strategy named Supporting our Own (in Spanish, *Apoyo al de Aquí*), that provides more tools to help small and medium-sized businesses succeed and grow, including financing, empowerment, training, market accessibility (including sales to the Government with guaranteed payment within reasonable time), prompt and efficient permit evaluation procedures, and other incentives.

The *Apoyo al de Aquí* program is developing tools<sup>17</sup> to boost up this important sector in the following three main areas:

- Enterprise Financing and Empowerment
- Access to Domestic and Foreign Markets
- Promptness in the Evaluation of Permits

**Enterprise Financing and Empowerment:** Access to financing is typically quite limited in the case of new entrepreneurs due to their lack of a credit history. The Key to your Business (in Spanish, *La Llave Para Tu Negocio*), a joint program of the Economic Development Bank<sup>18</sup> and the Commerce and Exportation Company, grants loans up to \$50,000 at preferential interest rates, without collateral, precisely to provide new entrepreneurs with the opportunity to make his or her business plan come true. The program offers not only financing, but training in management skills as well, which has proven necessary to increase the probability of success. In terms of capital-risk, we transferred the Development Fund portfolio of the Government Development Bank (GDB) to the Economic Development Bank (EDB) **The EDB has created the *EDB Capital Investment (EBDCI)* as a subsidiary following the Tourism Development Fund (TDF) model, operating as Capital Investment Fund.** This entity will have its

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<sup>16</sup> The studies entitled *Economic Development Strategy* (1989) and *Puerto Rico's Economic Future* (1999) recommend the strengthening of programs in support of Puerto Rican enterprise and stimulating small and mid-size business ventures. It is estimated that the Island currently has some 120,000 going concerns classified as small and mid-size companies. (For the purpose of definition, we consider PYMES those business ventures with a capital that does not exceed \$5,000,000). These businesses, most of them in the hands of Puerto Rican capital, generate 22% of the Internal Gross Income and 46.8% of our jobs, mainly in the retail and service sectors. Nevertheless, there still exists ample opportunity for growth, particularly in the service area.

<sup>17</sup> See EXHIBIT F for details on the *Apoyo al de Aquí* initiative and results.

<sup>18</sup> The creation of the EDG was recommended by the *Economic Development Committee Study* (1984) for purposes of channeling funds to finance the projects of local companies.

own Board of Directors, composed of seven members—four private sector representatives and three EDB representatives. The initial capital for EDBCI will not exceed a total of 50% of EDB’s capital for investment and committed capital. Among the strategies to be implemented in the evaluation of cases are: investment diversification, (with priority given to industries that are consonant with public policy), investment stage, capital to be invested, and jobs to be created. We are currently evaluating legislation to increase the tax credits granted, both in terms of the financial institutions and the administrators of capital risk funds, in order to continue to encourage this important business sector.

Access to Domestic and International Markets: For a business to grow it has to find its way in the market, both locally and internationally. In order to facilitate access to these opportunities, we created two important programs: Puerto Rico Exports and the Purchase Reserve or Set Aside Program<sup>19</sup>. The first one, Puerto Rico Exports, helps Puerto Rican entrepreneurs enter markets outside the Island, particularly the growing Hispanic market in the U.S., and in neighboring countries of Central America and the Caribbean. The second program, Set Aside, gives preferred access to small and mid-size Puerto Rican enterprise participating in purchases made by the largest consumer in the Island: the Government. What’s more, **we are creating a special line of credit provided by the Economic Development Bank that will guarantee Government’s prompt payment to these small and mid-size entrepreneurs, so as not to affect their cash flow.** This way, these companies will be able to provide the Government with more competitive prices since their costs are reduced when they do business with public entities.

Promptness in the Evaluation of Permits: An ever-present obstacle confronted by local entrepreneurs is the slow process for evaluating and issuing the permits necessary to establish or expand a business. To make the evaluation process more agile, we have created more than six Express Transaction Centers for Small and Medium Businesses (in Spanish, *Centros Expreso de Trámites para Pequeñas y Medianas Empresas* or *CetPymes*) all throughout the Island. These Centers are not only convenient, but also speed up the process, since they allow the businessperson to file applications to a number of agencies in a single place and make just one payment, so that their permits are issued faster. **The success of this program has been such that it is already in its second stage, expanding the number of participating agencies and the services offered. The next service to be provided by CetPymes will be the *Ideal Certification*. *Ideal Certification* will be a document that may be sought by anyone interested in establishing a business or in renovating the necessary endorsements to continue operating,** and will show the status of the applicant in relation to eligibility requirements for endorsements, certifications or permits from the following agencies: Puerto Rico’s Department of State, Treasury Department, Department of Work and Human Resources, Administration for the Sustenance of Minors, State Insurance Fund Corporation, Puerto Rico Police, and the Municipal Revenue Collection Centers.

We have already seen the fruit of these efforts. In the first place, nearly 300 Keys to your Business have been granted, and we are well on our way to creating one-thousand new companies under this program. Regarding the evaluation and issuing of permits, we have reduced the average time it took to obtain certain permits from 6 months to less than 30

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<sup>19</sup> The study entitled *Puerto Rico’s Economic Development (1975)* proposes providing greater economic to local entrepreneurs. *Project Puerto Rico 2025* proposes greater opportunity for local entrepreneurs to participate in government purchases gobierno through the “Set Aside” program.

days, and we are pushing for changes that could result in an even greater reduction of time. In view of the success already experienced, and particularly of the potential to continue advancing a local entrepreneurial culture, we will continue searching for other initiatives, like empowerment and training in marketing skills that will allow us to encourage and strengthen the establishment, expansion, and export of Puerto Rican enterprise.

## STRATEGY 4

### **Transform the tourism industry into a vehicle for Puerto Rico's economic development.**

Our mission is to further the advancement of the tourism industry so that it may increasingly contribute to Puerto Rico's economy, under the philosophy *Tourism by All and for All*. This implies a joint effort between industry and government to help Puerto Rico become more competitive and also to ensure its leadership as a destination in the Caribbean.

The Tourism Company, together with the different sectors of the tourism industry, has conceived a Strategic Plan for the next five years focusing on 5 fundamental areas:

- Development of Hotel Facilities
- Product Development
- Quality and Service
- Airborne, Maritime and Ground Transportation
- Marketing and Branding

#### **Development of Hotel Facilities:**

We have made significant accomplishments in this area and there is more to come<sup>20</sup>. Our short-term goal is to expand our lodging capacity to 5,000 new rooms by 2008, thus maximizing the potential of new attractions and features, such as the successful Puerto Rico Convention Center. As recently as last October 2006, we endorsed 2,308 rooms that are well under way, representing more than 50 percent of the total amount of new rooms guaranteed by 2008, with an investment of almost \$800 million. These rooms have created 2,106 direct jobs and approximately 4,275 indirect and induced jobs. Among the hotel facilities developed this year are the Sheraton Hotel in the Convention District—the first of such magnitude built in the Greater San Juan Metro Area within the last 20 years, and the first of its size island wide during the last six years. We have also helped establish five-star hotels like the St. Regis in Río Grande and the W-Martineau Bay in Vieques. Before the end of this four-year term we will be announcing at least one additional five-star hotel. Other hotel-related projects already under way are the Old Hotelier School in Isla Verde, featuring 130 rooms, and the conversion of the former Punta Lima prison facilities in Naguabo into a hotel, which will include 250 rooms. This year we will be endorsing an additional 1,000 rooms to begin construction during 2007.

To continue promoting this sector with such an immense potential for Puerto Rico's economic development, we will publish a **Real Estate Catalogue (*Catálogo de Propiedades*) at the end of this year, featuring government-owned properties with the potential for being developed as tourism projects.** Together with this Catalogue, we are working on a Supplier Portfolio to provide a bank of talent for the benefit of those interested in the development of a tourism project (in the form of lodging or attractions) will find the necessary tools to do so with the Government's proactive assistance.

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<sup>20</sup> For additional details on hotel-related projects, see EXHIBIT G.

Through the initiative named **Reengineering the Process of Project Evaluation and Issuing Permits**, led by the Puerto Rico Department of Economic Development and Commerce, **the Tourism Company will be in charge of requesting and providing all the necessary permits for the development of these properties as tourism-related facilities. This initiative will be nourished by the significant participation of tourism industry representatives.** We will also be celebrating our first tourism investment forum, “Puerto Rico Hospitality Investment Conference”, with the dual purpose of promoting Puerto Rico as a place for tourism investment and development, while provoking an exchange between industry personalities (local and international).

Finally, the Puerto Rico Tourism Company (PRTC) and the Government Development Bank will be recapitalizing the **Hotel Development Corporation (HDC) and the Tourism Development Fund (TDF)** towards a faster development of hotel and tourism-related facilities. Thus, the Tourism Company is evaluating the possibility of doing its first-ever Bonds Issuance, an unprecedented act in the Company’s history, that has never before entered into the capital market on its own. Through such funds, the **PRTC will be able to acquire properties for tourism projects and to build the infrastructure needed for the advancement of Puerto Rico’s tourism industry.** Furthermore, this bonds issuance will also help redefine the role of the **Hotel Development Corporation (HDC)**, as these funds also will be used to recapitalize said PRTC subsidiary so that it may assist in all of these initiatives.

### **Product Development:**

In the product development area, we will continue working towards product diversification by creating 12 new niche markets and specialized activities: Adventure, Scuba Diving and Snorkeling, Golf, Nature, Fishing, Surfing, Eco Tourism, Culinary Tourism, Cultural Tourism, Nautical Tourism, Sports Tourism, and Cooperativism Tourism. We will continue promoting a new vision of a well thought-out tourism development plan including, among other things, the development of tourism regions that will enable a sustainable tourism. We will continue to support the regional brands of *Porta del Sol* and *Porta Caribe*, and we will add new brand names. The new brand names will allow us to promote abroad a diversified tourism offer, displaying the great variety of natural, cultural, and entertainment attractions in the island. We will continue supporting the joint efforts between PRTC and *Paradores de Puerto Rico* (Small Inns of Puerto Rico) to ensure the success of the latter, because we are convinced that our *paradores* and other small lodgings provide a unique experience to those tourists interested in getting to know the island beyond our beaches. Tourism will play a prominent role in the government project of *Ciudad Mayor*. The *Ciudad Mayor* Cultural District will be launched soon. This zone, located between Old San Juan and Río Piedras, will be managed by the PRTC, which will be in charge of conducting the necessary efforts to provide broad and enriching cultural events, both national and international, for the enjoyment of Puerto Ricans and visiting tourists alike.

### **Quality and Service:**

To keep ourselves ahead of the competition, we must offer excellent services. The Quality and Education Affairs divisions of the Tourism Company will be reformulated and pushed at the forefront of the agency, endowed with the necessary resources for

optimal performance. To enhance the skills of our human resources in the island's tourism industry, PRTC Quality and Service efforts will concentrate on the following four areas:

- Customer Service
- Improvement of English skills
- Emphasis on knowledge of our tourism product and culture
- Enterprise development

We will strengthen partnerships and collaboration agreements with educational institutions. In the next year, the PRTC will launch two campaigns: a Beauty and Ornamental Campaign and a Service Campaign designed to educate all industry sectors and citizens in general on the significance of tourism in the Island's economic development as well as the importance of providing an excellent service to further its growth and foster positive attitudes in relation to the industry as such.

### **Airborne, Maritime, and Ground Transportation:**

This year we have made significant advances in the area of airborne access. Since the onset of the Airborne Access Program in 2005, 35 new direct flights have been added from 21 destinations to airports Luis Muñoz Marín in San Juan, Rafael Hernández in Aguadilla, and Mercedita in Ponce, representing a boost of \$85.2 million into the economy.

This significant increase in airborne access was possible through the approval of a \$4 million incentives program establishing new routes and initiatives in support of existing services. Puerto Rico has almost doubled its airborne capacity compared to its principal competitors. The Luis Muñoz Marín International Airport had a 2% increase to 10,760,640 passengers in 2005-2006; similarly, the Rafael Hernández Airport had a 10% increase to 253,730 passengers; and Mercedita Airport had a 278% increase to 78,280 passengers.

The amount of seats has also increased since the Airborne Access Program started. At fiscal year's end (June 2006 vs. June 2005), the number of seats to/from Puerto Rico showed a 2% increase. This compares quite favorably against United States' average, which dropped by 4% during the same time period. Lower fares to Puerto Rico are also available in our principal markets including Atlanta, Boston, Chicago, Philadelphia, and New York.

In addition to the above, the PRTC has held meetings and conducted negotiations with over 30 international airlines and wholesalers to meet the goals established. We were also able to obtain lower rates in our principal markets, again including Atlanta, Boston, Chicago, Philadelphia, and New York. In accordance with our objective of promoting domestic airlines, we developed a section within our website just for these airlines and wholesalers. Moreover, we are offering workshops on operational matters in order to include them within the national airline network. At this time, we continue to negotiate with several European, Latin American, and U.S. airlines with the purpose of establishing new routes from the principal markets in those regions to and from Puerto Rico. We are updating our strategy for the development of European airborne access as well.

We have also made significant advances in the area of maritime access. Since last year,

the Tourism Company has been steadily taking steps, jointly with the central government, the municipalities, cruise lines and suppliers, to strengthen tourism activity generated by cruise ships. For example, in August 2005 the Legislature approved Law 76 establishing economic incentives amounting to \$10.7 million.

As a result, and with the inclusion of larger ships like the Elation and the Regal Princess, we are foreseeing a 7.4% increase in the number of cruise ship passengers arriving at our ports this fiscal year, which represents approximately 95 thousand additional passengers and an economic impact of more than \$9.5 million in annual revenues. Similarly, these incentives will increase the number of visits from ships with San Juan as homeport, and the ensuing pre and post occupancies of such visits. By January 2006, pre and post night room occupancies showed an increment of 19%.

Likewise, the incentives program we created jointly with the Florida Caribbean Cruise Association (FCCA) for purposes of increasing our participation in the Caribbean market is expected to increase the number of visiting cruise ships from 1.3 to 1.7 million and its economic impact from \$300 to \$500 million by 2011. A study recently published by the International Council of Cruise Lines (ICCL) identifies Puerto Rico as the fifth largest passenger traffic homeport/bagger in the Eastern hemisphere of the Americas.

Finally, important measures in relation to ground transportation have been undertaken to ensure the quality and value of these client services. Approval of the pertinent Regulations took place just recently, and submitted amendments to the Tourism Transportation Act 282 will allow a more effective scrutiny of all the operations involved in Tourism Ground Transportation doing justice to this industry sector while also taking this destination to world-class quality with first-rate ground transportation infrastructure. Incentives in \$3 million were implemented as well in the Fleet Renovation of vehicles used by taxi drivers, tour guides, and limousine operators, representing over 50% of the total number of authorized vehicles in tourism transportation.

### **Marketing and Branding:**

Last year, the PRTC launched its “*Explora más allá de las Playas*” (Explore Beyond the Shore) advertising campaign in ten US markets with an investment of 26 million dollars. In addition to this advertising campaign, our public relations efforts generated over 150 million impressions in the principal tourism and lifestyle media, equivalent to what would have been a \$7.7 million expenditure of advertising dollars.

For the coming fiscal year, we will maintain our presence in strategic markets with an investment of over \$20 million in advertising, public relations, and special events. This investment will make possible an on-going presence, including presence during the fall season, and will include the launching of a local advertising campaign representing an investment of more than one million dollars to promote the new regional brand of Porta Caribe.

We will not cease in our efforts to establish additional partnerships with wholesalers and distributors so that well-informed customers will opt to visit Puerto Rico. Adoption by the PRTC of technological tools at all levels will maximize our sales and online marketing potential.

The month of November will mark the onset of the first stage in the development of the marketing strategy and efforts to promote Puerto Rico, both as a tourist and investment destination, a joint effort between the Secretary of Puerto Rico's Department for Economic Development and Commerce and the PRTC.

## STRATEGY 5

### **Diversify energy-generating sources to reduce dependence on petroleum by half.**

In order for Puerto Rico to be competitive, we must reduce the cost of energy by diversifying energy generating sources and supporting infrastructure<sup>21</sup>. **Our goal is to reduce dependence on petroleum from 73% to 52% over a period of four years.** Such a reduction on petroleum dependency will bring invoice savings of close to 14% within the next two years. **Over a period of four years, cumulative savings will increase by almost 25%**, and over a long-term period of 10 years, petroleum dependency should drop to 33% of the total energy generated, which would represent cumulative savings of at least 30% in invoices, regardless of the price of petroleum. The three phases mentioned are chronologically divided as follows:

#### Plan through 2008:

- Improvements to the Mayagüez generating plant with replacement of four aero-derived turbines (4 50MW turbines, for a 8,500 btu efficiency).
- Conversion of *Central Cambalache* to combined cycle, which recovers close to 100MW for the same production cost.
- Conversion of Aguirre's combined cycle to natural gas through the *Gasoducto del Sur*.
- Oilduct from the Philips Port to *Central Aguirre*, eliminating fuel transportation costs.

#### Plan through 2010:

- Phases 2 and 3 of the *Gasoducto* taking it to *Central San Juan* and *Cambalache*.

#### Plan through 2015:

- Conversion of the Mayagüez Plant to combined cycle with expansion of the *Gasoducto* all the way to Mayagüez.

#### Recycling Energy

In addition to the aforementioned infrastructure improvements, the EPA is promoting an aggressive policy in favor of increasing the use of renewable and alternative energy generating sources, particularly:

- 2 eolic (wind) energy projects for an additional wind-generated 100MW.
- OTEC (Ocean Thermal Energy Conversion) for the South-East: 50-100MW.
- Recycling tires as fuel for cement manufacturing plants.
- Other reusable energy generation projects under evaluation include solar energy, among others.

#### Conversion and disposal of solid waste to generate energy (*Waste to Energy*)

EPA also contemplates investing in the conversion and disposal of solid waste to generate energy, which could generate an additional capacity between 50 and

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<sup>21</sup> Diversification and reduction of energy costs is a strategy set forth in the following studies: *Echenique Report* (1975), *Carrión-Ferré Report: Economic Development Sub-Committee* (1984), and *Project Puerto Rico 2025* (2004). The latter recommends specific actions for reducing dependence on petroleum.

100MW while at the same time attending to the critical social and environmental problem that waste disposal represents.

Municipalities in Puerto Rico are diversifying their energy sources by using this technology and promoting partnerships with the University of Puerto Rico's *RUM* (*Recinto Universitario de Mayagüez*, in English Mayagüez University Campus) for its development. Also, the Legislature has proposed amendments to EPA's Organic Law, to encourage alternative energy measures.

## STRATEGY 6

**Transform our Government, without the need for layoffs or privatization, to a) offer first-class services to all citizens in a sensible, effective and agile manner, and b) contribute to Puerto Rico's socioeconomic development.**

We all know that the people of Puerto Rico are not satisfied with the services rendered by their Government and demand a change. Puerto Rico needs a Government that is more responsive, that looks after its own needs and offers quality services to citizens while facilitating economic development. We have make the Government work better, turning it into an engine of wellness for citizens, so that it may offer the first-class services we all deserve.

This calls for a Government that assumes the role of facilitator and is responsible of ensuring that services are rendered in a sensible, effective, and agile manner, so that every citizen may have the necessary tools for intellectual, economic, and social self-improvement in a safe and healthy environment. Thus, we need a transformation and modernization of Government directed towards producing dynamic alternatives for rendering services that truly respond to the evolving needs of the citizenship, and that promote the competition and participation of all sectors.

**Such Government transformation centers on servicing the citizen as a client, and on redirecting and making better use of our resources. It does not contemplate layoffs but the relocation, retraining, and empowerment of our public servants.** A gradual and orderly reduction in the size of government machinery will happen, just as it has until now, through voluntary resignations or retirement plans, including those responding to retirement incentives<sup>22</sup>.

**Neither are we contemplating the privatization of Government agencies. On the contrary, this Plan pursues the creation of an effective public sector to recapture areas privatized in the past** and that are better off now that they are being administered by the Government, such as the Aqueducts and Sewer Authority. Also, this is being evaluated for other agencies such as those providing certain physical and mental health services (ASES and AMSSCA, respectively).

To accomplish the above, it is necessary to begin a process of transformation and modernization directed towards the development of the institutions so that they have a capacity to adopt new ways of performing and to produce options alternatives for rendering services in a way that will encourage the competition and participation by different sectors<sup>23</sup>.

With discipline and focus, this re-investment of resources will allow us to create a virtuous circle that nurtures the working class, which in turn will help the Government meet its responsibilities. Nevertheless, to achieve this goal, we must re-direct resources

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<sup>22</sup> Note that some public corporations have offered retirement with incentives and voluntary severance plans in response to the needs of those agencies, accelerating the goal to reduce their payroll expenditures. For details, see EXHIBIT H.

<sup>23</sup> The study *New Economic Development Model* (1994) recommends a restructuring of the government to respond to new requirements. On the other hand, the study *Towards a Feasible Economy* (2003) establishes the need to redefine the function of Government, improve its capacity to create and sustain internal collaborating networks. The *Brookings Study* (2006) suggests a need to revise the institutional frame.

so that they are utilized in a much more effective and efficient way, through the following strategies:

### *1. Professionalization of public servants*

The most important of all our resources is our human resource, the public servant. If we want to have public services that foster and ensure Puerto Rico's constant economic and social development, public servants must be provided with the necessary tools to help them maximize that opportunity. Therefore, we plan to develop a culture where public servants will find greater prospects for their professional advancement and better work conditions, through the training, empowerment, and relocation of such employees in strategic areas, all for the improvement and preservation of excellent standards in the services rendered. **The professionalism of our human resources in government agencies and instrumentalities is fundamental in order to strengthen areas that include direct services to citizens**, thus providing the quality of service every citizen deserves. If we want a more accessible, motivated, and technologically advanced Government, we must coach our public servants accordingly.

With this in mind, we are creating a **Special Fund for the Re-training of Public Employees**, with a multiannual, multimillion dollar contribution from the Puerto Rico Department of Labor and Human Resources. We expect the private sector to join our efforts, as promised, to develop our public employees through trainings on advanced managerial skills.

### *2. Maximize the use of technology to provide better services*

We want to maximize the use of technology **to significantly improve the interaction between the Government and its citizens, rendering services that are simpler, quicker, more efficient and effective**. Our goal is to provide citizens with the means to access and exchange information and knowledge through the use of technology. Our efforts aim to strengthen our information technology infrastructure, as well as the regulatory framework towards promoting the **integration of technology in services and processes, forging a state-of-the-art electronic government ("e-government")**. We will develop a database for the organization, handling, and processing of information in a reliable manner, to be shared by several agencies and for immediate information exchange; we will implement modular systems to process inquiries and feedback in digital format; we will speed up processes; we will promote the digitalization of document-related procedures for online accessibility; long-distance Internet access 24 hours a day; and we will set up electronic payment transactions that will simplify and speed up agency administrative processes while reducing operational costs. Initiatives already in process include, but are not limited to, the following:

- The Department of Education (DE) is already working towards the implementation of its Student Information System (SIS) with the purpose of promoting a cultural change within the different educational sectors, improving the quality of teaching and learning processes, and also towards the accountability of jobs performed. SIS will allow the creation of a database for organizing and processing in a reliable and trustworthy manner the students' academic information as well as the services rendered by the teachers and supporting staff. This system will have an impact on all the components of the education system. **Parents will have online access to their**

**children’s academic records and to relevant information about the school’s environment; they will be able to monitor their children’s attendance to classes so that they may be in control of their academic performance and of any special needs the student may develop, as well as an awareness of those academic areas where they might need some reinforcement.** SIS will help identify those students presenting a risk of school desertion through their timely referral to programs such as CASA, conceived to deal effectively with this type of situation. Teachers will have quick access to student files and to automatized reconciliation of school records. Digitalizing the process of preparing academic and student reports helps not only the teacher, but the school director, and the staff involved in direct student services, leaving more time to dedicate to the student’s learning process.

- As part of its efforts to evaluate and speed the evaluation and permit process, the Planning Board (PB) has developed and started to operate a methodology named *Digital File* with the purpose of implementing modular systems to process inquiries and feedback in digital format. This option will accelerate the transaction of cases regarding Location Consultation, facilitate public access through the Internet, and ensure file integrity and security by digitalizing the submission process for Location Consultations and Zoning Map Amendments. Some of the *Digital File*’s greatest benefits are: **greater time efficiency in transactions and reduction of costs.** Furthermore, **project proponents will be able to know the status of each case filed.** Likewise, by digitalizing and simplifying these administrative processes, the PB will be able to better utilize its own human resources in the analysis of its cases.
- The Courts Administration Office (CAO) is evaluating options with the purpose of establishing an **electronic solution for the payment of fees** so that these may be purchased online, from automatic cashiers, and Points of Sale (“POS”), among others. The advantages of this initiative include: 24/7 availability; varying costs of stamps according to the user’s need; savings on the printing and custody of the stamps; simplification of the cancellation and accounting processes; immediate availability of funds to the agency providing a service; **establishment of the basis for “e-filing” of cases** while expanding the services available to citizens.
- The Department of State (DS) is working with the Management and Budget Office (in Spanish, *Oficina de Gerencia y Presupuesto* or *OGP*) in a project to **digitalize the Registry of Corporations and the Registry of Brands** that will allow the user to have online access. The digitalization of documents will allow the integration of the inventory system file to the registry of corporations. It also offers a mechanism for work flow management in the areas of the Registry of Corporations and the Registry of Brands and Trade Names. The benefits of this project imply a faster and more agile completion of registration procedures for businesses.
- The Puerto Rico Police is working on the development of a computerized statistics system dubbed **COMSTAT, with the purpose of devising criminal incidence maps**, the type of crime and arms utilized by criminals, to assist the agency in its fight against crime in a fast, accurate, up-to-date, and focused manner. This system, proven effective in New York City, significantly reduces the different types of crime, allows for the placement of resources where they are most needed, and helps save policemen lives.

- The new Web Page of the Department of Natural and Environmental Resources (DNER) centralizes and integrates a number of services for use by the general public. For the first time you will be able to obtain **online environmental pre-evaluations**, verifying whether the site proposed for a project lies within a flood-prone area or within or near a zone classified as a natural reserve, to access a database containing all of the project-related information needed to get a status update. The proponent will be able to utilize interactive maps and digital documents of laws and regulations managed by the Agency and also of the preservation and sustainable development of Puerto Rico's natural resources. The web page **speeds up the consultation process while featuring a more transparent government operation.**

### 3. *Transparency, access and openness to citizens*

We will make our Government more **transparent, accessible, and open** to citizens. One where information is widely disclosed, a Government that grows in its accessibility and response to citizen needs and demands, by means of innovative tools like our Internet ([www.gobierno.pr](http://www.gobierno.pr)) and telephone accessibility.

- The number of services offered to citizens online at [www.gobierno.pr](http://www.gobierno.pr), will be significantly increased to save them time and money. This effort requires an increment in the points of contact where citizens register and receive orientation about our e-Government initiatives.
- A system will be established for clients to evaluate the services provided by public officials. All offices that provide client services will have **Service Evaluation** forms for citizens to state whether they are satisfied or not with the service received. The Secretary or Head of each government Agency will evaluate such feedback and submit a quarterly report to the Governor.
- We are exploring the feasibility of establishing a call-in system for citizens' complaints following models that have worked in other jurisdictions, through a 3-1-1 line.
- Detailed information about Government agencies will be available online, in order that citizens may be able to pass judgment on their efficiency, and demand greater quality of services and better use of funds from the Government.

### 4. *Revision of processes and procedures*

Our efforts towards a positive transformation of Government will never be effective if we fail to consider a broad revision of our regulations, procedures, and laws to simplify the lives of our citizens as we further our island's development. **We will work towards the reengineering of processes so as to reduce as much as possible the time that it takes for a citizen to obtain the services they need. We will eliminate redundant processes, fixing specific time frames to adjudicate, and will do away with unnecessary steps that extend and add no value whatsoever to public endeavor.** Some of our initiatives include:

- The Planning Board (PB) is focused on implementing changes that guarantee a speedy processing of submitted cases, so that the interested party may proceed with his or her project and/or development within a reasonable time frame. To that effect, the PB is proposing **amendments to Regulation 4**, "Zoning Regulations of Puerto Rico" (Regulation 4), the principal tool to determine the best use of lands in Puerto

Rico. Although revised in November 2000, at this time the PB has a new scope of work and strategies which require that this regulation be updated. The amendments address:

- a. Higher Density Development – make better use of land;
- b. Clarification of processes – implement quicker processes for ministerial affairs;
- c. New strategies – revise uses allowed in districts, allow mixed uses, and incorporate higher density development alternatives;
- d. Legality – update the conditions and/or requirements to grant permits, and reinforce the reliability of the permits granted.

The above process will allow a redefinition of the scope of Regulation 4 and will enable the Planning Board to evaluate what other regulations could be integrated here and which regulations should be eliminated. Also, we are looking for a way to harmonize Regulation 4 with other special regulations in order to obtain a simpler, less burdensome document.

- Reengineering the Granting of Permits – The purpose of this initiative is to reduce as much as possible the time it takes to **evaluate** permits, whether **to grant or deny them**, but it must be done promptly and correctly. Some of the benefits that will be obtained are: the **elimination of redundant processes, fixing specific time frames to adjudicate, and will do away with unnecessary steps extending and adding no value** whatsoever to public endeavor. This reengineering project in relation to processes relative to the granting of permits is being done in three phases, with results expected on a short, medium, and long term basis. The **first phase** will bring immediate results and consists in the creation of a work team giving constant follow-up to specific top-priority projects. The **second phase**, with results expected on a medium term basis, consists in a revision of processes and regulations still enforced although they no longer respond to the needs of the island, which entails some quick adjustments to accelerate the processes. Right now we are in the process of identifying those critical points that require revision. We expect to complete this phase during this fiscal year, completing fine-tunings and initiating the training process within the government Agencies that are entitled to propose development projects, such as the Tourism Company. On the **third phase**, we expect results on a long-term basis since this phase entails total reengineering of the permits-related process, including legislation. This phase is under the direction of the Secretary of the Department of Economic Development and Commerce (DEDC).

##### *5. Changes in the organizational structure of agencies*

We all recognize the urgent need to transform the bureaucratic governmental structure of our agencies and instrumentalities. To do so, we are conducting efforts to modify the different organizational structures that enable a more flexible, agile, efficient, and effective performance. We expect to do so through several initiatives that include, but are not limited to, the following: **integration of administrative areas; consolidation and integration of functions, divisions, and offices; redirection of resources and relocation of employees to medular areas with a greater need; creation of horizontal structures that allow for teamwork and agility in the taking and execution of decisions; decentralization of functions; greater autonomy; development of a quality service culture, and greater fiscalization and supervision**, among other things. The

initiatives to be adopted vary from one agency to another according to their particular needs. Nevertheless, our ultimate goal is to upgrade and simplify agency structures that they will respond in a more agile and effective way to the needs of the citizens they serve. Following are some of these varied initiatives already on their way:

- The consolidation of the Office of Youth Affairs and the Sports and Recreation Department intends to join efforts establishing a public policy consonant with the programs and services currently offered by both. It is their intention that **problems related to health, education, drug addiction, use and abuse of controlled substances, school desertion, early pregnancy, domestic violence, lack of employment opportunities, little or no participation and representation, idleness and inactivity among the young, be taken care of and dealt with through concerted and coherent strategies** bringing about favorable and measurable results. **This consolidation will increase the effectiveness of the direct services rendered and their programs dealing with problems affecting youth,** besides helping promote such services. Similarly, having more resources available, it will be possible to add other populations and sectors within the public policy established by the OYA, such as children and senior citizens. Apart from increasing the provision of services and programs to youth, attention will be given to the administrative and fiscal aspects, to achieve a better use of economic resources together with a better use of human resources. Puerto Rico would be joining the majority of local and state governments in the United States, the Organization of United Nations, the European Union and more than 100 countries in all the continents that deal, in an integrated fashion, with youth affairs, sports and recreation, as real options towards emotional, physical and intellectual development.
- To improve its administrative and academic operations, the **Department of Education (DE) proposes a reduction in the number of School Districts consolidating Educational Regions.** The DE is currently organized into 10 Educational Regions, 84 School Districts, and 1,523 schools. Such an organization provokes on the one hand an outright duplicity of disjointed functions, and on the other, a multiplicity of personnel deficiencies in one place and scarcity of resources somewhere else. The reduction proposed in School Districts is based on the following actions for organizational improvement: first, the objective behind this consolidation of districts and regions is to improve the distribution of human resources and the materials available by providing the optimal amount of human resources to adequately provide educational support to the schools. The DE personnel in the regions and districts to be consolidated will be relocated in schools and assigned new roles within the School District. This exercise will result in a clear benefit: the budget is not reduced, but instead it **is utilized more effectively, safeguarding personnel permanence.** Second, this reorganization will permit the **relocation of personnel to strengthen supporting staff in schools while redefining some of the roles to maximize said support.** Third, we are trying to make the necessary adjustments in relation to educational personnel looking for an adequate number of Superintendents and facilitators in the different districts and regions. Fourth, facilitator and other supporting staff vacancies will be filled by subject (with federal funds), assigning a differential. And, fifth, Assistant Superintendents will be relocated according to the needs of the schools and the Educational Districts.

- The consolidation of the Corrections Administration, the Parole Board, the Juvenile Institutions Administration and the Pre-Trial Service Bureau, the Correction and Rehabilitation Department, will integrate administrative areas while consolidating and integrating functions, divisions and offices, among others, with the purpose of creating **an administrative and organizational structure that is agile, effective, and efficient**, that helps maximize resources to offer inmates concrete benefits, such as: security; prompt attention to their needs for items and materials; less crowded jails; institutions that are safe and appropriate for each inmate classification; educational and/or vocational training programs to inmates; and support groups for inmates at the time of their reintegration to society, among other things.
- The forums that address public service cases related to labor relations and administration of human resources, have always been separated one from the other, even when the matters they hear are so closely related. We believe it is convenient, **for a healthy public administration and the adequate resolution of labor disputes and human resources controversies, all of these matters should be brought before a single adjudicating forum.** The creation of the Public Service Commission on Labor Relations and Appeals to the Human Resources System, would provide an entity merging the current Appeals Commission of the Human Resources Administration System in Public Service (in Spanish, *Comisión Apelativa del Sistema de Administración de Recursos Humanos* or *CASARH*), the Investigations, Processing, and Appeals Commission (CIPA), la Comisión de Relaciones del Trabajo (in Spanish, *Comisión de Investigación, Procesamiento y Apelación* or *CRT*), and the Labor Relations Board (in Spanish, *Junta de Relaciones del Trabajo* or *JRT*), where all public service cases on labor relations and human resources administration will be heard. That all these forums are physically grouped in one place represents **savings in rent money, centralizes decisions in a single forum, awards, and opinions over this issue, makes possible a certain uniformity in decisions, and creates a specialized new forum on everything related to labor relations.**

#### 6. *Decentralization, Regionalization, and Municipalization*

We intend to **bring services closer to the citizen**, diversifying the way in which we render our services, to include an effective participation of the different sectors. The Central Government establishes public policy and monitors the services provided. To accomplish our goal, we will put into effect various participation models such as: **intra-agency** (agencies adscribed to the same department work together rendering such services), **interagency** (different agencies of the executive branch work together rendering such services), **municipal**, involving the municipalities, **regional, private enterprise or non-profit entities** partnerships.

Specifically in relation to regionalization and decentralization, we will be **relocating the main quarters of various Government agencies outside the Metropolitan Area**, so that: 1) those agencies will be closer to their clients; 2) we will decongest the San Juan metropolitan area, in some cases facilitating access to employees; and 3) we will nourish other regions of the Island with economic activity. For purposes of accomplishing all or most of the foregoing benefits, the first agencies whose headquarters we plan to move are the Corrections Department and the Department of Agriculture, among others.

Specifically in relation to municipalization, this initiative evaluates the possibility of delegating certain faculties of central-level agencies to the municipalities and regions. This represents an acknowledgement that our municipal governments are, without a doubt, the closest entity to the people. On a daily basis, citizens resort to their municipal government with their need for employment, housing, public works and anything else that has to do with improving their living standards as a community, and to have their affairs looked into in the most efficient and effective way possible.

The municipalization initiative includes several components<sup>24</sup>:

- a. Decentralization and municipalization of central government functions to the municipal governments.
  - b. Regionalization of central government services in order that such services and the decision power of the agencies be offered in those regions and not by their headquarters in San Juan. This will add speed and agility to the services rendered as well as immediate attention to the needs of the people.
  - c. A new design for a fiscal system, consonant with and linked to the Commonwealth's own system, to guarantee its economic expediency at the local level.
- Some of the initiatives for municipal co-participation being evaluated include:
    - a. Agreements regarding the maintenance of public schools, where the municipalities, together with the Maintenance of Public Schools Office (in Spanish, *Oficina para el Mantenimiento de las Escuelas P ublicas* or *OMEPE*) take care of requests for repairs (doors, sanitary facilities, pipes, etc.).
    - b. Coordination of efforts to avoid duplicity and to improve student services, like the libraries, sport and cultural events.
    - c. Other effective participation models under evaluation are: road maintenance (*DTOP*); development of housing projects for Special Communities; police stations at various strategic points along municipal borders (Police and Corrections); regionalization of sport events (*RDD/OYA*); contracts for the cleanup of parks (*RDD*); cleanup of creeks and water resources (*DNER*).
    - d. Also, using more brigades made up by inmates, *Hogares CREA*, and others, to provide benefits to both the citizenship in general, the Government and other brigade participants.

All agencies have been instructed to identify additional ways whereby services may be decentralized and brought closer to the citizens. Several agencies have already started this process, like the Department of the Family, giving **greater autonomy to Regions and Local Offices**. A pilot plan is currently in the works with the San Juan and Guayama regions. In the agency's Plan, the Secretary and Administrative Staff perform a normative role formulating public policy and programs, monitoring, and fiscalizing its compliance, while **Regions perform their managerial role implementing such public policy and supervising the quality of the direct services provided to citizens**.

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<sup>24</sup> Those components arise from a proposal by the Puerto Rico Mayors Association, Hon. Jos e E. Aponte De La Torre, President, Jaime L. Garc a, Executive Director October 2004, summarized in Exhibit I.

In the case of the Department of Education, we will continue to move towards granting more responsibilities to the regions, districts, and school directors, who are more aware than anyone else about their students' needs.

#### 7. *Better use of Government Real Estate*

With the purpose of **making better use** and maximizing the potential benefit of our real estate, we will manage these resources through their development, sale or transfer. We are committed to a better use of our lands by allowing projects that will generate jobs, encourage investment, and the development of new programs, among other benefits. Following are some of the initiatives included:

- Transfer of 9.7 *cuerdas* (9.409 acres) of land by the Department of Transportation and Public Works to the University of Puerto Rico (UPR), offering benefits and **better use** in the construction of the new Comprehensive Cancer Center, in collaboration with the National Cancer Institute and the Anderson Cancer Center in Texas. These facilities will be constructed through an investment of \$75 million from the Cancer Center as such and financial contributions from the Government of Puerto Rico, to be complemented with private industry funds. The Comprehensive Cancer Center will create well paid jobs for health professionals, clinical researchers, supporting staff, and administrative personnel. The Center will be located within the *Ciudad Mayor* Corridor of Knowledge, which is expected to stimulate construction of hotels, office buildings, and shops to accommodate the flow of patients visiting the Center.
- Schools – To identify hundreds of properties, mostly abandoned, or out of use schools, to make better use of them, which in turn will help raise funds for the Public Buildings Authority to be able to continue building new educational facilities.
- North Río Bayamón Community – Being already integrated to the mass transportation system, these grounds are quite attractive for the development of an urban project that includes **mixed uses**, combining commercial, residential, and office space. It will include the development of 2,792 housing units and 228,000 square feet of commercial space.
- Lot for the new Department of Justice headquarters (Old Sears Site) – The new headquarters of the Department of Justice will be constructed on this site, representing a key component in the urban development strategy known as *Ciudad Red*. In its new location, the Department of Justice will be connected to the Bayamón and Hato Rey courts through the Urban or City Train, thus adding and maximizing the functionality of this system of mass transportation, while lending the areas that surround its stations to higher density development.

## VII. OUR VISION AS AN AGENDA FOR PUERTO RICO

In order for this Vision, for this Agenda for Puerto Rico, to be accomplished, it requires not only discipline, focus, and willpower, but what could be the most important factor, and perhaps the least common during the last few decades of our island's history: continuity.

The six strategies we are executing arise from consensus; they have been accepted by all political sectors of the island, and by a wide range of sectors representing society. These are changes that cannot be postponed; the acceptance and implementation of this Plan will determine whether Puerto Rico will prosper or deteriorate. Accomplishing this Vision also requires that we internalize the fact that we live in a very different world that will not slow down for anything or anyone: a world that each day becomes more open and globalized; a world where everyone, not only Government, must work for the good of all, and in which solutions depend on the efforts, sacrifice, good faith and good will of all Puerto Ricans. This is why a serious, multi-sector, coordinated, intelligent, and non-partisan commitment is necessary to implement this Vision so that it may transcend electoral terms, administrations, and changes of the party in power. Let this Vision be engraved as the goal for all of us who consider ourselves to be serious, honest, and responsible citizens: the creation of a better Puerto Rico for our children.

It is clear that we know “What is wrong with us, Puerto Rico”, and we don't need to keep repeating it to ourselves. What we do need, and this is much more important, is to respond, “What are we going to do for you, Puerto Rico”, because this is a civil responsibility that binds us all.

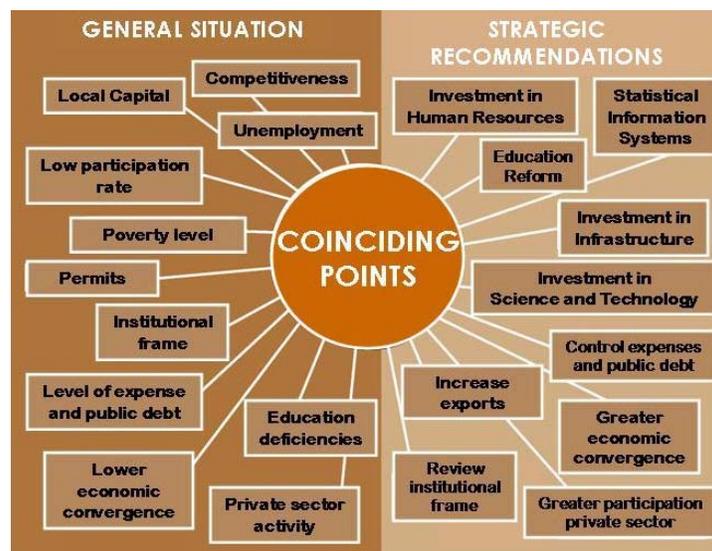
## APPENDIX A: STUDIES ON PUERTO RICO'S ECONOMY

This Vision is based on a thorough analysis of at least fourteen (14) studies, reports, and documents conducted in connection with Puerto Rico's economic development during the last three decades. Following is a list of the studies evaluated:

- Puerto Rico's Economic Development: A Strategy for the Next Decade- Echenique Report (1975)
- Tobin Report (1976)
- Kreps Report (1979)
- Study on Puerto Rico's Economic Development - Carrión-Ferré Report (1984)
- Strategy for Economic Development: Towards the Second Economic Transformation (1989)
- A New Model for Economic Development (1994)
- Chamber of Commerce Report (1997)
- Puerto Rico's Economic Future (1999)
- Towards a Feasible Economy (2003)
- The Puerto Rico Life Sciences Road Map (2003)
- Project Puerto Rico 2025 (2004)
- Globalization and Development: Puerto Rico's Challenges in face of the 21<sup>st</sup> Century - CEPAL Study (2005)
- GAO Study (2006)
- Restoring Growth in Puerto Rico- Brookings Study (2006)

Additionally, we have examined models from other jurisdictions, namely Singapore, Ireland, Korea, and Indiana, to absorb ideas, successful practices and strategies from different parts of the world.

We evaluated the fourteen (14) studies above taking into account their diagnoses, vision, and strategic recommendations. Each study seeks a deep understanding of the economic problems confronted by the Island for the past thirty years, and most set forth a number of strategic recommendations that still apply to our present situation. Following is a brief summary of the recommendations in each report.



## **Summary of Recommendations in each Study:**

### Puerto Rico's Economic Development: A Strategy for the Next Decade (Echenique Report ,1975)

Objective: This report was conducted by an Inter-agency Committee headed by the Governor's Financial Council, and developed an action for government agencies.

#### 5 Primary Recommendations:

- Provide greater economic incentives to local enterprise.
- Encourage and promote local capital.
- Promote the use of solar energy as an alternative energy source.
- Increase fiscal revenue sources while controlling public expenditures.
- Create an International Commerce and Finance Center.

### Report prepared by the Committee for the Study of Puerto Rico's Finances, commissioned by the Governor (Tobin Report, 1976)

Objective: Conducted by the Committee for the Study of Puerto Rico's Finances, led by the renowned economist and Nobel Prize winner James Tobin, the report was requested by Hon. Rafael Hernández Colón in view of the economic crisis during the mid seventies.

#### 5 Primary Recommendations:

- A more active participation of the private sector in the creation of jobs.
- Control public expenditures.
- Evaluate public investment projects in cost-benefit terms.
- Revise tax incentive policies to stimulate reinvestment of profits in job-generation activities.
- A property tax reform.

### Economic Study of Puerto Rico (Kreps Report, 1979)

Objective: Developed by the United States Department of Commerce to provide a macro-economic and government role evaluation, plus an in-depth analysis of federal programs and their impact in Puerto Rico's economy.

#### 5 Primary Recommendations:

- Increase the number and diversify the place of origin of tourists and development of tourism-related facilities in the rest of the Island.
- Make better use of research funds.
- Improve the planning of public works.
- Improve the port and naval transportation system and the need to expand airborne service and improve airborne transportation.
- Establish incentive systems differentiated by industry.

## Report by the Sub-Committee for PR's Economic Development (Carrión-Ferré Report) (1984)

Objective: Led by private sector entrepreneurs, this report evaluated the economic crisis in the early 80's. Specific recommendations were made in five fundamental areas: energy, manufacturing, tax policy, agriculture, and tourism.

### 5 Primary Recommendations:

- Adopt an energy policy in Puerto Rico towards increased conservation of energy and the maximization of alternative energy sources, with the purpose of cutting down on our oil dependency.
- Improve the planning process towards tourism development as well as providing adequate incentives and strengthening promotional efforts.
- Approve a number of tax reform measures that would affect the principal tax brackets.
- Improve industry competitiveness as compared to mainland counterparts.
- Preserve, strengthen, and stabilize a wide range of tax incentives, with emphasis on the services industry.

## Strategy for Puerto Rico's Economic Development: Towards our Second Economic Transformation (1989)

Objective: Drafted by Hon. Rafael Hernández Colón's Advisory Council on Economics. The report proposes an economic development strategy where the Island will make adjustments according to new global economy standards, thereby providing a better quality of life.

### 6 Primary Recommendations:

- Technology and Management: Increase the capacity to generate, transmit, and utilize technology; invest on research and development, and technological transfer
- Industry: Establish a diversified portfolio of industrial centers of excellence, eliminate subsidies, promote entrepreneurial innovation, and expand our external sources of investment.
- Marketing and Commerce Abroad: Identify and promote international and United States markets with potential for local products, while increasing our planning and execution capacity for marketing our products and services.
- Education and Human Resources: Emphasize on the development of the learning capabilities, basic and occupational skills, and flexibility of our workers, including the development of a dynamic capital-risk market in Puerto Rico.
- Infrastructure: Provide towards the development and maintenance of the island's infrastructure and towards improving the quality of life; upgrade the processes related to urban and regional planning and regulations.
- Government: Redirect public expenditures towards investment to increase effectivity and productivity; technological and managerial upgrading; competence and selective reduction of agencies.

## New Model of Economic Development (1994)

Objective: Developed by the Productivity Council, proposes that Puerto Rico reach and maintain levels of economic welfare comparable to those of the United States with respect to *per capita* income.

#### 5 Primary Recommendations:

- Science and Technology: Integrate the business sector, universities, and government into a single entity to formulate a science and technology policy; coordinate efforts for the financing scientific research projects; strengthen our scientific and technological infrastructure; promote local enterprise access to new technologies.
- Manufacturing: Redefine the Economic Development Administration; expand the promotion of high technology and advanced services industries; encourage technological innovation; facilitate the strategic alliance of local and global businesses.
- Commerce and Services: Encourage exports and create partnerships among local companies to penetrate the US market, stimulate the creation of alliances in this sector.
- Tourism: Diversify and improve our tourism product; development of zones of tourism appeal; accelerate the development process of tourism-related facilities; facilitate financing through the Tourism Development Fund; sell government-owned hotel properties.
- Regulatory, Fiscal, and Institutional Strategy: Government as a facilitator, must redefine responsibilities and reinvent itself.

#### Chamber of Commerce Report (1997)

Objective: Developed by a Committee made up of members of the Chamber of Commerce and economists of the public and private sectors, the report analyzed those factors that led to Puerto Rico's loss of economic competitiveness.

#### 5 Primary Recommendations:

- Promote the creation, transfer, and adaptation of technology.
- Attract foreign investment, improve infrastructure, labor productivity, and quality of life.
- Promote competitiveness, encourage economic flexibility, and establish incentives for the development of capital markets.
- Promote exports, agreements and partnerships between local and multi-national companies.
- Promote privatization towards higher efficiency, to generate public savings and reassign economic resources.

#### Puerto Rico's Economic Future (1999)

Objective: This report represents an effort by the University of Puerto Rico to contribute in finding solutions to the Island's economic and social problems. The report includes a number of essays written by university professors that deal with three fundamental subjects: the current economic context, the economy's social dimension, and the overall local impact.

## 5 Primary Recommendations:

- Promote the establishment of a sound local capital.
- Stimulate small and mid-size business.
- Upgrade the education system.
- Promote transfer and adoption of technology.
- Improve productivity and become more competitive.

### Towards a Feasible Economy (2003)

Objective: Organized by representatives of private organizations, this study favors the government's definition of the economic and social agenda, urges the necessary structural changes that must take place, the need to achieve a wide consensus among the citizenship and the importance of giving continuity to economic development initiatives.

## 5 Primary Recommendations:

- Goals: Create an economy based on knowledge, innovative, with high growth rates, in which 25% of all jobs are in knowledge-related activity by 2015; in which research and development contribute 2% of the GDP; where economic growth achieves an average of 4.5% yearly; and that creates a minimum of thirty new, Island-based, high-tech companies each year.
- Mobilization of Resources: Integrate municipalities more effectively into economic development initiatives, capitalizing on their potential to succeed; maximize resources through the creation of partnerships between the public and private sectors, and the creation of collaboration networks in and outside Puerto Rico.
- Human Resources Strategies: Focus the development of our resources in the key areas of the new economy: the sciences, math, and English skills; formulate integrated policies in the education field; redesign the administration of the island's education system; create networks of collaboration with Puerto Rican human resources abroad.
- Global Insertion: The transfer of technology and the creation of learning and innovation systems as basic requisites; link sectors (telecommunications and financial services) as vital; vertical integration vs. horizontal integration as a company's organizational model.
- Institutional Strategies: Redefine government functions; improve its capacity to create and sustain internal and external networks of collaboration; incorporate a provisory function; institutionalize economic development functions.

### The Puerto Rico Life Sciences Road Map (2003)

Objective: This project was organized jointly by the Puerto Rico Industrial Development Company and the private and academic sectors. It consists of a plan divided into 3 phases: 1) evaluation of the island's investment capability and opportunities to establish clusters; 2) presentation of the design for a Road Map and its implementation; and 3) integration of all the initiatives necessary to sustain the project.

## 5 Primary Recommendations:

- Design a master plan for a 10-year strategic infrastructure development program.
- Create between 10 and 12 research teams with collaboration of the academic sector and the government.
- Create the *Science & Technology Global Network and Data* and the *Global Clinic Trial Research Organization*.
- Organize a *Workforce Continuum Team* that integrates educational institutions and industry.
- Establish the *Grant Management and Innovative Funding*.

#### Project Puerto Rico 2025 (2004)

Objective: A joint effort including the public and private sectors, labor unions, and society in general to take a lead role in Puerto Rico's economic development. Strategies proposed are directed towards increasing the economic well-being of citizens, including the areas of innovation and entrepreneurial development, competitiveness, and education, among others.

#### 6 Primary Recommendations:

- *Innovation and Enterprise*: Establish a coordinated campaign with support from the public and private sectors to duplicate R&D investment within the next two years and reach the average within the next five years. Provide necessary incentives to attract scientific and academic talent. Capitalize on the Endowment for Science and Technology fund through an injection of funds from the federal government and the R&D multinationals.
- Increase the productivity of our human capital and update academic curriculum for an improved response to market needs.
- *Jobs*: Evaluate industrial promotion processes; create the *Strategic Intelligence Unit*; develop a task force for the creation of jobs; conceive a new incentive structure for the creation of jobs; use government funds to stimulate employment (infrastructure projects, reassignment or outsourcing of existing functions to areas suffering high unemployment).
- *Small business*: Reevaluate all programs in support of small and mid-size businesses; develop a relevant curriculum in secondary level education towards fostering business skills; establish a support network for the organization and leveraging of small and mid-size enterprise.
- *Competitiveness and Connectivity*: Create a special commission with the participation of both public and private sector representatives to evaluate all government functions towards greater agility.
- Implement a tax reform that provides more fiscal resources and facilitates government administration.

#### CEPAL Study (2005)

Objective: Developed by the Economic Commission for Latin America (CEPAL in Spanish), it provides an account of Puerto Rico's economic development history.

#### 5 Primary Recommendations:

- A national system for innovation; integrate productivity and technology transference to strategies that promote innovation.
- Promote exports in high technology sectors as well as in other sectors with no exporting experience.
- Evaluating the effectiveness of our educational system while pursuing its improvement.
- Encourage the development of industrial clusters.
- Develop new industrial incentives for the post-936 era.

#### GAO Report (2006)

Objective: Assess the economic effect of the Federal Government tax policy on Puerto Rico's economy. This report acknowledges the disparity in terms of *per capita* income between Puerto Rico and the United States, while deeming low workforce participation rate a crucial issue.

#### 5 Primary Findings:

- The low investment rate is insufficient to reduce disparity of revenue between the two economies.
- Inequality in the distribution of income seems higher in Puerto Rico than in the US.
- Puerto Rico residents pay a lesser amount of taxes *per capita* than US residents, while still paying roughly the same percentage of their income.
- *Per capita* federal aid is comparable to the states, yet direct *per capita* payment to individuals is less.
- The Report found that the value added generated by 936 companies or CFC in the economy has been overestimated in terms of *income shifting* or *transfer pricing*. This being so, the impact of manufacturing in the economy turns out to be less than shown by national accounts.

#### Restoring Growth in Puerto Rico - Brookings Study (2006)

Objective: Developed by the Brookings Institution and the Center for a New Economy, this study proposes macro-economic stability through reducing the deficit, managing public debt levels and related services, and creating sufficient fiscal revenues to meet the expense budget.

#### 6 Primary Recommendations:

- Create institutions with incentive structures that will reduce uncertainty, promoting economic efficiency and trust.
- Develop and provide incentives that foment the creation of innovative ideas and intangible capital. To facilitate a reduction on the cost of capital and channels for the expansion of technology.
- Promote a more dynamic private sector that allows for the creation of new and more job opportunities.
- Identify measurables for quality in our institutions and efficiency in the public sector; implement government reform with a more efficient tax system and expense programs aligned with economic objectives (*targeted*).
- Improve labor force skills and protect individual initiatives.
- Greater investment on infrastructure.

### **Summary of Coinciding Points found in Economic Reports:**

After evaluating the foregoing reports, we found the following coinciding points in terms of diagnosis and strategic recommendations.

#### Diagnosis:

Diagnostic statements coincide in a number of critical issues in relation to our economic development:

- Weak competitiveness.
- Limited development of local capital.
- High unemployment and low rate of labor participation.
- Slow and doubtful process in the granting of permits.
- High level of expenditures and public debt.
- Minor convergence between PR and US economy.
- Scarce private sector activity related to the public sector.
- Poor educational sector.
- High level of poverty.

#### Strategic Recommendations:

The suggested public policy strategies and measures mainly coincide in the following areas:

- Stimulate greater private sector participation in the economy.
- Pursue greater convergence with US economy.
- Increase exports of local products.
- Control expenditures and public debt.
- Improve transportation, water resources, and electric power infrastructure.
- Increase investment in human resources.
- Reform public education.
- Position Puerto Rico as an International Center of Commerce, Banking, and Insurance.
- Increase investments in science and technology.

- Encourage and promote the growth of local capital and enterprise development.
- Improve statistical information systems.
- Redefine the government's role and institutional framework.
- Invest in Information Infrastructure (IT).
- Seek alternative energy sources.
- Implement a plan to manage solid waste disposal.

## APPENDIX B: RECOMMENDATIONS FROM ECONOMISTS

We hereby present a summary of proposals by the eleven economists in the public and private sectors:

- On a short-term basis, accelerate public investment projects.
- Advance private investment projects.
- Maintain budget and fiscal government stability.
- Modernize and revise the governmental institutional framework.
- Strengthen research and development initiatives and to move quickly towards an economy of knowledge.
- Encourage small and middle enterprises with financial support and entrepreneurial training.
- Promote the exporting of local goods and services.
- New schemes of private/public financing
- A greater private participation in strategic infrastructure projects.
- Diversify energy sources and to promote the use of renewable energy sources.
- Modernize the infrastructure.
- Develop a regional economic vision.
- Recuperate fiscal credibility.
- Emphasize on solving the poverty and inequality problems.

## APPENDIX C: A SUMMARY OF RECOMMENDATIONS BY THE CITY PLANNING ADVISORY BOARD

The countries with a greater development opportunity will be those that have the best-qualified cities to add value to world economy. In the new system, a city is more than just a place. A city is the fundamental production unit that sustains a global economy.

To incorporate this new paradigm, it is vital to recognize the high economic, social and environmental costs associated with the inefficient use of land (and the resulting urban sprawl) that causes an urban development based on the use of the automobile. This recognition goes hand in hand with a questioning of the economic system that subsidizes the suburb and the automobile.

The City Planning Advisory Board challenges this reality by proposing the vision of Puerto Rico as a vibrant metropolis, with quality urban public spaces and actively participating in the world economy, within fifteen years. This urban system will be an important influence in the Caribbean region and will offer economic, social and cultural viability under any political status that Puerto Ricans choose.

Besides being a platform to participate in the new global economy, this metropolis would be a source of a better quality of life and pride for its citizens. This public policy proposal by the City Planning Advisory Board promotes the following objectives: public urban spaces with high aesthetic quality; a desire to live in the city; integrated mass transportation systems; efficient infrastructural services; a balance between development and our natural surroundings; an agile and efficient managing system, and an ample array of cultural, commercial and recreational offerings.

From these objectives comes the strategy to generate specific projects geared towards building the urban system that Puerto Rico needs, establishing a focus on strategic planning. This strategic focus will result in the implementation of an urban public policy that increases the capabilities and offerings of our cities that will, in turn, yield citizens satisfied with the quality of their public spaces and participate in the world economy processes.

With these objectives and the management norms proposed, the City Planning Advisory Board recommends the creation of an organization to coordinate with and support the Governor in his role as leader of strategic planning for the island's urban system.

This would not be a new agency but a means of sustaining the components in the strategic planning process. It is the Governor who represents the community's social and political ground; to promote and legitimize the Strategic Plan is his responsibility. The strategic council would then examine and approve results of the Plan's phases, supervise the follow-up of strategies, take action on the development of the Plan, and promote cooperation between the public and private sectors.

The planning process should identify strategic projects that would embody and implement the Plan's vision. The strategic projects will be closely watched by working groups that will exist until the projects are completed, underway, or cancelled.

Examples of these projects include—among many others in the management category—the integration of modern land management systems and a fiscal structure that would make possible the city as it has been conceived.

Strategic projects to attain this objective would include the establishment of an organizational chart and the adoption of a strategic planning focus to capacitate the urban system in Puerto Rico. In the public space category, the proposition is to densify and re-develop as a model a zone between two Urban Train stations, and to expand the limits of the Convention District, connecting it to its surroundings, as a strategic project.

## APPENDIX D: INFRASTRUCTURE PROJECTS

During the last months, after the signing of the tax reform and the new budget, thus saving Puerto Rico's credit, we have issued or are planning to issue bonds in the amount of more than \$3,000 million (AAA, AFI, TRANs, among others). Besides, a new credit line has been granted to the Public Buildings Authority (AEP in Spanish) to continue construction projects for schools and government facilities. These bonds issuance and financial transactions will inject \$2,164 million into the economy to be used in works of infrastructure, duly planned and necessary for projects throughout the Island.

What have we achieved?

Acknowledging the importance of a first class infrastructure as the base for the creation of the present and future productive capability of our economy, this Administration has designed an aggressive plan for major improvements with an investment of over \$7 billion for fiscal years 2006-11. This improvement program concentrates in the improvement of our power, water and transportation systems. It also includes a substantial investment in the educational infrastructure, the environment and municipal projects. Following, we offer a summary of the advancements obtained, as well as future plans to accomplish our objectives in the infrastructure area.

### **Infrastructure**

#### Water and Sewage Authority (AAA in Spanish)

In keeping the Government's commitment of guaranteeing "Agua Segura al Pueblo" (Safe Water for the People), the AAA has an improvement plan of \$1,200 million. Changes in the administration and management of the Water and Sewage Authority will make viable the Governor's commitment for this public corporation through an unprecedented investment. Some of the ongoing projects and advancements obtained are:

- Evaluation of the sanitary and sewage systems.
- Improvements to the transmission and distribution systems in various municipalities - 71 projects with an investment of \$527.2 million.
- Reduction in the time spent in correcting water leaks by 43%.
- Improvements to the collection system and sanitary laterals -112 projects with an estimated investment of \$812.6 million.
- Reduction in the number of clients without water service by 28%.
- Improvement of AAA's operational and financial situation at.

#### Eastern Region:

- Valenciano Reservoir and Filtering Plant – Investment: \$110 million.
- Expansion of Water Treatment Plant in Caguas - Investment: \$36.4 million.
- Development of the Río Blanco Reservoir - Investment: \$128.1 million.
- Beatriz Reservoir in Caguas - Investment: \$63.2 million.

#### Northern Region:

- Rehabilitation of the Morovis Sur Filtering Plant– \$4.8 million.
- Completion of the Lares Filtering Plant- \$18 million.
- New Plant and Sanitary Sewage Line at Utuado - \$24 million.

#### Southern Region:

- Expansion and improvements to the Urban Filtering Plant at Yauco and Distribution System - \$61 million.
- New Filtering Plant at Toa Vaca - \$62 million.

#### Western Region:

- Sanitary Sewage Line at Cabo Rojo-Mayagüez - \$26 million.
- New Filtering Plant Las Marías and Distribution System - \$62 million.

#### Metro Region:

- New Transmission and Distribution System for Carolina-Canóvanas-Trujillo Alto: \$115 million.
- Transmission and Distribution System Guaynabo-Caguas-Gurabo-Juncos: \$99 million.
- Rehabilitation and improvements to the Sanitary Sewage Plant at Puerto Nuevo-\$49.7 million.

#### Puerto Rico Energy and Power Authority (AEE in Spanish)

The Authority has a short-term commitment to reduce the cost of energy sources. Within a medium range of time, it has a budget for major improvements of \$2,188 million. Its principal projects are:

- \$230 million were assigned for the Combined-Cycle power plant at Central San Juan to reduce energy costs.
- Conversion to Combined-Cycle operations at Central Cambalache with an investment of \$140 million.
- Replacement of Four Turbines at Mayagüez – investment of \$100 million.
- Evaluation project for alternative sources of energy.

#### Roads and Transportation Authority (ACT in Spanish)

Puerto Rico has a transportation network which allows us to reach every corner of our beautiful island. With the expansion and development of our road network, this administration will provide Puerto Rico with the adequate transportation facilities to comply with the community's needs and promote a first-rate economy. The Roads and Transportation Authority has a budget for major improvements ascending to approximately \$2,154 million. Investment for the 2006-2007 period is divided into the following:

- Projects for island-wide road network: \$100 million.
- Regional access projects: \$23 million.
- Projects to reduce urban congestion: \$86 million.
- Reconstruction and re-pavement projects: \$90 million.

- Construction of bridges: \$14 million.

## **Urban Infrastructure**

### ‘Ciudad Mayor’: A Caribbean Metropolis

‘Ciudad Mayor’ aspires to transform our metro region into the principal and most modern urban center in the Caribbean and to offer our city the amenities and infrastructure of a first-class community. It will also generate the region’s connections through collective transportation systems and an ample network of public spaces and green areas. ‘Ciudad Mayor’ wants to induce the re-development and urban transformation of important metro area sectors in an integrated and efficient way, to promote the maximum use of the land and a sustainable development.

### Collective Transportation System

The general objectives of the Integrated Transportation Plan are to develop the best urban assets within the limits of ‘Ciudad Mayor’ and to develop a livable, entertaining, competitive, user-friendly and productive city.

- Urban Train-Carolina-Estimated Cost: \$1.2 billion. Preliminary Design: December 2006.
- Streetcar system for Carolina and adjacent municipalities –Estimated Cost: \$700 million. To be inaugurated in December 2011.
- Caguas Train: \$500 million. Preliminary Design: May 2007.
- Streetcar to Old San Juan-Estimated Cost: \$500 million.

### Red Ambiental Metropolitana – (RAMA)- Metro Area Environment Network

The Metro Area Environment Network originated as a strategic plan to coordinate ‘Ciudad Mayor’s green infrastructure coherently. RAMA is the essential element for sustainability of the new vision for the Caribbean Metropolis. The Department of Transportation and Public Works is the agency responsible of providing public policy, while the National Parks Company will manage the implementation of RAMA.

- Connect Lineal Park Enrique Martí Coll and Santurce Park- \$1 million.
- Non-motorized Corridor within Muñoz Rivera Park, Central Park, and Condado Lagoon Park- \$8 million.
- Botanical Garden, UPR- \$30 million.
- Improvements to Barbosa Park- \$7 million.
- Metropolitan Arboretum at Doña Inés Park - \$3.3 million.
- Condado Lagoon Park- \$6.6 million.
- Los Capuchinos Park- \$1.5 million.
- Connection between Martí Coll Lineal Park and Luis Muñoz Marín Park.
- Paseo de las Fuentes Park- \$9.4 million.
- Santa Ana Environmental Center- \$650,000.
- Rehabilitation of Casa Blanca Gardens.

### The Knowledge Corridor:

The new center of our city is a transportation hub where that will maximize opportunities for the development of the economy of knowledge. The Knowledge Corridor stimulates a coordinated and high-quality urbanism and supports Puerto Rico Industrial Development Company's Operation Brainpower (*Mentes a la Obra* in Spanish), key elements for the Success Triangle: education and economy in a safe urban space.

- Comprehensive Cancer Center: Is being designed
- Molecular Sciences Building, UPR: \$60 million- In construction
- New facilities for Department of Education: Accepting proposals
- Improvements to Medical Center: \$20 million
- Botanical Garden, UPR: \$3 million were assigned; UPR will also contribute.
- Oso Blanco Penitentiary: In planning process

### Ciudad Red (City Network):

Will develop the Urban Train's surrounding areas with combined resources for homes, commerce, recreation, and government facilities, with an infrastructure investment of around \$900 million.

- BGF headquarters (Sagrado Corazón Station): After research, investment is estimated at \$130-\$160 million- Proposals are being evaluated.
- Headquarters for the Department of the Family and development of Hato Rey land parcel for mixed uses (Hato Rey Station): DF still evaluating the spaces needed.
- Development of Domenech land parcel for mixed uses (Domenech Station): \$19 million- To be ready in May 2007.
- Development of Roosevelt A land parcel for mixed uses (Roosevelt Station)- \$192 million- financing alternatives are being explored.
- Development of Roosevelt B land parcel for mixed uses (Roosevelt Station): \$30-35 million- To be ready in June 2007.
- Headquarters for Department of Justice and development for mixed uses (Estación Piñero): \$150 million- Is being programmed by the agency.
- Department of Education headquarters (Cupey Station)- \$200 million- Under proposal analysis.
- Department of Sports and Recreation headquarters- \$20 million- Currently under construction.
- Department of Health headquarters – locations are under study.
- Housing development at Martínez Nadal Station A- \$50 million- Permits- To be ready in December 2006.
- Housing development at Martínez Nadal Station B- \$50 million- Permits- To be ready in October 2006.

### San Juan Waterfront:

Plans for the *San Juan Waterfront* encompasses the area between north of Canal San Antonio and Fernández Juncos Avenue, from intersection Number 5 to dock 6, in an

extension of around 87 *cuerdas* (84.39 acres) traditionally dedicated to the ports activity. The project's approximate cost is \$1.5 billion, and will be funded through public and private investment, generating approximately 19,500 jobs in a 10- year period.

- Strategic Development Plan: \$1.5 billion.
- Mega-Yacht Marine: \$20 million- Construction to start in October 2007.
- Public housing: \$38 million- Being designed.

#### Convention District:

The project implies the transformation and urban re-development of more than 100 *cuerdas* (97 acres) of land at San Juan's center, from the former Miramar Naval Base into a new *district* for mixed use including homes, offices, commerce, entertaining centers, civic facilities, and hotels.

- Convention Center: already constructed
- Hotel Sheraton: \$209 million- To be inaugurated in September 2009.
- Residential and Commercial Development: \$60 million- To be inaugurated in June 2009.
- World Trade Center: \$60 million- Inauguration in January 2011.
- Urban Park: \$27 million- Inaugurated in September 2006.
- Puerto Rico Aquarium: \$60 million – Public bidding in April 2008.

#### The Santurce Revival:

Government has the joined efforts of several agencies with those of the private sector to re-vitalize an area that has been forgotten for decades. The following housing projects represent an investment of \$428 million by the private sector.

- Zona Moba: \$175 million- The project has been assigned. First phase and decking.
- Ciudadela: \$100 million- Under construction. To be inaugurated in December 2010.
- Portal del Museo: \$30 million – Construction starts in January 2007.
- Alameda del Museo: \$60 million- Construction starts in January 2007.
- Ponce de León 1800: \$40 million- The construction contract has been signed. To be inaugurated in March 2010.
- Metro Plaza: \$50 million – To be inaugurated in December 2008.
- Miramar Lagoon: \$40 million- Construction is under way. To be inaugurated in August 2009.

#### Cultural District:

The Cultural District offers a cultural program and activities to encourage a balanced re-vitalization of the Santurce area, including components such as functionality and ability come together to improve the community's quality of life.

- Symphony Hall: \$43 million- To be inaugurated in November 2008.

- Music Conservatory: \$50 million- Second construction phase. To be inaugurated in August 2008.

### **Mayagüez 2010:**

In 2004, the city of Mayagüez was chosen as headquarters for the *Juegos Centroamericanos y del Caribe Mayagüez 2010*. This sports event will bring attention from the Americas to the Western Region and will attract thousands of visitors. This administration considers the *Juegos Centroamericanos y del Caribe Mayagüez 2010* as a special opportunity to upgrade the 17 municipalities that belong to the Western Region.

The project implies an investment of around \$400 million in required infrastructure for the games, such as water, electricity and roads; economic development (tourism), housing (modernization of public housing and the *Villa Centroamericana*), recreation and sports.

- Centroamericano Complex: \$70 million- To be inaugurated in September 2009.
- Centroamericana Villa: \$90 million.
- Natatorium: \$25 million- Construction culminates in July 2009.
- Litoral Park: \$20 million- Construction culminates in March 2010.
- Tennis Complex: \$8 million - Construction culminates in August 2008.

### **Housing and Urban Centers: Housing Department**

A safe home for every Puerto Rican is a must to insure a better quality of life. Our commitment is to implement a series of proposals and strategies to advance the offer of adequate living quarters for every Puerto Rican family.

To optimize the living conditions of many sectors in our community and, at the same time, to keep up this Government's agenda to densify our urban centers, the Housing Department is developing 115 projects with a total investment of \$1,743 million.

- New Housing: 14,197 new living units under construction, of which 3,312 can be classified as refurbished public housing.

### **Portal del Futuro:**

With an investment of \$6,700 million, through various development phases, Portal del Futuro will generate close to 20,000 permanent jobs and 50,000 additional jobs in its different construction phases and the re-development of 3,500 *cuerdas* (3,395 acres), where the management and conservation of natural resources will be a priority. It consists of the *Plan Integral para el Desarrollo de las Facilidades de Roosevelt Roads* (Integrated Plan for the Development of Facilities at Roosevelt Roads).

### **Puerto de Las Américas:**

Puerto de Las Américas will include ample and modern world-class port facilities, currently under development at Ponce, Puerto Rico.

It will be able to serve Post-panamax ships with up to 50 feet in depth and to annually manage cargo up to 1.5 million TEU and over 600,000 tons of general cargo with over

5,000 feet of dock, as well as providing logistic and operational support under the federal program *Zona Libre de Comercio Exterior* (Free Trade Zone). The Las Americas Ports Authority will develop this project in four stages, for a total investment of \$750 million, generating approximately 12,000 direct and indirect jobs in a 10-year period, including the development of added-value industrial zones.

- Reconstruction of Docks 4, 5 and 6 (Phase I): \$40 million.
- Dredging of Ponce Bay (Phase I): \$14.5 million.
- Vans Terminal (Phase II): \$42 million.

### **Ports and Airports Infrastructure:**

To improve the capacity and arrival of passengers to the island, works are under way at several airports and seaports. In the Metro area, the primary goal is to generate an aerial infrastructure to support the new Convention District and its offer for tourism and business.

#### **Aguadilla:**

- Present investment for Aguadilla's Rafael Hernández Airport is of \$33.5 million until 2007, used to improve the existing facilities. This airport has experienced a radical transformation in recent years.
- Implementation of the airport's Master Plan – Will allow us to develop in the next 20 years a new, bigger and modern airport in the 800 available *cuerdas* (776 acres) for its expansion and development.

#### **Ceiba:**

- Development of Master Plan for the Airport– Waiting for final approval from the FAA – Projected investment within next 25 years: \$418 million.
- Development of Master Plan for Docks – Developing plans to convert maritime facilities for tourism and to transfer cargo and passenger operations to the Vieques-Culebra System.

#### **Carolina:**

- Terminal A: \$68.5 million – To be inaugurated in March 2008.
- Runway 10/28: \$64.7 million- To be inaugurated in September 2007.
- Aviación Sur Walkway: \$26.9 million. To be inaugurated in December 2007.
- Improvement to Terminal D and New Commercial Phase: \$15.2 million. To be inaugurated in November 2007.

## **Industrial Projects in Progress:**

From January 2005 through September 2006, the Puerto Rico Industrial Development Company (PRIDCO), the agency in charge of industrial promotion, has promoted 206 industrial projects with the commitment of creating 12,455 new jobs, a commitment of capital investment of \$514 million, and a commitment of payroll investment of \$250 million.

Some of the projects promoted by PRIDCO include:

Expansion of Pall Life Sciences in Fajardo with an investment of \$58 million and the creation of 250 new jobs. Pall Life Sciences manufactures filters for medical, pharmaceutical, bio-technical, and industrial applications.

Expansion of Microsoft Puerto Rico in Humacao with an investment of \$66 million and the creation of 94 new jobs. Microsoft Puerto Rico manages an exclusive center for the manufacture of optical devices for the Microsoft global operations, where Puerto Rico will supply a 100% for the Microsoft market in the Americas.

Expansion of Hamilton Sundstrand in Santa Isabel with an investment of \$40 million and the creation of 374 new jobs. Puerto Rico will be the exclusive manufacturing center of electronic cards for commercial and defense aircrafts for Hamilton Sundstrand clients.

Expansion of Infotech in Isabela with an investment of \$7 million and the creation of 100 new jobs. Infotech offers engineering services to the U.S. aerospace industry.

Abraxis Biosciences in Barceloneta with an investment of \$32 million for the acquisition of the Pfizer plant in Barceloneta and the creation of 450 new jobs. Abraxis produces injectable medicine for the treatment of several types of cancer.

Merck in Barceloneta with an investment of \$300 million and the creation of 200 new jobs. This investment will increase threefold the production of active ingredients of Vytarin, which controls cholesterol levels.

Roche Diagnostics in Ponce with an investment of \$45 million and the creation of 40 new jobs for the manufacturing of Accu-Check AVIVA, a new product for monitoring sugar levels in patients with diabetes.

Bristol-Myers Squibb in Manatí with an investment of \$200 million and the creation of 100 new jobs in the phase of formulating, filling and packaging of Orencia, for the treatment of rheumatoid arthritis.

LifeScan in Aguadilla with an investment of \$50 million and the creation of 350 new jobs for manufacturing One Touch, a product to measure glucose levels in diabetic patients.

Amgen in Juncos with an investment of \$1,000 million and the creation of 500 new jobs for the construction of new bio-technology facilities for formulating, filling and finishing of the pharmaceutical products NEUPOGEN, Neulasta, EPOGEN and Aranesp.

Atento in Trujillo Alto with an investment of \$2 million and the creation of 450 new jobs for the establishment of a new call center known as Centro de Atención Integral. This is the biggest Call Center in the Caribbean with 500 telemarketing stations and the capacity to process 500,000 calls daily.

Becton Dickinson in Cayey with an investment of \$53 million and the creation of 70 new jobs for the construction of a 60,000 s/f new bio-technology plant.

During fiscal year 2007, PRIDCO expects to promote 112 industrial projects, 25 of which will generate 4,000 new jobs with a capital investment of \$620 million. Close to 90% of the projected investment and 59% of the projected employments will be for the bio-sciences area, while 9% of the investment and 20% of jobs will be in the computing and telecommunications area. Additionally, PRIDCO is negotiating with close to 100 multi-national companies to promote their establishment and/or expansion of operations in Puerto Rico.

### **Principal Research Projects:**

Center for Research and Training in Bioprocesses – This plant will promote research and development of bio-technology products. Also, it will provide training in bio-technology to college students and personnel within the industry. The plant's construction started in September 2006, after the launching of the project attended by the Governor during that month.

Comprehensive Cancer Center – A joint project between the University of Puerto Rico and the M.D. Anderson Cancer Center at the University of Texas, the center has received The Partnership for Excellence in Cancer Research Award from the National Cancer Institute (NCI) for the sum of \$18 million. The project's goal is to eliminate the incidence of cancer and the disparities among minority groups.

Molecular Sciences Building – This building will shelter multi-functional facilities for research teams in the disciplines of molecular biology, protein structure and dynamics, nanotechnology, genetics, and molecular neurosciences.

Science and Technology Trust – Created to promote funds for research projects and science and technology development and to financially support the construction of infrastructure projects for research and development.

Scholarships Program – PRIDCO grants will be quadruplicated for master and doctoral students in the science and technological areas.

### **Impact on the Economy:**

The bio-sciences sector currently generates over 40,000 direct jobs and over 100,000 indirect jobs in Puerto Rico, represents about 28.6% of the GDP and close to 72% of all exports. The computing and telecommunications sector generates around 12,000 direct jobs.

### **Distinctive Results:**

Puerto Rico has been acknowledged by the Battelle Organization as one of only four U.S. jurisdictions specialized in three sub-sectors of the bio-sciences: medical and pharmaceutical products, medical devices and research. Additionally, Puerto Rico obtained from Battelle the biggest localization co-efficiency for bio-pharmaceutical jobs in 2006.

## APPENDIX F: INITIATIVES TO SUPPORT OUR OWN ('APOYO AL DE AQUI')

### The Key For Your Business:

The “La Llave para tu Negocio” (The Key For Your Business) program was created through Executive Order 2005-15. For this program, the Commerce and Export Company (CCE in Spanish), in collaboration with the Economic Development Bank (BDE in Spanish) designed a plan for the creation and strengthening of 1,000 Puerto Rican enterprises, offering access to capital and entrepreneurial training, so they could take on a leading role in the economic expansion and creation of new jobs. The program consists of two elements: training and financial planning.

The CCE entrepreneurial training program conducts the course “Cómo Establecer un Negocio y Redactar un Plan de Negocios” (How to Establish a Business and Prepare a Business Plan), especially geared to participants in “La Llave para tu Negocio” for the creation and establishment of a small business through the elaboration of a Business Plan. Students who complete the course receive a certificate from the Institute of Commerce, Export and Entrepreneurial Development as evidence of their participation and approval, equivalent to 50 accumulative hours of training. Themes discussed in the course include: development of the idea, basic viability research, the different kinds of businesses, zoning, permits and licenses, what is a business plan, the business plan components and how to write a business plan.

The BDE financing plan offers the participant: a maximum sum of \$50,000 for up to ten years at a fixed interest rate, plus .50% and up to 8.5%, which is 100% guaranteed by the “La Llave para tu Negocio” fund; a moratorium of up to 12 months in payment of interest and 6 months for payment of principal and closing charges can be received from financing.

To date, 6,793 participants have received orientation. Of these, 208 have been approved for a “La Llave para tu Negocio” loan, with an investment of \$9,121,518; 125 retained jobs and 646 projected employments. A total of 881 participants have completed the course and now in the stage of procuring the necessary documents to deliver the financing package at BDE; 57 cases are being processed by BDE and 43 persons are waiting to start the course.

### The ‘Puerto Rico Exporta’ Plan:

An innovative program from the Commerce and Export Company that promotes the constant and permanent export activity among Puerto Rican enterprises to contribute to Puerto Rico’s economic development.

It offers the entrepreneurial sector the basic tools for entering the international market. It emphasizes on essential concepts and practices so that businesspersons will develop strategic decision-making in the areas of international markets, finances, negotiations, contracts, logistics and transportation.

The “Puerto Rico Exporta” Plan is designed for every enterprise or individual who is established in Puerto Rico “bona fide”, with updated documents and permits, who offers

an exportable product and/or service, who has a commitment for exportation and who has the production and financial capacity to enter the desired international market.

They are offered: support by an international commerce specialist to help them identify potential markets for his/her product or service; assistance in the implementation of a simple methodology adapted to the particular needs of the business; a plan adapted to each industrial sector; the opportunity to participate in continuous educational courses to strengthen marketing strategies, thus reducing risks when exporting.

The “Puerto Rico Exporta” Plan consists of four stages that will help the entrepreneur to initiate and develop the export activity:

**Diagnostic Stage** – Through a questionnaire, the business is evaluated by an international commerce specialist who will determine the enterprise’s level of capacity for exportation.

**Development of Export Plan Stage** – Once the level of export capacity is determined, the enterprise will be individually advised by an international commerce specialist to prepare an export plan.

**Execution Stage** – When the plan is completed, the entrepreneur is offered a series of tools to start exporting. These can be commercial missions, international fairs and/or individual missions.

**Follow-up Stage**– Once the enterprise starts to export, the entrepreneur continues to receive specialized individual advice. During this process entrepreneurs are offered courses to train them in the fundamental aspects of modern practices for international commerce and the necessary tools to access exterior markets.

As a result of the initiatives related to exports, since 2006 the CCE has added to its portfolio as exporting clients or those with the capability to export, 156 enterprises for a grand total of over 450 businesses.

Since October 2005, CCE has helped 36 enterprises to export their products for the first time. Some of them are Greenpack, Café Bello, Cruz Consulting, Transmart, and SYC Consulting, among others. And, as to the same date, it has also helped companies that already export to expand to over 80 new markets with the essential help of the Puerto Rico offices abroad.

Seven commercial missions have been conducted and international fairs have been visited, with an investment of \$209,000 and the participation of 90 enterprises. Projected sales for this year reach \$30,773,000. For each dollar that has been invested, \$147 in sales was achieved.

#### Set Aside:

For every one million dollars that the Puerto Rico government buys in local products, 25 direct, indirect or induced jobs are created. If we put that money to work for our people, the growth potential will be unprecedented.

“Apoyo al de Aquí” will be a priority for every government agency, so that entrepreneurs, laborers and businesspersons will feel that Puerto Rico is supporting their work.

That is why the “Programa de Reservas de Compras del Gobierno” (Set Aside) was established through Executive Order. This initiative requires that fifteen percent (15%) of governmental purchases and contracts go to the small and medium sized Puerto Rican enterprises. Additionally, Law 129 of October 7, 2005 (“Ley de Reservas en las Compras del Gobierno del Estado Libre Asociado”) was approved, through which the Program for Government Purchases was created. This program consists of assigning 15% of the budget for purchases of agencies and government instrumentalities to small and medium sized local<sup>25</sup> enterprises.

Small and medium sized businesses will have access to government contracts to supply articles or services. Through this assignment, local suppliers will benefit versus the big enterprises, since without this incentive they would not be able to compete.

This 15% incentive is an instrument so that the government can become a promoter and facilitator for the creation and establishment of new enterprises, thus helping in the growth of native capital.

#### CetPymes:

The “Centro Expreso de Trámites para las Pequeñas y Medianas Empresas” (known as CetPymes) was created through Executive Order to accelerate the granting of permits for commercial use to small and medium sized entrepreneurs.

The primary function of CetPymes is to reduce the time for obtaining permits for commercial use from 6-8 months to 30 days, while reducing transactions by 50%. This is a new concept by which entrepreneurs and businesspersons will find permits, incentives, and advise, among others, in just one place. The agencies that are represented and the services offered are the following:

- Regulations and Permits Administration– orientation on requisites and permits of use.
- Commerce and Export Company – salary incentives, business plans and financial packages.
- Fire Department – advise, commercial inspection, fire extinguishers inspection, labeling of emergency exits and inspection of electric systems.
- Health Department – orientation, granting of endorsements, coordination for sanitary inspection of all public establishments, coordination for studies of need and convenience (laboratories, hospitals, drugstores, medical offices).

Six CetPymes have been inaugurated to-date: Mayagüez, Arecibo, Carolina, Bayamón, Caguas and Ceiba. Each of these centers has reported a considerable reduction in the process of granting permits, with the average waiting time now is of 25 days for the

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<sup>25</sup> To the effect of the “Reserves Program”, small and medium-sized enterprises are defined as those employing less than twenty five (25) workers and whose gross income are not above five million dollars (\$5,000,000.00).

granting of a permit for use. For example, in Mayagüez a conditioned approval takes seven working days and a final approval takes 20 working days.

In the six centers already operating, 7,386 transactions have been processed since January 2005, and around 6,364 conditioned or final permits have been granted, resulting in the promotion, in record time, of 26,418 jobs. The seventh center will open in December 2006, while new services such as Comercio al Día (Commerce Update), will be added.

#### Commerce To-Date:

The “Apoyo al de Aquí” program acknowledges the need to promote initiatives that will benefit local enterprises, so they can be active participants in stimulating Puerto Rico’s economy.

The “Comercio al Día” (Commerce To-Date) project, from the CCE, will open doors of access to world-class services for the local entrepreneur, both for new and expanding businesses. The concept of “One Stop Shop” is a very important one within the CCE’s new concept of services.

Under this program the CCE will emit the Ideal Certificate as evidence of the solicitor’s status respecting eligibility requirements to receive endorsements, certifications or permits from the agencies.

This initiative will offer the local entrepreneur the way to make flexible transactions with reduced costs, so he/she can process the corresponding endorsements and take advantage of the government incentives, among other benefits. This service will be integrated to the new services of “CetPymes”.

Documents that will be granted through this program could include, but will not be limited to:

State Department: Good Standing Certificate.

Internal Revenues Department: Negative Certification of Income Tax Debt; Certification of Declared Income Tax Form in the last Five (5) Years and Certification of Tax Exemption.

Labor and Human Resources Department: Negative Certification of Debt for Drivers Insurance and Negative Certification of Debt for Unemployment and Incapacity Insurance.

Administration for Minors’ Support: Certification of Individual or Employer Compliance.

Corporation for the Fund of State Insurance: Certification of Compliance with the Workers Insurance and Negative Certification of Debt.

Puerto Rico Police: Certification of Police Record.

Center for Revenues of Municipal Income (CRIM): Certification of Declared Income on movable property; Negative Certification of debt on movable or unmovable property and Certification on Debt on All Concepts.

The Ideal Certificate will be valid for one (1) year. It will:

- Eliminate barriers for local businesses in their creation and/or development.
- Minimize bureaucracy on existing processes to acquire endorsements from government agencies
- “One Stop Shop” concept.
- Inter-agency commitment and collaboration.
- Online Client Magement System (CRM).
- Will imprpove the image of services rendered by government.
- Minimize cost vs. doing transactions at each agency.
- Will be welcomed by labor unions.
- CetPymes’ infrastructure can be used to offer the service.

## APPENDIX G: HOTEL PROJECTS

### LIST OF HOTEL PROJECTS BEING DEVELOPED

PROJECTS IN OPERATION OR READY TO BEGIN OPERATING								
	LOCATION	ROOMS	CATEGORY	CONSTRUCTION BEGINS	OPERATION BEGINS	ESTIMATED INVESTMENT	# JOBS	
BY 2008								
1	Sheraton Four Points Candaleón	Humacao	125	Hotel	Dic-2003	25 de Abril-05	\$ 13,800,000	100
2	Condado Lagoon Villas	San Juan (El Condado)	168	Condo Hotel	Octubre 2001	Jul-05	\$ 61,159,551	66
3	Hacienda El Jibarito	San Sebastián	19	Hotel	Dic-2003	Dec-05	\$ 4,200,000	24
4	Faro Suites (Antiguo Villa Arenas)	Aguadilla	78	Hotel	Aug-04	2005	\$ 10,107,925	109
5	Passion Fruit	Fajardo	12	Casa de Huéspedes	Febrero 2001	2005	\$ 1,500,000	15
6	Chateau Cervantes	San Juan	12	Casa de Huéspedes	May-05	2006	\$ 3,950,000	25
7	Hotel River View	Añasco	16	Hotel	Jun-05	Agosto 06	\$ 482,000	7
8	Hotel San Miguel	Bayamón	44	Hotel	Junio 2004	Jul-06	\$ 22,000,000	30
9	SJ Suites	San Juan	15	Hotel	N/A	2005	N/D	15
SUBTOTAL		489				\$116,899,476	381	
PROJECTS IN CONSTRUCTION OR READY TO BREAK GROUND								
	LOCATION	ROOMS	CATEGORY	CONSTRUCTION BEGINS	OPERATION BEGINS	ESTIMATED INVESTMENT	# JOBS	
BY 2008								
10	Campomar Hotel & Restaurant	Toa Baja	65	Hotel	Ago-2005	2007	\$ 7,000,000	35
11	Lucía Beach Villas	Yabucoa	15	Hotel	May-05	2007	\$ 1,075,000	29
12	Hotel Plaza Las Delicias (antes conocido como Casa Saurí)	Ponce	60	Hotel	2005	2007	\$ 8,808,803	46
13	Pichis (expansión)	Guaynilla	136	Hotel	2005	2008	\$ 51,300,000	60
14	Hotel Distrito Centro de Convenciones	San Juan	500	Hotel	Agosto 2006	2008	\$ 209,400,000	750
15	Courtyard by Marriott (Antiguo Hospital)	Aguadilla	160	Hotel	Nov-04	Mayo 2007	\$ 13,642,075	224
16	Magdalena Bed & Breakfast	San Juan (El Condado)	20	Casa de Huéspedes	2004	2006	\$ 3,000,000	15
17	Casa del Valle	San Juan	9	Casa de Huéspedes	2006	2006	\$ 1,392,000	7
18	Bahía Beach, St Regis	Río Grande	150	Hotel	2007	2008	\$ 38,380,000	250
19	Puerto Real (Pescadería Rosas)	Cabo Rojo	30	Hotel y Marina	2006	N/D	N/D	42
20	Cayo Largo Resort & Golf	Fajardo	314	Hotel	1999	2008	\$ 118,689,358	300
21	Condado Lagoon Villas (2da. Etapa)	San Juan (El Condado)	89	Hotel	2006	Dic-2007	\$ 32,400,000	32
22	Sol Meliá Vacation Club	Río Grande	27	Timeshare	Julio 2005	Marzo 2007	\$ 20,000,000	48
23	El Consulado (Courtyard by Marriott)	San Juan (El Condado)	100	Hotel	2006-2007	2008	N/D	N/D
24	Condado Trio - La Concha	San Juan (Condado)	428	Hotel-Condo-hotel	Jun-05	Abril 2007	\$ 100,000,000	300
25	Treasure Island	Cidra	36	Hotel	2005	2006	\$ 5,500,000	35
SUBTOTAL		2,139				\$610,587,236	2,173	
IN CONSTRUCTION, TO BE INAUGURATED AFTER 2008								
	LOCATION	ROOMS	CATEGORY	CONSTRUCTION BEGINS	OPERATION BEGINS	ESTIMATED INVESTMENT	# JOBS	
26	Condado Trio Hotel Vanderbilt	San Juan	216	Condohotel	2009	2009	\$ 124,000,000	130
			93	Hotel	2005			20
27	Mila Castillo	Humacao	24	Villa Turística	2006	2008	\$ 3,500,000	20
SUBTOTAL		333				\$127,500,000	150	
PROYECTOS EXISTENTES EN EXPANSIÓN								
	LOCATION	ROOMS	CATEGORY	CONSTRUCTION BEGINS	OPERATION BEGINS	ESTIMATED INVESTMENT	# JOBS	
BY 2008								
28	Crow's Nest (expansión)	Meques	48	Hotel	2005	2008	\$ 5,000,000	30
29	Inn on the Blue Horizon (expansión)	Meques	32	Condohotel	2007	2008	\$ 11,000,000	28
30	Trois Sirenes (Villa Montaña II)	Isabela	70	Condohotel	Pendiente	N/D	\$ 26,000,000	25
SUBTOTAL		150				\$42,000,000	83	

## APPENDIX H: EARLY RETIREMENT PLANS, INCENTIVES FOR RETIREMENT AND VOLUNTARY SEPARATION

### **Sports and Recreation Department:**

The Sports and Recreation Department (DRD in Spanish) has drawn a draft of the legislation to implement an Early Retirement Program with the following offering:

- % of compensation to every employee who, on or before June 30 of 2007, has served for 24.5 years, quoted by the Retirement System (percentage of compensation is subject to the results of an actuarial study requested from the Retirement Systems Administration);
- Total settlement for accumulation of sickness licenses and annual license.

It is estimated that 109 employees qualify to participate in this program.

Once the Retirement Systems Administration informs the DRD of the actuarial cost, the DRD will determine the compensation percentage to be included in the project and will submit it to the Legislature.

### **Puerto Rico Tourism Company:**

The Puerto Rico Tourism Company (CTPR in Spanish) submitted to the Puerto Rico House of Representatives Project 2689 to implement an Early Retirement Program. In addition, the agency offered its employees a Plan for Voluntary Separation.

The Early Retirement Program offers the following:

- 75% of compensation to every employee who, on or before, June 30, 2006 would have served for 20 years, quoted by the Retirement System;
- Total settlement for accumulation of sickness licenses and annual license;
- Health Plan coverage for 1 to 2 years, according to the years of service.

It is estimated that 114 employees qualify for this program. CTPR is waiting for the project to be approved by the Legislature.

The Voluntary Separation Plan offered by the CTPR includes:

- Nine months' salary;
- Total settlement for accumulation of sickness licenses and annual license;
- 6 to 12 months of Health Plan coverage according to the years of service.

It is estimated that 71 employees will benefit from the Voluntary Separation Plan.

### **Puerto Rico Industrial Development Company (PRIDCO):**

The Puerto Rico Industrial Development Company (PRIDCO) made two offerings to its employees: the Early Retirement Program and the Voluntary Separation Plan.

The Early Retirement Program at PRIDCO, as established by Law Number 143 of November 22, 2005, offers:

- 75% of compensation to every employee who, on or before January 31 2006 would have served 24.5 years, quoted by the Retirement System;
- Total settlement for accumulation of sickness licenses and annual license;
- Health Plan coverage for 2 years.

147 employees accepted this program.

The Voluntary Separation Plan offered by PRIDCO includes:

- Nine months' salary;
- One week's salary for each year of service;
- A 50%-150% differential for employees with salaries under \$35,000;
- Total settlement for accumulation of sickness licenses and annual license;
- 9 to 24 months of Health Plan coverage, according to the years of service.

215 employees benefited from the Voluntary Separation Plan.

### **National Parks Company (Compañía de Parques Nacionales):**

The National Parks Company (CPN in Spanish) submitted to the Senate the S. P 1545 to implement an Early Retirement Program. Additionally, it offered its employees a Plan of Incentives for Retirement, as established in the Governor's Executive Order "OE-2006-14".

The Early Retirement Program offers the following:

- 75% of compensation to every employee who, on or before December 31 2006 would have served 24.5 years, quoted by the Retirement System;
- Total settlement for accumulation of sickness licenses and annual license.

It is estimated that 107 employees qualify to participate in this program.

This project awaits for the actuarial study requested from the Retirement Systems Administration and for approval from the Banco Gubernamental de Fomento of a credit line of \$16,000,000 requested on August 23, 2006 to cover costs. At present, the Senate is about to put the measure on its calendar.

8 employees benefited from the Plan of Incentives for Retirement, as established in the Governor's Executive Order "OE-2006-14". The projected annual payroll savings are estimated at \$350,000.

## **Commerce and Export Company (Compañía de Comercio y Exportación):**

The Commerce and Export Company (CCE in Spanish) submitted to the Puerto Rico House of Representatives the P. of the C. 2690 to implement an Early Retirement Program. Additionally, it offered its employees a Plan of Incentives for Retirement with terms approved by its Board of Directors (note that this is not the Plan of Incentives for Retirement established in the Governor's Executive Order "OE-2006-14").

The Early Retirement Program offers:

- 75% of compensation to every employee who, on or before December 31 2006 would have served 24.5 years quoted by the Retirement System;
- Total settlement for accumulation of sickness licenses and annual license;
- Health Plan coverage for 1 year.

It is estimated that 41 employees qualify for the program.

Senator Jennifer González did not accept the results of the actuarial study prepared by the Retirement Systems Administration and requested an actuarial study by external consultants, which is now in process.

The Plan of Incentives for Retirement offered by the CCE granted the following benefits:

- Merit Pension for eligible employees;
- \$10,000 Bonus;
- Health Plan coverage for 1 year.

19 employees accepted this Plan of Incentives for Retirement.

## **Administration of Services and Development of Aquaculture:**

The Administration of Services and Development of Aquaculture (ASDA in Spanish) submitted to the Puerto Rico House of Representatives the P. of the C. 1264 to implement an Early Retirement Program. Additionally, it offered its employees the Plan of Incentives for Retirement, as established in the Governor's Executive Order "OE-2006-14".

The Early Retirement Project offers:

- 75% of compensation to every employee who, on or before June 30, 2006 would have 25 years of service quoted by the Retirement System and is 50 years old;
- 75% of compensation to every employee who, on or before June 30, 2006 would have 30 years of service quoted by the Retirement System and is not yet 50 years old;
- 65% of compensation to every employee who, on or before June 30, 2006 would have served from 24 to 25 years quoted by the Retirement System and is already 65 years old;
- Total settlement for accumulation of sickness licenses and annual license;
- Christmas Bonus for one year;
- Employer contribution of one year for payment of health plan;
- Payment of 50% of un-quoted services up to a maximum of 2 years.

It is estimated that 140 employees qualify for this program.

In relation to the Plan of Incentives for Retirement, as established in the Governor's Executive Order "OE-2006-14", nine employees had entered the plan as of September 30, 2006. It is expected that by December 31, 2006 the process will be completed for the remaining 7 employees. The projected annual payroll savings is estimated at \$600,000.

**Autoridad de Edificios Públicos (Public Buildings Authority):**

The Public Buildings Authority offered its employees a Plan of Voluntary Separation which includes:

- 6-months salary;
- 1 week salary for each year of service;
- Christmas Bonus;
- Total settlement for accumulated licenses;
- 3 to 12 months of health plan coverage according to the employee's years of service.

## APPENDIX I: SUMMARY OF THE PROPOSAL OF THE PUERTO RICO MAYORS' ASSOCIATION

### I. **The Municipal Reform and Municipalization**

Our municipal governments are, without a doubt, the organisms that are closest to the people. Every day, citizens look to their municipal governments to satisfy their needs of employment, housing, infrastructure works and everything that has to do with improving the quality of their lives. That is why these entities are crucial and need the powers and faculties that will provide them with the authority to answer the people's claims in a prompt and agile manner. Our government system, the Commonwealth, offers these municipal governments the opportunity to develop their autonomy, in order to have the necessary flexibility and disposition to meet the people's needs.

The Municipal Reform, which came into being in Puerto Rico in 1991 through the approval of five (5) laws, initiated the acknowledgement –by enactment- of the rights of municipal governments before the central government and the citizens<sup>26</sup>. Such precepts as the delegation of powers to municipalities, the authority to plan the use of land within their municipal limits, and the decentralization of functions from central government, are some of the Reform's benefits that were converted into law.

A decade has gone by since the instauration of the Reform. The Puerto Rico Mayors' Association (AAPR) has proposed a series of initiatives to the Central Government that will give municipal governments and their people additional tools to implement services and programs framed within the realities of our times and will promote a greater autonomy. Some of them are:

- **A complete decentralization** of the central government functions towards the municipal governments, based on the principle that they are the ones with the obligation to offer services to the people within their territory.
- **A regionalization** of services from central government towards the regions, framing their organizational configuration so that the services and decision power of the agencies be offered in the regions, and not by central offices in San Juan. This will bring speed and agility in the services rendered and immediate attention to the people's needs.
- Together with the regionalization principle, there is the principle to **reorganize the government based on a configuration by districts or by economic focus**. This new organization will allow that the regions and services offered by the agencies may be conformed by the senatorial districts so that the political representatives, the mayors, representatives from the central government agencies, and even the Governor will be able to elaborate clear and coordinated public policies for each region.

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<sup>26</sup>Law of Autonomous Municipalities, Law of Property Tax, Law of Municipal Financing, Law of the Center for Collection of Municipal Income and Law of Municipal Warrants.

- Another crucial aspect is **Municipalization**, that is, to reestablish the legitimacy of government through local power – the citizen’s active participation in the governing process.
- The design of a **congruent fiscal system**, ingrained within the Commonwealth, which guarantees the economic viability at the government’s local level.

## **II. The Regionalization and Decentralization of Services**

The concept of Regionalization involves various precepts:

- The regionalization of services;
- The decentralization or transfer of services from central government to the municipalities;
- The configuration and administrative reorganization of central government agencies, and
- The implementation of territorial order plans.

Regionalization of Services can be understood as the commitment of the central government to offer its essential services in regions, and not from the central level in San Juan, since regional delimitations vary from case to case and as a consequence it is impossible to render the fundamental functions that Central Government and municipalities should execute, such as administration, planning, resources administration, establishment of priorities, and implementation of projects, policies and programs.

**We propose to establish the Region as a concept in the process of the government reorganization, both for planning and order purposes as for the administrative and fiscal realities and, above all, in what concerns to infrastructure, since our principal systems function in the regional environment.**

When we talk about Decentralization of Services in the topic of Regionalization, we understand that services offered to municipalities by central government agencies must be significantly amplified so that the decision power will take place at the regions. Work and decision-making must be one of consensus among the agencies’ central offices and municipalities, so that particular needs can be distributed according to the region’s particularities.

An important activity in the reforming process of the municipal government is the attention and assignment of economic resources for municipalities that have not yet established and implemented their plans for territorial order, which will allow the delegation of a bigger number of competences. This factor is essential to decentralization and for giving municipalities a real thrust to obtain greater autonomy.

## **III. Agency Functions that might be delegated to Municipalities**

During our regional visits and interviews with the Mayors in the last few months, we have discussed delegating to the municipalities the following functions conducted by central government agencies. Clearly, such transfer of functions entails transferring the funds to carry them out as well.

#### Department of Education:

- There are many abandoned public schools that can be transferred from the Department of Education to the municipalities to be used in municipal projects.
- There are properties, lands, and structures in disuse or abandoned, that municipalities can put to good use in the development of different projects through assignment agreements with the Department of Transportation and Public Works.
- Municipalities provide maintenance to public schools, not OMEP. The possibility should be explored for the maintenance funds under OMEP to be given to the municipalities since in most cases it is the municipalities who provide the service (i.e., repair of classroom doors, pipes, sanitary facilities, etc.).
- The experience shared by all Mayors alike is that OMEP payments to the municipalities are slow and through reimbursement, thus affecting the municipalities' cash flow.
- There is duplicity of efforts between the central government and the municipalities related to projects involving the students.
- There is a lack of symmetry in the organization of regions of the Department of Education.

#### Department of Transportation and Public Works:

- Funds for the maintenance and paving of roads de las carreteras currently in the hands of the DTOP must be transferred to the municipalities.
- The reimbursement mechanism is unacceptable because it affects the finances of the municipalities.
- Inmate brigades, Hogares CREA, and others, should be called to work more frequently. Furthermore, the municipal partnerships option should be studied more in relation to this type of project.
- Grass in state roads has been totally neglected by the DTOP, and the municipalities have been forced to assume the cleanup of state roads although it is not their call. We are suggesting that the DTOP transfer the pertinent funds to the municipalities.

#### Puerto Rico Electric Power Authority:

- Fused lamps or burned out lightbulbs are one of PREPA's greatest problem. The municipalities have conducted an inventory count. They suggest coordinating brigadas in towns and municipalities in conjunction with PREPA to conduct the necessary repairs.

#### Department of Natural and Environmental Resources:

- The Department of Natural and Environmental Resources conducts a limited cleanup of creeks. Municipalities are interested in obtaining the pertinent permits to take care of this.
- Issuing permits is slow, and delegating said faculty is also proposed.

### Department of Sports and Recreation:

- Agreements should be encouraged with DRD for the cleanup of parks.
- Sports-related activities should be regionalized. An example would be celebrating regional sports competitions.

### Special Communities:

- The Special Communities program is centralized and must be decentralized to the municipal governments.
- There are multiple projects with assignment of funds that have not even started. The experience shared by municipalities who have executed agreements for the transfer of funds is that the projects move faster and are executed more effectively.

We have succinctly summarized recommendations for decentralizing central government functions to the municipalities, the regionalization of services proposed, and that the decision power of central government agencies reside in those regions, as well as various examples of functions that can be delegated by the central government to the municipalities.