



PUERTORICO  
CREDIT  
CONFERENCE  
2011

# Strategic Model for a New Economy - Implementation Highlights and Results

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*Secretary*  
*Department of Economic  
Development and Commerce*

*April 8, 2011*



## Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government of Puerto Rico's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government of Puerto Rico, its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



# Agenda

1

Implementation of the Strategic Model for a New Economy

2

President's Task Force on Puerto Rico - Strategic Projects

3

Economic Performance Update



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**Implementation of the Strategic Model for a New Economy**

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# Conceptual Framework of the Strategic Model for a New Economy (MENE\*)

**OBJECTIVE:**  
Growth, Competitiveness and Jobs

**RESTORE GROWTH**

Short- and Medium Term Stimuli

Long-Term Growth Measures

**METRICS Dashboard**

**INFRASTRUCTURE**

Physical Infrastructure

Strategic / Regional Projects

**METRICS Dashboard**

**COMPETITIVENESS**

Functional Infrastructure

Key Reforms / Cost Reduction

**FISCAL AND CREDIT STABILIZATION**

**TRANSPARENCY AND COMMUNICATION**

\* MENE is the Spanish acronym for Strategic Model for a New Economy



# We have approved and implemented reforms to reduce the costs of doing business and improve the competitiveness of our economy

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

### PPPs Reform

- Objective: **Act No. 29 of 2009:** Creates new public policy related to infrastructure investment and public services

Approved

### Permits Reform

- Objective: **Act No. 161 of 2009:** Creates a new permits system that is *transparent, agile, efficient and accurate*

Approved

### Executive Branch Re-organization and Modernization

- Objective: **Act No. 182 of 2009:** Promotes a government structure that responds to current needs and fosters a better quality of life

Approved

### Energy Reform

- Objective: **Act No. 82 and 83 of 2010:** To establish a new energy policy and programs to diversify the sources of energy through RPS\* and the GEF\*\*

Approved

### Tax Reform

- Objective: **Act No. 154 of 2010 and Act No. 1 of 2011:** To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates

Approved

### Labor Reform

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

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

\*\* GEF = Green Energy Fund



# We have approved incentives to stimulate economic activity in strategic sectors

## Promote Puerto Rico's incentives to attract investment to the Island

### Housing Incentives

- Objective: **Act No. 132 of 2010:** Create an incentives program for purchasing residential and commercial properties

### Tourism Development

- Objective: **Act No. 74 of 2010:** Viability for the development of world-class tourism projects through an aggressive incentives program

### Tourism Incentives for the Economic Development of Municipalities

- Objective: **Act No. 118 of 2010:** Lay the groundwork to expand our tourism development in strategic locations to improve our position as a premier tourist destination

### Development of the Film Industry

- Objective: **Act No. 27 of 2011:** Provide a framework for continued development of film industry infrastructure and tax incentives to attract foreign capital

### Renewable Energy

- Objective: **Act No. 83 of 2010:** Create measures to stimulate the development of sustainable energy systems by establishing the Green Energy Fund

### International Insurance

- Objective: **H.B. 3034:** Amend the Insurance Code of Puerto Rico to secure a tax regime that will apply to international insurers



# Puerto Rico is an ideal location for the establishment of export financial services companies

Act #73  
05/2008

## Economic incentives for export financial services companies

### Export services incentives:

- ✓ 4% income tax
- ✓ 90% exemption on property tax
- ✓ 60% exemption on municipal tax
- ✓ 0% tax on dividend distributions after the first \$250,000 in compensation payments

Promotional Strategy

### Promotional Strategy

- Incorporate into promotional road show
- Meet with local and foreign bankers on the benefits of the incentives
- Integrate the financial services and insurance sector into the PR Does it Better Branding Campaign

### Qualified Export Services

Investment Banking

Asset Management

Alternative Investment Management

Management of activities related to Capital Investment

Management of Hedge Funds

Private Equity Placement

Equity Pool Management

Trust Fund Management

Escrow Account Management



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**President's Task Force on Puerto Rico - Strategic Projects**

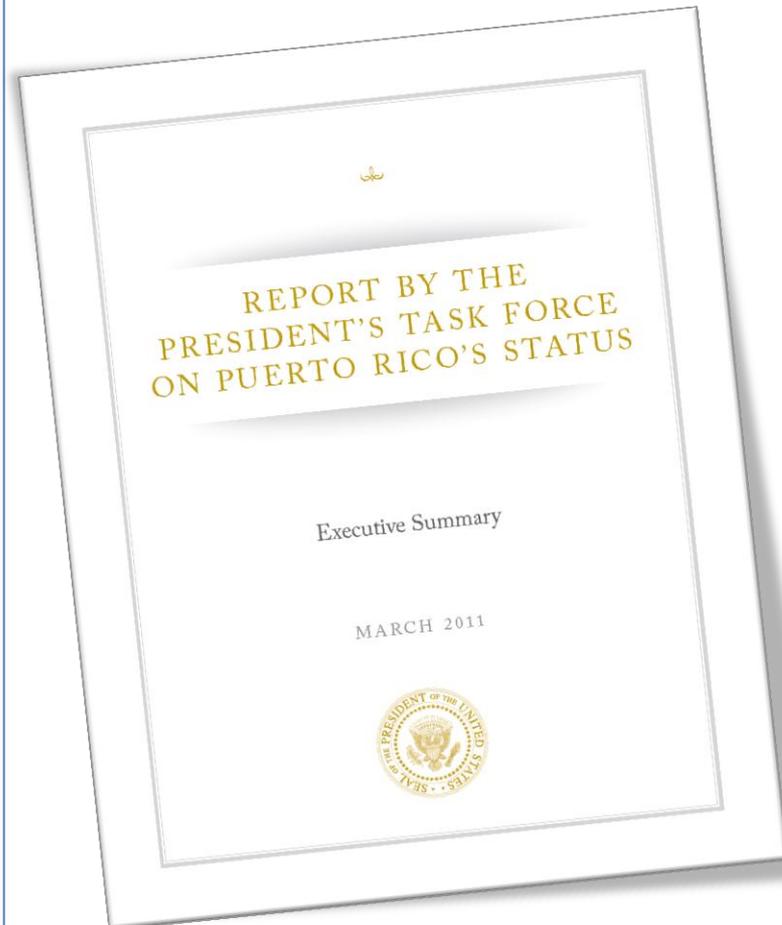
3

Economic Performance Update



# The projects that this Administration has begun to implement have been taken by the President's Task Force

## President's Task Force on Puerto Rico's Status - Economic Development



### Economic Recommendations:

- ✓ *Recommendation #18: Connecting Puerto Rico to Broadband Access*
- ✓ *Recommendation #19: Naval Station Roosevelt Roads (Ceiba, Puerto Rico)*

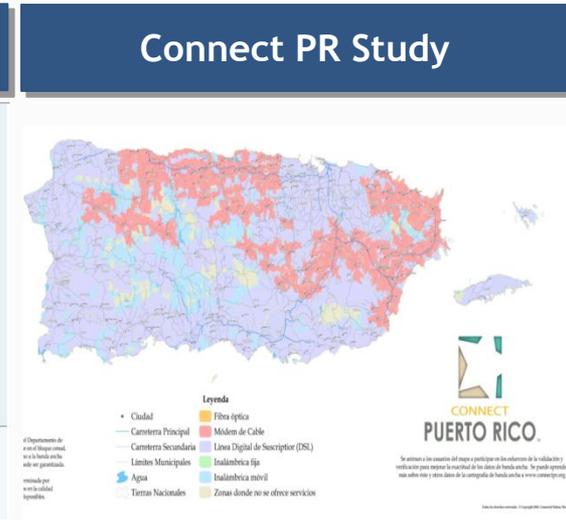
### Recommendations for Building Competitive Industries:

- ✓ *Recommendation #1 and #3: Renewable Energy and Energy Efficiency Strategy for Puerto Rico / Renewable Energy Tax Credits*
- ✓ *Recommendation #7: Puerto de Las Américas (Port of the Americas)*
- ✓ *Recommendation #8: Creating the Caribbean's Health Science and Research Center in Puerto Rico*



# White House Task Force Economic Recommendations: Recommendations #18 and #19

Item	Connecting Puerto Rico to Broadband Access
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• <b>Approved Act No. 101 of 2010</b> “<i>The Development of Free Internet Access Centers Act</i>” which orders the Telecommunications Regulatory Board to establish free internet centers and WiFi access in each municipality</li> <li>• <b>\$40 MM</b> in ARRA funds have already been awarded for Mapping/Planning, INTECO Broadband Infrastructure Project, and the PR Bridge Initiative</li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Commence construction on the two ARRA funded projects (INTECO Broadband and the PR Bridge Initiative)</li> </ul>



Item	Naval Station Roosevelt Roads
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• An agreement (MOU) has been signed to transfer certain utilities to the Local Redevelopment Authority (LRA)</li> <li>• <b>\$700,000</b> has been invested in the Institute of Aviation and Maintenance to commence aviation classes</li> <li>• <b>Approved Act No. 118 of 2010</b> “<i>Tourism incentives for the economic development of Municipalities Act</i>”</li> <li>• EDB provided a loan guarantee program for Small and Medium Businesses in Vieques and Culebra totalling <b>\$2 MM</b></li> </ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Approve amendment to the EDC and commence transfer of 1,300 acres of land to the Government of Puerto Rico</li> </ul>





# White House Task Force Competitive Industries: Recommendations #1, #3 and #7

Item	Renewable Energy and Energy Efficiency Strategy for Puerto Rico / Renewable Energy Tax Credits	Proposed 75 MW Wind Farm
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• <b>Approved Act No. 82 of 2010</b> “Public Policy on Energy diversification through Renewable and Alternative sources”</li> <li>• <b>Approved Act No. 83 of 2010</b> “Green Energy Incentives Act”, assigning \$290 MM over ten years, available July 1, 2011</li> <li>• <b>Signed</b> (as of April 2011) - <b>17 Power Purchase Agreements</b> between PREPA and IPPs totalling approximately <b>630 MW</b> from renewable and alternative energy sources</li> </ul>	
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Six Renewable energy projects totalling <b>\$827 MM</b> in investment and generating up to <b>795 jobs</b> during construction are expected to commence construction in 2011</li> </ul>	
Item	Puerto de las Américas (Port of the Americas)	Container Terminal
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• Completed the purchase and delivery of two Super Post-Panamax cranes</li> <li>• Completed the installations for handling up to 250,000 TEUs</li> <li>• <b>\$56 MM</b> have been requested from the Federal Tiger II Program</li> <li>• SGR Ponce is the first manufacturing company that will use the Port and the Value Added Zones, creating <b>115 jobs</b></li> </ul>	
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Continue with the basic infrastructure investment program to accommodate up to 500,000 TEUs</li> <li>• Attract international businesses to value added zones throughout the southern region of Puerto Rico</li> </ul>	



# White House Task Force Competitive Industries: Recommendation #8 and update on Bahía Urbana

Item	Creating the Caribbean's Health Science and Research Center in Puerto Rico	Science City
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• <b>Approved Act No. 150 of 2010</b> to promote the participation of UPR faculty in intellectual property development and technology transfer</li> <li>• <b>Filed HB 2964 / SB 1839</b> to create the Science District</li> <li>• <b>Approved the Site Consultation</b> for the development of the Science City project</li> <li>• GDB approved a <b>\$64.5 MM</b> line of credit for the MD Anderson Comprehensive Cancer Center</li> </ul>	
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Approval of Science District legislation</li> <li>• Continuation of infrastructure projects / capital improvements</li> </ul>	<h3 data-bbox="1421 808 1818 886">Interim Improvements Program</h3>
Item	Bahía Urbana	Interim Improvements Program
<b>Progress:</b>	<ul style="list-style-type: none"> <li>• <b>\$31 MM</b> were assigned for the immediate improvements program of which <b>\$6 MM</b> came from the Local Stimulus Plan</li> <li>• <b>Approved the Site Consultation</b>, the Environmental Impact Statement and the Construction Permit from the municipality</li> <li>• <b>Started construction</b> on the interim improvements on the project footprint</li> </ul>	
<b>Next Steps:</b>	<ul style="list-style-type: none"> <li>• Continue with the implementation of the immediate improvements program</li> <li>• Notice to proceed for construction of the interim improvements on Piers 7-8</li> </ul>	



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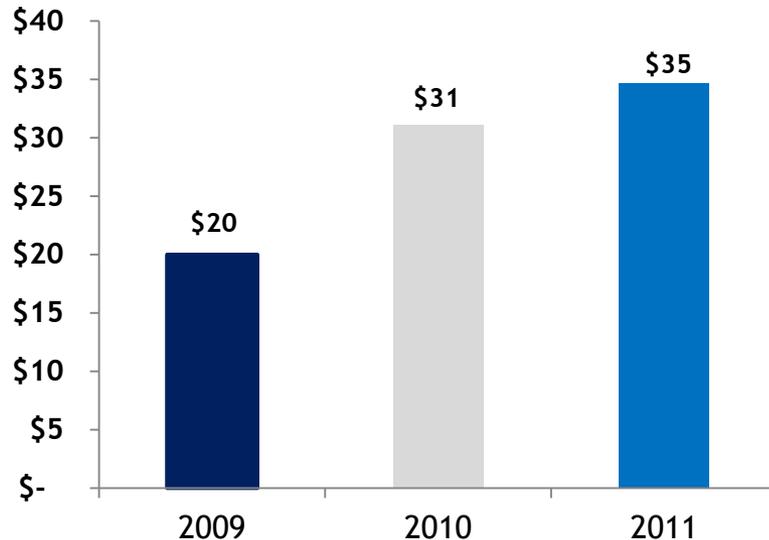


# New promotions in the manufacturing sector are showing signs of improvement in the sector

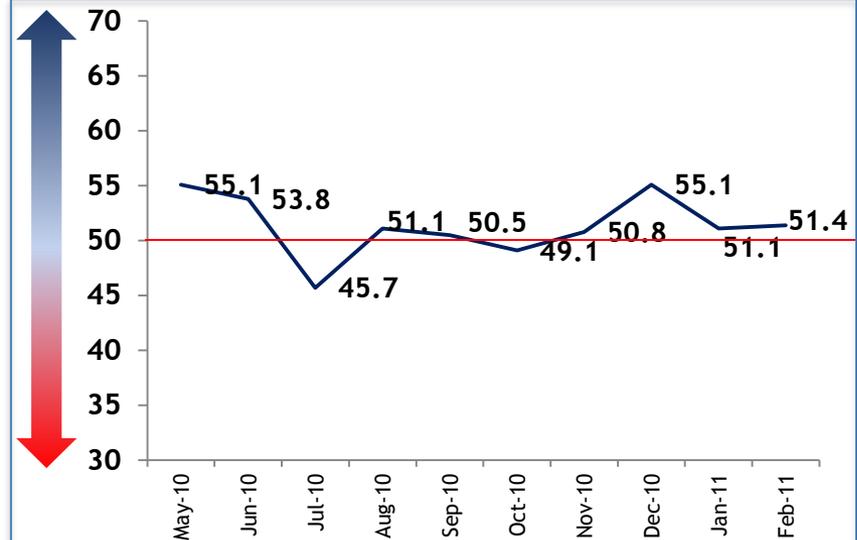
## Manufacturing

### PRIDCO Promotions

(Payroll Commitment first half of the FY in MM of \$)



### Purchase Managers Index (PRM-PMI)



- Since 2009, PRIDCO has completed **164 promotions** for **135 companies**, with an investment commitment of over **\$431 MM** and a job commitment of **10,173 jobs**
- PRIDCO has assigned **\$30 MM** in cash grants for job creation and infrastructure investments
- The PRM-PMI has remained **above 50** for the **fourth consecutive month** suggesting an expansion in production in the manufacturing sector

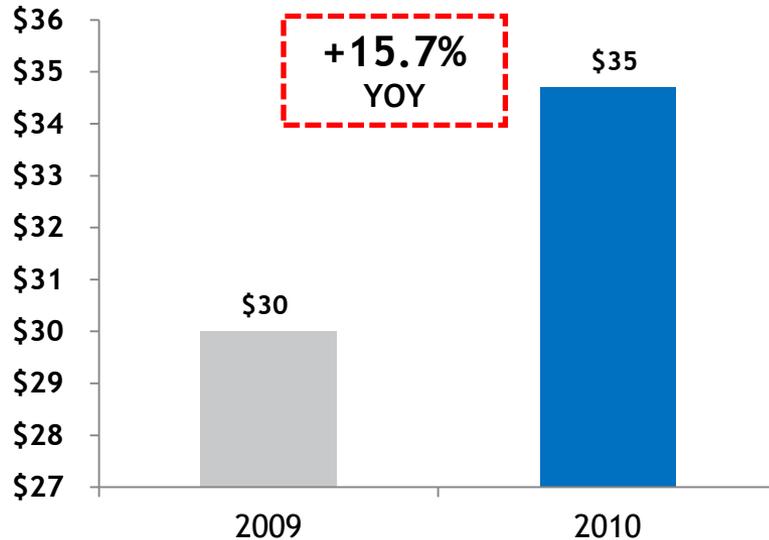


# New agriculture investments in innovative industries

## Agriculture

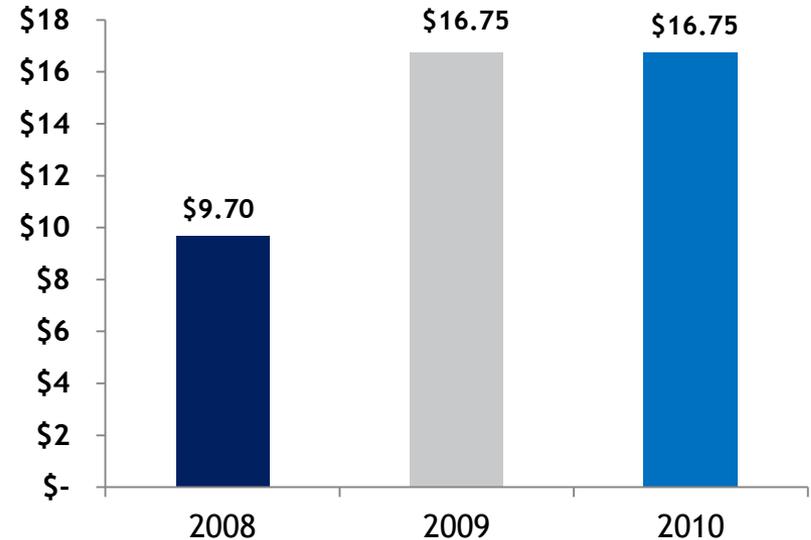
### Seed Production Gross Income

(Fiscal Year in MM of \$)



### Investment in Infrastructure

(Fiscal Year in MM of \$)



- Pioneer Hi-Bred is set to open a R&D laboratory with the help of the government of **\$600,000** for infrastructure and **\$400,000** for training. The company will invest **\$6.3 MM** and create **115 jobs**
- Since June 2009, **\$33.5 MM** have been approved in infrastructure development investments for irrigation, agricultural equipment and buildings, and renewable energy generation, for a total investment of **\$67 MM**

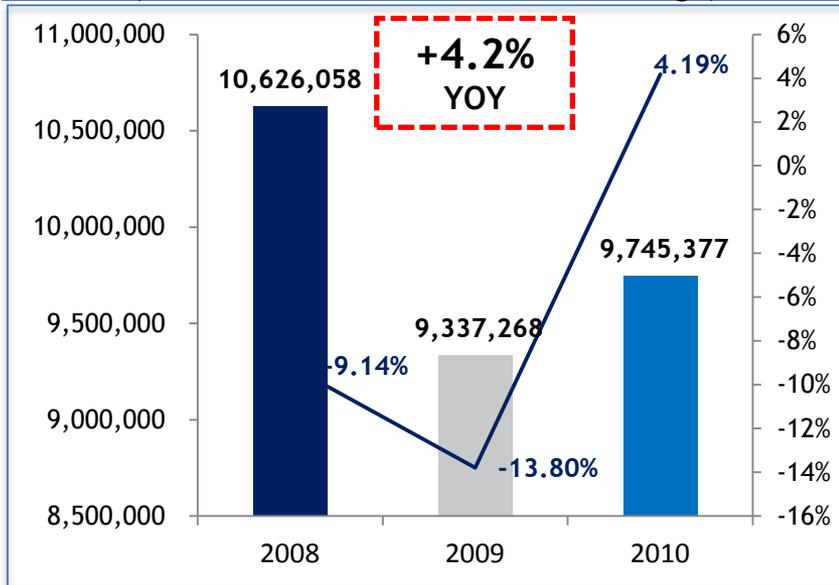


# Growth in air access and cruise ship passengers remains strong

## Tourism and Entertainment

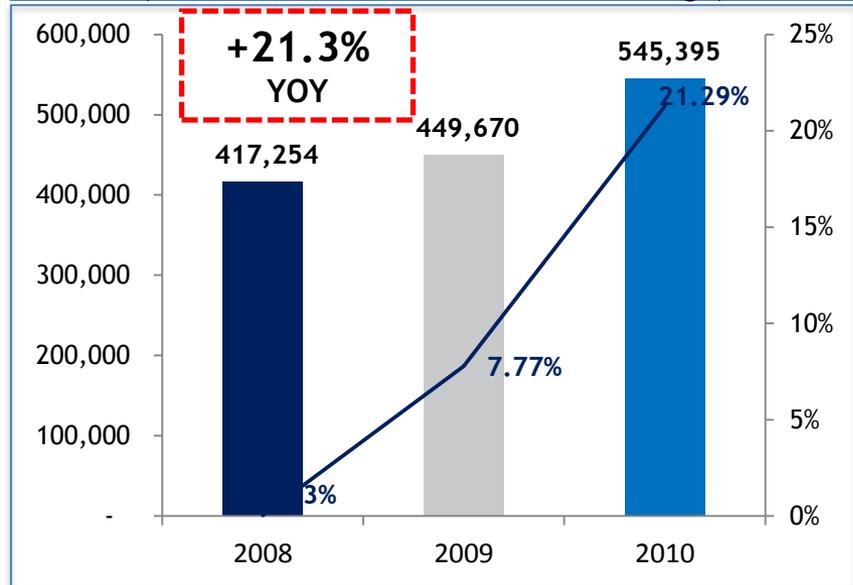
### Airline Passenger Movement

(Calendar Year / Year over Year Change)



### Homeport Passenger Movement

(Calendar Year / Year over Year Change)



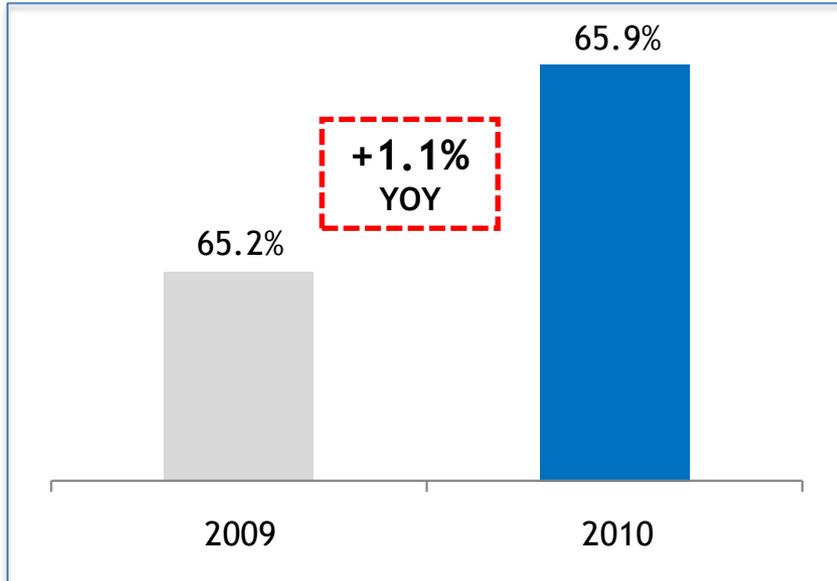
- Over **250 additional weekly flights** since 2009, including flights to some of Europe's busiest markets: Madrid, London and Frankfurt
- New cruise ships have been attracted, including: **Disney Cruise lines, Holland America, Celebrity Cruises, Silverseas, and American Ferries**
- For CY2010 homeport passengers were at its highest point in five years reaching **545,000 passengers**



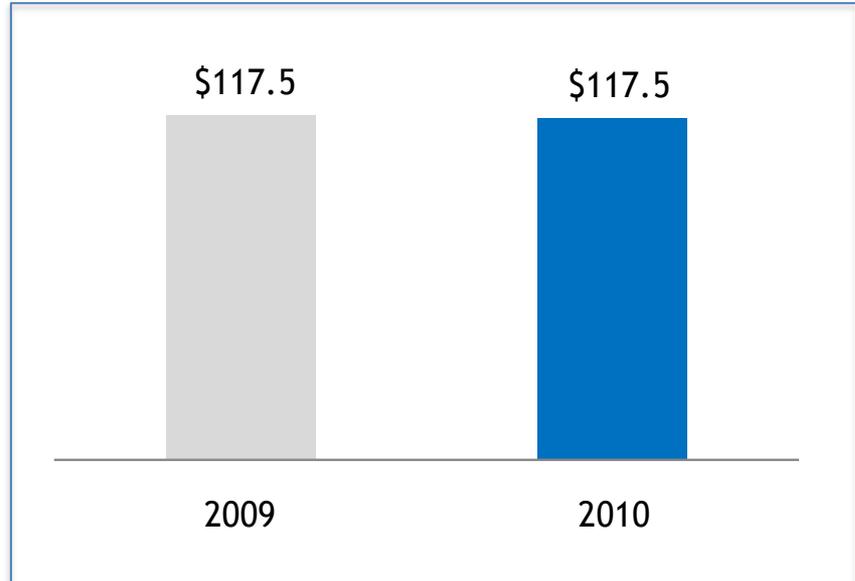
# The tourism industry already left the recession behind and is enjoying the beginning of a recovery

## Tourism and Entertainment

**Hotel Occupancy Rate**  
(First 11 months of Calendar Year)



**Average Daily Rate**  
(First 11 months of Calendar Year)



- The opening of new hotels such as the W Vieques Retreat Hotel, the Sheraton Convention Center, the St. Regis at Bahía Beach, among others, represent a combined investment of **\$698 MM** and the creation of **3,482 jobs** in the construction phase and **1,254 permanent jobs**
- For the next two years 26 additional hotel projects are planned to open with an estimated investment of over **\$1,277 MM** and the creation of **3,454 permanent jobs** in the operation stage

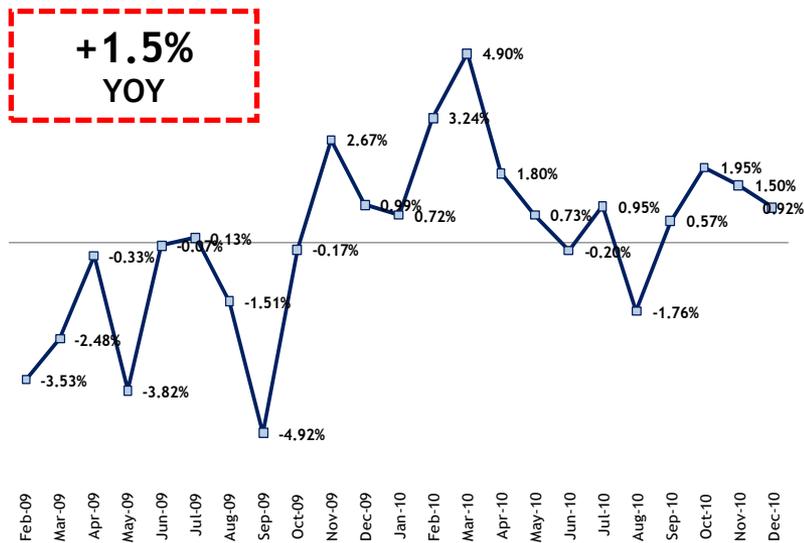


# Consumer confidence has started to improve

## Commerce and Trade

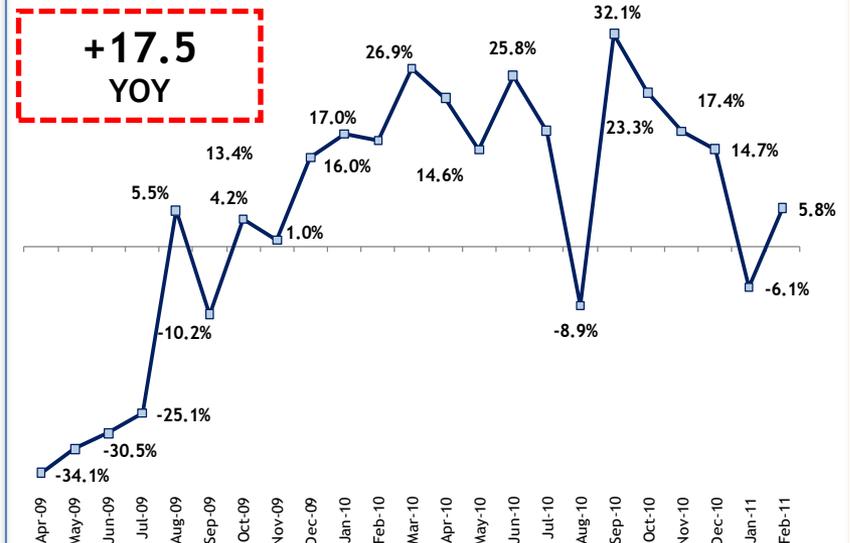
### Retail Sales

(Year over Year % change)



### Auto Sales

(Year over Year % change)



- **Approved Act No. 143 of 2009** known as "*Regulation of Operation of Commercial Establishments*" which extends the opening hours of commercial establishments and establish a new minimum salary for stores that open on Sundays
- Wal-Mart and Sam's Club announced the opening of new establishments with **\$101 MM** of investment and the creation of **1,300 jobs**

Source: PR Trade Company

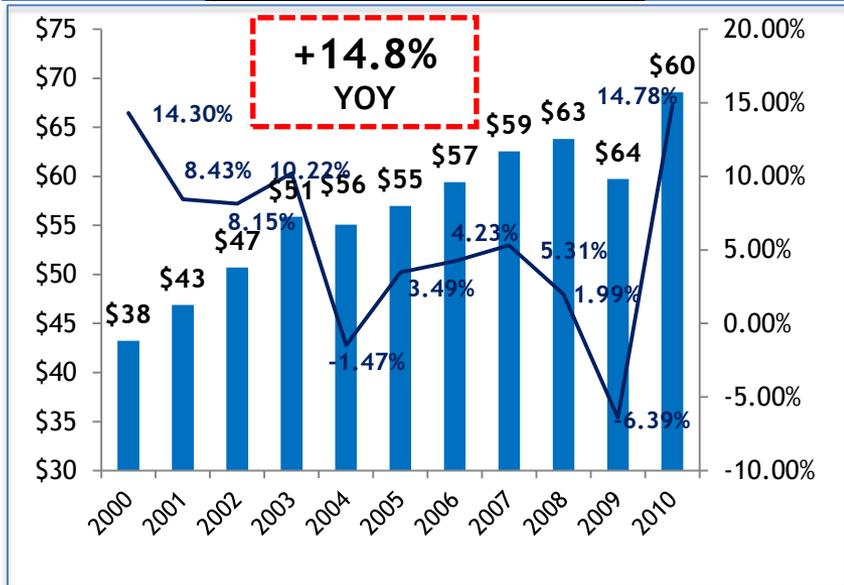


# The most recent trade data show a sustained recovery in foreign trade

## Commerce and Trade

### Exports

(Calendar Year in billions of \$)



### Imports

(Calendar Year in billions of \$)



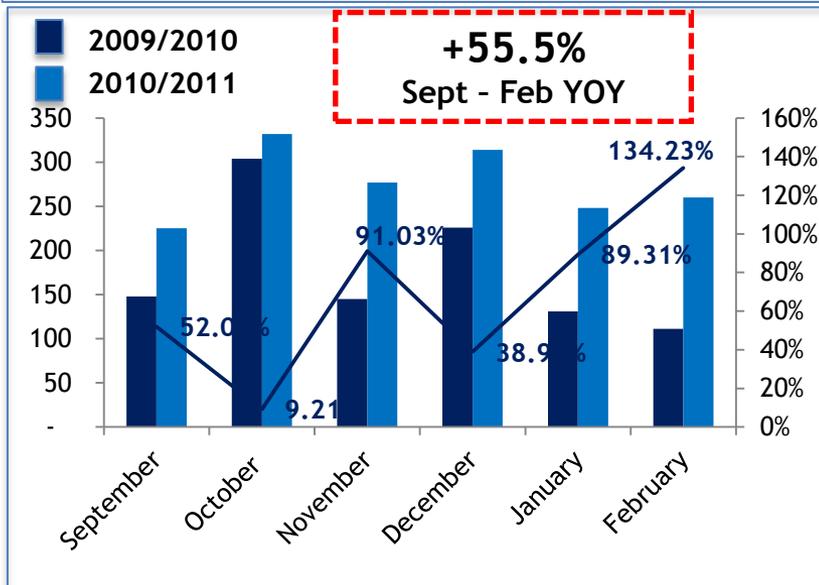
- Since 2009 the DEDC, in collaboration with the PR Trade Company, has participated in **16 Trade Missions** with total sales exceeding **\$118 MM**
- **256 new members** have been added to the Puerto Rico World Trade Center
- During the 1-3Q exports increased by **6.15%** while in the 4Q it increased by **41.46%** compared to 2009
- During the 1-3Q imports increase by **3.15%** while in the 4Q it increased by **3.66%** compared to 2009



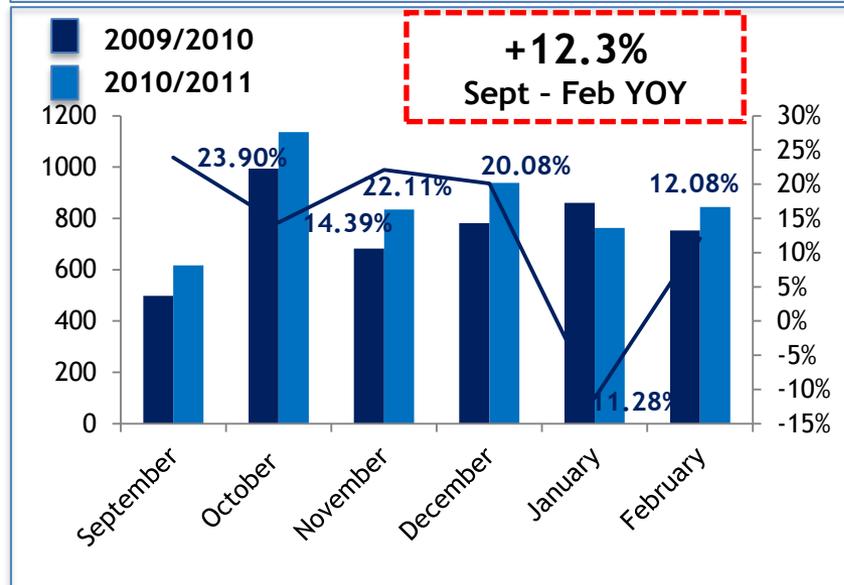
# Aggressive government incentive programs have increased the availability of financing sources

## Banking, Insurance and Credit Unions

### New Property Sales Closings



### Existing Property Sales Closings



- The EDB has approved over **1,283 loans** for a total of **\$306 MM** from January 2009 to February 2011
- **Approved Act No. 132 of 2010** known as "*Housing Incentives Act*" to stimulate the housing market
- During the period from September to February:
  - New Property closings have increased by **55.49%** while total value has increased by **43.31%**
  - Existing Property closings have increased by **12.34%** while total value has increased by **30.28%**



# Promotional efforts in insurance and credit unions have injected additional liquidity into the market

## Banking, Insurance and Credit Unions

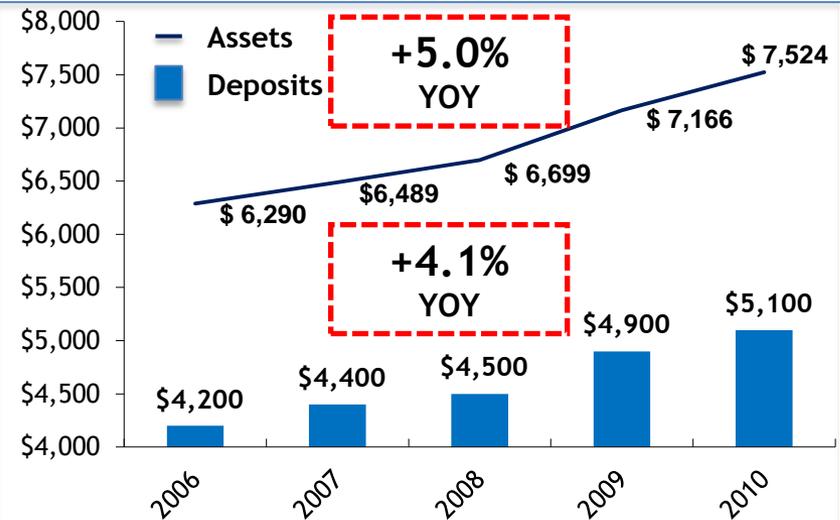
### Subscribed insurance premiums

(Calendar Year in billions of \$)



### Assets and Deposits in Credit Unions

(Calendar Year in MM of \$)



- The International Insurance Center was transferred to the DEDIC and **14 new international insurance companies** have been approved with assets totalling **\$893 MM** and **\$31 MM** in investment in PR
- **32 new credit unions** have been established creating more than **2,300 new jobs**
- **H.B. 3034** will amend the Insurance Code of Puerto Rico to secure a tax regime that will apply to international insurers

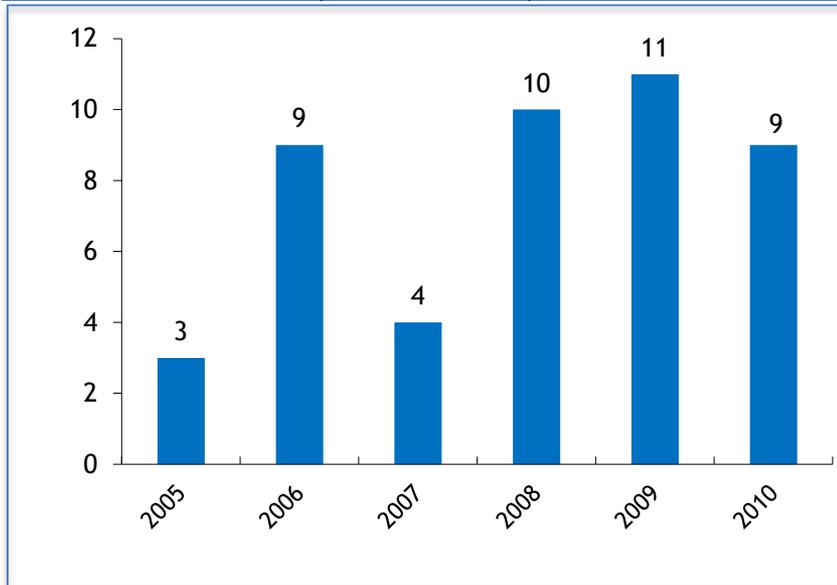
Source: Office of the Insurance Commissioner



# With the approval of new incentives, Puerto Rico is becoming a leading jurisdiction in the film industry

## Film and Creative Services

**Qualified Films**  
(Calendar Year)



**Total Qualified Spending in Puerto Rico**  
(Calendar Year in thousands of \$)



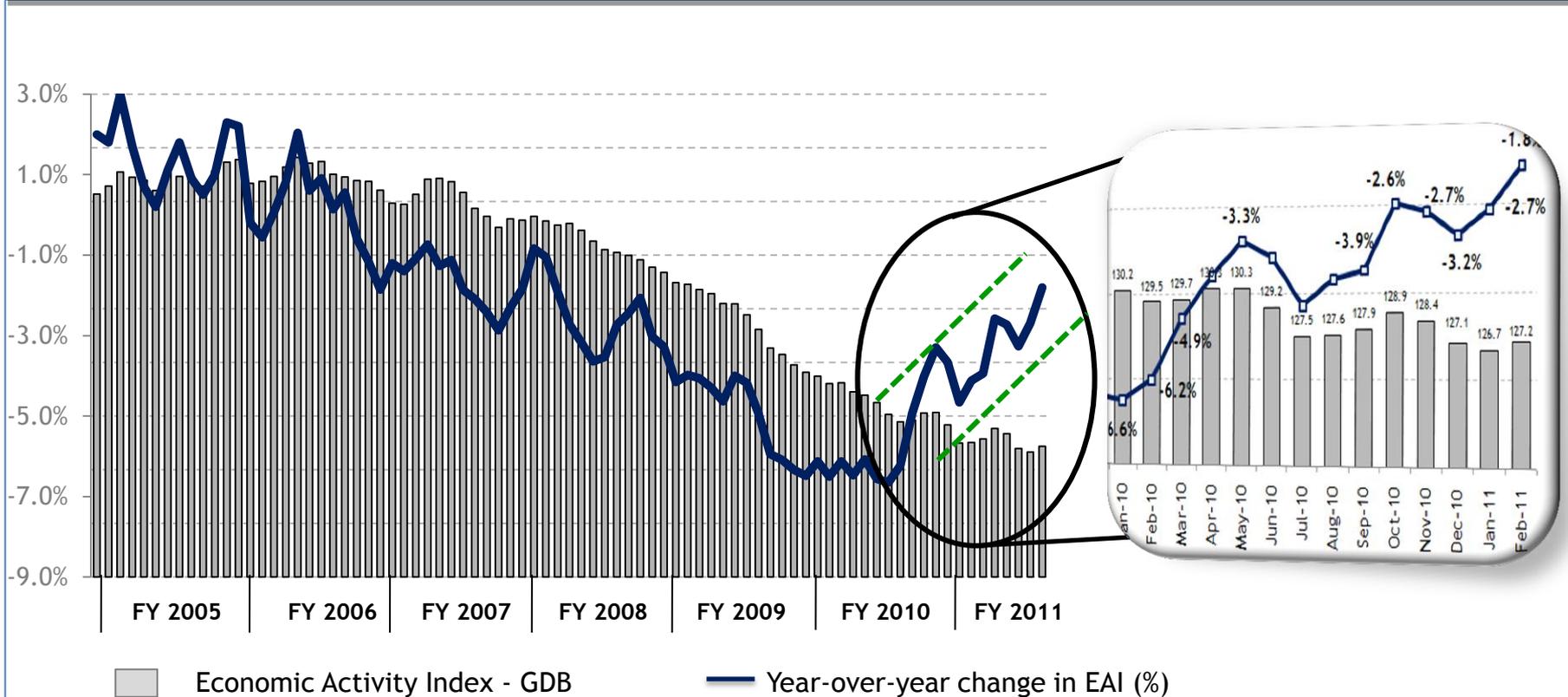
- Since 2009 there have been **24 productions** filmed in PR with over **\$111 MM** in investment
- **Approved Act No. 27 of 2011** known as “*The Puerto Rico Film Industry Incentives Act*” brings production cost structure in line with other leading jurisdictions through innovative and competitive tax incentives
- For 2011 it is expected that the impact of the film industry will surpass the **\$60 MM** mark

Source: PR Film Commission



# We are monitoring the state of the economy monthly through the GDB's Economic Activity Index

## GDB Economic Activity Index

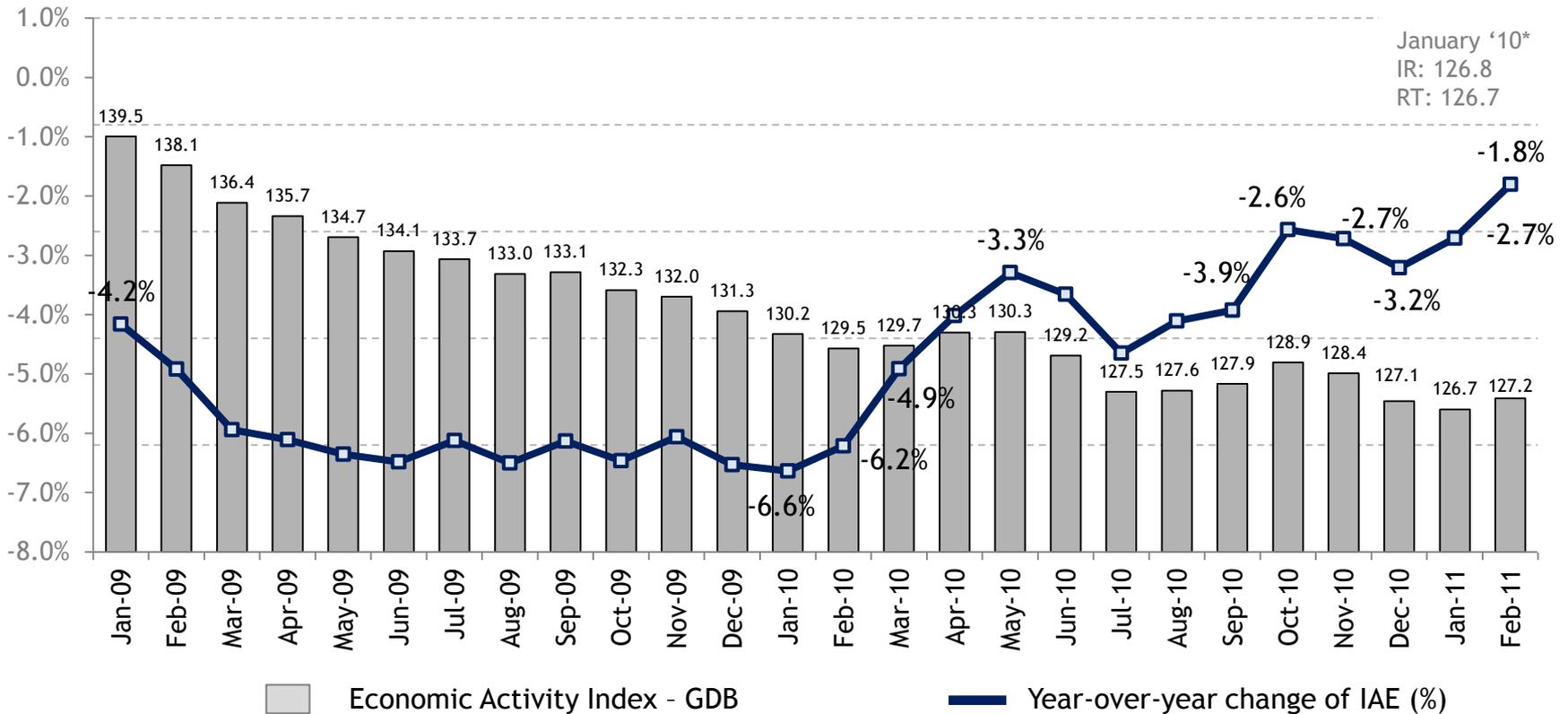


The GDB-EAI has a 98% correlation ( $R^2$ ) with Puerto Rico Real GNP



# We are monitoring the state of the economy monthly through the GDB's Economic Activity Index

## GDB Economic Activity Index



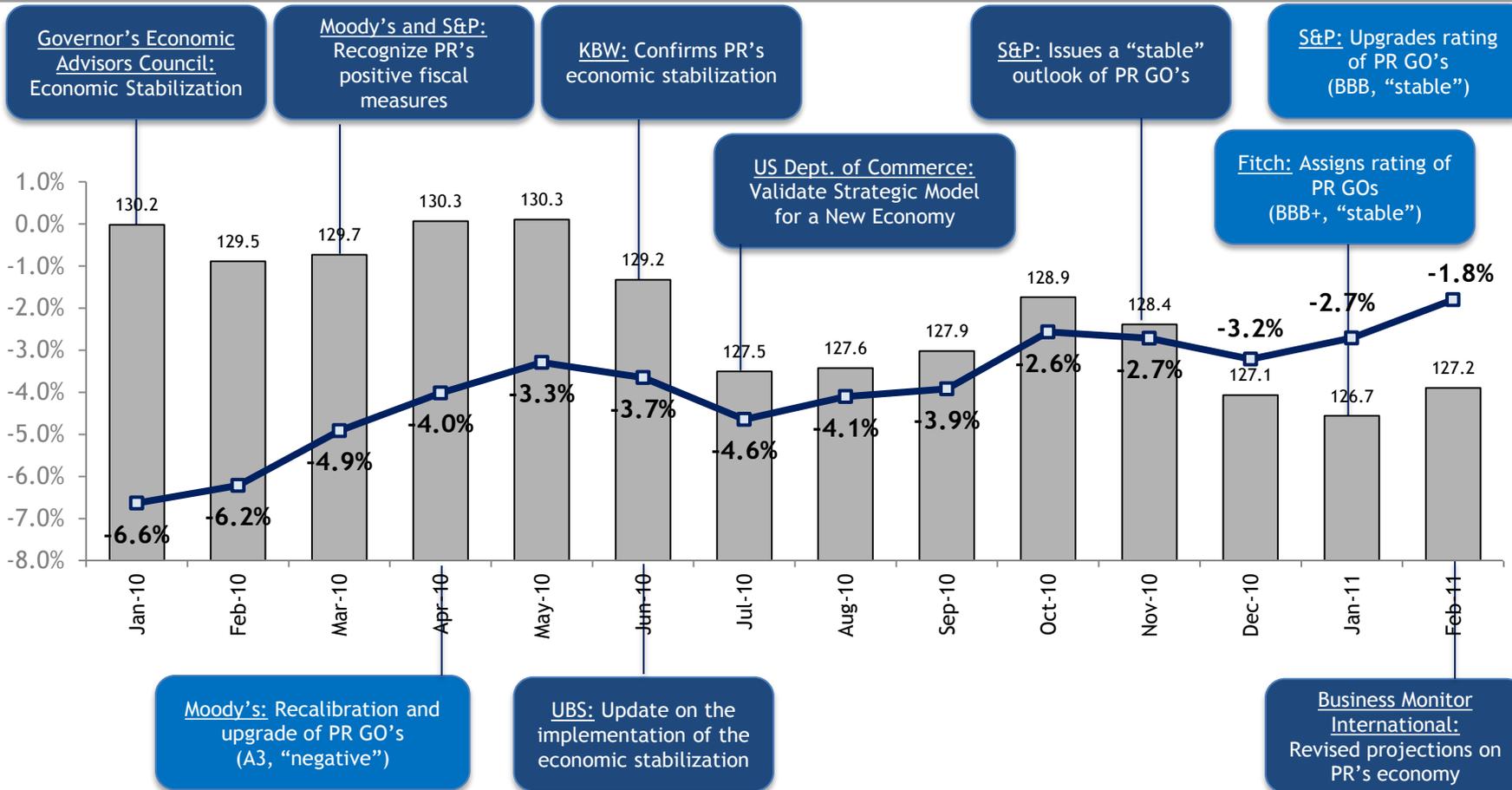
**February registered the first month-over-month increase since October 2010**

Source: Government Development Bank for Puerto Rico



# Consistent increase in confidence with respect to the economy and support for the plan from economists, analysts and business leaders

## Results and Recognition Timeline



Source: Government Development Bank for Puerto Rico



# Consistent increase in confidence with respect to the economy and support for the plan from economists, analysts and business leaders

April  
2011

*"... since mid-2010 there have been promising signs: Recently released revisions suggest that job growth on the island, while still very weak, improved modestly since last summer. And most of the weakness since then has not been broad-based, but instead concentrated in construction and manufacturing. The unemployment rate has come down by a full percentage point since its peak."*

*[PRM-PMI] "The survey shows that business conditions on the island were steady in January, following improvement at the end of 2010. The PRM-PMI has signalled growth for seven of the past nine months."*

*"Looking ahead to the rest of 2011, I see grounds for cautious optimism. In particular, exports, which have been so important to the economic recovery on the mainland, have the potential to contribute to growth here in Puerto Rico as well."*

*"I am hopeful that we will soon be able to look back at 2010 and see not only the end of the island's long recession but also the beginning of an era of growth and prosperity for Puerto Rico."*



William C. Dudley  
President and Principal Executive Officer  
Federal Reserve Bank of New York  
April 1<sup>st</sup>, 2011



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