

**PUERTO RICO**  
**CREDIT**  
**CONFERENCE**  
**2 0 1 3**

**A NEW FRAMEWORK FOR THE ECONOMIC  
DEVELOPMENT OF  
PUERTO RICO**

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*Secretary*

*Department of Economic Development and Commerce*

*May 17<sup>th</sup>, 2013*

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF  
**ECONOMIC DEVELOPMENT  
& COMMERCE**  
D D E C



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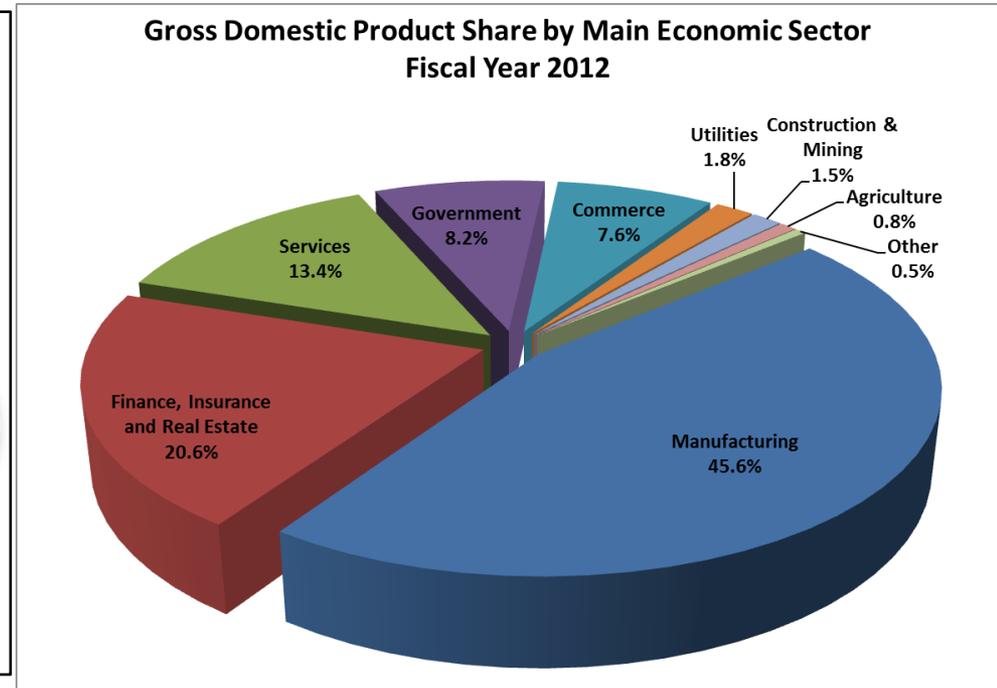
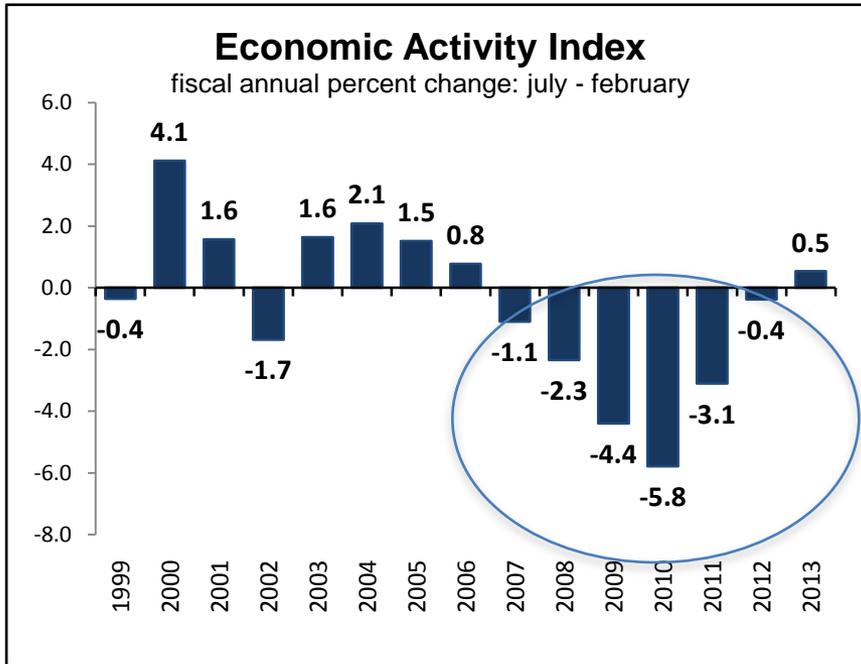
# AGENDA

**1** Current State of the Economy

**2** Puerto Rico's Strengths and Challenges

**3** Core Strategies

# Economic Dashboard



➤ Puerto Rico has endured a longer recession than the United States but the Government is focused in reversing this trend

**FY2012**

**GNP: \$69.5 billion**

**GDP: \$101.0 billion**

**GDP per capita: \$27,451**

**Exports Value: \$58.9 billion**

**Imports Value: \$46.6 billion**

# AGENDA

1

Current State of the Economy

2

**Puerto Rico's Strengths and Challenges**

3

Core Strategies

# Puerto Rico at a Glance: Key Facts



Extensive highway system,  
over 4,629 miles

0161 4'023 11162



Port of San Juan is the 8th busiest  
port in the U.S.

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## •Population:

- 3.7 million

## •Roads and highways' network:

- 24,000 miles

## •Ports

- In terms of volume, the San Juan harbor is ranked eighth in the US
- The Port of the Americas in Ponce (under development) will attract Post-Panamax vessels

# Puerto Rico at a Glance: Key Facts



PR's air access is by far the best in the Caribbean



SJU is the busiest airport in the Caribbean

## •Airports

- 4,300 cargo flights per month
- 1,800 passenger flights per week
- Luis Muñoz Marín International Airport provides service to more than 19 cities in the US and several international destinations in the Caribbean, North America, South America and Europe.

## •Manufacturing

- Over 50% of the most prominent pharmaceutical companies have operations in Puerto Rico
- In terms of volume, Puerto Rico's biotechnology sector is third in the world
- Of the 16 medical device companies in the world, 13 have presence in Puerto Rico

# Puerto Rico at a Glance: Key Facts



- **Tourism and Entertainment**

- Puerto Rico has the best airway access in the Caribbean, with 20% market share of US inbound seats, 19% market share of Caribbean arrivals, and nearly 8 million passengers per year
- Puerto Rico has the Caribbean's primary port for cruise-ships, with some 1.2 million passengers per year
- Puerto Rico's Convention Center is the largest and most technologically advanced in the Caribbean

- **Agriculture**

- Five of the world's largest seed production companies have operations in the Island.
- Puerto Rico is host to the world's only all-seasons mango farm, allowing constant export to the US, Europe and Canada
- Puerto Rico has the most attractive agricultural tax incentives in the western world

# Puerto Rico at a Glance: Key Facts



## •Commerce and Trade

- Puerto Rico exports \$60 billion a year consisting mostly of medical devices, pharmaceuticals, chemicals, electronic equipment and computers
- Puerto Rico is the fifth largest exporter in Latin America
- Puerto Rico's main export destinations are Germany, Holland, Belgium and Spain

## •Banking, Insurance and Credit Unions

- The banking sector has 33 international entities
- The financial sector's total assets were \$154 billion at December 31, 2012
- The insurance sector is the third largest in Latin America

# Summary: Strengths and Challenges

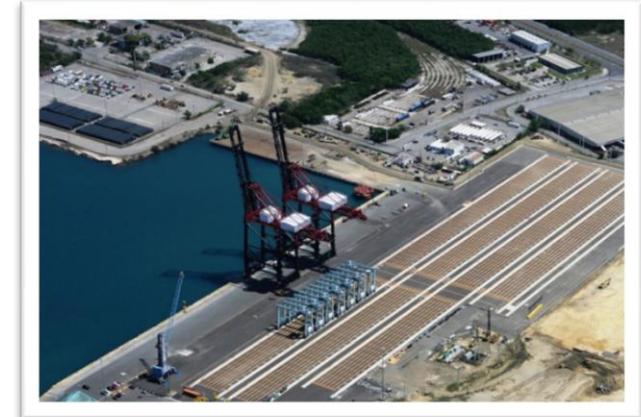
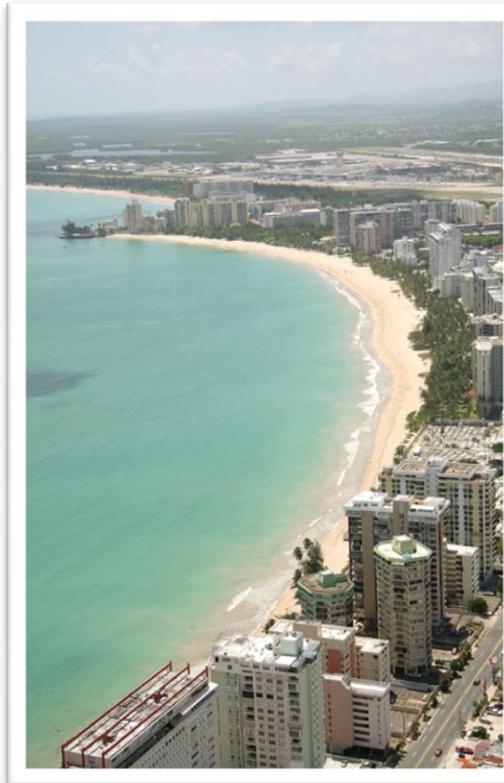
## Strengths

- ✓ Strategic location
- ✓ U.S. jurisdiction
- ✓ Powerful incentives
- ✓ Stable legislative and regulatory environment
- ✓ World class infrastructure
- ✓ Global competitiveness
- ✓ Low-cost of doing business
- ✓ Skilled workforce
- ✓ Superior lifestyle

## Challenges

- ✓ Population decline
- ✓ Low labor participation rate
- ✓ Lackluster economic growth
- ✓ High energy costs
- ✓ Perception

# Puerto Rico holds a unique blend of metropolis and paradise



# AGENDA

1

Current State of the Economy

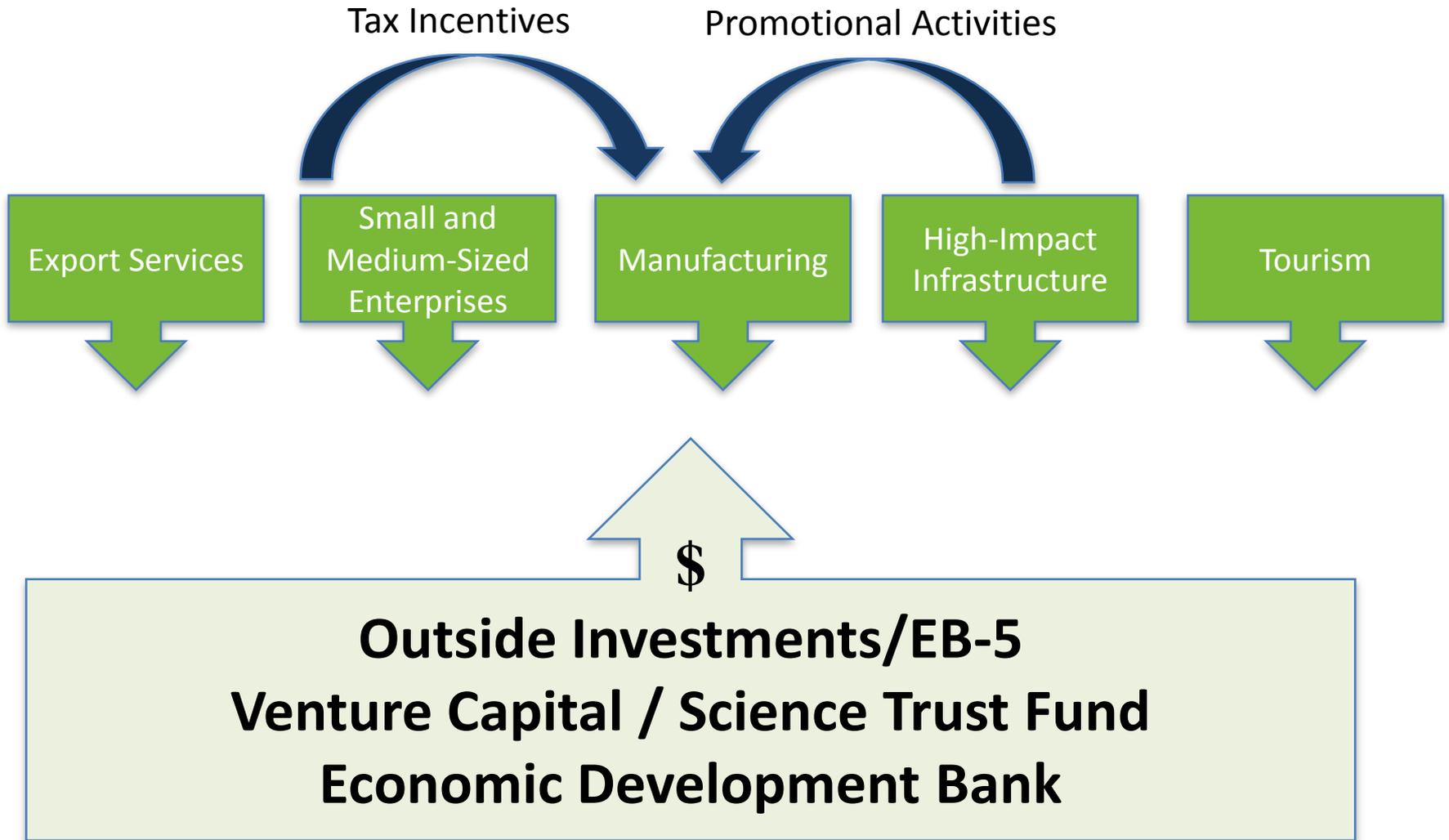
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Puerto Rico's Strengths and Challenges

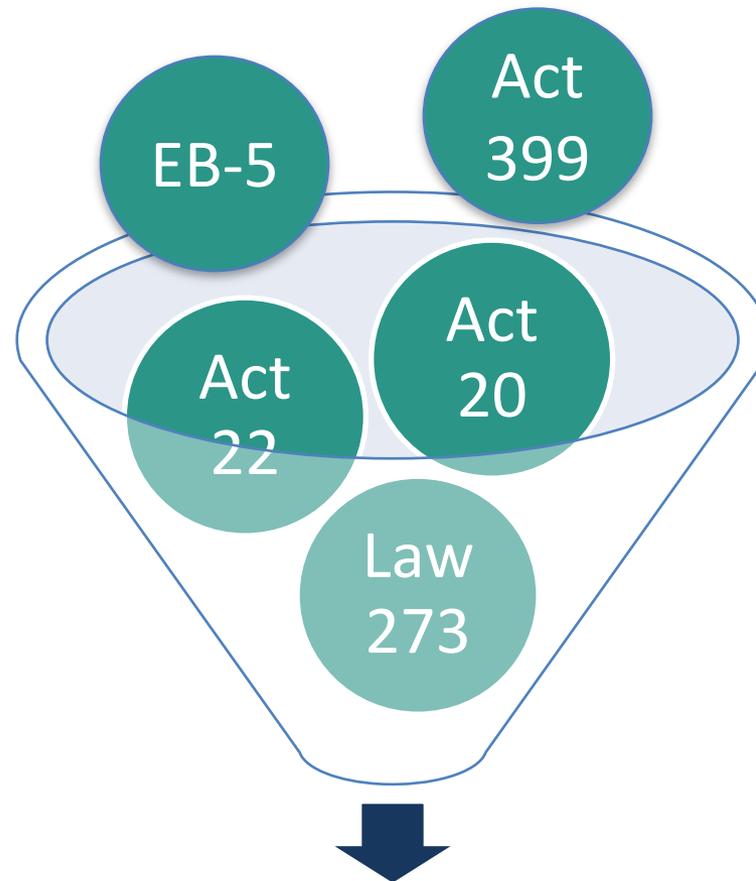
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**Core Strategies**

# Core Strategies



# Economic toolkit to attract foreign investments and increase our share of export service activity



**Attract new international investment partners in target areas  
looking to enter the U.S. and Latin American markets.**

# Expanding Export Service Activities

## International Export Services Hub (Act 20)

- The purpose of the Export Services Act is to develop Puerto Rico as an international export services center and diversify the drivers of economic growth.

## International Financial Center (Act 273)

- To make Puerto Rico an international banking and financial center by providing tax incentives for new banking and financial activity in Puerto Rico that is done for clients outside of Puerto Rico.

## International Insurance Center (Act 399)

- Established the legal framework to develop Puerto Rico's International Insurance Center where insurers and reinsurers can provide insurance and related services outside Puerto Rico.

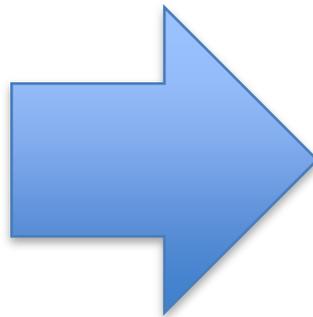
# Puerto Rico: An International Export Services Hub

## Export Services Act (Act 20)

Provides the appropriate environment and opportunities to make Puerto Rico a center of international services.

### EXPORT SERVICES INCENTIVES

- ✓ 4% corporate tax rate
- ✓ 0% tax on dividends
- ✓ 60% exemption on municipal taxes
- ✓ Tax grant for a term of 20 years, renewable for an additional 10 years



### Qualified Export Services

Research and Development

Advertisement and Public Relations

Consulting Services

Professional services, such as legal, tax and accounting

Centralized management services

Centers for electronic data processing

Computer Software Development

Storage and distribution centers

Investment banking and other financial services

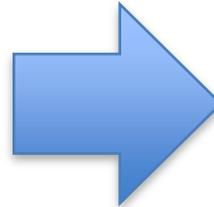
# Puerto Rico: Gateway for Insurers and Reinsurers of Latin America

**International  
Insurance Center  
(Act 399)**

Provides a competitive environment for insurers and reinsurers to cover risks outside of Puerto Rico

## **TAX INCENTIVES FOR INTERNATIONAL INSURERS:**

- ✓ **4% corporate tax rate after \$1.2 million net income exclusion**
- ✓ **Exemption on dividends and profit distributions**
- ✓ **Exemption on municipal and property taxes.**
- ✓ **Tax grant effective over a 15-year period, renewable for 2 additional 15-year periods**



## **Business Opportunities**

Alternative risk management strategies as captives or associated captive insurers.

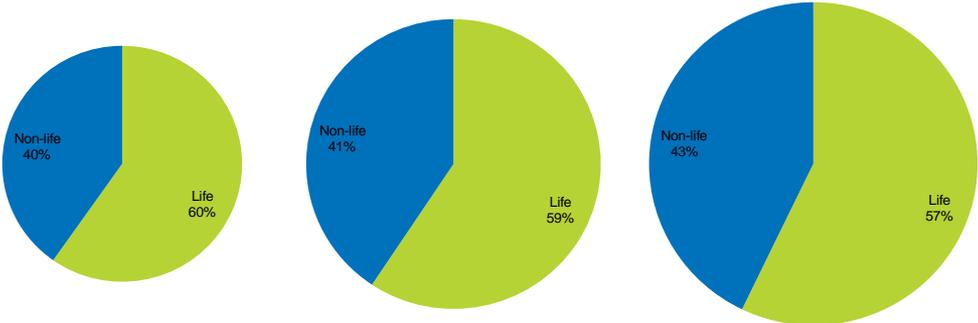
Insurers or reinsurers vehicle to enter Latin America or US markets

Corporate Reorganizations using international insurers holding companies

Segregated asset plans

# Puerto Rico: Gateway for Insurers and Reinsurers of Latin America

## Global Insurance Business



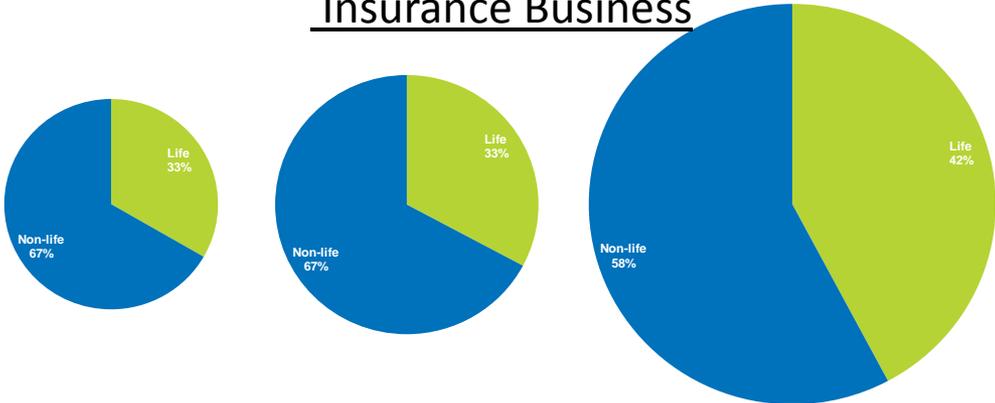
2001  
USD 2.4 trillion

2008  
USD 2.4 trillion

2011  
USD 4.6 trillion

Total global premium figures have almost doubled over 10 years despite the global financial crisis.

## Latin America Insurance Business



2001  
USD 42 billion

2008  
USD 84 billion

2011  
USD 164 billion

Insurance premiums in Latin America have grown by over 275% over the 10 year period 2001 to 2011.

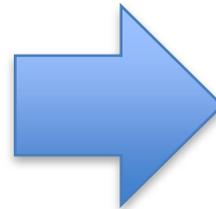
# International Financial Entities: Platform to grow banking services in Puerto Rico

## International Financial Entities (Act 273)

Provides tax incentives for new banking and financial activity in Puerto Rico that is done for clients outside of Puerto Rico.

### TAX INCENTIVES INTERNATIONAL FINANCIAL ENTITIES:

- ✓ 4% corporate tax rate
- ✓ 6% Dividend Tax Rate for Puerto Rico Shareholders
- ✓ 0% Dividend Tax Rate for Non-Puerto Rico shareholders
- ✓ 100% Municipal Tax Exemption
- ✓ 100% Property Tax Exemption
- ✓ Tax Exemption Decrees for up to 45 years



### Traditional eligible banking activities:

Accepting deposits

Borrowing money

Lending

Letters of credit

Refinancing

Foreign Currency Exchange

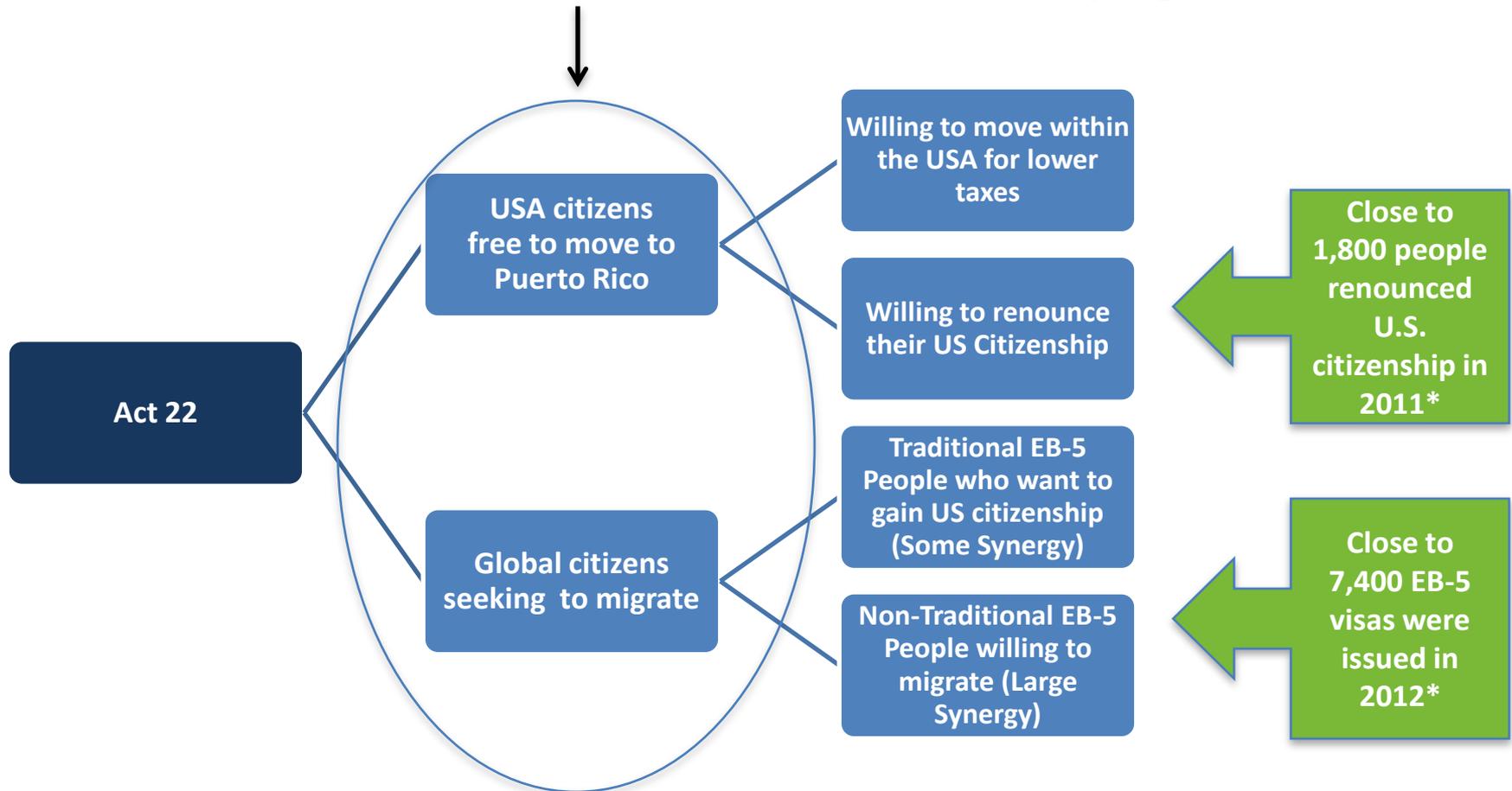
Trade Financing

Securities Brokerage

Trust Services

# Act 22 – Tapping Different Categories of Individuals

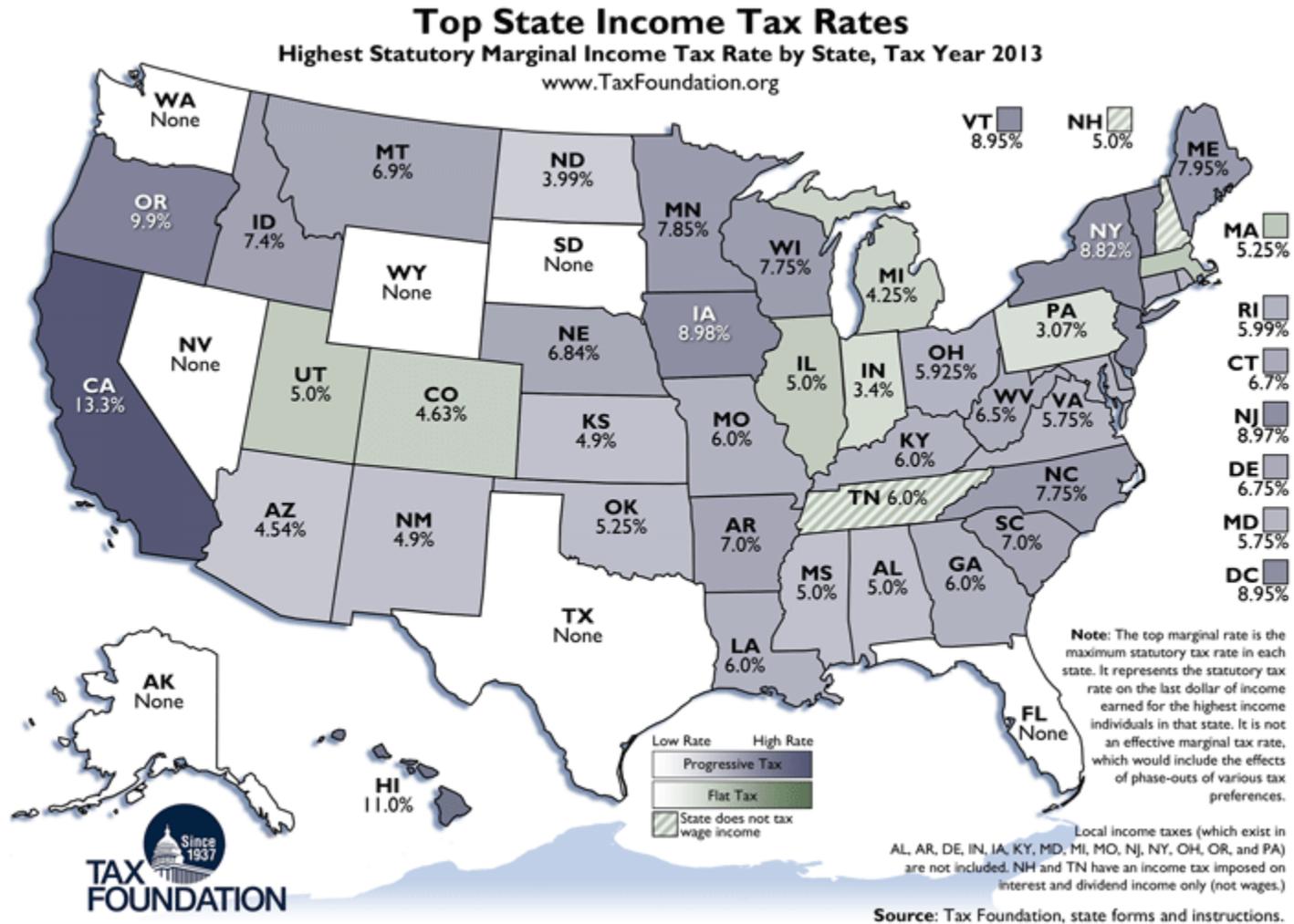
Potential Act 22 beneficiaries can be broken into two major groups:



\*Data source: US. Treasury Department/Andrew Mitchel LLC and USCIS

# ACT 22- U.S. RELOCATIONS

...some people do move for tax reasons, especially wealthy retirees, athletes and other celebrities without strong ties to high-tax locations, like jobs and families”, *New York Times*, February, 15, 2013

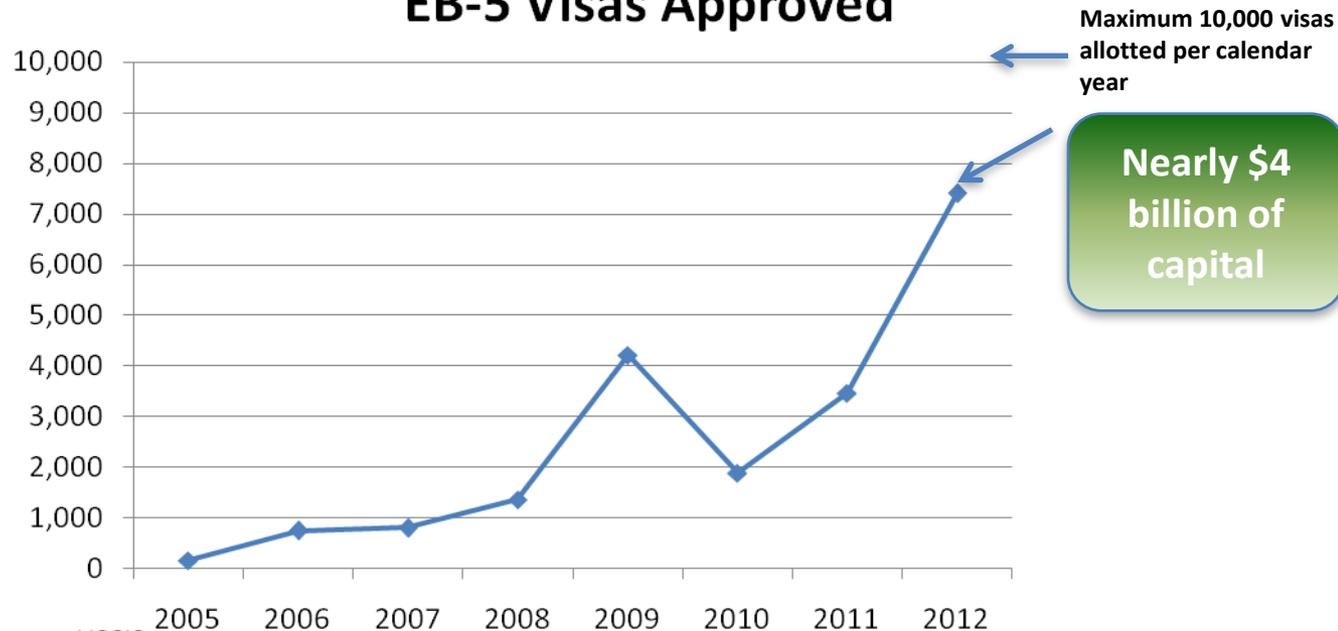


# EB-5 VISA PROGRAM

- ✓ Puerto Rico is seeking to establish a EB-5 Regional Center administered by the government or in partnership with the private sector
- ✓ The program provides a “fast-track” green card for investments that create at least 10 direct jobs (\$1,000,000 minimum investment or \$500,000 in a Targeted Employment Area); Puerto Rico’s high unemployment qualifies it as a Targeted Employment Area (“TEA”)
- ✓ There are over 200 Regional Centers in the United States although only 10-20 are considered fully operational
- ✓ Close to 7,400 visas were approved in 2012 more than double the number approved in 2011
- ✓ 90% of all EB-5 investment is made through TEA-approved Regional Centers

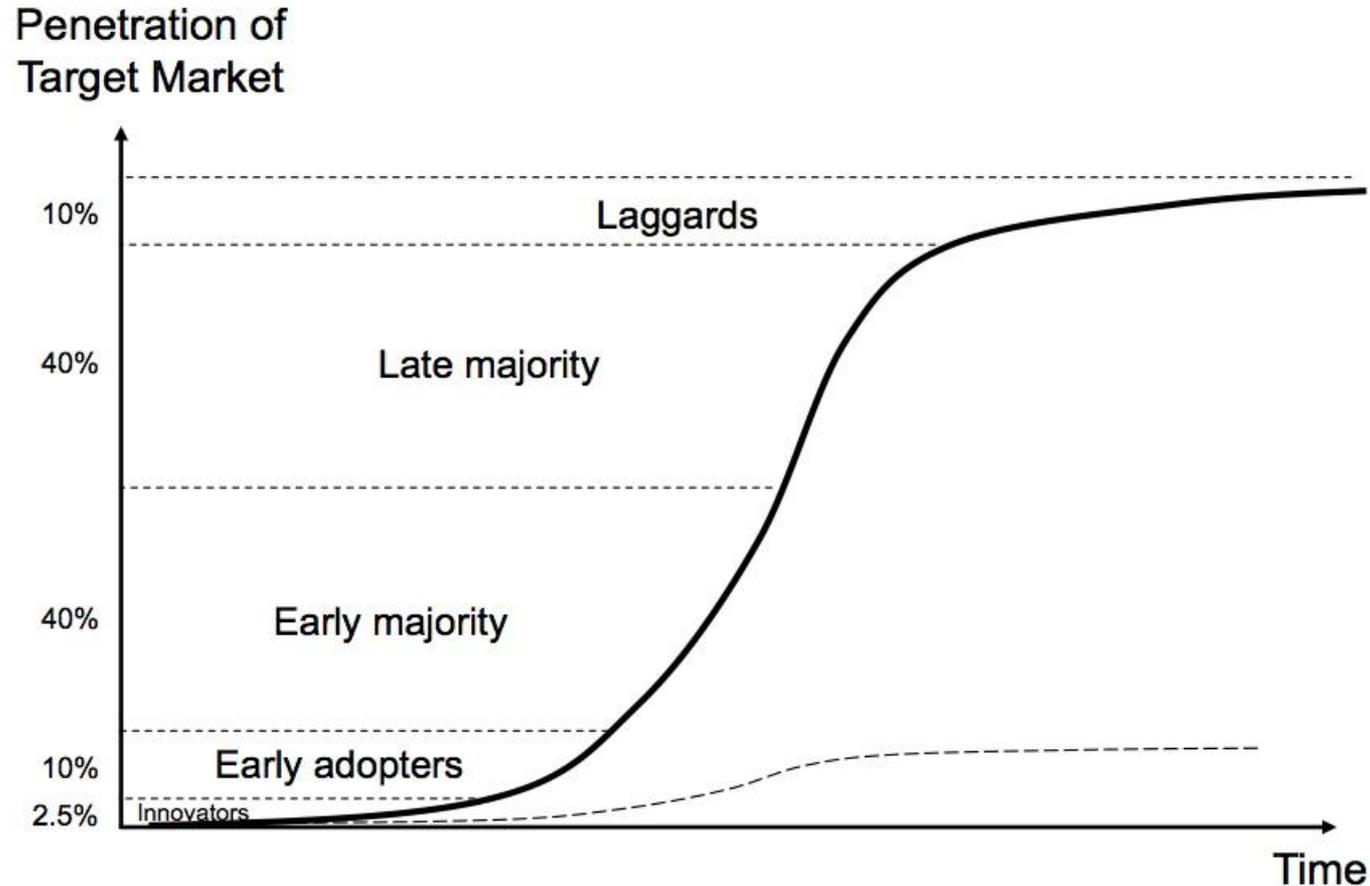
The program can attract investment capital in support of wide range of economic development initiatives

## EB-5 Visas Approved



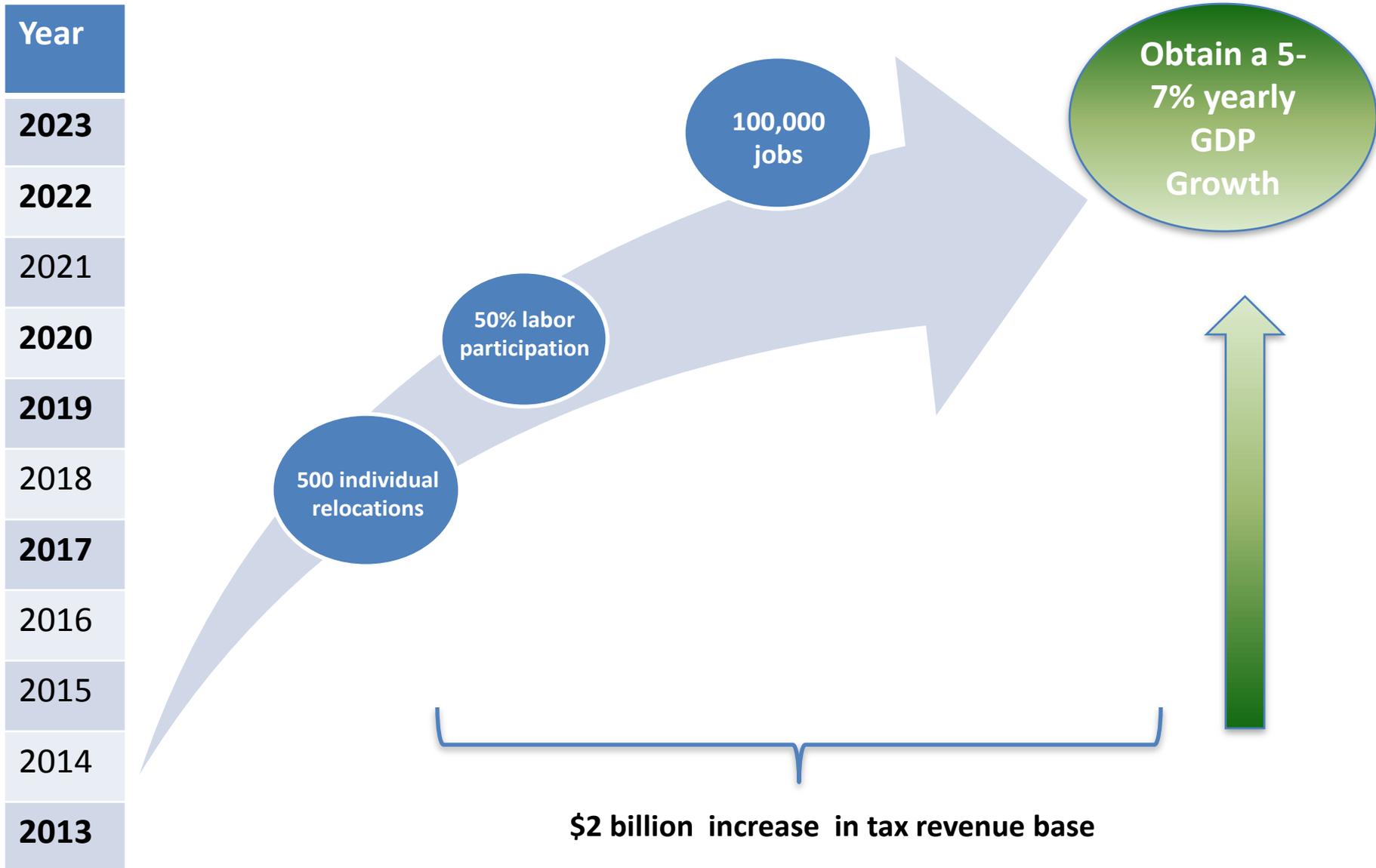
Source: USCIS

# Act 22 Growth Prospects



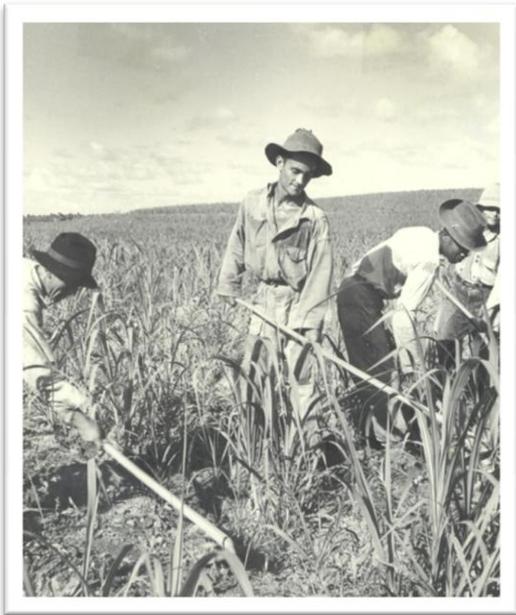
*At inception, a handful will take advantage of these tax incentives but as tax savings are fully understood more individuals will seek these economic benefits*

# PROMOTING GROWTH



# MANUFACTURING

- Puerto Rico Industrial Development Company (PRIDCO) has taken the lead of the industrial development on the Island, from an agricultural base into a world-class manufacturing powerhouse.
- Puerto Rico's tax incentives have been a powerful engine, which has fueled the Island's economy.
- Over 1,300 companies currently operating under PRIDCO program, producing 48% of PR's GNP
- Tax incentives program accounts for 400,000 jobs (direct, indirect and induced jobs)



# MANUFACTURING



## Act 73 (2008)

- ✓ 4% fixed tax
- ✓ 0% to 1% income tax from innovative activities
- ✓ Up to 50% tax credit for purchasing local and recycled products
- ✓ Up to \$5,000 tax credit for job creating
- ✓ Up to 50% tax credit for R&D
- ✓ Special rebates for investing in machinery and equipment
- ✓ Up to 50% tax credit for investing in efficient energy use and renewable energy machinery and equipment

# MANUFACTURING: ACTIONS

**Action # 1: Focus on maintaining manufacturing jobs and promoting new projects**



33 new projects in  
3 months



2,000 new jobs



\$21.2 million in  
equipment

**Action # 2: Activated the inventory of empty PRIDCO facilities**



24,000 Square Feet



Leases from \$2 to  
\$6 square feet

**Action # 3: 159 PRIDCO property buildings assigned to entrepreneurs certified by CCE**

# Small & Medium-Sized Enterprises

## Local and Federal Government Purchases

- *Increase local Government purchases from 13% to 30% to boost local business activity and increase jobs*
- *Only 0.06% of federal contracts (\$514 billion budget) are offered to local enterprises*

## Jobs Act Now

- *Law enacted in February 10th, 2013 to jumpstart the economy and support short-term goal of creating 50,000 jobs in 18 months*
- *YTD 1,068 new jobs have been promised under this act alone*

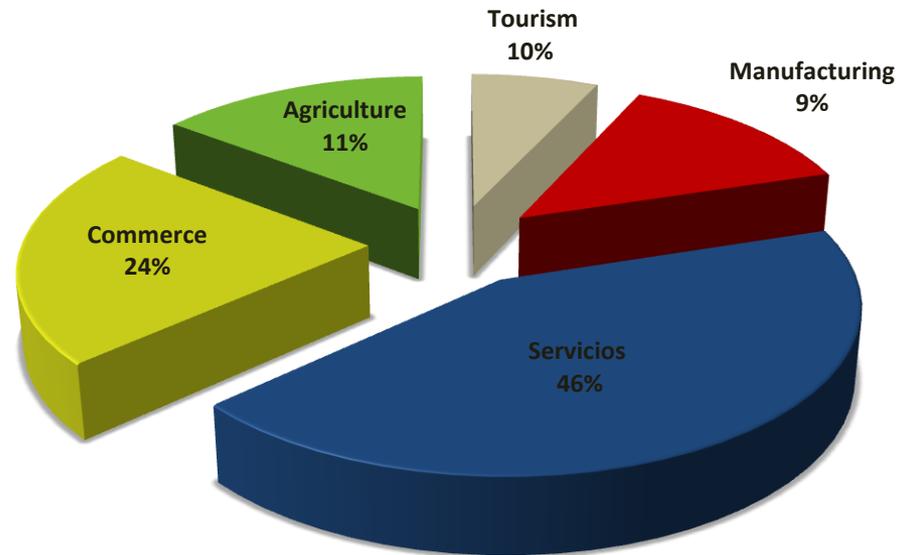
## Economic Development Bank

- *Government actively lending to small and medium-sized enterprises*
- *Total loan portfolio of \$317 million as of April 30, 2013*

# Small & Medium-Sized Enterprises

The Government's Economic Development Bank is actively promoting local entrepreneurship

- Supporting goal of creating 50,000 jobs in 18 months
- Strengthening the bank's product and services platform
- New financing initiatives to support new and existing enterprises, export activities and agriculture
- Seeking new capital sources
- Creating new alliances with SBA, COFECC (Corporation for entrepreneurial financing of commerce and communities)



\$317 million loan portfolio as of April 30, 2013

# High-Impact Infrastructure

## Milestones:

- Completed the transfer of property titles of Parcels 1 & 2 of Roosevelt Roads (2,039 acres) from the US Navy on May 7, 2013.
- In conjunction with Parcel 3, the Government has 3,049 acres of developable land that will bring economic activity to the eastern region and assist in job creation.
- It is estimated that these redevelopment efforts can potentially generate 5,500 direct jobs during construction.
- There are roughly 5,000 additional acres of land of which about 60% is slated for conservation

## Next Steps:

- Start RFP process to evaluate developer proposals and select developments to be initiated.
- Initiate Recycling plant operations.
- Establish short-term leases with interested prospects for certain properties within Roosevelt Roads.
- Establish lease contract for filming of TV Series/Films in Roosevelt Roads.

## Roosevelt Roads



# High-Impact Infrastructure

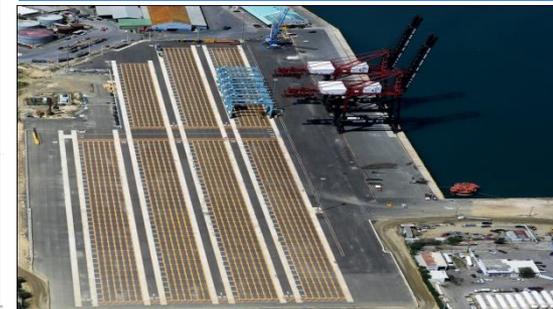
<b>Milestones:</b>	<ul style="list-style-type: none"><li>• Approval of grants and sponsorships totaling \$3 MM YTD</li><li>• Identifying and processing new grant proposals for researchers and sponsors</li><li>• On-going discussions for strategic alliances to commercialize technology and other developments</li><li>• Financial reporting up to date (first time in the history of the Trust) to be made available to the Board</li><li>• Standardization of contracts with existing tenants at the Innovation Center, creating a steady source of revenue</li></ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"><li>• Recruiting a new Executive Director</li><li>• Developing operational model in line with the Trust's vision</li><li>• Key hires to strengthen the Trust's operations</li><li>• Further development and process implementation for grants</li><li>• Construction of knowledge corridor and comprehensive cancer center</li></ul>

## Science Trust



<b>Milestones:</b>	<ul style="list-style-type: none"><li>• Re-established discussions with the municipality of Ponce to develop this important project</li><li>• Preliminary discussions with potential investors</li></ul>
<b>Next Steps:</b>	<ul style="list-style-type: none"><li>• Enacting law to jump-start the development of the Port of the Americas</li><li>• Request for final proposals or PPA</li></ul>

## Port of the Americas



# High-Impact Infrastructure: Repositioning Vieques and Culebra as a Premier Tourism Destination

## Opportunities:

- Significant potential for development
- Local job creation
- Increase of tourism revenues
- Investment opportunities

- Tourism and specialized segments (adventure, ecotourism)
- Sustainable agriculture and fishery
- Marine facility
- World-class sailing and yachting destination



# Tourism

- Over 5 million people visit Puerto Rico every year and this number is expected to increase.
- At this time, there are more than \$580 million invested in tourism projects underway and over \$2.8 billion still under developments.
- The Government of Puerto Rico provides incentives through Act No. 74 of 2010, known as the Tourism Development Act, to facilitate and promote world-class tourism projects.

## INCENTIVES

Tax Credits equal to the lesser of 10% of total project cost or 50% cash from investors, which can be monetized

100% exemption on municipal construction excise tax

100% exemption on imported goods and sales tax

100% exemption on municipal licenses

90% exemption on income tax

90% exemption on property tax

Valid for a period of 10 years from the opening date and includes a 10 year extension.

**14,000  
new hotel  
rooms in  
10 years**

# Medical Tourism: A niche market with a large potential

## MILESTONES

- ✓ Creation of Task Force to spearhead and coordinate all efforts with an interagency committee
- ✓ The committee incorporated the Puerto Rico Hospital Association and Foundation for Puerto Rico
- ✓ Kickoff meeting on 05/14/2013
  - Discussed business model, program funding, and implementation steps

## NEXT STEPS

- ✓ Prepare Memorandum of Understanding between the major stakeholders detailing roles, duties, and responsibilities
- ✓ Structure a viable \$8MM 3 year multi-agency investment in order to spearhead the program implementation
  - Government will have a well defined exit strategy
    - Program should be self-sufficient by the third year
  - Upfront commitment of \$750M-\$1MM
  - Future funding will depend upon completion of specific performance parameters

# Medical Tourism: Economic Impact

- **Projections:**

- Average economic impact per patient intervention- \$15,000
- Average hotel stay- 7 Rooms per Night (R/N)
- Average spending other than medical expenses- \$350.00/day
- Direct employment- 4.2/bed
- Indirect employment- 2/direct job

- **Revenue goals:**

- Base case summary assuming 5% market penetration during the first 36 months of implementation:

Scenario	Market Size	5%	Patient Rev.	R/N	Econ. Impact	Total	Dir. Jobs	Ind. Jobs	Total Jobs	Beds/day
Base	750,000	37,500	\$562,500,000	262,500	\$91,875,000	\$654,375,000	1,726	3,452	5,178	411

**Total economic impact excludes other tourism-related activities estimated at \$1 billion**

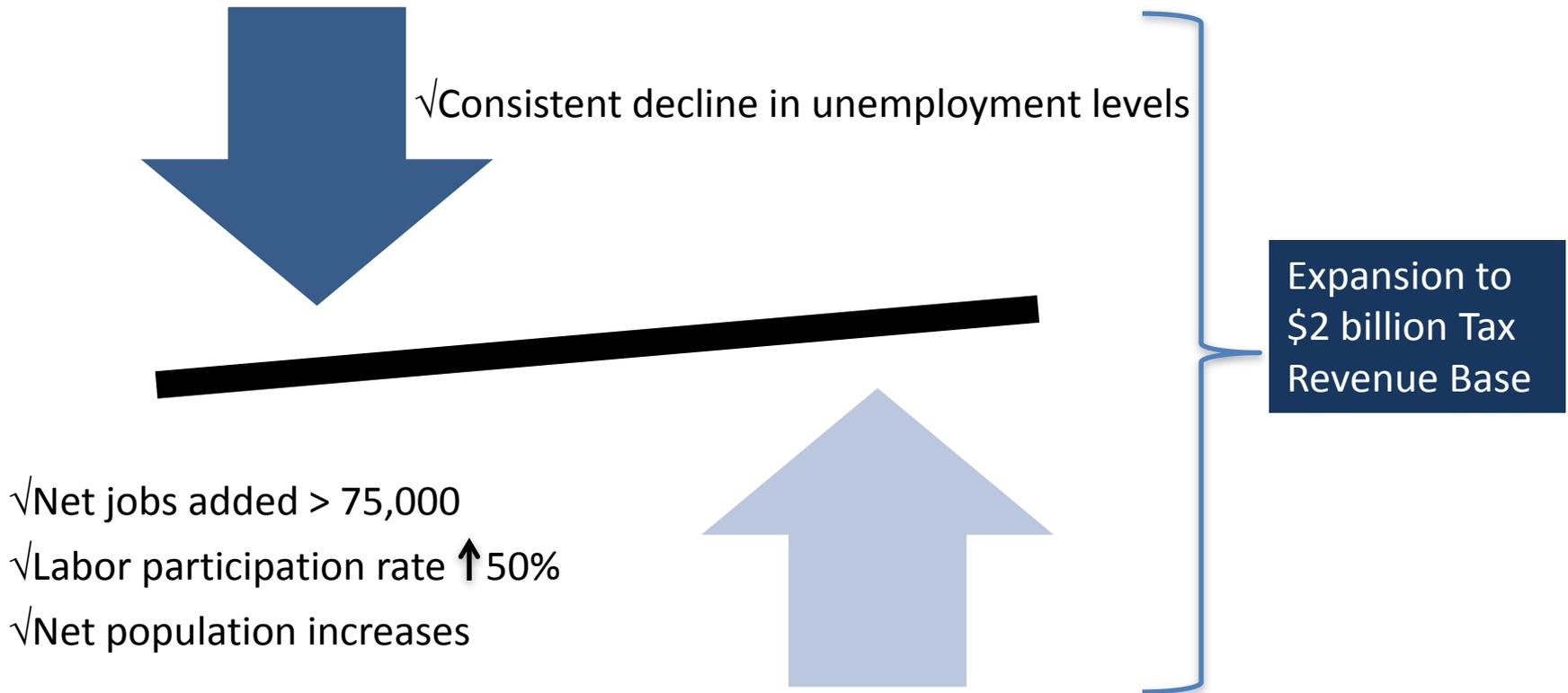
# Summary of Incentives

Incentives	Promote Puerto Rico's incentives to attract new investments and make Puerto Rico into a diversified and vibrant economy
Manufacturing Incentives	<ul style="list-style-type: none"><li>• Provides the framework to bolster the manufacturing as well as other strategic areas.</li></ul>
Export Services	<ul style="list-style-type: none"><li>• Turn Puerto Rico into an international hub of services, retaining local talent and attracting foreign talent and foreign capital</li></ul>
International Insurance and Financial Center	<ul style="list-style-type: none"><li>• Promote a strong and healthy financial system to facilitate the efficient flow of capital in the economy and its capacity to export.</li></ul>
Renewable Energy	<ul style="list-style-type: none"><li>• Create measures to stimulate the development of sustainable energy systems by establishing the Green Energy Fund.</li></ul>
Tourism Development Incentives	<ul style="list-style-type: none"><li>• Provide the groundwork to expand our tourism development in strategic locations to improve our position as a premier tourist destination</li></ul>
Development of the Film Industry	<ul style="list-style-type: none"><li>• Provide a framework for continued development of film industry infrastructure and tax incentives to attract foreign capital.</li></ul>
Relocation Incentives	<ul style="list-style-type: none"><li>• New local investments in real estate, services and other consumption products, and capital injections to Puerto Rico banking sector to jumpstart Puerto Rico's economy</li></ul>

# Other Strategies

- ✓ Insertion in global economy; increase in trade missions, expand the export capacity of local companies
- ✓ Diversification of energy sources to reduce cost of electricity to enhance business profitability
- ✓ Expansion to new platforms that foster entrepreneurship and innovation (i.e. cloud technology, video gaming)
- ✓ Revival of agricultural activity with newer technologies; working alliance with the Department of Economic Development and Commerce
- ✓ Expansion of sources of capital through the growth of private equity and venture capital sectors

# A ROADMAP TO RECOVERY



***A NEW VIBRANT AND DIVERSIFIED PUERTO RICO***

# THANK YOU

COMMONWEALTH OF PUERTO RICO

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DEPARTMENT OF  
**ECONOMIC DEVELOPMENT  
& COMMERCE**

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