



COMMONWEALTH OF
PUERTO RICO

AGENDA FOR THE
ECONOMIC RECOVERY
OF PUERTO RICO

2014 - 2018



Presented on the occasion
of the State of the Commonwealth Address
by the Governor of the Commonwealth of Puerto Rico,
the Honorable Alejandro J. García Padilla
April 29, 2014



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This agenda for recovery traces our administration's plan for achieving the major goal we have set ourselves: keeping our commitment to pay the debt from the past at the same time we begin paying the debt to the future. Meeting our fiscal obligations is just the first step toward a larger objective: restoring quality of life. As a people, we must produce wealth and create employment. This government's principal mission is to ensure that Puerto Rican families live better, have access to jobs, and make progress in an atmosphere of peace and security. Our generation recognizes the problems we face and sets forth this agenda for overcoming them. There is no doubt, Puerto Rico will emerge triumphant.

1. Introduction

Puerto Rico is facing a unique and complex historical situation that threatens the overall sustainability of our economy and our social functioning. Misdirected decisions over the past decade have brought us to the crisis we now face, a crisis that threatens the stability of the government, workers, and families that with such effort have forged our nation.

This administration is convinced that moments of great difficulty may, if they are approached as opportunities and handled with intelligence and a sense of responsibility, open unique possibilities for true transformation. As we have drawn up this agenda, uppermost in our minds has been the complex, difficult situation the island finds itself in, and in this document we lay out a path to follow that will enable us, as a people united, to achieve a goal that benefits everyone alike: sustainable development in which every Puerto Rican will take part and, indeed, feel a part of. That is our byword: imagine and construct an economy and a society with opportunities for every person.

But in order to achieve this goal, we must not repeat the strategies of the past; we must, instead, dare to think and act in a different way. What were, then, the errors that brought us to this pass? Since 1976, when the island began to benefit from application of Section 936 of the United States Internal Revenue Code, our economic growth relied mainly on the particular financial attractiveness of this section to foreign corporations, especially the large pharmaceutical conglomerates. Although this economic policy bore fruit and helped improve living conditions on the island, it is also true that subsequent



administrations were unable to diversify our economy and promote local productivity, an essential requirement for ensuring the island's stability in the medium and long term. Thus, in the late 1990s, when Congress eliminated Section 936, the island's economy began a decline, first slowly and then precipitously, that was further aggravated by the mortgage crisis that triggered the 2008 recession. Supporting the elimination of Section 936 was an act of profound historical irresponsibility, especially when there was no alternative economic project, and the island is still paying a high price for that decision today—a decision which has translated into the loss of more than 150,000 jobs, the contraction of the local economy, and the exodus of thousands of families.

Nor was any subsequent administration able to restructure the economy or offer a comprehensive, integrated agenda for recovery that was both feasible and had any real chance for implementation. No plan was offered that might have been able to rechannel the state's resources and individual efforts in a common direction that might make possible a new model of progress, suited to our particular situation.

Meantime, twenty years have passed, and four administrations have come and gone, and Puerto Rico has not been able, due to many and complex factors, to recover from the effects of those political decisions. **Now is not the moment for assessing blame; we are all responsible.** The intention of this agenda, then, is to delineate new strategies, new goals, and to explain to the island that there is a new alternative, that the change needed in order to move the country forward must be a radical one.

In what direction should we lead the economy and the government in order to promote a new model for our life as a people, a community, a country? This administration, which has faced up to the task of governing in the midst of a somber financial panorama, has already taken the first steps in leading the way toward an urgently needed recovery. We have responded forcefully and conscientiously to the rapid deterioration of our public finances. We have also pushed for the creation of jobs, making advances even within a depressed financial environment. Not having acted decisively and promptly would have allowed Puerto Rico to descend into an even deeper crisis.

Now, however, we are called upon to start thinking about and organizing the island in another way, and to set in motion changes that have been postponed, time and again, for over a decade. Our society now, more than ever, demands these changes. The Action Panel convened by the governor, the Honorable Alejandro J. García Padilla, on March 7, 2014, and comprised of citizens of all ideologies and all economic and social sectors, is a first step in the right direction. The proposals generated by this group will be included in the series of initiatives that we are proposing in this four-year agenda for transformation. **The direction is clear: our economic focus must be on our capacity for local production, which will enable us to rise up and become a productive, dynamic society. Only in this way can the progress achieved be shared by all.** In order to attain the highest level of material and social well being and progress and enable us to see Puerto Rico as a promise and a project for innovation and productivity, we present the postulates on which this agenda has been conceived, the goals on which we will concentrate our efforts:

- First:** Diversify the economy, offer aggressive incentives to local production in order to strengthen our competitiveness, and adopt new models that foster sustainable economic development and improve the social infrastructure.
- Second:** Concentrate efforts on the development of agriculture, tourism, and entrepreneurship.
- Third:** Diversify the island's sources of energy in order to permanently reduce energy costs.
- Fourth:** Transform the educational system in order to prepare students to insert themselves into a changing, globalized economy.
- Fifth:** Modernize government to make it more efficient, with a balanced budget.
- Sixth:** Implement a reform of the tax system so that, among other objectives, it will be easy to comply with, efficient in its oversight function, fair in its imposition of financial responsibilities, and a stimulus to economic development.

These are the six basic principles on which this Agenda for Economic Recovery 2014–2018 is based.

The Country We Are Going to Transform

This is the ideal occasion for making clear, so that all Puerto Ricans will understand, that economic recovery, and our overall well being, are not the exclusive responsibility of the government. The government does, of course, have a central function in that task, and it cannot, under any circumstances, abdicate that responsibility. But it will not be possible to bring about tangible transformation without the active participation of our citizens. The road to transformation is always hard, and it requires some sacrifice: we must stop thinking exclusively about our own personal prosperity and start thinking, too, about other people's progress and opportunities. What's good for the private sector can also be good for the public sector; what's good for workers doesn't have to disadvantage employers. Puerto Rico's new goal is the transformation of its society, through a culture of productivity, so that in the 21st century our island can once more be a land of opportunities, where we can dare act in a new way, find new ways to prepare ourselves for the future.

2. The Political Economy of 2013–2014: Laying the Foundations for the Recovery

2.1 Economic Context

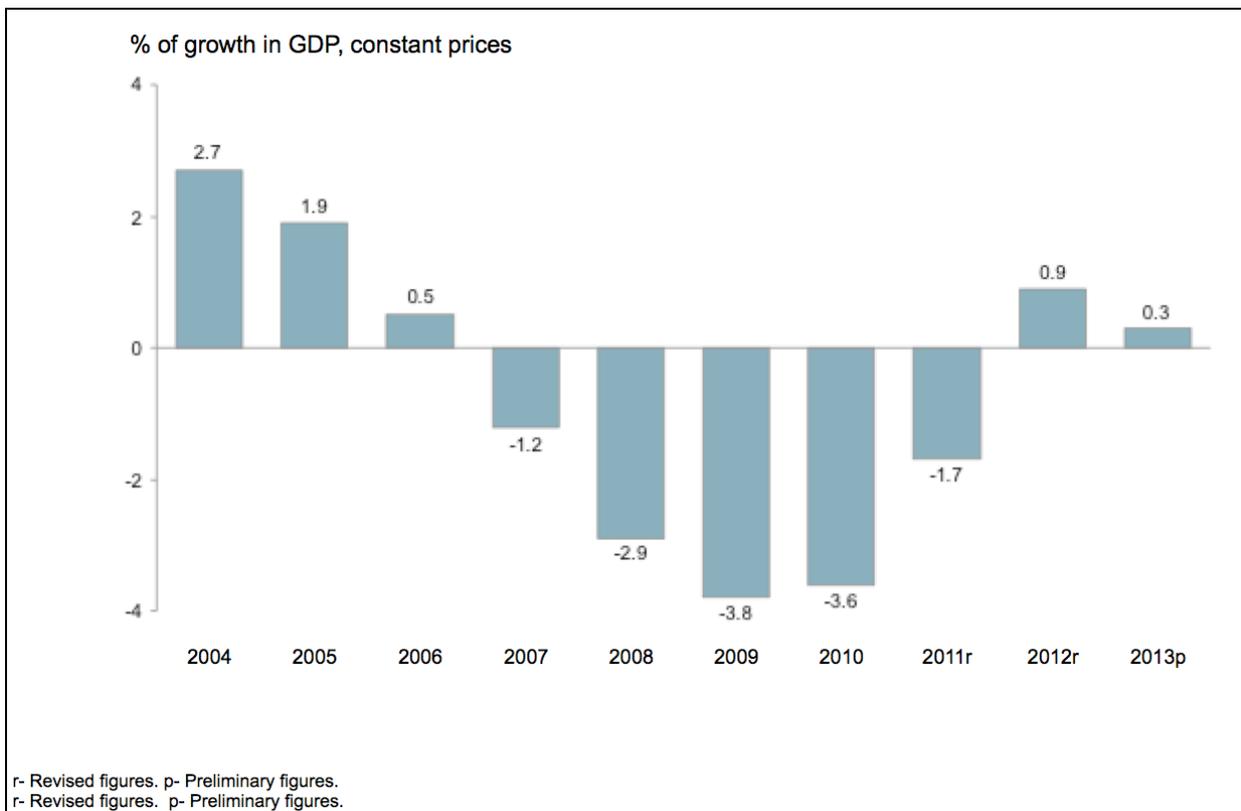
The economy of Puerto Rico has evolved from an agricultural base into that of an industrial society. In 1940, agriculture represented more than 31% of the citizenry's net income, while manufacturing represented just 12%.¹ By 2002, agriculture represented less than 1% of net income (0.88%), while

¹ Planning Board of Puerto Rico: Report on Revenues and Product, 1984, Table 1.



manufacturing was 46%.² Within this context of industrial modernization, the manufacturing sector also evolved: From a model focused on labor, it became one centered on knowledge. Over the past forty years the growth of per-capita income in Puerto Rico has slowed and progress has halted, closing the gap between the income earned here versus income earned in the United States. Between 1950 and 1970, the Puerto Rican worker's per capita income in comparison to a stateside worker's grew from 20% to 40%,³ but over the last few decades, this number has fallen to 30%. Despite the successful industrialization that Puerto Rico underwent in the past, the last few years have represented an enormous challenge to our economy. The real Gross Domestic Product (GDP) has grown very little or declined, which makes it difficult for the island to begin the process of recovery.

Real GDP Growth, Puerto Rico, Fiscal Years 2004–2013⁴



Puerto Rico's GDP is affected by many factors, which are important variables in the composition of domestic demand. Among these factors are the island's strong commercial links with the United States, the government's spending, and spending associated with personal consumption. Personal spending has risen over the last four fiscal years, while in fiscal year 2013 government spending was reduced.

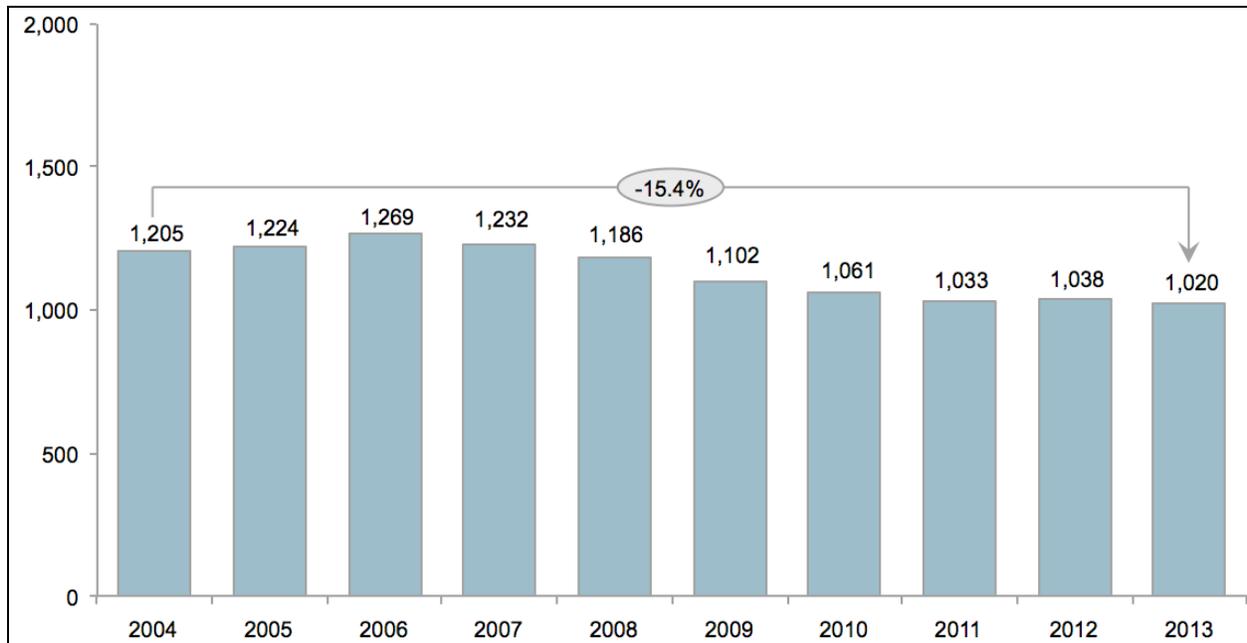
² Planning Board of Puerto Rico: Governor's Economic Report, 2003, Table 10.

³ S.M. Collins, B.P. Bosworth, M. Soto-Class, *The Economy of Puerto Rico: Restoring Growth*, Washington, D.C.: The Brookings Institution Press, 2006.

⁴ Planning Board of Puerto Rico: Governor's Economic Report, 2013, Table 1.

Another important factor, which should be taken into consideration as part of Puerto Rico's economic context is the jobs situation. Declines in formal employment and the rate of participation in the labor force are important social and economic realities, which we must try to reverse. Since 2004, total jobs have fallen by 15.4%, with only a little over 1 million jobs available in 2013.⁵

Jobs in Puerto Rico, 2004–2013⁶



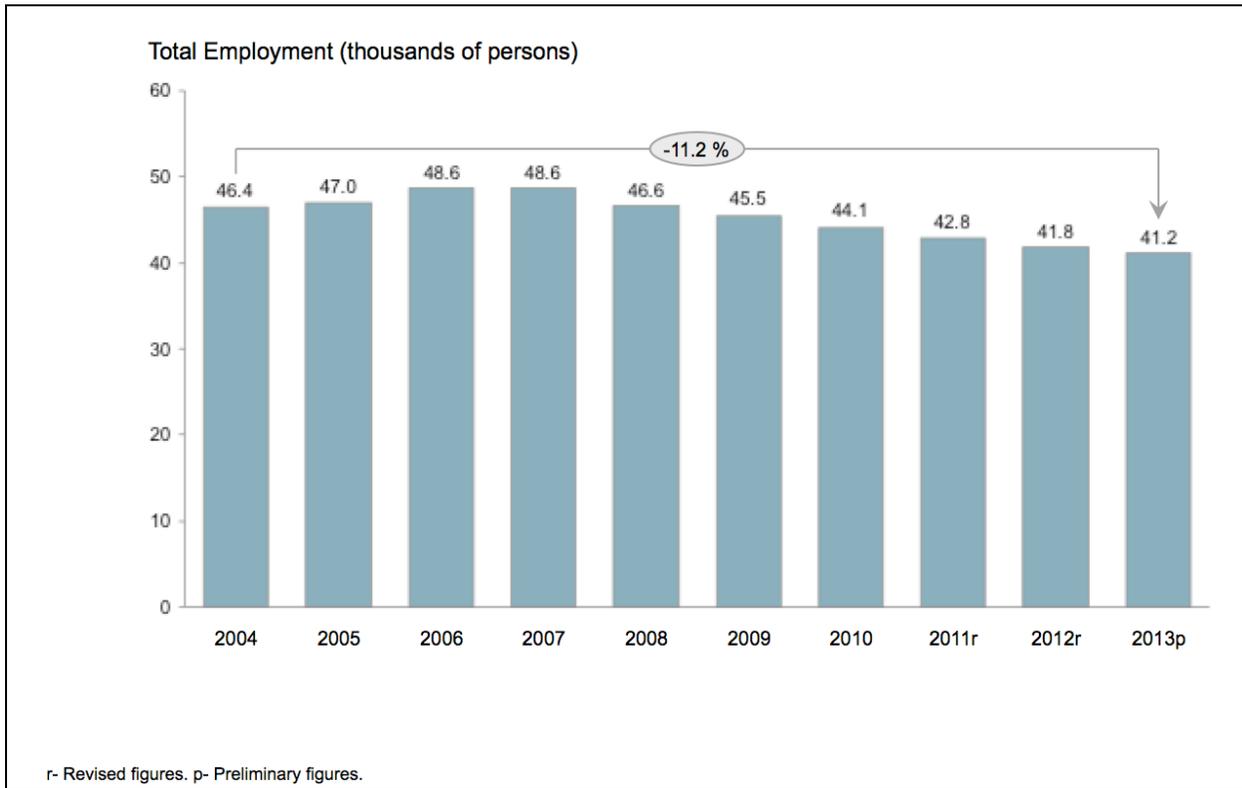
In addition to the decline in jobs in Puerto Rico, there has been a drop-off in the rate of participation in the labor force, an indicator that measures the labor force (total jobs plus unemployed workers) in the population of 16 years of age and older. In Puerto Rico, only about 41% of the people are available to take part in productive economic activities. This number compares unfavorably to the United States and the countries of Latin America, where the average rate is about 60%. This means that in Puerto Rico only nearly 41% of people are available to take part in production activities.

⁵ Department of Labor and Human Resources: Employment and Unemployment in Puerto Rico, 2013: Table 1.

⁶ Department of Labor and Human Resources, Worker Group Survey, Annual Employment Averages: Report on Employment and Unemployment in Puerto Rico, December 2013.



Rates of Participation in the Labor Force, Puerto Rico, Fiscal Years 2004–2013⁷



Similarly, our island’s demographics have changed radically over the last few decades. There are fewer and fewer births, the mortality rate among adolescents and young adults has risen, and the population of older adults is growing larger and larger.⁸ The population group between 0 and 19 years of age has shrunk, due mainly to two factors: migration and a decline in the birth rate. Meanwhile, the sector comprising adults has grown significantly. This presents new challenges to public services and changes the dynamic of the labor force in Puerto Rico. As a society, we must prepare ourselves to confront this demographic reality and find ways to offer adequate public services, job opportunities, health services, and decent housing at a reasonable cost.

Evidence indicates that at the time the island’s public policy for the economy was formulated, these elements were underestimated. The injection of over \$7 billion in federal ARRA funds between 2009 and 2012 masked the absence of a coherent plan that would lead to responsible, balanced, sustained socioeconomic development. We must design an economic model that does several important things: take into account the challenges associated with globalization; develop and encourage a competent, well trained and educated labor force; and make it easy for a greater number of individuals to take part in local production.

⁷ Planning Board of Puerto Rico: Governor’s Economic Report, 2013: Table 32.

⁸ Planning Board of Puerto Rico: Census Office.



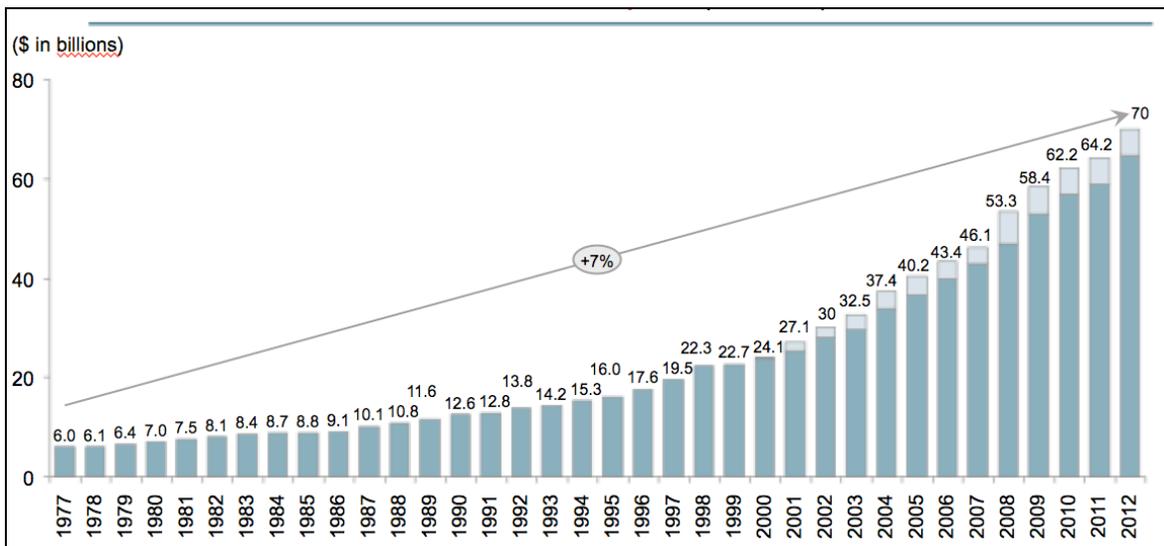
This agenda for recovery contains specific proposals and actions that will help us meet and overcome our island's most pressing problems.

2.2 Public-Sector Debt

Puerto Rico's economy has experienced no real growth since 2006. That date marks the first anniversary of the ten-year period since the elimination of Section 936 of the Internal Revenue Code and the extinction of tax benefits offered to multinational corporations in the manufacturing sector. Over the past eight years, Puerto Rico has gone through a period of severe economic contraction. In that time, the decrease in the island's economic activity has dramatically affected the government's revenues. But instead of formulating a two-pronged strategy of economic reactivation and reductions in government spending in order to bring spending into line with the new financial situation, it was decided to go to the capital markets and take out loans to finance the shortfalls between revenues and operational expenses. This practice, known as deficit financing, became the budgetary norm, and as the financial situation worsened the government needed more and more money from the bonds market in order to keep its head above water and continue to function. The rapidly increasing indebtedness that has resulted has caused the island to accumulate a public debt of some \$70 billion. This number represents approximately 68% of the GDP and 100% of the GNP.

This debt is one of the greatest challenges to our island. In thirty-five years, government debt rose from \$6 billion to \$70 billion, an annual compound growth rate of 7%. Over this period, our economy never grew at anything like that rate.

Total Public-Sector Debt 1977–2012^{9,10}



⁹ Planning Board of Puerto Rico: Governor's Economic Report 1989, 1999, 2000, 2004, 2013: Table 29.

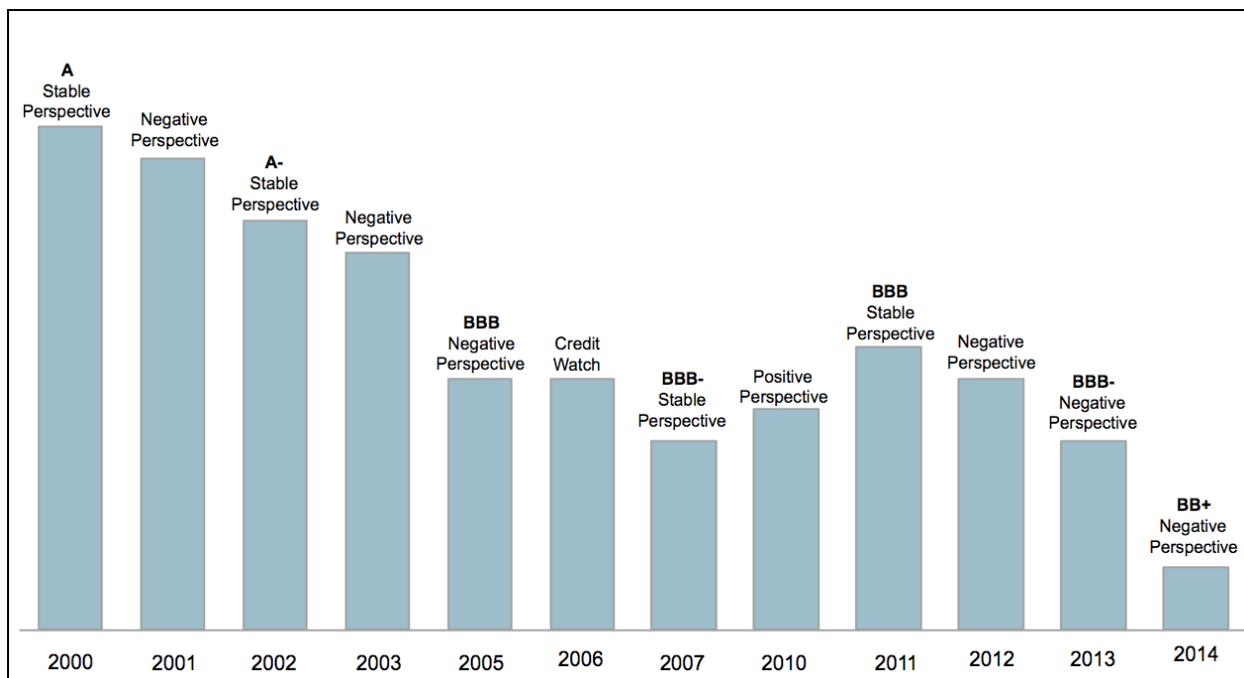
¹⁰ 2000–2012: Non-recurrent debt is included, i.e., debt not against the General Fund.



Despite the fact that every administration in the past few decades has contributed to the increase in the public debt, the term that had the greatest increase in the last thirty-five years was the 2009–2012 term, in which the debt increased by almost \$18 billion, the equivalent of 27% of total public-sector debt.

In addition, our excessive public debt led the ratings services to downgrade the island's credit. The reclassification to “non-investment grade” caused an increase in the government's financing costs. This administration is committed to working tirelessly to improve the finance community's perception of our island's economy, and thus ensure that the classification of our debt returns to its former high level.

Standard & Poor's Historical Ratings for Puerto Rico's General Obligation Bonds¹¹



As part of our commitment to stabilizing public finances, we have established very specific rules regarding the generation of new debt:

- In balancing the budget, we will make sure not to increase the public debt in order to cover the government's operating costs.
- We will acquire new debt only to guarantee the financing on infrastructure projects that have a close correlation with the economic model that we wish to develop.

Over the last year, creation of new debt has been controlled, and limited to very specific objectives:

- Almost \$100 million went into the General Fund for capital improvements.
- Deficit financing was lowered in fiscal year 2014, with a projection of \$0 in deficit financing for fiscal year 2015.

¹¹ Government Development Bank presentation: Standard & Poor's Historical Ratings, February 2014.



2.3 Fiscal Measures and Access to Markets in 2013 and 2014

During its first fifteen months, our administration has faced the island's main financial and economic challenges with a great sense of responsibility and urgency, and we have introduced reforms that will help safeguard the government's financing alternatives, forestall the collapse of public services, and lay the foundation for future economic growth. The main challenges were:

Main challenges of Puerto Rico's fiscal and financial system (2013)

Challenge	Situation 2012–2013	Measure	Group helping to meet the challenge
Government retirement systems	<ul style="list-style-type: none"> • Insufficient funds for retirement system obligations • Questionable long-term viability for the three systems: <ul style="list-style-type: none"> • Public employees • Teachers • Judiciary 	<ul style="list-style-type: none"> • Reform of the three retirement systems: <ul style="list-style-type: none"> • Public employees • Teachers • Judiciary 	<ul style="list-style-type: none"> • Public employees • Taxpayers in general
Deficit in General Fund	<ul style="list-style-type: none"> • Deficit of \$2.2 B (24% of the General Fund) • Education and Health Depts. financed artificially with funds from the American Recovery and Reinvestment Act (ARRA) 	<ul style="list-style-type: none"> • Changes to Law 154 (taxes) • Additional measures to increase government revenues • Austerity measures in the government 	<ul style="list-style-type: none"> • Multinational corporations • Local companies • Providers and officials appointed to public positions
Insolvent public corporations	<ul style="list-style-type: none"> • Largest public corporations (PREPA, PRASA, PA, HTA) operating with deficits • Deficits financed for years by the GDB 	<ul style="list-style-type: none"> • Review of rates (water, fuel) • Public-Private Alliance (LMM airport) • Laws 30 and 31 of 2013 	<ul style="list-style-type: none"> • Public in general, consumers
Lack of liquidity in Government Development Bank (GDB)	<ul style="list-style-type: none"> • GDB, principal credit agency for the public sector, did not have sufficient funds to meet debt obligations 	<ul style="list-style-type: none"> • New financial instruments for the GDB • Law 164 of 2001, as amended, for GDB loans 	<ul style="list-style-type: none"> • Investors • Municipalities • Public corporations



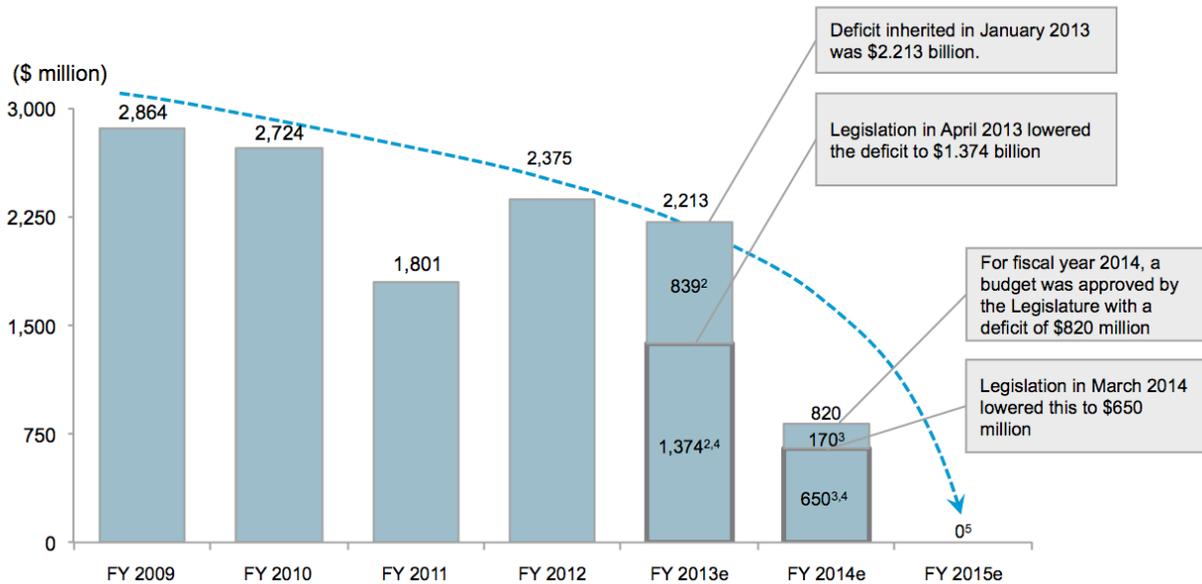
Challenge	Situation 2012–2013	Measure	Group helping to meet the challenge
Difficulty to access to financial markets	<ul style="list-style-type: none"> Downgrading's by credit ratings agencies complicate access to markets Puerto Rico's debt under scrutiny since November of 2012 with various negative reports in the U.S. press 	<ul style="list-style-type: none"> Improvements in policies regarding GDB's transparency and communication with the financial community \$3.5B issue of general obligation bonds 	<ul style="list-style-type: none"> U.S. investors who made loans Investors from U.S. and Puerto Rico who lost money
Deeply indebted government	<ul style="list-style-type: none"> Debt level above \$70B Due dates on debt "stuck" on GDB books 	<ul style="list-style-type: none"> Sweeping restrictions on any new debt issue Reduce or eliminate deficit financing 	<ul style="list-style-type: none"> Construction industry Projects under development Municipalities

Deficit in the General Fund

In January of 2013, our administration inherited a budget with a deficit of \$2.2 billion for that fiscal year alone. Our advances on this front have been significant:

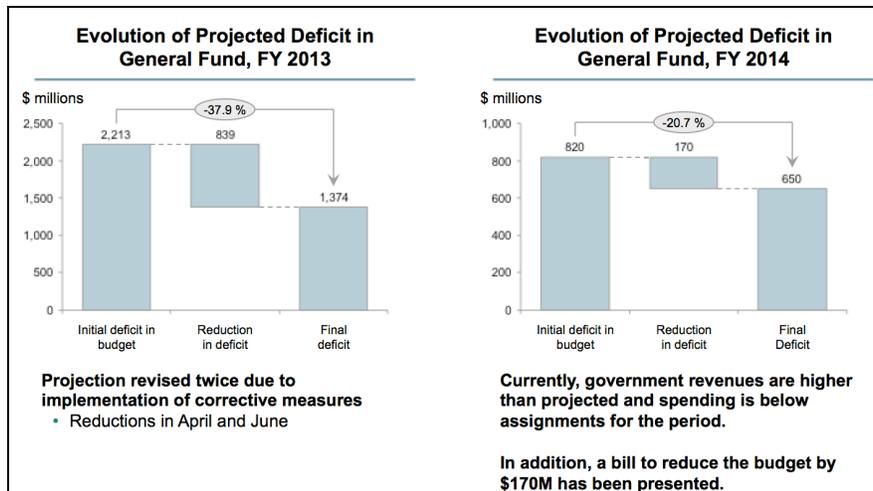
- We reduced the budget deficit by 40%, to \$1.3 billion, during the first half of 2013.
- The budget for fiscal year 2014 reduced the deficit to \$820 million (a 63% reduction in comparison to the deficit we inherited).
- In February of 2014, the governor presented a bill that would order the Management and Budget Office (MBO) and other government agencies to identify new ways to reduce expenses (reductions totaling \$170 million) in order to reduce the deficit in fiscal 2014 to \$650 million.
- This road to fiscal reorganization puts the government in the position of balancing its budget in fiscal year 2015.

Historical and Projected Deficit in the General Fund (in \$M)¹²



As of March of 2014, government revenues have been higher than estimates for this fiscal year. Estimates of revenues to the General Fund for this fiscal year stand at approximately \$9.5 billion.

Evolution of Projected Deficits, FYs 2013, 2014¹³

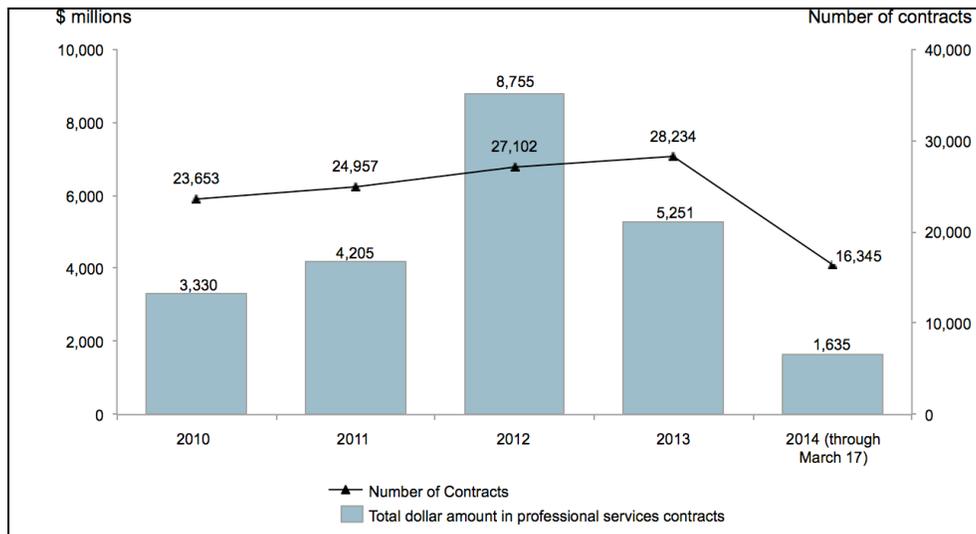


¹² (1) For fiscal years 2009–2012: Commonwealth of Puerto Rico: Report on Financial Information and Operation Data, October 18, 2013. The deficit corresponding to fiscal 2014 is preliminary and subject to change. The results presented for fiscal years 2009 and 2010 exclude approximately \$442 million and \$50 million, respectively, of non-recurrent spending accumulated during prior fiscal years that have been reported as part of the total spending for those fiscal years. (2) After the implementation of corrective measures by the current administration, the deficit for fiscal year 2013 was initially revised from \$2.213 billion on January 31, 2013, to \$1.6 billion on April 30, 2013, and revised again on June 30, 2013, to \$1.29 billion. On January 24, 2014, the audit process generated another \$84 million in spending attributable to fiscal year 2013, and on the basis of these adjustments, the revised estimate for fiscal year 2013 is \$1.374 billion. (3) Assumes (i) that the deficit can be brought into line with budget projections despite the fact that revenues thus far in the year are higher than projected and expenses lower than the budget assignments for the period; and (ii) that the bills submitted by the administration to lower budget assignments for fiscal year 2014 by \$170 million will be approved. (4) Preliminary estimate, subject to change. (5) Assumes balanced budget.

¹³ Webcast GDB, October 2013 and February 2014.

Some of the measures to lower government spending have focused on controlling and reducing the number and dollar amount of contracts for professional services to the Executive Branch. According to an analysis prepared by the Comptroller's Office, the total amount of these contracts fell from \$8.755 billion in fiscal year 2012 to \$5.251 billion in fiscal year 2013. In fiscal year 2014, this amount has been \$1.635 billion. Although there are still a few months before the close of this fiscal year, the reduction in the total amount spent on professional services has been drastic, and is another indicator of this administration's commitment to austerity and fiscal responsibility.

Number and Dollar Amounts of Contracts for Professional Services to the Executive Branch, by Fiscal Year¹⁴



Retirement Systems

For decades, the government of the Commonwealth of Puerto Rico did not pay its required contribution to the island's retirement systems or make the necessary reforms to those systems to reflect the island's economic situation and ensure the systems' sustainability over the long term. In addition, the government never followed actuarial recommendations, and constantly passed legislation to add and expand benefits for public employees without identifying budgetary resources for them. Nor has there been any systematic planning for the island's demographic and generational changes.

During 2013, restructuring plans were presented for the three major pension systems for public employees:

- Retirement System for Government Employees
- Retirement System for Teachers
- Retirement System for the Judiciary

The first of these systems had \$2.7 billion in assets for \$25 billion in debt, and it received 6 cents from the General Fund for each dollar paid out in benefits. The second system had \$1.5 billion in assets for \$10 billion in debt, and received 17 cents for each dollar paid out in benefits. The third system had \$300

¹⁴ Database of contracts, Comptroller's Office: www.ocpr.gov.pr/indice_registro_de_contratos.htm (as of March, 2014)



million in assets for \$700 million in debt, and received 14 cents for each dollar paid out in benefits. Seen as a whole, these three systems had debt totaling \$35 billion and no more than \$4.5 billion in assets.

In the face of the enormous challenge to meet the island's commitment to providing financial security to its public employees in their retirement, we decided to make the changes necessary for ensuring that in the future, the systems will be self-sustaining, and by doing so we have provided long-term protection for our retirees' pensions.

The government employees' retirement system would have exhausted its assets in fiscal year 2014, and the government would have had to disburse \$900 million each year from the General Fund in order to honor its pensions. The teachers' retirement system is in a similar situation: Its assets will be exhausted in fiscal year 2020 and \$500 million will be required each year thereafter in order to pay its pensions. In the case of the teachers' system, if a reform cannot be enacted—given the recent decision by the Puerto Rico Supreme Court—then the government will either have to make cuts in assignments to the General Fund or implement new taxes in order to bring in the \$500 million needed each year.

Public Corporations

In recent decades, most of Puerto Rico's public corporations have been able to continue operating only with the help of subsidies charged against the General Fund or financing provided by the Government Development Bank. With the changes implemented in the last few months, we have begun the process of ensuring that the public corporations become self-sufficient, able to function without the GDB's deficit financing. In 2013, we took the first steps toward ensuring that public corporations will no longer be a burden on the public finances. In 2014, and in the budget for fiscal year 2015, we have taken the steps needed to ensure that the public corporations will need little or no financing from the GDB.

Principal Measures Implemented by Public Corporations (2013 and 2014)¹⁵

<p>Puerto Rico Aqueduct and Sewer Authority</p> 	<ul style="list-style-type: none"> • Adjustment of 60% (on average) in consumer water rates in July, 2013, increasing revenues from operations by \$430 million in FY 2014
<p>Highways and Transportation Authority</p> 	<ul style="list-style-type: none"> • The government passed Laws 30 and 31 in June of 2013 to increase the Highways and Transportation Authority's revenues (estimated at \$270 million). • This new revenue will enable the Authority to amortize lines of credit with the GDB and other institutions, access capital markets, and finance operational costs.
<p>Ports Authority</p> 	<ul style="list-style-type: none"> • Public-private alliance at Luis Muñoz Marín International Airport finalized in February of 2013, with an initial payment of \$615 million. <ul style="list-style-type: none"> -Concessions agreement with Aerostar Holdings -\$240 million in improvements to infrastructure promised over the next 3 years, \$300M in 5. • This transaction improves the Ports Authority's financial situation and reduces the risk for both the Authority and the GDB with the repayment of \$490 million of debt to the Bank.
<p>Puerto Rico Electric Power Authority</p> 	<ul style="list-style-type: none"> • Conversion to gas of Costa Sur, the AEE's second-largest generating facility, reducing dependence on oil by approximately 15%. • We are in the process of environmental analysis for conversion of the largest plant, Aguirre, replacing 18% of total production. • \$673 million bond issue to finance capital improvements, including conversion to natural gas of plants dependent on oil.

Liquidity of the Government Development Bank

In January of 2013, the liquidity of the GDB was precarious, and this directly affected the government's overall functioning. Some of the factors that brought about the situation are the following:

- An increase in the differentials of the rate of Commonwealth bonds.
- Unbridled increase in the level of loans issued without a source of repayment.
- Decades of deficit financing.
- Limited access to capital markets, both for the Commonwealth and for some of its public corporations, during 2012 and 2013.
- A decline in the liquidity of local capital markets.
- Credit ratings downgraded for Puerto Rican debt by ratings agencies.

Conscious of the gravity of our fiscal situation, our administration took necessary and responsible steps to improve the bank's situation. Even in the midst of this adverse situation, our administration managed to go to the financial markets with a successful sale of \$3.5 billion in bonds at a price much lower than analysts had estimated. Below we list the major steps now being taken to improve the GDB's liquidity:

¹⁵ GDB: Investor webcast, October 15, 2013.



Measures to Improve the GDB's Liquidity (2013, 2014)

<p>Issue of General Obligation bonds, March 2014</p>	<p>Successful sale of \$3.5B in Commonwealth general obligation bonds maturing in 2035, with coupon of 8% and interest rate of 8.727%.</p> <ul style="list-style-type: none"> - \$1.9 billion to refinance Commonwealth debt to GDB - \$900 million to be used to refinance short-term obligations - \$400 million to capitalize interests
<p>Strengthening of COFINA's financial situation</p>	<p>Amendments to COFINA (Pressing-Interest Fund Corporation) law</p> <ul style="list-style-type: none"> Raising portion of IVU sent to COFINA from 2.7% to 3.50% Increase in portion of IVU sent to central government (from 5.5% to 6%), thereby increasing the government's financing ability (9% more revenue for debt servicing)
<p>New financial structure via COFIM</p>	<p>The Corporation for Municipal Financing (COFIM), an entity similar to COFINA, is authorized to issue debt backed by the municipal portion of the IVU</p> <p>COFIM will allow municipalities to refinance up to \$500 million in municipal loans backed by the IVU</p>
<p>New legislation to improve GDB's liquidity and oversight</p>	<p>Limit on the GDB's ability to finance public corporations' deficits (no deficits will be financed without certainty of repayment)</p> <p>Increase in GDB's oversight role, as it can now request that public funds (with some exceptions) be deposited in the GDB</p> <ul style="list-style-type: none"> GDB can request reports on dollar amounts and location of funds Budget and Management Office (BMO) obtains visibility on these funds that are not part of the General Fund <p>Increase in guarantee of General Obligation bonds issued by GDB</p> <p>From \$550 million to \$2 billion guaranteed by the good faith and credit of the Commonwealth</p>

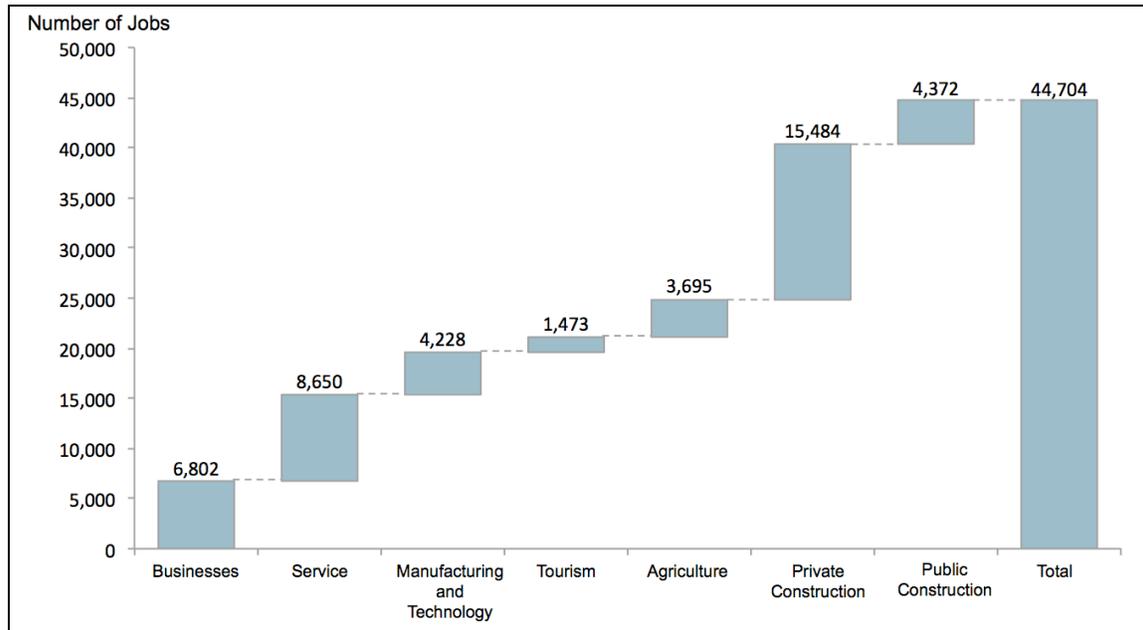
2.4 Measures Aimed at Economic Development

The creation of jobs and stimulation of economic development are the permanent solution for restoring Puerto Rico's fiscal health. From its first day, our administration began implementing a plan to create jobs as a way of reactivating the economy. As a first step, the legislature passed Law 1-2013, known as the Jobs Now Act. This legislation allowed us to establish a stimulus program to create jobs and offer incentives for new and existing businesses. The law grants an energy credit to participating businesses, creates an alternate process that speeds up the permits process, and establishes a salary subsidy for businesses that hire employees who had previously been laid off. As of April 16, 2014, a total of 687 businesses have been certified under this law, for a total of 11,409 jobs that have been created, thus stimulating capital investment.

The Jobs Now Act and all of our efforts to create jobs in diverse sectors have produced 44,704 new positions over the last fifteen months.



Creation of Jobs by Sector (January 2013–March 2014)¹⁶



Manufacturing and industrial services have been an area of high competitiveness and growth, as evidenced in the achievements during this first year detailed below:

**Examples of Negotiations to Create Jobs in Manufacturing and Industry Services,
January 2013–April 2014¹⁷**

Manufacturing	Pharmaceuticals	<ul style="list-style-type: none"> Johnson & Johnson: 380 new jobs and \$226 million in investment Bristol Myers Squibb: 100 new jobs and \$200 million in investment on expansion and renovation of plant and equipment Eli Lilly: 400 new jobs in November 2013 In January 2014, inauguration of CEDIPROF/Neolpharma: \$12 million in investment and 23 new jobs
	Medical devices	<ul style="list-style-type: none"> Expansion of CooperVision plant: \$250 million investment and 350 new jobs Expansion of Covidien plant: 200 new jobs Expansion of St. Jude Medical: 150 new jobs over 5 years Expansion of Medtronic: 150 new jobs announced in October 2013 Stryker: 32 new jobs Vention Medical: 96 jobs and \$3.5 million investment
Services	Export services & aerospace sector	<ul style="list-style-type: none"> IBM/ True North: 400 new jobs AON Hewitt: 200 new jobs Rock Solid: 100 new jobs announced in November 2013 Infosys: 300 new jobs announced in January 2014 Honeywell Aerospace: Expansion, with \$24 million in investment and 310 new jobs over 36 months, as announced in April 2014
	Textiles & military clothing	<ul style="list-style-type: none"> Propper International: federal contract for \$137 million over 3 years, creation of 2,200 jobs SNC Technical Services: 200 new jobs Lifestyle Footwear: 180 new jobs announced in January 2014
	Aircraft maintenance, repair, and reconditioning (MRO)	<ul style="list-style-type: none"> Lufthansa Technik: construction of facilities and creation of 400 new jobs during the operation, announced in April 2014.

¹⁶ Jobs validated by Budget and Management Office on April 9, 2014.

¹⁷ GDB webcasts, October 2013, February 2014.



Tourism has also made important strides: an increase in hotel infrastructure and improvements in air and sea connectivity. With regard to the hotel room inventory, in 2013 we increased hotel rooms under construction by 2,200, for a total inventory of 16,700. The number of cruise passengers rose by 121,000, an increase of 35% over 2012. In terms of air access, in 2013 routes were reestablished with important destinations such as Colombia and Spain. Our negotiations also led to Seaborne Airlines' establishing its headquarters in Puerto Rico, thus restoring our connection with the Caribbean. As of now, Puerto Rico has air connections with 17 countries and 24 destinations.

During 2014, the Hyatt chain, after more than a decade of absence from Puerto Rico, announced the construction of two new hotel projects, in the municipalities of Manatí and Bayamón. It also has plans to operate two more hotels in the Convention District in San Juan; construction on these hotels will begin sometime in 2014. In addition, the Vanderbilt Hotel was purchased in early 2014 and after an investment of some \$40 million and the selection of an operator, we project that it will be completed and operating by the end of this year. Lastly, the Normandie Hotel was purchased by a group of off-island investors; it is now in the planning stage and will soon reopen.

Some Examples of Projects, Negotiations, and Advances in Tourism¹⁸

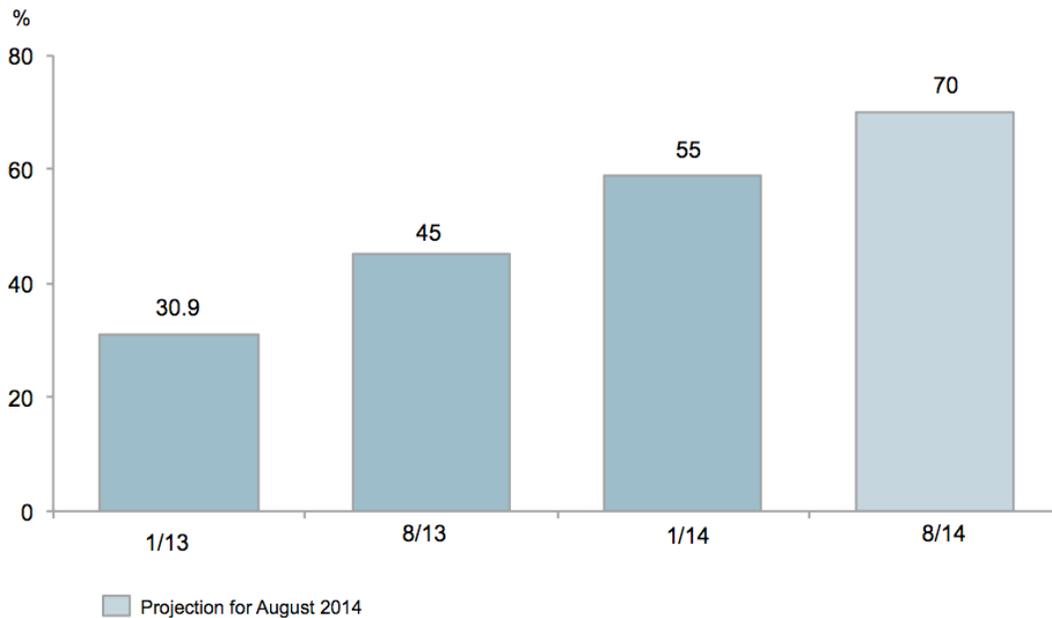
Tourism	Seaborne Airlines	<ul style="list-style-type: none"> • In December 2013, Seaborne announced new flights to 16 destinations, 2,600 flights per month • In March 2014, consolidated its operations center in Puerto Rico (administration, operations, reservations, and customer service), representing 400 jobs
	Additional routes	<ul style="list-style-type: none"> • New routes in 2013: JetBlue and United Airlines to Chicago, Southwest Airlines to Orlando, Avianca to Bogota, JetBlue to Santiago de Chile and Punta Cana, Dominican Republic • Direct access restored to Madrid via Air Europa beginning in May 2014
	Hotel developments	<ul style="list-style-type: none"> • Hyatt Place, Bayamón: Inaugurated in December 2013, 352 direct jobs in casino, hotel, and restaurant • Hyatt Place, Manatí: Inaugurated in March 2014, 104 rooms, investment of \$38 million, 205 jobs
	Cruise lines	<p>New routes in 2013: MSC <i>Divina</i> arrived in November 2013; first arrival of Norwegian Cruises in December 2013</p> <p>Disney Cruises, 4 visits in September and October 2014</p> <p>Royal Caribbean's <i>Quantum of the Seas</i> arriving in December 2014 with over 6,000 passengers each arrival</p> <p>A larger cruise ship (<i>Navigator of the Seas</i>) will replace <i>Jewel of the Seas</i> in spring of 2015, with 52,000 passengers per year</p>

Similarly, agriculture has been an economic area that we have rescued in order to increase local productivity and promote a public policy of food security. We have had the first rice harvest in thirty years, and we have begun to raise sugar cane in Puerto Rico again. Likewise, our competitive advantage has brought in foreign investment, making possible high-profile tourist residential projects, while corporations that have operated in Puerto Rico for many years have expanded their operations and increased production, creating hundreds of additional jobs.

¹⁸ GDB webcasts October 2013 and February 2014, and www.fortaleza.pr.gov/noticias.



School Lunch Tray: Percentage of Local Products Served at Breakfast, Snack, and Lunch



Progress in Several Areas of Economic Development in 2013–2014¹⁹

Others	Agriculture	<ul style="list-style-type: none"> • First rice harvest in 30 years (420,000 pounds of rice, with an initial investment of \$1.5 million) • Sugar cane: 20,000 acres, investment of \$9.5 million, potential for 4000 jobs • Poultry industry: Plants slated to reopen in Coamo and Salinas (750 direct jobs, with an investment of \$7 million) 			
	Foreign Investment	<ul style="list-style-type: none"> • Investment of \$760 million by John Paulson & Co. in 2014 and \$500 million in 2015 -Purchased 80% of the Bahia Beach Resort and Golf Club (including the St. Regis Hotel) in Río Grande and plans to invest \$500 million to continue development -Purchased Hotel La Concha and the Vanderbilt Hotel in the Condado for \$260 million • Putnam Bridge Investments: Investment of \$200 million in 2014 -Plans to invest \$450 million to renovate Marina Puerto del Rey in Fajardo, creating 400 jobs in construction and 500 permanent jobs 			
	Others	<ul style="list-style-type: none"> • Crowley: Corporate expansion to make Puerto Rico hits export center for the Caribbean. This represents revenues of \$20.7 million over 30 years and the creation of 100 new jobs • Serrallés Distillery: Expansion of rum production by 8 million gallons, bringing an increase in revenues to the Puerto Rican treasury due to reimbursement of the tax on rum sold in the United States 			
	Areas Supporting Economic Development	<table border="1"> <tr> <td>Energy</td> <td> <ul style="list-style-type: none"> • We will keep energy costs at the lowest rate since 2011 • Transition to natural gas: first plant converted in June 2013 • Agreements with six companies to supply renewable energy (solar, 365 MW), with an investment of \$635 million. </td> </tr> <tr> <td>Permits</td> <td> <ul style="list-style-type: none"> • Plan established for improvements to information technology systems • Increase of \$71 million (10%) in the total value of building permits in 20 13/2012 (an increase of \$300 million in comparison to 2011) </td> </tr> </table>	Energy	<ul style="list-style-type: none"> • We will keep energy costs at the lowest rate since 2011 • Transition to natural gas: first plant converted in June 2013 • Agreements with six companies to supply renewable energy (solar, 365 MW), with an investment of \$635 million. 	Permits
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2.5 Fiscal Health and Economic Growth

It is essential that we understand the links between the island’s fiscal health, local production, and economic growth. Accelerating economic growth over the next few years will allow us to meet our

¹⁹ GDB webcasts October 2013 and February 2014, and www.fortaleza.pr.gov/noticias.



commitment to servicing the debt without limiting public and private investment or the ability of government to spend. In the past, postponing modernization of the economic model without simultaneously reducing government spending caused the growth rate of the debt to be greater than the rate of economic growth.

The commitment shown by our administration to responsibly dealing with the fiscal situation through forceful measures and reforms, along with the recent \$3.5 billion bond issue to refinance the debt, enables us to implement the necessary, urgent recovery measures that will allow us to create sufficient economic growth to sustain the debt we have incurred. We should stress that low financing rates, long bond maturity terms, and a stable rate of inflation act together as a counterweight to partially mitigate the economic issues that strain Puerto Rico's ability to meet its obligations. To ensure that Puerto Rico achieves sustainable levels of resources and debt, it is essential that a balanced budget be presented for fiscal year 2015, one that eliminates our dependency on credit to pay the government's recurrent obligations. Analysis indicates that a scenario for economic sustainability that allows a stable level of recovery is the following:

- Economic growth of 2% by 2018, inflation held at 2%, a balanced budget every year, and financing costs reduced to approximately 4.8% by 2016.

Under this scenario, the debt level would stabilize with respect to the GDP and debt servicing would be carried out in relation to other government spending.

The way the budget is balanced has an important impact on the economy, growth, and investment. A reduction in the government's current spending levels is one way to reduce contraction in the GDP in the short term and should produce an increase in productivity with results over the medium and long term by stimulating private investment and the rate of participation in the labor force. It is important, as a vital step toward economic recovery and sustainability of the debt already incurred, that the budget for fiscal year 2015 be balanced.

To ensure economic recovery, we must try to reverse the growth in the public debt to a point lower than long-term economic growth. To do that, we need a strategy for socio-economic development, government transformation, and four-year fiscal discipline. Our country has not had that strategy for several decades. Now it will have it.

2.6 Principles for Transformation in Four Years

In Puerto Rico, government has a central role in the functioning of society and the economy. Therefore, it is the government's responsibility to create the conditions under which Puerto Rico can be an ideal place to live, invest, and develop.

In this process, it is vital that we continue restoring the government's financial and economic health. Fiscal instability affects our ability to achieve economic prosperity for several reasons: (1) it increases the



cost of financing; (2) it creates an atmosphere of uncertainty with regard to the future tax measures that may be necessary to meet the government's obligations; and (3) it affects the confidence and required for attracting investment to the island.

Our policy for economic transformation and fiscal recovery is guided by the following principles:

- **The need to increase our competitiveness.** We must strengthen and support our human capital and our social and economic infrastructure at the same time we develop strategies for allowing growth sectors and growth industries to develop.
- **The need to increase local productivity.** As a fundamental basis for fostering sustainable economic development with equitable benefits, we must focus on increasing local production, developing businesses, and substitute imports.
- **The need to establish long-term goals.** That is why the agenda we are presenting covers four years. All sectors demand immediate results, but just as our problems did not come into existence overnight, building a new socioeconomic model and restoring fiscal health cannot be done instantaneously. We have developed an agenda that seeks to capitalize on our talents, our natural resources, and our geopolitical situation. In addition, this agenda seeks to swiftly deal with energy costs, public security, our demographic situation, and our public education.
- **The need to restore confidence in the island by means of a real and prudent agenda.** In order to do this, we offer specific, concrete goals with strategies for their implementation in order to dispel any uncertainty as to whether, and how, they may be achieved.

In the sections below we set forth our four-year agenda for transformation.

3. Basic Conditions for Competitiveness

A competitive, healthy economy is an economy that generates its own wealth, offers incentives for local production, and invests in its economic and social infrastructure in order to develop and energize its human capital.

3.1 Human Capital

The most important asset possessed by Puerto Rico is its people. As a government, we have the responsibility to provide our citizens with the tools and education that will allow them to enter the world of labor and contribute to our productivity. To do this, it is essential that we **adapt our educational system to our particular situation**. It avails us nothing to educate young people and then lose them to better job opportunities abroad. It is imperative that we generate mechanisms to **halt the flight of young talent** and that we bring our policies into line with the demographic reality of a significant increase in the number of older adults in our population. Lastly, it is important that we foster conditions that will allow our citizens to enter the formal economy: give them the skills and knowledge essential to their professional development and publicize the existence of jobs in order to **increase the rate of participation in the labor force and reduce the size of the underground economy**.

Transformation of Puerto Rico's Educational System

Education is an essential element in our plan for economic recovery.

- Our system of public education should provide our children with the knowledge and skills necessary to function successfully in the university and in their professional careers, ensuring that they have the same opportunities as young people educated in more advanced economies.
- Our educational system should send the best human and technological resources available into the classroom. That is, the Puerto Rico Department of Education has the responsibility to give its students the highest quality teachers and principals, and to require that these staff members be trained in the most recent, most advanced pedagogical techniques.
- With its budget of \$3.4 billion, the Department of Education represents approximately 20% of the entire budget of Puerto Rico. We must maximize that inversion. To do that, we propose changing inefficient administrative practices and redirecting savings to the classroom, thus maximizing our fiscal resources.

A major priority for this administration is modernizing our school system and thereby reforming education so that it is responsive to the demands of a highly technologized and globalized culture in which productivity and competitiveness are deciding factors for progress.

This administration wants Puerto Rican students to be able to compete with young people from all around the world under equal conditions, so that they may have access to better jobs and a satisfying, productive life. How do we do this?

Pre K–16

The educational model commonly known as Pre K–16 represents the new paradigm of the world's most advanced and industrialized nations. In essence, this model encourages citizens to begin their intellectual education as early as possible and to extend it through graduation from university. In this way, everything possible is done to ensure that the individual enters the professional world, the technologized and globalized culture, as quickly and efficiently as possible. **This administration's educational project seeks to have children begin school when they reach four years of age, and to accompany them through completion of their bachelors degree.** This allows us to act in a proactive way to ensure that children are connected to the professional world, and to prepare them to acquire and put into practice the knowledge and skills they need to succeed. The more time young people spend in educational environments, the better prepared they will be to live in society and meet the demands of the new economy. With the Pre K–16 system, our children will be initiated into an educational culture that encourages students, from an early age, to be self-motivating in their educational goals.

Currently, the Department of Education has ninety regular preschool facilities located throughout the seven educational regions. Among these, there are 25 Montessori projects²⁰ in communities whose

²⁰ An alternative educational system developed originally in Italy and yielding particularly positive results in preschool and elementary education in terms of its students' sensory and community integration.

- **Concentrate strategic decisions within the DE's central offices** while freeing those offices from the tasks of daily administration (within all possible limits), which will now be handled by the regions. Therefore, the DE's central offices will be charged with supervising the regions and regional directors, defining Puerto Rico's curriculum and educational policy, and administering federal funds.
- **Give administrative authority to the educational regions.** Regional authorities will be in charge of appointing teachers, overseeing the system, dealing with purchases and distribution of materials, school transportation, maintenance of the schools, etc. For decades, every study commissioned by the government has concluded that regionalization is essential for optimizing the DE's functioning. We are going to do it.
- **Eliminate mega-districts.** The first consequence of this measure will be elimination of unnecessary bureaucracy and bringing teaching into line with administration.

Regionalization is one of the antidotes to bureaucracy, and it can solve a problem that the Department of Education has had for a long time: fragmentation. This change will entail dividing the island into functional, coherent regions and will require that personnel within the department be trained, thus creating a new profile of the department's employees and management.

The benefits of this change will be many, and have great impact:

- Fewer general expenses due to system maintenance
- Greater efficiency through regionalized action and accountability
- Better monitoring of actions and ongoing optimization of processes

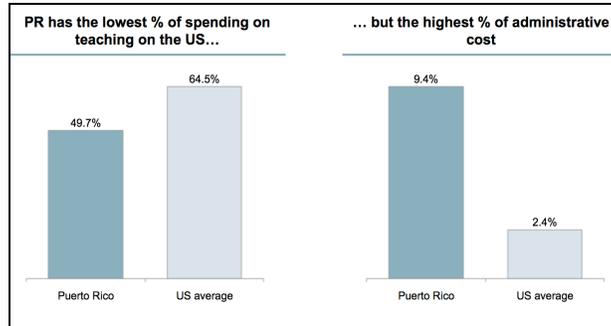
Modernization of the Educational Infrastructure

A detailed analysis of the Department of Education's budget reveals worrisome figures. **During a period in which the student population dropped by 40%, the budget doubled, from \$1.8 billion to \$3.6 billion.** Due to the drop in student enrollment, investment per student per year has tripled, from \$2,584 in 1980 to \$8,540 today. That is, today Puerto Rico invests three times more per student than it did thirty years ago.

The increase in budget would be justifiable if the increase were channeled into classrooms and improved academic results, but this has not been the case in Puerto Rico. In comparison with the 50 states of the Union, **Puerto Rico stands in last place in the percentage of its budget dedicated to teaching and educational support services (50%)**, while the percentage given over to administration is almost four times the U.S. average.

Spending on Teaching in Puerto Rico and the United States²¹

²¹ National Center for Education Statistics: "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2010–11," Table 2. "Teaching" also includes educational support.

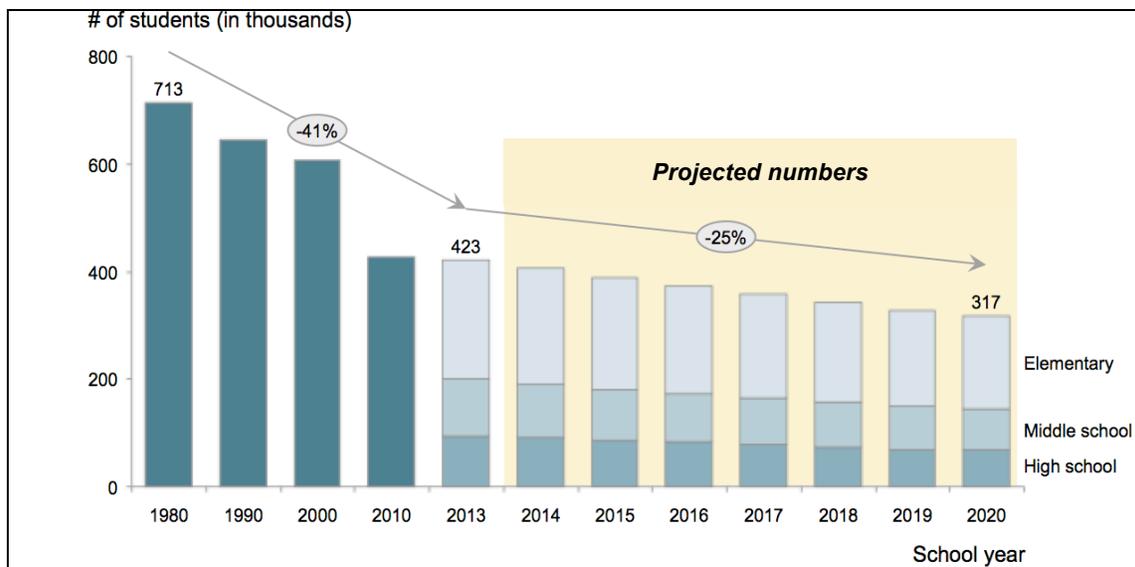


In order to transform the DE, we must simultaneously confront the challenges related to academic performance and deal with an infrastructure originally created to handle a much larger student population.

Modernization of the School System

The pronounced decline in the number of students in Puerto Rico's schools, which has dropped from 712,880 in 1980 to fewer than 423,000 at the current time, represents a new challenge for island education. While Puerto Rico remains among the five most populous school districts in the United States, many schools that previously had at least 300 students have fewer than 100 today. Despite this, the number of schools has not decreased in response to the considerable demographic change over the last few decades. This explains why today in Puerto Rico there are 1,460 public schools, most at the elementary level (845), with an average of about 328 students. This is far below the average of over 650 students per school in other large school districts such as New York and Chicago.

Number of Students in Puerto Rico since 1980, with Projected Numbers through 2020²²

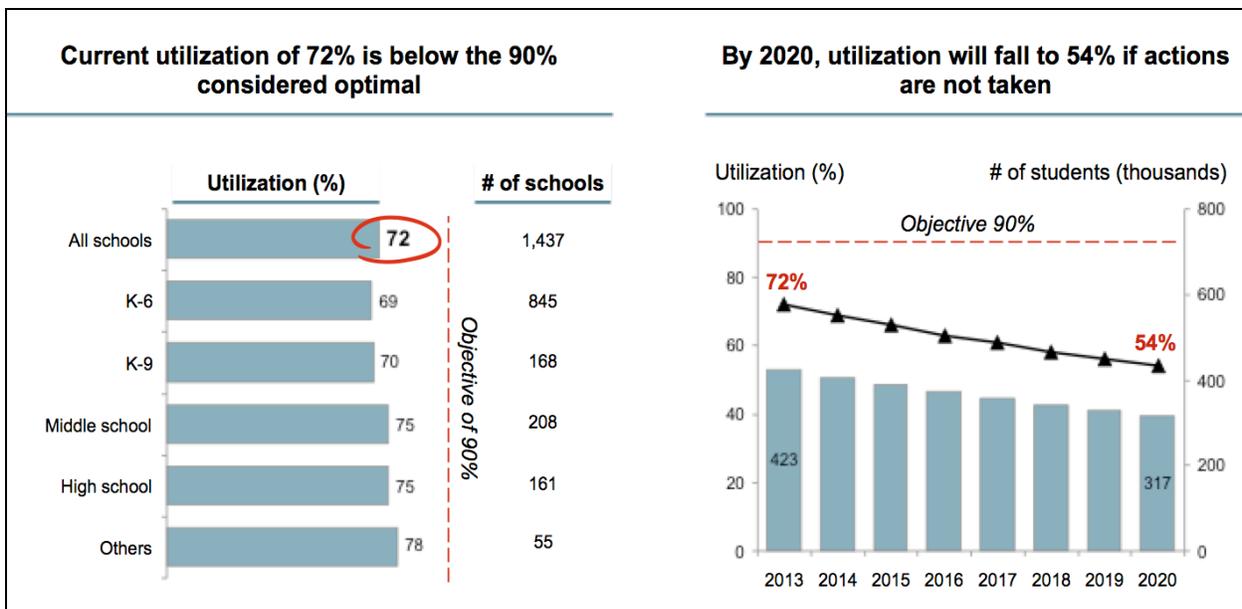


²² United States Census Office and data from the Puerto Rico Department of Education.



Taking into account the current capacity of our schools, it is estimated that on average, the rate of utilization of schools in Puerto Rico is 72%, far below the 90% considered a reasonable objective in other United States school districts. This underutilization translates into the closing of classrooms due to deterioration and lack of use and, more critically, a decline in the quality of education received by our students. Schools' budgets wind up being diluted: money is spent on maintaining facilities and on other fixed and administrative costs, and sufficient resources are not left over for investing in support programs or extracurricular activities, such as classes in art or health. If a judicious, timely restructuring is not carried out now, in a few years this problem may result in a fiscal and pedagogical crisis, since predictions are that utilization will continue to decline over the next seven years, to about 54% in 2020.

Percentage of Utilization of Schools in Rico, with Projections through 2020²³



Consolidating schools in order to expand opportunities: Achieving a utilization rate of 90% represents a unique opportunity to improve the quality of education and manage our budgetary investment in this sector in a more strategic and coordinated way. To do this, it is essential that our proposal to consolidate schools be part of a broader project which ensures that:

- students in selected schools have the option to attend other, nearby schools that offer greater academic alternatives and better infrastructure.
- an additional investment be made in the target schools, allowing them to expand their support and specialized programs and provide a broader range of extracurricular activities and classes.

²³ United States Census Bureau; data from the Puerto Rico Department of Education. Percentage of utilization based on information on the number of classrooms per school provided by the Office for the Improvement of Public Schools. Enrollment projections made by the Boston Consulting Group, based on the number of births.



2014 - 2018

In general terms, consolidating schools, which will result in fewer schools to which more and better resources are dedicated, can rapidly translate into **a substantial improvement in educational quality for all students.**

The financial benefits are not limited to a more efficient use of educational resources. The consolidation of approximately 100 schools in order to achieve a 90% utilization rate will generate operational savings of about \$100 million per year, most of which will come from savings in the cost of administration, security, and maintenance. Although a part of the savings will be used to reduce spending on bureaucracy in education, another large portion will be used to reinvest in schools, principally the target schools within this initiative.

The four-year plan for educational transformation can be summarized in the following actions:

Principal Actions

1. **Renew and adapt curricula.** We will modify the curricular content and teaching strategies, emphasizing creativity, innovation, leadership, and entrepreneurship from an early age. All curricula have been designed to prepare students for their university experience, so that students will graduate.
2. **Establish the Pre-K–16 Program.** Under our administration's plan, the educational experience will begin at the preschool level and culminate when students obtain their university degree.
3. **Promote and formulate a Ten-Year Educational Plan** in order to protect pedagogical and academic policy within the DE from party-political interference. It is essential that we professionalize the agency's functioning and bring coherence to its initiatives.
4. **Transform every aspect of middle school.** Beginning in August of 2014, the DE proposes to radically modify the functioning of middle schools in order to increase student retention levels and avoid system segmentation. This entails incorporating the seventh and eighth grades into the elementary level and adding the ninth grade to high school.
5. **Establish a permanent program of training for school principals.** It is essential that we ensure that this important group of professionals stay abreast of the most recent administrative and pedagogical techniques.
6. **Establish a rigorous program of teacher evaluation.** Guarantee that students have access to the best teachers. This initiative includes giving bonuses to those teachers who demonstrate sustained excellence in their professional performance.
7. **Modernize the educational infrastructure in order to take maximum advantage of it.** It is essential to avoid diluting resources, and in order to do that the DE will assign more funds to successful schools that offer better services to more students.
8. **Regionalize the functioning of the DE and eliminate bureaucratic obstacles.** To do this, we will reconfigure the current structure of educational regions and districts to create one that is more flexible and functional, thereby generating savings and efficiencies that will allow greater investment in the

schools themselves.

9. **Strengthen the University of Puerto Rico** so that it may broaden its academic offerings, expand its scientific research, and be more responsive to the needs of the current economic model.
10. **Expand the Pre-K Program every year, beginning in August of 2014**, so that every elementary school on the island has a pre-K program by 2018. Over the next two years, fifty additional Montessori projects will be incorporated into the system.
11. **Strengthen bilingual programs and vocational schools.** Vocational schools will focus on training young people for high-demand, highly skilled, and technologically advanced occupations. Night programs will be added.
12. **Hire at least 1,500 substitute teachers** from among the advanced students in Education in order to counteract teacher absenteeism and ensure that students remain within the school facilities.

In addition, the DE is working on other initiatives aimed at strengthening the educational system. Some of these are:

- **Establishing mobile centers for student retention**, beginning in August of 2014.
- **Expanding services to students in Special Education** through ongoing training of our teachers.
- **Allowing students to apply for admission to the University in grade 11** if they score higher than 3000 on the College Board and pass the Puerto Rican exams.
- **Providing the College Board exam free of charge** to all students in the public system who take it in grade 11 and grade 12.
- **Issuing electronic transcripts** and send them from secondary to tertiary institutions in order to improve the flow of information.
- **Expanding university course offerings to students in grade 12** so they can receive university credits in high school.
- **Increasing the number of specialized schools.** We intend to replicate the successful model used in Mayagüez (called the Residential Center for Educational Opportunities in Mayagüez [CROEM]) into the municipality of Salinas in southern Puerto Rico and the municipality of Ceiba in the east.

University

The University of Puerto Rico

It is a fact that access to and diffusion of knowledge are two elements central to economic development in the contemporary world. The best way to drive a society's productivity is by providing an education that fosters and supports in citizens the ongoing acquisition of the skills and competencies they need in order to successfully insert themselves into the changing panorama of work and entrepreneurship in the 21st century.



The University of Puerto Rico has the historical mission of once again becoming, with the government, the driving force behind the island's productivity, and becoming a principal ally in the process of economic recovery, helping to bridge the gap of inequality and promoting social mobility through access to scientific and humanistic knowledge.

In order for Puerto Rico to offer the world a human capital adequately trained and educated to face the challenges of the globalized and technologized culture that prevails in the world economy today, the University must:

- Modify its curricular focus to anticipate the needs of our system of production and thus contribute to the island's competitiveness;
- Forge closer, stronger links to basic elementary and secondary public education in Puerto Rico, in order to consolidate the structure of the Pre-K–16 Program and make students' transition to university life easier;
- Promote scientific and humanistic knowledge equally, as well as (hard) cognitive competencies and (soft) non-cognitive competencies;
- Begin a greater outreach effort, to expand its continuing-education program;
- Work toward establishing a policy of more aggressive recruiting aimed at attracting lower-income students;
- Strengthen and modernize its academic offerings in the sciences and technologies, and strengthen and modernize its professional schools;
- Present plans for internationalization and for creating a more prominent presence in the digital spaces accredited by academia.

Demographics and the Flight of Young Talent

According to estimates from the U.S. Census Bureau's Population Division, approximately 75,000 Puerto Ricans migrated to the United States in 2012, of which 45,707 were under 35. Likewise, today it is estimated that the population of Puerto Rico will gradually fall over the next forty years, to 2.3 million in 2050.

The population of people over 60 in Puerto Rico has risen over the years. In 2012, some 21.7% of the total population was 60 years of age or older, according to population estimates. The federal government projects that by 2050, this group will represent 37.2% of the population. These are important figures, because in a society experiencing a flight of young talent every year and a low rate of participation in the labor force, the challenges to the economy are intensified, because the government has to reimagine the way it offers its services and how it brings people back into the labor force.

These figures represent a substantial demographic decline that will affect the island's productive population and therefore negatively impact our economy. That is why it is essential that we take the necessary steps immediately to ensure an increase in the number of the young working population.

Principal Actions

1. We will present legislation making it possible to offer incentives to young professionals who stay in or return to Puerto Rico to work or set up their own businesses:
 - 0% income tax the first year, with a gradual increase over the next years (young people from 22 to 27);
 - 0% corporation tax for 3 to 5 years for the businesses created by these young people (22-27);
 - Possibility of part of their student loans being paid in exchange for working in Puerto Rico and developing their own businesses;
 - Making government assets (e.g. agricultural land), housing, infrastructure, data, etc.) available to young entrepreneurs, subject to their being effectively used;
 - Modifying criteria under Law Number 52 and under the law establishing the Workforce Investment Act funds in order to offer incentives to young people creating businesses;
 - Development of a capital investment fund and an entrepreneurship center to support this initiative. Both the capital investment fund and the entrepreneurship center could be established as public-private alliances.
2. We will work in collaboration with the University of Puerto Rico to create a program requiring students who graduate to repay part of the investment made in their studies by giving two years of service to Puerto Rico. To satisfy the service requirement, the following possibilities might be considered:
 - Work in the private sector in Puerto Rico or as a community volunteer;
 - Temporary or permanent positions in the public sector;
 - Work-study programs during university years;
 - Internships in government agencies;
 - Consulting or research projects or government projects as part of students' university coursework;
 - Support or community service projects in coordination with some public agency or office;
 - Graduate studies incorporating community volunteer work;
 - The creation of new businesses.
3. We will develop a program of fellowships for graduate level studies in key areas, one of whose requirements will be returning to the island to work for 2 to 4 years.
4. Over the next few months, the Puerto Rico Institute of Statistics will begin to post on its website the cost-of-living index in Puerto Rico in comparison to the states and major cities of the United States. This is being made possible through an agreement with the Council for Community and Economic Research and with support from the Puerto Rico Department of Labor and Human Resources.
5. We will support and encourage the work done by the Puerto Rico State Department, in



- cooperation with the United Fund, the Center for Volunteerism, and the AARP, to develop a database of volunteers in order to more effectively connect volunteers with the agencies and organizations that need them. This effort should include an initiative by young people to generate similar databases in order to obtain knowledge and evaluate the possibility of different generations integration.
6. The Department of the Family, with the support of the AARP, the Puerto Rico Center for Volunteerism, the municipalities, and other agencies, will develop a pilot project to generate a database of retired adults over the age of 50 who wish to offer direct services to the population through data entry or customer service. A similar database will be developed of young people from 16 to 21 years of age who wish to volunteer in community centers for people over 60. Lastly, the Voluntarism Act will be amended to make the requirements for documentation as a volunteer more flexible.
 7. We will create multigenerational workplaces that will allow the sharing of values and knowledge between the generations. We will make older adults' hours of work more flexible, if they so request, so that they may remain active, and we will foster recruitment of young professionals into government agencies. Older adults who adopt the flextime model will act as mentors to young professionals. This program can begin to be implemented in five agencies as a pilot project.
 8. Using as a model the Housekeeper Program, we will structure an easily accessed program to serve the population of older adults who require help in their daily activities, incorporating a training plan to develop the skills and competencies for direct care to this population.
 9. We will establish new requirements for companies who receive tax credits for research and development: they will have to recruit and retain a certain number of students doing their research projects, or recently graduated, in proportion to the credits received and in disciplines relevant to their activities.
 10. We will promote the program of academic support and co-curricular experiences run by students from the University of Puerto Rico. We propose that a major portion of the federal funds administered by the Department of Education for contracting businesses offering tutoring and extended care programs in public schools be redirected to the UPR (so long as the UPR program meets the requirements and follows the procedures of the Department of Education), so that all UPR System campuses may offer academic support programs and other co-curricular experiences, using students from the system as tutors under the supervision of an interdisciplinary team of professors. In addition to tutorials by academic subject, pilot projects will be created for developing research skills in students through practical experiences in various areas, such as cultural, social, and scientific research.
 11. In May of 2014, a project will be inaugurated to offer the services of home aides to seniors and handicapped adults in public housing projects. The Public Housing Administration would provide

- funds for the project, whose goal is to impact 140 public housing projects and offer home aide services to 349 adults over the age of 60 and handicapped adults from 18 to 59. Some 349 low-income adult women who live in public housing projects will be hired; these women will be trained by the Housekeepers Corporation to act as home aides. We are evaluating the possibility of creating a cooperative for this purpose.
12. The Department of the Family, in coordination with AARP, the University of Puerto Rico, Sacred Heart University, and other institutions, will carry out a public-service media campaign to create ads, shorts for movie theaters, short films, and documentaries presenting the lives of older adults in Puerto Rico, their needs, some myths and stereotypes about this population, and especially their contribution to island's life.
 13. In August of 2014, training modules on the "Age in Place" model will be offered by the AARP chapter in Puerto Rico to staff from the following agencies: the Department of Housing, the Families and Children Administration, the UPR Graduate School of Gerontology, colleges of Social Work in various universities in Puerto Rico, etc. The purpose of these workshops is to develop community leaders who can offer training in various communities across the island with a view to establishing activities to develop residents' skills in planning for old age; residents will also be informed how and where to access the services they need due to their age and economic, social, physical, and educational conditions.
 14. The Permits Management Office, the Office of the Commissioner of Municipal Affairs, the Department of Transportation and Public Works, and the Highways Authority will be working to promote implementation of Law 201-2010, the Whole Streets Act.
 15. We will be developing a program to ensure the continuity of business operations. This will allow older adults who run successful businesses and stores and who do not have an inheritance plan to give young entrepreneurs an opportunity to continue operating these businesses. This will allow older adults to contribute their knowledge and skills to the younger generation and keep a successful business going after the owners are no longer able to maintain it.
 16. The Department of the Family will work with the Health Department, the Department of Recreation and Sports, the UPR School of Gerontology, and others to develop modules for training and certifying adults over the age of 50 so that after receiving certification they may offer six months of volunteer work in either the Department of Health or the Department of Recreation and Sports, giving workshops to communities.

3.2 Economic and Social Infrastructure

Puerto Rico needs an infrastructure that supports our efforts at socioeconomic transformation and our goal to increase production at every level of society. The modernization of our power system, our water infrastructure, our highways and ports is essential for the creation of jobs and the reactivation of local



economies. To that effect, in our 4-year transformation, the government, in alliance with the private sector, will develop important projects that will impact the daily lives of citizens and serve as a basis for attracting off-island investment.

Energy

At the current time, our electrical infrastructure is an obstacle to the island's competitiveness and quality of life. There is general consensus as to the need to permanently lower the cost of electric energy in Puerto Rico and restructure our energy policy.

Changes from one administration to another in energy policies and plans have prevented adoption of an integrated plan to face the challenges confronted by Puerto Rico, and have not fostered development of a sustainable energy strategy. As a result, some of the problems that we need to address are:

- The elevated cost of electrical energy;
- A network of energy generation dependent on costly and polluting fuels;
- An electrical-energy generation infrastructure that urgently needs to be modernized;
- A culture that does not encourage conservation and efficiency;
- The importation of fossil fuels for electric generation, which cost the island over \$2.9 billion in fiscal year 2012 alone.

Our administration is committed to implementing the changes needed with respect to energy in order to achieve long-term sustainability and efficiency. In addition, we recognize that development of the energy sector, particularly in the area of renewable sources, may represent an area in which jobs can be created and knowledge gained, thereby increasing the island's competitiveness. In order to achieve these goals we propose:

- **A reduction in the cost of electrical energy through diversification of sources.** The Puerto Rico Electric Power Authority (PREPA) has presented a plan that will allow it to gradually lower the cost of electrical energy beginning in 2015, with a reduction to \$0.22 per kilowatt hour, leading to a 1% growth in the economy that will begin to be seen 18 months after this goal is reached. By 2019, the cost of energy should have fallen to \$0.16 per kilowatt hour. To meet this goal, the Authority has proposed three major initiatives:
- **Modernization of infrastructure.** The Aguirre Liquefied Natural Gas Sea Terminal in Salinas is the most important initiative for increasing the use of natural gas and reducing the cost of energy by 20%. This project, with an estimated cost of \$267 million, is being evaluated for compliance with the National Environmental Policy Act (NEPA), a process conducted by the Federal Energy Regulation Commission (FERC). Construction is expected to begin in late 2014 and the terminal to be in production in the second half of 2015. Likewise, in the next few months PREPA will issue

a request for proposals for modernization of its most inefficient units, including San Juan, Palo Seco in Cataño, and Costa Sur in Guayanilla.

- **Renewable energy.** Our objective is to integrate into the electrical system the largest number of generation projects using renewable energy sources possible; we will do this in an orderly manner and under clearly defined operational criteria. As a first step, during the next year 600 MW will be integrated into the system from renewable-energy projects, thereby ensuring that 7% of the total energy produced on the island comes from renewable sources (currently it is 1%). As an objective over the medium term, and insofar as the system can be modernized, we will continue to add renewable-energy facilities to the system in order to optimize utilization of sources of renewable energy.
- **Reform of the Puerto Rico Electric Power Authority.** PREPA aspires to make its operations transparent and efficient, to make its services available at cost (without profit), and to integrate citizen participation. An independent public agency will be in charge of formulating regulations for and overseeing PREPA and all other components of the electrical industry, as well as dealing with any controversies that may arise among the components of the industry. It will also deal with disputes that may arise between PREPA and its clients due to issues related to electrical service. This reform seeks to reduce the cost of electrical energy, minimize dependency on oil and other sources of energy that pollute the environment, ensure that the electrical industry and all its components operate in the public interest, protect consumer rights and encourage greater citizen participation, and seek greater efficiency in the generation of energy.

PREPA's transformation²⁴

²⁴ The Puerto Rico Electrical Power Authority's proposals for reform under discussion by Legislature.



Main objectives

• **Renew PREPA's social perception** and make its vision more modern, align its role and obligations to current needs. **To promote PREPA's evolution** from the agency that made possible the electrical power service in Puerto Rico to **the one that can help it to be in the forefront for the development of renewable energies.**

Transparency	Stable rates	Promotion of renewable generation	Integration
<ul style="list-style-type: none"> Establish total transparency in all process and data generated by PREPA. Make public <ul style="list-style-type: none"> Financial information Rates by type of fuel Cost of Kwh for each sector Operational expenses Distribution of the electricity produced by the kind of technology and the source of energy. 	<ul style="list-style-type: none"> Evaluation of subsidies and incentives given by PREPA. To diversify the sources of income and transform PREPA to provide other services. 	<ul style="list-style-type: none"> To align PREPA's mission with the goal to achieve sustainable development and reduction of emissions. To promote transformation of the infrastructure to increase the use of renewable energy. To integrate the generation of renewable energy to the electric power system in a safe and reliable way. 	<ul style="list-style-type: none"> Promote citizen's collaboration Integrate the different sectors: <ul style="list-style-type: none"> Discussion groups Focus groups Recommendations and reports from different organizations with expertise and focused on energy. Opportunities to consult the citizens

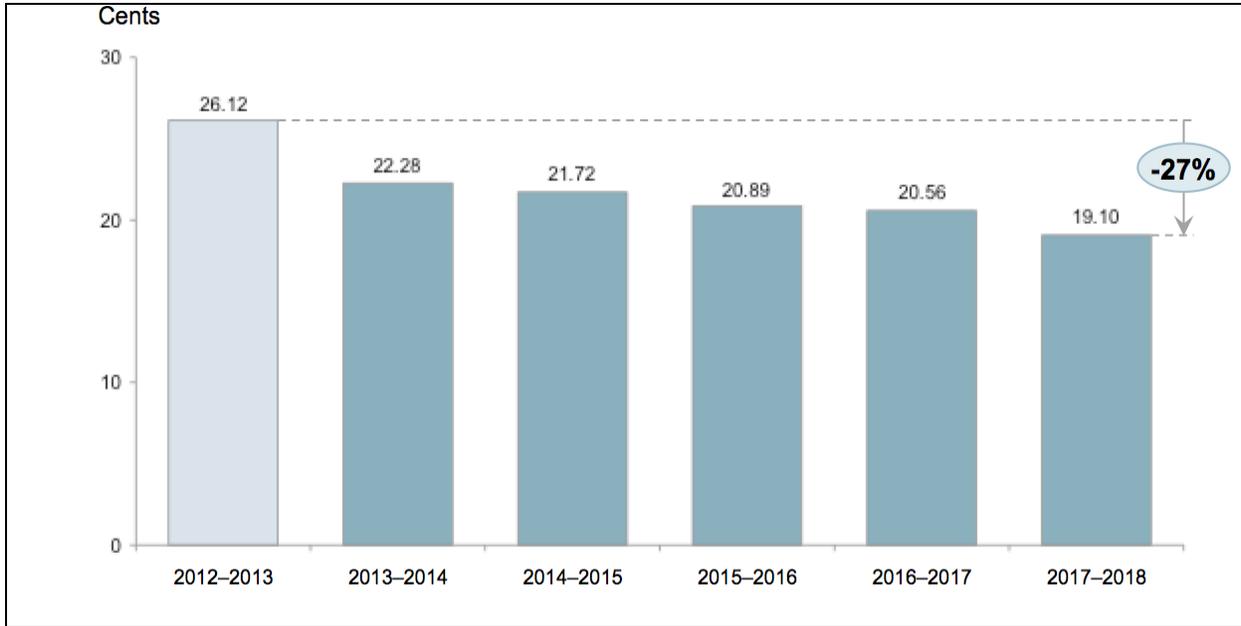
- **Greater efficiency in the utilization of resources and compliance with federal regulations.** The federal Clean Air Act sets parameters and guidelines for the treatment of pollutants emitted during the creation of energy. One important objective of this legislation is **educating the public on the efficient use and conservation of energy.** The Council on Energy Autonomy is formulating a plan of action for complying with these federal regulations, including measures aimed at energy conservation and efficient usage. The EPA requires that jurisdictions' final compliance plans be presented by June of 2016. It is hoped that these measures will decrease environmental emissions and, **by opening the doors to even further restructuring, bring further savings to residential, commercial, and industrial consumers.**

Implementation of these measures will radically change the generation and use of energy in Puerto Rico and have a significant effect on the reduction of the cost of electrical energy. By 2017, we hope to have overcome most of our dependency on oil in producing electrical energy, and to have achieved over 80% of this gain with natural gas and renewable energy.

This conversion will mean savings for consumers. Our objectives are \$0.22 per kilowatt hour by 2015, \$0.20 in 2017, and \$0.16 per kilowatt hour in 2019.

Estimated saving in energy costs, 2012-2013 until 2017-2018²⁵

²⁵ Estimates from the Puerto Rico Electric Power Authority



Renewable Energy as a Source of Local Innovation and Manufacturing

In our strategy to replace imports, the energy sector has high potential. As we noted earlier, in 2012 we imported almost \$3 billion in fossil fuels that we do not produce in Puerto Rico; this cost was, that is, taken out of, removed from, our economy. To effectively replace the imports used in the generation of electricity, we must focus on maximizing the resources we have on the island: the sun, the sea, and the wind, for example.

Our administration's main initiatives with respect to energy are the following:

Principal Actions

- Reduce the cost of electrical energy** to \$0.22 by 2015, to \$0.20 by 2017, and to \$0.16 by 2019, by conversion to natural gas.
 - Construction of the Natural Gas Terminal off the coast of Salinas and conversion of the Aguirre generating plant to natural gas.
 - Conversion to natural gas of plants 5, 6, 9, and 10 at the San Juan plant and units 3 and 4 at the Palo Seco plant.
- Reduce emissions and increase efficiency** in the consumption of electricity by incorporating sources of renewable energy, and lead Puerto Rico toward energy autonomy through an integrated resources plan for the short, medium, and long term.
 - Incorporating 600MW from sources of renewable energy in the short term, and achieving the goal of Law 82-2010: by 2020, 15% of electricity from renewable sources after integration of new combined-cycle plants.
 - Request for proposals to modernize and convert plants.
 - Introduction of smart meters in order to obtain better information on electrical energy consumption



at both the industrial and residential level, for better evaluation and decision-making.

3. **Transform the Electric Energy Authority** in order to achieve the transparency, participation, and efficiency that characterize modern, competitive public electric companies.
4. Through the Science, Technology, and Research Trust, we propose to **create an Institute for the Creation and Manufacture of Renewable Energy High Technology**. The objectives of this institute will be: (1) provide incentives to recent graduates in Engineering in order to avoid the flight of talent and help Puerto Rico become a leader in the creation of energy technology in the Caribbean; (2) develop models for production of products in all phases to attract investors, and patent and commercialize those products; (3) create models that can be implemented at the municipal or regional level.

Public Works and Infrastructure

In addition to dealing with our electric infrastructure, we must modernize the island's physical infrastructure as a basic condition for achieving the competitiveness that will allow us to produce more, and more efficiently. Investment in public and private projects is an immediate injection that helps reactivate the economy, create jobs, and prepare the island for the changes required by a global economy.

To achieve the hoped-for economic growth of 2% over the next four years, our economy needs an investment in public and private works of approximately \$12 billion over that period.

In that direction, our administration has 49 projects at various stages of planning, design, and construction; preliminary investment in these projects totals some \$7.4 billion, equivalent to approximately 60% of the estimated needed investment. Some of these projects are in response to the need for improving infrastructure in daily use at the municipal and regional level, while other projects are of high strategic priority and, in addition to their investment value, they help drive our agenda for economic growth. They function to make possible our long-term strategy. Below we set out some of the most important projects.

Principal Infrastructure Projects and Initiatives²⁶

Project	Estimated Investment	Jobs Created***	Impact
Science City, San Juan	\$39 million between 2014 and 2016	275	Creation of a state-of-the-art hub of research and development in the metropolitan area. Includes Phases I and II.

²⁶ Figures validated by corresponding agencies.



Project	Estimated Investment	Jobs Created***	Impact
Extension of PR-22	\$1 billion between 2014 and 2019	12,000 direct and indirect jobs during construction	Approximately 30 miles of expressway between Hatillo and Aguadilla. Reduction of between 25 and 35 minutes in travel time at rush hour. Will allow economic development in western Puerto Rico. Faster, safer, and more reliable expressway connection between Rafael Hernández Airport in Aguadilla and the metropolitan area.
Mass Transit System, Caguas–San Juan			Reduced congestion on Caguas-San Juan expressway at rush hour. Reduced travel time between Caguas and San Juan during rush hour. Alternative to private vehicles.
Offshore Liquefied Natural Gas Terminal, Aguirre, Salinas	\$267 million between 2014 and 2015	140	Reduction in cost of electric energy. 10% reduction in pollution by CO2 emissions.
Roosevelt Roads, Ceiba	\$1 billion between 2015 and 2040	20,000**	New development of tourist, business, institutional, residential, industrial, and marine zones.
Port of the Americas, Ponce	\$38 million	450	Ponce becomes a merchandise transit hub for the Caribbean.
Expansion of the Port of San Juan	\$82 million	850	Increase in tourist visits on cruise ships of up to 200,000 visitors per



Project	Estimated Investment	Jobs Created***	Impact
			year. Increase in traffic and in merchandise cargo capacity.
Women's Correctional Institution	\$133.7 million between 2015 and 2017	1,300	Construction of facilities that meet all applicable standards and comply with all applicable local and federal laws and regulations, including compliance with regulations in the federal <i>Morales Feliciano</i> case. Savings and efficiencies thanks to proximity to other correctional institutions. Creates additional space needed for an anticipated increase in the penal population.
Underwater Electrical-Transmission Cables	\$125 million-\$300 million		Substantial reduction in Puerto Rico's energy costs (up to 70% in savings). Projects to connect to the Virgin Islands. Project still in feasibility study stage.
Extension of PR-10, PR-100, and PR-466	\$94 million	1,120	Complete construction of expressway that connects Ponce and Arecibo (PR-10), which will help stimulate the economy of central Puerto Rico. Widening of PR-100 in Cabo Rojo, helping to reduce traffic and improve safety. New stretch of PR-466 in San Sebastián will help improve safety in the area (current highway subject to



Project	Estimated Investment	Jobs Created***	Impact
			constant landslides, representing a risk to the people and vehicles that travel it).
Puerto Rico Aqueduct and Sewage Authority projects	\$602 million between 2014 and 2018 ²⁷	7,224	Significant benefits in terms of compliance with current regulations, increased efficiencies, and technological improvements that will help reduce the theft of water and increase the Authority's revenues.
Construction and improvements to schools	\$74 million	888	Improved conditions in schools for our children and young people.
Improvements in connectivity	\$24 million	N/A	Installation of new fiber-optical cable will offer a tangible increase in the connection speed in the metropolitan area. Data-gathering for ongoing system improvements.

* Includes multiplier effect on the economy

Digital Infrastructure

The widespread adoption and use of high-speed internet is an essential condition for our island's economic development. It is imperative for future economic development that Puerto Rico have an advanced digital infrastructure that allows effective communication within and outside the island.

In 2012, some 79% of the service businesses in Puerto Rico were served by broadband connections. This increase in the use of the Internet makes it increasingly possible for individuals to work at home through remote access, and that in turn makes it imperative that the broadband infrastructure be strengthened and further expanded for residential use. To do this, we propose, through a series of initiatives, to increase the availability of broadband for commercial use to 85% by 2016 and to 65% at the residential level.

Principal Actions

²⁷ Excludes infrastructure projects related to the Martín Peña Channel (\$120 millions)



1. We will be supporting the initiative endorsed by Connect America that assigned more than \$30 million in federal funds to Puerto Rico, through a private company, to **take the internet to towns and cities in the center of the island**, where broadband use and infrastructure are currently limited.
2. By fiscal year 2015, we will have **started the project “Gigabit Communities” to take fiber optics to residences and businesses in the metropolitan area**. This initiative is being carried out by the Puerto Rico Aqueduct and Sewer Authority, with an initial investment of \$17 million; during its first phase it will provide high-speed internet service to residences and businesses in Isla Verde, Old San Juan, and Santurce.
3. **High-speed connections**. Through an investment of \$1.1 billion by América Móvil (Claro), Puerto Rico became the final connection point for a system of underwater high-speed cable able to offer transmissions of up to 100 gigabits per second. This modern infrastructure provides much greater capacity and bandwidth, and is expected to meet the growth in demand for digital services for the next fifty years. We are also in the planning stage for another connection point on the southern part of the island to ensure the redundancy needed to guarantee Puerto Rico’s national security.
4. **Wireless broadband network**. Recently, the National Telecommunications Information Administration (NTIA) announced that it was granting funds for planning and data-gathering for later implementation of a broadband network for the Commonwealth of Puerto Rico’s law enforcement agencies. This wireless network will start with public safety, and any excess capacity will be sold for other purposes.

Social Infrastructure

Social infrastructure integrates new models and citizen-based structures that foster approaches in which community participation and individual proactivity play a central role. The island’s physical infrastructure must be complemented by and interconnected with the social infrastructure so that close connections may be developed between them, allowing us to maximize the potential of our human capital, which is the only thing that can generate wealth to be reinvested in the island’s economy. To do this, we will support mechanisms by which communities may be brought together by formulating new paradigms that redefine the relationship between citizens and their surroundings. We propose to bolster this socioeconomic philosophy with two initiatives whose models are proof of the great possibility for success that projects founded on alliances between the government and the community may have in taking advantage of and respecting our natural patrimony.

Model Forest (Bosque Modelo)

The Model Forest is a proposal involving public lands that is centered on citizen participation and environmental conservation. The approach in this new project is innovative in that all the community’s and

government's efforts are aimed at protecting the island's woodlands and achieving sustainable development within 20 natural areas covering 390,000 acres in 10 municipalities in the central part of the island. To attain our objective, we have created new incentives and initiatives that range from the cultural and tourist sphere to the management of agriculture.

Legislation will be passed that supports sustainable economic development in a previously defined area by establishing community-based microbusinesses and small and medium-sized local businesses that will generate products and services associated with optimal management and conservation of natural resources. In fiscal year 2015, \$1 million will be set aside for development of this Model Forest, a non-traditional social design which is already both promising and producing good results.

Martín Peña Channel

Within that same tradition of community action and social justice, the ENLACE project for the Martín Peña Channel has a long history of mobilizing the government and members of the community. Our administration recognizes the importance of ensuring continuity for initiatives that have historically been undertaken for this project, and we reaffirm our commitment to providing affirmative support to the communities along Martín Peña Channel, in order that the area can be rehabilitated, jobs be created, wealth be generated, and this area's environmental resources be protected.

We are aware that efforts by the communities that make up the Channel's Special District have not always been supported by the government, and therefore we created, for the first time, an inter-agency committee that brought all relevant government sectors together at the same table with representatives of the community in order to give cohesion to the social project and ensure that the public works needed for development in this area be carried out.

Puerto Rico Water Resources Plan

Water is a vital resource for the sustainable socioeconomic development of our country. The Office of the Puerto Rico Water Resources Plan within the Department of Natural and Environmental Resources (DNER) had ceased operations, so it was not possible to implement the important actions outlined in the 2008 Water Resources Integrated Plan. Understanding the importance of this planning tool, we reopened the Office, which is now staffed by planners, geographers, economists, and engineers.

This office is now in charge of reviewing the Water Resources Plan in order to bring it into line with our island's new reality, addressing factors such as population shifts by region, the amount of water required by an increase in the island's agricultural production, and the possible effects of climate change on water resources with events due to extreme rain, intense and recurrent drought, and a rise in the sea level. The new plan should be ready for approval in late 2015. Our administration is fully committed to ensuring implementation and monitoring of the Puerto Rico Water Resources Plan, whose agenda for action extends through 2020.



Progress has already been made, the Puerto Rico Aqueduct and Sewer Authority is working hard to reduce the loss of water from its distribution system, and progress is already being seen on the objective of an annual reduction of 2%.

Karst Regulations

Passed in 1999, the Puerto Rico Karst Physiography Protection and Conservation Act called for development of a plan and the supporting regulations for protecting and conserving this area of limestone of incalculable ecological, hydrological, and geological value.

Under our administration, the Planning Board and the DNER, each within its own sphere of jurisdiction and competency, has met the obligations that the law imposed on its agencies over fifteen years ago. In public hearings held in September of 2013, comments from agencies, professional groups, and citizens in general were heard. The Planning Board, in collaboration with the DNER, has established the Plan and Regulations for the Karst Area of Special Planning (PRAPEC, for its title in Spanish), which proposes the creation of a conservation district of over 220,000 acres of land of high ecological, hydrological, and geological value in the Karst region of Puerto Rico. During 2014 the Karst Regulations will be adopted, an action that had been neglected since 1999.

Land Use Plan

After ten years of waiting and delays, this administration has put the development of the Land Use Plan for Puerto Rico back on track, and we intend to complete it this year. Today more than ever, Puerto Rico needs a Land Use Plan to support the island's socioeconomic development. Such a plan has been a constant demand by citizens over the past few decades. We are committed to completing this project, which will provide the island with an essential instrument for channeling our economic recovery and thereby taking our place as one of the most advanced nations in the Caribbean, the Americas, and the world.

The Land Use Plan will be adapted to the needs of Puerto Rico, and will serve as a guide for ordered development in harmony with the environment, thereby fostering diversified economic activity. Formulation of the plan is a multi-dimensional process, which has brought about:

- Innovation in the mapping and dynamic analysis of the island's surface area, leading to better understanding of the challenges and opportunities faced by the island;
- Expanded communication and a participatory process including presentations, forums, roundtables, conversations, meetings, and work sessions;
- The creation of tools for electronic consultation and mobile apps for providing information to the island's citizens.

On January 30, 2014, we began unprecedented public discussions in order to receive the public's input. Since that time, over a hundred written responses have been received, containing almost a thousand proposals. More than fifty activities have been held around the island, in which almost two thousand individuals have taken part.

In late summer, public hearings will be held on the plan. Our objective is to have a Land Use Plan adopted and signed during 2014.

Climate Change

In 2013, the governor of Puerto Rico issued Executive Order No. 2013–16, which instructed the DNER to make the results of a report on Puerto Rico's vulnerability due to climate change known to all Commonwealth infrastructure agencies.

This report, titled "Puerto Rico's State of the Climate 2010-2013: Assessing Vulnerabilities in a Changing Climate," was prepared by the Puerto Rico Council on Climate Change, made up of over 150 scientists, economists, planners, engineers, architects, and specialists from other disciplines under the coordination of the DNER's Coastal Zone Management Program.

At the present time, the island's infrastructure agencies are carrying out a study of the vulnerability of our public infrastructure in the light of this report's findings, with an eye to formulating and presenting a plan for adapting our infrastructure to the effects of climate change. To date, three workshops have been held with infrastructure agencies and offices.

By 2015, each infrastructure agency and office is to have an adaptation plan, which will include strategies for adaptation, protection, or upgrading of infrastructure; the proposed changes will be incorporated into the agencies' capital-improvements programs.

As part of this public policy aimed at developing new paradigms for social and physical infrastructure, we present the following initiatives:

Principal Actions

1. **Ongoing government support of the ENLACE Project via the Committee for the Feasibility of Dredging the Martín Peña Channel.** This committee has provided the community with a forum for dialogue and is working in coordination with the ENLACE Project Corporation. This dynamic between the community and the government sector had not been in place before.
2. **Identification of funds for supporting the channel-dredging project.** The last significant assignment of funds to support dredging the Channel was in 2007. The Puerto Rico Aqueduct and Sewer Authority has identified \$120 million for investment in this project over the next 10 years. This represents a great advance, as the project has been included in the Authority's capital-improvement plan. We will continue working with the community to see the dredging to completion.
3. **Assignment of funds for the purchase of land and improvements to infrastructure.** In April of



2014, \$4,664,250 was assigned to continue with the process of purchasing housing and relocating occupants that is a prerequisite for some of the infrastructure work. In November of 2013, \$500,000 was assigned to continue the feasibility studies and environmental impact statement for the environmental rehabilitation of the Martín Peña Channel.

4. **Water Resources Plan.** After the reopening of the Office of the Water Resources Plan, the Water Resources Plan will be revised to bring it in line with the island's new situation. It is slated to address such issues as population change per region, the amount of water needed for the expected increase in agricultural production, etc. The plan will be ready for final approval in late 2015.
5. **Karst Regulations.** Under this administration, in September of 2013 the Planning Board and the DNER, after a process of public hearings, drew up the Plan and Regulations for the Karst Area of Special Planning (PRAPEC, for its title in Spanish), which proposes the creation of a conservation district of over 220,000 acres of land of high ecological, hydrological, and geological value in the Karst region. In 2014, these regulations will be approved and adopted.
6. **Land Use Plan.** After ten years of delays, this administration finally set in motion the development of a Land Use Plan for Puerto Rico, which is expected to be completed in late 2014. Our administration is committed to providing the island with this essential instrument for channeling our economic recovery and thereby taking our place as one of the most advanced nations in the Caribbean, the Americas, and the world.
7. **Climate Change.** In compliance with the mandate contained in Executive Order No. 2013-16, the island's infrastructure agencies are carrying out a study of the vulnerability of public infrastructure in the light of the findings of a report titled "Puerto Rico's State of the Climate 2010-2013: Assessing Vulnerabilities in a Changing Climate," in order to formulate and present an adaptation plan to address the study's findings.

Speeding Up the Permits Process

Changes to the permit process established by Law 151-2013 simplify the process for evaluating and granting permits, since considerable bureaucracy was eliminated. This law also encouraged transparency and citizen participation, especially in the environmental evaluation processes.

The process of granting discretionary rezoning and the like was simplified by eliminating a professional board from the process and assigning evaluations to the agency qualified for that type of decision. Four agencies were consolidated into two, with their managerial components, and the permits services of the two were then merged. Amendments to the law encourage communication and coordination between those offices and individuals responsible for the evaluation, granting, and oversight of permits. Application of the Uniform Administrative Procedures Act was reestablished for the review of final decisions.



The law provides that the environmental impact statement may be reviewed, regardless of the permit requested, and it eliminates the requirement of a bond for requesting revocation of permits or paralysis of works in progress.

With an eye toward speeding up the process, a deadline has been set by which infrastructure agencies must submit their recommendations. An innovative model has been established for presenting and recommending important projects; under this new system, concerned government agencies issue their recommendations immediately, saving time and money. The law also established the Single Permit, which in a single document summarizes all the certificates, licenses, and permits that a commercial establishment must have on view for the public.

The process for obtaining permits should seek compliance with laws and regulations, but it should not act as a disincentive to the creation of jobs, or private investment, or the island's productivity. After administrative adjustments made as a consequence of this new amendment to the Permits Law, the Permits Management Office (PMO) has reduced the average time it takes to evaluate the agency's principal permits: the Construction Permit and the Use Permit.

Principal Actions

1. **Establish a system of construction bonds that allow builders to begin work once a connection point is made by the infrastructure agencies.** Through a system called "Fianza" ("bond"), any builder who wishes may obtain a bond from an insurer that will allow him to begin construction while plans are being reviewed by the relevant agency. This measure shortens the process by four months, although projects in areas zoned as historical or of high ecological or archaeological value are excluded.
2. **New system for digital filing.** In May of 2014, the PMO will make available on its website, the "Super SIP," the first 2 of 45 applications for certifications and permits granted by that agency. This system will reduce the time and possibility of error in the permit-application process. By September of 2014, the PMO will have available on its online system all the forms required for the 45 certifications and permits it issues.
3. **Review all regulations related to construction and land use.** At the present time, the PMO and the Planning Board are working with all government agencies involved in the permits process to produce a new set of regulations aimed at revising the entire permits process.
4. **Eliminate bureaucracies in the approval of plans (blueprints, maps, etc.) in order to simplify and speed up the process.** The PMO is conducting a complete review of agency processes in order to identify duplications that can be eliminated and generate synergies and savings, resulting in simpler and more rapid procedures.
5. **Provide real-time access to infrastructure layouts, diagrams, and updated registries in order to speed up professional consultation and permits requests.** The PMO is working to consolidate



virtual plans, today the purview of agencies, and update them in real time in order to make them available to citizens on its website.

6. **Streamline the process of obtaining use permits for opening businesses.** We will be making it possible for a temporary use permit to be issued, allowing a business to operate for at least six months, until its permanent permits are granted. This temporary permit will be issued in one day. Over the course of the next six months, the new owner must submit all required documents so that the OPM can issue a final permit. The safeguards recommended for this process are: the proposed use must be compatible with the zoning in which the business is located; the business should not represent an additional burden on existing infrastructure (water and electricity); there should be no negative environmental impact; the business should be operated in an existing structure, without the need for renovations or other work requiring building permits. When a temporary use permit is granted, the applicant must sign a document in which he or she assumes liability for any accident or incident that occurs in his or her establishment during the period the business is operating and promises to follow procedures for acquiring the final permit.

4. Growth Sectors and Industries

Our administration has formulated a plan for integrated economic development that sets forth the general principles, strategic initiatives, and specific actions that will help bring about sustainable economic growth in Puerto Rico between 2014 and 2018.

Puerto Rico has enormous potential for returning to the pathway to growth. This potential involves its solid competitive advantages:

- **Significantly lower labor costs than in the United States.**
- **Highly trained human capital.**
- **One of the most highly developed transportation and connectivity infrastructures in Latin America.**
- **Highly competitive incentives for productive capital.**
- **Fiscal autonomy.**
- **A stable, secure legal, regulatory, and financial environment.**
- **Privileged geographic location.**

Although this transformation will require perseverance, time, and effort, our goal is to successfully implement the following initiatives:

- **By mid-2014:** 50,000 new jobs will have been created.
- **By early 2016:** 40,000 additional jobs created, for a total of 90,000, with an estimated impact of between \$6 and \$7 billion on the GDP.
- **By early 2018:** achieve our goal of 130,000 jobs created.

To achieve these objectives, our efforts are focused on five strategies:

- Returning to the agenda of an economy of knowledge, an agenda applying the skills, talents, and abilities of our universities to the development of marketable ideas and research.
- **Defending the established, traditional industries of Puerto Rico while diversifying the island's sources of employment.** The government of Puerto Rico will strengthen its role as a partner with existing industries by **defending the life sciences sector, including the pharmaceutical, agricultural biotechnology, and medical device industries**, and focusing on attracting new industries such as **aerospace, outsourcing, and "Under the Flag"** industries such as textiles, call centers, cyber security, and Big Data.
- **Stimulating local entrepreneurship by supporting the growth of small and medium businesses (SMBs), microbusinesses, and agriculture.**
- **Restoring confidence in Puerto Rico as a destination for investment.** We should ensure that both businesses already in Puerto Rico and those looking at us as an attractive option for investment **have confidence that the government will support them and foster an environment favorable for their businesses, thereby maximizing their return on investment.**
- **Maximizing opportunities linked to Puerto Rico's fiscal autonomy.** We have a fiscal flexibility that cannot be equaled by other jurisdictions. We have incentives and capacity for attracting leading businesses that will directly or indirectly drive the island's growth. We will concentrate our efforts on companies that **wish to make long-term investments in Puerto Rico** and are willing to build relations with the local community and academic world. **We will give priority to businesses and corporations compatible with those strategic sectors and industries most able to bring progress to Puerto Rico. Some of these are:**

4.1 The Economy of Knowledge

Puerto Rico must engage in the formulation, research, development, and commercialization of ideas. The University of Puerto Rico is fundamental in this process. Ideas emerge from the university, and it is there that research activities take place. Until now, that activity has been limited to core research that rarely eventuates in a marketable, exportable product. But since 2004, we have a tool for linking the research that occurs in academia with development and marketing: the Science, Technology, and Research Trust.

The Trust's mission is (1) to establish public policy aimed at fostering economic development based on knowledge; (2) to act as a link between academia and the business sector and serve as a catalyst for efforts aimed at economic development through the development and commercialization of ideas; and (3) to develop the financial and physical infrastructure that will make this public policy possible. In summary, the Trust is the catalyzing and coordinating entity that will ensure that ideas and research developed at



the University are taken into the public sphere and enter the chain of economic development. **We have returned to the agenda begun in 2004 and abandoned by the previous administration.**

Principal Actions

1. We will **create Science City** on the old premises of the state penitentiary in Río Piedras. This project will transform the former correctional complex into a science park. Public and private investment in the construction of the Science City is estimated at almost \$1.8 billion. Due to its complexity and many components, this project is slated to take twenty years to complete. It will serve as a hub for the many activities needed to transform our economic model, providing laboratories and other facilities for research, development, and commercialization. The project has already begun, with the demolition of the penitentiary building. Construction on the first phase, urban infrastructure, will begin in May of 2014, with an investment of \$23 million. The second phase is in predevelopment, and construction will begin in fiscal year 2015. This project will create needed synergy with the Molecular Sciences Building, which is now built and in operation.
2. Start-up on the UPR's **Comprehensive Cancer Center (CCC)** with an investment of \$196 million. This is a project that makes a significant contribution to sustainable economic development and the creation of jobs in Puerto Rico while at the same time making us competitive on the world's stage in research and development of new treatments and medications for cancer. In its operational phase, this project will create 750 jobs.

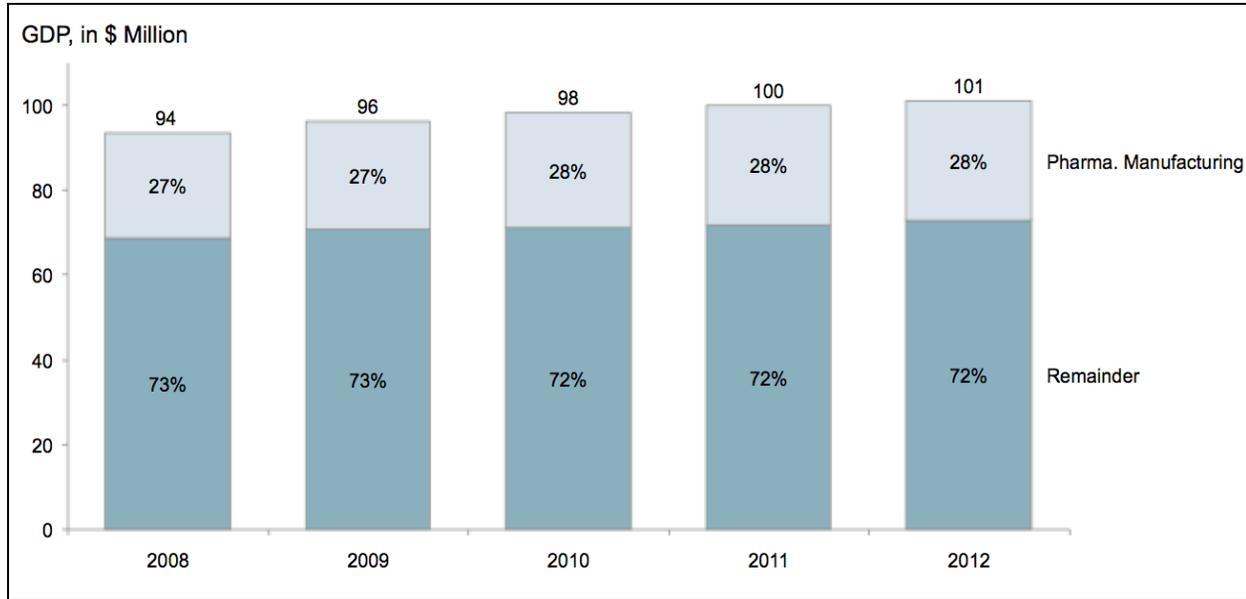
4.2 Life Sciences

Pharmaceutical Manufacturing

The manufacture of medication represents 26% of Puerto Rico's GDP. This industry has been a fundamental part of the island's economic activity. At present time, this sector employs some 16,000 people and contributes \$27 billion to the island's GDP. The worldwide pharmaceutical market is approximately \$830 billion, with a compound growth rate estimated at 4% per year (2012-2016).

Percentage Contribution of Pharmaceuticals Manufacturing to Puerto Rico's GDP²⁸

²⁸ Market projection by IMS, *Market Prognosis*, May 2012.



Two segments of the pharmaceutical industry are currently experiencing excellent growth in the world's markets: (1) generic medications and (2) biologicals. While it is estimated that generics will have the greater growth, with a projected compound annual growth of 11% (2012-2016),²⁹ most of the innovations in this industry are happening in biologicals. Therefore, the panorama for growth in both fields represents an excellent opportunity for Puerto Rican labor.

We are working on **seven initiatives** to encourage growth in this sector:

Principal Actions

- 1. Protect existing pharmaceutical operations** through collaboration with companies in this sector. We have already begun taking steps to seek new lines of production, conduct an exhaustive analysis of product pipelines, promote the benefits of Law 73³⁰ in the world press, and deal with each local plant's specific situation in order to understand its potential for expansion or the risks to its existing operations.

²⁹ IMS Market Prognosis, May 2012.

³⁰ Law 73-2008, "Economic Incentives for the Development of Puerto Rico Act," which seeks to: provide an environment and opportunities to continue developing a local industry; offer an attractive tax proposal in order to attract direct foreign investment; and foster economic development and improved social conditions in Puerto Rico.



2. **Actively intervene in the sale of closed plants or plants in the process of closing**, ensuring a connection to interested companies so that they may take over or adapt the operation of those plants, thereby minimizing downtime.
3. **Begin contracting manufacturing operations (pilot projects for new business models)**. We propose to increase the presence and activities of contract manufacturing companies through aggressive promotion, the reformulation of incentives packages, and the promotion of agreements to produce medicines.
4. **Foster the establishment of a pharmaceutical industry specializing in the production of generics and biologicals, using local capital investment**. Use the Puerto Rico Industrial Development Corporation (PRIDCO) as a partner for businesses.
5. **Attract retail packaging and distribution operations** to complement already existing manufacturing operations.
6. **Develop local abilities for pharmaceutical research and development** in order to create intellectual property in Puerto Rico. To this end, we will be revising incentives under Law 22³¹ and the tax reform, and will incorporate the Science, Technology, and Research Trust into the process.
7. **Develop joint training programs with universities and companies in the private sector** in order to strengthen the future labor force and offer better job and growth opportunities.

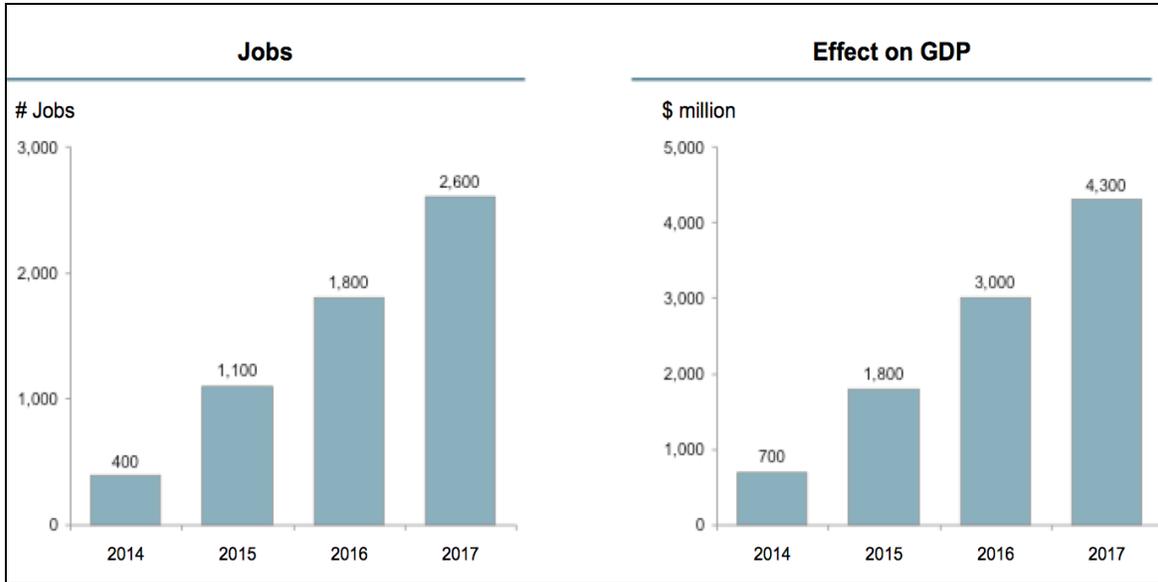
It is estimated that these initiatives, once implemented, will create and protect approximately 2,600 job positions³² in Puerto Rico between 2014 and 2017, with an impact of some \$4.3 billion on the GDP.

Estimated Impact of Actions to Spur Economic Development³³

³¹ Law 22-2012: "Act to promote the transfer of investors to Puerto Rico," which makes investment income tax-exempt for individuals who have not been residents of Puerto Rico over the last fifteen years and transfer their place of residence to the island.

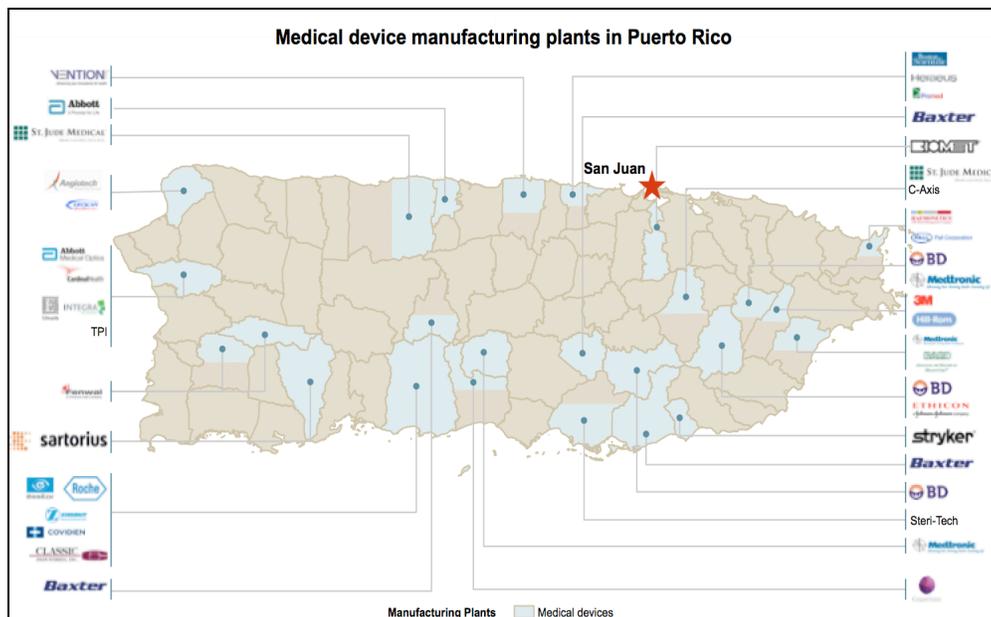
³² Total jobs created.

³³ Route to Economic Development, October 2013, "Total jobs created."



Manufacture of Medical Devices

This sector moves approximately \$300 billion around the world, and it is expected to experience a growth rate of 6% per year through 2020.³⁴ Puerto Rico is in a unique position to take advantage of this tendency, since **we have an impressive history of \$4.5 billion in exports in the manufacture of medical devices, and most of the major corporations in this sector currently operate on the island.** Thirteen of the world’s twenty largest firms in this sector are in Puerto Rico.



Thirteen of the World’s Twenty Largest Manufacturers of Medical Devices Are in Puerto Rico³⁵

³⁴ BMI Espicom, Evaluate Ltd. Medtech Industry Financials.

³⁵ World Economic Forum: Battelle Report 2012/ PRIDCO



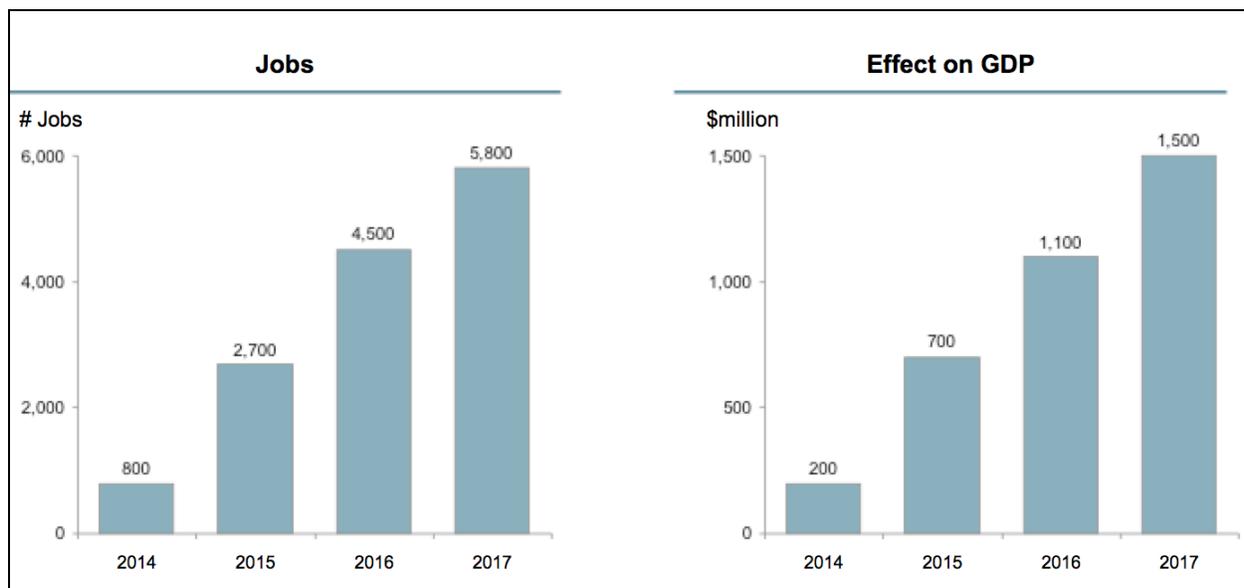
To consolidate Puerto Rico's position as a worldwide center for the manufacture of medical devices, the government will be focusing on four initiatives:

Principal Actions

1. **Attract new lines of production** to companies established in Puerto Rico.
2. **Foster research, development, and manufacture of new products in Puerto Rico.**
3. **Redouble promotional efforts in high-growth sectors and corporations**, especially including companies in the fields of orthopedics, trauma, invasive surgery, and visual devices.
4. **Attract companies within the medical devices supply chain**, in order to consolidate the cluster and expand growth horizons.

Implementation of these initiatives could generate as many as 5,800 full-time jobs between 2014 and 2018. Their effect on the GDP is estimated at approximately \$1.5 billion by 2018.

Estimated Impact of Actions to Spur Economic Development³⁶



4.3 Agricultural Biotechnology

Puerto Rico offers excellent conditions for the development of the bio-agricultural industry, since it has **privileged climate conditions**, allowing over four crop cycles per year; **a history in this sector**; and **clear support policies strongly backed by the government**. Puerto Rico must become a center for the scientific production and improvement of seeds in Latin America, and it must become a leader in an industry that is slated to grow at 6% per year.

Global Companies in Puerto Rico³⁷

³⁶ Route to Economic Development, October 2013, "Total jobs created."



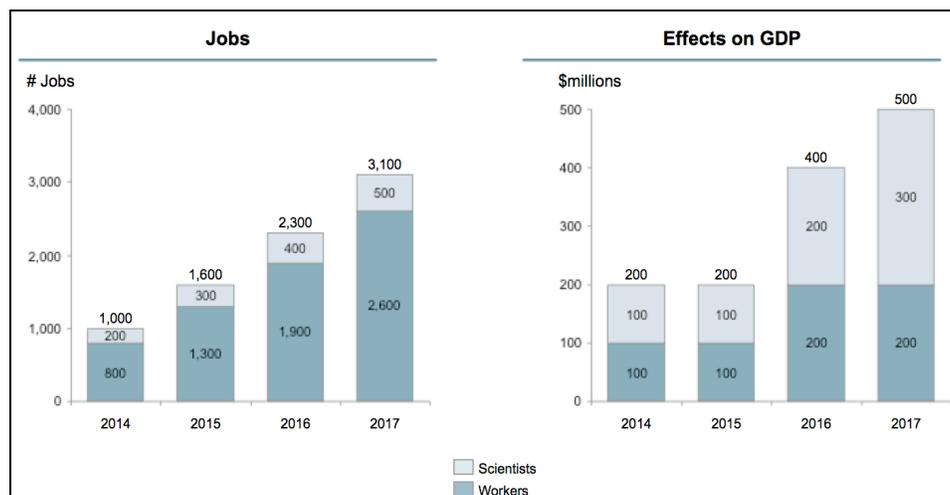
Three key actions will be needed to spur growth in this sector:

Principal Actions

1. **Support the expansion of production by companies currently doing business in Puerto Rico** by preparing personalized offers.
2. **Attract additional companies in this sector** by promoting existing incentives, infrastructure, and talent in Puerto Rico.
3. **Foster additional research and development in this sector.**

With these actions, we anticipate the potential opening of new research laboratories and expansion of existing facilities. We hope to see the creation of as many as 3,100 full-time jobs between 2014 and 2017, with an estimated total impact on the island's GDP of approximately \$500 million.

Estimated Impact of Actions to Spur Economic Development³⁸



³⁷ PRIDCO and Department of Agriculture

³⁸ Route to Economic Development, October 2013, "Total jobs created."



4.4 Outsourcing

Puerto Rico has all the basic elements for becoming a highly attractive destination for companies seeking to outsource some of their operations.

Given the highly dynamic nature of this sector and the benefits offered by Puerto Rico, there is a short-term opportunity to capitalize on growth that should not be overlooked, and that will lead to an increase in our productive capacity.

As companies around the world specialize in their principal businesses, they need to subcontract increasingly complex activities and tasks. Income from outsourcing or expert services at the global level are estimated to be some **\$600 billion in 2014**. The industry is composed of four segments: (1) outsourcing of information technology, (2) outsourcing of business processes, (3) outsourcing of knowledge processes, and (4) outsourcing of engineering and R&D.

It is urgent that Puerto Rico becomes a competitor in this worldwide industry in order to export the products of our labor, compete with high-technology countries, and thereby insert ourselves into the global service market.

In order to make Puerto Rico a regional leader in export services, we will be focusing on the following eight initiatives:

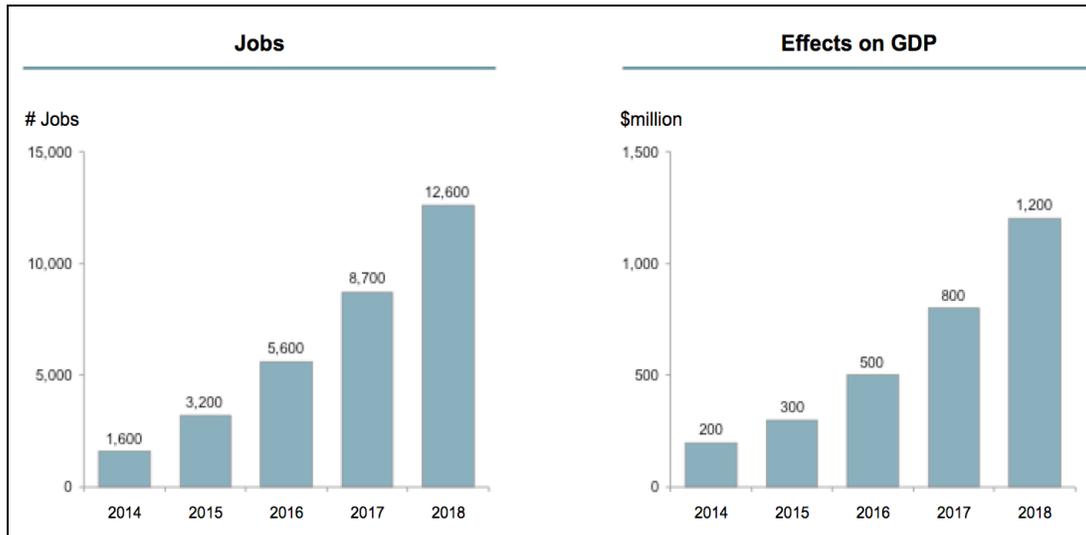
Principal Actions

1. **Create an outsourcing cluster** linking universities, the private sector, and government.
2. **Develop plug-and-play buildings** in strategic locations in Puerto Rico in order to facilitate the launch of new operations.
3. **Develop training programs in coordination with universities and companies in this sector—**preparing young people to join the labor force and offering them better opportunities for jobs and growth. This includes offering students internships in various companies within the sector.
4. **Make Puerto Rico a worldwide center for Knowledge Process Outsourcing (KPO)** for companies doing business in Latin America and the United States.
5. **Attract large operations offering Business Process Outsourcing (BPO)** and integrated outsourcing services through aggressive and personalized promotion.
6. **Promote the development of local software** for eventual export, through promotion of current legislation.
7. **Expand the aerospace and defense sector**, paying special attention to outsourcing in the area of research and development.
8. **Carry out coordinated promotional campaigns to present Puerto Rico to the principal indexing and rankings agencies** in the outsourcing sector.



It is estimated that by the end of 2018, successful implementation of initiatives aimed at providing outsourcing services will generate some 12,600 new jobs in dozens of new businesses, and that the impact of this sector on the GDP will be approximately \$1.2 billion.

Estimated Impact of Actions to Spur Economic Development³⁹



4.5 “Under the Flag” Industries

Puerto Rico offers advantages that allow it to provide goods and services to industries that must operate within U.S. territory. These companies are known as “Under the Flag” businesses as specified in federal legislation (for example, the Buy America Act, the International Traffic in Arms Regulations, etc.). These companies represent over \$500 billion at the federal level.⁴⁰

Puerto Rico aspires to contact and attract companies dedicated to cyber-security, Big Data, and remote aviation, among others, since these services represent a significant direct market totaling billions of dollars. With this initiative **we hope to achieve \$2.7 billion in sales to the federal government by 2018**, representing an increase of 230% over current sales, which totaled \$600 million in 2013.

Our administration proposes four strategic initiatives to promote and develop the Under the Flag industries:

Principal Actions

- 1. Establish a division within PRIDCO dedicated exclusively to generating business between Puerto Rican companies and the federal government.**
- 2. Contact and attract companies in seven industrial sectors identified as a first priority** due to their expected growth: cyber-security, Big Data, unmanned avionics, “command, control, communications, and intelligence,” services to the traditional aerospace industry, textiles, and call

³⁹ Route to Economic Development, October 2013, “Total jobs created.”

⁴⁰ U.S. Federal Budget, 2012.

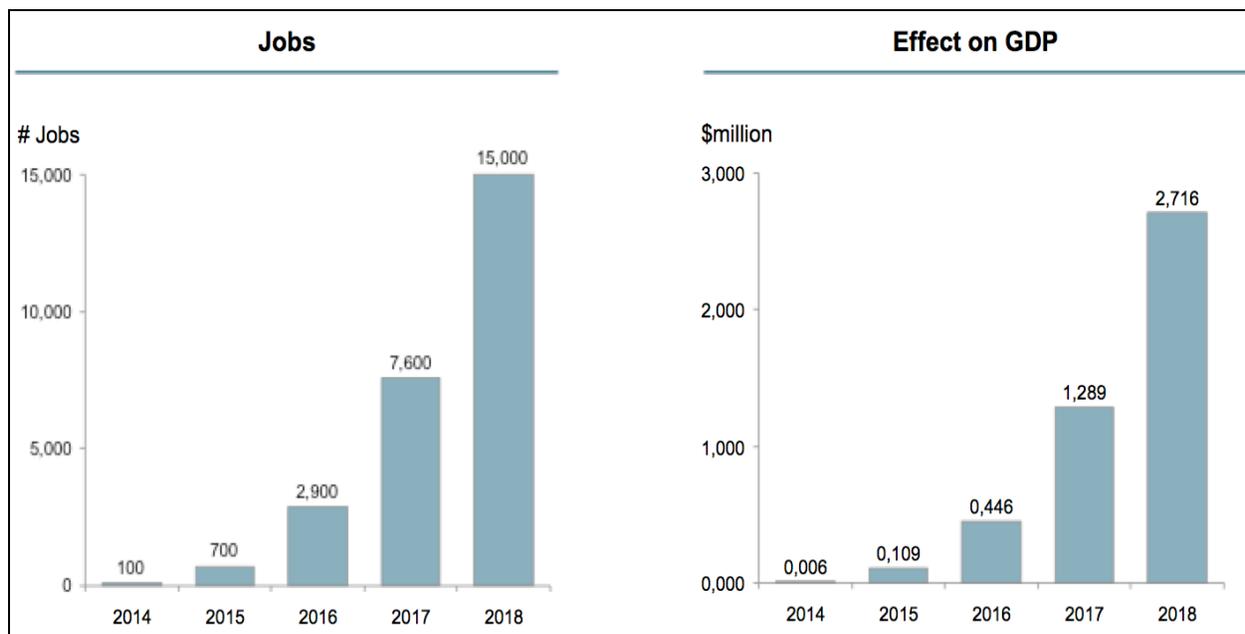


centers.

3. **Continue and expand the FeCC training programs for (SMBs)** in Puerto Rico that wish to sell products and services to federal agencies.
4. **Organize matchmaking and networking events** that bring Puerto Rican businesses and large private buyers and contractors together.
 - **Organize annual networking events** that will allow local industry to come in contact with management personnel in federal agencies and major private contractors such as Boeing, Northrop Grumman, and others.
 - **Organize an annual matchmaking event** that brings major federal government contractors into contact with potential providers of products, materials, and services in Puerto Rico.

It is estimated that the Under the Flag industry will generate 15,000 direct jobs between 2014 and 2018, with an impact on the GDP of approximately \$2.7 billion.

Estimated Impact of Actions to Spur Economic Development⁴¹



4.6 Maintenance, Repair, and Operations (MRO) Cluster

Puerto Rico has the ideal characteristics to take part in the global MRO industry, which offers support to commercial and military aviation in maintaining its fleets.

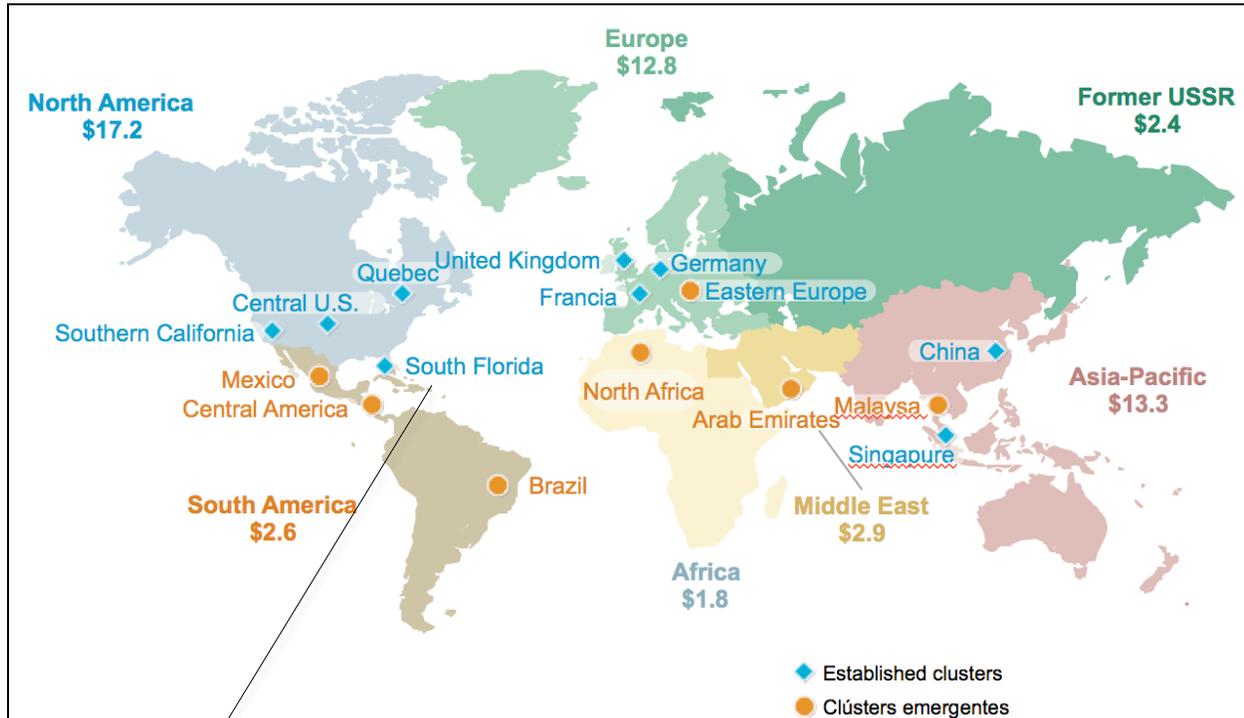
The MRO market is projected to total \$76 billion by 2022, some 36% more than the current \$56 million⁴². This trend shows that airlines are increasingly interested in outsourcing their secondary activities.

⁴¹ Route to Economic Development, October 2013, "Total jobs created."

⁴² Aerostrategy, "Aerospace Globalization 2.0: Implications for Canada's Aerospace Industry",

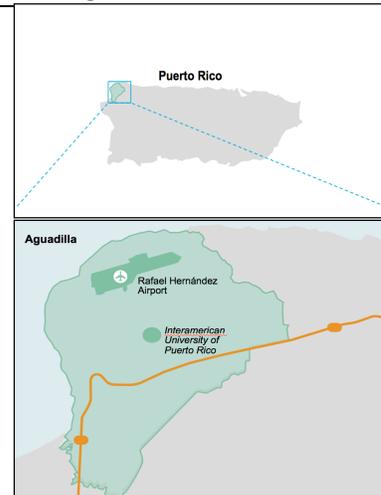
Principal MRO Clusters Worldwide

(Figures in Millions of \$)



PR's Advantages for MROs

- Privileged geographic location
- Highly qualified labor
- Advanced infrastructure
- Competitive cost structure



An MRO cluster could represent as much as \$600 million to the GDP, with important effects on small and medium businesses and local economies, since aside from the principal services of assembly, cleaning, and coordination, most of the jobs are provided by businesses with fewer than 10 employees.

Puerto Rico's MRO cluster would be located in the aerospace triangle in the northwest part of the island, whose center is in Aguadilla. This region has proved itself to be one of the driving forces of the aviation industry in Puerto Rico, with emphasis on the aerospace industry. Corporations such as Honeywell Aerospace, Pratt & Whitney, Lockheed Martin, and Infotech already operate in this area.



The Rafael Hernández Airport in Aguadilla has the infrastructure for development of an MRO cluster, with four hangers and a landing strip in excellent condition. The proximity of Interamerican University, the Universidad de Turabo, and the University of Puerto Rico in Mayagüez guarantees the availability in both quantity and quality of the labor force needed in the development of this sector. In addition, we foresee creation of an MRO school near the airport, where students would be trained in various industry specializations.

Lastly, the planned extension of the PR-22 Expressway from Hatillo to Aguadilla will allow quick, safe access to this cluster and link the industrial park to the major cities of Puerto Rico.

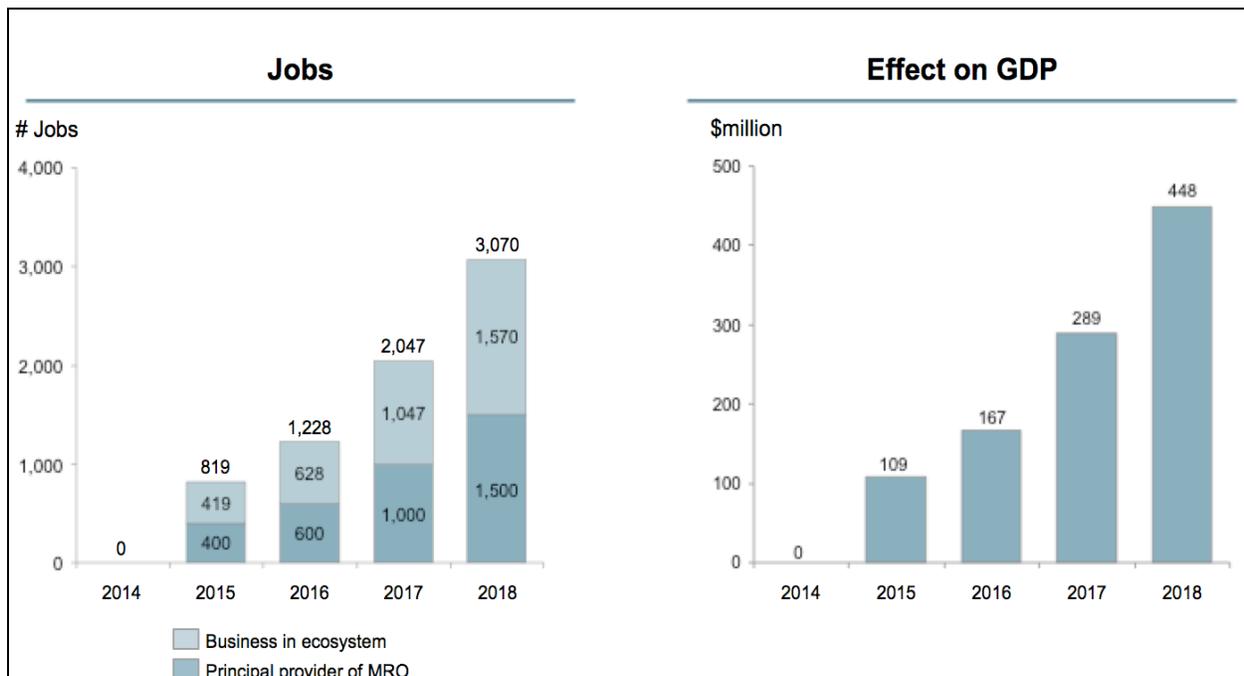
We are proposing five key initiatives for this area:

Principal Actions

1. **Begin operation of Lufthansa Technik** in 2015.
2. **Create an MRO school in Aguadilla** and adapt its program to current university curricula in order to ensure quantity and quality of the labor force, helping to support the industry's development.
3. **Foster public-private capital investment in the reconversion and renovation of the Aguadilla airport infrastructure.**
4. **Modify current legislation involving incentives in order to include MRO activities** and thus make it easier to attract other companies in this sector to Puerto Rico.
5. **Identify opportunities for setting up businesses and creating links to the existing aerospace industry in Puerto Rico.**

The creation of an MRO cluster in Puerto Rico will have a great impact on the economy. The goal is to create 1,500 new direct jobs and another 1,570 indirect jobs between 2015 and 2018. This will be achieved with the arrival of Lufthansa Technik and other companies directly related to the sector. This sector's impact on the GDP is estimated to total \$450 million by 2018.

Estimated Impact of Actions to Spur Economic Development⁴³



4.7 Tourism

There is increasingly greater competition for tourists in the region, and therefore **it is essential that Puerto Rico continue to modernize its infrastructure, generate new attractions for visitors, and orient its promotional efforts toward segments that offer greater opportunities for growth.**

Our principal strategy is centered on increasing our profile in the North American market (U.S., Mexico, and Canada), with an eye to expanding into new markets in Latin America and Europe.

The general objective of our tourism strategy will be to increase spending by non-resident visitors over the next five years by some \$1.1 billion (from \$3.2 billion in late 2012 to \$4.3 billion in late 2017, an increase of 34%). In order to do this we will need to increase both the number of tourists arriving in Puerto Rico and the average per-traveler spending.

In order to achieve this increase in the volume of tourists, we need to expand the number of flights arriving on the island. The objective of these initiatives is an increase of 21% in total passenger traffic through the Luis Muñoz Marín International Airport over the next four years (from 8.4 million travelers per year to 10 million). Our plan contemplates solidifying air connections from North America (expanding into the West and Canada) and opening up the Latin American and European markets. The selection of a private operator of international standing for the Luis Muñoz Marín International Airport has made possible much-needed investment in the airport, totaling \$215 million over the next two years. This investment will be crucial for putting the airport in the position of handling a greater volume of aircraft and ensuring faster turnaround, thereby maximizing passenger turnover.

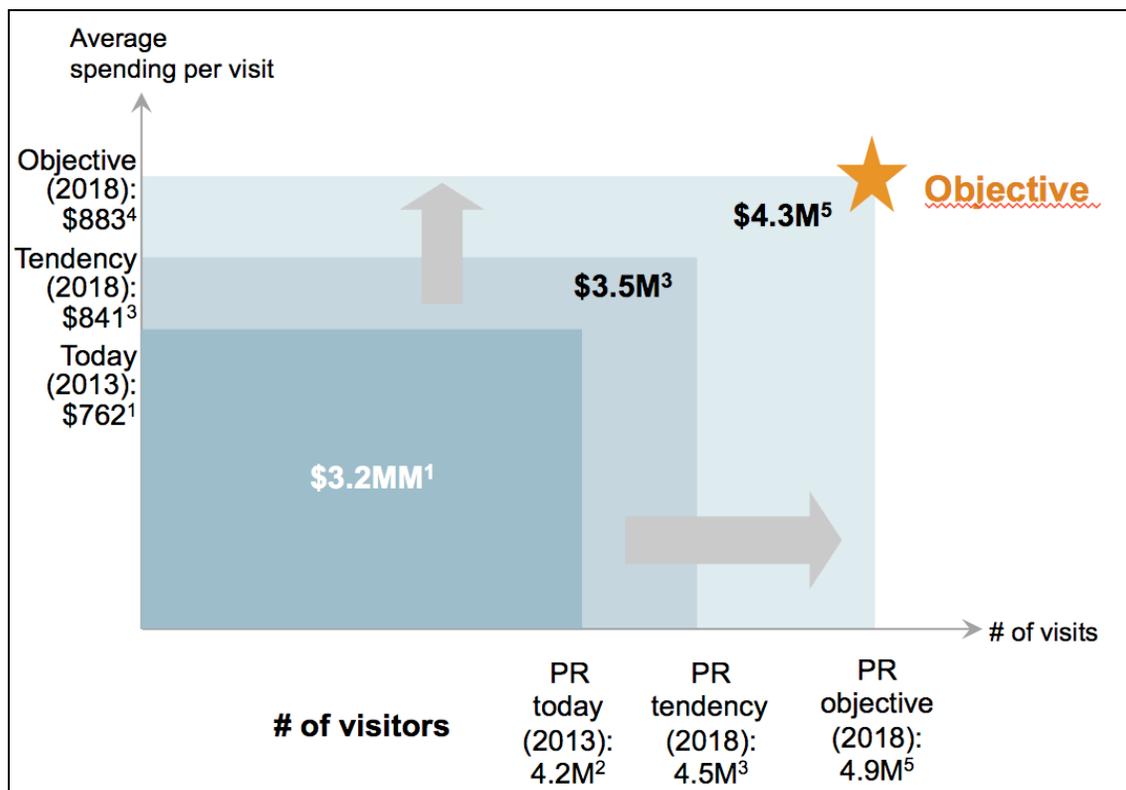
⁴³ Route to Economic Development, October 2013, "Total jobs created."

In order to increase average daily per-visitor spending by 16%, new tourist products will be developed to provide travelers with more alternatives for entertainment and relaxation.

Quality programs, developed through alliances with educational institutions, are needed for creating the five-star experience for tourists necessary for ensuring repeat visits and creating “ambassadors for Puerto Rico” throughout the world.

Finally, the government is undertaking a strategy of “**medical tourism**”. This is a large and ever-growing market. It is estimated that 750,000 residents of the United States travel abroad every year for medical attention. Puerto Rico offers unique value in this field: high-quality medical attention under the medical, legal, and regulation standards of the United States, with costs between 30% and 70% lower. At the present time, most of Puerto Rico’s medical tourists come from the Caribbean region, and the recent establishment of Seaborne Airlines in Puerto Rico will help to establish commercial links within the region and thereby consolidate our medical offerings.

“The final objective is to increase visitors’ spending by \$1.1 billion”⁴⁴



⁴⁴ (1) Sales in 2012 to international tourists only, based on the total number of visitors and total sales reported by the Puerto Rico Planning Board. (2) Includes all international arrivals. (3) Calculated on the basis of a T&T growth rate of 2%, according to the five-year inflation rate and historical growth in number of visitors. (4) Based on a growth rate of 3%, one point higher than the estimated rate of inflation, in five years. (5) Based on the growth objective of \$1.1 billion in total sales to visitors in five years; number of visitors based on estimated spending per trip. (Estimates supplied by Tourism Company of Puerto Rico.)



Strategic Plan for Tourism

1. **Diversify the concept of tourism** to include other modalities such as medical, sports, gastronomic, cultural, and eco-tourism, to capture a broader spectrum of visitors.
2. **Present Puerto Rico as a tourist destination in markets designated as high-priority.**
3. **Develop a visitors economy**, with local offerings that provide the traveler with the most satisfying possible experience and make it possible to expand existing stores and businesses that offer services to the traveler.
4. **Expand air and sea access to Puerto Rico** through negotiations with airlines and cruise lines, utilizing incentives from the Tourism Company.
 - **Make Puerto Rico the air hub of the Caribbean:** Make Seaborne the airline of Puerto Rico and expand service to all destinations previously served by American Eagle.
 - **United States:** Expand direct service to the West (additional flights to Chicago and Houston) and seek a new direct route to California.
 - **Europe:** Add flights to Germany, inaugurate new routes to Spain.
 - **Latin America:** Open access to the Latin American market through direct flights to Colombia, Mexico, and Brazil.
 - **Increase the number of mega-cruise ships, regular cruise ships, and short-run cruise ships that arrive in Puerto Rico.**
 - Amend Law 80-2013⁴⁵ to create new incentives to attract both longer stays and short-run cruise ships.
 - Expand Dock 3 in San Juan to receive mega-ships in December of 2014, which will enable us to position ourselves as a destination for this generation of the largest and longest cruise ships in the world (e.g., *Quantum of the Seas*) beginning in 2015, and thus become the highest-transit port in the Caribbean.
5. **Expand hotel offerings** in the full spectrum from luxury options to inns and guest houses, and increase number of rooms from 16,700 to 20,000 by 2016.
6. **Develop new tourist products for new niches in the market, such as luxury tourism, golf tourism, and destination weddings.**
7. Create joint programs with educational institutions in order to improve the quality of service in this sector.

⁴⁵ Law 80-2013: "The Cruise Industry Incentives Act."

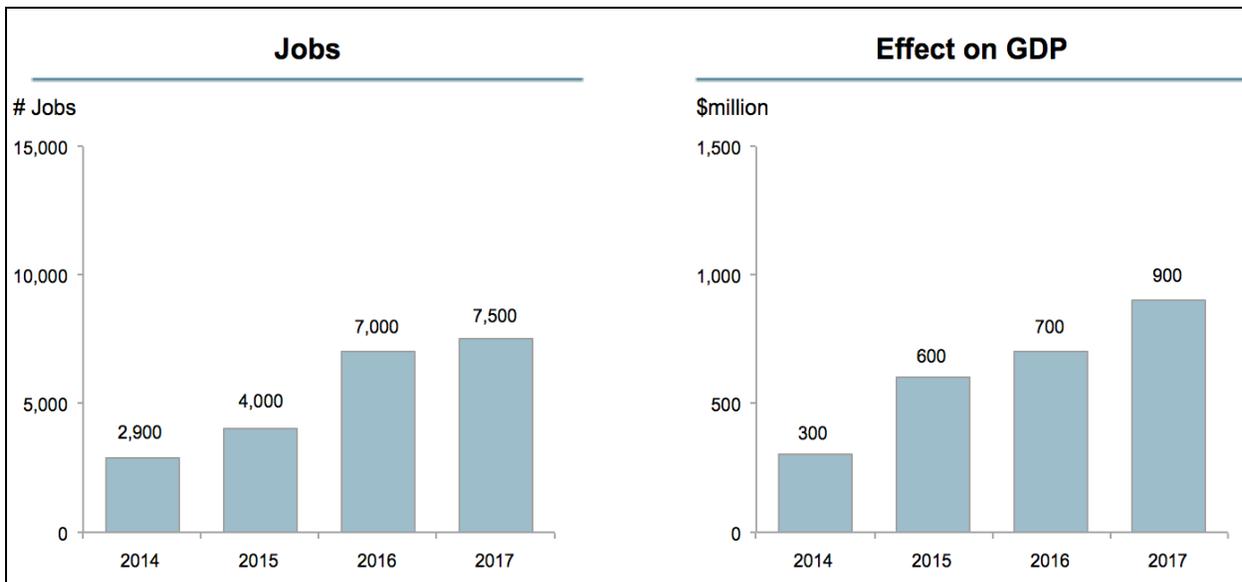


Number of Rooms by Stage of Development through March 2014⁴⁶

	Rooms	Jobs Created	
		During Operation	Under Construction
Permits approved	1,875	2,231	8,316
Financing	2,394	2,599	11,058
Mixed status	743	350	4,466
Under construction	426	353	1,007
Remodeling	155	24	197
Operating	<u>451</u>	<u>486</u>	<u>1,251</u>
TOTAL	6,044	6,043	26,295

With these initiatives, the tourist industry should generate more than 10,000 jobs within four years, creating an impact on the GDP of approximately \$1.1 billion over that period.

Estimated Impact of Actions to Spur Economic Development⁴⁷



⁴⁶ Tourism Company of Puerto Rico.

⁴⁷ Route to Economic Development, October 2013: Total Jobs Created.

5. Incentives to Local Production

The only sure road to sustained economic growth over the long term is by offering incentives to local production, so that greater wealth can be generated and put into circulation and remain on the island. If we are to achieve economic recovery we must also fight to eliminate the obstacles that keep the island from beginning its climb into prosperity. Therefore, it is imperative that every sector on the island join forces to demand that Puerto Rico be exempted from the cabotage laws that make the products that arrive in Puerto Rico more expensive and impose a burden on the island's citizens. The Federal Affairs Administration of Puerto Rico and the Resident Commissioner should formulate a strategy aimed at reducing or eliminating that burden. With an eye toward fostering local production, our administration recognizes that it is essential that we put all the government's support behind the following areas:

Support for Small and Medium-Sized Businesses (SMBs) and Microbusinesses

SMBs are of vital importance to the most prosperous economies in the world. They play a fundamental role, as they make a vital contribution to economic activity and job generation. When we put our support behind SMBs and help them thrive, we help improve the quality of life for small business people, which allows them to expand their businesses, foster a climate of productivity, and invest in their projects.

SMBs have greater flexibility in adapting to market changes and taking on innovative projects. **SMBs generate one out of every four jobs created in Puerto Rico.**

In recent years SMBs and microbusinesses in Puerto Rico have been particularly hurt by the local and global economic crisis. **Our administration recognizes the role that SMBs and microbusinesses should be playing in the island's economic and social development, which is why we propose to establish a solid public policy aimed at strengthening this important sector.** Among this policy's priorities are the following eight initiatives:

Principal Actions

As a second phase of the Jobs Now Act, we are presenting legislation intended to create a program of permanent incentives for SMBs. Even after expiration of the Jobs Now Act, this bill will extend those benefits that have proven to be most effective in helping participating businesses to succeed and generate new jobs.

It is estimated that this new law could create a minimum of 1,416 jobs each year that the incentives are available.

We anticipate that this legislation will provide the following benefits:

- Partial reimbursement of salary paid to people hired for new jobs created by the eligible SMB
- Partial salary reimbursement for the creation of new jobs related to exports in particular
- Partial salary reimbursement in order to retain jobs in eligible SMBs with net operational losses

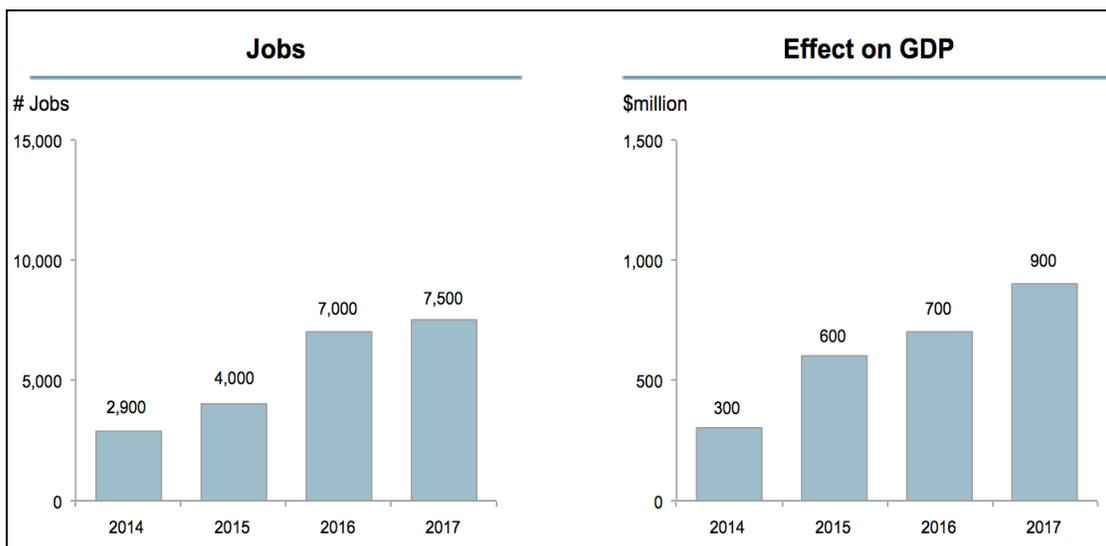
This legislation will provide the following incentives:



- Partial exemption on tax paid on goods and chattels
 - Partial exemption on tax paid by eligible businesses on real estate
 - Partial exemption on licenses and other municipal levies
 - Partial exemption on policy payments to the State Insurance Fund Corporation
 - All eligible SMBs signing a Jobs Creation and Retention Agreement with the Commerce and Export Company (CEC) will be eligible for expedited permits evaluation and concession
2. Under the coordination of the Commerce and Export Company, “one-stop shops” will be created to offer support and service to SMBs, helping simplify and reduce the costs of establishing or expanding a business.
 3. Develop a program for the creative sector as a model of exportable service.
 4. Strengthen the program of exportable franchises in order to validate this model as a platform for viable economic growth for our local businesses.
 5. Develop an export accelerator for local businesses’ export products.
 6. **Develop financing programs for SMBs and microbusinesses.**
 - An entrepreneurship fund will be established in fiscal year 2015, with an initial assignment of \$5 million, in order to promote the creation of new local businesses.
 7. A mentoring and technical support program will be established for SMBs and microbusinesses.
 8. Legislation will be presented to amend Law 129-2005, the “Government of the Commonwealth of Puerto Rico Procurement Reserve Act,” raising to 30% the amount of purchases which the government, its agencies and public corporations must make from SMBs and microbusinesses.

It is estimated that between 2014 and 2017, some 8,400 jobs derived directly from the initiatives outlined above will be created.

Estimated Impact of Actions to Spur Economic Development⁴⁸



⁴⁸ Route to Economic Development, October 2013: Total Jobs Created.

Our administration recognizes that culture is one of the driving forces of economic development. It is essential that we take advantage of our cultural patrimony and capitalize on our talents. Historically, Puerto Rico has been outstanding in the musical and performing arts, fine arts and literature in the popular culture. Our historical and archaeological patrimony is not limited to the walled city of Old San Juan, but exists in a broad, diverse landscape for tourists to enjoy. There is no question that we have the talent to put art forward as a consumer good whose goal should be to generate economic growth and activity.

Principal Actions

1. **Seventh International Congress of the Spanish Language in 2016.** We bid for and won the competition to become the seat of the Seventh International Congress of the Spanish Language in 2016. This is the most important activity in the Spanish-speaking world, and every Spanish-speaking country takes part in it. The Congress will bring together people from many cultural and political spheres and attract an important number of personalities. This is an ideal opportunity to present Puerto Rico to the international community, to stimulate and open doors to the development of a network of contacts, and make our academic, business, and tourist offerings better known.
2. The Institute of Puerto Rican Culture, in alliance with the Commerce and Export Corporation and the Economic Development Bank, will be taking steps to ensure that our talent is marketable and our artists insert themselves into the sphere of sustainable economic development. To do this, we are proposing the following initiatives:
 - Creation of a catalog (database) of the artistic community in order to connect its members with representatives from organizations interested in their art, whether to purchase or market it;
 - Creation of a structure for a program to assist the artistic community in issues of entrepreneurship, to strengthen their skills and have access to all available tools and incentives, both in the Commerce and Export Corporation and the Economic Development Bank.

Agriculture

Our administration believes that the social and economic role of agriculture is fundamental, and should be recovered. To do this, tangible steps must be taken not only to revitalize the sector but also to increase the island's food security and reactivate a production and supply chain for export industries (e.g., rum), while introducing competitive, quality products for local consumption into the domestic market.

When we analyze the availability of foodstuffs in Puerto Rico, we find that year after year, local products' contribution to the island's table has been falling and that most of the foodstuffs we consume (85%) are imported, mainly from the United States, China, Canada, the Dominican Republic, Nicaragua, Mexico, Chile, and Brazil.

Some of the points of vulnerability of Puerto Rico's supply chain are:



2014 - 2018

- High dependency on imported produce and other foodstuffs
- Ongoing decline in local agricultural production
- Storage and warehousing of foodstuffs in the United States
- The distance that food must travel “from farm (or supplier) to table”
- Monopolies and oligopolies among importers, shippers, and ports
- Lack of a food security policy which takes into account all links in the chain and is suited to the island’s food situation

Given the island’s vulnerability and the risks to Puerto Rico involving its food supply chains, we are working toward establishing a plan for agricultural development based on a policy of increasing our food security. This plan takes into account the basic food basket recommended for the island and the land and water resources available for production. The plan also contemplates other resources such as research and academia, sources of capital, and incentive programs, as well as the island’s generational shift. It proposes increasing local agricultural productivity through agricultural investment, the establishment of marketing networks, and funds for research, in addition to the essential step of motivating farmers and other producers.

The basic recommended food basket is defined as that group of commodities which make up the Puerto Rican population’s usual daily meals and supply its basic nutritional needs. It consists of the following foodstuffs:

- **Cereals and grains:** rice, root vegetables (sweet potato, plantains, cassava), bread, soda crackers, oatmeal
- **Vegetables and legumes:** dried beans, squash and pumpkin, lettuce, tomato, cabbage.
- **Fruits:** citrus fruits (oranges, mandarin oranges, grapefruit, lemons and limes), bananas, mangos, papayas, melons
- **Oils:** canola and olive oil, butter and margarine, avocados
- **Milk and milk substitutes:** milk, cheese
- **Meat and meat substitutes:** eggs, chicken, beef, fish, pork
- **Condiments:** aromatic herbs, sugar, salt

Plan for Food Security

This plan focuses on increasing the island’s food security by increasing the production of goods that make up our basic food basket, thereby ensuring greater availability of local products and greater stability in the supply chains. It also includes commercial production of other goods that will help us generate jobs and thereby increase Puerto Ricans’ purchasing power so they may have better access to nutritious foodstuffs.

Livestock industry

- **Milk:** The milk industry is the island’s main agricultural sector. Our administration will be supporting the sustainability and profitability of this industry by encouraging high quality



production and the diversification of milk-derived products such as cheese, butter, yogurt, and other value-added products. To do this, proposals are already being evaluated, including private investment, government financing, and subsidies from Integrated Fund for Agricultural Development. In order to facilitate access to milk, areas of distribution will be identified that are not currently being served.

- **Meat:** The beef sector contributes some 10% to local consumption of beef. We intend to work to increase that contribution to 20%. We are offering incentives to efficiency in production through genetic improvements and encouraging the adoption of modern systems of pest and parasite control and disease prevention.
- **Poultry:** We are working toward reopening chicken-processing plants. To do this, we are hoping to secure private investment of \$15 million to buy stock in these operations and rehabilitate the plants, and another \$15 million to reconstruct the poultry houses.
- **Pork:** The pork sector and the egg-production sector need to adopt innovative systems for managing waste disposal. We are committed to dealing with this important matter with the Environmental Quality Board in order to comply with current regulations.
- **Fish and seafood:** The fish and seafood sector contributes 3% to local consumption of these products. There are some 1,100 fishermen on the island, and another 2,200 assistants. This area has high potential for development. We will be working on rehabilitation of the island's fishing villages and on training for the fishermen.

Fruits

As a tropical island, Puerto Rico has ideal conditions for the production of fruit. However, less than 20% of the fruit consumed locally is produced on the island.

- **Processed pineapple, mango, and papaya:** Pineapples represent one of the areas of fruit production with the greatest potential for growth. This enterprise will be impacted through establishment of a seed-production program coordinated by the Agricultural Enterprises Development Administration. By taking this action, we will help to reduce the cost of these raw materials. We will be implementing a crop-planting plan to guarantee continuity of the product throughout the year. This product has the potential to be processed for local consumption as well as for export to the United States, especially to institutional markets. Other products suitable for institutional and domestic markets are processed mangoes and papaya.
- **Citrus fruits:** We will continue implementation of the Integrated Plan for Pest Maintenance against citrus greening. This plan includes new plantings and control of the Asian citrus psyllid, which spreads the disease.
- **Avocado and soursop (guanábana):** A plan will be put into effect for new plantings of avocado and soursop using funds from the USDA's "Specialty Crops Block Grant" program.
- **Others:** We will evaluate other kinds of fruit to seek other market niches abroad.

Root and other starchy vegetables: Farinaceous vegetables are another of the agricultural sectors



presenting great potential for growth. Expansion of this sector would contribute to the island's food security, which is affected by the price of imported produce.

- **Plantains, yams, yautías, taro, sweet potatoes, and cassava:** Plantains are one of the starchy vegetables produced most on the island, so we will be working to sustain these businesses. With respect to other farinaceous foods such as yams, yautías, taro, sweet potato, and cassava, we will be coordinating with the UPR's agricultural experimental stations to propagate high-yield seeds. In addition, we will continue to promote research on pest control for these crops. We propose to plan crop-plantings in order to provide adequate quantities of these foods throughout the year. We will be rehabilitating and building centers for classifying, processing, and packing these foods, and quality standards will be established to protect the local industry from imports. We will promote consumption of local products in all institutional markets.

Vegetables: It is estimated that about 2,909 *cuerdas* (2,825 acres) are planted in vegetables on the island. Production has been impacted by various factors affecting the quality of the products, limiting the sowing season.

- We will be promoting the adoption of modern production techniques in order to increase efficiency and reduce the risks in this sector. Among the aids to cultivation to be adopted are irrigation systems, protected environments, shade houses, and hydroponics. These systems allow growers to control pests, diseases, and environmental and climatological factors, resulting in greater production. In the case of protected environments, we will promote the planting of several varieties of tomatoes and peppers. Shade houses will be used for cabbage and leaf lettuce, and hydroponics will be used for head lettuce and herbs.
- Produce varieties will be chosen to allow, for example, head lettuce, such as iceberg, to be planted in both the middle and upper altitudes of the island's central mountain area.

Other crops

- **Coffee:** To increase the Island's coffee production, we will be establishing the New Plantings Program. Contracts have been given to 28 nurseries to produce coffee trees. Almost 800 new acres were planted in 2013-2014. In fiscal year 2014-15, we hope to distribute 2.5 million trees, enough to plant some 3,800 acres; 5,200 acres in 2015-16; and 6,200 acres in 2016-17. Thus, we hope to complete the planting of 16,000 new acres of coffee by 2016. In addition we will be offering incentives to the coffee brokerage systems, and to do this we are promoting a collaborative agreement with the Natural Resources Conservation Service (NRCS) field office in Puerto Rico.
- **Sugar cane:** Another agricultural sector that will have a significant impact on the island is the reestablishment of the sugar cane industry, which will focus mainly on producing the molasses needed by the rum industry. To do this, we will plant 20,000 acres through a cooperative agreement with PRIDCO, which has assigned \$9.2 million for the initial stage of planting. We are now waiting for the selection of an operator. Other stands of the crop can be used for the

production of ethanol.

Agriculture is the best example of our commitment to improve the island's productivity. In order for the island to produce and for agriculture to prosper, we must create internal consumer markets, and all of our actions are aimed at that objective. In harmony with this:

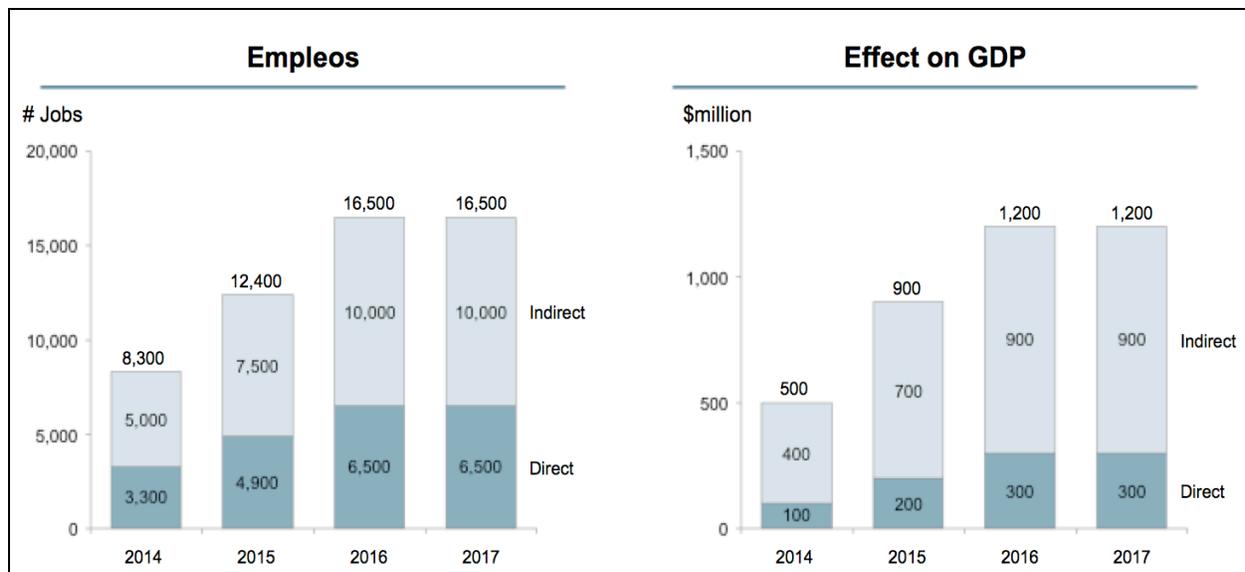
Principal Actions

We will be implementing the Urban Agriculture Program, to encourage the planting of:

- **Home Vegetable Gardens** to increase food security in the home.
- **School Gardens** to create awareness of the importance of agriculture.
- **Community Gardens** in order to create micro-businesses.

We are projecting that some 19,000 jobs will be created in the agricultural sector between 2014 and 2018. We estimate that the total impact of this sector on the GDP will be approximately \$1.2 billion.

Estimated Impact of Actions to Spur Economic Development⁴⁹



Reactivate participation in the labor force

It is essential to spur local production in order to reactivate participation in the labor force and create a new cycle of dynamic economic activity whose benefits will remain on the island. To do this, our administration has sought to bring more flexibility to the guidelines that now limit beneficiaries of social assistance programs from continuing to receive aid if they have a formal job.

⁴⁹ Route to Economic Development, October 2013: Total Jobs Created.



2014 - 2018

The Department of the Family has put in place a series of initiatives that allow participants in aid programs to continue receiving the Nutrition Assistance Program (PAN, for its Spanish acronym) benefits while holding agricultural jobs associated with certain crops. Recently, the Department of the Family persuaded the federal Health and Human Services Department to allow certain important amendments to the PAN regulations, that are aimed to broaden crops for which participants may have seasonal jobs in certain crops and their income be exempt for the purpose of benefit computations.

- Some of the produce and crops added are plantains, green and ripe bananas, cassava, oranges, melons, mango, and pineapple.
- With these amendments, we expect some 2,000 new jobs to be created. In addition the 7,000 beneficiaries who now have some exemption due to agricultural labor will see an increase in their benefits.
- Due to this administration's emphasis on agriculture, the cap on income earned by bona fide farm laborers has been increased from \$461 a month to \$760 per month per service nucleus.

Aside from the strategies outlined above for promoting local production, we also believe it is necessary to take specific measures aimed at making it easy for all citizens to join the labor force in the formal economy.

Principal Actions

1. **Hire personnel on a commission basis to audit and oversee IVU payments to Treasury.** These personnel should meet the requirements established by the Treasury Department; they will be trained to do this work and must sign confidentiality agreements.
Candidates to consider:
 - University students (candidates for graduation, or new graduates) in Accounting, Finance, and Economics.
 - The unemployed, so long as they meet the requirements set by the Treasury Department.
 - Personnel relocated or laid off from government agencies.
2. Speed up the process for obtaining permits and processing applications for leasing land, in order to allow farmers to complete the process in three months. Micro-farms will be developed to give farmers a greater possibility of success.
3. Promote art in the street as a self-managed economic activity, allowing artists to obtain use permits for public spaces for showing their art.
4. The Socioeconomic Financing and Self Management General Coordinator's Office (OFSA, for its Spanish acronym) is in the process of creating an investment fund for microbusinesses and SMBs. The Commerce and Exports Corporation, which already has a Program of Economic Incentives for Community-Based Microbusinesses that provides economic incentives of up to \$5,000 to both established and newly created community-based microbusinesses, will collaborate on this project



with the OFSA.

5. The OFSA will submit amendments to the Economic Incentives for the Development of Puerto Rico Act to require that businesses, corporations, and local and foreign industries receiving government incentives sign community-support agreements. Similarly, a board or committee will be created with representatives from several government agencies, nonprofit organizations, public and private interest groups, the Special Communities Advisory Council, the OFSA, and others, to help draft community-support agreements. This board or committee will also provide follow-up on these agreements and prepare annual reports providing information on the businesses involved, the projects under way, and the status of the communities and individuals benefited by the agreements.
6. Special Policies to protect domestic labor will be developed. Within six months, the Administration for the Socioeconomic Development of the Family, in coordination with the Department of Labor, will conduct an analysis of existing insular and international legislation regarding paid and unpaid domestic labor. This analysis will be conducted on the basis of work as a basic human right and from the perspective of gender. A survey will be conducted on the use of time to measure the amount of time that people invest in domestic labor and will put an economic value on the work women do in the home and in the community, and what that contributes to the economy.
7. We will work to obtain additional flexibility in social welfare programs in order to promote the country's jobs and productivity.
8. The Solid Waste Authority will take the lead in efforts by this and other agencies—the Puerto Rico Corporation for the Supervision and Insurance of Cooperatives, the Department of Labor and Human Resources, and the Socioeconomic Financing and Self Management General Coordinator's Office—to create an Alliance for the Development of Recycling-Workers' Cooperatives. The purpose of this alliance will be to develop a network of co-ops or businesses belonging to workers engaged in the last phase of recycling in our jurisdiction, to maximize the creation of green jobs, promote self-management, and meet the need for handling recyclable material. The alliance will also seek to strengthen support for existing recycling organizations. Last, we will be identifying individuals, communities, and organizations interested in establishing this type of community-based business and orienting them as to legal requirements, financing options, and possible administrative structures.
9. We will be evaluating a proposal to set priorities for using Community Reinvestment Act funds and social-responsibility funds from cooperatives in order to provide capital to support emerging businesses, especially those involved with innovation and export.

6. Transformation and Modernization of Government

Any agenda for the transformation of a country requires a public policy that sets standards for recovery and the government's determination to improve its structure and functioning in order to make it more efficient. In Puerto Rico, the public sector has been key in driving economic development. The government model established in the mid-20th century was successful, but it must evolve in order to become once again the axis of the island's economic activity.



Our administration's goal is to achieve a balanced budget in fiscal year 2015. In order to attain the fiscal health that is essential to a stable, growing economy, we will have to radically transform and modernize the way government operates. We hope to create a more agile government that serves its people, promotes economic development, and is uniform in its processes and procedures.

This modernization will allow us to achieve the economic development we all aspire to, yet without ever forgetting our public employees. It is our commitment that within this governmental transformation, three essential principles will always be respected:

1. Public employees are valuable to our society, and must be an integral part of government's future;
2. The right to create or participate in a labor union is a basic, necessary, positive social right;
3. The government should establish and improve the channels and methods of communication with its public employees and labor unions, within a dynamic, mutually beneficial relationship.

In four years we will have achieved a modern, agile government ready to provide the very best services to Puerto Ricans and to foster and support its citizens and businesses' productivity. This focus will allow us to present a new Puerto Rico to the world, one with a competitive, truly modernized government.

Government with an agile, responsive organization

Our current government organization, with its more than 120 agencies, is no longer suited to our social and economic situation. This administration is aware of the role that government must assume as the organizer and facilitator of social order and community life, and we do not intend to allow our policies to deviate from that mission. The objective is a renewal of the governmental structure in order to maximize government's functioning, with an agile, efficient, swiftly responding organization.

We have defined several principles that will guide us through the process of designing this new government structure and way of operating:

- An accessible government, working closely with its citizens.
- A transparent, responsible government.
- A government with the appropriate number of departments, agencies, corporations, and other offices, all of which are of the appropriate size.
- A government that offers the right services at good quality and cost.
- A government with self-sufficient public corporations.
- A government that uses technology as a central element in its provision of public services.

Accountability and the establishment of metrics

The actions we present are needed for undertaking this transformation and thereby achieving recovery. In this process, it is vital to establish parameters for accountability that will allow us to measure our progress and make the necessary adjustments as results become known. To that effect, the MBO will design a

program of metrics and parameters that will establish reference criteria by which to measure the progress and effectiveness of our efforts. The results of the evaluations should be made public each year, in order to gauge the effects of our actions and initiatives and ensure that we achieve the hoped-for growth and recovery by 2018.

Consolidation of agencies

As an initial step in this government transformation, we will be consolidating those organizational components whose functions can be incorporated into another agency. This will allow us to reduce fragmentation in the provision of services, reduce expenses, and offer services more effectively. To do this, we propose to consolidate 25 agencies into other government offices whose legal mandate is the same or similar. This is the first step toward reorganizing the government's organization chart and thereby laying the foundations for an effective, efficient government, which is this initiative's true purpose.

In analyzing which agencies would be the most susceptible to consolidation in this first exercise, we used the following criteria:

- Those whose functions can be absorbed by another agency or department without causing a negative impact on compliance with the laws of the Commonwealth;
- Those that offer opportunities for creating synergy and producing real savings when operations and public servants are brought together in the same building and are therefore able to share administrative-support and information-system assets.

Principal Actions

1. **In the short term:** Consolidation of 25 agencies, allowing savings of as much as \$50 million in charges to the General Fund. Eliminating tangential expenses in public trust positions and administrative infrastructure, and facilitating the formulation of public policy. This consolidation will not entail a layoff of public employees, since the entire personnel roster of the consolidated agencies will be relocated into agencies that need more employees.
2. **In the medium term:** The government organizational chart will be reviewed, since we must rethink the structure of government in order to unify program areas under the leadership of a single figure. This action is not intended to create umbrella agencies, but to merge functions. We propose to begin by reformulating the regulatory agencies for urban development and the environment within the economic-development component.
3. **In the long term:** Create a new structure for government. This administration's vision is to reformulate government to create an agile, cost-effective structure with the ability to provide its people, especially those who most need them, with high quality services. Government should be able to function with 50 agencies and corporations.



A government that provides the island the services it deserves

The government has the responsibility to streamline the processes that its citizens request in public agencies. Widespread experience suggests that the current excessive bureaucracy has not translated into better, more efficient public services. An important aspect of our agenda for recovery is modernizing the functioning and administrative operation of government offices so that citizens may complete their business with government agencies quickly.

To this effect, we will be implementing measures to reduce the degree of politicization of government agencies, legislating an insular “Hatch Act” similar to that at the federal level. We will also be extending agencies’ hours of service and reducing the number of holidays observed by the government.

We will also be expanding and improving online services via the Government Interconnection Project, which will allow citizens to obtain documents and certifications without having to go to several government agencies. This will also allow government agencies to validate certifications and compliances they require of citizens without having to ask those citizens to go to another agency. This initiative is already under way, and we estimate that the first phase, which consists of centralizing and automating the five most requested services,⁵⁰ will be completed by 2015. In 2016, we will be adding services depending on demand.

The following actions are aimed at achieving this goal:

Principal Actions

1. **Reestablish extended hours of service for certain government offices:** Citizens deserve to receive services on their lunch hour or after work or on non-workdays. To that end, a uniform schedule of extended hours will be established in offices offering direct services to citizens.
2. **Reduce the number of holidays:** In order to maximize productivity and effectiveness, we will reduce the number of holidays. This will make more time available for citizens to conduct their business with government offices.
3. **Hatch Act:** Legislation will be presented that will carry provisions of the Government Ethics Act further, prohibiting public officials during their hours of work from using their official position or authority to influence or interfere in the result of elections or the candidacy of a given individual, intimidating another public official, requesting that other public officials promote electoral interests, and fostering, supporting, or sponsoring party-political activities. Government is not the place for political proselytizing; the government exists to serve all its citizens equally.
4. **Express windows and lines:** Investment will be made in a service-window project whose objective will be to reduce duplication in government processes, offer appropriate orientation services in public offices, ensure that materials are available to citizens, and guarantee the preservation of the physical facilities in which citizens interact with government employees.

⁵⁰ Criminal history; ASUME certification (child support up to date); Request for PAN and TANF benefits; birth, death, and marriage certificates; and up-do-date payment of State Insurance Fund policy.



We will be designing and implementing a service line for the working class in service agencies. The purpose of this line is to reduce the time that bona fide taxpayers spend conducting business with government agencies.

5. **Expand and improve online services and interconnection project:** The speed, convenience, and effectiveness of online interaction with government agencies is essential for ensuring an increase in the use of the services. Therefore, we propose to expand online transactions, with 150 new transactions⁵¹ during fiscal year 2015 and 250 by 2018.
6. **Participatory budgets:** This administration has adopted participatory democracy as its abiding philosophy. We will be implementing a pilot project in an agency to make decisions on budget distributions in consultation with interested parties, including the population to be served and the agency's employees.
7. **Mortgage-savings program:** Although mortgage rates have been at their lowest levels in history, the mortgage industry is at a moment when it imposes substantial restrictions on qualifications for a mortgage or mortgage refinancing. This means that access to credit for refinancing is limited in most cases to 85% of the property's value, even when FHA insurance may cover up to 95%. The consequence is that most citizens are not able to refinance.

Given this scenario, thousands of families have been prevented from refinancing their homes.

The Housing Financing Authority (AFV, for its in Spanish acronym) will create the Mortgage Savings program, which will provide access to refinancing, resulting in more money available for the family and ensuring that they can keep their homes.

This product will have the following characteristics and benefits:

- Refinancing of up to 100% of the property's appraisal;
- \$250,000 maximum to be refinanced;
- Must be applicant's principal place of residence;
- Reduction of at least 1.5 percentage points in current interest;
- Less expensive and more flexible than the FHA product.

This new program will be able to benefit upwards of 10,000 families over the next three years. We will be presenting legislation to create this program.

For example: A family that bought its principal residence 10 years ago at a cost of \$150,000 at 7% interest is making monthly payments of \$998 today. Refinancing with this new product, this family could reduce its interest rate to 4.5%, with a monthly payment of \$699. This represents a monthly savings of \$299, which translates into savings of approximately \$3,588 a year.

⁵¹ Currently, 172 transactions can be carried out online.



A fiscally sound government

The government should promote economic development and productivity. The best way to do this is through a strict policy of fiscal health that translates into the efficient handling of public funds and responsible distribution of its resources. What is needed, then, is to articulate a fiscal policy that corresponds to the island's situation, one that is rigorous and consistent with its purposes, so that public funds may be directed where they are needed and used to produce the hoped-for results.

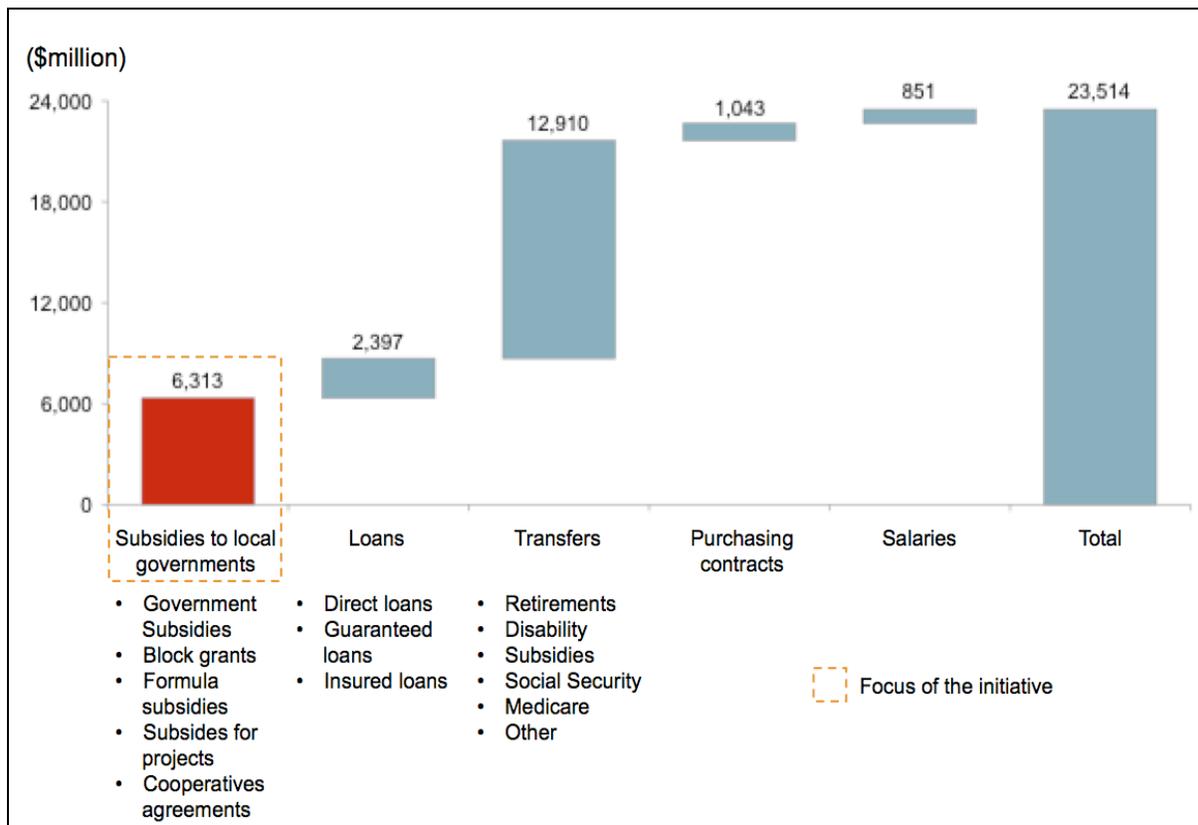
With an eye to formulating and implementing this necessary public policy, we present the following actions:

Principal Actions

1. **Balanced budget:** A balanced budget means zero deficit and zero loans taken out for operational expenses, which translates in turn into less debt, fewer taxes, and greater investment in infrastructure.
2. **Fiscal oversight:** We must have appropriate systems of fiscal oversight. We must have optimal accounting, finance, payroll, control of expenses, and recruiting systems that allow visibility and permanent control. In addition, it is essential that all government funds be in a central treasury in the GDB and that there be central bookkeeping for budget assignments in the Treasury Department.
3. **Cost-efficiency in administrative functions:** Government spending on items associated with its administrative functions (transportation, utilities, technology, purchases, and services) have not followed best fiscal practices. To address this problem, we have created a Government Efficiency Taskforce whose function is to evaluate and propose innovative alternatives for management in government.
4. **Resource consolidation:** The consolidated budget totals \$29 billion and includes monies received from the federal government. This administration is taking action to maximize access to federal programs and thereby strengthen our budget planning.
5. **Management of federal funds:** The government receives approximately \$6.5 billion in federal funds each year. The MBO will be developing a broad initiative involving creation of a centralized infrastructure for handling these funds.



Federal Funds Received by Puerto Rico, FY 2010⁵²



A government of uniformity and solidarity

If citizens are to trust their government, there must be a solid foundation of uniform principles. The government's bywords in its daily workings must be autonomy and austerity. We want to serve all sectors of society with the same dedication and energy. Citizens should measure the excellence of their public employees on the basis of uniform, well-defined standards. Taxpayers have the right to demand services of the highest quality from their government. In order for these aspirations to be obtained, we propose the following actions:

Principal Actions

- 1. Austerity and self-sufficiency in the public corporations.** It is essential that we require public corporations to comply with the austerity measures imposed on all the agencies and offices of the Executive Branch. That is, all of their administrative and budget policies must be designed to produce non-deficit operations.
- 2. Foster interdependency among all the branches of government.** We propose a policy of solidarity between and among the three branches of government, which implies reaching concrete agreements for improving services and the overall functioning of government. In addition, as long as the period of fiscal recovery lasts, the budget recommended for each branch of government will be adjusted by the

⁵² Estudios Técnicos, "Snapshot of Federal Assistance Programs FY 2010."



same percentage as the budget for the general fund is, after set-asides for payment of our constitutional debt are taken into account.

3. **Regionalization and municipalization.** We need new models of administration that bring us closer to, and meet the needs of, our people. Decentralization of government offices in terms of decision-making and regionalization of certain services offered by the state are two clear ways to take us in that direction, since the regions to be defined will be more clearly aware of the needs of the citizens living within them. As a first step, we propose that the central government delegate some of the services it currently offers by contracting third parties. Some of these functions are school transportation, highway maintenance, security services, and so forth. The next steps should be studied and structured in order to ensure an orderly transfer of functions.

Public Corporations

Puerto Rico Electric Power Authority (PREPA)

The fiscal situation of the AEE has deteriorated considerably over the last decade due to several causes, among them the substantial migration of Puerto Ricans to the United States, the beginning of the recession in 2006, and the precipitous increase in worldwide oil prices over the last five years. This combination of factors has negatively impacted the Authority's sales and increased its cost of energy production. As a consequence, the Authority has experienced a loss of approximately 2.4 billion Kilowatt-hours per year in sales, which translates into \$500 million in revenues. Over that period, its average operational debt has been \$240 million. In addition, the downgrading of the Commonwealth's credit rating has affected PREPA's financing alternatives, so that it is now faced with payment of \$56 million in short-term instruments and an accelerated maturity of its lines of credit, totaling approximately \$800 million, with private banks.

This has resulted in a significant reduction in the Authority's ability to finance its operational expenses. Today, the cost of energy is one of the greatest impediments to the island's economic recovery. In order to balance its operational budget, the Authority has formulated a plan that includes (1) reducing its operational and maintenance expenses by 10%; (2) modifying its "provision instead of taxes" agreement with the municipalities; and (3) taking measures to increase its revenues.

Principal Actions

1. Reduce operational and maintenance expenses by 10%, or \$75 million. This will be achieved with the following measures:
 - Freezing approximately 200 positions created by retirements during fiscal year 2014;
 - Consolidating labor activities and centers;
 - Relocating personnel to areas of greater need, such as accounts payable and theft detection and prevention;
 - Implementing strict measures to control overtime;

- Completing implementation of a biometric attendance system;
 - Reviewing and renegotiating collective agreements and health insurance;
 - Achieving savings by reducing expense-remuneration payments;
 - Adopting additional measures such as controls on purchasing, reduction of outsourcing, and maximization of commercial exchange with PREPA Holdings.
2. Amend the law that allows “provision instead of taxes” to municipalities to conform with the plan of our platform titled Light at the End of the Road.
- Reducing charge for Fuel and Energy Adjustment from 11% to 8%;
 - Changing price of public illumination to the basic rate;
 - Reducing subsidies by \$9 million;
 - Establishing a cap on provision of electricity to the municipalities.
3. Measures to increase revenues:
- Increase energy sales by promoting a special rate for incremental charges;
 - Diversify revenues by maximizing PREPA subsidiaries’ opportunities for business;
 - Increase energy sales by promoting electric automobiles.

Ports Authority

The Ports Authority reports that its operational revenues barely cover its operational expenses. The budget items Debts and Accounts Payable both have shortfalls. All indications are that there will be a structural deficit at the close of fiscal year 2014.

Principal Actions

1. Revenues

- The Ports Authority will continue to review its rates and prices, as requested by the Federal Aviation Administration, and also its ports fees.
- It will continue to exercise oversight over its concession holders to ensure that they meet their responsibilities.
- Implementation will be completed on the Maritime Bureau’s automated billing system to make it more efficient.
- Aviation fuel charges will be collected at the point of entrance in order to reduce nonpayment of this charge and bring it into line with the Internal Revenue Code.

2. Expenses

- The Authority will continue its aggressive plan for reducing operational expenses, including outsourcing, fringe benefits, and transferring or consolidating services with other agencies.



Highways and Transportation Authority (HTA)

The Highways and Transportation Authority of Puerto Rico (HTA) is in a fragile, complex situation due to a lack of financial resources for its operations, the impossibility of going to the bond market in order to secure loans to repay its debt to the GDB, and the downgrading of its own bonds, which has resulted in an increase in the interest rates it must pay and acceleration of its debts. In addition, funds legislated in June of 2013 were turned over to the GDB to repay debts on its lines of credit. As of June 2014, the HTA will reflect an operational deficit of over \$160 million, which, in turn, must be added to a shortfall in its capital-improvement plan of \$63 million. As a result of all this, the HTA is operating with a deficit that has been made up for in the past by loans from the GDB; these loans have enabled the Authority to maintain its operations and make payments to its principal creditors.

Principal Actions

In order to stabilize the HTA's operations and finances, its revenues must be increased and adjustments must be made to its budget so as to reduce the deficit and achieve greater administrative and fiscal efficiency. Corrective measures that will help reduce the deficit are:

1. New Annual Revenues:

- Revenues that will be received immediately: Toll collected in the Dynamic Lane (\$2 million); federal reimbursements for payroll and related expenses (\$4 million);
- Actions to be implemented in order to receive revenues in three to six months: Collect electronic speeding tickets in Express Lanes (\$10 million); collect toll violations in Express Lanes (\$10 million);
- Actions that will be implemented to receive revenue over the next 12 to 24 months;
- Restructuring and relocation of toll stations (\$12.8 million);
- Federal reimbursement for design costs (\$10 million).

2. Reductions in spending:

- Immediate reduction in the deficit: Elimination of five cent discount in Express Lane (\$6 million per year); operation of Urban Train under the new Integrated Transport Authority (\$60 million net);
- Reduction of deficit over a period of 3 to 6 months: reduction of 10% in service contracts (\$10 million); bids process for operation of Express Lanes.

3. Other initiatives:

- Maximize reimbursements from the federal government.

Integrated Transport Authority

At the current time, the Commonwealth's public policy on mass transportation is fragmented into three public corporations under the Department of Transportation and Public Works. All these public corporations are organized as independent entities, but due to their high labor and operating costs,

combined with their failure to revise fees and charges, they all operate with significant operational shortfalls.

In fiscal year 2013, the Urban Train had operational costs of \$87.7 million; the Metropolitan Bus Authority's costs were \$77.5 million; and the Maritime Transport Authority's operations were \$48 million, for total operational costs of \$213.2 million. Revenue from all these operations totaled just \$20 million. Given this fiscal situation, it is urgent that these mass transit operations be reconfigured to bring all public mass transportation in Puerto Rico under a single agency which can carry out the planning, coordination, and programming of these services. This will allow sustainability and reduce to a minimum the duplication of administrative tasks and processes, not to mention lowering the fiscal burden on the state. This reorganization will also serve to improve the quality of service these agencies offer.

The legislature is now evaluating a bill that would create the Integrated Transport Authority. Creation of this authority will serve to bring together all existing and future mass transportation services in Puerto Rico. The ITA will serve as a planning and regulatory agency for both land and sea mass transportation, not just for the metropolitan area and island-municipalities, but for all Puerto Rico. This will be achieved by coordinating state and privately operated services, thereby establishing a system that operates economically, efficiently, and safely.

Principal Actions

Creation of the new ITA, which will integrate all existing and future mass transportation services, on both land and sea, in Puerto Rico, will both support and provide mobility and accessibility to places of work, education, housing, business, and other daily activities. In addition, it will simplify and bring coherence to collective transport, and will encourage municipalities to create their own services, compatible with the state's.

The new Integrated Transport Authority will allow:

- Planning, financing, operating, and regulating all systems of mass transportation in an integrated, multi-modal, efficient, safe, and effective way;
- Development of a system with the ability to grow and evolve;
- Establishment and oversight of priorities for collective transportation in Puerto Rico;
- Improvements in the general effectiveness of the system, and in accountability;
- Improvements to the financial situation and establishment of innovative financing mechanisms;
- Optimization of support by federal agencies; and
- Creation of rate-restructuring plans through direct subsidies to the residents of Vieques and Culebra.

Puerto Rico Aqueduct and Sewer Authority (PRASA)

The Puerto Rico Aqueduct and Sewer Authority (PRASA) formulated and is implementing strategic measures that will allow the corporation to achieve operational excellence, fiscal health, and improvements to its infrastructure aimed at bringing about sustainability, diversification of revenues, a

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thoroughgoing organizational transformation, and technological innovation that will allow it to reduce costs and generate other revenues. PRASAS's finances are facing great challenges, such as environmental compliance agreements signed with the federal Environmental Protection Agency and Health Department, servicing its debt, the high cost of electricity, and loss of water. The decline in revenues brought about by a net reduction of 12,426 customers and a decline in consumption of approximately 1 m³ per residential client are other factors contributing to this picture. There also exist financial agreements that require the PRASA to generate revenue needed to cover its costs, its debt service, and the required reserves.

Principal Actions

- 1. Operational excellence** (projected savings of \$43 million over fiscal years 2014-2018)
 - Initiative to cut off service: reduction from 65,000 pending cutoffs to 45,950 currently pending, with the goal to reduce that number to 35,000 in fiscal year 2015.
 - Reduction of business losses: at the present time, \$70 million has been recovered from unbilled commercial water.
 - Detection of leaks: 7,000 miles inspected (50%).
 - By June of 2014, we expect 100% of customers (about 1.3 million) to be geo-located.
- 2. Fiscal health (projected savings of \$103 million over fiscal years 2014-2018).**
 - Evaluating measures such as freezing payroll and overtime, reducing professional service contracts, reviewing and renegotiating maintenance contracts, reviewing the Super Aqueduct's contract, reviewing and renegotiating security contracts, implementation of online services, reviewing and renegotiating collective bargaining agreements and health insurance.
 - Contracting resources: reduction of overtime and replacement of contracts.
- 3. Infrastructure and energy conservation (projected savings of \$26 million over fiscal years 2014-2018).**
 - Gasification of facilities (\$17.5 million, fiscal years 2014-28).
 - Reduction of consortiums' contracts (\$8.68 million, fiscal years 2014-2018).
 - Additional conservation and renewable-energy projects.
- 4. Debt service and capital improvements plan:**
 - Capital Improvements Plan reduced from \$408 million to \$181 million as a result of renegotiation with the EPA and cuts by PRASA management.

7. Budget

7.1 Recommended Budget, Fiscal Year 2015

Principles Underlying the Budget for Fiscal Year 2015

The budget for fiscal year 2015 will be a balanced budget, with no restructuring of debt or additional deficit financing. The budget has been designed on the following principles:

- A balance between revenues and expenses.
- There will be no dismissals of public employees. This administration has been consistent in its policy of protecting government employees' jobs and has taken all possible steps to keep that commitment.
- All agencies and offices of the central government will support the policy of a balanced budget.
- Public corporations will be self-sufficient and will support, not undermine, the central government's fiscal health.
- Neither municipalities' budgets nor the budget of the University of Puerto Rico will be used to balance the central government's budget.
- No new taxes will be levied on the working class.
- We propose to generate savings by adjusting incremental or extraordinary economic benefits, including some commitments contained in collective bargaining agreements with employees of the central government. These changes will be achieved through negotiation with the unions representing those workers.

The budget for fiscal year 2015 was produced by following these principles, which shows that it is in fact possible to reduce the \$2.2 billion deficit in two fiscal years without having to increase taxes on the working class, dismiss public employees, or reduce their working hours.

Revenues

- 1. Projection:** The Treasury Department has projected revenues totaling \$9.64 billion. This projection takes into account data from the Planning Board on growth in the GDP, which is estimated to be 0.28% in real terms, or 2.64% in the GDP in nominal terms.
- 2. Measures being considered:** This projection considers that revenue during fiscal year 2014 included six payments of the "national patent" per quarter. From fiscal year 2015 on, this will be reduced to four payments per quarter. To calculate the projection, certain items were deducted from the revenue base: the dollar amount of certain nonrecurring payments received from the IRS; increases in reserves to pay tax refunds; and, among other items, turn-over to the proposed Integrated Transport Authority of traffic fines totaling \$39 million per year that currently go into the General Fund.

The projection was made with financial data as of March of 2014, since data from April were still not final and thus were subject to revision.

The budget contemplates the following measures for additional revenue to compensate for the adjustments made to the projection and thus achieve the estimated increase in revenue of \$115 million:

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- Elimination of the work-credit payment, including payments to individuals who did not pay taxes during the year.
- Adjustment to and conditions placed on the mechanism for paying bonuses to older adults.
- Certain technical measures will be implemented related to payments to the federal government by using tax credits, and to application of the minimum alternative tax for high-income taxpayers, among others.

3. Detection and recovery of unpaid taxes

- Changes in processes and policies: Technology is being installed and regulations put into place to allow more effective collection of the IVU from internet sales and collection of dock-utilization fees in order to prevent tax evasion. We also plan to eliminate the resale certificate as it can be a mechanism for tax evasion.
- Improvements to organization of the Treasury Department, and increased training for personnel. A new division has been created to audit IVU transactions; the Tax Crimes Office has been restructured; more agents have been hired for field visits to businesses; and investments are being made in employee training.
- Use of technology: New systems have been added to validate and compare forms; technology has been installed on the docks for inspecting containers; field agents have been equipped with tablets to speed up documenting and reporting visits.

Spending

Revenue gap

In configuring the spending budget for fiscal year 2015, we addressed the subject of automatic increases. Automatic increases are those costs that increase each year due to pre-existing legal obligations (such as labor agreements or formulas) or that are required for maintaining government functioning at the same level, without additional programs or services.

Automatic increases for fiscal year 2015 totaled approximately \$1.48 billion, representing a gap of \$1.61 billion in comparison to estimated revenues of \$9.64 billion for that same fiscal year. Below we detail some of the government's automatic increases that would have gone into effect:

- Fringe benefits in collective bargaining agreements already approved;
- Formulas for the Judicial Branch, the University of Puerto Rico, and the municipalities, including an additional assignment of \$25 million to the Municipal Revenue Collection Center (CRIM, for its Spanish acronym);
- Operational deficits in subsidized public corporations, particularly the cost of the new Integrated Transport Authority and the operational deficit of the Medical Center;

- Employer payments to retirement systems, including an increase of 1% as an incremental employer contribution;
- Replicating the Department of Education's real base of expenses in fiscal year 2014;
- Debt service, which includes elimination of debt refinancing for the general obligation bonds and an increase in the amortization on the principal of existing debt, plus payment of interest on other financial obligations;
- Legislative assignments preapproved during the year.

Measures to cut the budget

Restructuring this scenario was possible thanks to the strict public policy of fiscal austerity established in fiscal year 2014. For next fiscal year, the government will have a base of recurrent operational expenses that is much lower, based principally on a smaller number of employees and a reduction in spending on service contracts.

Some of the measures used for structuring this budget, with savings totaling \$1.61 billion, are:

- Freezing automatic increases by formula (exoneration and matching) in budget for municipalities, the Judicial Branch, and the University of Puerto Rico;
- Negotiating with unions, which should yield predetermined savings per employee;
- Reducing the budgets of all branches of government and autonomous agencies by the same uniform percentage by which spending is reduced in the general budget, net of debt;
- Maintaining the freeze on hiring to current levels, due to the reduction in employees that occurred during fiscal year 2014;
- Reducing special assignments for non-priority programs or agencies;
- Limiting replacement of retiring employees to a maximum of 50% in direct-service positions;
- Reducing spending on school transportation by revising processes and models for private contracts and integrating school transportation into the municipalities;
- Reducing purchase of services in the Department of Education by sensibly and intelligently consolidating schools;
- Reducing payroll spending by eliminating payment of excess sick days and standardizing Christmas bonuses for all employees of the central government, municipalities, and public corporations; reducing payroll for positions of trust by 10%; and limiting individual salary increases. However, in recognition of the labor union, an alternative process will be established that allows negotiations, with adjustments to commitments contained in collective bargaining agreements;



- Payment by certain public corporations of recurring or nonrecurring contributions to health items (special-education therapy) or economic development (jobs promotion), depending on financial ability and source.

Economic and Financial Recovery Act

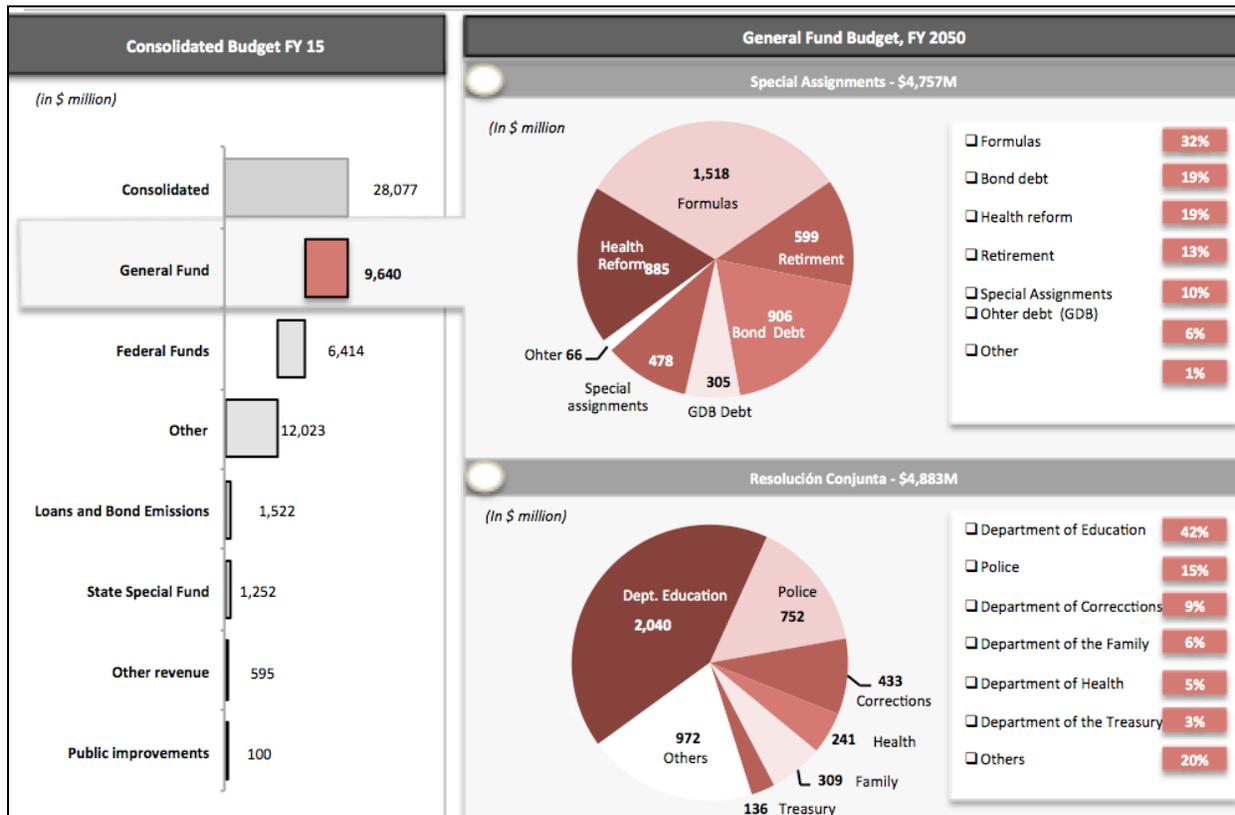
Legislation presented with the budget makes clear the need for a balanced budget, due to limited access to the investment-grade bond market and the necessity of government liquidity.

The proposed law provides that some of the measures detailed above will be temporary, and that they will remain in effect if one of these two conditions, whichever happens first, should occur: (1) three years pass; or (2) when the island meets three conditions: (a) its credit is upgraded to investment grade by at least one ratings agency; (b) the island achieves real economic growth of 1.5%; (c) the most recent fiscal year has closed without deficit financing or public debt.

Budget configuration

The recommended consolidated budget is \$9.64 billion. The following graph illustrates its makeup by origin of funds:

Distribution of Recommended Budget, FY 2015



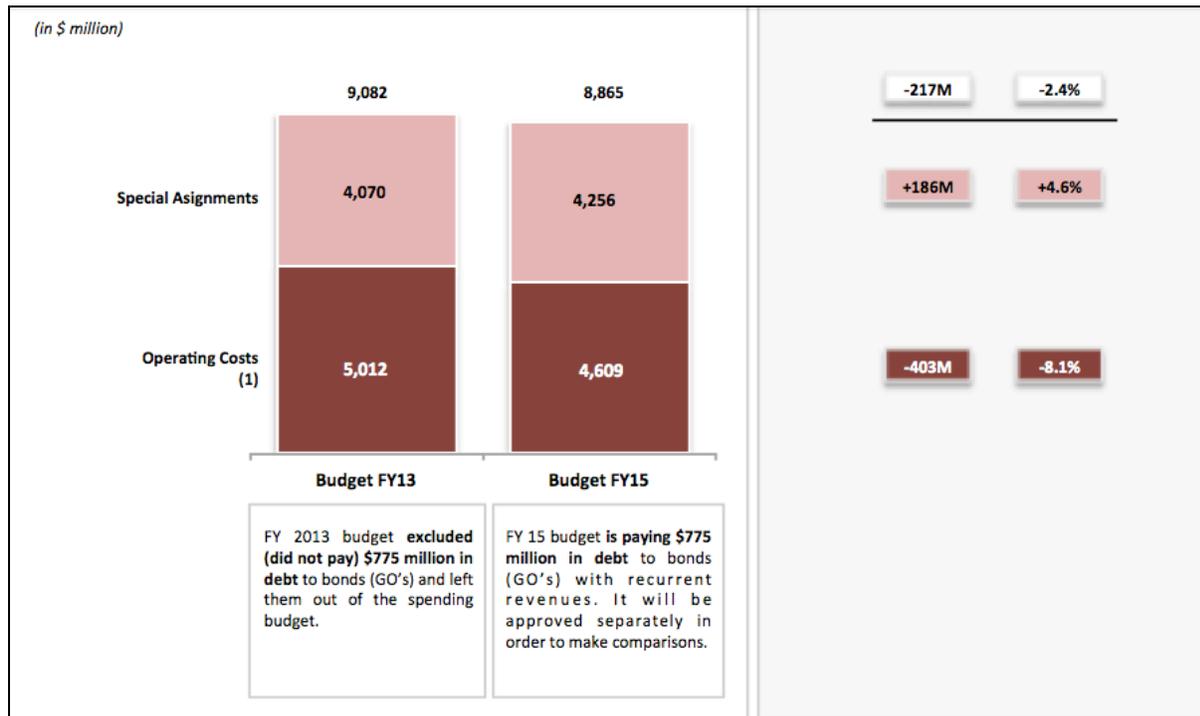


Budget Comparison

Change from fiscal year 2014. This budget represents a reduction of \$110 million over the previous year. It includes no deficit financing or debt refinancing. However, for a correct comparison we would have to add \$575 million in debt refinancing to fiscal year 2014's budget. That is, real expenditures totaled \$10.345 billion. In this comparison, the current budget represents a net spending reduction of \$705 million.

Change from fiscal year 2013. A budget is more, however, than a mathematical exercise in balancing debits and credits. It is a reflection of the island's priorities and what it is investing in. The 2013 budget refinanced \$775 million in debt that was not included in its line-item of spending. In the current budget, that debt is being paid with recurrent revenues, and is being included and recognized as an expense.

The following graph illustrates fiscal year 2015's budget compared with that of fiscal year 2013:



Furthermore, the budget represents a clear tendency step fiscal responsibility and a redefinition of priorities.

For example, public security has been and will be a priority for our administration. We are therefore ensuring large investments in improvements to equipment for law enforcement. The reform of the Puerto Rico Police Department represents an opportunity to transform the functioning of law-enforcement agencies, so we will continue to play a leading role in this effort and to offer the budget support necessary for so doing.



Likewise, the budget recommended for the University of Puerto Rico will have the same amount of money assigned as in fiscal year 2014, and the formula for computing this amount will remain unchanged, so the University can continue to contribute to the island's economic development and the creation of the human capital needed for productivity.

The budget for fiscal year 2015 not only pays all debt with recurrent revenues, but is also substantially lower than before, and in much greater compliance with the island's financial obligations.

7.2 Tax reform

Over the last year, new tax measures have been implemented to meet the immediate need for certain revenues during this fiscal crisis. These are transitional measures, which, along with discipline and austerity in spending, have allowed us to reduce the operational deficit and present a balanced budget in 2015. Still, it is imperative that we reorganize our tax system, with the goal of creating a modern, sustainable system of tax collection that brings in sufficient revenues to allow the government to function at a satisfactory level.

In the first quarter of 2015, we will be presenting legislation for a broad, profound reform of Puerto Rico's tax system. Work is already under way, and some of the areas being looked at are:

- The interaction of components of the state and municipal tax system and their impact on individuals and business owners;
- The need to restructure, eliminate, or expand those components in order to achieve our revenue objectives and encourage economic development;
- The many preferential treatments and tax credits now being given, in order to evaluate whether they can be eliminated or must be restructured and thus brought into line with the objectives of our economic development plan;
- The current tax system's margin of effectiveness in encouraging tax fairness for the working class and the productive, industrial, and business-ownership base of the Puerto Rican economy;
- The structure and resources of the Treasury Department, in order to improve its efficiency and effectiveness in carrying out its functions of imposing and collecting taxes;
- Puerto Rico's tax model in comparison to successful tax models adopted in countries with economic and social priorities similar to our own.

As mentioned above, we are evaluating the entire system and its effectiveness, including the sales tax (IVU), personal taxes, corporate taxes, and property taxes.

We are seeking to create a tax system that is easy to comply with; encourages the entrance of small and medium-sized business owners into the formal economy; is efficient in its oversight, coherent in the

establishment of policies, fair in the imposition of fiscal responsibilities; and entails the lowest cost possible to the honest taxpayer who takes part in it.

We propose to make the new tax system effective in fiscal year 2016.

7.3 Debt, liquidity, and financing plan

Management and control of public debt

As is dictated by best international practice, the government will seek to limit any increase in public debt to the growth rate of our economy. This will ensure that the public debt is not an impediment to future economic growth, but rather the motor that drives development. In order to achieve this goal, the government will adopt these fundamental principles and take the following actions:

- A. Eliminate the practice of taking out loans to finance recurrent operational expenses, as has been done for decades. This fiscal year we intend to reduce the operational deficit to \$650 million, a reduction of \$170 million from the \$820 million originally budgeted for fiscal year 2014. As we have said before, for the first time in decades, the budget for fiscal year 2015 will be balanced and without deficit financing.
- B. Eliminate the practice of refinancing the repayment of all debt every year, thereby creating new debt. This practice has materially increased our debt level without advancing economic development. We reduced this practice this fiscal year and will eliminate it completely in fiscal year 2015.
- C. Halt the practice of financing our municipalities' and public corporations' deficits through the GDB and the General Fund. This practice has increased the public debt of our municipalities and corporations excessively, without advancing our economic development.
 - Law 24-2014 is an important step in this effort, as it sets limits on the GDB's ability to grant loans to public corporations without a source of repayment.
 - In collaboration with the municipalities, we will be seeking to gradually eliminate their dependency on deficit financing, and thereby lead them into self-sufficiency.
- D. We will seek to issue public debt only to finance public works with long useful life, thereby ensuring that any new debt is put to a use that contributes to the island's economic development.

Support for strategic projects

The GDB was created in 1942 to bolster economic development in Puerto Rico, and since then it has played a key role in the island's economic and social transformation. The GDB should use its capital to finance strategic projects that promote economic development and job creation.

Now that the GDB has been strengthened, it is imperative to use it prudently as a catalyst for public works that have a multiplier effect on the economy.



The GDB assists the Executive Branch in identifying projects that are sustainable over the long term. Public works projects can be an impediment to our economic development if they are conceptualized, designed, and constructed without being consonant with sustainable development. The goal is to encourage Puerto Rico's economic development by focusing on projects that meet important needs and generate sufficient revenues to make them sustainable over the long term.

GDB liquidity

This administration entered office with a undercapitalized GDB, its liquidity compromised. However, we have managed to recapitalize the bank by issuing general obligation bonds in March of 2013. The administration intends to use the GDB's liquidity prudently, utilizing its capital for loans that truly drive our economic development while still allowing the Bank to maintain a healthy level of liquid assets.

The plan to ensure the GDB's liquidity includes:

- A. Ensuring that the GDB's capital and liquidity are used not to finance operational deficit but to provide loans that have secure sources of repayment and represent a multiplier effect on the economy.
- B. Complying with Law 164-2001, as amended, to ensure that the loans granted by the bank have a secure, budgeted source of repayment, whether from legislative assignments or public corporations' revenues;
- C. Always maintaining a healthy minimum level of liquid assets in the GDB in order to ensure that the Commonwealth always has assets in reserve for emergencies.

Financing plan

Although the recent issue of \$3.5 billion in general obligation bonds restored the GDB's liquidity sufficiently to cover its projected obligations for the present and next few fiscal years, the GDB expects Puerto Rico to go back to the bond market during fiscal year 2015 to finance public works and secure additional liquidity. Priority will be given to debt payable from sources other than the General Fund, in order not to increase its burden. The administration has several different forms of financing for these purposes, including:

- D. **COFIM** (Municipal Financing Corporation). A new financing tool analogous to COFINA able to issue debt backed by the municipal portion of the IVU. This will allow the GDB to refinance approximately \$500 million in municipal loans whose repayment source is the municipal portion of the IVU, and will allow municipalities to finance new public works projects.
- E. **COFINA** (the Pressing Interest Financing Fund Corporation). The transfer to the state of 0.5% of the 7% IVU, that percentage to be subtracted from the municipalities' portion of the tax, strengthens COFINA's structure.

- F. **Highways Authority.** We are in the process of passing legislation to transfer the assets of the Urban Train to a new agency, in order to provide the Highways Authority approximately \$90 million in budget relief, the fundamental step toward achieving self-sufficiency in that agency. We have also strengthened the Highways Authority's financing through Law 30-2013 and Law 31-2013, which transfer to the Highways Authority approximately \$270 million in recurrent annual funds. One potential transaction by the Highways Authority could add as much as \$1.7 billion in additional liquidity to the GDB.
- G. **Commonwealth of Puerto Rico (GO).** After the bond issue, the Commonwealth still has the capacity for issuing General Obligation debt for the construction of public works.

8. Economic projections for the short and long term

8.1 Economic projections for the short term (2014–2015)⁵³

Main Principles

Among the principal postulates of our economic projections, we took into account those current and prospective factors whose movements might in some way influence Puerto Rico's economic activity. The principal assumptions are:

- **The world economy**

The world economy strengthened during the second half of 2013, registering growth of 3%, as had been anticipated in the October 2013, edition of the International Monetary Fund's World Economic Outlook (WEO) on the global economy. Likewise, it is expected that the world's economy will continue to improve in 2014 and 2015, due in large part to recovery in the advanced economies. The current projection estimates a worldwide growth of 3.6% for 2014, slightly higher than the previous projection, and 3.9% for 2015. We are seeing, therefore, a scenario which in broad terms has not changed since the WEO report in October of 2013. Still, lowered estimates of the rate of change for some economies in the world represent a risk that could throw this projection into negative territory.

- **The U.S. economy**

In 2013, Puerto Rico's GDP grew by 1.9%. In terms of Puerto Rico's fiscal period, that translates into an increase of 2.0%. In general terms, the outlook for the U.S. economy is for moderate expansion. According to the IHS (Information Handling Service) online publication *Global Insight* (GI), it is expected that the U.S. GDP will grow some 1.9% in the first quarter of 2014, and end the year with an average increase of 3.2% in the last quarter. With regard to 2015, estimates are that the economy will grow 3.5% in the period from January to March and 3.4% between October and December. The projections for 2014 and 2015 were based on increases of 2.7% in 2014 and

⁵³ Economic projections by the Planning Board of Puerto Rico.



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3.3% in 2015. For Puerto Rico's fiscal period, GI's projections for growth in the GDP are 2.6% and 2.8% in 2014 and 2015, respectively.

- **Oil prices**

The price of a barrel of crude oil rose 4.0% during 2013, after dropping 0.9% in 2012. The average estimated price for a barrel of imported oil in fiscal year 2013 was \$98. According to GI, the average price will reach an average of \$96 in fiscal year 2014 and \$89 in fiscal year 2015. With respect to Puerto Rico's fiscal period, the average price of a barrel of oil was \$92.30 in fiscal year 2013. The outlook for this variable in fiscal years 2014 and 2015 is for average prices of \$99.30 and \$92.40, respectively. These figures represent an increase of 7.7% for fiscal year 2014 and a drop of 7.0% for the next fiscal year.

- **Preferential interest rates**

Interest rates have remained at their lowest level in history for almost seven years. Over this time, the Federal Reserve's Open Market Committee, with its flexible monetary policy, has supported the growth of the U.S. economy by stimulating spending. However, as the job market continues to strengthen and inflation remains under control, the Federal Reserve will begin to adjust its monetary policy and, therefore, interest rates. As of February, 2014, the average 30-year mortgage rate stood at 4.3%, which is 0.77 percentage points higher than the February 2013 level.

According to GI, the primary rate of preferential interest in commercial banks in fiscal year 2013 was 3.25%, which represented no change in comparison to 2012. With respect to Puerto Rico's fiscal period, it is projected that in fiscal years 2014 and 2015, this rate will hold at 3.25%.

- **Adjusted merchandise exports**

In Puerto Rico, the value of adjusted merchandise exports in fiscal year 2013 was approximately \$68.27 billion, representing an increase of 0.4% over fiscal year 2012. In absolute terms, the increase was \$271 million. The industries that contributed most to this growth were chemical products and foodstuffs.

Exports are estimated on the basis of the U.S. economy's projected growth, taking into account the demand for goods that this growth generates. It is expected that in fiscal year 2014, adjusted merchandise exports will reach \$68.6 billion, and \$69.47 billion by fiscal year 2015. These figures represent increases of 0.5% and 1.3%, respectively.

- **Tourist spending**

Non-resident visitors' spending in Puerto Rico totaled \$3.334 billion during fiscal year 2013, an increase of 4.4% over the previous fiscal year, which totaled \$3.193 billion. This increase was

driven by tourists staying in hotels and guest houses: a total of 3,199,672, some 130,582 more than in fiscal year 2012.

It is projected that visitor spending for fiscal year 2014 will reach approximately \$3.45 billion, an increase of 3.5% over fiscal year 2013. In fiscal year 2015, it is expected that spending in this category will reach \$3.633 billion, an increase of 5.3%.

- **Construction investment**

Construction plays a key role in Puerto Rico's economy, both in the generation of jobs and the development of infrastructure. For fiscal year 2013, investment in construction at current prices totaled \$4.116 billion, and in real terms, \$4.465 billion.

Our projections indicate that in fiscal year 2014, real investment in construction will reach \$3.91 billion, a decrease of 12.4%. In fiscal year 2015, we expect an even greater decline (14.6%), to \$3.34 billion. In current terms, for fiscal years 2014 and 2015, the projected figures are \$3.675 billion and \$3.196 billion, declines of 10.7% and 13.0%, respectively.

- **Investment in machinery and equipment**

In real terms, investment in machinery and equipment in Puerto Rico in fiscal year 2013 totaled \$994.4 million, a decline of 4.3%, and a decline of 1.9% in current prices, for a total of \$5.695 billion.

Projections for real investment in machinery and equipment are for a value of \$945 million in fiscal year 2014, and \$883 million in fiscal year 2015. The outlook, in current terms, is for \$5.573 billion for fiscal year 2014 and \$5.432 billion in fiscal year 2015.

- **Federal transfers to individuals**

Due to their nature and magnitude, federal transfers play an important role in the island's economy. Their impact is channeled through funds aimed at better services, new and improved infrastructure, and improvements in the levels of education and quality of life in general. Transfers constitute an important flow of funds from the outside into Puerto Rico's economic system. In fiscal year 2013, federal transfers to individuals totaled \$15.171 billion, which represented a decline of 0.6%, an absolute decrease of \$87.5 million.

The outlook for federal transfers to individuals for fiscal year 2014 is a total of \$15.278 billion, with \$15.422 billion in fiscal year 2015, representing growths of 0.7% and 0.9%, respectively.

- **Gross National Product**

In fiscal year 2013, Puerto Rico's economy recorded a real growth of 0.3% compared with fiscal year 2012. At current prices, the gross domestic product reached \$70.740 billion, an increase of 3.0% over fiscal year 2012.



On the basis of the projections for Puerto Rico's real Gross National Product in fiscal year 2014, we estimate a total of \$6.498 billion. This would represent a decline of 0.2% over fiscal year 2013. In fiscal year 2015, it is expected that the Gross National Product totaled \$6.453 billion, a decrease of 0.7%. At current prices, the Gross National Product is projected at \$72.333 billion and \$73.507 billion for fiscal years 2014 and 2015, respectively. This represents a growth of 2.3% for fiscal year 2014 and 1.6% in fiscal 2015.

- **Individual income and spending**

Real personal income in fiscal year 2013 rose some 1.4% in comparison to the preceding fiscal year, for a total of \$10.165 billion. It is projected that in fiscal year 2014, the total will be \$10.156 billion, and in fiscal year 2015, \$10.133 billion, a decline of 0.1% in fiscal year 2014, and of 0.2% in fiscal 2015. At current prices, the figures for these fiscal years are \$63.791 billion and \$64 billion, with increases of 0.6% and 0.3%, respectively.

Real consumer spending, a principal component of the Gross National Product, totaled \$10.024 billion in fiscal year 2013, an increase of 2.4% over fiscal year 2012. The estimated value of this variable for fiscal year 2014 is \$10.156 billion, representing a growth of 1.3%, and for fiscal year 2015, \$10.242 billion, an increase of 0.8%. At current prices, the estimated figures for those years are \$63.789 billion and \$64.688 billion, increases of 2.0% and 1.4%, respectively.

Finally, it is important to note that the accuracy of economic projections depends on the future movement of inherent outside factors. Thus, all economic projections are subject to revision on the basis of changes that may occur in these factors, and in the several assumptions utilized for the projection.

8.2 Long-term economic projections through 2018

Despite our having taken governmental austerity measures and having implemented cuts in spending for the fiscal 2015 budget, projections from the Planning Board indicate that Puerto Rico's real Gross National Product will grow during this period. Over the long term, the mechanisms we use to solidify our financial and economic situation will have important implications for economic growth, job creation, investment, and other macroeconomic variables that are key to sustainable economic development. We hope that the balance between the new tax measures and our initiatives for economic growth will create a net positive effect on our economy. A reduction in current expenses may result in a slight decrease in our Gross National Product over the short term, but will produce an increase over the long term, since it will stimulate private investment and the rate of participation in the labor force. If the real Gross National Product of Puerto Rico takes a course consistent with Planning Board projections over the long term, we estimate that we will have achieved economic growth of 2% by 2018.



AGENDA FOR THE **ECONOMIC RECOVERY** 2014 - 2018

This generation is determined to pay its debt to the past and its debt to the future. It is determined to seize this moment to transform our society and begin a well-thought-out process of economic recovery for all Puerto Ricans. Moving the island forward, rescuing our quality of life for our children, must be Puerto Rico's new goal.

To do this, we have drawn up a comprehensive four-year plan that:

- 1** Diversifies the industrial base and sources of employment, encourages local production, strengthens our competitiveness, and utilizes new models that will drive sustainable economic development and improve the social infrastructure.
- 2** Concentrates efforts on the development of agriculture, tourism, and entrepreneurship.
- 3** Diversifies our sources of energy so as to permanently reduce energy costs.
- 4** Transforms the educational system.
- 5** Modernizes the government to make it more efficient, and with a balanced budget.
- 6** Drives a reform of the tax system designed to promote economic development.

Our policy for economic transformation and fiscal recovery is based on a few clearly defined principles:

- 1** Increase our competitiveness by strengthening our human capital and our social and economic infrastructure.
- 2** Increase the island's productive capacity by supporting local businesses and replacing imports.
- 3** Establish long-term goals.
- 4** Restore confidence in the island.



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A government that serves the island and is fiscally responsible.

Achieving these goals requires a government that takes a proactive role and creates the conditions for change. We need an agile, transparent, accessible government with uniform processes, one which offers high-quality services and utilizes advances in technology. Therefore, we intend to reform the government's functioning, protecting public employees' jobs and modernizing the government's structure

We propose:

In the short term: to consolidate 25 agencies, which will achieve savings of up to \$50 million. Eliminating tangential costs in positions of trust and administrative infrastructure will make it easier to formulate public policy.

In the medium term: to review the government organizational chart to reformulate the economic development component and those entities that regulate urban and environmental development.

In the long term: to create a new structure of government that functions with just 50 agencies and corporations.



Download the economic
recovery agenda at
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Citizens deserve a government that is on their side, that meets their needs and encourages a culture of public service and accountability.

In order to achieve this, we will be implementing:

- 1** A program of mortgage reduction.
- 2** A program of extended hours of service in those agencies that offer direct services to citizens.
- 3** A reduction in the number of holidays.
- 4** A system of express windows and lines for the working class and bona fide taxpayers.
- 5** Stricter laws to protect workers in public service from political proselytizing.
- 6** Expansion of online services: 150 new transactions during fiscal year 2015, and 250 by 2018.
- 7** Participatory budgets in which government employees and citizens take part in decision-making.

The government should foster economic development through the responsible use of public funds. In order to encourage the highest standards of governance, we commit ourselves to:

A balanced budget: **zero deficit** and **zero operational loans**.

Austerity and self-sufficiency in all public corporations.

Decentralization through the regionalization and municipalization of some services.

A government that helps create conditions for competitiveness

For an economy to be successful, the government must invest in its most important asset: its people. Puerto Rico has to educate its young people better and keep them on the island.

To achieve this goal, in the educational area:

- 1** We will initiate the Pre-K-16 Program at over 100 schools across the island, 50 of which will be based on the Montessori system.
- 2** Absolute transformation of middle school, creating just two levels, Pre-K-8th grade and grades 9-12.
- 3** Regionalize the system in order to reduce the bureaucracy in the Department of Education.
- 4** Institute a 10-year Educational Plan.
- 5** Renovate curricula with the goal of encouraging innovation, creativity, and entrepreneurship.
- 6** Strengthen bilingual programs and vocational sequences.
- 7** Increase the number of specialized schools.
- 8** Establish a permanent program of school principal training.
- 9** Hire at least 1,500 substitute teachers.
- 10** Expand the University of Puerto Rico's academic offerings to bring them in line with the economic model.

In order to halt the flight of talent and encourage young people to remain on the island and start up their own businesses, we propose an aid package that will offer:

- 1** Zero income tax the first year and gradual increases over the next years for all young people from 22 to 27 years of age.
- 2** Zero corporate tax for 3 to 5 years for businesses created by young people.
- 3** The possibility of having student loans paid in exchange for opening a business in Puerto Rico.
- 4** A capital fund and an entrepreneurship center.
- 5** A fellowship program for graduate study in areas of need.

A government that is an **ally of industry** and a **generator of jobs**

Our motto: more and better jobs. We are committed to having created 50,000 jobs by mid-2014, some 90,000 jobs by early 2016, and by early 2018, 130,000 jobs. Our administration's mission is to help diversify sources of employment by encouraging manufacturing, agricultural biotechnology, the life-science industries, small and medium businesses, outsourcing, and tourism.

To create a climate favorable to job creation, our administration commits itself to:

In the knowledge economy:

- 1 Developing Science City on the grounds of the former state penitentiary in Río Piedras, with an investment estimated at \$1.799 billion.
- 2 Beginning installation of a clinic at the Comprehensive Cancer Center, with an investment of \$196 million.

In the pharmaceutical and medical device manufacturing industry:

- 1 Protecting existing operations.
- 2 Actively working to sell or repopulate closed plants.
- 3 Initiating contract manufacturing operations.
- 4 With the support of local capital, encouraging the establishment of a pharmaceutical industry for producing generics; attracting packaging and distribution operations.
- 5 Attracting new lines of production.
- 6 Encouraging research.
- 7 Redoubling promotional efforts.

In outsourcing:

- 1 Creating an outsourcing cluster.
- 2 Developing plug-and-play buildings.
- 3 Making Puerto Rico a world center for KPO.
- 4 Attracting large outsourcing operations.
- 5 Promoting local software.
- 6 Expanding the aerospace and defense sector.

In "Under the Flag" industries:

- 1 Establishing a division dedicated to business dealings with the federal government.
- 2 Contacting and attracting companies in cyber security, Big Data, unmanned avionics, CCCI, services to the aerospace industry, textiles, and call centers.
- 3 Expanding Federal Contracting Agency training programs.
- 4 Organizing matchmaking and networking events that bring local industries and large private contractors together.

In the aviation repair and maintenance industry:

- 1 Initiating operations at Lufthansa Technik in 2015.
- 2 Creating a maintenance and repair school in Aguadilla.
- 3 Encouraging public-private capital investment in the reconversion of airport infrastructure.
- 4 Modifying the government's incentives programs to include this sector.

In the tourism sector:

- 1 Encouraging sports, culinary, and medical tourism.
- 2 Expanding air access and making Puerto Rico the air travel hub of the Caribbean.
- 3 Establishing new routes to Spain, Colombia, Mexico, and Brazil.
- 4 Expanding hotel offerings.
- 5 Developing new tourist products.

Learn more:



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A government that modernizes its **economic infrastructure**

Puerto Rico needs to maintain an infrastructure that does not hobble its socioeconomic transformation. To achieve this we must, as a first priority, address the cost of energy.

We are committed to:

- 1** Reducing the cost of energy through conversion to natural gas: in 2015, to \$0.22/kwh; in 2017, to \$0.20/kwh; and in 2019, to \$0.16/kwh.
- 2** Modernizing our infrastructure: constructing the Natural Gas Terminal in Aguirre. Conversion of Palo Seco and plants 5, 6, 9, and 10 at San Juan generating plant.
- 3** Reducing emissions and increasing efficiency: achieving 12% use of renewable sources and introducing the use of smart meters.
- 4** Creating, under the Sciences Trust, an Institute For the Creation and Manufacture of Renewable Energy High Technology.
- 5** Transforming the Puerto Rico Electric Power Authority as a public corporation.

Tenemos un compromiso sólido con incentivar la obra pública y para ello se están impulsando proyectos estratégicos con una inversión de **\$7,400 millones**, entre los cuales se encuentran: la Ciudad de las Ciencias, la extensión de la PR 22, la expansión del puerto de San Juan, la construcción del Centro Comprensivo de Cáncer, la extensión de la PR 10 y el nuevo desarrollo de Roosevelt Roads, entre otros.

De igual manera, nos proponemos agilizar **la obtención de permisos** para incentivar la inversión privada. Lo haremos:

- 1** Estableciendo un sistema de fianzas de construcción que ayude a los constructores.
- 2** Con un nuevo sistema de radicación digital.
- 3** Revisando todos los reglamentos relacionados a la construcción.
- 4** Acelerando el proceso de la aprobación de planos.
- 5** Facilitando la obtención de permisos para el establecimiento de comercios en 24 horas.
- 6** Dando acceso en tiempo real a planos de infraestructura y catastros actualizados.

A government that encourages **local production**

The only sure road to sustained long-term economic growth is local production.

That is why we are going to aggressively support:

Small and Medium-Sized Businesses (SMBs) and microbusinesses with:

- 1** Structures that allow reductions in municipal patents, construction fees, etc.
- 2** Structures that allow reductions in CRIM taxes and other such fees.
- 3** An Entrepreneurship Fund, with an initial assignment of \$5 million.
- 4** Salary subsidies.
- 5** A mentoring program.
- 6** An increase of 30% in government purchases from SMBs.

Likewise, we will continue to encourage the reemergence of agriculture through our Food Security Plan:

Livestock industry:

- 1** Encouraging sustainability in the milk industry and diversification of milk products.
- 2** Working to increase consumption of locally produced beef to 20%.
- 3** Reopening chicken-processing plants.

Root and starchy vegetable industry:

- 1** Helping sustain the plantain industry.
- 2** Promoting research to control pests that affect these crops.
- 3** Coordinating with UPR's Agricultural Experimental Stations to produce high-yield seeds.

Sugar cane:

Assigning \$9.2 million to plant 20,000 acres of sugar cane.

Fruit growers:

- 1** Establishing a program of seed production. Implementing a
- 2** pest-control plan for citrus fruits.
- 3** Starting new plantings of avocado and soursop.

Coffee growers:

- 1** Reestablishing the New Plantings program.
- 2** Distributing 2.5 million trees for 3,800 *cuerdas* in 2014-15. Completing the planting of
- 3** 16,000 *cuerdas* by 2016.

Rice growers:

Assigning \$2 million to the rice-planting program, with a goal of reaching 500 acres by the end of 2014.



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