



## **Staying the Course, Changing our Future**

OPENING REMARKS BY  
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TO THE 2011 PUERTO RICO CREDIT CONFERENCE  
RÍO GRANDE, PR  
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Good morning. Thank you all for coming.

It's truly a pleasure for me to welcome you all this morning. I'm delighted to once again have this opportunity to join so many of our investors, credit analysts, local and stateside financial industry professionals and all the members of our fiscal and economic team.

I want to thank our new Government Development Bank President Juan Carlos Battle, and his entire team, for putting together this excellent conference. And I want to thank you specially, Juan Carlos, for accepting the challenge of leading the GDB and our entire fiscal team up the road still ahead...

I can't help but think that the beautiful setting in which we've gathered this morning... here at the new St. Regis Bahía Beach Resort that we just inaugurated last November... is certainly an appropriate and auspicious sign of the progress we've been making.

We meet today just a few months beyond the mid-point of our administration's first term. In a fiscal and economic context quite different... and I might add, much more encouraging... than where we were when we held this conference in 2009 and 2010.

This year's conference takes place at a promising new juncture for Puerto Rico... a juncture at which the fiscal reforms we've implemented have not only stabilized our government finances but are now being considered a roadmap for other states and countries to follow.

As many of you are well aware, we have come a long, long way during the past 27 months. We have delivered — and will continue to deliver — on the fiscal and

economic reconstruction plan we presented just a little over two years ago. Now's a good time to thank you and the entire investment community, both in Puerto Rico and stateside, for staying by our side and believing in our plan and in our ability to deliver on it.

It's appropriate that the theme of this year's conference is "Staying the Course, Changing our Future." On one hand, it captures the sense of discipline we've been demonstrating in our fiscal and economic reconstruction. It also captures how that discipline is already paying off, effectively changing the course of Puerto Rico's future.

And so, before I go further, I would like to publicly recognize and thank the titanic effort of the very modest man who served as the architect of that fiscal and economic reconstruction plan. A man whose discipline, ability and love for Puerto Rico made possible that we all together as a team, might be able to change the course of Puerto Rico's future. This Credit Conference is a sort of last "curtain call" for him, so I want to thank Carlos García for the enormous contribution he has made to Puerto Rico. Carlos could have not done this with an great second in command like Fernando Batlle – thank you Fernando.

Carlos and the other speakers who will follow me will expound in greater detail on a number of the topics I will touch on only briefly in these opening remarks. But I want to provide you from the outset this morning with an overview of where Puerto Rico has been, fiscally and economically, where we are now and where we're headed as we move — on multiple fronts — to create the conditions for an exciting new period of economic growth.

As most of you know, in January of 2009 Puerto Rico's deficit stood at \$3.3 billion, or 44% of revenues — a higher deficit, proportionally speaking, than any of the 50 states.

Following its downward spiral between 2001 and 2007, Puerto Rico's credit was teetering on the brink of what would have been a catastrophic downgrade to non-investment grade, or junk-bond status. The government's fiscal situation was in a free fall.

But we came in with the determination and will to fix it. Working with our legislature, we acted swiftly to approve legislation that allowed us to strengthen the central government's cash position in the short term. And we immediately proceeded to design our fiscal and economic reconstruction plan to get us out of the financial hole permanently.

We implemented ambitious but responsible cost reduction and revenue enhancement measures.

During the last two years, those initiatives have yielded a \$1.8 billion reduction in government expenses, or almost 20% of our current budget.

In addition to cutting costs and improving our liquidity position, we're also tackling head-on the challenge of funding our retirement system. On the positive side, we are among the few jurisdictions that, back in 2000, had eliminated defined benefit plans. So we have eliminated the risk of widening actuarial deficits. And we have already started to improve our actuarial position through the early retirement window we put in place last year.

But we need to do more. That's why when we gathered for this conference a year ago, I announced the creation of a Special Commission to address this historic challenge that can no longer be ignored. Since then, I have received the recommendations from that Commission and will be ready to present consensus legislation in the next couple of weeks as a first step to tackle the unfunded liability of our pension system.

In short, we have a plan that we will allow us to gradually solve our unfunded pension liability problem in an orderly, prudent and responsible manner.

Can we be trusted to come through? All I can say is: our record speaks for itself.

You be the judge: Over the last two years, we have achieved unparalleled fiscal improvement, reducing our deficit from 44% to 11%. Instead of being number 51 in the Nation we are now number 20, 31 states have higher budget deficits as a percent of revenues than we do.

In fact, we're on track... and we remain steadfastly committed... to completely balancing Puerto Rico's budget over the next two fiscal years... as we said we would.

As many of you know, the progress we've achieved on the fiscal side has earned us positive reviews by the ratings agencies of the kind Puerto Rico hadn't seen in decades.

In April of 2010, Moody's acknowledged the progress of our fiscal stabilization plan when it upgraded Puerto Rico's credit rating from Baa3... the level right above junk... to A3.

Then, four months ago... this past November... S&P changed its outlook on the island's credit to positive. Keep in mind that the last time we had seen a positive outlook for Puerto Rico from S&P was nearly three decades ago.

And in another most welcome validation by an independent credit rating agency that our fiscal stabilization and economic reconstruction plan is working, Fitch Ratings assigned a BBB+ rating with a stable outlook to the general obligations of the Government of Puerto Rico.

S&P's positive outlook was the precursor to its action just last month, when it gave Puerto Rico its first credit upgrade on our general obligation debt in 28 years.

These positive actions not only take into account our fiscal progress, but also the new direction we're taking on our overall economic front. Because all the while we've been putting our fiscal house in order, we've also been changing the course of Puerto Rico's future.

We've been implementing a pro-growth economic reform program supported by a series of key public policy reforms.

To kick it off, given our limited public investment capacity, we enacted the most advanced Public-Private Partnership law in the Nation, paving the road to billions of dollars of investment and the creation of thousands of jobs in partnership with the private sector.

Our P3 program includes the modernization of 100 public schools throughout the island, and the full concession of major toll roads and of the Luis Muñoz Marín International Airport, among other major infrastructure projects.

With our Energy Reform, within less than two years Puerto Rico's fuel mix will have shifted from 69% petroleum to 72% natural gas. Vía Verde, or "Green Way", as our flagship natural gas project is known, is not only more environmentally friendly, but it will also help us reduce electric bills in Puerto Rico by double digit percentage points. In addition to benefiting consumers, those savings will make a real difference in the competitiveness of our business and industrial sector.

And we are further diversifying our fuel mix to include renewable sources such as solar, wind and waste-to-energy. Renewable energy projects are bringing with them significant new investment throughout Puerto Rico, along with the creation of new "green jobs" in our economy.

An important area of pro-economic development government reform that's now complete is our permitting reform. Instead of going to 21 different agencies, businesses can now go to just one single permits office to get their endorsements. In cases not requiring detailed evaluations, the new system has resulted in an 85% reduction in the permit granting and approval process. And

for major projects involving site and land use consultations, a process that could take three to five years is now down to a maximum of 180 days.

Last, but certainly not least, we have enacted a broad tax reform that will be a major driver for Puerto Rico's economic rebound.

This is a pledge that I made to our people during our campaign. And despite the disastrous fiscal situation we encountered when we took office, we have delivered on our promise. Because I deeply believe that a tax reform is all about putting in the people's hands the power to change their own future.

So this past January, we enacted the largest tax reform in Puerto Rico's history. Starting this year, the top corporate rate will drop from 41% to 30%, and the previous seven-tier corporate bracket system will be simplified into three lowered rates — 20%, 25% and 30%. Starting in 2014, we are moving toward an even lower top bracket of 25%.

And for individuals, this year alone, tax rates will drop an average of 25%, further dropping to a nearly 50% reduction over six years.

We are implementing these tax cuts in a fiscally responsible manner... individual tax reductions for years 2014 through 2016 will be contingent on the government meeting targeted goals in three areas: operating expenses, revenues, and economic growth. In other words, although we have already legislated those additional tax cuts for 2014 through 2016, in order for them to go into effect the government will have to have the money to pay for them.

In addition, 1% of the budget in 2014, and 1.5% in 2015 and 2016 will be deposited into a fiscal reserve fund, thus providing a "rainy day" fund to make sure we never again sink into the financial hole from which we've managed to emerge with so much sacrifice and determination.

On the revenue side, we enacted a temporary excise tax on the sale of certain products manufactured on the island which will be reduced gradually each year through 2016, after which it will be eliminated. As confirmed by the IRS just a couple of weeks ago, the companies will be able to credit that excise tax against their federal income tax liability. In short, these companies will now be able to contribute to Puerto Rico's fiscal and economic reconstruction in a way that does not affect their bottom line, therefore protecting the operations and jobs they have on the island.

In reviewing Puerto Rico's tax reform, former Congressional Budget Office Director Douglas Holtz-Eakin concluded that by better balancing our sources of revenue, our tax policy is decidedly pro-growth.

In short, we now have in place a fiscally responsible tax reform that provides substantial, wide-ranging tax relief for individuals and corporations, promotes economic development and job creation, streamlines our tax system and helps curb of tax evasion.

Tax reform is part of our Strategic Model for a New Economy, a multi-sector model of economic growth with a diversified portfolio of strategies that fosters economic development while reducing fiscal impact on state finances.

As part of our socio-economic development efforts we will continue to work closely with both Congress and the White House to ensure Puerto Rico takes advantage of every opportunity available to foster a better future for all of us. In this regard, I would like to thank the President and his White House Task Force on Puerto Rico for giving due attention in its much-awaited report to a number of topics of great importance, including health, education, energy, and access to federal funds, among others.

Ladies and gentlemen, after five years of recession, in which so many of the investors present at this Credit Conference have stood with us, I can say here with confidence that 2011 finds Puerto Rico on the rebound, at the dawn of a promising new era of sustainable economic growth.

Our confidence is also shared by Business Monitor International. In its latest analysis, BMI has nearly doubled the rate of growth it projects for the economy of Puerto Rico over the next five years.

That confidence is also shared by Federal Reserve Bank of New York President William Dudley. In his address in San Juan last week, he noted, and I quote, "In contrast to the situation during my last visit [last year], I am pleased to see signs that the Commonwealth may finally be emerging from this painful recession." Adding that our economic recovery is firming he concluded, and again I quote, "I am hopeful that we will soon be able to look back at 2010 and see not only the end of the island's long recession but also the beginning of an era of growth and prosperity for Puerto Rico."

Friends, with our actions, we have together, started to restore the confidence of both investors and consumers. Things are looking up, but we won't stop until we get the job done.

We have changed the course of Puerto Rico's future and a new era of growth and prosperity is upon us. I look forward to sharing that future with you.

Thank you very much.