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— THE ROAD TO —
ECONOMIC & FISCAL
RECONSTRUCTION

FEBRUARY 19-20, 2009



Puerto Rico Credit Conference: The Road to Fiscal and Economic Reconstruction

FEBRUARY 19, 2009

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FEBRUARY 19-20, 2009



Economic Outlook

Mr. William Lockwood-Benet
Executive VP and Fiscal Agent
Government Development Bank

FEBRUARY 19, 2009



Executive Summary

Key highlights of revised economic forecasts:

1. The economy of Puerto Rico is experiencing a prolonged recession that constitutes the sharpest economic decline since fiscal year 1983
2. The economy fell 2.5% in fiscal year 2008
3. Revised forecasts show a contraction of 3.4% for the present fiscal year 2009, and a decline of 2.0% for next fiscal year 2010
4. The main factors in the period of recession are:
 - a) A decrease in consumer spending
 - b) Record oil prices
 - c) The continuous contraction in the construction investment
 - d) The recession in the United States
 - e) The serious fiscal situation
5. These projections do not include measures of economic stimulus for Puerto Rico. The PB preferred not to include measures of stimulus until they were clearly defined and approved.



Economic Revision Summary Fiscal Year 2008

- **Personal consumption declined in the FY 2008 due to high oil prices**
- **Construction investment contracted and government consumption fell**
- **U.S. economy entered into recession and began to experience a financial crisis**

Main Variables (in real terms)	F2007 r	F2008 p
Gross National Product (GNP)	- 1.9%	- 2.5%
Personal Consumption	1.9%	- 0.5%
Construction Investment	- 7.6%	- 8.8%
Machinery and Equipment Investment	0.9%	- 8.1%
Government Consumption	- 1.3%	- 6.5%*
Oil Barrel Prices**	\$63.4	\$96.8

} The largest segment of the local economy

} Sector with largest multiplier effect

} Record oil prices

Source: PR Planning Board, Program of Economic and Social Planning and Division of Projections. P = Preliminary.

* The expenses of government fell but the income (collections to the General Fund) fell in real terms by 13,4% in F08.

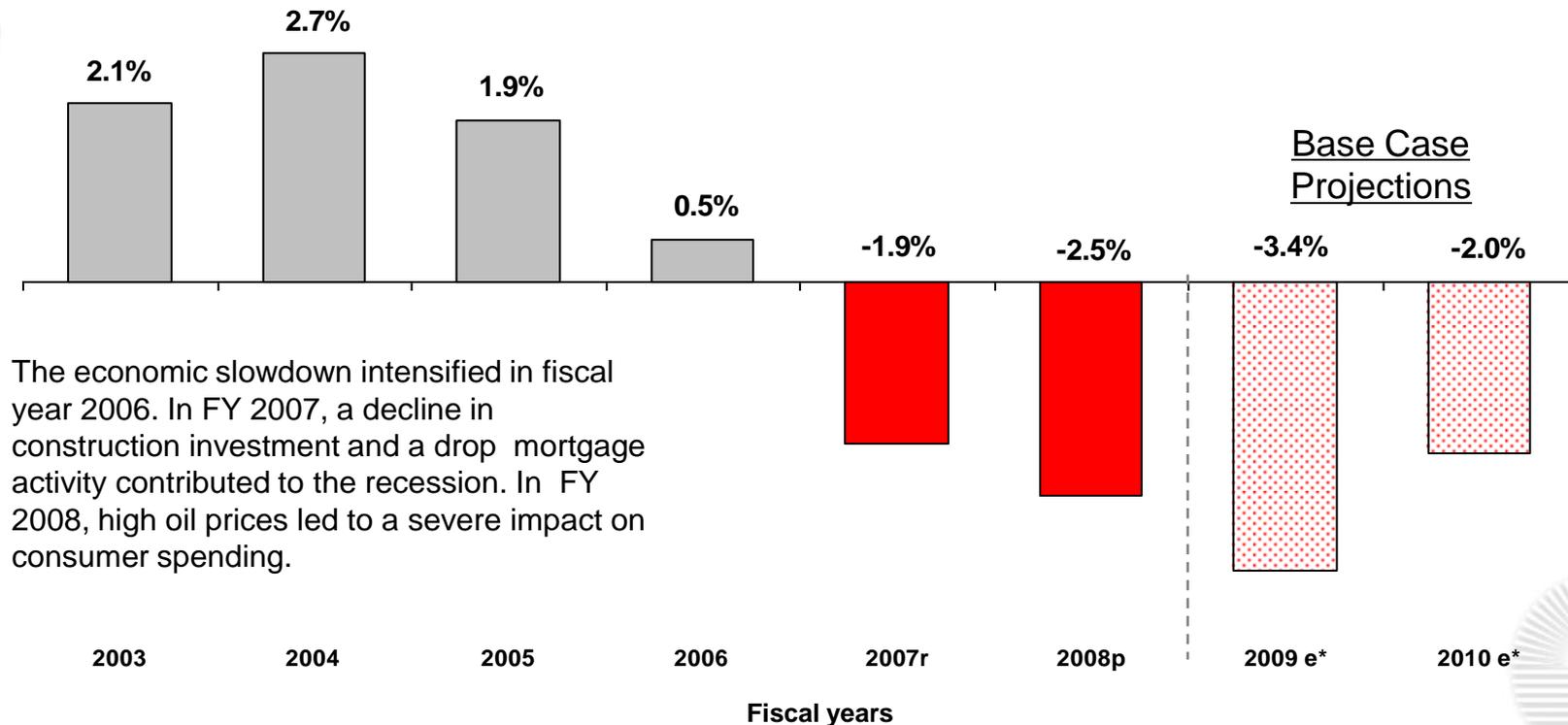
** Average price for West Texas Intermediate (WTI) barrel for the fiscal year.



Trend in Economic Performance

Fiscal year 2009 will be the third year of consecutive of recession

Annual Real Growth of the Gross National Product



Source: PR Planning Board, Program of Economic and Social Planning and Division of Projections. * Figures correspond to base case scenarios. P = Preliminary.



Economic Projections FY 2009 and FY 2010

- Puerto Rico investment continues to drop in FY 2009 due to internal and external constraints

Main Variables	F2008 p	Base F2009	Base F2010
Gross National Product (GNP)	- 2.5%	- 3.4%	- 2.0%
Personal Consumption	- 0.5%	- 0.6%	0.2%
Construction Investment	- 8.8%	- 11.1%	- 10.5%
Machinery and Equipment Investment	- 8.1%	- 9.9%	- 11.3%
Government Consumption	- 6.5%	- 2.8%	- 1.4%
Oil Prices**	\$96.8	\$65.3**	\$47.3**

Source: PR Planning Board, Program of Economic and Social Planning and Division of Projections. P = Preliminary. *Average price of West Texas Intermediate (WTI) barrel for the fiscal year. **Source: Department of Energy of the United States.

Main Forecast Components

- The PB analyzed the actual trend of the monthly economic indicators and other factors

Factors	Description
Reduction in personal consumption	1) Unemployment rate reached 13.1% in December 2008 2) Decline in credit and personal loans from commercial banks
Fall in construction investment	1) High level of real estate inventory (vacant properties) 2) Decline in credit and construction loans from commercial banks 3) Reduction in public construction investment
U.S. Recession	1) Recession in US economy in FY 2009 y FY 2010 2) Unprecedented events in US financial markets have led to cut in millions of jobs
Fiscal Deficit	1) The actual fiscal deficit of PR has led to reductions in public investment and delay in payables

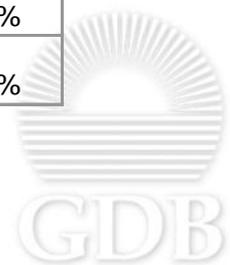
The US Economy and Oil Prices have an Additional Impact on the PR Economy

Matrix of estimated effects of U.S. Growth and oil prices on the local economy

Oil Prices*		U.S. Real GNP Growth							
		-2.0%	-1.5%	-1.0%	0.0%	1.0%	1.5%	2.0%	2.5%
		Puerto Rico Real GNP Growth							
FY 2010	\$30	-1.9%	-1.5%	-1.1%	-0.3%	0.5%	0.9%	1.3%	1.7%
	\$45	-2.8%	-2.4%	-2.0%	-1.2%	-0.4%	0.0%	0.4%	0.8%
	\$55	-3.4%	-3.0%	-2.6%	-1.8%	-1.0%	-0.6%	-0.2%	0.3%
FY 2009	\$65	-4.0%	-3.6%	-3.2%	-2.4%	-1.5%	-1.1%	-0.7%	-0.3%
	\$75	-4.6%	-4.2%	-3.8%	-2.9%	-2.1%	-1.7%	-1.3%	-0.9%
	\$85	-5.2%	-4.7%	-4.3%	-3.5%	-2.7%	-2.3%	-1.9%	-1.5%
FY 2008	\$95	-5.7%	-5.3%	-4.9%	-4.1%	-3.3%	-2.9%	-2.5%	-2.1%
	\$100	-6.0%	-5.6%	-5.2%	-4.4%	-3.6%	-3.2%	-2.8%	-2.4%
	\$150	-8.9%	-8.5%	-8.1%	-7.3%	-6.5%	-6.1%	-5.7%	-5.3%

Positive U.S. growth and \$45-\$55 oil prices

Source: PR Planning Board.



Forecast Modeling Process

Internal or Endogenous Variables

- Personal Consumption
- Government Consumption
- Total Investment
 - Investment in construction
 - Investment in machinery and equipment
- Imports
- Personal Income

External or Exogenous Variables

- US Economy
- Exports
- Visitors Spending
- Federal Transfers
- Interest Rates
- Oil Prices

Team Discussions and consultations with private economists



Next Steps in Economic Analysis

Keep the team work to:

1. **Include the Federal and local stimulus packages in the forecasts**
2. **Complete the economic analysis of the different fiscal measures within the next three weeks**
3. **Update economic forecasts on regular basis.**



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Federal and Local Stimulus Packages

Mr. Alejandro Figueroa, Esq.
Chief Policy Advisor to the Governor
Commonwealth of Puerto Rico

FEBRUARY 19, 2009

Executive Summary

- The Commonwealth recognizes the need to provide significant stimulus to the local economy
- In the next 18-24 months the local economy will receive an estimate of \$5.5 billion in stimulus and development funds (~\$5.0 bn Federal and \$0.5 bn Local)
- The organizational structure is in place to start implementing and monitoring the stimulus package
- The Federal and Local stimulus packages provide a golden opportunity to begin the fiscal and economic reconstruction of Puerto Rico



Clearly Defined Objectives and Key Factors

Main Objectives

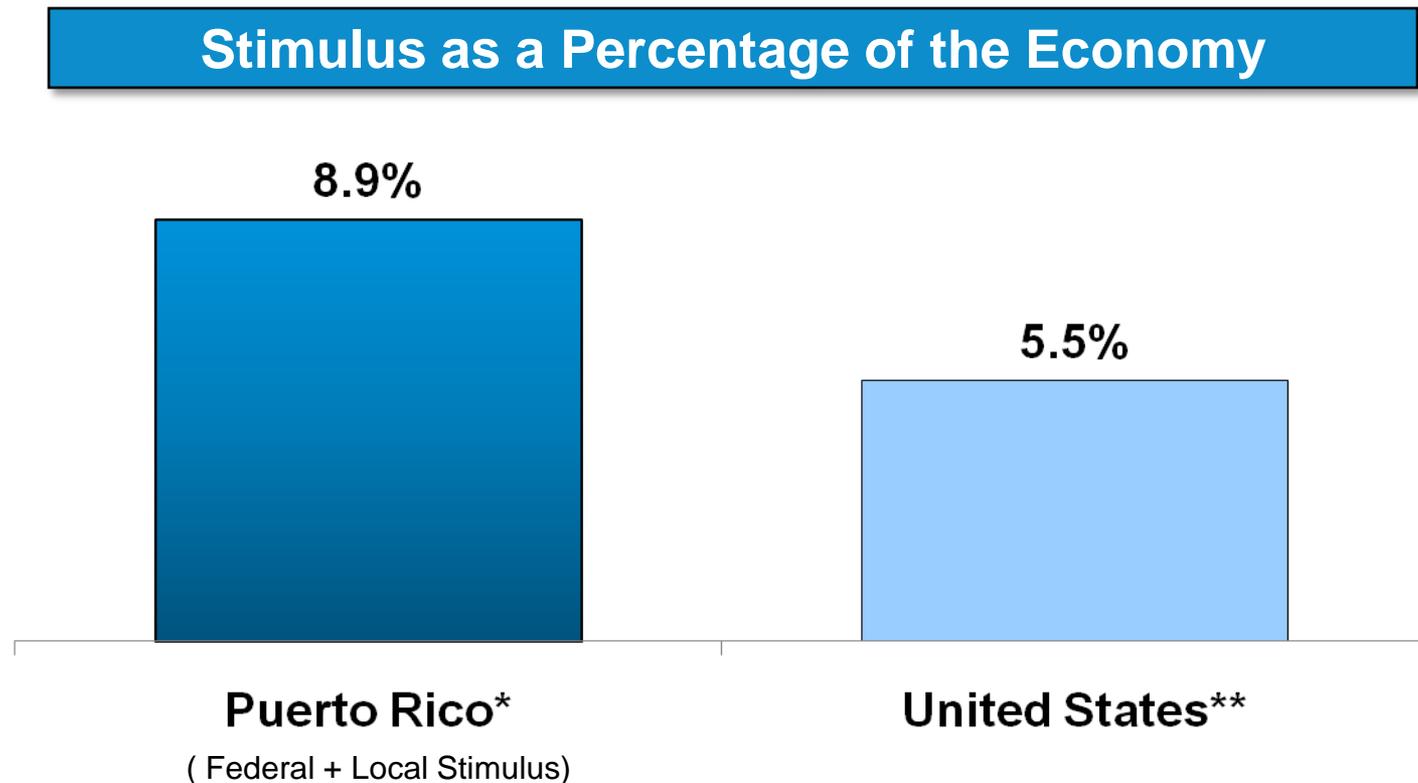
- Jumpstart our economy
- Create jobs
- Begin the process of transforming our economy

Key Success Factors

- Time is critical
- Strict compliance with funding guidelines
- Accurate reporting, monitoring and accountability
- Transparency

Total Stimulus for PR is Proportionally Higher

- The total of stimulus packages will impact the local economy in a higher proportion than the US economy



Sources: Approved Federal Stimulus Packages, Bureau of Economic Analysis and PR Planning Board.

* Calculated as \$5.5 billion divided by nominal GNP for FY 2009 of \$61.7 billion. Total includes Federal and Local stimulus programs.

** Calculated as \$787 billion divided by nominal GDP of \$14.3 trillion as of 4Q-08.



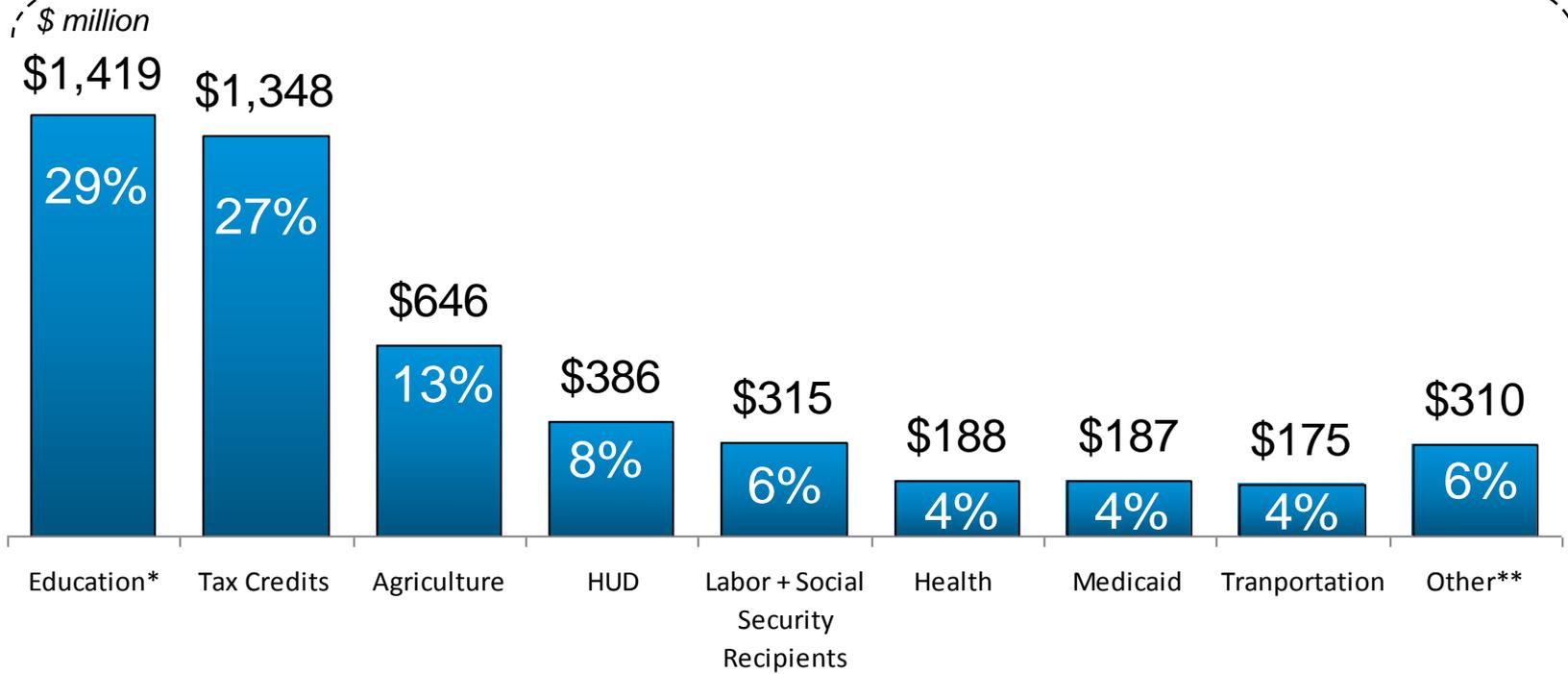


Federal Stimulus Package



Funding Distribution by Category

\$4,973 million



* Includes Fiscal Stability Fund.

** Includes funds for EPA/Environment, Commerce, Energy, Justice and Veterans.



Capital Improvement vs. Other Program Funding

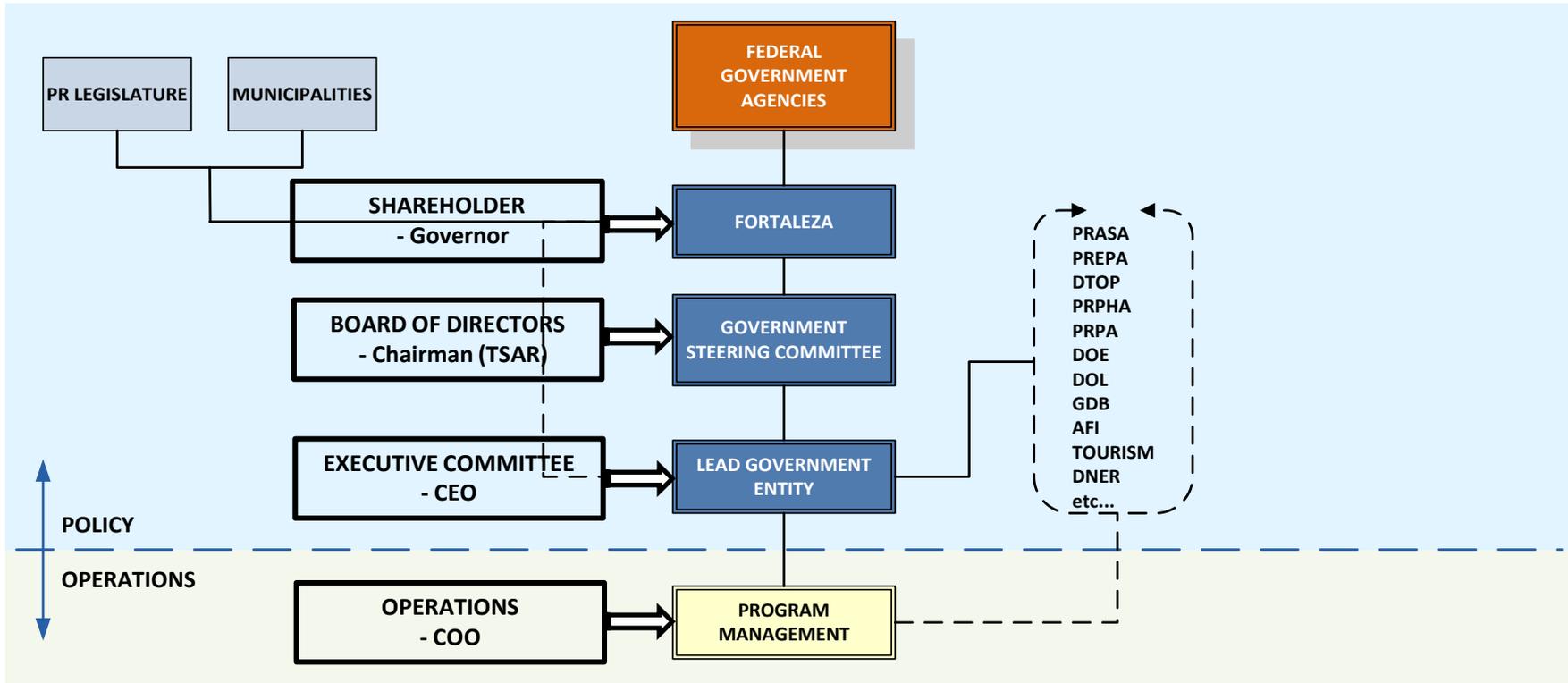
- Over 20% of the stimulus package will be used in Capital Improvement Programs

CATEGORY	ESTIMATED PR AMOUNT	% OF TOTAL PACKAGE	CAPITAL IMPROVEMENT FUNDS	OTHER FUNDS
Transportation	\$175	4%	\$175	\$0
Agriculture	\$646	13%	\$14	\$632
Commerce	\$85	2%	\$0	\$85
Education	\$1,419	29%	\$309	\$1,110
HHS	\$188	4%	\$16	\$173
Labor*	\$315	6%	\$0	\$315
Energy	\$81	2%	\$0	\$81
HUD	\$386	8%	\$282	\$104
EPA	\$85	2%	\$75	\$11
Taxes	\$1,348	27%	\$0	\$1,348
Others	\$246	5%	\$0	\$246
TOTAL	\$4,973	100%	\$869	\$4,104

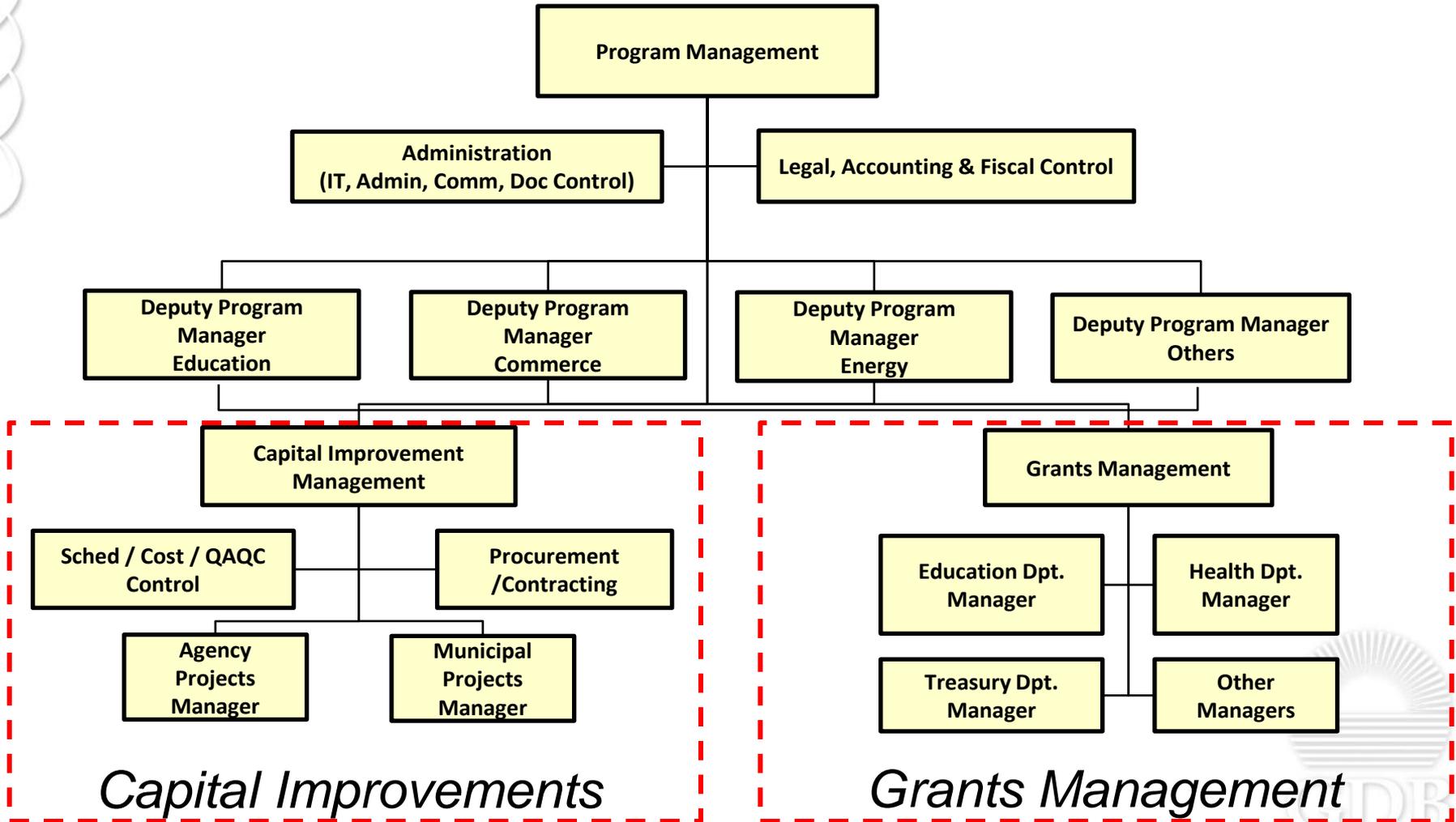
* Includes Social Security Recipients.

Organizational Structure

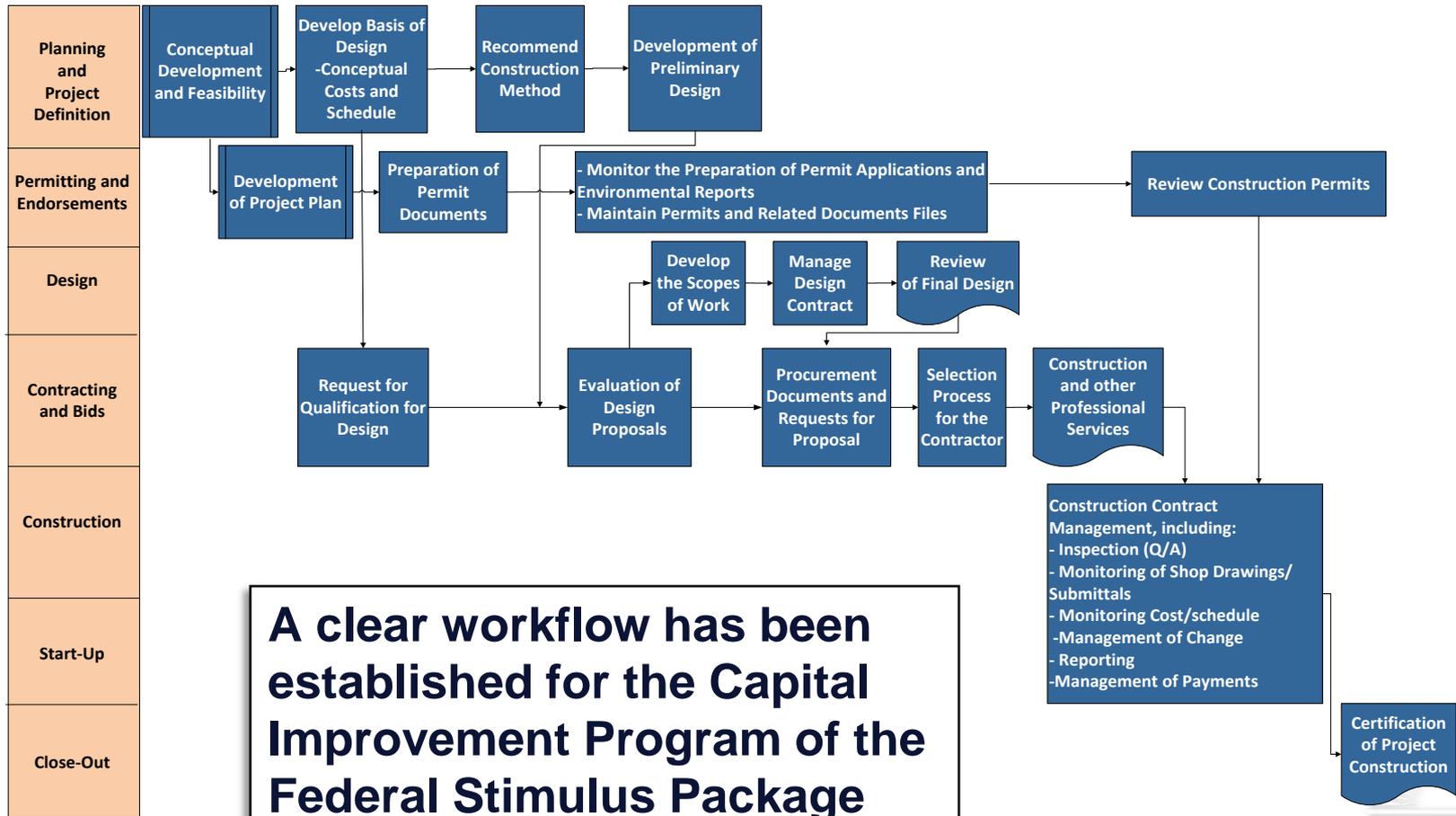
- The Governor has established an organizational structure to orderly manage the implementation and execution of the stimulus package



Program Management Organization



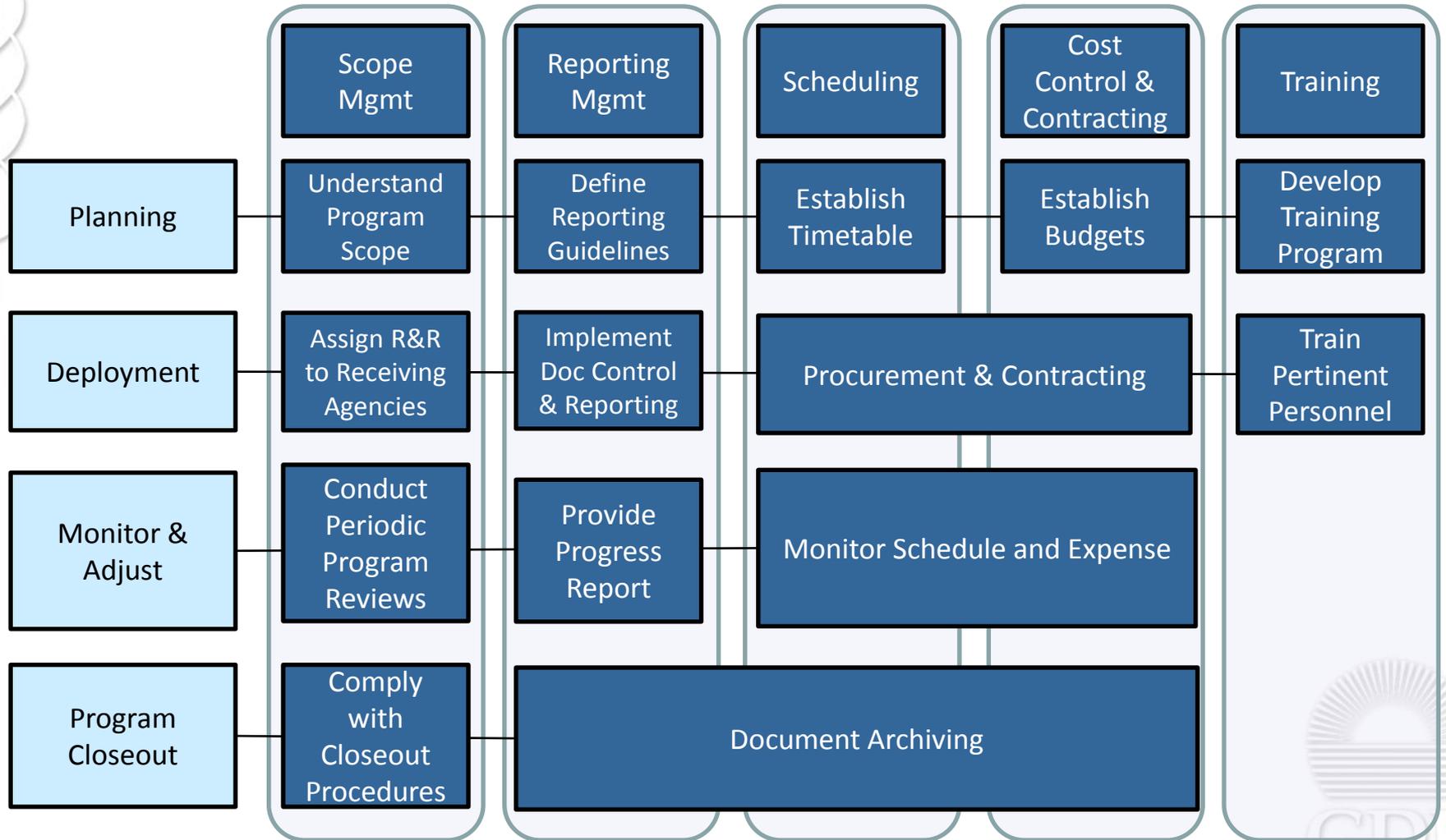
Capital Improvement Management



A clear workflow has been established for the Capital Improvement Program of the Federal Stimulus Package



Grants Management





Local Stimulus Package



Local Stimulus Plan

Local Stimulus Plan (“PEC”) = \$500 million

- 1. Consumer Relief Program**
- 2. Business and Innovation Programs**
- 3. Strategic Infrastructure Program**
- 4. Training Program for Dislocated Workers**
- 5. Retooling and Upgrade of the Permitting Process**



Summary

- The Federal and Local stimulus packages will have a substantial impact in our local economy
- The new administration is prepared to implement the stimulus packages and maximize all the economic development opportunities for Puerto Rico
- Time is critical and the opportunity is unique for the stimulus packages to provide the growth that we all need as the first steps towards a fiscal reconstruction



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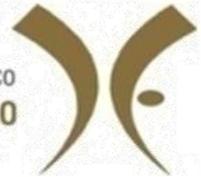


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Estado Libre Asociado de Puerto Rico
DEPARTAMENTO DE DESARROLLO ECONÓMICO Y COMERCIO



PUERTO RICO: OPPORTUNITIES FOR ECONOMIC GROWTH

Jose R. Pérez-Riera, Esq.

Secretary Designate

Department of Economic Development and Commerce

Vision for the Future

Become a leading economy in the global marketplace





VISION FOR THE FUTURE



Vision for the Future

Become a leading economy in the global marketplace

- Requires global competitiveness and strategic focus
- Should leverage existing assets and strengths
- Must facilitate new investment and growth while removing barriers
- Natural sector focus
 - Science, Technology, and R&D
 - Manufacturing
 - Renewable Energy
 - Tourism



Science, Technology, and R&D

Puerto Rico as a global innovation hub

- Future technology R&D leader
 - Major clinical trial center
 - Complete value chain presence
 - Major producer of intellectual property
 - Preferred locale of top tier scientists
 - World class research center on par with Biopolis, University Park @ MIT, and Berlinbiotech Park
- A recognized technology services provider
- An example of the benefits of “clustering”
- A model of academic/industry/government partnerships



Science, Technology, and R&D

Grand scale research and development strategic project



UPR Río Piedras

Centro Medico/VA Hospital

New Molecular Building

UPR Botanical Garden

New Cancer Center

Science City @ Oso Blanco

Manufacturing

Manufacturing the products of tomorrow

- Center for complex, high-tech goods manufacturing that requires specialized skill sets
- Leveraging and integrating science, technology, and R&D focus with the manufacturing sector
- Excellence in target industries:
 - Chemical and biological drug development
 - Biotech and medical devices
 - Aerospace and communications components
 - Renewable energy technologies



Renewable Energy

Becoming a renewable energy pioneer

- A global leader in the implementation of a comprehensive renewable energy program
 - A lab for the deployment of solar energy technologies
 - A global example of waste-to-energy projects
 - Small and large scale wind power generation
 - An oceanic thermal and oceanic kinetic technology test-bed
- Secure ecological benefits while fostering economic growth
 - Targeted 35% reduction in dependency on combustible fossil fuels in the next five years
 - Diversified generation mix that is much less susceptible to volatility in oil prices and allows for lower average power prices
 - Significantly reduced carbon emissions that places Puerto Rico in an ideal position with respect to potential cap-and-trade programs
 - Encouraging the development of the renewable energy industry—both R&D and manufacturing—in Puerto Rico



Tourism

Puerto Rico as the destination of choice in the Caribbean

- Improving service and quality
- Diversification
 - Offerings that cater to the needs of all travelers: economy, mid-market, and luxury/five star category properties
 - Complementary product offerings: timeshares, vacation clubs, condo hotels, rental management, and branded residential
 - Regional offerings beyond the San Juan Metropolitan area
- Expansion of target markets
 - Increase in domestic and international air travel routes
 - Increase home port and port of call cruises, and pre and post visits
 - Niche markets, e.g. medical tourism, sports and aquatic tourism, and eco tourism and gaming



Tourism

San Juan at forefront of repositioning

- Triángulo Dorado: a flagship project
 - San Juan Waterfront as a premier urban resort
 - Convention center
 - Mixed-use residential
 - Public areas and parks
 - Mega-yacht marina
 - Cruise ships and Casinos
 - Private airport
 - Infrastructure improvements
 - On par with similar destinations around the world including Vancouver, Sydney, Dubai, Singapore





PUERTO RICO: OUR STRENGTHS



Strong Foundation for Economic Growth

Solid base for building the future economy

- Puerto Rico already possesses many enticing characteristics for attracting new investment
 - Benefits Under U.S. Jurisdiction/ Laws
 - Advantageous Tax and Cost Structure
 - Favorable Location and Demographics
 - Life Science Industry Leader



Benefits Under U.S. Jurisdiction/Laws

Best legal protection for business

- U.S. Constitutional and Legal Protection
- U.S. Currency and Banking System
- U.S. Intellectual Property Protection
- U.S. Federal Court Presence
- Located within U.S. Customs Borders
- Participation in U.S. Trade Agreements
- Access to U.S. Federal Funds and Grants for Infrastructure, Social Programs, Education, Research, and more



Advantageous Tax and Cost Structure

A unique value proposition for multinational companies

- Foreign Tax Structure
 - No federal income tax
 - Controlled Foreign Corporation (CFC) treatment
 - Flexibility to develop local tax incentive laws
- Cost competitiveness relative the U.S.
 - Average cost of business in PR is 10.9% lower than national average
 - San Juan is the least expensive large U.S. city to do business



Favorable Location - Geography

Strategic location - bridge between North America, Europe, and Latin America



Favorable Location - Geography

Intrinsic appeal

- Attractive environment to re-locate and visit
 - Ideal climate: average temperature 83°F in winter, 85°F in summer
 - Diverse terrain: coastline, central mountains, only rain forest under U.S. National Forest Service
 - Beaches ranked among best in the world
- Ample natural resources



Favorable Location - Geography

World class infrastructure

- 100% digital switching telecommunications network
- Fiber optic cable throughout island
- One of the most efficient financial infrastructures in the hemisphere - 564 branches; 1,334 automatic teller machines; and 44,308 points of sale
- Port of San Juan – One of the busiest container ports in the western hemisphere
- 40 shipping lines providing service to 80 domestic and foreign ports
- Urban train system



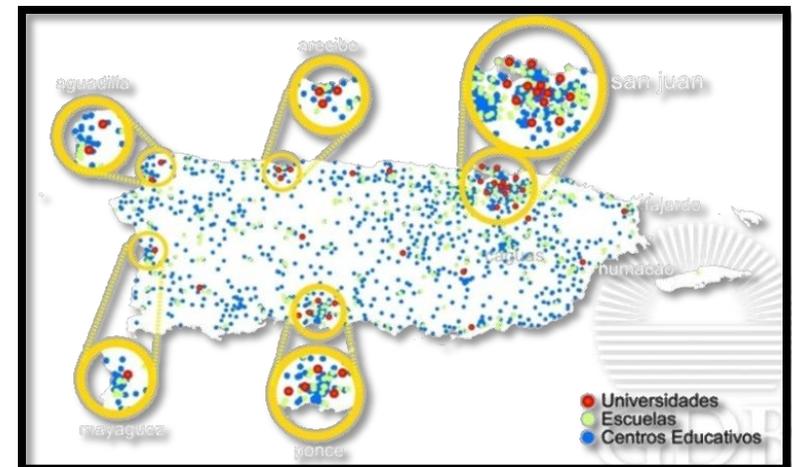
- Robust airports that serve as the gateway to the Caribbean and have more than 4,300 local and international flights per month island-wide
- Comprehensive highway system that ensures no point is more than 2 hours from seaport or airport
- Natural gas pipeline nearly complete – will reduce energy costs in near term



Skilled Workforce

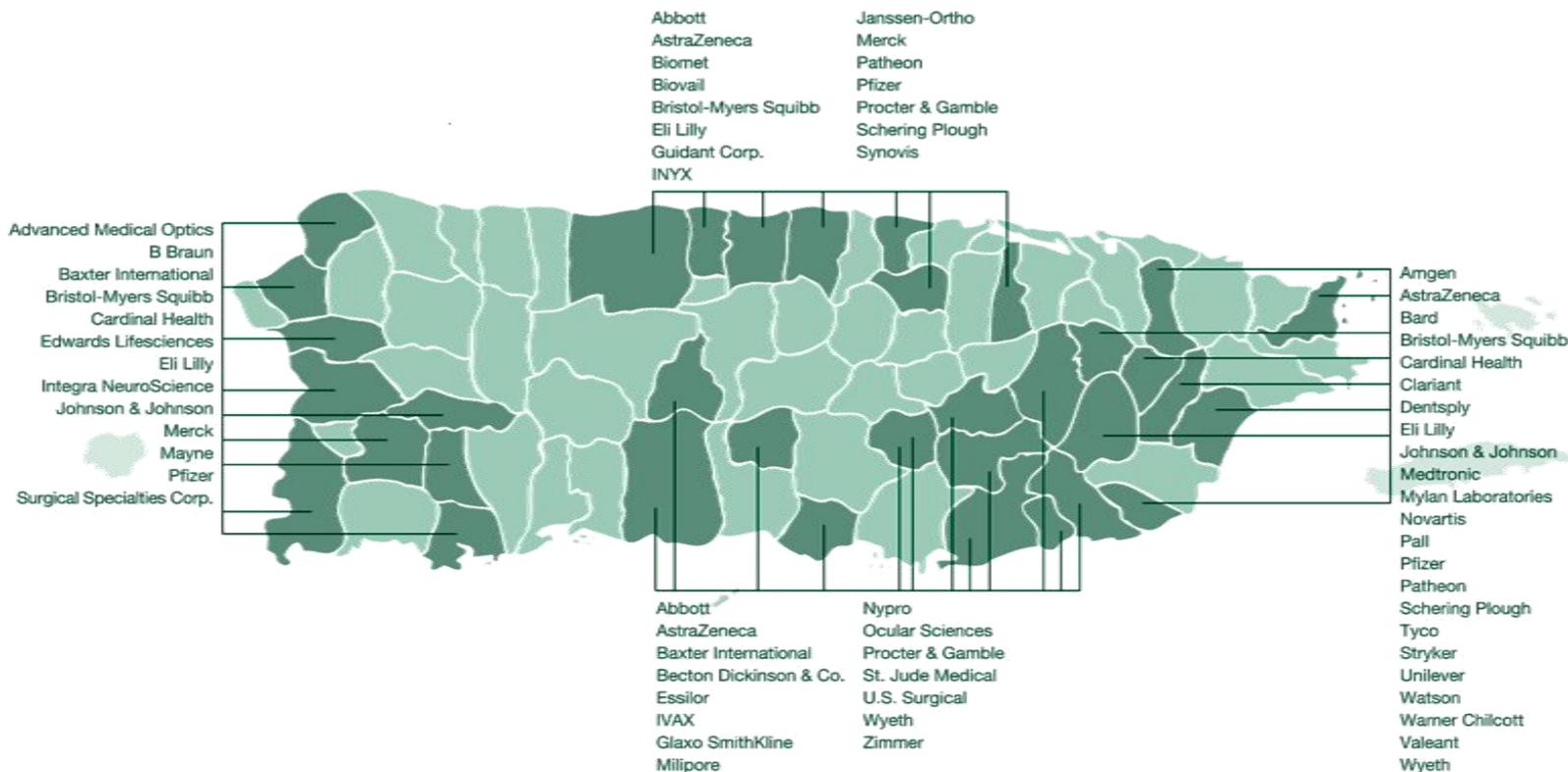
Highly-educated workforce and outstanding university system

- Two of the twenty largest undergraduate engineering programs in the United States:
 - The University of Puerto Rico, Mayaguez Campus
 - Polytechnic University of Puerto Rico
- Over 23,000 higher education degrees per year
- Over 9,000 graduates per year in science, engineering, and technical degrees
- Three medical schools with U.S. accreditation all conducting NIH and NSF funded research
- Broad local expertise in manufacturing, science and research, finance and law, and engineering and construction
- Bilingual population



Life Science Industry Leader

More than 50% of the Fortune 100 companies have operations on the island



- Thirteen of the top 20 blockbuster prescription drugs
- Six of the top 10 biologics
- Half of all pacemakers and defibrillators sold in the US
- Continuing pharmaceutical investment: \$4 billion in last 5 years



Life Science Industry Leader

Laying the R&D foundation with biotechnology



- Molecular Sciences complex near completion
- Puerto Rico Cancer Center – MD Anderson joint venture clinical building on schedule
- Bioprocess Development and Training Complex in operation
- Over 200 clinical trials being conducted in Puerto Rico
- Ten NIH funded research centers
- Eight multinational company agricultural biotechnology research centers
- Dedicated Technology Trust

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PUERTO RICO

Science, Technology
& Research Trust





COMPREHENSIVE ECONOMIC DEVELOPMENT TOOLKIT



Comprehensive Economic Development Toolkit

Strategies for restoring growth and increasing competitiveness

- Economic stimulus programs
 - Federal: American Recovery and Reinvestment Act (ARRA)
 - Local: Programa de Estímulo Económico Criollo (PEEC)
- Local incentive laws and government services
 - Economic Incentives Act (EIA or Law 73)
 - Tourism Industry Incentives
 - Puerto Rico Industrial Development Company (PRIDCO)
- Regulatory initiatives
 - Permitting process reform
 - Labor reform



Federal Economic Stimulus Program: ARRA

Approximately \$5 Billion package with targeted efforts

- **Education:** school construction and renovation, education technology, vocational rehabilitation, Pell grants and work-study programs
- **Health:** community health center infrastructure modernization, NIH research and facilities
- **Labor:** Adult employment and training, worker training and placement in high growth and emerging industry sectors, assistance to small shipyards
- **Transportation:** Highway infrastructure investment, public transportation, aid for airports, surface transportation
- **Environment:** clean water and drinking water SRFs, diesel emission reduction
- **Commerce:** broadband development
- **Energy:** weatherization assistance, energy efficiency and conservation, state energy program, smart grid, innovative technology loan guarantees, grants in lieu of tax credits for renewable energy



Local Economic Stimulus Program (PEEC)

\$500 million for locally relevant stimulus

- Providing relief to home buyers, homeowners, and retirees
- Supporting small businesses with limited or no access to credit
- Transforming our economy with science and technology
- Modernizing our infrastructure, including investments in shovel-ready projects
- Job training programs
- Reducing regulatory / permitting for infrastructure projects currently in the development pipeline



Economic Incentives Act (EIA or Law 73)

A globally competitive tax incentive package

- Places Puerto Rico ahead or on par with the tax incentive programs offered by foreign jurisdictions around the world
- Broad criteria for qualification, resulting in significant flexibility in its application
- The security of exemptions as 15 year contracts
- EIA Objectives
 - Maintaining core industries while strengthening the supply chain
 - Fostering the development of local industry
 - Address cost-competitiveness
 - Promote diversification of economy
 - Simplify grant process



Economic Incentives Act (EIA or Law 73)

Low effective tax rates and strategic tax credits

- Simplified flat tax options
 - 4% income tax, 12% royalty withholding
 - 8% income tax, 2% royalty withholding
- Municipal license tax exemptions of 60%
- Pioneer activities and location incentives:
 - down to 0% income tax
 - up to 90% municipal exemption
- Broad-spectrum of business activities
 - Investments in strategic projects
 - Job Creation
 - Investments in business on the verge of closing
 - Purchases of stock or ownership interest in small or mid-sized businesses
 - **Technology transfers**
 - **Service exportation**
 - **Purchases of products manufactured in Puerto Rico**
 - **R&D Investments**
 - **Energy cost reduction and energy production equipment investments**



Tourism Industry Incentives

Tourism as an engine for economic development

- The Tourism Development Act (TDA) of 1993 - a comprehensive and proven toolkit for the development of tourism assets
 - 10% investment tax credit (transferable at closing)
 - 90% income tax exemptions for 10-years
 - 90% municipal and real-estate tax exemption for 10-years
 - 100% construction and sales tax exemption
 - Loan guarantees through the Tourism Development Fund
 - Co-investment through the Hotel Development Corporation
- Puerto Rico is the air and sea hub of the Caribbean
- The Puerto Rico Tourism Company (PRTC) offers coo- marketing programs for local attractions



Puerto Rico Industrial Development Company

A proven track record through a history of success

- Develop tailored business strategies to maximize the benefits of operating in Puerto Rico that generate 40% of local GNP
- Design tax and business incentive proposals to meet specific needs
- Create jobs in the manufacturing sector that represent 11% of total workforce
- Arrange creative financing structures
- Access to commercial space ranging from 4,000 sq. ft. to 100,000 sq. ft. in industrially zoned locations
- Assist and expedite the regulatory, permitting and relocation processes
- Design, construct and maintain industrial structures buildings to suit specific corporate requirements specifications





FOCUS ON GLOBAL COMPETITIVENESS



Permit Reform

Addressing primary deficiency

- Taking affirmative steps to provide a positive work atmosphere for local entrepreneurs and foreign companies that look forward to do business in Puerto Rico
- Short Term
 - Creation of Inter-Agency committee to advance process complete
 - Directed resources in place for eliminating backlog
 - Implementation within next weeks
- Long Term – One Year Deadline
 - Reduce permits 50%
 - One-stop-shop centralized mechanism
 - Use of licensed professionals
 - Strict adherence to approval timeline target or automatic approval
 - Comprehensive restructuring law by this summer (in draft form)



Labor Reform

Focus on modernization and liberalization

- Redrafting of onerous, antiquated labor laws and regulations in line with international standards in progress
- Increased flexibility of hiring in terms of daily work hours and/or work week
- Deregulation of employment contract requirements and restrictions to facilitate part-time employment creation and fixed term contract employment
- Simplification of overtime rules in line with federal standards
- Establishment of a maximum paid annual leave across industries
- Restructuring of minimum wage rules to include apprentice minimum wage provisions
- Overhaul of current workers' compensation structure



Vision for the Future

Become a leading economy in the global marketplace



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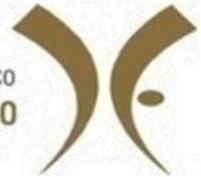


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DEPARTAMENTO DE DESARROLLO ECONÓMICO Y COMERCIO



PUERTO RICO: OPPORTUNITIES FOR ECONOMIC GROWTH

Jose R. Pérez-Riera, Esq.

Secretary Designate

Department of Economic Development and Commerce

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Private-Public Partnerships

PANEL:

Shirley Ybarra, The Reason Foundation
Roy Kienitz, Commonwealth of Pennsylvania
Jane Garvey , JP Morgan

Moderator: Richard Cooper, Cleary Gottlieb

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Public Private Partnerships an opportunity for Puerto Rico

Shirley Ybarra

Senior Transportation Analyst

The Reason Foundation

FEBRUARY 19, 2009

Outline

- Definition
- Strengths
- Brief History of Transportation PPP legislation
- Projects
- New Tools
- Keys to Success
- Dispelling the Myths
- Why contractors/labor should be supportive
- Choices



Public Private Partnerships

IT IS NOT PRIVATIZATION !

It is a collaborative effort and a “joint venture”
between the public and the private sectors



Public Private Partnerships Definition

- PPP's leverage the capital and expertise of the private sector with the management and oversight of the government to provide the public needed assets and services.
- PPP's are an effective way of financing, managing and operating assets and services while minimizing the taxpayer costs and risks.



Public Private Partnerships

- Combines Private Sector strengths
 - Management efficiency
 - Newer Technologies
 - Workplace efficiencies
 - Cash flow management
 - Personnel development
 - Shared resources (money?)

with



Public Private Partnerships

- Public Sector Strengths
 - Legal Authority
 - Protection of Procurement Policies
 - Broad perspective to balance competing goals to meet public needs
 - Personnel - dedicated but constrained
 - Capital resources & underutilized assets



Partnerships at Work

- Water/Wastewater
- Financial Management
- Urban Development
- Public Safety
- Social Programs
- Education
- Transportation



History of Transportation PPP's

- **1988 Virginia**
 - Dulles Greenway
 - Single project
 - Regulated utility model
- **1988 California**
 - AB 680
 - 4 projects authorized (2 actually move forward)
 - Franchise model
 - No federal or state funding



History

- Arizona--both models, no projects moved forward
- Washington State--6 demo projects
 - Like California
 - Legislature change stopped projects
- Minnesota—included provision for local veto



Virginia PPTA of 1995

- Legislation authorized
 - Solicited and unsolicited proposals
 - All modes of transportation
 - Operations, maintenance and capital projects
 - Locals included but no veto power



Virginia Transportation Projects

- Asset Management Maintenance (fixed priced long term contracts) on Interstates
- Pocahontas Parkway
- Route 288
- Route 28
- Dulles Rail Extension
- Jamestown 2007 Improvements
- Capital Beltway (I-495) HOT lanes



PPTA and beyond

- Still considered the model legislation
- Generated the Virginia PPEA (PPP's for “everything else”)
 - Schools
 - Water/waste water
 - Services



Other Projects

(Its not just toll roads)

- Union Station in Washington DC
- JFK International Air Terminal
- US Navy Public Works Center
- Florida Turnpike Enterprise Interchanges
- Port of Galveston Cruise Terminal
- Grand Central Terminal in NYC
- Las Vegas Monorail
- Hudson-Bergen Light Rail



New Tools for Surface Infrastructure

- Reauthorization of Transportation Bill (SAFETEA-LU) provided new tools for PPP's
 - Private activity bonds for highways (\$15 billion)
 - Enhanced authority to use tolling for financing
 - Increased flexibility in using design build
 - Streamlined environmental processes
 - Improved innovative finance programs (SIB's and TIFIA)
- SEP 15
- PENTA P (transit)



Observations

- Governments at all levels are unable to meet all infrastructure (or other) needs
- Public Private Partnerships are one option and **not** a silver bullet
- Each venture is independent (no cookie cutters)
- Other models emerging as concessions (Skyway, Indiana Toll Road, Greenway etc.)
- PPP's are not new any more—expertise and assistance is available



Keys to Successful PPP's

- Statutory Framework (flexibility)
- Political Environment (support from the top)
- Organizational Structure (dedicated staff)
- Detailed process with an outcome
- Transparency
- Stakeholder outreach and support
- Carefully selected partner



Benefits from the Public Sector View

- Access to large, new sources of capital.
 - leverage existing limited government moneys
- Efficiency Improvement
- Transferring Risk from taxpayers to investors
 - Parcel out the duties and risks to party best able to handle them
- More Business like approach/innovations
- Flexibility-customization
- Delivery of needed improvements/services



Myths of PPP's

- The government will lose control
 - Contract can and should protect the public
- Foreign “Ownership” (they don’t OWN it)
- Non-compete clauses
 - Evolved into now extremely narrow clauses
- There is NO money out there given the financial crisis today
 - \$200+ billion and infrastructure is now an attractive asset class for pension funds and other long term investors
- Private sector costs more with profit, interest rates, etc
 - With equity investment, costs can be similar to public debt
 - Rate of return can be limited by contract
 - Delivery of asset/service to the public when the public sector cannot raise any money at all



Why Contractors and Labor should be supportive

- Expands the pie—leverages the limited government funds to needed projects
 - More work for everyone
- Local private sector expertise can not/will not be replaced
 - Also can be a contract clause
- Safeguards for small contractors and labor can be built into contract as well
 - Another contract clause



Conclusion

- Not a panacea but PPP's have proven successful in US and around the world
- Requires
 - Strict Accountability
 - Transparency
 - Strong leadership/commitment from the top
 - Continual Oversight
 - Excellent Advisors
 - Good contract



Choice for Puerto Rico

- Can chose to open its doors to the private capital and a new way of doing business

or

- Turn its back on this opportunity
- Those that make the choice for PPP's will reap the benefits and be more competitive



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Private-Public Partnerships

PANEL:

Shirley Ybarra, The Reason Foundation
Roy Kienitz, Commonwealth of Pennsylvania
Jane Garvey , JP Morgan

Moderator: Richard Cooper, Cleary Gottlieb

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