



Comprehensive Economic Development Strategy

Puerto Rico

Fiscal Year
2010



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE GOVERNOR
PLANNING BOARD

MINILLAS GOVERNMENT CENTER
DE DIEGO AVE., STOP 22, SANTURCE
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August 27, 2009

Mr. Willie C. Taylor
Regional Director
U.S. Department of Commerce
Economic Development Administration
The Curtis Center, Suite 140 South
601 Walnut Street
Philadelphia, PA 19106-3323

Dear Mr. Taylor:

On behalf of the Office of the Governor, the Puerto Rico Planning Board (PRPB), and the **Comprehensive Economic Development Strategy (CEDS)** Committee, please accept submission of the Puerto Rico CEDS 2009-2010.

This document was prepared in accordance with the guidelines established by the U.S. department of Commerce under the provisions of Public Works and Economic Development Act of 1965, as amended; and the comprehensive amendments the Economic Development Act of 1998; and the Investment Policy Guidelines of the EDA.

As this year's CEDS reflects our considerable involvement in the "**PIDES-PR**" (Puerto Rico Strategy Sustainable Development Plan) initiative, a major multi-sector strategic development initiative, I am pleased to underscore that the CEDS 2009-2010 reflects our significant commitment to stakeholder led strategic development.

As always, we look forward to continuing our efforts to improve economic development planning in Puerto Rico, in partnership with the EDA and its distinguished Region 2 Staff.

Sincerely,



HECTOR MORALES VARGAS
Chairman

COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY FY 2009-2010

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SECTION I: ORGANIZATION & MANAGEMENT

Puerto Rico's Constitution, approved in 1952, defines internal government structures based on the principles established in the United States (U.S.) Constitution; for example, Puerto Rico has a two-chamber Legislature, an Executive and a Judicial Branch. Every four years, following the calendar of US Presidential elections, Puerto Ricans elect a Governor- currently the Honorable Luis G. Fortuño - as well as a Legislative Assembly, mayors and municipal assemblies.

Puerto Rico is a territory of the United States. Traditionally, the three mainstays of Puerto Rico's affiliation with the U.S. are a common currency, a common defense and US citizenship. While Puerto Rico does benefit from representation in the United States House of Representatives through its Resident Commission, Puerto Ricans who maintaining fulltime residency on the Island can neither vote in Presidential elections nor for the election of members of United States Senate or House.

THE EXECUTIVE BRANCH

The Executive Branch of Puerto Rico has undergone significant structural reorganization, and continues to do so, the focus of which has been downsizing government, improving efficiency and lowering operational costs. Up until now, the primary means of lowering operational costs has been through the concept of "Umbrella Departments" whereby departments of the central government that share similar public policy goals and render related services have been joined under one authority or "umbrella".

Although the "umbrella" concept has reduced the number of direct reports to the Governor and, to some extent has streamlined procedures, it has achieved relatively little progress in cutting down bureaucratic procedures and the excessive size of government.

The "Umbrella Department" concept was promulgated on April 6, 1993 under the Executive Reorganization Act of 1999, or Act Number 5, which also established the foundational "umbrella" departments, they are:

- 1) Security (Commission on Security and Public Protection), Prisons (Department of Correction and Rehabilitation);
- 2) Natural Resources (Department of Natural Resources and the Environment);
- 3) Agricultural Activities (Department of Agriculture);
- 4) Industry, Trade and Tourism (Department of Economic Development and Commerce);
- 5) Human Resources and Employment Programs (Department of Labor and Human Resources);
- 6) Public Finance (Department of the Treasury); and
- 7) Family and Community Services (Department of the Family).

These departments continue to operate as defined above. Over the years the elimination of 18 public instrumentalities as well as the consolidation of several public bodies and the privatization of the Puerto Rico Maritime Shipping Authority provided some savings to the Government, although the size of government employment continues to be a major concern. The present Administration is fully committed to decreasing the size of government and re-engineering key processes so as to assure a more agile and

effective government. A Commission was recently established, chaired by the Secretary of State to begin this process.

THE PUERTO RICO PLANNING BOARD (PRPB)

The Puerto Rico Planning Board (PRPB) is part of the Office of the Governor of the Commonwealth of Puerto Rico and was created pursuant to Act No. 213 of 1942, and later reorganized under the PRPB's Organic Law, or Law No. 75 of June 24, 1975 (currently under revision).

The full Board is comprised of the following:

- | | |
|------------------------------|------------------|
| 1) Héctor Morales Vargas, PE | Chairman |
| 2) Leslie Hernández, Esq. | Vice-Chair |
| 3) Leslie Rosado, MP | Associate Member |
| 4) Jennifer Mayo, Esq. | Associate Member |
| 5) Edgar Lebrón | Alternate Member |

The PRPB has served as the key entity in economic, social, and physical planning. Consequently, the PRPB is uniquely positioned to coordinate and manage the preparation and application of the Comprehensive Economic Development Strategy (CEDS).

This capacity is derived from the PRPB's ability to function as a fulcrum, where participation of the public and private sector is augmented by sound Micro and Macro analysis in strategy development. Extensive data collection capabilities, as well as its primary role in land use planning are key components of the PRPB's activities. The PRPB is particularly adept at both economic and demographic analysis and boasts considerable experience in organizing public participation in policy formation. It is for this reason that the PRPB is uniquely prepared to manage the CEDS process.

The PRPB's objective in preparing the CEDS report is to develop an efficient instrument capable of guiding targeted and effective investment of taxpayer resources. CEDS recommendations are entirely consistent with Administration priorities and aim at providing Puerto Rico with clear objectives and strategies that will promote economic and social development.

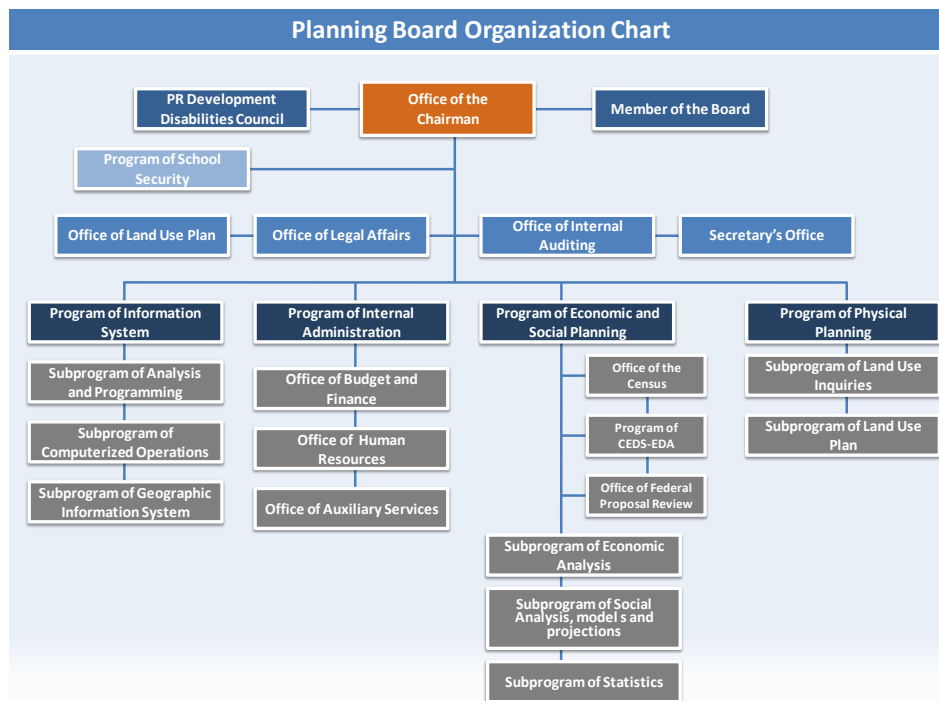
CENTRAL GOAL AND PRINCIPAL OBJECTIVES OF THE PRPB

The central goal of the PRPB is to provide guidance for the integrated economic, social and physical development of the Commonwealth. To accomplish this central task, the PRPB adheres to eight (8) principal objectives:

- 1) To develop information on the physical, economic and social resources of the Island and coordinate their use for the sustainable development of Puerto Rico;
- 2) To prepare, adopt and recommend to the Governor and the Legislative Assembly the programming of capital improvement initiatives;

- 3) To make viable the implementation of the Municipal Reform Law and the municipal land use plans, promote regionalization and transfer of services to the municipalities and the private sector;
- 4) To formulate an island wide land use plan;
- 5) To coordinate the permitting process;
- 6) To promote citizen participation in the development of our cities and establishment of educational programs concerning the environment;
- 7) To produce studies and analyses that support the formulation of public policies; and,
- 8) To assure that Federal investment in Puerto Rico is used in an effective and efficient manner.

Together, these objectives constitute the policy context of the PRPB's activities as it meets the responsibilities derived therein and the mandate set forth in its Organic Law.



Although conceived originally as a top down planning entity within the framework of a strong government role in directly running the economy, the PRPB is now committed to a much more participative focus and a conviction that the market is the primary instrument for allocation of resources in an economy such as ours. Of course, the PRPB is also committed to proposing mitigating measures whenever there are conditions in which market failure occurs due to different circumstances.

INSTRUMENTS OF PLANNING POLICY

In the final section of this Report, an outline of the policy instruments being used and/or being developed by the PRPB is included. In its almost seventy years since being established the instruments used by the Board to carry out its responsibilities, have changed. New ones have been added to the inventory and

others have been discarded. The present Administration is committed to providing the PRPB with the essential tools to make it an effective entity.

The Comprehensive Economic Development Strategy (CEDS) is considered such a key instrument and for that reason it is integrated into PRPB activities and priorities.

PRPB INVESTMENT ANALYSIS AND THE EDA INVESTMENT POLICY GUIDELINES

The entire island of Puerto Rico is classified as a “Redevelopment Area”—the Puerto Rico Economic Development Area—as determined by its persistent high unemployment and, low family income levels as well as those guidelines established by the EDA. Therefore, the CEDS Committee is responsible for the evaluation of all Investment Proposals (formerly known as project proposals) for economic development seeking EDA funds that originate in Puerto Rico. It is the principal goal of the Government of Puerto Rico, the PRPB, and the CEDS Committee, to make certain that all investment proposals that the CEDS Committee recommends for invitation to participate in the EDA’s proposal phase of EDA funding consideration have been evaluated and recommended by a body of the individuals who are representative of various sectors and groups in society that constitute the community of the Puerto Rico Economic Development Area.

The decisions of the CEDS Committee are made in accordance with the public policies of The Commonwealth of Puerto Rico and the EDA Investment Policy guidelines. The CEDS Committee works and operates independently of the daily operations of the PRPB, although funding needs for the CEDS Committee and its activities are met through both Federal and Local funding shares.

MEMBERSHIP OF THE CEDS COMMITTEE

The CEDS Committee is composed of the designated heads (or their representatives) of the following public and private entities that represent the indicated group. Those participants identified in the Bylaws of the CEDS Committee are:

- | | |
|-------------------------------|-----------------------------------------|
| 1) Javier Rivera-Aquino | Department of Agriculture |
| 2) Lizzie Rosso-Tridas, CPA | Economic Development Bank |
| 3) Humberto Marrero, PE | Infrastructure Financing Administration |
| 4) Luis Bernal, Esq. | Energy Affairs Administration |
| 5) Jaime López | Tourism Company |
| 6) Héctor Morales, PE | PR Planning Board |
| 7) José R. Pérez-Riera, Esq. | Dept. of Econ. Dev. & Commerce |
| 8) Hon. Héctor O'Neill | Mayors Federation |
| 9) Hon. William Miranda-Marín | Mayors Association |

- | | |
|----------------------------|---------------------------------|
| 10) Carmen L. Marrero, CPA | Importers Association |
| 11) Raúl Gaya | Chamber of Commerce |
| 12) Carmen Martí | SBTDC |
| 13) José F. Méndez | Ana G. Méndez University System |
| 14) Luis Torres Acosta, PE | Manufacturers Association |
| 15) Pedro Malavé | Retailers Association |
| 16) Ramón González | Farmers Association |
| 17) Samuel González | United Way of Puerto Rico |

Each individual named above is either the Secretary, Executive Director or the President of the entity he or she represents, or his/her's designated representative. The Chairman of the Committee is José Ramón Pérez-Riera, Secretary of the Department of Economic Development and Commerce and Vice President is Mr. Luis Torres Acosta, of the Puerto Rico Manufacturers Association. The Secretary of the Committee is Planner Roberto González, Executive Director.

Once a person is designated by the organization or representing entity, this person is considered a “permanent member” of the CEDS Committee as defined in the Bylaws. However, the CEDS Committee may always recommend changes in its composition to the Chairman of the PRPB or his/her delegate.

Although, the CEDS Committee Bylaws preserve the right of the PRPB Chairman to take action to change the composition of the CEDS Committee given certain conditions, functionally, the post on the CEDS committee is held by the institution representing that community. Normally, the term of the individual on the CEDS Committee coincides with the term during which the individual occupies their post in the organization.

A majority of the members who are present at the pertinent meeting, wherein the Chairman of the PRPB (or his/her delegate) presides chooses the CEDS Committee President. If a majority elects to, the CEDS Committee may also establish other positions and designate its members, properly chosen by a majority of the permanent members present at the pertinent meeting, to additional positions such as CEDS Committee Vice-president or Secretary, among others. The CEDS Committee Executive Director or Secretary may be a permanent member of the CEDS Committee, although, it is not required.

THE CEDS COMMITTEE

The entire CEDS Committee, whose composition is detailed above, is comprised of both government officials and citizens from the wider community. Members are invited to participate on the committee in response to the particular expertise or knowledge area their participation is expected to provide.

The President, or his delegate on the CEDS Committee, at the request of a majority of the members of CEDS Committee, may designate a subcommittee whose function will be to analyze any issue of interest to the members of the CEDS Committee. The CEDS Committee has established a Subcommittee for the Evaluation of Investment Proposals. Composed of members from the larger board, the Subcommittee for

the Evaluation of Investment Proposals meets no less than once per year, but as often as necessary, in order to render its recommendations to the CEDS Committee.

The principal functions of the CEDS Committee are coordinated and administered by the Executive Director who is contracted, hired, or assigned to the task of Executive Director by the Chairman of the PRPB in order to supply “Staff Support” to the CEDS Committee.

STAFF SUPPORT FOR THE CEDS COMMITTEE

In order to meet the obligations of the EDA’s planning assistance investment program the PRPB is required to contract, hire, or designate an Executive Director to the CEDS Committee. In addition, the PRPB is obligated to provide a secretary for the Executive Director. Together, the CEDS Committee Executive Director and his/her secretary form the “executive staff” of the CEDS Committee. Support is received from PRPB staff as required.

The executive staff expedites the activities of the CEDS Committee and ensures that its work is conducted with greater effectiveness, efficiency, and in such a manner as to minimize any undue burden on any individual member of the CEDS Committee. It also assures that the CEDS document, the annual report, is completed to the satisfaction of the EDA. For this reason, the majority of the day to day procedural aspects of the work of the CEDS Committee has been delegated to the Executive Director.

Currently Planner Roberto González fills the position of Executive Director as well as that of secretary of the CEDS Committee. Planner González is an experienced planner who, prior to joining the Program worked extensively as a private consultant with municipalities and community based organizations throughout Puerto Rico.

SECTION II: PUERTO RICO'S ECONOMY

THE ECONOMY OF PUERTO RICO: TRENDS AND PROJECTIONS FOR FY 2009 AND 2010

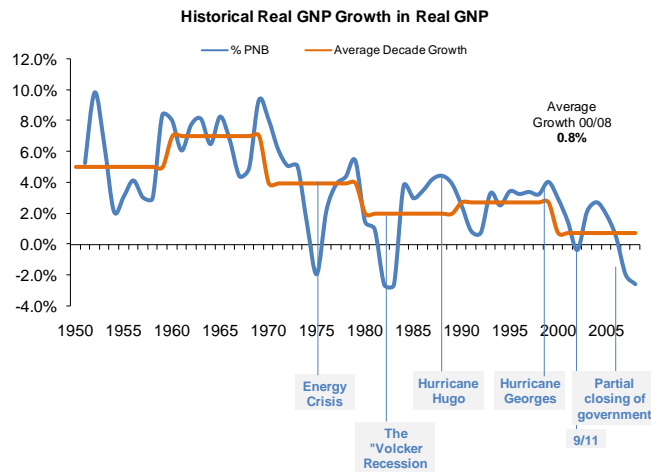
INTRODUCTION

The Puerto Rico Planning Board (PRPB), in compliance with its mandate, is the agency of the Government of the Commonwealth of Puerto Rico responsible for monitoring the economy of Puerto Rico, in order to identify the performance of the island economy. Based on this, the PRPB develops projections and analysis, which together with other policy tools, are used as the foundation of policy decisions in both the private and public sectors.

BACKGROUND

AN UNDERPERFORMING ECONOMY

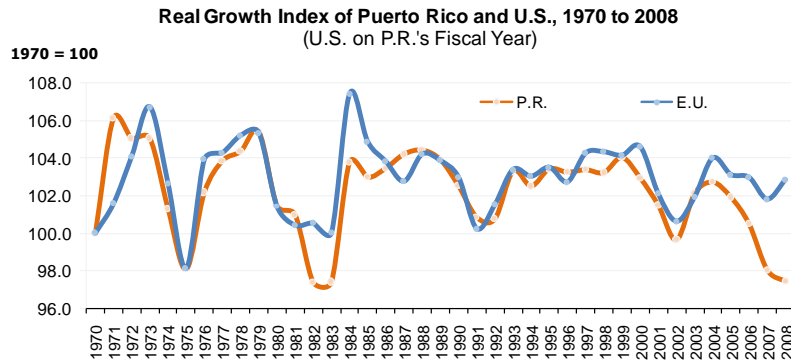
After a period of significant economic expansion during the fifties and sixties (average annual growth of 5.3% and 7.0% respectively) the economy has experienced a consistent-if gradual- slowdown for the last 4 decades. Real average annual economic growth contracted from 3.5% in the 70s to 2.0% in the 80s, 2.8% in the 90s and is now expected to cap 0% during the present decade. Real growth by decades has experienced declining numbers since the 1970s. In the current decade, only FY 2003 had a growth rate above 2.5%, lower than the previous decade growth average of 2.7%. While there are several explanations behind these isolated periods of short-term economic growth, most signs point to a structural problem with the local economy.



Source: PR Planning Board and Estudios Técnicos, Inc.

During the previous two decades there have been several major drivers of the Island’s real GNP growth. In 2008, private consumption actually dragged down real GNP growth, with a contribution of -0.7 percentage points. The reason behind the rise and subsequent decline in consumption expenditures can be attributed to tighter lending restrictions and a more cautious consumer attitude in the face of uncertain economic conditions.

A recent development in Puerto Rico’s economic development has been the widening gap between the Island’s economic growth and that of the Mainland. Since 2006 the gap has widened consistently, as the following graph illustrates, more so by fiscal 2008, pointing to the existence, as mentioned above, of serious structural problems in the local economy that are hampering its development.



Source: Puerto Rico Planning Board; US Bureau of Economic Analysis

INCOME LEVELS

Income levels are still concentrated in the lower brackets, and that situation is expected to continue for the next several years. About 37% of the households have an annual income of \$18,000 or lower, with 14% in the next bracket, meaning that 51% of households have incomes of \$27,000 or lower. Per Capita Personal Income in Puerto Rico is \$14,200, which compares with Mississippi’s \$29,000, Florida’s \$38,500 and the U.S. as a whole, \$38,600.

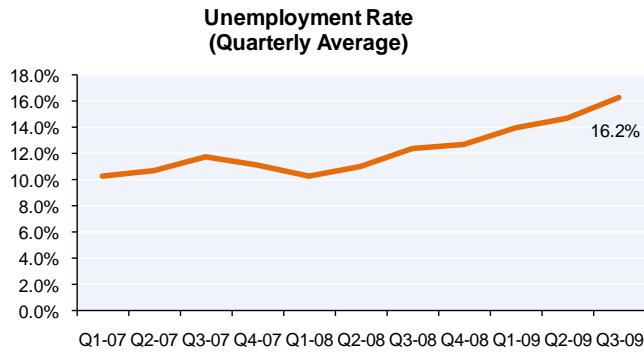
Household Formation by Income Level 2008-2012			
Income Levels (2008 Prices)	5 yr Change	Annual	Percent of Total
\$0,000-\$18,000	35,082	7,016	37%
\$18,000-\$27,000	13,511	2,702	14%
\$27,000 - \$44,000	17,180	3,436	18%
\$44,000 - \$89,000	18,818	3,764	20%
More than \$89,000	9,537	1,907	10%
Total	94,128	18,826	100%

Source: PR Planning Board and Estudios Técnicos, Inc

EMPLOYMENT AND UNEMPLOYMENT

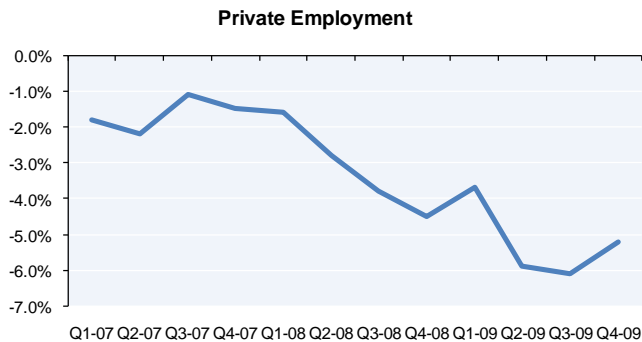
Puerto Rico’s non-farm salaried employment has fallen consistently since the start of the current recession. According to preliminary figures, the fiscal year average fell by 26,133 jobs in FY/2009 compared to the average of 2008. The latter is a result of job losses across all areas, but most importantly in manufacturing where jobs losses, on a fiscal year average basis, reached 6,366 or 6.1% during the

above-mentioned period. During that same period, private employment fell by 3.9% or 28,416 jobs, while public employment, including all branches of the government¹ managed to add 2,283 employees to the payroll. For fiscal 2009, the average unemployment rate reached 13.4% or up by 2.5% in a year, another symptom of a weakening job market with slow economic activity. By June, the unemployment rate went up to 15.2%, a reflection of further deterioration in the labor market.

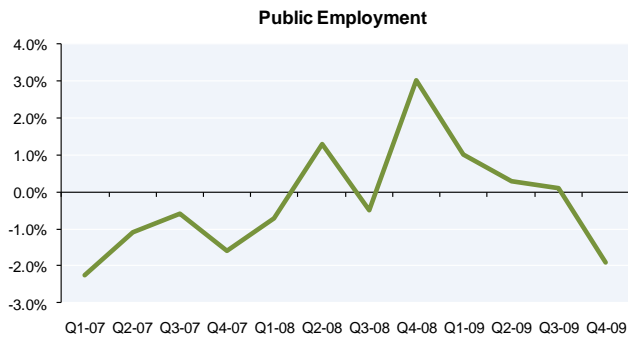


Source: PR Department of Labor

Private employment has been decreasing consistently during the past three years, thus, there have been no sources of new employment creation (other than public employment). During 2007 private employment declined at an annual average rate of 1.6%. During the first half of this year it went down further by 4.8%, while public employment showed an upward trend, after declining in 2008, and represents 29% of total non-farm salaried employment.



Source: PR Department of Labor



¹ Includes Federal, Central and Municipal jobs.

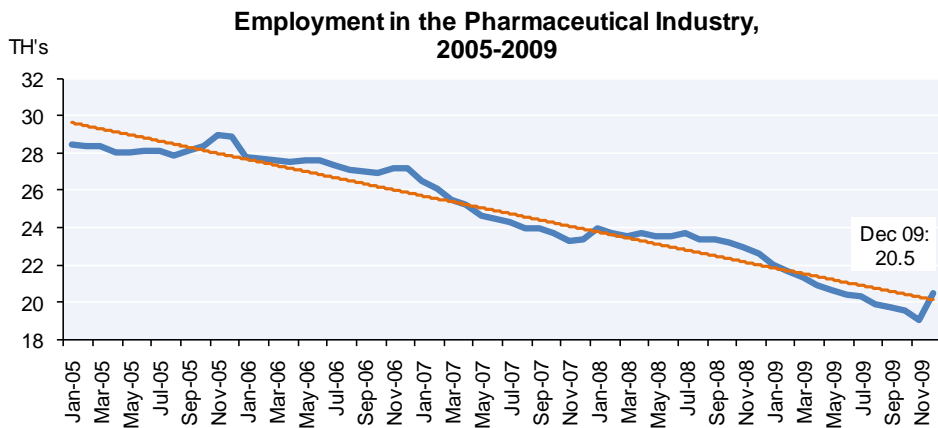
Source: PR Department of Labor

As a result of changing conditions in the global economy, technology changes, and a reduction of external investment, employment in the manufacturing sector has declined throughout the years, although still representing 10% of total non-farm employment. This development is not exclusive to Puerto Rico, as it has happened not only on the Mainland but in some of our key competitors, such as Ireland. Between 1999 and 2009, the sector has lost 52,780 jobs.



Source: PR Department of Labor

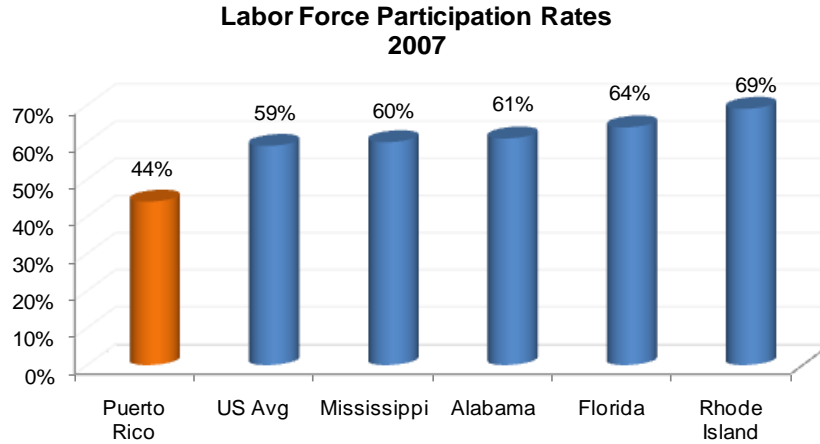
Within manufacturing, employment in the pharmaceutical sector, which represents 23% of manufacturing employment, has declined over the past three and a half years. Between 2003 and 2008, the sector registered a net loss of 2,817 jobs. This reflects changes in the industry, such as mergers worldwide and transfer of operations to other sites, and is a worrisome development that the government has attempted to mitigate, for instance with the new Industrial Incentives Law of 2008.



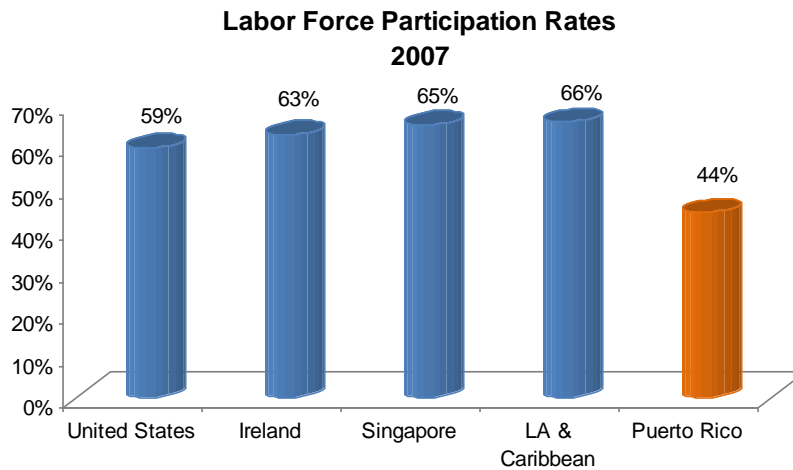
Source: U.S. BLS, Establishment Survey.

One important characteristic of the labor force in Puerto Rico is its low participation rate, not only with respect to the Mainland but also with that of other economies. For the Mainland the LFPR is 59%, higher in the case of the competing economies of Ireland and Singapore, and even in the case of Latin America and the Caribbean. Puerto Rico's labor force participation rate is not only very low compared to the

average for the mainland, but also with respect to, for example, Alabama (61.4%), Florida (64%), Mississippi (60%), and Rhode Island (69%), among other states.



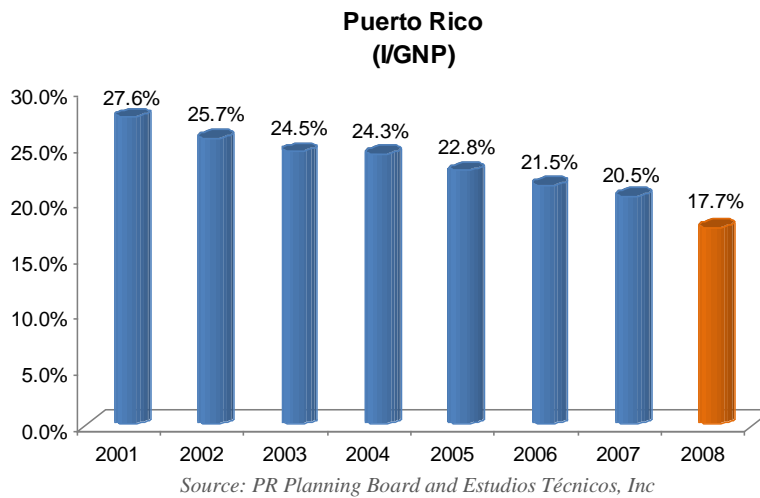
Source: PR Department of Labor



Source: PR Department of Labor

INVESTMENT

Another troublesome development in the local economy is the decreasing share of investment as a share of GNP, placing the Island at a disadvantage with respect to other economies with which it competes. Between 2001 and 2008 the share went down from 28% to 18%, due mostly to a reduction in construction investment. On the other hand, the share is higher in the case of Singapore (29%), South Korea (29%) and Ireland (26%). This is an indication that consumption has replaced investment as the key driver of the economy, not a healthy development.



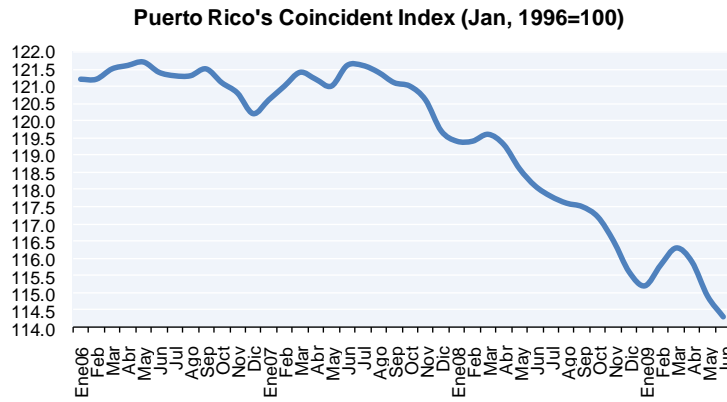
RECENT ECONOMIC ACTIVITY

COINCIDENT INDEX²

The local economy has been undergoing a deep recession since the latter part of 2006. As shown in the coincident index (CI), the trend has been consistently downward since July 2007. After a modest recovery, the level of the index continued to be on the downside in June, with an annual reduction of 3.2%. Since January the index has declined at an accumulated rate of 18.5%. The series that has contributed most to the decline is net employment (excluding public and manufacturing).

The economy will confront strong headwinds from several factors during the coming months that could affect negatively the index, including an upward trend in oil prices, and a rise in commodity prices. As expected, the retail gasoline market in Puerto Rico mirrors world oil markets. As world oil prices rose in the last few months, so have gasoline and electric energy prices in Puerto Rico. The average retail price of gasoline in June was \$0.67 dollar/liter, up from the average of \$0.59 dollar/liter registered in May, although well below its June 2008 level. Meanwhile, the average price for fiscal year 2009 rounded up to \$0.66 dollars/liter, still lower than that of the previous fiscal year, when it was \$0.83 dollars/liter. Furthermore, oil markets are not expected to experience substantial price increases until a sustained economic recovery is achieved around the world. Unfortunately, if the local economy continues to lag in its recovery, economic expansion elsewhere could hinder our recovery prospects through higher oil prices and expected higher interest rates in 2010.

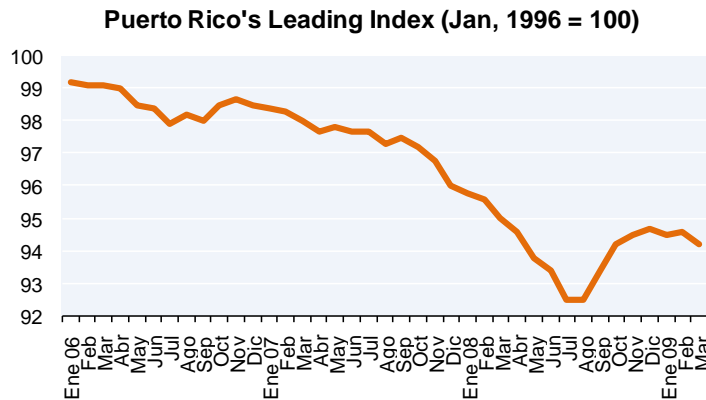
² The index consists of the following monthly series: total net employment (Household Survey) excepting manufacturing and public employment, total consumption of electricity, net revenues to the General Fund, and total exports.



Source: Estudios Técnicos, Inc

LEADING INDEX³

The leading index has also experienced a downswing since August 2007. The index fell by 1.1% in the first quarter of the current year.



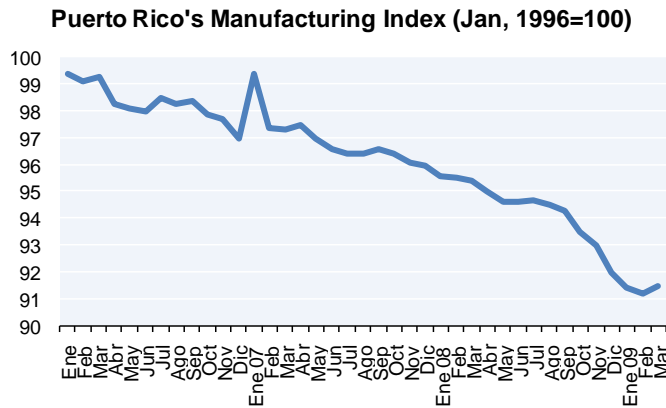
Source: Estudios Técnicos, Inc

MANUFACTURING INDEX⁴

Manufacturing activity has been stagnant in the same period, with a contraction of 4.3% in the manufacturing index.

³ It is a composite index consisting of the following monthly series: average monthly price of WTI oil, the University of Michigan's consumers confidence index, the value of construction permits, and the number of permits issued for the construction of new housing units.

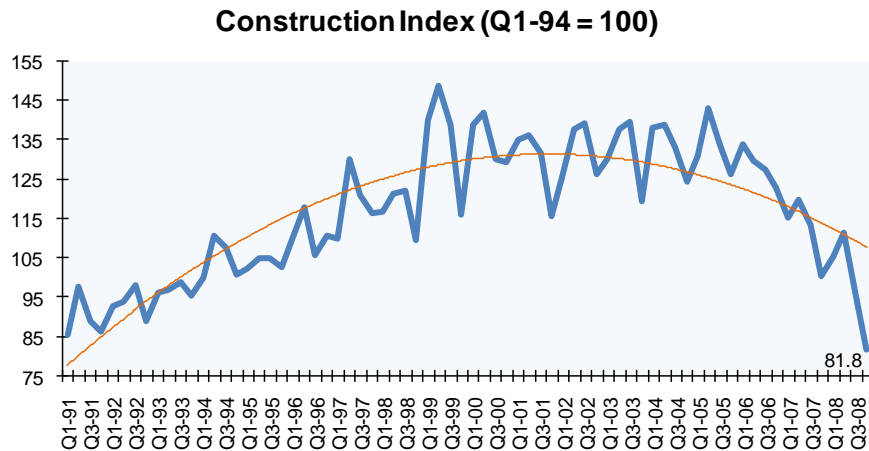
⁴ Employment (Establishment Survey) excluding the food and apparel sectors, payroll of production workers, average weekly hours for production workers, total exports, and electricity consumption of the sector.



Source: Estudios Técnicos, Inc

CONSTRUCTION INDEX

Construction activity has slowed down considerably since mid-2005. The index is a weighted composite of the number of construction permits and cement sales (in volume). In 2008, the average index fell to 98.6 or 12.1% below the average of the previous year. This is a reflection of the serious deterioration in construction activity since 2007. Investment in construction declined in real terms by 9.0% in Fiscal 2008. As the index shows, the situation has not improved since. Indicators for 2009 corresponding to construction permits, which could be seen as a leading indicator for the activity, reflects, on average, 50% reductions in number and value of permits.

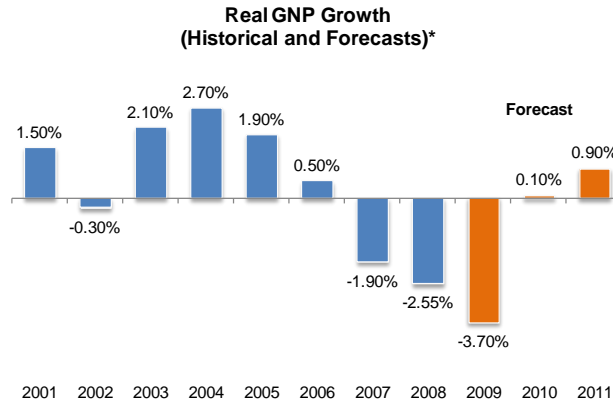


Source: Estudios Técnicos, Inc

FORECAST FOR FISCAL YEARS 2009 THROUGH 2011

As a reflection of continuing deterioration in economic conditions, it is expected that the local economy will experience another contraction of 3.7% in fiscal 2009, higher than that in the previous fiscal year 2008 of 2.5%. For the current fiscal year 2010, the expectation is that the economy could show an improvement, but very marginal, of 0.1%, and higher (0.9%) in the following fiscal year, as the effects of the ARRA stimulus funds are felt. Puerto Rico will receive approximately \$5.6 billion in federal stimulus aid, to which \$500 million from the local stimulus program added, to be funded with proceeds from sales tax revenue bonds. (For the distribution of ARRA funds, see Appendix VI).

During the coming three years the economy will experience numerous factors that will influence economic developments, such as the disbursement of the federal and local stimulus funds, the impact of the reduction in public spending, and the situation of the U.S. economy, that will be closely monitored by the Planning Board.



Source: PR Planning Board

A STATISTICAL SUMMARY

This section presents an overview of the structure and evolution of the main economic sectors, in terms of output (GDP) and employment, and of other selected indicators.

EMPLOYMENT AND UNEMPLOYMENT

The number of persons employed in Puerto Rico during fiscal year 2009 averaged 1,168,000, a 4.1% decrease from 1,263,000 in fiscal year 2007. The local unemployment rate is approximately twice the U.S. average.

The following table presents annual statistics of employment and unemployment for fiscal years 2004 through 2009. These employment figures are based on the Household Survey, which includes self-employed individuals, instead of the non-farm, payroll employment survey (the “Payroll Survey”), which does not. The number of self-employed individuals represents around 15% of total employment in Puerto Rico, more than double the level in the United States.

Commonwealth of Puerto Rico Employment and Unemployment (1) (persons age 15 and over) (in thousands)				
Fiscal years Ended June 30	Labor Force	Employment (Annual Average)	Unemployment	Unemployment Rate(2)
2004	1360	1206	155	11.4%
2005	1385	1238	147	10.6%
2006	1422	1256	166	11.7%
2007	1409	1263	147	10.4%
2008	1368	1218	151	11.0%
2009	1349	1168	173	13.0%

(1) Totals may not add due to rounding.
(2) Unemployed as percentage of labor force.

Source: Department of Labor and Human Resources - Household Survey

ECONOMIC PERFORMANCE BY SECTOR

From fiscal year 2004 to fiscal year 2008, the manufacturing and services sectors generated the largest portion of gross domestic product. The three sectors of the economy that provide the most employment are manufacturing, services and government.

The table below presents annual statistics of gross domestic product by sector and gross national product for the five fiscal years ended June 30, 2004 through 2008.

Commonwealth of Puerto Rico					
Gross Domestic Product by Sector and Gross National Product					
(in millions at current prices)					
	Fiscal Years Ended June 30				
	2004	2005	2006	2007	2008⁽¹⁾
Manufacturing	\$33,267	\$34,534	\$35,638	\$36,309	\$38,461
Services ⁽²⁾	30,476	32,449	34,006	35,551	37,585
Government ⁽³⁾	7,389	8,150	8,424	8,585	8,762
Transportation, communication and public utilities	5,343	5,309	5,906	6,111	6,024
Agriculture, forestry and fisheries	414	375	394	418	444
Construction ⁽⁴⁾	1,905	1,848	1,788	1,929	1,991
Statistical discrepancy	415	144	221	-58	573
Total gross domestic product	<u>\$79,209</u>	<u>\$82,809</u>	<u>\$86,157</u>	<u>\$88,902</u>	<u>\$93,268</u>
Less: net payment abroad	<u>(28,501)</u>	<u>(29,056)</u>	<u>(29,425)</u>	<u>(30,339)</u>	<u>(32,476)</u>
Total gross national product ⁽⁵⁾	<u>\$50,709</u>	<u>\$53,753</u>	<u>\$56,732</u>	<u>\$58,563</u>	<u>\$60,792</u>

- (1) Preliminary
- (2) Includes wholesale and retail trade, finance, insurance and real estate, tourism, and other services.
- (3) Includes the Commonwealth, its municipalities and certain public corporations, and the federal government. Excludes certain other public corporations like the Electric Power Authority and the Aqueduct and Sewer Authority whose activities are included under Services in the table.
- (4) Includes mining.
- (5) Totals may not add due to rounding.

Source: Puerto Rico Planning Board

In the case of the Mainland, the share of manufacturing in total output is much smaller compared to Puerto Rico’s, 11.5%, and has been declining from 16.3% in 1990, as the economy moved to a greater reliance on services.

The table below presents a breakdown of non-farm employment by industrial sector (based on NAICS), for fiscal years 2004 through 2008. The data for employment by sector or industries presented here. As in the United States as whole, are based on the Payroll Survey, which is designed to measure employment by sector. The Payroll Survey excludes agricultural employment and self-employed persons. The majority of employment is in services, which represents 54.2%, followed by employment in government (29%), manufacturing (10.2%) and construction (6.5%).

Commonwealth of Puerto Rico					
Non-Farm, Payroll Employment by Economic Sector⁽¹⁾					
(persons age 16 and over)					
	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008⁽²⁾
Natural Resources and Construction	69,297	68,244	67,111	67,374	66,690
Manufacturing					
Durable Goods	49,776	48,471	46,913	45,404	43,894
Non-Durable Goods	68,660	69,356	65,420	62,378	60,018
Sub Total	<u>118,437</u>	<u>117,827</u>	<u>112,333</u>	<u>107,782</u>	<u>103,911</u>
Trade, Transportation, Warehouse & Utilities					
Wholesale Trade	33,299	33,619	33,733	33,307	33,296
Retail Trade	132,008	136,168	137,056	134,095	131,389
Trade, Transportation, Warehouse & Utilities	17,054	17,457	17,540	16,855	16,010
Sub Total	<u>182,361</u>	<u>187,244</u>	<u>188,329</u>	<u>184,257</u>	<u>180,695</u>
Information	21,907	22,787	22,893	22,658	22,218
Financial Activities	46,852	48,554	49,765	49,122	48,407
Professional & Business	101,899	104,241	105,640	108,609	104,797
Educational & Health	98,101	99,484	101,200	104,919	104,613
Leisure & Hospitality	70,310	72,067	73,663	73,863	73,849
Other Services	20,671	21,150	20,755	18,549	18,135
Government	303,431	307,275	304,472	298,109	297,281
Total Non-Farm	<u>1,033,265</u>	<u>1,048,857</u>	<u>1,046,160</u>	<u>1,035,062</u>	<u>1,020,596</u>

(1) The figures presented in this table are based on the Payroll Survey prepared by the Bureau of Labor Statistics of the Department of Labor and Human Resources. There are numerous conceptual and methodological differences between the Household Survey and the Payroll Survey. The Payroll Survey reflects information collected from payroll records of a sample of business establishments, while the Household Survey is based on responses to a series of questions by persons in a sample of households. The Payroll Survey excludes the self-employed and agricultural employment. Totals may not add due to rounding.

(2) Preliminary.

Source: Department of Labor and Human Resources, Current Employment Statistics Survey (Establishment Survey - NAICS Codes)

MANUFACTURING

While in terms of employment manufacturing represents 10% of the total, with respect to output (as measured by GDP) its share is much higher, 41.2%. It has remained at that level for several years. The high share of manufacturing in total output is due to the importance of the pharmaceutical sector. It accounts for 57% of manufacturing production in the island. The table below presents a breakdown of manufacturing's GDP by industrial sector.

Commonwealth of Puerto Rico					
Gross Domestic Product by Manufacturing Sector					
(in millions at current prices)					
	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008
Pharmaceuticals	\$19,814	\$20,705	\$21,023	\$21,271	\$21,733
Machinery and metal products:					
Machinery, except electrical	3,372	3,307	3,252	3,428	3,920
Electrical machinery	1,818	1,904	1,855	1,840	2,342
Professional and scientific instruments	3,540	3,698	4,166	4,293	4,708
Other machinery and metal products	274	282	276	280	299
Food products	2,202	2,312	2,874	2,969	3,065
Other chemical and allied products	591	613	663	691	792
Apparel	344	325	253	213	234
Other ⁽¹⁾	1,312	1,387	1,276	1,324	1,368
Total gross domestic product of manufacturing sector ⁽²⁾	<u>\$33,267</u>	<u>\$34,534</u>	<u>\$35,638</u>	<u>\$36,309</u>	<u>\$38,461</u>

(1) Includes petroleum products; petrochemicals; tobacco products; stone, clay and glass products; textiles and others.

(2) Totals may not add due to rounding

Source: Puerto Rico Planning Board

Most of the island’s manufacturing output is shipped to the United States mainland, which is also the principal source of raw and semi-finished manufactured products on which further manufacturing operations are performed in Puerto Rico. The United States minimum wage laws are applicable in Puerto Rico. For fiscal year 2008, the average hourly manufacturing wage rate in Puerto Rico was approximately 68.5% of the average mainland United States rate.

Manufacturing in Puerto Rico is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last three decades, industrial development has tended to be more capital intensive and more dependent on skilled labor. This gradual shift in emphasis is best exemplified by large investments over the last decade in the pharmaceutical, scientific instruments, computer and electrical products industries in Puerto Rico. One of the factors encouraging the development of the manufacturing sector has been the tax incentives offered by the federal and Puerto Rico governments. Federal legislation enacted in 1996, however, which amended Section 936 of the U.S. Code, phased out these federal tax incentives during a ten-year period that recently ended. This change has had a long-term impact on local manufacturing activity.

The table below presents the distribution of employment in the sector. The majority is in the non-durable goods sectors (58%), and the rest in durable goods production. The table also shows how employment in the sector has declined considerably in the past several years. Total employment in the manufacturing sector decreased by 14,526 from fiscal year 2004 to fiscal year 2008. Manufacturing employment had been declining during the past decade, but the decline accelerated during fiscal years 2002 and 2003, falling -10.6% and -4.8%, respectively. After that, manufacturing employment seemed to stabilize around 118,000 jobs, but the deceleration reappeared in fiscal year 2006 with the sector experiencing another significant drop of -4.7%. For fiscal years 2007 and 2008, manufacturing employment decreased by -4.1% and -3.6%, respectively. During fiscal year 2008 the manufacturing sector lost around 3,658 jobs.

By fiscal 2009, the sector registered another loss of 6,400 jobs, an indication of further weakening of the sector.

Commonwealth of Puerto Rico Non-Farm Payroll Manufacturing Employment by Industry Group* (persons age 16 years and over)					
Industry Group	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008 ⁽¹⁾
<u>Durable Goods</u>					
Nonmetallic Mineral Products Manufacturing	4,706	4,459	3,964	3,576	3,525
Cement and Concrete Products Manufacturing	3,867	3,738	3,347	3,324	3,110
Fabricated Metal Products	6,490	6,500	5,906	5,641	5,357
Computer and Electronic Electrical Equipment-Appliances and Components	10,581	10,642	10,766	10,160	9,035
Electrical Equipment Manufacturing	7,744	7,882	7,213	6,628	6,631
Electrical Equipment Manufacturing	4,935	5,051	4,862	4,612	4,693
Miscellaneous Manufacturing	12,070	11,620	11,414	12,337	12,738
Medical Equipment and Supplies Manufacturing	11,059	10,578	10,696	11,618	12,160
Other Durable Goods Manufacturing	<u>8,185</u>	<u>7,368</u>	<u>7,650</u>	<u>6,882</u>	<u>6,608</u>
Total-Durable Goods	<u>49,776</u>	<u>48,471</u>	<u>46,913</u>	<u>45,404</u>	<u>43,894</u>
<u>Non-Durable Goods</u>					
Food Manufacturing	12,170	13,075	12,671	12,237	12,185
Beverage and Tobacco Products Manufacturing	3,038	3,117	3,277	3,252	3,316
Apparel Manufacturing	8,522	8,910	8,125	7,634	8,790
Cut and Sew Apparel Manufacturing	8,518	8,888	7,928	6,989	7,914
Chemical Manufacturing	31,385	33,006	31,863	30,345	26,677
Pharmaceutical and Medicine Manufacturing	27,187	28,680	27,475	26,266	23,089
Plastics and Rubber Products	3,210	2,710	2,138	2,185	2,026
Plastics Product Manufacturing	2,917	2,243	1,962	2,022	1,865
Other Non-Durable Goods Manufacturing	<u>10,335</u>	<u>8,718</u>	<u>7,346</u>	<u>6,725</u>	<u>7,024</u>
Total - Non-Durable Goods	<u>68,660</u>	<u>69,356</u>	<u>65,420</u>	<u>62,378</u>	<u>60,018</u>
Total Manufacturing Employment	<u>118,437</u>	<u>117,827</u>	<u>112,333</u>	<u>107,782</u>	<u>103,911</u>

*Totals may not add due to rounding.

(1) Preliminary

Source: Department of Labor and Human Resources, Current Employment Statistics Survey (Establishment Survey - NAICS Codes)

There are several reasons which explain the reduction in employment: the end of the phase-out period for Section 936, the net loss of patents on certain pharmaceutical products, the escalation of manufacturing production costs (particularly labor and electricity), and the increased use of job outsourcing. Puerto Rico's manufacturing sector is facing increased international competition, and new ideas and initiatives are necessary to improve this sector. Nevertheless, Puerto Rico maintains a strong industrial sector.

Leading United States and Foreign Companies with Manufacturing Operations in Puerto Rico ¹			
Employment 2,500 and over	Product		
		Sara Lee Corp.	Apparel
Baxter International, Inc.	Medical Devices	Sitnasuak Native Corporation	Apparel
Johnson & Johnson	Pharmaceuticals	St. Jude Medical Inc.	Medical Instruments
Medtronic Europe SA	Medical Devices	Stryker Corp.	Surgical Instruments
Pfizer, Inc.	Pharmaceuticals	Unilever PLC	Consumer Products
		Zimmer Holdings, Inc	Pharmaceuticals
Employment 1,000 to 2,499	Product	Employment 200 to 499	Product
Abbott Laboratories	Pharmaceuticals	Bacardi Limited	Food
Altadis	Cigars	B. Braun Medical Inc.	Medical Devices
Amgen, Inc	Pharmaceuticals	Biovail Corporation International	Pharmaceuticals
Bristol-Myers Squibb. Cop	Pharmaceuticals	Bumble Bee Seafoods	Food
Coopervision Inc	Ophthalmic Products	Carolina Underwear Co.	Apparel
Eaton Corporation	Electronics Instruments	Checkpoint Systems, Inc.	Electronic Instruments
Edwards Lifesciences LLC	Surgical Instruments	Coca Cola Company	Food
Eli Lilly and Company	Pharmaceuticals	C.R. Bard, Inc	Medical Devices
General Electric Industrial Systems	Electronics Instruments	Curtis Instruments Inc.	Electrical Instruments
Glaxo Smithkline	Pharmaceuticals	Davis Creek Managing Partners	Metal Products
Hewlett-Packard Co.	Computers	E.J. DuPont de Nemours & Co	Chemicals
Merck & Co. Inc	Pharmaceuticals	Essilor International	Medical Devices
Propper International, Inc.	Apparel	F. Hoffman-La Roche	Medical Devices
Tyco International, Inc.	Surgical Instruments	Honeywell Aerospace	Engineering Consulting
Wyeth	Pharmaceuticals		Services
Employment 500 to 999	Product	Inversionistas Foraneos	Electronic Instruments
		Legacy Pharmaceuticals International	Pharmaceuticals
Astra Zeneca PLC	Pharmaceuticals	Loctite Corporation	Chemicals
Atento Teleservicios	Communications	Lutron Electronics Co. Inc.	Electronic Instruments
Becton-Dickinson & Co.	Surgical Instruments	Mylan Laboratories, Inc	Pharmaceuticals
Cardinal Health, Inc	Surgical Instruments	Novartis	Pharmaceuticals
Centennial Communication	Wireless Communications	PepsiCo, Inc	Food
Eagle Industries, Inc.	Apparel	Pratt & Whitney	Software
Grupo Gloria	Food	Sears Roebuck & Company	Electronic Products
Guidant Corp.	Medical Instruments	Standard Motor Products, Inc	Motor Vehicule Parts
Hamilton Sundstrand Corp.	Electrical Instruments	Symmetricom Inc.	Electronic Equipment
Hubbell Incorporated	Electrical Instruments	Thomas & Betts Corporation	Electronical Instruments
Ingersoll-Rand Co.	Electrical Instruments	Warner Chilcott PLC	Pharmaceuticals
Nypro International	Electronics	West Pharmaceutical Services	Pharmaceuticals
Patheon Inc.	Pharmaceuticals	Winston-Salem Industries for the Blind, Inc.	Apparel
Procter & Gamble Co	Pharmaceuticals		

¹ Based on the last employment figures reported by each company to PRIDCO.

Source: PRIDCO; Economic Analysis and Strategic Planning Area

SERVICES

Puerto Rico has experienced significant growth in the services sector, which includes finance, insurance, real estate, wholesale and retail trade, tourism and other services, in terms of both income and employment over the past decade, showing a favorable trend as compared with certain other industrialized economies. During the period between fiscal years 2004 and 2008, the gross domestic product in this sector, in nominal terms, increased at an average annual rate of 4.7%. The services sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In fiscal year 2008, services generated \$43.6 billion of gross domestic product representing or 46.8% of the total.

Commonwealth of Puerto Rico Gross Domestic Product by Service Sector* (in millions at current prices)					
	Fiscal Years Ended June 30				
	2004	2005	2006	2007	2008(1)
Wholesale and retail trade	\$9,802	\$10,217	\$10,675	\$11,110	\$11,811
Finance, insurance and real estate	\$13,029	\$14,267	\$14,833	\$15,927	\$16,389
Other services(2)	\$7,646	\$7,965	\$14,405	\$14,625	\$15,409
Total	\$30,476	\$32,449	\$34,006	\$35,551	\$37,585

* Totals may not add due to rounding

(1) Preliminary.

(2) Includes tourism.

Source: Puerto Rico Planning Board.

In the Puerto Rico labor market, self-employment, which is not accounted for in the Payroll Survey, represents approximately 15% of total employment according to the Household Survey. Most of the self-employment is concentrated in the service and construction sectors. The development of the services sector has been positively affected by demand generated by other sectors of the economy, such as manufacturing, construction and agriculture. The services sector in Puerto Rico has a diversified base.

The high degree of knowledge, skills, and expertise in professional and technical services available in Puerto Rico places the Island in a favorable competitive position with respect to Latin America and other trading countries throughout the world.

Employment in services has increased, from 542,100 in fiscal 2004 to 552,700 in fiscal 2008 (representing 54.2% of non-farm employment). This represents a cumulative increase of 2.0% during the period, but has slowed down considerably since 2006, as the recession began to take its toll. By fiscal 2009, employment went down at an annual rate of 1.7% from 2008, similar to the total of 2007, to 542,983.

Commonwealth of Puerto Rico Non-Farm Payroll Employment by Services Sector* (thousands of persons age 16 and over)					
	Fiscal Years Ended June 30,				
	2004	2005	2006	2007	2008(1)
Wholesale Trade	33,300	33,717	33,992	33,333	33,283
Retail Trade	132,008	136,192	137,358	134,108	131,317
Transportation, Warehouse & Utilities	17,042	17,617	17,433	16,858	16,008
Trade, Transportation, Warehouse & Utilities	182,350	187,525	188,783	184,300	180,608
Utilities					
Information	21,917	22,608	22,675	22,667	22,225
Finance	46,850	48,633	49,767	49,142	48,408
Professional and Business	101,900	103,767	106,517	108,608	104,800
Educational & Health	98,108	99,967	103,650	104,917	104,608
Leisure & Hospitality	70,317	72,592	74,767	73,675	73,808
Other services	20,650	21,258	20,567	18,542	18,125
Total	542,092	556,351	566,726	561,850	552,582

* Totals may not add due to rounding

(1) Preliminary.

Source: Department of Labor and Human Resources, Benchmark on Employment, Hours and Earnings

HOTELS AND RELATED SERVICES – TOURISM

The number of persons registered in tourist hotels during fiscal year 2008, including residents of Puerto Rico and tourists, was 1,737,580, a decrease of 3.1% over the number of persons registered in fiscal year 2007. The average occupancy rate in tourist hotels during fiscal years 2008 was 70.3%, compared to 71.9% for fiscal year 2007.

San Juan is the largest homeport for cruise ships in the Caribbean and one of the largest homeports for cruise ships in the world.

The following table presents data relating to visitors to Puerto Rico and tourist expenditures for the five fiscal years ended June 30, 2008.

Commonwealth of Puerto Rico Tourism Data ⁽¹⁾ Number of Visitors					
					Total Visitors' Expenditures (in millions)
<u>Fiscal Years Ended June 30.</u>	<u>Tourist Hotels</u>	<u>Cruise Ship</u>	<u>Others⁽²⁾</u>	<u>Total</u>	
2004	\$1,307,022	\$1,348,163	\$2,233,977	\$4,889,162	\$3,024
2005	1,361,643	1,386,925	2,324,274	5,072,842	3,239
2006	1,424,166	1,300,115	2,297,839	5,022,120	3,369
2007	1,353,376	1,375,433	2,333,597	5,062,406	3,414
2008 (p)	1,276,989	1,496,853	2,617,348	5,391,190	3,644

(1) Only includes information about non-resident tourist registering in tourist. They are counted once even if registered in more than one hotel.

(2) Includes visitors in homes of relatives, friends, guesthouses, and in apartments.

(p) Preliminary.

Source: Puerto Rico Planning Board.

The Commonwealth, through the Convention Center District Authority, has completed the development of the largest convention center in the Caribbean, and the centerpiece of a 100-acre, private development, to include hotels, restaurants, cinemas, office space and housing. The convention center district is being developed at a total cost of \$1.3 billion to improve Puerto Rico's competitive position in the convention and group travel segments. The convention center opened on November 17, 2005.

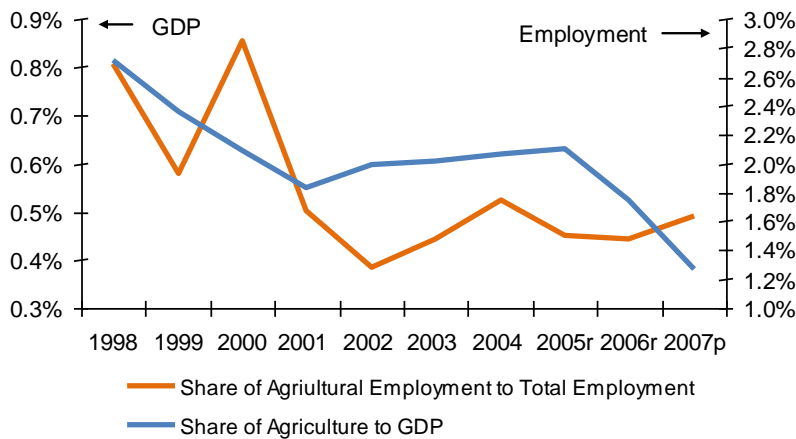
The Convention Center District Authority also owns a multi-purpose coliseum located in San Juan, Puerto Rico. The coliseum, known as the Jose Miguel Agrelot Coliseum, was inaugurated in 2004 and has been host to various successful artistic and other events.

AGRICULTURE

The Department of Agriculture and related agencies have directed their efforts at increasing and improving local agricultural production, increasing efficiency and the quality of produce, and stimulating the consumption of locally produced agricultural products. During fiscal year 2008, gross income from agriculture was \$792.0 million, an increase of 1.2% compared with fiscal year 2007. Agriculture gross income consists of the total value of production in the principal agricultural sectors, which include coffee, livestock products, legumes, fruits, starchy vegetables, other vegetables, ornamental plants, and other products.

Agriculture accounts for a very small share of employment, less than 2% of total employment (Household Survey), and has been declining since the 1980's. Although agriculture still retains its importance in the local economy, that importance has declined considerably over the past decades. As of fiscal year 2008, the share of the agricultural sector in the island's GDP in 2008 was 0.4%, and farm employment represents only 1.2% of total employment.

Agricultural Production and Employment



Source: PR Planning Board

The Commonwealth supports agricultural activities through incentives, subsidies, and technical and support services, in addition to income tax exemptions for qualified income derived by bona fide farmers.

Act No. 225 of 1995 provides a 90% income tax exemption for income derived from agricultural operations, an investment tax credit equal to 50% of the investment in qualified agricultural projects, and a 100% exemption from excise taxes, real and personal property taxes, municipal license taxes and tariff payments. It also provides full income tax exemption for interest income from bonds, notes and other debt instruments issued by financial institutions to provide financing to agricultural businesses. Subsequent legislation imposed an aggregate annual limit of \$15 million on the investment tax credits available under Act No. 225.

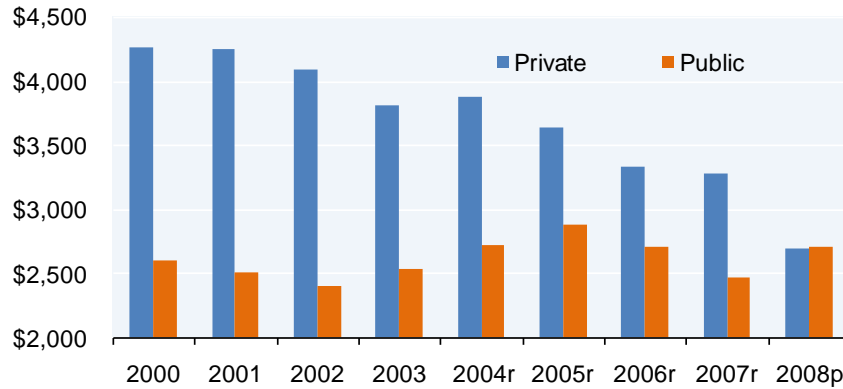
Policy changes have been implemented to promote employment and income generated by the agricultural sector. The policy initiatives include a restructuring of the Department of Agriculture, an increase in government purchases of local agricultural products, new programs geared towards increasing the production and sales of agricultural products, and a new system of agricultural credits and subsidies for new projects.

CONSTRUCTION

Although the construction industry represents a relatively small segment of the economy compared to other sectors, it has made significant contributions to the growth of economic activity, due to its multiplier effect on the whole economy. During the period from fiscal year 2004 through fiscal year 2008, real construction investment has decreased at an average annual growth rate of 8.6%. Total construction investment for fiscal year 2008 decreased (in real terms) by 8.8% due principally to the drop in private

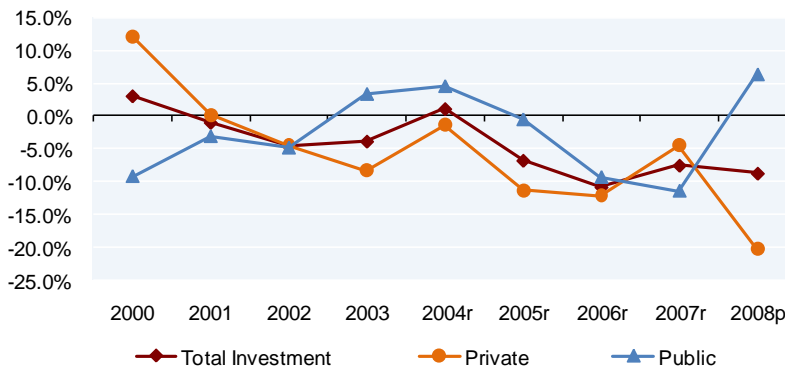
construction projects. The total value of construction permits decreased by an average of 4.2% during the same five fiscal year period.

Construction Investment (\$Mm)



Source: P.R. Planning Board (2009).

Real Annual Growth, Public and Private Investment, 2000 - 2008



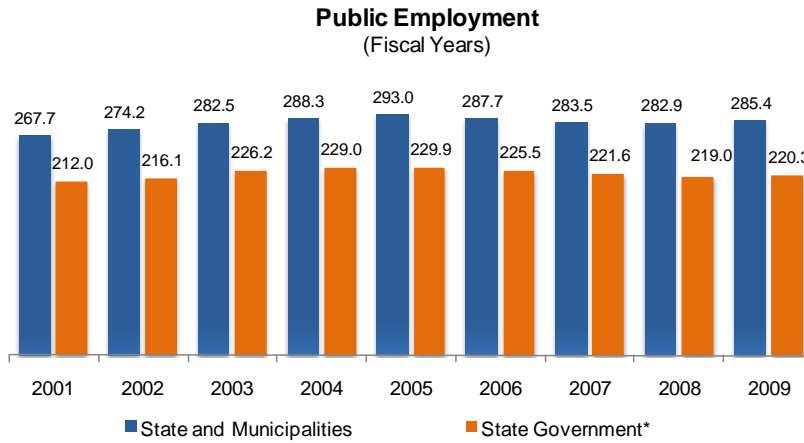
Source: P.R. Planning Board (2009).

Public investment has been an important component of construction investment. During fiscal year 2008, approximately half of the total investment in construction was related to public projects. For fiscal year 2008 compared to fiscal year 2007, the total value of construction permits increased 12.9% and total sales of cement, including imports, decreased 10.7%, the largest decline during the last decade. Average payroll employment in the construction and mining during fiscal year 2008 was 66,700, a reduction of 1.0% from fiscal year 2007.

Based on construction permits issued, which could be used as an indicator of prospective activity in the sector, the situation has deteriorated further by fiscal 2009. During fiscal 2008, the number of construction permits fell by 12.2%, while their value increased 13%, compared to fiscal 2007. Most recent data available for fiscal 2009 (up to May) shows that the number of construction permits declined at an annual rate of 20%, and their value by 27%. Sales of cement (in volume terms) also declined in fiscal 2009 at an annual rate of 25%.

GOVERNMENT

The government sector (public administration) of Puerto Rico plays an important role in the economy. In fiscal year 2008, the government accounted for \$8.8 billion of Puerto Rico’s gross domestic product, or 9.4% of the total. As indicated before, the share of public employment in total (non-farm) employment is high, 29%, a slight increase from the average of 28% during the previous four years.



Source: US BLS, Establishment Survey. *Including public corporations.

On February 25, 1998, legislation was enacted permitting the unionization of employees of the central government (excluding municipal employees). Under this law, government employees are given collective bargaining rights subject to a number of limitations. Among those limitations are: employees are prohibited from striking; salary increases are contingent on the availability of budgeted revenues; employees cannot be required to become union members and pay union dues; and collective bargaining negotiations cannot occur in an election year.

HIGHER EDUCATION

During the five decades from 1950 to 2000, Puerto Rico made significant advances in the field of education, particularly at the college and graduate school level. The transformation of Puerto Rico during the 1950s and 1960s from an agricultural economy to an industrial economy brought about an increased demand for educational services at all levels. During the 1970s and 1980s, certain higher wage, higher technology industries became more prominent in Puerto Rico. More recently, employment in the services sector has increased significantly. This has resulted in an increased demand for workers having a higher level of education and greater expertise in various technical fields. During the same time period, enrollments in institutions of higher learning rose very rapidly due to growth in the college-age population, and the increasing proportion of college attendance by such population. During the 1990s and into the current decade, college attendance and college attendance as a percentage of the college-age population continued to increase. The college-age population has declined since 2000.

The following table presents comparative trend data for Puerto Rico and the United States with respect to college-age population and the percentage of that population attending institutions of higher learning. The University of Puerto Rico, the only public university in Puerto Rico, has eleven campuses located in

Puerto Rico. The University’s total enrollment for academic year 2007-2008 was approximately 63,205 students. The Commonwealth is legally bound to appropriate annually for the University of Puerto Rico an amount equal to 9.60% of the average annual General Fund revenue for each of the two fiscal years immediately preceding the current fiscal year.

In addition to the University of Puerto Rico, there are 60 public and private institutions of higher education in Puerto Rico. Such institutions had an enrollment during academic year 2005-2006 of approximately 162,233 students and provide programs of study in liberal arts, agriculture, education, business, natural sciences, engineering, technology, secretarial and computer sciences, nursing, medicine, and law. Degrees are offered by these institutions at the associate, bachelor, master, and doctoral levels.

Enrollment at other postsecondary education programs, including technical and vocational programs include enrollment at federal Title IV eligible, nondegree granting institutions reporting data to the National Center for Education Statistics (Integrated Postsecondary Education Data System).

Institutions providing education in Puerto Rico must satisfy state licensing requirements to operate. Also, the vast majority of educational institutions are accredited by USDE-recognized accrediting entities.

Commonwealth of Puerto Rico Trend in College Enrollment						
Academic Year	Commonwealth of Puerto Rico			Mainland United States		
	Population 18-24 Years of Age	Higher Education Enrollment	Percent ⁽¹⁾	Population 18-24 Years of Age	Higher Education Enrollment	Percent ⁽¹⁾
1970	341,448 ⁽²⁾	57,340	16.8%	23,714,000 ⁽²⁾	8,580,887	36.2%
1980	397,839 ⁽²⁾	130,105	32.7%	30,022,000 ⁽²⁾	12,096,895	40.3%
1990	417,636 ⁽²⁾	156,147	37.4%	26,961,000 ⁽²⁾	13,621,000	50.5%
2000	428,892 ⁽²⁾	176,015	41.0%	27,143,455 ⁽²⁾	15,313,000	56.4%
2001	426,194 ⁽³⁾	185,015	43.4%	27,971,000 ⁽³⁾	15,928,000	56.9%
2002	423,852 ⁽³⁾	190,776	45.0%	28,463,000 ⁽³⁾	16,612,000	58.4%
2003	420,295 ⁽³⁾	199,842	47.5%	28,947,000 ⁽³⁾	16,900,000	58.4%
2004	416,020 ⁽³⁾	207,074	49.8%	29,245,000 ⁽³⁾	17,272,000	59.1%
2005	411,580 ⁽³⁾	208,032	50.5%	29,307,000 ⁽³⁾	17,428,000	59.5%
2006	407,134 ⁽³⁾	209,547	51.5%	29,312,950 ⁽³⁾	17,672,000	60.3%
2007	396,057 ⁽³⁾	225,402	56.9%	29,492,415 ⁽³⁾	17,959,000	60.9%

(1) Number of persons of all ages enrolled in institutions of higher education as percent of population 18-24 years of age.

(2) Based on census population as of April 1 of the stated year.

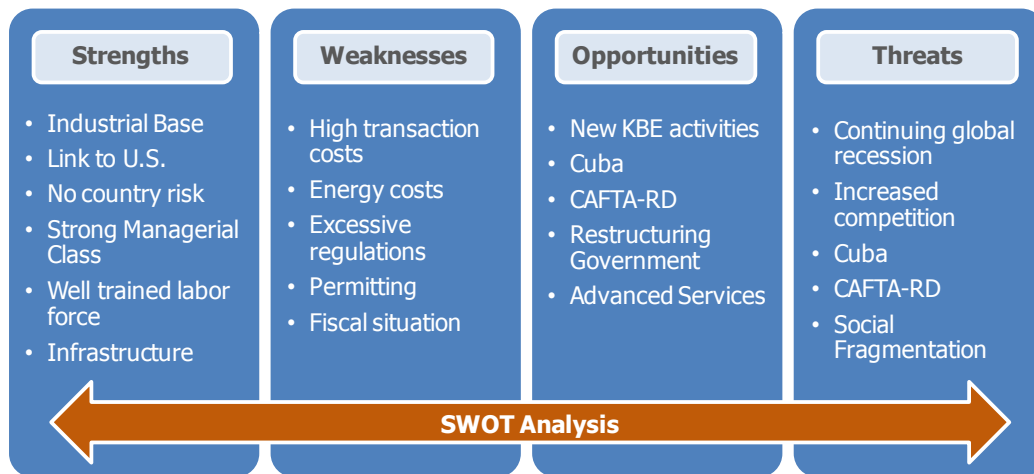
(3) Estimated population (reference date July 1 of the stated year).

Source: United States Census Bureau (Mainland United States Population), United States National Center for Education

Statistics, Planning Board (puerto Rico Population) and Council on Higher Education of Puerto Rico.

SECTION III: ANALYSIS OF ECONOMIC DEVELOPMENT PROBLEMS AND OPPORTUNITIES

ECONOMIC DEVELOPMENT PROBLEMS AND OPPORTUNITIES



Fulfilling Puerto Rico's development potential requires knowing precisely what its strengths and weaknesses are and identifying environmental threats and opportunities. (Appendix I, provides additional statistical information).

STRENGTHS

Over the past thirty years, Puerto Rico has developed a strong industrial base characterized by sophisticated, high technology industries. This includes a major concentration of pharmaceutical firms and biotechnology, medical instruments and more recently aerospace activities. In fact, a number of major firms in these industries have their principal manufacturing base in the Island, the case with Amgen, for example.

The Island's character as a regional economy of the United States provides it with a strong competitive advantage vis a vis other locations in the region at the same time that it shares with the other 50 states similar access to U.S. legal, regulatory and program initiatives. It has meant that bilingualism (Spanish and English) prevails in the working population.

Perhaps the major advantage lies in the fact that being part of the United States economy makes Puerto Rico a location with zero country risk. Given the uncertainty that characterizes the global economy, this is a major attraction for external investment in sectors such as manufacturing and tourism. In addition, and taking into account its privileged geographic position, it places Puerto Rico in a particularly favorable position to become a trade and logistics hub in the region and a major exporter of advanced services.

One of the Island's major strengths is the fact that its rapid industrial development over the past thirty years has provided it with a world class managerial group and a well trained and sophisticated work force.

Although much remains to be done, the fact is that the Island has adequate physical infrastructure that is continually being improved upon. The ARRA funds have provided an additional impetus towards this end and towards providing the Island with the required Broadband infrastructure.

WEAKNESSES

Perhaps the Puerto Rican economy's major weakness at this point in time is the serious fiscal situation that it shares with many other states. This has created a serious constraint on the flexibility of government to initiate new programs, while at the same time it has meant putting in place very strict fiscal measures aimed at reducing public sector costs and generating new income through various tax measures.

Puerto Rico is a high transaction cost location due primarily to the very large influence of government and an extremely cumbersome regulatory framework, including the permitting process. Although steps are being taken by the Administration to deal with these issues, the process of implementing these measures will take some time.

The cost of electricity is very high in Puerto Rico, close to twice the average cost in the mainland, due to a number of factors but primarily because the Electric Power Authority has been the single electricity provider in the Island for decades and because of the high proportion of energy that is petroleum based (close to 80%). New initiatives to address this weakness are discussed later in the document, and have been put in place to deal with both of these conditions.

OPPORTUNITIES

This document addresses the opportunities that present themselves to Puerto Rico and lays out the strategies and programs to fulfill these opportunities.

The Island's economic future hinges on how successful the Government is in laying the groundwork through an appropriate legal and regulatory framework for private enterprise to develop fully its capabilities in activities generally associated with knowledge based economic development. (Appendix III includes an essay on entrepreneurship which the CEDS Committee has found very useful). This does not necessarily mean dealing exclusively with multinational high technology firms, but rather with creating the conditions for innovation across the many sectors. Puerto Rico has developed a strong advanced services infrastructure and is well positioned to become a regional powerhouse in areas such as financial, legal advisors, US trade regulations, US Customs Brokers service, medical, educational, environmental, design, engineering, project management, communications and information technologies related services.

Both CAFTA+DR and the eventual opening of Cuba to the market economy provide major opportunities for Puerto Rico in areas associated with the advanced services mentioned and in providing expertise in manufacturing processes. Taking advantage of these opportunities will require planning and coordination with the private sector.

Some specific activities in which Puerto Rico has the wherewithal to experience growth include the development of those related to renewable energy, not only in manufacturing but in product development and services. In terms of exports, as has been mentioned earlier, the Island has substantial opportunities in areas such as engineering, validation, financial, business, legal and educational services.

Over the years, Puerto Rico has been seen as a potential economic hub for the Caribbean. As far back as 1969, when Governor Ferré created the North-South Center and in the seventies with the development of the twin plant concept, this ambition has been present in government plans. The adoption of CAFTA+RD by six countries in the region provides a stimulus for taking concrete actions in this regard. Puerto Rico will need to improve transportation links and identify specific areas in which it has the competitive advantage to successfully play the role as a regional hub. The government's new economic strategy identifies advanced services as the sector in which those competitive advantages exist.

THREATS

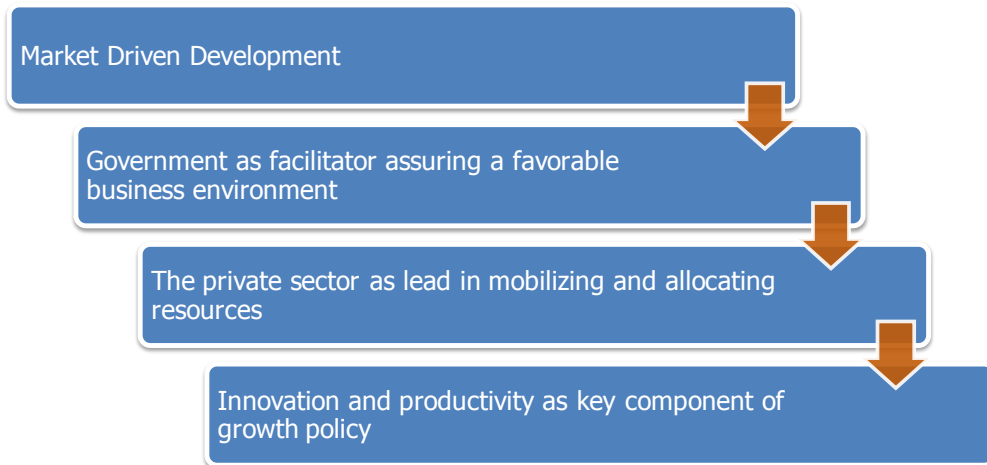
There are, of course, threats and curiously while CAFTA+DR and the opening of Cuba present opportunities, they also present significant threats to the Island's economy. By becoming part of CAFTA+DR, the countries reduce the level of country risk significantly to U.S. and other investments and, given the much lower labor costs in these countries, they become very attractive particularly for more labor intensive manufacturing. In agriculture, the competition from these countries is already a major factor.

In the case of Cuba the threats are concentrated in two areas: tourism and the pharmaceutical/biotechnology industries. Tourism is already highly developed in Cuba and almost certainly an open Cuba will prove a very attractive location initially because of the novelty factor. Cuba has also developed R & D capacity in pharmaceutical and biotechnology related areas and this is bound to prove attractive to firms in the sector. However, it has very little or no manufacturing capacity.

Puerto Rico shares with other states and countries the threats that result from an uncertain and much more competitive global environment. One consequence of the very serious economic situation of the last two years will be a more fragmented world in which countries such as India and China will become more formidable competitors.

GUIDING PRINCIPLES

Any development effort must be based on clearly expressed principles that lay out the fundamental beliefs that underlie the strategies to be developed. The Government of Puerto Rico understands that these guiding principles are the following:



The market has to play the major role in defining development possibilities and guiding actions. Obviously, there are market failures and the government has to assume a more active role when the conditions exist that generate these failures, for example, absence of competitive conditions in a particular activity. Nevertheless, development has to be market driven.

The Government's role is primarily to assure that the institutional framework provides for conditions to exist that promote economic development and for maintaining a social and physical environment that maximizes the welfare of the population. It should, however, except for very special situations, abstain from the task of allocating society's economic resources, which should be left primarily to the private sector.

Developing a strong local entrepreneurial foundation is considered a key requirement for sustainable economic development. A number of programs are in place to support its development, including the Economic Development Bank's incursion in venture capital initiatives, the establishment, together with the BBVA Foundation, of a program for micro-loans, the Federal Reserve of New York's program with Sacred Heart University whose aim is to promote entrepreneurial know how among intermediate and high school students. The Economic Development University Center at UPR Mayaguez has been instrumental in developing an interest in entrepreneurship in Puerto Rico.

The future of Puerto Rico's economy hinges on its ability to innovate and to improve productivity, both of which are highly interconnected. Innovation has to be the keystone of economic development policies in the present and prospective global environment. To the extent that Puerto Rico is able to generate the conditions for becoming an innovation driven economy it will be successful and will at the same time generate the conditions for improved productivity across all sectors and activities.

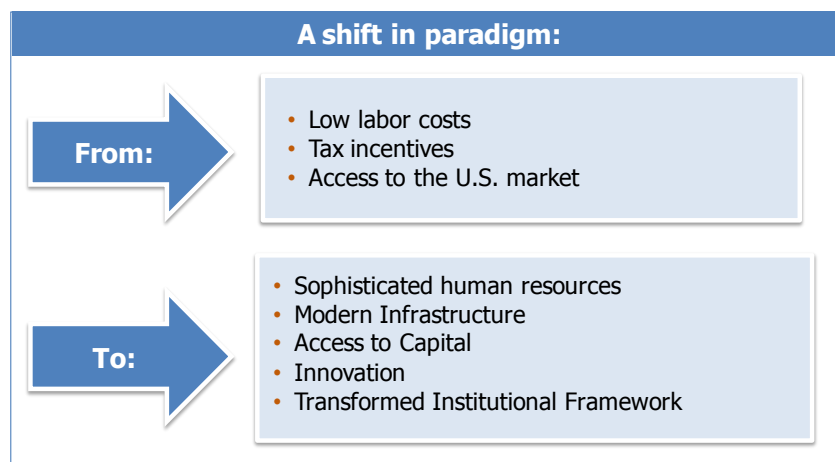
GOALS AND OBJECTIVES

Specific goals and objectives are described below. There is, however, recognition that the overall economic development model that Puerto Rico has depended on must be transformed. Historically, the development process was tax incentives driven and focused on attracting capital from abroad. It was also based on low labor costs and on the fact that Puerto Rico had privileged access to the U.S. market. The

Island is no longer a low labor cost location and access to the U. S. market is now much broader given the overall reduction in barriers to trade.

That model served Puerto Rico well through the sixties but it is now clear that changing global competitive conditions call for different approaches to economic development. In fact, tax incentives, although still being offered by most of Puerto Rico's competitors, are not the major determinants of location decisions for potential investors. The key factors influencing the location of economic activity have to do with meeting certain minimal conditions with respect to infrastructure, education and health services, science and technology capability, and agile, transparent and effective government.

OVERARCHING GOALS



The State of Florida exemplifies many of these conditions and has been successful in transforming itself from a two industry economy - tourism and agriculture - to a more diversified industrial economy with a strong high technology component. It has done so by innovating in the manner in which it has organized its economic development process.

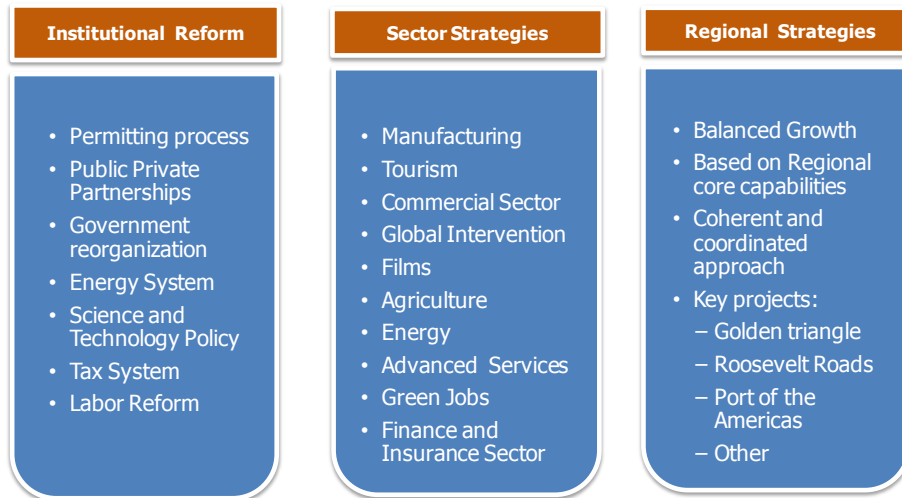
The overall vision that will guide Puerto Rico's economic development efforts is to achieve an economy that is characterized by:

- Global competitiveness
- A strong local entrepreneurial foundation
- Migration to a Knowledge Based Economy
- Environmental sustainability
- Integrated social development
- Broad consensus on goals and objectives

In order to achieve this vision, the Administration has developed strategies in key sectors that are outlined below.

SECTION IV: STRATEGIC PROJECTS, PROGRAMS AND ACTIVITIES

The Three main areas of government intervention are reflected in the following chart and are described in detail below.



INSTITUTIONAL REFORM

Over the years and in various reports on global competitiveness (World Economic Forum) and the ease of doing business (World Bank), one of the persistent problems identified is the difficulty of obtaining a construction permit in Puerto Rico. It is a cumbersome, complex and intractable system that has evolved over the years into an incoherent mass of regulations and processes. The Administration has made reforming the permitting process a very high priority in this first year and has submitted legislation to do so. This legislation should be approved during the month of September. It calls for a much more transparent and agile process that should assure much faster decision making.

One key institutional reform was the approval of legislation that makes possible Public Private Partnerships (Law 29 of May, 2009). This Law makes it possible for the Government to use private sector financing and expertise in expanding and improving the Island's infrastructure as well as a host of other government activities. Public Private Partnerships have a number of characteristics and benefits, including:

- Access to private sources of financing
- Risk is allocated between government and private partner
- Brings private sector expertise and operating procedures to public initiatives
- Facilitates long term planning, particularly in infrastructure

Although risks exist, Puerto Rico is not starting from zero and there are many experiences, both local and from other jurisdictions that provide valuable lessons.

Law 29 of Puerto Rico establishes public policy concerning PPP's and specifies the components of PPP's considered necessary for success. The Law also provides for transparency in the selection procedures and establishes the procedures to assure effective implementation.

In the area of Institutional Reform, the government has identified four additional key areas where reform is essential: labor, energy, taxes and government institutions.

With respect to labor, a key emphasis is increasing the Island's labor force participation rate that, as mentioned above are well below that of the United States as a whole and most states. In addition to the earned income tax credit, other programs will be put in place to stimulate entry into the formal work force. In short, efforts to make the labor market both more efficient and conducive to stimulating job creation.

Energy costs are considered to be a key obstacle to economic growth and steps have already been taken to deal with this problem. Law 73, the new Incentives Law approved in May of 2008 contains a number of measures aimed at facilitating the shift from fossil based fuels to renewable sources of energy. It also incorporates measures that will promote competition in energy production and distribution. The Administration recently announced the creation of a Fund to finance the migration to renewable energy sources.

The Administration's plans call for changes in the tax system to make it both more effective in obtaining revenues and less of a burden on citizens and businesses. The Government is committed to lowering taxes to all income groups but specifically, eliminating income taxes for individuals with incomes below \$17,000. An earned income tax credit of between \$300 and \$600 will be put in place and corporate marginal tax rates will be lowered from the present 39% to 30%.

In addition, fiscal procedures are being simplified to reduce paperwork and bureaucratic obstacles that increase transaction costs for businesses and create hardships for ordinary citizens.

With respect to reforming the government, steps have already been taken. The creation of the position of Chief Information Officer in the Office of the Governor will provide greater capacity to coordinate decisions in this area and will improve the implementation capabilities in the Government with respect to technology decisions. An initial project of this office is the preparation of a state broadband plan to assure effective use of ARRA funds for improving broad band access.

Approval of a Science and Technology Policy, within the context of an overall innovation system, is also considered necessary and is contemplated in PRIDCO's strategic plan. Having such a policy is considered essential in providing Puerto Rico with the means of channeling resources to this key area.

SECTOR STRATEGIES

Manufacturing: Over the last decade manufacturing employment has fallen from a high of 160,000 to the present 90,000. This loss has had a major impact on the Island's economy for these were typically well paying jobs. In addition it reflects the need for rethinking the future of manufacturing in Puerto Rico's economy. The Administration's plans, as mentioned above, call for the approval of a Science and Technology Policy to guide efforts that will support moving to knowledge based economy. In addition PRIDCO, the government agency primarily responsible for promoting manufacturing activity, will put in

place a number of measures to assure future growth of the sector. These include, among other specific initiatives:

- An aggressive plan to assure that a new pharmacy or bio-tech product-lines are manufactured in Puerto Rico
- Diversifying the industrial base and focusing on fast growing activities such as health care, medical instruments, renewable energy, and aerospace.
- The integration of advanced services into PRIDCO's promotional initiatives
- Emphasize completion of locally based supply chains so that the value chain of manufacturing is fully realized in Puerto Rico

Tourism: Although tourism has grown in the recent past, it continues to reflect weaknesses in a number of areas, including the absence of a consistent brand identity, high costs of operation, problems related to obtaining permits for new hotels, lack of consistency in quality and others. The Administration's plans call for a new branding exercise, better quality controls, promoting the "Golden Triangle", San Juan Waterfront project, diversifying markets and products, promoting nautical tourism, promoting the increase of Port Calls, development of home ports and generating attractions outside of Metropolitan San Juan. The initial draft of the plan for the development of the Waterfront has been concluded.

Commerce: The Administration is fully committed to a number of initiatives aimed at strengthening the local commercial sector. These include the consolidation of the permitting process related to starting a new business, reducing bureaucratic obstacles, providing assistance to small and medium size businesses for improvement of management practices, and making available to these firms financing for expansion and export activities. The Puerto Rico Trade Company, in collaboration with the Economic Development Bank, has in place a number of programs aimed at supporting entrepreneurial initiatives through financing and support in improving their management and marketing capabilities. Together with the foundation of Spanish Bank BBVA, the EDB is in the process of establishing a program for micro loans to support very small enterprises.

Global insertion: It has become clear that regional economies such as Puerto Rico's have to be effective in inserting themselves in the global economy, not only through exports but also by having local firms insert themselves in the supply chains of global enterprises located in the Island as well as off-Island. Achieving success in this endeavor will require changes in the Puerto Rico Trade Company and in some of the current laws and regulations. Measures such as increasing facilities in the Free Trade Zones are already under way and an aggressive training program on globalization and international trade is in place.

Film and Creative Industries: Over the recent past, Puerto Rico has served as the location for filming a number of movies (*The Rum Diary, Meant to Be, One Hot Summer* and *Store of Dreams*, among others). Although the existing legislation has proven to be adequate, changes will be made to make certain that Puerto Rico is competitive as a site for movie production. The industry is a welcome addition to Puerto Rico's development since it pays high salaries and the Island has an ample supply of highly trained individuals in the required skills.

Agriculture: Measures to stimulate agricultural production include strengthening investment in the sector, protecting land with agricultural potential, stimulating the introduction of technology and improving management practices among others. The Governor recently signed legislation that will

stimulate technology transfer in the sector. Puerto Rico has a well developed agro-industrial sector in fields such as dairy production, the production of fruit juices and the production and export of premium coffee. U.S. Farm Bill funds are looked upon as a potential source of support for increasing agriculture's contribution to GNP, now less than 1.0% and employment approximately 15,000, according to the lasted Planning Board figures.

Energy: The Puerto Rican Government is committed to an energy policy that places a high priority on moving towards alternative sources of energy. To that effect, Law 73 of May, 2008 provides incentives to stimulate competition in the energy production and distribution sector and for the use of renewable energy sources. Specific targets have been adopted in terms of the sources of energy and Puerto Rico expects to be generating 17% of its electrical energy needs from renewable sources by 2017. This new emphasis not only has as its main objective lowering energy costs in Puerto Rico and reducing dependence on petroleum, but also provides the potential for directly generating jobs in Research and Development, manufacturing and operation of the new systems. The government is aware of the need to develop "green jobs", i.e., jobs in activities that are either environment friendly or that arise from activities that generate environmental benefits such as, for example, energy from renewable sources.

Advanced Services: Moving to a knowledge based economy means developing the required infrastructure (broad band access and improved telecommunications, for example) and those advanced services that support it, but that also provide great opportunities for exporting and completing the value chains of multinational firms. Some key advanced services are: communications and information technologies, validation services, environmental services, health care, engineering, design, financial, legal, insurance and business support services, educational activities (including research and development), logistics and construction management. Strategies that focus on these services are being put in place in order to maximize opportunities locally and in export markets in the region.

PUERTO RICO REGIONAL STRATEGIES

The Administration has made balanced economic growth a major priority and it thus seeks to initiate major development projects in the various regions in order to generate economic activity throughout the Island. The four projects that have currently been identified are the following:

The Caribbean Riviera: This project calls for major investments in transforming the former Roosevelt Roads Base into a regional tourism based economic development project. It will provide the foundations for regional development in Southeast Puerto Rico as well as the two island municipalities of Vieques and Culebra. The project calls for an investment of approximately \$2.0 billion over a ten year period for the development of port infrastructure and facilities to handle cruise ships, hotels and residential units.

The Golden Triangle, San Juan Waterfront Project: Since the mid nineties the redevelopment of the San Juan Waterfront has been a major concern. During Governor Fortuño's tenure as Executive Director of the Tourism Company and Secretary of Economic Development and Commerce, he initiated the project with the preparation of a Master Plan with implementation strategies. The project is currently the responsibility of the Department of Economic Development and Commerce. The initial draft of the waterfront development plan has already been developed. The project calls for hotel, residential, commercial and entertainment projects to be developed in phases over a ten years period. It will have a

major impact on the urban development of San Juan and will support the development of the Convention Center District.

The Port of the Americas: The first phase of the port development was completed in 2004 while the second phase, which resulted in container yard with capacity of up to 250,000 Twenty-Foot Equivalent Units per year, was completed in March 2009. A third development phase, which entails a public investment of \$84.4 million, is ongoing through September 2011. The completion of phase three will result in an annual terminal processing capacity of up to 500,000 Twenty-Foot Equivalent Units as well as the installation of basic infrastructure required to develop an industrial value-added zone on land adjacent to the Port. The project is a state of the art port facility capable of handling Post Panamax ships. Together with the Port, a Value Added zone will be developed adjacent to the Port, to generate traffic for the Port and economic activity for the region. The Port is a major component of the regional development initiatives being put in place by DISUR, one of the regional groups mentioned below.

The 2010 Central American and Caribbean Games: Although the Games have a specific time frame, the construction of sports facilities as well as housing and other installations will improve the Western region's potential for tourism development, as well as making Mayaguez a more attractive urban center.

Science City: The flagship initiative of Puerto Rico Sciences, Technology and Research Trust, which was created pursuant to Act 214 of 2004. Science City represents a critical part of the Administration's efforts to move Puerto Rico to the forefront of the science, technology and research and development. Science City is projected to include some 1,000,000 square feet of lab space, 405,000 square feet of retail space, 396,000 square feet of professional and medical office space, 60,000 square feet of conference space, a 100-room hotel, and 3,100 residential units, along with commensurate parking facilities and 15 acres of public open space. It seeks to leverage the significant competitive advantages in these knowledge-based sectors that put Puerto Rico in an ideal position to undertake this type of development:

- An established and growing life sciences industry: within the entire United States, Puerto Rico employs the second highest number of workers in the life-sciences industry.
- A global center of pharmaceutical manufacturing: 25% of all pharmaceutical products shipped worldwide are manufactured in Puerto Rico.
- A home to world class infrastructure and centers of scientific innovation and excellence: for example, Puerto Rico's New Molecular Science Lab and Cancer Center.
- A top tier education system: the University of Puerto Rico graduates 9,000 science and engineering majors each year.

Aguadilla Airport: To redevelop the Aguadilla Airport as the second most important International Airport of Puerto Rico and as a regional logistical center.

These six projects will be developed within the framework of a regionalization scheme that will provide for decentralization of certain central government activities and programs. Regionalization is considered a key component of the Administration's plans for government reform. It is also seen as an effective means of mobilizing local resources in support of economic development. (Appendix II, is a map of the five existing municipal alliances dedicated to promoting regional development).

Each of the five initiatives is built around identified regional core competencies and their objective is to develop projects based on these. In some cases, projects will be regional in nature, in others (such as the Port of the Americas), of an islandwide nature, although with significant regional impacts.

- INTECO, in central Puerto Rico has health services and medical instruments as its key sectors;
- INTENOR in the North has the pharmaceutical cluster in Barceloneta as its core;
- In the Northeast INTENE's strength is in the development of tourism and transportation;
- DISUR in the South is developing initiatives in areas such as logistics, agro-industry and health services, and
- PR-TEC in the West, the oldest of the initiatives, was developed around the concentration of various high tech industries in region, including the aerospace industry, and the existence of the UPR Mayaguez Campus and its strength in Engineering and Science.

These organizations represent strategic alliances between municipal governments, academia, and the business sector to promote and maximize Puerto Rico's competitiveness and sustained regional and local economic growth in the context of a global economy.

ACTION PLAN

The Administration has already put in place a number of measures to implement the strategies mentioned above. With respect to fiscal matters, it approved Law 7 of March, 2009 that provides for a number of tax measures and specific cost control initiatives that will help narrow the budget deficit estimated at \$3.2 billion for fiscal 2009. The tax measures include temporary additional taxes on real estate, specifically residential units assessed at values in excess of \$210,000, as well as commercial property. They also include new taxes on certain products and cost control measures in the Executive Branch, some of which had also been put in place through an Executive Order.

But moving forward, the Government will outline its economic development strategies through an Integrated Economic and Social Plan of Puerto Rico (PIDES-PR, by its Spanish initials) being prepared by the PRPB. This Plan integrates all the measures mentioned in this document and will permit the Government to integrate its actions in a coherent manner.

The PRPB will coordinate the preparation of action plans by each of the agencies in line with the overall strategies outlined in PIDES-PR. This will provide the wherewithal for assuring that each agency's actions are in line with overall priorities in terms of economic development. A key implementation instrument is the Strategic Investment Plan (PIE, by its Spanish initials) that will substitute the Four Year Investment Program, a mostly informative document that has lost its usefulness as a planning instrument. The PIE will incorporate all major investments by the different agencies and will assure that these are coherent and consistent with Government priorities.

The Government is moving aggressively to transform the permitting process. With the approval of Law 161 of December 2009 by the Government of Puerto Rico, is left behind the overhaul of an antiquated and obsolete system since the mid seventies. In terms of improving the procedures related to land use, the Government has been working on completing an Island wide Land Use Plan. This Plan will require at

least another eighteen months for completion and will integrate the most advanced technology in its execution. Already a substantial number of municipalities have completed their land use plans and these will be incorporated in the Plan.

As indicated previously, regionalization is a component of the Administration's plans. In order to move forward in implementing a more decentralized scheme of government and empowering municipal and regional units, the PRPB has already created a Committee charged with the task of putting together an implementation process for so doing. It has held roundtables with key institutions and individuals on the subject. There exist five regional initiatives throughout the Island that incorporate some sixty municipalities. Although in different stages of development, these will certainly be incorporated in the regionalization efforts.

Puerto Rico will receive approximately \$6.4 billion in ARRA funds. Special care has been taken to assure the effective and efficient use of these funds in promoting new development initiatives. This calls for integrating ARRA priorities with local needs and initiatives. This is particularly important in three areas: transportation, energy and improving access to the Internet Broadband.

With respect to transportation initiatives, the implementation of the PPP legislation assumes mayor importance for it will support the implementation of a number of initiatives and will build upon ARRA funding of certain projects. The Government has already established a time frame for implementing the legislation and priorities have been established by the various infrastructure agencies. In transportation, these include completing Route 66, a mayor route towards the Eastern tip of the Island; completing access to the Southeast towns of Maunabo, Patillas and Arroyo, towns that have suffered from very limited access and completing the peripheral road system that covers the Island as a whole.

One priority area is the implementation of plans that include Bus Rapid Transit systems (BRT) linking Caguas and San Juan, Carolina and San Juan and a light rail system linking the Convention Center District, Old San Juan and the current Urban Train terminal in Santurce. These will significantly increase Urban Train traffic, reduce congestion and reduce a source of pollution.

In the area of transportation, a key project is completing negotiations with a private operator to run the Port of the Americas, a state of the art facility in Ponce that will be able to handle Post Panamax ships and, as previously indicated, act as a major stimulus to regional economic development in the South. Currently, the Port of the Americas Authority is negotiating a Concession Agreement with respect to the terminal facility and is simultaneously undertaking efforts to maximize private sector interest in the related value-added zones.

With respect to improving the energy system, ARRA provides the wherewithal for moving towards more sustainable production modes and the use of renewable sources. The Government is moving aggressively in this area and a number of measures have been put in place to implement changes. Among these: the creation of an Interagency Working Group on alternative energy sources, the adoption of Renewable Portfolio Standards, the creation of a Renewable Energy Fund, implementing an incentive program to stimulate the production in Puerto Rico of equipment related to the use of renewable energy sources, and putting in place measures that will assure transparency in the energy production sector. Law 73, approved in May of 2008, already incorporates measures that will help reduce energy costs and improve the efficiency of the system, including the promotion of co-generation and "wheeling".

The Government’s CIO has placed a very high priority on improving access to Internet and Broadband, both of which are low (38% of households have Internet access) when compared to all states. A state Broadband plan is being prepared and will be completed by early fall.

MONITORING PROGRESS

The PRPB, as previously mentioned, has the responsibility of producing the economic and social accounts for Puerto Rico, including Income and Product and the Balance of Payments. Although typically these provide the means to evaluate whether an economy is growing or not and, to some extent, the efficiency with which it does so, a more detailed set of metrics will be developed to monitor progress.

Effective evaluation will require the strengthening Puerto Rico’s Information Infrastructure. The Island’s statistical system is fragmented and somewhat obsolete. It also does not recognize the particular aspects which derive from the regional character of Puerto Rico’s economy as part of the United States. Frequent complaints refer to tardiness in producing the required information for decision-making, in both government and the private sector. Improving the Information Infrastructure is a PRPB priority.

In addition, the gathering of strategic intelligence on the global, regional and U.S. contexts is essential. A key aspect of gauging progress is to continually benchmark with other states and identify "best practices" in those areas of special relevance to achieving CED’s objectives. This will permit the PRPB and the Committee to place Puerto Rico in a broader framework and evaluate the effectiveness of policy initiatives in the context of what others are achieving.

Plan review and adjustment procedures are essential, and a component of both the CEDS and the previously described PIDES is that each has in place procedures for evaluating progress and making the required adjustments. The present economic context calls for flexibility as a key component of planning and for developing what has been called the "foresight function". This permits identifying emerging trends and thus taking the appropriate steps to adjust plans in view of these trends.

In addition to macro-economic indicators, employment and unemployment information and others indicators produced to gauge economic performance in the economy as a whole, the development of more specific metrics is called for. One possible scheme would call for a three level system with Indexes, Indicators and a Data Base. For example, if moving to a greater use of renewable energy sources is an objective, the data base would include information on producers, users, costs and other such basic data. From this data base analytical indicators would be developed, for example, the percent of electric system users having access to energy from renewable sources. An Index would then be developed from the Indicators. This would permit a quick assessment of progress by looking at the Index, a somewhat more detailed view from the Indicators and detailed information from the data base. Although still in a very initial stage of development, the system can be graphically expressed in the following manner:

A possible scheme for organizing metrics					
	Economic Performance	Social wellbeing	Environmental Quality	KBE indicators	Productivity
Indexes					
Indicators					
Data Base					

SECTION V: IMPLEMENTATION PLAN

This section encompasses two dimensions of the CEDS that related to the role of the CEDS in overall government economic development strategies and the specific operational activities to be carried out.

OVERALL ECONOMIC DEVELOPMENT STRATEGIES

The Government has been active in assuring that the legal instruments necessary for implementing the CEDS are in place. As mentioned, the law that makes it possible to implement Private Public Partnerships (PPP) is in place, the Board that will direct the process has been appointed as well as its Executive Director, agencies have begun to submit their list of priorities and the first such Partnership should be agreed to by mid year 2010. Although present conditions in the financial sector loom as an obstacle to rapid and wide use of the PPP mechanism, the government is projecting approximately \$5.0 billion in projects using PPP's as the financing and operating mechanism.

In addition, the Government has adopted a new Strategic Model for Economic Development, known as MENE for its Spanish name (Modelo Estratégico para la Nueva Economía) that adopts all the components of the CEDS. (Appendix IV is a summary of the MENE). In fact, many sections of the MENE are directly taken from the CEDS. This is a clear indication that the Government is taking the CEDS seriously as a guide for its economic development initiatives. The MENE has been presented widely and, together with an accompanying document prepared by the Puerto Rico Planning Board, the Comprehensive Strategic Development Plan (Plan Integral de Desarrollo Estratégico), provide the framework for government actions to stimulate economic development. The Planning Board document is best characterized as a visioning exercise with a broad, multi sector approach. The MENE is more directly related to economic development issues.

The Government has been actively involved in developing the metrics for evaluating the success of economic development measures. These will include, among others:

- **The Investment/GNP percentage**, considered as a key indicator. As of 2009, the ratio is 18% and the goal is to elevate it to at least 28% in the next eight years.
- **The Labor Force Participation Rate** is another key indicator. In Puerto Rico it has averaged in the low 40's, compared to a rate of 60% in the US as a whole. The objective is to raise it to 50% in an eight year period.
- **The unemployment rate** is a traditional measure of development. It is currently around 16.0% in Puerto Rico and the goal is to lower it to 10% in eight years.
- **Internet users per 100 populations.** This is an indicator of how Puerto Rico fares with respect to the knowledge based economy. At present the penetration rate is around 35% and the goal is to raise it to at least 50% in a five year period.

These and other performance measures will be developed within the information system framework mentioned previously in this document that incorporates the development of indexes and analytical indicators.

Specific implementation measures already in place, in addition to those mentioned previously in the text, include the following:

- Appointment of an Economic Advisory Council made up of independent economists. This Council will advise the Governor on economic development issues.
- Appointment of an External Trade Board made up of individual businessmen and women to advice on issues related to strengthening the capacity of local businesses to export.
- Approval of legislation that will improve the permitting process that has been a major obstacle for economic development.
- Appointment of a Commission to begin the process of preparing a tax reform aimed at simplifying the tax system and reducing rates.
- The Secretary of State has been given the task of leading the reorganization of the Executive Branch, that incorporates reducing and or consolidating agencies as well as creating conditions for greater agility and flexibility.
- All of the strategic projects mentioned in the CEDS are in process, with project managers in place and their implementation is proceeding according to plan.
- The PR Industrial Development Company has adopted a strategic plan that incorporates using clusters as the major promotional tool, something which the CEDS mentions.

CEDS COMMITTEE OPERATIONS

Internal operations of the CEDS Committee will endeavor to stimulate the submission of proposals from the various eligible entities in line with policy priorities outlined in the CEDS. To that effect, CEDS Director will be making visits throughout the Island in order to provide information on EDA programs and funding.

Proposals will be evaluated on the following basis:

- Relation to Puerto Rico's CEDS Priority Level
- Consistent with the EDA Investment Policy Guidelines

The Committee will develop a ranking system that will permit evaluation of proposals on the basis of the above criteria.

What needs to be emphasized with respect to CEDS implementation is that the local Committee and its Executive Director are being proactive in stimulating the preparation of proposals. This should result in a larger pool of proposals to be evaluated. The Action Plan for 2010 calls for visits to municipalities throughout the Island to meet with municipal authorities, Community Based Organizations and other eligible entities to provide orientation on EDA programs and procedures for submitting proposals.

SECTION VI: PRIORITY PROJECT LIST AND EVALUATION CRITERIA

THE CEDS EVALUATION PROCESS

The Comprehensive Economic Development Strategy (CEDS) committee for the Puerto Rico Development Area is responsible for the evaluation of those investment proposals submitted for its consideration.

As the entire Commonwealth of Puerto Rico qualifies as a Redevelopment Area under provisions of the Public Works and Economic Development Act of 1965, the entirety of Puerto Rico's Municipalities, their agencies, and the agencies of the central government of Puerto Rico, are fully eligible to receive assistance from the United States Department of Commerce Economic Development Administration (EDA). Subsequently, each proposal submitted to the committee is considered for inclusion in the CEDS under the established CEDS evaluation process.

The CEDS Priority Projects List ("the list") catalogues qualified development projects that seek funding from the Economic Development Administration's Public Works and Economic Adjustment Programs. These programs direct funds to economically distressed communities to upgrade their physical infrastructure, to attract new industry, to encourage business expansion, and to generate private-sector jobs and investment. Inclusion on the CEDS Priority Projects list is an EDA prerequisite for funding consideration. Projects demonstrating feasibility, significant community support, and eminent regional value will rank highest on the list and will receive the strongest regional endorsement.

This process provides the EDA with a short list of projects that serve distressed areas, are positioned to move forward quickly, and show promise of sustainable development. EDA then decides which projects to fund.

GENERAL REQUIRED OF ALL PROJECTS

In order to be placed on the CEDS Priority Projects List, a project must have community support. The applicant must provide one of the following, which will be accepted as evidence of community support:

- The project is consistent with a master plan, neighborhood plan, community development plan, or other local plan.
- The project has been endorsed or approved by the local government of the area that the project development.
- A local planning or economic development department or entity supports the project.
- The probability a given proponent shall be required, by virtue of the undertaking, to carry out additional phases, at a later stage and in a specific area.
- The potential of the investment proposal to generate or retain good jobs, new jobs, permanent jobs, high skill jobs, high wage jobs, jobs paying higher than the area average or median and solid employment opportunities.
- Regionally should be the main consideration in defining economic development needs and goals.

ADDITIONAL EVALUATION POINTS

All applications that satisfy General Required, requirement will be evaluated using the following set of criteria. The scores will be used to rank projects within the Priority Projects List. CEDS Committee will determine if an applicant meets a criterion. The applicant must submit information or evidence as noted:

- The applicant has control of the project site. Site control includes ownership (deed), an option, a purchase or sale agreement, or a lease or other form of agreement with the site owner. The applicant must explain if any of these items are in place and list dates of relevant agreements, land transfer, etc.
- The applicant has received financial commitments to project. Evidence of financial commitments includes a letter of commitment from a lender, a letter of commitment from a public agency to provide funding, or private commitments.
- The project incorporates environmentally friendly building practices or technologies. To meet this criterion, the applicant must promise to meet at least one standard from a select list of Leadership in Energy & Environmental Design (LEED) standards for new commercial construction and major renovation projects.
- The project entails redevelopment of a building, site or area.

PHASES OF EVALUATION

Currently, the CEDS evaluation process consists of the following phases:

- **Identification of Investment Proposals:** Accepting, finding, and suggesting solid investment proposals and/or encouraging the transformation of good ideas into solid investment proposals.
- **Evaluation of Investment Proposals:**
 - Determination of the *Development Area Priority Level*: This designation relays the level of importance to the development area of each investment proposal, in light of economic trends and projections, and the public policy embodied in the CEDS document and subsequently results in the designation of a grade reflecting said finding.
 - Consideration of the *Level of EDA Appropriateness*: This designation relays the level of appropriateness in light of the EDA's **Investment Policy Guidelines** (as promulgated in FY 2010) and subsequently designates a grade reflecting said compatibility.
- **Authorship of an official letter of certification and referral to the EDA for its own consideration for those investment proposals deemed both:**
 - Important to the economic development of the Puerto Rico.
 - Consistent with the EDA Investment Policy Guidelines (Appendix VI and Appendix VII).

Nevertheless, having identified important investment opportunities and included them in the CEDS document it is the strong desire of the CEDS committee that, federal agencies and administrations, the government of the Commonwealth of Puerto Rico, the private sector, foundations, not-for-profits, and the

public shall embrace the challenge of supporting any and all proposals included in the CEDS as worthy economic development projects.

GENERAL ADVISORY REGARDING PROCESS CHANGES

As the above format represents an innovation in the evaluation process which occurred during Program Cycles FY 2010 and 2011 — an innovation designed to render some return on the investment of time applicants expend in preparing investment proposals for the CEDS committee evaluation process — it remains a possibility that continued and further refinements may occur during the pending program cycle.

It should be understood, that said process innovations occurred as a response to the urgings of both proponents and committee members. As always, the goal of our effort was, and shall remain, to endeavor to amplify the comprehensive and strategy nature of this document and its continued functionality.

FORMAL INVITATION TO THE EDA

The EDA is invited to consider any proposal included in the CEDS document, as each has been identified, to varying degrees, as appropriate in light of the Goals, Objectives, and policy priorities of the Puerto Rico Development Area. However, only those proposals which have also received a grade regarding their appropriateness in light of the EDA’s Investment Policy Guidelines (as promulgated during FY 2010) carry the full confidence of the CEDS committee as proposals ready for serious consideration under the EDA’s application program and procedures.

ALL INVESTMENT PROPOSALS CONSIDERED TO THE CEDS, FY 2010

The following table each entity, Municipality or Agency, the title of the Investment Proposal which it submitted to the CEDS Committee for evaluation.

Proponent	Investment Description	Financial Investment Breakdown					Implementation (months)
		Proponent	%	Federal Funds	%	Total Investment	
Municipality of Caguas	Construction of the Entrepreneurship Regional Park (CERP) – [Innovation, Sciences and Technology Applications, Diversification and Economic Development	3,648,000	30%	8,512,500	70%	12,160,500	36 to 44
Municipality of Caguas	Construction of the Main Market Plaza and Downtown Business Multitenant incubator facilities at the central Business District	2,733,265	20%	10,933,060	80%	13,666,325	36 to 44

Municipality of Caguas	Plan for the Quality and Modernization of Regional Industrial Parks in the Autonomous Municipality of Caguas	36,000	20%	144,000	80%	180,000	12
Municipality of Caguas	Plan for Economic Development and Reconceptualization of the Caguas' Central Business District (Downtown and Adjacent Area)	30,000	20%	120,000	80%	150,000	12
Municipality of Caguas	Expansion of Science and Technology Multitenant Building (CEECTEC)	112,000	20%	448,000	80%	560,000	10 to 12
Municipality of Caguas	Revolving load Fund: Second Generation Relaunching - Recapitalization	600,000	20%	2,400,000	80%	3,000,000	24
INTECO	Construction of Broadband Infrastructure for the Central East Region of Puerto Rico	1,400,000	20%	5,600,000	80%	7,000,000	24
INTECO	Plan for study, Design and Development of a Regional Health Services Corridor as an Economic Development Strategy	36,000	20%	144,000	80%	180,000	12
INTECO	Regional Business Financial and Mentoring; Disaster Relief Revolving Load Fun – Disaster Declaration (FEMA-1798-DR Puerto Rico)	1,100,000	20%	4,400,000	80%	5,500,000	24 to 36
Puerto Rico Port Authority	Installation of Box Culverts and Runway 12-30 Extension at Mercedita International Airport - Ponce, Puerto Rico	3,032,726	30%	6,984,193	70%	10,016,919	12
DNRA	Ceiba Creek Channelization Maintenance and Repair, Municipality of Juncos	1,032,000	20%	4,128,000	80%	5,160,000	14
DNRA	Protection of Ponce Business District through the Rehabilitation of the Portugues River Flood Control Channels	500,000	20%	2,000,000	80%	2,500,000	18
DNRA	Protection of Ponce Business District through the Rehabilitation of the Bucana River Flood Control Channels	500,000	20%	2,000,000	80%	2,500,000	18

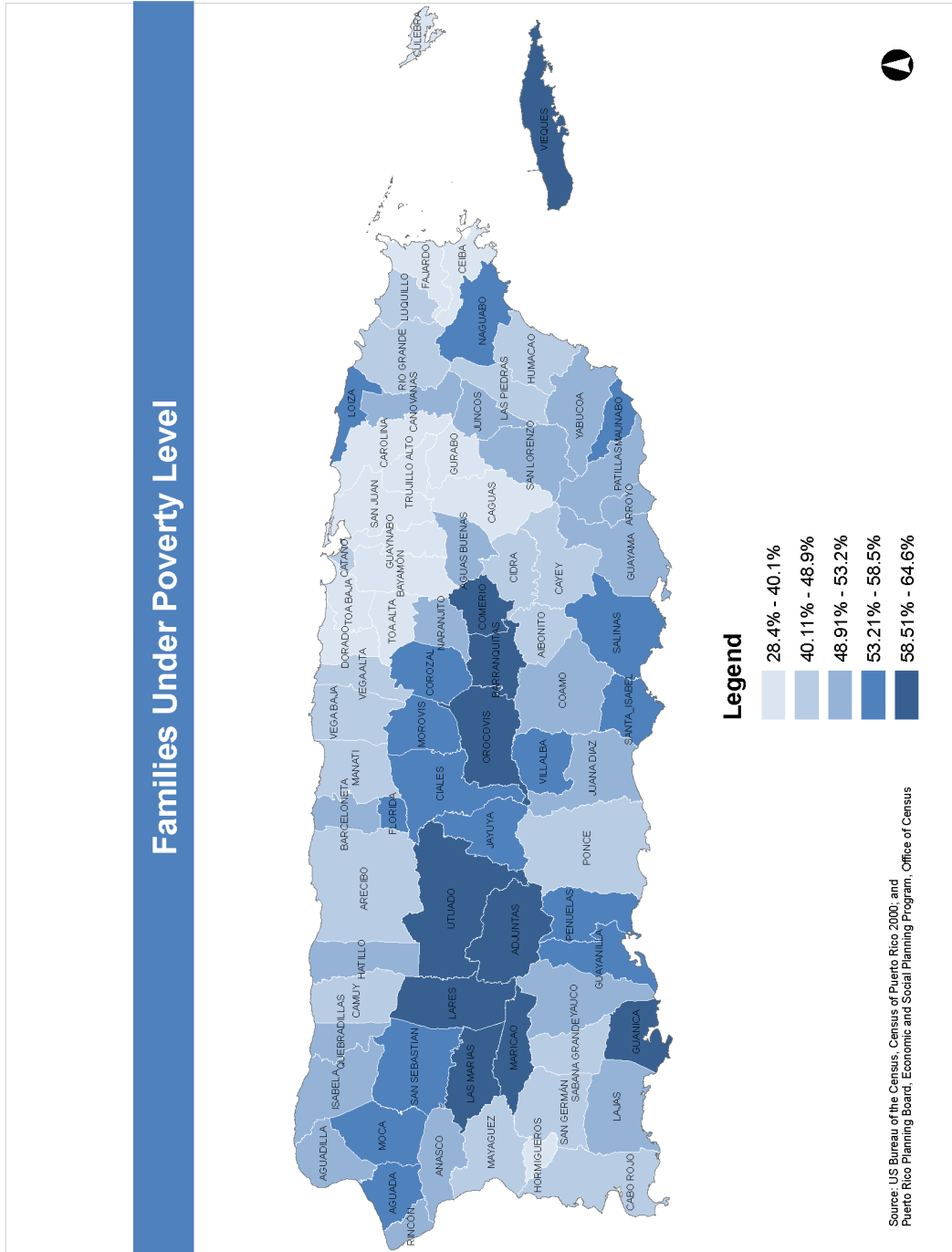
Turabo University	Turabo Institute for Exports and Economic Development (TIEED)	214,658	25%	628,704	75%	843,362	36
Municipality of Santa Isabel	Rehabilitation of the Construction of Seawall and Recreational Area - Santa Isabel	591,473	25%	1,774,420	75%	2,365,893	9
Municipality of Orocovis	Improvements of State Road 155 at Gato Ward, Municipality of Orocovis	1,137,421	50%	1,137,421	50%	2,274,842	12
Puerto Rico Port Authority	Improvement of Pier #3, San Juan		0%		0%	26,720,000	?
PRIDCO	Regional Incubator Network (Mayaguez, Moca and San Sebastian)	800,000	24%	2,500,000	76%	3,300,000	24
Punto Verde, Inc.	Punto Verde Ecological Park	1,690,000	45%	2,030,000	55%	3,720,000	24
Partners for Community, Inc.	Economic Adjustment Assistance for Six Municipalities of Western Puerto Rico	750,000	75%	250,000	25%	1,000,000	18-Dec
100% Puerto Rico Coffee Export Board Inc	Institute for the Development of the Coffee industry	950,000	25%	2,885,723	75%	3,835,723	36
Municipality of Yabucoa	Medical Isotope Production and Multipurpose Research Reactor Facility	10,000,000	50%	10,000,000	50%	20,000,000	36
PR Tourism Company	Environmental & Oceanographic Studies and Conceptual Design for Artificial Reef Infrastructure and Beach	157,000	56%	124,000	44%	281,000	12

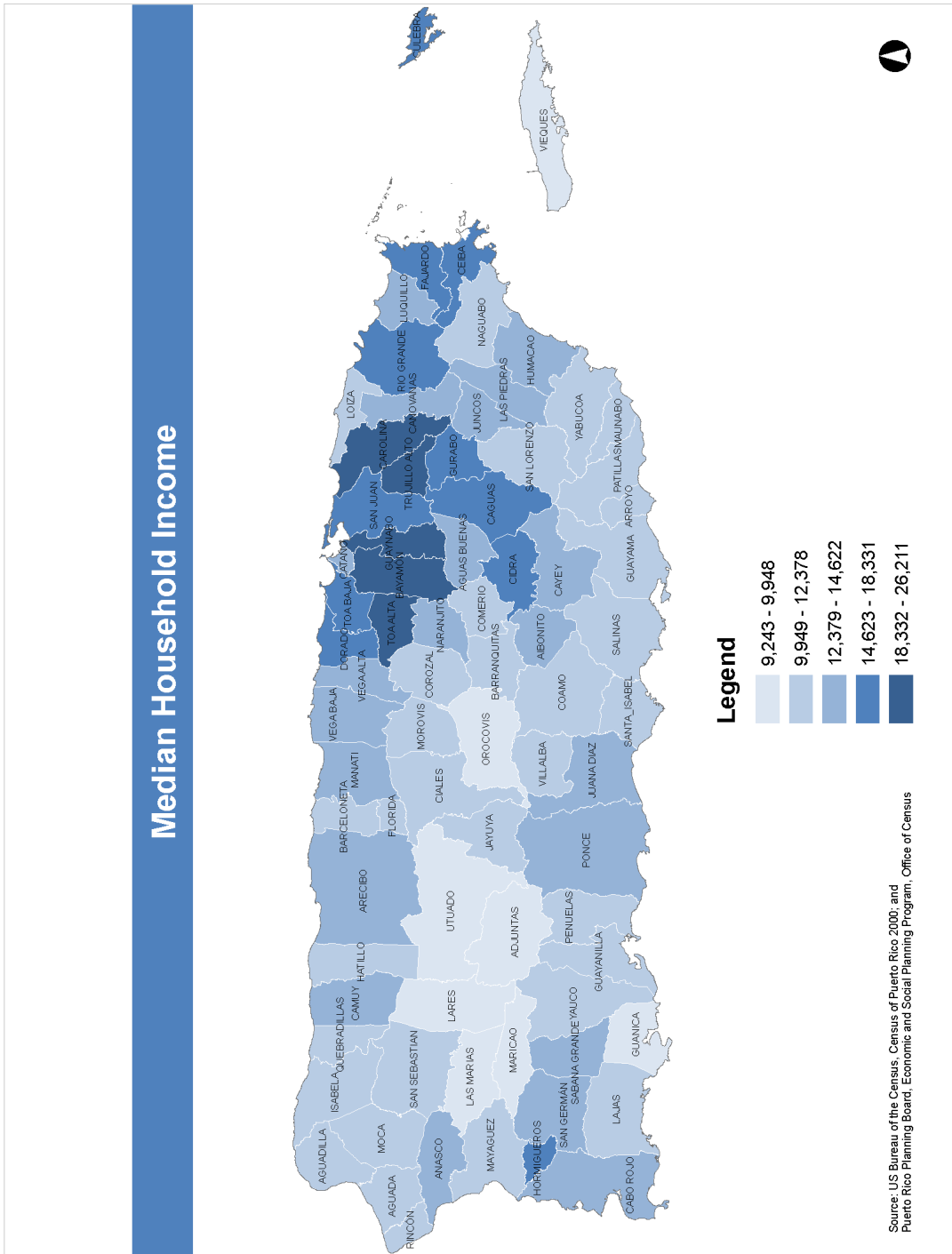
PRIORITY PROJECTS CONSIDERED TO THE CEDS, FY 2010

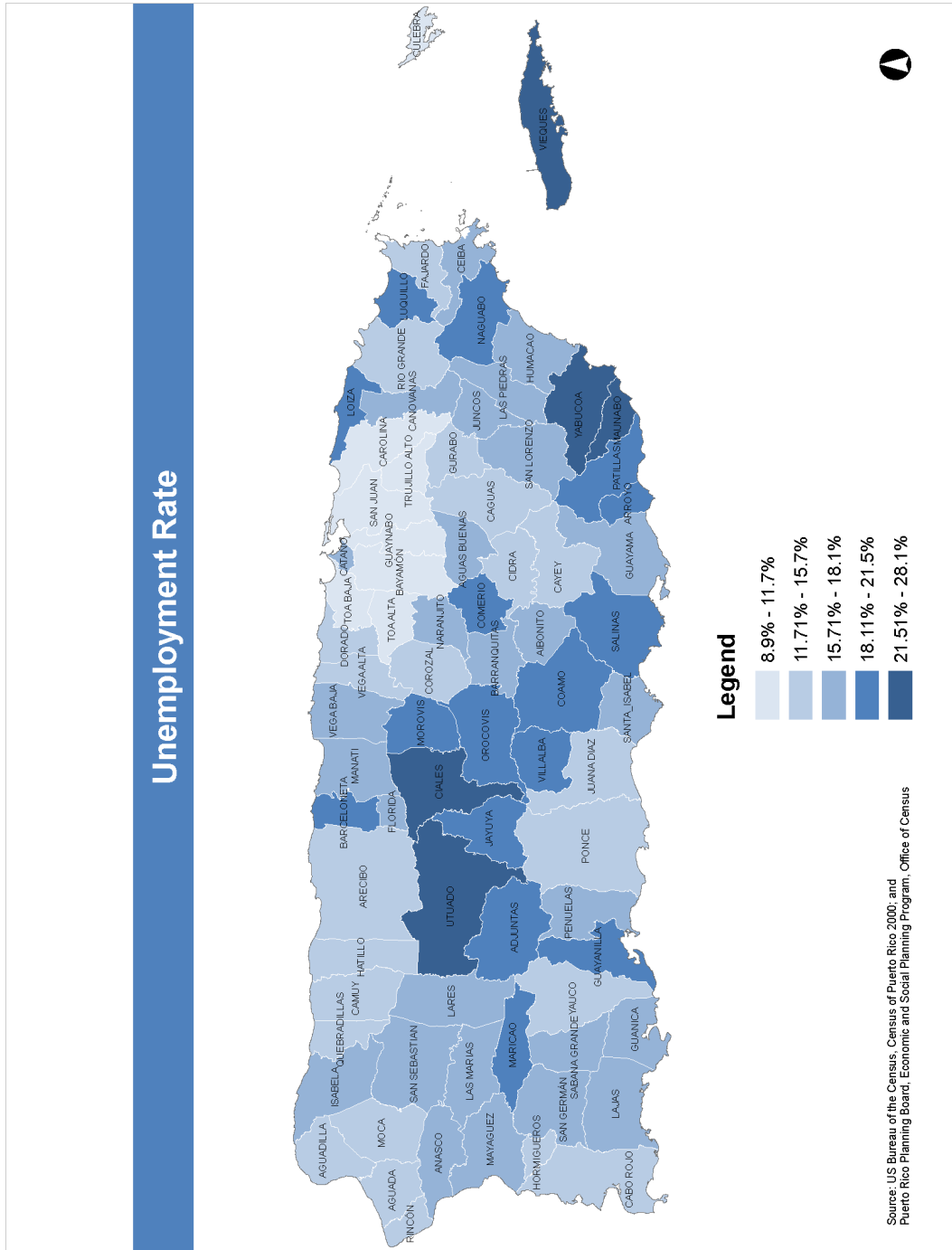
The listing includes the priority order and recommendation classifications rendered by the Committee. It should be noted that during fiscal year 2010, the CEDS Committee received twenty three (23) proposals for evaluation; after three years without the Committee, evaluate proposals.

Proponent	Investment Description	Financial Investment Breakdown					Priority Order
		Proponent	%	Federal Funds	%	Total Investment	
PRIDCO	Regional Incubator Network (Mayaguez, Moca and San Sebastian)	800,000	24%	2,500,000	76%	3,300,000	1
Municipality of Caguas	Expansion of Science and Technology Multitenant Building (CEECTEC)	112,000	20%	448,000	80%	560,000	2
DNRA	Ceiba Creek Channelization Maintenance and Repair, Municipality of Juncos	1,032,000	20%	4,128,000	80%	5,160,000	3
Municipality of Caguas	Construction of the Entrepreneurship Regional Park (CERP) – [Innovation, Sciences and Technology Applications, Diversification and Economic Development	3,648,000	30%	8,512,500	70%	12,160,500	4
Municipality of Orocovis	Improvements of State Road 155 at Gato Ward, Municipality of Orocovis	1,137,421	50%	1,137,421	50%	2,274,842	5
PR Tourism Company	Environmental & Oceanographic Studies and Conceptual Design for Artificial Reef Infrastructure and Beach	157,000	56%	124,000	44%	281,000	6
Municipality of Caguas	Revolving load Fund: Second Generation Relaunching - Recapitalization	600,000	20%	2,400,000	80%	3,000,000	7
INTECO	Regional Business Financial and Mentoring; Disaster Relief Revolving Load Fun – Disaster Declaration (FEMA-1798-DR Puerto Rico)	1,100,000	20%	4,400,000	80%	5,500,000	8
Municipality of Caguas	Construction of the Main Market Plaza and Downtown Business Multitenant incubator facilities at the central Business District	2,733,265	20%	10,933,060	80%	13,666,325	9
Turabo University	Turabo Institute for Exports and Economic Development (TIEED)	214,658	25%	628,704	75%	843,362	10









Municipio	Families Under Poverty Level	Median Household Income	Desemployment Rate
Isabela	52.5	\$11,685	15.90
Aguadilla	51.7	\$11,476	15.20
Arecibo	47.8	\$12,496	14.10
Vega Baja	47.2	\$13,933	17.30
Hatillo	52.4	\$12,378	13.70
Camuy	48.1	\$13,168	13.00
Quebradillas	51.8	\$12,210	14.30
Barceloneta	51.6	\$11,706	19.60
Manatí	48.1	\$12,796	17.30
Vega Alta	47.7	\$13,495	13.80
Moca	56.1	\$11,271	15.20
Loíza	57.0	\$11,200	19.10
Carolina	30.8	\$21,236	11.20
Guaynabo	28.4	\$26,211	8.90
Bayamón	31.9	\$19,861	11.70
Río Grande	43.3	\$15,006	15.00
Aguada	55.8	\$11,384	15.70
Canóvanas	50.4	\$13,034	17.80
Toa Alta	37.0	\$20,134	11.10
San Sebastián	54.3	\$10,962	17.20
Luquillo	46.7	\$13,631	18.90
Florida	55.0	\$11,123	17.50
Fajardo	38.2	\$15,410	15.50
Trujillo Alto	31.7	\$21,980	9.40
Morovis	56.0	\$12,090	18.80
Rincón	53.1	\$11,460	15.30
Ciales	58.5	\$10,981	24.30
Corozal	54.8	\$11,786	15.00
Lares	62.2	\$9,685	18.00
Culebra	33.8	\$17,008	9.30
Utuado	60.4	\$9,948	24.20
Naranjito	53.2	\$12,484	16.80
Añasco	49.3	\$12,620	16.80
Caguas	38.8	\$16,522	13.60
Gurabo	40.1	\$16,451	14.40
Agua Buenas	49.9	\$12,957	16.50
Jayuya	57.9	\$11,220	20.00
Ceiba	37.0	\$16,440	16.40
Naguabo	54.3	\$11,461	21.50
Orocovis	64.6	\$9,945	18.80
Las Marías	63.1	\$9,472	17.80
Comerio	59.5	\$10,892	19.50
Las Piedras	45.2	\$14,622	16.30
Mayaguez	46.0	\$11,775	16.30
Juncos	50.3	\$13,072	17.30
Adjuntas	62.2	\$9,888	19.70
Barranquitas	59.1	\$11,322	16.10
Cidra	44.4	\$15,557	15.00
San Lorenzo	51.0	\$12,226	16.50
Maricao	63.3	\$9,243	19.30
Humacao	43.7	\$14,345	18.10
Aibonito	48.9	\$12,725	18.00
Villalba	57.4	\$11,728	19.10
Coamo	51.9	\$12,064	19.70
San Germán	45.4	\$13,089	16.00
Ponce	48.3	\$12,998	13.60
Yauco	53.1	\$11,924	15.00
Cabo Rojo	43.0	\$13,580	13.10
Cayey	47.5	\$13,452	15.40
Vieques	61.4	\$9,331	22.80
Hormigueros	33.6	\$16,745	15.60
Juana Díaz	52.5	\$12,892	15.60
Sabana Grande	48.0	\$12,485	16.50
Guayanilla	55.0	\$11,361	18.70
Penuelas	56.6	\$12,194	17.60
Yabucoa	50.8	\$12,292	22.20
Patillas	51.0	\$12,021	20.60
Guayama	49.3	\$12,112	18.00
Salinas	55.2	\$11,391	20.70
Lajas	53.2	\$11,384	17.20
Maunabo	54.6	\$11,638	28.10
Santa Isabel	53.9	\$11,895	17.80
Arroyo	52.4	\$11,484	20.60
Guanica	60.0	\$9,721	16.60
Cataño	46.7	\$12,852	16.30
Dorado	40.1	\$16,460	12.50
Toa Baja	37.5	\$18,331	11.60
San Juan	37.2	\$17,367	10.20

Source: US Bureau of the Census, Census of Puerto Rico 2000; and Puerto Rico Planning Board, Economic and Social Planning Program, Office of Census.



**APPENDIX II:
MUNICIPAL ALLIANCES**



APPENDIX III:
PROMOTING AN
ENTREPRENEURIAL MINDSET

PROMOTING AN ENTREPRENEURIAL MINDSET TO FOSTER ENTREPRENEURSHIP

By Jose M. Romaguera, PhD., Professor, College of Business Administration of the UPRM and author of the book “Chispa Empresarial”® and Jose I. Vega, PhD., Director of the Economic Development University Center at the UPRM and editor of the book “Como Iniciar, Desarrollar y Administrar un Negocio Pequeño en Puerto Rico”.

In the case of the Commonwealth of Puerto Rico, an Island of some 100 x 35 miles in the Caribbean with historical ties to Spain, cultural ties to Latin America, and political and economic ties to the USA, the economic development of the latter half of the 20th century was mostly via attracting manufacturing operations of large multinationals. These provided employment opportunities for the population of approximately 4 million people. Those with jobs in turn paid taxes to help the economy grow.

The mindset of the Commonwealth as a whole thus, was that economic development and jobs were mainly the result of attracting large multinationals. The “formula” for attracting these multinationals was mostly via tax incentives from Puerto Rico as well as from the US Treasury as the profits was repatriated to the USA. This “formula” worked for decades and to some extent precluded the Island from understanding the changing realities of the global economy and the need to nurture, simultaneously, a strong base of homegrown entrepreneurs that could compete globally, innovate, adapt, and be able to create wealth to foster sustained economic growth even in the face of tough economic times.

Thus, as other jurisdictions realized that small and medium enterprises were providing the majority of the net new jobs, and responded accordingly, Puerto Rico continued to promote a status quo mindset and to put all or most of its efforts into continuing to focus on providing incentives to attract multinationals to its shores. In the process, the Island neglected to aggressively undertake initiatives to foster entrepreneurship and enterprise formation, including initiatives to promote entrepreneurship as a viable and prestigious career option, early into the mindset of the population.

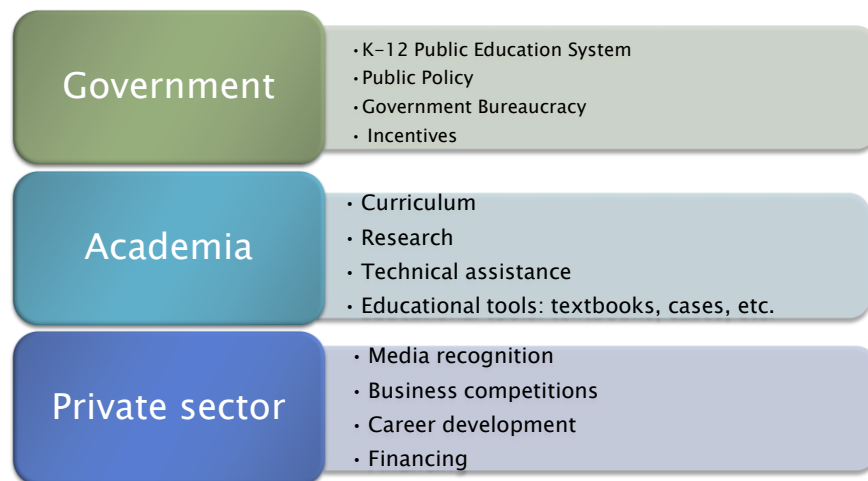
The current economic scenario as described in this CEDS report has finally awakened most in Puerto Rico about the need to depend less on government to provide jobs and on ventures responding to financial yield requirements from external investors as the drivers of the private sector job creation. Reality calls for aggressively pursuing fostering an entrepreneurial mindset to promote entrepreneurship by all possible means at all levels. The previous culture, whereby people desired to have a secure job, **has to give way to a new mindset** where people seriously consider and take action to become an entrepreneur and decide to initiate and develop a new venture.

Comprehensive efforts by government, academia and the pertinent players in the private sector, including the nonprofit organizations, must be strategically focused and coherently coordinated to address the creation of an ecosystem where indigenous entrepreneurship can thrive. Providing a framework for this to happen through initiatives, projects, and programs that support this vision is one of the goals of this CEDS.

While some progress in this regard has been achieved, particularly in the past ten years, the current situation evidences that still much needs to be done to change the mindset of government, academia and

the general public towards entrepreneurship as key economic development strategy. The discourse has been evolving but somehow the widespread actions have been lagging. For example, today as ten years ago, government bureaucracy continues to be reported as the single most discouraging obstacle to business development. Likewise, a “business administration” as opposed to “business development” curriculum approach continues to be the mainstream in institutions of higher education. In the area of K-12 education we can mention some progress in the adoption of pertinent curriculum materials for some vocational programs in the secondary public schools system but entrepreneurship is mostly absent in other levels and particularly from the private schools curriculum. Lastly, the day is yet to come when a widespread advice from career and vocational counselors or parents to their children will be to pursue a career in entrepreneurship. As depicted in the diagram below changing the mindset to an entrepreneurial culture requires reinventing several aspects of our governmental, academic and private sectors.

Changing the mindset to an Entrepreneurial Culture



In closing, besides involving a three pronged sector effort, changing the mindset should strategically focus on developing the future generations of entrepreneurs. As such, projects, programs and initiatives with the potential to nurture youth entrepreneurship are particularly pertinent. Nevertheless, on the short and medium term, initiatives that could help experienced displaced government and private sector workers with viable entrepreneurial ventures regain their financial independency once again should also become a strategic priority.



APPENDIX IV:
STRATEGIC MODEL FOR A NEW
ECONOMY



Agenda

1. The Economic Challenge is of Historic Proportions

2. Strategic Model for a New Economy

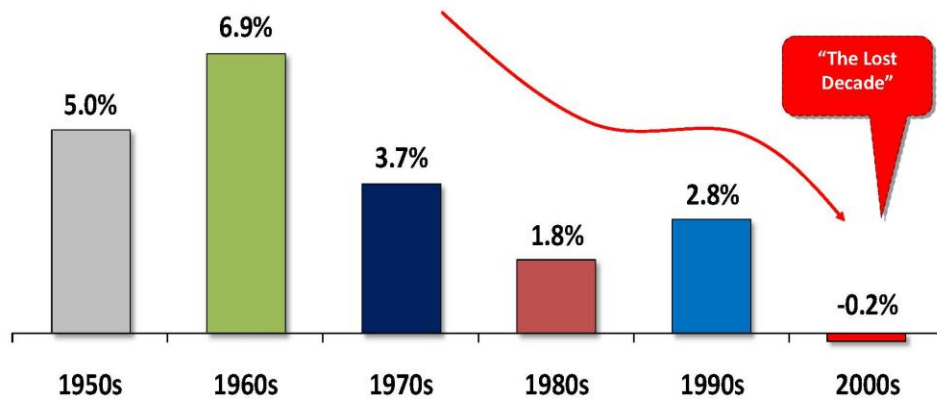
3. Implementation of the Strategic Model

2

**We have lost the first decade of the 21st Century...
We CANNOT lose another!**

We have lost a decade in terms of economic growth

Compounded Annual Growth of Real GNP for every decade

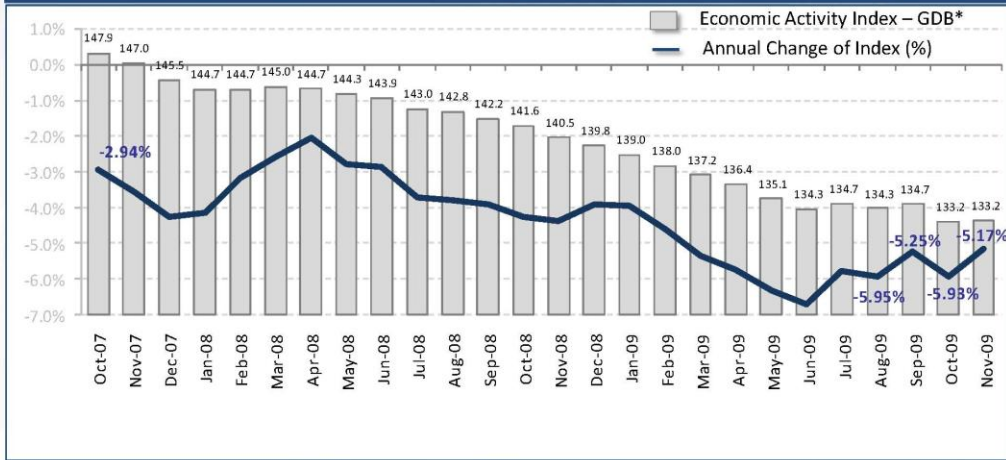


Source: P.R. Planning Board. Estimate takes into account the last revision of FY 09 (06/2009).

3

We are monitoring the economic activity on a monthly basis through the Economic Activity Index

The contraction calls for extraordinary measures in the short and long-term

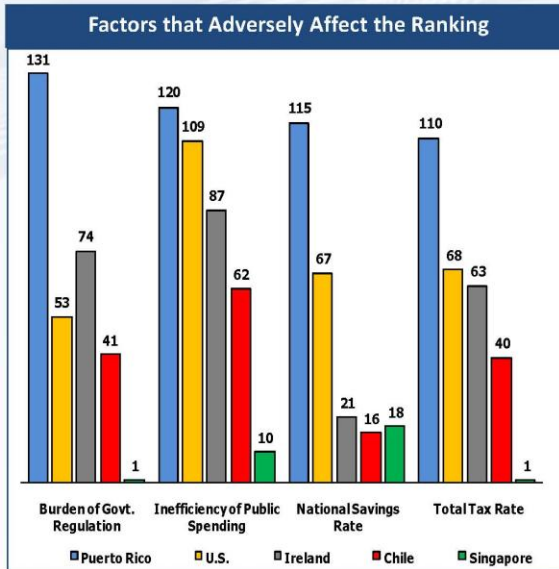
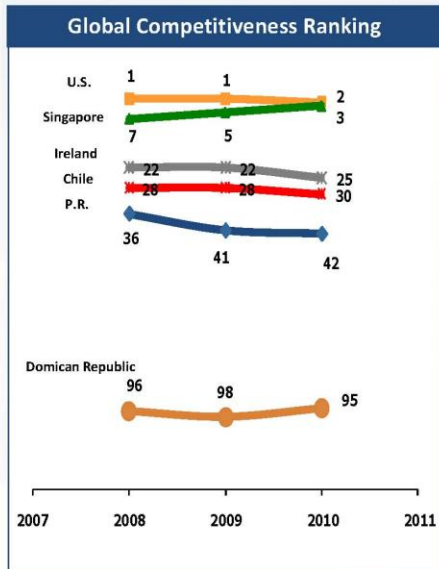


Source: GDB.

* The GDB Economic Activity Index (EAI) is published on a monthly basis, and it is 98% correlated to the GNP. It consists of 4 indicators: Total Payroll Employment (Establishments Survey), Total Electric Power Consumption (MM of kWh), Total Cement Data (MM of Bags) and Gas Consumption (MM of Gallons).

4

Puerto Rico's global competitiveness challenges are under the government's purview



Source: World Economic Forum (WEF) 2009-2010.

5

Agenda

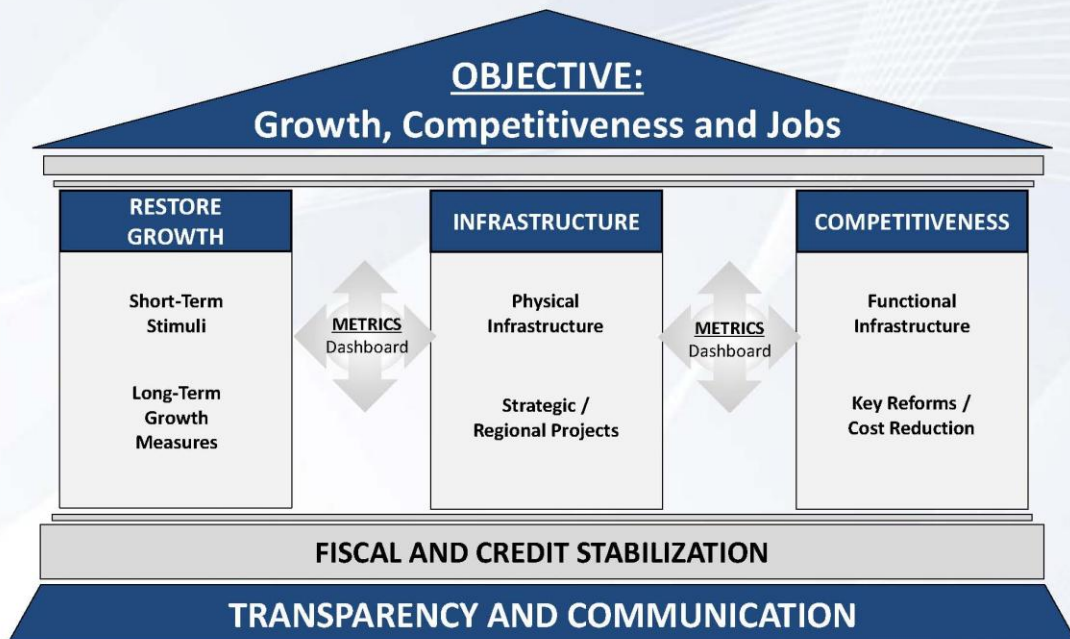
1. The Economic Challenge is of Historic Proportions

2. Strategic Model for a New Economy

3. Implementation of the Strategic Model

6

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

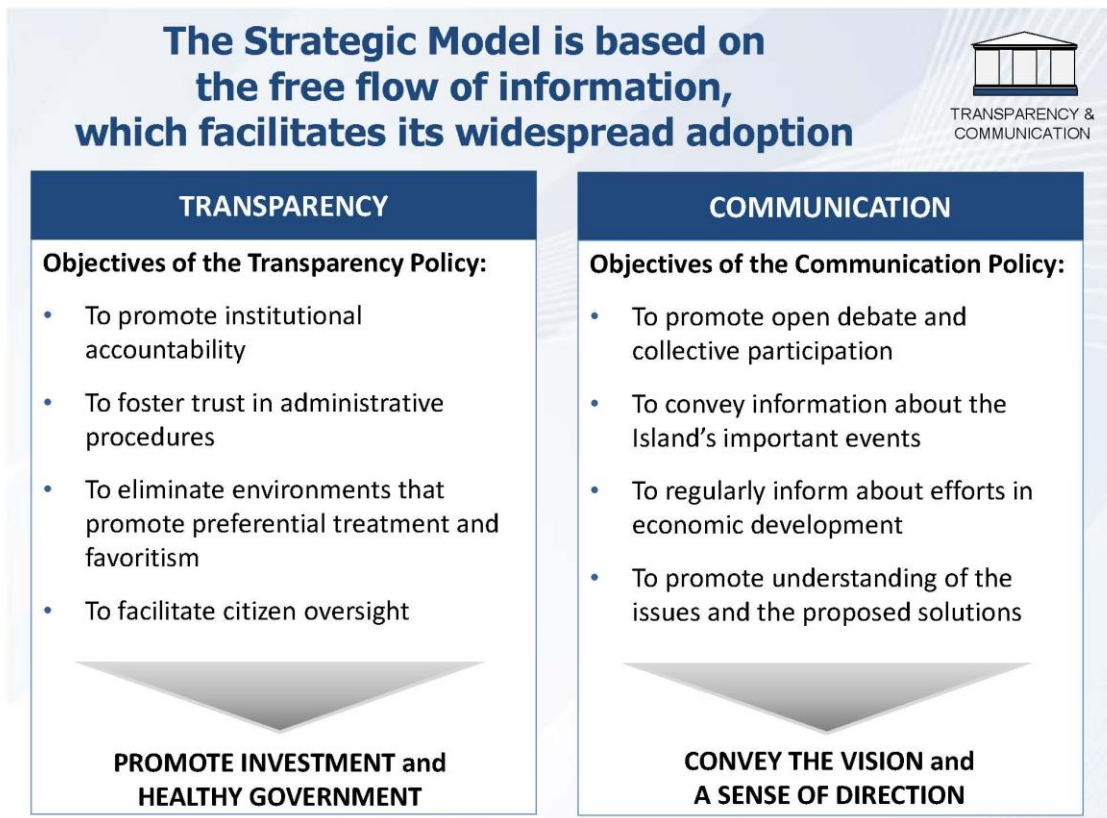


* MENE is the Spanish acronym for Strategic Model for a New Economy.

7



8




9



10

We have been able to stabilize the fiscal and credit conditions, but the rating agencies are closely monitoring compliance with the Fiscal Reconstruction Plan



FISCAL STABILIZATION

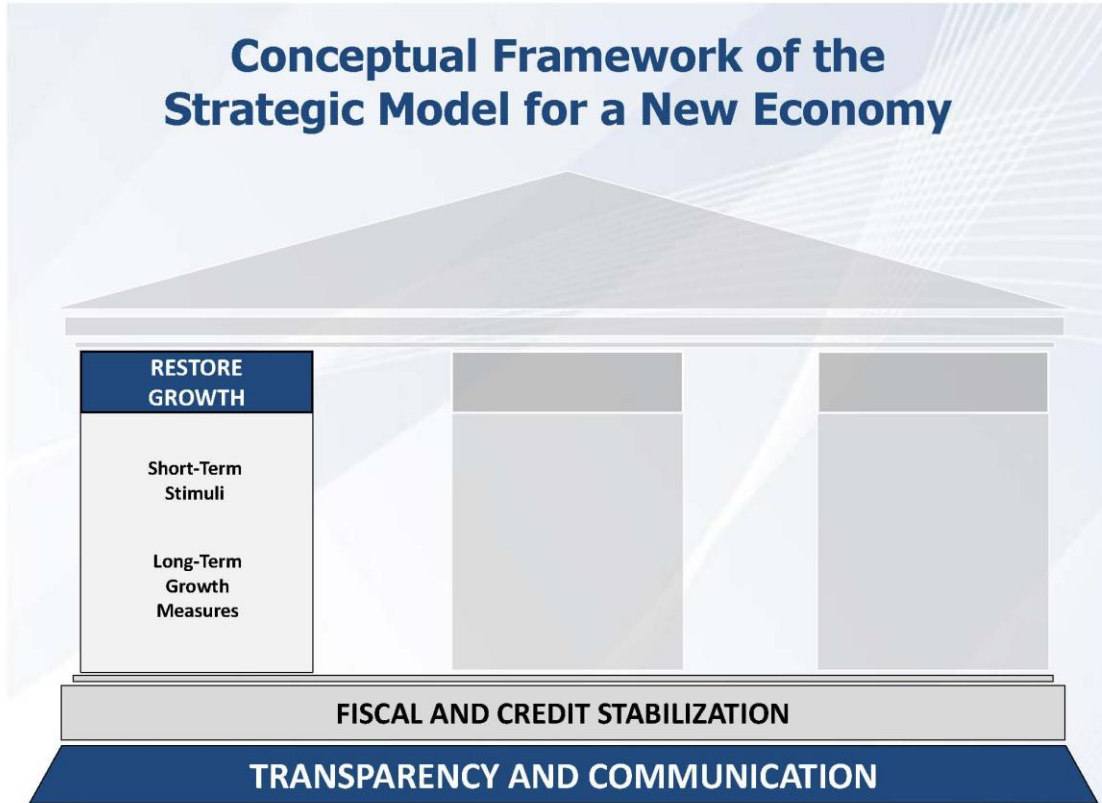
Puerto Rico Major Credits			
Entity	Rating (S&P)	Outlook	Description
COFINA Senior	AA -	Stable	Rating increase on 05/09
COFINA Subordinate	A+	Stable	Rating confirmed on 05/09
PREPA	BBB+	Stable	Rating confirmed on 07/09
PRHTA	BBB+	Stable	Last revision on 02/09: downgrade
GDB	BBB	Stable	Rating confirmed on 09/09
Central Govt.	BBB-	Stable	Rating confirmed on 06/09
PRASA	BBB-	Stable	Revision in progress
Ports	BBB-	Stable	Last revision on 02/09: downgrade
PBA	BBB-	Stable	Rating confirmed on 07/09

First credit increase in 10 years

Mid-term* goal of "BBB+" rating

Source: GDB. * Mid-Term = 4 years.

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Restoring economic growth is based on the effective implementation of short-term stimuli and the long-term development of the productive base

A combination of measures to restore economic growth	
Short-Term Growth Measures	
Federal Stimulus Plan (ARRA*)	<ul style="list-style-type: none"> Objective: Invest \$6.378 billion in the Puerto Rican economy, of which 34 % have been disbursed, and will create 42,065 jobs
Local Stimulus Plan (PEC*)	<ul style="list-style-type: none"> Objective: Invest \$500 MM in stimuli at the local level, of which approximately \$100 MM are in the process of being disbursed
Long-Term Growth Measures for All Sectors	
Integration into the Global Economy	<ul style="list-style-type: none"> Objective: Foster the development and strengthening of local companies capable of exporting competitive goods and services
Transition to a Knowledge based Economy	<ul style="list-style-type: none"> Objective: Leverage the industrial base to create new jobs and businesses by creating new <i>clusters</i>** and consortia with a focus on innovation

* ARRA = American Recovery and Reinvestment Act; PEC = Spanish acronym for the Local Stimulus Plan.

** Cluster = Groups of interdependent and complementary businesses and institutions that make up an important area of economic focus and activity (Michael E. Porter, The Competitive Advantage of Nations, 1990).

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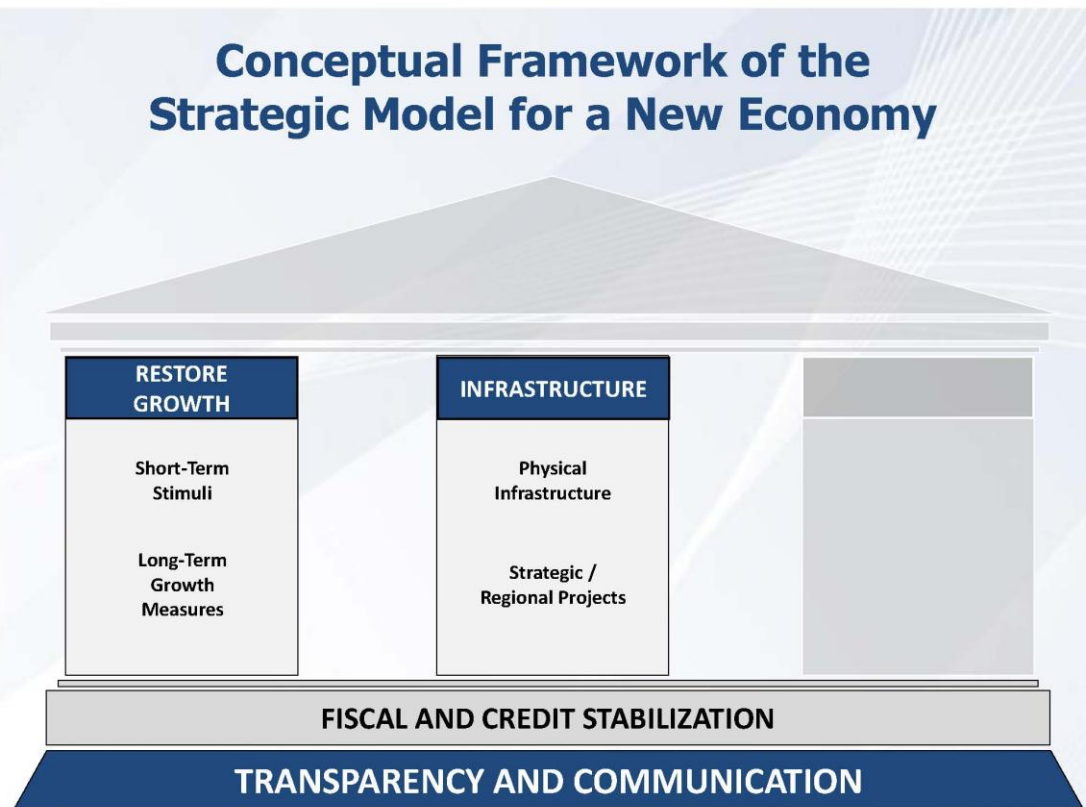
The strategic model includes fostering strategic sectors, emphasizing competitiveness and sustainable growth



Focus on strategic sectors that will enhance production capacity	
Manufacturing	• Objective: To retain, expand and diversify the current industrial base and attract manufacturing of high-value products based on R&D and high tech
Banking, Insurance and Credit Unions	• Objective: To foster a strong and healthy financial system, to ease the efficient flow of capital in the economy
Tourism and entertainment	• Objective: To develop new and attractive offers, to retain and attract new tourist segments
Commerce	• Objective: To foster entrepreneurship and improve the value proposition for the consumer by emphasizing diversification and competition
Agriculture	• Objective: To develop an entrepreneurial and hard working culture based on quality and competitiveness, and to maximize the yield of high agricultural potential soils
Film and Creative Services	• Objective: To develop a film and creative services industry that is financially viable in the long-term

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Conceptual Framework of the Strategic Model for a New Economy



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Improve the physical infrastructure to expand the economy's productive capacity and reduce operating costs



Strategic investments in infrastructure will expand the Island's productive capacity

Capital Improvements Plan	• Objective: The five main infrastructure public corporations have scheduled \$1, 245 MM in capital improvements for FY 2010
Infrastructure PPPs	• Objective: To accelerate investment in infrastructure and private sector participation; invest \$6,214 MM and create 99,735 jobs
Water	• Objective: To bring water service to the entire Island, reduce water loss in the system and ensure water supply
Energy	• Objective: To reduce the cost of energy and guarantee that electric power is accessible, reliable and sustainable throughout the Island
Transportation	• Objective: To guarantee developed and updated roads and pathways, and safe and accessible collective transportation
Ports and Airports	• Objective: To maximize the role of ports and airports in the industrial supply chains and tourism development

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Strategic projects will generate investments in all the regions of the Island to foster balanced economic development

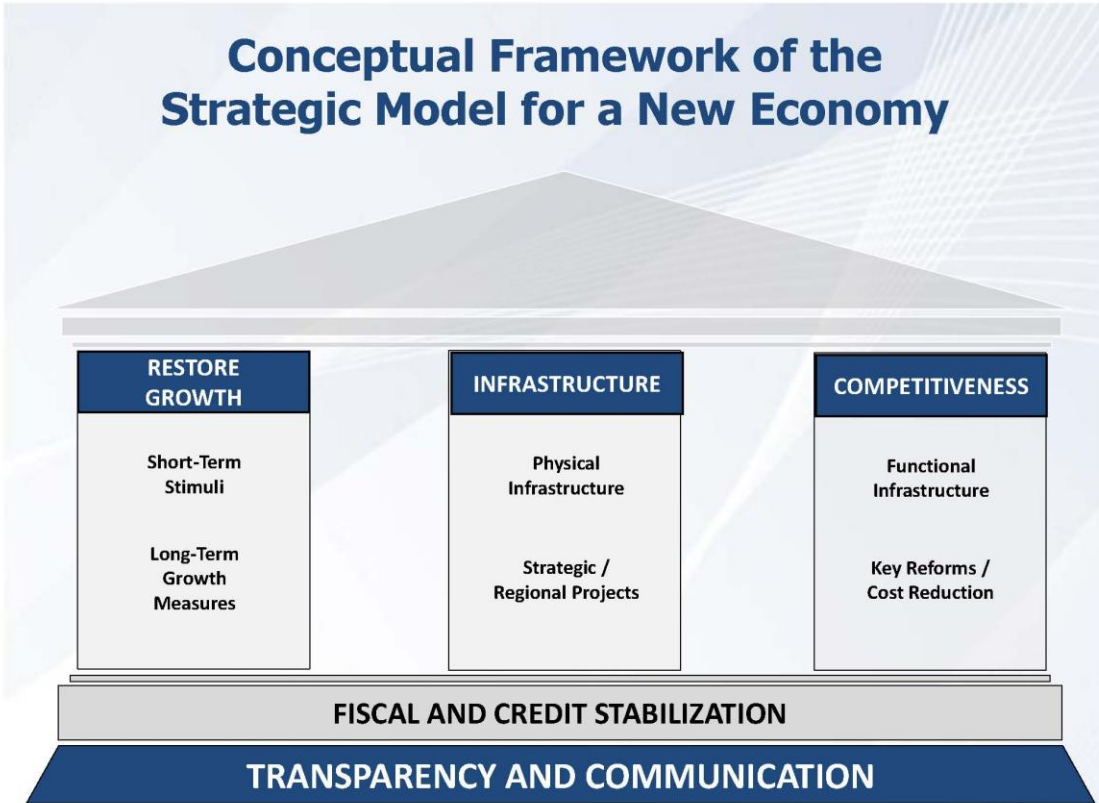


Strategic investments in infrastructure will expand the Island's productive capacity

Golden Triangle	• Objective: The redevelopment of areas of Old San Juan, Puerta de Tierra, Isla Grande, the Convention District and Condado, among others (\$1.538 billion / 24,685 jobs)
Caribbean Riviera	• Objective: To develop a tourism complex, related to the concept of destinations of entertainment and gambling (\$1.900 billion / 30,495 jobs)
Science City	• Objective: To create a district to position Puerto Rico at the forefront of the science, technology and R&D industries (\$1.765 billion / 28,328 jobs)
Port of the Americas	• Objective: To create an international trans-shipment port of global caliber with value-added zones in the southern region of Puerto Rico (\$750 MM / 12,038 jobs)
Mayagüez 2010	• Objective: To develop the infrastructure to hold the XXI Central American and Caribbean Games in the summer of 2010 (\$332 MM / 5,329 jobs)
Aguadilla Airport	• Objective: To redevelop the Aguadilla airport as the second most important international airport of P.R. and as a regional logistical center (\$21.8 MM / 350 jobs)

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Conceptual Framework of the Strategic Model for a New Economy



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Reforms address challenges regarding costs, efficiency and functionality, which currently reduce competitiveness our economy



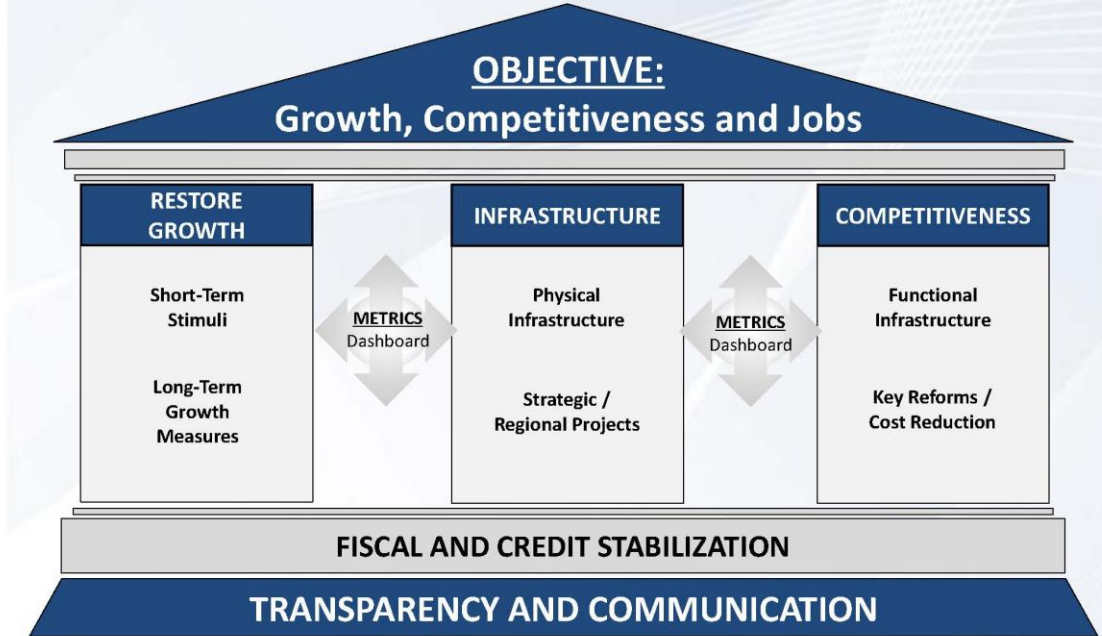
Reducing the costs of doing business and facilitating private sector growth

PPPs Reform	<ul style="list-style-type: none"> Objective: Approved Act 29 of 2009: Creates new public policy related to infrastructure investment and public services
Permits Reform	<ul style="list-style-type: none"> Objective: Approved Act 161 of 2009: Creates a new permits system that is transparent, agile, efficient and accurate
Executive Branch Re-organization and Modernization	<ul style="list-style-type: none"> Objective: Approved Act 182 of 2009: Promotes a government structure that responds to current needs and fosters a better quality of life
Energy Reform	<ul style="list-style-type: none"> Objective: To establish a new energy public policy and programs to diversify the sources of energy by ARRA, RPS* and GEF**
Tax Reform	<ul style="list-style-type: none"> Objective: To reform the tax system and bring relief to the Puerto Rican taxpayer through reduced and fair tax rates
Labor Reform	<ul style="list-style-type: none"> Objective: To incentivize work by increasing the participation rate and demand for labor in the private sector

*RPS is a regulatory policy that requires production increments from renewable energy sources, including the wind, solar, biomass, and geothermal.
 ** GEF = Green Energy Fund

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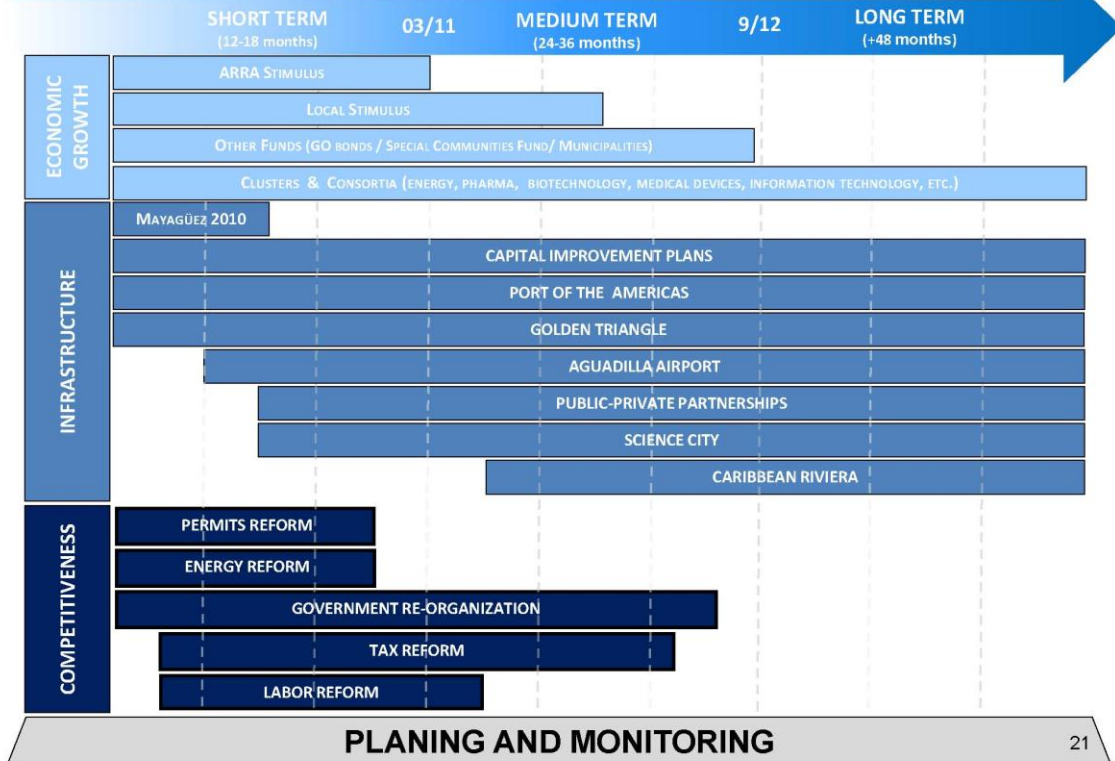
Conceptual Framework of the Strategic Model for a New Economy (MENE*)



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

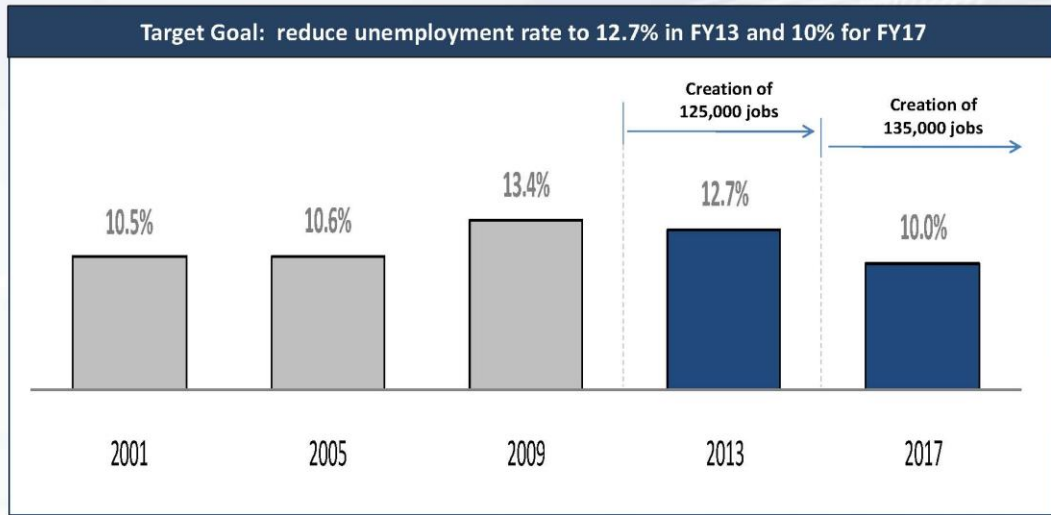
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Work Schedule – Sequence of Initiatives



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The implementation of the Strategic Model has the goal of creating approximately 260,000 new jobs in the long-term, which entails a constant reduction of the unemployment rate



Among the measures that will generate more jobs are the short-term stimulus programs, the PPPs and the regional strategic projects

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Agenda

1. The Economic Challenge Has Historic Proportions

2. Strategic Model for a New Economy

3. Implementation of the New Strategic Model

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Objectives and Indicators in the mid- and long-term (4 and 8 years, respectively)

Indicator	Actual	2013	2017
GROWTH			
Economic Activity Index	133.2	145.1	160.5
GNP Annual Growth Rate	(3.7 %)	1.8 %	3.0 %
Participation Rate	42.7 %	45.6 %	48 %
Unemployment Rate	15.5 %	12.7 %	10 %
New Jobs (Accumulative since August 2009)	---	125,000	260,000
Internet Users per each 100 Individuals	37.5	60	80
Budget Surplus / (Deficit)	(\$3,200 MM)	- balanced -	- balanced -

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Objectives and Indicators in the mid- and long-term (4 and 8 years, respectively)

Indicator	Actual	2013	2017
INFRASTRUCTURE			
# of PPP Projects (Accumulative)	---	13	21
Private Investment in PPPs (Accumulative)	---	\$4,537 MM	\$6,214 MM
% of Energy Dependence on Oil-based Sources	68 %	55 %	32 %
% of Energy Dependence on Renewable Sources	0.7 %	6 %	13 %
COMPETITIVENESS			
Central Government Credit Ranking	BBB-	BBB+	A
Competitiveness Ranking (WEF)	42	35	25
Energy Price (cents/kWh)*	21.52	18	14

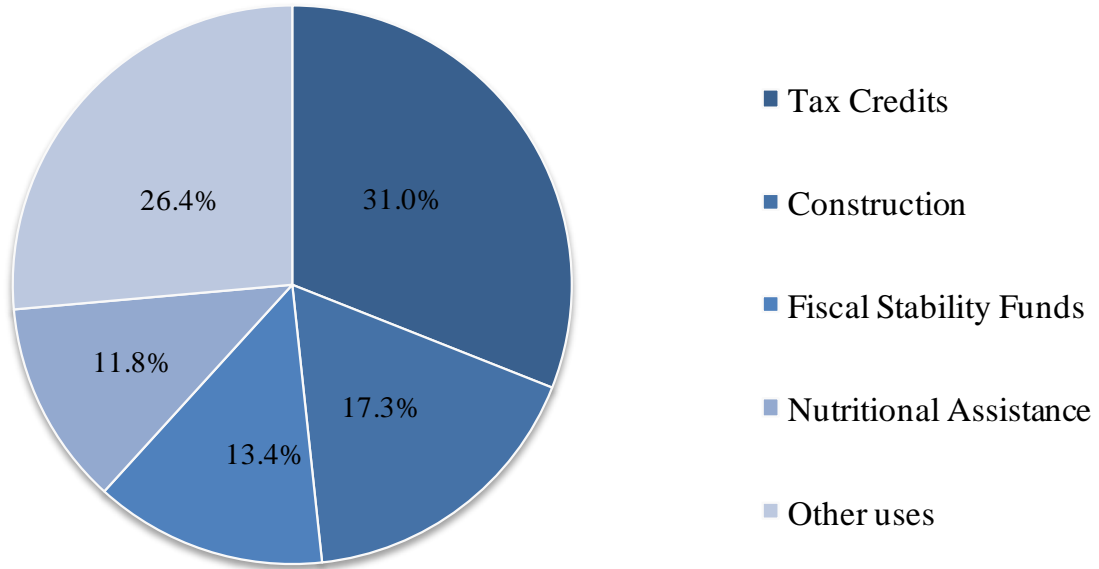
* Average Price (consumer and industrial) Subject to change based on fluctuations in the price of oil.

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**APPENDIX V:
DISTRIBUTION OF ARRA FUNDS**

ARRA Funds Distribution*



* In a five year period.
Source: Estudios Técnicos, Inc.

* As of the date of this report, total ARRA funds are estimated at \$6.4 billion for Puerto Rico.



APPENDIX VI:
EDA INVESTMENT PROGRAMS

EDA Investment Programs:

Public Works: Empowers distressed communities to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs and investment.

Economic Adjustment: Assists state and local interests in designing and implementing strategies to adjust or bring about change to an economy. The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base.

Community Trade Adjustment Assistance: Provides project grants to communities that have experienced, or are threatened by, job loss resulting from international trade impacts.

Partnership Planning: Supports local organizations (Economic Development Districts, Indian Tribes, and other eligible areas) with long-term planning efforts.

Trade Adjustment Assistance for Firms: A national network of eleven Trade Adjustment Assistance Centers to help manufacturers and producers affected by increased imports prepare and implement strategies to guide their economic recovery.

Global Climate Change Mitigation Incentive Fund: Finances projects that foster economic development by advancing the green economy in distressed communities.

University Centers: A partnership of the federal government and academia that makes the varied and vast resources of universities available to the economic development community.

Research and National Technical Assistance: Supports research of leading edge, world class economic development practices and information dissemination efforts.

Local Technical Assistance: Helps fill the knowledge and information gaps that may prevent leaders in the public and nonprofit sectors in distressed areas from making optimal decisions on local economic development issues.



APPENDIX VII:
EDA INVESTMENT PRIORITIES

EDA Investment Priorities

Within the parameters of a competitive grant process, all projects are evaluated to determine if they advance global competitiveness, create jobs, leverage public and private resources, can demonstrate *readiness and ability to use funds quickly and effectively* and link to specific and measureable outcomes. To facilitate evaluation EDA has established the following investment priorities:

Collaborative Regional Innovation: Initiatives that support the development and growth of innovation clusters based on existing regional competitive strengths. Initiatives must engage stakeholders; facilitate collaboration among urban, suburban and rural (including Tribal) areas; provide stability for economic development through long-term intergovernmental and public/private collaboration; and, support the growth of existing and emerging industries.

Public/Private Partnerships: Investments that use both public and private sector resources and leverage complementary investments by other government/public entities and/or non-profits.

National Strategic Priorities: Initiatives that encourage job growth and business expansion in clean energy; green technologies; sustainable manufacturing; information technology (e.g., broadband, smart grid) infrastructure; communities severely impacted by automotive industry restructuring; natural disaster mitigation and resiliency; access to capital for small and medium sized and ethnically diverse enterprises; and, innovations in science, health care and alternative fuel technologies.

Global Competitiveness: Investments that support high-growth businesses and innovation-based entrepreneurs to expand and compete in global markets.

Environmentally-Sustainable Development: Investments that encompass best practices in “environmentally sustainable development,” broadly defined, to include projects that enhance environmental quality and develop and implement green products, processes, and buildings as part of the green economy.

Economically Distressed and Underserved Communities: Investments that strengthen diverse communities that have suffered disproportionate economic and job losses and/or are rebuilding to become more competitive in the global economy.