

MESSAGE TO THE PEOPLE OF PUERTO RICO

Hon. Luis G. Fortuño
Governor
La Fortaleza, San Juan

Puerto Rican brothers and sisters.

Thank you for welcoming me to your home.

In the past few weeks, we have all come to understand the seriousness of our fiscal and economic crisis. Along with my staff, I have evaluated the different alternatives to deal immediately with this crisis, seeking always the common good of our people.

Today, I want to discuss in detail with you the direction that we will take together to get Puerto Rico back on track. The time to act is now. Only if we work together can we give back to you and your family the right that all Puerto Ricans have to a future of progress and well-being.

For some time now, you've been suffering from the hardships caused by the economic deceleration, which increasingly worries you and overwhelms you. Your income is shrinking, and food is more expensive every day. The cost of living continues to increase while your salary covers less and less every day. As if that weren't enough, the Government of Puerto Rico faces the worst economic and fiscal crisis we've had since the Great Depression of the 1930s. Consider that in June, the government stopped paying its electricity bills, as well its water and

telephone bills... and thousands of suppliers who provided services to the most needy didn't receive payment... What would happen in your case if you stopped paying your electricity or water bills? Service would be interrupted, of course. It's time that the government lives under the same rules that you also have to follow.

I am not here to look back. I am here to look forward and take immediate action so we can overcome this crisis. But I cannot do it alone...It is up to all of us to put things in order and rescue the future of our homeland. It's up to us to rebuild Puerto Rico.

It is up to all of us to face the bitter fact that government is bankrupt, and to work together to bring progress, opportunities and a future back to you... The government may be broke, but Puerto Rico is not.

Over the past 60 days, we've discovered that the fiscal deficit we found is FOUR TIMES larger than what they told us... In fact, the deficit reaches \$3.2 billion... proportionally, the highest in the Nation. To give you an idea, that deficit is the equivalent to that of a family making \$1,500 a month but spending \$2,100 EVERY MONTH. In very little time, that family would be in such a mess, that it would risk losing its credit cards, car and even its home.

That is exactly the situation facing Puerto Rico today. During the past few years, the government has spent \$900 million more than what it collects every year. As a result, we're about to lose our credit rating.

That means that people who loan money to Puerto Rico so we can build highways, schools and hospitals and to provide services that people need do not want to loan to us anymore.

The time has come. We must act now, without hesitation, to save the little credibility we have in the bond market, and save our house.

The time has come to act with courage, reaffirm our values and get to work, without party distinction, on behalf of our people. From now on, we must put our common needs above individual ones, treating our brothers with compassion and selflessness.

We must act decisively, with discipline and determination. I know that you have already started doing it. At home, you've had to cut back on purchases to be able to pay your electric and water bills. I know you're looking for a way to reduce your monthly mortgage and car payments.

And it is precisely because I know what you're going through that I've taken assertive steps from day one to offer you good government... an agile and efficient government, a transparent government with fiscal discipline and good management of taxpayer dollars... a government at your service and that of all Puerto Ricans.

You know that I have already ordered a 10% cut in government operating expenses. This has forced government agencies to cut back on contracts to consultants, lawyers, advertisers and others. I also reduced political appointees by 30%. These two steps will save more than \$182 million of your money annually. In some cases, I determined that salaries for some political appointees were too high,

even though they complied with the Executive Order, so I ordered them to be reduced.

I have also ordered the elimination of cellular phones, credit cards and official vehicles. Today, I can say that we have eliminated more than 1,700 official vehicles and 2,677 government cell phones, and that I will continue cutting government fat.

At La Fortaleza, we have also dramatically cut costs... because we must be the first ones to set an example. Unlike last year, for instance, we no longer have advisers with drivers and assigned vehicles at La Fortaleza.

The fact is you deserve good government, one that acts with respect and discipline, not only during the difficult times we're going through, but always. The fact is that these steps will help produce savings, but we must do much more.

If we fail to act, Puerto Rico will go into an unimaginable economic crisis, much worse than the one we face now. If we lose our credit rating, the government will no longer be able to meet its payroll, pay its suppliers or offer basic services to you.

If we fail to act, we would lose over 130,000 jobs and unemployment would increase to more than 25% in just two years. In addition, your savings accounts and retirement plans — including IRA accounts and public and private employees' retirement funds — would lose up to half of their worth... the value of your house would fall dramatically.

If we fail to act, the negative impact on the island's economy would be massive, and recovery would take 8 to 10 years, like it did in New York when that city lost its credit in the 1970s and as it will surely happen to Detroit, which lost its credit last month.

This is simply unacceptable. It simply isn't an option... and I will not allow it.

For that reason, we have come up with a Plan to Rebuild Puerto Rico, but I need you and all Puerto Ricans in order to carry it out successfully and overcome our difficulties. Our plan is ambitious, but not impossible. Our plan will start our economic engines, create more jobs and produce income, and will include additional saving measures in government. With our plan, the economy will move forward and we will all attain a higher quality of life. With our plan, we will rebuild Puerto Rico and start producing once again.

Although we will have to make sacrifices, we will do so with sensitivity and with commitment, always taking into account that the well-being of the people must be more important than the well-being of just a few. These sacrifices will allow us to recover our economic progress, create more and better jobs, and put more money back into your pockets.

I am sure we will come out of this crisis stronger, and that for the first time in years, Puerto Rico will look to the world with confidence... with a growing economy and a healthy, well-educated and productive population.

To achieve this, today I am submitting to the Legislative Assembly for its approval four bills to implement this plan. Three of the legislative measures make up an

economic development plan that will inject money into our economy through public works in your communities. The fourth piece of legislation will solve the fiscal crisis that has bankrupted the government.

First, I am submitting legislation that will allow for the more than \$5 billion we are receiving under the Federal Economic Stimulus Plan to reach your pockets and be used for your direct benefit as soon as possible. With the committed support of Puerto Rico's 78 mayors, we will complete these public projects in record time.

Secondly, I'm submitting a bill to implement our \$500 million Local Economic Stimulus Plan to provide benefits to you and build permanent projects in order to generate jobs. This plan, which complements the federal stimulus plan, includes eight components... to rebuild Puerto Rico and start producing once again.

The first one, a Business Stimulus program, will ease the situation of thousands of small and medium business people who are going through difficult times even though their businesses were once successful and viable. Under the Business Stimulus program, we will invest \$180 million to guarantee loans to Puerto Rican small and medium-sized businesses at immediate risk of operational cut backs or closing due to lack of liquidity.

Under this program, administered by the Economic Development Bank, new loans of between \$5,000 to \$250,000 will be granted which will benefit more than 7,600 local businesses.

Secondly, we will spur the development of permanent projects in all municipalities through a \$142.5 million investment, \$100 million of which will be directly

managed by mayors. With it, we will inject capital and created jobs throughout the island and, at the same time, we will help mayors move forward with priority projects in their municipalities... because when mayors build, all Puerto Ricans come out ahead. These funds can be used for public works of direct benefit to you, such as flood control projects, waste water infrastructure projects, improvements to storm drainage systems and street lighting, repairs to bridges and municipal roads. Basically, its goal is to improve your community and your quality of life.

Thirdly, we will give you a financial break, to meet the needs of our retirees under Law 447, and grant a \$300 bonus to all those with an annual income below \$20,000 who file a return during the 2008 tax year. This rebate, which is in addition to the one you will receive through the Federal Economic Stimulus Plan, will go to more than 106,000 pensioners.

Fourthly, we will help families who are at risk of losing their homes due to employment loss or a 20% income reduction. We will create a program through which you will be able to reduce your monthly mortgage payment by cutting your mortgage interest rate or extending the life of the loan. With this initiative, we will help protect the homes of more than 5,000 families.

In addition, with the participation of the private sector, we will create a joint fund that will reach \$240 million to help eligible families buy a new or existing home. Under our plan, you will be able to get \$25,000 to purchase a new home and \$10,000 for an existing home. This money, which may be used as a down payment, is obtained through a second mortgage with no principal or interest payments over the first 10 years. With this innovative initiative, 8,000 families will be able to buy a new home and 4,000 families, an existing one.

To build public and low-cost housing, we will provide interim construction financing through a \$68 million fund. This program will help build almost 6,500 public housing units.

On the other hand, you and I know that many people have lost their jobs in recent years. The Federal Economic Stimulus Plan will provide more than \$40 million for job retraining and employment relocation programs. At the local level, we will invest an additional \$15 million in our Local Economic Stimulus Plan to facilitate the transition to a new job.

As you well know, public corporations are in the same situation that the central government is in, if not worse. Many of them don't even have enough to meet payroll for the rest of this fiscal year, much less to make the necessary investments to build highways, bridges, schools, ports and other basic infrastructure. In fact, last week, credit rating entities downgraded the bonds of two of our main public corporations, the Highway Authority and the Ports Authority.

That is why I am also filing legislation to promote the use of partnerships between the public and private sector to facilitate development of infrastructure projects and improve government services. Under this concept, the government will seek greater private sector investment in infrastructure, in partnership with the government. In this way, our public corporations will be able to devote their limited resources to direct services to the people.

Public-private partnerships will allow us to develop basic infrastructure at no direct cost to us. These partnerships may be with corporations, cooperatives, non-profit

organizations and municipal governments. These partnerships do not entail transferring the title of any public assets. The assets continue to be government property. The bill will require the public disclosure of every such transaction, and you will be able to get information online on every step taken under these partnerships. I want you to be the watchdog of these processes.

In addition, the steps we are taking will allow us to pay \$750 million to government suppliers in the next few weeks. The debt to suppliers we inherited already surpasses \$1 billion. We have already paid \$330 million and, with this payment, we will be caught up with all those special education teachers, therapists, school bus drivers and other suppliers who are patiently awaiting their payment.

With these actions, we will be injecting more than \$7 billion into our economy over the next two years. Early this summer, you will receive the first Federal stimulus check. This summer, you will see highway construction. Government suppliers will be able to rehire the employees they've had to lay off due to lack of government payment... You and your children don't deserve any less... because together, we will rebuild Puerto Rico.

And as mentioned, as we stimulate the economy, we will also be taking action to balance our budget, continue producing savings and cut expenses, in a way that safeguards our credit and guarantees progress and good government to you... because, just as you have done, government must control its spending... and cannot continue spending more than it receives.

To reach this goal, we have come up with a Fiscal Stabilization Plan made up of cost-cutting measures and other revenue measures, most of them temporary. That

is the only way we will restore our credibility in the market and have a balanced budget for the first time in almost a decade.

As we had anticipated, the prescription for solving the government's fiscal deficit contains what could be bitter medicine, but the alternative would be even worse.

It is clear that eliminating a structural deficit of more than \$3.2 billion will require firm measures to cut spending, as well as steps to increase government revenues. It is not possible or sensible to eliminate a deficit of this magnitude by only cutting costs. It is not possible, either, to eliminate it with only new taxes.

It is very clear to me that our middle and working class cannot bear more taxes. Just as you have done, it is time for the government to tighten its belt. Because this fiscal and economic reconstruction is a task for all of us. It's a common responsibility, that involves sacrifices, but I guarantee you, it will also bring prosperity back to us.

I have listened to your complaints and your concerns. That is why, contrary to speculation over the past few weeks, the legislation we will introduce WILL NOT include a cell phone tax, gas tax or a sales and use tax increase, which would affect the middle class so much.

As you know, this year the deduction per dependent will increase from \$1,600 to \$2,500. In addition, the education deduction will increase to \$300 per elementary school student and \$400 per high school student. With the tax reforms that I will implement over the next four years, we will create even further tax fairness for our middle class.

However, we must increase government revenues with some revenue measures, most of them, temporary. These measures will take into account a fair distribution of responsibility among taxpayers.

The new temporary revenue sources include a moratorium on practically all business tax credit programs, except those granted to tourism, film and manufacturing projects.

In addition, for two years we will impose an additional 5% temporary adjustment on corporate, bank, insurance company and international banking entities earnings; and a temporary 5% charge on insurance cooperatives and credit unions with more than \$250,000 in annual net revenues.

We will also implement an additional 5% temporary adjustment in personal income taxes for those who earn more than \$100,000 a year as well as for couples who earn more than \$150,000 annually. Finally, there will be a temporary state tax surcharge on high-value residential assets. Homes that are currently exonerated and exempt won't be affected.

Permanent measures to increase revenues will be:

- A program for voluntary compliance with tax responsibilities, and better auditing and collection by the Department of Treasury, regarding both income taxes and sales and use taxes. Let it be clear that this is not an amnesty. Those who voluntarily correct their tax situation will have to pay what they owe, but they will have a brief period to get up to date. Those who don't fulfill their tax

obligations will have to face the consequences. Tax evasion must come to an end. When people hide their earnings to pay lower taxes or a business person fails to pay the sales and use tax to government, they are stealing from you. To those people I say: we will identify you and if you don't comply with your obligation to pay taxes, we will file charges against you.

- Also, a rule modification on the alternate basic tax, which applies only to higher-income people.
- The only permanent excise tax measure will be a cigarette, wine and beer tax increase, revenues of which will go specifically to pay for the Health Card.

After two years and after the implementation of this fiscal reconstruction and stabilization plan, we will be able to institute true tax reforms that guarantee that you can spend your hard-earned money as you please... a comprehensive tax reform that takes your income into consideration... that puts more money in your pockets.

Even so, ALL of us will have to do our part, each to the extent of his or her means. Puerto Rico is for all of us, and all of us must do our part to save Puerto Rico.

That is why I will reduce my salary by 10% , and I have also ordered a 5% salary cut for all agency heads through 2010. There will be no special arrangements or exceptions. As I have said, we must all do our part.

Also, we will freeze all increases in salaries, fringe benefits and other forms of compensation or financial benefits, regardless of their source, for all public employees, starting on July 1, 2009, and for two fiscal years.

But even with all these measures, we won't eliminate the government's enormous fiscal deficit. You know very well: the government is too big and spends too much... and the money it spends is that of all Puerto Ricans who diligently file their taxes. Simply put, the government must shrink. A smaller government will not only cost less to us, the taxpayers, but will also be more agile and efficient. That is why we will reduce annual government spending by \$2 billion. This will include savings in both operating expenses and public payroll.

Although it might seem hard to believe, during the second half of last year, the government carried out more than 64,400 personnel transactions, such as new hires, salary increases and promotions. Since 2000, the government has hired more than 50,000 people. If they didn't have money to pay the electric bill or suppliers, how dare they hire new personnel and promise salary increases they couldn't pay? It is due to this irresponsible act that nobody in government will be able to receive salary increases, regardless of the representations that the previous administration made. It is not fair to promise public employees increases in salaries and benefits when there is no money. Government employees deserve better, and they have every reason to feel frustrated and cheated by those who ill served Puerto Rico.

We must reduce the government's payroll significantly. Otherwise, to do away with the deficit we would be forced to increase the sales and use tax, impose cell phone and gas taxes... and I am not willing to do that to you. Reducing the number

of government employees is not easy, but we will do so with sensitivity... responsibly, providing help to those affected.

In Puerto Rico, we have 300,000 government employees, proportionately many more than any other state of the Union. Even worse, government payroll skyrocketed from \$3.748 billion in 2001 to \$5.528 billion in 2009. In other words, while the economy was in a recession and government revenues decreased, the government hired new employees, increasing its payroll at a 6% annual rate.

But government employees are not at fault for the administrative excesses of those in charge. I believe that government employees are loyal and responsible public servants, parents who earn a living every day through their effort and dedication. You are not to blame because those in charge of the government were incapable of growing our economy by creating more job opportunities in the private sector.

As I said, our goal is to achieve \$2 billion in annual government savings, a good part of which, as you know, comes from payroll. To do so, we have come up with a plan to reduce government payroll.

In the first place, we will offer a retirement incentives option to all public employees. Those employees who accept this voluntary alternative will receive an economic incentive, vacation and sick pay, and will be able to participate in a Public Employee Alternatives Program. This program will allow employees to choose between a potential job in the private sector or non-profit organizations, which will be created through a government subsidy program; or incentives to study, retrain and train themselves to prepare to work in other sectors of our economy.

Also, employees who have worked for the government for 20 years or more will have the option of a voluntary and permanent day off every 15 days.

If we don't reach our savings goal with this voluntary phase, we will start an orderly transition of employees from their current government jobs. I cannot tell you the precise number of government employees who will be affected, because that will depend on savings in operating expenses, the salary and benefits freeze and the number of employees who participate in the voluntary programs. But I'll be honest with you: it may be a significant number, and I'm afraid it may surpass 30,000 employees.

We will start with employees with less seniority in public service, until we reach our expected savings. We will exclude employees who provide direct services to citizens, such as police officers and classroom teachers. All Executive Branch agencies will be affected, excluding only the Office of Government Ethics and the State Elections Commission. The judicial branch, the legislative branch, the University of Puerto Rico and municipal governments will not be subject to this plan, but I urge them to continue taking the necessary steps to contribute to Puerto Rico's rebuilding.

We will implement this plan in a sensible and orderly way over a 12-month period, starting on July 1. Employees will receive severance pay and will be able to participate in the Public Employee Alternatives Program. Each one of the agencies included will carry out a seniority verification process and will notify employees who will be affected, and the dates their separation from government will be

effective between July 1, 2009 and June 30, 2010. Counseling regarding the Public Employee Alternatives Program will be offered.

I am aware that this is a painful plan, but we have no alternative in order to rescue all of Puerto Rico. I will make sure that we act responsibly and sensitively. This action is necessary to solve our fiscal situation, bring back good government and foster our economic development.

As I said, we must act selflessly. It is the only alternative we have to move forward. I know you understand the importance of this mission... of this sacrifice. We in Puerto Rico have been blessed by good, noble souls, people willing to sacrifice themselves to provide for those in greater need... people like Agustín Torres Castellar, from Peñuelas, who on January 20, sent a \$10 money order to the Treasury Secretary to help ease the fiscal crisis we're going through. In his letter, Agustín told me that if we all contributed \$10 a month, we would come out of the hole we are in faster. Agustín is a committed and generous Puerto Rican, who represents the great majority of our people. His generosity and selflessness must serve not only as an example to us, but as encouragement and hope.

To emulate Agustín's selflessness, we will give you the opportunity to follow this example with the possibility of investing in a savings bond with 6% interest, in order to promote savings and help pay for the costs of this plan. With these bonds, you will invest in Puerto Rico, as well as in your future. For more information about this plan and the actions I have shared with you today, you may visit our website, www.buengobiernopr.com.

I have no doubt that if we follow this plan, we will be able to rebuild Puerto Rico. With effort and dedication from all of us, Puerto Rico will rise.

We will recover the economic and fiscal stability we need to grow and bring back prosperity... We will put Puerto Rico to produce.

The road will be difficult, but in the end, we will come out stronger. At the end, we will be able to start anew as a people... a new start for our values and everything that brings us together and distinguishes us as Puerto Ricans.

We will rise with the certainty that after a hard journey, we will have grown as a people, after placing all of our talents, our creativity and generosity in God's hands and for the good of Puerto Rico. We will rise again, more resolute, wiser, and better trained to face any other adversity that puts us to the test, ready to lead, not only here in our homeland, but before the whole world.

Our time is now. What we do today will define our tomorrow.

God bless you and God bless Puerto Rico!

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