



**REMARKS BY THE GOVERNOR
OF THE COMMONWEALTH OF PUERTO RICO
HON. RAFAEL HERNANDEZ COLON
AT THE ANNUAL CONFERENCE OF THE
NATIONAL FEDERATION OF MUNICIPAL ANALYSTS**

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SAN JUAN, PUERTO RICO

Such formidable changes as the integration of the European Community and the dis-integration of the Soviet Union are no longer abstract. They are now taking shape across the globe and we must all learn to deal more effectively with the rapid changes that are likely to be the only constant of the 1990s.

I'm here today to tell you that the people of Puerto Rico are no strangers to change. As a matter of fact, they have been dealing effectively with change in a flexible society dedicated to growth and prosperity ever since the founding of this Commonwealth back in 1952.

I am also here to extend their welcome to this conference of the National Federation of Municipal Analysts as you come to grips with equally important questions of change regarding the future of the municipal finance market in the United States.

The economic development that is at the core of Puerto Rico's transformation over little more than one generation, springs from the Commonwealth's fiscal autonomy and unique relation

with the United States. That political and economic relationship provides for common citizenship, currency and defense with free access to the U.S. market and exemption from federal taxation, which combined with its own attractive incentives have promoted growth that is unprecedented in real and human terms.

In 1940, Puerto Rico's per capita income was \$118. By 1971, it was \$1,537. Today, it stands at well over \$5,000.

Since I took office unemployment on the island has dropped sharply, the direct result of the creation of 194,000 new jobs in key sectors of our economy --services, tourism, construction and manufacturing, which is the mainstay of our development.

The value of industrial production in 1990 alone went up by more than 9%, based in large measure on the island's ability to attract new investment in sophisticated high-technology industries.

That productive capacity has placed Puerto Rico solidly in the realm of world trade, making

the island the fifth largest exporter in the Hemisphere. For six consecutive years, we have maintained a positive trade balance as a result, exporting more than all the Central American countries and the Caribbean islands considered alltogether.

Puerto Rico's exports to Europe alone have climbed 118% in the last three years to a value of over \$1 billion.

At the same time, the asset level of our private financial institutions has risen to about \$35 billion. A sizeable share of these assets are 936 funds, now estimated at about \$15 billion, which have been and will continue to be flowing to key segments of our economy through various incentives. What was the "poorhouse of the Caribbean" in the 1940s has turned into the financial hub of the Caribbean in the 1990s.

Much of what still needs to be done by government in terms of infrastructure growth and maintenance will have to be financed on the capital markets through our prudent public debt policy. As

you know, those policies have always been well-received in the marketplace.

We in Puerto Rico are taking several important initiatives to respond to change more effectively and rapidly at every level of government.

We are actively seeking opportunities to down-size unnecessary government's involvement and stimulate greater private sector investment in infrastructure projects that meet the economy's immediate expansion requirements, as well as the long term growth needs of Puerto Rico.

My Administration is actively pursuing such innovations in fiscal management.

While maintaining a public investment in capital expansion and improvements to the infrastructure at an annual rate of \$2 billion, we are amending the regulations governing 936 company investment to encourage interim financing for low and moderate income housing, and accelerating the flow of \$450 million from the issuance of the Third Mortgage Trust into more affordable housing projects.

It also is anticipated that the issuance of \$175 million in promissory notes channeled through the private banking sector will generate other commercial, agricultural and construction lending as well.

To assure that private development continues on a fast track, I am personally directing the efforts of an interagency Task Force to bring to fruition, as quickly as possible, major tourism, commercial and industrial projects which will account for about \$2.7 billion in private investment and represent well over 11,000 new jobs when they are operational.

Private investment also is playing a more significant role in the direct financing of infrastructure development. For example, we already have bids for about \$350 million in private investment for highway construction projects that will enable the Commonwealth to manage public indebtedness in this vital development area more efficiently.

Efficiency in government is a prime consideration of my Administration and we are in

the process of consolidating various agency functions to eliminate redundancy and increase the productivity of the public sector.

Since I took office in 1985, my Administration adopted GAAP-conforming audits conducted by an independent certified public accounting firm. Now, as part of the redimensioning of government, a new uniform, computerized accounting system has been designed for the municipalities and is being formally implemented. Such system will provide the municipalities an effective tool for financial management, and as well help institute financial planning. This system provides the groundwork that will support an orderly and gradual transfer of functions from central government to the municipalities. Another cornerstone of municipal reform will be the devising of a system for municipal assessment, levying and collection of taxes.

Our population has shifted from a rural to urban axis: in 1950, only 40% lived in urban areas; today, urban living dominates for 80% of the population.

Urbanism is a dynamic of living that in many senses is best served at the municipal level, and my Administration is making certain that municipal governments, along with the desired autonomy, have sound and full instruments to effectively assume an expanded role, in strict correspondence with their demonstrated capabilities.

The whole that is Puerto Rico will be progressively strengthened as its components, the municipalities --each in its own time frame-- meet the requirements for increased responsibility and authority. We will, as always, unfailingly focus very strict attention in the area of debt management and fiscal responsibility. As I mentioned earlier, the husbandry of our resources is of major importance to the Commonwealth.

We will be prudent and flexible in how and when we go to the municipal bond market. That is a policy that we live by and our track record, even during the recent months of economic slowdown in the states, supports its soundness.

And, further, the Commonwealth's budget for the current fiscal year, ending June 30, 1991 will

be balanced, using recurring revenues to meet ongoing expenditures.

So in closing let me assure you that you will be hearing more from Puerto Rico in the months and years ahead. There will be well-structured issues of public debt for you to look at. They will, however, be based on the premise that public debt is no substitute for creative application of financial skills.

You analysts are similarly seeking creative avenues in defining your role for more meaningful participation with other elements of the municipal finance market.

Let me wish you every success in that task. And, let me also invite you to participate ever more actively in Puerto Rico's search for a better tomorrow.

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