

First E3 Summit of the Americas 2011

Redefining the Public Private Partnerships



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Redefining P2s through Municipalities

- The role of the private sector in Puerto Rico's economic development has never been more important. However...
- Although the Puerto Rico Public Private Alliance Authority can issue RFPs for projects listed on the “priority list” of **more than \$5 million**,
- Law No. 29 of June 8, 2008 (the “P3 Act”) provides for the fostering of economic activity within **mega sectors** of the economy: mostly with infrastructure projects in excess of \$100 million.
- Typically, smaller projects are handled by the local agencies, public corporations and municipalities as projects of internal management and control.

- Still, education, entrepreneurship and economic development require stronger liaisons within and between Puerto Rico's private sector and the central and municipal government.
- The goal is to foster and enhance entrepreneurial opportunities in the public and municipal sectors.
- The P3 Act provides for liaisons between and among:
 - the private sector
 - the cooperative sector
 - workers' corporations (“*corporación de trabajadores*”)
 - not for profit institutions
- The P3 Act allows for local industries to participate, mostly, in:
 - *subcontracting* activities; and
 - in the *technology transfer* process after the project is completed. (Reduce the “brain drain” issue in Puerto Rico).

- As an additional tool to foster economic development, the P3 Act extends its provisions to the municipalities but does not compel municipalities to lead its projects under the P3 Act.
- In 2010, The Puerto Rico Chamber of Commerce designated a Public-Private Alliance Committee with the purpose of promoting education and entrepreneurship opportunities among a different range of industrial sectors.
- The P3 Committee has focused on developing alliances between the municipalities and the private sector.
- Meetings with several municipalities have provided insight as to the quality of the projects channeled through parallel P3 structures.

Results:

- The municipalities can create (and have created) alliances with the private sector under the Autonomous Municipality Act (Law No. 81 of August 30, 1991; 21 L.P.R.A, Section 4501).
- Municipalities and local authorities can address a different array of projects from those required under the P3 Act. For example:
 - *Ecotourism – Toro Verde Nature Park/Municipality of Orocovis* canopy/skyline system implemented with EDB financing and Municipality assistance in the purchase of equipment, training (time and costs) and improvement to access roads.
 - *Waste disposal – Environmental Landfill Technologies/Municipality of Fajardo, Municipality of Carolina and others* in which land lease to private management and royalties from a percentage of net sales, and return of land after 30 years. Royalties are expected to be distributed in 2012.

- *Sports Hospitality* – *Island Hospitality Partners/Municipality of Bayamón; Municipality of Manatí* will be operated using a combination of federal funds, long-term lease of 70 years; TDF guarantee. Financing still pending.
- *Entertainment* – *SMG/Puerto Rico Convention Center Authority* operates *Coliseo José Miguel Agrelot (or Choliseo)* under a **management** contract; *Interlink/Puerto Rico Convention Center Authority* **built** and **operates** Sheraton Convention Center in San Juan with a *land lease* under a management contract.
- *Agriculture* – *Atenas Pineapple/Municipality of Manatí* is exporting fruits, seeds, vegetables; *Plasmatech/Mun. of Manatí* exports a tropical plant (*Jatropha*) from which oil – used in biodiesel technology – is produced. Municipality is **producer/supplier** of export products in alliance with private sector. **Municipal corporation.**

- *Small Infrastructure* – INTECO/Puerto Rico Highway and Transportation Authority/Municipality of Caguas in which the municipality **delegated** into INTECO (a not for profit entity) the **design/build** of Caguas Corridor Mass Transit System. **Fees for management** services received.
- *Sports Management* – Centro de Tennis Honda; Canchas Río Hondo (not for profit entities)/Municipality of Bayamón for the **management** of tennis and baseball courts. Management is carried by not for profit entities at their risk.
- *Civic* – Boys and Girls Club/Municipality of Aguas Buenas. **Land lease and management** of building for Boys and Girls Club's activities. Entity assumes payroll costs after one year of operation; municipality **subsidizes initial operation for 1 year.**

- Typical arrangements involving small industries in projects with municipalities:
 - Finance, build and manage.
 - Build and manage.
 - Long term lease and manage.
 - Lease, manage (payment of royalties) and return of property.
 - Manage and sale through exports.
 - Sale of participation in municipal corporation to the private sector.

- Still, further education is required in order to understand the concept of public/private alliance: *risk transfer* to the private sector.
- Will substantially *reduce* (or eliminate) the need for public/municipal funding and promote a RFI/RFP/Awards/Contracts with private financing in various pending projects:
 - Agro tourism (hotels, B&B, cycling roads, restaurants, transportation).
 - Specialty Hospitals (*ie*: plastic surgery, physical rehabilitation, trauma, cardiology, eye surgery, others).
 - Complementary Sports resources (*ie*: air ambulances; rehabilitation hospitals and centers).
 - Elderly care facilities.
 - Minimal custody centers.
 - Research and technology centers.
 - Business incubators.

- The mission of the municipalities and the central government with P3 projects:
 - Issue *RFIs* from private sector leading to RFQ, bid processes or Straight Contract with local and/or foreign companies.
 - Promote **hiring** of local labor.
 - *Financing* available from the private sector (industries and financial institutions) and risk of operation and success transferred to the private sector.

- Experience of private sector requirements for P3 projects:
 - governmental assistance (stability: *no political drawbacks* due to changes in political administration).
 - municipality assistance in filing for and obtaining *permits*.
 - economic *incentives* - exemption from municipal license tax (“patente”); construction excise taxes.
 - *local financing* or availability of guarantees from Puerto Rico financial institutions (participation in P3 projects).
 - human resources/*trained labor force available* within the municipality.



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