

Bayamón mayor showcases model for sustainable economic development

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*R*ivera Cruz continues to build healthy tax base through solid IVU collection, job creation

Bayamón Mayor Ramón Luis Rivera Cruz exemplifies fiscal discipline

Budget surplus, 70% IVU-collection rate among achievements

It would be an understatement to say that Bayamón Mayor Ramón Luis Rivera Cruz, of the New Progressive Party, inherited many of the virtues that distinguished his father, Ramón Luis Rivera, who served for decades as mayor of Bayamón, from 1977 until 2001.

If anything, Rivera Cruz took his father's principles of public service and smart municipal administration to the next level since first winning the election for Bayamón City Hall in 2001. Along the way, Rivera Cruz has kept Bayamón's course focused on economic development and more job creation, amid a nearly decade-long economic recession that is still being felt throughout Puerto Rico.

The Bayamón mayor's fiscal discipline is evidenced by a \$17 million budget surplus and an annual debt repayment of \$20 million from a healthy \$35 million debt-repayment fund, all of which are supported by a strong tax base.

Perhaps most impressive is that his sound fiscal-management and economic-development strategy has been carried out amid an environment in which the central government has tapped into tax revenue originally destined for municipalities.

In January 2014, the central government created a subsidiary of the Government Development Bank (GDB) called the Municipal Financing Corp. (Cofim by its Spanish acronym). In short, Cofim is responsible for issuing bonds to help pay and refinance some of the \$3.3 billion in total debt held by the island's 78 municipalities. The entity has essentially controlled and distributed a portion of the



sales & use tax (IVU by its Spanish acronym) revenue granted to city halls to guarantee payment.

As a result, municipalities saw an immediate drop in revenue they receive through the IVU. The legislation originally lowered from 1.5% to 1% the municipal governments' slice of the 7% islandwide IVU, but Rivera Cruz and a contingent of other mayors, including Carolina Mayor José Aponte de la Torre and Mayagüez Mayor José Guillermo Rodríguez, both of the Popular Democratic Party, fought the bill.

"We were able to reach a compromise in which the central government would leave us with 1.3% of [IVU] revenue," Rivera Cruz explained to CARIBBEAN BUSINESS. "However, they insisted that the funds be deposited in a Cofim account. I have been concerned about the possibility that, if or when the GDB is forced to use the Cofim money to pay off some debt, they will put off giving municipalities their consignment payments, and many municipal governments need the consignments to keep paying their employees."

Faced with such a scenario, the municipality has established its own "rainy day" fund, through which it can cover up to three months of its payroll if there is a shortfall in Cofim funds.



"Late during the previous government administration, I began to see the warning signs," Rivera Cruz said. "When the current government term began, I sat my people down and braced them for what would certainly be a difficult four-year period. I then went quickly to the banks and was able to renegotiate all of the municipality's debt, thereby lowering payments, and opened a few lines of credit."

Despite the challenges involved, Bayamón's fiscal picture is envied by many other mayors,

and it is mostly due to a set of key principles Rivera Cruz has followed to the letter. "First, we don't have one red cent of extraconstitutional debt," he said. "I will never use City Hall's budget to fall into debt, under any circumstances."

Solid fiscal picture

Rivera Cruz added that the municipality's debt-repayment fund stems wholly from the special additional tax (CAE by its Spanish acronym), an important component of property taxes because it is the main source for income to pay for municipal public works. The Municipal Revenue Collections Center sends CAE revenue to

the GDB and the bank disburses them as loans to the island's municipalities.

"We have always paid off the CAE debt and we will never have problems doing so," the Bayamón mayor said. "If there is one debt in Puerto Rico that is absolutely guaranteed, it is the municipal debt."

This is mostly due to the way in which the debt is set up. "Every municipality takes a percentage of the property taxes it collects and sends an annual payment, which the GDB puts into the CAE fund," the Bayamón mayor explained. "If a municipality wants to make a bond issue, the GDB determines whether the city has enough capacity to repay. When a bond issue is approved, the GDB lends the amount out of the CAE fund, which will always be well-funded because every other municipality continues to pump money into it."

In the case of a municipal bond issue, municipalities essentially have to pay a year in advance, which gives the loan an even more solid footing. "If one takes the total municipal debt [in loans] on the island, which hovers around \$1 billion, and renegotiates it to an interest rate of about 5%, there would be enough money in the CAE fund to pay off the total debt in about 10 years," Rivera Cruz said. "Assuming there's no new debt, enough money comes in through property taxes that would make such a thing feasible; that is the reality of municipal debt."

"Moreover, that debt has always been used for capital investments, never for payroll," he added. At one point, the GDB allowed mayors to take out loans for ordinary expenses, meaning the expenses needed to operate a municipality on a daily basis. Rivera Cruz called this practice unfortunate. "Out of that mistake, regulations were recently enacted that ensure it won't happen again," he explained.

Bayamón's debt stemming from bond issues totals around \$275 million; however, the municipality has more than enough collateral, with an inventory of capitalized property estimated at \$684 million. "This means that, if for some reason, we would have to pay off that debt immediately, we have enough to liquidate the debt and still have more than \$400 million in properties," he noted.

Municipal payroll under control

Another key aspect that has helped keep the city's finances in check is the size of its workforce, which has resisted the usual inflation seen in many government agencies. "When my father took office as mayor in 1977, there were 5,200 municipal employees, and that's without anywhere near the infrastructure that the city has today, or the upkeep that it needs nowadays," Rivera Cruz said. "Today, the city has 2,250 employees, and the municipal government is running more smoothly than ever."

The municipal government hires a private company for maintenance work on some state roads that pass through Bayamón, as well as trash-collection services. City Hall has also employed several nonprofit groups for the upkeep of certain public areas. "Everything else is done by our municipal employees," he said.

Progress collecting IVU

Bayamón City Hall has also carried out meaningful strides toward increasing tax-collection revenue through the IVU. "Late last year, the municipality took over the responsibility of collecting the IVU from the Treasury Department, which was doing an inefficient job," the mayor said. "Right away, there was a difference, despite the fact that during the first month, business-owners weren't properly notified and they kept making their deposits to Treasury."



Soon enough, the municipality was able to increase the IVU's capture rate by about 10%. "Under Treasury, the capture rate was around 60%," the mayor said. "We have been able to bring it up to 70% and eventually we want to bring it up to 80%, which is our long-term goal."

The municipality has also had to deal with bureaucratic obstacles related to central government agencies and public corporations. "Unfortunately, public agencies frequently see businesses as the enemy, and it shouldn't be like that," Rivera Cruz said. "Just to give an example, we recently managed to have the Puerto Rico Aqueduct & Sewer Authority [Prasa] fix two bathrooms at an Urban Train [Tren Urbano] station. It took a full year to get them to fix that: two bathrooms."

This was by no means the only time the mayor has had difficulties getting help from the public corporation. "I have had to directly call [Prasa Executive Director] Alberto Lázaro on various occasions to get things done. My theory is that there are these sectors within agencies and public corporations that just paralyze everything, and no matter which person is running the government entity, nothing is done about it," Rivera Cruz noted.

"In the case of Prasa, it is the Private & Public Projects Department, basically a group of engineers who have

absolute power in what is and isn't approved," he added. "For example, when it came time to build the first Olive Garden restaurant on the island, Prasa people insisted we take water from a pipeline on the other side of the avenue, instead of a pipeline that was running right beside the locale. It would have entailed a much more costly project, and there was basically no reason for it."



This brought the Bayamón mayor into a bit of role-playing during which he envisioned himself, if only for a few minutes, acting as governor. "There are basically six or seven agencies that have the power to detain any sort of progress on the island. I would sit them down and order them to bring me a list of every project, public or private, that is being held back," he said. "I would analyze them all, even if it took me a whole month, and then I would bring them back and ask them to give me a valid reason why each project hasn't gone forward. If the agency chief can't give me a satisfactory answer, that person is out of a job, simple as that."

Favors eliminating some municipalities

Rivera Cruz also has strong opinions when it comes to municipal regionalization. When asked whether he believed in the consolidation of certain municipal services in a bid to cut back on expenditures, he said, "not only do I believe in that, but I would also go further."

"For instance, I don't mind if at one point, certain municipalities would disappear. Let's face it, some municipalities only have 5,000 people. Meanwhile, you have this whole administrative structure in place and in many municipalities, about 98% of the budget is spent on payroll. There's no money left to spend on services to the people," he remarked.

In contrast, he added, Bayamón spends only 34% of its budget on payroll. "Having such a big payroll is a surefire way to go into deficit," Rivera Cruz said. "They find they have no money for services and that's when they start taking out loans."

When it comes to municipal consolidation, the mayor envisions several smaller municipalities getting together with a larger municipality that has all sorts of procedural mechanisms already in place. "All these smaller municipalities run under the bigger one, with a single human resources director, for instance. There would be more territory; hence, more tax revenue. Operational costs would fall dramatically and everything

would run more efficiently," he said.

However, Rivera Cruz also conceded the political aspects involved. "There must be a commitment on the part of mayors. Some of them will have to accept that, at one point, they will cease to be mayors. But I don't see a real problem with that, it would just be a matter of sitting down to negotiate," he said.

"If mayors are offered a sufficiently attractive retirement package, for example, they would be more willing to step down—there are only so many mayors, so the fiscal burden would be minimal. As for those remaining mayors who don't want to step down, it's easy, just settle the issue in the primaries," he added.



Multiple public projects underway

Along with the municipality's healthy fiscal picture, the constant slate of public projects underway in Bayamón contrast sharply with the stagnant state of affairs in most other parts of the island.

A vivid example of Bayamón's progress is seen on the city's Parque de las Ciencias (Science Park) Luis A Ferré. First built in 1987, the educational and recreational park is being remodeled through a \$6 million investment that will essentially result in a brand new park when it reopens later this year.

Apart from a multistory parking building that recently began construction, the renewed Parque de las Ciencias will boast redesigned museums and zoo areas, a brand-new planetarium, an 18-hole mini-golf course and a so-called "four-dimensional cinema theater," essentially a huge simulator in which attendees will feel as if they are on a roller coaster.

"We have carried out market studies, and we expect that the new park will be hugely successful once it opens," Rivera Cruz said. "It will basically pay back what we have invested there in the span of five years."

The Parque de las Ciencias initiative is just the tip of the iceberg for a bevy of infrastructure projects that the municipality is already carrying out or has in the pipeline, including that often-neglected aspect of public works: maintenance.

These include the refurbishment of several major roadways and intersections, even though some aren't even part of the municipality's area of responsibilities. Bayamón is also taking big steps forward regarding tourism, specifically sports tourism, of which the city is rapidly turning into a regional capital.

"We have focused on college and Little League sports, bringing in everything from basketball to football, baseball, soccer and even lacrosse," the Bayamón mayor said. "We have been approached by various universities, including those in the U.S. Virgin Islands, to use our sports facilities, of which there are many here in the city."

Several college sports tournaments, involving up to 15 universities at one time, are in the pipeline. "When we started this whole push toward sports tourism a couple of years ago, I wasn't envisioning bringing in a major league sports team; that is too expensive," Rivera Cruz explained. "Rather, we were envisioning bringing in college, and even Little League teams. Think about it. Child athletes don't travel alone, but they are always accompanied by at least one parent. That has a multiplying effect on tourism activity."

At the time of his interview with CARIBBEAN BUSINESS, lacrosse teams from U.S. mainland universities were in town. The municipality leased the Juan Ramón Loubriel Stadium for the teams to train, with students and coaching staff frequenting nearby restaurants and shopping centers. Football has also been a big attraction, and oddly enough, has even fostered the city's convention tourism. "Last year, members of an air-traffic controllers association visited, and they are big football fans," Rivera Cruz said. "They stayed for about 10 days and used our sports facilities the whole time. They spent a lot of money here."



Top:
Bayamón Soccer Complex



Middle:
Juan Ramón Loubriel Stadium



Bottom:
Hole 6 at the Río Bayamón Golf Course

Speaking of sports tourism, the Río Bayamón Golf Course has become an emblematic project for the municipality. Ten years after an initial \$12 million investment and the inauguration of its first phase, the golf course has become a prime example of a large-scale municipal project that not only includes economic, recreational and environmental benefits for the municipality, but also has achieved its goals without imposing a burden on municipal coffers.

Despite the significant expense involved in the development and maintenance of Río Bayamón's 18-hole golf course—the upkeep of each golf green costs about \$40,000 to \$50,000 a year—the venture has become economically sustainable, with revenue covering all operational costs.

The municipality is also focusing on medical tourism, especially since some of the island's most well-known hospitals—among them HIMA-San Pablo and Hermanos Meléndez—are located in the heart of Bayamón.

The mayor acknowledged that additional hotel rooms may soon be needed in the area, as Bayamón's lodging offerings only extend to the 156-room Hyatt Place and Hotel San Miguel, a 44-room boutique hotel next to HIMA-San Pablo. "These hotels are increasingly getting full occupancies, but for now, there is no problem for neighboring areas that benefit from the activities taking place here."

Overcoming difficulties

"At home, I learned some basic principles that have helped me a lot in my role as mayor and as individual," Rivera Cruz said. "Being committed to your work, responsibility and honesty are just some of these important principles. There are also rules of effective management such as 'don't spend more than what you earn,' skills that are improved through hard work, study and experience."

The Bayamón mayor then remembered a conversation he recently had with his father that put things in a new light. "He told me that my incumbency as mayor has been more difficult, administratively speaking, than his due to the times we are living in," Rivera Cruz said. "My father took office at a time when the municipality had a huge budgetary deficit, but he was also lucky because there was plenty of federal funding at the time."

The federal programs partly allowed the elder Rivera to carry out several capital improvements in the city, which in turn allowed him to earmark part of Bayamón's ordinary budget to eliminating the deficit. "During my time, federal funding has been much scarcer, so I haven't been as lucky," Rivera Cruz said. "However, in the end, it's all about following the principles of good public administration and executing them."

Ramón Luis Rivera Cruz: Public service runs in the family

Bayamón Mayor Ramón Luis Rivera Cruz—also known as Ramón Luis Rivera Jr.—was born Feb. 3, 1956, the eldest of five children by parents Ramón Luis Rivera and Angélica Cruz, who always stressed the importance

of honesty, religion, hard work and respect to their children.

One day, a young Rivera Cruz came home from school with a dollar he found on the bus. "The next day my father went to school with me and made me ask each of the children on the bus if they had lost a dollar," he recalled. "My paternal grandmother always said that a person was a thief whether he stole an egg or a million dollars."

Rivera Cruz attended elementary school at Colegio Santo Domingo in the Santurce district of San Juan, and high school at Escuela Papa Juan XXIII in Bayamón. He then began his college studies at Colegio Universitario Tecnológico de Bayamón, which is part of the University of Puerto Rico system. Rivera Cruz finished his bachelor's degree in business administration at American University of Puerto Rico, where he graduated with honors.

In 1980, Rivera Cruz first entered politics as campaign director for his father, who by this time was running for his first re-election as Bayamón mayor. The elder Rivera would go on to win successive re-elections until he retired in 2001.

Rivera Cruz says he never considered going into politics, adding that his father never suggested it. Rather, a neighbor insisted Rivera Cruz run for the Senate seat left vacant by incumbent Guaynabo Mayor Héctor O'Neill.

Driven by a desire to contribute to Bayamón's economic and social development, Rivera Cruz agreed to attend a meeting and told his father of his decision.

This led Rivera Cruz to run for the Senate under the New Progressive Party (NPP) ticket; he won for the Bayamón district in 1993, a position to which he was re-elected in 1996.

In 1994, he married Narel Waleska Colón, and together have two children: Ramón Luis III and André Efraín.

During his tenure in the Senate, he presided over various committees, including the Urbanism & Infrastructure Committee, Ethics Committee, Youth Committee, and Sports & Recreation Committee. As a two-term senator, Rivera Cruz boasted a noteworthy legislative record, with 40% of the 500 bills that Rivera Cruz introduced being ultimately approved.

In 2000, and following his father's retirement from politics, Rivera Cruz ran for mayor of Bayamón, winning the election by a substantial margin. Despite the challenges Rivera Cruz has faced in the role, he has more



than risen to the task, which to this day has helped him secure continuous re-elections to the mayoral seat.

Despite what some may think, the Bayamón mayor actually doesn't consult with his father on municipal issues. "My father rarely visits City Hall," he said. "That leaves me my own space to develop my plans."