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# The Commonwealth of Puerto Rico

## Update on Fiscal and Economic Progress

*Investor Webcast - July 2014*

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# Forward-Looking Statements

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## Commonwealth Report

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This webcast presentation should be read in conjunction with the information contained in (i) the Commonwealth's Financial Information and Operating Data Report dated October 18, 2013, which was supplemented by the Quarterly Report, dated February 18, 2014, and the Quarterly Report, dated July 17, 2014 (collectively, the "Commonwealth Report"). The Commonwealth Report contains a summary of the principal fiscal and economic challenges faced by the Commonwealth. In case of any conflict between this presentation and the Commonwealth Report, the Commonwealth Report shall prevail, as applicable.

# Agenda

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**1** Executive Summary

2 GDB Liquidity & Other Financial Highlights

3 Actions Towards Balanced Budget

4 Public Corporations

5 Economic Development

6 Next Steps & Guiding Principles

# The Commonwealth is executing a comprehensive plan to stabilize finances and grow the economy

1

Secure liquidity runway

- \$3.5 billion GO deal secured liquidity runway and strengthened GO and GDB finances.
- Commonwealth will re-access market, as market conditions allow to extend runway.
- Enhance market access-vehicles, such as COFINA.

2

General Fund budget without deficit financing

- FY 2015 budget first in years without deficit financing or refinancing of GO or PBA maturing debt.
- Reduction in General Fund expenditures achieved through \$1.53 billion in corrective expense measures.

3

Make public corporations self-sufficient

- Substantial revenue increases at certain public corporations, including PRASA and HTA.
- Act 24-2014 designed to reduce public corporation reliance on GDB.
- Aggressive cost-reduction plans made possible by Sustainability Act.
- Recovery Act provides orderly restructuring alternative.
  - **Will be used only as last resort emergency measure; strong preference for consensual, negotiated solutions.**

4

Grow the economy

- Execution of aggressive outreach plan with clear and achievable goals and benchmarks.
- Recent wins, including Lufthansa MRO.
- 600 grants emitted under Acts 20, 22 and Act 399.

- ✓ Commonwealth continues to take unprecedented action to strengthen finances and economy.
- ✓ Getting fiscal house in order a pre-requisite for sustainable economic growth.
  - Approving budget with no deficit financing is an important step in this direction.
- ✓ Plan to make public corporations self-sustaining intended to **strengthen GO and related credits, including COFINA.**

Our actions during the past 18 months demonstrate our unwavering commitment to fix our fiscal and economic challenges and protect the GO, COFINA and other related credits.

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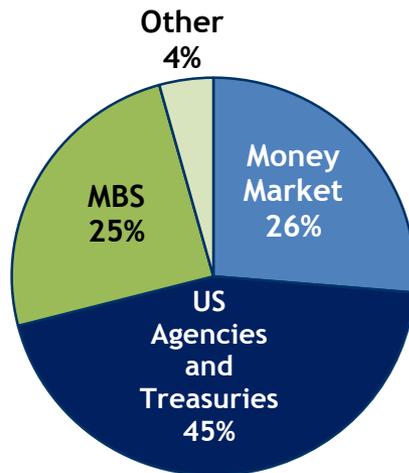
6 Next Steps & Guiding Principles

# GDB's conservative investment portfolio continues to be a primary source of liquidity for the Commonwealth

## Investment Portfolio Composition<sup>1</sup>

(\$ in millions, marked-to-market)

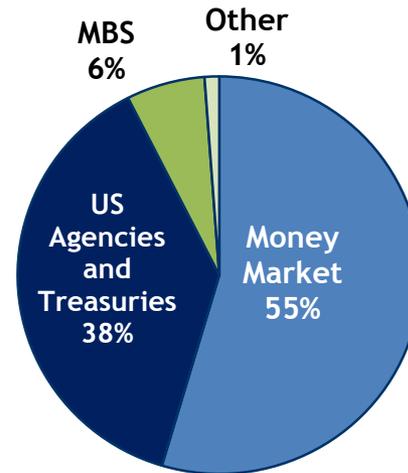
December 31, 2013



**Market Value: \$2.7B**

- High-grade investment portfolio (96% > A-)
- Portfolio average life is **2.64 years**
- Outstanding repos of \$1.2 billion

June 30, 2014



**Market Value: \$3.2B**

- High-grade investment portfolio (98% > A-)
- Portfolio average life is **0.8 years**
- Outstanding repos of \$50 million

**GDB's investment portfolio, net of outstanding repos, increased from approximately \$1.5 billion to \$3.15 billion during the period, a 110% increase.<sup>2</sup>**

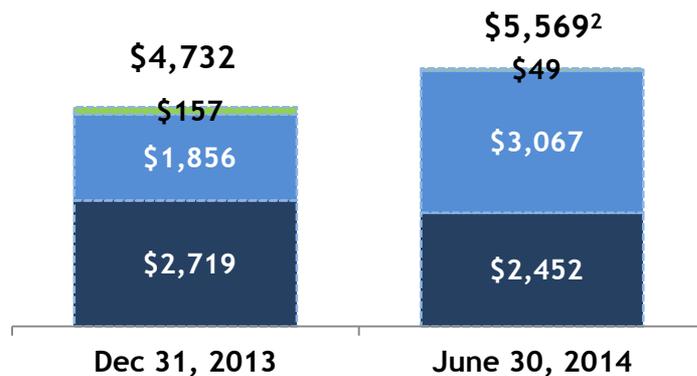
<sup>1</sup> Unaudited interim financial information as of December 31, 2013 and June 30, 2014; and subject to adjustment.

<sup>2</sup> GO sinking fund payment of \$683 million and PREPA sinking fund payment of \$41 million were disbursed on July 1<sup>st</sup>.

# Total deposits at GDB have increased by approximately \$837 million over the past six months

## Deposits Detail (in \$ millions)<sup>1</sup>

■ CD (Private) ■ CD (Public) ■ Demand Deposits (Public)



- Public sector certificate of deposits have increased by \$1.2 billion since December 31, 2013.<sup>2</sup>
- GDB has identified approximately \$300 million in public deposits it currently expects to capture during FY 2015. According to OCIF, public deposits at private financial institutions amounted to approximately \$2.4 billion as of March 31, 2014.

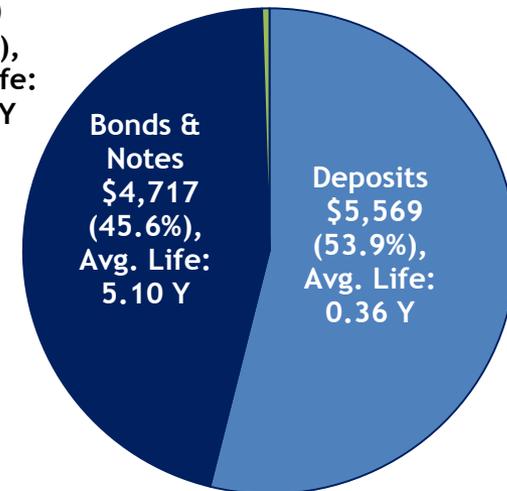
Public sector deposits continue to constitute majority of GDB funding.

## Cost and Average Life of Funding Sources<sup>1</sup>

	Average Cost	Average Life
Liabilities	2.61%	2.44 Y

Repo  
\$50  
(0.5%),  
Avg. Life:  
0.68 Y

in \$ millions



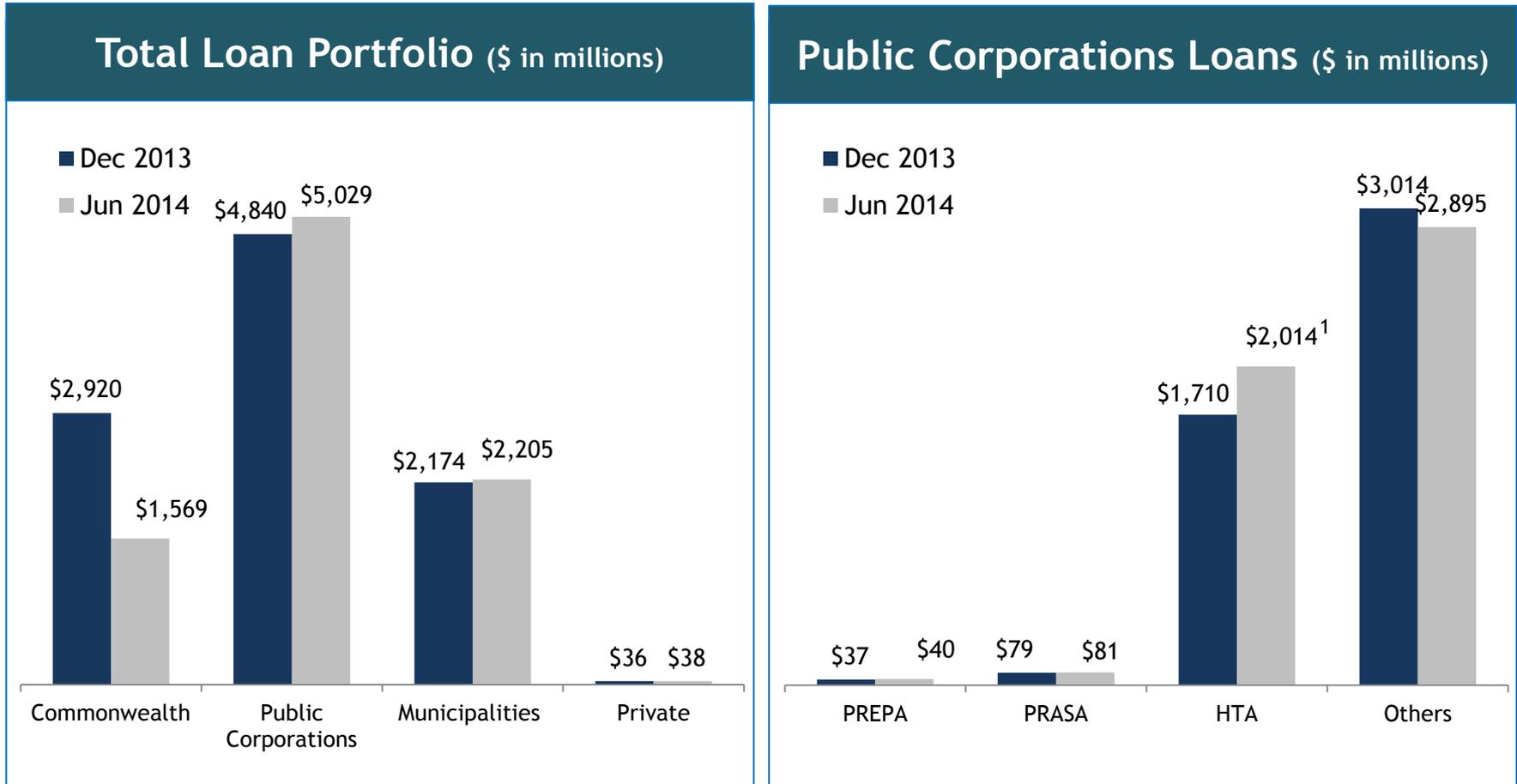
- Average cost of funding has increased by 9 basis points since December 31, 2013.
- Average life of liabilities remained stable at 2.44 years during the past 6 months (2.47 yrs as of Dec. 2013)
- Outstanding GDB Notes have decreased by approximately \$320 million since December 31, 2013, net of \$110 million issuance to the State Insurance Fund.

<sup>1</sup> Unaudited interim financial information as of December 31, 2013 and June 30, 2014; and subject to adjustment.

<sup>2</sup> GO sinking fund payment of \$683 million and PREPA sinking fund payment of \$41 million were disbursed on July 1<sup>st</sup>.

# During the past six months, GDB's total loan portfolio has been reduced by 11.3%, from \$9.97 billion to \$8.84 billion

- The GO Series 2014 A transaction repaid approximately \$1.8 billion in GDB loan principal, substantially decreasing the amount of outstanding GDB loans to the Commonwealth.
- Public corporation loans compose the majority of GDB's loan portfolio, as detailed below:



GDB intends to further reduce size of loan portfolio.

<sup>1</sup> Includes amounts owed to GDB as a result of purchase of \$200m HTA VRDOs by GDB in May 2014.

# Available financing vehicles provide potential sources of additional liquidity to the Commonwealth and the GDB

COFINA	COFIM	GDB	HTA/PRIFA	MFA
<p>New pledge of 0.5% of SUT revenues reinforces existing Senior and First Sub liens.</p> <p>Pledge also significantly expands COFINA Third Lien bond capacity.</p>	<p>New financing vehicle analogous to COFINA that can issue debt backed by municipal SUT.</p> <p>Would allow GDB to refinance approx. \$500M of GDB SUT-backed loans on its books.</p>	<p>Legislation allows GDB to issue up to \$2B in notes backed by Commonwealth's full faith and credit.</p> <p>Reinforcement of other credits speeds up repayment of interim financings.</p>	<p>Proposed transfer of portion of Act 30/31 revenues to the PR Infrastructure Financing Authority ("PRIFA") could facilitate a new financing to refinance HTA BANs and GDB lines of credit.</p>	<p>Proposed Senior/Sub MFA structure to strengthen MFA's credit.</p> <p>Allows GDB to refinance approx. \$1.2 billion of property tax-backed loans.</p>
<p>Approx. max capacity<sup>1</sup>: <b>\$1.5 B</b></p>	<p><b>\$600 M</b></p>	<p><b>\$1.6 B</b></p>	<p><b>\$1.5 B</b></p>	<p><b>\$1.2 B</b></p>

Puerto Rico may seek to access the market during FY2015 to further strengthen liquidity position, subject to market conditions.

<sup>1</sup> Based on certain market assumptions that are uncertain and subject to change.

# As a result of March GO transaction, the Commonwealth's General Obligations now have a simpler, more conservative debt structure

## Reduction in Outstanding Variable Rate Debt

- The Commonwealth repaid \$460 million VRDOs with proceeds of March GO.
- The Commonwealth's debt profile is now entirely fixed rate, except for \$126 million in CPI bonds outstanding.

## No Debt Subject to Acceleration

- The GO no longer has financial obligations, short-term or otherwise, that are subject to acceleration.

## No Outstanding Swap Obligations

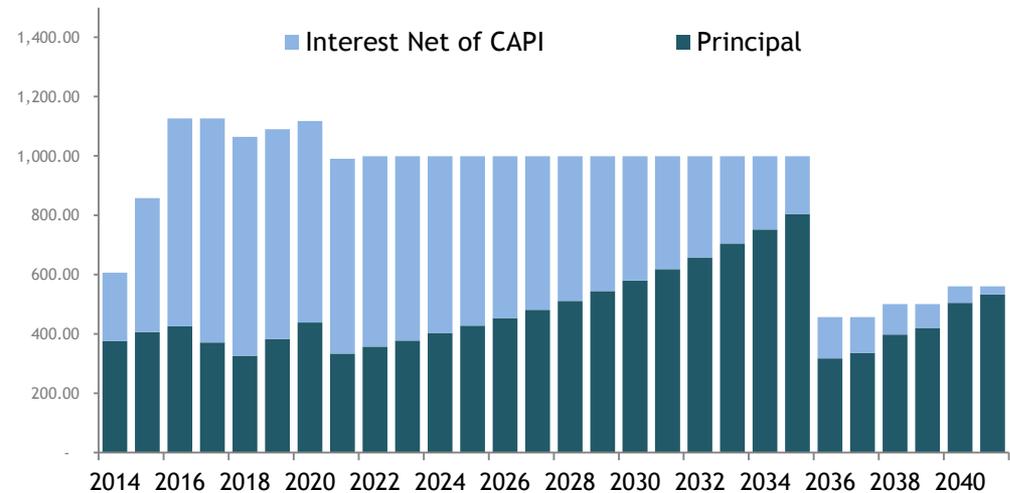
- Terminated \$1.2 billion in basis swaps during last 6 months.
- GO has no outstanding swap obligations.

## No Short-Term Debt (Other than TRANS)

- During FY 2014, Commonwealth repaid \$2.1 billion in short-term obligations, excluding TRANS.

## General Obligations Debt Service Schedule

Principal Outstanding as of May 31, 2014: \$13.2 billion



## GO Debt Profile

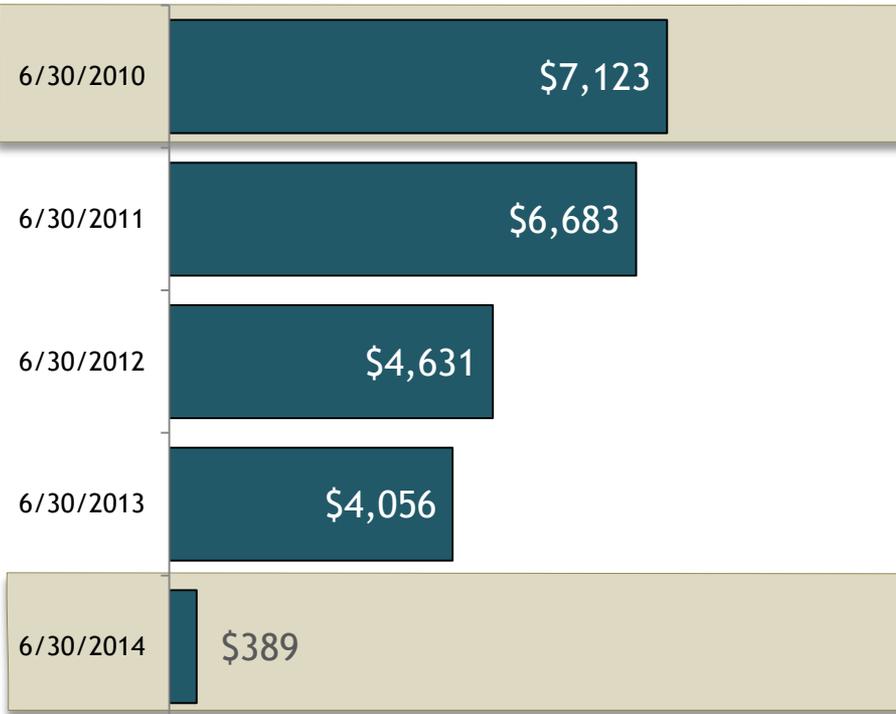
- ✓ Constitutionally protected
- ✓ Incremental debt capacity of \$793 million, based on average FY2014 and FY2013 revenues
- ✓ Max annual debt service (MADS) of \$1.1 billion in FY2017

Article VI, Section 2 of the P.R. Constitution provides that GO Bondholders can require the Secretary of the Treasury to first apply available Commonwealth resources to the payment of the Bonds in the event available revenues of the Commonwealth for any fiscal year are insufficient to meet appropriations made for that year.

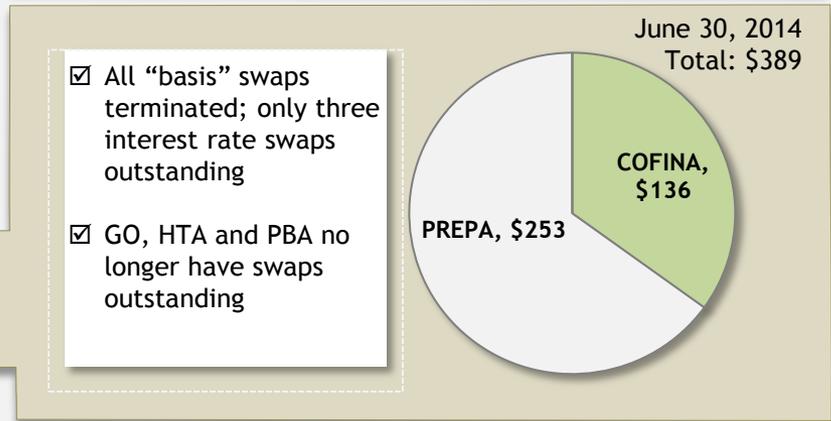
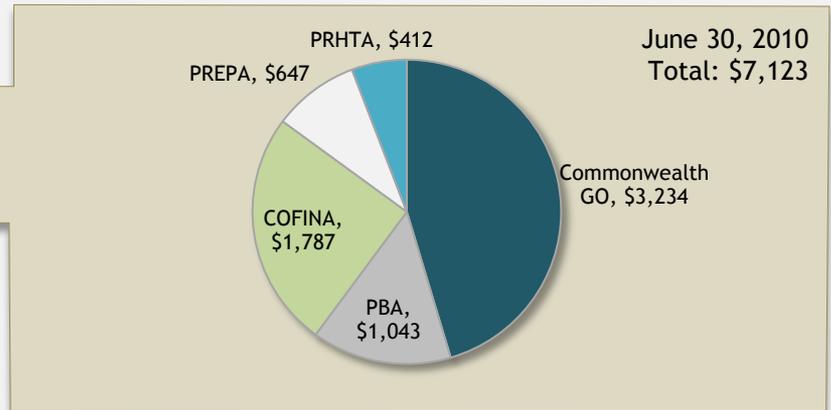
# The Commonwealth and its public corporations have materially reduced swap portfolio exposure during the last four years

## Aggregate Swap Exposure (notional amount, in millions)

As of 2010, the swap portfolio was comprised of \$3.07 billion in basis swaps and \$4.05 billion in fixed/variable rate payer swaps.



## FY 2010 vs. FY 2014 (notional amount in millions)



During the past six months, total notional swap exposure has decreased from \$4.1 billion to \$389 million, a more than 90% decrease; MTM has decreased from (\$349 million) to (\$108 million).

# Repayment or refinancing of short-term debt liabilities during past 12 months have materially reduced short-term maturity profile

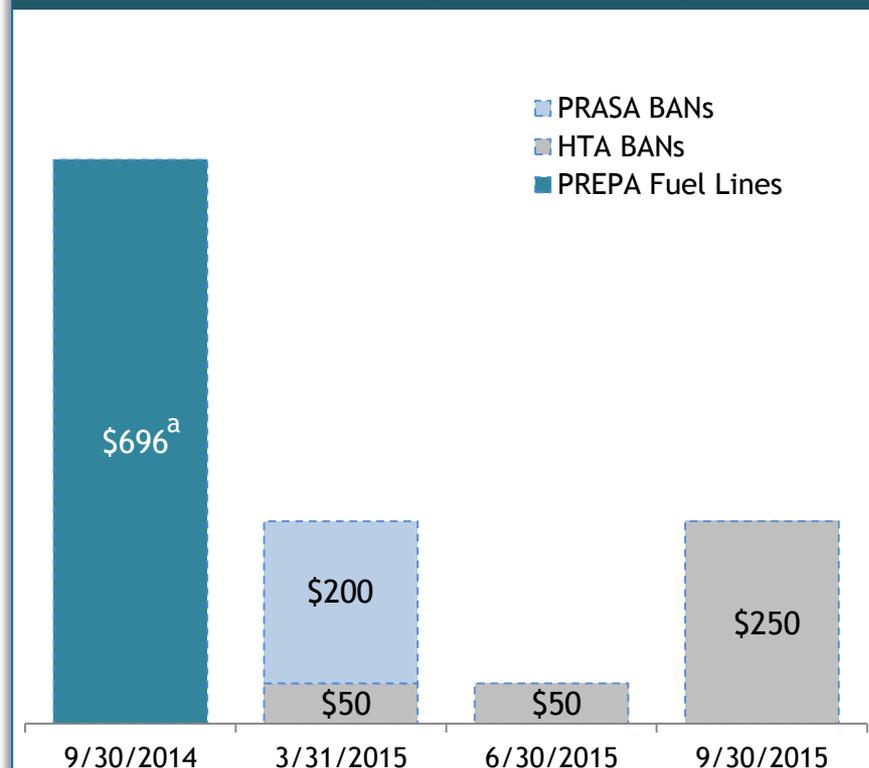
Short-Term Obligations Repaid in Last 12 Months (in \$ millions)		Payment Date
TRANS	\$1,200	Apr-Jun 2014
COFINA BANs	\$333	Mar 2014
GO BANs	\$400	Dec 2013
GO Private Credit Lines	\$143	Dec 2013
GO Private Participations	\$243	Dec-Jan 2014
GO VRDOs	\$460	Mar 2014
HTA VRDOs	\$200	May 2014
HTA BANs	\$50	Jul 2014
PREPA Fuel Lines	\$100	May 2014
PRIFA/PRPA L/Cs	\$137	Nov-Dec 2013
<b>Total</b>	<b>\$3,266</b>	

## Payment of P/I When Due

On July 1, 2014, the Commonwealth and its instrumentalities made, in aggregate, \$1.8 billion in principal and interest payments when due.

GDB has also repaid \$469 million in GDB notes during this period.

## Remaining FYs 2015-2016 Short-term Maturities (in \$ millions)



**PREPA, HTA and PRASA have remaining short-term liabilities**

Aggregate 62% reduction in outstanding short-term liabilities (excluding TRANS) decreases system-wide liquidity pressure.

<sup>a</sup> Subject to Forbearance Agreement with counterparties.

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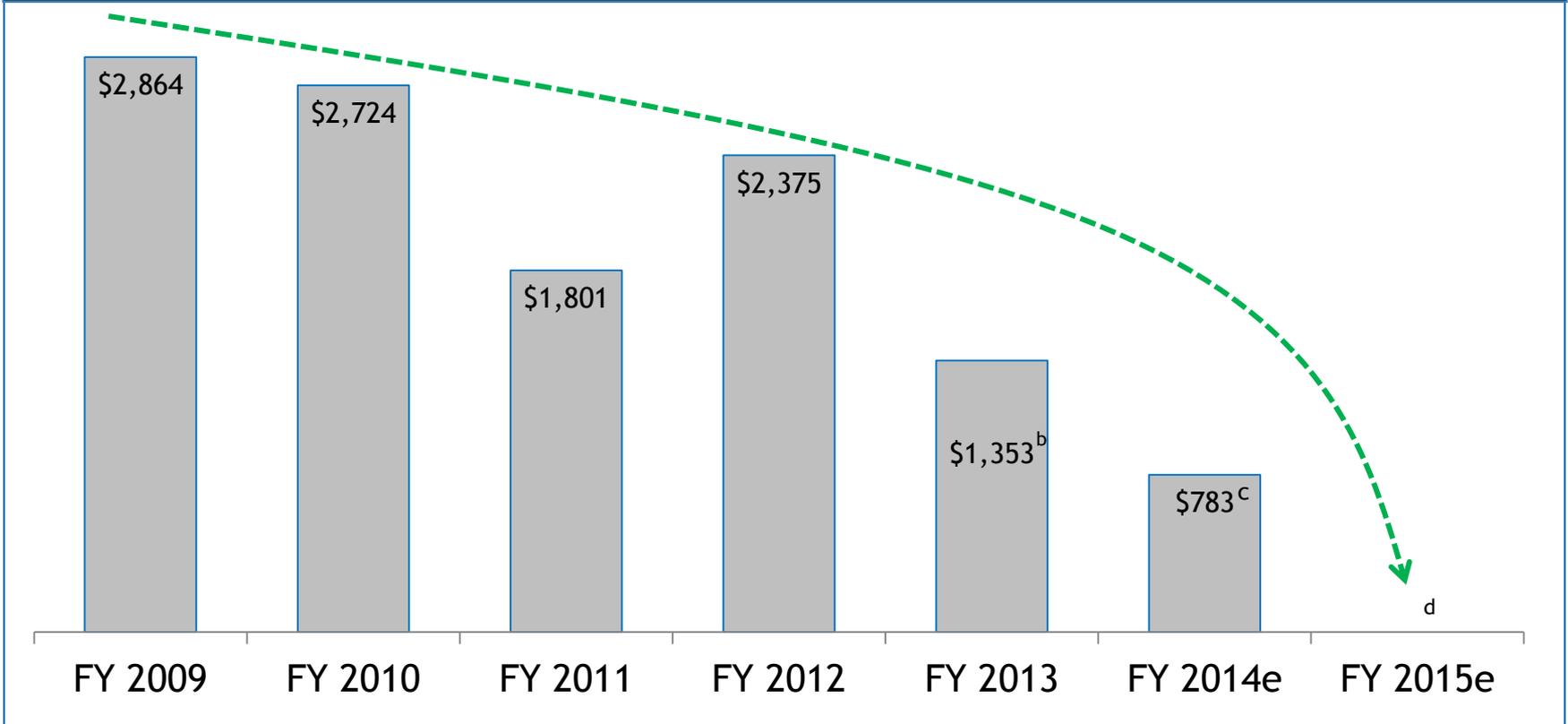
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# Approved FY 2015 budget seeks to eliminate General Fund deficit, one year before schedule

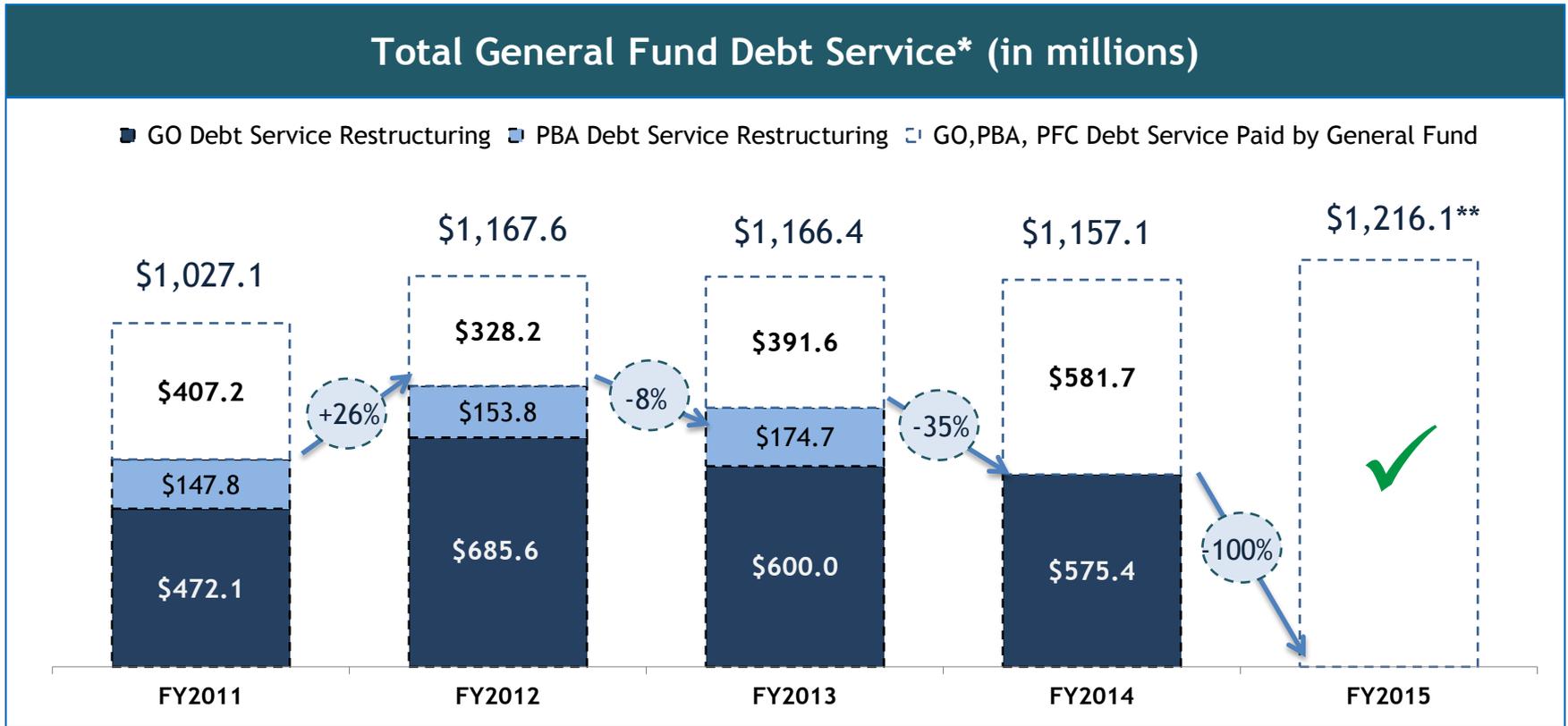
Historical and Projected Deficit<sup>a</sup> (in \$ millions)



- (a) Source for Fiscal Years 2009-2012: Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 18, 2013. Deficit for FY 2013 was obtained from Commonwealth of Puerto Rico Basic Financial Statements and Required Supplementary information, published on June 30, 2014. Deficits for FY 2014 is preliminary and subject to change. Results presented for FY 2009 and FY 2010 exclude approximately \$442 million and \$50 million, respectively, of non-recurring expenses accrued during prior fiscal years that have been previously accounted as part of total expenditures for such fiscal years.
- (b) After implementation of corrective measures by the current Administration, deficit for FY 2013 was lowered from \$2.213 billion as of January 31, 2013 to \$1.353 billion as of June 30, 2013, as per the FY2013 Financial Statements dated June 30, 2014. See detail in Appendix A.
- (c) Estimated, preliminary and subject to change. Excludes appropriations of \$250 million to repay GDB debt and \$90 million to the ERS that were eliminated by executive order.
- (d) Assumes FY 2015 approved budget, which does not include deficit financing or refinancing of GO or PBA debt, is met.

e = estimated

# FY 2015 budget does away with historic practice of restructuring GO and PBA debt service payments for budgetary relief



- General Fund budgets for FY 2013 and FY 2014 contemplated debt service restructurings of \$775 million (\$600 million in GOs and \$175 million in PBA bonds) and \$575 million (in GOs), respectively.
- For the first time since FY 2009, the FY 2015 budget contains no GO or PBA debt service restructuring.
- The FY 2015 budget contains appropriations covering the full amount of GO and PBA debt service payments due in such fiscal year (\$1.2 billion).

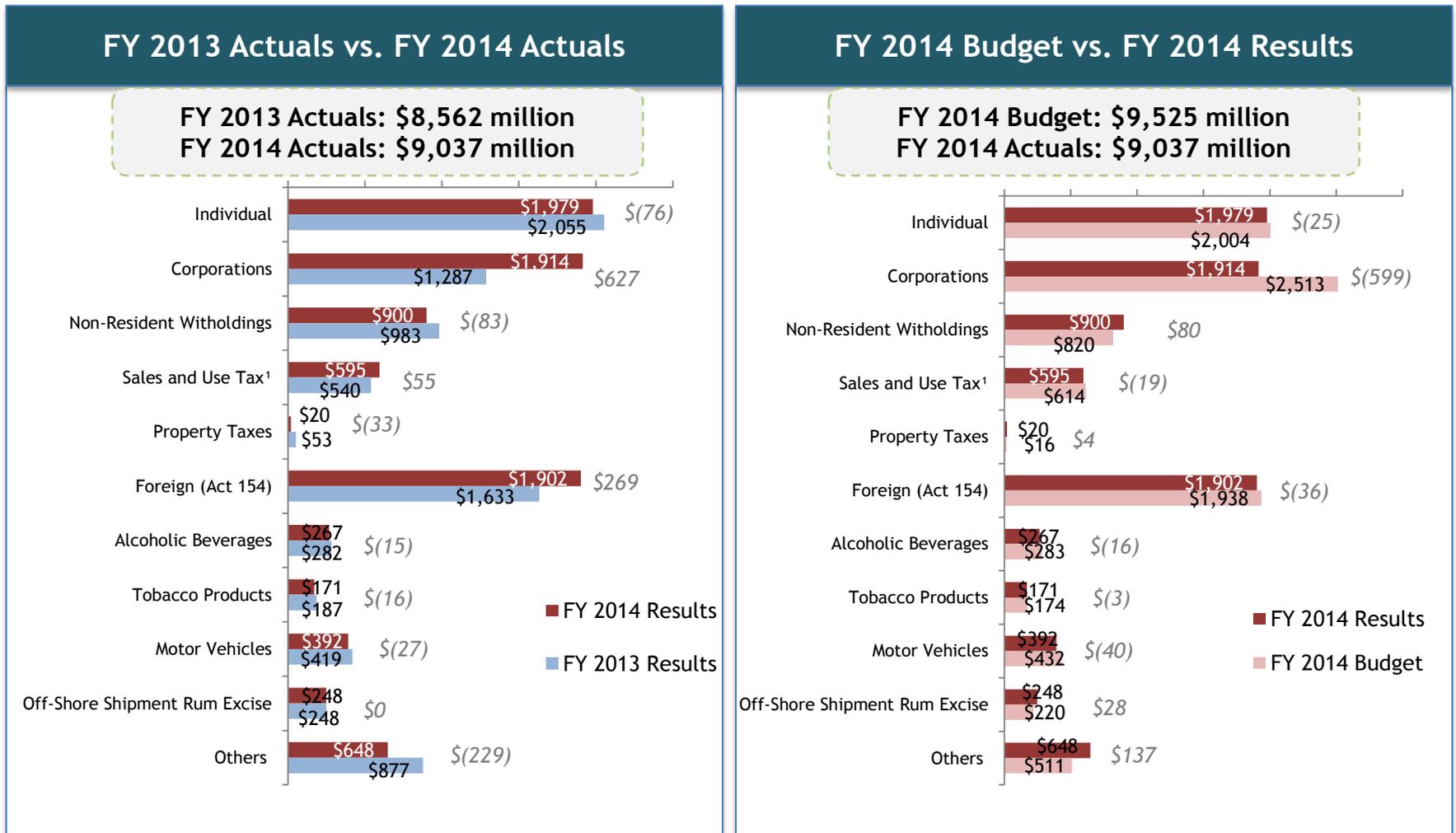
Source: "Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 15, 2013"; Proposed FY 2015 Budget.

\*Total debt service due for each fiscal year before any refinancing. Does not include GDB lines payable from legislative appropriations, \$250 million of which were eliminated by executive order in 2014.

\*\* Excludes capitalized interest on GO 2014 Series A Bonds of \$280 million.

# FY2014 Revenue Update

# FY 2014 revenue actuals are 5.5% higher than FY 2013 results, but below budgeted estimates



Corporate tax revenues primary driver of both (i) Y-O-Y revenue growth and (ii) FY2014 revenue miss vis-à-vis projections.

<sup>1</sup> Sales and Use tax revenues flow to COFINA until the amount necessary to pay debt service during such fiscal year on outstanding COFINA bonds have been deposited in the COFINA debt service account.

# Primary reasons for lower revenue results in corporate income tax for FY 2014

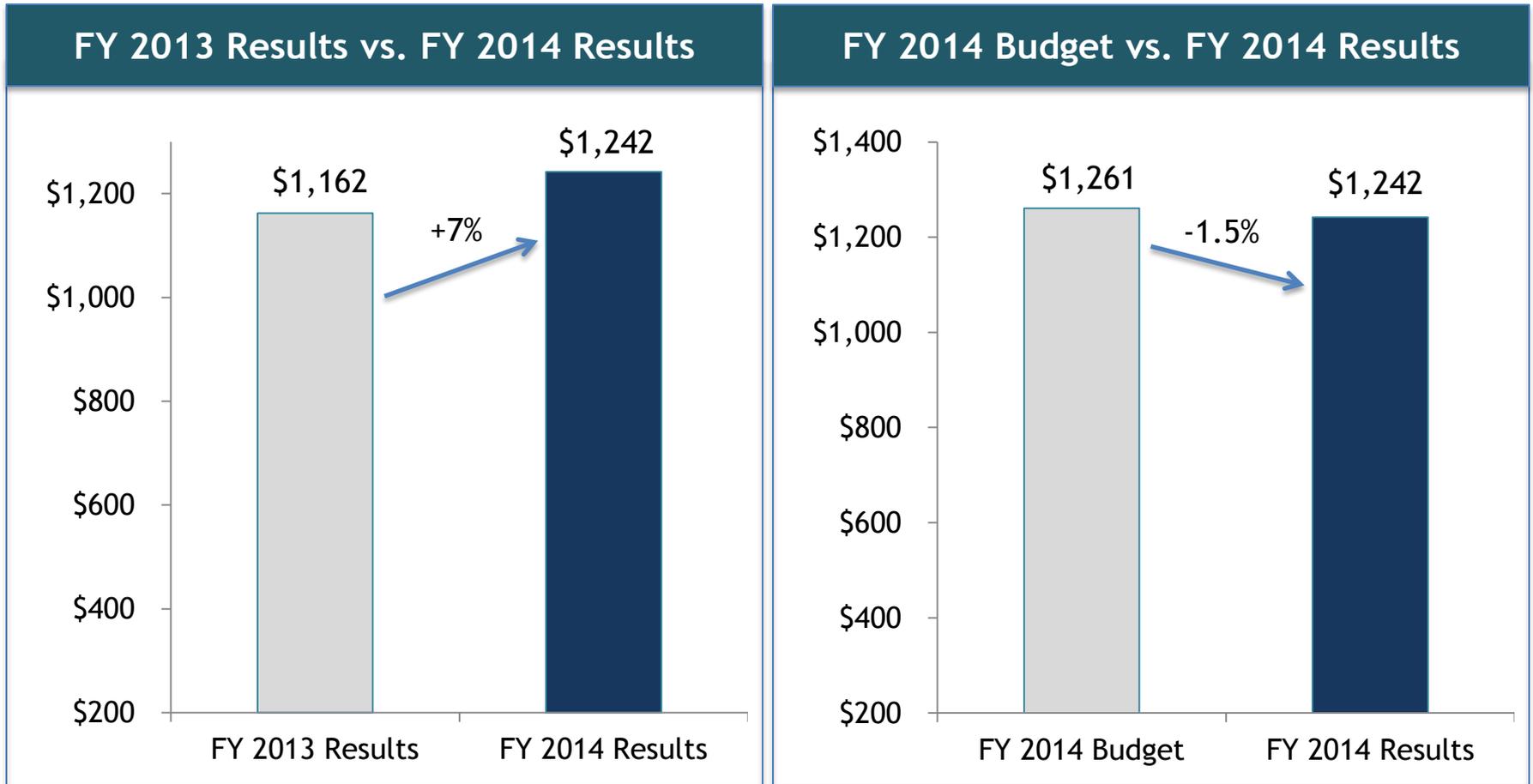
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The primary reasons for lower results in corporate income tax collections for FY 2014 which when compared to the original budget include, among others:

- (i) higher than estimated tax credits and other residual tax items carried-over from previous fiscal years, which reduced projected tax payments;
- (ii) purchase of tax credits by, and waivers granted to, corporations above projections, which affected corporate gross receipts tax revenues;
- (iii) timing differences in payments of corporate taxes due to corporations that filed tax return extensions (payments expected to be received during July 2014);
- (iv) corporate reorganizations that reduced corporate tax liabilities; and
- (v) corporate taxable income lower than expected.

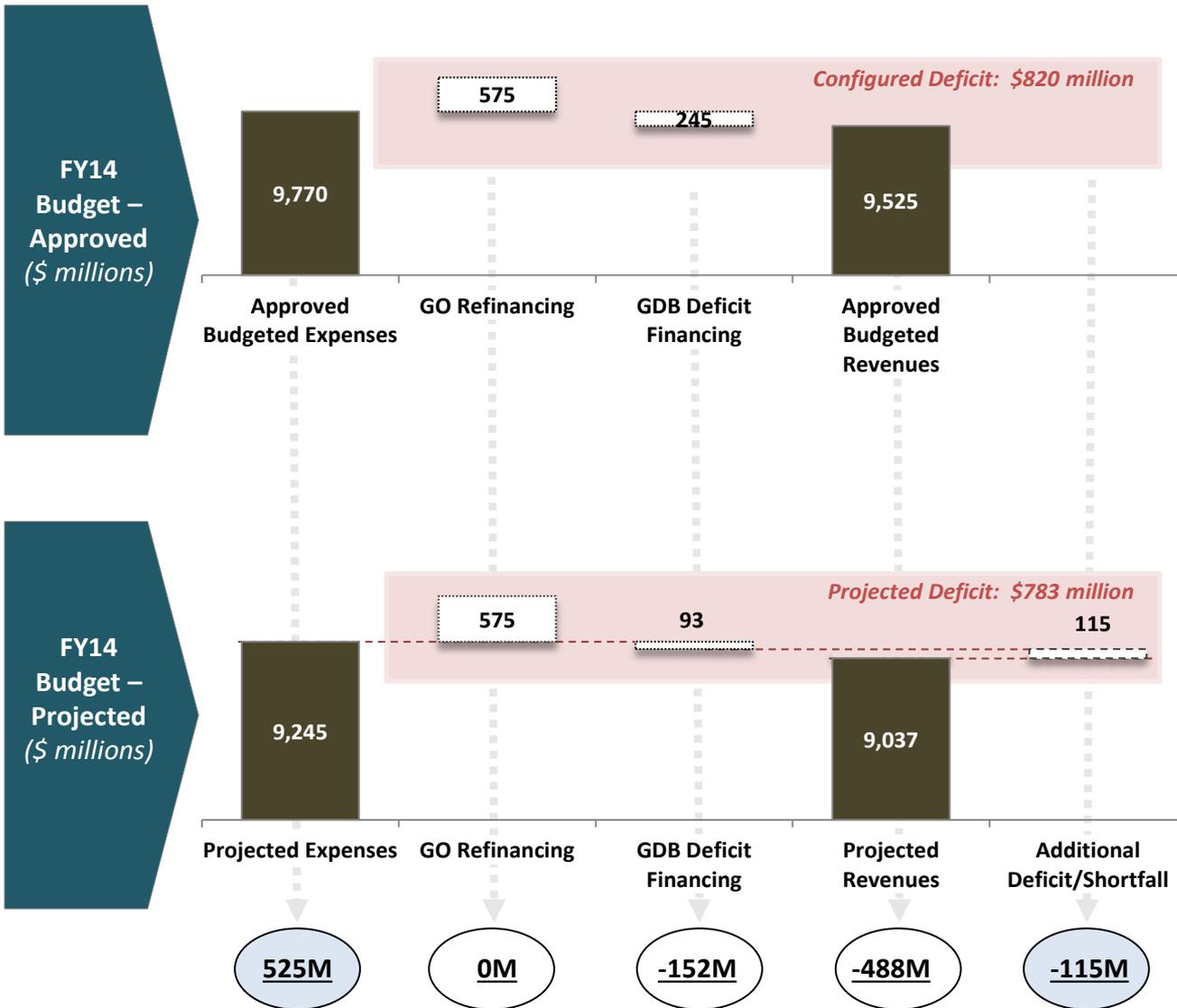
FY 2015 Approved Budget takes affirmative measures to tackle causes of corporate tax shortfall. Corporate gross receipts tax amended to assume revenues unaffected by purchase of tax credits.

# Total FY 2014 SUT revenues were \$80 million, or 7%, higher than FY 2013 SUT revenues



Increase in SUT collections was driven by budgeted expansion of SUT revenue base and enforcement measures.

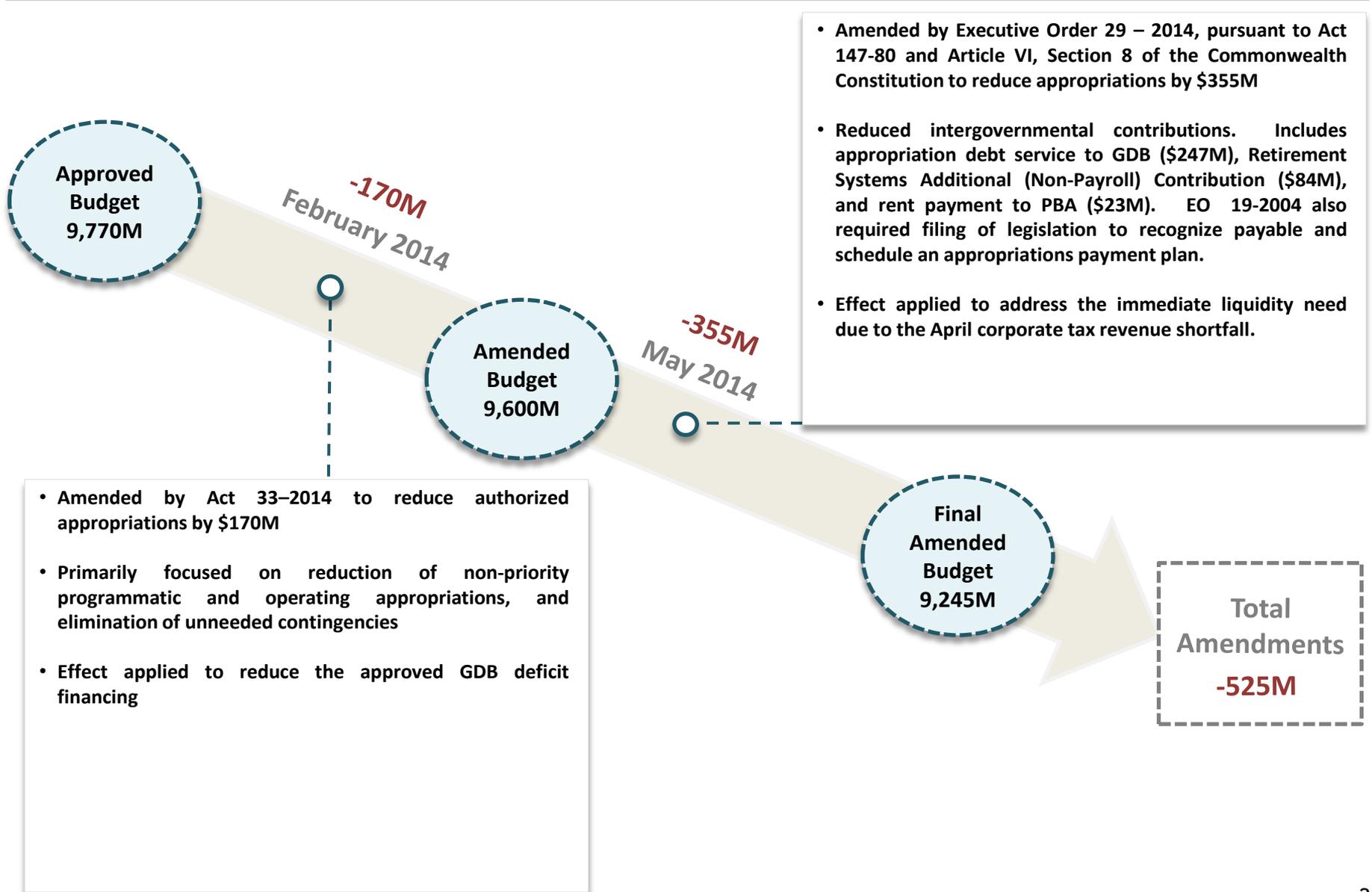
# Preliminary Budget Results for Fiscal Year 2014



- During the year, the expense budget was amended to reduce authorized appropriations by \$525 million.
- Actual resources fell short by \$640 million: a \$152 million decrease in the approved deficit financing and a revenue gap projected at \$488 million.
- As a result, the amended budget results in a resource shortfall of \$115 million.
- When compared to the originally configured deficit of \$820 million, the projected deficit of \$783 million is \$37 million or 4.5% lower.

# FY2014 Expense Update

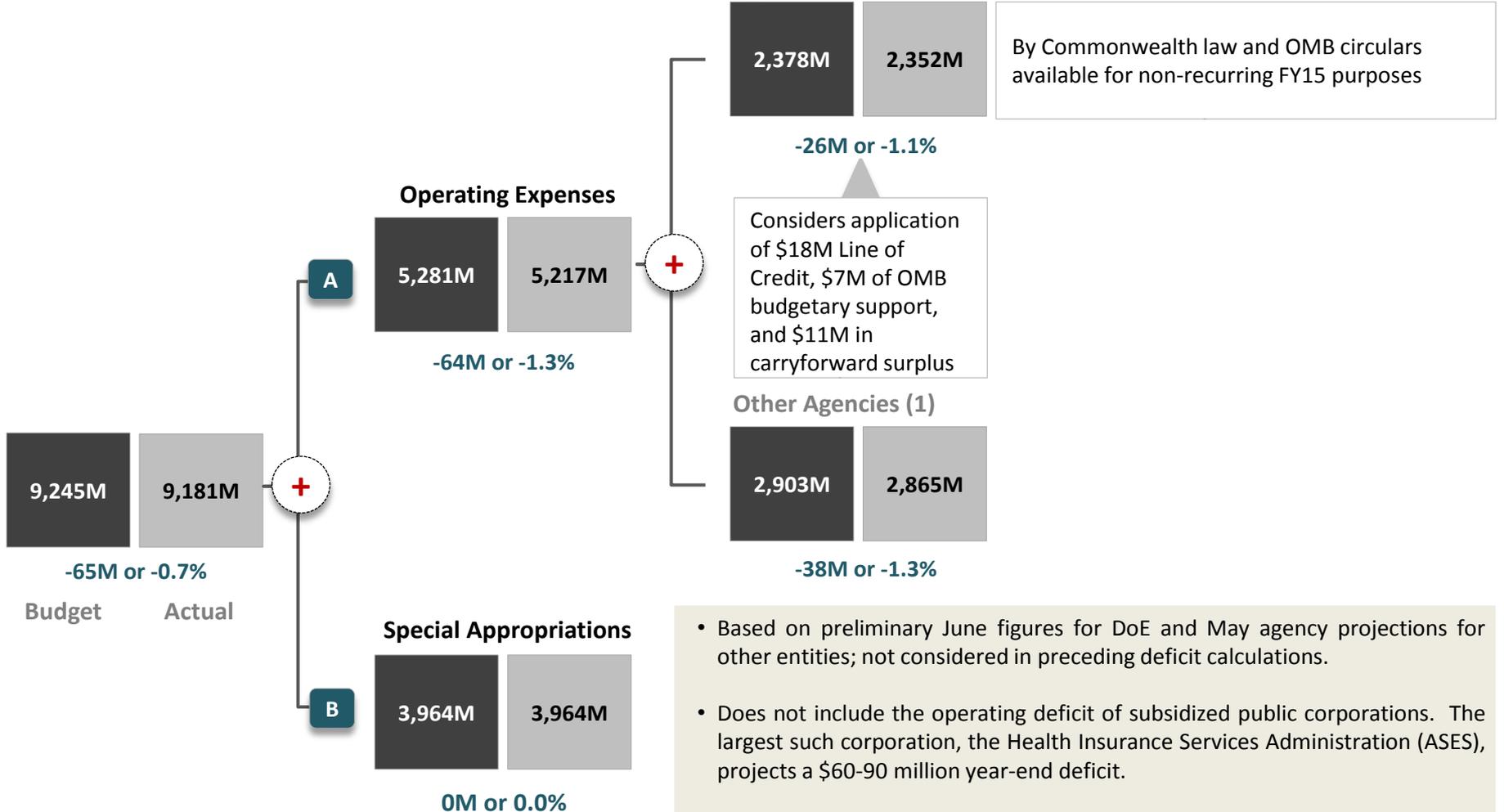
# Change in Approved Budget during Fiscal Year 2014



# Preliminary Fiscal Year 2014 Projected Results

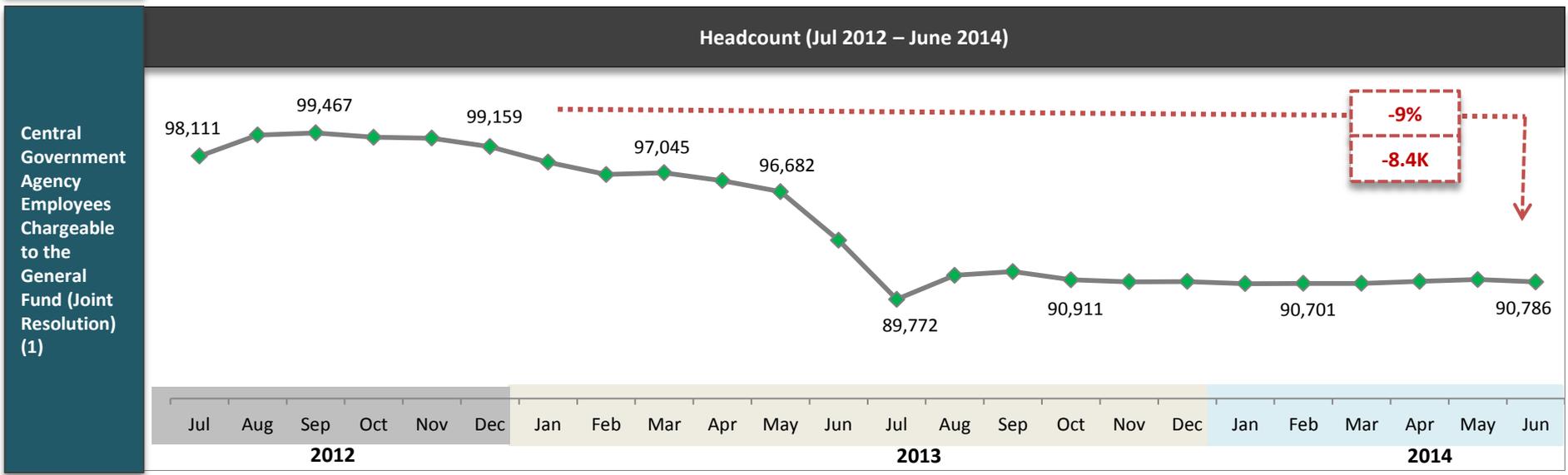
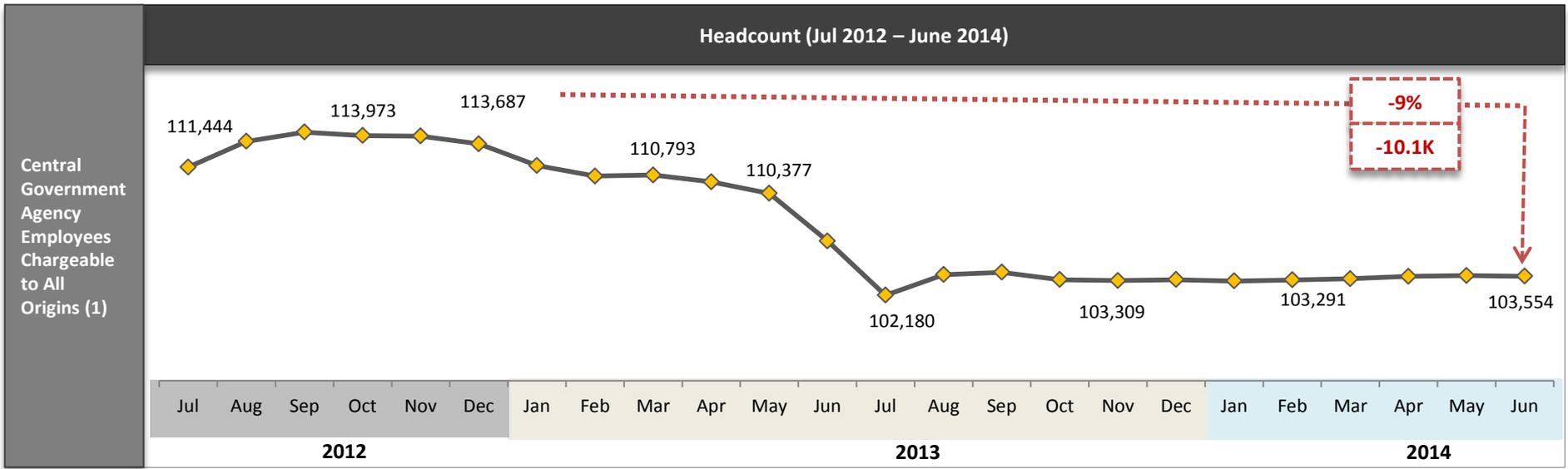


Department of Education



(1) Results before transfer of \$31 million in projected surpluses at other agencies to the Department of Education to cover various expenses, including school repairs and expenses related to the consolidation of schools for the upcoming fiscal year. Transfer does not affect the net total, but affects carryforward surplus. 24

# Key driver behind Fiscal Year 2014 results: Headcount



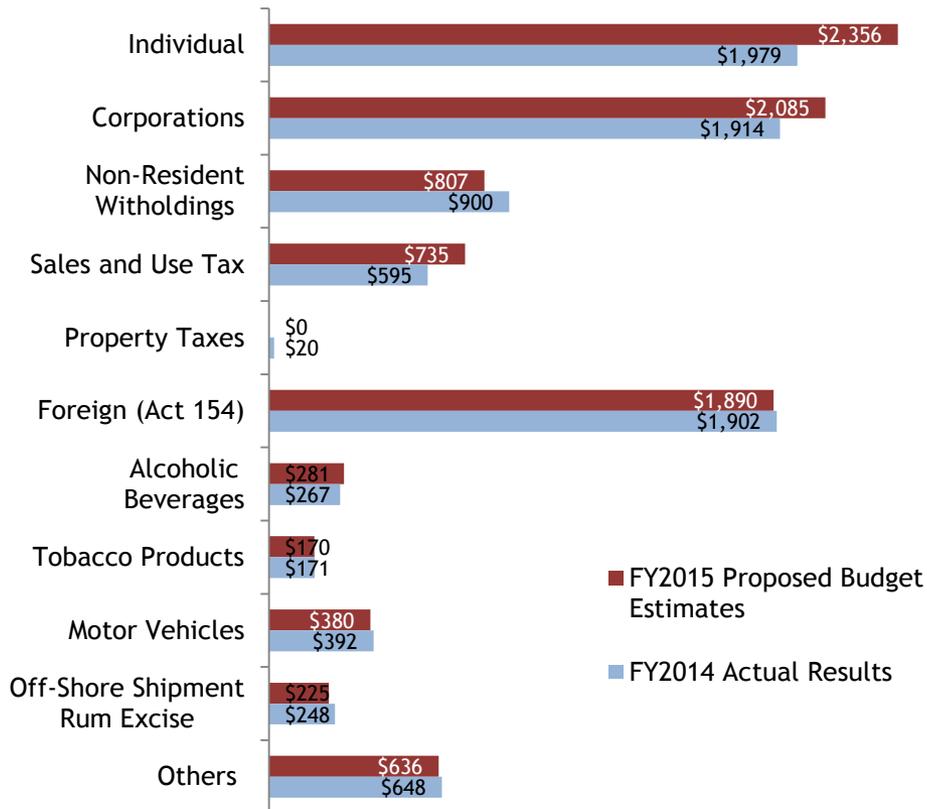
(1) Includes only employees paid from the central RHUM Treasury HR system. Certain smaller or autonomous agencies (~3% of the total) not included. Numbers for PR Police is self reported. Does not include irregular employees. General Fund number does not include employees paid from special appropriations.

# FY2015 Projected Revenues

# FY 2015 Approved Budget projects a net 6% increase in General Fund revenues

## FY 2014 vs. FY 2015

**FY 2014 Actual Results: \$9,037 million**  
**FY 2015 Approved Budget Estimates: \$9,565 million**

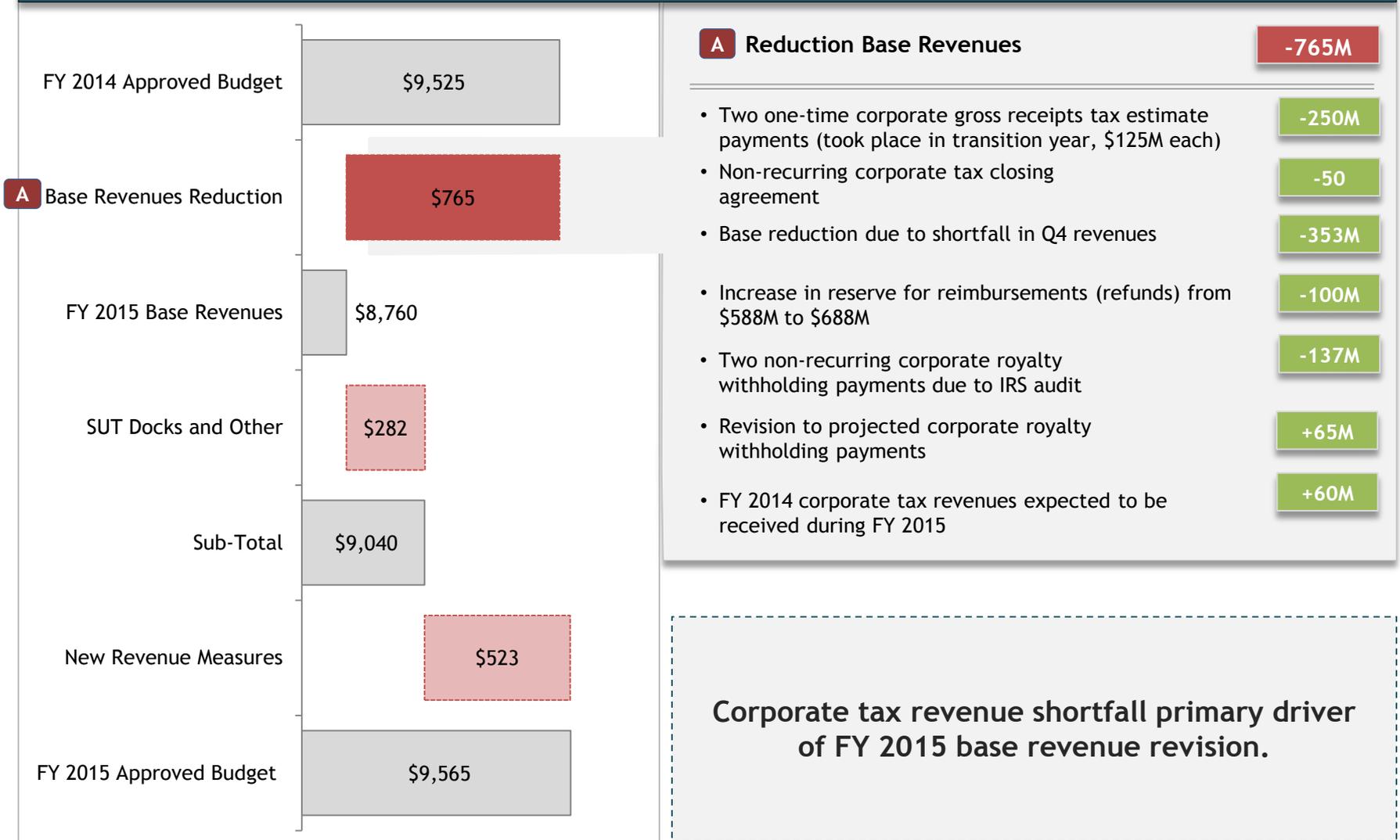


CHANGE	+528M	+6%
• Individual	+377M	+19%
• Corporations	+171M	9%
• Non-Resident Withholdings	-93M	-10%
• Sales and Use Tax	+140M	+23%
• Property Taxes	-20M	-100%
• Foreign (Act 154)	-12M	-1%
• Alcoholic Beverages	+14M	5%
• Tobacco Products	-1M	-1%
• Motor Vehicles	-12M	-3%
• Off-Shore Shipment Rum Excise	-23M	-9%
• Others	-12M	-2%

FY 2015 revenues adjusted for non-recurring revenues, new revenue measures and the impact of the FY 2014 Q4 revenue shortfall.

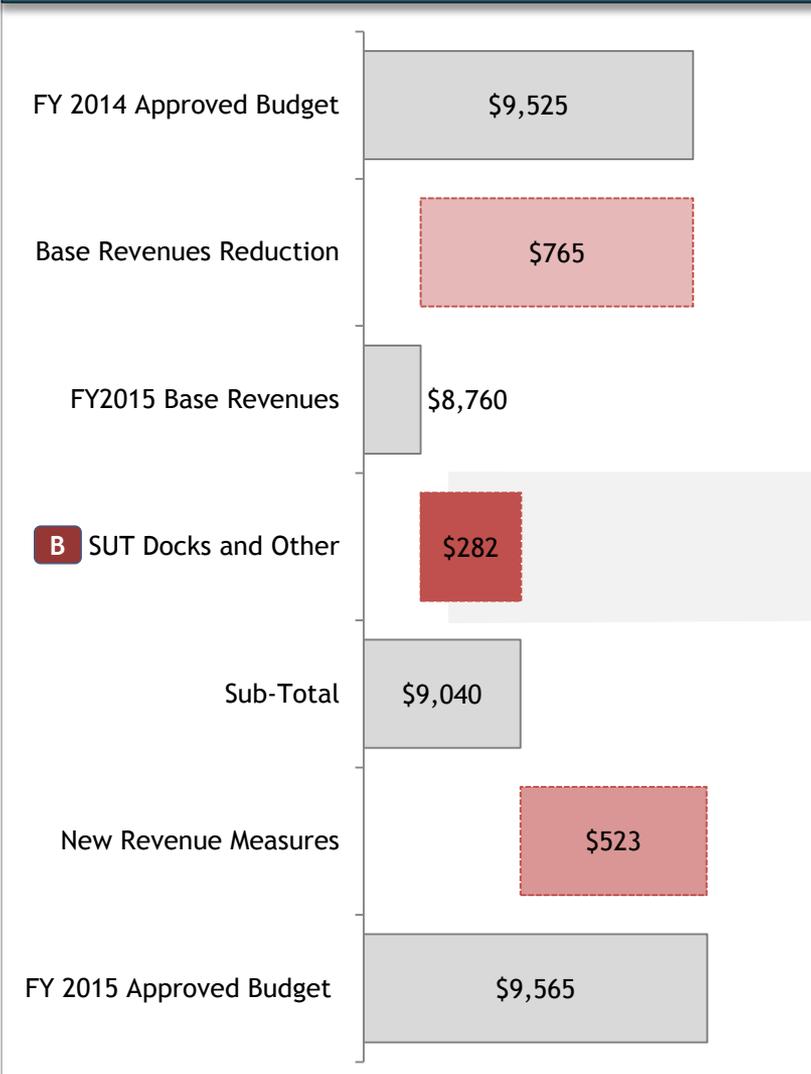
# Base revenues for FY 2015 were adjusted to reflect revised revenue baseline

## Revenue Projections for Fiscal Year 2015 (in millions)



# Previously approved collection of SUT at point of entry expected to result in material increase in SUT revenues

## Revenue Projections for Fiscal Year 2015 (in millions)



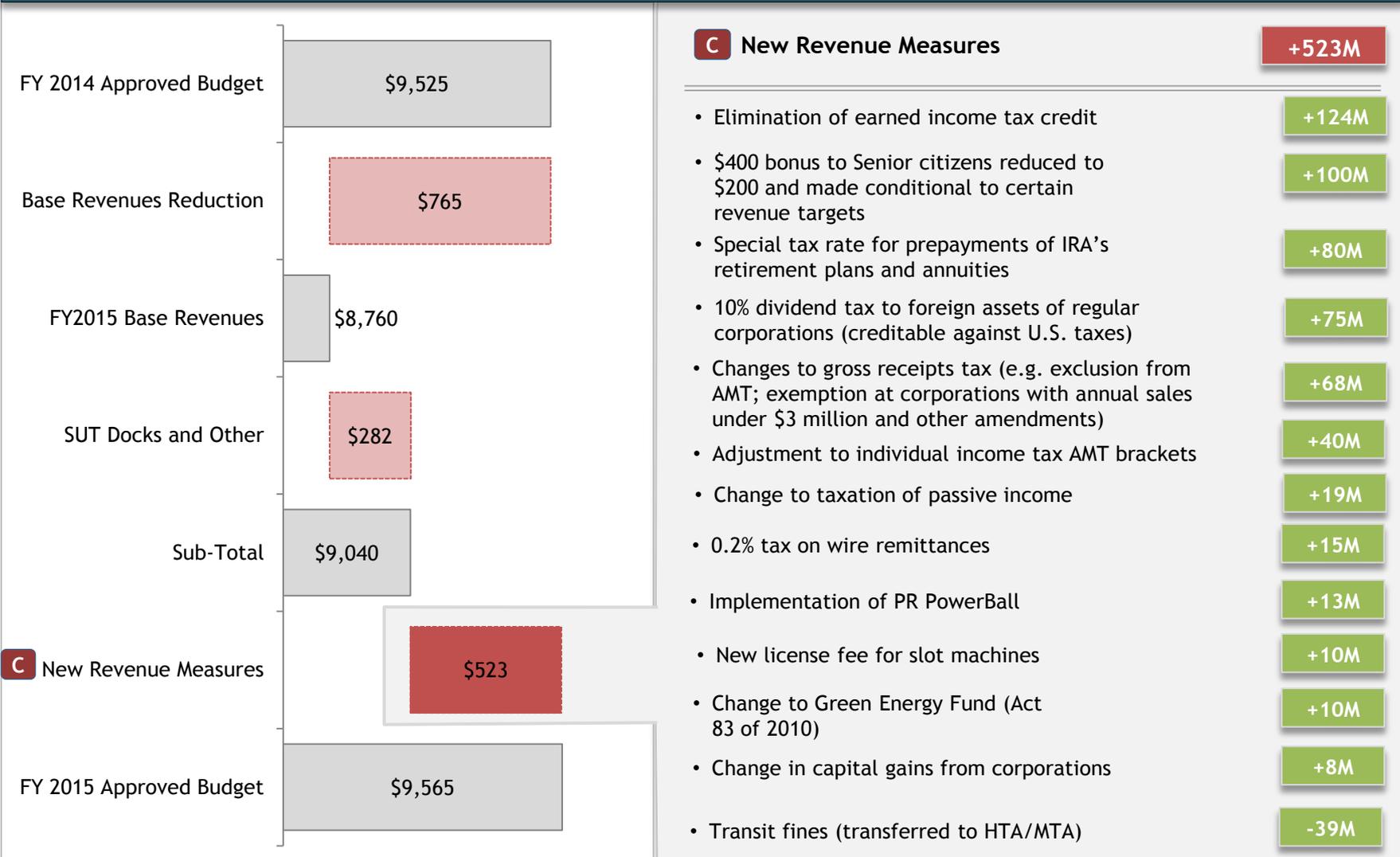
### **B** SUT Docks and Other

**+282M**

- Implementation of SUT point of entry/docks **+170M**
  - Treasury Department expects to begin collecting SUT at point of entry/docks of goods on August 1, 2014
    - Measure expected to increase SUT capture rate
    - Moves SUT towards VAT-like structure.
- Increase in Federal “rum” cover-over revenues **+27M**
  - Increase in “cover over” revenues driven by projected expansion of local rum production due to economic development efforts.
- Other Adjustments **+85M**
  - Includes revenue revisions due to, among others:
    - Full year effect of FY2014 partial year revenue measures.
    - Expected nominal GDP growth, as per PR Planning Board (PRPB). Nominal GDP growth expected by the PRPB is 2.6% for FY 2015 (.2% real) vs. 2.9% nominal growth (0.1% real) that was expected for FY2014 when the FY 2014 budget was approved.

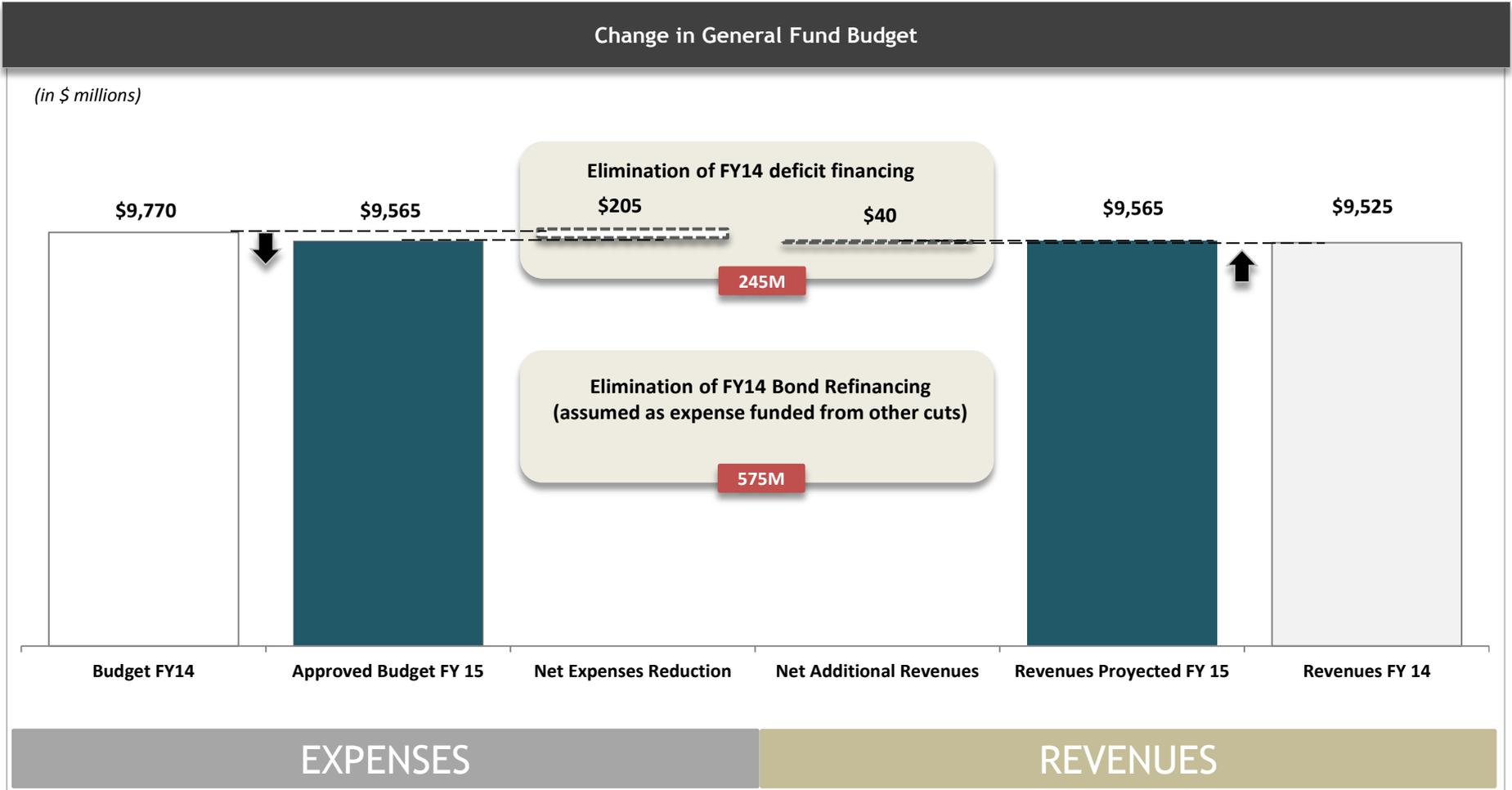
# Elimination of certain tax credits, along with other tax modifications, are primary drivers of new revenue for FY 2015

## Revenue Projections for Fiscal Year 2015 (in millions)

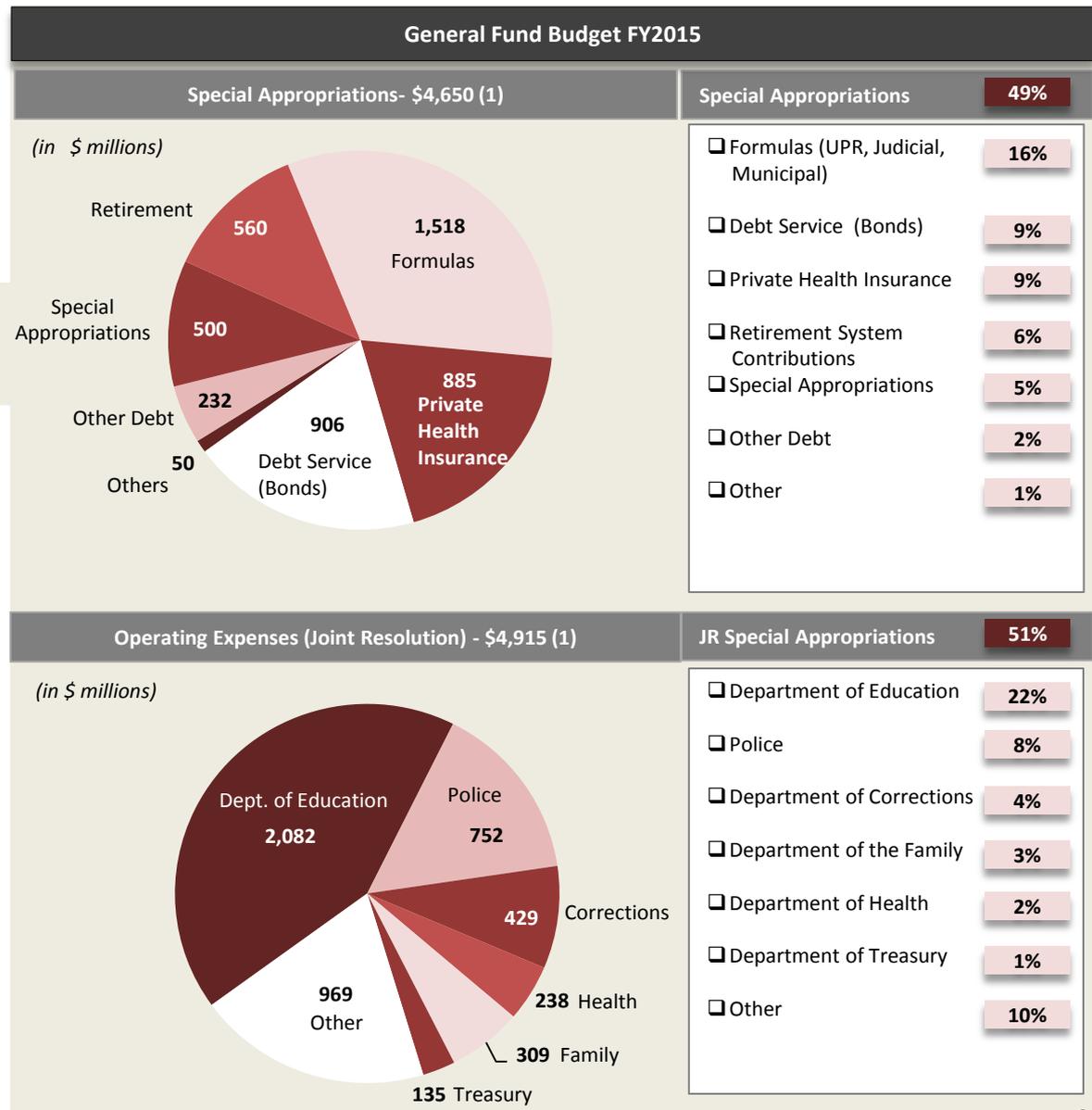
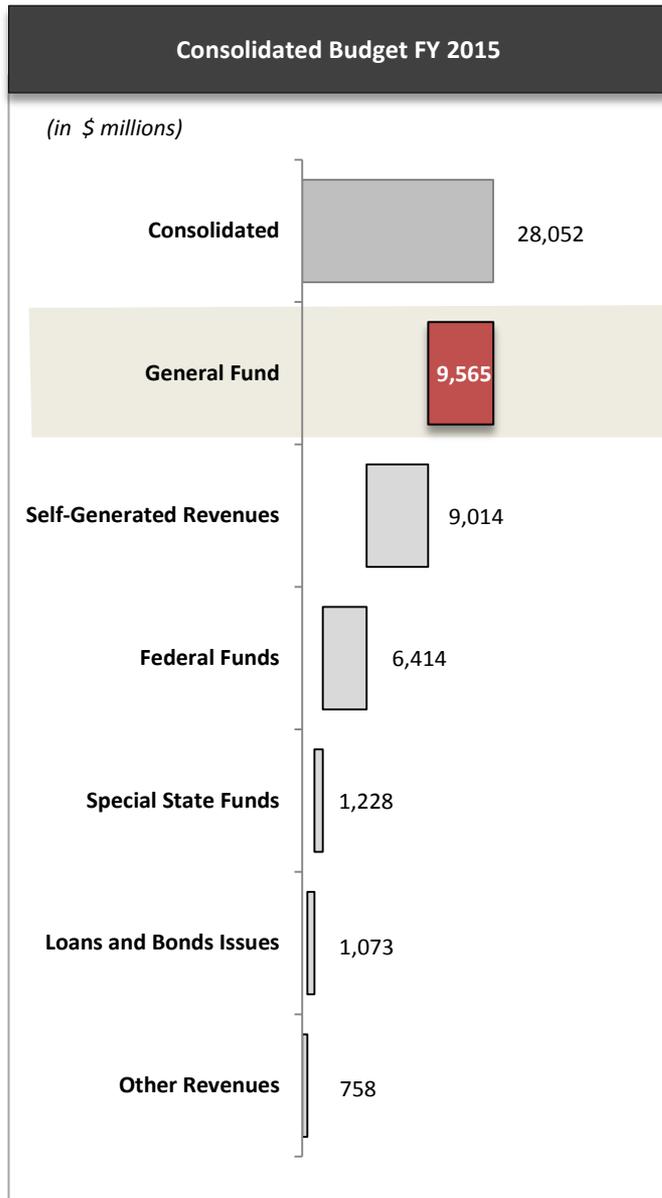


# FY2015 Projected Expenses

# Change in General Fund Budget for FY 2015



# Distribution of Approved FY 2015 Budget (Recipient & Agency)



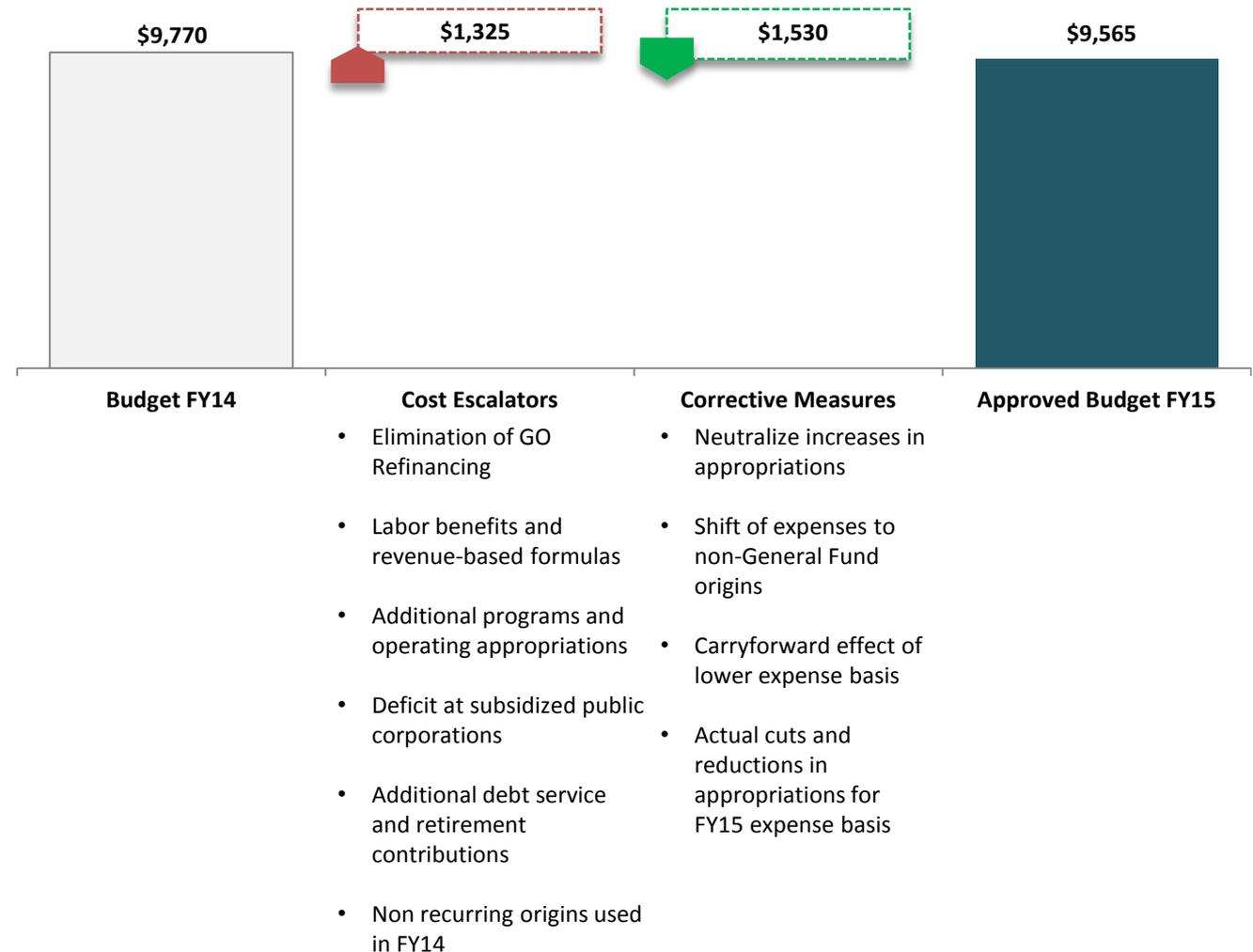
(1) This distribution is used by OMB management for analytical purposes and is not found on the official "budget module" produced by OMB

# Configuration of General Fund Approved Budget for FY 2015

## Updated – Configuration of FY15 Budget (At Time of Approval)

- The recommended budget included cost escalators of ~\$1,227 million and corrective measures of \$1,357 million.
- Since budget submittal, estimates of escalators and measures have been updated to reflect (i) additional priorities and policy choices; (ii) updated expense projections and other assumptions; and (iii) changes from the legislative process, among others.
- For example, in the Department of Education, the number of schools approved for closing and teacher retirement was lower than assumed, but year end results were better than projected and the payroll appropriation increased in the legislative process.
- Overall, there is an element of judgment in what is considered an escalator, a corrective measure, and how they offset each other. The information is presented merely for providing context of the challenges faced and strategies selected.

(In \$ millions)



# Revised Estimate of Cost Escalators for FY 2015 Approved Budget

## Updated – Configuration of FY15 Budget – Cost Escalators

(In \$ millions)



### FY 2014 Budget

### Elimination of GO Refinancing

- Elimination of GO Refinancing **(\$575M)**
- *NOTE: excludes capitalized interest on March 2014 GO issuance*

### Labor Benefits & Revenue Based Formulas

- Benefits from collective bargaining agreements **(\$166M)**
- Increase to UPR, Judiciary and Municipalities **(\$132M)**
- Pre-legislated teacher raises **(\$15M)**

### Additional Program and Operating Appropriations

- Increase in legislative appropriations **(\$111M)**
- Pre-legislated special appropriations **(\$36M)**
- Full year effect of mid-year or pre-approved recruitments **(\$26M)**

### Deficit at Subsidized Public Corporations

- Deficit at ASES Public Health Insurance Administration **(\$53M)**
- Operating needs of Medical Services Administration **(\$36M)**
- Deficit at collective transport corporations (includes effect of Urban Train) **(\$30M)**

### Additional Debt Service & Retirement Contributions

- Increments in GDB debt service, P&I due on existing bonds, and additional TRANS interest **(\$45M)**
- Increase in payroll contribution rate to Retirement Systems **(\$29M)**

### Non Recurring Origins Used in FY14

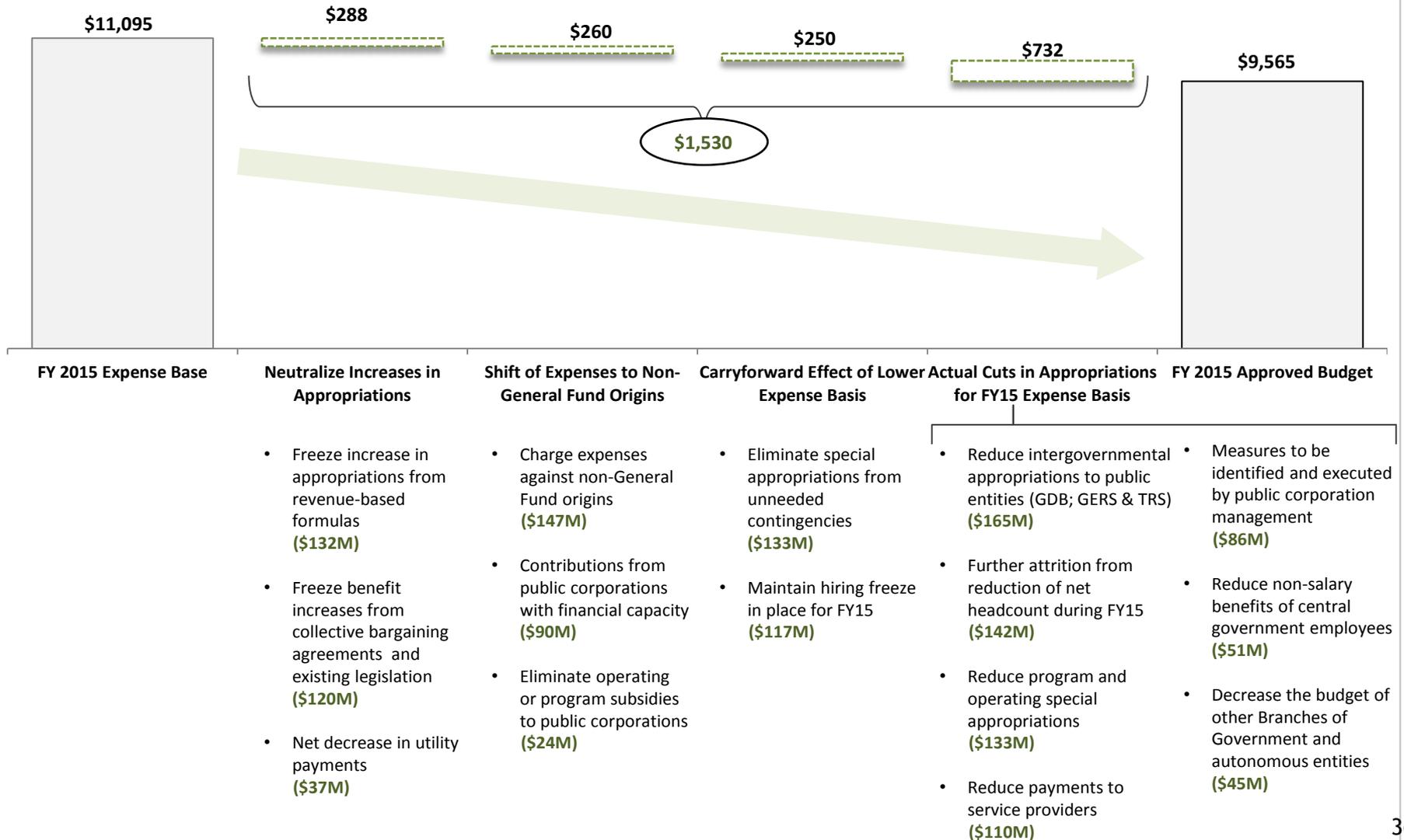
- Program appropriations charged to Budgetary Support Fund in FY14 **(\$69M)**
- Gross-up to Dep. Education expense basis from non-recurring origins **(\$3M)**

### FY 2015 Expense Base

# Revised Estimate of Corrective Measures for FY 2015 Approved Budget

## Updated – Configuration of FY15 Budget – Corrective Measures

(In \$ millions)



# Department of Education Budget Plan – Media Coverage (April : July)



**Corrective Measures Target:**  
\$374 million



- The Department of Education has completed many of the steps for implementation of the approved budget for the beginning of the school year, including revision of school transportation regulations and rates, consolidation of schools sites, and changes in staffing policies. These measures are designed to save money, address declining enrollment and improve service.
- At July 15, net reduction in teacher headcount for August school year, without layoffs, was estimated at 3,100, with final numbers pending.

# Highlights of Commonwealth Fiscal Sustainability Act (66-2014)

Declares a state of emergency for fiscal and economic recovery in order to enable budgetary balance, phase out market financing of operating budgets, and maximize liquidity to ensure the payment of debt and the continuity of public services

## Scope

### Establishes savings measures in the following areas:

- Reduction of 10% in service rates without need for bilateral amendment
- Extraordinary powers to Secretary of Education to reform school transport
- Freezing of any incremental economic benefits to public employees
- Contribution of labor savings from solvent corporations to General Fund
- Elimination of extraordinary monetary compensation as defined in law
- Requirement for savings plan and reduction in utilities and rent
- Freezing of formula appropriation for the UPR and Municipalities
- Reduction of formula appropriation for Legislature and Judicial Branch
- Reform and mandatory payment plans for legal judgments
- Flexibility in rules regarding employee transfers certain labor contract clauses

### Sets strict fiscal governance requirements:

- Hiring freeze for additional employees
- Mandatory reduction in political appointee versus June 2012
- Fines for unauthorized transactions and knowingly incorrect certifications
- Approval levels (OMB & Office of the Governor) for service contracts
- Strengthens significantly OMB oversight power
- Applies many restrictions to public corporations for the first time

## Applicability

- Savings measures and governance provisions apply to all entities of the Executive Branch of the Commonwealth, including agencies, instrumentalities with independent treasury, and public corporations
- Some provisions apply to all public entities, including the Legislative Assembly, the Judicial Branch, the UPR and autonomous entities such as the Elections Commission, Ethics Office and Office of the Comptroller.

## Duration

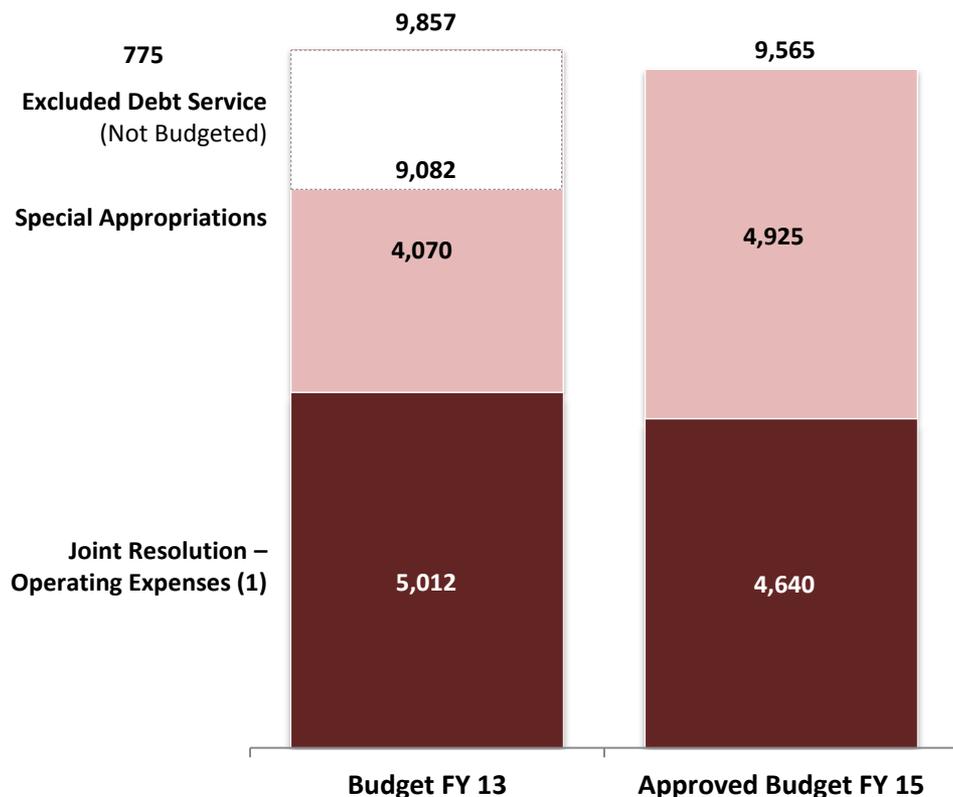
Until July 1, 2017, or when **all** of the following occur:

- a. real growth in **Gross Domestic Product projected** to be equal to or greater than **1.5 percent**
- b. upgrade **to investment grade** from one of the main rating agencies of **Commonwealth GO's**
- c. **previous FY ended with no deficit** (no GO refinancing or deficit financing as a source of funds)

# Adjusted Comparison of Approved FY15 Budget with FY 13 Budget (OMB Analysis)

## Budget FY 13 vs Approved Budget FY 15

(in \$ millions)



### OVERALL CHANGE

**-293M**

**-3%**

### CHANGE in Special Appropriations

**+79M**

**+2%**

- Program Appropriations
- Health Reform
- Retirement Contributions
- Further Increments in Debt Service (1)
- Formulas (UPR; Municipalities, Judiciary)

**-90M**

**-14%**

**+3M**

**-**

**+71M**

**+14%**

**+41M\*\***

**+3%**

**+55M**

**+4%**

### CHANGE in Joint Resolution (Operating Expenses)

**-372M**

**-7%**

- Legislative Assembly
- Operations Dept. of Education
- Operations - Other Agencies
- Dept. of Education Payroll
- Payroll - Other Agencies

**-9M**

**-7%**

**-142M**

**-7%**

**-51M**

**-6%**

**-40M**

**-6%**

**-131M**

**-6%**

(1) The classification method is used by OMB management for analytical purposes and is not found on the official "budget module" produced by OMB. The budget module has classifications that limit analytical utility. For example, PBA debt service for purposes of this comparison is reclassified from rent (operating expense) to debt service.

# Federal Funds Management Office Initiative: Potential Recurring Impact and Progress To Date

## Merril E. Oliver

Deputy Director

Puerto Rico's Federal Funds Management Office



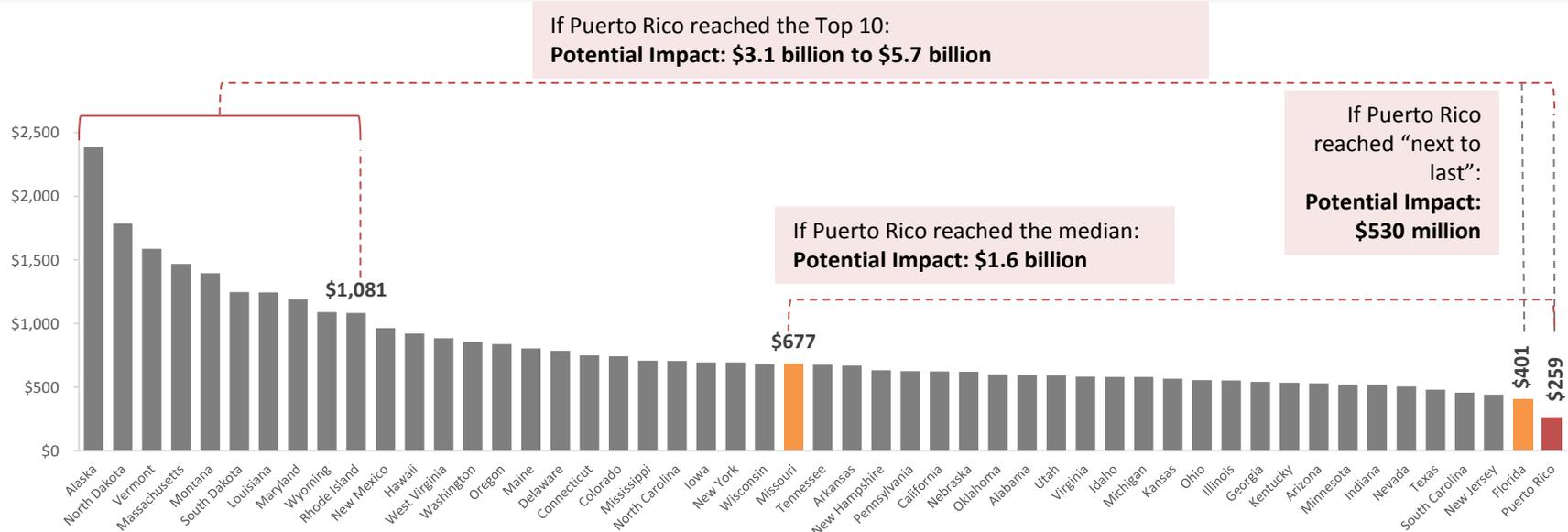
- ❑ Former President of the National Grants Management Association, a position held for 3 consecutive terms
- ❑ Former Acting Director of the Maryland Governor's Grants Office. Founding Deputy Director of the Office, a position held for 10 years.
- ❑ Instrumental in increasing federal funds to Maryland by more than \$3 billion in one year and decreasing audit findings by 43%. Provided technical assistance to multiple states on setting up grants office.
- ❑ Co-chaired President Obama's Executive Order 13572 work group on reducing improper payments; and co-chaired federal OMB committees including grant reform

## Progress to Date

- ✓ Hiring of Federal Funds Office Director
- ✓ Staffing with 6 full time auditors and 6 analysts
- ✓ Website, Points of Contact Network, and training conducted
- ✓ Coordination ongoing with White House Task Force on PR
- ✓ Organization chart defined; 9 distinct scope of works defined
- ✓ Low hanging fruit loss mitigation and grant opportunities identified

see [www.grants.pr.gov](http://www.grants.pr.gov)

## Benchmarking of Potential Federal Recurring Funding Opportunity for Competitive Grants



# Agenda

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1 Executive Summary

2 GDB Liquidity & Other Financial Highlights

3 Actions Towards Balanced Budget

**4 Public Corporations**

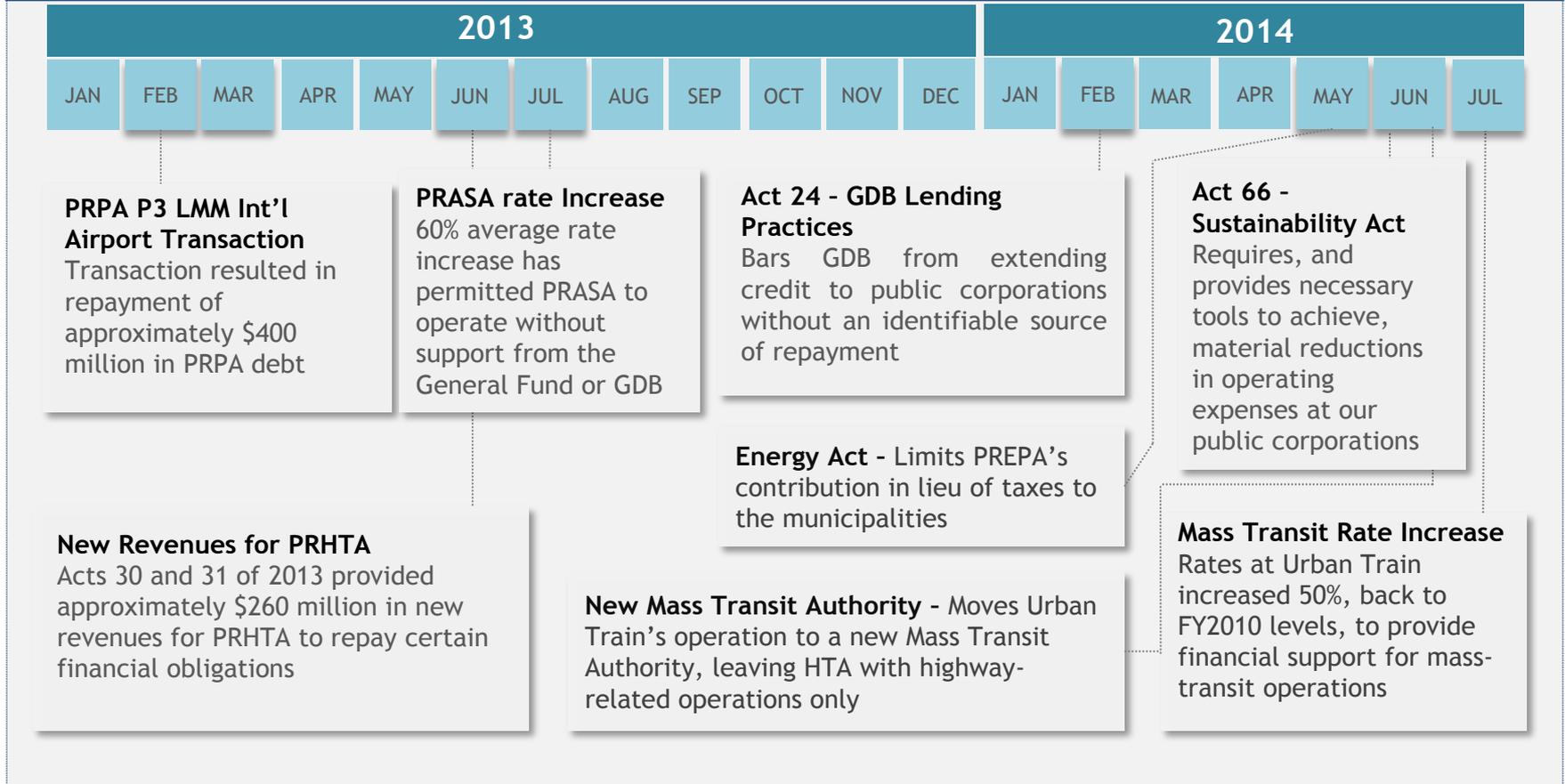
5 Economic Development

6 Next Steps & Guiding Principles

# Public Corporations Update

# During the last 18 months, the Administration has taken swift action to make public corporations self-sufficient

Focus has been on debt repayment, increasing revenue and reducing operating costs



Reform of GDB's lending practices, along with passage of Sustainability Act, provides the tools for public corporations to strengthen their operations.

# Sustainability Act provides public corporations with additional tools to reduce operating expenses<sup>1</sup>

- Imposes hiring freeze
- Freezes incremental economic benefits to public employees
- Mandates reduction in political appointees
- Eliminates extraordinary monetary compensation to public employees
- Requires 10% reduction in contracted services

PRASA		HTA		PREPA <sup>4</sup>	
Savings Opportunity	Estimated Amounts <sup>2</sup> (in millions)	Savings Opportunity	Estimated Amounts <sup>2</sup> (in millions)	Savings Opportunity	Estimated Amount <sup>2</sup> (in millions)
Payroll and related	\$29	Payroll and related	\$3	Payroll and related	\$36
Reduction in employee benefits costs	\$5	Reduction in employee benefits costs	\$7	Reduction in employee benefits costs	\$30
Reduction in professional services and other operating expenses	\$3	Reduction in professional services and other operating expenses	\$9	Reduction in professional services and other operating expenses	\$4
<b>Total Savings: \$37</b>		<b>Total Savings: \$19</b>		<b>Total Savings: \$70</b>	
<b>Others<sup>3</sup></b>		<b>Total</b>		<b>Total Savings: \$143</b>	
<b>Total Savings: \$17</b>					

<sup>1</sup> Amount calculated by Chief Financial Officers of corresponding public corporation. For PREPA, amount was calculated with aid of external consultants.

<sup>2</sup> Estimated savings for FY 2015 are preliminary and subject to change.

<sup>3</sup> "Others" include Metropolitan Bus Authority, Maritime Transportation Authority and Puerto Rico Ports Authority.

<sup>4</sup> PREPA's savings estimate includes impact of 633 employees retiring due to the Sustainability Act.

# PRASA is operating independently without General Fund support

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- July 2013's 60% average rate increase has resulted in approximately \$360 million of additional revenues for FY 2014<sup>a</sup>, an approximate 50% increase compared to FY 2013 revenues (rate increase was only effective during portion of FY 2014), in line with projections.
- The increased revenues are expected to be sufficient to cover PRASA's operating expenses and financial obligations (excluding the \$200 million BAN) during the next 3 years.
- PRASA is complying with all the environmental regulatory requirements and is negotiating a more flexible consent decree with the federal government that will allow PRASA to use a prioritization system for its CIP.
- PRASA projects the Sustainability Act and other expense reductions to provide \$37 million in operational savings for FY 2015.

## PRASA Challenges

- Access markets to refinance \$200 million in BANs due March 2015
- Obtain financing for FY 2015 CIP needs
- Complying with regulatory requirements

PRASA's financial results are in line with projections and expected to be sufficient to cover projected expenses.

<sup>a</sup> As of June 30, 2014, unaudited results; preliminary and subject to change.

Source: Chief Financial Officer of PRASA.

# GDB is working closely with HTA to address its operating and liquidity challenges

- Acts 30 and 31 of 2013 provided HTA with new sources of revenue to repay HTA's obligations with GDB.
- HTA has also identified funds needed to satisfy 20% state matching requirements for federal grants for highway construction projects, reducing liquidity needs.
- HTA expects Sustainability Act to result in approximately \$17 million in operational savings for FY 2015.
- New legislation creating Mass Transit Authority should reduce HTA's operational needs by approximately \$45 million.<sup>1</sup>
- HTA is currently implementing additional cost saving initiatives, including significant cost reductions resulting from the planned procurement of certain of HTA's key operating contracts, which are expected to save between \$15 million and \$30 million per year.
- Challenges remain because cost-saving initiatives are insufficient to address operational shortfall.

## HTA Challenges

- Recurring operational and budgetary shortfall
- Maturing \$350 million BAN, whose set-asides payments increase materially beginning in October

**Governor has directed GDB to develop a plan to address HTA challenges without using Recovery Act.**

<sup>1</sup> Savings estimate assumes adequate funds to support newly created Mass Transit Authority come from other sources.  
Source: Chief Financial Officer of HTA.

# PREPA faces significant fiscal and financial challenges that must be addressed in the near term

- On July 6, 2014, PREPA entered into forbearance agreements with its bank lenders under its revolving credit facilities.
  - Under the terms of the forbearance agreements, lenders have agreed not to pursue potential remedies prior to July 31.
- PREPA is evaluating all available options to improve its financial position and its operations.
  - PREPA is implementing cost savings and operational improvement initiatives, which are expected to generate approximately \$70 million of savings annually.
  - PREPA is in active discussions with several key stakeholders to reach a consensual agreement to fix its budgetary and operational shortfall.
  - Trade creditors are important stakeholders in this process.
- As of July 15, 2014, PREPA has \$398 million of cash in its general fund and its construction fund to support operational and capital needs, and has trust accounts with a market value of approximately \$600 million, excluding escrowed securities for refunded bonds.

## PREPA Challenges

- \$696 million in revolving credit facilities is or will be due during the next 30 days, absent additional forbearances
- Significant recurring operational and budgetary shortfalls
- High rates compared to US mainland
- High leverage
- Limited fuel diversification
- Significant CAPEX needs
- Burdensome environmental regulatory requirements

**Goal: Turn PREPA into an engine of economic growth for the Commonwealth.**

# Recovery Act

# In June 2014, the Administration enacted the Recovery Act to provide an orderly framework for debt enforcement

Lack of framework to address financial challenges at public corporations created unnecessary uncertainty and risked disorderly enforcement of remedies, to the detriment of all stakeholders

The Recovery Act is not available to the GO, COFINA, GDB, ERS, PRIFA, UPR, MFA, the 78 Municipalities, among others.

## Summary of the Recovery Act

### CHAPTER 2

#### Market-based approach with limited court involvement

- Step 1: Public corporation designates financial debts to renegotiate. It cannot unilaterally reduce amounts owed to creditors, employees and suppliers
- Step 2: Financial creditors' remedies will be suspended for up to 9-12 months
- Step 3: Public corporation and creditors seek consensual agreement with minimum business disruption
- Step 4: Public corporation develops a "Recovery Program" to become self-sustaining
- Step 5: Each affected class of creditors must agree (50% of creditors must vote and 75-percent of those must agree)
- Step 6: A special judge approves the consensual debt relief, which becomes binding on all creditors
- Step 7: A 3-person independent oversight committee monitors progress and provides updates

### CHAPTER 3

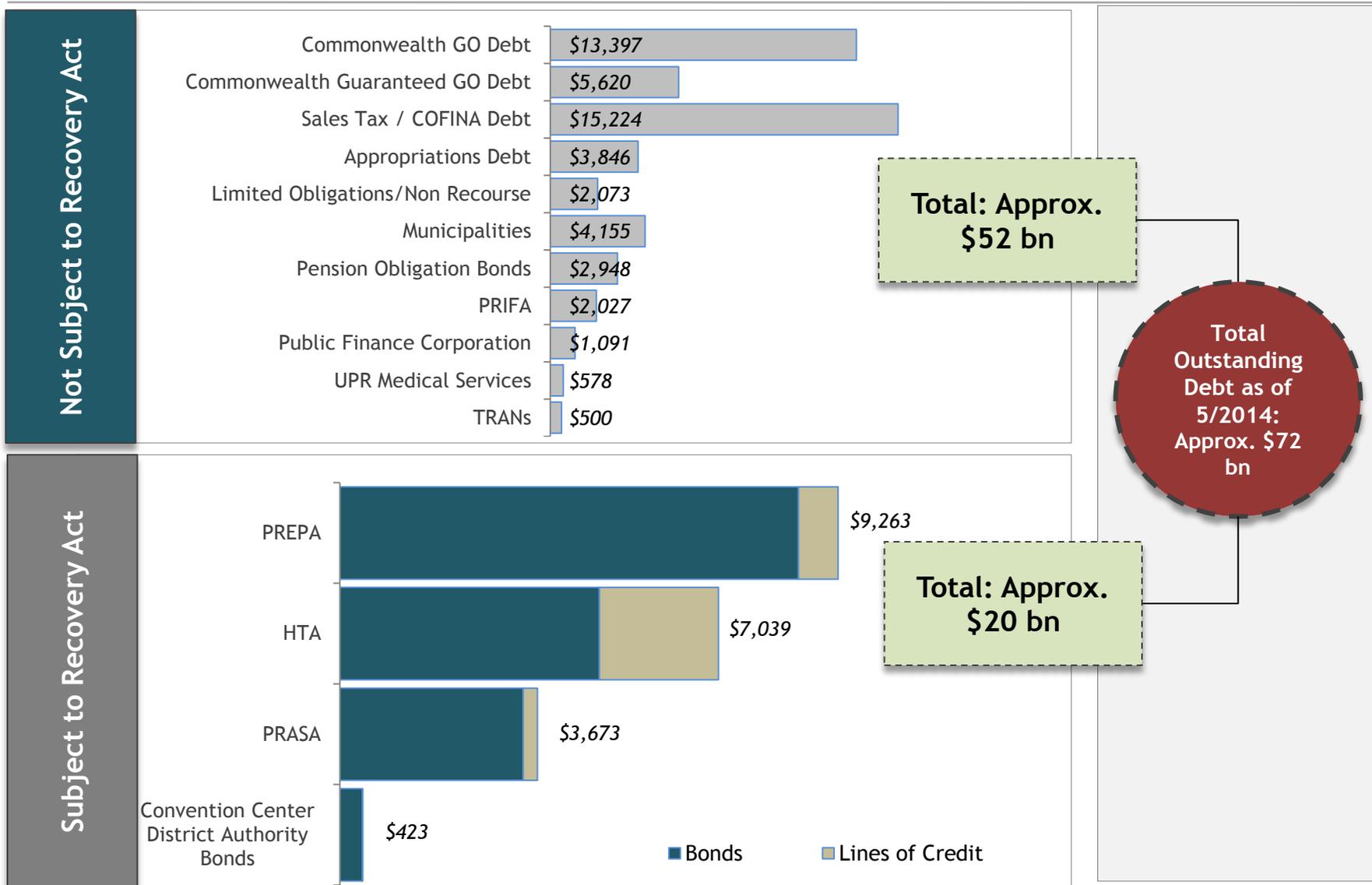
#### Judicially supervised debt enforcement proceeding

- Step 1: Company files a petition to initiate the process
- Step 2: Only debt and other obligations issued by the corporation is affected
- Step 3: Affected creditors will be stayed from exercising remedies for the pendency of proceeding
- Step 4: A committee is appointed to represent creditors
- Step 5: Public corporation proposes plan with recoveries at least equal to what each creditor would have received if all had immediately exercised their remedies, plus a right to a portion of excess cash flow
- Step 6: One class of creditors must approve plan
- Step 7: A special judge oversees the plan and it becomes binding on all creditors

Chapters 2 and 3 may be used individually, simultaneously, or sequentially.

The Recovery Act is a gap-filling measure; strong policy preference for consensual resolution among all stakeholders.

# The Commonwealth, COFINA, GDB and related issuers are not eligible to seek relief under the Recovery Act<sup>1</sup>



Commonwealth and GDB are committed to honoring and protecting the Commonwealth, COFINA, GDB and related credits.

1. Excludes other agencies and public corporations with debt balances that are immaterial in the context of PR total debt amount

# Recovery Act is a reasonable and necessary measure to protect the interests of all stakeholders of our public corporations

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- Recovery Act fills statutory gap by providing public corporations with a framework for achieving debt relief that is not available under Chapter 9 or Chapter 11 of the Bankruptcy Code.
- In contrast to state-side counterparts, absent the Recovery Act, a public corporation in financial distress could end up in a disorganized default with a host of potentially adverse consequences:
  - Individual creditors pursuing disjointed remedies (including acceleration);
  - Damage to operations and critical contracts;
  - Inability to provide essential public functions; and
  - Injury to the collective interests of the creditors.
- Recovery Act provides robust protections for trade creditors to ensure continuation of essential public services.
- Contrary to misconceptions:
  - Recovery Act requires stakeholders to be treated equitably.
    - Debt owed to GDB or other Commonwealth entity does not have special status in Chapter 2 or 3.s
  - Recovery Act does not impair beneficiaries of Commonwealth or GDB guarantees.
  - Treatment of revenue bonds are similar as under Chapter 9 (security interest remains, subject to use to fund ongoing operations).
- Certain bondholders have challenged the constitutionality of the Recovery Act
  - The U.S. Supreme Court has clearly established a sovereign's right to pass debt enforcement laws when such relief is not provided by federal statute.
  - We will vigorously defend the Act's constitutionality.

## Key Principles of Recovery Act

- Strong preference for consensual transactions, but key public corporations are eligible under the recovery act if necessary.
- Based on open dialogue with creditors and other stakeholders.
- Trade creditors are important stakeholders in this process.

# Agenda

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1 Executive Summary

2 GDB Liquidity & Other Financial Highlights

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4 Public Corporations Update

**5 Economic Development**

6 Next Steps & Guiding Principles

# Robust Roadmap guiding successful execution

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## Vision

Build upon Puerto Rico's historic strengths to achieve a *more diversified, knowledge-driven economy* that addresses the challenges of globalization and seizes upon emerging opportunities

## Goals

### Near-term goal

Shore up and diversify the economy by leveraging Puerto Rico's competitive advantages and consolidating its productive base

### Long-term goal

Build sustainable competitive advantage with a diversified, adaptive economy and workforce driven by technology and innovation

## Policy Priorities

- 1 *Defend anchor industries* while diversifying job sources on the Island
- 2 *Stimulate local entrepreneurship* - drive growth of small and medium enterprises (SMEs)
- 3 Restore Puerto Rico's credibility as a *stable, business-friendly jurisdiction*
- 4 Take full advantage of opportunities tied to *Puerto Rico's relative fiscal autonomy*

## Impact

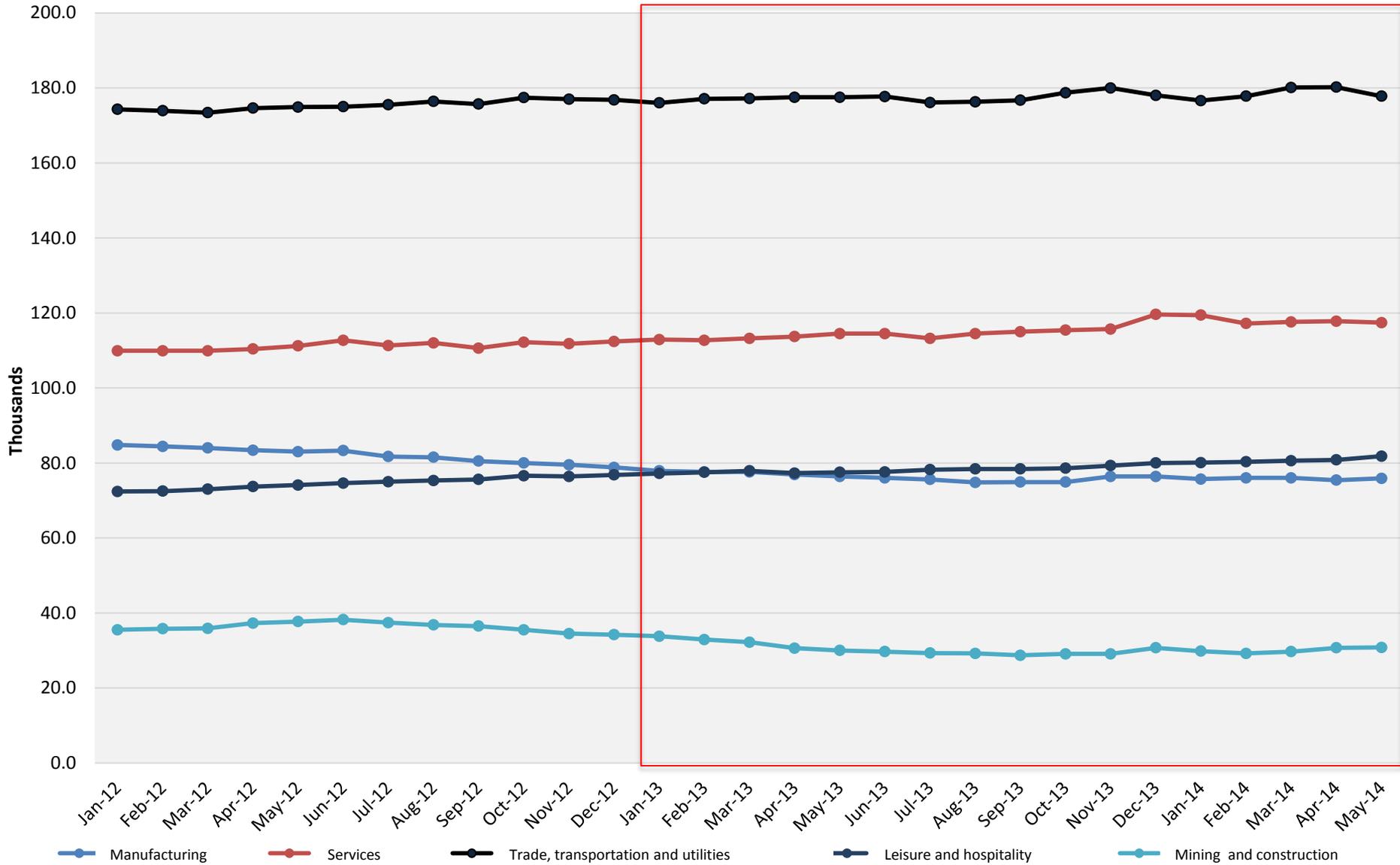
### By beginning of 2016

Over 90,000 jobs created  
\$6 to \$7 billion in incremental GDP

### By beginning of 2018

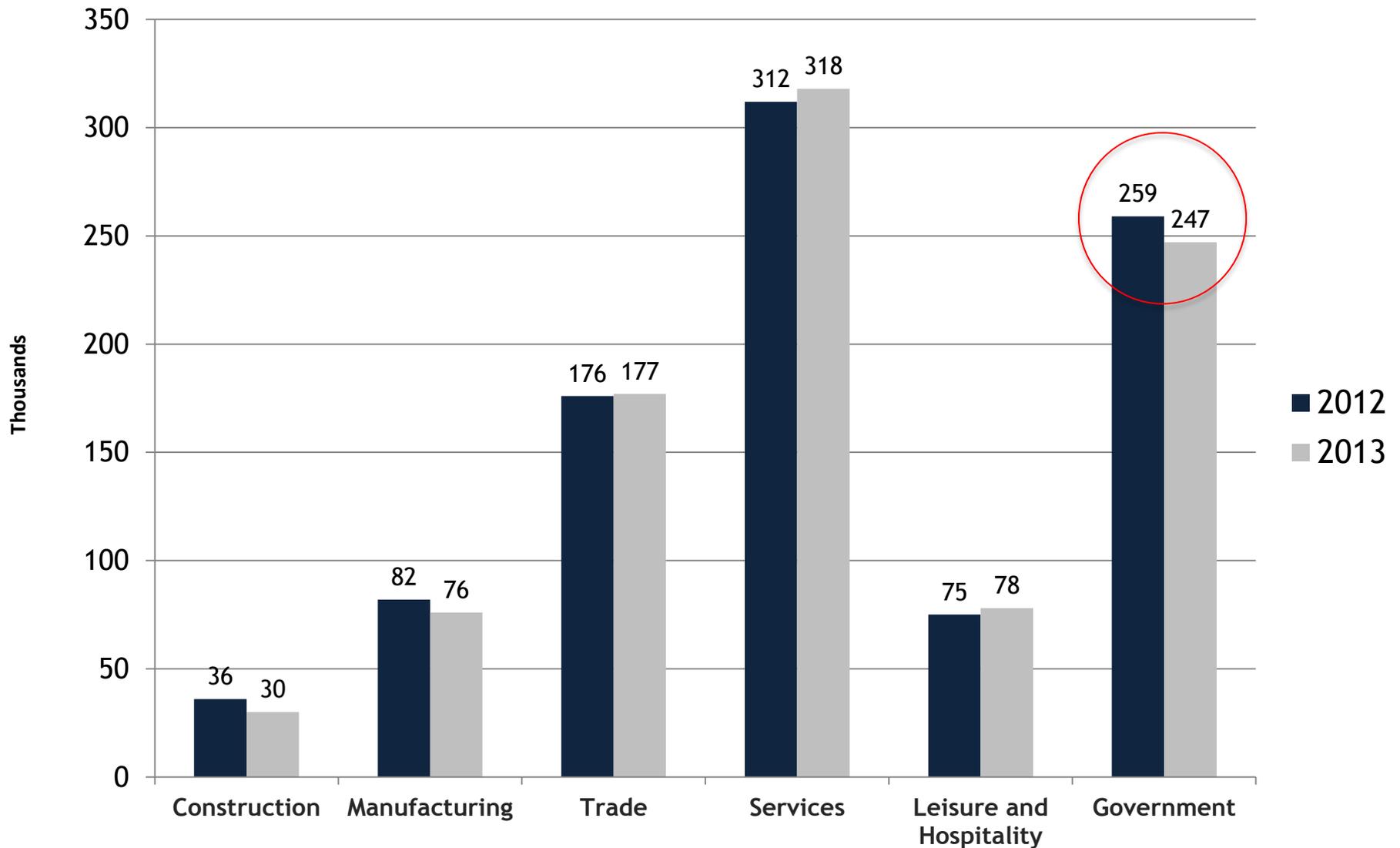
Over 130,000 jobs created  
\$10 to \$12 billion in incremental GDP

# Private Sector Employment Trends - Growth in the Service Industry



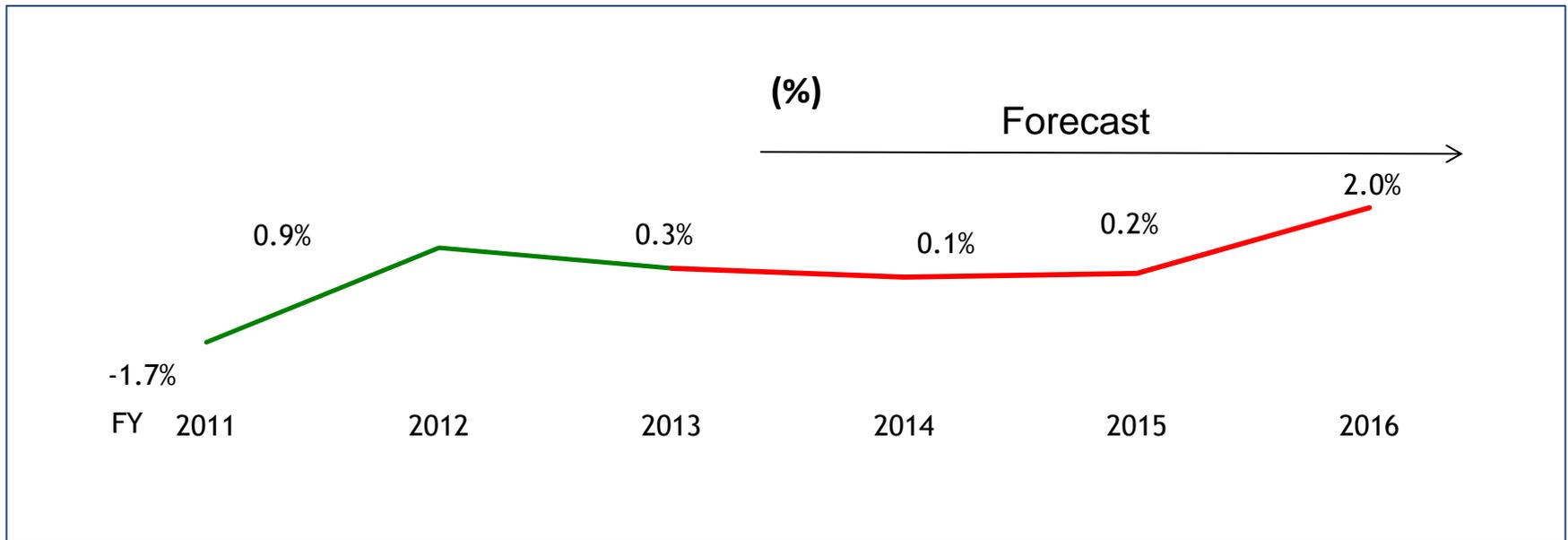
Source: Department of Labor and Human Resources. Bureau of Labor Statistics. Nonfarm payroll employment survey YTD May 2014.

# All Sectors Employment Trends - Government decreased by 12.4K



Source: U.S. Bureau of Labor Statistics

## Signs of Improvement - GDP forecasted growth of 2% by FY16



*Source: Puerto Rico Planning Board*

“ We are finally beginning to see some signs of improvement in economic activity on the Island...” - William Dudley  
President of the New York Federal Reserve

# Clear progress towards a more diversified, knowledge-driven economy that addresses the challenges of globalization

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## DRIVERS

- Fiscal Incentives
- Global Experience
- Strategic Geographic Position and World-class Infrastructure
- Bilingual and Bicultural Human Capital
- U.S. Legal Framework

## RESULTS

- ✓ ACT 20 for Exportation of Services
  - 249 new grants\*
- ✓ ACT 22 for Individual Investors
  - 288 new grants\*
- ✓ ACT 273 for International Financial Center
  - 12 licenses granted\*
- ✓ ACT 399 for International Insurance Center
  - More than 100 segregated assets plans\*
  - \$149MM in premium income in 2013

*\*As of June 2014*

# Puerto Rico: More Competitive Than Miami, Closer Than Singapore

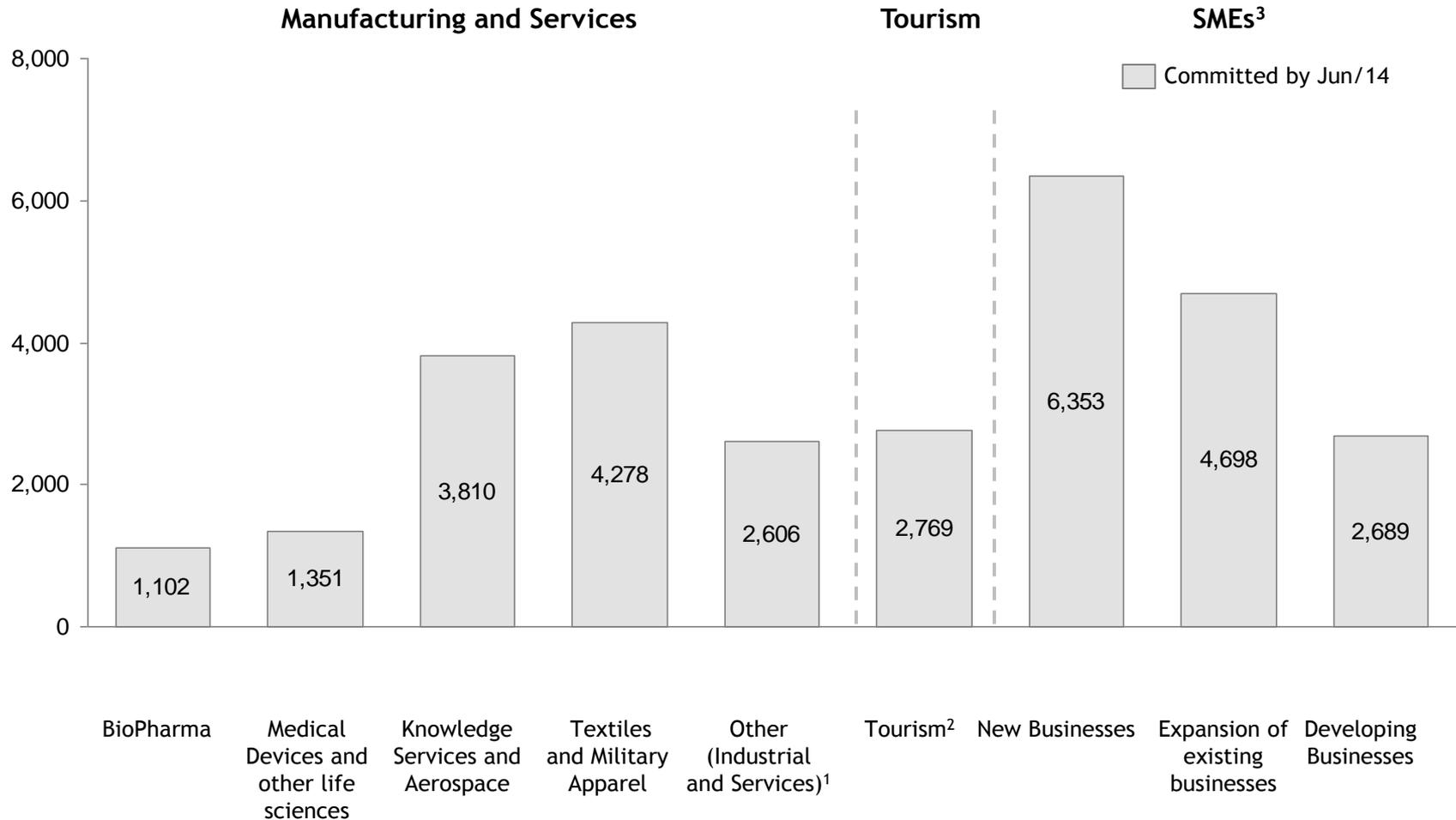
- First Puerto Rico Investment Summit with over 200 new potential investor and business leaders.
- New commercial offices of the Commonwealth of Puerto Rico in Colombia and Peru.



# More than 29.5K jobs committed by June 2014

## Sample of jobs committed by sector

# of Jobs

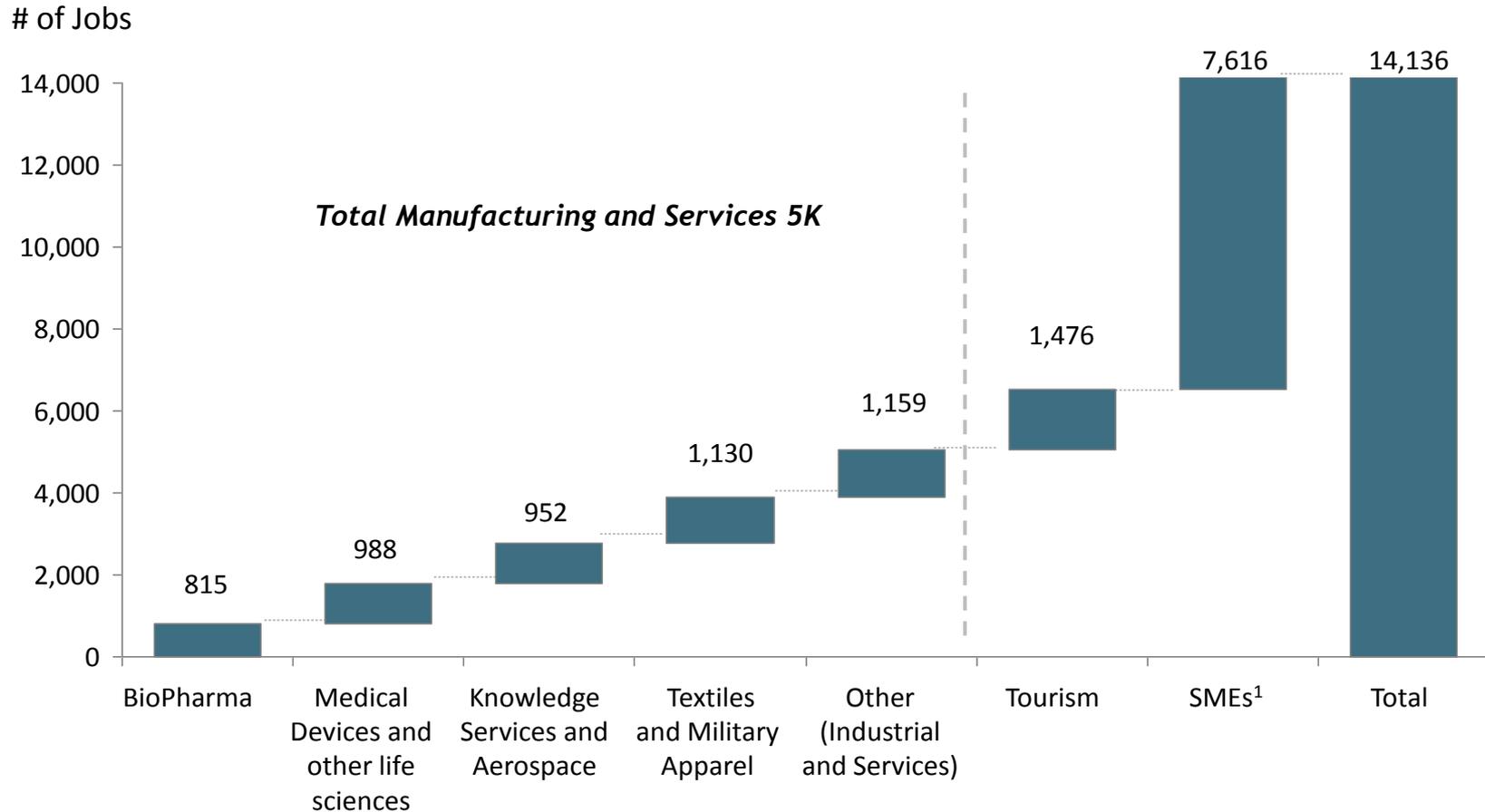


1. Includes electronics, IT, Construction & Engineering and Other 2. Includes Casino & gaming, airlines and cruises, tourism products, hotels under construction and hotels opened 3. Data as of June 30, 2014.

Source: Puerto Rico Industrial Development Corporation, Puerto Rico Trade Company, Puerto Rico Tourism Company and Fortaleza

# 14K of the 29.5K job commitments in Manufacturing and Services, Tourism and SMEs have already turned into created jobs

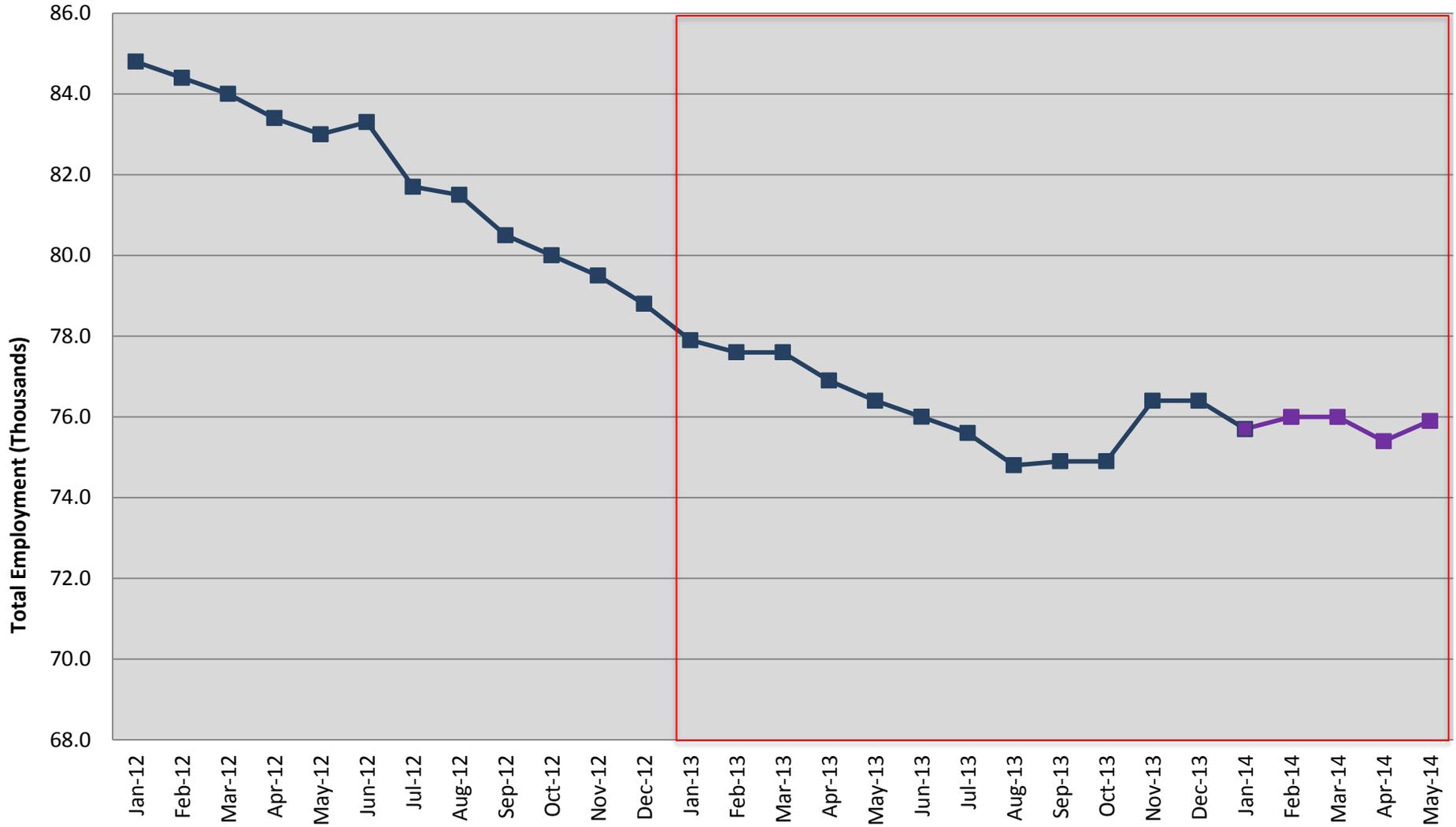
## Jobs created: Manufacturing and Services, Tourism and SMEs (FY 2013-14)



1. Data as of June 30, 2014

Source: Puerto Rico Industrial Development Corporation, Puerto Rico Trade Company, Puerto Rico Tourism Company

# Employment Distribution Trends - Manufacturing



*Source: Department of Labor and Human Resources. Bureau of Labor Statistics. Nonfarm payroll employment survey YTD May 2014.*

# Meaningful progress in key economic sectors

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## Sector

## Sample Recent wins & progress

### Pharma

- **Actavis:** Expansion of manufacturing operations in two municipalities with \$48M investment and 300 jobs committed

### Rum

- **Destilería Serrallés, Inc.** increasing its rum production on contract manufacturing, adding up to 8 million proof-gallons in a 3-year period. Estimated increase of \$80M in cover-over revenues
- RFP for **sugarcane operation** published. Expected selection by end of August 2014

### Aerospace

- **Lufthansa Technik:** MRO construction underway with \$56M investment and 400 jobs committed
- **Honeywell Aerospace:** New high-tech laboratory construction underway with \$35M investment and 300 jobs committed

# Lufthansa Technik MRO Economic Impact

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**\$2,200 Million**  
Cumulative in 30 years  
Direct + Indirect + Induced Benefits

**Impact on GDP:**  
**\$104 Million**  
(Estimated cumulative  
first 2 years - Construction)

**Impact of Salaries**  
**\$62 Million**  
(Estimated cumulative  
first 2 years - Construction)

# Sample relevant deals negotiated and executed during 2013 and early 2014

Company	Job Commitment / Date	Segment
Actavis	300 / May 2014	Pharmaceutical
Honeywell	300 / April 2014	Aerospace
Lufthansa Technik	400 / April 2014	Aerospace
Lifestyle Footwear	180 / January 2014	Military Apparel
Infosys	300 / January 2014	Aerospace & Knowledge Services
Sugarcane	150 / January 2014	Rums & Agriculture
Seaborne	400 / December 2013	Tourism & Aerospace
Medtronic	150 / December 2013	Medical Devices
Lilly	400 / November 2013	Pharmaceutical
Rock Solid	100 / November 2013	Knowledge Services & IT
Vention	100 / October 2013	Medical Devices
Proper International	2,200 / September 2013	Military Apparel
SNC Technical Services	200 / July 2013	Military Apparel
Johnson Control	214 / June 2013	Industrial Services
IBM / True North	400 / May 2013	Knowledge Services
CooperVision	350 / April 2013	Medical Devices
Covidien	200 / April 2013	Medical Devices
AON Hewitt	200 / February 2013	Knowledge Services

# Agenda

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**6 Next Steps & Guiding Principles**

# Ambitious FY 2015 agenda to tackle remaining challenges. In the upcoming fiscal year, we intend to:

## Execute on Watershed FY 2015 Budget

- Closely monitor monthly revenue results to ensure achievement of budgetary projections.
- Execute on ambitious expense reduction agenda.
- Act decisively to address any projected revenue shortfall or overspending for FY2015.

## Achieve Self-Sufficiency at PREPA and HTA

- PREPA and HTA's near-term self-sufficiency of is a critical challenge to the long-term economic health of the Commonwealth.
- Sustainability Act provides useful tool to reduce operating expenses and reform operations.
- Recovery Act will only be used as designed: as a last-resort, emergency measure.

## Continue Executing on Comprehensive Economic Plan

- The Commonwealth will build on recent wins and continue implementing its job creation and investment agenda in order to expand a diversified economy.

## Enact Comprehensive Tax Reform

- To buttress fiscal and economic development efforts, we will reform our tax code to provide certainty, incentivize strategic sectors, simplify oversight and provide revenue consistency.
- Any tax reform will protect COFINA revenue and pledge.

## Access the Market as Necessary to Further Strengthen Liquidity

- Expect to complete Commonwealth's TRANs financing during Q1 FY 2015.
- Access market, as market conditions allow, to refinance short-term maturities and extend liquidity runway.

The Commonwealth shall continue demonstrating its willingness and determination to further strengthen its fiscal and economic health.

## Guiding Principles Going Forward

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- 1 Strengthen and protect GO and related credits, including COFINA.
- 2 Ensure Commonwealth meets budgetary benchmarks.
- 3 Continue plan to make our public corporations self-sufficient.
- 4 Use Recovery Act only as last resort emergency measure.
- 5 Strong preference for consensual, negotiated solutions.
- 6 Importance of all stakeholders (financial creditors, trade creditors, insurance companies, employees, etc.) to successful execution of fiscal and economic plan.
- 7 Continue constructive dialogue with rating agencies notwithstanding strong disagreement with recent rating actions.

**We are confident investors will recognize what we have accomplished through hard work and shared sacrifice.**



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# The Commonwealth of Puerto Rico

## Update on Fiscal and Economic Progress

*Q & A Session*

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# Appendix A - Corrective Measures

# Corrective Measures for FY 2015 Approved Budget



<p><b>A: \$288M</b></p> <p>NEUTRALIZE INCREASES IN APPROPRIATIONS</p>	<p><b>Freeze increases in revenue-based formula appropriations</b></p> <ul style="list-style-type: none"> <li>Freeze budget of the UPR, Judicial Branch and subsidies to Municipalities</li> </ul>	<b>132M</b>
	<p><b>Freeze benefit increases from labor contracts and existing legislation</b></p> <ul style="list-style-type: none"> <li>Freeze benefit increases from labor contracts entering into effect July 2014</li> <li>Freeze pre-legislated pay raise for teachers</li> </ul>	<b>120M</b>
	<p><b>Net decrease in utility payments</b></p> <ul style="list-style-type: none"> <li>Freeze water rate increase coming into effect and take existing credits on PBA rent</li> </ul>	<b>37M</b>

<p><b>B: \$260M</b></p> <p>SHIFT EXPENSES TO NON GENERAL FUND ORIGINS</p>	<p><b>Charge expenses against non General Fund origins</b></p> <ul style="list-style-type: none"> <li>Change the use of Special State Funds to cover payment of lawsuits</li> <li>Redirect use of non-recurring funds to cover legislative appropriations</li> </ul>	<b>147M</b>
	<p><b>Contributions from public corporations with financial capacity</b></p> <ul style="list-style-type: none"> <li>Redirect revenue from corporations with positive operating income</li> <li>Reduce labor benefits through and transfer savings to General Fund</li> <li>Transfer surplus liquidity from solvent public corporations</li> </ul>	<b>90M</b>
	<p><b>Eliminate operating or program subsidies to public corporations</b></p> <ul style="list-style-type: none"> <li>Cancel appropriations for corporations that can cover program with own income</li> </ul>	<b>24M</b>

# Corrective Measures for FY 2015 Approved Budget



<p><b>C: \$250M</b></p> <p>CARRYFORWARD EFFECT OF LOWER EXPENSE BASIS FROM FY14</p>	<p><b>Eliminate special appropriations for unneeded contingencies</b></p> <ul style="list-style-type: none"> <li>Cancel appropriations from contingencies (such as liquidation of certain leaves)</li> <li>Eliminate appropriation for Municipal debt assumption since SUT was not lowered</li> </ul>	<b>133M</b>
	<p><b>Maintain hiring freeze in place for FY15</b></p> <ul style="list-style-type: none"> <li>Leverage full year effect of lower starting headcount for FY15 compared with FY14</li> </ul>	<b>117M</b>

<p><b>D: \$732M</b></p> <p>ACTUAL CUTS AND REDUCTIONS ON EXISTING FY15 APPROPRIATIONS</p>	<p><b>Reduce intergovernmental appropriations to public entities</b></p> <ul style="list-style-type: none"> <li>Reduce appropriation for payment of GDB lines of credit (2)</li> <li>Cut Additional Uniform Contribution to GERS per Act 3-2013 (to \$35M)</li> </ul>	<b>165M</b>
	<p><b>Further attrition from reduction of net headcount during FY15</b></p> <ul style="list-style-type: none"> <li>Reduce teacher headcount, without layoffs, from changes in staffing policies</li> <li>Further attrition and headcount reduction in agencies outside Dep. Education (1)</li> <li>Lower the political appointee payroll to 20% in comparison with June 2012</li> </ul>	<b>142M</b>
	<p><b>Reduce program and operating special appropriations</b></p> <ul style="list-style-type: none"> <li>Deeply discount special appropriations for operating expenses and programs</li> <li>Broader-based slight 10-20% discount on other appropriations</li> </ul>	<b>133M</b>

(1) The budget included an increase in the maximum amount for an existing GDB line of credit to pay for liquidations under Act 70-2013 (Early Retirement) & extraordinary attrition due to Act 3-2013 (Retirement Reform). Use expanded to cover DoE due to headcount reduction and teacher attrition. The purpose is to match long term net recurring payroll savings with liquidation expense. Increase legislatively approved for \$108 million but OMB estimates a lower amount (~\$60 million) will be requested.

(2) Legislative change, measure not included in recommended budget. Options to be discussed between OMB and GDB including restructuring or others.

# Corrective Measures for FY 2015 Approved Budget



**D: \$732M**

**ACTUAL CUTS AND  
REDUCTIONS ON EXISTING  
FY15 APPROPRIATIONS**

(CONTINUED...)

## Reduce expenses for payment to service providers

- Reduce school transportation expense through regionalization and rate reductions
- Cut professional and purchase services by 10% primarily through rate cuts
- Consolidate schools at the Dep. Education to save on facilities while improving service

**110M**

## Measures to be identified and executed by management of subsidized public corporations

- Lower costs and increase fee income for the Public Health Insurance Administration
- Improve invoicing and collections at the Medical Services Administration
- Merge operations of certain facilities at Medical Services Administration with Dep. Health
- Execute on Integrated Transit Authority merger and restructure bus service

**86M**

## Reduce non-salary benefits of central government employees

- Set a uniform amount of Christmas Bonus at private employee level
- Eliminate intra-year liquidation of excess sick leave

**51M**

## Decrease the budget of other Branches of Government and autonomous entities

- Reduce the budget of the Legislative Assembly and reporting entities
- Reduce the budget of the Judicial Branch and autonomous entities

**45M**

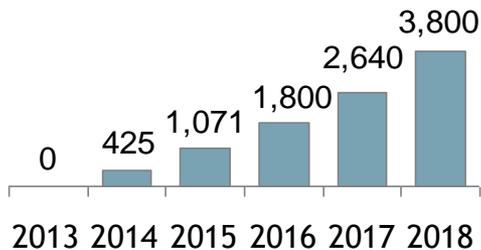
**Savings measures have estimation, implementation and legal risk and may not yield the projected savings within the required time period.**

*(1) The budget included an increase in the maximum amount for an existing GDB line of credit to pay for liquidations under Act 70-2013 (Early Retirement) & extraordinary attrition due to Act 3-2013 (Retirement Reform). Use expanded to cover DoE due to headcount reduction and teacher attrition. The purpose is to match long term net recurring payroll savings with liquidation expense. Increase legislatively approved for \$108 million but OMB estimates a lower amount (~\$60 million) will be requested.*

## Appendix B - Economic Roadmap

# Life Sciences - BioPharma focused on shoring up industry while increasing generics & advanced technologies (biologics)

## Goals: Cumulative direct jobs created<sup>1</sup>



## Milestones and targets

2014	Establish relations with all global HQs of Big Pharma
2015	"Go" or "no go" decision for contract manufacturing
2017	Spin off contract mfg of orphans to self-manufacturing
2018	Solidify biotech cluster

## Status and accomplishments

**Jobs activity - 1,102 jobs committed out of which 815 have been created**

### Recent wins

- Expansion of **Actavis** with the creation of 300 new jobs and an investment of \$48 million in expansion and renovation of tow sites (Manatí & Fajardo)
- Investment of **Eli Lilly** of \$200 million to strengthen its competitiveness and manufacturing capacity resulting in the creation of up to 400 construction jobs and 100 indirect jobs

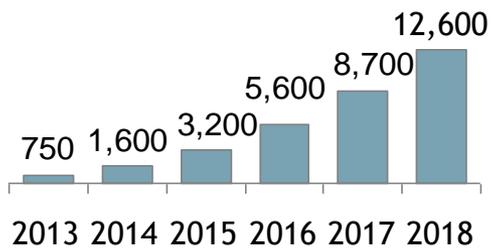
### Strategy and outreach

- Target new companies (e.g., LatAm generics producers) to replace outgoing manufacturing operations
- Continuous outreach to companies, various firms actively engaging with government (PRIDCO) to discuss options in Puerto Rico
  - e.g. contract manufacturing, plant purchases

1. Represents end-of-year cumulative numbers (e.g., 3,800 jobs created by the end of 2018).

# Knowledge Services & Aerospace - Over 3.8k committed jobs cover goals through 2015

## Goals: Cumulative direct jobs created Knowledge Services<sup>1</sup>



## Milestones and targets

2014	Infrastructure "Plug & play" experimental initiative launched
2014	Host industry reps in PR
2014	Sign internship agreements with universities
2015	Launch PR's outsourcing white paper
2015	Implement KS cluster
2016	Host outsourcing trade show in San Juan

## Status and accomplishments

**Jobs activity - 3,810 jobs committed out of which 952 have been created**

### Recent wins

- Lufthansa Technik: MRO construction underway with \$56M investment and 400 jobs committed
- Honeywell Aerospace: New high-tech laboratory construction underway with \$35M investment and 300 jobs committed

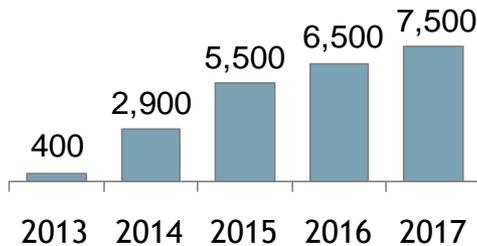
### Strategy and outreach

- Enable SME's growth through cluster strategy, using local industries as key suppliers
- Increase awareness and promote Puerto Rico's value proposition, particularly in most sophisticated sub-sectors (e.g., R&D / engineering)
- Tied to broader strategy targeting "under the flag" industries
- Confidential negotiations with several multinational companies

1. Represents end-of-year cumulative numbers (e.g., 12,600 jobs created by the end of 2018).

# Travel and Tourism - more than 1,400 created jobs and several milestones accomplished (e.g. new JetBlue route to CHI)

## Goals: Cumulative direct jobs created<sup>1</sup>



## Milestones and targets

2013	JetBlue and United open route to CHI
2013	"Posadas" project launch
2013	LMM International airport and Aguadilla airport remodeling
2014	Reinitiated direct flight to Madrid, commercial relation with Avianca and Seaborne hub consolidation in PR
2016	Increase hotel rooms from 15k to 20k
2016	Tourism accounts for 8% GDP
2016	10m annual flight passengers

1. Represents end-of-year cumulative numbers

## Status and accomplishments

**Jobs - 3,117 new jobs committed (up from 1,322 committed in June 2014), includes 1,476 created jobs**

### Recent wins

- **Increased air access, with potential to scale via code-sharing**
  - (Southwest to Orlando, Avianca to Bogota, expanded Caribbean services via Seaborne); with focus on LatAm.
  - Negotiated direct air access to Madrid with Air Europa starting May 2014. Expansion ongoing (e.g. Brazil)
- **Cruise ships visits increased 84%** in August 2013 vs. year before and targeted incentives in place to drive traffic in years to come, supported by Pier 3 infrastructure improvement
- **Over 900 hotel rooms under construction** and hundreds more in the pipeline
- **Successful marketing campaigns** - "Summer is easy" and "Five-Star Reviews" through alliance with TripAdvisor

### Strategy and outreach

- Increasing air/sea routes, building new hotel capacity
- Spain and Bogota tourists can bring up to \$200M in GDP impact
- Exploring new activity in specific geographies (e.g., Brazil, Russia, Germany, UK, Chile) - potential to add over \$800M to GDP impact

# Roadmap has clear cumulative direct jobs targets (I/II)

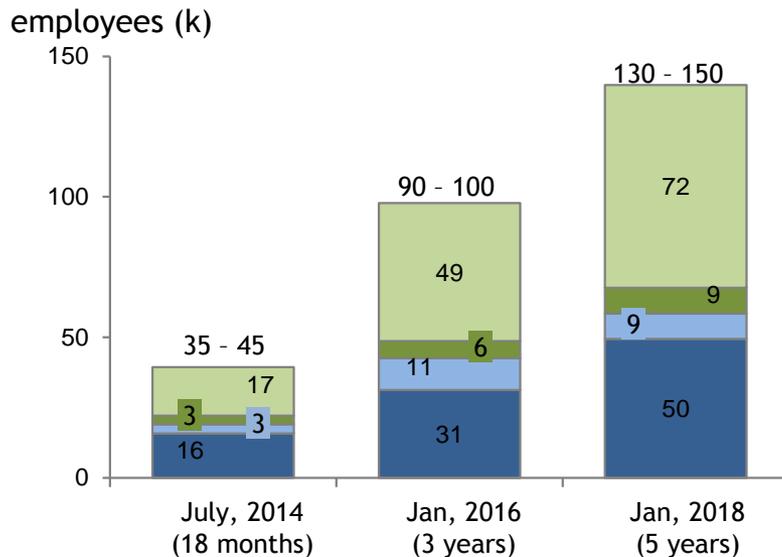
Group	Initiative	2013	2014	2015	2016	2017	Description
Life sciences	Biopharma. mfg.	0	400	1,100	1,800	2,600	1. Defend pharma: Goal to defend projected jobs loss. 2. Generics, co-mfg, supply chain: Goal of 5 plants / packing operations each
	Medical devices mfg	400	800	2,700	4,500	5,800	Target of 40 new projects in 5 yrs. Attract global giants, cardiac, high growth segments.
	Ag-bio (scientists)	100	200	300	400	500	Jobs growth driven by creation and expansion of seed research laboratories.
	Ag-bio (contract farmers)	400	800	1,300	1,900	2,600	Assumes 5x contract farmer jobs created per scientist job created. Contract farmer works 8-12 months/yr
Services	Knowledge services	800	1,600	3,200	5,600	8,700	Target of 28 new co's in 5 yrs. Attract ITO, BPO, KPO, Integrated outsourcers, Aerospace & defense.
	Insurance & financial services	0	100	100	200	300	Target attract 90 insurers incl. 15 class 4 co's in 5 yrs.
Tourism	Traditional tourism	400	2,900	5,500	6,500	7,500	90% jobs growth is in new hotel, diversifying offerings
	Medical tourism & related health services	0	300	500	900	2,700	Based on PRHA projections for US and LatAm market penetration
SMEs	SMEs	4,600	7,400	7,800	8,100	8,400	Jobs mostly driven by Jobs Now. Others include incubator, Urban Center programs.
Agriculture	Traditional agriculture	2,500	5,000	7,500	10,000	10,000	Jobs driven by 5.5k jobs in coffee, 4k in sugarcane and 500 jobs in greenhouses
	Agriculture - seasonal workers	1,600	3,300	4,900	6,500	6,500	Seasonal workers for coffee picking
Other	Film & media production	0	100	100	200	200	Jobs driven by Film Co's incentive promotions
	MRO	0	0	400	400	400	Potential MRO facility - currently in discussion w/ co's
	Military apparel mfg	0	2,200	2,200	2,200	2,200	Jobs growth from one large Federal contract.
INITIATIVES TOTAL		10,800	24,900	37,400	49,300	58,600	

# Roadmap has clear cumulative direct jobs targets (II/II)

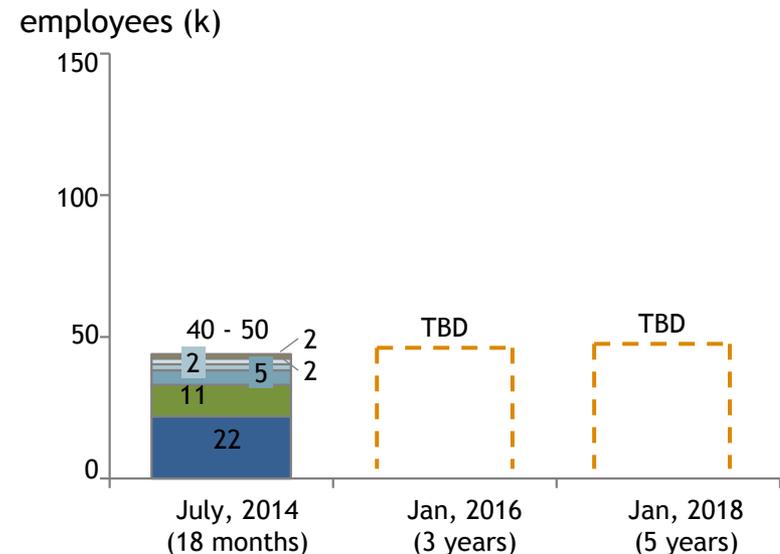
Group	Initiative	2013	2014	2015	2016	2017	Description
Strategic bets	Roosevelt Roads	-	100	1,600	1,700	1,700	Construction of Industrial Zone, Academic project, Eco-tourism, Marina
	Science Trust	-	-	100	200	300	Estimates for Oso Blanco, Cancer Center, Biomolecular bldg, & Bioprocess Dev't Complex - to be refined
	Port of the Americas	-	-	400	400	400	350 operating jobs once begins operations.
Strategic bets total		-	100	2,000	2,200	2,300	
Infra-structure	Airport P3	-	600	600	600	600	PPP w/ \$195M investment in 3yrs, \$1,400M in 40 yrs
	Highways (PR-22)	-	-	4,000	4,000	4,000	\$1B investment across 2015-2017.
	Caguas Commuter Rail	-	-	1,200	1,200	1,200	\$400M investment. Currently in feasibility / desirability phase.
	PRASA (water)	-	1,300	1,300	1,300	-	\$354M construction for Valencia water treatment plant and reservoir
	Correctional facilities	-	-	900	900	900	\$220M investment. Feasibility / desirability phase set to finish Oct. 2013
	Natural Gas Infrastructure	-	1,300	1,300	-	-	\$180M-\$300M investment . Feasibility / desirability phase set to finish Dec. 2013
Infrastructure total		-	3,200	9,300	8,000	6,700	
TOTAL DIRECT JOBS		10,900	28,200	48,700	59,500	67,600	

# Estimated potential jobs creation

## Jobs created by strategic initiatives in Economic Roadmap



## Jobs added by broader economic growth in non-focus sectors<sup>1</sup>

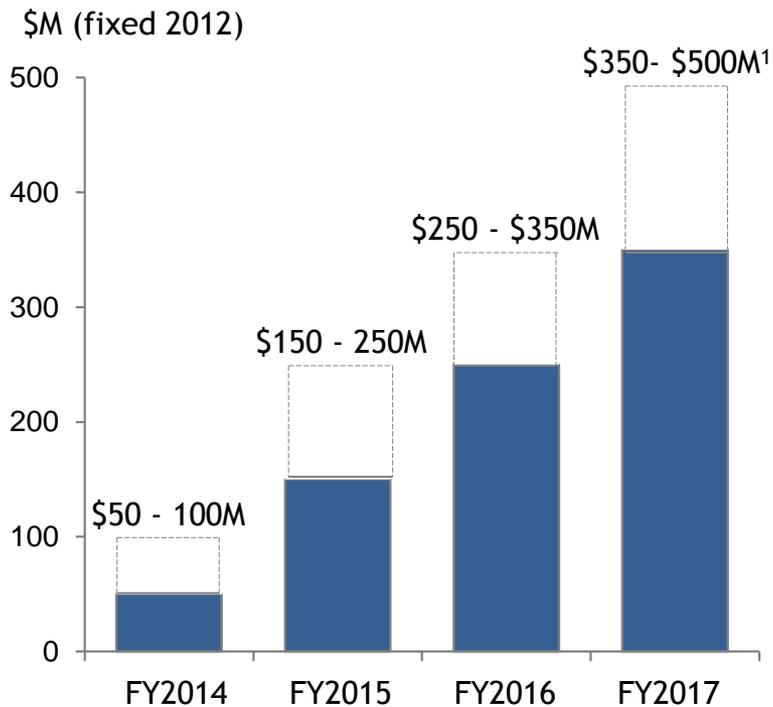


**After accounting for overlap, Puerto Rico's economy expected to create +/- 55k jobs by July 2014<sup>3</sup>**

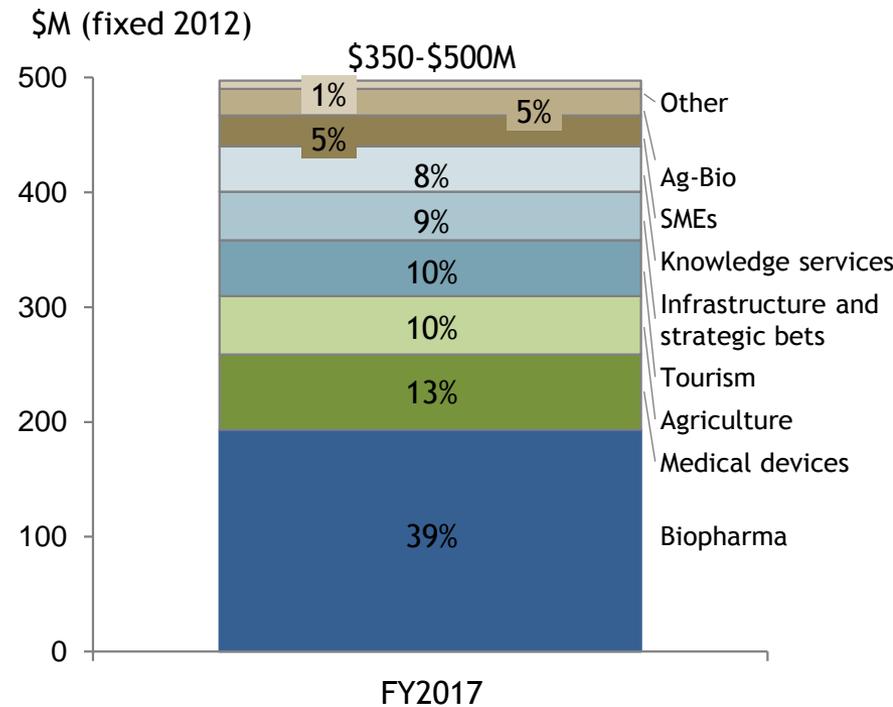
1. Jobs added in non-focus sectors based on La Fortaleza's job tracker, but excludes jobs which overlap w/ strategic initiatives in Economic Roadmap (eg. Jobs Now). Assumes all committed jobs will be created within 18 months, given current run-rate of 22k jobs created in 7 months. 2. Includes strategic bets (RR, Port of the Americas); 3. Total number of jobs will depend on degree of overlap between indirect jobs created from strategic initiatives and jobs projected outside of strategic initiatives; Note: Initiative job impacts estimated by PR initiative leads w/ BCG validation; Sources: BCG economic model, PR Economic Planning Board, Bureau of Labor Statistics, Bureau of Economic analysis, Initiative leads, La Fortaleza jobs tracker

# Estimated potential impact on go-forward tax revenues

## Potential gross tax revenue from Roadmap's strategic initiatives



## Example: Potential gross tax revenue by sector<sup>2</sup>



**Initial investments to support growth will see fiscal returns as economy returns to growth trajectory**

1. Upper range assumes historical average effective tax rates from 2008 to 2012 multiplied by incremental GDP over baseline. Note that recent tax changes and revenue collection efforts may push average effective tax rates upwards in the future. 2. Includes impact from both direct and indirect jobs created. Source: Puerto Rico Planning Board, Puerto Rico Treasury Department, BCG analysis