



Puerto Rico:
Fiscal Year 2011 Proposed Budget &
Fiscal Update

Investor Webcast Presentation

May 11, 2010



Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government Development Bank's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government Development Bank for Puerto Rico, the Government of Puerto Rico and its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



Participants

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Secretary of the Treasury

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Executive Vice-President Financing & Treasury GDB



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Fiscal and Economic Background

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Proposed Budget FY 2011

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Health Reform

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Banking Industry Developments

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Concluding Remarks



Sixteen months ago...

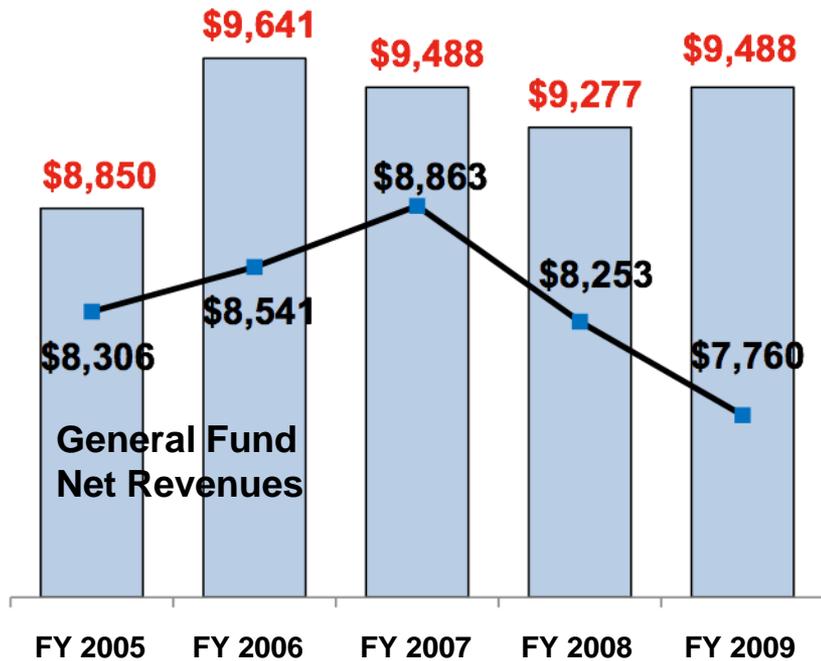


We faced a Government without expense controls, with a \$3.5 billion deficit...

1

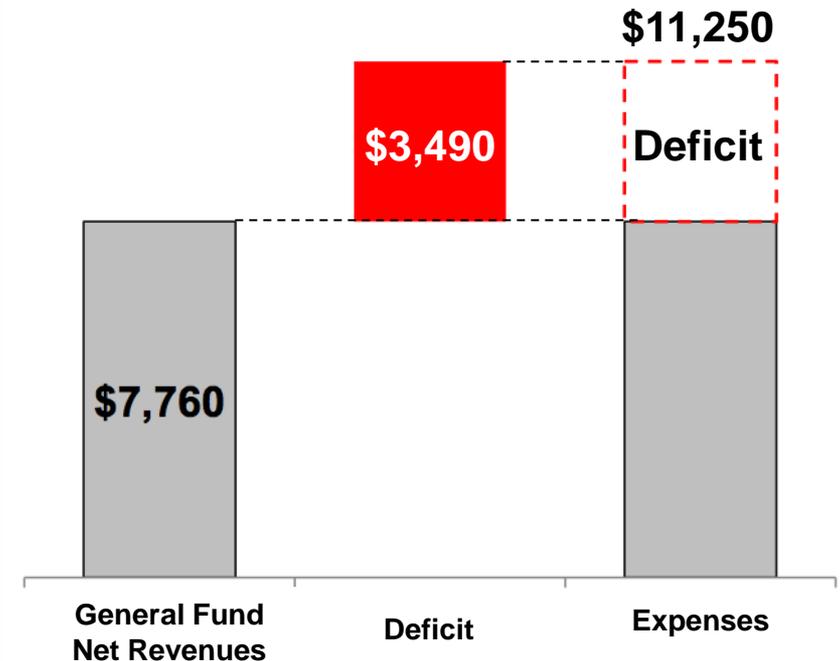
Pattern of revenue overestimation

Budgeted Expenses



2

Inherited Deficit FY 2009

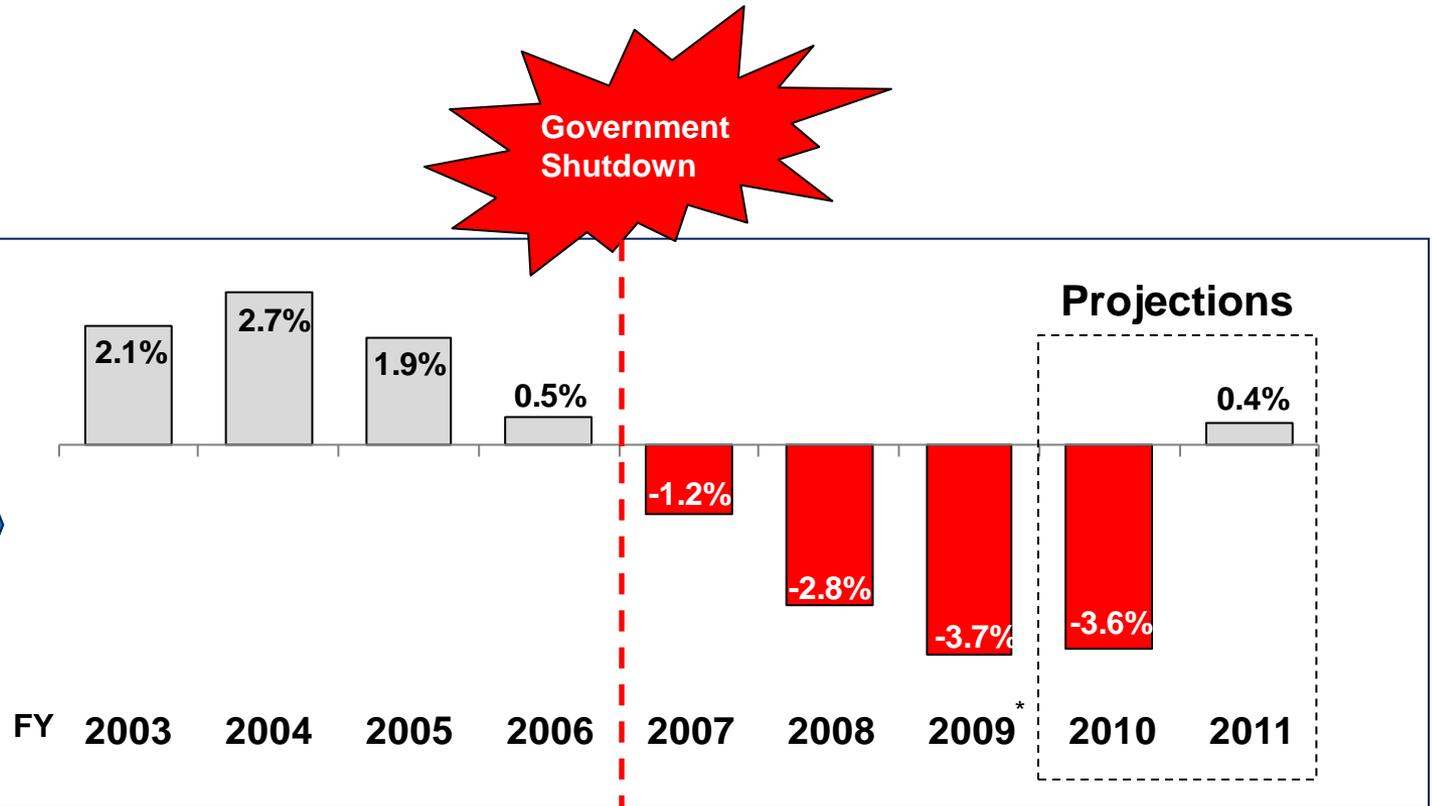




... immersed in an unattended and self-inflicted recession ...

3

Unattended
Recession



* Preliminary

Source: Planning Board



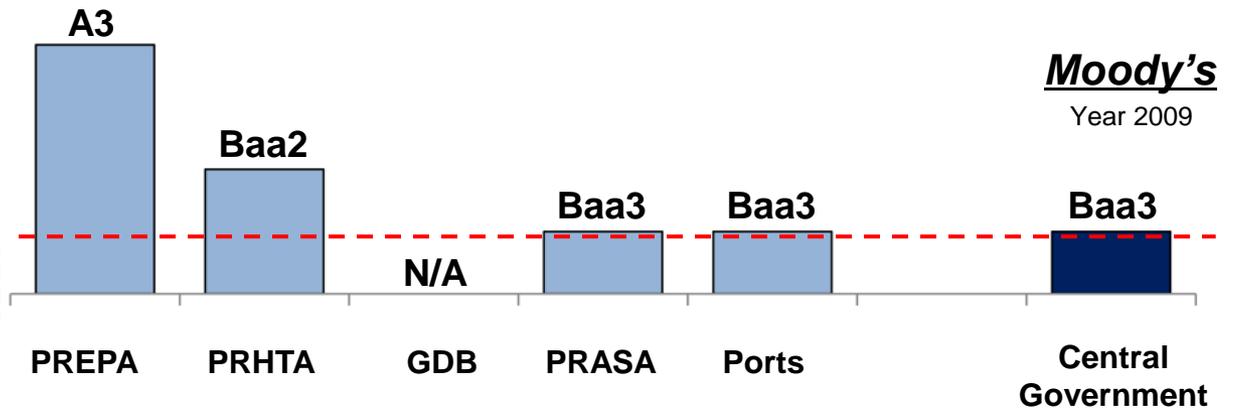
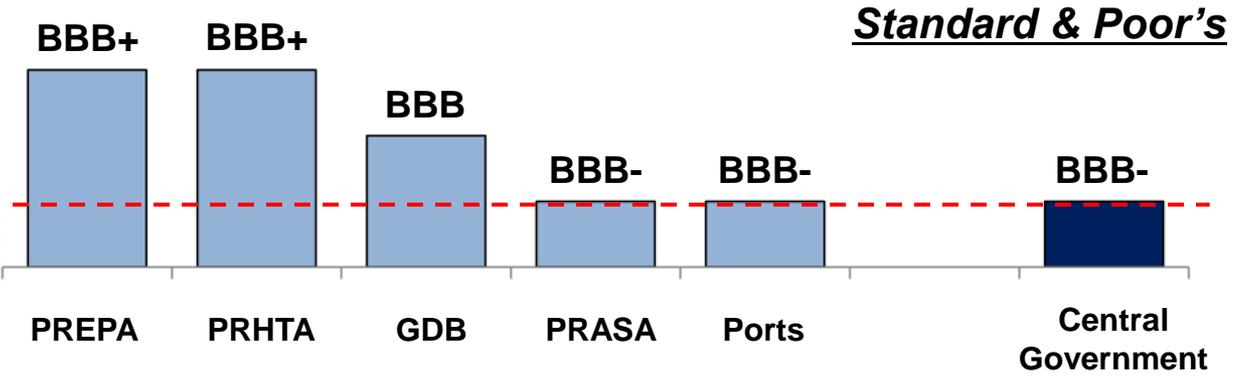
...with Puerto Rico's credit on the verge of a non-investment grade rating

4

Credit in Danger

Non-Investment Grade

Non-Investment Grade





Where are we now ...



We swiftly structured a clear and strict Fiscal and Economic Reconstruction Plan to address these challenges

1 Fiscal Reconstruction Plan

- Expense reduction measures based on operational and payroll expenses
- Increase in revenue measures
- Fiscal Stabilization Fund to balance multi-year budget

2 Strong Fiscal Oversight Role at GDB

- Fiscal Oversight Agreements signed with major public corporations
- MOU signed with Dept. of Education and Dept. of Health

3 Robust Economic Development Plan

- Comprehensive Plan to restore economic development and competitiveness
- Strategic use of ARRA Funds and Local Stimulus Package
- Transition to knowledge economy

11 Bills to Implement the Plan:

- Act # 1:** Additional 1% allocation to COFINA
- Act # 2:** Temporary use of deficit financing
- Act # 3:** PRIFA Corpus Account restructuring
- Act # 4:** Temporary increase on GDB loans
- Act # 7:** Fiscal Emergency Act
- Act # 8:** PRIFA as Federal Stimulus manager

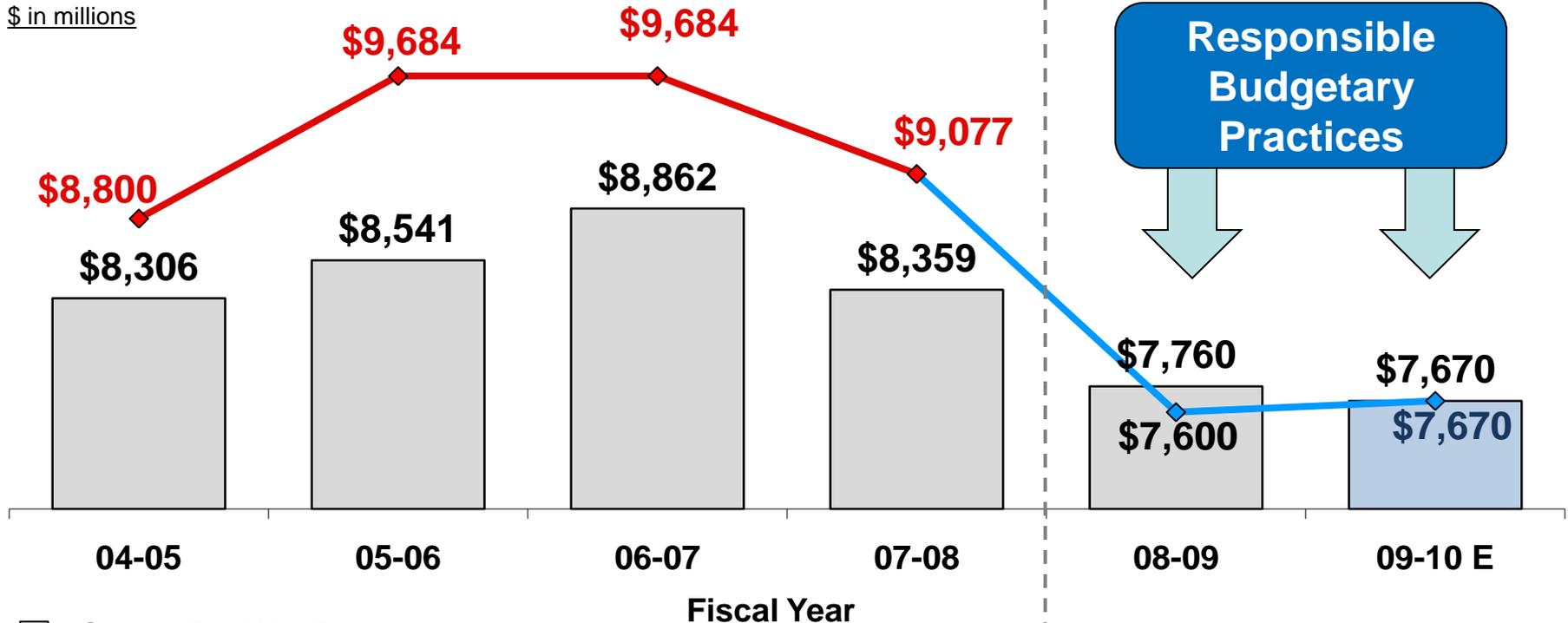
- Act # 9:** Local Stimulus Plan (amended)
- Act # 29:** Public-Private Partnerships Act
- Act # 143:** Operation of Commercial Establishments (amendment)
- Act # 161:** Permits Reform Bill
- Act # 182:** Government Reform



We have eliminated the practice of overestimating revenues to sustain high expenses

General Fund Net Revenue Projections

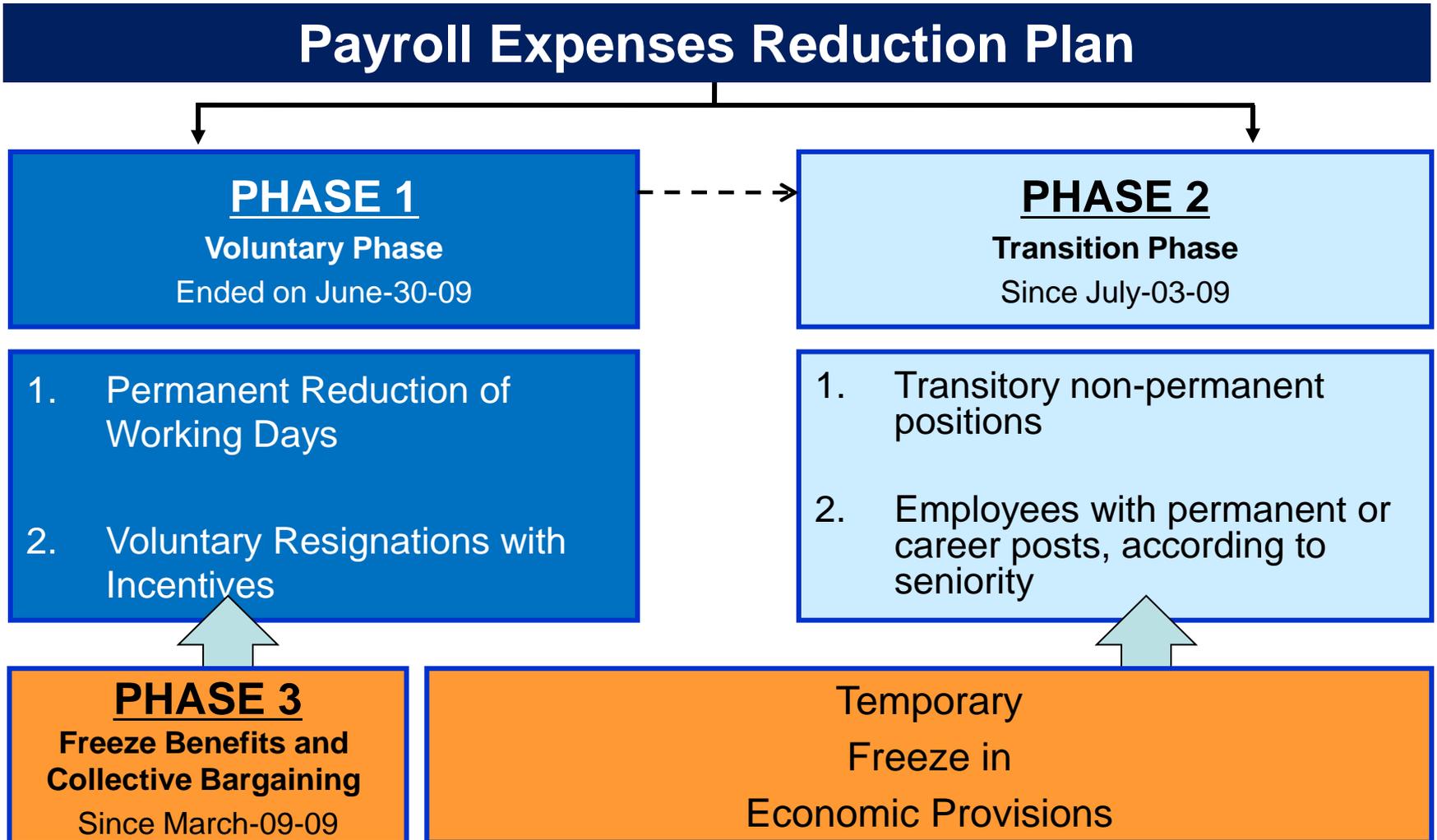
\$ in millions



- General Fund Net Revenues
- Past Administration Revenue Projections
- Current Administration Revenue Projections
- Current Projection of General Fund Revenues



We have implemented a multi-phase expense reduction program to adjust to expenses and recurring revenues





We are moving ahead with a Tax Reform in a set and strict schedule

Committee Members

Executive Director

Governor's Chief of Staff

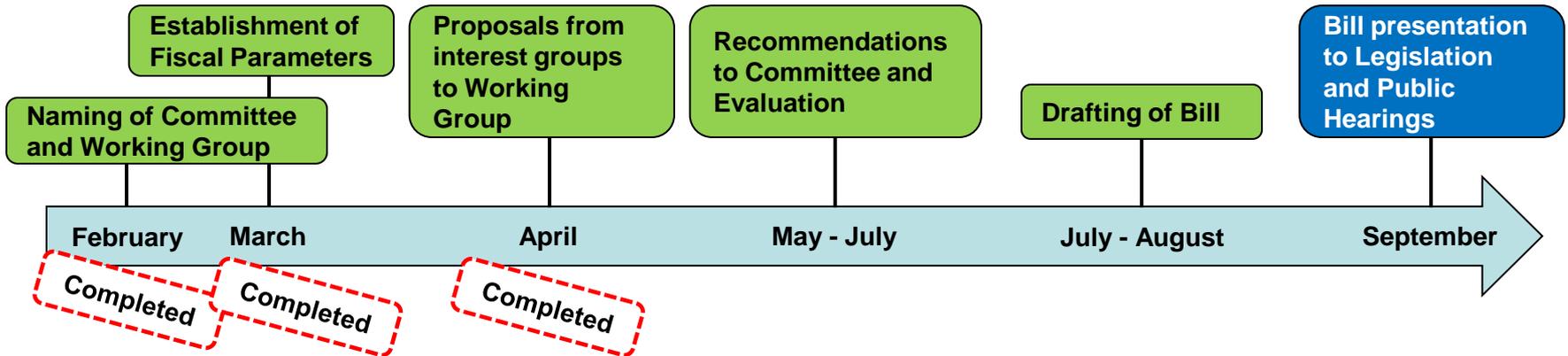
Secretary of Treasury

Chairman House Treasury Committee

Chairwoman Senate Treasury Committee

President GDB

Secretary of Economic Development



Tax Reform has to be framed within the actual fiscal situation and comply with the requirement of a balanced budget by FY 2013



We have commissioned a group of experts to seek alternatives to strengthen our public Employees' Retirement System

Special Commission:

President – Secretary of Labor

- Retirees Association Representative
- Representative from Permanent Special Commission
- (2) Employees' Representatives
- (2) Legislature Representatives
- (2) Executive Branch Representatives

Final Report due September 2010



Government Reform aims to provide a more agile and efficient government

Board to Review Municipal Complaints

Filed

Merger of Government Retirement Systems' Administration

Filed

Merger of multiple Advocate Offices

Filed

Merger of Education Councils

Filed

Reorganization of key Central Government Agencies

Merger of multiple Appeal Commissions

Overhaul of Government Procurement Process

Enhancement of PR.gov services



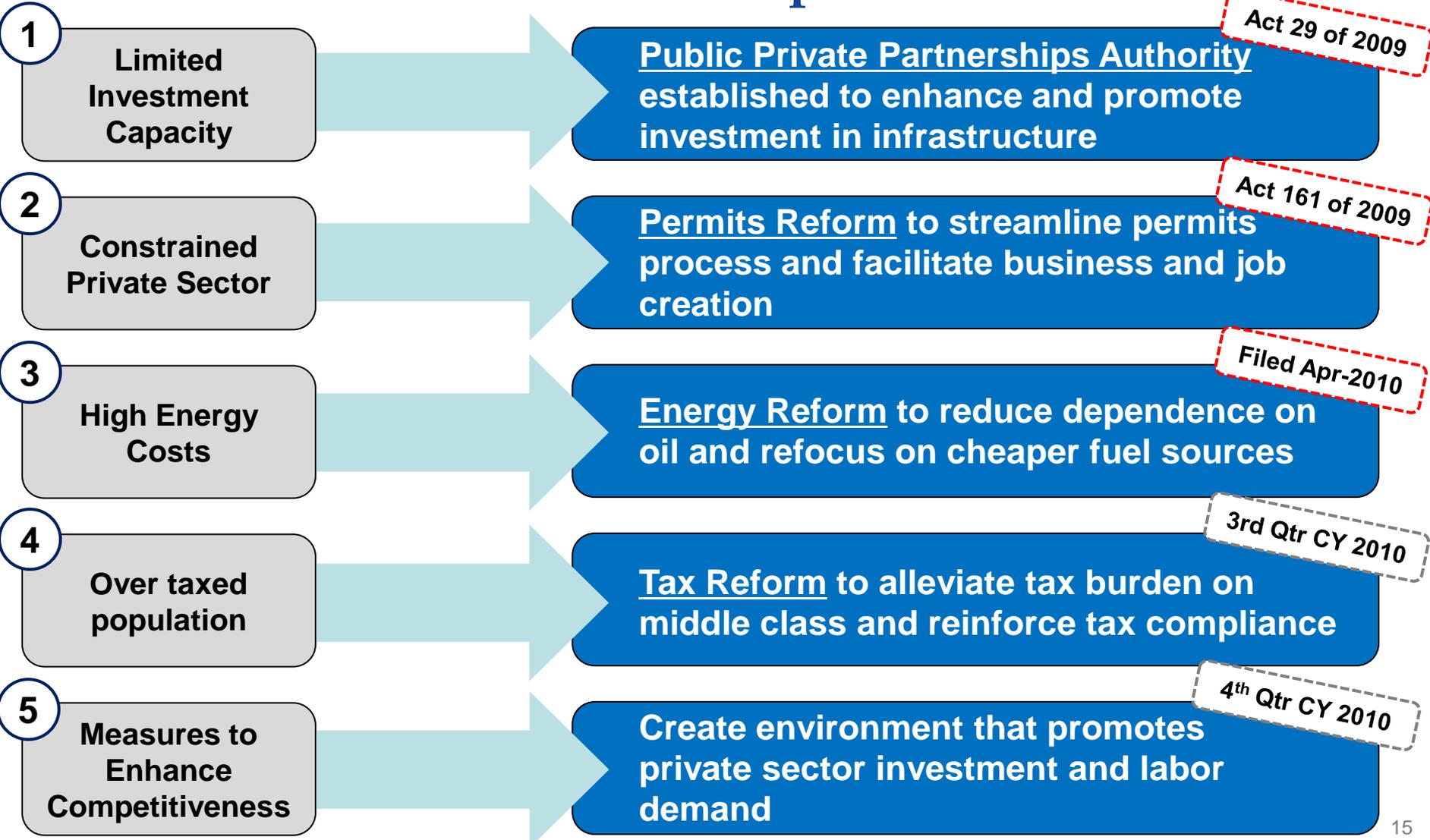
Launched

To be filed in upcoming weeks

(July-August)



We have transformed the Government's model by simultaneously addressing key challenges to restart economic development





The Government has been focused on achieving results and is strictly monitoring the progress of the Fiscal Reconstruction Plan

Goals

1

Balanced Budget by FY 2013

2

Safeguard investment grade credit rating

3

Liquidity Management

4

Debt Management

Report Card

- Revenues FY 2010
- Expenses FY 2010

Within Estimates

- Stable Ratings
- Access to Capital markets

- Ample liquidity: \$158 MM in cash (as of March 31, 2010)
- FY 2009: \$750 MM in payables paid
- FY 2010: Less than \$2.5 B expected to be used in stabilization & transition fund
- FY 2011 Budget: Already funded \$500 MM for SF

- \$1.2 B in PRIFA bonds repaid
- \$4.3 B in debt provided with a source of repayment



YTD General Fund's net revenues are in line with estimate and Treasury has reaffirmed its projection of \$7,670 million

Revenue Categories (\$ millions)	Actual July - March		\$ Change	Estimate 2010	Actual vs. Estimate	Change %
	2009	2010				
Individuals	\$1,898	\$1,782	(\$115)	\$1,789	(\$7)	-0.4%
Corporations	\$841	\$898	\$57	\$875	\$22	2.5%
Non-Resident Withholdings	\$727	\$643	(\$84)	\$595	\$48	8.1%
Property Tax	\$0	\$188	\$188	\$115	\$73	63.5%
Sales and Use Tax	\$626	\$268	(\$358)	\$340	(\$72)	-21.3%
Motor Vehicles	\$246	\$259	\$13	\$257	\$2	0.8%
Alcoholic Beverages	\$202	\$204	\$2	\$210	(\$6)	-2.8%
Off-Shore Shipments of Rum	\$298	\$269	(\$29)	\$274	(\$4)	-1.6%
Other	\$605	\$648	\$43	\$705	(\$57)	-8.1%
Total	\$5,444	\$5,159	(\$285)	\$5,160	(\$1)	-0.03%

Adjustments for comparison purposes:

Property Tax*	\$0	\$188	(\$188)
Sales and Use Tax**	\$369	\$0	\$369
Total (including adjustments)	\$5,075	\$4,971	(\$104)

Change
-2.1%

- SUT collections differential at the General Fund between last and current fiscal year is due to the additional 1.75% assignment of the SUT to COFINA

*Act 7-Temporary increase in property tax.

**Act 1-1.75% increase in SUT allocation to COFINA. Adjustments for 2010 SUT collections include \$3M that was allocated to General Fund during month of December after entire allocation to COFINA was fulfilled. Numbers may not add up due to rounding



Change in Sales & Use Tax (“SUT”) reporting methodology

- On May 4, 2010 the Department of Treasury announced that it will begin reporting sales and use tax on a cash basis in order to be able to issue monthly collection reports on a timelier basis.
- This is strictly a change in reporting methodology and does not affect in any way the amount of taxes pledged to COFINA and its bondholders, the method of collecting sales taxes, the amount of taxes required to be deposited nor the process of depositing such taxes in COFINA’s Dedicated Sales Tax Fund.
- This change in reporting will enable the Treasury Department to report sales tax revenues on the same basis and at the same time as it reports all other tax revenues.
- Accordingly, sales tax revenues will be reported in the month in which such revenues are received by the Treasury Department.
- This change will be made effective for fiscal year 2009-2010, therefore the figures for sales tax collections previously reported in June 2009 will now be reported in July 2009.



Revision to SUT reporting methodology will accelerate monthly disclosure to investors

(in \$ thousands)

FY 2010

	Prior Methodology			Prior	Revised
	2006-2007	2007-2008	2008-2009	2009-2010	2009-2010
July	-	96,100	95,592	88,000	94,382
August	-	90,181	91,353	84,100	88,000
September	-	86,163	77,788	83,775	84,100
October	-	93,751	86,191	85,120	83,775
November	50,200	96,170	91,996	95,075	85,120
December	110,000	121,251	119,836	118,476	95,075
January	95,000	89,798	85,763	88,942	118,476
February	86,200	86,486	84,608	82,538	88,942
March	96,400	89,355	88,065		82,538
April	85,700	93,487	88,788		
May	94,400	103,331	93,302		
June	95,460	97,526	94,382		
Total	713,360	1,143,599	1,097,664	726,026	820,408

New reporting will disclose economic activity from previous month

This is strictly a change in reporting methodology and does not affect in any way the amount of taxes pledged to COFINA



Government's Cash Flow reflected better than projected results due to improved cash management policies and practices

Cash Flow Summary for the quarter ended March 31, 2010:

- Ending cash balance of \$158 MM was 15.3% above the \$137 MM projected in the previously published quarterly cash flow projection of 12/31/2009.
 - Actual ending cash balance is gross of \$100 MM reserve established for the payment of TRANs.
- Collections and receipts for the 3-month period ended on 3/31/2010 were \$3,033 MM, a 2.7% increase when compared to the \$2,952 MM projection as of 12/31/2009, mostly resulting from:
 - An improvement in Sales and Use Tax collections and a more efficient procurement for federal funds
- Expenses including debt service were \$180 MM or 4.8% less than projected as of 12/31/2009 mainly as a result of:
 - Reduction of operating expenses including a decrease in payroll expenses of \$103 MM or 7%



Government of Puerto Rico

Cash Flow Projection

Fiscal Year 2009-2010

As of March 31, 2010

(in \$ millions)	ACTUAL									PROJECTED		
	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Beginning Balance	39	144	81	140	136	126	204	73	104	56	176	117
Collection and Receipts	1,003	821	948	953	825	1,426	908	1,082	1,043	1,419	1,206	1,210
Expenses Incl. Debt Service	1,375	1,475	1,192	1,168	1,432	1,369	1,118	1,208	1,284	1,199	1,186	1,211
Total Financing Activity	477	411	60	(17)	9	(39)	(6)	(10)	(7)	(217)	(317)	(318)
Total Stabilization Funds	-	180	244	228	588	61	85	247	222	82	170	184
Ending Cash Balance	144	81	140	136	126	204	73	184	78	142	49	(19)
Reconstruction Plan Initiatives	-	-	-	-	-	-	-	-	-	34	34	34
Cumulative Effect of Initiatives	-	-	-	-	-	-	-	-	-	34	68	102
Restricted Cash for the Payment of TRANS								(80)	(20)			
Cash available after Reconstruction Plan Initiatives and Restricted Cash	144	81	140	136	126	204	73	104	58	176	117	83

Summary of Quarter ended 3/31/10*	Actual	Projected as of 12/31/09 without Initiatives	Reconstruction Initiatives	Projected as of 12/31/09 with Initiatives	\$ Change	% Change
Beginning Balance	204	204	-	204	-	-
Collection and Receipts	3,033	2,952	-	2,952	81	2.7%
Expenses Incl. Debt Service	3,610	3,848	58	3,790	(180)	-4.8%
Financing Activity	(23)	145	-	145	(168)	-115.9%
Stabilization Funds	554	625	-	625	(71)	-11.4%
Ending Cash Balance**	158	79	58	137	21	15.3%

*Some numbers may differ due to rounding.

**Actual ending cash balance is gross of \$100 MM reserve established for the payment of TRANS.

Source: Department of the Treasury and Government Development Bank for Puerto Rico



Economic activity during the month of March reflected an increase in all of its components

GDB Economic Activity Index – 128.9

JOB

Increase of 1,300 jobs from February to March 2010



GASOLINE

Increase of 20% in the consumption of gasoline from February to March 2010



CEMENT

Increase of 14.6% in the sales of cement bags from February to March 2010



ENERGY

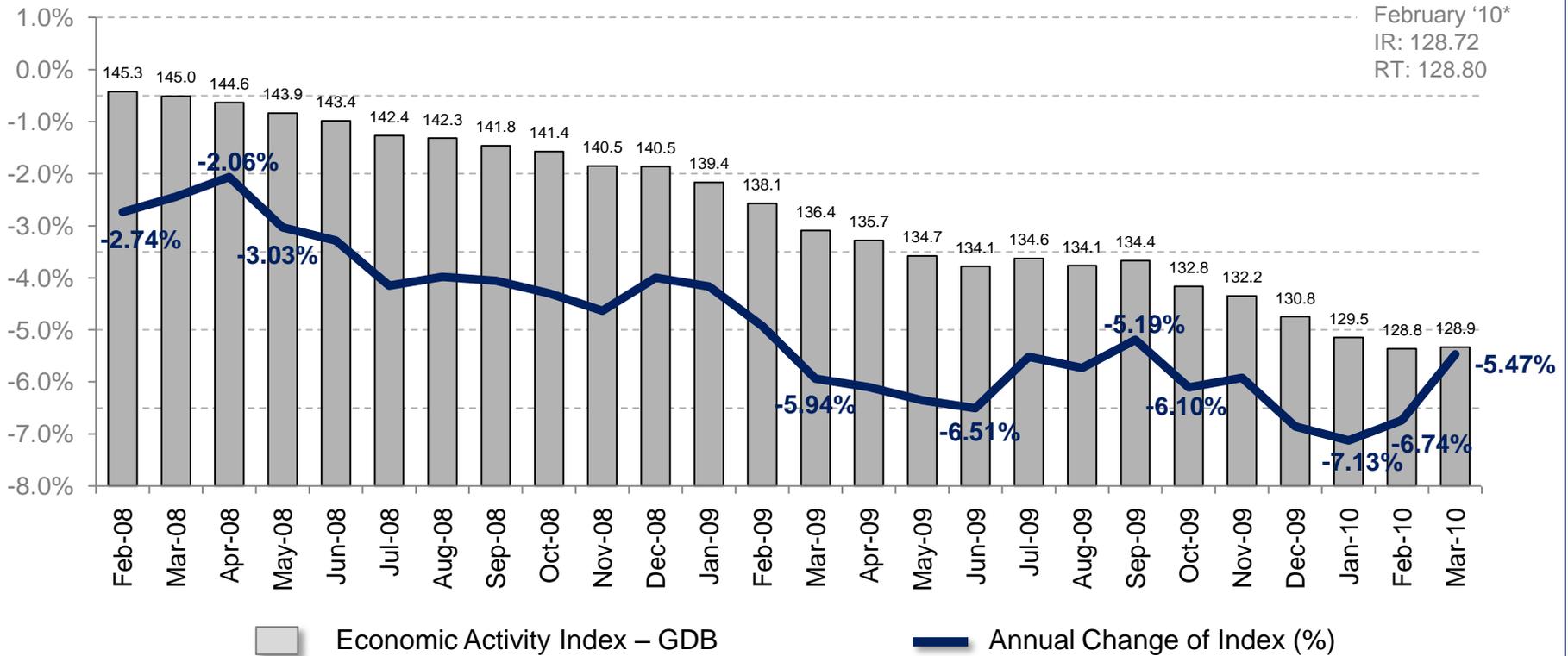
Increase of 18.7% in consumption of energy (kW/h) from February to March 2010





GDB Economic Activity Index as of March 2010

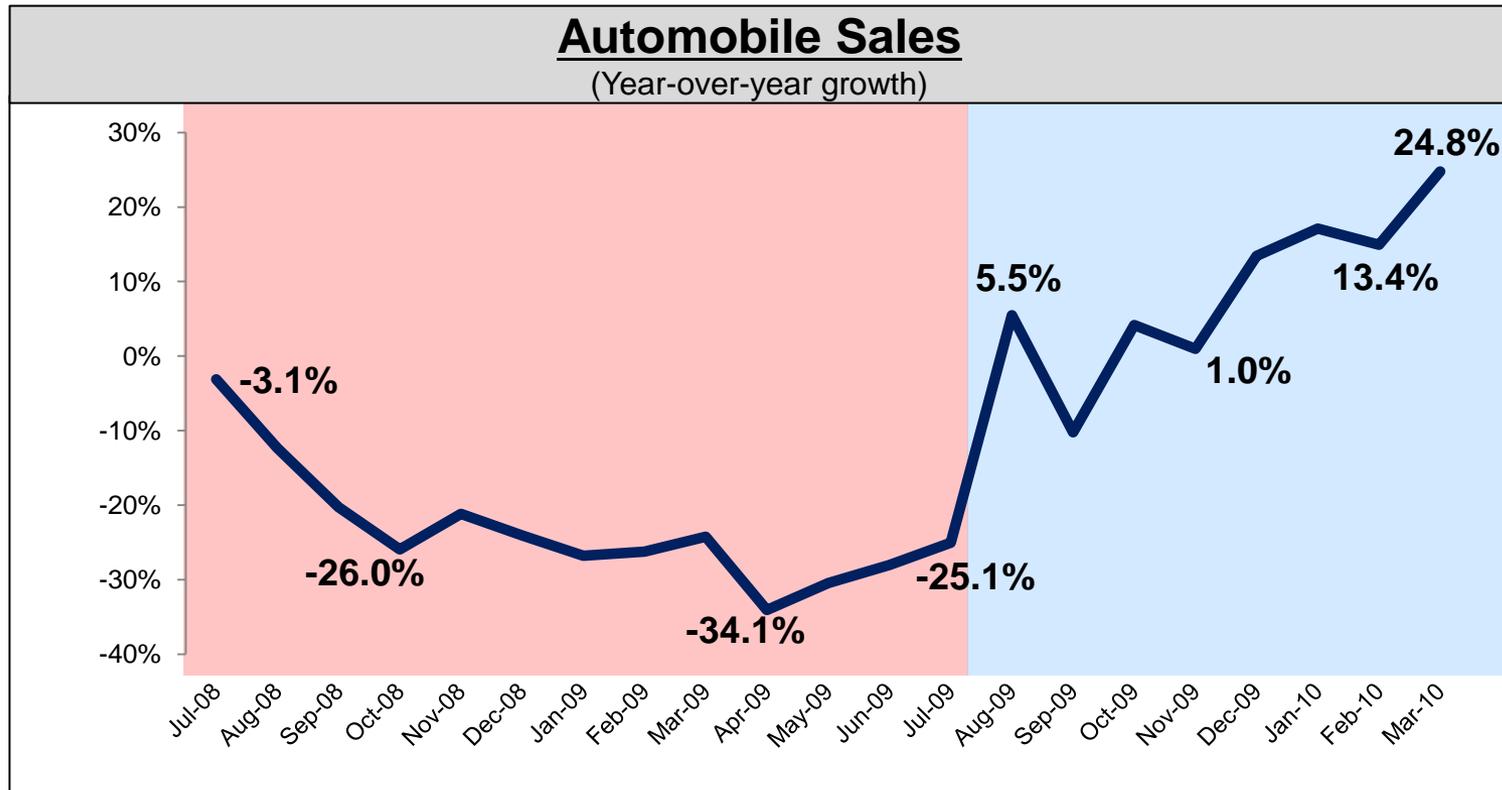
GDB Economic Activity Index



Data used for GDB-EAI is adjusted for seasonality and variability.



Automobile sales are starting to show consistent growth...



March 2010 reflected the largest year-over-year increase since February 2004



There has been a disbursement of \$2.9 B or 44% of the Federal Stimulus Plan

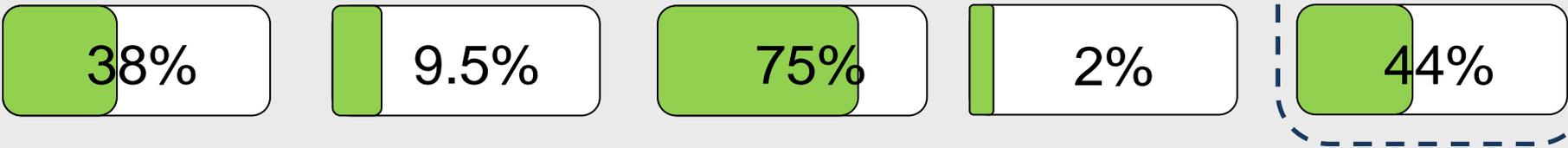
Disbursements



Allocations



Performance



Source: PRIFA as of May 7, 2010
*Some numbers may not add due to rounding



The Administration has deployed 41% of the local stimulus program funds

Housing Programs

Stimulus for Buying a Home

- 3,795 housing loans or incentives awarded (approximately 45% of all homes sold in 2009)

P3 Pre Development Projects

- \$20 MM have been disbursed to the P3 Authority for pre-development costs

Liquidity Programs

- Capital Infusion to the **Economic Development Bank** of \$40 MM
- Capital Infusion of **Tourism Development Fund** of \$15 MM

Infrastructure Projects

Municipal Infrastructure

Mayagüez 2010

- \$55 MM has been disbursed in 69 municipalities
- \$2.5 MM has been disbursed to the Puerto Rico Aqueduct and Sewer Authority for Sanitary Sewer Systems in the Municipalities of Guánica and Yauco
- \$5 MM has been disbursed for the Mayagüez 2010 Games to be conducted this Summer which will attract 1 million visitors

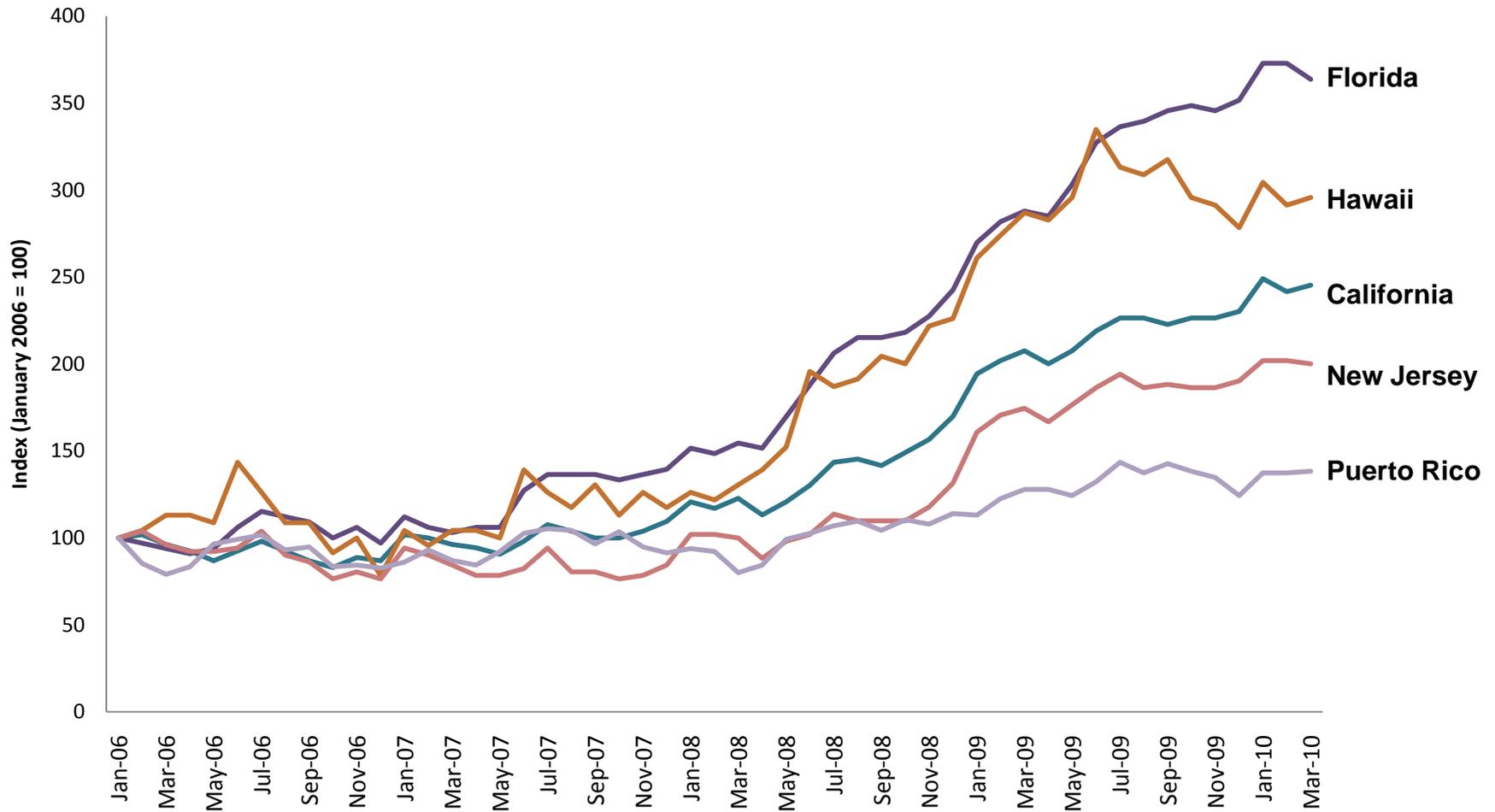
Direct Stimulus

Bonus to Retirees

- \$8.7 MM were disbursed directly to retirees



Unemployment trends in Puerto Rico from Jan-06 to date compare favorably against key States





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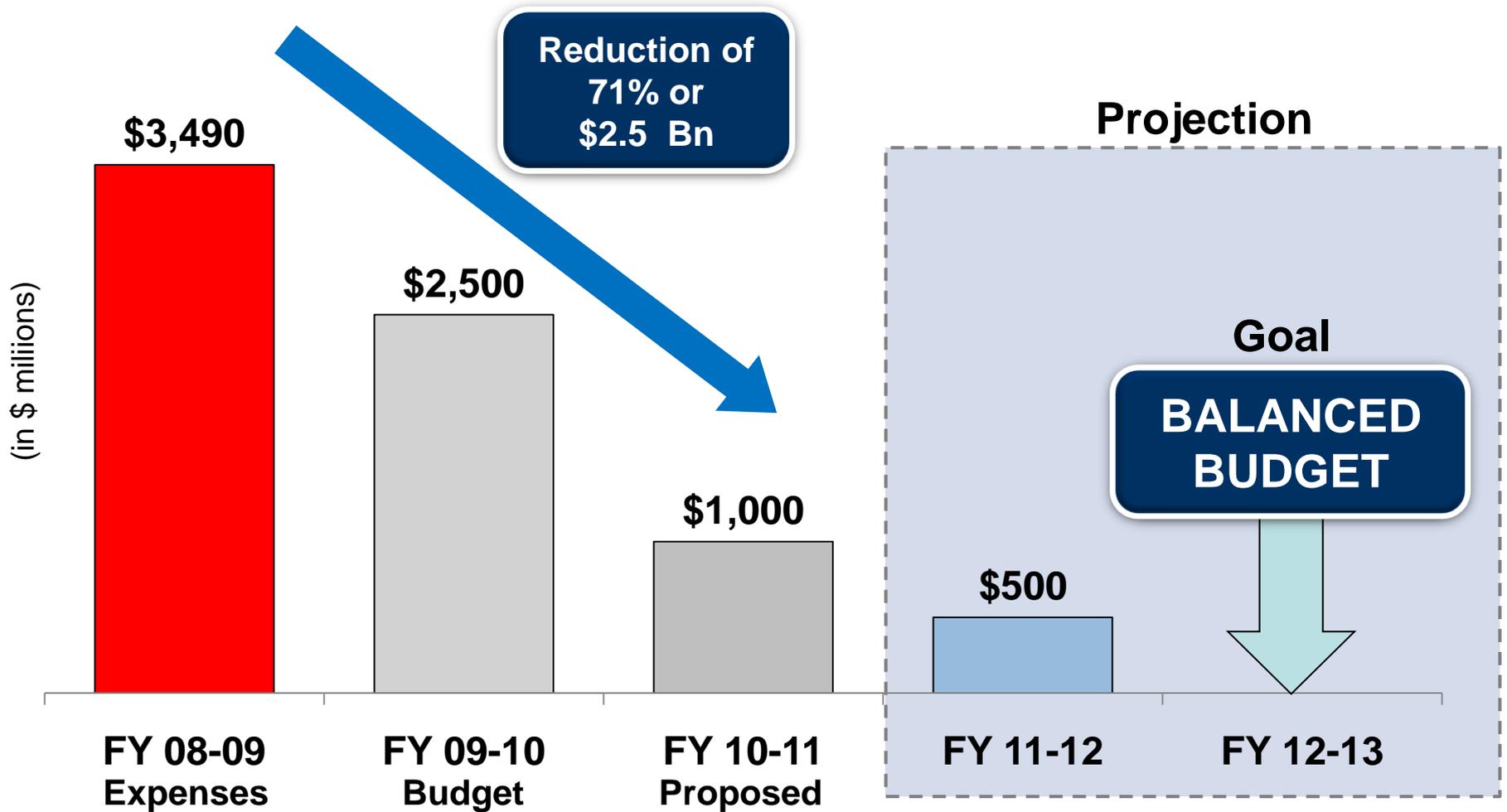
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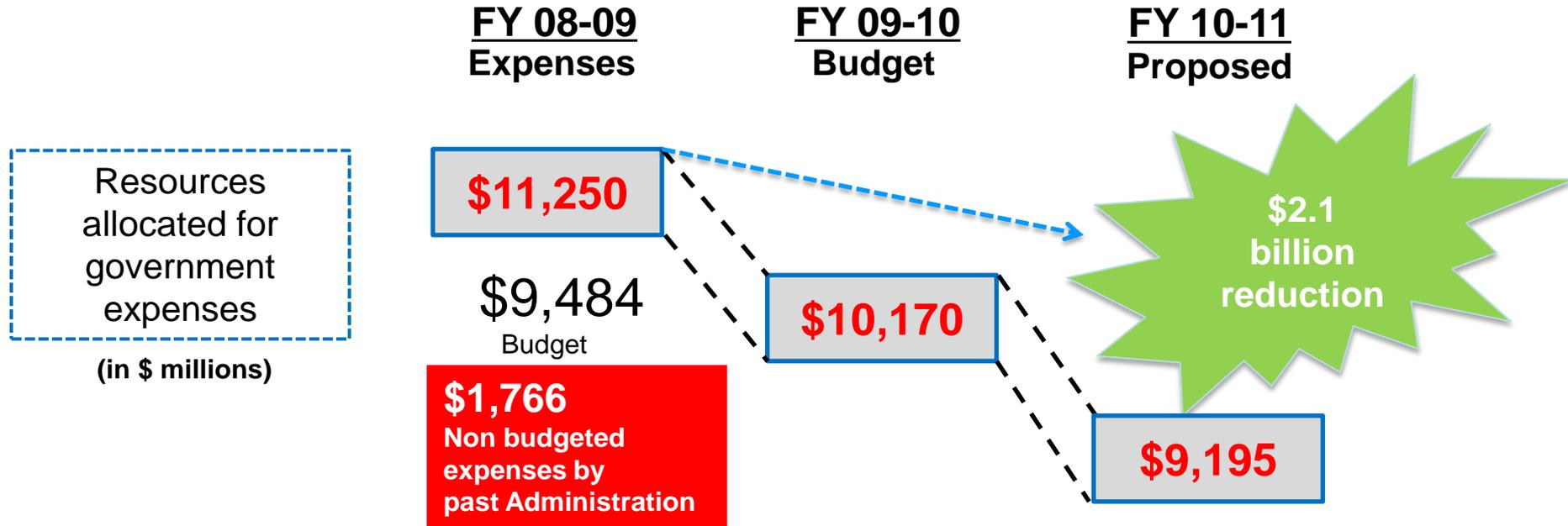


We are diligently closing the gap...





Proposed budget for FY 10-11 is \$2.1 billion less than expenses in FY 08-09



Deficit	\$3,490	\$2,500	\$1,000
% of Deficit	45%	33%	12%

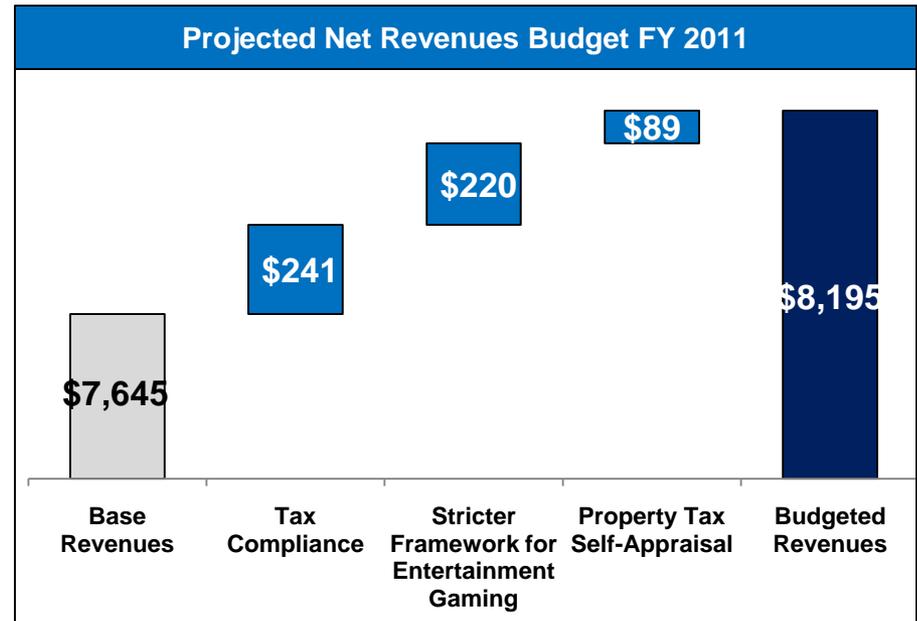
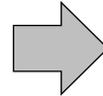


Budget for FY 10-11 represents a 6.8% increase in revenue collections driven by three tax compliance measures

Paving the way to a balanced budget

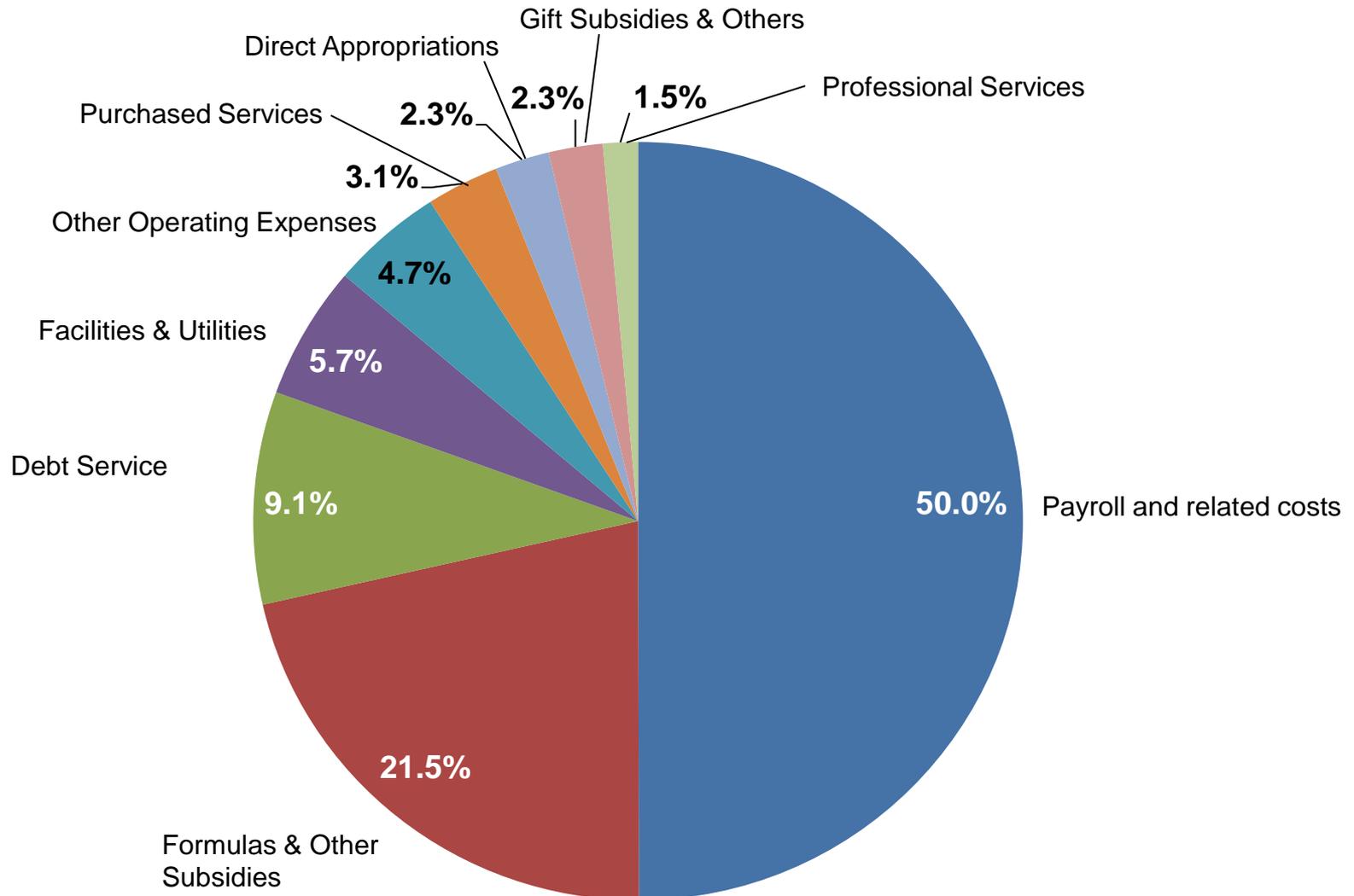
(in \$ millions)

General Fund Revenues:	\$8,195
Stabilization Fund:	\$1,000
Total Resources:	<u>\$9,195</u>





Distribution of Expenses by Area - Budget FY 2010-11 (General Fund + Stabilization Fund)

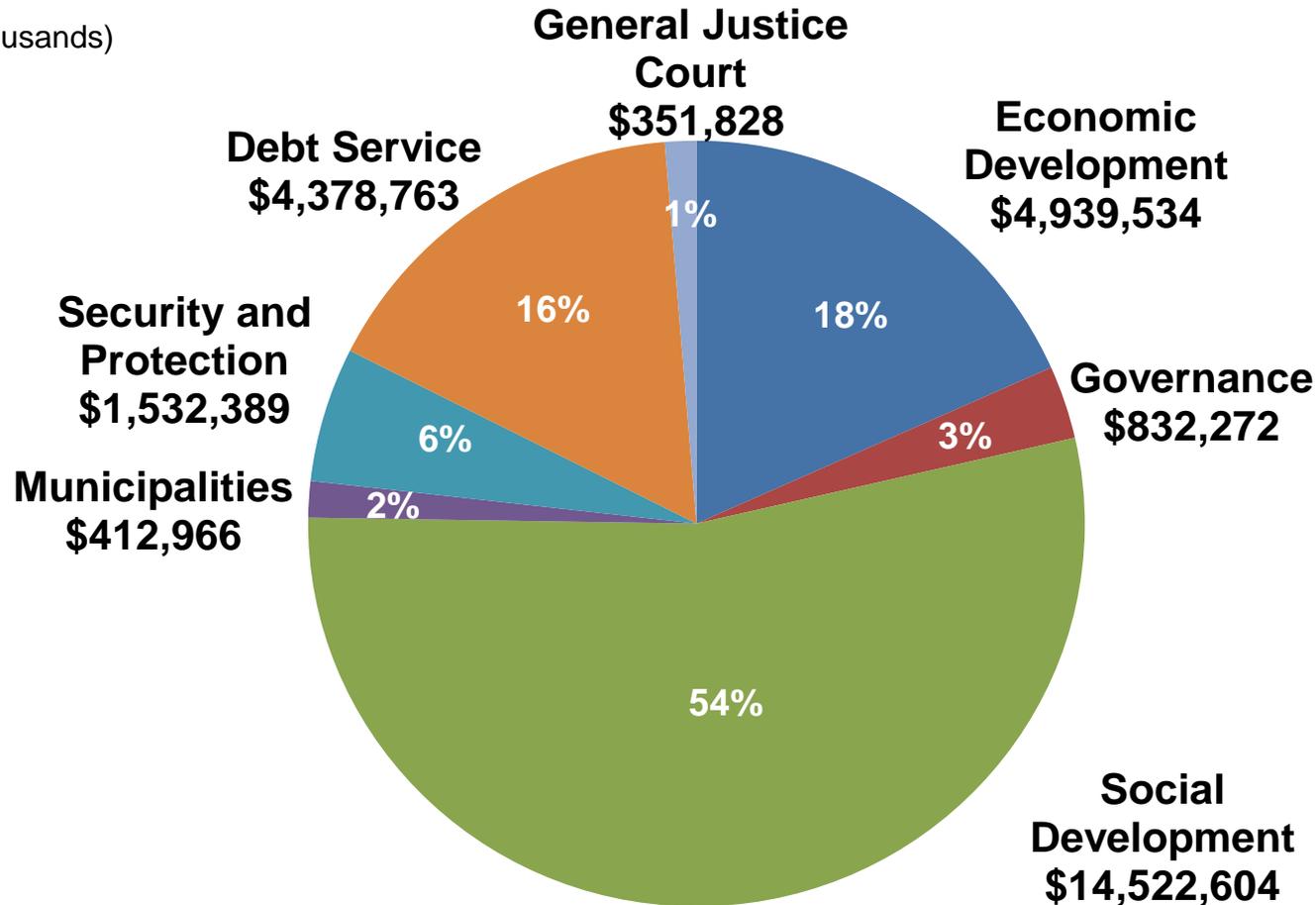




Distribution of Consolidated Resources by Area - Budget FY 10-11

Total Resources: \$26.970 billion

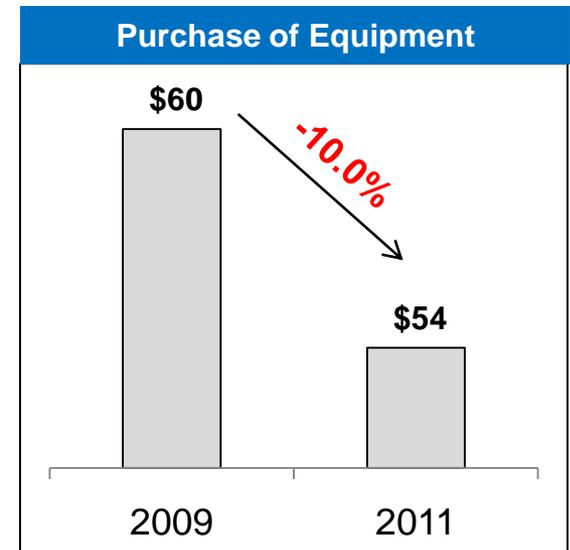
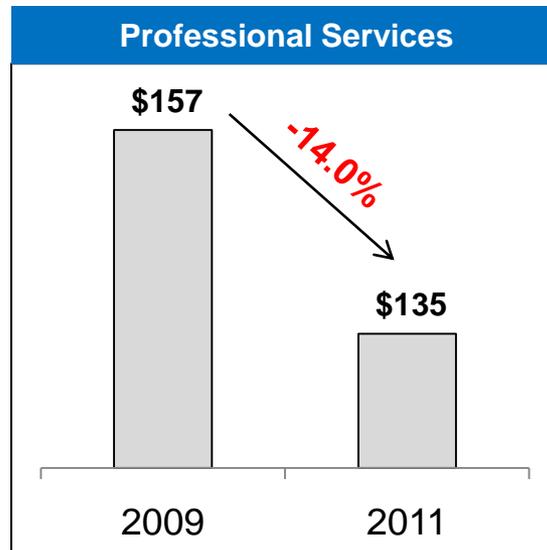
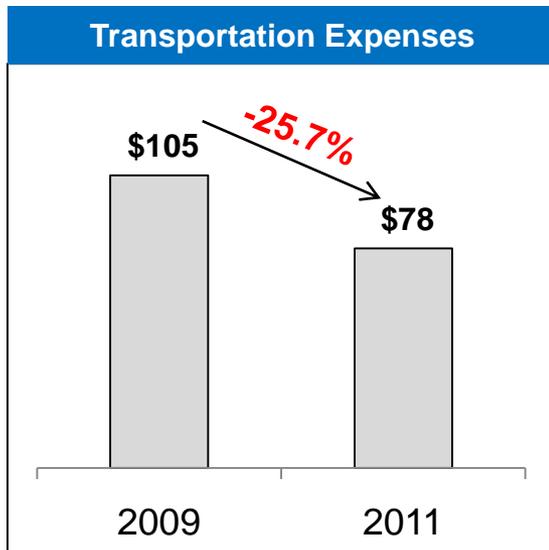
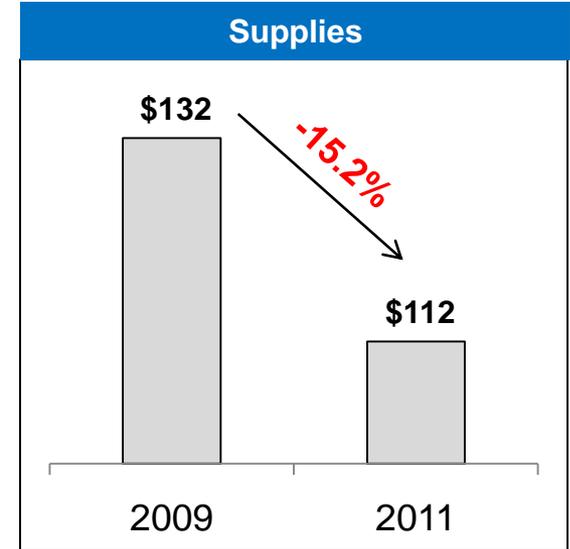
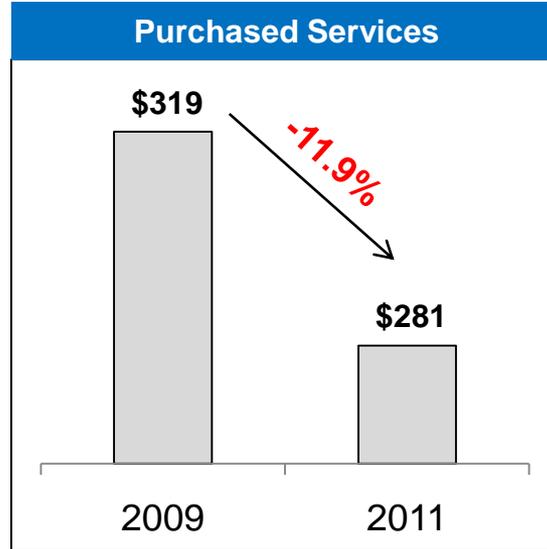
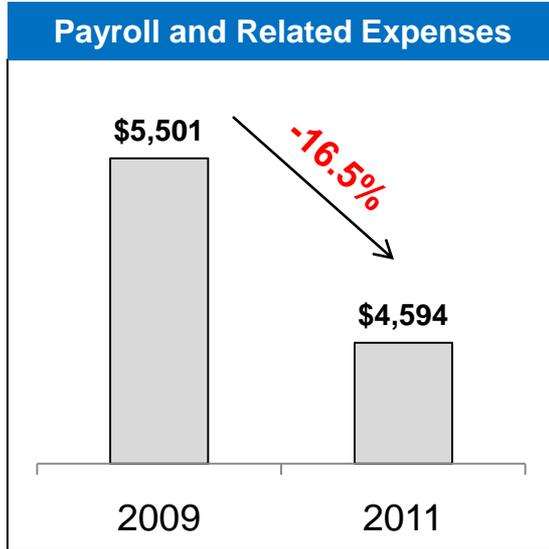
(in \$ thousands)





The FY 2010-11 budget is 18% or \$2.1 billion less than FY 2008-09 expenses

(in \$ millions)





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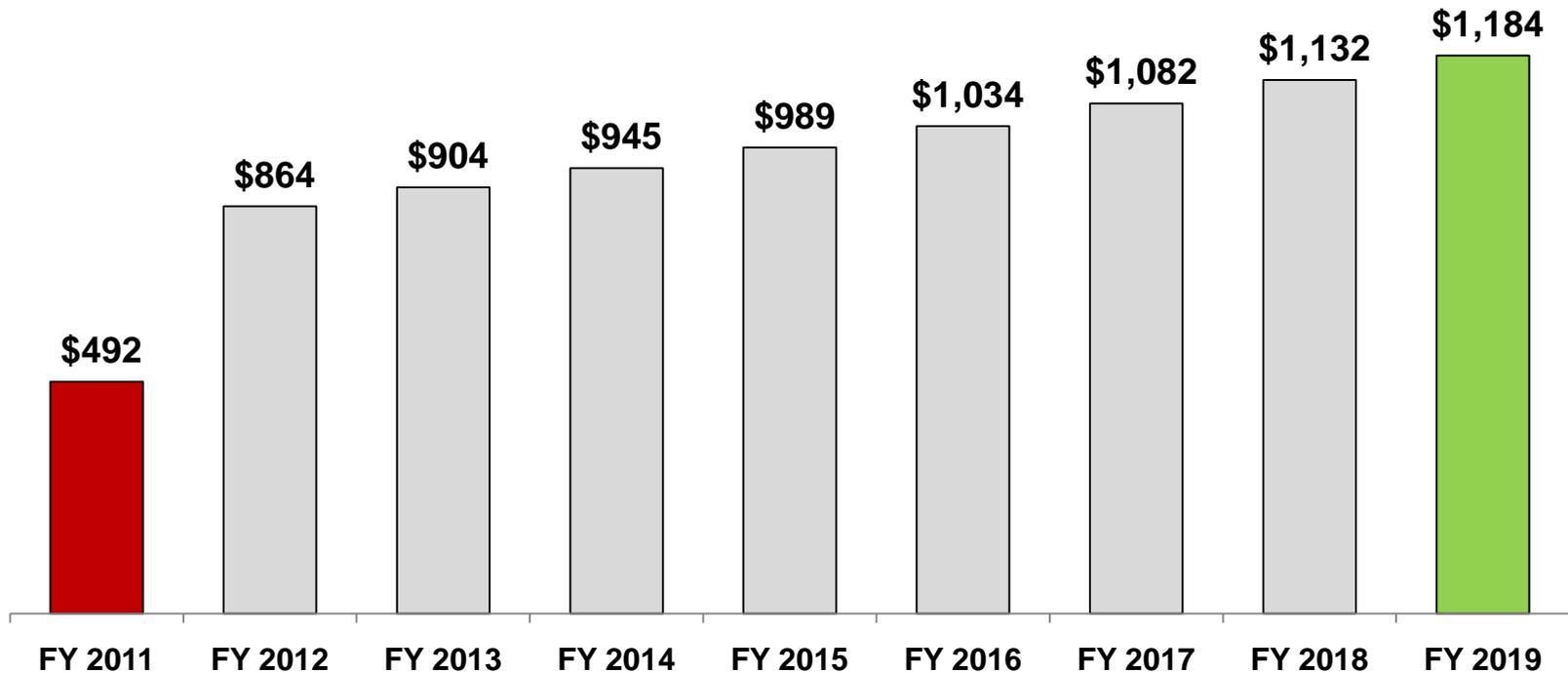


Federal Health Reform will provide Puerto Rico with a significant increase in Medicaid funding, which will allow overhaul and expansion of local health reform program

(in \$ millions)

\$8.6 billion of cumulative incremental Medicaid funding in a 9-year span

Total contributions will increase matching from 22% to approximately 50% funding during FY 2019, still significantly below State average matching of 83%





Local Health Reform will transform actual system into a less complex one with focus on patients



Highlights:

- New plan will eliminate the need for patients to get approval from their primary physician for every prescription
- No need from primary physician to refer you to a specialist
- Reform will require all health insurance companies to provide 24 hour phone lines for patients to consult health professionals
- Reform will also require all medical groups to have primary physician services at least until 9:00pm
- Insurance companies will be required to pay health providers at least 90% of its billed services no later than 30 days, the remaining 9% no later than 90 days, and the last 1% no later than 1 year



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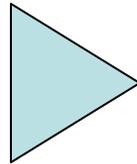
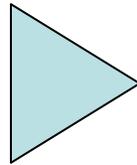
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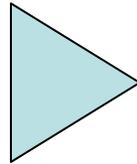


Recent FDIC intervention resulted in consolidation of the banking system

Acquiring bank:



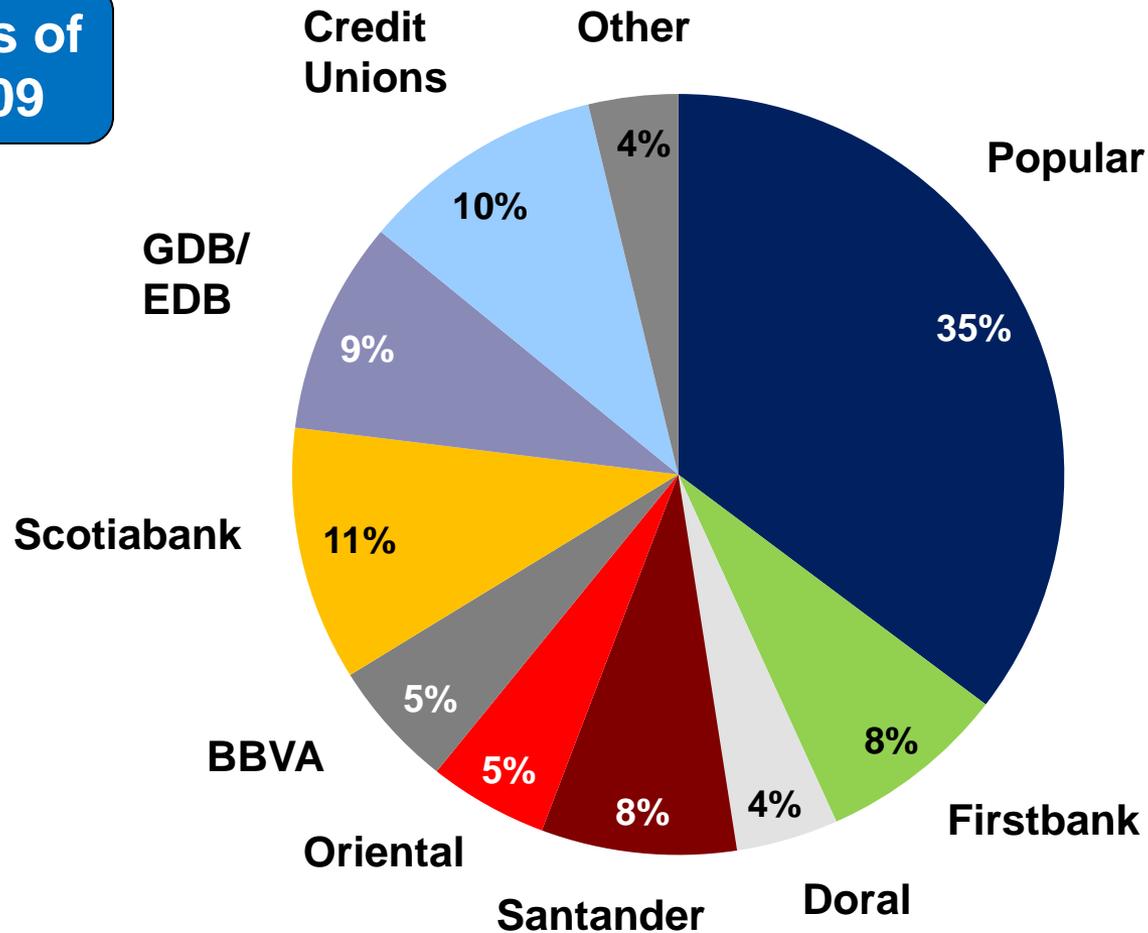
ORIENTAL GROUP





Banking system consolidation resulted in creating a tier of 7 retail banks with \$47.9 billion in deposits*

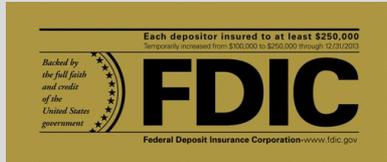
Pro forma as of Dec-31-2009



* Excluding brokered deposits



Consolidation added almost \$7 billion in capital to Puerto Rico's banking industry



\$5.28 billion in loss-sharing agreements between FDIC and the acquiring banks

\$1.63 billion of combined capital raised by local banks

Total: \$6.91 billion



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P3 Authority is focused on procuring 8 projects representing 5 main infrastructure areas



- **PR-22:** busiest toll road in PR
- **PR-66:** only corridor in the East
- **PR-52:** longest toll road in PR



- **Phase I LNG:** Aguirre Plant (supply solution)
- **Phase II LNG:** Costa Sur (new plant)



- **LMM Int'l Airport:** busiest airport in the Caribbean



- **Modernization of Schools:** Design-Build-Maintenance of public schools



- **Water Metering:** improvement of water metering system

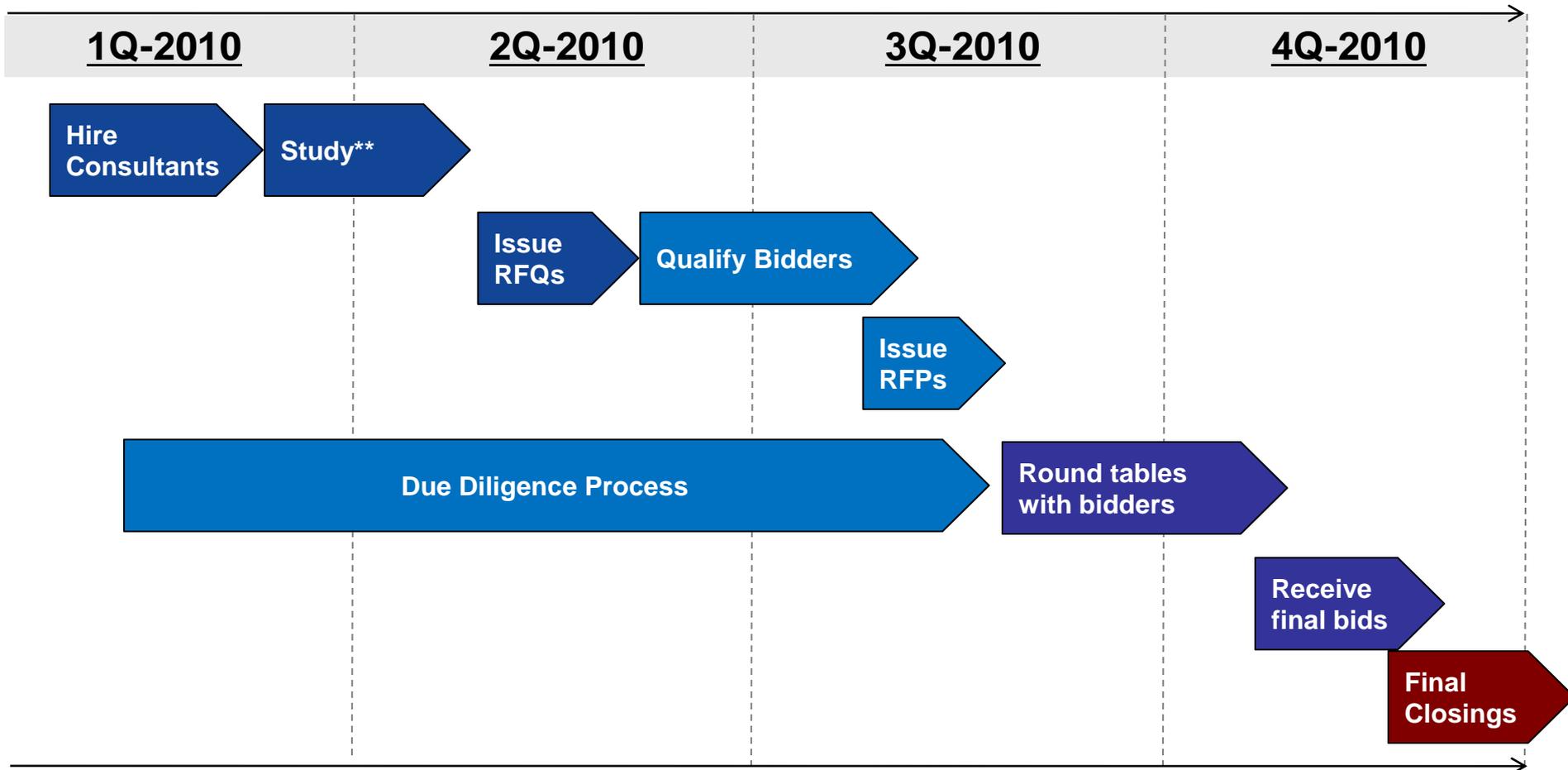
Significant Benefits

- Positive impact throughout PR
- Strengthening of local private sector
- Improvement in quality of life
- Improve competitiveness
- A new solution for the development of infrastructure in Puerto Rico



General timeline for CY 2010 focused on procurement of projects

Target and Preliminary General P3 Procurement Timeline for 2010*



* Preliminary and subject to revision.

** Study refer to the required Desirability and Convenience Study.



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**On April 19, 2010, Moody's
Investor Services recalibrated its
municipal ratings to the Global
Scale...**



Puerto Rico received the maximum possible increase of 3 notches as a result of the Moody's municipal rating recalibration

State	Before	Actual	Change
Puerto Rico	Baa3	A3	3
California	Baa1	A1	3
Arizona	A1	Aa2	2
Illinois	A2	Aa3	2
Louisiana	A1	Aa2	2
USVI	Baa3	Baa1	2
Alabama	Aa2	Aa1	1
Alaska	Aa2	Aa1	1
Arkansas	Aa2	Aa1	1
Colorado	Aa2	Aa1	1
Connecticut	Aa3	Aa2	1
Hawaii	Aa2	Aa1	1
Idaho	Aa2	Aa1	1
Indiana	Aa1	Aaa	1
Iowa	Aa1	Aaa	1
Kentucky	Aa2	Aa1	1
Maine	Aa3	Aa2	1
Mass.	Aa2	Aa3	1

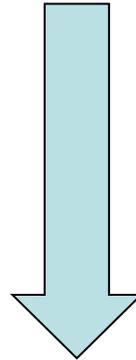
State	Before	Actual	Change
Michigan	Aa3	Aa2	1
Mississippi	Aa3	Aa2	1
Montana	Aa2	Aa1	1
Nevada	Aa2	Aa1	1
New Hampshire	Aa2	Aa1	1
New Jersey	Aa3	Aa2	1
New Mexico	Aa1	Aaa	1
New York	Aa3	Aa2	1
North Dakota	Aa2	Aa1	1
Ohio	Aa2	Aa1	1
Oklahoma	Aa3	Aa2	1
Oregon	Aa2	Aa1	1
Pennsylvania	Aa2	Aa1	1
Tennessee	Aa1	Aaa	1
Texas	Aa1	Aaa	1
West Virginia	Aa3	Aa2	1
Wisconsin	Aa3	Aa2	1

35 of 52 were recalibrated



Financial Reporting

Commonwealth Report was timely filed on May 1, 2010



Commonwealth Annual Financial Report (CAFR) to be filed on or before July 31, 2010



Active transaction calendar so far this year...

1st Quarter

Completed Transaction:

COFINA

2010 Series A - \$1,824 MM

PREPA

Banks L/C take out - \$822 MM

**First half of 2010 has been
very active in the capital
markets**

* Preliminary and subject to change

2nd Quarter

Completed Transaction:

PREPA

BAB's Bank L/C take out - \$320 MM

Refunding - \$631 MM

FRN bond exchange - \$363 MM

Upcoming Transactions*:

PRHTA

Mandatory Tender - \$300 MM

PREPA

Refunding & L/C take out - \$478 MM

QSCBs - \$125 MM

COFINA

Refunding and Tender Opportunities -
TBD



Second half of 2010 will center around GO debt restructuring and TRANs issuance

Second Semester CY 2010

GO

Potential Debt Restructuring - TBD
TRAN's Issuance - \$900 MM

PBA

Refunding - \$200 MM

QSCBs - \$250 MM

GO

Liquidity facility expiration - \$330 MM*
Potential Debt Restructuring – TBD



Agenda

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Fiscal and Economic Background

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Proposed Budget FY 2011

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Health Reform

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Banking Industry Development

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P3 Update

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Other Matters

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Concluding Remarks



Concluding Remarks

- **General Fund net revenues as of March 2010 are within striking distance of the budget estimate**
- **Proposed budget for FY 2010-11 is \$2.1 billion, or 18% less than expenses for FY 2008-09**
- **Estimated deficit for recommended FY 2010-11 budget is 12% of revenues, a reduction from 45% in FY 2008-09**
- **Economic growth is projected to be positive in FY 2010-11 after four years of significant economic contraction**
- **Federal Health Reform will provide Puerto Rico with a significant increase in Medicaid funding**
- **Recent FDIC intervention resulted in consolidation of the banking system and a \$7 billion recapitalization of the system**
- **P3 Authority is focused on procuring 8 projects representing 5 main infrastructure areas**