

# NEW FISCAL PLAN FOR PUERTO RICO

GOVERNMENT VISION | REBUILDING PUERTO RICO | PATH TO STRUCTURAL BALANCE | GOVERNMENT TRANSFORMATION | STRUCTURAL REFORMS



GOVERNMENT OF PUERTO RICO



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- *Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;*
- *The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;*
- *The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;*
- *The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;*
- *The timeline for completion of the work being done by the Puerto Rico Electric Power Authority (“PREPA”) to repair PREPA’s electric system and infrastructure and the impact of any future developments or issues related to PREPA’s electric system and infrastructure on Puerto Rico’s economic growth;*
- *The impact of the measures described herein on outmigration; and*
- *The impact of the resolution of any pending litigation in the Title III cases*

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## List of Acronyms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)	Hacienda	Puerto Rico Treasury Department
ADEA	Agricultural Enterprise Development Administration (Spanish acronym)	HHS	U.S. Health and Human Services
Administration		HUD	U.S. Housing and Urban Development
ASEM	Puerto Rico Medical Services Administration (Spanish acronym)	Hurricanes	Hurricane Irma and Hurricane Maria
ASES	Puerto Rico Health Insurance Administration (Spanish acronym)	IMF	International Monetary Fund
BBB	Request for supplemental federal assistance submitted on November 13, 2017 by the Government titled Build Back Better Puerto Rico	Island	Puerto Rico
CAGR	Compound Annual Growth Rate	KPIs	Key Performance Indicators
Cardiovascular	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	LEA	Local Education Agency
CDBG	Community Development Bank Grant	MCOs	Managed Care Organizations
CDL	Community Disaster Loan from the CDL program	MFCU	Medicaid Fraud Control Units
Certified Fiscal Plan	Fiscal Plan certified on March 13, 2017 by the FOMB	MMIS	Medicaid Management Information System
CFC	Controlled Foreign Corporations	OMB	Office of Management and Budget
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)	P3	Public Private Partnerships
COSSEC	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (Spanish acronym)	P3 Authority	Public Private Partnership Authority
CRRO	Central Recovery and Reconstruction Office	PA	Public Assistance
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)	Parties	AAFAF and the Government
DOH	Department of Health	PBA	Public Building Administration
DOJ	Puerto Rico Department of Justice	PMO	Program Management Office
DOL	Department of Labor	PMPM	Per Member Per Month
DOT	Department of Transportation	PPPA	Puerto Rico Port Authority
DST	Daylight Savings Time	PRASA	Puerto Rico Aqueduct and Sewer Authority
EEl	Electronic Export Information	PREMA	Puerto Rico Emergency Management Agency
EITC	Earned Income Tax Credit	PRCCDA	Puerto Rico Convention Center District Authority
ERS	Employee Retirement System	PREPA	Puerto Rico Electric and Power Authority
FEMA	Federal Emergency Management Agency	PRHFA	Puerto Rico Housing Finance Authority
FOMB	Financial Oversight and Management Board of Puerto Rico	PRHTA	Puerto Rico Highway and Transportation Act
GAO	U.S. Government Accountability Office	PRIDCO	Puerto Rico Industrial Development Company
GDB	Government Development Bank for Puerto Rico	PRITS	Puerto Rico Information Technology Service
GDP	Gross Domestic Product	PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
GF	General Fund	PRTC	Puerto Rico Tourism Corporation
GFEWG		PSC	Puerto Rico Public Service Commission
GILIT	Global Intangible Low Income Tax	RFQ	Request for Quote, or Request for Qualification
GNP	Gross National Product	SCO	State Coordinating Officer
GOSR		SIFC	State Insurance Fund Corporation
Government	Government of Puerto Rico	UPR	University of Puerto Rico
Governor		WIOA	Workforce Innovation and Opportunity Act



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# GOVERNMENT VISION

TRANSFORMING PUERTO RICO THROUGH A NEW SOCIOECONOMIC MODEL

BACKGROUND AND CONTEXT | A NEW VISION FOR PUERTO RICO



GOVERNMENT OF PUERTO RICO



# BACKGROUND AND CONTEXT



# Puerto Rico’s residents as US Citizens have made great contributions to the Country in serving during times of war and peace

Puerto Rico’s second class treatment has deprived its residents of the life they deserve as US Citizens.

### Spanish American War

*Puerto Rico becomes a U.S. Territory; “Unincorporated Territory” clause.*

1898

### Foraker Act

*Created a governance structure with a Governor, Legislative Assembly, and Judicial System.*

1900

### Jones-Shafroth Act

*Granted U.S. Citizenship to anyone born in Puerto Rico.*

1917

### PR Federal Relations Act

*Enabled the Government of Puerto Rico to organize; leads to 1952 Puerto Rico Constitution.*

1950

Past decisions regarding Puerto Rico have deprived it of a credible voice in Congress to demand and protect fair and equal access to basic benefits and programs provided by the Federal Government.



No  
Presidential Vote



No  
Voting Representation in Congress



No  
Parity in Medicaid



Foreign Entity  
for Federal Tax Purposes

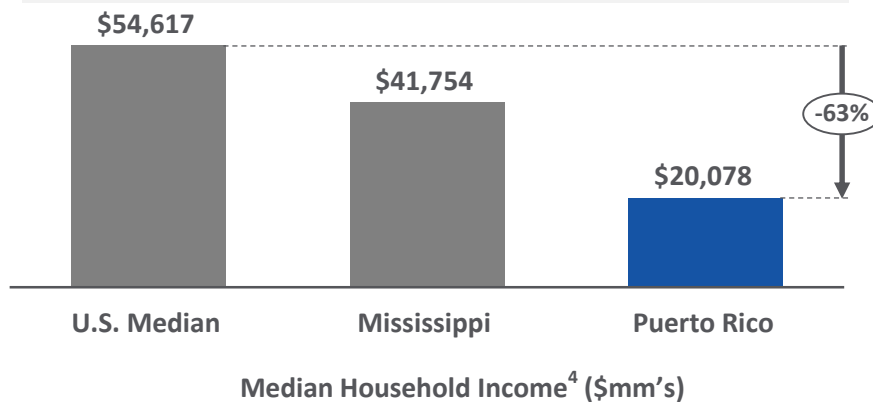
The Congressional approval of the *Tax Cuts and Jobs Act* of 2017, as well as delays in restoring the energy grid, among other recovery initiatives, are the most recent evidence that, unlike the States, Puerto Rico has been an afterthought in the mind of Congress across a wide variety of federal assistance programs which has posed the greatest impediment to its sustainable economic development.



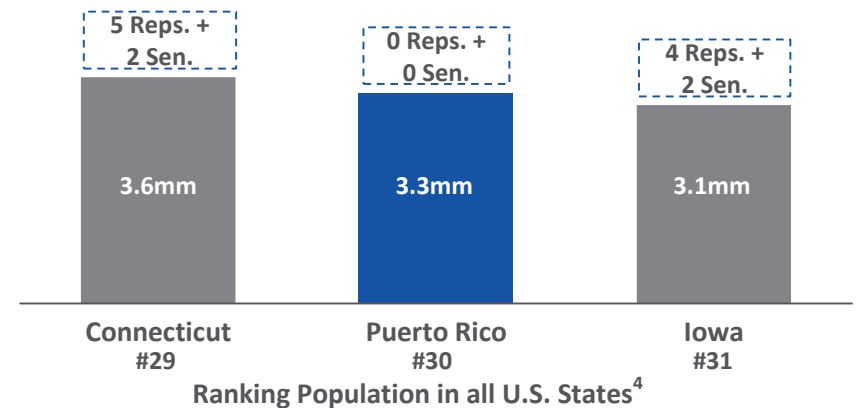
## Puerto Rico’s unfair and inequitable treatment as a territory has been a driving factor in our decade-old fiscal and economic crisis

- Since 2006, Puerto Rico’s real GNP has shrunk by more than 14%.
- In the past decade more than 300,000 people left Puerto Rico. The impact of Hurricanes Irma and Maria accelerated this trend with an additional 600,000 people or about 19% decline expected by FY23.
- Student population has declined by over 40% since 2000 with an additional 16% decline expected by FY22.<sup>1</sup>
- More than 45% of Puerto Rico residents live in poverty, which is the highest poverty rate of any U.S. state (Mississippi is the next highest at 21.9%). Puerto Rico’s 10.9% unemployment rate is almost three times the national level.<sup>2</sup>
- Concerns about quality of life, poor delivery of public services and high unemployment have led to a historic population outmigration.
- Puerto Rico is treated unequally under key federal programs such as Medicaid as compared to states. For example, the Census Bureau has reported that Oregon, a relatively prosperous state with a population size similar to Puerto Rico, received over \$29bn from the Federal Government, whereas Puerto Rico received \$19bn for the same year.<sup>3</sup>
- As discussed further, the impact of Hurricanes Irma and Maria requires that the New Fiscal Plan provides a roadmap to fiscal recovery and long-term sustainability.

*Inequality created by Puerto Rico’s treatment as a territory is one of the primary causes of the severe disparity in personal income that exists between residents of the U.S. mainland and Puerto Rico.*



*Puerto Rico ranks 30<sup>th</sup> in terms of population, but Puerto Rico has no voting representation in Congress unlike US States.*



<sup>1</sup> Department of Education, official public school registry

<sup>2</sup> US DOL Bureau Labor of Statistics

<sup>3</sup> GAO Report United States March 2014: Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Source

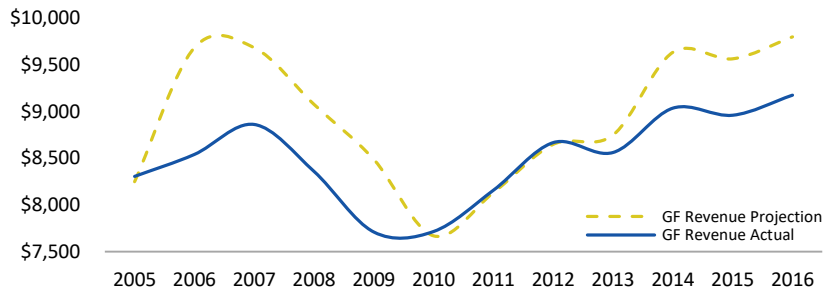
<sup>4</sup> United States Census Bureau, 2016





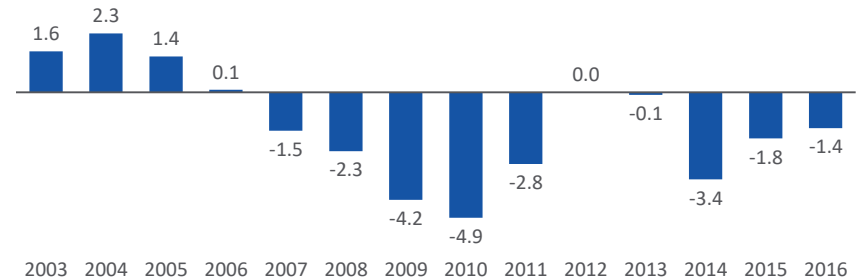
## Periods of fiscal irresponsibility and lack of economic planning and transparency also contributed to Puerto Rico’s financial crisis

*Overestimation of economic growth projections resulted in massive deficits that were covered with one-time measures and debt financing*



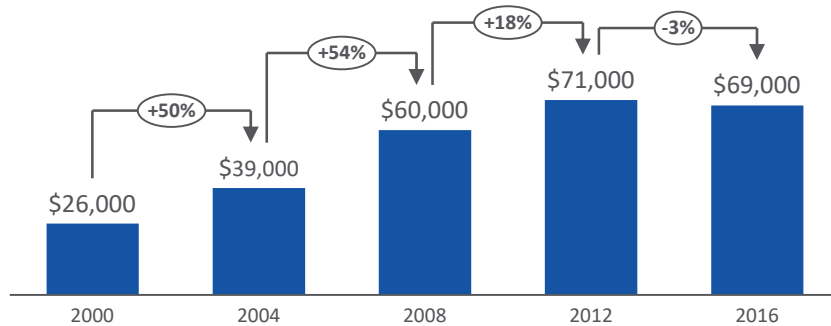
Revenue Projections vs Actual Revenues Since 2005 (\$mm's)

*Frequent policy changes and lack of economic planning led to economic decline*



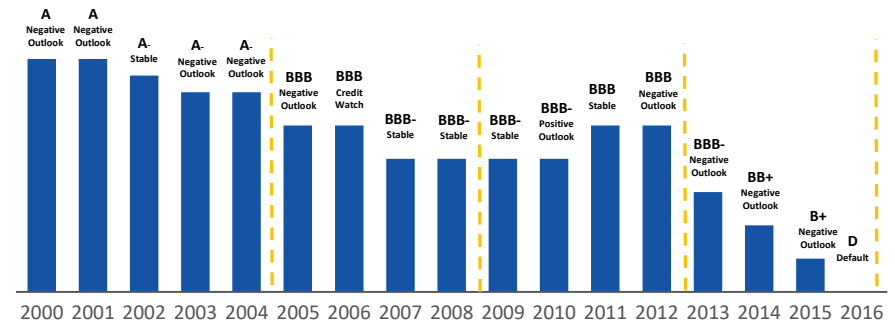
GDB Economic Activity Index (%)

*Unchecked fiscal deficits between 2001 and 2008 led to a recurrent practice of deficit financing, resulting in a 131% growth in public debt during the period*



Public Debt Since 2000 (\$mm's, calendar years)<sup>1</sup>

*An increase in expenditures and public debt led to a consistent decline in Puerto Rico’s credit ratings, except for the period between 2009 and 2012*



Puerto Rico Credit Rating FY00 – FY16: S&P Rating on General Obligation Bonds

<sup>1</sup> Source: Government Development Bank of Puerto Rico



# A NEW VISION FOR PUERTO RICO



## Our vision for the socioeconomic transformation is founded on a new Government model to drive fiscal and economic stability

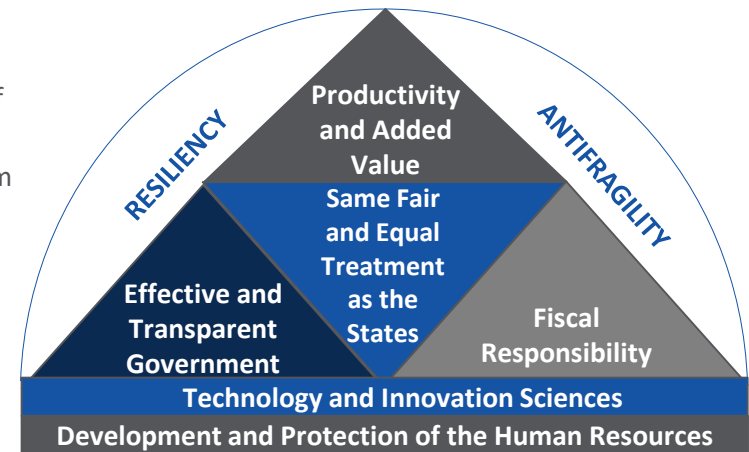
The devastation caused by Hurricanes Irma and Maria creates an opportunity to redesign major components of the Island’s critical infrastructure, invest in the quality and resiliency of public and private buildings, and restructure and modernize and reevaluate delivery of services to residents.

### Strategic Goals:

- To establish a new Government which facilitates and implements strategies that achieve sustainable economic growth and provides opportunities for job growth and personal advancement.
- To develop an educated, healthy, productive and vibrant society, observant of law, order and integrity.
- To establish effective, efficient, and responsible government policies and practices that remain sensitive to the needs of Puerto Rico’s most vulnerable residents.
- To incorporate practices and operations based on scientific- and performance-based models into Government; where evidence and results matter; and where resident participation, collaboration, and trust in government are the main focus of its validation.

### Main Objectives:

1. Develop and **protect human capital**.
2. Correct structural issues, **bolster economic growth** efforts, and utilize areas of opportunity.
3. Improve **Puerto Rico’s competitiveness** through less regulation, energy reform and other various structural reforms.
4. Position Puerto Rico as a **global investment** destination.
5. Upgrade policies of **public private partnership** investment in energy, water, waste management, and other infrastructure projects.
6. Increase labor force flexibility and create **high quality jobs**.
7. Develop a **safe, educated, healthy and sustainable society**.
8. Achieve **equality** for all residents of Puerto Rico consistent with other U.S. states.
9. Eliminate **inequality** at the local level.
10. Use and maximize **science and technology** as a driver for transformation.





## The New Fiscal Plan integrates the required response to devastation caused by the Hurricanes as well as most recent facts and assumptions underlying available Disaster Relief Assistance and private insurance claims proceeds

The FOMB approved the Certified Fiscal Plan covering a 10-year period on March 13, 2017. Thereafter, the Government began the difficult task of implementing the proposed initiatives to achieve structural balance by FY20. In the aftermath of the Hurricanes, the FOMB directed the Government to revise the Certified Fiscal Plan. The New Fiscal Plan is built upon the pillars of fiscal and structural reform with the main objective of revitalizing the economy and critical infrastructure.



<sup>1</sup>Build Back Better Puerto Rico, Request for Federal Assistance for Disaster Recovery November 13, 2017.

# REBUILDING PUERTO RICO

A COMPREHENSIVE DISASTER AND INFRASTRUCTURE RECOVERY STRATEGY

BUILD BACK BETTER | FUNDING SOURCES | CRRO & P3 UPDATE



GOVERNMENT OF PUERTO RICO

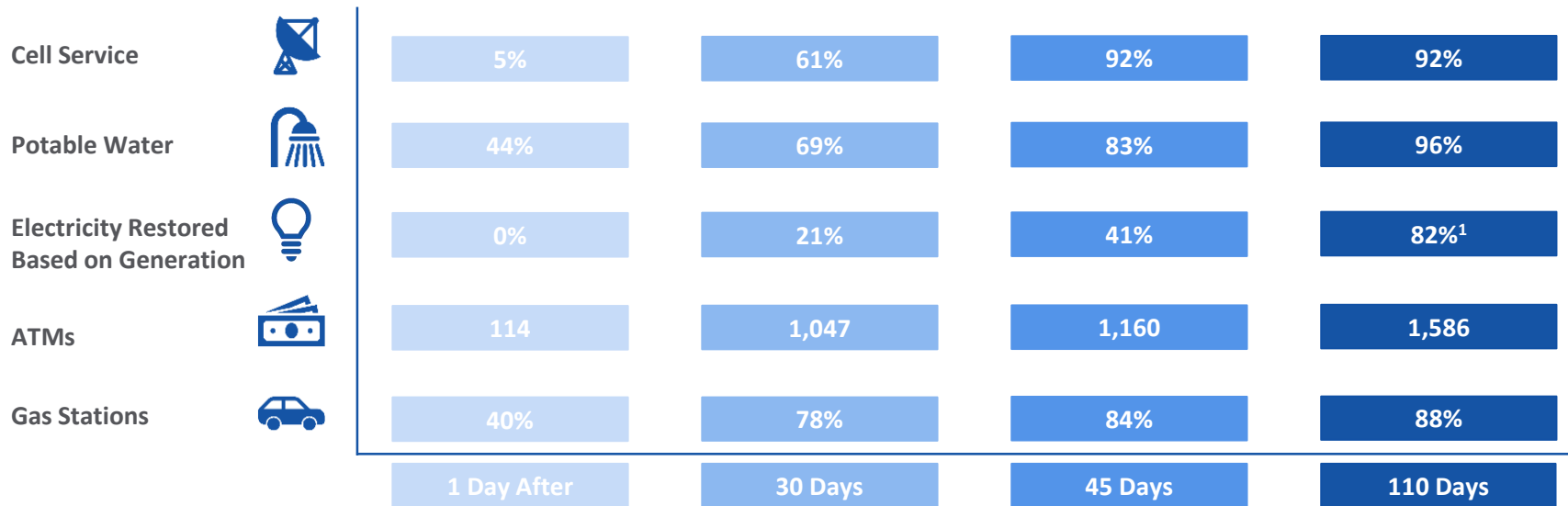


**BUILD BACK BETTER**



## Notwithstanding the precautionary measures taken prior to the Hurricanes, Puerto Rico’s infrastructure was significantly damaged

Initial repair efforts are focused on temporary fixes and still require significant permanent investments that will provide the resiliency needed to withstand future natural disasters.



As of January 10, 2018

Days Elapsed Since Hurricane Maria<sup>2</sup>

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure related damages disrupting the daily lives of 3.4mm residents, including housing, infrastructure, environment, safety, health and social services, and municipal operations. The response to the catastrophe by the U.S. and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history.<sup>3</sup>

<sup>1</sup> Translates to 68% of PREPA’s customer-base

<sup>2</sup> FEMA and Status.pr

<sup>3</sup> Build Back Better Puerto Rico, Request for Federal Assistance for Disaster Recovery, Acknowledgement Section, November 13, 2017



# FUNDING SOURCES





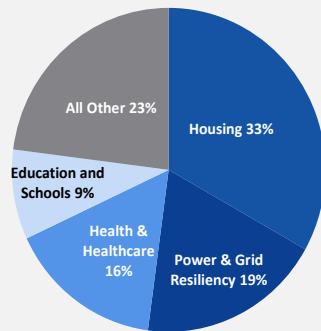
## On November 13, 2017, the Government submitted a formal request for supplemental Federal assistance, titled Build Back Better Puerto Rico

The BBB plan is a roadmap for rebuilding a more resilient Puerto Rico that details the funds requested for disaster recovery by sector. The plan was prepared with the joint support of the State of New York GOSR, 100 Resilient Cities, Ford Foundation, Open Society Foundation, Deloitte, and other state and Federal agency experts.<sup>1</sup>

### Mission Critical Goals

Restore damaged housing stock	Spur economic revitalization
Provide residents with core services	Better prepare Puerto Rico for future natural disasters
Rebuild and strengthen the Island’s critical infrastructure	Ensure transparency and stronger financial controls

### \$94.4bn Request by Category



### Uses

- **Housing:** \$31.1bn for damaged and destroyed buildings, structures, and equipment.
- **Power Grid & Utility Resiliency:** \$17.8bn to repair the damaged utility infrastructure of the Island.
- **Healthcare:** \$14.9bn to repair, strengthen, and make more resilient healthcare facilities, to bolster state emergency stockpiles, and to augment existing Medicaid program.
- **Cost-share** (part of all other): Estimated 10% FEMA cost-share to be covered through alternate Federal funding (to the extent the cost-share is not eliminated entirely).

### Sources

- Additional Federal funding is obtained from special disaster relief bills that appropriate additional funds to Federal agencies earmarked for disaster relief and recovery.

### Commitment to Transparency and Financial Controls

- The CRRO was created to ensure transparency and accountability of disaster recovery funding and for the oversight of all recovery efforts.

<sup>1</sup> Build Back Better Puerto Rico, Request for Federal Assistance for Disaster Recovery, Acknowledgement Section, November 13, 2017



## Although Puerto Rico requested significantly more Federal Disaster Relief Assistance, only \$49.1bn is included in the New Fiscal Plan

- Puerto Rico has requested \$94.4bn in Federal Disaster Relief Assistance.
- However, as required by FOMB guidelines, the New Fiscal Plan assumes only \$49.1bn of federal assistance as per current law.
- In addition, \$21.0bn from private insurance companies is included.<sup>1</sup>

Disaster Related Funding in the New Fiscal Plan			
\$49.1bn Federal Assistance	+	\$21.0bn Private Insurance	=
			\$70.1bn Disaster Relief Assistance

- Certain federal funding contains a 10% local cost share component. The Government’s cost-share is estimated at \$1.4bn, excluding the amounts related to PREPA and PRASA which are addressed in their respective fiscal plans.
- Puerto Rico is requesting a cost-share adjustment for FEMA’s programs under the Stafford Act to 100% Federal. To the extent the cost-share is not eliminated entirely, the Government has requested authorization to use CDBG-DR funds to cover the cost-share match requirements. Historically, either FEMA or Congress have authorized a 100% Federal cost-share for catastrophic disasters such as in Hurricanes Andrew and Katrina.
- Congress has approved \$4.9bn of liquidity funds for Puerto Rico and the U.S. Virgin Islands in the form of a CDL. Terms have been the subject of negotiation since October 2017. This loan is not additive to the economy.
- Property Claims Services, a subsidiary of Verisk Analytics, estimates \$21.0bn of private insurance funds, with 75% spent over the first five years.<sup>2</sup>

### \$35.3bn FEMA Public Assistance Funding<sup>3</sup>

The \$35.3bn estimate is based on FEMA Public Assistance program guidelines with a damage assessment by category.

Proposed funding uses:

- 51% – Repairing, modernizing, and strengthening Puerto Rico’s water and power infrastructure.
- 24% – Reconstructing critical publicly mixed buildings and fixing of equipment.
- 25% – Rebuilding and strengthening emergency response capabilities, water control facilities and other.

### Bipartisan Budget Act of 2018-CDBG Funds

Due to the passing of the Bipartisan Budget Act of 2018 on February 2, 2018 and other granted federal funding, \$12.8bn of supplemental appropriations are included in the New Fiscal Plan.

Estimated allocation for Puerto Rico is as follows:

- \$11.7bn – CDBG
- \$1.1bn-CDBG First supplemental

<sup>1</sup> Property Claims Services Estimate, dated October 2017.

<sup>2</sup> Based on outlays of Hurricane Community Development Fund during Hurricane Katrina recovery.

<sup>3</sup> PR Government estimates reviewed by third party subject matter experts.

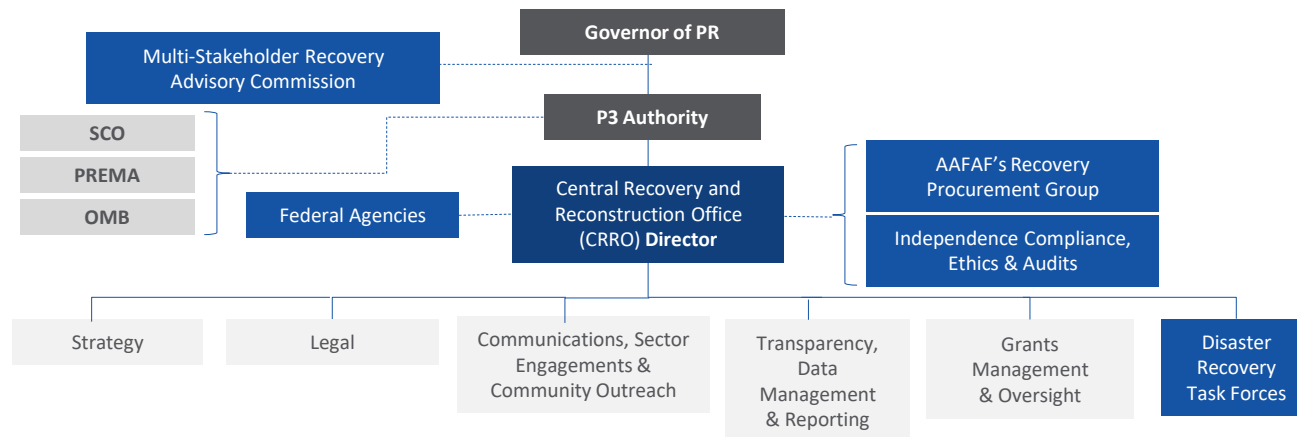


# CRRO AND P3 UPDATE



## The Central Recovery and Reconstruction Office will assist in providing oversight and financial controls during the rebuilding process

The CRRO was created following global best practices used in many jurisdictions including without limitation New Jersey, Louisiana, New York and New Zealand to ensure accountability and coordination of the disaster recovery efforts expected by residents of Puerto Rico and U.S. taxpayers. It will ensure that the Government can implement reconstruction efforts with efficiency, effectiveness, and transparency, while capitalizing on opportunities to build back in a way that makes Puerto Rico better, stronger, and more resilient.



### The Purpose and Responsibilities of the CRRO – Transparency, Efficiency and Controls

- CRRO was established to promote transparency and efficiency in the disaster recovery process and will:
  - Monitor contracting for compliance and effectiveness purposes.
  - Implement and enforce checks and balances for procurement and approval of contracts and payments.
  - Deploy a proven grant-management software and provide external visibility via frequent status updates to its public website.
  - Coordinate and channel all efforts and activities of the Government related to recovery efforts.
  - Process, finance, and execute works and infrastructure projects related to recovery efforts.
- Managing funds and the recovery process in this fashion will be critical to Puerto Rico’s long term reconstruction.
  - Third party assistance within the reconstruction process will be optimized by engaging consultants with expertise in managing FEMA, HUD, and other grant programs and a national accounting firm to develop financial controls, policies and procedures.

### Key Milestones

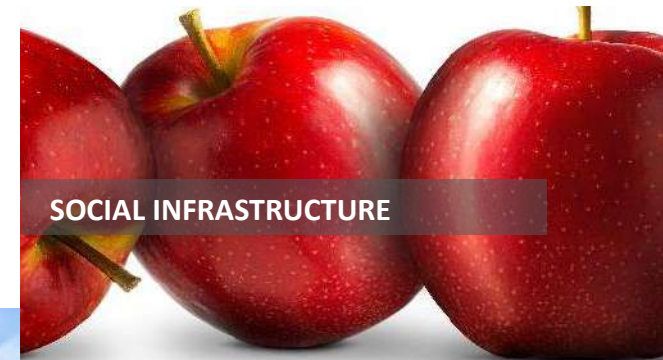
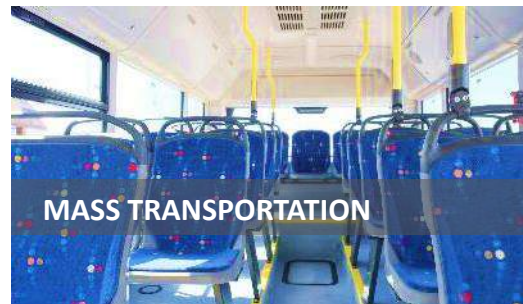
- December 6, 2017: P3 Authority Board formalized the creation of the CRRO as a division within the P3 Authority.
  - Charter Resolutions and proposed organizational structure of the CRRO were approved by the P3 Authority.
  - Contract support structure and related proposals for implementation of policies and procedures were approved and subsequently issued.



## Puerto Rico’s proven P3 framework will adapt to the current economic and fiscal circumstances to achieve a real incremental effect on long-term growth

- As proven in different jurisdictions around the world, centralizing implementation of P3 project delivery within a statewide team with technical, financial, and legal expertise has been beneficial to the delivery and intensifying of P3 projects. Puerto Rico has a proven track record in P3s having executed landmark projects such as Toll Roads PR-22 / PR-5 and LMM International Airport.
- P3 pipeline has been revised to reflect a five-year Fiscal Plan time horizon, leveraging Federal funding and world wide exposure. The P3 Authority is focusing on developing critical infrastructure projects across the Island, modernizing public services and building stronger and more resilient infrastructure in close collaboration and partnership with the private sector.
- Recently enacted laws provide for the private sector to submit unsolicited proposals which are private bids for public-private projects. This process will enable collaboration and partnership with the private sector to accelerate development of critical infrastructure and optimization of government operations. Since January 2017, 20 unsolicited proposals, encompassing all infrastructure sectors, have been received.
- Puerto Rico Revitalization Authority
  - CAPEX and infrastructure development will be streamlined by leveraging the capabilities and resources of the P3 Authority, PRIFA, certain other instrumentalities, and Title V of PROMESA into a new Puerto Rico Revitalization Authority.

### P3 IMPACT AREAS:



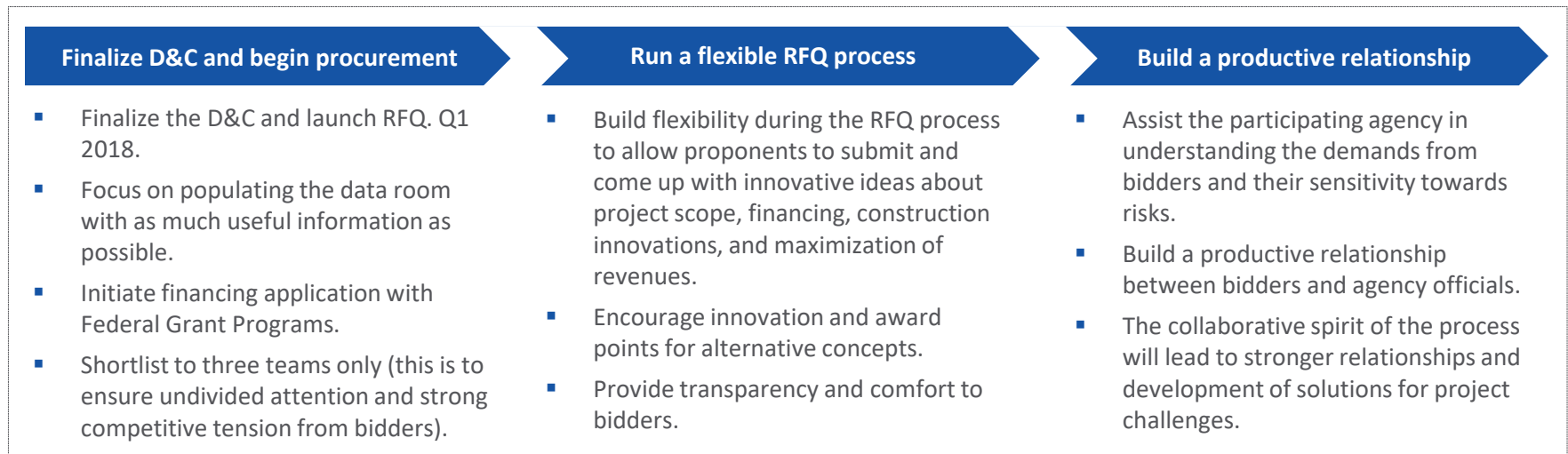


## A path forward with current P3 pipeline

Given Puerto Rico’s fiscal and economic conditions, it is expected for projects to carry certain risk premiums and have feasibility challenges. However, the market recognizes well-structured projects, critical and transformative projects and has the ability to formulate innovative solutions to improve the financial profile of projects.

**Despite challenges and adjustments, there is a path forward for P3 projects in Puerto Rico:**

1	Student Life	2	Maritime Transportation	3	Parking Facilities Modernization
	<ul style="list-style-type: none"> <li>Draft RFQ<sup>1</sup> Released 10/16/2017</li> <li>D&amp;C<sup>2</sup> Study to be published by January 2018</li> </ul>		<ul style="list-style-type: none"> <li>Draft RFQ Released 10/16/2017</li> <li>D&amp;C Study to be released by 1Q 2018</li> </ul>		<ul style="list-style-type: none"> <li>Draft RFQ Released 10/16/2017</li> <li>D&amp;C Study to be released by 1Q 2018</li> </ul>



<sup>1</sup>Request for Quote is the title for the standard bidding process in which businesses invite suppliers to bid on goods and services.

<sup>2</sup>Desirability and Continuation (“D&C”) Study performed to see how attractive externalization of public agencies/functions is to the private market.



# PATH TO STRUCTURAL BALANCE

ECONOMIC AND FINANCIAL CONSIDERATIONS FOR THE FUTURE

ECONOMIC OUTLOOK | FINANCIAL PROJECTIONS | DEBT SUSTAINABILITY



GOVERNMENT OF PUERTO RICO



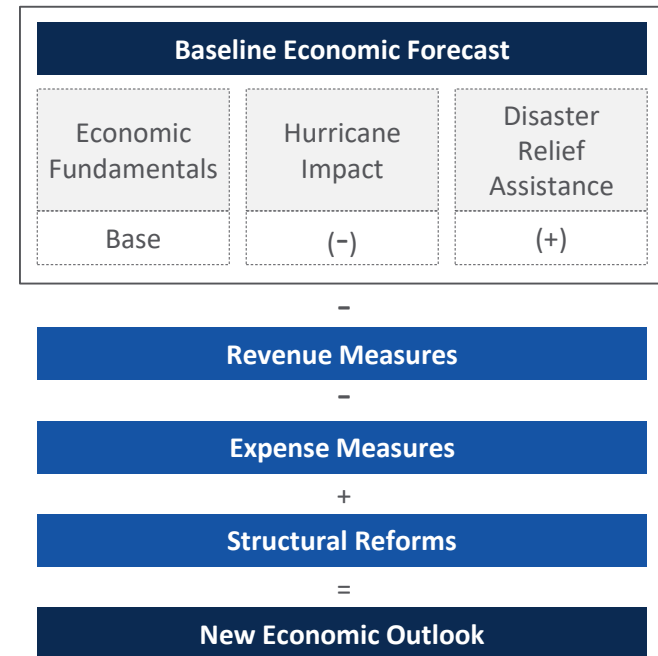
# ECONOMIC OUTLOOK





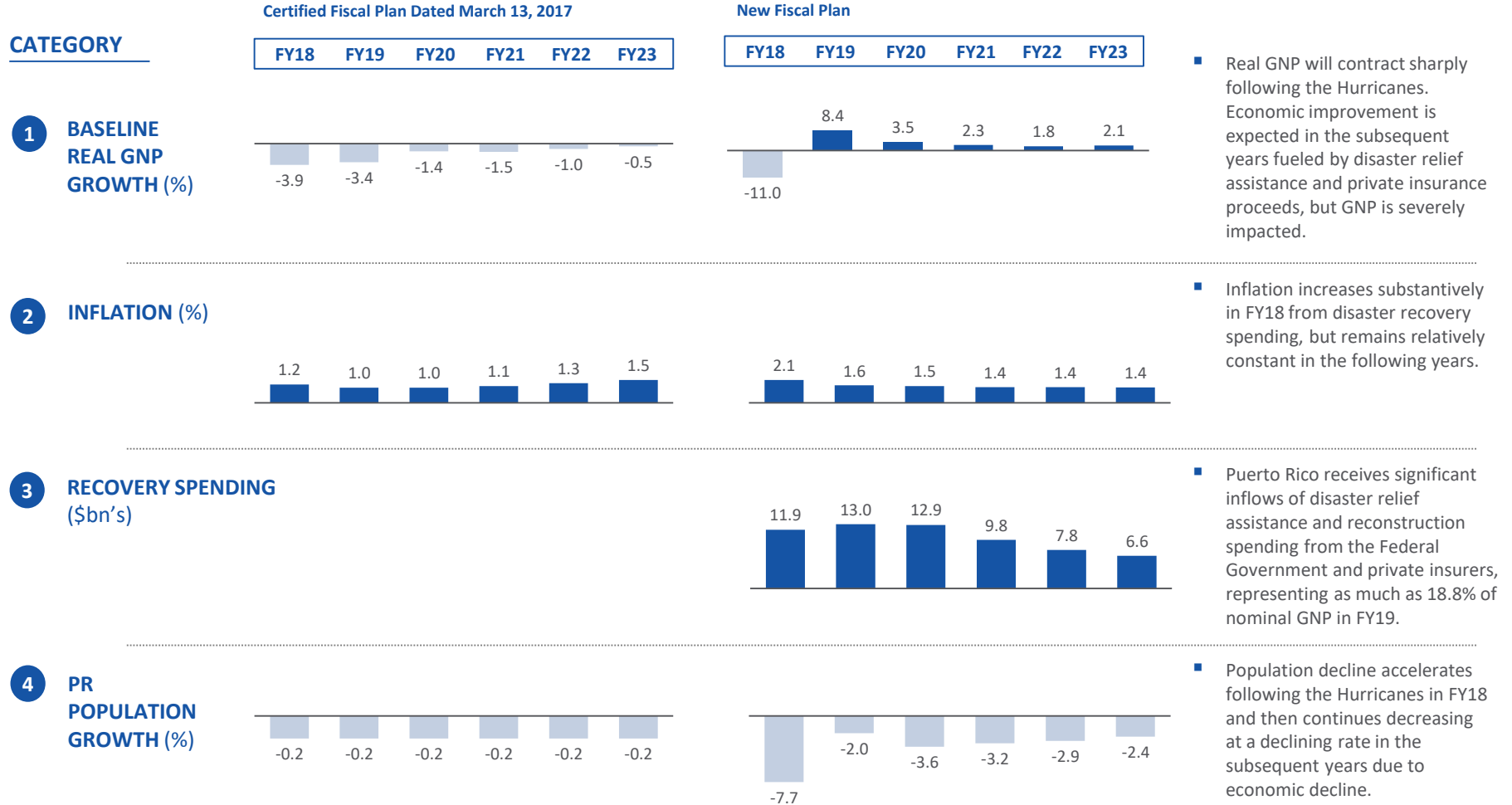
## Macroeconomic Model Post Hurricanes Irma and Maria

- The Government has developed an economic outlook model with 50 years of historic economic data from Puerto Rico to estimate GNP growth, inflation rates, and population growth rates, which in turn are used as the main drivers for financial projections.
  - The model also incorporates U.S. GDP growth, net transfers from the Federal Government, historical capital investment in the economy, and world oil prices.
  - The methodology used is consistent with that used in IMF macroeconomic projections in the context of surveillance and lending programs.
  
- In addition, there are four additional key drivers in the economic model that have a significant impact to the projections:
  1. Hurricane Impact
    - The level of hurricane destruction is the variable that is greatly influencing economic projections.
  2. Disaster Relief Assistance
    - Disaster relief assistance funding (Federal funding and private insurance claims proceeds) helps rebuild the Island’s infrastructure and businesses and leads to a positive impact on economic projections.
  3. Revenue and Expense Measures
    - Revenue measures improve the tax collection efficiency of the Government.
    - Both revenue and expense measures have a negative impact to GDP.
  4. Structural Reforms
    - Improve the business environment and play a complementary role in stimulating investment and job creation, the impact of the structural reforms is positive.





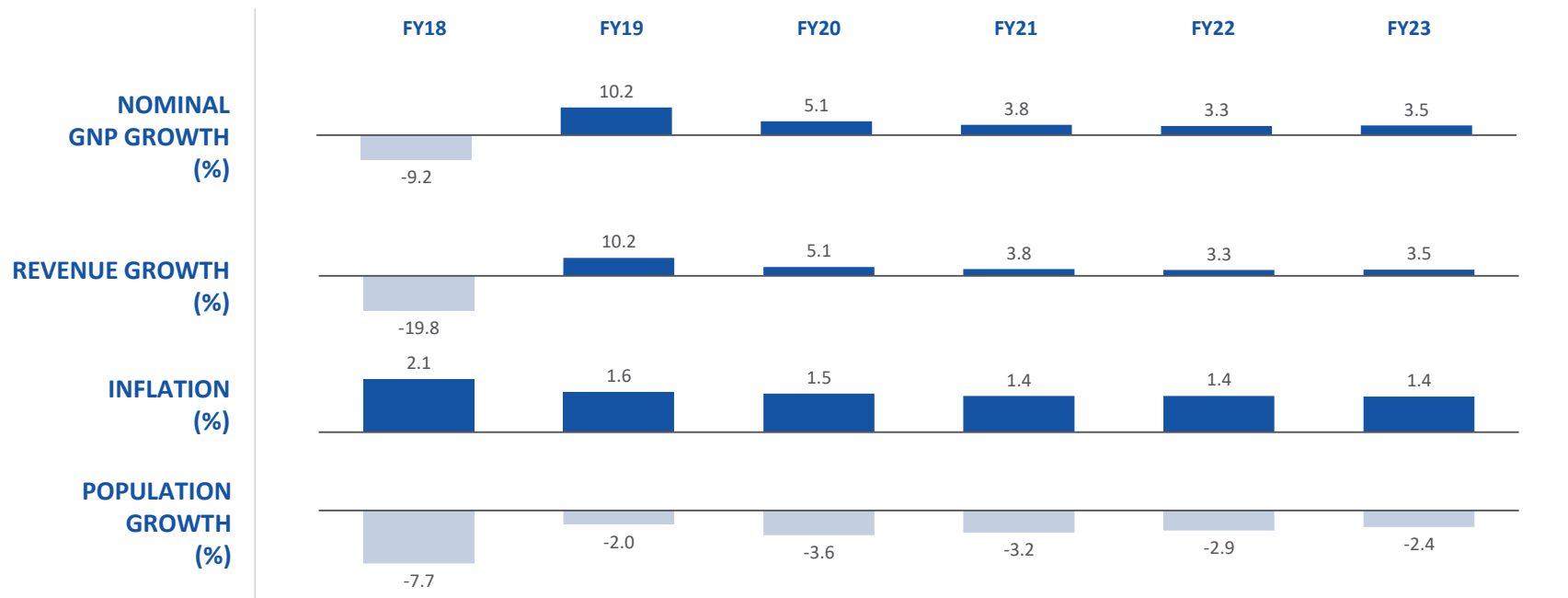
## Hurricanes Irma and Maria have significantly altered the economic landscape





## Negative impact of Hurricanes on economic outlook is mitigated by Federal support and positive impact of Structural Reforms

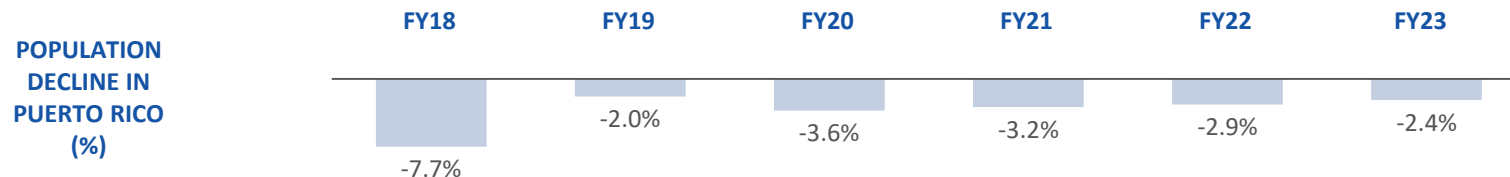
- Nominal GNP is estimated to fall sharply in FY18 due to the impact caused by Hurricanes Irma and Maria. Disaster recovery assistance and rebuilding efforts drive higher nominal growth in subsequent years.
- The key driver to the financial projection is revenue growth, which is estimated for FY18 using the elasticity of revenue to nominal GNP observed during the U.S. Great Recession and is consistent with general fund collections through December.
- Revenues are anticipated to surpass pre-Hurricanes levels through the projection period: revenues are forecasted to become 3% higher than pre-storm levels by FY23 (in nominal terms).





## Population Decline

- Population is estimated jointly with GNP. The estimation is anchored on historical data since 1965.
- GNP contraction causes population decline, as people leave the Island due to poor economic conditions.
  - People leave the Island because there are no jobs – jobs do not disappear because people leave.
- The main drivers of long-run population growth are:
  - **Past GNP growth**: When the economy is doing better, people are less likely to leave the Island.
  - **Past population growth** reflects the high persistence of demographic trends.
  - The growth of **net Federal transfers** to Puerto Rico, in real terms: higher transfers from the Federal Government reflect better resources for households in Puerto Rico.
  - The effects of **Maria and Irma** are included in the estimation: as expected, the results indicate that net outward migration increases following a storm.
  - **Relief spending** is incorporated into the model representing increased resources for residents of Puerto Rico.
- However, these long-run growth factors do not completely capture short-term demographic factors impacting migration in the wake of an extraordinary hurricane.
- The New Fiscal Plan adopts demographic projections calculated by Lyman Stone, an expert in demography. The projections were presented in the First FOMB listening session held on November 16, 2017.<sup>1</sup>
- A 20% cumulative decline in population is expected over six years.



<sup>1</sup>Cresting the Wave: Puerto Rico’s Once and Future Population Decline



# FINANCIAL PROJECTIONS

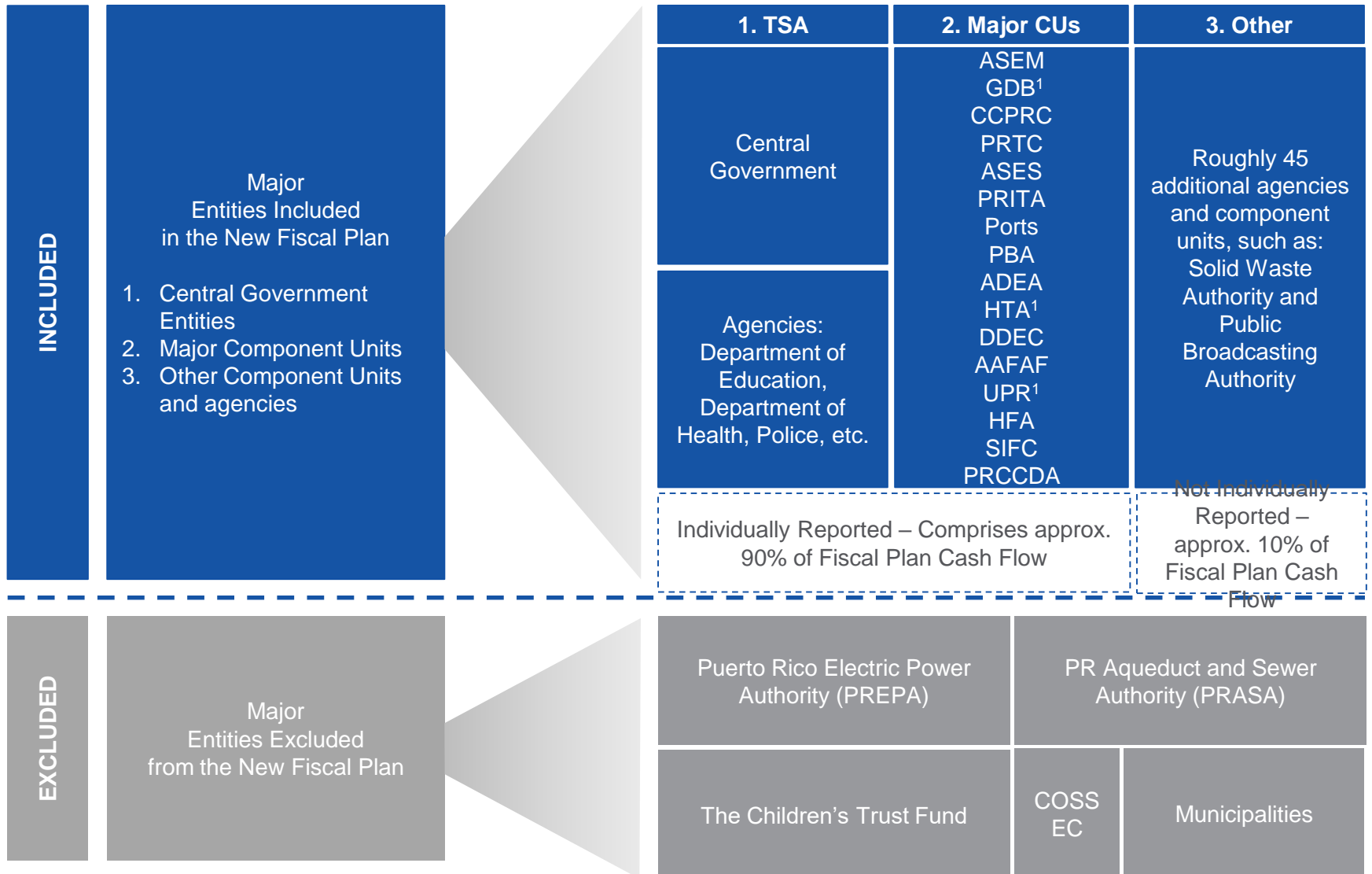


## Key Presentation Differences in New Fiscal Plan from Certified Fiscal Plan

Category	Certified Fiscal Plan	New Fiscal Plan
<b>HTA</b>	<ul style="list-style-type: none"> <li>Revenues and expenses consolidated into Commonwealth plan.</li> <li>Capex funded through Commonwealth.</li> <li>Implicit deficit impacted cash available for debt service.</li> </ul>	<ul style="list-style-type: none"> <li>Clawbackable revenues flow directly to Commonwealth.</li> <li>Revenues and expenses not presented.</li> <li>HTA developing independent fiscal plan.</li> <li>Estimated deficit, including allocation for capital expenditures, funded through appropriations.</li> </ul>
<b>UPR</b>	<ul style="list-style-type: none"> <li>Revenues and expenses presented on a gross basis.</li> <li>Capex funded through Commonwealth.</li> <li>Budgetary appropriation included in GF budget.</li> </ul>	<ul style="list-style-type: none"> <li>Only budgetary appropriation included.</li> <li>UPR developing independent fiscal plan.</li> </ul>
<b>Independently Forecasted Non-Enterprise Component Units</b>	<ul style="list-style-type: none"> <li>Presented on a net surplus / (deficit) basis.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated into Central Government revenue and expenses (gross basis).</li> <li>Typically presented on a net deficit basis, or separately for comparison purposes.</li> </ul>
<b>Special Revenue Funds / Enterprise Funds</b>	<ul style="list-style-type: none"> <li>Presented on a net deficit basis.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated into Central Government revenue and expenses (gross basis).</li> </ul>
<b>Title III Expenses</b>	<ul style="list-style-type: none"> <li>Excluded in fiscal plan Certified Fiscal Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Included in the New Fiscal Plan.</li> </ul>
<b>Pension and Paygo</b>	<ul style="list-style-type: none"> <li>Pension costs presented in Paygo line item, as a portion of direct payroll and through special appropriations.</li> </ul>	<ul style="list-style-type: none"> <li>Pension expense presented in single line item (GF Portion of Paygo Expense).</li> </ul>
<b>Reconciliation Adjustment</b>	<ul style="list-style-type: none"> <li>Included in Certified Fiscal Plan to account for potential under budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>Excluded based on analysis of preliminary FY15 CAFR versus FY14 CAFR.</li> </ul>
<b>COFINA</b>	<ul style="list-style-type: none"> <li>Included in “Other SUT,” not general fund.</li> </ul>	<ul style="list-style-type: none"> <li>Included in general fund SUT collections.</li> </ul>
<b>Disaster Relief</b>	<ul style="list-style-type: none"> <li>N/A.</li> </ul>	<ul style="list-style-type: none"> <li>FEMA funding and FEMA related spending shown on a gross basis; cost-share reflected separately.</li> </ul>



## Government Entities and Relation to the New Fiscal Plan



<sup>1</sup> GDB, HTA, and UPR have separate and apart fiscal plans from the Central Government.



## Summary of Entities Included in Fiscal Plan

### ENTITIES INCLUDED IN FISCAL PLAN

- 9-1-1 Service Governing Board
- Additional (Electronic) Lottery
- Agricultural Enterprises Development Administration
- Automobile Accidents Compensation Administration
- Cardiovascular Center Corporation of Puerto Rico and the Caribbean
- Commonwealth of Puerto Rico (Primary Government)
- Company of the Integral Development of the "Peninsula de Cantera"
- Corporation for the "Cano Martin Pena" Project (ENLACE)
- Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
- Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
- Culebra Conservation and Development Authority
- Disability Insurance
- Driver's Insurance
- Employees' Retirement System
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Fiscal Agency and Financial Advisory Authority
- Industrial and Investment Corporation
- Institute of Puerto Rican Culture
- Institutional Trust of the National Guard of Puerto Rico
- Judiciary Retirement System
- Land Authority of Puerto Rico
- Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
- Musical Arts Corporation
- National Parks Company of Puerto Rico
- Ponce Ports Authority
- Port of the Americas Authority
- PR Infrastructure and Finance Authority
- PR Maritime Shipping Authority
- PR Medical Services Administration
- PR Sales Tax Financing Corporation
- Public Building Authority
- Public Finance Corporation
- Puerto Rico and Municipal Islands Transport Authority
- Puerto Rico Conservatory of Music Corporation
- Puerto Rico Convention Center District Authority
- Puerto Rico Council on Education
- Puerto Rico Health Insurance Administration
- Puerto Rico Industrial Development Company
- Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
- Puerto Rico Integrated Transit Authority
- Puerto Rico Land Administration
- Puerto Rico Metropolitan Bus Authority
- Puerto Rico Ports Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico Public Private Partnerships Authority
- Puerto Rico School of Plastic Arts
- Puerto Rico Telephone Authority
- Puerto Rico Tourism Company
- Puerto Rico Trade and Export Company
- Solid Waste Authority
- Special Communities Perpetual Trust
- State Insurance Fund Corporation
- Teachers' Retirement System
- Tourist Development Fund
- Traditional Lottery
- Unemployment Insurance Fund
- University of Puerto Rico Comprehensive Cancer Center





## Summary of Entities Excluded from Fiscal Plan

### ENTITIES ISSUING STANDALONE FISCAL PLAN

- Governmental Development Bank of PR
- Housing Financing Authority
- PR Aqueduct and Sewer Authority
- PR Electric Power Authority
- PR Highways and Transportation Authority
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- University of Puerto Rico

### ENTITIES EXCLUDED FROM FISCAL PLAN

- Agency Fund (Special Deposit Fund)
- Commonwealth of Puerto Rico Regional Center Corporation
- Economic Development Bank for Puerto Rico
- Model Forest
- Municipal Revenue Collection Center
- Puerto Rico Government Investment Trust Fund
- Puerto Rico Municipal Finance Agency
- Puerto Rico Municipal Finance Corporation
- Puerto Rico Water Pollution Control Revolv. Fund
- Safe Drinking Water Treatment Revolving Loan Fund
- The Children's Trust Fund



## Hurricanes Irma and Maria temporarily set back Puerto Rico’s fiscal progress

After all Government transformation initiatives and structural reforms are implemented and through interim Federal support related to healthcare and disaster relief, Puerto Rico will accumulate a surplus \$3.4bn through FY23.

### 1 FINANCIAL PROJECTIONS



#### AN UPDATED FINANCIAL PROJECTION IS REQUIRED TO ACCOUNT FOR PUERTO RICO’S NEW REALITY

- Hurricane Maria’s landfall worsened an already fragile infrastructure and economy.
- Over the six year period, the Government went from a \$4.8bn cash flow surplus in the March 13, 2017 Certified Fiscal Plan to a surplus of \$3.4bn.
- Increased federal support, positive impacts of reconstruction spend and structural reforms offset the negative impacts of the hurricane and increased spend related to Title III costs.
- A contributing factor to the situation is general lack of access to traditional capital markets to fund growth and rebuilding efforts, in the short term, this has been partially mitigated by increased Federal support.

### 2 TEMPORARY REVENUE DECLINE



#### IMPACTS ON REVENUE FROM HURRICANES IRMA AND MARIA DRIVE DEFICITS

- Depressed GNP increases outmigration. Baseline government revenues are materially impacted in FY18 and FY19 and start stabilizing in FY20 – FY23.
- FY18 is the most impacted as the hurricanes immediately disrupt the economy while the positive impact of disaster relief assistance spend and recovery in revenue lags.
- Prior to implementation of measures, the funding gap for the six year period is \$4.7bn.

### 3 FISCAL MEASURES



#### THE GOVERNMENT IS COMMITTED TO CONTINUE IMPLEMENTING TRANSFORMATIONAL MEASURES

- Gross expense and revenue enhancement measures reduce the pre-measures funding gap.
- Net measures, including tax reform, of \$8.1bn eliminate the gap resulting in an accumulated surplus of \$3.4bn (including Title III and cost-share).

### 4 LIQUIDITY SUPPORT



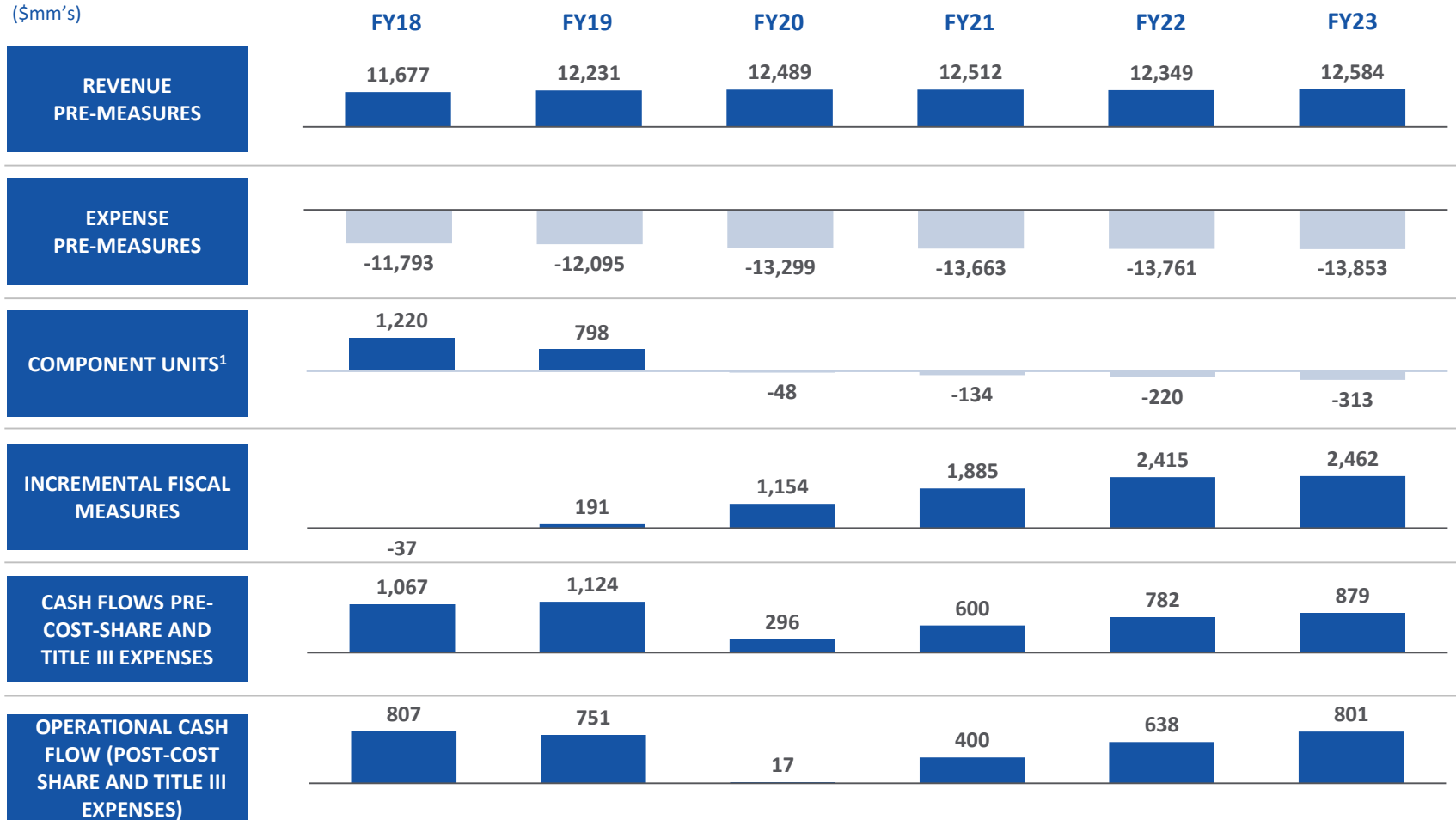
#### PUERTO RICO WILL NEED A LIQUIDITY FACILITY IN FY18 TO SUPPORT RECOVERY EFFORTS AND BRIDGE THE GAPS AT PREPA AND PRASA

- In addition to disaster relief assistance, Puerto Rico requires external liquidity support to finance the recovery effort and provide necessary, interim support to PREPA and PRASA.
- The availability of this funding source is a critical risk to the success of this Fiscal Plan and the long term viability of Puerto Rico.



## Cash Flows Post Measures, Excluding Debt Service

By FY23 the accumulated surplus is \$3.4bn.



<sup>1</sup> Component units are legally separate from the Government, but are discretely presented as component units in the Government's financial statements.

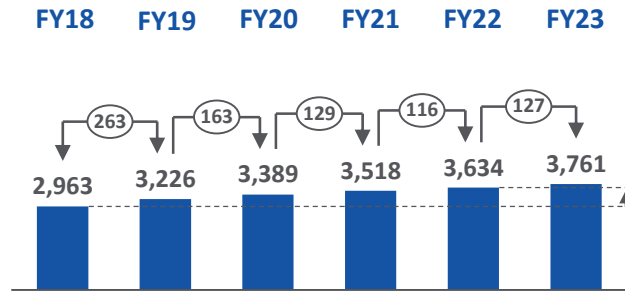


## Key General Fund Revenue Drivers

The following General Fund Revenue drivers comprise 60% of total revenue, excluding Federal transfers and revenue from Component Units, over the five year projection period.

(\$mm's)

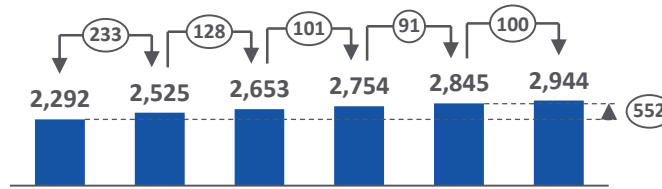
### INDIVIDUAL + CORPORATE INCOME TAXES



### DESCRIPTION

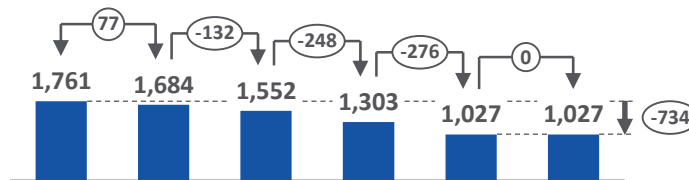
- Taxes collected from individuals and corporations are expected to decline by 19.8% and 12.4%, respectively from FY17 to FY18 as a result of Hurricanes Maria and Irma. Then grow annually at the nominal GNP growth rate, or a CAGR of 4.9% through FY23.

### SALES & USE TAX



- In FY18, total SUT is expected to decline approximately 10.0% from FY17.
- From FY19 – FY23, gross consumption is expected to increase with the nominal GNP growth rate and a constant capture rate of 67.9%.

### ACT 154 TAX



- Act 154 revenues in the baseline are assumed to decline by 15.3% in FY18 with a continued erosion through FY22.
- The impact of the Tax Cut and Jobs Act, compounded by the negative impact of Hurricane Maria on infrastructure supply chain, accelerates the previous declining trend in CFC related revenues. The cumulative discount in FY22 and FY23, relative to FY17 is approximately 50%.

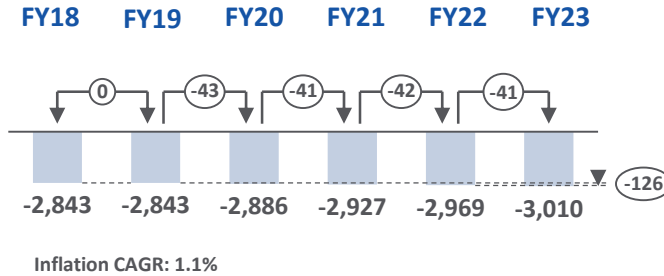


## Key Expense Drivers

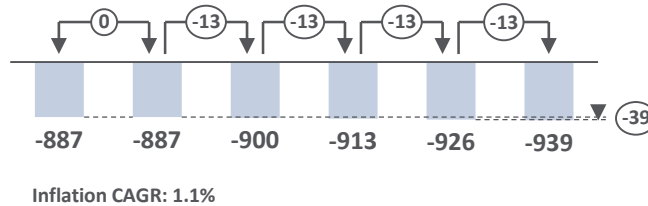
(\$mm's)

### DESCRIPTION

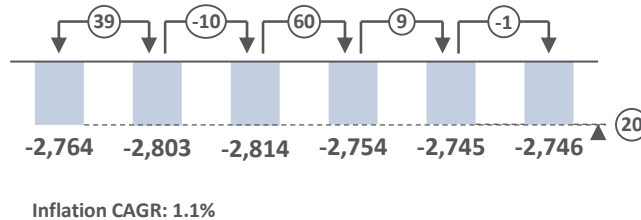
### PAYROLL



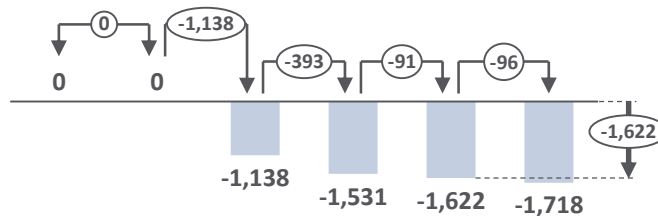
### DIRECT OPERATING EXPENSES<sup>1</sup>



### APPROPRIATION TO GOVERNMENT ENTITIES



### MEDICAID FUNDING



- FY19 is projected to remain constant with FY18 due to the Certified Fiscal Plan measure to freeze expenses. From FY20 - FY23, payroll expense is expected to grow at inflation. The CAGR for the five year period is 1.2%.

Department of Education and Police comprise approximately 40% and 21% of total baseline direct payroll, respectively.
- FY19 is projected to remain constant with FY18 due to the Certified Fiscal Plan measure to freeze expenses. From FY20 - FY23, direct operating expenses are expected to grow at inflation. The CAGR for the five year period is 1.2%.

Department of Education and Department of Health comprise approximately 29% and 12% of total direct operational expenses, respectively.
- Formula-based appropriations to Government entities are assumed to remain flat over the projection period. Non-formula based appropriations are assumed to grow in the same manner as payroll and direct operating expenses.

There's some variability year to year in FOMB appropriations, declining from \$100mm in FY19 to \$30mm in FY23.
- For FY18 - FY20, the expense baseline assumes \$4.8bn in federal support, deferring the cliff and provides incremental liquidity (\$1.8bn FY18, \$2.4bn FY19, \$0.6bn FY20)









The cliff reappears in FY20 and is equal to the approximately 55% average would be Federal funding reimbursement for healthcare insurance premiums & claims less remaining grants.

<sup>1</sup> Service payments, professional fees, medicine costs and other expenses that are directly attributable to a department.



## Measures are comprehensive and balanced to avoid further economic deterioration and will yield net savings of \$2.5bn by FY23

### FISCAL MEASURES IMPACT NET OF IMPLEMENTATION COSTS (\$mm)

	FY18	FY19	FY20	FY21	FY22	FY23
 <b>NEW GOVERNMENT MODEL</b>	(1)	230	692	984	1,228	1,276
 <b>PROCUREMENT REFORM</b>	-	12	49	67	67	67
 <b>REDUCTION OF APPROPRIATIONS</b>	-	85	215	330	397	397
 <b>NEW HEALTHCARE REFORM</b>	49	199	500	750	795	795
 <b>REVENUE MEASURES</b>	65	566	704	776	838	838
<b>SUBTOTAL</b>	<b>113</b>	<b>1,093</b>	<b>2,160</b>	<b>2,908</b>	<b>3,326</b>	<b>3,373</b>
 <b>PAYMENT FOR PAST SERVICES</b>	-	(122)	(122)	(122)	-	-
 <b>EITC</b>	-	(155)	(153)	(154)	(154)	(155)
 <b>TAX REFORM</b>	(150)	(625)	(732)	(748)	(757)	(757)
<b>SUBTOTAL</b>	<b>(150)</b>	<b>(902)</b>	<b>(1,006)</b>	<b>(1,023)</b>	<b>(911)</b>	<b>(912)</b>
<b>TOTAL</b>	<b>(37)</b>	<b>190</b>	<b>1,154</b>	<b>1,885</b>	<b>2,415</b>	<b>2,462</b>



## Cash Flows Post-Measures, Excluding Debt Service<sup>1</sup>

(\$mm's)

	FY18	FY19	FY20	FY21	FY22	FY23	FY18-23
<b>Revenues</b>							
ACT 154	\$1,761	\$1,684	\$1,552	\$1,303	\$1,027	\$1,027	\$8,353
SUT	1,427	1,619	1,709	1,773	1,825	1,884	10,236
Other General Fund Revenue	<u>4,807</u>	<u>5,169</u>	<u>5,407</u>	<u>5,559</u>	<u>5,565</u>	<u>5,682</u>	<u>32,189</u>
Total General Fund Revenues	7,995	8,471	8,668	8,635	8,416	8,593	50,778
Other Non-General Fund Revenue	3,682	3,759	3,821	3,877	3,932	3,990	23,062
<b>Total Revenue Excl. Federal Transfers and CU's</b>	<b>\$11,677</b>	<b>\$12,231</b>	<b>\$12,489</b>	<b>\$12,512</b>	<b>\$12,349</b>	<b>\$12,584</b>	<b>\$73,841</b>
<i>Memo - Gross Revenue Including Tax Credits</i>	<i>\$11,934</i>	<i>\$12,488</i>	<i>\$12,746</i>	<i>\$12,769</i>	<i>\$12,606</i>	<i>\$12,841</i>	<i>\$74,098</i>
<b>Expenses</b>							
General Fund	8,947	9,465	9,566	9,528	9,529	9,503	56,537
Other Expenses	2,846	2,630	2,595	2,605	2,610	2,632	15,918
Medicaid "Cliff"	-	-	1,138	1,531	1,622	1,718	6,009
<b>Total Expenses Excl. Federal Transfers and CU's</b>	<b>\$11,793</b>	<b>\$12,095</b>	<b>\$13,299</b>	<b>\$13,663</b>	<b>\$13,761</b>	<b>\$13,853</b>	<b>\$78,464</b>
<b>Central Government Surplus / (Deficit)</b>	<b>(\$116)</b>	<b>\$136</b>	<b>(\$810)</b>	<b>(\$1,151)</b>	<b>(\$1,413)</b>	<b>(\$1,269)</b>	<b>(\$4,623)</b>
Component Units Revenue	5,981	5,627	4,974	5,062	5,157	5,255	32,055
Component Units Expense	4,761	4,829	5,022	5,195	5,377	5,568	30,753
<b>Component Units Surplus / (Deficit)</b>	<b>\$1,220</b>	<b>\$798</b>	<b>(\$48)</b>	<b>(\$134)</b>	<b>(\$220)</b>	<b>(\$313)</b>	<b>\$1,303</b>
<b>Operating Surplus / (Deficit) - Pre Measures</b>	<b>\$1,103</b>	<b>\$933</b>	<b>(\$858)</b>	<b>(\$1,284)</b>	<b>(\$1,633)</b>	<b>(\$1,582)</b>	<b>(\$3,321)</b>
<b>Measures</b>	(37)	191	1,154	1,885	2,415	2,462	8,069
<b>Operating Surplus / (Deficit)</b>	<b>\$1,067</b>	<b>\$1,124</b>	<b>\$296</b>	<b>\$600</b>	<b>\$782</b>	<b>\$879</b>	<b>\$4,748</b>
FEMA Cost-share	241	259	233	141	82	79	1,035
Title III Costs	19	114	46	59	62	0	300
<b>Surplus / (Deficit)</b>	<b>\$807</b>	<b>\$751</b>	<b>\$17</b>	<b>\$400</b>	<b>\$638</b>	<b>\$801</b>	<b>\$3,413</b>

<sup>1</sup>Excluding Federal Transfers and a county support fund being considered of \$100MM per year through FY23.

Note: In addition to federal disaster relief assistance, the Government will continue investing in the upkeep and maintenance of its infrastructure. For the period FY18-FY23, the Government will invest approximately \$400mm a year in the following categories: (i) \$275mm in the Central Government and its CUs; (ii) \$85mm in PRHTA; (iii) \$40mm in UPR.



# DEBT SUSTAINABILITY





## Debt Sustainability Overview

The debt sustainability analysis is intended to provide an informative guideline for the long-term financial capacity of the Government and to minimize future default risk. Returning to the capital markets will require managing Puerto Rico’s debt in accordance with municipal best practices, including benchmarking its borrowing capacity with the metrics rating agencies utilize to evaluate the creditworthiness of U.S. states and territories.

- 1** The objective of the Debt Sustainability Analysis is to provide forward-looking and transparent analysis of borrowing capacity to regain and maintain capital market access in compliance with PROMESA requirements.
- 2** This analysis is intended to be “creditor agnostic” and does not take any position on the allocation of debt repayments to any particular constituency.
- 3** Borrowing capacity is analyzed using benchmark average U.S. state debt metrics to imply a range of potential debt capacity.

The Government will adopt the following elements generally regarded as key components of a debt affordability study:

1



### Actual Comparables

Benchmark against peers considering the appropriateness of the comparison group and using multiple metrics to get a full picture of where Puerto Rico stands.

2



### Projects obligations

Forecasts debt obligations and/or capacity to repay beyond the current fiscal year, considering various issuance and revenue scenarios and looking at multiple measures of future debt levels.

3



### Comprehensive debt analysis

Consider the majority of debt outstanding from both the primary Government and major component units, and discuss the impact of other long-term obligations on debt affordability.

4



### Produced regularly

Require regular completion of a debt study which contains a clear statement of remaining debt capacity.



## Factors Under Consideration to Determine Future Credit Ratings

- As the Government of Puerto Rico seeks to re-establish capital market access, it needs to show improvements in its economy, finances, governance, and management of long term liabilities such as debt and pensions.
- The following list from Moody’s provides metrics according to which the Government of Puerto Rico’s credit will be evaluated and the basis on which a future investment grade rating will be assigned:

Factor	Description
<b>Per-Capita Income</b>	Higher-income taxpayers are generally capable of paying higher taxes than lower-income taxpayers, and income is a proxy for the revenue generating potential of a state’s economy.
<b>GNP/GDP</b>	A measure of the overall economic output of a state or territory and a more widely recognized and understood economic indicator.
<b>Structural Balance (Budget)</b>	The ongoing relationship between inflows and outflows is a strong indication of whether a state is balancing its budget, whether it is at risk of converting deficits into long-term liabilities and how difficult it would be to return to balance.
<b>Fixed Costs to Revenue</b>	Fixed costs are debt service, pension and OPEBs. The ratio of fixed costs to a state’s own-source revenue is an indication of a state’s ability to reduce expenditures.
<b>Liquidity</b>	Liquid reserves help a state bridge temporary budgetary imbalances. The goal is to reduce reliance on cash flow borrowing (TRANS).
<b>Governance / Constitutional Framework</b>	The goal is to strengthen financial management and budgeting practices. Financial policies lead to balanced budgets, reduce the accumulation of unaffordable liabilities and improve liquidity. Best practices include consensus revenue forecasts, debt affordability analysis and conservative budgeting.
<b>Debt and Pensions</b>	As these liabilities grow, states face rising expenses to pay debt and pension benefits. High fixed debt service and pension costs can crowd out other budgetary priorities and force states to raise taxes in order to meet them. Debt and pensions can curtail a state’s budgetary flexibility and heighten the risk that it will seek to deleverage through a debt restructuring.

Source: Moody’s Investor Services, Proposed Update to the US States Rating Methodology (December 5, 2017).



## State Benchmarking

The Debt Sustainability Analysis utilizes metrics from the May 2017 Moody's Investors Services' U.S. State Government Debt Analysis.<sup>1</sup>

- In considering debt burden, Moody's focuses on net tax-supported debt (or "NTSD"), defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local Government revenues).

### Generally included in NTSD <sup>1</sup>

- General obligation debt paid from statewide taxes and fees.
- Appropriation backed bonds.
- Lease revenue bonds.
- Special tax bonds secured by statewide taxes and fees.
- Highway bonds, secured by gas taxes and DMV fees.
- GARVEE bonds.
- Lottery bonds.
- Moral obligation debt paid from statewide taxes and fees.
- Capital leases.
- P3's with state concession obligations.
- Pension obligation bonds.

### Generally excluded in NTSD <sup>1</sup>

- Self-supporting GO debt with an established history of being paid from sources other than taxes or general revenues.
- Moral obligation debt with an established history of being paid from sources other than taxes or general revenues.
- Tobacco securitization bonds, with no state backup.
- Unemployment insurance obligation bonds.
- Debt guaranteed, but not paid, by the state.
- Special assessment bonds.

#### The NTSD metrics used to calculate potential debt capacity for Puerto Rico are:

- |          |                        |          |                              |
|----------|------------------------|----------|------------------------------|
| <b>1</b> | Debt Service / Revenue | <b>2</b> | Debt / State Personal Income |
| <b>3</b> | Debt per Capita        | <b>4</b> | Debt / GDP                   |

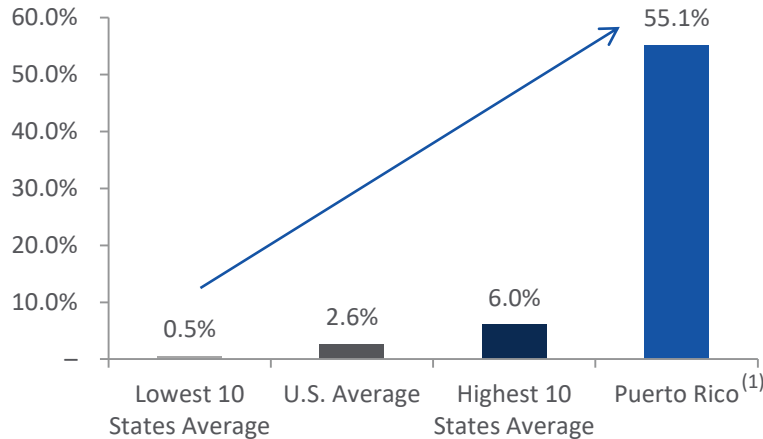
<sup>1</sup>Moody's Investors Services' U.S. State Government Debt Analysis, May 2017.



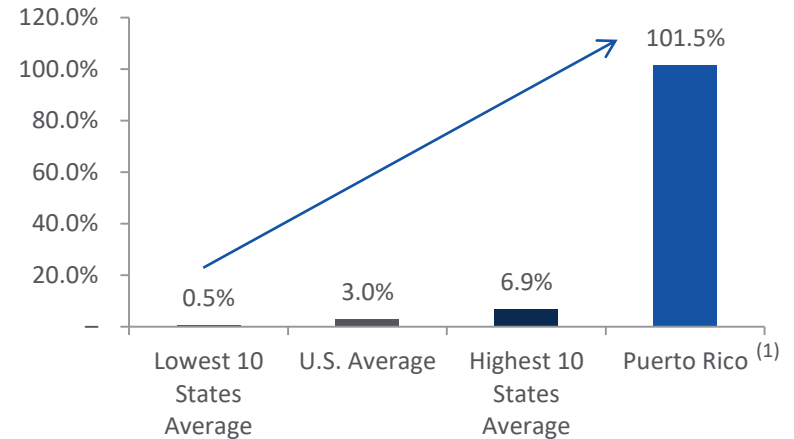
## U.S. State Debt Metrics Provide a Benchmark for Potential Debt Capacity

- Utilizing any of the following rating agency metrics to measure debt burden, Puerto Rico significantly exceeds the average of the ten highest states, clearly indicating an unsustainable debt portfolio and insufficient capacity to meet debt service requirements while maintaining adequate funding for services.

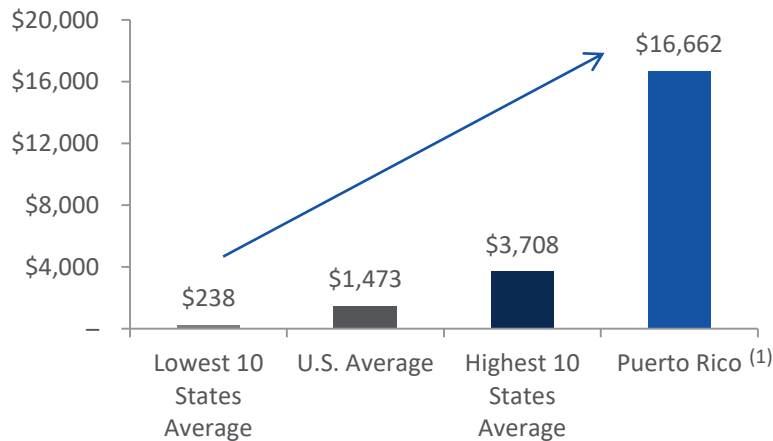
### 1 Debt to GDP



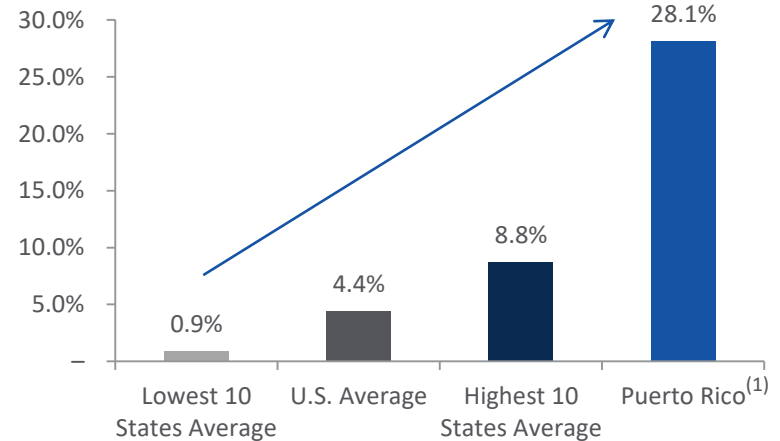
### 2 Debt to State Personal Income



### 3 Debt Per Capita



### 4 Debt Service to Revenues



Source: Moody's Investors Services, U.S. State Government Report (May 3, 2017).

Note: (1) Puerto Rico benchmark metrics per Moody's. Debt service as % of revenue based on 2015 Own-Source Government Revenues. Personal Income reflects FY18 preliminary estimates.



## Debt Sustainability Analysis

- The debt sustainability analysis utilizes data from the Moody’s U.S. State Government Report, published on May 3, 2017
  - The report utilizes data from all 50 states to assess the total net tax-supported debt (NTSD) for US state governments and debt service costs<sup>1</sup>
- The debt sustainability analysis uses NTSD metrics to calculate potential debt capacity for Puerto Rico

### 1 NTSD as a % of GDP

### 2 NTSD as a % of Personal Income

### 3 Debt per Capita (U.S. dollar)

### 4 Debt Service to Revenue

<b>Low 10</b>	<b>0.5%</b>	<b>Low 10</b>	<b>0.5%</b>	<b>Low 10</b>	<b>\$238</b>	<b>Low 10</b>	<b>0.9%</b>
<b>Mean</b>	<b>2.6%</b>	<b>Mean</b>	<b>3.0%</b>	<b>Mean</b>	<b>\$1,473</b>	<b>Mean</b>	<b>3.3%</b>
<b>Top 10</b>	<b>6.0%</b>	<b>Top 10</b>	<b>6.9%</b>	<b>Top 10</b>	<b>\$3,708</b>	<b>Top 10</b>	<b>8.8%</b>

1	Connecticut	9.2%	1	Hawaii	10.5%	1	Connecticut	\$6,505	1	Connecticut	13.30%
2	Hawaii	8.9%	2	Massachusetts	9.8%	2	Massachusetts	\$5,983	2	Massachusetts	10.40%
3	Massachusetts	8.4%	3	Connecticut	9.7%	3	Hawaii	\$5,018	3	Hawaii	10.40%
4	New Jersey	6.9%	4	New Jersey	7.3%	4	New Jersey	\$4,388	4	New Jersey	10.10%
5	Mississippi	5.2%	5	Delaware	5.4%	5	New York	\$3,070	5	Illinois	8.80%
6	Kentucky	4.7%	6	Washington	5.4%	6	Washington	\$2,717	6	New York	7.40%
7	Washington	4.5%	7	Kentucky	5.3%	7	Delaware	\$2,544	7	Kentucky	7.40%
8	New York	4.2%	8	New York	5.3%	8	Illinois	\$2,511	8	Washington	7.00%
9	Illinois	4.1%	9	Mississippi	5.2%	9	California	\$2,217	9	Maryland	6.50%
10	Rhode Island	4.0%	10	Illinois	5.1%	10	Rhode Island	\$2,131	10	Mississippi	6.30%

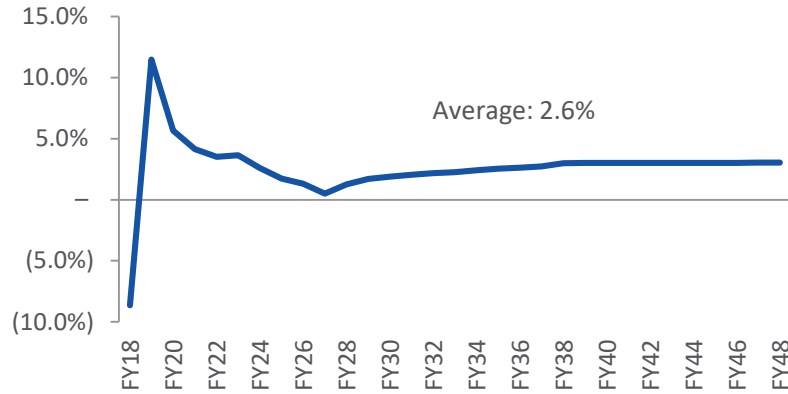
#### Notes

1 Our 2017 state debt medians are based on an analysis of calendar year 2016 debt issuance and fiscal year 2016 debt service

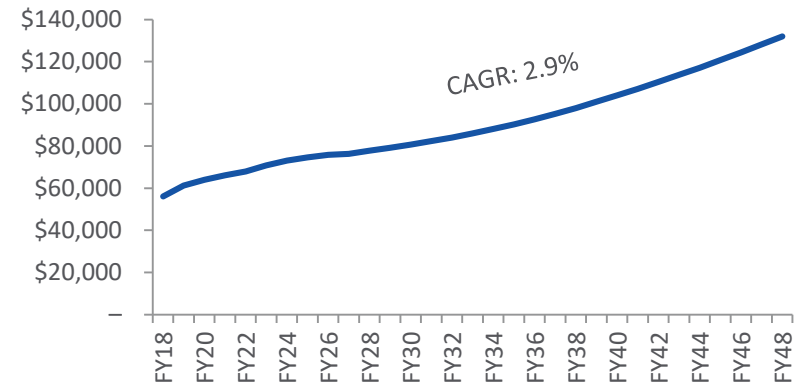


# Puerto Rico 30-year Economic Forecast

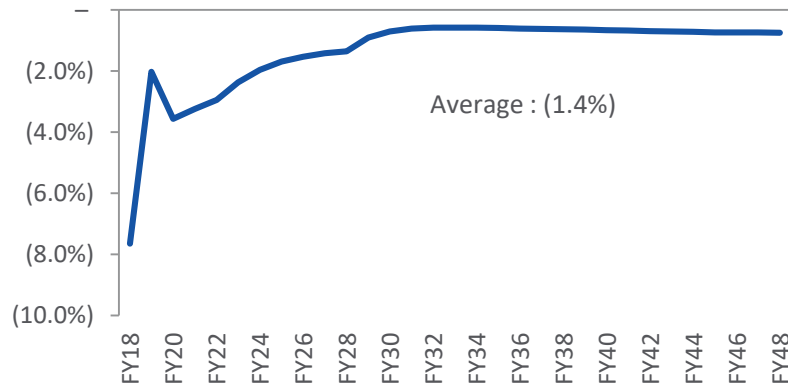
## 1 Change in Nominal GDP (YoY Growth %)



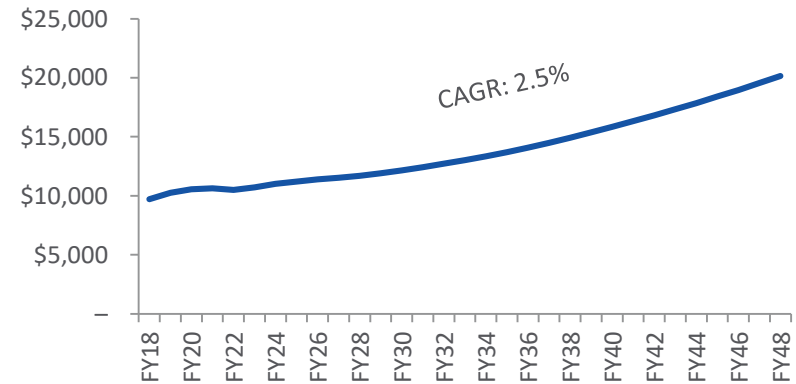
## 2 Nominal Disposable Personal Income (\$mm's)



## 3 Change in Population (YoY Growth %)



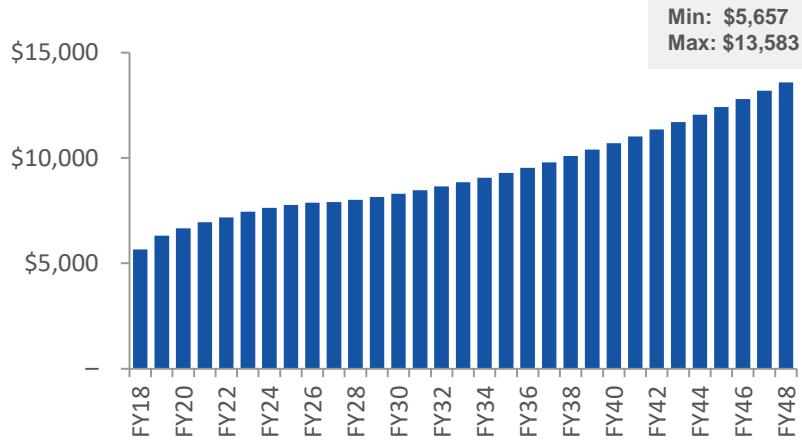
## 4 Own-Source Revenues (\$mm's)



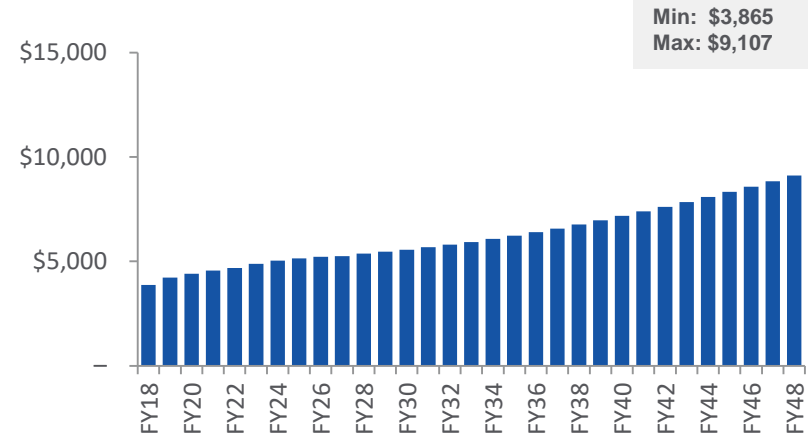


## Debt Capacity Detail (Based on Top-10 U.S. State Metrics – \$mm's)

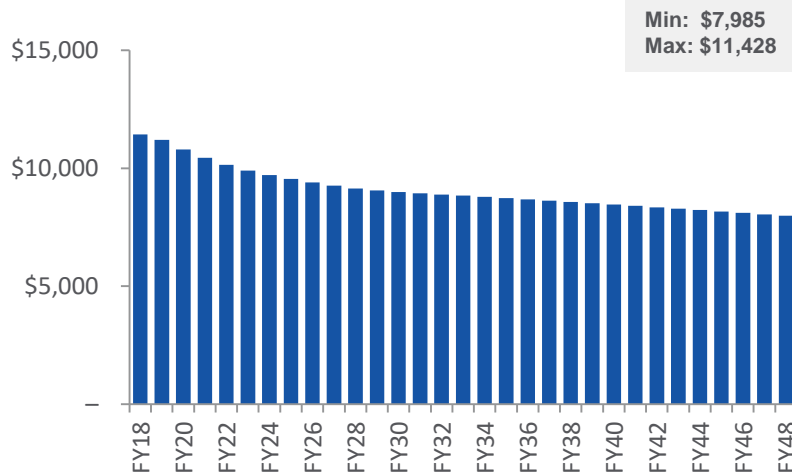
### 1 Debt to GDP



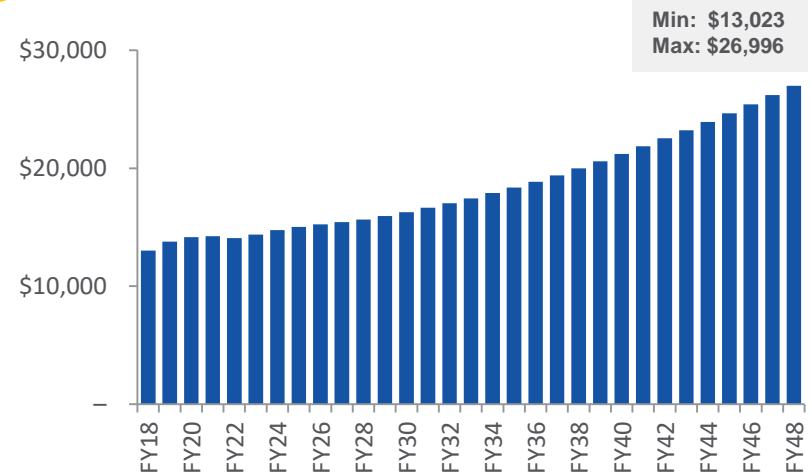
### 2 Debt to State Personal Income



### 3 Debt Per Capita



### 4 Debt Service to Revenues<sup>1</sup>



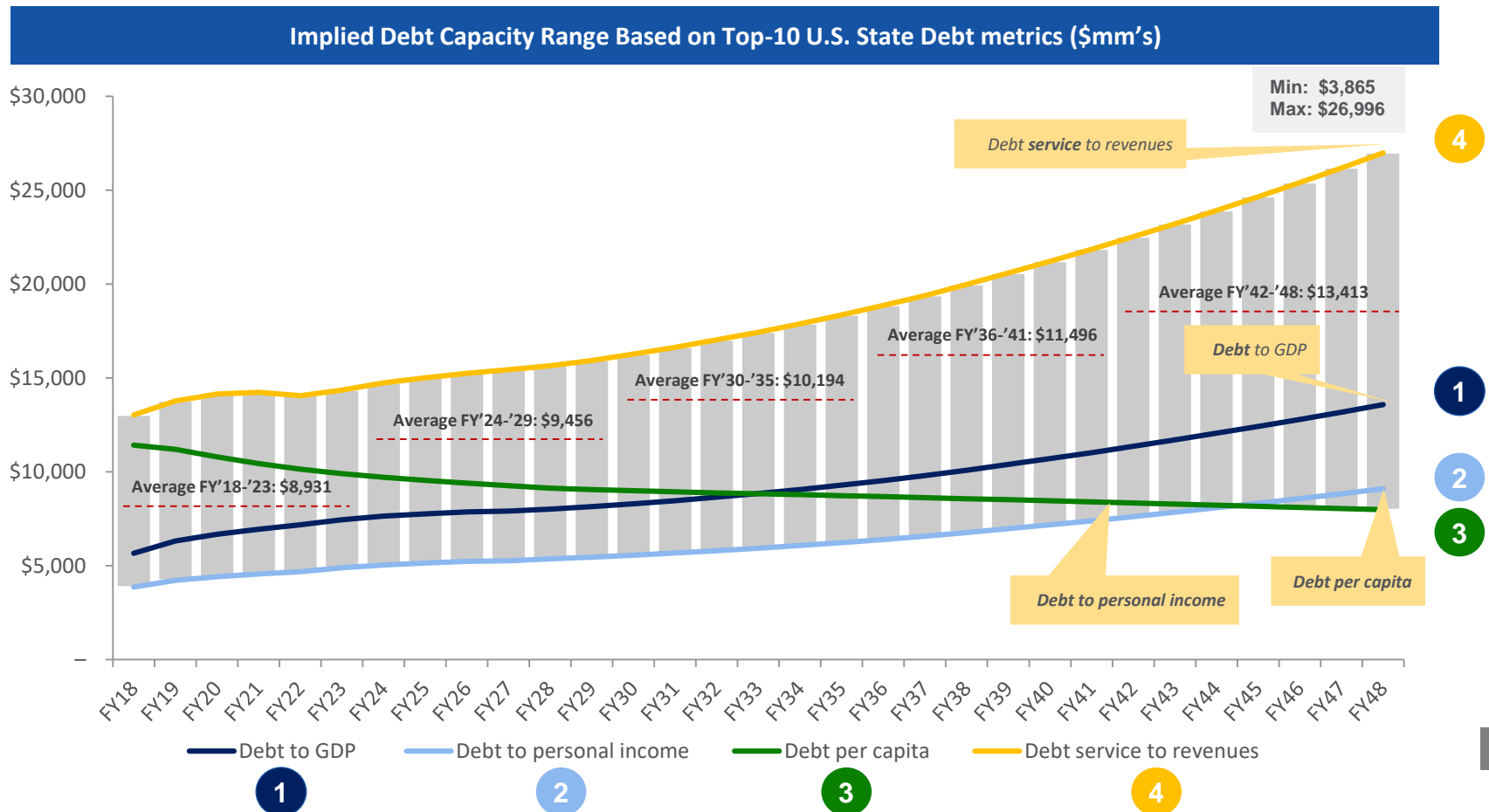
The illustrative implied level of Puerto Rico debt in the scenarios shown above are calculated by applying the NTSD ratios of the top 10 U.S. states (in terms of debt load) to Puerto Rico's 30-years forward projected GDP, personal income, population and revenues. The implied annual total debt shown in each of these scenarios builds the Illustrative Implied Debt Capacity Range on the following page

Note: (1) Converted to debt to revenue by assuming debt service is based off 30 year level of debt service assuming a 5% coupon rate



## Illustrative Implied Debt Capacity Range (Based on Top-10 U.S. State Metrics)

- Analysis uses 30-year macro economic forecast to determine a range of debt capacity based on (i) the debt metrics of the average U.S. state and (ii) the debt metrics of the 10 highest U.S. states.
- Debt capacity ranges shown below are based off of the four methodologies previously described: (i) Debt to Revenues, (ii) Debt per Capita, (iii) Debt to State Personal Income and (iv) Debt to GDP.
- Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and future debt issuance.







## Debt Sustainability Sensitivity Analysis

In addition to the NTSD analysis, the table below summarizes the annual cash surplus (funding need), and calculates implied debt capacity based on a range of interest rates and assuming an illustrative 30 year term

- By FY23, the cash flow surplus is estimated to be \$801m; after removing non-recurring items, the cash flow surplus is estimated to be \$1.1bn in FY23

### Debt Sustainability Sensitivity Analysis (\$MM)<sup>1</sup>

	FY18	FY19	FY20	FY21	FY22	FY23	FY18 - FY23
<b>Financial Baseline (excl. Federal Transfers)</b>							
Own-Source Revenues	\$9,756	\$10,287	\$10,528	\$10,537	\$10,361	\$10,583	\$62,053
Expenses	(8,913)	(9,727)	(11,665)	(12,022)	(12,138)	(12,244)	(66,710)
<b>Baseline Net Cash Flow</b>	<b>\$843</b>	<b>\$560</b>	<b>(\$1,137)</b>	<b>(\$1,485)</b>	<b>(\$1,777)</b>	<b>(\$1,661)</b>	<b>(\$4,656)</b>
<b>Impact of Measures</b>							
Total Measures	(37)	191	1,154	1,885	2,415	2,462	8,069
<b>Net Cash Flow / (Funding Need)</b>	<b>\$807</b>	<b>\$751</b>	<b>\$17</b>	<b>\$400</b>	<b>\$638</b>	<b>\$801</b>	<b>\$3,413</b>
Adjustments for Non-Recurring Items <sup>2</sup>	(843)	(1,384)	336	634	435	256	(566)
<b>Net Adj. Cash Flow / (Funding Need)</b>	<b>(\$36)</b>	<b>(\$634)</b>	<b>\$354</b>	<b>\$1,034</b>	<b>\$1,072</b>	<b>\$1,057</b>	<b>\$2,847</b>

#### Sensitivity Analysis: Implied Debt Capacity at 10% Contingency

Illustrative Cash Flow Available		\$700	\$800	\$900	\$1,000	\$1,100	\$1,200	\$1,300
Sensitivity Analysis: PV Rate %	4.5%	\$10,262	\$11,728	\$13,194	\$14,660	\$16,126	\$17,592	\$19,058
	5.0%	9,685	11,068	12,452	13,835	15,219	16,602	17,986
	5.5%	9,156	10,464	11,772	13,080	14,388	15,696	17,004

#### Sensitivity Analysis: Implied Debt Capacity at 5% PV Rate

Illustrative Cash Flow Available		\$700	\$800	\$900	\$1,000	\$1,100	\$1,200	\$1,300
Sensitivity Analysis: % Contingency	5.0%	\$10,223	\$11,683	\$13,143	\$14,604	\$16,064	\$17,525	\$18,985
	10.0%	9,685	11,068	12,452	13,835	15,219	16,602	17,986
	15.0%	9,147	10,453	11,760	13,067	14,373	15,680	16,987

<sup>1</sup> This does not include a county support fund being considered of \$100MM per year through FY23.

<sup>2</sup> Includes funding of emergency reserve, Title III expenses, FOMB costs, payment of State Revolving Funds / other Federal Funds deposits at GDB, additional Medicaid funding, payment of past-due tax refunds, payment for past local services, measures-related implementation costs, Municipal Recovery Fund, and cost share portion of Federal / FEMA funding.

# GOVERNMENT TRANSFORMATION

DELIVERING HIGHER QUALITY SERVICES THROUGH AN ENHANCED GOVERNMENT MODEL

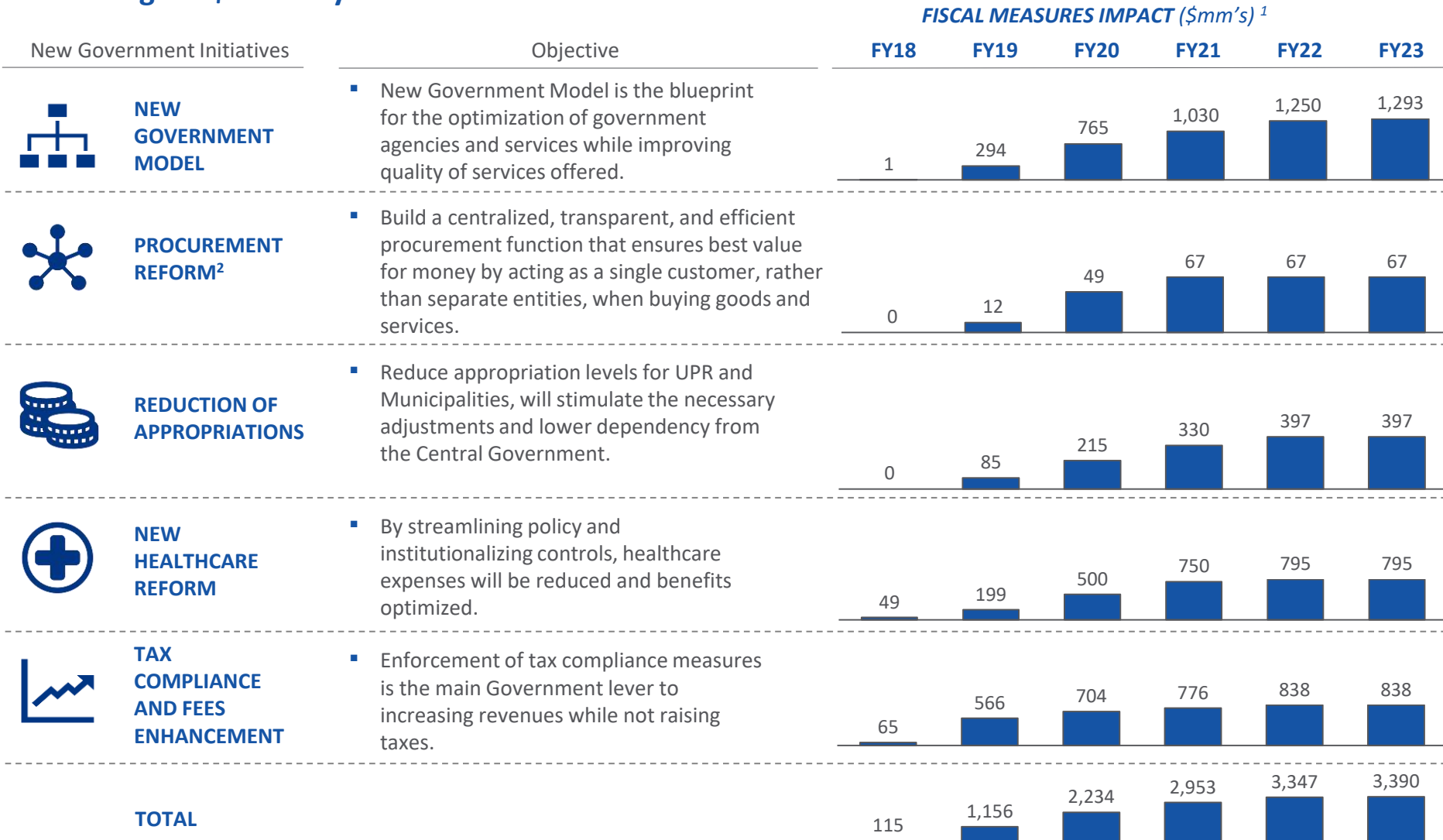
NEW GOVERNMENT MODEL | PROCUREMENT | REDUCTION OF APPROPRIATIONS | HEALTHCARE REFORM | TAX COMPLIANCE AND FEE ENHANCEMENTS | REGIONALIZATION OF SERVICES | GOVERNMENT PMO AND IMPLEMENTATION STRATEGY



GOVERNMENT OF PUERTO RICO



## Government Transformation and better revenue management is expected to yield annual savings of \$3.4bn by FY23

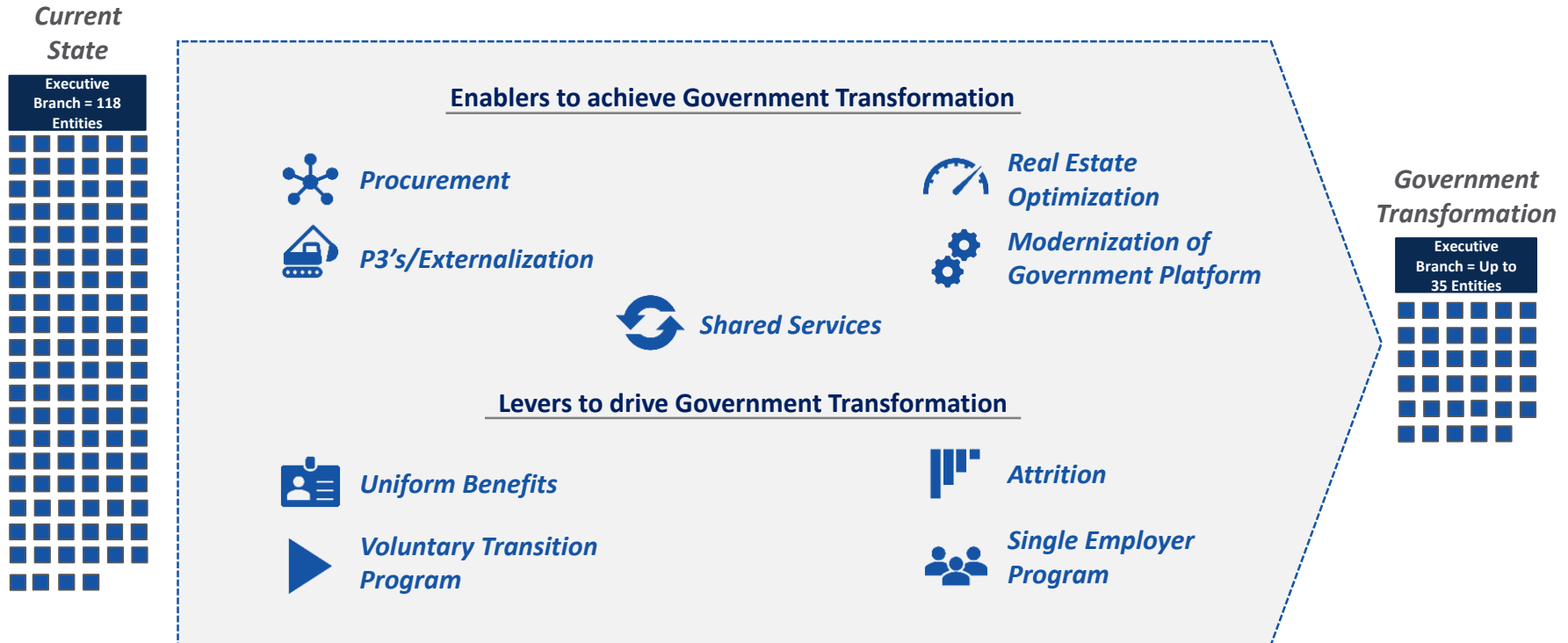


<sup>1</sup> All measures reflect gross savings. Estimated total net costs to implement are \$223mm over the six year period.

<sup>2</sup> Third party consultants are currently conducting a thorough analysis of all applicable expense categories. Estimated savings will be updated and are anticipated to be higher than current estimates.



# The Government aims to achieve savings through reducing expenses by transforming the way it operates and increasing revenues while avoiding the imposition of new taxes by focusing on compliance initiatives





# NEW GOVERNMENT MODEL



# Recently approved New Government of Puerto Rico Act is an additional vehicle that will enable streamlined legislative approval of the Government’s transformation/New Government Model

Approved 12/18/17

## Act 122 of 2017 – New Government of Puerto Rico Act

- The main issue with the existing executive branch government model is decentralization and excessive agencies.
  - The existence of 118 entities causes inefficiencies and ineffective government.
  - Too many departments perform similar or identical processes.
  - Central oversight is limited.
- As part of the overall Government transformation, Puerto Rico plans to address the inefficiencies within the Executive Branch through a careful analysis of service offerings that will allow for externalizations and consolidations of agencies.
- Specifically, the Government plans to reduce the Executive Branch from 118 entities to a maximum of 35.

On January 9, 2018, the Government announced the first five Reorganization Plans

## Evaluation Process

1

### Evaluation & Reorganization Plan



- The Governor is to evaluate adjustments or consolidation of either programs or entities.
- That evaluation is to be presented in a Reorganization Plan to the Legislative Assembly.

2

### Timeline for Legislative Process



- Upon filing, the Legislative Assembly has **30 days** to either approve or reject the Reorganization Plan.
- If approved, the Legislative Assembly will approve a Concurrent Resolution to that effect.
- If an agreement is not reached within 30 days, a **15 day** extension is provided.

3

### Extension in Legislative Process



- After the **15 day** extension, each legislative body may pass a resolution expressing their approval or rejection of the Reorganization Plan.
- If neither chamber expresses opposition through Concurrent Resolution by the end of the **15 day** extension, the Reorganization Plan is deemed approved.

4






### Amendment to Acts



- Bill to amend organic acts and other laws is introduced.
- Effectiveness of approved Reorganization Plans is temporary until the particular organic act is amended.



## New Government Model: Summary of Impact

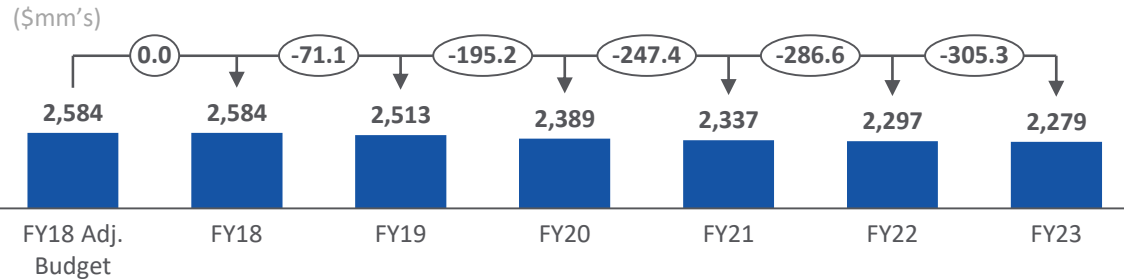
Impacted Agencies	Rationale	FISCAL MEASURES IMPACT (\$mm's) <sup>1</sup>					
		FY18	FY19	FY20	FY21	FY22	FY23
 <b>DEPARTMENT OF EDUCATION</b>	<ul style="list-style-type: none"> <li>By undertaking a comprehensive restructuring initiative, the Department of Education aims to achieve both academic and financial benefits.</li> </ul>	0	71	195	247	287	305
 <b>DEPARTMENT OF CORRECTIONS</b>	<ul style="list-style-type: none"> <li>Provide the necessary optimization of resources while enhancing the quality of rehabilitation to the targeted population.</li> </ul>	1	45	79	109	130	136
 <b>DEPARTMENT OF HEALTH</b>	<ul style="list-style-type: none"> <li>Implement rightsizing recommendations in order to provide core services in an efficient and fiscally responsible manner.</li> </ul>	0	51	66	77	86	92
 <b>TRANSFORMATION OF ALL OTHER AGENCIES</b>	<ul style="list-style-type: none"> <li>Redesign Government by reducing non-core expenses, externalizing services, and centralizing services to eliminate duplication.</li> </ul>	0	126	359	468	555	620
 <b>PAYROLL AND OPERATING EXPENSES FREEZE</b>	<ul style="list-style-type: none"> <li>In compliance with Act 3 of 2017, a freeze on payroll and operational cost increases for fiscal years FY18 to FY22 aims to support the overall expense reduction efforts.</li> </ul>	0	0	66	128	191	140
<b>TOTAL</b>		1	294	765	1,030	1,250	1,293

<sup>1</sup> All measures reflect gross savings. Estimated total net costs to implement are \$223mm over the six year period.



## Reducing total expense base while improving educational outcomes

### DEPARTMENT OF EDUCATION SPEND, \$2.5bn per year



**\$305.3mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF DEPARTMENT OF EDUCATION TRANSFORMATION PLAN

- Over the past decade, the department has experienced enrollment declines, shifts towards private schools and Federal and state revenue declines.
- An increase in outmigration following Hurricanes Irma and Maria is expected to further impact the downward trend in student enrollment.
  - Student population is expected to decline by 10% for the upcoming FY18 – FY19 academic school year.
- Transforming the system from the current Unitary System and shifting towards a Local Education Agency (LEA) structure.
- Initiatives are projected to save 11% on today's spend driven by reducing the size of the system, making better use of resources and increasing autonomy of regional leaders.
- Implementation will continue for the upcoming FY18 – FY19 academic school year with full transformation by FY23.
- To fully capture academic benefits, a level of re-investment in instructional materials, professional development, technology and facility upgrades is being analyzed and may partially offset identified savings over the five year period.

CURRENT STATE	END STATE
<b>DISTRICTS/REGIONS</b>	
35	7
<b>SCHOOLS</b>	
1,112	805
<b>STUDENTS (K-12)</b>	
346k*	292k

\*- Enrolled student count as of August 2017





## Annualized savings of \$305mm will be achieved by the transformation of the educational system

### DEPARTMENT OF EDUCATION TRANSFORMATION LEVERS

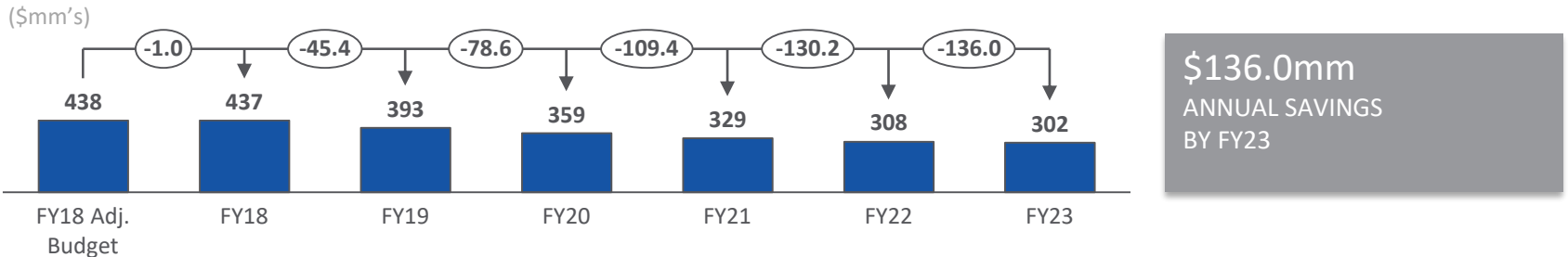
(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>IMPROVE STUDENT TEACHER RATIO</b>	<ul style="list-style-type: none"> <li>Improving the student teacher ratio from an average of 11:1 to 14:1 by FY22 will align Puerto Rico school system with comparable stateside benchmarks.</li> </ul>	57.1	177.3	14:1 STUDENT TEACHER RATIO BENCHMARK
<b>FACILITIES OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Continuing to optimize the school footprint for the FY18-FY19 academic year will yield both personnel and non-personnel savings across the system.</li> <li>Building of new facilities will be analyzed to ensure optimal footprint.</li> </ul>	8.2	101.8	805 SCHOOL TARGET LEVEL BY 2022
<b>RIGHT-SIZING REGIONAL &amp; CENTER LEVEL STRUCTURE</b>	<ul style="list-style-type: none"> <li>Implementing the regional Local Education Agency model will decrease district level headcount requirements.</li> <li>Realigning Center Level personnel with the new regional LEA structure allows for consolidating functions and departments.</li> </ul>	5.8	26.3	REDUCING 35 DISTRICTS TO 7
<b>TOTAL</b>		71.1	305.3	



## Transformation of the Department of Correction’s operations will optimize available resources and improve the quality of service to the targeted population

### DEPARTMENT OF CORRECTION AND REHABILITATION SPEND, \$438mm per year



### SUMMARY OF DEPARTMENT OF CORRECTIONS TRANSFORMATION PLAN

- Corrections and rehabilitation services in Puerto Rico are segmented into two separate budget entities:
  1. Department of Corrections and Rehabilitation, which administers all services provided to the adult and juvenile corrections population including services provided at correctional facilities, and services provided to the population at community programs.
  2. Correctional Health (“Salud Correccional”), which provides health services to the adult imprisoned population.
- Transformation plan aims to reduce service costs through:
  1. The optimization and consolidation of correctional facilities
  2. Externalization of imprisonment services
  3. Efficient procurement processes
  4. Addition of state-of-the-art technology
  5. Reduction of central administration and support offices

CURRENT STATE	END STATE
<b>ADULT PROGRAM PER DIEM<sup>1</sup></b>	
\$95.8	\$75.3
<b>JUVENILE PROGRAM PER DIEM<sup>1</sup></b>	
\$691.4	\$369.0
<b>COMMUNITY PROGRAM PER DIEM<sup>1</sup></b>	
\$7.0	\$4.9
<b># OF CORRECTIONS AGENCIES</b>	
2	1

<sup>1</sup> Per diem data included in the appendix of the Government Transformation section.



## To achieve operational efficiencies and savings, the new operating model will result in a significant footprint reduction supported by improved technology

### DEPARTMENT OF CORRECTIONS TRANSFORMATION LEVERS

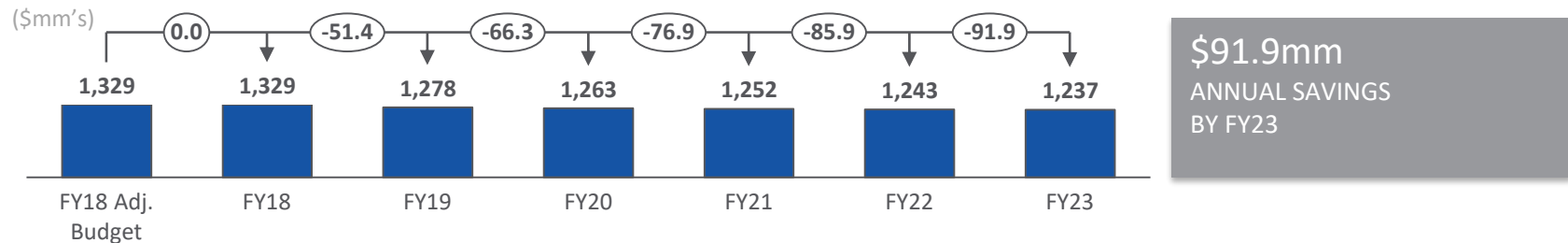
(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>OUT OF STATE PROGRAM</b>	<ul style="list-style-type: none"> <li>Reduce per diem cost through externalization of services to approximately 3,200 inmates (30% of imprisoned population).</li> </ul>	17.2	46.9	PER DIEM OF \$75.3 AT THE END OF FY22
<b>CONSOLIDATION OF FACILITIES</b>	<ul style="list-style-type: none"> <li>Reduce service cost by consolidating existing juvenile facilities through the construction of a modern and cost-efficient social treatment facility.</li> </ul>	0.0	19.4	PER DIEM OF \$369.0 AT THE END OF FY22
<b>IMPROVED TECHNOLOGY</b>	<ul style="list-style-type: none"> <li>Reduce in per diem cost by consolidation of regional contact offices, reduction of transportation costs, and modern document management technology.</li> </ul>	4.9	6.1	PER DIEM OF \$4.9 AT THE END OF FY22
<b>CENTRAL ADMINISTRATION &amp; SERVICE OFFICE</b>	<ul style="list-style-type: none"> <li>Reduce office space and equipment expenditures and increase efficiency of human resources management through improved technology.</li> </ul>	0.4	1.6	REDUCTION OF \$2MM IN ANNUAL ADMIN EXPENDITURES
<b>CENTRAL PROCUREMENT</b>	<ul style="list-style-type: none"> <li>Savings achieved through implementation of new procurement operating model, modern strategic sourcing practices, and enabling the use of technology through the entire procurement life-cycle.</li> </ul>	11.1	21.6	ANNUAL SAVING OF \$20MM IN GOVERNMENT SPEND
<b>PERSONNEL OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Correction's transformation.</li> </ul>	11.8	40.4	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY
<b>TOTAL</b>		45.4	136.0	



## Maintain high quality of public health services while achieving efficiencies is a high priority for the Health Department

### DEPARTMENT OF HEALTH SPEND, \$1.3bn per year



### SUMMARY OF DEPARTMENT OF HEALTH TRANSFORMATION PLAN

- The Department of Health (“DOH”) is highly fragmented, consisting of three public corporations, 64 federally funded programs, three public hospitals, seven sub-secretaries, six regional offices, eight program offices with decentralized human resources, legal, administration and finance functions. As a result, there's a need for organizational controls, an implementation of efficiency measures and a centralization of functions in order to provide public health services to citizens in an efficient and fiscally responsible manner.
- Medicaid has 85 offices across 78 municipalities that can be consolidated and established in strategic locations. Online services will be encouraged to improve eligibility data management and track trends.
- ASEM is a public corporation created to serve as a central procurement office for Government hospitals to create economies of scale for medical supplies, devices and services. Over time, rates, salaries and services have increased above industry averages, causing a disproportionate de-centralization of procurement processes across the hospitals it serves. ASEM also has an ER, ORs and a level three trauma center. Demand for services is high, but they still have a need for Government subsidy due to higher operating costs than private sector.
- Centralization of Chief Business Office and management of ASEM and the DOH Government hospitals will provide structure, efficiency and effectiveness while increasing revenue and eliminating duplicative efforts that cause redundancies and inappropriate staffing.
- Having a strong leadership and organizational structure, controls, an efficient workforce and the necessary technology are the baseline for the effective implementation of healthcare reforms and the new healthcare model.

CURRENT STATE	END STATE
<b>REGIONAL HOSPITAL STRUCTURES</b>	
5	0
<b>ASEM &amp; HOSPITAL ORG STRUCTURE</b>	
4	1
<b>FTEs</b>	
6.4k	5.0k



## Centralization and consolidation initiatives are expected to yield a savings of \$91mm by FY23

### DEPARTMENT OF HEALTH TRANSFORMATION LEVERS

(\$mm's)

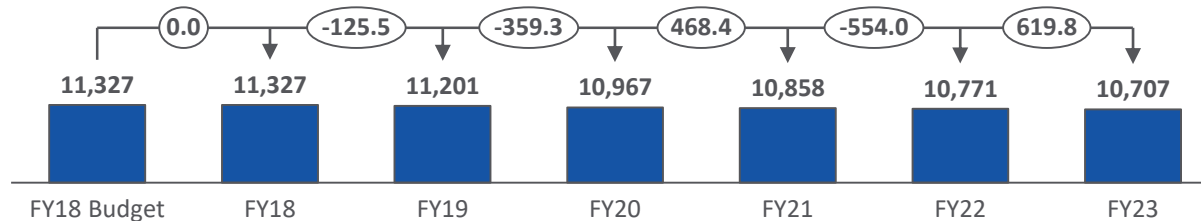
INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>PERSONNEL OPTIMIZATION &amp; CENTRALIZATION</b>	<ul style="list-style-type: none"> <li>Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Health's transformation.</li> <li>Implement right-sizing and centralization of functions recommendations in order to provide public health services to citizens in an efficient and fiscally responsible manner.</li> </ul>	47.9	79.4	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY  INCREASED OPERATIONAL EFFICIENCY VIA CENTRALIZATION
<b>REGIONAL OFFICES</b>	<ul style="list-style-type: none"> <li>Reduction and centralization of Medicaid offices and regional hospital office structure to eliminate duplication of effort and redundancies and implement an appropriate staffing model.</li> </ul>	0.5	0.5	100% ELIMINATION OF REGIONAL HOSPITAL OFFICES
<b>RESTRUCTURING ASEM/RCM</b>	<ul style="list-style-type: none"> <li>Right-sizing initiatives focused on revenue optimization, organizational design, consolidation of Chief Business Office and management of ASEM and DOH public hospitals.</li> </ul>	3.0	12.0	100% CENTRALIZATION OF MANAGEMENT
<b>TOTAL</b>		51.4	91.9	



## Transformation of all other agencies by consolidation or externalization of functions or services

### ALL OTHER AGENCIES SPEND, \$11.3bn per year

(\$mm's)



**\$619.8mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF 105 AGENCIES TRANSFORMATION PLAN

- A portion of the Executive Branch includes 108 agencies which provide services at a cost of \$11.3bn annually.
- In order to achieve an agile, and efficient Government, the Government is performing reviews of agency programs and services to determine the optimal right sizing actions.
- A careful analysis of service offerings and Government programs will allow for externalizations and consolidations of agency functions or programs to achieve cost savings and improve the quality of services offered.
- The Government has enacted various laws (i.e. Act 122 of 2017) to assist in the implementation of the New Government Model. Personnel related savings would be facilitated by the Single Employer Program, Voluntary Transition Program, and Uniform Medical Benefits initiatives.
- Individual implementation plans will be prepared and actively monitored during the implementation phase to ensure cost savings targets are met.

CURRENT STATE	END STATE
<b>HEADCOUNT</b>	
48.2k <sup>1</sup>	40.5k
<b>AGENCIES</b>	
108	Max of 35

<sup>1</sup> Includes transitory employees



## Savings from personnel measures and improved delivery of Government services are expected to yield gross savings of \$620mm by FY23

### ALL OTHER AGENCIES TRANSFORMATION LEVERS

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>PERSONNEL OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Drive higher attrition rates via Single Employer Program and Voluntary Transition Program available to employees when centralizing/externalizing services.</li> </ul>	62.2	319.7	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY
<b>UNIFORM HEALTHCARE INSURANCE</b>	<ul style="list-style-type: none"> <li>Align healthcare insurance benefits to promote uniformity and payroll consistency across agencies.</li> </ul>	59.6	59.6	\$100 UNIFORM MONTHLY BENEFIT
<b>EXTERNALIZATION</b>	<ul style="list-style-type: none"> <li>Transfer services from the Government to outside entities (including not-for-profits) that have proven experience in order to reduce expenses, mobilize resources to areas of need and improve quality of services.</li> </ul>	0.0	4.3	30% REDUCTION OF AGENCY FY18 NON-FF BUDGET SPEND
<b>CONSOLIDATION</b>	<ul style="list-style-type: none"> <li>Focus on achieving economies of scale through the elimination of duplicate and unnecessary services and maximizing shared service structures to reduce overhead costs and improve internal service levels.</li> </ul>	3.7	236.3	REDUCTION OF AGENCY FY18 NON-FF BUDGET SPEND
<b>TOTAL</b>		125.5	619.8	



## By digitizing processes that will enable organizational changes, the Government can enhance delivery of services and achieve operational savings

- The foundation for the Government’s socioeconomic development model is based on science, technology and innovation. This led to the creation of the Puerto Rico Innovation and Technology Service (PRITS).
- PRITS’s mission is to enable the transformation of Puerto Rico through innovation, technology, and a collaborative approach to challenges that will result in new knowledge and real impact.

### Digital Transformation Objectives



#### **Innovation Plan**

Present a comprehensive strategic and tactical innovation plan for Puerto Rico that addresses short-term initiatives and outlines a long-term vision.



#### **Dashboard**

Provide real-time and historic data to measure performance and accountability, recognizing data as a strategic resource.



#### **Technology Infrastructure**

Design and build a resilient, cutting-edge technical infrastructure as a basic building block to support Puerto Rico's innovation agenda and technology development.



#### **Proactive Institute**

Improve strategy definition and decision making with the aid of data analytics, predictive models, and artificial intelligence.

### Timeline of Digital Transformation Initiatives

	Q1	Q2	Q3	Q4	Other Near Term Initiatives
Digital DMV (CESCO)	Integrated, real time fine payments	Car license renewal notifications	License renewals	Car permits renewals	Education Services
Single Citizen Identity		←	Single Sign-on	→	Family/Child Services
		←	Digital Signatures	→	Labor & Tax Services
		←	Demographic Registry	→	
	<b>2018</b>				<b>2019</b>





## Real Estate optimization and modernization strategy

- Lack of occupancy planning strategies, deferred maintenance, and fragmented ownership have resulted in a highly inefficient Government-owned real estate portfolio spread among a large number of public entities.
- To date, with very few exceptions, the Government lacks a clear understanding of the number, type, location, legal status, and condition of the real estate assets it owns.
- Strategy follows a five-step process:



### Steps and Progress:

<i>Inventory</i>	<i>Assessment</i>	<i>Legal Rehabilitation</i>	<i>Structural Implementation</i>	<i>Implementation</i>
Create real estate owned (REO) inventory by entity prioritizing the identification of vacant and unused properties.	Perform assessments to understand legal status, conditions need/cost of improvements and best optimal use.	Perform necessary surveys, title searches, reviews on property registry issues, property demarcation and cure title deficiencies.	Perform cost improvements where necessary and justified.	(i) Office space planning strategy or (ii) Disposition of land strategy.



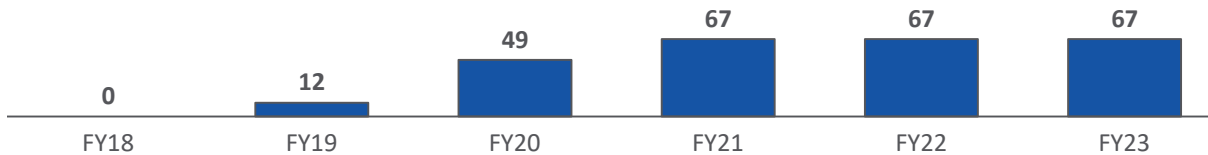
# PROCUREMENT



## Government Procurement Reform will create a centralized operating model with improved technology, transparency and efficiency that translates to substantial cost savings

### PROCUREMENT SAVINGS, \$67mm by FY23

(\$mm's)



**\$67.0mm**  
ANNUAL SAVINGS  
IN FY23

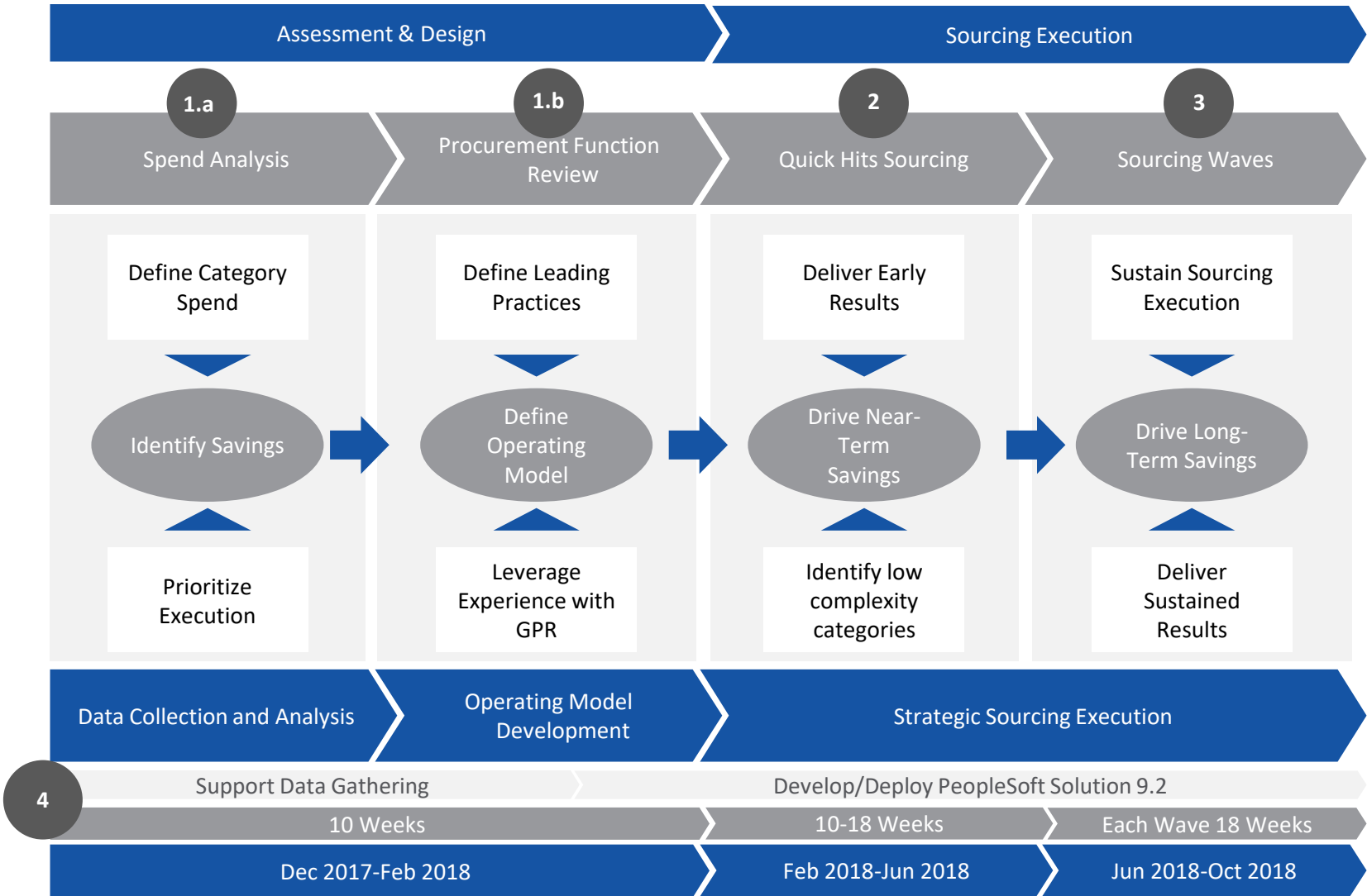
### SUMMARY OF PROCUREMENT REFORM INITIATIVES

- Procurement reform aims to transform Puerto Rico’s inefficient and ineffective decentralized procurement system within 24 months.
- The objective is to build a centralized, transparent, and efficient procurement function that ensures the Government will act as a single customer, rather than separate entities, when purchasing goods and services.
- The three main components of reform are: 1) **new operating model**, 2) **spend management** and 3) **strategic sourcing and improved technology**.
- The new centralized operating model will make the procurement function more efficient and effective by leveraging the purchasing power of the Central Government and improving policies to ensure greater compliance with Government-wide contracts and policies.
- Spending levels will be adjusted by implementing modern strategic sourcing and category management practice and by executing spend analytics capabilities that provide visibility to sourcing spend. **A spend analysis is currently being performed to identify cost savings targets.**
- Investing in innovative technological capabilities will enable procurement processes across the entire procure-to-pay lifecycle and facilitate the execution of a centralized procurement organization.

Current procurement related savings reflects a review of only 40% of Puerto Rico’s addressable spend. Third party consultants are currently conducting a thorough analysis of all applicable expense categories. Estimated savings will be updated and are anticipated to be higher than current estimates.



## The execution approach will help the Government build the organizational capabilities needed to reform while realizing short and long-term savings

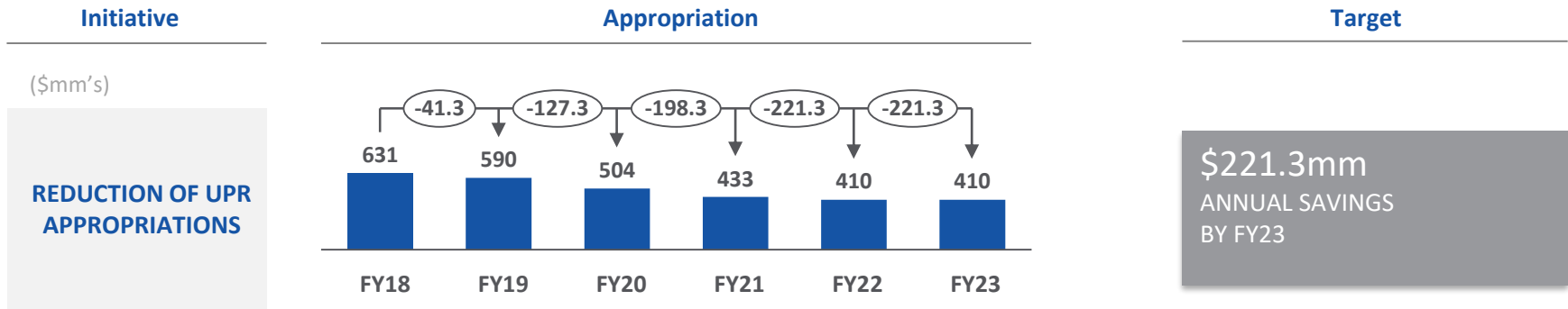




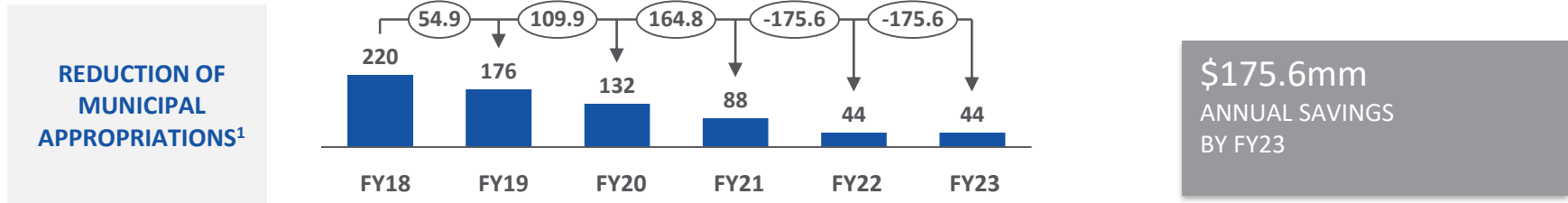
# REDUCTION OF APPROPRIATIONS



## Reduction of Government Appropriations



- The transformation of the UPR is focused on obtaining new revenue sources, modernizing, and optimizing its current facilities and campuses, and revamping its academic programs, all of which will result in a reduction on Central Government support, while transforming the University into a more competitive and modern higher education system.



- The reduction in direct payments to municipalities could be offset by a modernized tax regime that will focus on updated property values, improved property tax collections, cost savings, and regionalization of services that will provide cost efficiencies.

<sup>1</sup> This does not include a county support fund being considered of \$100MM per year through FY23.

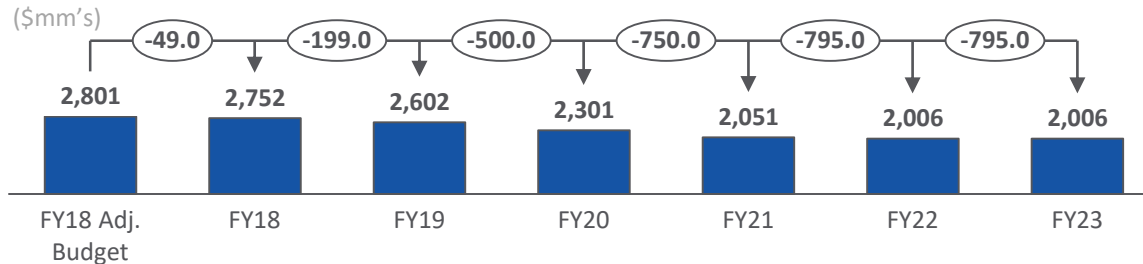


# HEALTHCARE REFORM



## The Government is committed to improving quality of service of MI Salud Program while designing a New Model that achieves fiscal and efficiency objectives

### HEALTHCARE SPEND, \$2.8bn per year



**\$795.0mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF HEALTH REFORM MEASURES

- The Puerto Rico Health Insurance Administration’s (ASES, for its acronym in Spanish) is a public corporation whose core function is to manage the healthcare services for the Medicaid (federal and Commonwealth) and CHIP-eligible populations in Puerto Rico under the health plan MI Salud.
- ASES faces many challenges, such as: chronic underfunding, low capitated rates and payments for providers, high outmigration impacting provider-patient ratios, rapidly changing demographics, increased prevalence of chronic diseases, and an increasing demand for specialty drugs.
- While the model will benefit from the recently approved 100% Congressional funding, which will help the Commonwealth provide adequate and accessible healthcare, the historical federal funding disparity will continue to be an issue after FY20. Thus, the new healthcare model will provide adequate and accessible healthcare in the face of federal funding disparity. It will incorporate actuarial data with updated demographics, expense control measures, and data management to reduce pressure on the system.
- Fraud, waste, and abuse programs have been historically mostly delegated to MCOs, limiting information sharing and hindering trend development capabilities to identify cases. Efforts have been complemented by the Commonwealth through CMS’ Medical Recovery Audit Contractual Program whose focus is aligned to promote program integrity. A Medicaid Fraud Control Unit (MFCU) is being developed by the local DOJ in conjunction with the US Health and Human Services Office of Inspector General to investigate and prosecute providers and patients that misuse Medicaid funds. This is a requirement to receive a portion of the recently legislated Medicaid funding package by Congress.
- TMSIS reporting for PR has already been officially approved by CMS, providing the Federal Government, for the first time, with visibility into program claims and utilization data. The Medicaid Management Information System (MMIS) implementation will enhance ability for key data mining, identifying population health trends, and adjusting benefits aligned with identified population health needs.

CURRENT STATE	END STATE
<b>MEDICAL LOSS RATIO*</b>	
91%	92%
<b>REGIONS</b>	
9	1
<b>REIMBURSEMENT RATE**</b>	
78%	70%
<b>GENERIC DRUG UTILIZATION</b>	
90%	90%

\* Aggregate target MLR

\*\* Based on an average of 70% of the corresponding Medicare fee schedule of FY16





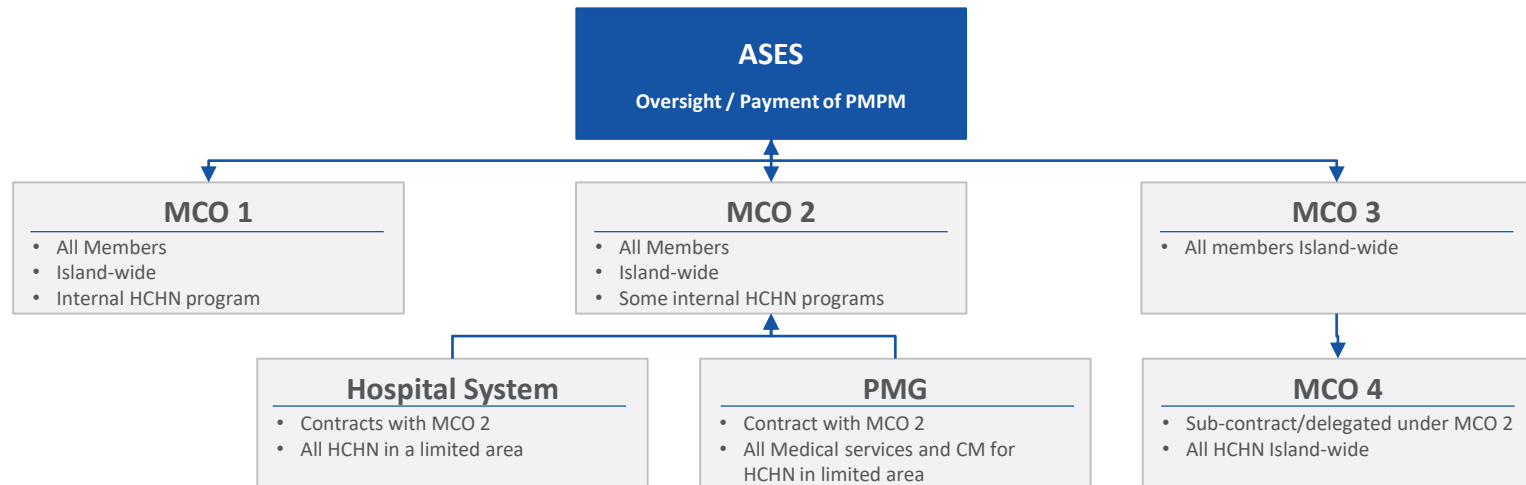
# The New Healthcare model is made up of multiple initiatives that together will achieve fiscal targets

## Key Pillars:



**Establish the program within the financial requirements outlined in the Fiscal Plan.** The RFP published February 9, 2018 is based on a scoring methodology to encourage and reward competitive pricing with a focus on efficiencies and approaches to cost reductions. The RFP has three sections: Mandatory Requirements, Technical and Cost Proposals. The methodology created reflects the Administration’s commitment to comply with fiscal objectives.

**Island wide coverage.** Require MCOs to provide island-wide coverage and access to services in all geographic areas of Puerto Rico, develop administrative simplicity in ASES’ oversight of the program, create opportunity for economies of scale for administrative functions at the MCO level and promote competition for enrollees among MCOs. This is incentivized, and possible to achieve even for smaller participants, through sub-contractual relationships. MCOs may propose strategies to ensure island-wide coverage utilizing partnerships, delegation arrangements and/or subcontracted relationships with other insurers, provider groups or facilities. Here are some scenarios contemplated as possible outcomes:





## Measures from improving efficiencies, optimizing benefits, and developing a new healthcare model are expected to save \$795mm by FY23

### HEALTHCARE REFORM TRANSFORMATION LEVERS

(\$mm's)			FY19	FY23	TARGET
INITIATIVE	RATIONALE				
PAY FOR VALUE	<ul style="list-style-type: none"> <li>Establish uniform fee schedules, standardize reimbursement rates for providers and a high Medical Loss Ratio (MLR).</li> </ul>	91.0	<b>Part of New Healthcare Model</b>		HIGHER MEDICAL LOSS RATIO
REDUCE DRUG COSTS	<ul style="list-style-type: none"> <li>Reduce drug spending by enforcing mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives.</li> </ul>	41.0			GENERIC DRUG UTILIZATION > 90%
MODIFY BENEFITS PACKAGE	<ul style="list-style-type: none"> <li>Evaluate services that could be capped from the current benefits package without adversely affecting access for MI Salud beneficiaries.</li> </ul>	45.0			BENEFITS ALIGNED WITH POPULATION TRENDS
IMPROVE PAYMENT INTEGRITY	<ul style="list-style-type: none"> <li>Establish partnerships to increase scrutiny of premium payments for beneficiaries that have left the system or have another primary health insurance. Establish MFCU to reduce waste, fraud and abuse. Implement MMIS for claim data mining and population health trending.</li> </ul>	22.0		22.0	REDUCE WASTE, FRAUD AND ABUSE
NEW HEALTHCARE MODEL	<ul style="list-style-type: none"> <li>Develop a new healthcare model in which the Government pays for basic, less costly benefits and the patient pays for premium services selected resulting in cost reductions attributed to greater competition along with the capped PMPM amount.</li> </ul>	0.0		773.0	NET SAVINGS: \$199MM IN FY19
<b>TOTAL</b>		199.0		795.0	



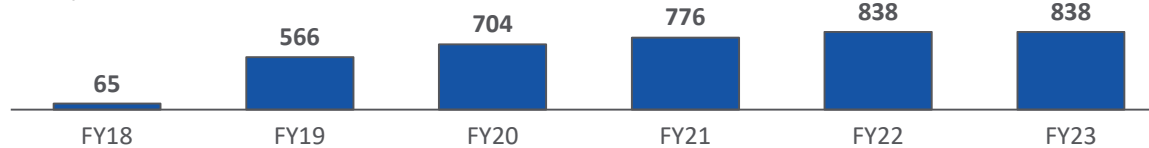
# TAX COMPLIANCE AND FEE ENHANCEMENTS



## Comprehensive tax reform coupled with increased tax compliance and collections lead to higher revenues

### TAX COMPLIANCE AND FEES ENHANCEMENT, \$838mm by FY23

Total incremental revenues from FY18 baseline by year (\$mm's)



**\$838.3mm**  
ANNUAL INCREMENTAL  
REVENUES BY FY23

### SUMMARY OF TAX COMPLIANCE AND FEES ENHANCEMENT

- For years, the tax system has been impacted by high rates of non-compliance. Hacienda’s tax collection center has antiquated technology and analytical tools and data that hinder its ability to detect tax evaders.
- The Government has identified revenue enhancement reforms to increase tax revenues by broadening the tax base, enforce compliance with existing tax laws, and optimize specific tax rates and fees.
- Transforming the collection of taxes and improving technology will enhance compliance of existing tax laws for all businesses and individuals in Puerto Rico.
- It is important to note that the revenue enhancement measures projections are subject to material changes that may be required as a result of the Tax Cuts and Jobs Act of 2017 and its impact on Puerto Rico.

#### END STATE

##### TAX COMPLIANCE INITIATIVES

9

##### FEE ENHANCEMENT INITIATIVES

4

##### ADDT’L COLLECTION EMPLOYEES

200 – 300



## Improving collections and reevaluating fees will broaden the tax base to help improve revenues by \$838mm through FY23

### TAX COMPLIANCE AND FEES ENHANCEMENT

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23
TAX COMPLIANCE	<b>Increase tax compliance and collections by:</b>		
	<ul style="list-style-type: none"> <li>Transitioning to an integrated tax administration software (“Unified Internal Revenue System”).</li> </ul>		
	<ul style="list-style-type: none"> <li>Working smarter on tax debt collection through advance analytics and providing more flexible payment plan rules.</li> </ul>	150.4	407.3
	<ul style="list-style-type: none"> <li>Promoting voluntary compliance program.</li> </ul>		
	<ul style="list-style-type: none"> <li>Establish an electronic record for certain SUT Credits and point of sale monitoring.</li> </ul>		
ADJUST TAXES AND FEES	<ul style="list-style-type: none"> <li>Increase collection of SUT on internet sales.</li> </ul>		
	<ul style="list-style-type: none"> <li>Maintain fees including licenses, traffic fines, and other charges for services to maintain market trends.</li> </ul>	100.0	115.0
TAX REFORM MEASURE	<ul style="list-style-type: none"> <li>Adjust the alternative minimum tax rate for individuals and corporations.</li> </ul>	316.0	316.0
	<ul style="list-style-type: none"> <li>Broad based reduction of incentives and tax credits.</li> </ul>		
<b>TOTAL</b>		<b>566.4</b>	<b>838.3</b>



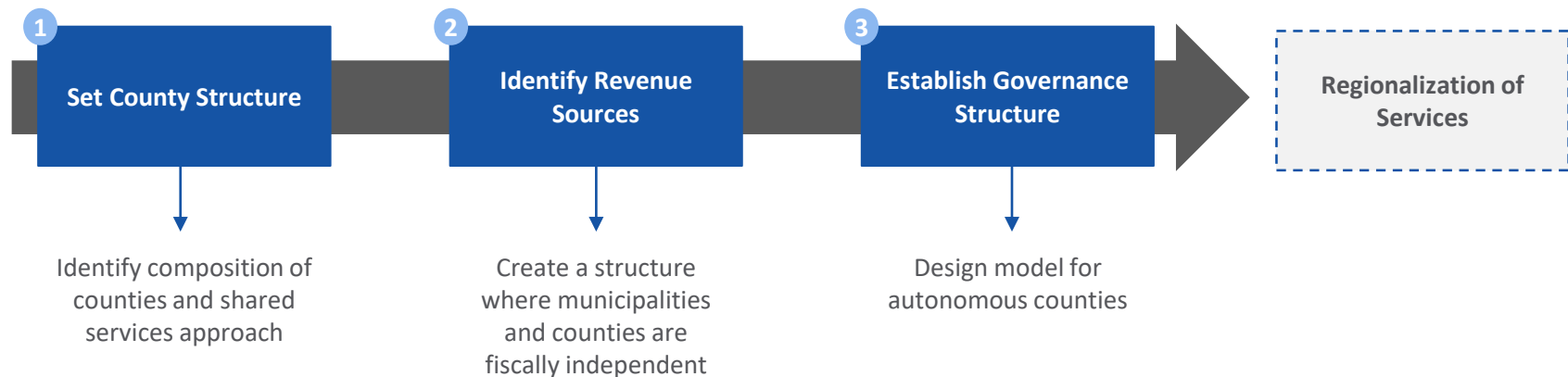
# REGIONALIZATION OF SERVICES



## Regionalization of services will help municipalities achieve economies of scale that will alleviate negative impact in revenues due to reduction of subsidies and the Hurricanes

- The Government is proposing a strategy that will allow municipalities to achieve efficiencies to establish the path for municipal fiscal autonomy.
- The strategy focuses on transitioning towards a “county structure” where counties take a prominent role in the administration of essential services currently performed by the Central Government or at the municipal level.
- A guiding principle is that all counties have to be fiscally independent and self-sufficient, without the need for any financial support from the Central Government.
- There is an overlap between the services offered by the Central Government and most municipalities. Implementing a shared-services approach at the county level will provide better management and utilization of services by reducing redundancy and bureaucracy
- A county support fund of \$100MM per year, with a sunset in FY23, is being considered as an investment to incentivize and enable a smooth transition into the new county structure.

### Roadmap to County System Transformation





## The shared services approach will generate efficiencies by consolidation of functions

### Composition

- Municipal distribution is based on two main criteria: total population and urban-rural areas.
- In order to have a balanced distribution between these two factors, four possible county-like structures have been identified.

### Shared Services Approach

- There are five services that are crucial to have in each county:



*Public Safety*



*Family Services*



*Education*



*Housing*

- These services are mainly rendered by the Central Government but there is overlap with some municipalities.
- One of the main challenges of any Government is striking a balance between offering high quality services and keeping costs down. This approach has the potential to mitigate cost by decentralizing many of the services provided by the Central Government, while improving their quality.
- Other administrative functions (i.e. HR, Finance, etc.) will be evaluated to be included in shared services model.
- Counties could be funded by modifying the property tax system that currently appraises property taxes at 1957 levels, replacing it with an updated property appraisal system.
  - Re-appraise property values at current market rates by phasing in re-appraisals of property over a period of 4-5 years.
  - Register previously unregistered properties to capture property taxes from non-compliant properties.
  - Identify and re-categorize properties that are misclassified (e.g. commercial properties incorrectly classified as residential).





# GOVERNMENT PMO AND IMPLEMENTATION STRATEGY



## Introduction to implementation

Historically, the Government has suffered from inconsistent execution, due in part to not having a defined, centralized project management structure. It has historically operated in silos, suffered staffing and coordination challenges, and has been limited by weak technology to report and keep track of expenses. In order to mitigate implementation risk, an enhanced and centralized PMO structure will be established.

**Developing a centrally run PMO is an important step toward ensuring the implementation and tracking of the core operational transformation and right sizing measures that will achieve savings targets under the New Fiscal Plan.**

### Governor’s Fiscal and Economic Working Group (GFEWG)

- The GFEWG is the central PMO with defined reporting to the Governor of all economic and transformation measures.
- The GFEWG, comprised of senior leadership, oversees Agency PMOs and reports directly to the Governor.
- The GFEWG has already been established and is in operations.

### Agency Program Management Offices (PMOs)

- The Agency PMOs are generally led by designated Agency Heads and report directly to the GFEWG.
- Agency PMOs undertake the required work to implement initiatives.
- The daily activities of PMOs are managed and undertaken by staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making.
- Agency PMOs will be responsible for assembling a taskforce to:
  - Complete validation and definition of full scope of projects and priorities.
  - Finalize reporting tools and tracking responsibilities.
  - Perform ongoing weekly tracking and reporting.

**Individual Agency PMOs will be established with direct reporting to the GFEWG. Each Agency Head will be responsible for developing and implementing a PMO structure that best fits their respective agency. Through this PMO structure, the Government is positioned to effectively manage and implement the Plan.**



Accountability



Efficiency



Reliability



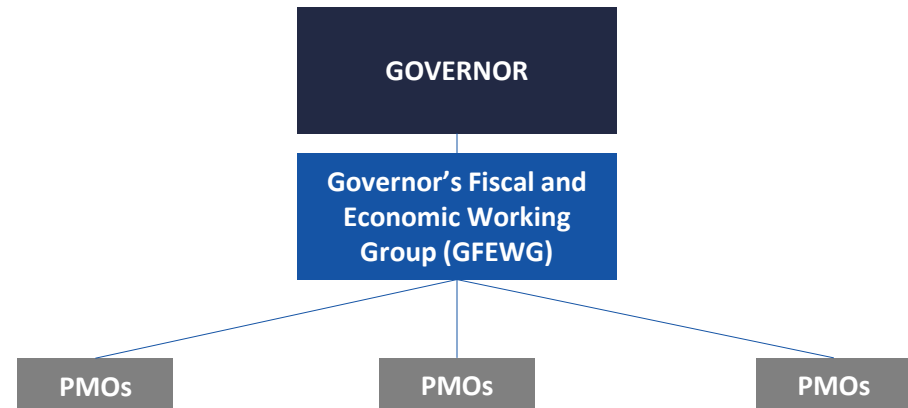
Transparency



## Project Management Office of all Government projects

**Mission Statement: To recommend and manage the implementation of the Fiscal and Economic Policy of the Government, per the certified fiscal plans, the recovery plans, and public policy established by the Executive & Legislative branches of Government.**

- The GFEWG will have oversight over the implementation of all fiscal and economic measures. Members represent all government fiscal and economic leaders with statutory authority under their enabling acts to implement fiscal reforms. The GFEWG members exercise authority within their respective agencies, but the GFEWG is chaired and led by the Governor’s Representative. In cases of disagreement amongst parties, the Governor’s Representative is responsible for deciding the course of action or escalating matters to the Governor as appropriate.
- The GFEWG will coordinate with stakeholders such as the Governor’s Office personnel and other Government leaders and agencies to implement fiscal and economic policy as appropriate.
- GFEWG Charter Members:
  - Governor’s Representative (Chair)
  - Executive Director of AAFAF
  - Hacienda Secretary
  - Economic Development Secretary
  - Labor Secretary
  - Executive Director of OMB
  - P3 Authority Executive Director
  - Governor’s Infrastructure Advisor
- No new legislation is required for enabling the GFEWG.





Accountability



Efficiency



Reliability



Transparency



# STRUCTURAL REFORMS

A FOCUS ON PUERTO RICO'S STRENGTHS AND CORE COMPETENCIES

EASE OF DOING BUSINESS | POWER SECTOR REFORM | HUMAN CAPITAL | INTEGRATED FINANCIAL MANAGEMENT – OFFICE OF THE CFO

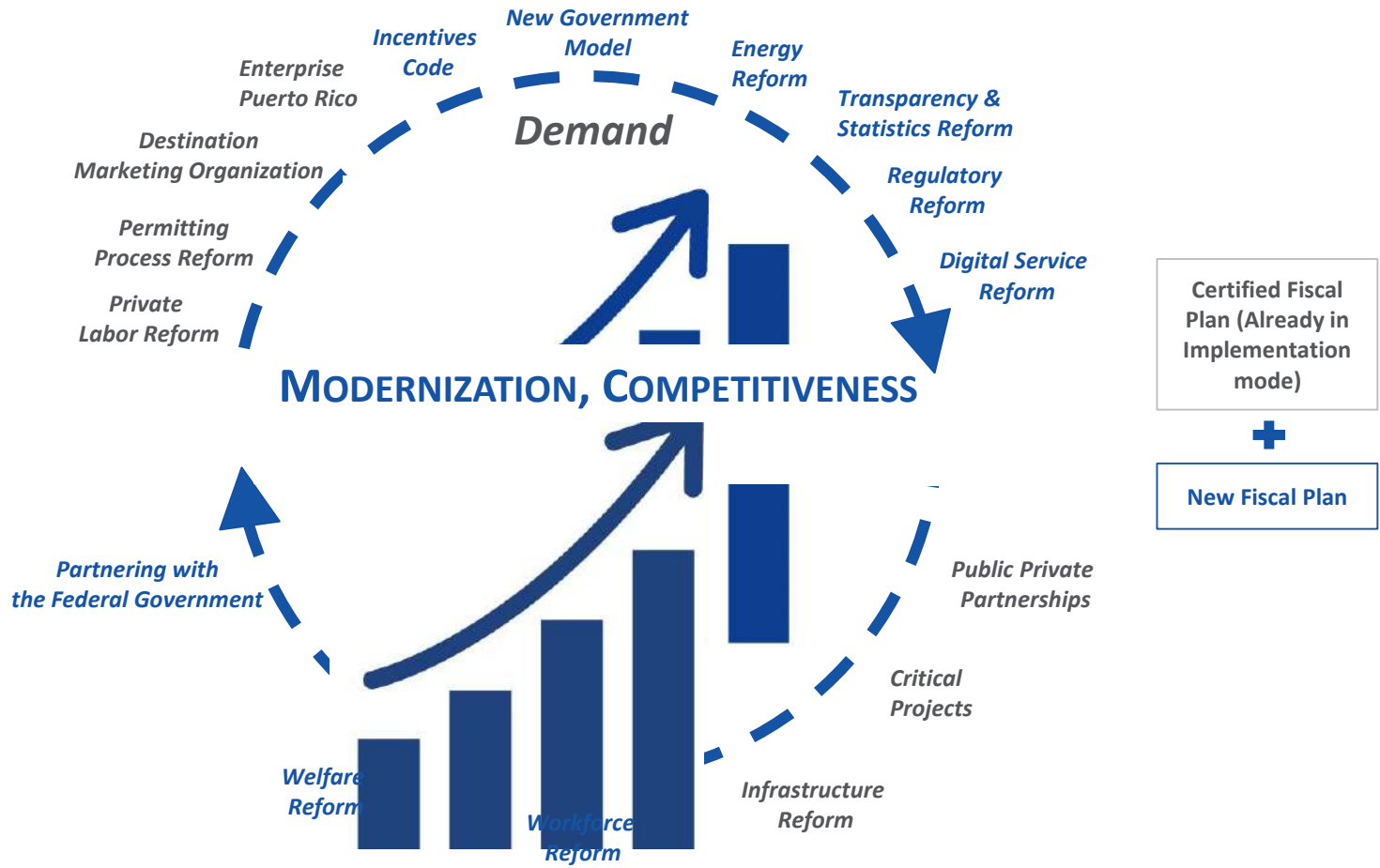


GOVERNMENT OF PUERTO RICO



## Structural reforms drive economic growth, but the impact is felt over the long run

The current crisis creates momentum to implementing a comprehensive structural reforms package to attract private capital investment and achieve strong, sustainable and balanced economic growth.





# The new structural reforms package seeks to complement and extend the structural reforms that have already been implemented to drive private sector investment and economic growth



## Ease of Doing Business

### Tax Reform and Incentives Code

- Tax Reform will provide the necessary modifications to help counteract the Tax Cuts and Jobs Act.
- The new Incentives Code will rationalize all economic development incentives, exemptions, subsidies, grants, and credits, based on the ROI to Puerto Rico.
- The Code will conform to the Tax Cuts and Jobs Act to protect and enhance Puerto Rico’s competitiveness.
- The Code will establish a new digital and transparent process for the application, award, and compliance of all incentives.

### Regulatory Reform

- Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector.
- Consolidate all public service & utility regulatory agencies into one.
- Deregulation of land freights to help reduce the price of consumer goods and the cost of doing business on the island.
- Deregulation of occupational licensing to reduce unnecessary hurdles for individuals entering the labor market.
- Modify the condominium law to accelerate decision-making.



## power sector reform

### Utility Reform

- Leverage and facilitate expedited private sector investments in a modern, cost-efficient, and environmentally compliant energy infrastructure; reform PREPA operations and services to clients; and allow for greater competition in energy generation.



## Human Capital

### Welfare Reform

- Implement a Local EITC program to drive integration into the formal economy.
- Update the welfare structure to protect vulnerable segments while promoting self-sustainability.

### Workforce Reform

- Focus the Workforce Innovation and Opportunities Act (WIOA) incentives to develop high-priority sectors and capabilities.



## Partnering with the Federal Government

### Executive & Congressional Measures

- Provide equal treatment to Puerto Rico in Federal funding and programs and implement the recommendations of the PROMESA Congressional Bi-Partisan Task Force Report.



## Government Transformation

### New Government Model

- Establish a right-sized, integrated, and agile government that facilitates the growth of the private sector.
- Consolidate & externalize the production of economic statistics to the Federal Government.

### Digital Services Reform

- Maximize the use of technology to streamline all citizen services.
- Modernize the property registry by leveraging the use of technology through a public-private partnership.

### Transparency Reform

- Approve and implement the Administration’s transparency and public documents bill (PS0561 / PC1095).



## The Government is focused on implementing the necessary structural reforms in an expedited timetable to ensure growth is restored

	FILING	APPROVAL	IMPLEMENTATION
Tax Reform	Q1-2018	Q2-2018	12/31/18
Incentives Code	Q1-2018	Q2-2018	12/31/18
Regulatory Reform – Utility Commission	Completed	Q1-2018	6/30/18
Regulatory Reform – Occupational Licensing	Q3-2018	Q4-2018	12/31/18
Regulatory Reform – Deregulation of On-Island Freight	Q3-2018	Q4-2018	12/31/18
Regulatory Reform – Condominium Law	Q3-2018	Q4-2018	12/31/18
Power sector reform	<i>Implemented as part of PREPA's Transformation Plan</i>		
Welfare Reform – EITC	Q1-2018	Q2-2018	12/31/18
Welfare Reform – Federal Regulations	Q1-2019	Q2-2019	6/30/19
Workforce Reform – WIOA	N/A	Q4-2018	6/30/19
Government Transformation – New Government Model	Completed	Completed	6/30/19
Government Transformation – Digital Services Reform	Q3-2018	Q4-2018	6/30/19
Government Transformation – Property Registry	Q3-2018	Q4-2018	6/30/19
Government Transformation – Transparency Reform	Completed	Q1-2018	6/30/18
Partnering with the Federal Government	<i>Implementation of PROMESA Task-Force Recommendations</i>		



# EASE OF DOING BUSINESS





## Ease of Doing Business critical levers to improve Puerto Rico ranking

By targeting Structural Reforms to problem indicators, the Government is addressing the issues with the most impact on Ease of Doing Business, and Competitiveness. Current ranking is 64 out of 190. With the actions being taken, we are striving to be in the top 50 by FY23.

Key topics	Problem Indicator	Government Action
<p><b>DEALING WITH CONSTRUCTION PERMITS</b></p> <p>Target</p> <p>138 out of 190   87</p>	<p><b>22</b> <b>Procedures:</b> Too many separate steps required to commence operation.</p> <p><b>165</b> <b>Time (days):</b> 120 days (or 73% of the time) is due to evaluation in Municipal permits offices.</p> <p><b>6.3</b> <b>Cost (% of value):</b> 80% of total cost is due to Municipal construction.</p>	<p>New Single Use Permit in place.</p> <p>15 out of 19 autonomous municipalities have integrated into the <i>Unified Information System</i>.</p> <p>Municipal construction tax will be evaluated as part of Regionalization of Services initiative.</p>
<p><b>REGISTERING PROPERTIES</b></p> <p>Target</p> <p>153 out of 190   95</p>	<p><b>8</b> <b>Procedures:</b> 5 different entities intervene in the current process.</p> <p><b>191</b> <b>Time (days):</b> 180 days (or 94% of time) is due to delays in the Property Registry Agency.</p> <p><b>14</b> <b>Quality Index:</b> Limited geographic coverage and transparency of information.</p>	<p><i>Modernize the property registry by leveraging the use of technology through a public-private partnership.</i></p>
<p><b>PAYING TAXES</b></p> <p>Target</p> <p>161 out of 190   99</p>	<p><b>16</b> <b>Payments:</b> Federal, state and municipal taxes through different agencies.</p> <p><b>218</b> <b>Time (hours):</b> 158 days (or 69% of time) is due filing of corporate and sales tax to Hacienda.</p> <p><b>63</b> <b>Total Tax Rate:</b> 30% of total tax due to municipal inventory and license taxes.</p>	<p><i>Tax Reform will provide a more simplified tax structure to facilitate compliance and reduce administrative burdens.</i></p> <p>Municipal construction tax will be evaluated as part of Municipal Regionalization initiative.</p>
<p><b>GETTING ELECTRICITY</b></p> <p>69 out of 190   59</p>	<p><b>4</b> <b>Reliability of supply and transparency of tariff index (0 – 8):</b> Improve grid, regulatory framework and partnerships with the private sector.</p>	<p><i>Implemented as part of PREPA's Transformation Plan</i></p>



## A comprehensive tax reform will revitalize Puerto Rico's tax codes to spur economic growth and promote tax compliance

### Key Benefits of Proposed Tax Reform

- ✓ Increase in economic activity as a result of the reduction in Tax Rates for business entities and individuals.
- ✓ Allow small businesses to choose between re-investing the tax reduction in their businesses or distributing the increases to their shareholders, who will then have the option to either spend it in the Puerto Rico economy or save for retirement.
- ✓ Decrease in compliance costs, simpler tax returns.
- ✓ Increase efficiency for Hacienda, resources currently assigned to tax return processing can be re-assigned to other revenue generating measures (e.g. Income Tax Audits and Correspondence Audits, SUT and Excise Tax Audits and other Taxpayer Services).
- ✓ Decrease in Audit Risk, uncertainty and the associated compliance costs.
- ✓ Decrease in SUT compliance and associated costs on the acquisition of services in Puerto Rico.
- ✓ Increase in Tax Revenues as a result of the proposed changes to the Alternative Basic Tax Regime. These changes will produce higher tax revenues from taxpayers who are not currently complying with the Code.



## The Tax Cut and Jobs Act and the impact of the Hurricanes accelerate the need for a comprehensive tax reform that will spur economic development, lower cost of doing business and make Puerto Rico more competitive

INITIATIVE	RATIONALE	FY18	FY19	FY20	FY21	FY22	FY23
<b>INDIVIDUAL INCOME TAX</b>	<ul style="list-style-type: none"> <li>A reduction in individual income tax rates will result in a maximum tax rate <b>lower than 30%</b>.</li> </ul>	-100	-273	-284	-291	-294	-294
<b>REGULAR CORPORATE INCOME TAX</b>	<ul style="list-style-type: none"> <li>A reduction in corporate income tax rates will result in a maximum tax rate <b>lower than 30%</b>.</li> </ul>	-50	-188	-196	-202	-204	-204
<b>SALES &amp; USE TAX (“IVU”) B-TO-B</b>	<ul style="list-style-type: none"> <li>A reduction in Sales &amp; Use Tax B-to-B from 4.0%, to 2.0% in FY19 and <b>0% in FY20</b>.</li> </ul>	0	-79	-165	-169	-172	-172
<b>REDUCE TAX RATE TO PREPARED FOODS</b>	<ul style="list-style-type: none"> <li>A reduction in prepared food tax from 10.5%, to 6.0% in FY19.</li> </ul>	0	-85	-87	-87	-87	-87
<b>TOTAL TAX REFORM</b>		-150	-625	-732	-748	-757	-757

As part of the local corporate tax reform, the Government will need to consider the following:

- Account for the corporate tax rate and GILTI rules of the Tax Cuts and Jobs Act of 2017.
- Provide certainty to Controlled Foreign Corporations operating in Puerto Rico.
- Promote economic development and growth.




## The new Incentives Code seeks to revamp the way in which all economic incentives are reviewed, approved and managed

The Incentives Code will be more a coherent and consistent law that covers all of the promoted activities, seeks a positive return on investment, and establishes new processes and controls.




**1**



**The Incentive Code seeks to encourage activities that produce a positive ROI for Puerto Rico**

- Reform based on economic/financial guiding principles
- Change in public policy - redirected towards activities that encourage competitiveness, export & investment.
- New agile paradigm that provides support for the continuous improvement of the development strategy.
- Ability to identify emerging risks and opportunities.


**2**



**Establish an easy and efficient process to request incentives**

- Single designated office for all aspects of the incentive process.
- Standardized incentive contracts.
- Clear and easy communication between agencies (integrated single digital platform).


**3**



**Strengthen compliance and control of incentives**

- Simplify the annual reporting process for beneficiaries while at the same time strengthening its audit.
- Clear, rational and objective penalty process with well-defined triggers.
- Participation of the private sector (CPAs, tax professionals, lawyers, etc.) to facilitate the compliance verification process.

**4**



**100% fiscal transparency, accountability and fiscal risk for all the economic incentives**

- Publish on a recurrent basis all costs and benefits of the incentives offered by the New Incentives Code.
- Reporting information should be periodically evaluated to constantly improve incentive programs and ensure that incentives are allocated to maximize the economic impact for Puerto Rico.



# POWER SECTOR REFORM



## Power Sector Reform

### The Transformation Plan is Intended to Provide a Roadmap for a Transformed Energy Sector for Puerto Rico



Provides Puerto Rico with a 21<sup>st</sup> century energy sector that serves as an engine of economic growth while protecting the environment.



Builds energy infrastructure that recognizes the need for a transformed and resilient system, while taking into account the projected decrease in demand.



Achieves low-cost and reliable energy.



Provides sustainable structural and financial models for energy on the Island.



Leverages available federal funding for disaster recovery.



Increases generation from renewable energy.



Provides platform for the implementation of innovative technology to drive efficiencies and improve customer service through operational excellence.



Provides, as applicable, professional and independent governance.



Relies on a robust and transparent regulatory framework to regulate private and monopoly components of the new energy sector, promote private investment, and implement and manage efficient rate designs and effective incentives.



# HUMAN CAPITAL



## Long-term Human Capital Reform focused on stimulating both the demand and supply sides of the labor market

- The Human Capital Reform seeks to create a thriving private sector that can provide jobs for the residents of the island (i.e. boost employment demand) and an intelligent welfare structure that works as a safety net for the most vulnerable segment of the population while supporting and encouraging their return to the formal workforce (i.e. promote supply of workers).
- Employer directed measures of Act-4 of 2017 reduce the economic and legal burdens that may slow or discourage job creation.
- The Government (through the Department of Labor, Department of Education, and the Department of Economic Development and Commerce) is working with existing and new programs that can promote an increase in labor participation. Additionally, the Government will work with local partners to identify additional programs and services that could benefit from increase collaboration.
- Most of the reforms are heavily driven by statutory changes. Some of these amendments, however, are at the Federal level. Due to Puerto Rico’s status, any change at this level will require direct assistance from the FOMB with Congress.

### Main Pillars of the Human Capital Reform

FLEXIBLE LABOR REGULATIONS



Approved – Act 4 of 2017

EARNED INCOME TAX CREDIT



COMPREHENSIVE WELFARE REFORM



WORKFORCE PROGRAMS IN HIGH-PRIORITY SECTORS







## The EITC is a key tool of the Welfare Reform

- The EITC is a benefit for working people with low to moderate income. To qualify, people must meet certain requirements and file a tax return, even if they do not owe any tax or are not required to file. EITC reduces the amount of taxes people owe and may result in a refund. After the welfare reform in 1996, the EITC has become the cornerstone of U.S. anti-poverty policy in the United States. It has refocused the U.S. safety net on working families; dramatically increasing employment among single women with children; and removing more children from poverty than any other program.
- The proven benefits of implementing an EITC are:
  - Increased labor force participation → a critical factor in the long term sustainability of Puerto Rico
  - Poverty reduction
  - Increase in tax filings
  - Transition from an informal to a formal labor force
  - Decrease in welfare dependency, especially for single mothers

### Local EITC

- No Federal EITC contemplated
- Requires local legislation
- Structure mirrors the Federal model, but adjusted to Puerto Rico median
- Average credit per person: **\$645**
- Refundable

Sources: Center on Budget and Policy Priorities (2016). Policy Basics – The Earned Income Tax Credit. Updated October 2016; Hoynes Hilar (2014); A Revolution in Poverty Policy; The Earned Income Tax Credit and the Well-Being of American Families. Pathways Summer 2014; Center on Budget and Policy Priorities (2016). Policy Basics – The Earned Income Tax Credit. Updated October 2016; Haskins, Ron (2006). Welfare Reform, Success or Failure? It Worked. Policy & Practice. The Brookings Institution. March, 2006.

Note: Projections made using PR taxable year data from 2015 and Federal EITC rates for 2015



## Workforce Innovation and Opportunity Act (WIOA)

- WIOA is the primary way in which the Federal Government invests in adult education and workforce development. It is designed to help jobseekers access employment, education, training, and support services to succeed in the labor market, and to match employers with the skilled workers they need to compete in the global economy.
- The Government seeks to broaden core industries that qualify under WIOA and focus on high impact economic sectors to provide a skilled workforce to meet the needs of their employers.

### Focus

### Description



#### High Priority Sectors

Update the WIOA State Plan to focus the programs and incentives to high-priority sectors and capabilities such as aerospace, software development, and creative services, among others.



#### Industry Needs Alignment

Integrate the WIOA program with the broader promotional efforts of the Department of Economic Development & Commerce.



# INTEGRATED FINANCIAL MANAGEMENT – OFFICE OF THE CFO



## Proposed mission and critical objectives of the Office of the Chief Financial Officer (OCFO)

Puerto Rico’s Office of the CFO will ensure fiscal responsibility, promote long-term economic sustainability, and enable optimal resource allocation in accordance with the Fiscal Plan and the annual budget.

### CRITICAL OBJECTIVES

#### FISCAL RESPONSIBILITY

- Enforce and manage a consolidated treasury for the Government.
- Estimate, protect and enhance collections and revenue streams.
- Establish budgetary priorities and exercise budgetary oversight.
- Establish effective expense controls and oversee the implementation of the procurement reform.

#### CONTROLS & ACCOUNTABILITY

- Standardize and implement accounting policies and processes for the Government.
- Establish and enforce contracting protocols and disbursement priorities.
- Drive internal process integrity analysis and continuous improvement.
- Help produce the required reports and monitor fiscal plan implementation, right-sizing, and recovery spending.

#### COMPLIANCE & TRANSPARENCY

- Reinforce the timeline to release pending audited financial statements.
- Establish a new process to assure timely release of audited financials for FY18 onwards.
- Drive the comprehensive upgrade and standardization of accounting and IT systems across all agencies.
- Establish a higher level of ongoing financial reporting and disclosure in coordination with AAFAF and the FOMB.

#### RISK MANAGEMENT

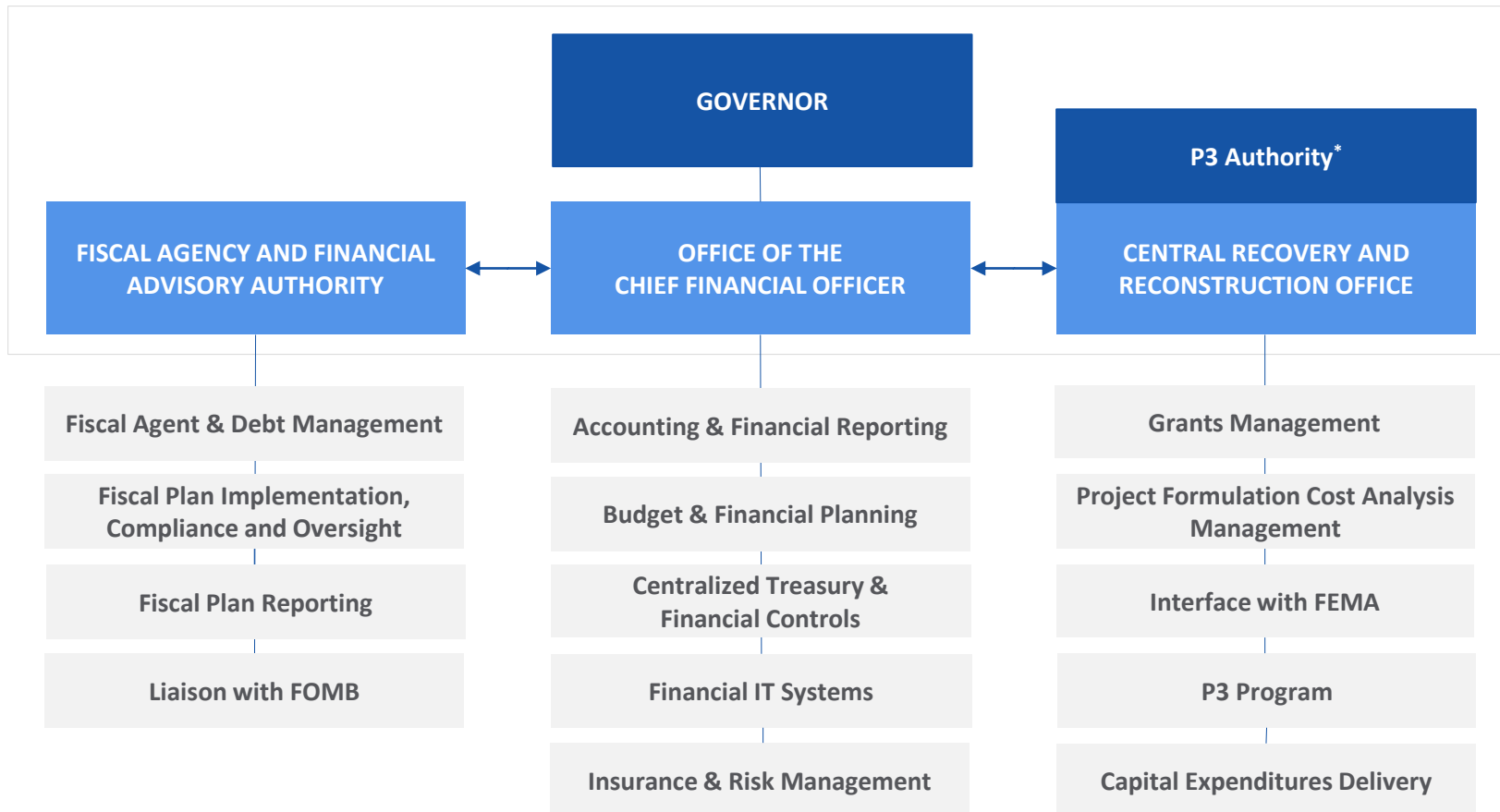
- Conduct litigation risk assessment.
- Forecast and manage receipts seasonality.
- Enact measures implementation impact forecasting & analysis.
- Manage centralized insurance procurement and policy management.



## Implementing an integrated financial management function is a key component to enhance overall transparency and control

**Current Situation** – Puerto Rico’s financial management functions and accountability are currently dispersed across various agencies and further fragmented at the agency level.

**Proposed Solution** – Provide strong, explicit, centralized authority and accountability that consolidates management and operational control over all central government fiscal agencies, human resource offices, and procurement operations.

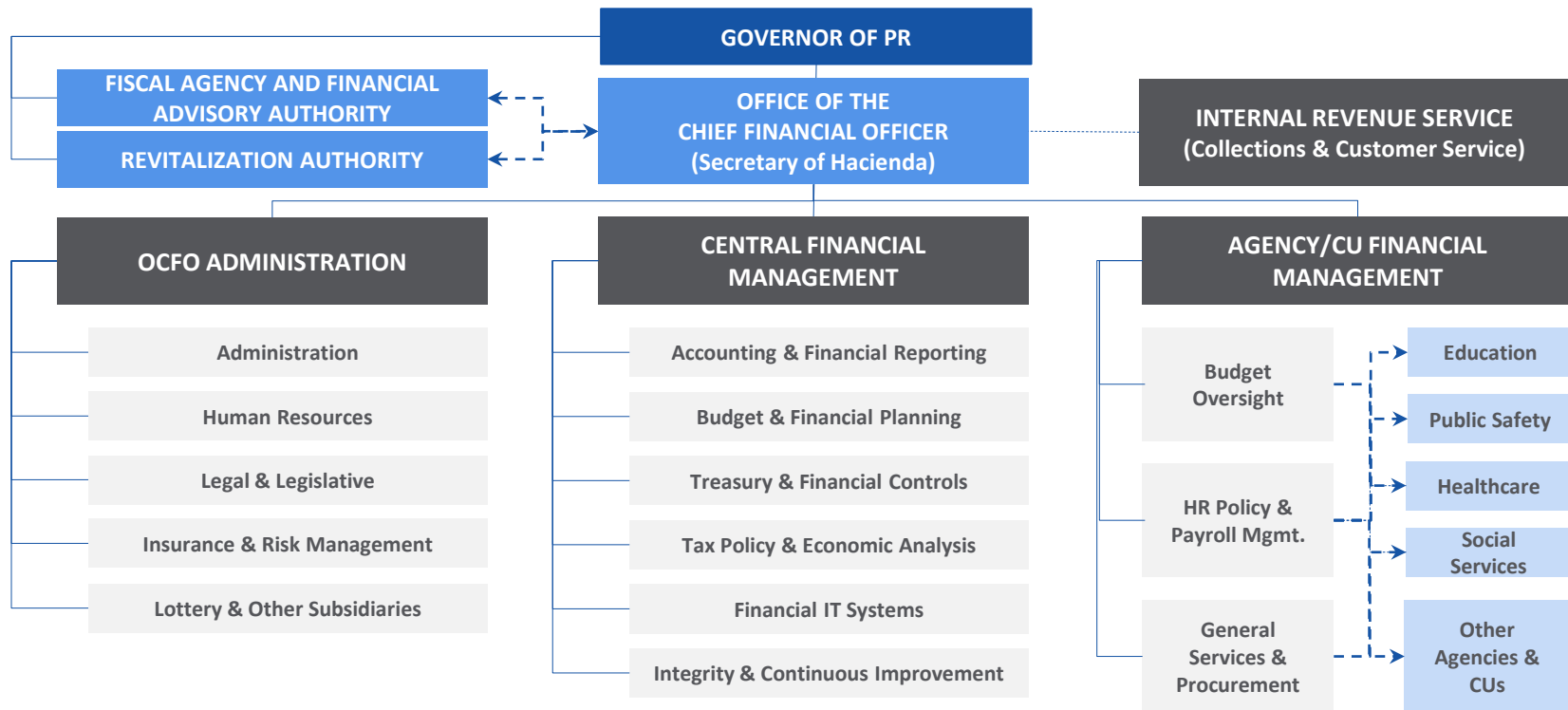


\*To be named PR Revitalization Authority once reorganization plan is implemented.



## Office of the CFO – Proposed Organizational Structure and Critical Functions

Puerto Rico’s Office of the CFO will be established through a Reorganization Plan as part of the New Government Model that will consolidate OMB with Hacienda to establish clear accountability for all central and agency-level financial, procurement, and human resources functions in a new structure that will ensure permanent long-term reform.



### NEXT STEPS

- Establish scope of OCFO’s immediate authority and accountability (February 2018).
- Confirm organizational design and develop detailed implementation plan (April 2018).
- Complete legal / regulatory review and approve Reorganization Plan and associated bills (June 2018).
- Initiate agency organizational and procedural integration (July 2018).



## Centralized management and accountability for the implementation of these immediate work streams will drive the integration of the financial planning and management functions

CENTRALIZED TREASURY & LIQUIDITY MANAGEMENT	BUDGET DEVELOPMENT AND MONITORING	FINANCIAL IT SYSTEMS INTEGRATION	CAFR & REPORTING TO FOMB
<ul style="list-style-type: none"> <li>▪ Consolidate visibility and control of all Government bank accounts, including CU accounts at private banks.</li> <li>▪ Rationalize bank account portfolio and optimize cash pooling and treasury operations.</li> <li>▪ Implement uniform accounts payable and disbursement prioritization policies, processes and reports.</li> <li>▪ Implement uniform time &amp; attendance processes and payroll controls &amp; reporting.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Comply with the recently established FOMB budget guidelines and timeline.</li> <li>▪ Develop a budget that is consistent with the fiscal plan and easily traceable to the fiscal plan and the audited financials.</li> <li>▪ Operationalize the budget in the financial system to ensure consistency between accounts and facilitate monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Upgrade, rationalize, and integrate the central government’s financial IT systems.</li> <li>▪ Establish and enforce consistent accounting policies and procedures across all entities in an effort to implement modified-accrual basis of accounting.</li> <li>▪ Leverage the new forecasting, e-settlement, and analytics capabilities to support all OCFO functions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish a clear timeline to the publishing of the FY2015, FY2016, and FY2017 CAFRs and manage it to completion as soon as possible.</li> <li>▪ Implement a new process for the publishing of the FY18 and subsequent CAFRs within the established regulatory timeframes.</li> <li>▪ Support the ongoing reporting to the FOMB and improve the process and quality of the data provided.</li> <li>▪ Drive the strategic public disclosure of financial information to rehabilitate PR as a viable capital markets participant.</li> </ul>
<p><b>OCFO ORGANIZATIONAL TRANSFORMATION</b></p>	<ul style="list-style-type: none"> <li>▪ Establish clear accountability and interim reporting structures.</li> </ul>	<ul style="list-style-type: none"> <li>▪ File the Reorganization Plan and associated bills to implement the consolidation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop detailed implementation plan and timeline.</li> </ul>



## The Office of CFO will provide monitoring and analytical support to key government agencies and initiatives







## Audited Financials Timeline Update

### Financial Reporting Update

- The pre-audited financials are currently being finalized for FY16 and FY17.
- Key deliverables are: 1) Bank Reconciliations, 2) Financial Statement Analyses, and 3) Draft Financial Statements
- Target Dates of final packages are:
  - FY16 – February 2018
  - FY17 – April 2018

### Audited Financial Statements Timeline

- Two separate teams from KPMG will work on the FY16 and FY17 audits concurrently.
- A two month turnaround from KPMG is planned once they receive the final draft financials.
- Based on the progress of the FY16 and FY17 financials, the audited financial statements are on track to be finalized by the end of June 2018.

Financial Reporting Status	June 2016 Draft FS			June 2017 Draft FS		
	Status	Completion %	Target Date	Status	Completion %	Target Date
1 Calculation of Lottery Revenues	Complete	100%	Dec-17	On-track	25%	Feb-18
2 Fund Balance (Equity) Presentation & Compliance Assessments	On-track	75%	Feb-18	On-track	25%	Feb-18
3 Calculation of Payroll & Related Expenses	On-track	100%	Feb-18	On-track	25%	Feb-18
4 Valuation of Capital Assets & Leases	On-track	50%	Feb-18	On-track	0%	Mar-18
5 Calculation of Pension and Retirement Liabilities	On-track	25%	Feb-18	On-track	25%	Feb-18
6 Calculation of Expenses and Payables	On-track	75%	Feb-18	On-track	0%	Mar-18
7 Journal Entries Creation & Finalization	On-track	50%	Feb-18	On-track	25%	Apr-18
8 Bank Reconciliations and Timing of Cash Movement Assessment	On-track	50%	Feb-18	On-track	0%	Apr-18
9 Calculation of Revenues and Accounts Receivable	On-track	100%	Feb-18	On-track	25%	Apr-18
10 Debt and Obligation Balance & Compliance Assessments	On-track	100%	Feb-18	On-track	50%	Mar-18
11 Review of Component Entities as Reporting Units	On-track	50%	Feb-18	On-track	25%	Apr-18
12 Budget to Actual Comparison	On-track	25%	Feb-18	On-track	25%	Mar-18
13 Finalization of Draft Financial Statements & Footnotes	On-track	25%	Feb-18	On-track	0%	Apr-18

An entirely new process will be implemented for the FY18 audited financial statements. This process will commence before the end of the current fiscal year and will leverage monthly closings and other interim steps and information requests.

Complete
On-track
Caution
Off-track