# **Fiscal Plan Comparison to Historical Results**

January 28th, 2017

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### **Process Summary**

#### The Financial Oversight and Management Board for Puerto Rico ("Board") requested the Government of Puerto Rico to provide a comparison of the baseline Fiscal Plan to historical results presented on the Overview Commonwealth's Audited 2014 Basic Financial Statement, to assist in the diligence of the Fiscal Plan Analyze the audited financial information for FY2014 ("2014") and the baseline projections for FY2017 ("2017") in the Fiscal Plan Adjust for differences in presentation by analyzing historical and projected results to provide an better comparison Approach Adjust for differences in accounting basis of the financial statements (combination of modified accrual and full accrual accounting) and the Fiscal Plan (primarily cash-basis) Normalize historical financial data to eliminate non-recurring items Governmental funds - net change in fund balances increased by \$355M from 2014 actuals to 2017P primarily due to increased SUT and petroleum tax, expenditures between 2014 and 2017 are relatively constant1 Initial Results Component units / enterprise funds – net change in position improved by \$196M from 2014 actuals to 2017P, driven primarily by a higher federal funds reimbursement rate in Health Insurance Administration<sup>1</sup> The historical Governmental Funds figures included herein are limited to the latest audited financial statements The Component Unit and Enterprise Fund comparison includes audited financial information for Limitations FY2014 and FY2015 for a majority of the entities This presentation does not constitute an audit, recommendation or opinion The financial figures herein are not presented on a GAAP basis

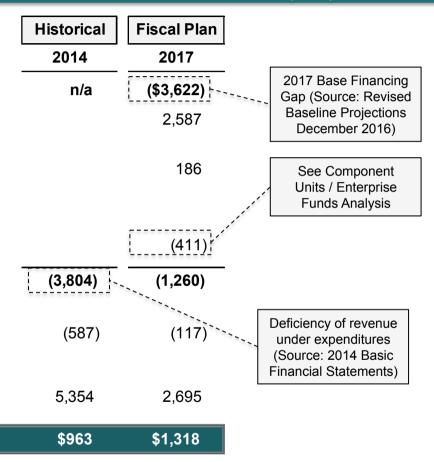
1. Figures represent normalized amounts. 3

## Governmental Funds Methodology

#### Reconciliation to Historical Financial Statements to Fiscal Plan – Governmental Funds (\$MM)

- 1 Base Financing Gap (Fiscal Plan)
- 2 (+) Non-Governmental Funds Debt Service (e.g. GDB, UPR, ERS and missed debt service payments)
  - (+) Other adjustments for working capital, reconciliation
- 3 expense, Federal Oversight Board costs and AUC/AAC
  - (-) Non-Governmental Funds Surplus
- 4 Governmental Funds, Net Before Normalization Adj.
  - (-) Other Governmental Funds Revenues Accruals, Global
- 5 Tobacco Settlement (Children's Trust, Comp. Unit Revenue, SUT(FAM)
- 6 (+) Other Governmental Funds Expenditures Debt Service, Capital Expenditures, AUC/AAC

7 Normalized Change in Net Position



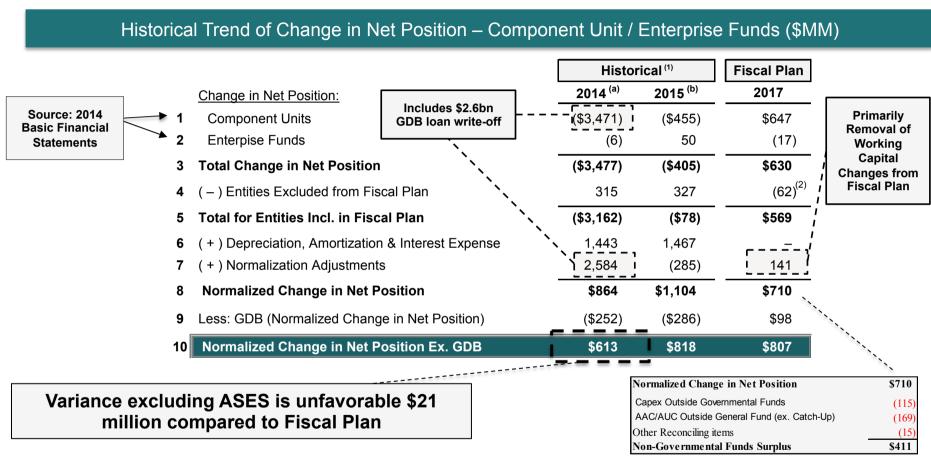
## Governmental Funds Comparison

- The Governmental Funds balance change between the projected Fiscal Plan baseline in 2017 and the latest audited financials of 2014 is \$355 million on a comparable basis
- The change is driven primarily by higher SUT and petroleum tax revenues, offset by the effect of lower income tax collections due to changes in tax law, cessation of amnesty programs and declining economic activity
- On the expense side, the Fiscal Plan projections are expected to stay constant with respect to the audited 2014 figures on a comparable basis

#### Governmental Funds – Comparison to Fiscal Plan Governmental **Fiscal Plan Funds** 2014 (\$ in millions) 2017 Revenues (Normalized) \$16,977 \$17,341 16,014 16,023 Expenditures (Normalized) \$1,318 Normalized Net Change in Fund Balances \$963 (\$355) Variance to Fiscal Plan B/(W)

Normalized Net Change in Fund Balances for historical years represents changes in fund balances for governmental funds excluding debt service, capex, other financing sources/(uses), additional uniform contributions, and material non-recurring accounting entries. Fiscal Plan baseline adjustments excludes debt service, and capital expenditures.

## Component Units & Enterprise Funds Methodology



<sup>1)</sup> Historical results obtained from audited and internal financial statements as provided by the Commonwealth

a) Obtained from audited financial statements

b) For certain entities, information for FY 2015 was not available. For the purposes of the trend below, the last available fiscal year was used.

<sup>2) 2017</sup> adjustment represents State Insurance Fund dividends to central government

### Component Units / Enterprise Funds Comparison

- The component units and enterprise funds balance change between the latest audited financials and the baseline 2017 Fiscal Plan is favorable \$196 million, excluding the Governmental Development Bank
- The key driver of the favorable variance is the Health Insurance Administration
  - Change in the Health Insurance Administration is due to an increase in effective federal fund share rate
- The Governmental Development Bank has been excluded due to the substantial change in the status of the entity making it not comparable to historical results

#### Component Units / Enterprise Funds – Comparison to Fiscal Plan

(\$ in millions)

**Normalized Net Change in Position** 

Variance to Fiscal Plan B/(W)

Historical Trend		Fiscal Plan
2014	2015	2017
\$613	\$818	\$807
(\$196)	\$11	

Excludes Governmental Development Bank normalized change in net position. For certain entities, information for FY 2015 and FY 2016 was not available. For the purposes of the trend below, the last available fiscal year was used.

Variance excluding ASES is unfavorable \$21 million compared to Fiscal Plan

### **Next Steps**

- The Government of Puerto Rico is currently reviewing the FY2015 and FY2016
   Governmental Fund financials in order to provide the information necessary to analyze recent revenue and expenditure trends on a comparable basis with the Fiscal Plan
- Such review is expected to take approximately one month and will include the following activities:
  - An unaudited update of the Governmental Funds financial figures for FY2015 and FY2016 presented in the most recent Commonwealth Report dated December 18<sup>th</sup>, 2016
  - An explanation of the trend of historical Governmental Fund financial results for the periods of FY2014 through FY2016
- The Government will provide detailed weekly updates to the Board on said review