



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	Administration of Governor Ricardo Rosselló	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	PRASA	Puerto Rico Aqueduct and Sewer Authority
EEI	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 (or HFA)	Puerto Rico Housing Finance Authority
FOMB	Financial Oversight and Management Board of Puerto Rico	PRHTA (or HTA)	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	Governor's Fiscal and Economic Working Group	PSC	Puerto Rico Public Service Commission
GILTI	Global Intangible Low Income Tax	RFQ	Request for Quote, or Request for Qualification
GNP	Gross National Product	SCO	State Coordinating Officer
GOSR	State of New York's Office of Storm Recovery	SIFC	State Insurance Fund Corporation
Government	Government of Puerto Rico	UPR	University of Puerto Rico
Governor	Governor Ricardo Rosselló	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

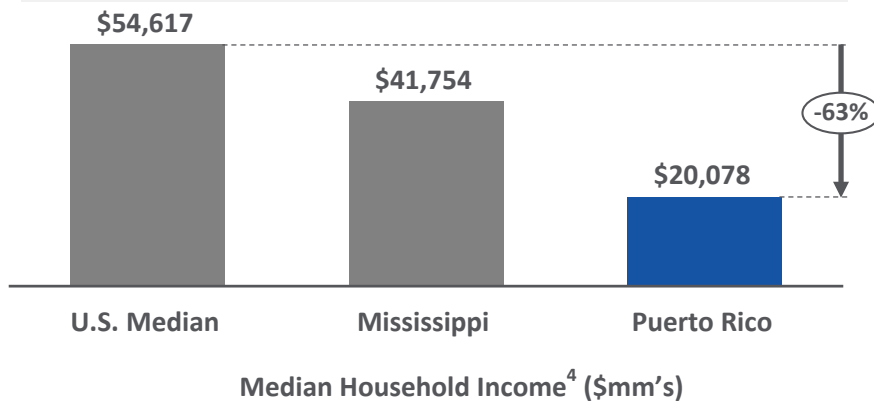
The Congressional approval of the *Tax Cuts and Jobs Act* of 2017, as well as delays in restoring the energy grid, among other recovery initiatives, are the most recent evidence that, unlike the States, Puerto Rico has been an afterthought in the mind of Congress across a wide variety of federal assistance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



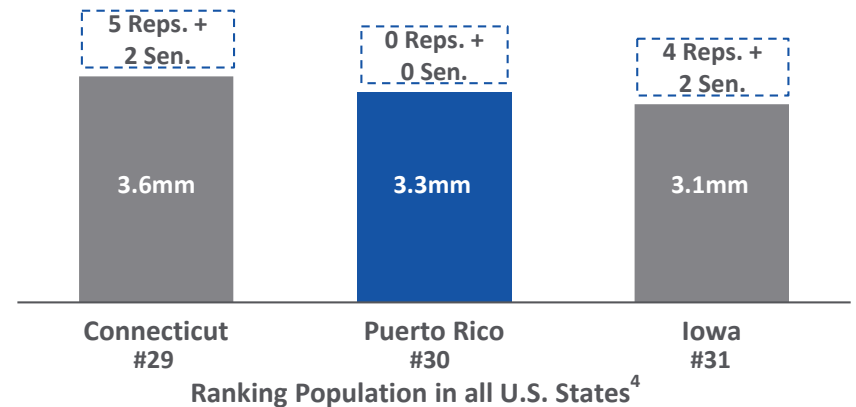
Puerto Rico’s unfair and inequitable treatment as a territory has been a driving factor in our decade-old fiscal and economic crisis

- 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 FY22.¹
- 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.²
- 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.³
- 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 30th in terms of population, but Puerto Rico has no voting representation in Congress unlike US States.



¹ Department of Education, official public school registry

² US DOL Bureau Labor of Statistics

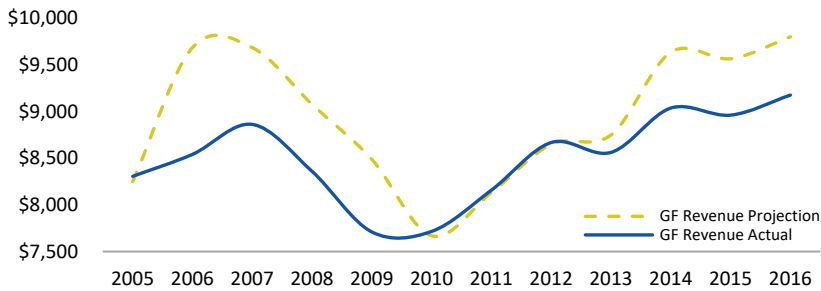
³ GAO Report United States March 2014: Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Source

⁴ United States Census Bureau, 2016



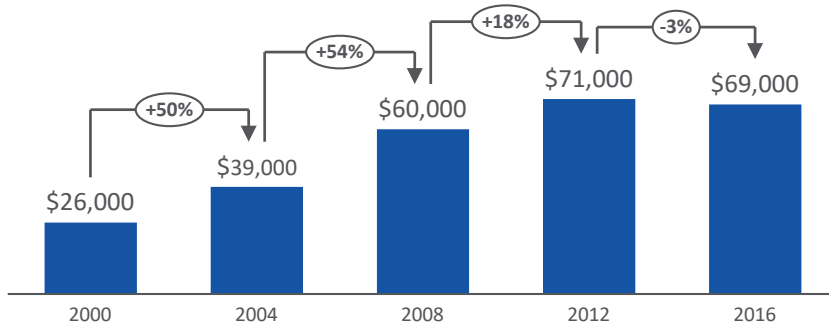
Periods of fiscal irresponsibility and lack of economic planning and transparency also contributed to Puerto Rico’s financial crisis

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



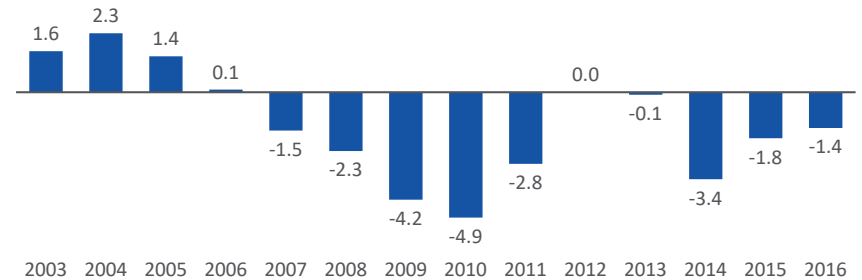
Revenue Projections vs Actual Revenues Since 2005 (\$mm's)

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



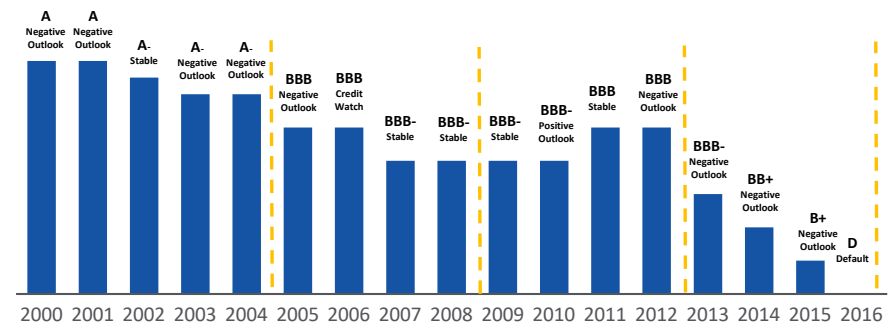
Public Debt Since 2000 (\$mm's, calendar years)¹

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



GDB Economic Activity Index (%)

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

¹ 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

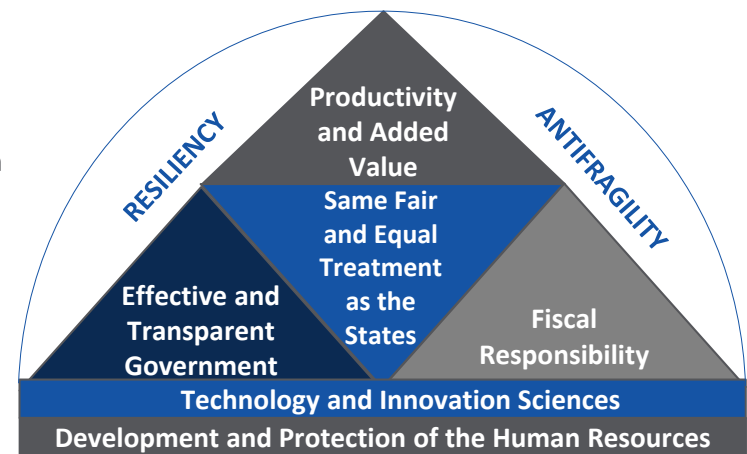
The devastation caused by Hurricanes Irma and Maria creates an opportunity to redesign major components of the Island's critical infrastructure, invest in the quality and resiliency of public and private buildings, and restructure and modernize and reevaluate delivery of services to residents.

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.
11. More **efficient delivery** of government services.





EXECUTIVE SUMMARY



Restoring transparency and confidence in Puerto Rico has been a pillar of the Administration

The Administration has focused its efforts in building the foundations for economic growth by enacting laws that promote strong fiscal discipline and pave the way for implementation of fiscal measures.



Fiscally Responsible Administration

- Ordered 10% FY17 budget cuts for government agencies.
- Ordered zero-based budgets starting FY18.
- Created AAFAF to implement and comply with PROMESA and Certified Fiscal Plan.
- Approved Puerto Rico Financial Emergency and Fiscal Responsibility Act to prioritize essential services and extend the emergency period.
- Established the SEP.
- Consolidated law enforcement and other agencies under a Public Safety Department.
- Adopted measures for enforcing collection of sales taxes.
- Approved Fiscal Plan Compliance Act.
- Established legal framework to restructure the GDB.
- Adopted legal framework to reorganize government entities, functions, and services.



Spearheading Economy & Infrastructure Rebuilding

- Provided an expedited process for approval of critical infrastructure projects.
- Created an interagency group to streamline critical infrastructure projects review process.
- Established the CRRO to manage the reporting and use of recovery funding.
- Strengthened the P3 legal framework to facilitate critical infrastructure investments.
- Amended several labor legislations to improve competitiveness and labor participation rate.
- Created InvestPR to promote economic development and attract investment.
- Created the DMO to promote Puerto Rico as a destination.
- Approved Permit Reform.
- Amended Act 20-2012 to expand eligibility criteria and eliminate bureaucracies.
- Created a new Defined Contribution Plan for public employees.
- Submitted the BBB Plan requesting supplemental Federal Assistance.



PROMESA Compliant

- Certification of:
 - ✓ Government Fiscal Plan
 - ✓ GDB Fiscal Plan
 - ✓ PREPA Fiscal Plan
 - ✓ PRASA Fiscal Plan
 - ✓ PRHTA Fiscal Plan
 - ✓ COSSEC Fiscal Plan
 - ✓ Government FY18 Budget
 - ✓ GDB FY2018 Budget
 - ✓ PREPA FY18 Budget
 - ✓ PRASA FY18 Budget
 - ✓ PRHTA FY18 Budget
- Submission of quarterly reports.
- Submission of approved legislation.
- Publication of cash balance of TSA Accounts on a weekly basis.
- Publication of cash balances of Non-TSA Accounts.



Enhanced FOMB Reporting Framework

- Extend range of cash reporting to cover almost all required perimeters.
- Add liquidity drivers (change in balance sheet assets and liabilities).
- Incorporate detailed reporting of two principal expense areas (payroll and 3rd party payables).
- Monitor implementation of measures and monitor disaster-related metrics.



The New Fiscal Plan integrates the required response to the devastation caused by the Hurricanes as well as the most recent assumptions available for 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 reforms with the main objective of revitalizing the economy and critical infrastructure.



¹Build 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

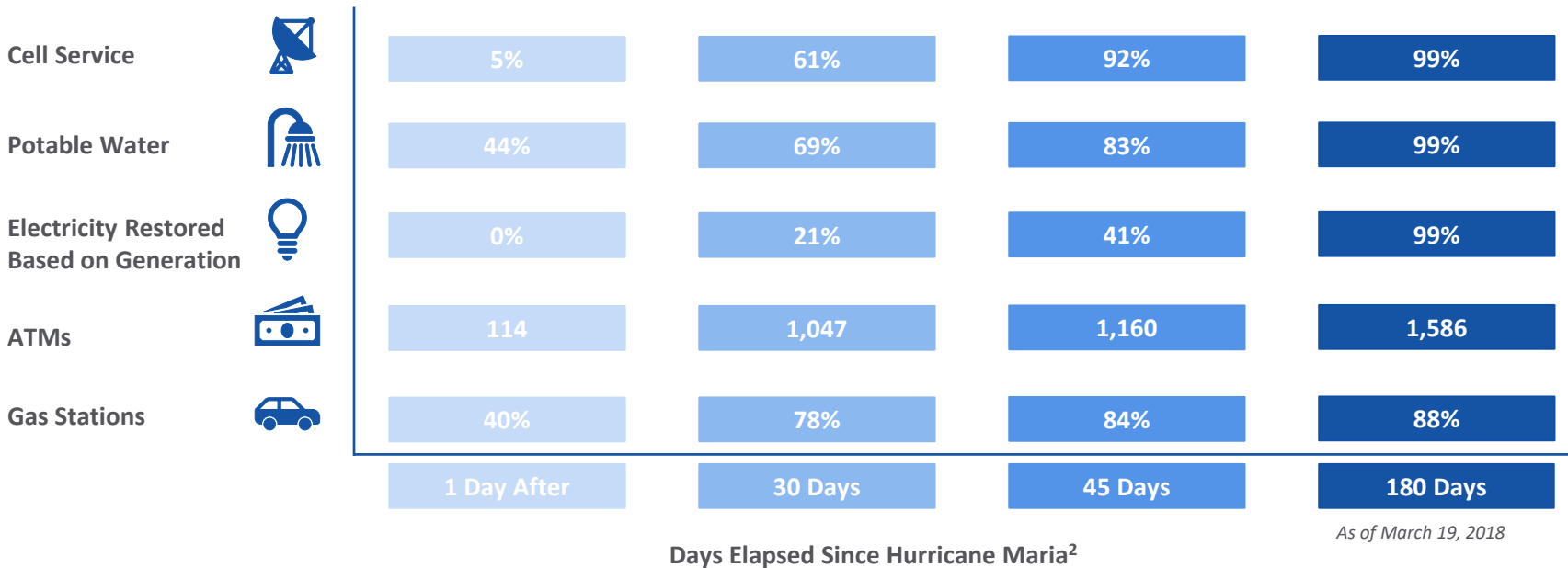


BUILD BACK BETTER



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.



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 3.3mm 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.³

¹ Translates to 93% of PREPA’s customer-base

² FEMA and Status.pr

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



Immediately following Hurricane Maria the Government began the process of assessing damages, planning recovery efforts, and rebuilding Puerto Rico

\$31.5bn¹ DAMAGE ASSESSMENT

- The Puerto Rico Planning Board produced a damage assessment based on a custom survey of government agencies, municipalities, and private entities with input from FEMA, USACE, and GAR.
- \$31.5bn preliminary damage estimate based on a variety of top down approaches continues to be refined using key methodologies:
 - Extrapolation of damages based on comparable impact of previously recorded hurricanes.
 - Assessment of damages reported by municipalities, government agencies and private sector.
 - International Monetary Fund research on damage estimates primarily based on wind speed as a percentage of GDP.

RECOVERY EFFORTS

- FEMA's critical response teams arrived on the Island on September 23, 2017, three days after the Hurricane, to assist with stabilizing cell towers, water treatment plants, hospitals, gas stations, and installing emergency generators.
- Damage Status update as of March 19, 2018²:
 - 99% of electricity generation restored (from 0% post storm)
 - 99% of telecommunications were restored (from 0% post storm)
 - 99% of PRASA customers had water (from 0% post storm)
 - 1,586 ATMs were open (from 114 post storm)
 - 100% of hospitals were operating
- FEMA Assistance status update as March 20, 2017³:
 - 442,657 Individual Assistance Applications had been approved
 - A total of \$1.1bn had been approved for the Individuals and Household Programs.

\$94.4bn BUILD BACK BETTER

- On November 13, 2017, the Government submitted a formal request to Congress for additional Federal Disaster Recovery Assistance.
- The request for supplemental appropriations illustrates unprecedented damages and details the necessary funding needed to rebuild the Island's infrastructure with the resiliency necessary to thrive and withstand future natural disasters.

¹ Hazus: Estimated Damage and Economic Losses, Puerto Rico, United States, November 27, 2017.

² Status.pr

³ FEMA Damage Assessment dated January 25, 2018.



Infrastructure reform and capital investment

- The Planning Board regularly updates infrastructure needs through the **4-year Capital Investment Program**. The program outlines short and medium term infrastructure needs for the Government of Puerto Rico. The Planning Board consults with different governmental agencies to determine priority and scope of projects. The program’s goal is to identify infrastructure needs that will improve the quality of life of Puerto Rico residents that are aligned with public policy.
- In addition to the Planning Board report and as required by the **Bipartisan Budget Act of 2018 Pub.L.115-123**, the Government of Puerto Rico by no later than 180 after the approval of the bill must submit to Congress a report describing Puerto Rico’s 12- and 24-month Economic and Disaster Recovery Plan. The plan must also define the priorities, goals, and expected outcomes of the recovery effort for the Commonwealth, based on damage assessments prepared pursuant to Federal law.
- The plan must be developed in conjunction with the following federal agencies: (i) FEMA, (ii) Secretary of the Treasury, (iii) Secretary of Energy and (iv) other agencies having responsibilities defined under the National Disaster Recovery Framework. In addition, the Government is committed to incorporate in the plan the following:
 - A new and more effective system of capital investment backed by appropriate institutional organization and Key Performance Indicators (KPIs).
 - A prioritized list of investments, beyond the reconstruction plan, that addresses key bottlenecks to generate economic growth including infrastructure priorities to guide investment with clear, systematic cost-benefit analysis and quantitative scoring to prioritize projects;
 - A framework for reconstruction that does not just build back what existed, but instead incorporates resiliency measures to build to a risk adjusted level
 - Sources of funding for all investments, including external capital, foreign direct investment, and PPP structures
 - Environmental review and permitting with opportunities for accelerated review processes, where appropriate;
 - Procurement and delivery best practices.

Infrastructure Priority per Federal Report



Housing



*Workforce
Development*



*Health & Social
Services*



*Governance &
Civic Institutions*



*Electric Power
system & Grid
Restoration*



*Environmental
Issues*



Status update of drafting the Disaster Recovery Plan

The Recovery Plan will serve as a tool to help redesign major components of the Island's critical infrastructure, invest in the quality and resiliency of public and private buildings, and restructure, modernize and reevaluate delivery of services to residents to rebuild the Island in a way that makes Puerto Rico stronger, smarter, safer, better and more resilient.

- Using guidelines established by the National Disaster Recovery Framework (“NDRF”) and working in close coordination, the CRRO and FEMA have identified the top priorities for the recovery process. Because of the magnitude of the disaster, the CRRO and FEMA have decided to expand the identified sectors in order to create a more comprehensive approach and developed two Directorates--Community Recovery and Infrastructure. Within those Directorates 12 Sectors have been identified as a priority. The sectors that have been created and staffed are: (1) Capacity Building, (2) Communications/IT, (3) Economic Development, (4) Health & Social Service Sectors, (5) Housing, (6) Water and Wastewater Infrastructure Resiliency, (7) Natural & Cultural Resources, (8) Energy/Power, (9) Public Buildings, (10) Transportation, (11) Municipalities, and (12) Education. These sectors will provide the structure for the development of the Recovery Plan.
- The CRRO, in coordination with FEMA, has engaged the Homeland Security Operations Analysis Center (“HSOAC”), a Federally Funded Research and Development Center operated by the RAND Corporation to support FEMA and the Government of Puerto Rico for this important initiative. The HSOAC has been on site in Puerto Rico since December and is working in integrated teams with the Government of Puerto Rico's representatives and FEMA to ensure an expeditious and transparent progress toward completing the Recovery Plan on schedule, with constant meetings and exchange of information with the state representatives. As part of this process, these teams are developing new relationships to partner with governmental and non-governmental stakeholders, subject matter experts and other key stakeholders to ensure that the Recovery Plan that is ultimately delivered to Congress incorporates accountability and transparency.

A key first step in this recovery planning process is the creation of a comprehensive damage and needs assessment for the Government of Puerto Rico. To ensure the most transparent and credible recovery process, the CRRO has begun holding a series of workshops and public hearings with state agencies and municipalities with the goal of informing all sectors and communities about this processes and upcoming events, and combining effort to minimize overlap and maximize impact.



FUNDING SOURCES



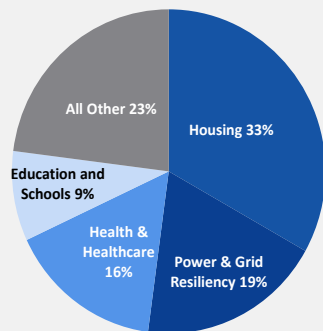
On November 13, 2017, the Government submitted a formal request for supplemental Federal assistance, titled Build Back Better Puerto Rico (BBB)

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.¹

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.

¹ 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.
- In addition, \$21.0bn from private insurance companies claims is included.¹

Disaster Related Funding in the New Fiscal Plan			
\$49.2bn Federal Assistance	+	\$21.0bn Private Insurance	=
			\$70.2bn Disaster Relief Assistance

- Certain federal funding contains a 10% local cost share component. The Government’s cost-share related to FEMA’s PS program 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 Community Disaster Loan. Terms have been under negotiation since October 2017. On March 22, 2018, the Government of Puerto Rico and the Federal Government reached an agreement in principle on the structure of the Community Disaster Loan.
- Property Claims Services, a subsidiary of Verisk Analytics, estimates \$21.0bn of private insurance funds, with 75% spent over the first five years.²

\$35.3bn FEMA Public Assistance Funding³

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 supplemental
- \$1.5bn – HUD CDBG First supplemental⁴

¹ Property Claims Services Estimate, dated October 2017.

² Based on outlays of Hurricane Community Development Fund during Hurricane Katrina recovery.

³ PR Government estimates reviewed by third party subject matter experts.

⁴ The total amount of HUD CDBG allocated is \$1.5bn, but only \$1.125bn is considered additional aid as \$375mm is used to cover part of the cost-share..



Federal supplemental assistance granted to Puerto Rico as of March 20, 2018

Appropriation	Department/Agency	Program	Total	Allocation to PR*	Distribution Status
First Supplemental	US Department of Housing and Urban Development	Community Development Block Grant	7,400,000,000	1,500,000,000	Awarded February 2018, awaiting Action Plan from PR Gov
Second Supplemental (October 2017)	FEMA	Disaster Assistance Direct Loan Program	4,900,000,000	2,065,000,000	Department of Treasury lowered initial allocation.
	US Department of Agriculture	Disaster Nutrition Assistance Program	1,270,000,000	1,270,000,000	Distributed
	National Flood Insurance	General Fund	16,000,000,000	121,000	Funds Distributed
Third Supplemental (February 2018)	US Department of Health and Human Services	Medicaid Block Grant	4,942,575,000	4,800,000,000	Pending
	US Department of Housing and Urban Development	Community Development Block Grant	28,000,000,000	11,000,000,000	Pending
	US Department of Agriculture	Office of Secretary Block grants and others	2,582,147,000	-	Pending
	US Department of Commerce	Economic Development Assistance Programs	600,000,000	-	Pending
	US Army Corps of Engineers - Civil Works	Construction Fund	15,000,000,000	-	Pending
	US Department of Energy	Electricity Delivery and Energy Reliability	13,000,000	-	Pending
	Department of the Interior	Insular Affairs-Assistances to Territories	3,000,000	-	Pending
	Environmental Protection Agency	Hazardous Substance Superfund, Leaking Underground Storage Tank Trust Fund	13,200,000	-	Pending
	Department of Education	Hurricane Education Recovery	2,700,000,000	-	Pending
	Department of Health and Human Services	Public Health and Social Services Emergency Fund, Children and Families Services Programs (head start).	812,000,000	-	Pending
	Department of Transportation	Emergency Relief Program and Public Transportation Emergency Relief Program.	1,704,000,000	-	Pending
TOTAL			85,939,922,000	20,635,121,000	

*Amounts specifically allocated to Puerto Rico: Puerto Rico will present proposals and compete for funds allocated to other federal agencies such as the US Army Corps of Engineers and Department of Transportation.



CRRO AND P3 UPDATE



CRRO's Vision for Puerto Rico's Future

The CRRO in coordination with the identified state sector leads is working to develop a shared vision for Puerto Rico's future. The broad elements of this vision are:

21ST CENTURY INFRASTRUCTURE

A smart, sustainable and resilient infrastructure that meets the demands of a 21st century economy;

FISCAL RESPONSIBILITY AND GOVERNMENT EFFICIENCY

A fiscally sound government that is efficient and responsive to the needs of the population and can facilitate private sector growth;

PARTNERSHIP WITH STATE AND FEDERAL GOVERNMENTS

A strong partnership with federal and state stakeholders to ensure the effective and efficient use of the federal funds received;

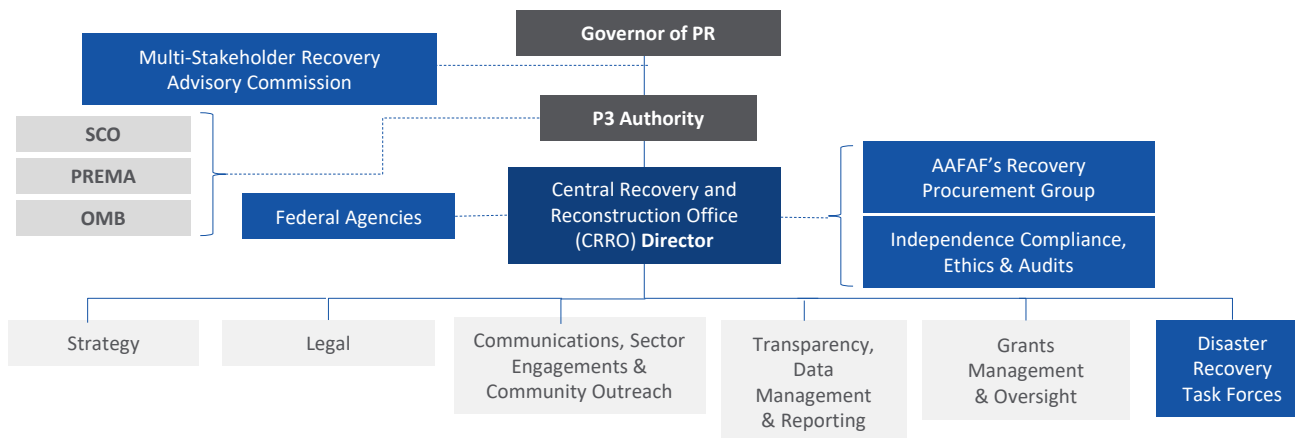
INCREASE COMMERCE AND TRADE

An increased capacity for Puerto Rico to be able to compete economically at the national and global level in a way that benefits both the states and the island through increased interstate commerce and international trade.



The Central Recovery and Reconstruction Office will lead the coordination, development and execution of long term recovery and reconstruction efforts

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 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.
 - March 11, 2018 - submitted update to congress on progress towards the development of the economic and disaster recovery plan.



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 six-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, over 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:



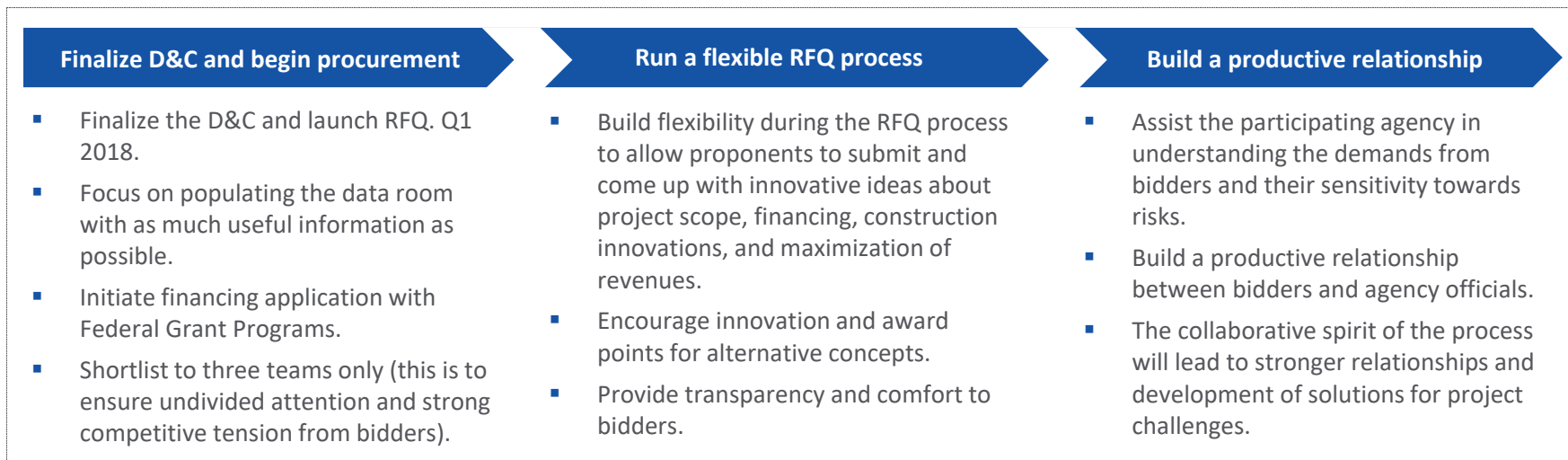


A path forward with current P3 pipeline

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:

<p>1 Student Life</p> <ul style="list-style-type: none"> ▪ Draft RFQ¹ Released 10/16/2017 ▪ D&C² Study to be published by March 2018 	<p>2 Maritime Transportation</p> <ul style="list-style-type: none"> ▪ Draft RFQ Released 10/16/2017 ▪ D&C Study to be released by 1Q 2018 	<p>3 Parking Facilities Modernization</p> <ul style="list-style-type: none"> ▪ Draft RFQ Released 10/16/2017 ▪ D&C Study to be released by 1Q 2018
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¹Request for Qualifications is the title for the standard bidding process in which businesses invite suppliers to bid on goods and services.

²Desirability and Convenience (“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:

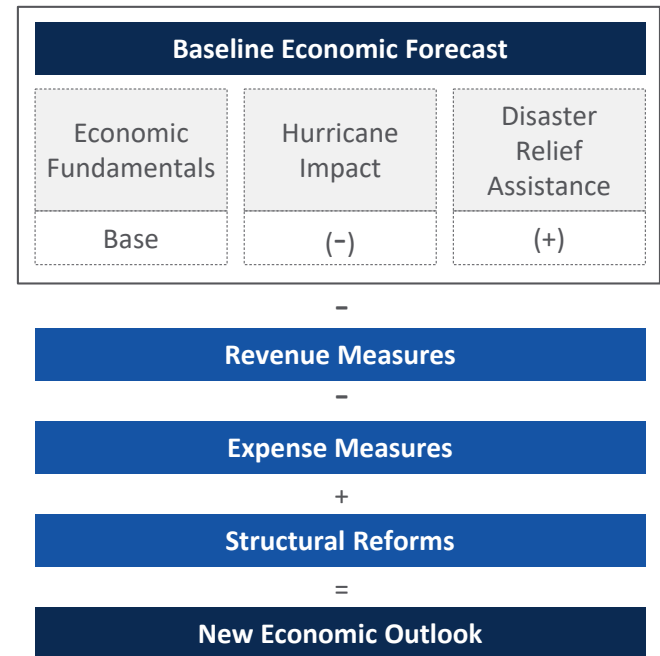
 1. **Hurricane Impact**

 - 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**

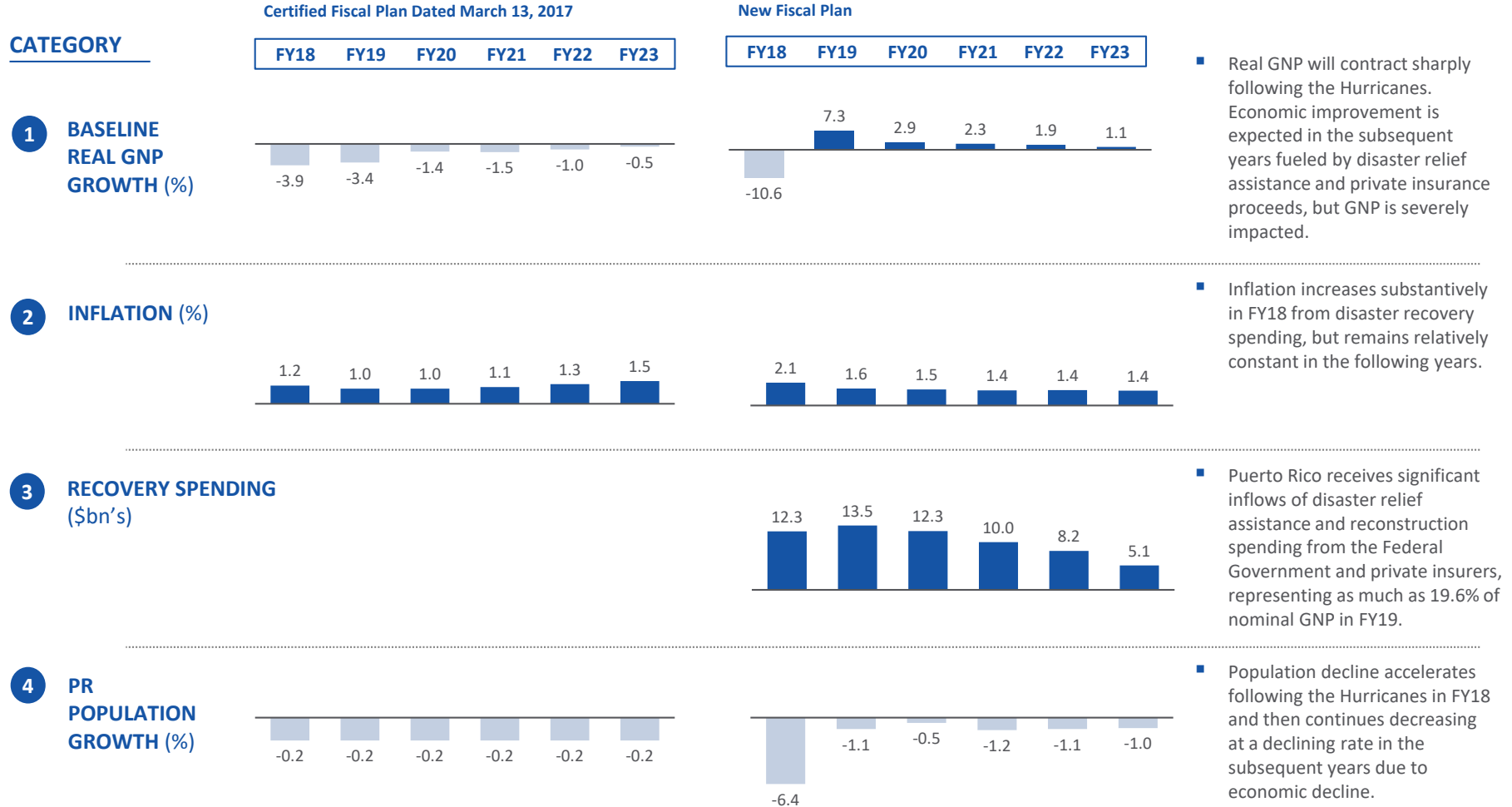
 - Revenue measures improve the tax collection efficiency of the Government.
 - Both revenue and expense measures have a negative impact to GDP.
 4. **Structural Reforms**

 - Improve the business environment and play a complementary role in stimulating investment and job creation, the impact of the structural reforms is positive.





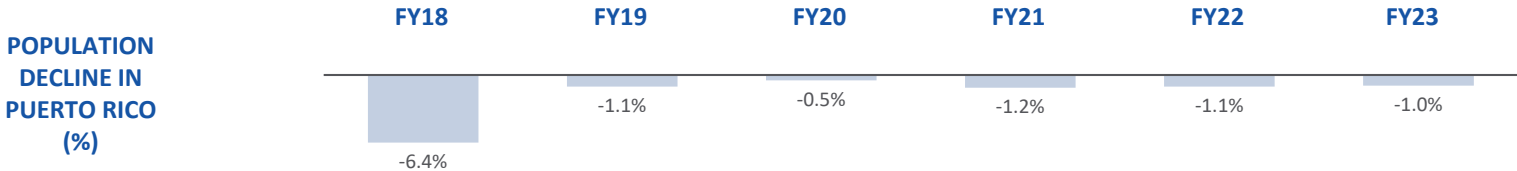
Hurricanes Irma and Maria have significantly altered the economic landscape





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, 2017¹ and have since been updated to incorporate the latest migration data and economic growth projections.
- The demographic model is consistent with the statistical model in the long run: an 10.9% cumulative decline in population is expected over six years.



¹Cresting the Wave: Puerto Rico’s Once and Future Population Decline



FINANCIAL PROJECTIONS

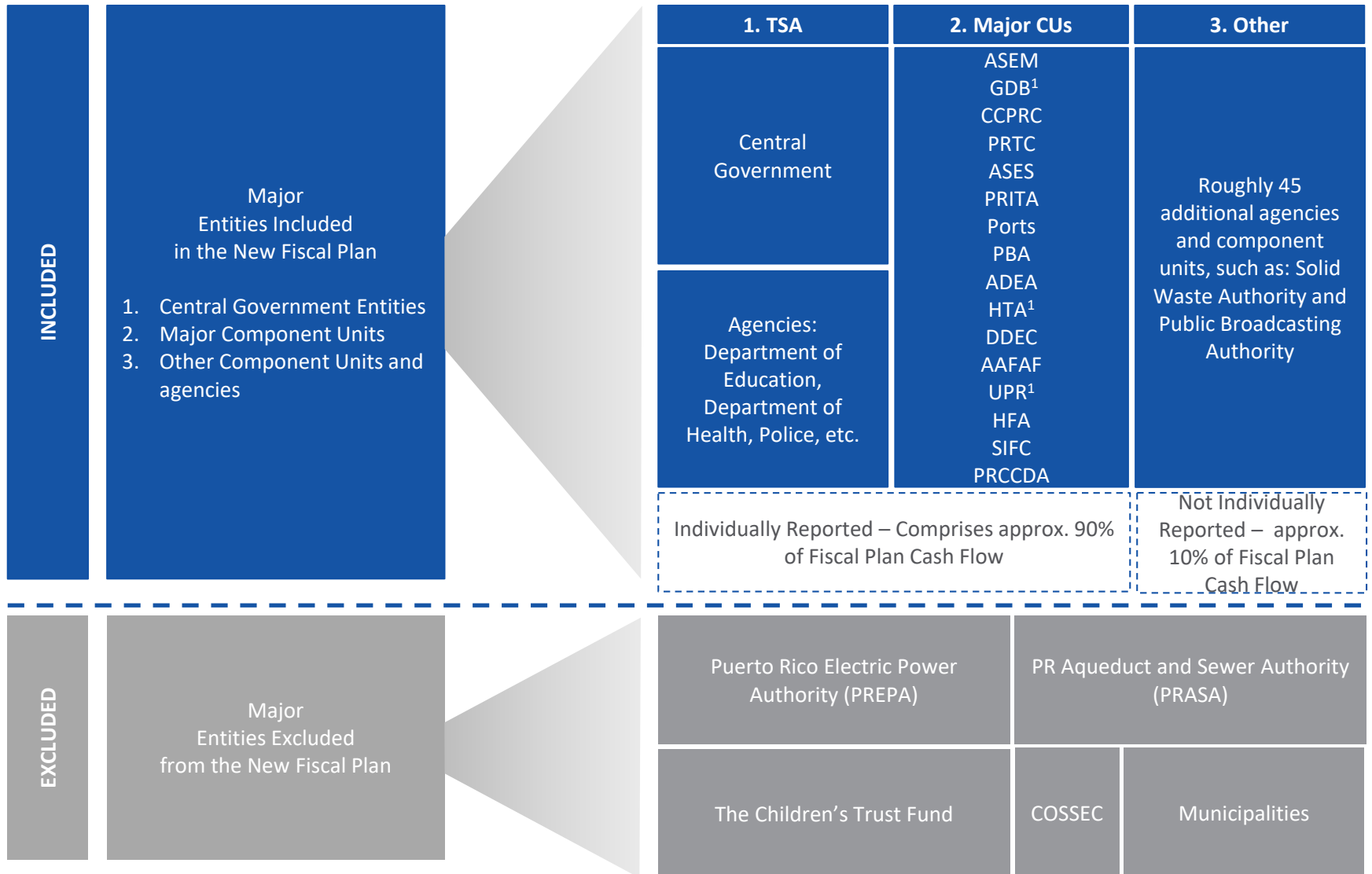


Key Presentation Differences in New Fiscal Plan from Certified Fiscal Plan

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



Government Entities and Relation to the New Fiscal Plan



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

Note: Housing Finance Authority, resources from the Cap Funds (money transferred by HUD for financing projects and repayment of bonds) are not contemplated in the New Fiscal Plan.



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)
- Commonwealth of Puerto Rico Regional Center Corporation
- Company of the Integral Development of the "Peninsula de Cantera"
- Corporation for the "Cano Martin Pena" Project (ENLACE)
- Culebra Conservation and Development Authority
- Economic Development Bank for Puerto Rico
- ELA Regional Center of PR
- Employees' Retirement System
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Fiscal Agency and Financial Advisory Authority
- Housing Financing Authority
- 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
- Model Forest
- Musical Arts Corporation
- Ponce Ports Authority
- Port of the Americas Authority
- PR Infrastructure and Finance Authority
- PR Medical Services Administration
- PR Sales Tax Financing Corporation
- Public Building Authority
- 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 Energy Commission
- 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 Ports Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico Public Private Partnerships Authority
- Puerto Rico School of Plastic Arts
- Puerto Rico Tourism Company
- Puerto Rico Trade and Export Company
- Solid Waste Authority
- Special Communities Perpetual Trust
- State Insurance Fund Corporation
- Teachers' Retirement System
- 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
- 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)
- 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 incorporating Federal support received related to healthcare and disaster relief, Puerto Rico will accumulate a surplus of \$6.0bn 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.
- Increased federal support and 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.
- 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 \$6.0bn.

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 \$5.2bn.

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 of \$11.2bn help restore the government to fiscal balance. There is an accumulated surplus of \$6.0bn over the six years.

4 LIQUIDITY SUPPORT



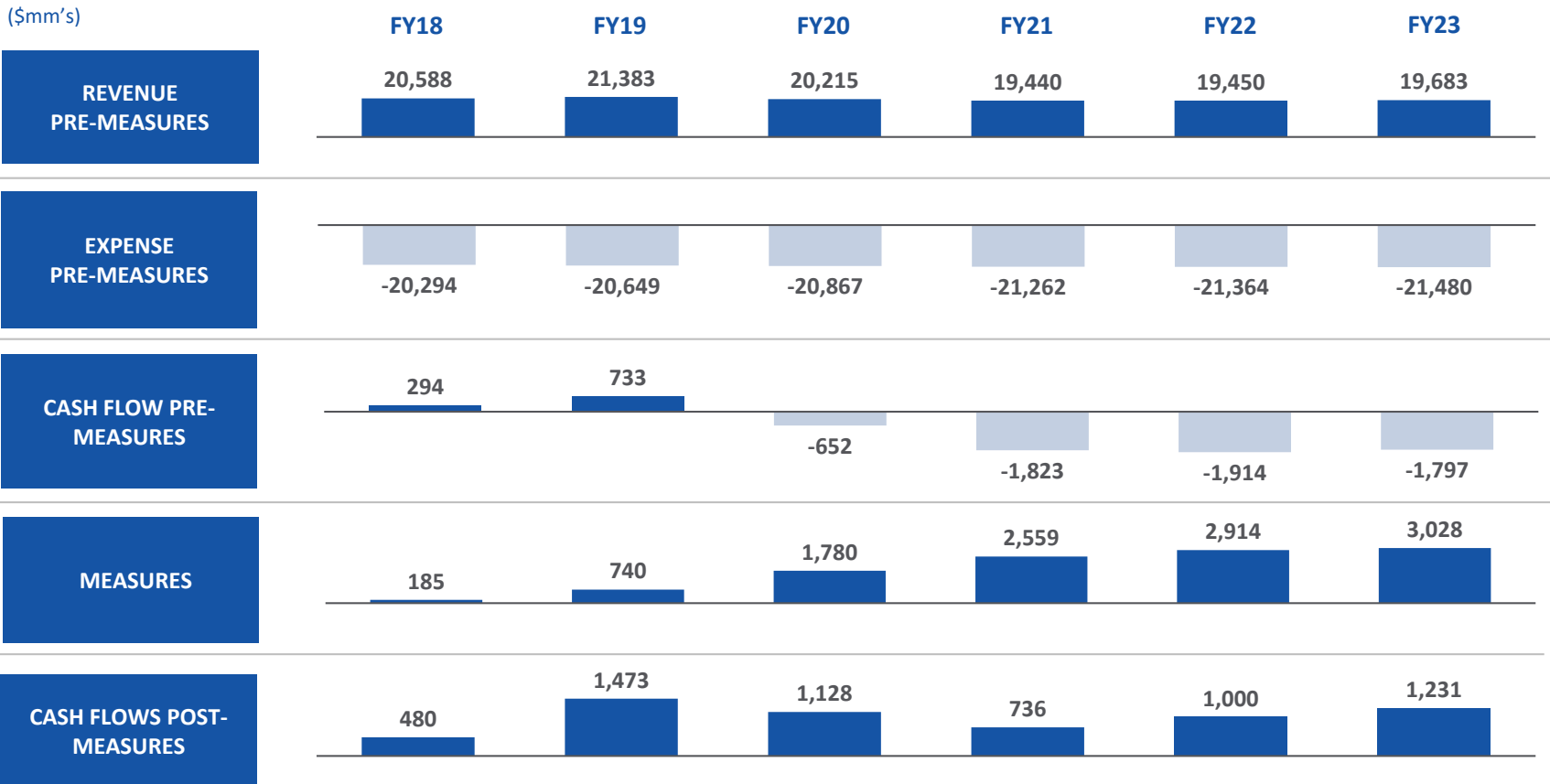
PUERTO RICO MAY NEED A LIQUIDITY FACILITY IN FY18 TO SUPPORT RECOVERY EFFORTS AND BRIDGE THE GAPS AT PREPA AND PRASA

- In addition to disaster relief assistance, Puerto Rico may require 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 near term success of Puerto Rico's recovery efforts.



Cash Flows Post Measures, Excluding Debt Service

By FY23 the accumulated surplus is \$6.0bn reflecting impact of increased federal support, a recovering economy and implementation of measures.





Key Revenue Baseline Assumptions

Baseline revenue for FY18 incorporates YTD data through February 2018 and builds in run-rate collection trends, and specific bottoms-up tax collection schedules where applicable.

Line Item	FY18 Base	FY19 – FY23
General Fund Revenue Sources		
1	Act 154 Detailed build of monthly revenues by company, based on feedback from top 10 Act 154 tax payers (representing ~92% of total Act 154 revenue in FY18).	(i) production decline factor of 10%, offset by 3.6% price inflation annually, and (ii) gradual deterioration of revenue to account for companies potentially transferring patents and/or leaving the island due to lasting effects from the hurricanes, federal tax reform and future creditability (10% in FY20, 20% thereafter).
2	Non-resident withholding Baseline derived from normalized FY17 and YTD FY18 results with estimated discount for reductions in payments from certain large corporations.	Base separated into two classifications: Act 154 payers and non-Act 154 payers. The Act 154 base is grown at US nominal GDP with a discount applied to reflect the risk of major Act 154 payers leaving. The remaining NRW base is projected to grow with US nominal GDP.
3	Sales & Use Tax Trended at FY18 post-hurricane rate relative to FY17. Favorable temporary impacts from mortgage moratorium and replacement purchases are offset by temporary exemptions on prepared foods and small businesses	Gross consumption (based on capture rate of 67.9%) forecast at the PR nominal GNP growth rate; assumes no change in capture rate over the projected period, so total SUT moves directly in line with the PR nominal GNP growth rate.
4	Individual & Corporate Income taxes, other excise taxes Trended at FY18 post-hurricane increase/decline relative to FY17 with additional adjustments for identified risks related to increased deductions, refunds and reserves.	Grown at PR nominal GNP FY19-FY23.
5	Rum excise taxes FY18 incorporates actual YTD data and assumes trailing twelve month average volume continues through year-end, with cover-over of \$13.25 per proof barrel retroactive for the whole fiscal year.	Volume of rum exports to the US (for which the cover-over applies) is assumed to grow with US population; cover-over remains at \$13.25 per proof barrel through December 21, after which point the cover-over is reduced to \$10.50 per proof barrel.
6	Cigarette & Alcohol taxes Forecast based on run-rate, excluding non-recurring revenues from extraordinary promotions; year-over-year growth in cigarette mainly driven by increase in tobacco taxes in May 2017 (Act 26-2017).	Grown at PR population and inflation.
Select Non-General Fund Revenue Sources		
7	Petroleum taxes Applies a 10% year-over-year increase to monthly petroleum tax collections (volume-based) from FY17 for 2H FY18; AFI and HTA distributions of these revenues split based on FY17 amounts.	Projected to remain consistent with FY18 revenue.
8	Gasoline taxes Based on FY17 projected forward using Puerto Rico real GNP.	Grown at the Puerto Rico real GNP growth rate.



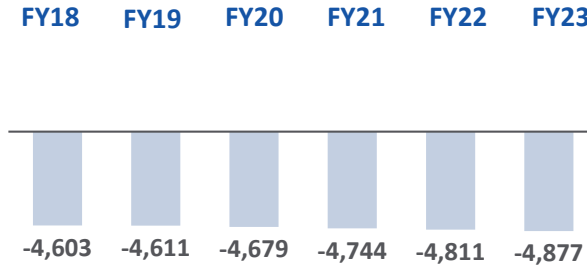
Key Baseline Expense Drivers – Pre Measures

(\$mm's)

DESCRIPTION

PAYROLL

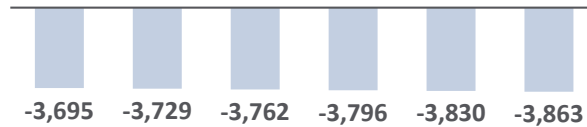
Inflation CAGR: 1.2%



- FY19 – FY20 projected to remain relatively constant with FY18 due to the Certified Fiscal Plan measure to freeze expenses, certain non-general fund payroll grows. From FY21 - FY23, payroll expense is expected to grow at inflation. The CAGR for the six year period is 1.2%.

DIRECT OPERATING EXPENSES

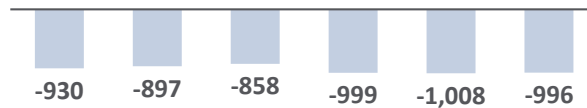
Inflation CAGR: 0.9%



- FY19 – FY20 projected to remain relatively constant with FY18 due to the Certified Fiscal Plan measure to freeze expenses, certain non-general fund expenses grow. From FY21 - FY23, direct operating expenses are expected to grow at inflation. The CAGR for the six year period is 0.9%.

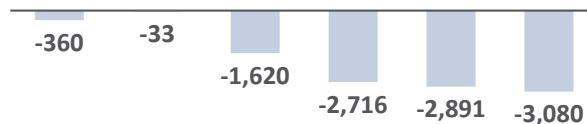
APPROPRIATIONS TO UPR AND HTA

Inflation CAGR: 1.4%



- UPR appropriation of \$708 million in FY18 increases to \$717 million in FY19 and remains constant through FY23.
- HTA appropriation is \$230 million on average, but varies significantly year to year based on timing of certain reconstruction and capital investment projects. The appropriation covers operating deficit, local sharing requirement for Federal Highway reconstruction funds and incremental maintenance capex.








COMMONWEALTH MEDICAID FUNDING



- For FY18 - FY20, the expense baseline assumes increased Federal support which drastically reduces the Commonwealth's portion of Medicaid Funding
- When the interim Federal support ends in September 2019 the Medicaid funding gap increases in FY20



Measures are comprehensive and balanced to avoid further economic deterioration and will yield net savings of \$3.0bn by FY23

		FISCAL MEASURES IMPACT NET OF IMPLEMENTATION COSTS (\$mm)					
		FY18	FY19	FY20	FY21	FY22	FY23
	NEW GOVERNMENT MODEL	-	244	742	1,149	1,334	1,445
	REDUCTION OF APPROPRIATIONS	-	85	215	330	397	397
	NEW HEALTHCARE REFORM	49	199	500	750	795	795
	REVENUE MEASURES	65	604	1,022	1,106	1,168	1,168
	SPECIAL REVENUE FUNDS DEFICIT REDUCTION	72	73	74	75	76	77
	SUBTOTAL	186	1,205	2,553	3,410	3,770	3,882
	EITC	-	(204)	(205)	(204)	(204)	(204)
	TAX REFORM	-	(261)	(568)	(647)	(652)	(650)
	SUBTOTAL	-	(465)	(773)	(851)	(856)	(854)
	TOTAL	186	740	1,780	2,559	2,914	3,028



Cash Flows Post-Measures, Excluding Debt Service

(\$mm's)

	2018	2019	2020	2021	2022	2023	CAGR
Revenues							
General Fund Revenues:							
Individual Income Taxes	\$ 1,788	\$ 1,948	\$ 2,034	\$ 2,111	\$ 2,183	\$ 2,237	4.6%
Corporate Income Taxes	1,340	1,460	1,525	1,582	1,636	1,677	4.6%
Non-Resident Withholdings	530	548	561	540	481	433	-3.9%
ACT 154	1,761	1,683	1,551	1,303	1,026	1,026	-10.2%
SUT	1,419	1,584	1,658	1,719	1,772	1,803	4.9%
Other	1,277	1,319	1,354	1,383	1,391	1,393	1.8%
General Fund Revenue	\$ 8,114	\$ 8,542	\$ 8,683	\$ 8,638	\$ 8,489	\$ 8,570	1.1%
Other Revenues (Component Units, Special Revenue Funds, Non-Tax, etc.)	6,038	5,711	5,803	5,924	6,020	6,109	0.2%
Revenues pre-measures, pre-federal transfers	\$ 14,152	\$ 14,253	\$ 14,487	\$ 14,562	\$ 14,509	\$ 14,679	0.7%
Revenue Measures	65	344	454	459	516	519	51.5%
Revenues post-measures, pre-federal transfers	\$ 14,217	\$ 14,596	\$ 14,941	\$ 15,021	\$ 15,025	\$ 15,197	1.3%
Federal Transfers	6,436	7,130	5,728	4,878	4,941	5,004	-4.9%
Total Revenues	\$ 20,653	\$ 21,726	\$ 20,669	\$ 19,899	\$ 19,967	\$ 20,201	-0.4%
Expenses							
Direct Payroll	\$ (4,603)	\$ (4,611)	\$ (4,679)	\$ (4,744)	\$ (4,811)	\$ (4,877)	1.2%
Non-Personnel Operating Expenses	(3,695)	(3,729)	(3,762)	(3,796)	(3,830)	(3,863)	0.9%
Utilities	(242)	(284)	(294)	(307)	(320)	(341)	7.1%
Pension Expenses	(2,254)	(2,261)	(2,276)	(2,296)	(2,315)	(2,338)	0.7%
UPR Appropriation and Other Expenses	(1,505)	(1,797)	(1,748)	(1,491)	(1,439)	(1,238)	-3.8%
Medicaid - Commonwealth funded	(700)	(391)	(1,986)	(3,093)	(3,279)	(3,479)	37.8%
Medicaid - Federally funded	(2,038)	(2,673)	(1,206)	(294)	(294)	(294)	-32.1%
Social Programs - Commonwealth funded	(15)	(15)	(15)	(16)	(16)	(16)	1.2%
Social Programs - Federally funded	(2,670)	(2,712)	(2,753)	(2,792)	(2,833)	(2,872)	1.5%
Maintenance Capex	(191)	(241)	(199)	(201)	(197)	(202)	1.1%
Enterprise funds	(1,191)	(1,210)	(1,228)	(1,246)	(1,264)	(1,282)	1.5%
Disbursements of Tax Revenues to Entities Outside Plan	(598)	(603)	(599)	(786)	(768)	(677)	2.5%
Loan to PREPA	(300)	-	-	-	-	-	-100.0%
Other Non-Recurring	(292)	(122)	(122)	(202)	--	--	-100.0%
Expenses pre-measures	\$ (20,294)	\$ (20,649)	\$ (20,867)	\$ (21,262)	\$ (21,364)	\$ (21,480)	1.1%
Expense Measures	120	396	1,325	2,100	2,397	2,509	83.6%
Expenses post-measures	\$ (20,174)	\$ (20,253)	\$ (19,541)	\$ (19,163)	\$ (18,967)	\$ (18,971)	-1.2%
Cash Flows Post Measures (excl. Debt Payments)	\$ 480	\$ 1,473	\$ 1,128	\$ 736	\$ 1,000	\$ 1,231	
Cumulative Surplus / (Deficit)	\$ 480	\$ 1,953	\$ 3,080	\$ 3,817	\$ 4,817	\$ 6,047	



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
Per-Capita Income	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.
GNP/GDP	A measure of the overall economic output of a state or territory and a more widely recognized and understood economic indicator.
Structural Balance (Budget)	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.
Fixed Costs to Revenue	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.
Liquidity	Liquid reserves help a state bridge temporary budgetary imbalances. The goal is to reduce reliance on cash flow borrowing (TRANS).
Governance / Constitutional Framework	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.
Debt and Pensions	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.¹

- 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 ¹

- 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 ¹

- 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:

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

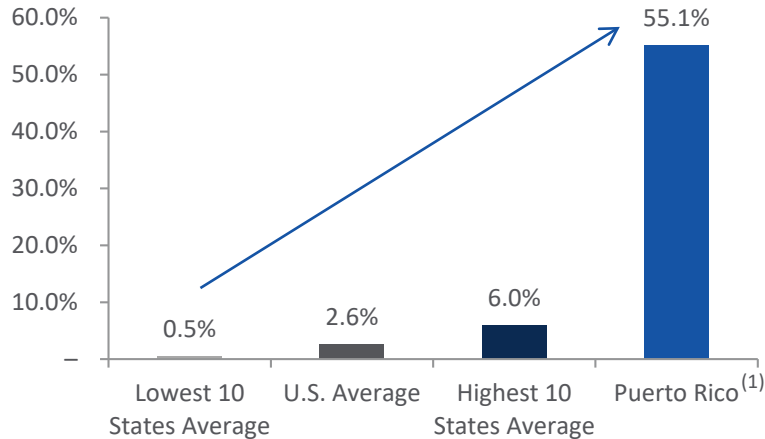
¹Moody's Investors Services' U.S. State Government Debt Analysis, May 2017.



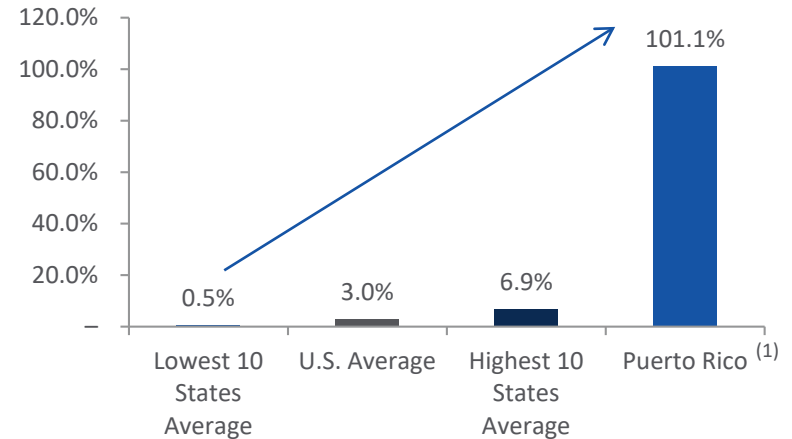
U.S. State Debt Metrics Provide a Benchmark for Potential Debt Capacity

- 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.

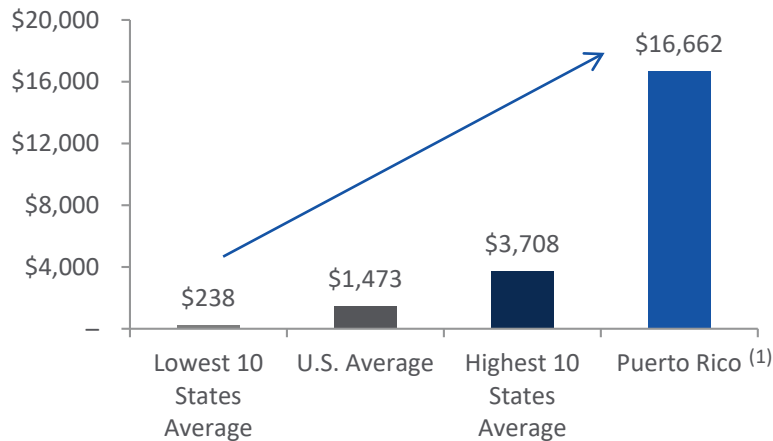
1 Debt to GDP



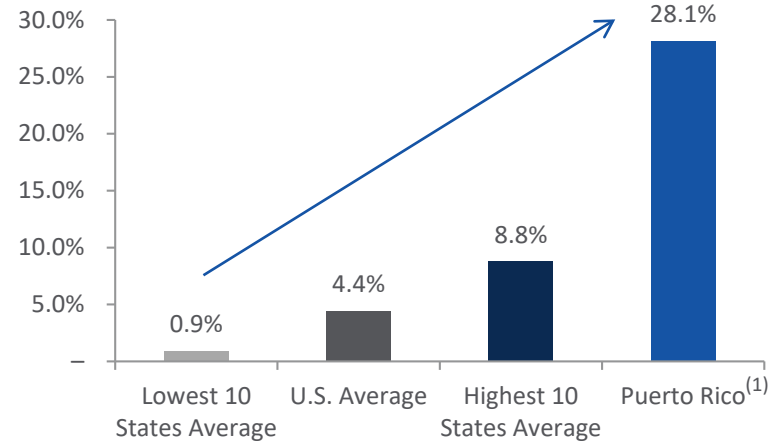
2 Debt to State Personal Income



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 costs¹
- 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

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

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%

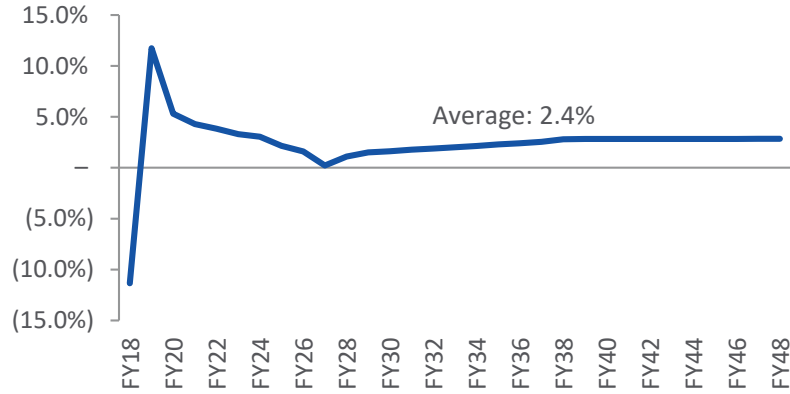
Notes

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

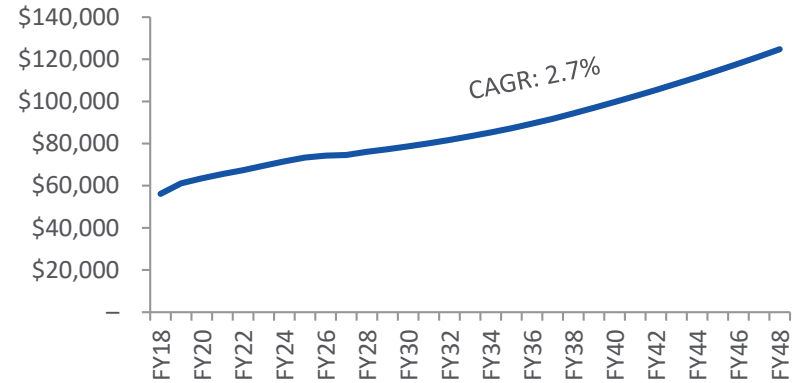


Puerto Rico 30-year Economic Forecast

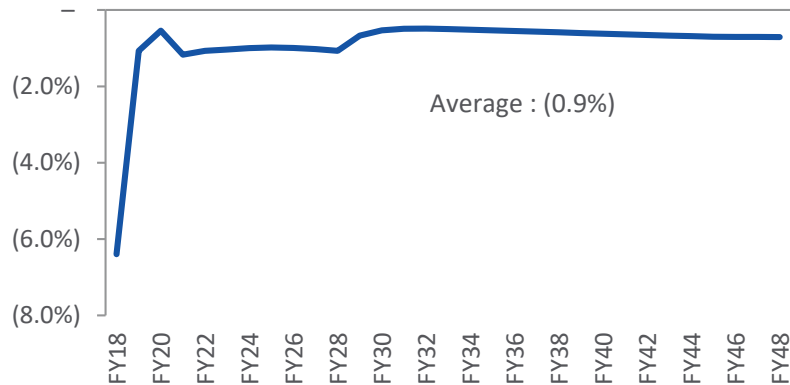
1 Change in Nominal GDP (YoY Growth %)



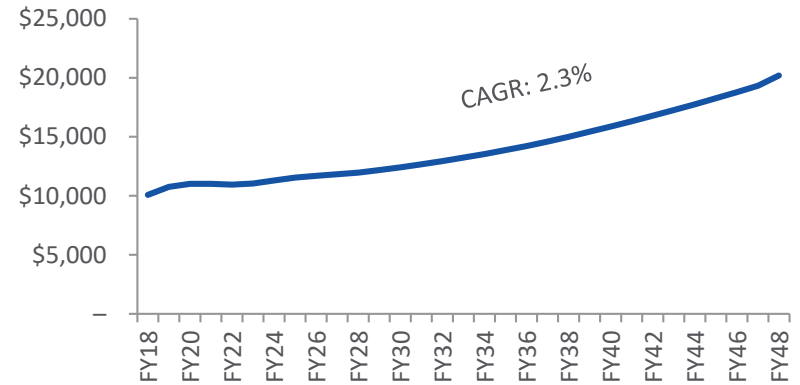
2 Nominal Disposable Personal Income (\$mm's)



3 Change in Population (YoY Growth %)



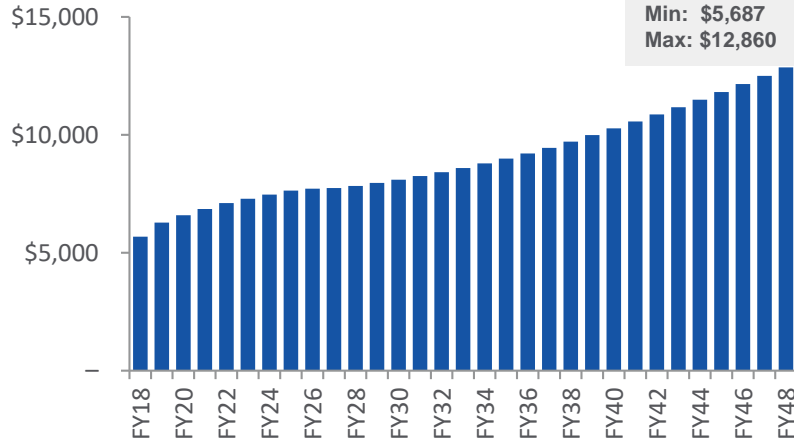
4 Own-Source Revenues (\$mm's)



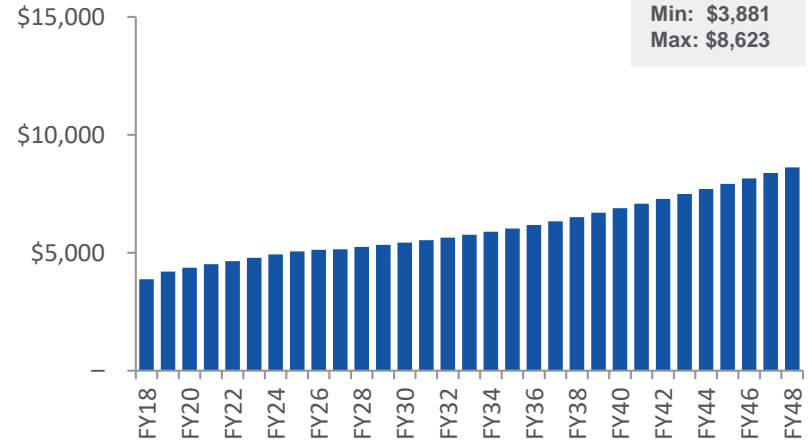


Debt Capacity Detail (Based on Top-10 U.S. State Metrics – \$mm's)

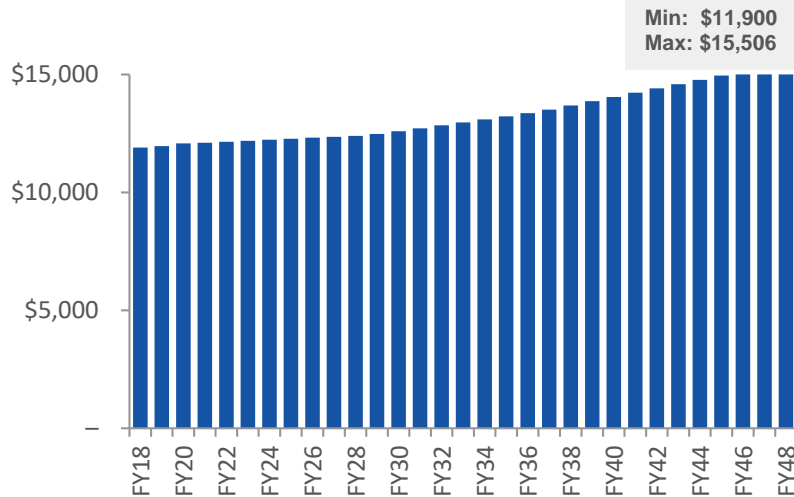
1 Debt to GDP



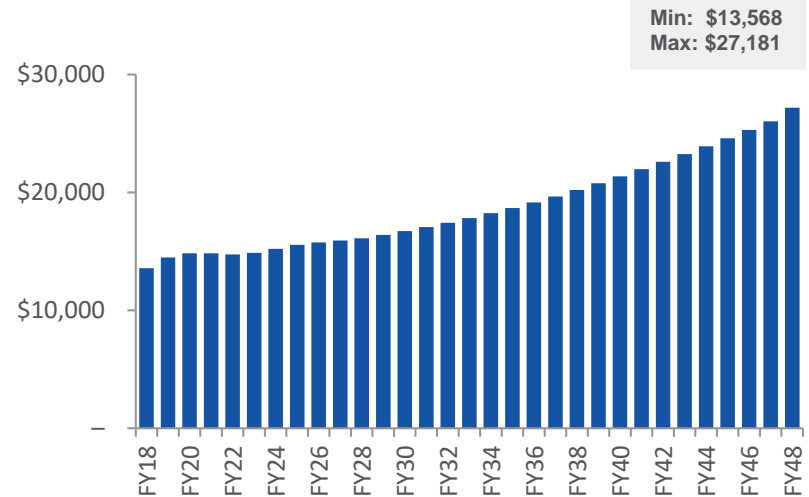
2 Debt to State Personal Income



3 Debt Per Capita



4 Debt Service to Revenues¹



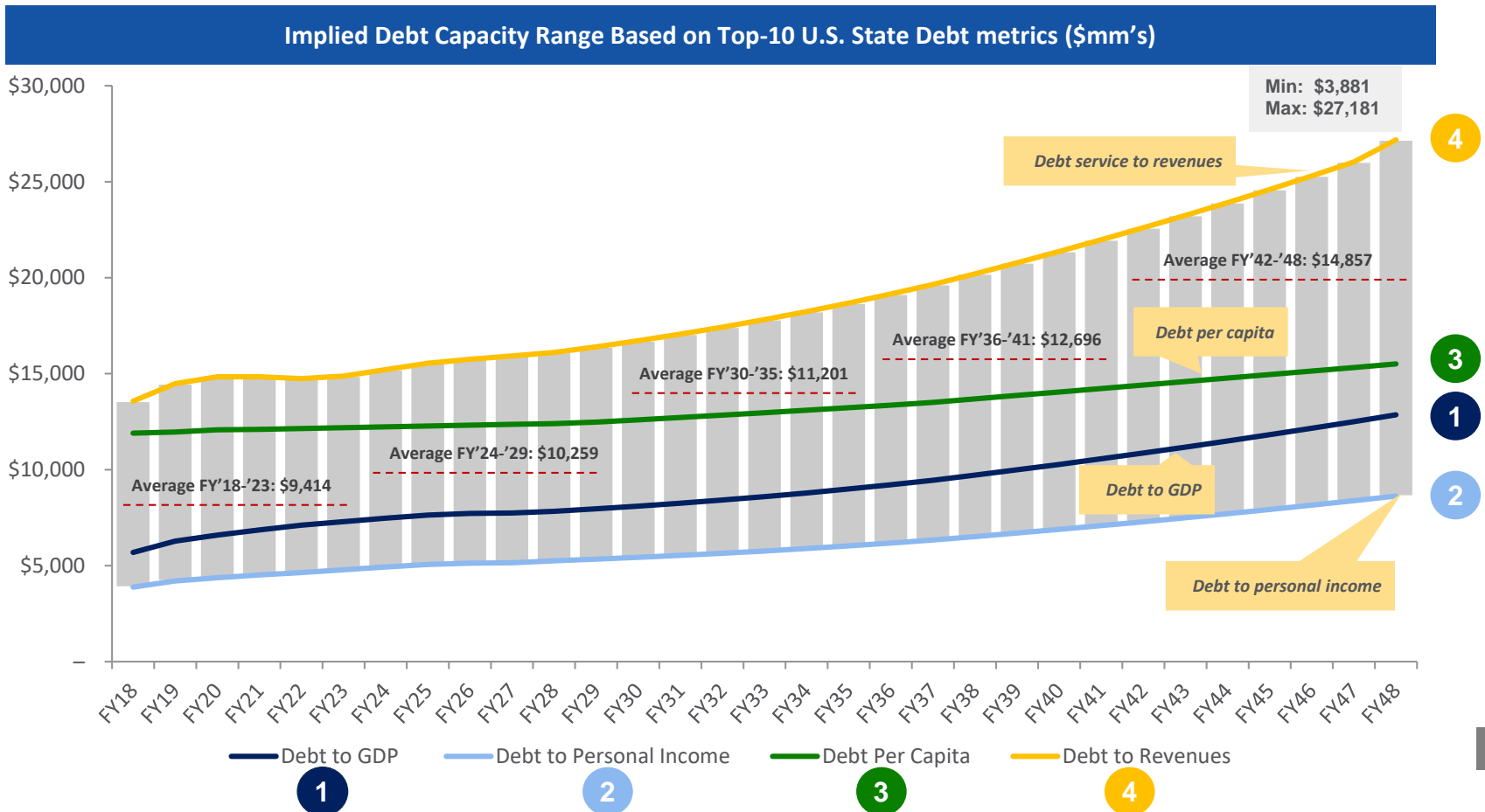
The illustrative implied level of Puerto Rico debt in the scenarios shown above are calculated by applying the NTSD ratios of the top 10 U.S. states (in terms of debt load) to Puerto Rico's 30-years forward projected GDP, personal income, population and revenues. The implied annual total debt shown in 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 \$1.2bn; after removing non-recurring items, the cash flow surplus is estimated to be \$1.5bn in FY23

Debt Sustainability Sensitivity Analysis (\$MM)

	FY18	FY19	FY20	FY21	FY22	FY23	FY18 - FY23
Financial Baseline (excl. Federal Transfers)							
Own-Source Revenues	\$10,011	\$10,410	\$10,565	\$10,561	\$10,430	\$10,529	\$62,505
Expenses	(9,716)	(9,685)	(11,234)	(12,408)	(12,376)	(12,366)	(67,786)
Federal Funds Surplus / (Deficit)	--	9	17	24	32	40	123
Baseline Net Cash Flow	\$294	\$733	(\$652)	(\$1,823)	(\$1,914)	(\$1,797)	(\$5,158)
Impact of Measures							
Total Measures	185	740	1,780	2,559	2,914	3,028	11,206
Net Cash Flow / (Funding Need)	\$480	\$1,473	\$1,128	\$736	\$1,000	\$1,231	\$6,048
Adjustments for Non-Recurring Items	(411)	(1,600)	312	743	556	294	(106)
Net Adj. Cash Flow / (Funding Need)	\$69	(\$126)	\$1,440	\$1,479	\$1,556	\$1,525	\$5,942

		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

Note: (1) 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

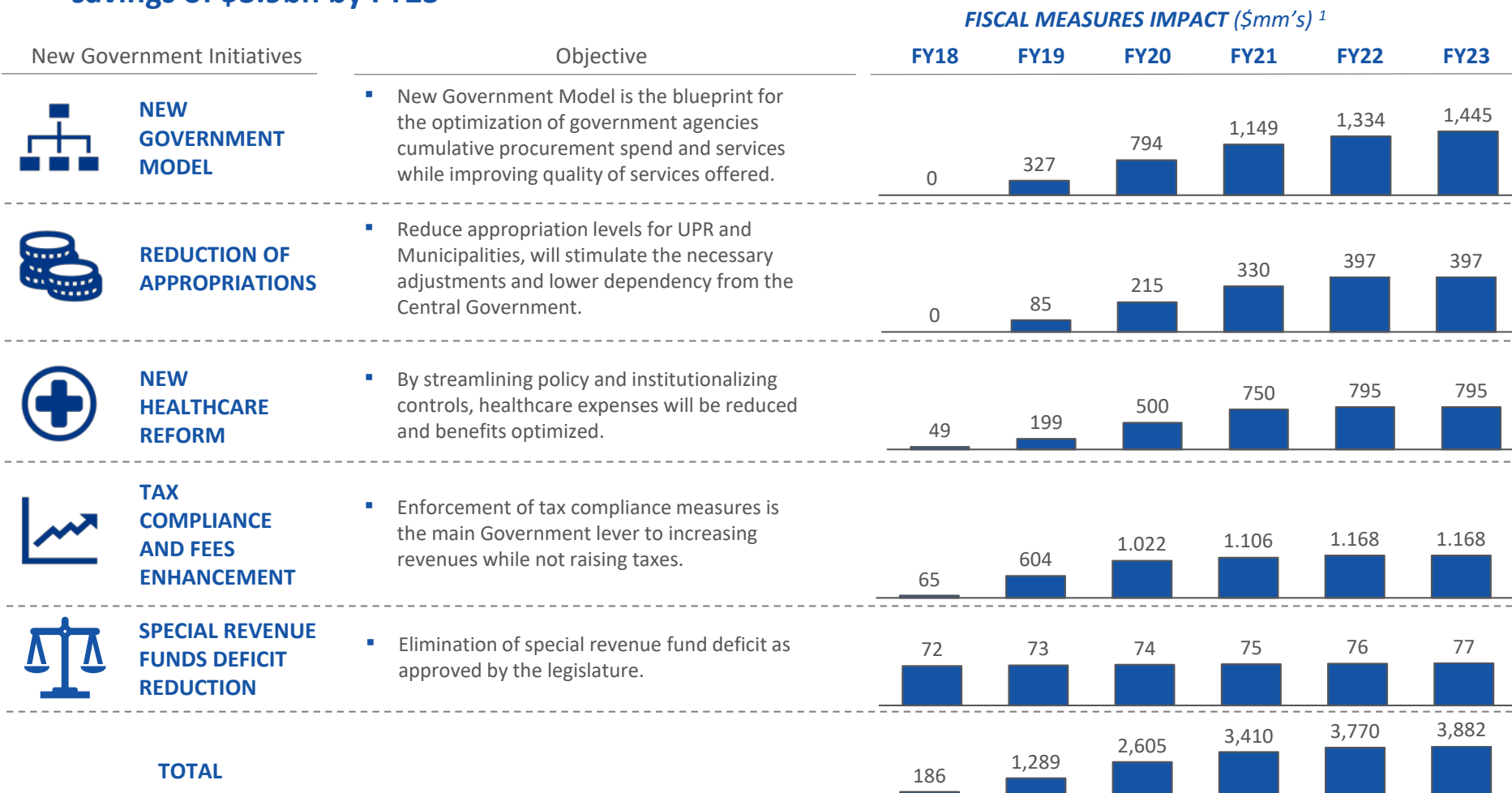
NEW GOVERNMENT MODEL | REDUCTION OF APPROPRIATIONS | HEALTHCARE REFORM | TAX COMPLIANCE AND FEE ENHANCEMENTS | REGIONALIZATION OF SERVICES | GOVERNMENT PMO AND IMPLEMENTATION STRATEGY



GOVERNMENT OF PUERTO RICO



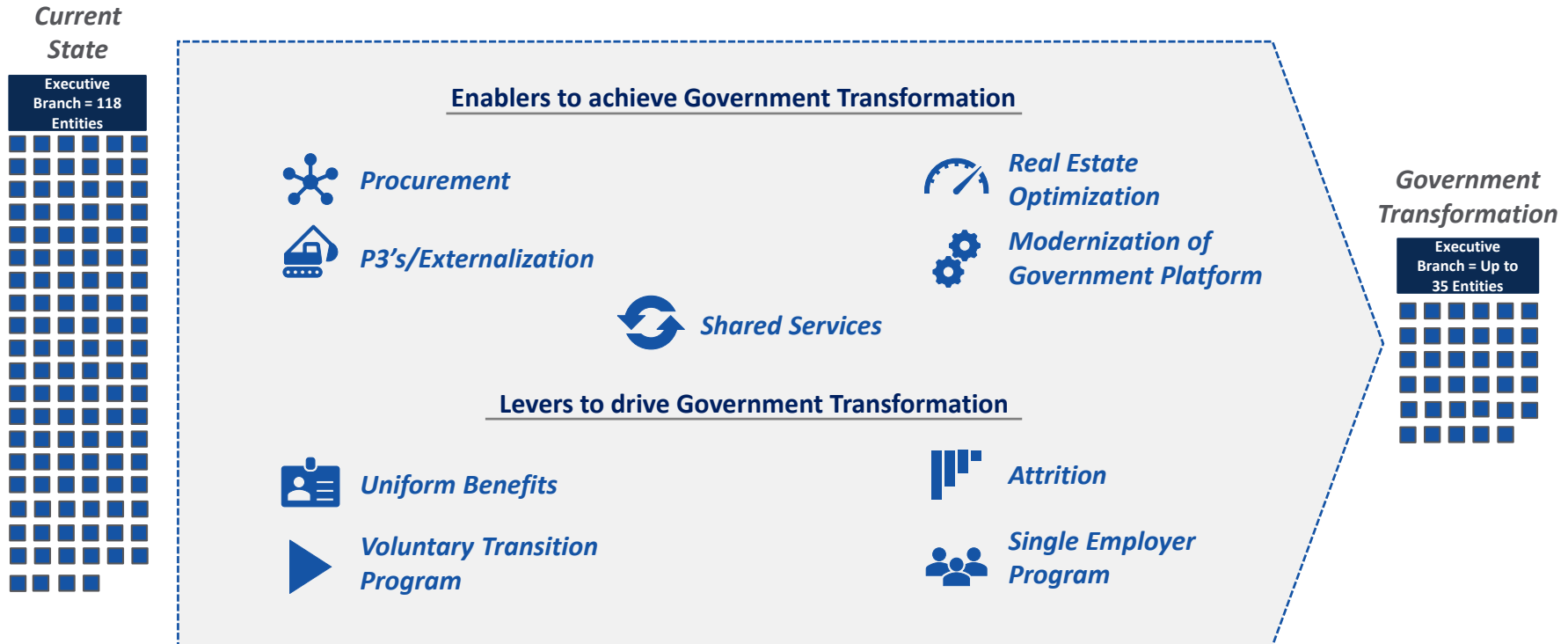
Government Transformation and better revenue management is expected to yield annual savings of \$3.9bn by FY23



¹ \$136mm of implementation costs over the six year period are not included in the figures above but are included in the fiscal plan cash flow.



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



Savings will be achieved through the elimination of duplicative processes, digitization, scale efficiencies productivity/lean management practices.

Other initiatives include consolidating leases and related maintenance, IT rationalization and increased buying power through centralization of procurement function across government agencies.



NEW GOVERNMENT MODEL



The New Government of Puerto Rico Act will enable streamlined legislative approval of the Government's "New Government Model"

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 overall Government transformation, Puerto Rico will address the inefficiencies within the Executive Branch through 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 (4 of 5 have been approved)

On March 5, 2018 the Government announced its second group of Reorganization plans for the Instituted of Puerto Rican Culture and Department of Natural and Environmental Resources

On March 19, 2018 and March 20, 2018 the Government announced its third and fourth Reorganization plans for the Department of Justice and the Department of Agriculture, respectively

Evaluation Process

Approved 12/18/17

1

Evaluation & Reorganization Plan



- The Governor will evaluate adjustments or consolidation of either programs or entities.
- That evaluation will 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, approving or rejecting 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 as introduced.
- Effectiveness of approved Reorganization Plans is temporary until the particular organic act is amended.



New Government Model: Summary of Impact

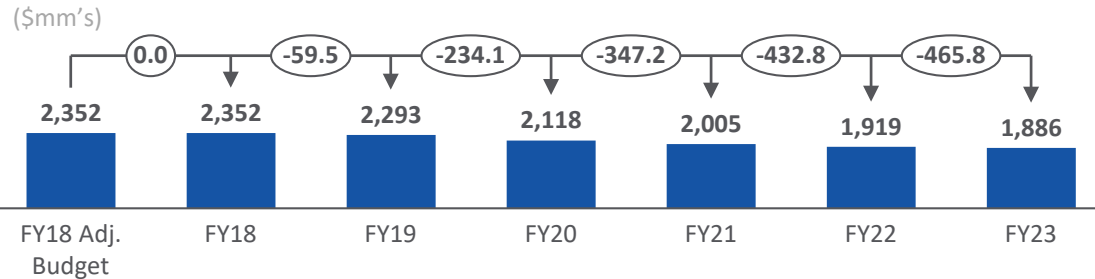
Impacted Agencies	Rationale	FISCAL MEASURES IMPACT (\$mm's) ¹					
		FY18	FY19	FY20	FY21	FY22	FY23
 DEPARTMENT OF EDUCATION	<ul style="list-style-type: none"> By undertaking a comprehensive restructuring initiative, the Department of Education aims to achieve both academic and financial benefits. 		60	234	347	433	466
 DEPARTMENT OF CORRECTIONS	<ul style="list-style-type: none"> Provide the necessary optimization of resources while enhancing the quality of rehabilitation to the targeted population. 		22	60	89	112	112
 DEPARTMENT OF HEALTH	<ul style="list-style-type: none"> Implement rightsizing recommendations in order to provide core services in an efficient and fiscally responsible manner. 		61	85	105	114	121
 DEPARTMENT OF PUBLIC SAFETY	<ul style="list-style-type: none"> Utilize civilian resources and technological improvement to reallocate officers and reduce overtime spend while maintaining service levels 		52	95	104	96	95
 TRANSFORMATION OF ALL OTHER AGENCIES	<ul style="list-style-type: none"> Redesign Government by reducing non-core expenses, externalizing services, and centralizing services to eliminate duplication. 		110	225	341	348	352
 PAYROLL AND OPERATING EXPENSES FREEZE & UNIFORM HEALTH	<ul style="list-style-type: none"> 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. 		23	95	162	231	299
TOTAL			327	794	1,149	1,334	1,445

¹ \$136mm of implementation costs over the six year period are not included in the figures above but are included in the fiscal plan cash flow.



Department of Education – Transforming the system by reducing total expense base while improving educational outcomes

DEPARTMENT OF EDUCATION SPEND, \$2.4bn per year



\$465.8mm
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 19% 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
DISTRICTS/REGIONS	
35	7
SCHOOLS	
1,110	805
STUDENTS (K-12)	
346k*	298k

*- Enrolled student count as of August 2017



Annualized savings of \$465.8mm will be achieved by the transformation of the educational system

DEPARTMENT OF EDUCATION TRANSFORMATION LEVERS

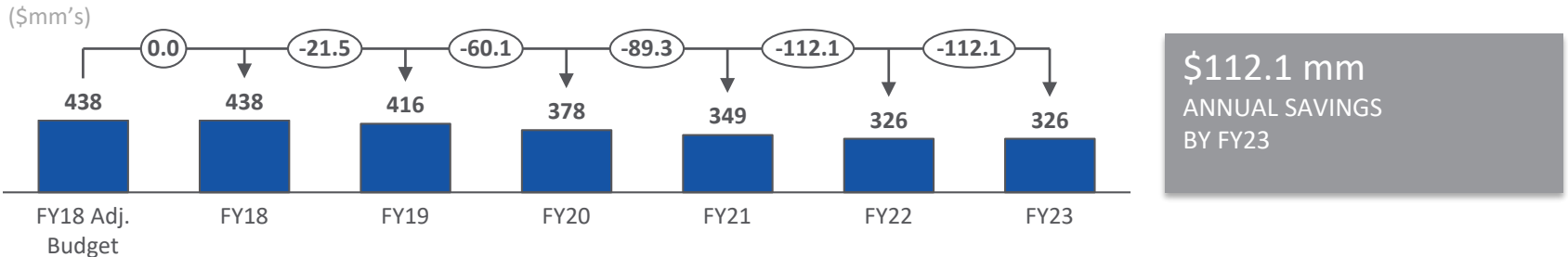
(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
IMPROVE STUDENT TEACHER RATIO	<ul style="list-style-type: none"> 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. 	33.6	194.5	14:1 STUDENT TEACHER RATIO BENCHMARK
FACILITIES OPTIMIZATION	<ul style="list-style-type: none"> Continuing to optimize the school footprint for the FY18-FY19 academic year will yield both personnel and non-personnel savings across the system. Building of new facilities will be analyzed to ensure optimal footprint. 	11.7	124.8	805 SCHOOL TARGET LEVEL BY 2022
NON-PAYROLL SPEND	<ul style="list-style-type: none"> Procurement reform aims to transform Puerto Rico's inefficient and ineffective decentralized procurement system within 24 months School closings will yield \$47k in savings per school by FY23 	6.0	108.9	12% PROCUREMENT SAVINGS
RIGHT-SIZING REGIONAL & CENTER LEVEL STRUCTURE	<ul style="list-style-type: none"> Implementing the regional Local Education Agency model will decrease district level headcount requirements. Realigning Center Level personnel with the new regional LEA structure allows for consolidating functions and departments. 	8.2	37.6	REDUCING 35 DISTRICTS TO 7
TOTAL		59.5	465.8	



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
ADULT PROGRAM PER DIEM¹	
\$95.8	\$81.59
JUVENILE PROGRAM PER DIEM¹	
\$691.4	\$369.0
COMMUNITY PROGRAM PER DIEM¹	
\$7.0	\$4.9
# OF CORRECTIONS AGENCIES	
2	1

¹ 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

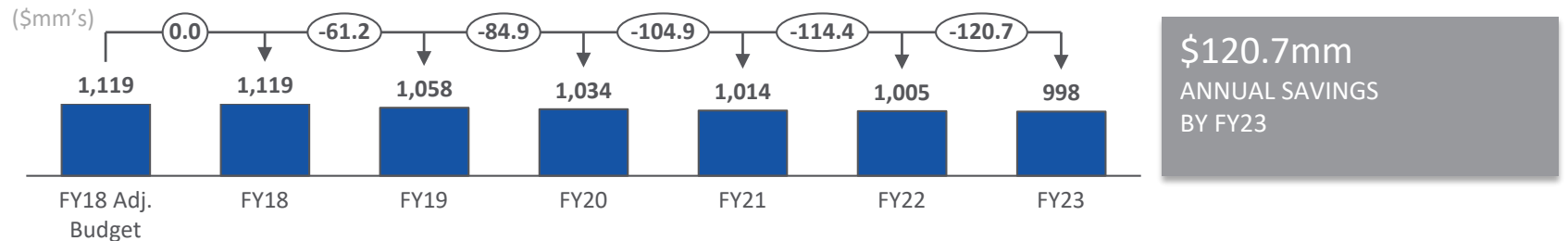
(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
OUT OF STATE PROGRAM	<ul style="list-style-type: none"> Reduce per diem cost through externalization of services to approximately 3,200 inmates (30% of imprisoned population). 	13.4	46.9	PER DIEM OF \$81.59 AT THE END OF FY22
CONSOLIDATION OF FACILITIES	<ul style="list-style-type: none"> Reduce service cost by consolidating existing juvenile facilities through the construction of a modern and cost-efficient social treatment facility. 	0.0	19.4	PER DIEM OF \$369.0 AT THE END OF FY23
IMPROVED TECHNOLOGY	<ul style="list-style-type: none"> Reduce in per diem cost by consolidation of regional contact offices, reduction of transportation costs, and modern document management technology. 	0.0	6.1	PER DIEM OF \$4.9 AT THE END OF FY23
CENTRAL ADMINISTRATION & SERVICE OFFICE	<ul style="list-style-type: none"> Reduce office space and equipment expenditures and increase efficiency of human resources management through improved technology. 	0.0	1.6	REDUCTION OF \$2MM IN ANNUAL ADMIN EXPENDITURES
CENTRAL PROCUREMENT	<ul style="list-style-type: none"> 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. 	8.1	20.6	ANNUAL SAVING OF \$20MM IN GOVERNMENT SPEND
PERSONNEL OPTIMIZATION	<ul style="list-style-type: none"> Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Correction's transformation. 	0.0	17.6	PROCESS IMPROVEMENT, ELIMINATE DUPLICATION
TOTAL		21.5	112.1	



Department of Health – Prioritizing achievement of efficiencies while maintaining high quality public health

DEPARTMENT OF HEALTH SPEND, \$1.1bn 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 decentralization 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
REGIONAL HOSPITAL STRUCTURES	
5	0
ASEM & HOSPITAL ORG STRUCTURE	
4	1
FTEs	
6.4k	5.0k



Centralization and consolidation initiatives are expected to yield a savings of \$121mm by FY23

DEPARTMENT OF HEALTH TRANSFORMATION LEVERS

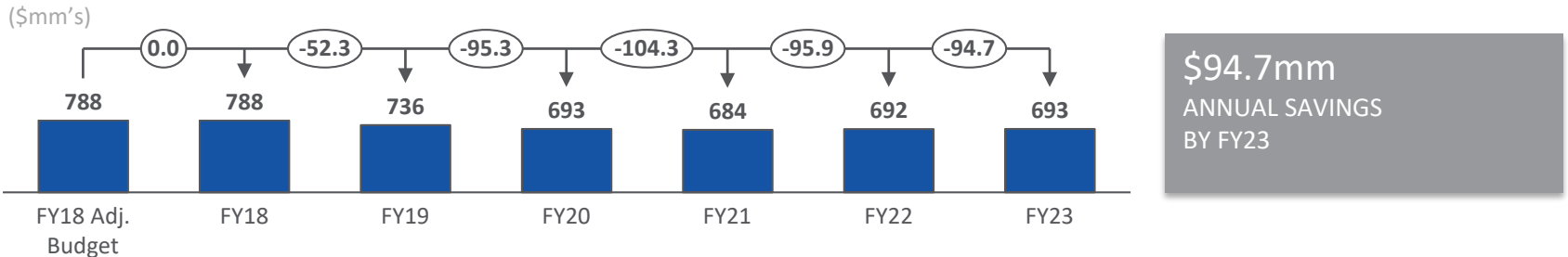
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INITIATIVE	RATIONALE	FY19	FY23	TARGET
PERSONNEL OPTIMIZATION & CENTRALIZATION	<ul style="list-style-type: none"> Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Health's transformation. Implement right-sizing and centralization of functions recommendations in order to provide public health services to citizens in an efficient and fiscally responsible manner. 	47.9	76.9	PROCESS IMPROVEMENT, ELIMINATE DUPLICATION INCREASED OPERATIONAL EFFICIENCY VIA CENTRALIZATION
REGIONAL OFFICES	<ul style="list-style-type: none"> Reduction and centralization of Medicaid offices and regional hospital office structure to eliminate duplication of effort and redundancies and implement an appropriate staffing model. 	0.5	0.5	100% ELIMINATION OF REGIONAL OFFICES
SUPPLY CHAIN MANAGEMENT	<ul style="list-style-type: none"> Procurement efficiency improvements based on implementing best practices, economies of scale through consolidation 	6.2	19.9	10% OF ADDRESSABLE SPEND
HOSPITAL MANAGEMENT TRANSFORMATION	<ul style="list-style-type: none"> Procurement efficiency improvements based on implementing best practices, economies of scale through consolidation 	3.6	114	7% OF ADDRESSABLE SPEND
RESTRUCTURING ASEM/RCM	<ul style="list-style-type: none"> Right-sizing initiatives focused on revenue optimization, organizational design, consolidation of Chief Business Office and management of ASEM and DOH public hospitals. 	3.0	12.0	100% CENTRALIZATION OF MANAGEMENT
TOTAL		61.2	120.7	



Transforming the Department of Public Safety operations by leveraging the civilian workforce in order to reduce the cost of administrative tasks while not compromising safety and security

DEPARTMENT OF PUBLIC SAFETY SPEND, \$788mm per year



SUMMARY OF DEPARTMENT OF PUBLIC SAFETY TRANSFORMATION PLAN

- Reduction of administrative tasks and activities related to elimination of processes due to modernization
 - Digitalization of incidence reporting, automation of time and attendance using biometric punch system and consolidation of statistical reports sent to area command and headquarters
- Sworn officers performing civilian duties will be replaced by civilian personnel:
 - Includes Mechanics, Radio Operators, Records and Reports, Area Command Statistics, and Maintenance tasks
- Consolidation of police stations, transit units, and specialized units will reduce the amount of administrative personnel needed in each station or unit
 - Positions include: station desk officers, station commanders/directors, station auxiliary commanders/directors, 1 administrative personnel, and vehicle managers
- Officers will be re-deployed to fill capacity deficiencies in operational functions:
 - Partial parole needs assume 60% reactive time and 40% preventive time

CURRENT STATE	END STATE
ADMISTRATIVE PERSONNEL PER STATION	
3.5	1
# OF POLICE STATIONS	
262	249



To achieve operational efficiencies and savings, technology will be modernized, civilians will replace officers in administrative roles and officers will be redeployed resulting in reduced overtime spend

DEPARTMENT OF PUBLIC SAFETY TRANSFORMATION LEVERS

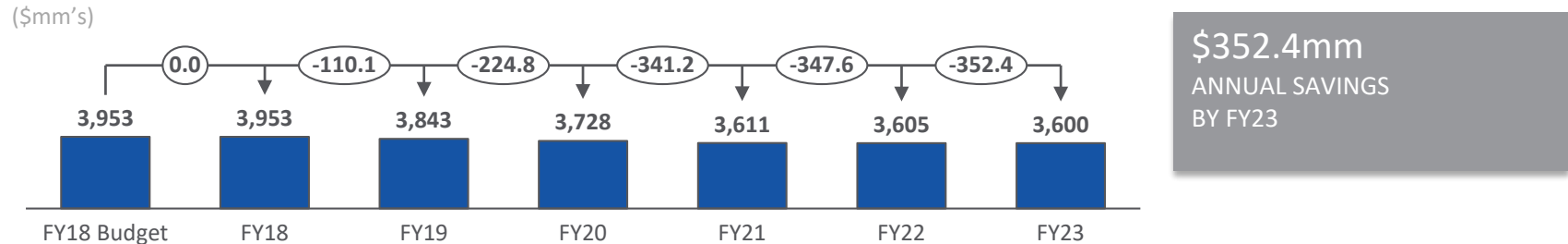
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INITIATIVE	RATIONALE	FY19	FY23
MODERNIZATION OF ADMINISTRATIVE AND MAINTENANCE FUNCTION	<ul style="list-style-type: none"> Reduction of administrative tasks and activities related to elimination of processes due to modernization 	22.3	44.6
SUBSTITUTION OF SWORN OFFICERS BY CIVILIANS	<ul style="list-style-type: none"> Sworn officers performing civilian duties will be replaced by civilian personnel 	9.2	18.5
CONSOLIDATION	<ul style="list-style-type: none"> Consolidation of police stations, transit units, and specialized units will reduce the amount of administrative personnel needed in each station or unit 	2.6	5.2
UNIT / DIVISION ELIMINATION	<ul style="list-style-type: none"> Drivers Unit responsibilities will be transferred to Maritime Division; Rescue Squad Division transferred to Fire Department; Mounted Divisions responsibility transferred to Patrol Units 	2.9	2.9
REDUCTION IN OVERTIME	<ul style="list-style-type: none"> Improve scheduling and overtime management Reallocation of officers currently in administrative roles to fill capacity deficiencies and operational functions 	12.5	20.0
OTHER / OFFICER REDEPLOYMENT / SALARY INCREASE	<ul style="list-style-type: none"> Outsource towing services to a 3rd party provider Increase yearly salaries for all sworn personnel by \$1,500 Redistribution of sworn personnel to fill operational deficiencies 	2.8	3.5
TOTAL		52.3	94.7



All other agencies transformation will focus on achieving savings by consolidation or externalization of functions or services

ALL OTHER AGENCIES SPEND, \$4.0bn per year



SUMMARY OF 105 AGENCIES TRANSFORMATION PLAN

- A portion of the Executive Branch includes 108 agencies which provide services at a cost of \$4.0bn annually.
- In order to achieve an agile, efficient organization, the Government is performing reviews of agency programs and services to determine the optimal structure.
- A careful analysis of service offerings and Government programs will allow for consolidations and externalizations of agency functions or programs to achieve cost savings and improve the quality of services offered. Savings will be achieved through process and productivity improvements, reducing duplication, digitization and scale efficiencies. Other initiatives include consolidating leases and related maintenance, IT rationalization and increased buying power through centralization of procurement function across government agencies.
- 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

AGENCIES

108

Max of 35



Savings from personnel measures and improved delivery of Government services are expected to yield gross savings of \$352mm by FY23

ALL OTHER AGENCIES TRANSFORMATION LEVERS

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23	TARGET
PERSONNEL OPTIMIZATION	<ul style="list-style-type: none"> Drive higher attrition rates via Single Employer Program and targeted Voluntary Transition Program available to employees when centralizing/externalizing services. 	62.3	188.2	VARIOUS BENCHMARKS DEPENDING ON AGENCY
CONSOLIDATION (NON PERSONNEL EXPENSE)	<ul style="list-style-type: none"> 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. 	47.7	164.2	VARIOUS BENCHMARKS DEPENDING ON AGENCY
TOTAL		110.1	352.4	



Government Procurement Reform will create a centralized operating model with improved technology, transparency and efficiency that translates to cost savings averaging 12.5% of addressable spend

Current Situation

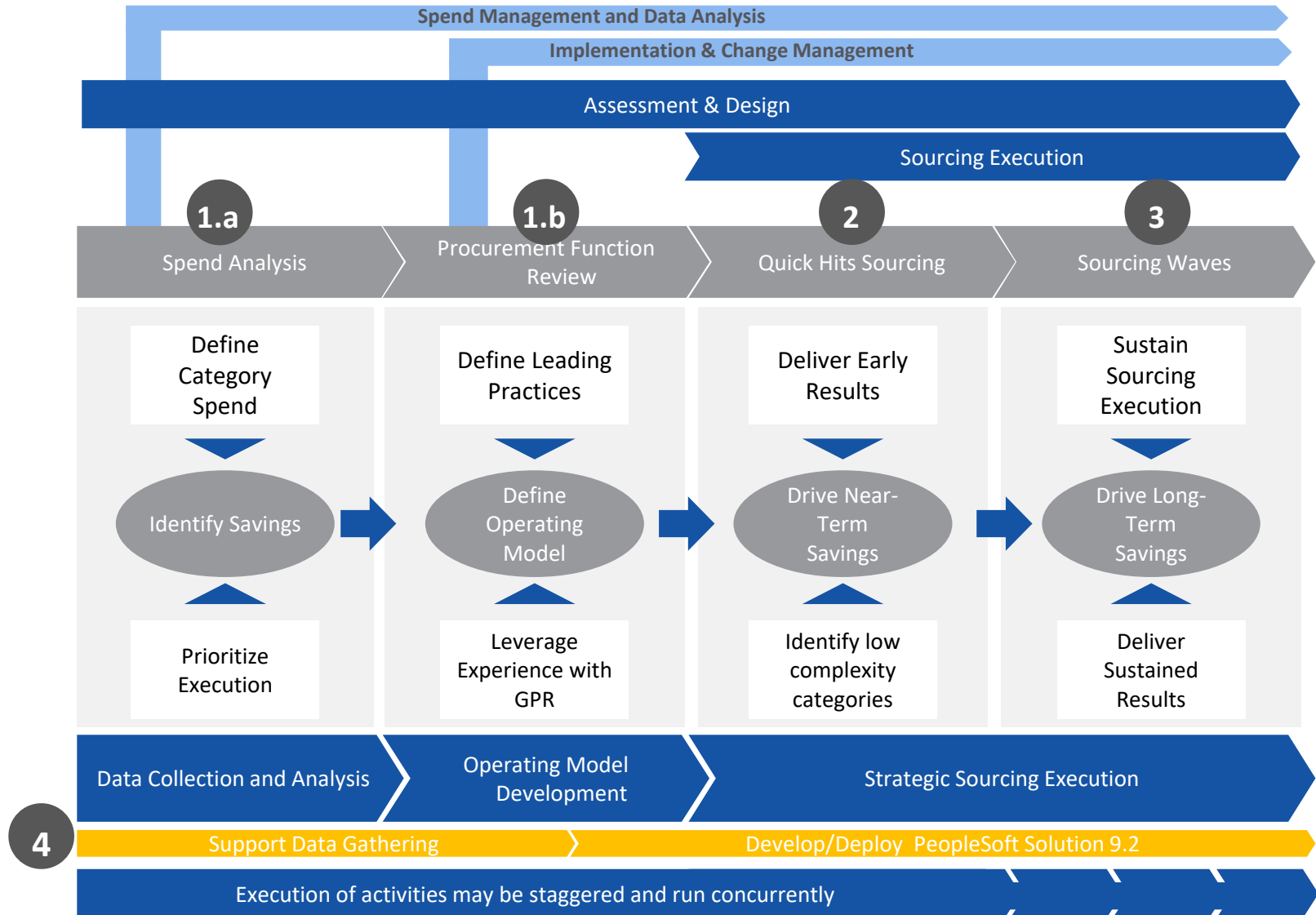
- The Government of Puerto Rico is significantly behind other public organizations as it relates to the procurement function and the strategic value it delivers
- In order to become an enabler of Financial Controls, the procurement function must be transformed into a high-performing organization by addressing the following key capability gaps, which collectively are a direct driver of inefficiency, and higher cost for goods and services:
 - No overarching vision guiding a holistic centralized strategic approach to procurement (policy, process and technology)
 - Limited visibility or control over government-wide spending making it difficult to drive down cost
 - Outdated purchasing laws and policies
 - Limited ability to manage contract compliance and savings over time because of manual, paper-based processes
 - Decentralized procurement authority
 - No usage of GSA contracts via PROMESA
 - No modern procurement techniques like strategic sourcing, e-procurement, auctions or electronic invoicing

AAFAF/ASG Requirements for Procurement Reform

- 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
- 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.



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

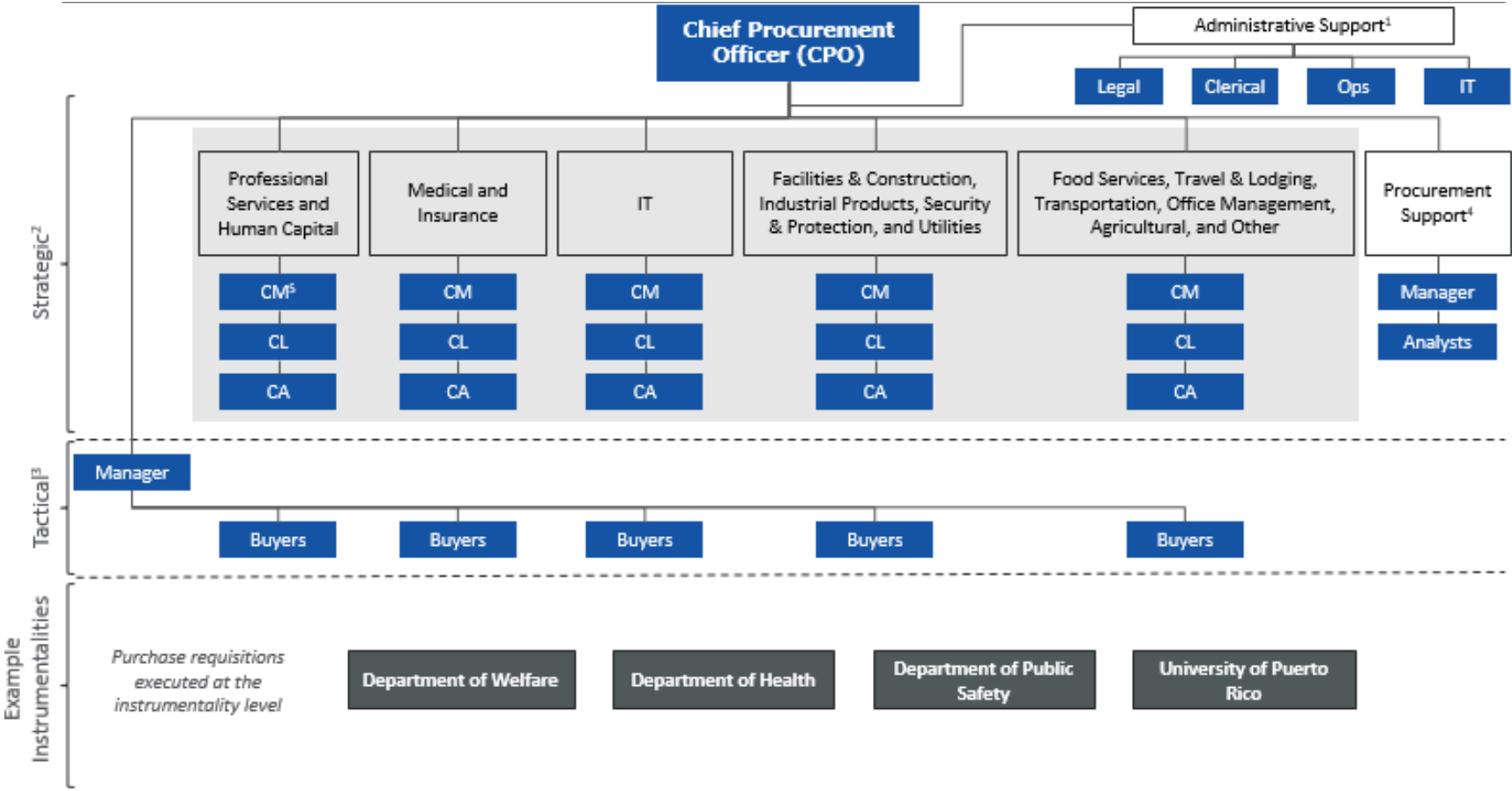


Note: Implementation plans can be provided upon request



Centralized Procurement Operating Model

The new procurement centralized operating model requires that all of the procurement strategic and tactical activities to be executed at the center following new processes.



¹Provides administrative support for the entire organization for legal, clerical, HR/operations, and IT related work; the IT position can be potentially outsourced

²Strategic activities include spend analysis, strategic sourcing, supplier management, master data management, and contract management

³Tactical activities include purchase order processing and tactical sourcing (i.e., one-off small sourcing events for small dollar items less than \$100K)

⁴Provides analytical support to Category Managers and Chief Procurement Officer (e.g., dashboards, monitoring compliance, savings). Periodically conducts spend analysis. Introduces and supports new tools that promote efficiency and effectiveness (e.g., cognitive spend tools, process robotics, block chain)

⁵The exact number of Category Managers and supporting positions will be determined based on the size of the categories and the amount of anticipated contracts and purchase orders. The Category Managers or the supporting positions need to understand regulation 2 CFR 200

- CM** = Category Manager
- CL** = Category Lead
- CA** = Category Analyst



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)	<i>Integrated, real time fine payments</i>	<i>Car license renewal notifications</i>	<i>License renewals</i>	<i>Car permits renewals</i>	<i>Education Services</i>
Single Citizen Identity		←	<i>Single Sign-on</i>	→	<i>Family/Child Services</i>
		←	<i>Digital Signatures</i>	→	<i>Labor & Tax Services</i>
		←	<i>Demographic Registry</i>	→	
	2018				2019



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:

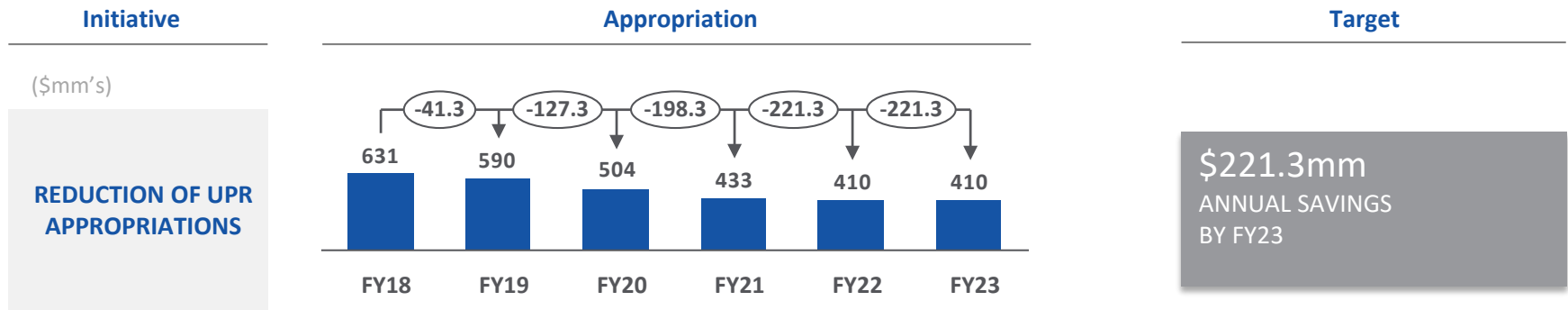
<i>Inventory</i>	<i>Assessment</i>	<i>Legal Rehabilitation</i>	<i>Structural Implementation</i>	<i>Implementation</i>
Create real estate owned (REO) inventory by entity prioritizing the identification of vacant and unused properties.	Perform assessments to understand legal status, conditions need/cost 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.



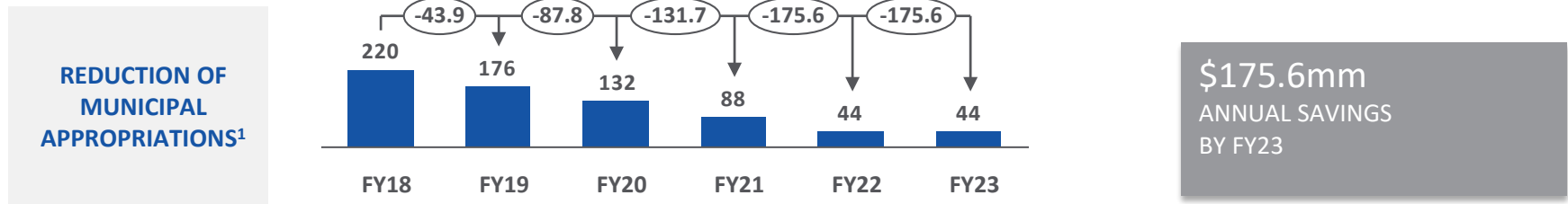
REDUCTION OF APPROPRIATIONS



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 improved property tax collections, cost savings, and regionalization of services that will provide cost efficiencies.

¹Includes a county support fund of \$100mm per year through FY23.

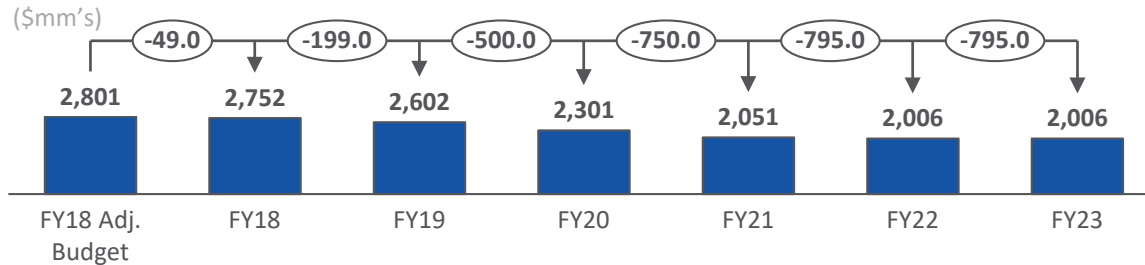


HEALTHCARE REFORM



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
MEDICAL LOSS RATIO*	
91%	92%
REGIONS	
9	1
REIMBURSEMENT RATE**	
78%	70%
GENERIC DRUG UTILIZATION	
90%	90%

* Aggregate target MLR
 ** Based on an average of 70% of the corresponding Medicare fee schedule of FY16



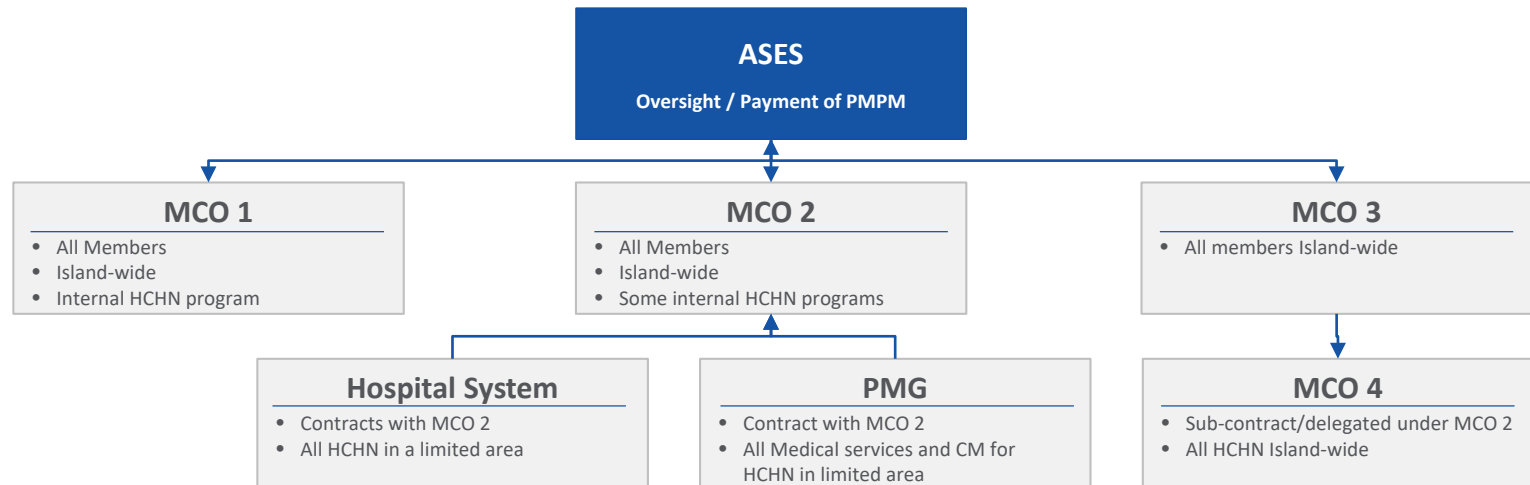
The New Healthcare model is made up of multiple initiatives that together will achieve fiscal targets

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)

INITIATIVE	RATIONALE	FY19	FY23	TARGET	
PAY FOR VALUE	<ul style="list-style-type: none"> Establish uniform fee schedules, standardize reimbursement rates for providers and a high Medical Loss Ratio (MLR). 	91.0	Part of New Healthcare Model	HIGHER MEDICAL LOSS RATIO	
REDUCE DRUG COSTS	<ul style="list-style-type: none"> Reduce drug spending by enforcing mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives. 	41.0		GENERIC DRUG UTILIZATION > 90%	
MODIFY BENEFITS PACKAGE	<ul style="list-style-type: none"> Evaluate services that could be capped from the current benefits package without adversely affecting access for MI Salud beneficiaries. 	45.0		BENEFITS ALIGNED WITH POPULATION TRENDS	
IMPROVE PAYMENT INTEGRITY	<ul style="list-style-type: none"> 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. 	22.0		22.0	REDUCE WASTE, FRAUD AND ABUSE
NEW HEALTHCARE MODEL	<ul style="list-style-type: none"> 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. 	0.0		773.0	NET SAVINGS: \$199MM IN FY19
TOTAL		199.0	795.0		



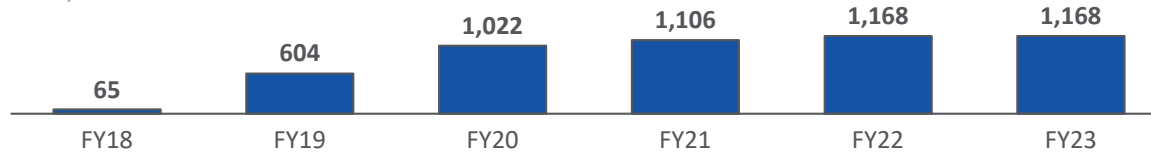
TAX COMPLIANCE AND FEE ENHANCEMENTS



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

TAX COMPLIANCE AND FEES ENHANCEMENT, \$1,168mm by FY23

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



\$1,168.1mm
ANNUAL IMPACT 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 \$1,168mm through FY23

TAX COMPLIANCE AND FEES ENHANCEMENT

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23
TAX COMPLIANCE	Increase tax compliance and collections by:		
	▪ Transitioning to an integrated tax administration software (“Unified Internal Revenue System”).		
	▪ Working smarter on tax debt collection through advance analytics and providing more flexible payment plan rules.	150.4	407.3
	▪ Promoting voluntary compliance program.		
	▪ Establish an electronic record for certain SUT Credits and point of sale monitoring.		
ADJUST TAXES AND FEES	▪ Increase collection of SUT on internet sales.		
	▪ Maintain fees including licenses, traffic fines, and other charges for services to maintain market trends.	100.0	115.0
TAX REFORM MEASURE	▪ Adjust the alternative minimum tax rate for individuals and corporations.	353.9	645.8
	▪ Broad based reduction of incentives and tax credits.		
TOTAL		604.4	1,168.1



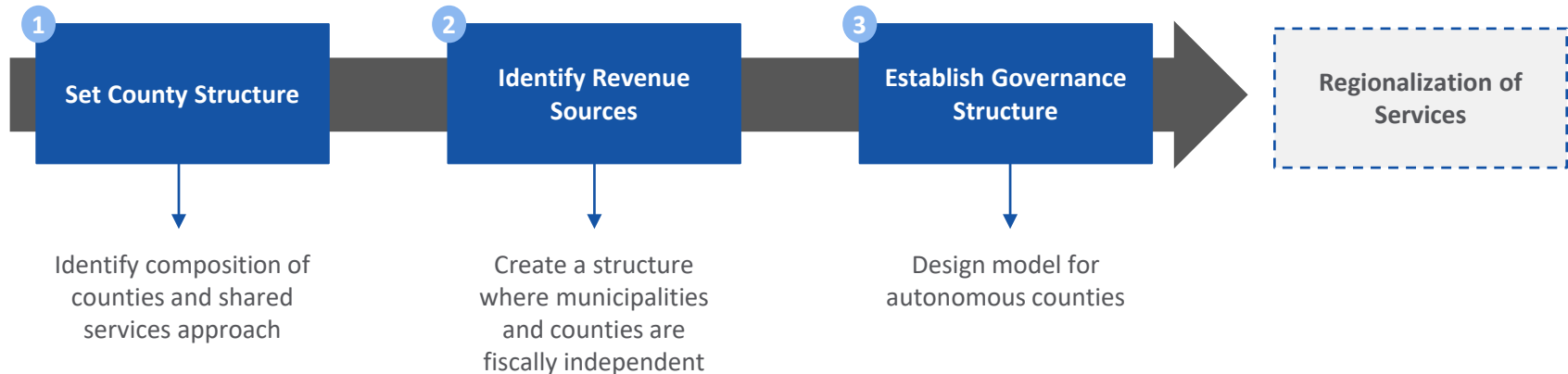
REGIONALIZATION OF SERVICES



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.
- 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 consolidating functions

Composition

- Municipal distribution is based on two main criteria: total population and urban-rural areas.

Shared Services Approach

- There are four 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.



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



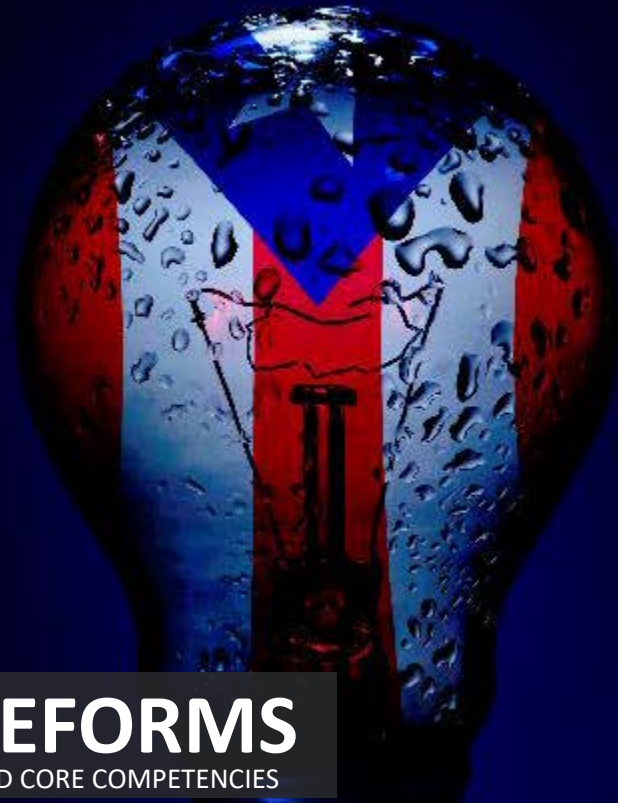
Efficiency



Reliability



Transparency



STRUCTURAL REFORMS

A FOCUS ON PUERTO RICO'S STRENGTHS AND CORE COMPETENCIES

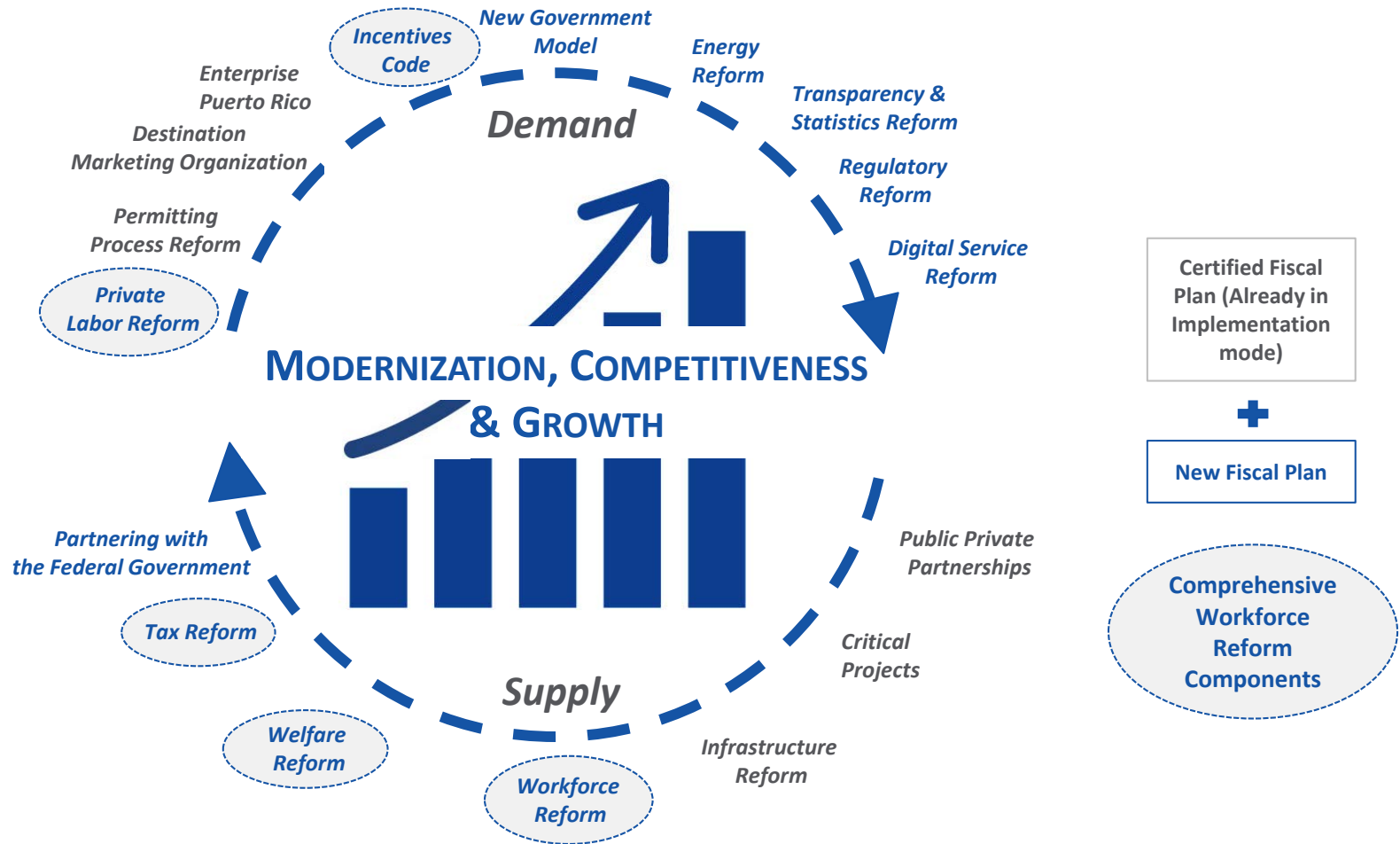
EASE OF DOING BUSINESS | POWER SECTOR REFORM | HUMAN CAPITAL | COMPREHENSIVE WORKFORCE REFORM | INTEGRATED FINANCIAL MANAGEMENT



GOVERNMENT OF PUERTO RICO



This administration is committed to putting in place reforms to attract private capital investments and achieve strong, sustainable and balanced economic growth. This package of reforms represents the biggest set of reforms to Puerto Rico’s economic regime in the last 50 years





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

- Proposed tax reforms address inequality and reduces the cost of doing business and promote compliance.
- 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

- Eliminating laws and policies that create a rigid labor market will spur investment and job creation and help to improve productivity and competitiveness.
- Focus the Workforce Innovation and Opportunities Act (WIOA) incentives to develop high-priority sectors and capabilities.



Government Transformation

New Government Model

- Establish a right-sized, integrated, and more efficient government structure that facilitates the growth of the private sector.

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).



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.

Tax / Incentive Code + Welfare + Workforce = NEW COMPREHENSIVE WORKFORCE REFORM



Ease of Doing Business Reforms



THE TAX REFORM WILL PROVIDE THE NECESSARY MODIFICATIONS TO COUNTERACT THE FEDERAL TAX REFORM

- The Tax Reform will conform to the Tax Cuts and Jobs Act to protect and enhance Puerto Rico's competitiveness.
- The new code will lower corporate and individual tax rates and broaden the tax base by closing loopholes, simplifying the existing tax code to achieve gains in collections, compliance and operational efficiency.
- The code will eliminate B to B sales and use tax.



THE INCENTIVES CODE WILL HELP ATTRACT NEW COMPANIES TO PUERTO RICO

- Over 50 incentives laws are being consolidated with a fiscal cost of over \$600mm in cash and equivalents.
- The Incentives Code will require a uniform, digital, and transparent process for the application, award, and compliance of economic incentives and will continuously adapt to the ever-changing competitive environment.
- Incentives for activities high in exports and private capital investment, including the visitor economy, usually have a positive ROI.



OCCUPATIONAL LICENSING REFORM

- Excessive licensing can impose costs and place unnecessary hurdles for individuals entering the labor market. Conducting a review and reform of occupational licensing requirements will provide PR with a more open labor market and promote entrepreneurship.



DEREGULATION OF ON-ISLAND FREIGHTS

- The benefits of deregulation can help reduce price of consumer goods, improve carriers/shippers service, reduce cost of holding and maintaining inventory and drive business competition.



THE REGULATORY REFORM WILL SIMPLIFY THE PROCESS OF BUSINESS FORMATION

- Consolidate all public service & utility regulatory agencies including the Telecommunications Regulatory Board, the Energy Commission, and the Public Service Commission into one.
- Adoption of a sharing economy friendly policy in Puerto Rico.



MODIFY CONDOMINIUM LAW TO ACCELERATE DECISION MAKING

- Current statute discourages decision making and investment in real property. Currently, in order to execute a project, it requires unanimous approval by all title owners in the condominium.
- Promote development of rental residents investment to increase population density.



Human Capital Reforms



WELFARE REFORM WILL PROVIDE INCENTIVES TO ENCOURAGE LABOR PARTICIPATION

- The EITC program will drive economic integration.
- Parameters will be calibrated to Puerto Rico's conditions (demographic factors, labor conditions, poverty levels and resources).
- The Local EITC could be modified to complement any future Federal EITC expand in Puerto Rico (similarly to the 29 States and the District of Columbia).
- Tie welfare programs to labor participation so that together with other incentives and training programs, the government promotes skills and improve the quality of life of the most vulnerable segment
- Digitization of benefit application and eligibility reviews, consolidation of processing centers, and process improvements could reduce costs associated across all agencies with welfare benefit programs.



WORKFORCE REFORM WILL PRODUCE MORE JOBS FOR KEY INDUSTRIES THAT ARE POISED FOR GROWTH

- Update the Workforce Innovation and Opportunity Act (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.
- Integrate the WIOA program with the broader promotional efforts of the Department of Economic Development & Commerce.
- Increase productivity and competitiveness by revamping labor laws.
- Increase minimum wage to improve worker's welfare and help reduce outmigration.

Partnering with the Federal Government



PARTNERING WITH THE FEDERAL GOVERNMENT FOR EQUAL TREATMENT FOR PUERTO RICO

- Provide equal treatment to Puerto Rico in Federal funding and programs and implement the recommendations of the PROMESA Congressional Bi-Partisan Task Force Report – Puerto Rico has been unequally treated for tax purposes.
- **Census Bureau** - eliminate the EEI filing requirement for shipments to/from Puerto Rico and the mainland U.S.
- **Federal Contracting Center** - channel a greater percentage of the Federal procurement budget to companies providing goods and services from Puerto Rico.
- **US Digital Service** - detail top Federal employees to the PRITS to collaborate on joint projects.
- **Federal funding parity** - Disaster Recovery, EITC, Child Tax Credit, Supplemental SS, Medicare & Medicaid .
- **Employment Based (EB) visas** - stimulate the Immigrant Investor (EB5) program and carve out an Exceptional Ability (EB2) program quota for new jobs created in Puerto Rico.
- **Trade and transportation regulations** - incentivize the creation of an Air Cargo Hub and an In-transit Lounge.



Government Transformation Reforms



THE NEW GOVERNMENT MODEL THROUGH THE MODERNIZATION AND SIMPLIFICATION OF PUBLIC SERVICES

- Modernize and streamline agency operations and service delivery to residents and simplify programs, services and processes. To help agencies modernize their operations to improve efficiency and service quality while maximizing the positive impact of programs.



THE DIGITAL SERVICES REFORM WILL MAXIMIZE THE USE OF TECHNOLOGY TO STREAMLINE ALL CITIZEN SERVICES

- The Puerto Rico Information Technology Service (PRITS) was created in January 2017.
- The Chief Innovation Officer will be in charge of implementing new efficient technologies while the Chief Information Officer will ensure the efficient transmission of information across digital venues.
- The Reform will institutionalize the PRITS and empower it with the authority and resources to be successful.



REIMAGINING PROPERTY REGISTRATION

- Modernize property and title registration by leveraging the use of technology to provide streamlined service to the public through a public private partnership.



THE TRANSPARENCY REFORM WILL INSTILL GREATER INVESTOR CONFIDENCE

- Consolidate and externalize the production of economic statistics to the Federal Government, consistent with the recommendations of the PROMESA Congressional Bi-Partisan Task Force.



EASE OF DOING BUSINESS



Ease of Doing Business Critical levers to improve Puerto Rico’s 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>DEALING WITH CONSTRUCTION PERMITS</p> <p>Target</p> <p>138 out of 190 87</p>	<p>22 Procedures: Too many separate steps required to commence operation.</p> <p>165 Time (days): 120 days (or 73% of the time) is due to evaluation in Municipal permits offices.</p> <p>6.3 Cost (% of value): 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 been 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>REGISTERING PROPERTIES</p> <p>Target</p> <p>153 out of 190 95</p>	<p>8 Procedures: 5 different entities intervene in the current process.</p> <p>191 Time (days): 180 days (or 94% of time) is due to delays in the Property Registry Agency.</p> <p>14 Quality Index: 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>PAYING TAXES</p> <p>Target</p> <p>161 out of 190 99</p>	<p>16 Payments: Federal, state and municipal taxes through different agencies.</p> <p>218 Time (hours): 158 days (or 69% of time) is due filing of corporate and sales tax to Hacienda.</p> <p>63 Total Tax Rate: 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>GETTING ELECTRICITY</p> <p>69 out of 190 59</p>	<p>4 Reliability of supply and transparency of tariff index (0 – 8): Improve grid, regulatory framework and partnerships with the private sector.</p>	<p><i>Will be Implemented as part of PREPA’s Transformation Plan</i></p>

Source: The World Bank, Ease of Doing Business Report 2018.



A comprehensive tax reform will address inequality simplify Puerto Rico's tax code 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

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY20	FY21	FY22	FY23
INDIVIDUAL INCOME TAX	<ul style="list-style-type: none"> First \$12.5k no tax; up to \$21k 1% tax; surtax above \$200k; top rate 31%. 	-98	-227	-233	-233	-231
REGULAR CORPORATE INCOME TAX	<ul style="list-style-type: none"> Reduces base tax from 20% to 19%; top rate from 39% to 31%. 	-65	-152	-157	-159	-159
SALES & USE TAX ("IVU") B-TO-B	<ul style="list-style-type: none"> Reduces current 4% rate to 3% in Natural Year 2019 and fully eliminates by Natural year 2020. 	-19	-101	-169	-172	-172
REDUCE TAX RATE TO PREPARED FOODS	<ul style="list-style-type: none"> Reduces current 11.5% rate to 7%, on transactions paid through electronic methods, excludes alcoholic sales (30% of tax base). 	-79	-87	-87	-87	-87
TOTAL TAX REFORM		-261	-567	-646	-651	-649

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.



Comprehensive Tax Expenditure Report and its Road Map

Puerto Rico acknowledges the need for a Tax Expenditures Report and has implemented a roadmap to have this capability by Dec.31 2018

TAX EXPENDITURE REPORT IN PUERTO RICO

- Tax expenditures as measured in Puerto Rico are revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. The revenue loss could be due a special exclusion, deduction, exemption, credit, a preferential rate of tax, or a deferral of tax liability. Tax expenditures are reported for personal income tax, business income tax and the sales and use tax.
- The benchmark is a broad concept of income that is larger in scope than “income” as defined under general Puerto Rican income tax principles. The Hacienda staff uses its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal income tax law and those special provisions that result in tax expenditures. A provision is listed as a tax expenditure by Hacienda if there is a reasonable basis for such classification. Deductions of expenditures necessary to produce income are not tax expenditures. For consumption, any consumption that is untaxed is a departure from a normal consumption tax and thus constitutes a tax expenditure.

TAX EXPENDITURE ROAD MAP

- The identification and estimation of tax expenditures in the Puerto Rican tax law is a significant undertaking.
- Requires both the development of estimating models and the availability of trained economists.
- The list of tax expenditures in Puerto Rico should include tax expenditures in the three major tax regimes: individual taxes; corporate taxes (including both regular and incentive corporations); and the sales and use tax.
- Hacienda, with the assistance of an advisor from U.S. Treasury, began planning measuring tax expenditures for the three regimes in 2016. The measurement of tax expenditures at that time was divided into three major tasks, including:

1 **Defining a tax expenditure**

2 **Identifying tax expenditures**

3 **Measuring tax expenditures**

- In 2016, Hacienda began identifying tax expenditures for regular corporations. Identifying tax expenditures requires identifying each deduction, exemption, exclusion and credit in the law and deciding (keeping the definition of a tax expenditure in mind) which of these are tax expenditures. The term for this is benchmarking the tax law. The benchmarking of the regular corporate tax law was almost complete when other higher priority activities took precedence. The benchmarking of the other tax regimes hasn't commenced yet.
- There are several ways to measure the cost of tax expenditures. In 2016, Hacienda decided that the best method for estimating tax expenditures was probably the foregone revenue method. It would allow the measurement of tax expenditures using the new micro-simulation models being developed.
- At the end of this month, the micro-simulation models that forecast tax receipts, produce revenue estimates, and estimate the cost of tax expenditures will be complete.
- In order to produce the Tax Expenditures Budget, the following steps are necessary: finish the benchmarking for the three tax regimes so that the specific tax expenditures are identified; write descriptions of the tax provisions creating the tax expenditures; and estimate the cost of each tax expenditure.
- Staff time has to be dedicated to these tax expenditure tasks exclusively. **First draft of tax expenditures budget by the end of calendar year 2018.**



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

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

Incentives Code

Subsections & Categories



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.



DALE TIJERA Program will contribute to improving ease of doing business in Puerto Rico

In order to make a leap into a modern economy, The Government of Puerto Rico must cut through the red tape of regulatory burdens that continue to be a hardship for many businesses.

- While regulations can be effective and protect public interests, they can curtail economic growth and impede private sector investment
- The *DALE TIJERA* program seeks to identify and provide a thorough review of ineffective and outdated regulations throughout the Government

Analysis to Date:



Objectives of Program:





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 21st 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

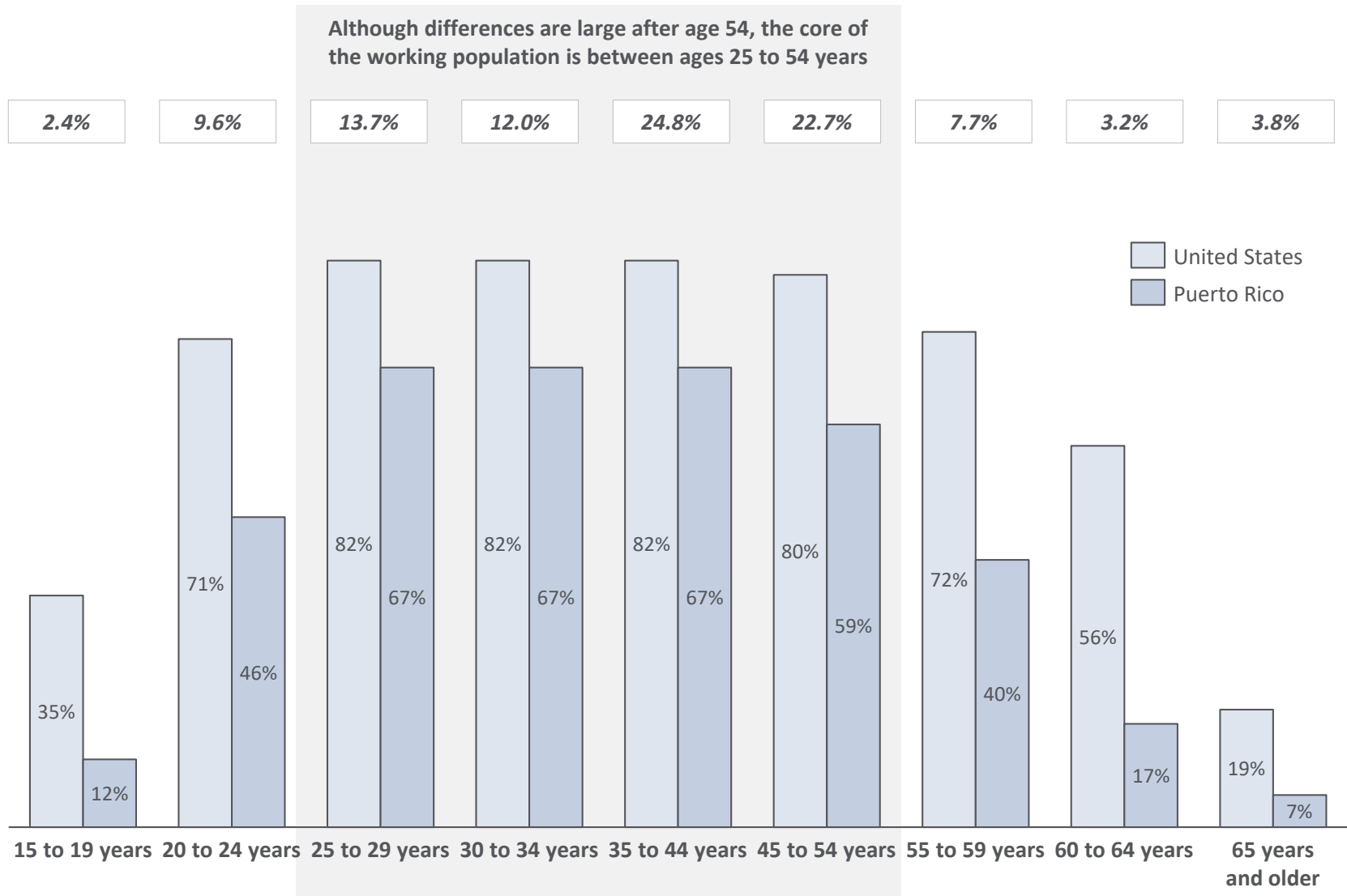


WORKFORCE PROGRAMS IN HIGH-PRIORITY SECTORS





Increasing labor participation is critical to the long term sustainability of Puerto Rico





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: **\$525.30**
- 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



Proposed Local EITC Scenarios

Single Working Full Time

Single individual, no children, working full time			
Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	300
\$ 7.50	\$ 15,600	\$	300
\$ 8.00	\$ 16,640	\$	300
\$ 8.50	\$ 17,680	\$	300
\$ 9.00	\$ 18,720	\$	214

Married Working Full Time

Married, no children, working full time			
Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	300
\$ 7.50	\$ 15,600	\$	300
\$ 8.00	\$ 16,640	\$	300
\$ 8.50	\$ 17,680	\$	300
\$ 9.00	\$ 18,720	\$	242

Married or Single Working Part Time

Married or Single, no children, working full time			
Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 7,540	\$	300
\$ 7.50	\$ 7,800	\$	300
\$ 8.00	\$ 8,320	\$	300
\$ 8.50	\$ 8,840	\$	300
\$ 9.00	\$ 9,360	\$	300

Single Individual, one child, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	900
\$ 7.50	\$ 15,600	\$	900
\$ 8.00	\$ 16,640	\$	463
\$ 8.50	\$ 17,680	\$	338
\$ 9.00	\$ 18,720	\$	214

Married, one child, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	900
\$ 7.50	\$ 15,600	\$	900
\$ 8.00	\$ 16,640	\$	609
\$ 8.50	\$ 17,680	\$	526
\$ 9.00	\$ 18,720	\$	442

Married or Single, one child, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 7,540	\$	566
\$ 7.50	\$ 7,800	\$	566
\$ 8.00	\$ 8,320	\$	624
\$ 8.50	\$ 8,840	\$	663
\$ 9.00	\$ 9,360	\$	702

Single Individual, two children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	1,500
\$ 7.50	\$ 15,600	\$	1,500
\$ 8.00	\$ 16,640	\$	1,423
\$ 8.50	\$ 17,680	\$	1,298
\$ 9.00	\$ 18,720	\$	1,174

Married, two children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	1,500
\$ 7.50	\$ 15,600	\$	1,500
\$ 8.00	\$ 16,640	\$	1,449
\$ 8.50	\$ 17,680	\$	1,366
\$ 9.00	\$ 18,720	\$	1,282

Married or Single, two children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 7,540	\$	754
\$ 7.50	\$ 7,800	\$	754
\$ 8.00	\$ 8,320	\$	832
\$ 8.50	\$ 8,840	\$	884
\$ 9.00	\$ 9,360	\$	936

Single Individual, three children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	2,000
\$ 7.50	\$ 15,600	\$	2,000
\$ 8.00	\$ 16,640	\$	2,043
\$ 8.50	\$ 17,680	\$	1,918
\$ 9.00	\$ 18,720	\$	1,794

Married, three children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 15,080	\$	2,000
\$ 7.50	\$ 15,600	\$	2,000
\$ 8.00	\$ 16,640	\$	2,000
\$ 8.50	\$ 17,680	\$	1,946
\$ 9.00	\$ 18,720	\$	1,862

Married or Single, three children, working full time

Salary per Hour	Annual Salary	EITC	
\$ 7.25	\$ 7,540	\$	943
\$ 7.50	\$ 7,800	\$	943
\$ 8.00	\$ 8,320	\$	1,040
\$ 8.50	\$ 8,840	\$	1,105
\$ 9.00	\$ 9,360	\$	1,170



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

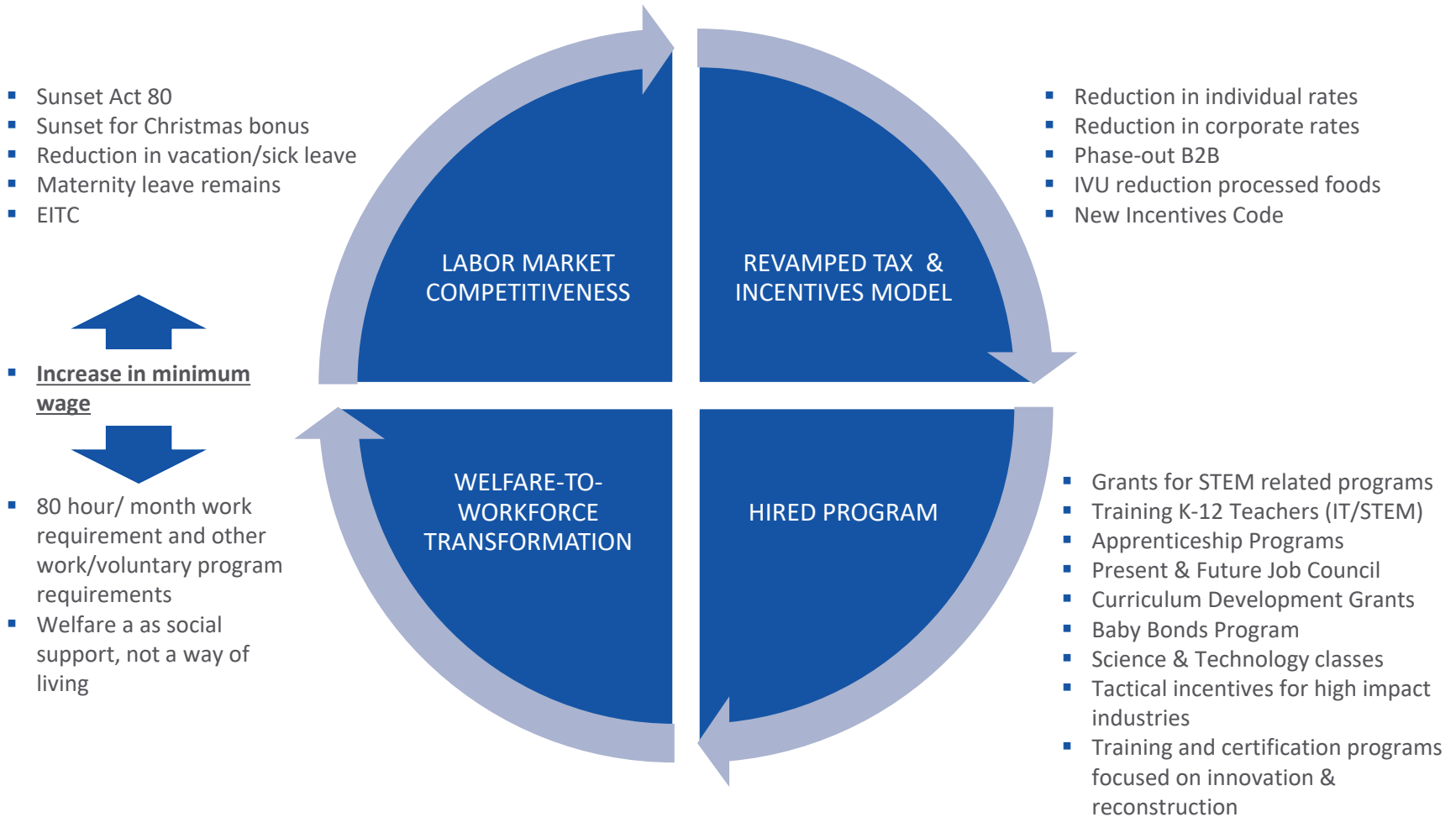
Integrate the WIOA program with the broader promotional efforts of the Department of Economic Development & Commerce.



COMPREHENSIVE WORKFORCE REFORM



Assistance programs tied to promoting the building of capacity and capability of disadvantaged residents together with a less regulated labor market and a more equitable tax regime will move Puerto Rico forward





Labor Market Competitiveness structural changes

Act 80

Legislate sunset clause. Puerto Rico becomes employment-at-will jurisdiction 3 years after bill is signed.

Christmas Bonus

Legislate sunset clause. Mandatory Christmas Bonus is eliminated 3 years after bill is signed

Vacation leave

All private sector employees accrue 7 days per year beginning in January 1, 2019

Sick leave

All private sector employees accrue 7 days beginning in January 1, 2019

Maternity Leave

Maternity leave remains unchanged

EITC

Proposed EITC expands the eligibility for workers with no children. As was originally proposed in February 2018, a person earning minimum wage with no children would not have been eligible to any EITC benefit.

Minimum Wage

Legislate minimum wage increase to \$8.25 in staggered approach by 2021. Increase to \$7.75 in 2019, \$8.00 in 2020 and \$8.25 in 2021. Increase applicable to all private sector.



Considerations and initial proposed work requirements for the NAP Program

Starting with PR's largest welfare program, the Nutrition Assistance Program, the Government is focused in working with FNS to include the necessary and prudent requirements to the program that will seek an increase in labor force participation.

WORK REQUIREMENT CONSIDERATIONS FOR NAP

- NAP is administered by the Food and Nutrition Services of the US Department of Agriculture (“FNS”). In Puerto Rico, the Administration of the Socioeconomic Development of the Family (“ADSEF” for its Spanish acronym) administers the program. For FY17 the federal funding for NAP in Puerto Rico was \$1.95bn.
- Puerto Rico receives a capped block grant for basic food assistance instead of participating in the Supplemental Nutrition Assistance Program (“SNAP”), which is an entitlement program that can expand and contract to accommodate changing need. In order to enact certain work requirements to the NAP, Puerto Rico-specific labor market peculiarities of high-unemployment rate (job demand) and limited federal job assistance (no-Federal EITC, CTC and others) have to be considered.

IMPLEMENTATION OF A REVISED NAP ANNUAL PLAN

- **New Annual Plan.** The new Annual Plan for the NAP program is due July 1, 2018. A recommendation for the establishment of a work requirement will be included in the new plan.
- **Federal technical assistance.** FNS is willing to provide the Government with technical assistance in order to consider modifications to the current Annual Plan and to implement work requirement reporting and compliance.

INITIAL PROPOSED WORK REQUIREMENT STRUCTURE FOR NAP

- **Work requirement guidelines for NAP participants:**
 - Participant between ages 18-59
 - Phase – in implementation of work requirement:
 - First year: no work requirement
 - Second and third years: Benefit for 9 months in 12 month period if participant does not comply with work requirement
 - Fourth year (full implementation): Benefit for 6 months in 12 month period if participant does not comply with work requirement
 - Participant has to work an average of 20hrs per week
- **General exceptions to the work requirement:**
 - Participant is under 18 or 60 years of age or over
 - Participant in primary caregiver for dependent
 - Medically certified as physically or mentally unfit for employment

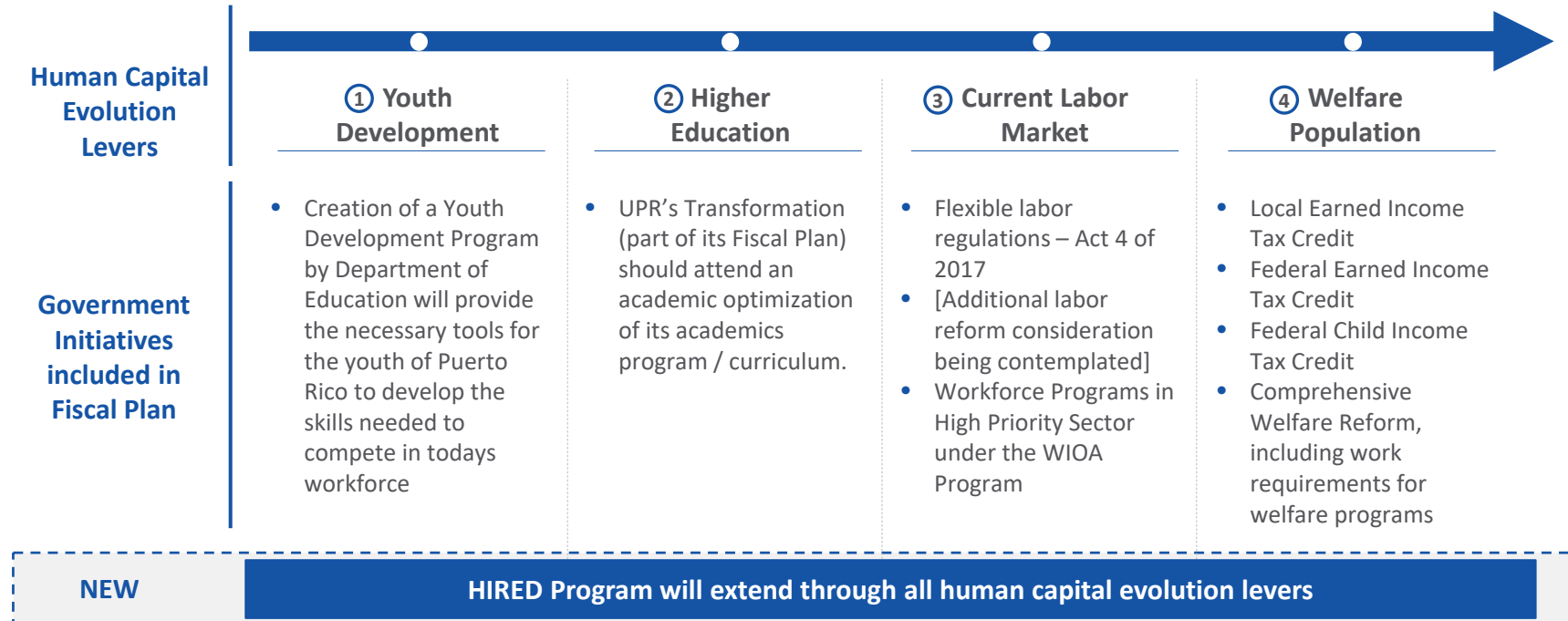
What qualifies as work?

- Paid work
- Voluntary work
- Trainings/ education
- Job search



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 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.
- 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.
- 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.
- A new program named the **Human Impact Reform and Economic Development Program (“HIRED”)** seeks develop the supply of talent and incentivize the demand for high-impact jobs which will support Puerto Rico’s labor market transformation.





Proposed HIRED Program Snapshot

The Government of Puerto Rico’s seeks to fund the proposed HIRED Program with CDBG-DR funds. For programs where federal funds are not available, the Government has identified budget allocations to fund the Program.

Program	Concept	Investment	Possible Funding
Youth Development	<ul style="list-style-type: none"> Grants for STEM related programs (Cybersecurity education, Robotics) Training K-12 teachers to teach computer science and IT courses Baby Bonds Program Apprenticeship programs 	\$5 mm	Department of Education & Federal Funds
		\$10 mm	
		\$3 mm	New Incentive Code DDEC / Private Sector
Higher Education	<ul style="list-style-type: none"> Curriculum development grants for UPR students focused on the IT industry. IT & Computer Science Scholarship of \$750 per student (up to 5,000 students, or 10% of current student enrollment) Capital costs associated with adding more computer science and IT classes (up to \$1.25 mm) Apprenticeship Programs – collaboration w. private sector 	\$18.75 mm	The UPR is expected to receive \$10 MM annually from the Central Government for Training & Seminars. Proposal to allocate up to \$5 mm for this initiative
		\$6.25 mm	
Current Labor Market	<ul style="list-style-type: none"> As part of the Revamping of the Incentive Code, the Department of Economic Development and Commerce would develop a job incentive for high impact industries and companies. Apprenticeship Programs – collaboration w. private sector Training & certification programs focused on the areas reconstruction efforts Creation of the Present & Future Job Council 	\$25 mm	The Fund for Economic Development (“FEDE”) provides cash incentives to companies seeking to develop / expand their operations.
			TBD



Creation of a Youth Development Program by Department of Education will provide the necessary tools for the youth of Puerto Rico to develop the skills needed to compete in today's workforce

- The Government will be collaborating with a local nonprofit entity and a leading social policy think tank to undertake a planning process to optimize the use of existing funding streams to reduce youth unemployment, particularly in the context of the hurricane recovery. There will be a focus on systemic data monitoring through a youth workforce and employment observatory that will be annually updated and used to drive ongoing decision-making.
- Subsequently, the Government will implement a series of evidence informed and evidence based youth workforce development pilot initiatives that combine a long-term partnership with a direct service providing Puerto Rican nonprofit entity and eligible private sector partners.



Create Occupational Opportunities

Prepare students in 68 careers (specialties) aligned to meet the needs of local industry.



Develop Skills for the Global Economy

Promote vocational programs of high employability and technology paving a path to certifications, tertiary education, and ultimately employment.



Prepare for Minimum Employment Requirements

Align curricula and occupational offers to meet minimum standards and measured with through standardized occupational and technical test.



Establish Adult Courses

Work with Dept. of Labor, Vocational Relations, Dept. of Agriculture, and private companies to tailor education and training to needed labor.



Teachers and Students Obtain Certifications

Provide specialized training to teachers to grant trade certifications with a particular focus in the technology field.



Establish Business and Entrepreneur Programs

Provide students the education to promote small business creation.



Work Based Learning

Place students in the industry to gain employable skills during school hours.



Collaborative Agreements with Companies

Develop relationships with local and global businesses to create a bank of internship opportunities for students.



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

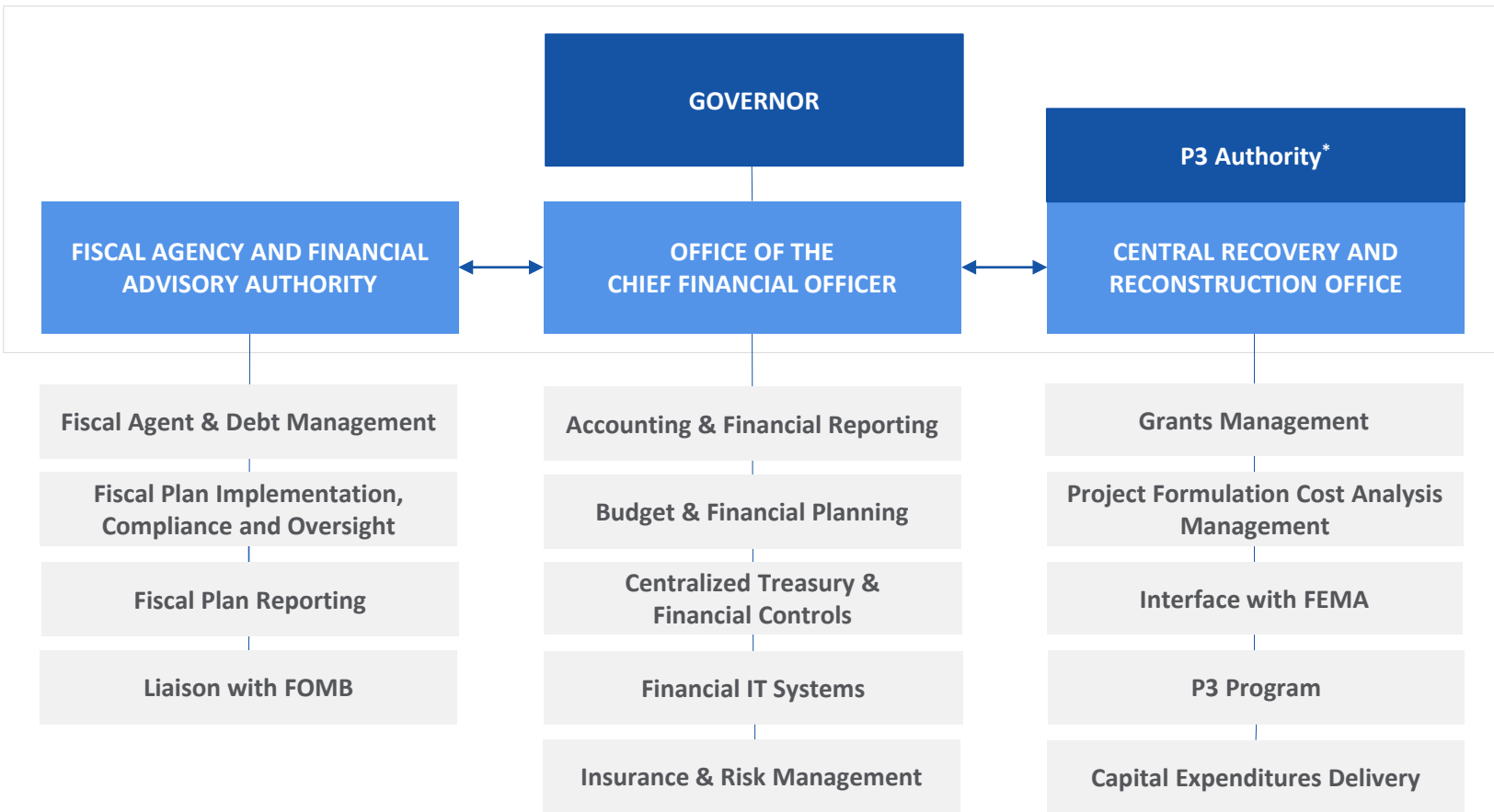
- Conduct litigation risk assessment.
- Forecast and manage receipts seasonality.
- Enact measures implementation impact forecasting & analysis.
- Manage centralized insurance procurement and policy management.



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.



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