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PUERTO RICO CONFERENCE

Entrepreneurship for Growth

2010

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P u e r t o R i c o C h a m b e r o f C o m m e r c e



Puerto Rico Fiscal Reconstruction Progress Report

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Financing & Treasury



Disclaimer

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



Agenda

1

Economic and Fiscal Challenges

2

Fiscal Reconstruction Plan Progress

3

Reforms to Foster Competitiveness

4

Government's Financial Position

5

Concluding Remarks

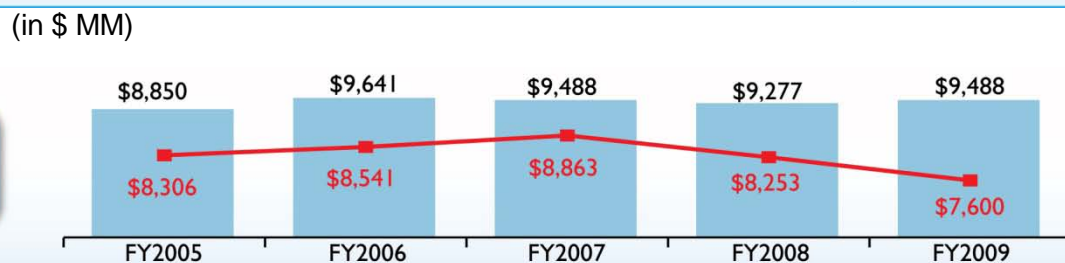


Challenges we encountered a year ago as a New Administration

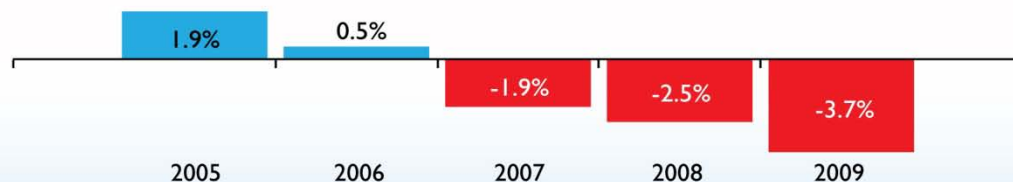
Unsustainable Structural Deficit



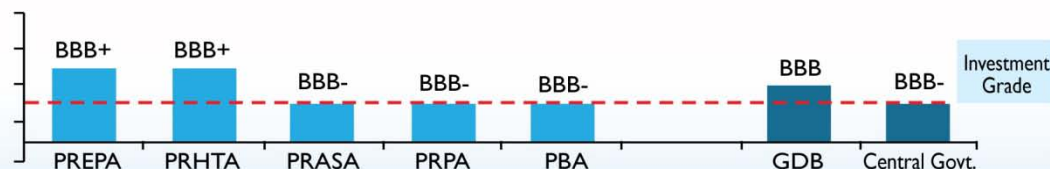
Constant Overestimation of Revenues



Unattended Economic Recession



Limited Access to Capital Markets



Comprehensive and decisive Economic & Fiscal Reconstruction Plan in place



Puerto Rico has taken the right and decisive steps to address these challenges and reposition itself in the global economy

1

Fiscal Reconstruction Plan

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

2

Strong Fiscal Oversight Role at GDB

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

3

Robust Economic Development Plan

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

11 Bills to Implement the Plan:

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

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



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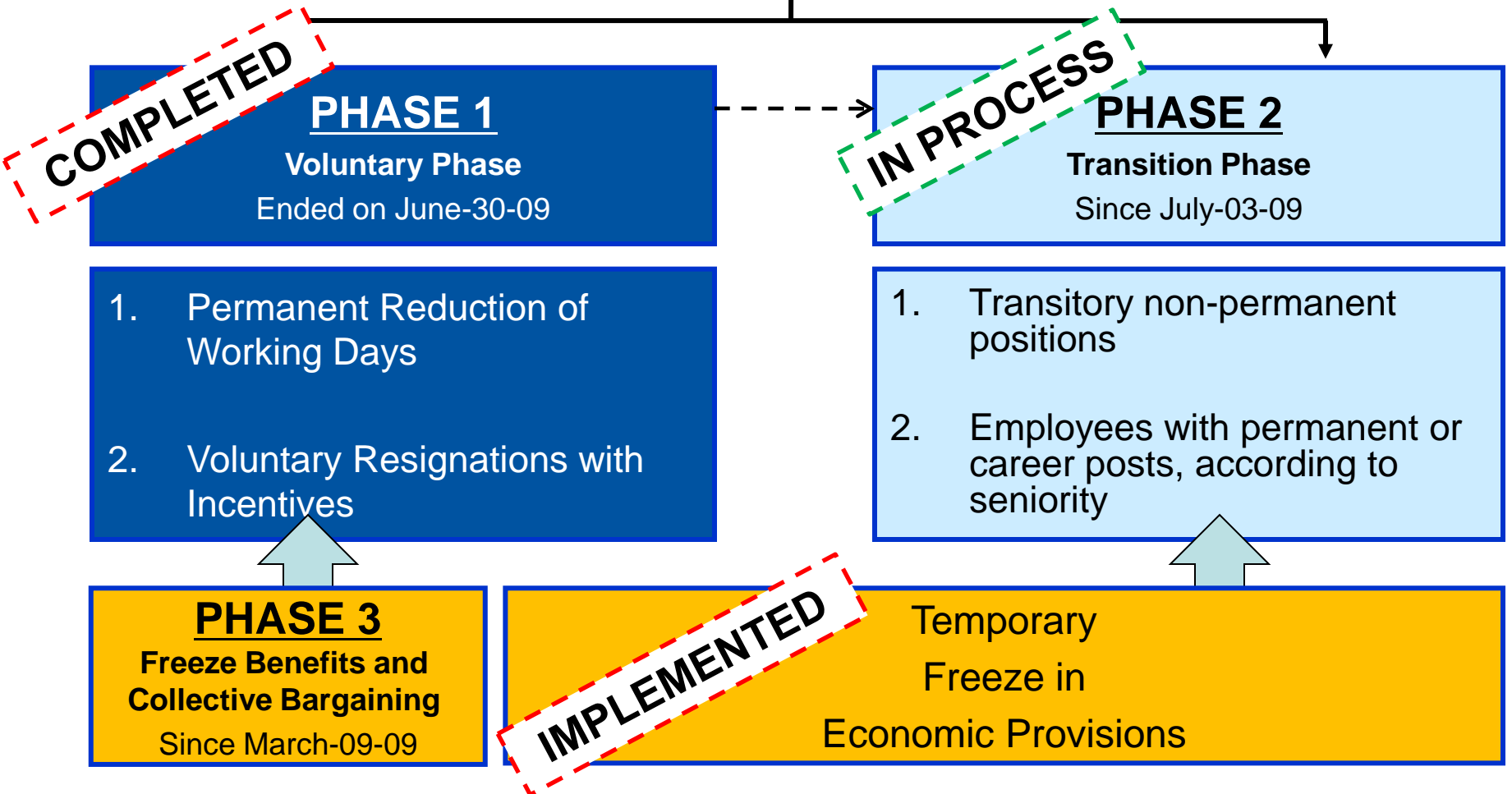
5

Concluding Remarks



The Government acted swiftly by implementing a multi-phase reduction program

Payroll Expenses Reduction Plan





The Government has been focused on achieving results and is strictly monitoring the progress of the plan

Fiscal Reconstruction Plan Goals

Report Card

1

Balanced Budget by FY 2013

Within the
Plan

Revenues FY 2010 ✓

Expenses FY 2010 ✓

2

Safeguard investment grade
credit rating and regain
BBB+/Baa1 rating before FY 2013

Stable ratings ✓

Capital market access ✓

3

Liquidity Management

\$204 MM in cash as of Dec 2009 ✓

FY 2009: \$750 MM in payables paid ✓

FY 2010: Less than \$2.5 B expected to be used in
stabilization & transition fund ✓

FY 2011 Budget: Already funded \$500 MM for SF ✓

4

Debt Management

\$1.2 B in PRIFA bonds repaid

\$4.3 B in debt provided with a source of repayment



Notwithstanding challenges, approximately 60% of the \$2 billion goal has been implemented or identified

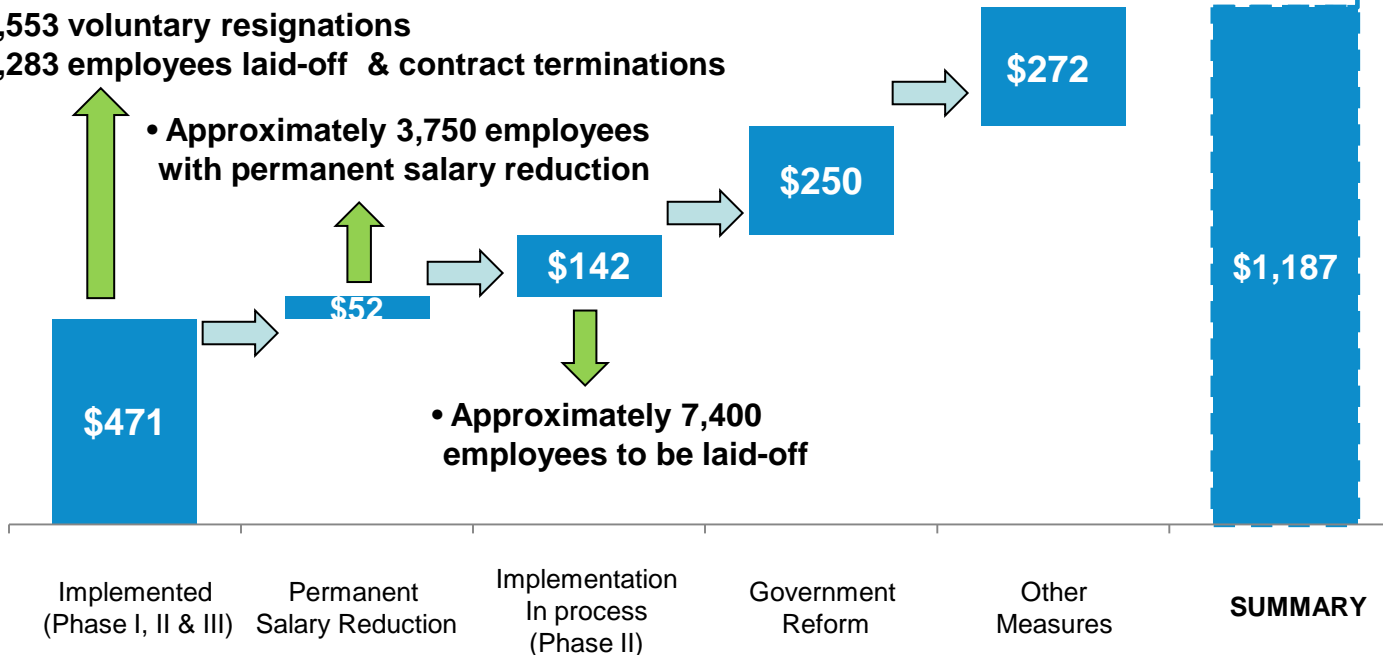
Other Measures:

- \$150 MM reduction in operating expenses ✓
- \$42 MM reduction in professional services ✓
- \$45 MM in attrition ✓
- \$35 MM reduction in Health Plan

- 2,553 voluntary resignations
- 7,283 employees laid-off & contract terminations

- Approximately 3,750 employees with permanent salary reduction

(in \$ MM)



\$813

Pending
\$813 MM

Implemented
or Identified
\$1.19 B



The remaining 40% in expense reduction will be addressed through various initiatives

1

Government Reorganization process

2

Expense management at the larger agencies and further opportunities for reduction of operational expenses

3

Health Reform Savings

4

Reduction of rent expense by maximizing government owned RE

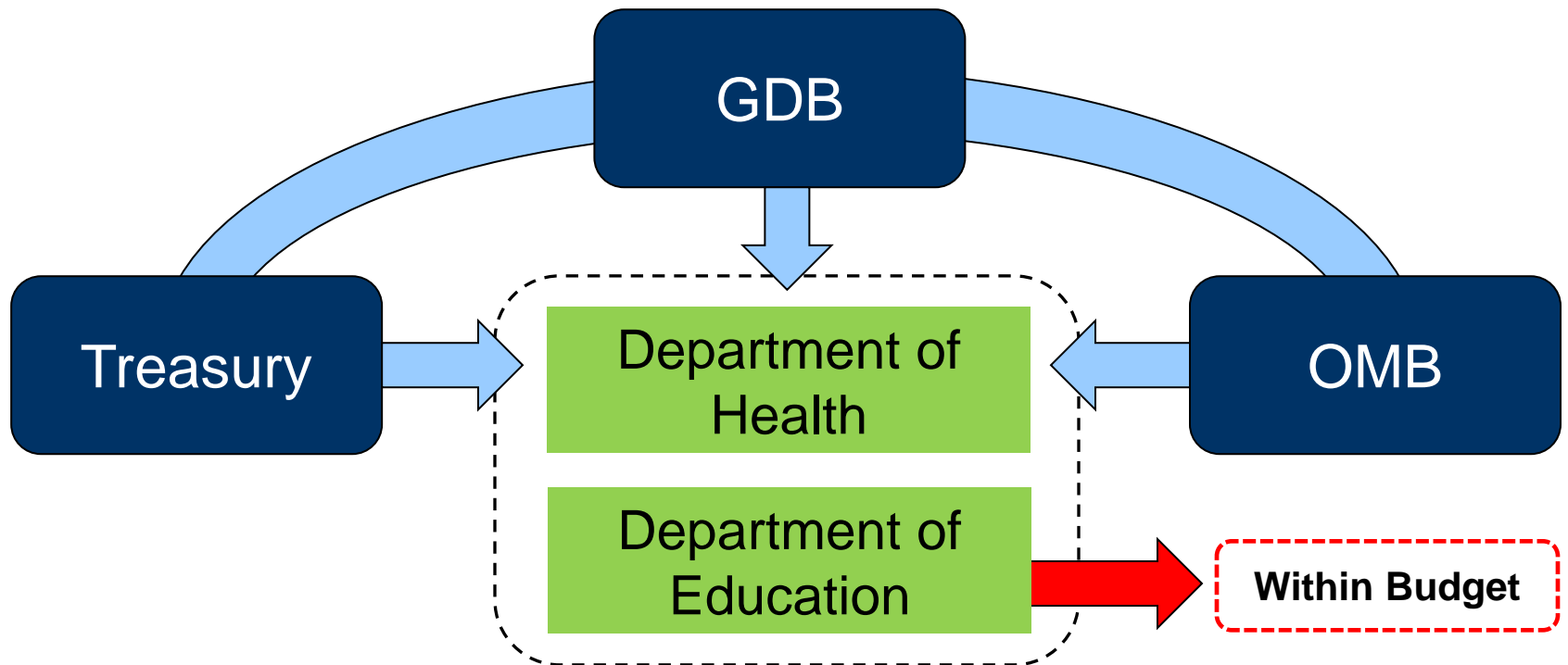
5

Technology savings



MOU's with high impact budget agencies have been executed to reduce operational expenses and promote more efficient use of resources

Memorandum of Understanding – Education & Health Department



These agencies represent approximately 41% of General Fund



Fiscal Oversight Agreements in place at public corporations to foster budgetary discipline



Puerto Rico Aqueduct and
Sewer Authority



3 Main Objectives of Fiscal Oversight Agreements

1 Enhancing Role as Fiscal Agent

- Absence of fiscal role resulted in lack of operational controls
- Fiscal stability is key for corporations to invest in future of Puerto Rico

2 Enforcing Fiscal Controls

- Public corporations are required to submit monthly operational reports, short- and medium-term expense reduction programs, and evidence of compliance with applicable environmental requirements

3 Re-establishing Fiscal Discipline

- Adoption of yearly operating budget and capital expenditure budget
- Setting clear financial and fiscal goals



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Reforms to Foster Competitiveness

Government

- Reduce by 30% number of agencies (of 134 agencies)
- Improve service delivery to the people

Energy

- Reduce by 25-30% cost of energy
- Promote renewable energy sources
- Cleaner environment

Tax

- Reduce overall tax rates with a revenue neutral approach
- Promote job growth and investment

Timeline

2010-2013

2010-2013

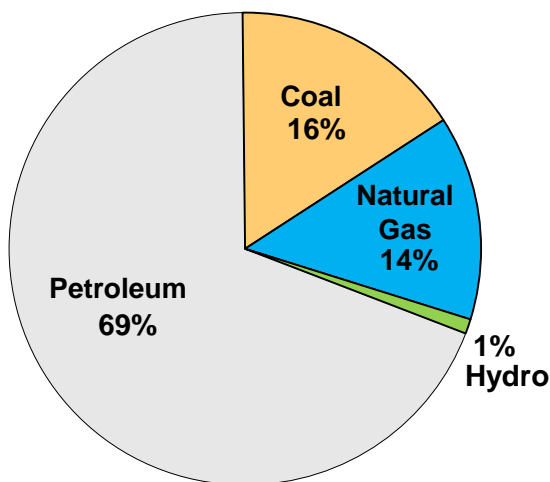
2010-2011



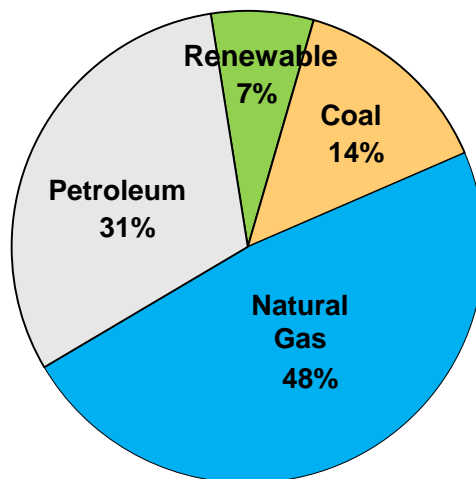
Energy Reform will address the high cost of energy in Puerto Rico by diversifying our fuel sources

Establishing a Portfolio with More Natural Gas, Renewable, and Clean Coal

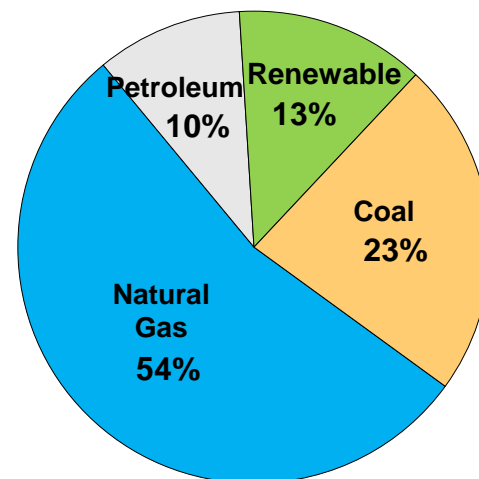
Current



2013



2017



Diversification of Energy Production Mix



Tax Reform Committee in place and moving ahead with a set schedule

Committee Members

Executive Director

Governor's Chief of Staff

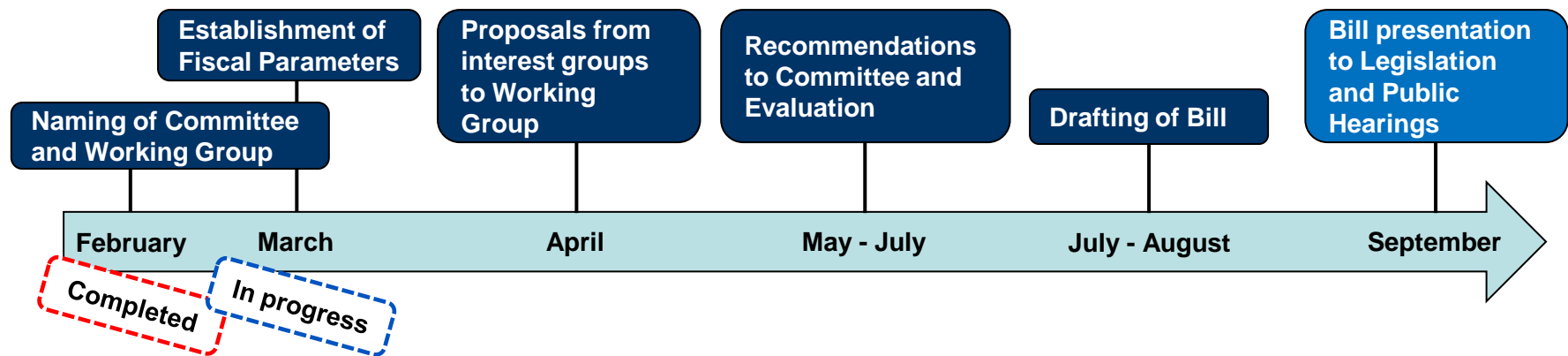
Secretary of Treasury

Chairman House Treasury Committee

Chairwoman Senate Treasury Committee

President GDB

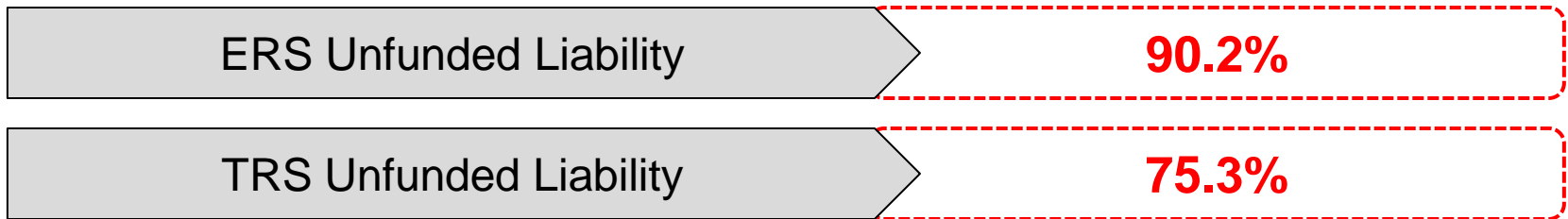
Secretary of Economic Development



Tax Reform has to be framed within the actual fiscal situation and comply with the requirement of a balanced budget of recurrent revenues and expenses on or before FY 2013

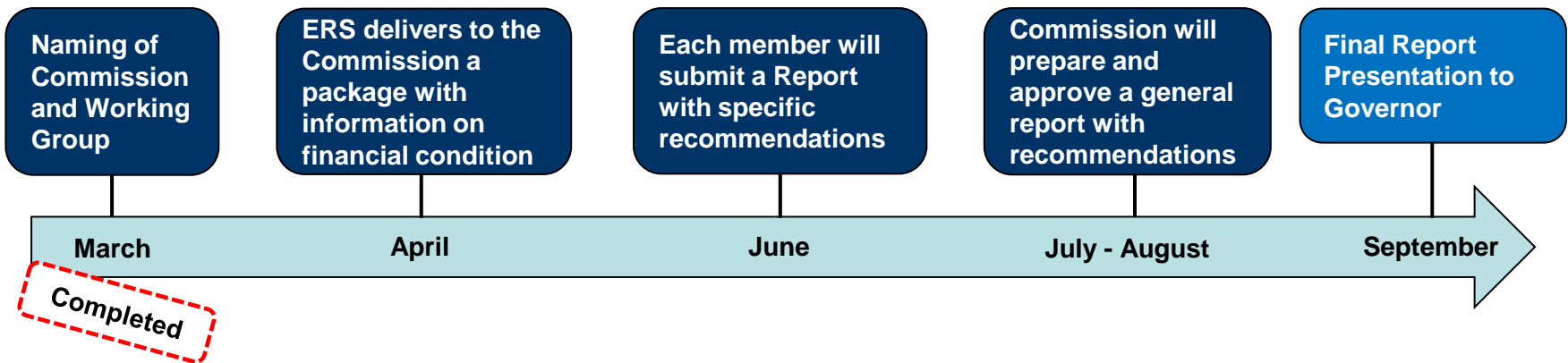


Governor Fortuño recently announced the creation of a Special Commission to address the crisis at our Employees' Retirement Systems



Commission Members:

Executive Director	(2) Representative of Public Labor Sector
Secretary of Labor - President	Member of Senate
Representative of Retirees	Member of House of Representatives
Representative of Permanent Commission	(2) Representatives of Govt. Agencies





Focus on fostering economic development through Public-Private Partnerships to invest in our infrastructure

PPPs PRIORITY PROJECTS IN ALL INFRASTRUCTURE AREAS FOR PUERTO RICO

TRANSPORTATION



TOLL ROADS

ENERGY



**NATURAL GAS
CONVERSIONS**

**WASTE-TO-ENERGY
PLANTS**

WATER



**AUTOMATIC
METERING**

**COLLECTIONS
SYSTEM**

AIRPORTS & MARITIME PORTS



**INTERNATIONAL
AIRPORT**

SCHOOLS MODERNIZATION



**SCHOOL
INFRASTRUCTURE**



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As of January 2010, net revenues reflected a modest 0.8% decline below estimates mainly due to a delay in the SUT - IVU Lotto implementation

Revenue	Actual July - January		\$	Estimate	Actual vs.
Categories (\$ millions)	2009	2010	Change	2010	Estimate
Individuals	\$1,493	\$1,357	(\$136)	\$1,399	(\$42)
Corporations	\$745	\$801	\$57	\$775	\$27
Non-Resident Withholdings	\$508	\$481	(\$27)	\$455	\$25
Property Tax	\$0	\$126	\$126	\$115	\$11
Sales and Use Tax	\$454	\$92	(\$363)	\$147	(\$55)
Motor Vehicles	\$200	\$199	(\$1)	\$210	(\$11)
Alcoholic Beverages	\$163	\$165	\$2	\$170	(\$5)
Off-Shore Shipments of Rum	\$250	\$216	(\$33)	\$223	(\$6)
Other	\$470	\$534	\$64	\$509	\$24
Total	\$4,282	\$3,970	(\$312)	\$4,003	(\$33)

Adjustments for comparison purposes:

Property Tax*	\$0	\$126	(\$126)
Sales and Use Tax**	\$454	\$92	\$363
Total (including adjustments)	\$3,828	\$3,753	(\$75)

*Act 7-Temporary increase in property tax.

**Act 1-1.75% increase in SUT allocation to COFINA

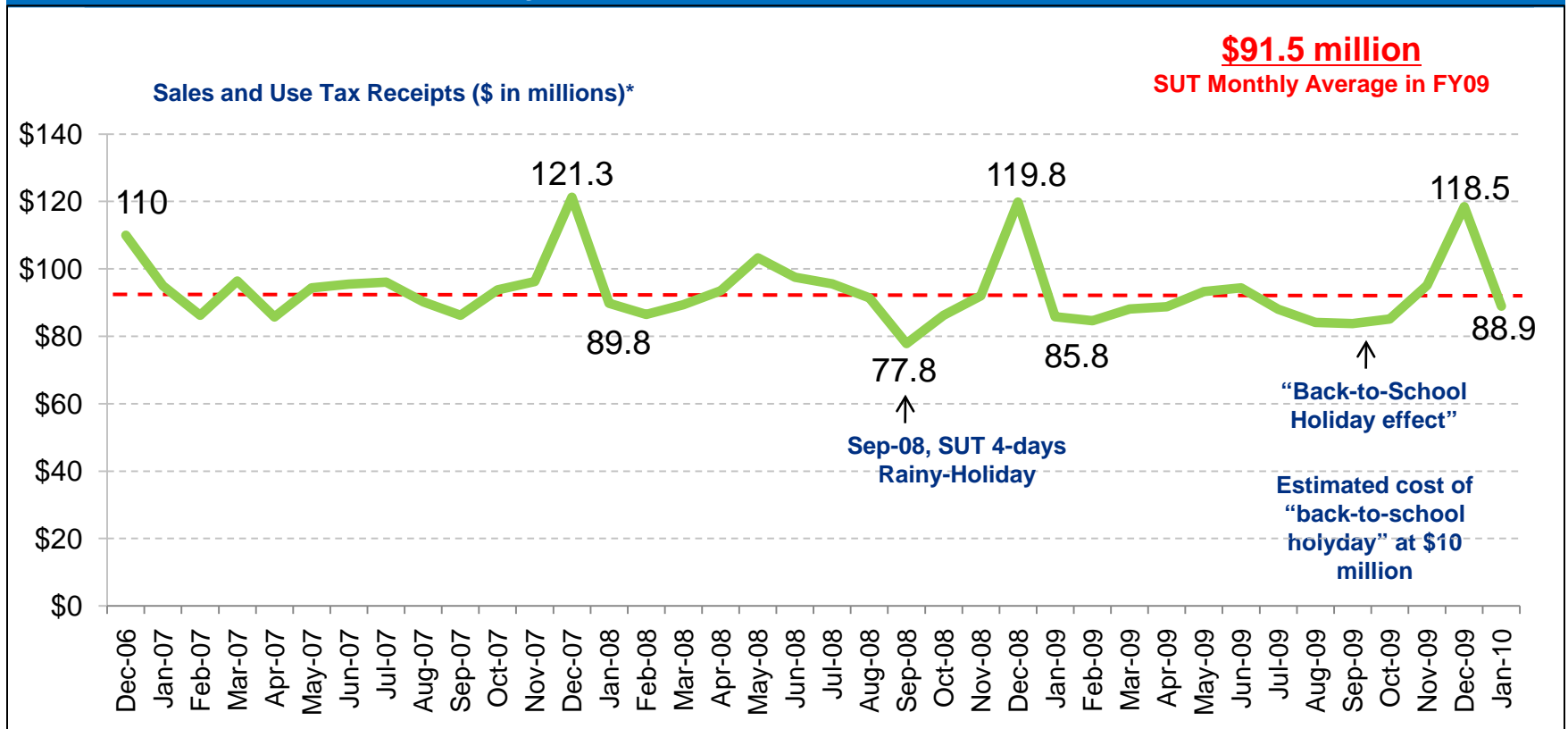
Numbers may not add up due to rounding

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



Sales and Use Tax revenues have remained strong in spite of recession

3.7% YOY increase in January 2010 further depicts consistency of Sales and Use Tax collections

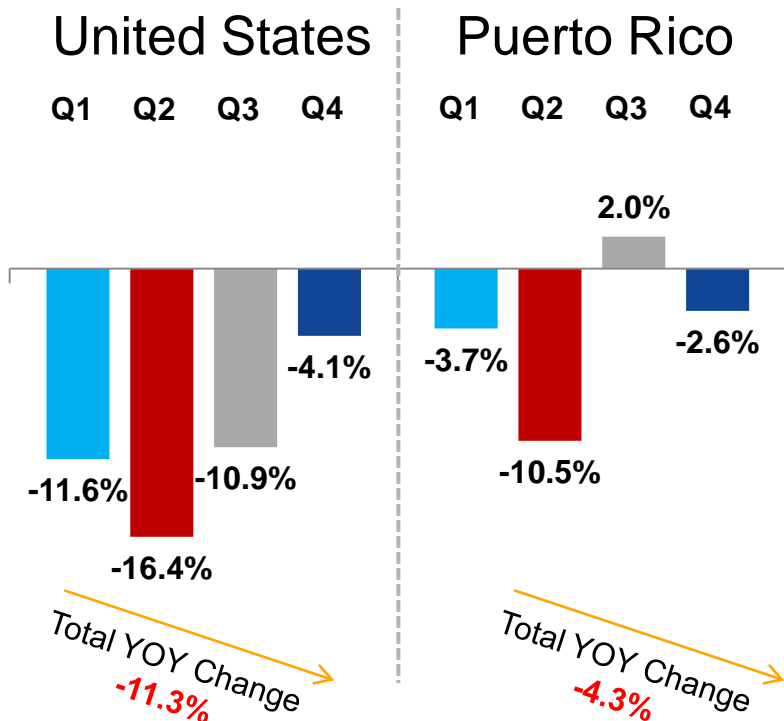




Puerto Rico's tax collections during CY 2009 showed considerable strength in comparison with the US

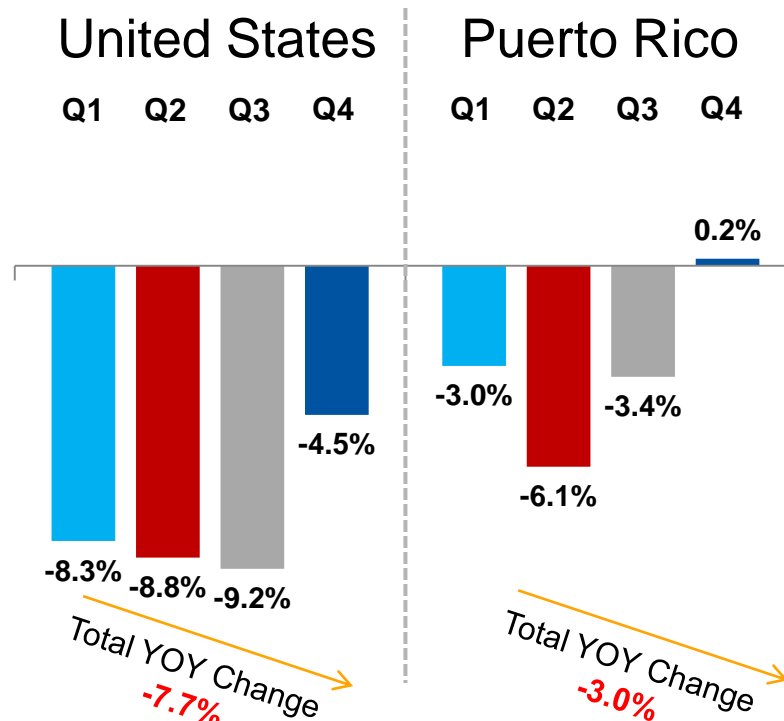
2009 Gross tax revenue collections

YOY % Change



2009 Sales tax revenue collections

YOY % Change





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**Most States are facing
considerable fiscal challenges...**

**Puerto Rico is ahead of the
curve with a proven Fiscal &
Economic Reconstruction Plan
with results.**



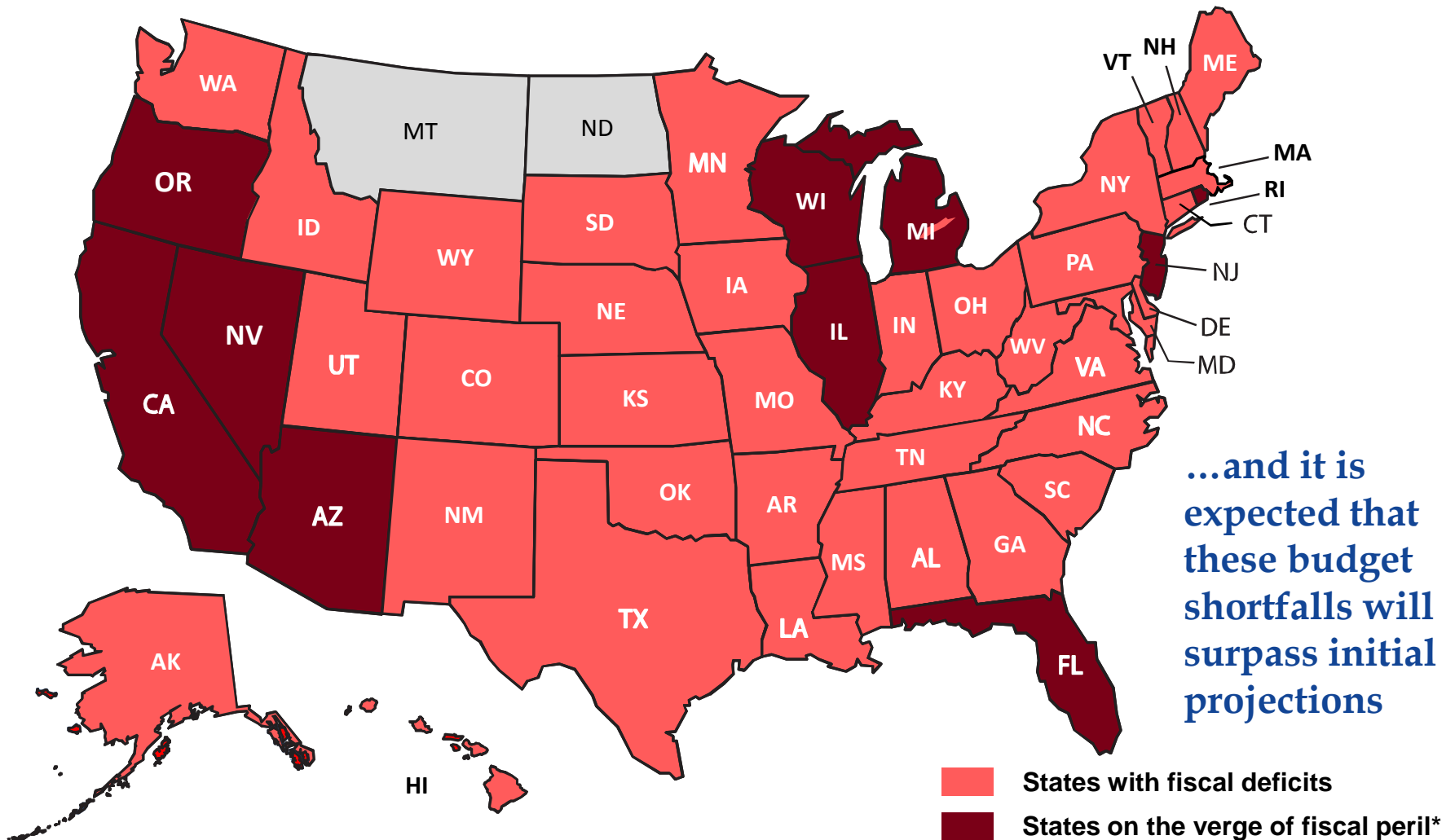
One year ago we faced a 42.1% budget gap, which required swift action...

States on the verge of fiscal peril

	State	Credit Rating	Budget Gap %*
1	Michigan	Aa3/AA-	8.5%
2	Illinois	A2/A+	15.1%
3	New Jersey	Aa3/AA	18.8%
4	Nevada	Aa2/AA+	19.9%
5	Florida	Aa1/AAA	22.2%
6	California	Baa1/A-	36.7%
7	Arizona	A1-AA	36.8%
8	Puerto Rico	BBB-/Baa3	42.1%



Today, 48 States are facing deficits and 10 are on verge of fiscal peril...



Puerto Rico has recovered its credibility...

Swift and Concrete Actions

- 1 We immediately identified the problem ✓
- 2 We developed a comprehensive Fiscal and Reconstruction Plan ✓
- 3 We have implemented and/or identified 60% of the expense reductions ✓
- 4 We have developed the Strategic Model for a New Economy ✓
- 5 We have adopted conservative budgeting strategies and expense controls ✓
- 6 We are on target with our revenues estimates ✓
- 7 We are working on a tax reform – it will be revenue neutral on the short term ✓
- 8 We have strengthened the GDB's role to assist the government and its instrumentalities ✓
- 9 We have proven to have access to the capital markets ✓
- 10 We appointed a special committee to tackle the problems at our pension system ✓
- 11 We are ahead of the curve when compared with other states ✓
- 12 The economy is showing signs of stabilization ✓

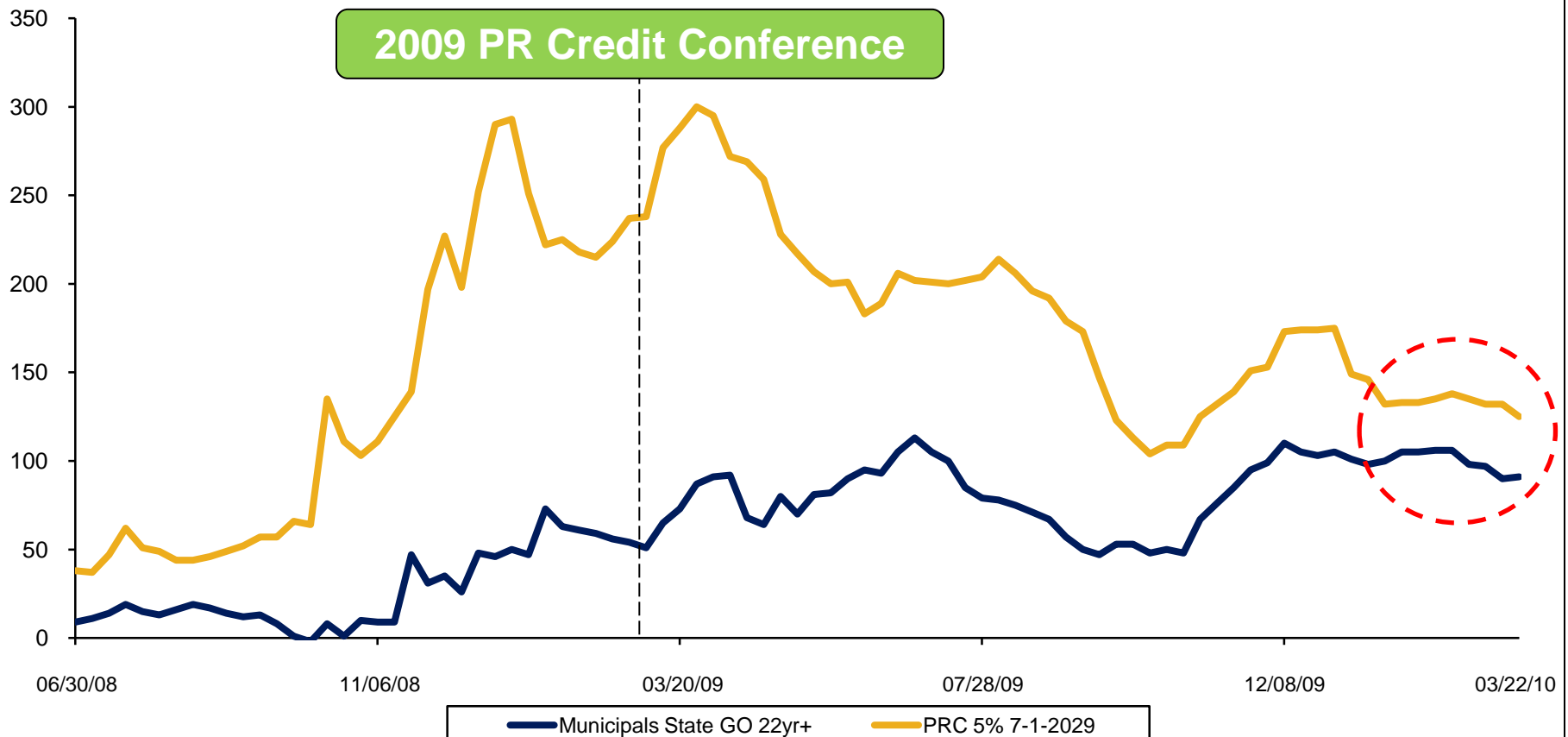
...Delivering Positive Results



Puerto Rico's Reconstruction Plan has restored investor confidence...

Option-adjusted spread on Puerto Rico 5s maturing 7/1/2029 vs. 22+ year State GOs (bps)

2009 PR Credit Conference

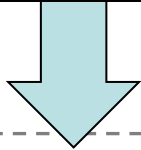




We will continue our commitment of full transparency, providing constant flow of information

TRANSPARENCY

Economic Outlook



Monthly Publications

Economic Activity Index

Net Revenues

Sales and Use Tax

Reconstruction Progress Presentations

Quarterly Publications

Cash Flow Projections

Investor Conference

Investor Roadshows

- COFINA (June 2009):
 - New York
 - Boston
 - Chicago
 - San Francisco
- COFINA (Jan 2010):
 - New York
 - Boston
- PREPA (March 2010):
 - New York
 - Boston
 - New Jersey



Concluding Remarks

- We have responded with swift action through the Reconstruction Plan to address fiscal and economic challenges
- We continue tackling the deficit by intervening with high impact budgetary agencies and also addressing deficits at main public corporations by providing better oversight
- The Fiscal Reconstruction Plan is entering a new phase with several governmental reforms already in progress that will provide much needed support for economic development
- Government revenues are stable and within budget, parting ways with past practices of overestimating revenues
- We are focused on direct channels with the investor community and general public, regaining confidence and credibility



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