



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

CÁMARA DE COMERCIO DE PUERTO RICO

Análisis Económico del Plan Aprobado

San Juan, Puerto Rico

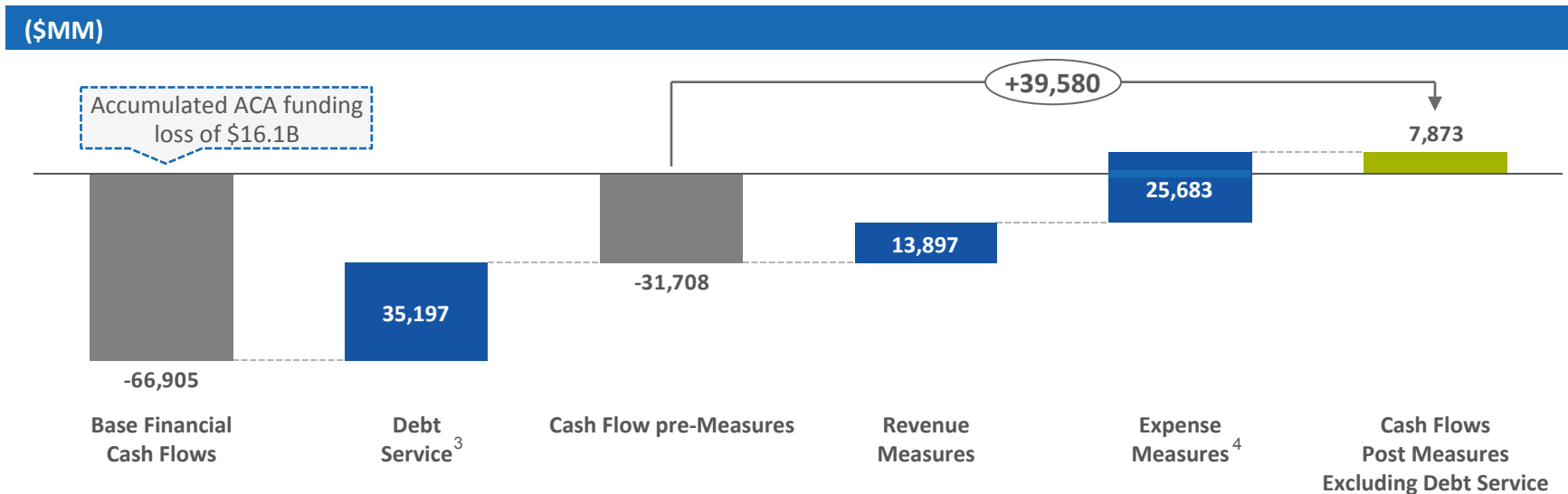
March 21, 2017



I. FINANCIAL PROJECTIONS

The Government will undertake fiscal measures that will reduce the fiscal gap by \$39.6B, and create a 10-year cash flow surplus of \$7.9B

- Based on the currently stated debt obligations, the 10-year budget gap is expected to reach \$66.9B
 - ~\$35.2B of expected principal and interest payments during the forecast period
- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
 - Base fiscal gap of \$66.9B which includes full cost of debt service and does not include the impact of revenue and expense measures
 - Revenue and expense measures of \$13.9B and \$25.7B¹
 - Revenue Measures: \$7.9B of \$13.9B (57%) due to stabilizing corporate tax revenue through tax reform
 - Expense Measures: \$20.3B of \$25.7 (79%) due to Government right-sizing initiatives²



¹ See Section IV, Fiscal Reform Measures for full detail




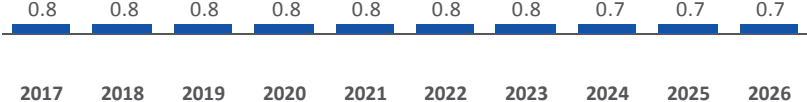
² See government right-sizing section

³ Includes \$1,415 of past due P&I (Aug 1, 2015 to July 1, 2016), and \$277 in Other Adjustments.

⁴ Includes -\$1,310 in AP pay downs.



Assumptions and Methodology: Macroeconomic Factors

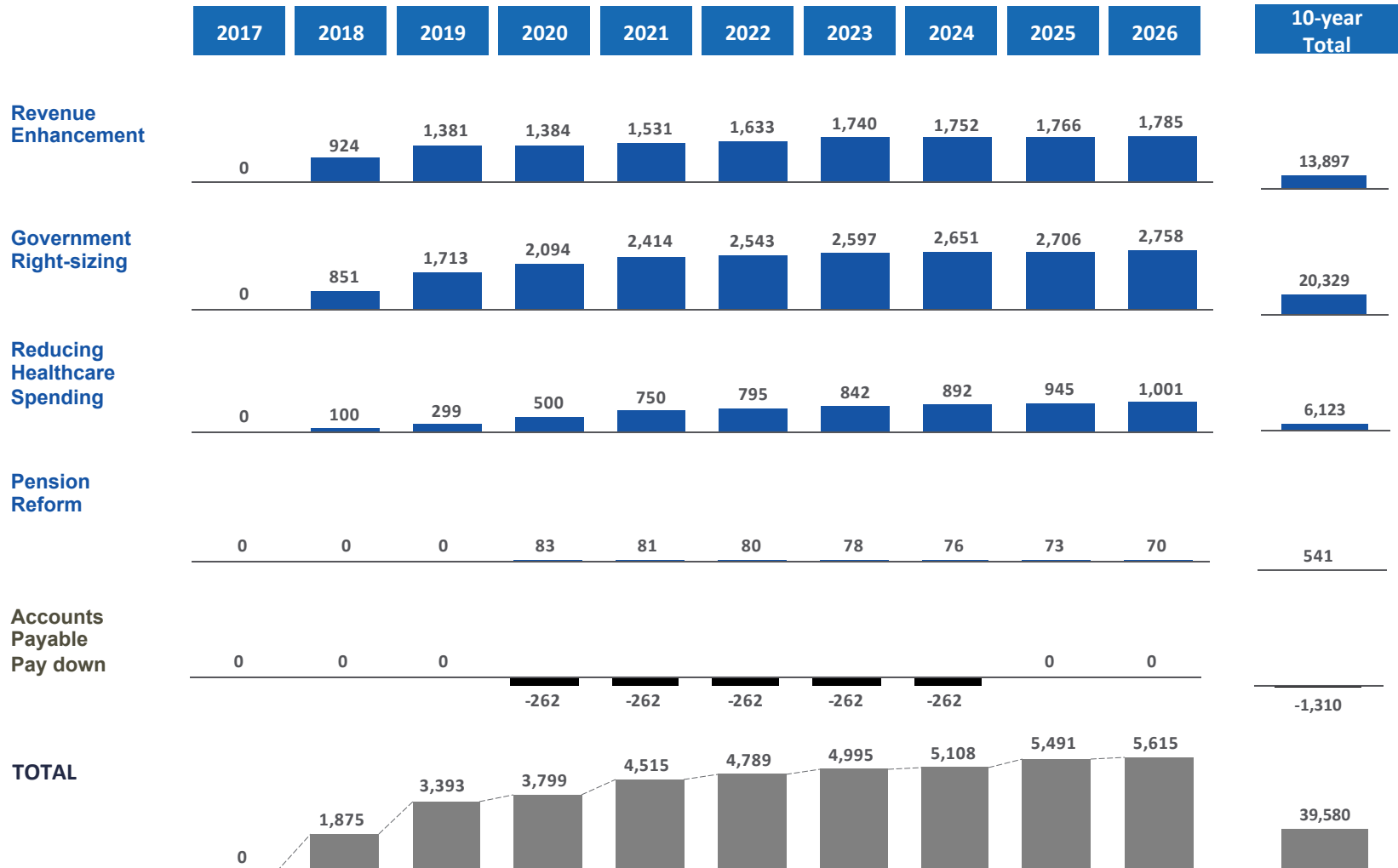
Category	Description, %	2017 – 2026 Growth Methodology
1 PR Nominal GNP Growth Factor		<ul style="list-style-type: none"> Initial decrease to 97.2% in 2019 Increase in 2020 to 99.5% Steady, minimal growth until 2026
2 PR Inflation		<ul style="list-style-type: none"> Initial negative inflation of -0.2% in 2017 increasing to 1.2% in 2018, 1.0% in 2019 with steady, minimal growth in Inflation until 2026
3 PR Population Growth Factor		<ul style="list-style-type: none"> Maintenance of 2017 PR Population Growth Factor of 99.8%
4 US Population Growth		<ul style="list-style-type: none"> Maintenance of 2017 US Population Growth of 100.8% until 2024, where it drops to 100.7%



II. FISCAL REFORM MEASURES

Fiscal Reform measures reduce the 10-year financing gap by \$39.6B

Estimated Impact, \$MM



Note: Values may not add up due to rounding



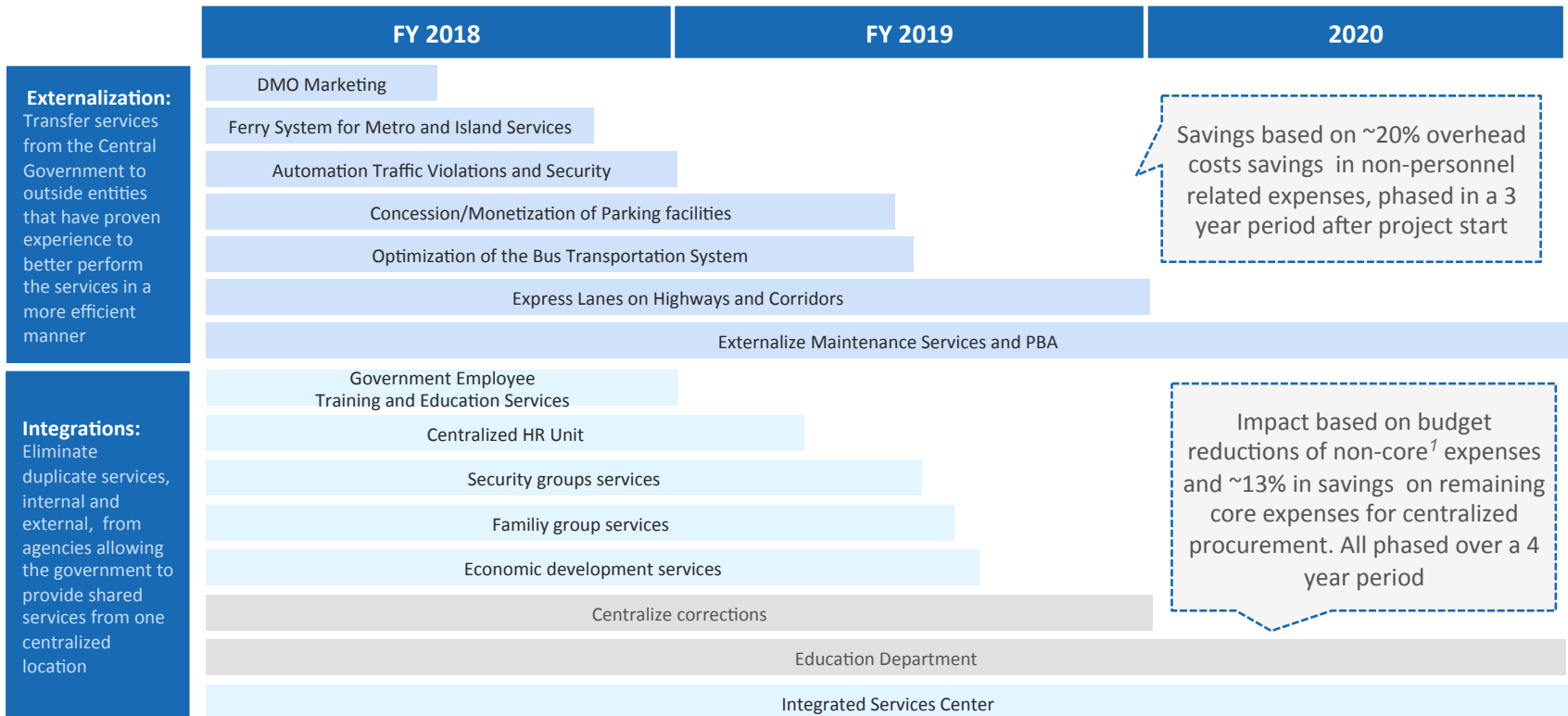
The Government must embark on a transformative journey in order to provide core services to citizens in an efficient and fiscally responsible manner

Some examples of Projects to be Implemented

Externalization of Operations and/or maintenance services

Integration of services

Right-size department



Savings based on ~20% overhead costs savings in non-personnel related expenses, phased in a 3 year period after project start

Impact based on budget reductions of non-core¹ expenses and ~13% in savings on remaining core expenses for centralized procurement. All phased over a 4 year period

Analysis for service integration is carried at 2 levels:

1. Expense description level:

Is the expense an internal service incurred by multiple agencies? (i.e. Employee training costs)

2. Agency Level:

Cluster agencies by core service provided to gain visibility of the ones that could be integrated



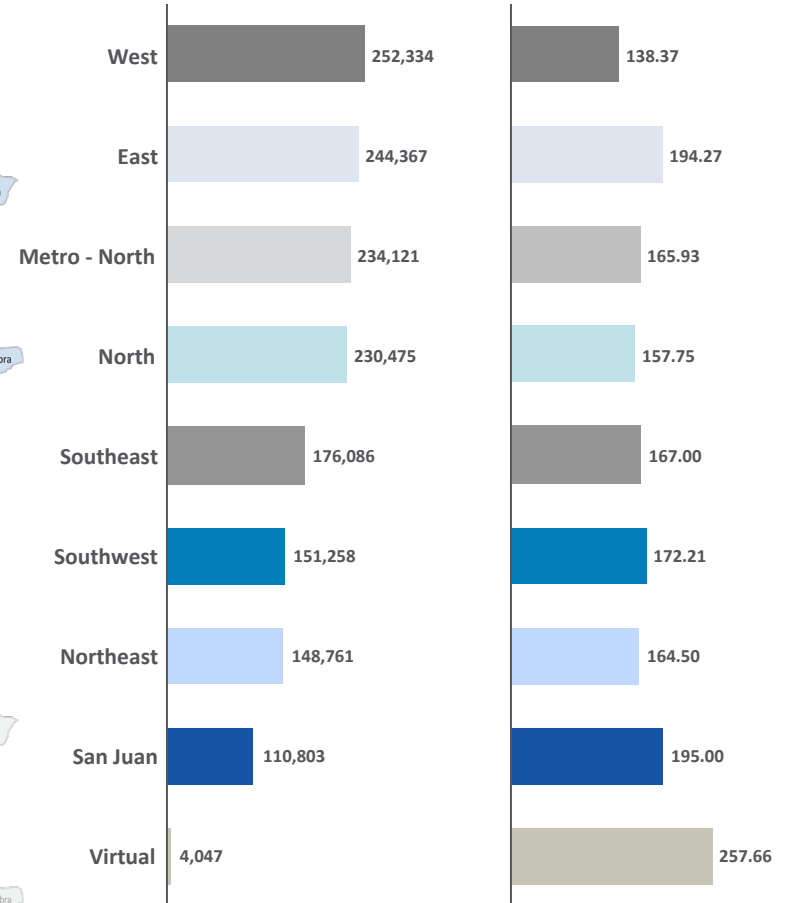
Mi Salud beneficiaries represent 46% of Puerto Rico's population

Map by Mi Salud Region



Number of Beneficiaries by Region
Total Beneficiaries 1,552,252

Cost PMPM (\$US)



\$167 Average PMPM

The new healthcare model will reflect a PMPM cost that incorporates the proposed savings and the availability of budgeted funding

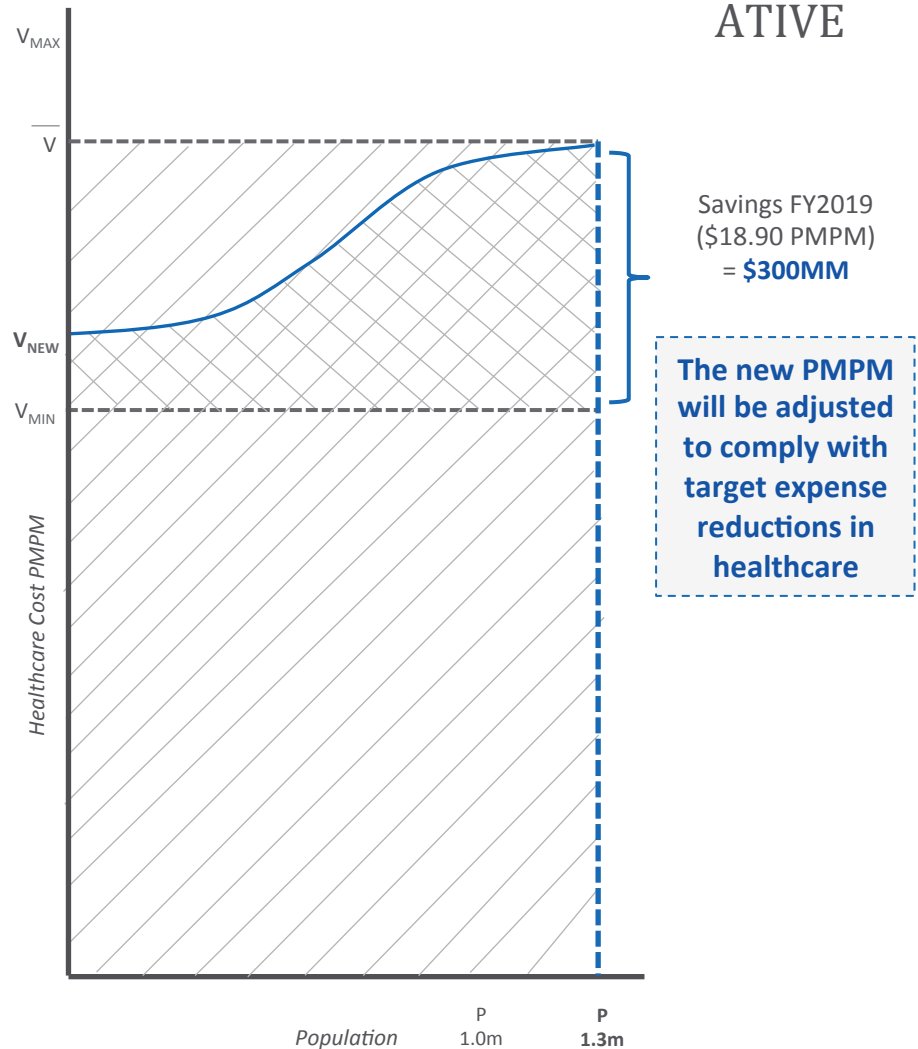
Pillars of the Health Reform

- ✓ Single region
- ✓ More competition (cost-effective)
- ✓ More options for patients
- ✓ Increase number of insurers (including Medical Groups)
- ✓ Government pays for basic, less costly option and patient pays for selected premium services and any misuse of services

Key

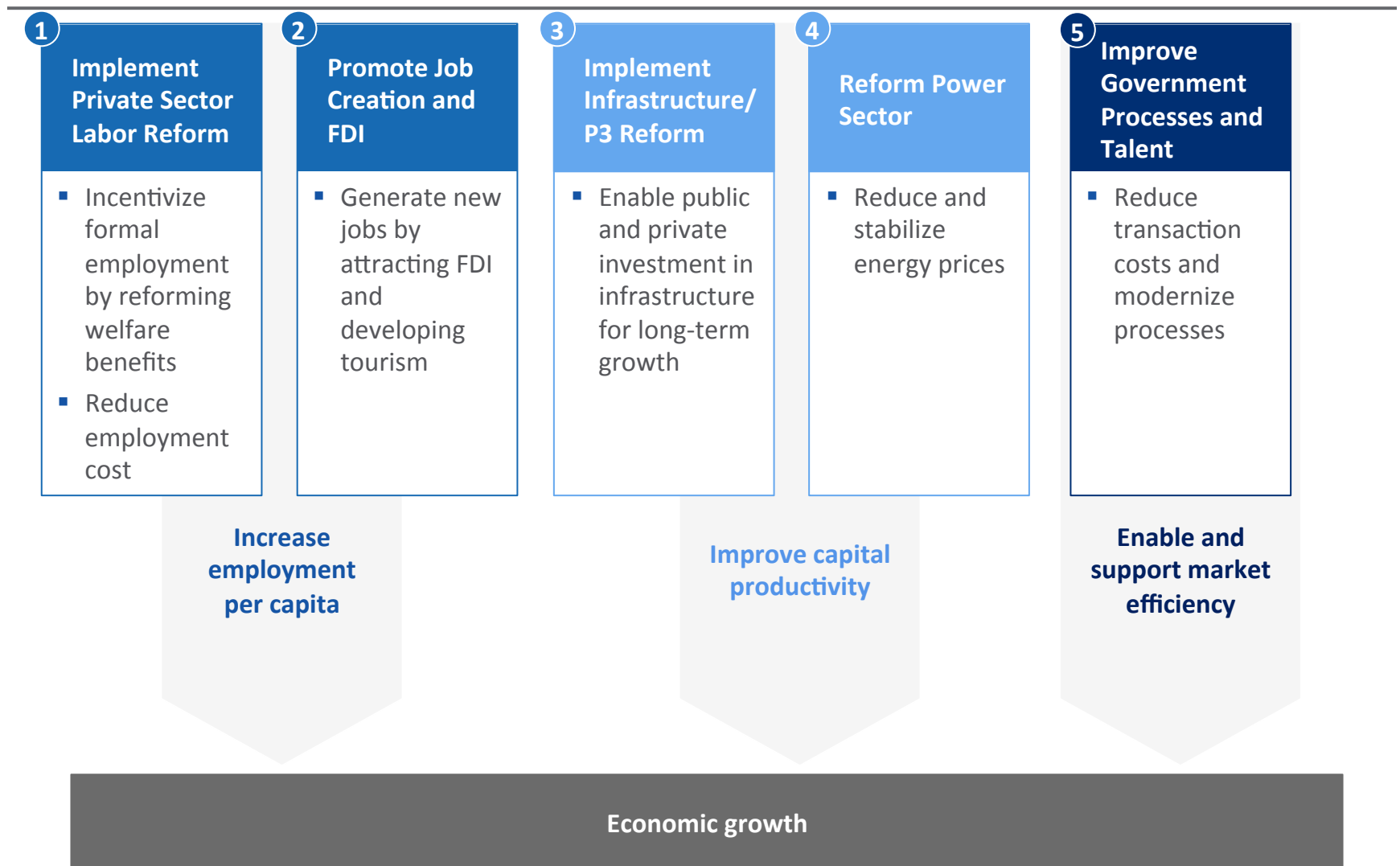
V = PMPM Cost
 \bar{V} = Current Average PMPM Cost
 V_{MAX} = Current Maximum PMPM Cost
 V_{NEW} = **New Average PMPM Cost to achieve targeted expense reduction**
 V_{MIN} = Current Minimum PMPM Cost
 P = Population

ILLUSTRATIVE



III. STRUCTURAL REFORMS

Five structural reforms contribute to broaden economic activity through three channels



Each reform area is supported by multiple measures: some newly proposed, some already underway (1/2)

The direct fiscal impact of structural reforms should be cost neutral¹

1

Implement Private Sector Labor Reform

1a Tax Credits and Benefits

- Reform welfare and other public assistance programs to encourage participation in formal employment

1b Labor Regulation

- Reduce cost of employment by modifying vacation and sick days
- Ease December bonus payment
- Implement flextime and eliminate “Ley de Cierre”
- Reform mandatory severance

2

Promote Job Creation and FDI

2a Enterprise Puerto Rico

- Attract FDI, and incentivize tech investment by externalizing and centralizing economic development function

2b Destination Marketing Organization

- Externalize the overseeing of marketing efforts and continuity under a single brand and as a unified front representing all of Puerto Rico’s tourism components

3

Implement Infrastructure / P3 Reform

3a Increase Market Competitiveness

- Create a Federal Opportunity Center to attract federal funding
- Deliver capex more efficiently to the right critical projects
- Launch an inter-agency group to expedite permitting
- Develop a governor’s permanent advisory council
- Establish an integrated services center for infrastructure delivery

3b Public-Private Partnerships

- Launch pipeline of priority projects for Public-Private Partnerships
- Amend the Public-Private Partnership Act
- Accelerate projects via PROMESA Title V process
- Put in place bankable structures to attract private and federal funds



¹ DMO’s recurring marketing costs are contemplated in government budget

Each reform area is supported by multiple measures: some newly proposed, some already underway (2/2)

The direct fiscal impact of structural reforms should be cost neutral¹

4

Reform Power Sector

4a Restructure PREPA debt

- Complete debt restructuring

4b Improve PREPA's operational performance and governance

- Facilitate operational transformation to lower and stabilize rates

4c Accelerate CAPEX program

- Facilitate PREPA's energy transition towards lower cost power generation

4d Public-Private Partnerships

- Partner with the private sector to fund construction of generation, transmission and distribution and to operate existing assets

5

Improve Government Processes and Talent

5a Modernize and digitize processes

- Property registry modernization and reduction of transaction costs
- Modernize and centralize financial information systems

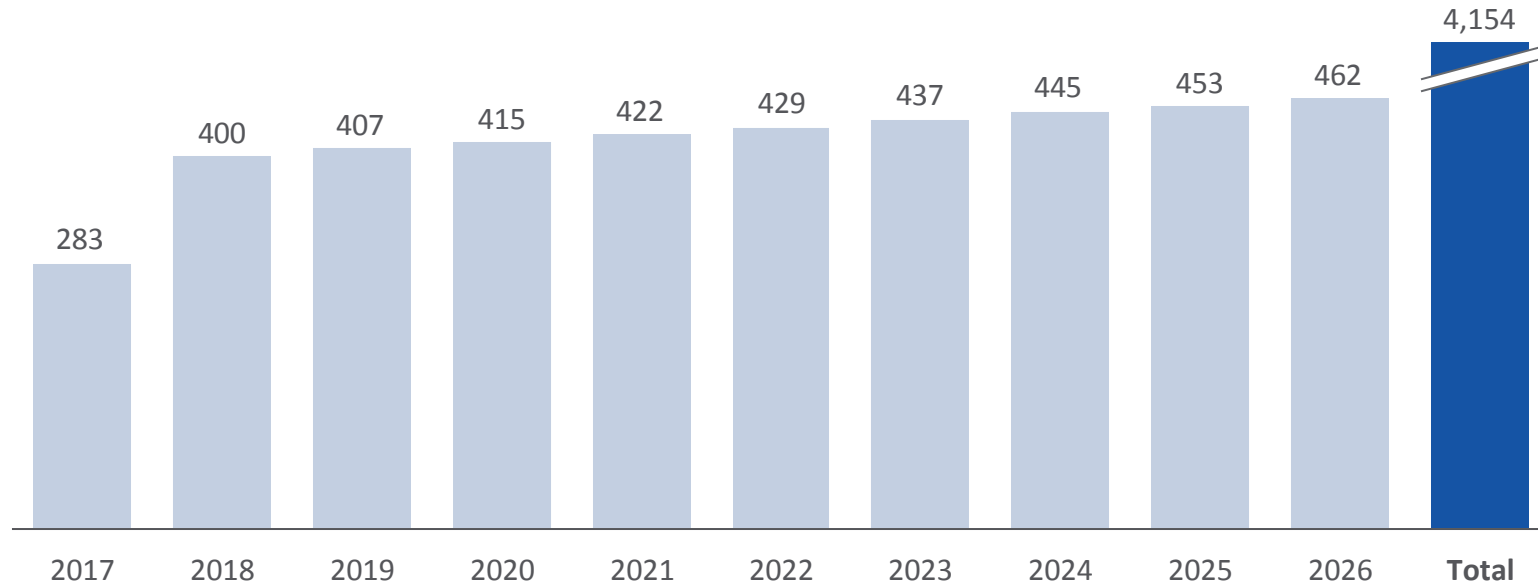
5b Civil Service Reform

- Create a professional technocratic workforce within the government



3 The government will invest \$4.1B of Government funds over the next 10 years towards base capex, incremental capex and the delivery of infrastructure and P3 initiatives

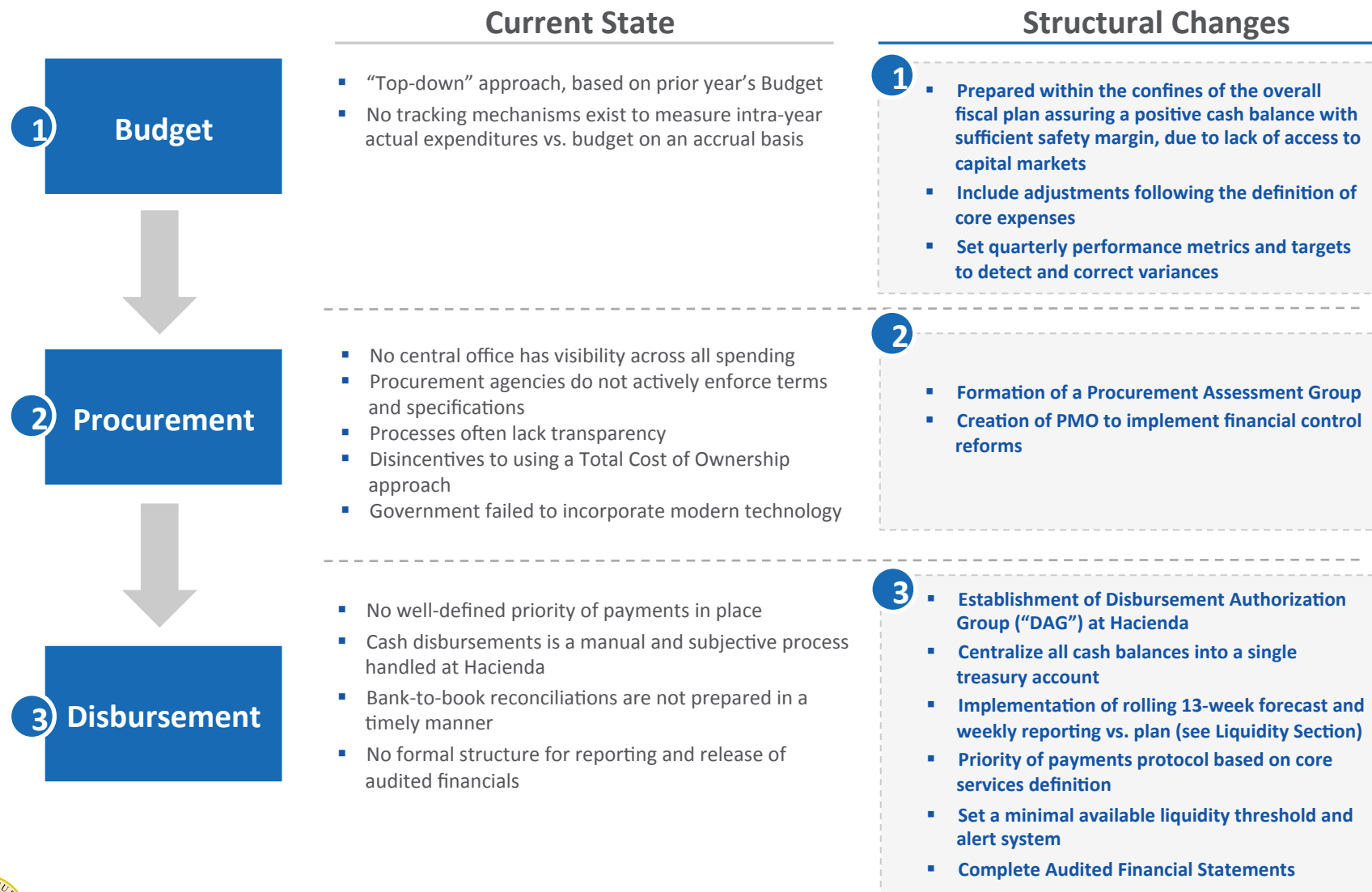
Schedule of projected government capital expenditures, \$MM



The government **will not** apply funds to growth projects, as these will be pursued using P3s, private infrastructure investments and additional Federal funds

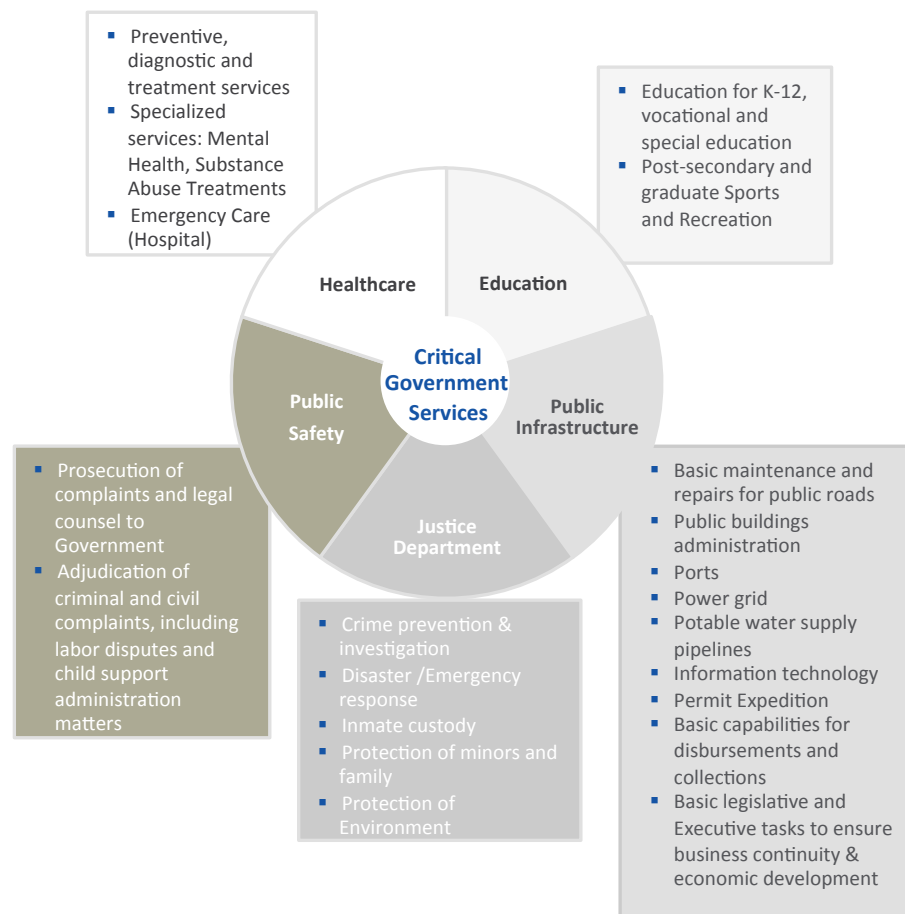
IV. FINANCIAL CONTROL REFORM

The Government is rolling out a series of reforms to improve the budget to cash process and overall financial reporting and controls



1 Identifying critical Government services and type of expenses

Critical Government Services



Catalogue Type of Expenses¹

Regular Payroll

Payroll for regular, transitory and designated officers. It also includes retentions for Social Security, Medicare and other statutory retentions

Payroll Related

It includes marginal benefits such as cellphones, accommodation expenses, Christmas and summer bonuses, incentives, liquidations of accumulated sick or vacation days. In brief, everything other than basic compensation given to an employee as remuneration for his/her services

Capital Expenses (CapEx)

Funds used to acquire or upgrade physical assets such as property, industrial buildings or equipment

Matching Funds (Federal Programs)

Funds related to a federally sponsored program

Debt Restructuring Expense

Expenses incurred as part of the debt negotiations, including the Oversight Board, legal, financial and technical services geared toward developing and implementing a Fiscal Plan

Debt Service Payments

Operating Expenses (OpEx)

Includes utilities, rent, equipment, marketing, professional services, insurance and any other miscellaneous expense incurred in operating the agency

Transfers to Municipalities or other entities (Transfers)

Aids, Donations and Scholarships

(1) The Type of Expenses are not listed in any specific order of priority



3 Financial Controls: Disbursement Authorization Group (“DAG”)

Review and provide decisions on daily cash disbursement activity

Composition

- DAG comprised of three individual members:
 - *Secretary of Treasury (or noted delegate)*
 - *Executive Director of AAFAF (or noted delegate)*
 - *Executive Director of OMB (or noted delegate)*
- “Real time” access to the DAG’s data
- Set a minimum available liquidity threshold and an alert-system
- Essential disbursements are automatically authorized for release by the Department of Treasury, subject to the defined minimum available liquidity threshold, as forecasted
 - *Any urgent payment requests for essential disbursements (as defined) that would otherwise breach the minimum liquidity threshold require DAG approval for execution*
- The DAG will act as the fiscal agent related to cash flow management for the Government. All other functions performed by the Department of Treasury and AAFAF remain unchanged

Guidelines

- A summary chart of disbursement categories and preliminary approval requirements are presented below, subject to change by a determination of the AAFAF

Disbursement Description:	Disbursement Amount	
	<=[\$100,000]	>[\$100,000]
Payroll and benefits	Hacienda	Hacienda
Pension	Hacienda	Hacienda
Safety	Hacienda	Hacienda
Health	Hacienda	Hacienda
Education (K-12)	Hacienda	Hacienda
Component Unit Appropriations	Hacienda	DAG
Supplier and Tax Refund Payments	Hacienda	DAG
Federal Funds	Hacienda	DAG
Other/Earmarked Funds	Hacienda	DAG
Debt	DAG	DAG
Disbursements that reduce cash below	DAG	DAG
Non-core disbursements	DAG	DAG

- It is assumed that certain disbursement categories will be subject to policy decisions as it relates to liquidity initiatives set forth by AAFAF

Implementation Timeframe:

- ✓ Pilot and Testing: April 15, 2017
- ✓ Launch: July 1, 2017



V. HIGH LEVEL IMPLEMENTATION PLAN

The Government is establishing a project management organization to effectively and efficiently implement the Fiscal Plan using best practices and tools from other jurisdictions

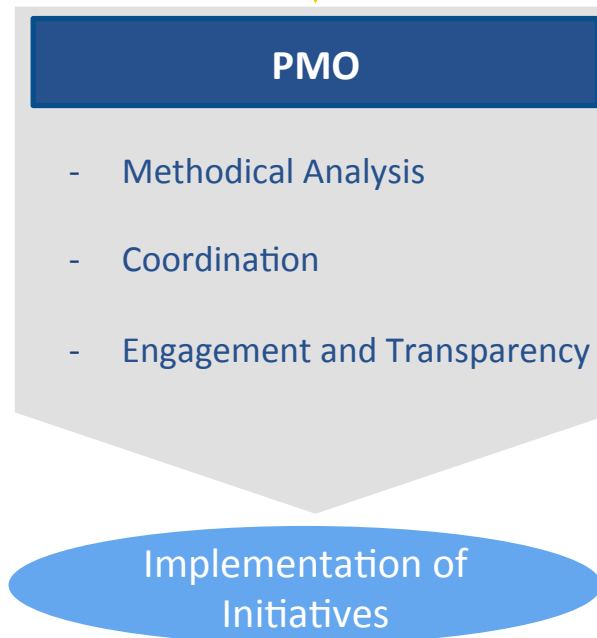
FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY



Description and Responsibilities:

Successful implementation of the Fiscal Plan will require

- Methodical analysis of policy, legal, regulatory and governance issues
- Clearly defined goals to be implemented according to timelines and significant coordination across a broad range of local and Federal stakeholders
- Ongoing public engagement, transparency measures and integrity controls



Accountability:

The PMO will also develop performance metrics to measure the progress and efficacy of fiscal reforms, debt restructuring and economic revitalization initiatives. Moreover, it will coordinate a number of important internal and external reporting obligations to be responsive to the Government, PROMESA and other Stakeholder requirements

The PMO structure that will be further organized into working groups populated with Government leaders, staff and external advisors, as needed, to carry out the necessary functions. In order to provide continuity and sustainability to the Fiscal Plan's implementation long-term success