GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

FISCAL PLAN

San Juan, Puerto Rico
February 28th, 2017

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I. EXECUTIVE SUMMARY

Puerto Rico's current situation

- Puerto Rico's fiscal and economic challenges are the result of an extended period of fiscal irresponsibility, ineffective leadership, lack of long-term economic planning and frequent changes that:
    i. closed Puerto Rico's access to the capital markets
    ii. degraded our credit into junk category for the first time in our history
    iii. exhausted our liquidity
    iv. provided zero visibility on public finances
    v. increased the cost of government
    vi. left billions in payments owed to private sector businesses
    vii. caused a downward economic spiral, alienating private investment
    viii. afforded no transparency to our citizens and the investment community about its management of taxpayer funds

- Following the enactment of the Puerto Rico Oversight Management and Economic Stability Act ("PROMESA") on June 30, 2016, the past administration also had the historic opportunity of preparing a certifiable fiscal plan to help redress the damage caused by its own actions
    i. Instead it disregarded its federal statutory obligation to revise such plan in a compliant manner
    ii. The end result was a deficient fiscal plan draft, as recognized by the Oversight Board in its letters of November 23, 2016 and thereafter, that only delayed Puerto Rico's path to fiscal recovery

- The past government's strategy with investors: confrontational and hostile attitude, lack of transparency (inability to produce credible financial information / audited financials), and disregard for the rule of law, set Puerto Rico in the wrong course

- The new administration took office on January 2, 2017, only 58 days ago. In that time period, the Oversight Board has asked that we prepare a ten (10) year fiscal plan to address a $67 billion budget gap over the next 10 years, pension reform and achieve the fiscal plan goals necessary to improve the quality of life of our citizens

The Fiscal Plan seeks to achieve fiscal solvency and long term economic growth

- Strategic imperatives of the Fiscal Plan
  1. Restoring credibility with all stakeholders through transparent, supportable financial information and honoring our obligations in accordance with the Constitution of Puerto Rico
  2. Reducing the complexity and inefficiency of government to deliver essential services in a cost-effective manner
  3. Implementing reforms to improve Puerto Rico’s competitiveness and reduce the cost of doing business
  4. Ensuring that economic development processes are effective and aligned to incentive the necessary investments to promote economic growth and job creation
  5. Protecting the most vulnerable segments of our society and transforming our public pensions system
  6. Consensually renegotiating and restructuring debt obligations through Title VI of PROMESA.
  7. Monitoring liquidity and managing anticipated shortfalls in current forecast; and
  8. Achieving fiscal balance by 2019 and maintaining fiscal stability with balanced budgets thereafter (through 2027 and beyond)

- The Fiscal Plan achieves its objectives through fiscal reform measures, strategic reform initiatives and financial control reforms:
  - i. Fiscal Reform Measures that reduce the 10-year financing gap by $33.3 billion through:
    - Revenue enhancements through tax reform and compliance enhancement strategies
    - Government right-sizing and subsidy reductions
    - Efficient delivery of healthcare services
    - Pension reform
  - ii. Structural Reform Initiatives that provide the tools to significantly increase Puerto Rico’s capacity to grow its economy
    - Improving ease of business activity
    - Capital efficiency
    - Energy Reform
  - iii. Financial Control Reforms through improvement of transparency, controls and accountability of budgeting, procurement and disbursement processes

The Fiscal Plan provides the first important step in re-establishing the dialogue between the government and bondholders

- The Fiscal Plan complies with the 14 statutory requirements established by PROMESA and the five principles established by the Oversight Board (Refer to "Legal Compliance with PROMESA" section)

- The Fiscal Plan sets the path to making available to the public and creditor constituents financial information that has been long overdue

- Upon the Oversight Board's certification of those fiscal plans it deems to be compliant with PROMESA, the Government and its advisors will promptly convene meetings with organized bondholder groups, insurers, union, local interest business groups, public advocacy groups and municipality representative leaders to discuss and answer all pertinent questions concerning the fiscal plan and to provide additional and necessary momentum as appropriate

- the stated intent and preference of the Government is to conduct "good-faith" negotiations with creditors to achieve restructuring "voluntary agreements" in the manner and method provided for under the provisions of Title VI of PROMESA

Fiscal Plan Requirements – Section 201(b) of PROMESA

We have complied with the requirements established under Section 201(b) of PROMESA for a fiscal plan that provides a method to achieve fiscal responsibility and access to the capital markets

Requirements	Status	References
Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan	✓	Section II – Financial Projections
Ensure the funding of essential public services	✓	Section VII – Financial Control Reform
Provide adequate funding for public pension systems	✓	Section III – Fiscal Reform Measures
Provide for the elimination of structural deficits	✓	Section III – Fiscal Reform Measures
For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable	✓	Section V – Debt Sustainability
Improve fiscal governance, accountability and internal controls	✓	Section VII – Financial Control Reform
Enable the achievement of fiscal targets	✓	Section III – Fiscal Reform Measures

Fiscal Plan Requirements – Section 201(b) of PROMESA

We have complied with the requirements established under Section 201(b) of PROMESA for a fiscal plan that provides a method to achieve fiscal responsibility and access to the capital markets

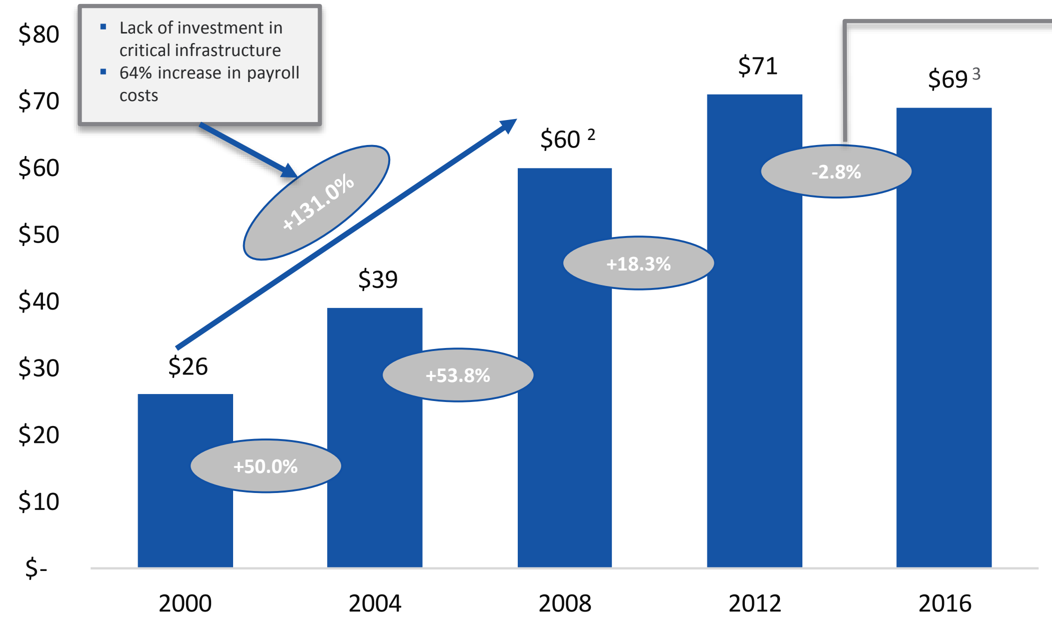
Requirements	Status	References
Create independent forecasts of revenue for the period covered by the fiscal plan	✓	Section II – Financial Projections
Include a debt sustainability analysis	✓	Section V – Debt Sustainability
Provide for capital expenditures and investments necessary to promote economic growth	✓	Section IV – Structural Reforms
Adopt appropriate recommendations submitted by the Oversight Board	✓	May be amended or supplemented
Include such additional information as the Oversight Board deems necessary	✓	May be amended or supplemented
Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted	✓	Ongoing
Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA	✓	Ongoing

II. BACKGROUND

The capacity to issue more debt postponed the implementation of the fiscal reforms and controls necessary to balance the government's budget

- Puerto Rico's fiscal and economic challenges are the result of extended periods of fiscal irresponsibility, ineffective leadership, lack of long-term economic planning, frequent changes in practices and policies, and a failed colonial political status
- The increase in public spending between 2000 and 2008 led to a recurrent practice of deficit financings, resulting in a 131% growth in public debt during the period

Public Debt Growth Since 2000[1]
($ in billions, calendar years)



- Lack of investment in critical infrastructure
- 64% increase in payroll costs

- Ratings downgraded to junk
- Loss of market access / Inability to issue short/long term debt
- Enactment of unconstitutional local bankruptcy regime
- Hostile stance vs investment community and rating agencies
- Widespread defaults
- Disregard for the rule of law

Source: Commonwealth Financial Information and Operating Report; GDB TOMIS Report

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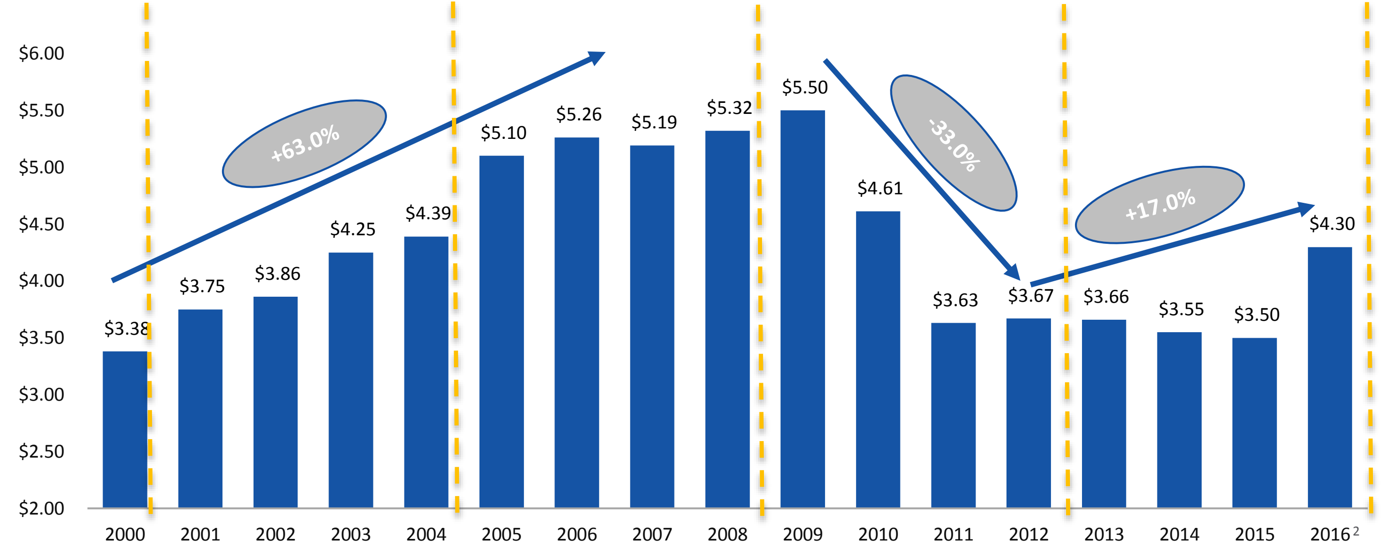
1 Excludes GDB notes. FY2016 is as of September 2016. Does not include unpaid principal and interest.
2 Includes $4.2bn in loans without sources of repayment, accounts payable and budget deficit of FY2008-2009 financed through COFINA during the second half of FY2009
3 Does not include TRANs that are otherwise included in the prior years. Further, as a result of the loss of market access and its investment grade rating, Puerto Rico had no ability to borrow, hence the slight reduction in public debt outstanding.

Puerto Rico's current crisis is the result of a failed economic and political model

- Beginning in 2001, a lack of forward-looking planning on the economic development front and irresponsible fiscal policies led to the collapse of the public financial system
- From FY200o and FY2009 payroll costs increased by 63%

Growth of Government Payroll Costs (1)
($ in billions)



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1 Source: Government Financial Information and Operating Data Reports (various years) and Government Comprehensive Annual Financial Reports and Office of Management and Budget
2 Fiscal Year 2016 approved budget. Actual expenses are not available yet

Consistently publishing audited financial statements with significant delays eroded Puerto Rico's credibility with the market

Transparency and Credibility Halted

Last **Audited** Financial Statement:

FY 2013-2014

Government's financial information was not made public in timely manner and subject to NDAs between 2014-2016

- *Access to detailed, accurate, and up to date information is needed to properly execute a transparent and consensual negotiation process*
- *SEC Rule 15c2-12 requires disclosure of audited financial information within 305 days of each fiscal year*

No credible financial information

Audited Financial Statements Published

Fiscal Years[1]	Days Lag[2]	Days Late
2015-2016	243	0
2014-2015	609	304
2013-2014	596	291
2012-2013	365	60
2011-2012	443	138
2010-2011	302	0
2009-2010	301	0
2008-2009	479	174
2007-2008	408	103
2006-2007	351	46
2005-2006	397	92
2004-2005	257	0
2003-2004	282	0
2002-2003	345	40
2001-2002	304	0

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[1] Government Development Bank, www.bgfpr.com/investors_resources/commonwealth-cafr.html

[2] Number of days after end of fiscal year when audited financial statements are published

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

- Strong credit rating
- Stable outlook
- Growing economy
- Market access
- Credibility

- Trend of excessive expenditures begins
- Deficit financings
- Weakening economy

- Multiple notch downgrade
- Deteriorating general fund
- Large deficit financings
- Material decline in GDB liquidity
- Weakening economy

- Government shutdown
- Economic contraction accelerates
- Persistent structural deficits
- Weak expenditure controls

- GDB: $500mm dividend and $500mm loan for Special Communities Trust

- Positive Outlook: significant expenditure controls and revenue enhancements
- Moody's upgrade from Baa3 to A3 – highest in 35 years

- S&P upgrade (first in 28 years)
- S&P acknowledged political status as a limiting factor for better rating
- S&P highlights progress towards fiscal stability

- Negative outlook due to challenging economic and fiscal environment
- Readily-available market access
- Infrastructure private investment (P3s)
- Adequate liquidity

- Downgrade due to structural fiscal imbalance
- Economic weakness
- Defiant attitude adopted towards investment community

- Enactment of local bankruptcy act
- Engagement of restructuring advisors
- Market access lost

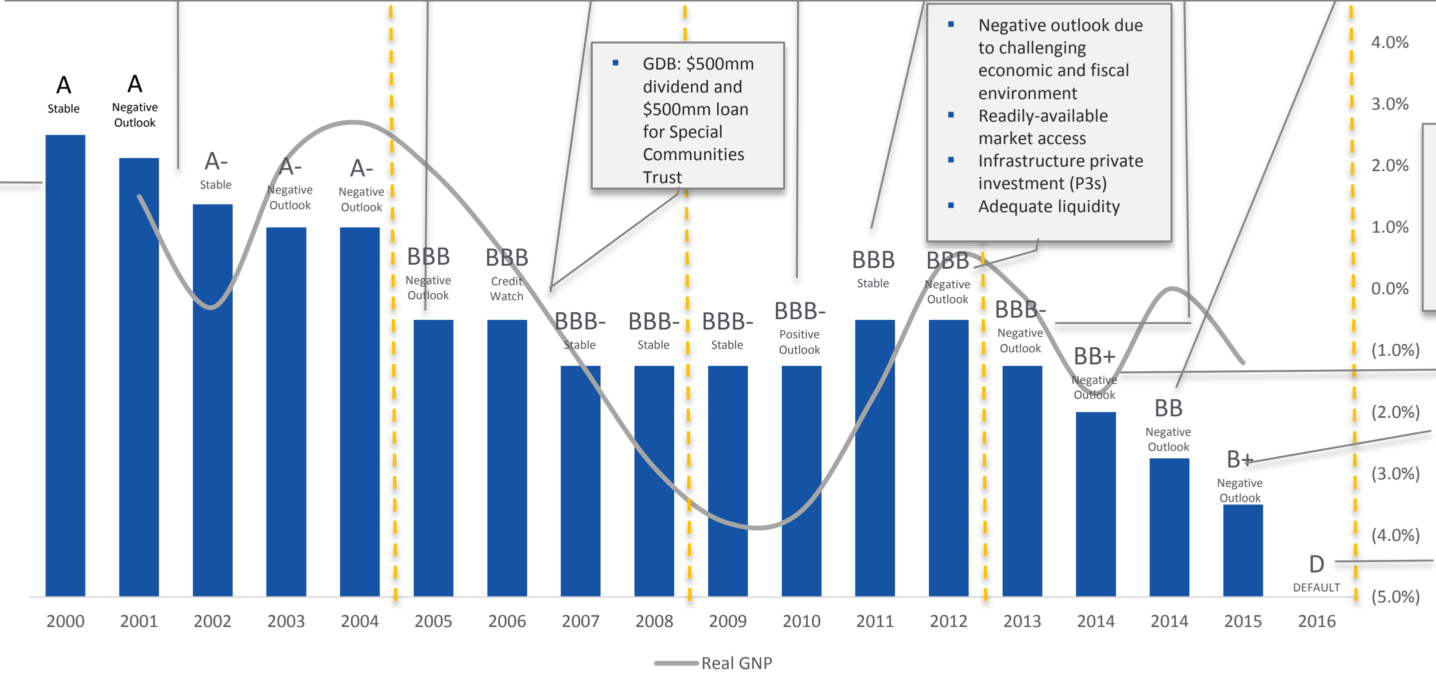
- First time in PR history credit reaches junk status
- Liquidity concerns
- Loss of readily available market access

- Governor declared debt not payable

- Widespread Defaults

Puerto Rico's Credit Rating – 2000 to 2016 (1)

S&P Rating on General Obligation Bonds



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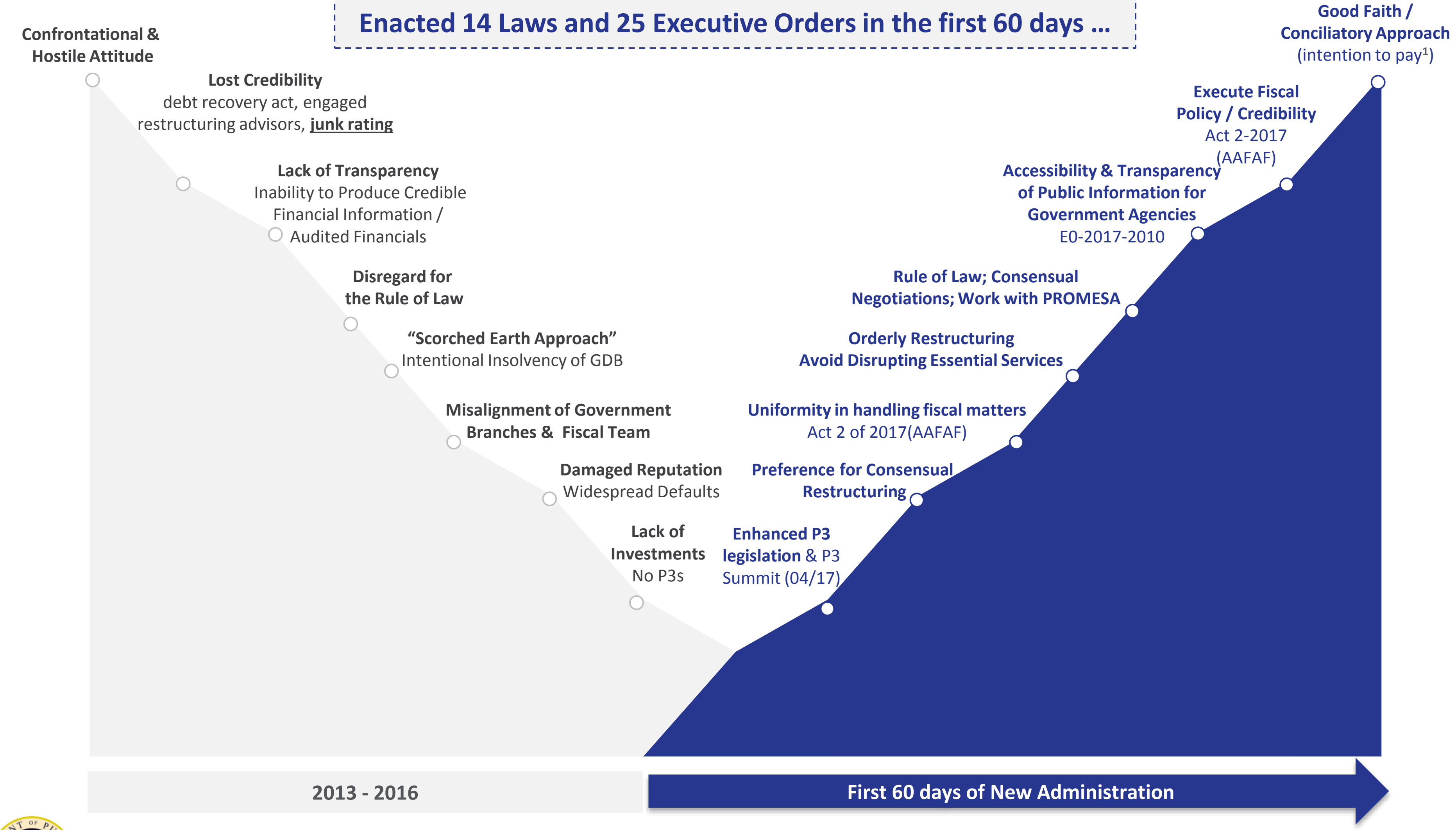
1 Source: Standard & Poor's and Moody's Investors Service Ratings report

Changing Our Ways: A New Era for Puerto Rico

Enacted 14 Laws and 25 Executive Orders in the first 60 days …



Confrontational & Hostile Attitude

Lost Credibility
debt recovery act, engaged restructuring advisors, **junk rating**

Lack of Transparency
Inability to Produce Credible Financial Information / Audited Financials

Disregard for the Rule of Law

“Scorched Earth Approach”
Intentional Insolvency of GDB

Misalignment of Government Branches & Fiscal Team

Damaged Reputation
Widespread Defaults

Lack of Investments
No P3s

Enhanced P3 legislation & P3 Summit (04/17)

Preference for Consensual Restructuring

Uniformity in handling fiscal matters
Act 2 of 2017(AAFAF)

Orderly Restructuring
Avoid Disrupting Essential Services

Rule of Law; Consensual Negotiations; Work with PROMESA

Accessibility & Transparency of Public Information for Government Agencies
E0-2017-2010

Execute Fiscal Policy / Credibility
Act 2-2017 (AAFAF)

Good Faith / Conciliatory Approach
(intention to pay[1])

2013 - 2016

First 60 days of New Administration

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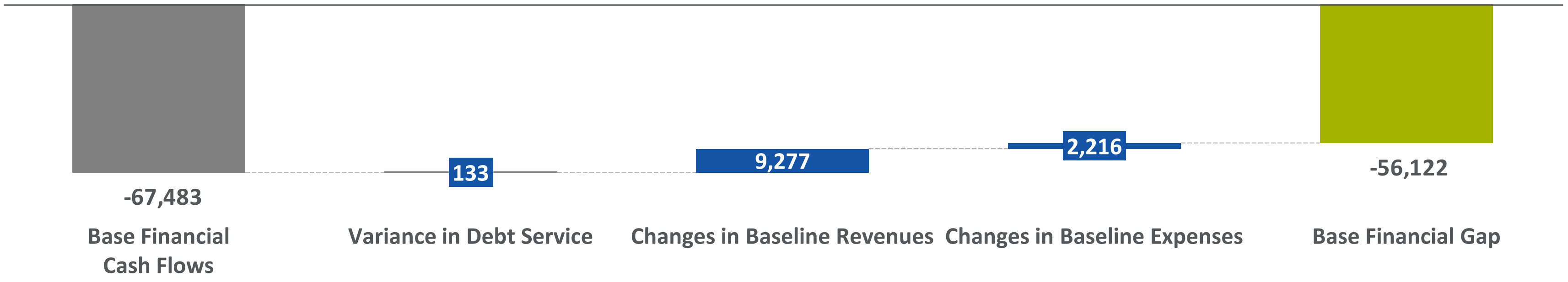
1) Reorg-Research, February 9, 2017, “Rosselló Announces GO Payment, New Trust for Clawback Funds”

III. FINANCIAL PROJECTIONS

December’s revised base financing gap of $67.5B decreased to $55.2B, mainly driven by changes in GNP growth projections

- The difference is comprised primarily of:
  - Revised estimate of debt service, decrease of $133MM
  - Positive net impact on cash flows available for debt service, pre-Measures of $11.5B:
    - Increased total Revenues of $9.3B, mainly driven by changes in GNP Projections. Specifically, FY2018 varies from -1.6% GNP growth in the current plan vs. -17.1% for December’s Revised Baseline
    - Decreased Expenses of $2.2B

Projections ($MM)



GNP Growth Projections

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current Fiscal Plan	(1.6%)	(1.6%)	(2.2%)	0.8%	1.3%	1.8%	2.3%	2.2%	2.1%	2.7%
December Revised Baseline	(2.4%)	(17.1%)	(2.3%)	4.0%	3.2%	3.5%	0.7%	0.1%	0.1%	0.1%

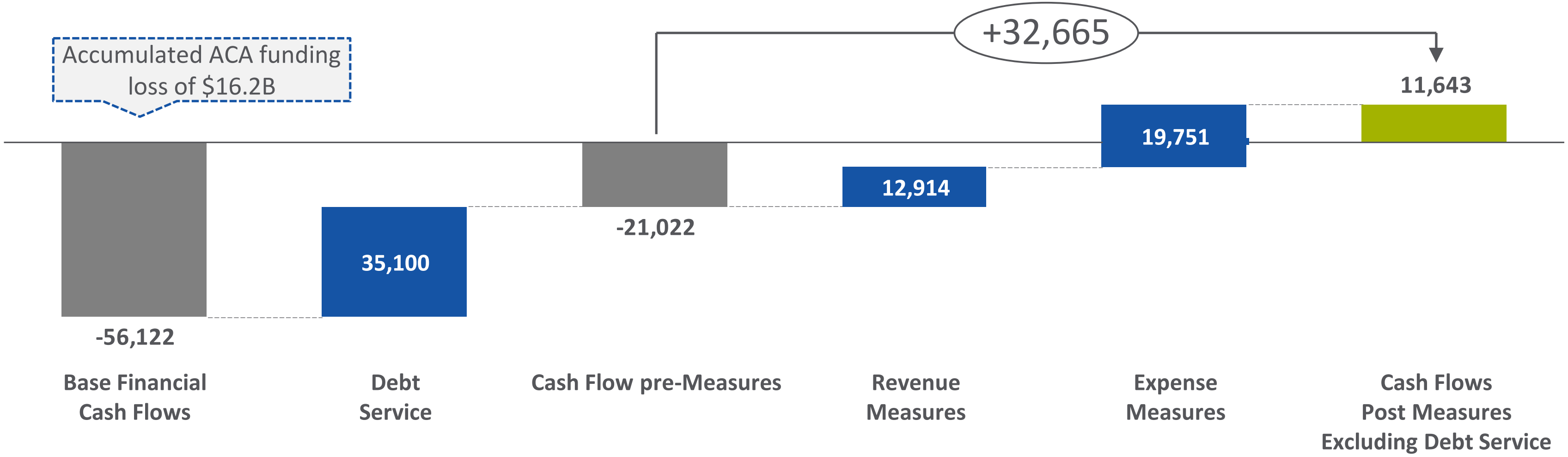
GNP growth assumptions for the December revised baseline projected dramatic negative real growth for 10 years, going way beyond negative growth results for the past decade. This suggests that the Government’s policies going forward will have little to no effect on growth.

The Government will undertake fiscal measures that will reduce the financing gap by $32.7B, and create a 10 year cash flow surplus of $11.6B

- Based on the currently stated debt obligations, the 10-year financing gap is expected to reach $55.2B
  - ~$35.1B of expected principal and interest payments during forecast period

- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
  - Base financial gap of $56.1B which includes full cost of debt service and does not include the impact of revenue and expense measures
  - Revenue and expense measures of $12.9B and $19.8B[1]
    - Revenue Measures: Act 154 excise tax is extended that positively affects cash flows by $8.8B
    - Expense Measures: $17.8B of $19.8 (90%) due to Government right-sizing initiatives[2]

($MM)



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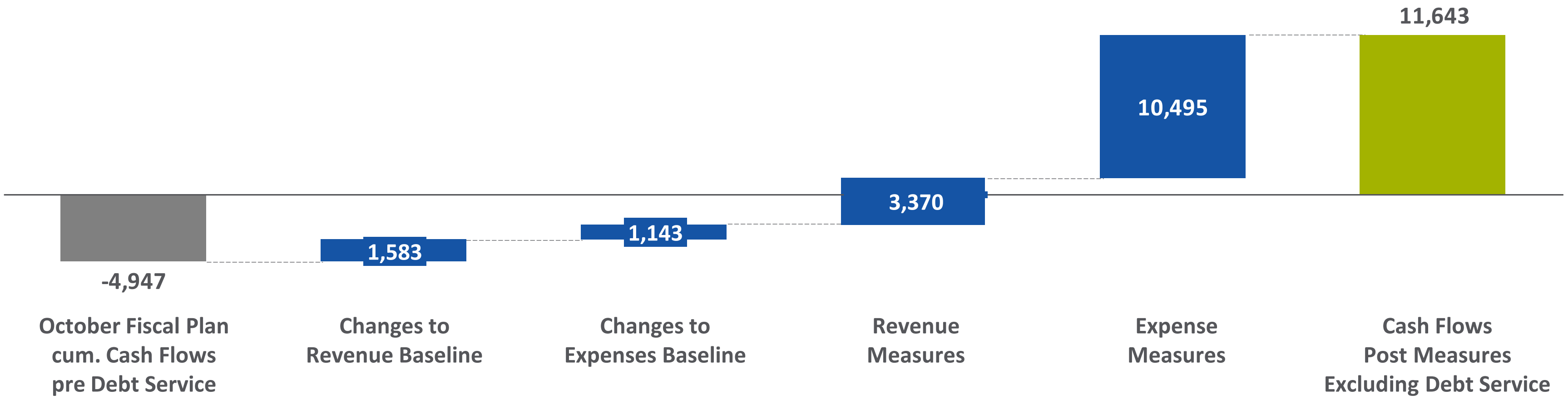
[1] See Section IV, Fiscal Reform Measures for full detail

[2] See Section IV(B)

The current fiscal plan is a significate departure from the version presented in October, as it commits to higher revenue and expense measures of $3.4B and $10.5B, respectively

- The October Fiscal Plan estimated negative cumulative cash flows pre-debt service over the projection period ('17-'26) of ($4.9B) vs. the Current Fiscal Plan projections estimating positive cumulative cash flows pre-debt service of $11.7B. The change is comprised primarily of:
  - Positive net impact on cash flows available for debt service, pre-Measures of $2.7B
    - Increased total revenues of $1.6B
    - Decreased expenses of $1.1B
  - Enhanced revenue measures of $3.4B
  - Additional savings from Expense Measures of $10.5B

($MM)



A summary of financials for the 10-year projection period shows positive cash flows post-measures, before debt service of $11.6B

($MM)

Fiscal year ending June 30,	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**'17 - '26 total**
Revenues before Measures [1]	**$18,952**	**$17,596**	**$16,514**	**$16,623**	**$16,799**	**$17,013**	**$17,255**	**$17,502**	**$17,746**	**$18,042**	**$174,040**
Noninterest Exp. before Measures [1]	**($17,542)**	**($18,496)**	**($18,671)**	**($18,875)**	**($19,255)**	**($19,705)**	**($20,017)**	**($20,358)**	**($20,935)**	**($21,209)**	**($195,063)**
Cash flows pre-Measures	**$1,410**	**($901)**	**($2,157)**	**($2,252)**	**($2,456)**	**($2,692)**	**($2,762)**	**($2,856)**	**($3,189)**	**($3,167)**	**($21,022)**
Measures											
Revenue measures	--	834	1,468	1,490	1,495	1,504	1,514	1,525	1,536	1,549	12,914
Expense measures	(262)	643	1,848	2,160	2,357	2,468	2,503	2,540	2,728	2,766	19,751
Net impact of measures	**(262)**	**1,477**	**3,315**	**3,650**	**3,852**	**3,972**	**4,017**	**4,066**	**4,264**	**4,315**	**32,666**
Cash flows post-Measures, before Debt Service	**$1,148**	**$576**	**$1,158**	**$1,398**	**$1,396**	**$1,280**	**$1,255**	**$1,209**	**$1,075**	**$1,148**	**$11,643**
ACA restored [2]	--	864	1,515	1,580	1,677	1,831	1,950	2,066	2,248	2,379	16,112
Illustrative: Cash flows post-Measures with ACA funding	**$1,148**	**$1,441**	**$2,673**	**$2,977**	**$3,073**	**$3,111**	**$3,206**	**$3,275**	**$3,323**	**$3,527**	**$27,755**

Cash flows post-measures, before debt service trends:

- FY 2017 estimate of $1.1B, declining to a low of $580MM in FY 2018, driven by GNP contraction and ERS Paygo contributions of $1.0B in FY 2018 (See Appendix Financial Projections – Expenses Excluding Debt Service)
- Forecast peaks at $1.4B in FY 2021 before declining to $1.2B by FY 2026. Decline is primarily driven by Affordable Care Act ("ACA") funding expiration that increase steadily from ~$0.9B in FY 2018 to ~$2.4B in FY 2026.
- The last row of the table above adds back ACA funding to illustrate how it removes the downward trend in cash flows post-measures after 2021

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[1] Full details in Appendix

[2] This addback is illustrative, and is not reflected in the amounts available for debt service elswhere in this Plan

FY2019 – Fiscal targets and balance available for debt service

$B		FOB Jan 18 Letter	Ⓐ	PRG Adj.		PRG Revision
Total Baseline Revenues		$15.4		$1.1		$16.5
Total Non-Debt Service Expenses	+	*-19.1*		*0.3*		*-18.8*
Primary Balance before Debt Service and Measures		**-3.7**				**-2.3**
Fiscal Measures						
Revenue Enhancement	+	*1.5*			Ⓑ	*1.5*
Government Right Sizing, Efficiency and Reduction	+	*1.5*			Ⓒ	*1.6*
Reducing Healthcare Spending	+	*1.0*			Ⓓ	*0.3*
Savings related to New Healthcare Model	+	*N/A*				*TBD*
Reducing Higher Education Spending	+	*0.3*				*N/A*
Pension Reform	+	*0.2*			Ⓔ	*0.1*
Primary Surplus After Measures Available for Debt Service		***$0.8***				***$1.2***
Affordable Care Act Funding	+	*Excluded*				*1.5*
Illustrative: Primary Surplus After Measures and ACA Funding Available		*$0.8*				*$2.7*

The Government (“PRG”) agrees with the magnitude of the problem presented in the December revised baseline projections, with some caveats (see item ‘A’). Thus, it is aligned with the necessary impact of Fiscal Measures

However, the PRG’s approach to addressing the Primary Balance Deficit before Debt Service differs from the Boards recommendation, especially when it comes to Reducing Healthcare Spending (see ítem ‘D’). The impact of these measures meets the mínimum target established by the Board in its January 18th letter to the PRG

Ⓐ Given the dramatic 17.25% nominal economic contraction projected for FY 2019 and another 2.29% contraction in FY 2019, the revised baseline projection assumes a dramatic reduction in tax revenue collections from current levels. Revised macroeconomic projections, aligned with PRG’s fiscal measures and structural reform package, yields a $1.1B adjustment. The $0.3B adjustment in expenses is due to reduced inflation figures applied to payroll

Ⓑ Considers 1.0 from Act 154 Extension, 0.3 from Internet Tax and POS SUT collection and 0.2 from enhanced tax compliance and 0.06 from fee increases

Ⓒ 0.85 – Externalization, Mobilization, and Service Integration approach to agency consolidation initiatives, which assumed 4% employee attrition.
0.45 – Subsidy reductions, (0.35 of which are municipal subsidy reductions)
0.3 – Reduction in Higher Education Spending

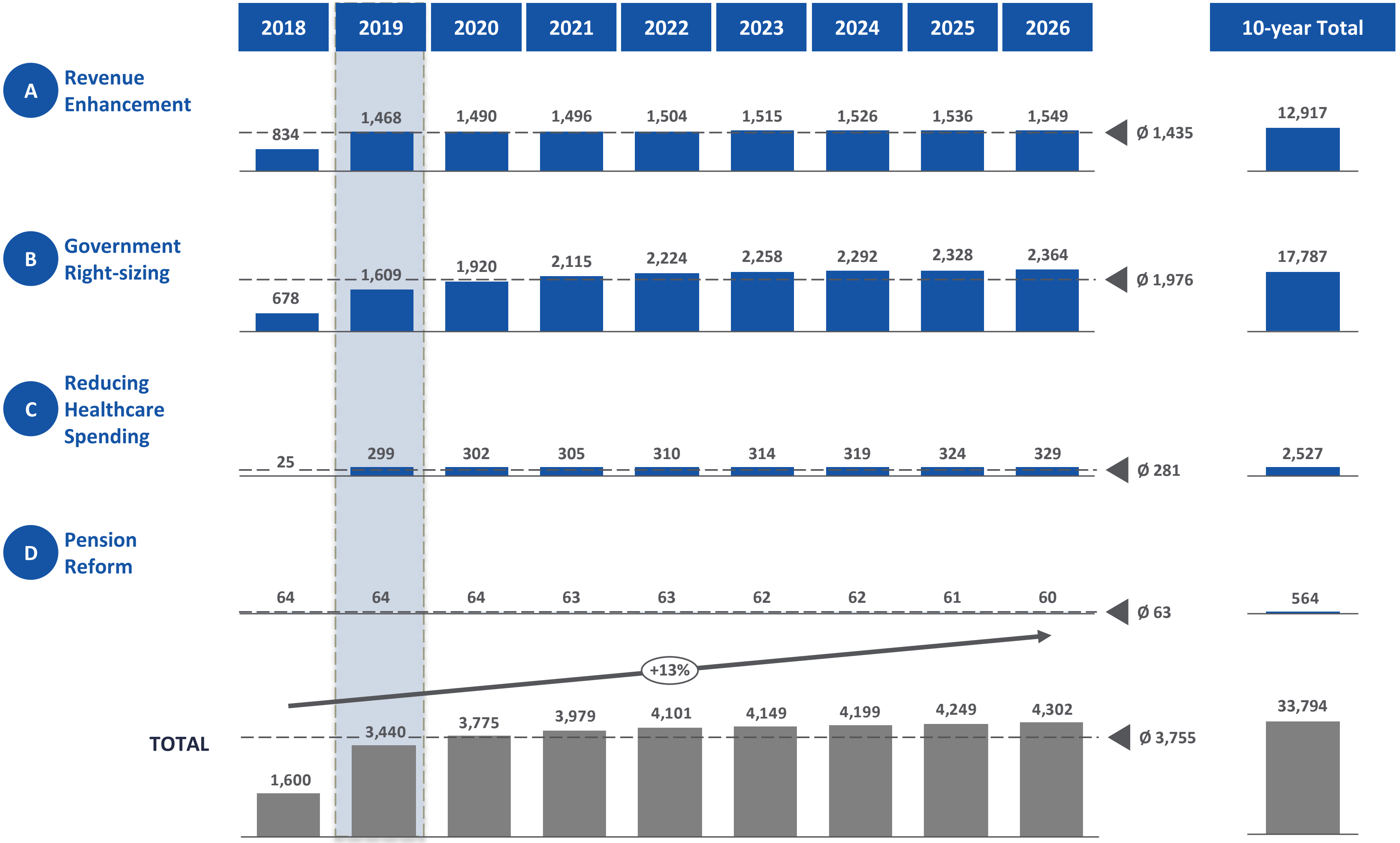
Ⓓ Considers no ACA Funding for FY 2019. Rather than cutting a significant portion of the Healthcare System's Budget as an offsetting measure, the Government vision is replacing the current regionalized service delivery model for an island-wide model.. The PRG’s stance is that proposed cuts would force massive emigration from the island, exacerbating its economic downturn. ASES is currently refining their analyses around this MCO revamp

Ⓔ It is the PRG’s position benefit cuts will only be considered excluding the lease vulnerable. A tax regime for pensions above $2,000/month is expected to yield $89MM

IV. FISCAL REFORM MEASURES

Fiscal reform measures reduce the 10-year financing gap by $33.8B

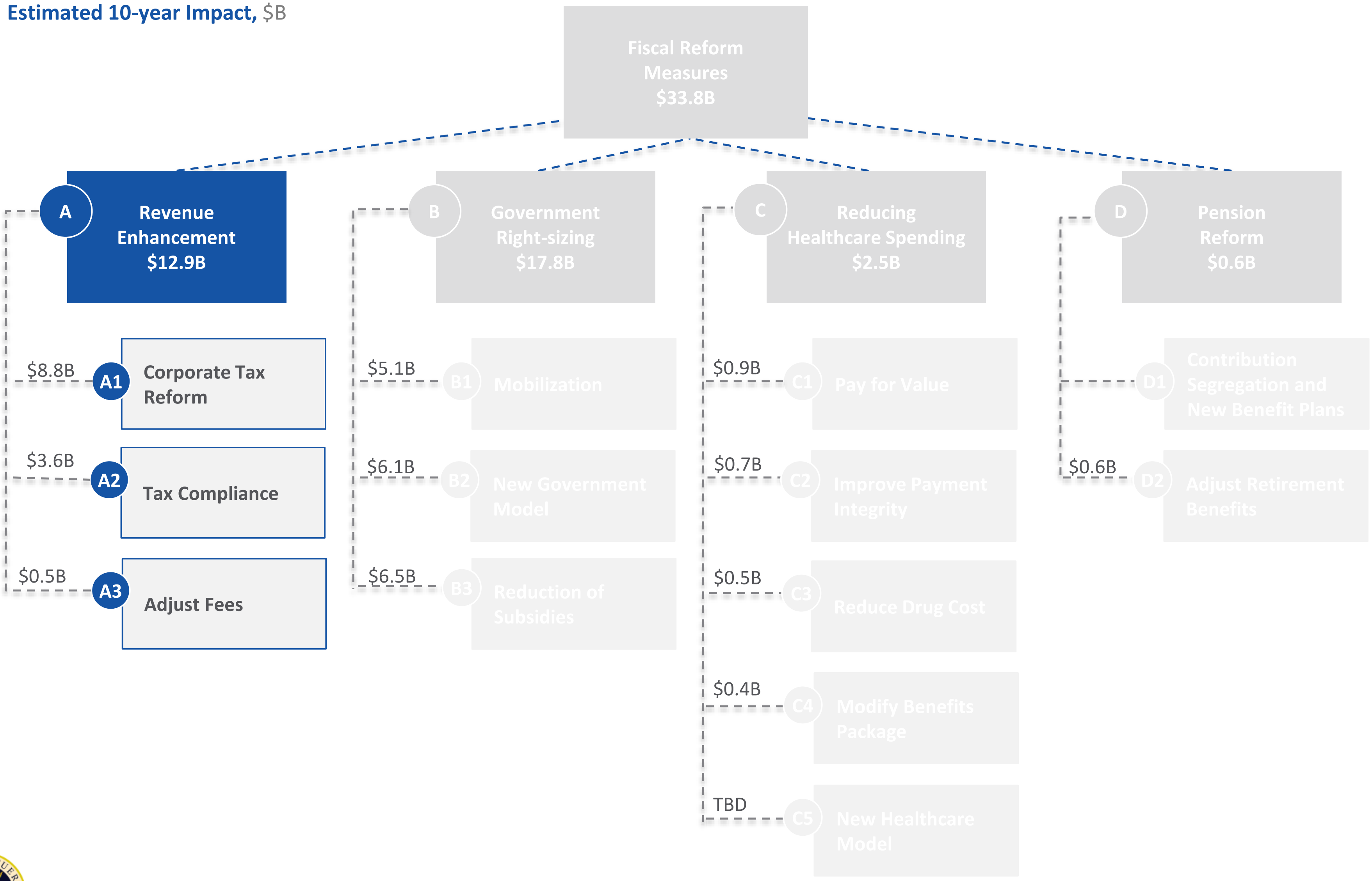
Estimated Impact, $MM



Note: Values may not add up due to rounding

Revenue enhancements measures reduce the 10-year financing gap by $12.9B

Estimated 10-year Impact, $B



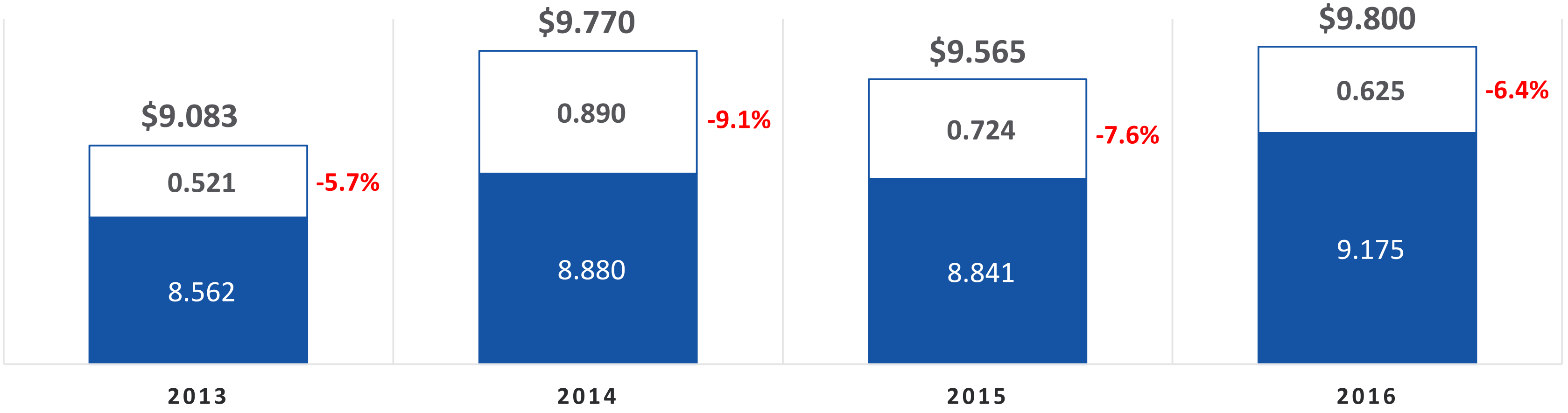
Fiscal Reform Measures $33.8B

- **A** Revenue Enhancement $12.9B
  - $8.8B **A1** Corporate Tax Reform
  - $3.6B **A2** Tax Compliance
  - $0.5B **A3** Adjust Fees
- **B** Government Right-sizing $17.8B
  - $5.1B **B1** Mobilization
  - $6.1B **B2** New Government Model
  - $6.5B **B3** Reduction of Subsidies
- **C** Reducing Healthcare Spending $2.5B
  - $0.9B **C1** Pay for Value
  - $0.7B **C2** Improve Payment Integrity
  - $0.5B **C3** Reduce Drug Cost
  - $0.4B **C4** Modify Benefits Package
  - TBD **C5** New Healthcare Model
- **D** Pension Reform $0.6B
  - **D1** Contribution Segregation and New Benefit Plans
  - $0.6B **D2** Adjust Retirement Benefits

Note: Values may not add up due to rounding

During the past 4 years, the Government of PR has overestimated its revenues by approximately 7% annually

General Fund Revenues, Budget vs. Actual $B



Budget 2013

- Fiscal year 2013 revenues included (i) approximately $8.131 billion of operating revenues, (ii) approx. $63 million of revenues from the electronic and traditional lotteries (approximately $24 million which were non-cash) transferred to the General Fund, (iii) approximately $242 million of excess collateral received on derivative transactions transferred from the Debt Service Fund and (vi) approximately $126 million of excess funds transferred from COFINA after payment of COFINA debt service

Budget 2014

- General Fund revenues on a budgetary basis for fiscal year 2014 were approximately $8.880 billion, an increase of approximately $318 million or 3.7% over fiscal year 2013. These revenues include: (i) General Fund budgetary operating revenues of approximately $8.726 billion (net of actual income tax refunds paid in excess of reserve) and (ii) revenues from the electronic and traditional lotteries of approximately $154 million (approximately $82 million which were non-cash) transferred to the General Fund

Budget 2015

- Preliminary General Fund revenues on a budgetary basis for fiscal year 2015 were approximately $8.841 billion. Preliminary collections of the special temporary excise tax under Act 154 were approximately $1.920 billion, an increase of approximately $18 million from the prior fiscal year. Preliminary collections of individual income taxes were approximately $2.157 billion, an increase of approximately $324 million over the prior fiscal year. Preliminary collections of corporate income taxes were $1.852 billion, $62 million lower than the prior fiscal year

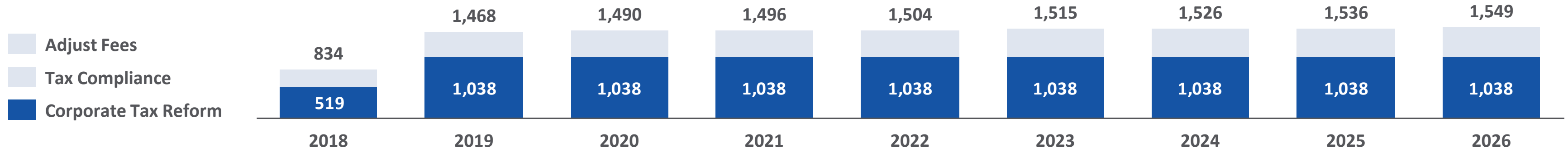
Budget 2016

- Preliminary General Fund revenues on a budgetary basis for fiscal year 2016 were approximately $9.175 billion. Revenues from the special temporary excise tax under Act 154 were approximately $1.876 billion, a decrease of approximately $44 million from the prior fiscal year. Revenues from individual income taxes were approximately $2.021 billion, a decrease of approximately $136 million from the prior fiscal year. Revenues from corporate income taxes were $1.647 billion, approximately $205 million lower than the prior fiscal year

Source: Commonwealth Report 2016

Through structural reforms the Government will stabilize and enhance corporate tax revenues

Revenue Enhancement Measures, $MM



Reform Measures

A1 Corporate Tax Reform

A2 Tax Compliance

A3 Adjust Fees

Current State

- The corporate tax regime lacks simplicity and stability due to a history of “bolt-on” taxes driving a high degree of uncertainty and hindering investment
- Receipts from Act 154 excise taxes represent approximately 21% of General Fund revenues
- Act 154 excise tax was set to expire in December 31, 2017 and was to be replaced by a “Modified Source Income Rule” tax
- The Government recently passed an extension to the Act 154 excise tax for 10 years

Specific Initiatives

The substitute for the excise tax under ACT 154 by the PR government consistent with the requirements of §901 of the IRC will include the following alternatives or a combination thereof:

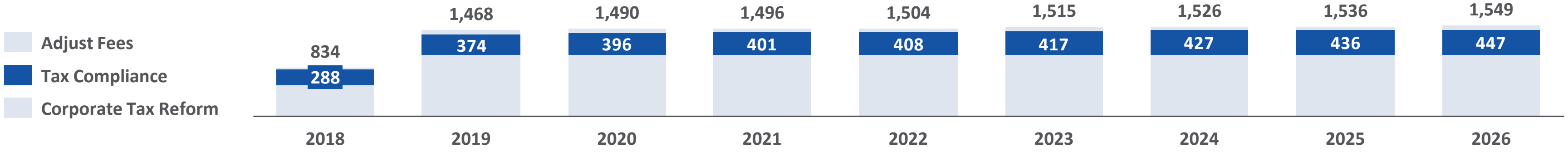
- A modified version of the effectively connected income source rule; or
- Increase income tax rate on exempted income
- Income tax withholding on imputed royalty or cost allocation payments
- A withholding income tax on profit distributions
- The substitute tax must be in harmony with the proposed changes to the US Code applicable to US multinationals operating in Puerto Rico.

2019 Impact of Measures **$1.04B**

Cumulative Impact of Measures **$8.8B**

Hacienda will embark in a multi-year transformation process to reduce leakage and improve revenue collections

Revenue Enhancement Measures, $MM



Reform Measures

- A1 Corporate Tax Reform
- **A2 Tax Compliance**
- A3 Adjust Fees

Current State

- Tax system has been plagued for years with high rates of informality and non-compliance
- Limited use of technology/analytics hinder Hacienda's ability to detect evaders efficiently
- Insufficient number of auditors and ad hoc auditing processes
- Hacienda currently has 174 auditors and, through the Single Employer Act, Hacienda is bringing in an additional 200-300 collections staff from different parts of government to centralize collections, and increase capacity and efficiencies

Specific Initiatives

- Create an award based whistleblower office to improve compliance and reduce "Lack of Fear"
- Deploy internet sales tax collections through economic and affiliate nexus instead of consumer self reporting
- Implement point of sale (POS) SUT tax collections
- Detect non-compliance at scale using advanced analytics
- Develop capabilities to significantly expand capacity to address identified non-compliance through correspondence audits, targeted notices, and other methods
- Deploy lean operations toolkit to increase auditor and institutional capacity

2019 Impact of Measures $0.37B

Cumulative Impact of Measures $3.6B

Most states have already passed or proposed legislation to collect taxes on internet purchases; this initiative will provide a level playing field for local businesses

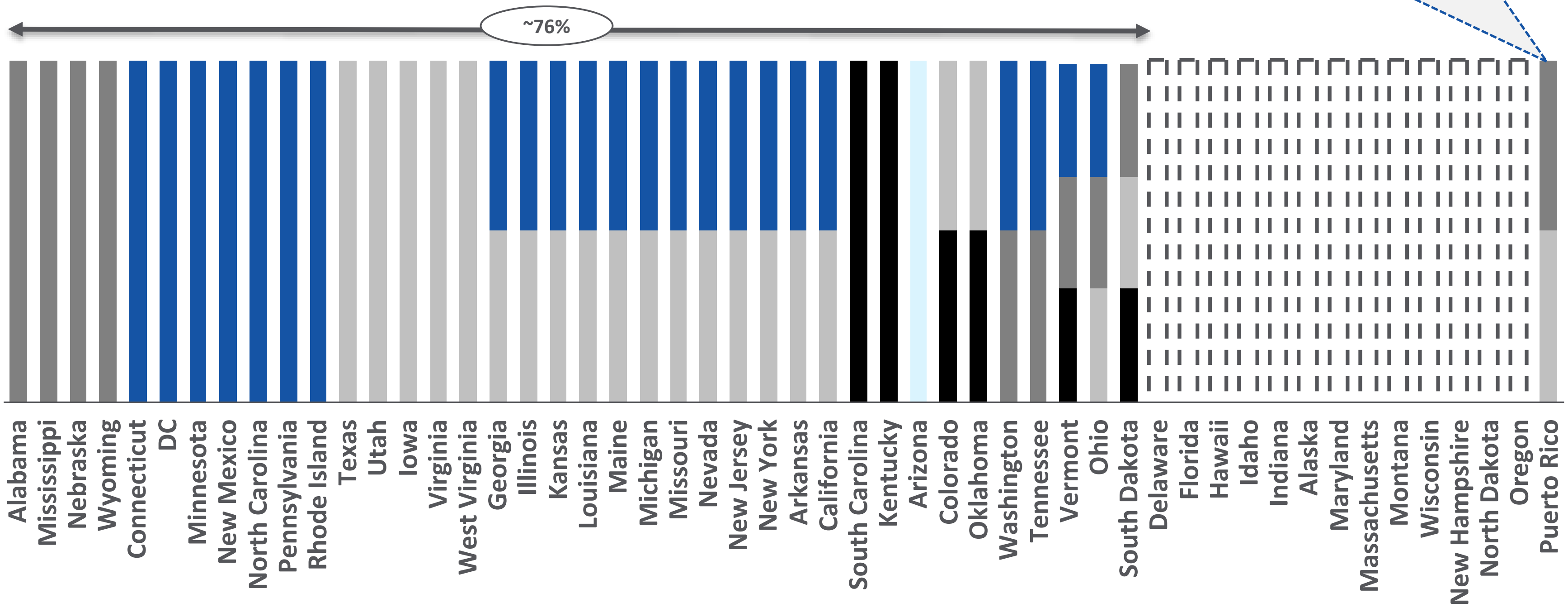
State Actions

- 🟦 **Click-Through Nexus**
- ▩ **Economic Nexus**
- ▨ **Affiliate Nexus**
- ■ **Reporting**
- ◻ **Other**
- ⬚ **None**

- **Click Through** refers to a nexus created via an affiliate in the state that links to another "out-of-state" business via an affiliate program. When they send sales your way, you give them a small cut of the profits. That creates a click-through nexus and now owe sales tax to that state
- **Economic nexus** refers to the dollar amount spent by a consumer at a business. There is a threshold amount attached to it to derive the nexus point. Each state creates different thresholds.
- **Reporting** refers to when a state enacts a reporting mandate to business selling to the state.

Internet sales in Puerto Rico average around $2 billion a year

With economic and affiliate nexus, internet sales tax would yield **$65MM** by FY 2019, assuming an incremental capture rate during the first 3 years until reaching the average 40%



Source:taxjar.com

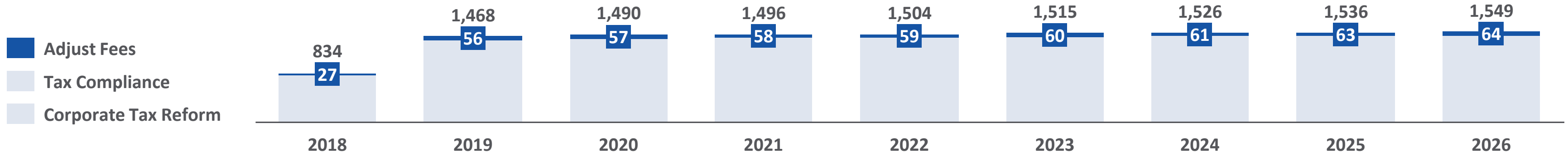
Reducing leakage and improving revenue collections is expected to have an annual impact of at least $0.2B by 2019

Key initiatives identified → **Critical next steps**

	Levers	Key initiatives identified	Critical next steps
System Improvements / Analytics	Advance analytics	**Implementing SURI**: GenTax integrated tax system to automate intake, workflows, and management of core tax processes Rolling out in Oct for SUT; income tax next **Incorporating external data** (e.g.,PREPA) to identify mismatches between expected spend and reported income to target enforcement	Identify and **complete 3rd party data sharing agreements and integration** **Create algorithms** to identify key revenue opportunities Create change program to **train auditors** on how to use new software and incorporate into way of working
Process	Targeted interventions on smaller cases	**Initial planning to move away from solely doing full audits** to a mix full audits, partial audits and sending assessments Aspiration to go from 0.3% coverage only using full audits to 0.2% full audits + 0.5% partial audits / assessments Using **more flexible payment options** to avoid bankruptcies and improve collections	**Scale up aspirations for coverage** (e.g., IRS is 1-1.5% for full audits and ~8% for lighter forms of treatment) **Determine key issues** to target for assessments Conduct **pilot campaign**, **using specialized delivery unit** if helpful
	Large corporate unit	**Create large taxpayer corporate unit**	**Identify strategy and population of taxpayers to be covered**
	Lean operations	Currently have 174 auditors, **bringing in additional 200-300 collections staff from different parts of government to centralize collections**, and increase capacity and efficiencies	**Conduct in-depth diagnostic of examinations and audit and collections processes** to identify specific levers to substantially increase capacity and quality of audit of collections operations

Revise fees and charges for services to keep up with market trends

Revenue Enhancement Measures, $MM



Reform Measures

A1 Corporate Tax Reform

A2 Tax Compliance

A3 Adjust Fees

Current State

- Puerto Rico ranks #12 in the World in number of vehicles per capita (64 motor vehicles per 100 citizens)
- Revenues for motor vehicle licenses as well as regulatory licenses issued by the Commissioner of Financial Institutions are growing 6% annually primarily driven by finance and health related license growth
- Traffic fines average growth rate of 13% for the past 5 years is primarily driven by collection efforts
- PR's Automobile Accident Compensation Administration (AACA) $35 insurance premium has remained unchanged since its inception
- Other miscellaneous permits, charges for services and royalties represent $68MM in annual revenues

Specific Initiatives

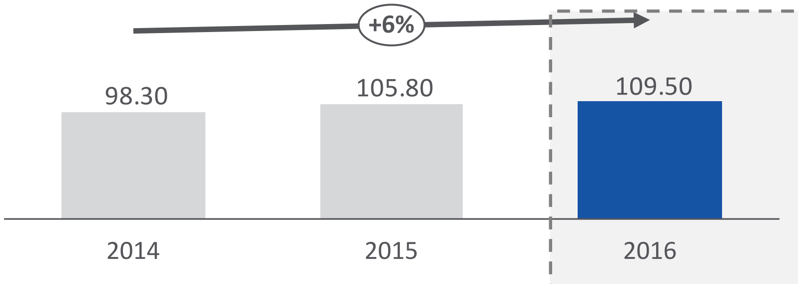
- Increase motor vehicle license fees by 10%
- Increase insurance fees by 5%
- Increase traffic fines fees by 10%
- Increase other miscellaneous permits, charges and royalties by 10%

2019 Impact of Measures **$0.06B**

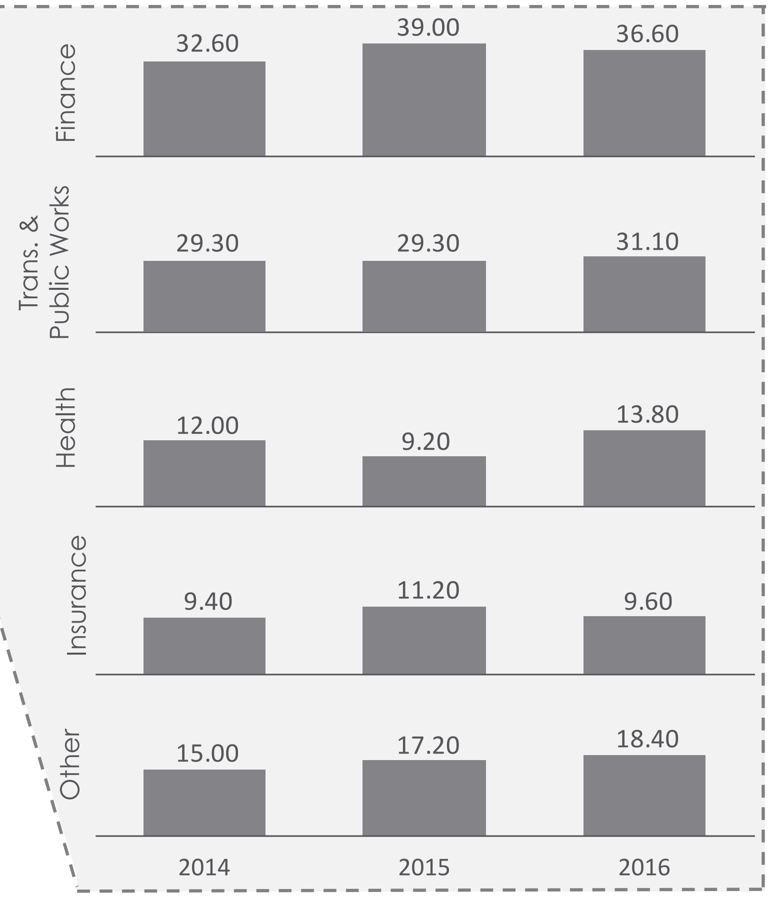
Cumulative Impact of Measures **$0.5B**

License revenue increasing 6% annually primarily driven by finance and health related license growth

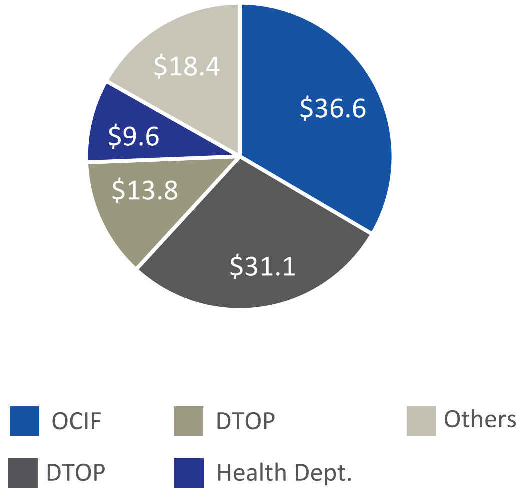
License Revenues, $MM per year



License Revenue by Agency, $MM per year

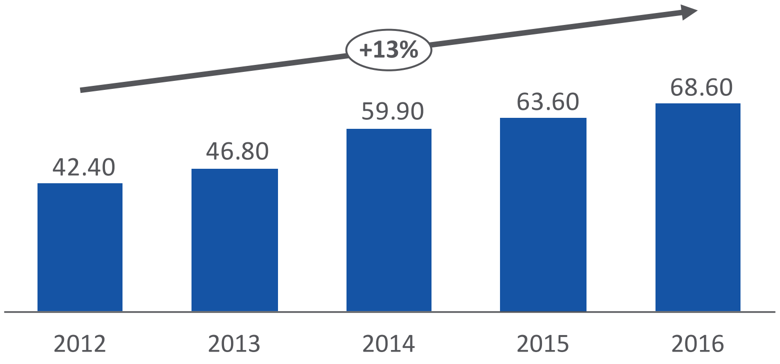


License Revenues by Agency FY16, $109.5MM

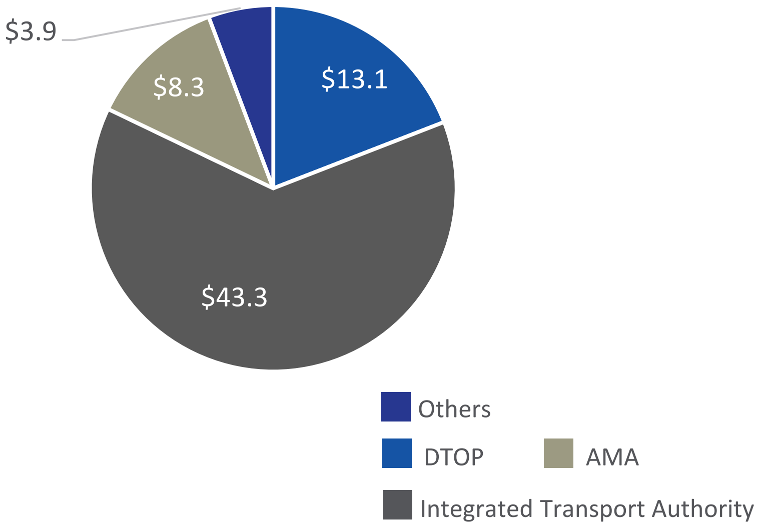


Fine revenue growing 13% annually primarily driven by increased fine collections

Fine Revenue, $MM per year



Fine Revenue by Agency FY16, $68.6MM



Overview

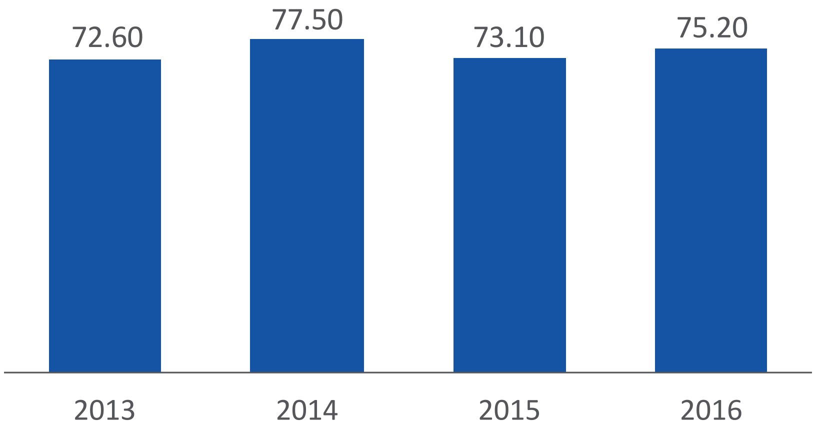
- The majority of these fines relate to the fines owed and paid by citizens at the beginning of the year when registering their motor vehicle
- Traffic Fines vary by territory but are generally the following:
  - ✓ Parking: $25-$50
  - ✓ Speeding: $50 + $5 for every 2MPH over the limit
  - ✓ Avg. speeding ticket in the rest of the U.S. is ~$125
  - ✓ 1st time DUI: $500
  - ✓ Driving without a license: $100
- In the U.S., a 10% decrease in economic growth leads to an average 6.5% increase in # of tickets issued

Insurance premium prices have not increased since 1968

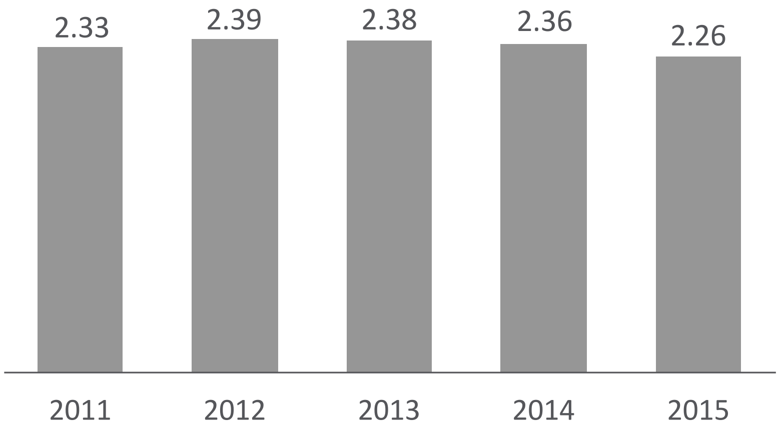
The Automobile Accidents Compensations Administrations (AACA) was established in 1968 to provide death, disability and health benefits for victims of automobile accidents

- $35 premium has remained unchanged since its inception 48 years ago
- A 2% annual increase would had resulted in a $92 premium in 2017
- In 2014, AACA instituted a 5% service fee on premiums collected
- Puerto Rico ranks #12 in the World in # of vehicles per capita (64 motor vehicles per 100 citizens)

Insurance Revenues, $MM per year



# of Covered Vehicles, MM per year

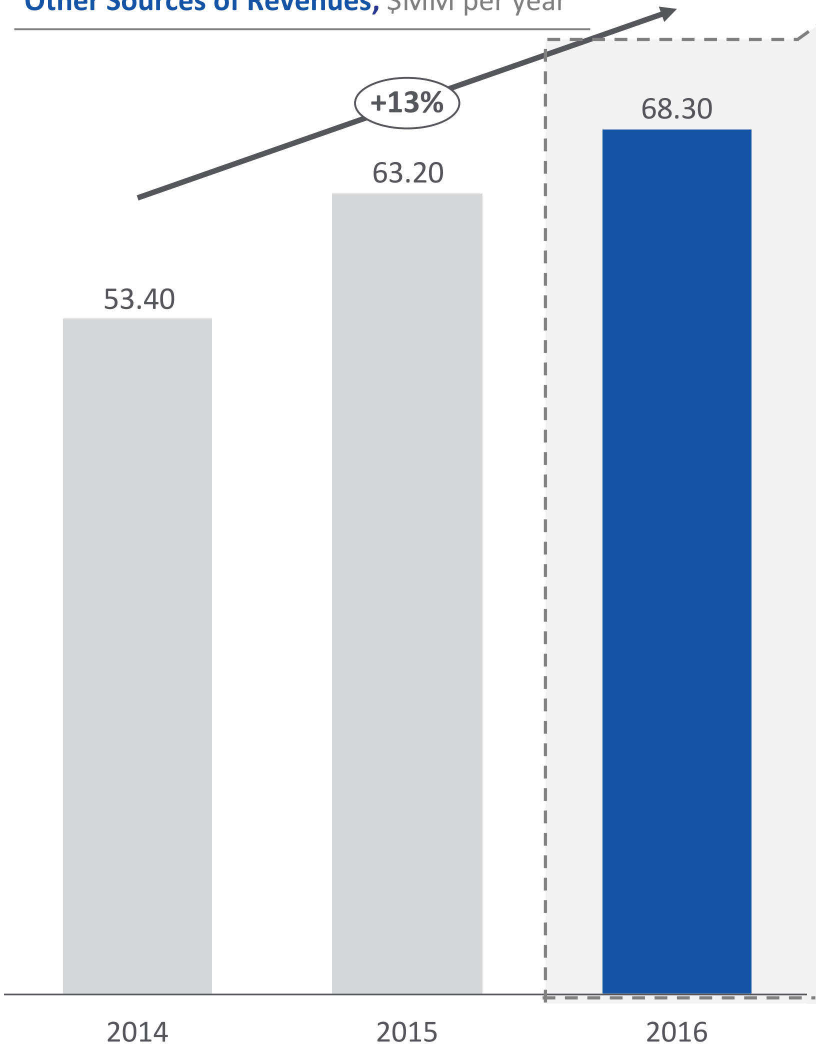


Historical Trend: AACA revenue has been fairly stable over time

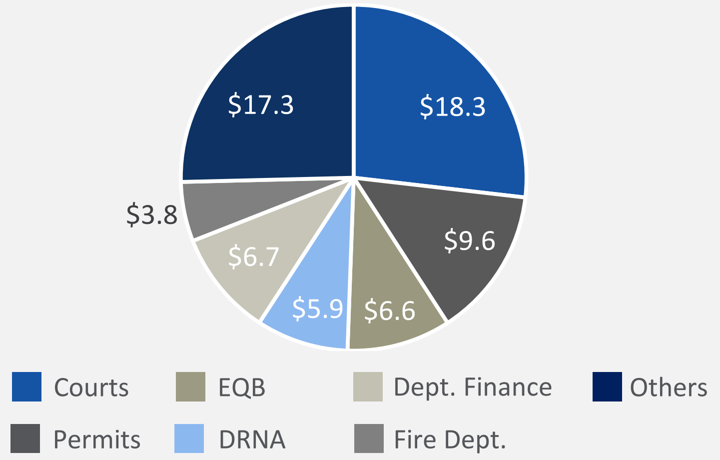
Main Drivers: # of Covered Vehicles

Other miscellaneous permits, charges for services and royalties represent $68MM in annual revenues

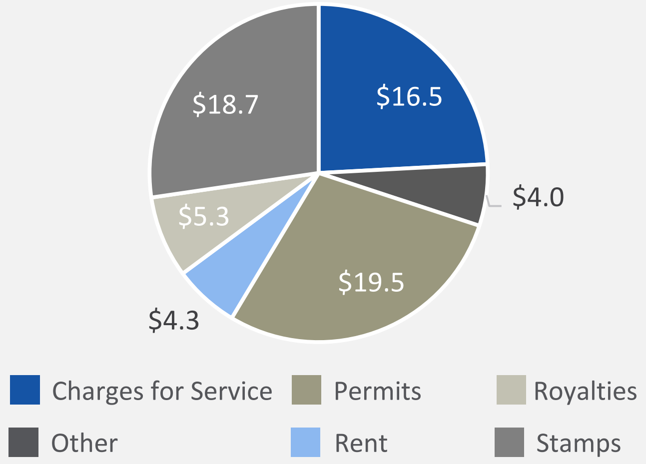
Other Sources of Revenues, $MM per year



Other Sources of Revenues by Agency FY16, $68MM



Other Sources of Revenues by Revenue Type FY16, $68MM



Government right-sizing measures reduce the 10-year financing gap by $17.8B

Estimated 10-year Impact, $B

Fiscal Reform Measures $33.8B

- **A Revenue Enhancement $12.9B**
  - $8.8B A1 Corporate Tax Reform
  - $3.6B A2 Tax Compliance
  - $0.5B A3 Adjust Fees
- **B Government Right-sizing $17.8B**
  - $5.1B **B1 Mobilization**
  - $6.1B **B2 New Government Model**
  - $6.5B **B3 Reduction of Subsidies**
- **C Reducing Healthcare Spending $2.5B**
  - $0.9B C1 Pay for Value
  - $0.7B C2 Improve Payment Integrity
  - $0.5B C3 Reduce Drug Cost
  - $0.4B C4 Modify Benefits Package
  - TBD C5 New Healthcare Model
- **D Pension Reform $0.6B**
  - D1 Contribution Segregation and New Benefit Plans
  - $0.6B D2 Adjust Retirement Benefits

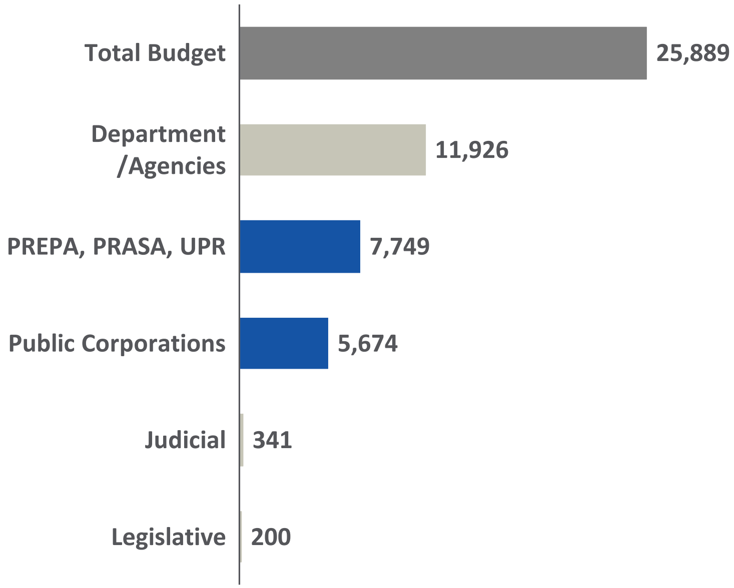
Note: Values may not add up due to rounding

Current government structure comprises 125 entities working in silos, which results in redundancies, inefficiencies and an unjustifiable cost base

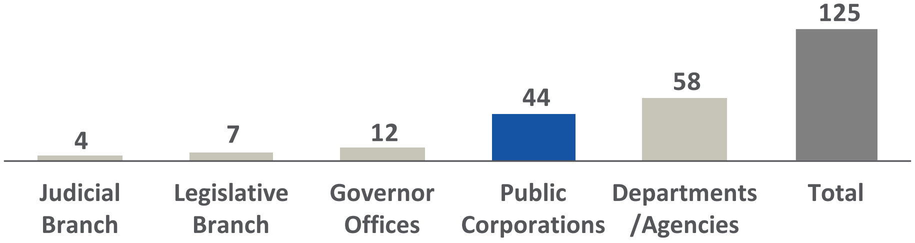
🟦 Public Corporations

▨ Central Government, Judicial, Legislative

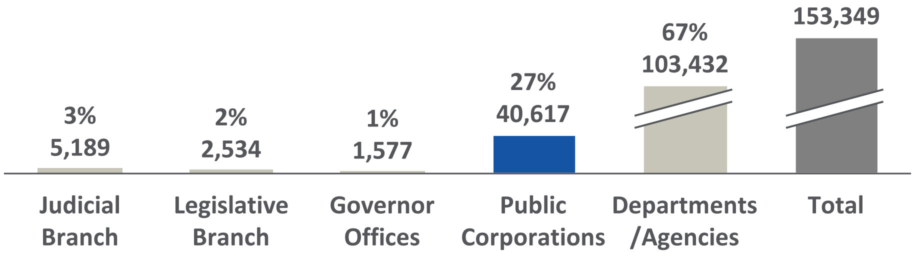
FY 2017 Budget, $MM



Number of Government Entities



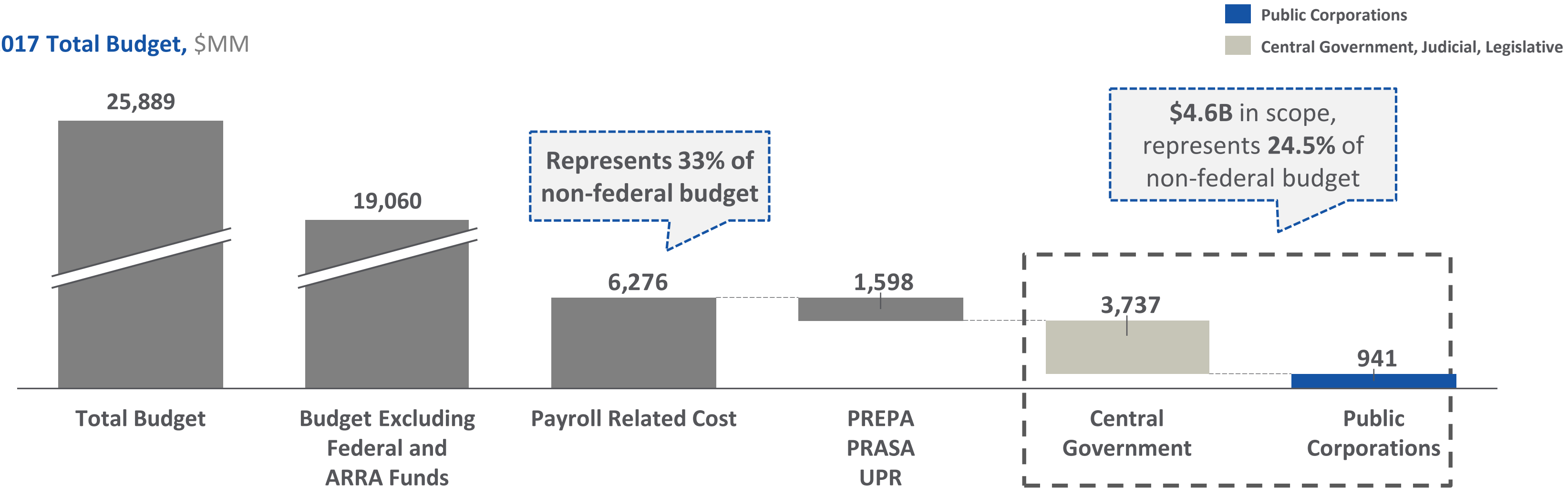
Number of Employees



Current model hinders economies of scale and provides for excess workforce and unused government facilities

The complexity and bureaucracy of the current governmental structure has led to unsustainable levels of workforce and compensation-related expenditures

FY 2017 Total Budget, $MM

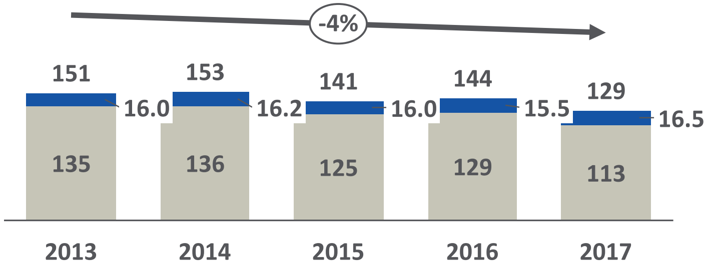


Represents 33% of non-federal budget

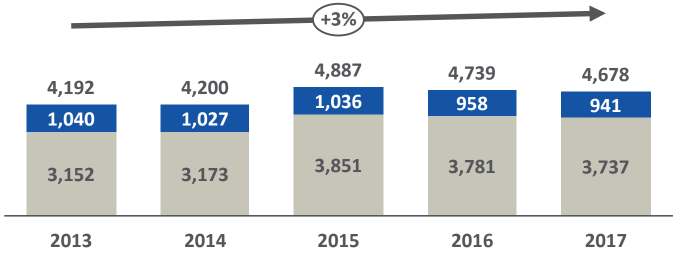
$4.6B in scope, represents **24.5%** of non-federal budget

The public sector has experienced a constant annual reduction of 4% in its workforce since FY2013, however it has not translated to payroll-related expenditure reductions

Number of Employees[1], $000's



Payroll Related Costs[1], $MM



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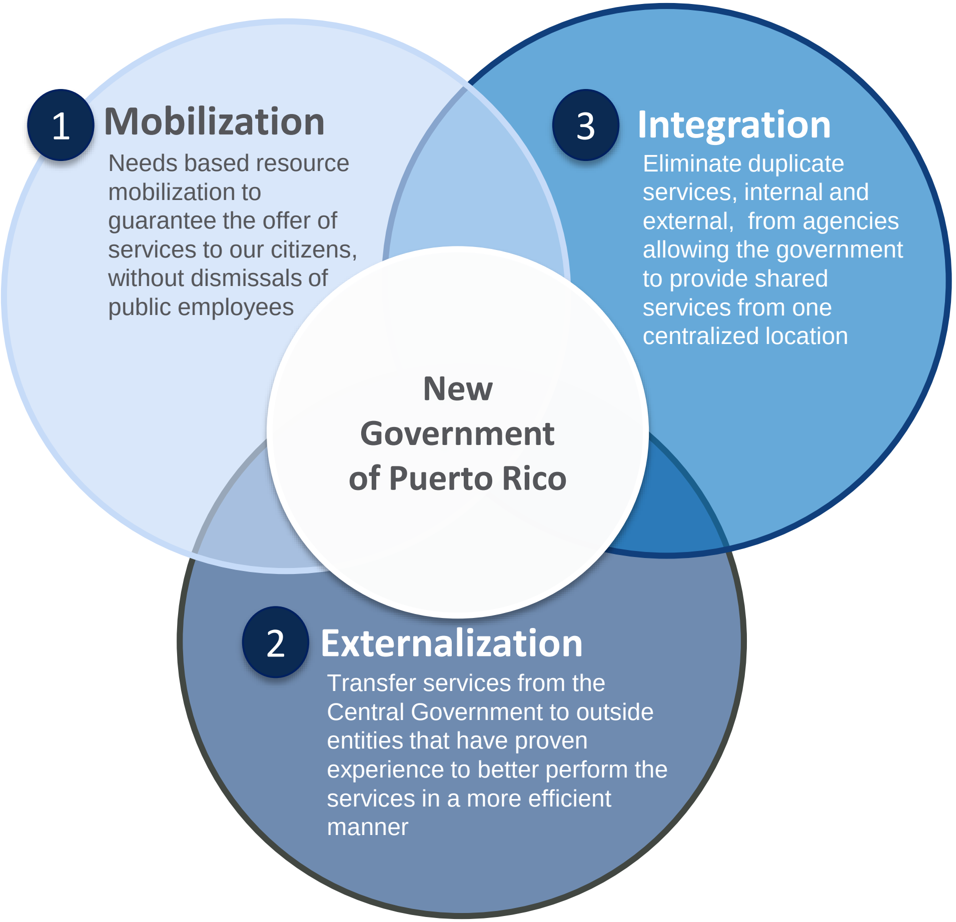
1 Number of employees and Payroll-Related Costs includes 11,488 transitory employees and excludes 24,160 employees from PREPA, PRASA and UPR

GOVERNMENT OF PUERTO RICO

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



1 Mobilization

Needs based resource mobilization to guarantee the offer of services to our citizens, without dismissals of public employees

3 Integration

Eliminate duplicate services, internal and external, from agencies allowing the government to provide shared services from one centralized location

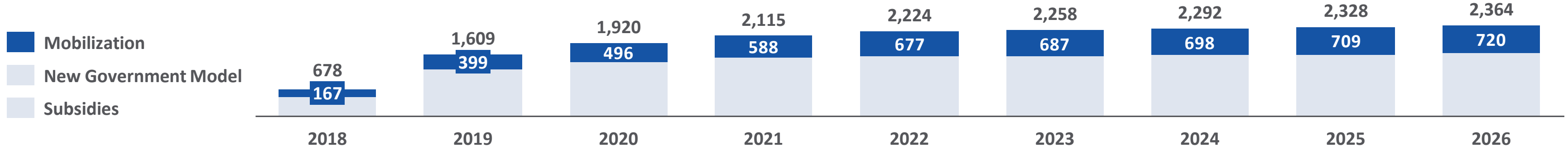
New Government of Puerto Rico

2 Externalization

Transfer services from the Central Government to outside entities that have proven experience to better perform the services in a more efficient manner

New Government model along with the Single Employer Program will produce higher attrition rates and generate reductions in payroll-related expenses

Government Right-Sizing Measures, $MM



Reform Measures

B1 Mobilization

B2 New Government Model

B3 Reduction of Subsidies

Current State

- Highly fragmented Government lacks uniform controls and processes, creates redundancies, allows excess levels of employees in some entities while others are understaffed
- The complexity and bureaucracy of the current governmental structure has led to ever increasing unsustainable levels of workforce and compensation-related expenditures
- An annual reduction of 4% in public sector workforce since FY2013, has not translated to payroll-related expenditure reductions given the employment of temporary hires and compensation raises
- Inequality exits in the remuneration of employees performing the same work depending on the government agency in which they work

Specific Initiatives

- Implementation of a Single Employer Program (Act 8 of 2017) will improve mobilization of employees across the government providing for better allocation of human resources
- Through mobility, the Government can guarantee offer of services to our citizens, without entailing dismissals of public employees
- Program will result in an employee attrition of 2% and a 50% reduction in temporary hires by 2018 and 20% thereafter
- Equality in fringe benefits throughout government (public corporations and central government)
- Align public sector vacation benefits with the private sector

2019 Impact of Measures **$0.40B**

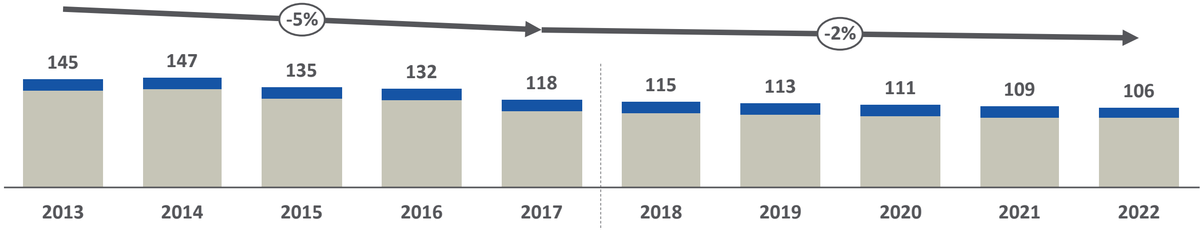
Cumulative Impact of Measures **$5.1B**

Having the Government as a Single Employer along with centralizing and externalizing services will allow for significant reductions in payroll-related costs by driving higher attrition rates

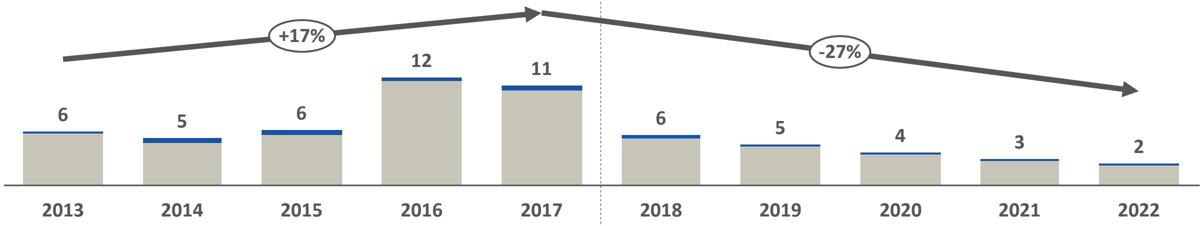
■ **Public Corporations**
▨ **Central Government, Judicial, Legislative**

Reduction in public sector workforce since FY2013 has not translated to payroll-related expenditure reductions

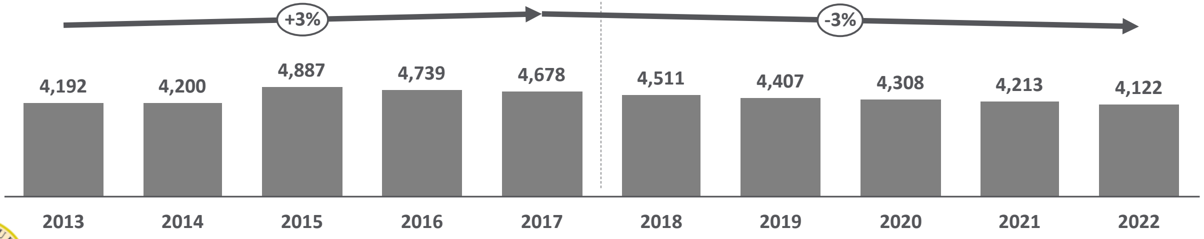
Headcount excluding Temporary, $000's



Temporary Headcount, $000's



Payroll-Related Costs, $MM



Implementation of the Single Employer Program, Act 8 of 2017, will **improve mobilization of employees across the government** providing for better allocation of human resources

Through mobility, the Government can **guarantee the offering of services** to its citizens, without entailing dismissals of public employees

Program would result in a 2% employee **attrition** and a 50% reduction in temporary hires by 2018 and 20% thereafter

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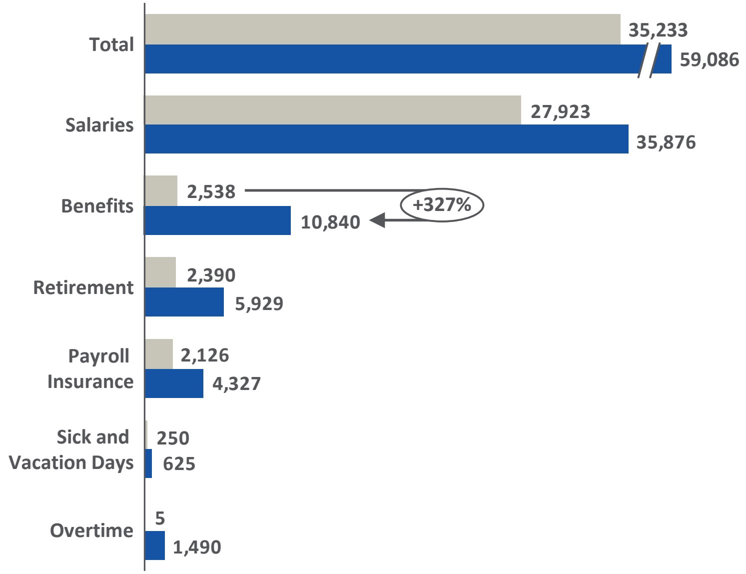
1 Payroll-Related Cost excludes PREPA, PRASA, UPR

To facilitate mobility, the Government will establish uniform benefits for all Government employees

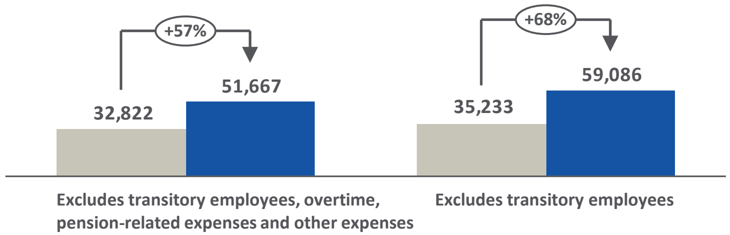
▨ Central Government, Judicial, Legislative ■ Public Corporations ☐ Total

Inequality in the remuneration of employees performing the same work

Average Payroll-Related Expense per Employee, $MM

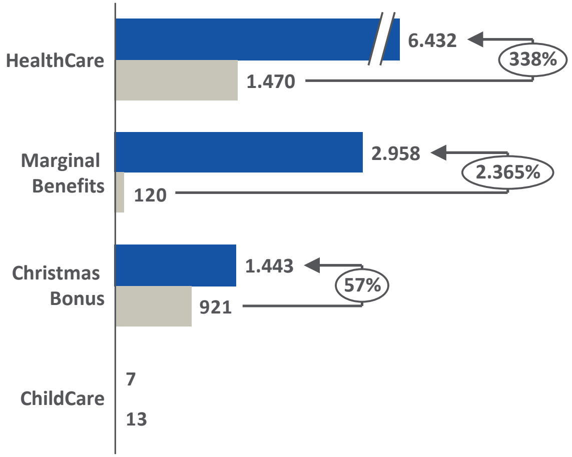


Average Payroll-Related Expenses per Employee, $US

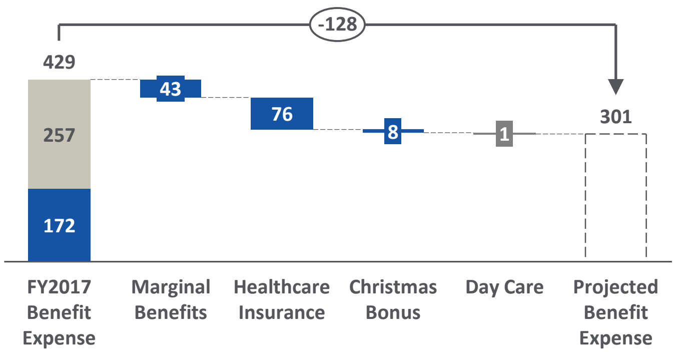


Reducing the benefits of Public Corporations to the same proportions of the central government

Average Benefits per Employee, $US



Benefit Adjustments, $MM *~15,228 public corporation employees*[1]



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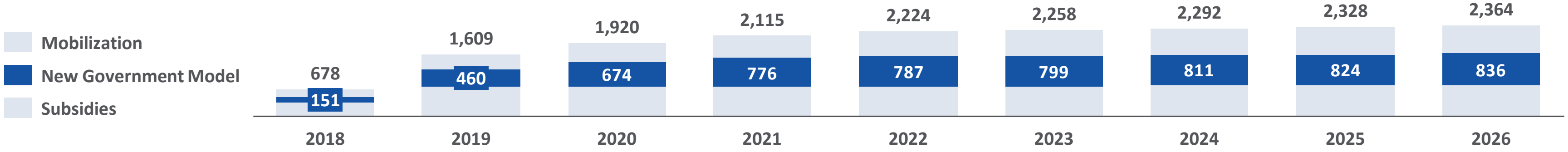
1 Excludes PREPA, PRASA and UPR employees

2 Benefit reduction savings are calculated after attrition savings to eliminate double counting

Redesigning the way the Government operates will result in significant cost savings amounting to over $6.1B in 10 years

Government Right-Sizing Measures, $MM



Reform Measures

B1 Mobilization

B2 New Government Model

B3 Reduction of Subsidies

Current State

- Certain Government managed services are obsolete, inefficient and unnecessarily costly due to historic structures
- PR's Government structure comprised of 125 entities and 78 municipalities, all working in silos, resulting in redundancies, inefficiencies and an unjustifiable cost base
- Current business procurement model hinders economies of scale and creates excess of unused government facilities/offices

Specific Initiatives

Externalization

- Transfer services from the Government to private entities with proven track record to provide services at a higher quality and in a cost-effective manner

Centralization

- Focus on achieving economies of scale through the elimination of duplicate services inside the Government
- Streamline and build capability in government procurement to achieve efficiency and structural transparency

2019 Impact of Measures **$0.5B**

Cumulative Impact of Measures **$6.1B**

To right-size government spending, an aggressive program for externalization of operational Government services is being implemented

Through the externalization of services, the government is looking to provide better services at a lower cost to the residents of Puerto Rico. The Government will be able to do this by providing the opportunity to provide a service to interested parties who meet the characteristics and have the experience

● Cumulative Impact by Year[1] $MM

FY 2018

1 **DMO Marketing**

2 **Ferry System for Metro and Island Services**

3 **Automation Traffic Violations & Security (CESCOs)**

4 **Real ID Project (CESCOs)**

5 **Concession or Monetization of Parking Facilities**

6 **Concession or O&M Contracts of Ports and airports**

7 **Externalize Certain Education Services**

$61MM

FY 2019

8 **Express Lanes on Highways and Corridors**

9 **Optimization of the Bus Transportation System**

10 **Externalize Maintenance Services and PBA**

$255MM

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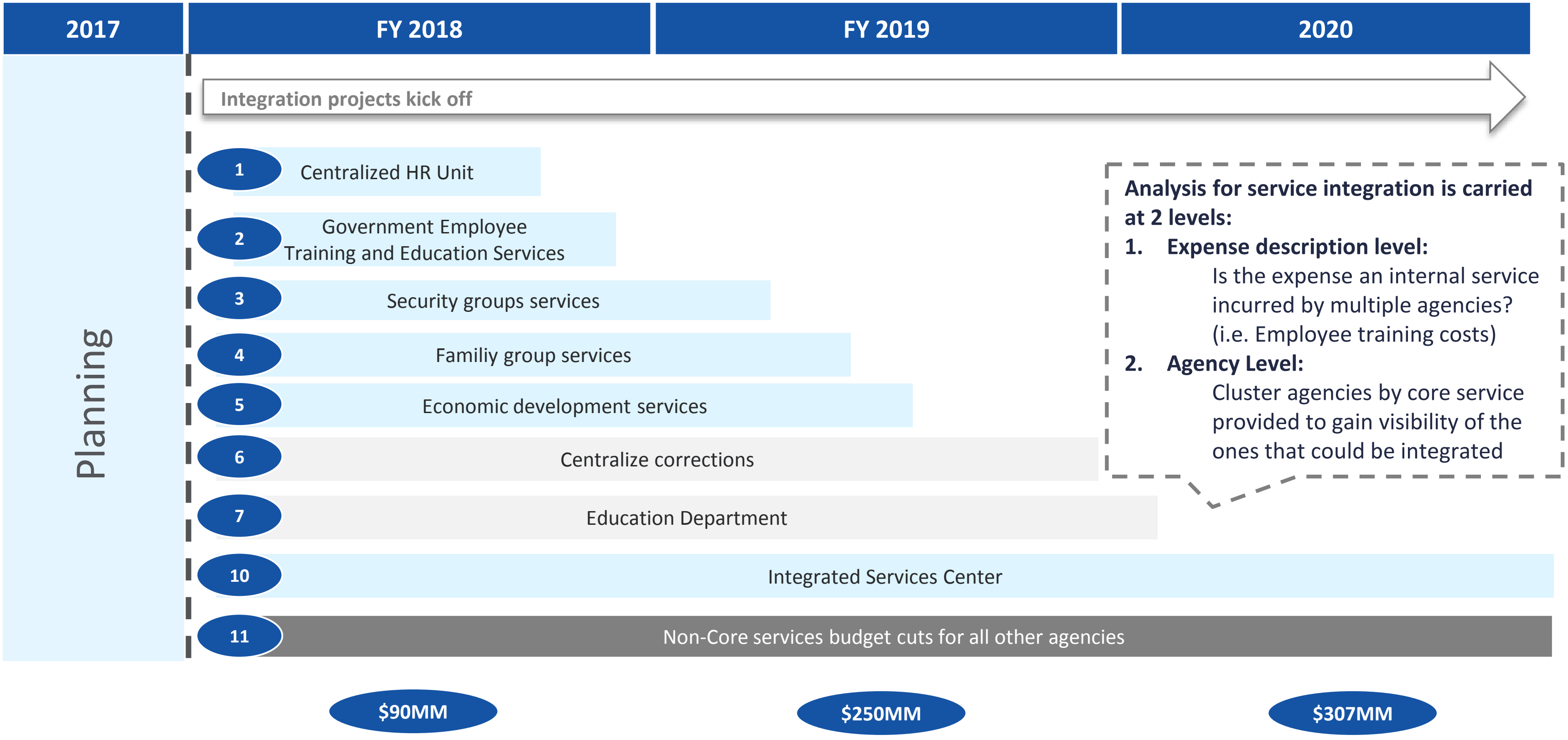
[1] Estimated impacts provided by P3 Authority agency or calculated assuming a 20% overhead savings from FY 2017 budgeted operational expenses. No payroll and benefits reductions considered in the analysis

The Government has initially identified core services provided by various agencies that can be integrated

Identified integration programs to be implemented

● Cumulative Impact by Year, $MM
▢ Integration of services
▢ Right-size department
■ Non-core services budget cuts



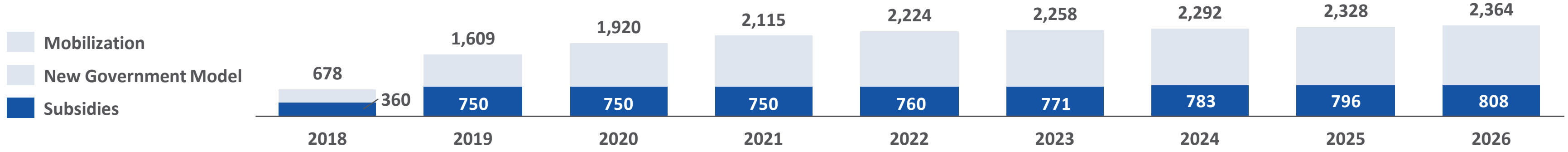
Analysis for service integration is carried at 2 levels:

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

Impact based on non-core budget cuts phased in over a 4-year period with a 12% adjustment for fixed costs for FY 2019

Reducing subsidies to UPR, municipalities and others will result in savings of $6.5B in 10 years

Government Right-Sizing Measures, $MM

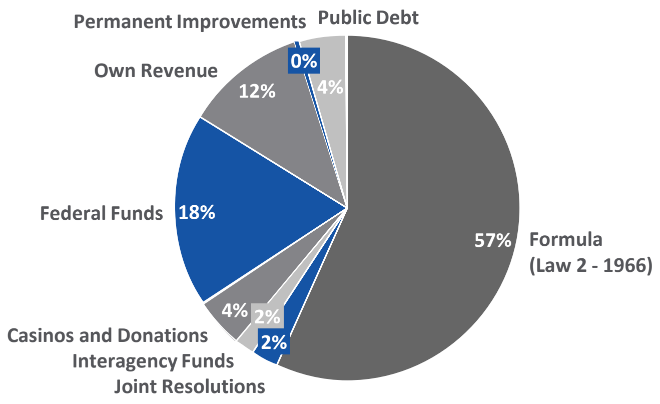


Reform Measures	Current State	Specific Initiatives
B1 Mobilization	The **University of Puerto Rico** is the main public university system on the island with ~12k employees (84% paid from General Fund) and providing services to 60,334 students	Reduce $300MM of UPR's General Fund appropriation. To promote the institution's long standing autonomy, the Government is deferring the subsidy reduction plan to the UPR
B2 New Government Model	PR's 78 **municipalities** receive General Fund Appropriations of approximately $350MM annually; with the top 8 municipalities receiving 50% of the appropriations	Reduce $350MM of municipalities' General Fund appropriation while providing municipalities with a modernized property tax regime in order to close their budget gap
B3 Reduction of Subsidies	**Other subsidies** include ~53 laws and programs that provide special tax rates, deductions, credits, grants and other forms of economic incentives that limit tax revenues. The majority of these are not properly budgeted	Reduce $100MM in other subsidy programs by consolidating all incentives into a simple code

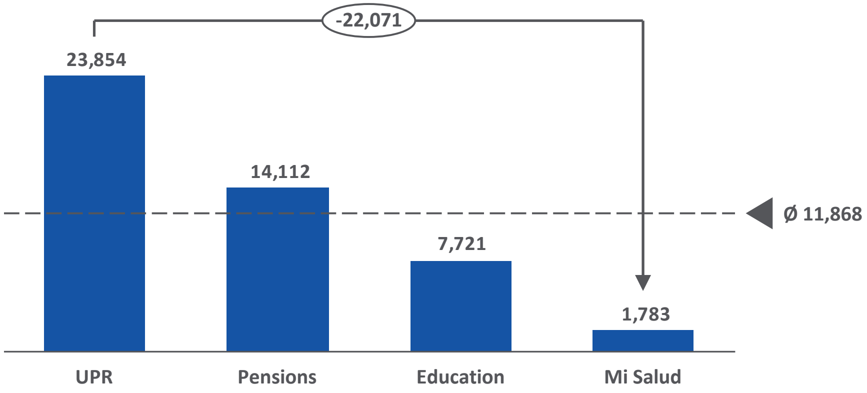
2019 Impact of Measures	**$0.75B**	**Cumulative Impact of Measures**	**$6.5B**

Appropriations from the Central Government to the University of Puerto Rico represent 65% of its budget

University of Puerto Rico FY 2016-17 Budget, $1.5B



Average Cost per Beneficiary, $US



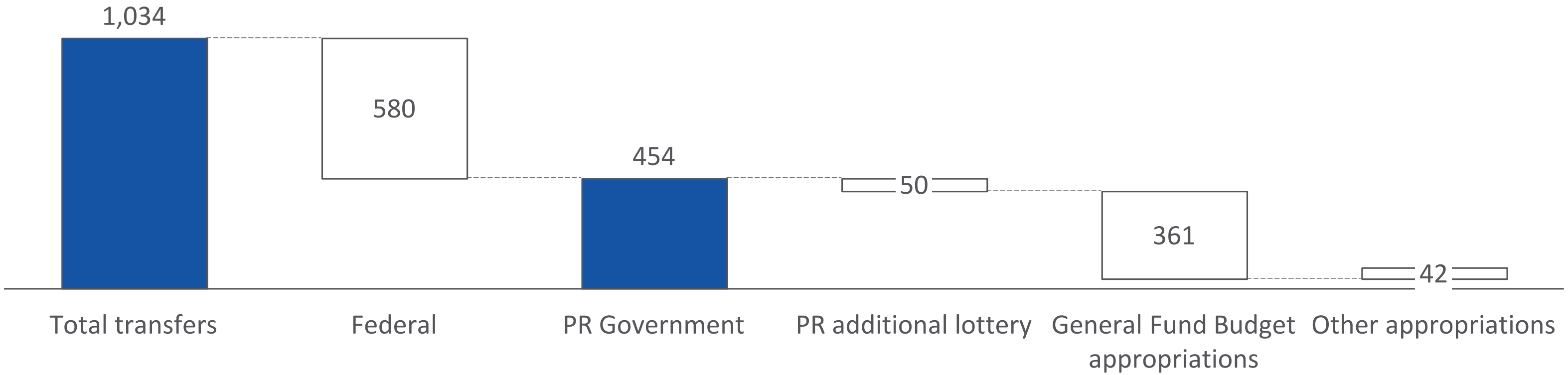
Measures:

To promote the institution’s long standing tradition and autonomy, the Government is deferring the methods of implementation to management. However, the UPR should consider the following:

- Operational Reform:
  - Administrative consolidation (efficiency)
  - Specialization of campuses (quality of service)
  - Reducing costs per employee (payroll benefits)
- Tuition Income: Needs based tuition approach
- Increase services to central government

The Government will reduce $350MM in appropriations to Municipalities

Break down of transfers to Municipalities FY2015 $MM



Source: Audited financial statements

Source: Additional Lottery financial statements

Source: Office of Management and Budget

Municipalities segmented in Small, Medium and Large based on inflows

50%

Total Inflows (Revenues + Transfers)

Large Municipalities (8)

30%

Total Inflows (Revenues + Transfers)

Medium Municipalities (27)

20%

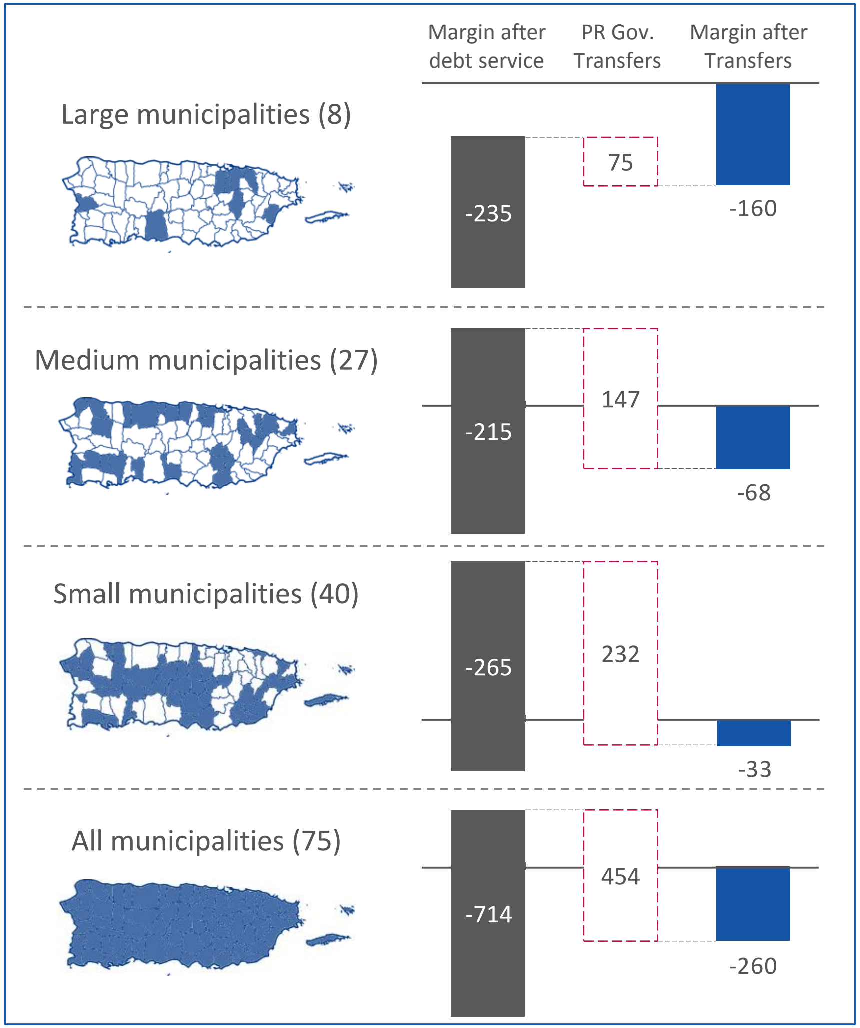
Total Inflows (Revenues + Transfers)

Small Municipalities (40)

Note: Ceiba, Santa Isabel and Villalba are excluded from the analysis because FY2015 audited financial statements are not available yet

To reduce the impact to municipalities, the Government will modernize the property tax regime

Break down of municipalities margin after transfers FY2015 $MM



Measures:

- The initiative will gradually eliminate the $350MM subsidy and provide municipalities with a modernized property tax regime in order to fill the gap
- Assuming the same 78% average collection rates and the same exemptions and exonerations, modernizing the property tax regime would require raising the effective tax rate to 0.65% and the nominal rate to 2%
    - Puerto Rico's property tax regime is antiquated and inefficient, collecting an effective rate of 0.38% of total gross taxable base of real-estate compared to a 1% national median rate
    - Property taxes will be assessed based on market values that will be updated regularly and with every sale

Effective Property Tax Rate		
Lowest	**Median**	**Highest**
0.28%	1.00%	2.29%
Hawaii	**Missouri**	**New Jersey**

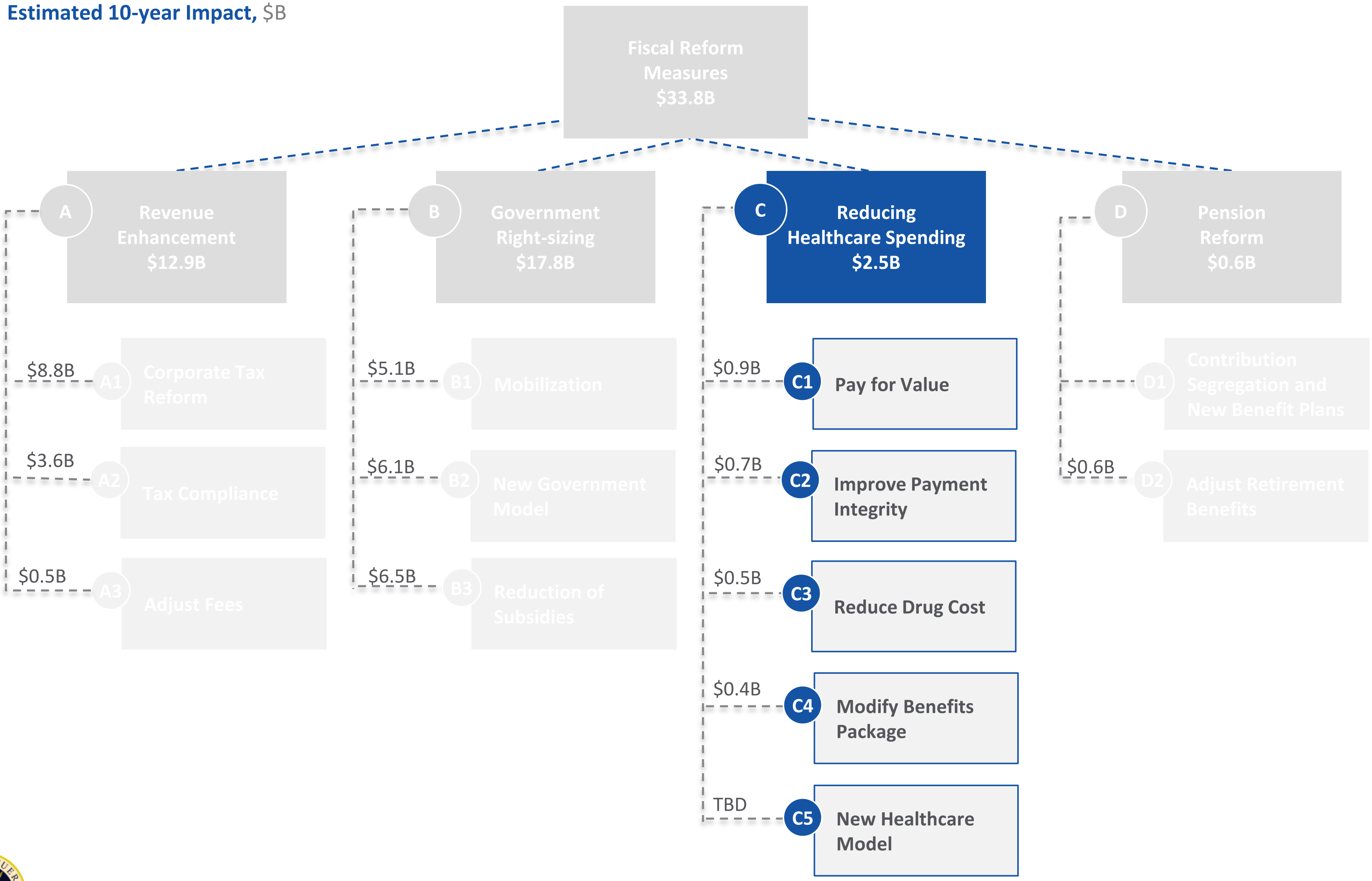
PR	**Current**	**Proposed**
Effective Rate	0.38%	0.65%
Nominal Rate	1.18%	2.00%

- The new system will produce a total of $426 million in revenues, at least $350 million to the municipalities and approximately $76 million to the central government
- Streamlined operations at the CRIM will produce incremental savings and increased collection rates

Note: Ceiba, Santa Isabel and Villalba are excluded from the analysis because FY2015 audited financial statements are not available yet
Source: https://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585/

Reforms in healthcare spending reduce the 10-year financing gap by $2.5B

Estimated 10-year Impact, $B



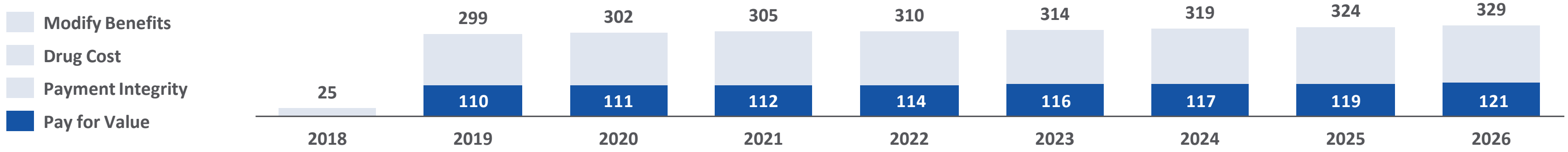
Fiscal Reform Measures $33.8B

- A Revenue Enhancement $12.9B
  - $8.8B A1 Corporate Tax Reform
  - $3.6B A2 Tax Compliance
  - $0.5B A3 Adjust Fees
- B Government Right-sizing $17.8B
  - $5.1B B1 Mobilization
  - $6.1B B2 New Government Model
  - $6.5B B3 Reduction of Subsidies
- **C Reducing Healthcare Spending $2.5B**
  - $0.9B **C1 Pay for Value**
  - $0.7B **C2 Improve Payment Integrity**
  - $0.5B **C3 Reduce Drug Cost**
  - $0.4B **C4 Modify Benefits Package**
  - TBD **C5 New Healthcare Model**
- D Pension Reform $0.6B
  - D1 Contribution Segregation and New Benefit Plans
  - $0.6B D2 Adjust Retirement Benefits

Note: Values may not add up due to rounding

Uniform payment grids and repositioning the profit sharing model for healthcare providers could generate 10-year savings of $0.9B

Reducing Healthcare Spending Measures, $MM



Reform Measures

C1 Pay for Value

C2 Improve Payment Integrity

C3 Reduce Drug Cost

C4 Modify Benefits Package

Current State

Uniform Fee Schedules

- Managed Cared Organizations (MCOs) negotiate reimbursement rates directly with providers resulting in contracted rates exceeding the corresponding Medicare fee for FY 2015 and not aligned with market trends

Profit Sharing

- Contracts with MCOs allows them to generate net profits up to 2.5%. In the event profit exceeds 2.5%, profit will be shared equally between the Government and the MCO
- For FY 2016, two MCOs generated net profits exceeding 2.5%

Specific Initiatives

- Establish uniformed fee schedules for providers and ancillary services
- Limit reimbursement rates to an average of 70% of the corresponding Medicare fee schedule of FY 2015
- Replace the current profit sharing clause in its contract with MCOs to implement a Medical Loss Ratio (MLR) of 92%, reducing the profit and administrative loading factor by 2% of premium

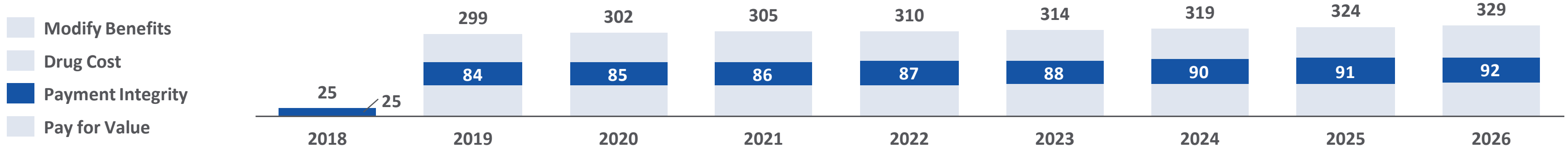
2019 Impact of Measures **$0.11B**

Cumulative Impact of Measures **$0.9B**

Note: Healthcare initiatives might require approval from Center for Medicare and Medicaid Services (CMS)

Establish and enforce rules around the proper use of Mi Salud to reduce fraud, waste and abuse

Reducing Healthcare Spending Measures, $MM



Reform Measures

- C1 Pay for Value
- **C2 Improve Payment Integrity**
- C3 Reduce Drug Cost
- C4 Modify Benefits Package

Current State

- Lack of standard processes to identify beneficiaries that have:
  - left the system due to death, imprisonment or relocation
  - another health insurance plan but are using Mi Salud as first source of payment
- Fraud, waste and abuse programs mostly delegated to each MCO, limiting information-sharing and hindering trend development capabilities
- In 2011, the Government started but did not complete the process to establish a Medicaid Management Information System (MMIS) and a Medicaid Fraud Control Unit (MFCU)

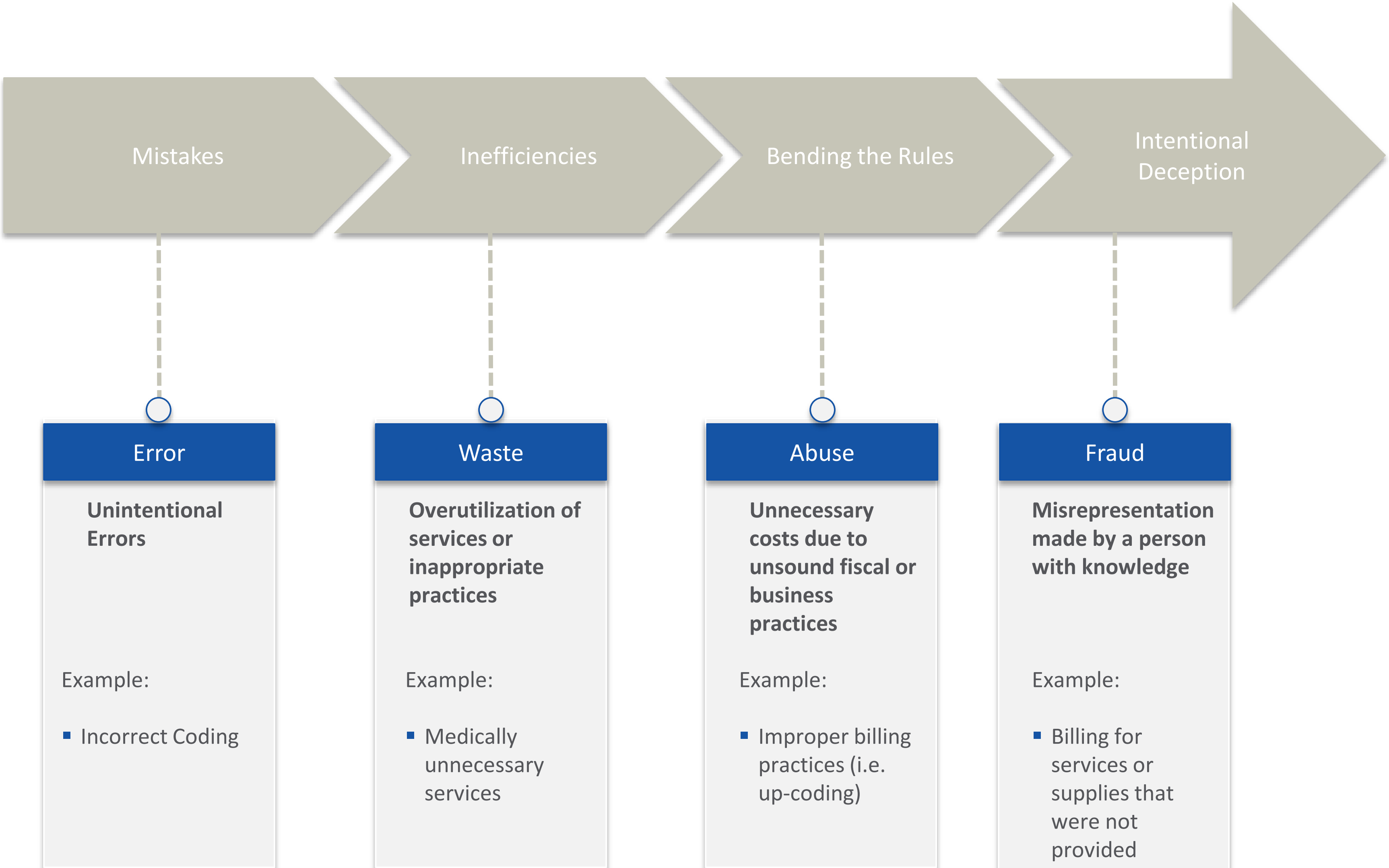
Specific Initiatives

- Establish partnerships with the Department of Corrections, Department of Health, MCOs and other Medicaid jurisdictions (FL and NY) to:
  - increase the scrutiny of premium payments for beneficiaries that have left the system
  - expand the coordination of benefits data sharing program
- Establish a MFCU office to investigate and prosecute Medicaid to investigate and prosecute providers and patients that misuse Medicaid funds
- Establish MMIS platform to process the credentialing of providers, determine eligibility, authorize and pay claims

2019 Impact of Measures	**$0.08B**
Cumulative Impact of Measures	**$0.7B**

Note: Healthcare initiatives might require approval from Center for Medicare and Medicaid Services (CMS)

Program integrity encompasses a range of activities to reduce fraud, waste and abuse



Mistakes

Inefficiencies

Bending the Rules

Intentional Deception

Error

Unintentional Errors

Example:

- Incorrect Coding

Waste

Overutilization of services or inappropriate practices

Example:

- Medically unnecessary services

Abuse

Unnecessary costs due to unsound fiscal or business practices

Example:

- Improper billing practices (i.e. up-coding)

Fraud

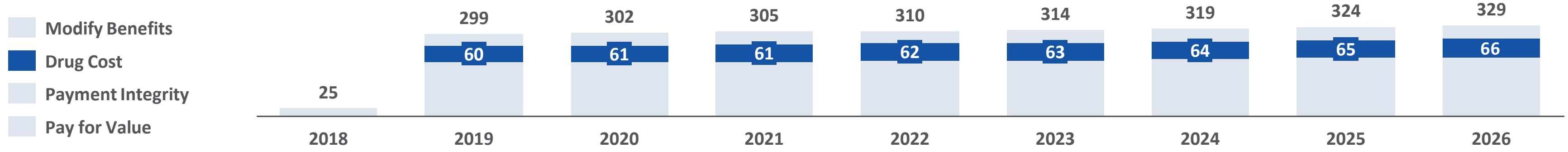
Misrepresentation made by a person with knowledge

Example:

- Billing for services or supplies that were not provided

Reducing pharmacy spending will provide 10-year cost savings of $0.5B

Reducing Healthcare Spending Measures, $MM



Reform Measures

- C1 Pay for Value
- C2 Improve Payment Integrity
- **C3 Reduce Drug Cost**
- C4 Modify Benefits Package

Current State

- Pharmacy costs represent 22% of current Per Member Per Month (PMPM) spend and increasing rapidly
- Although generic drug utilization is 90%, brand drug and specialty drug spend accounts for 73% of total

Specific Initiatives

- The Government will implement cost-savings strategies to control outpatient drug spending including:
  - increasing pharmacy discounts applicable to brand and specialty drugs
  - enforcing the mandatory dispensing of generic drugs
  - updating the preferred drug formulary to increase cost-efficiency
  - establishing shared-savings initiatives with institutions that benefit of more competitive drug prices

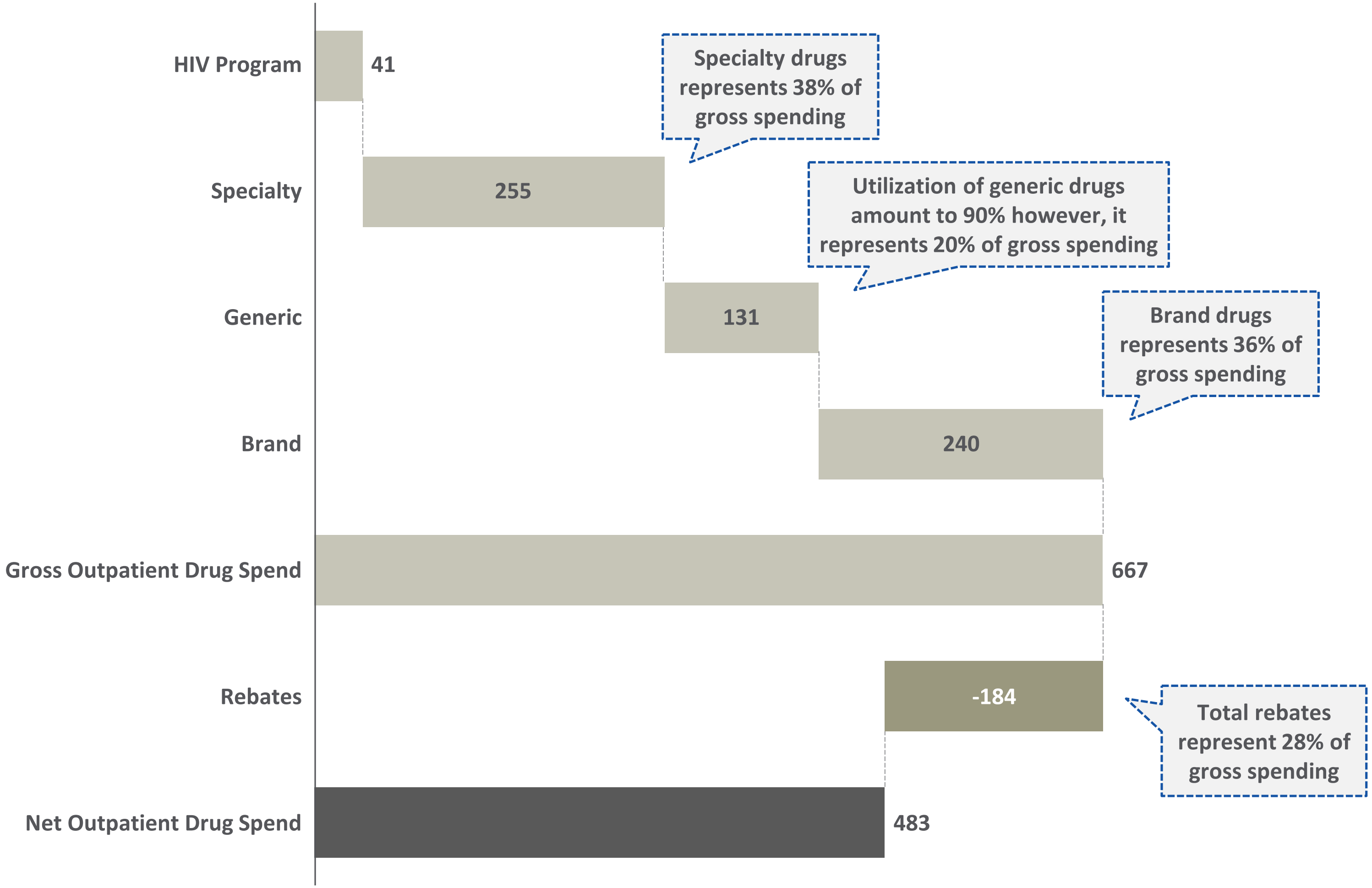
2019 Impact of Measures **$0.06B**

Cumulative Impact of Measures **$0.5B**

Note: Healthcare initiatives might require approval from Center for Medicare and Medicaid Services (CMS)

Pharmacy expense represents approximately 22% of average PMPM

Prescription Drugs Expense in 2016, $MM



Specialty drugs represents 38% of gross spending

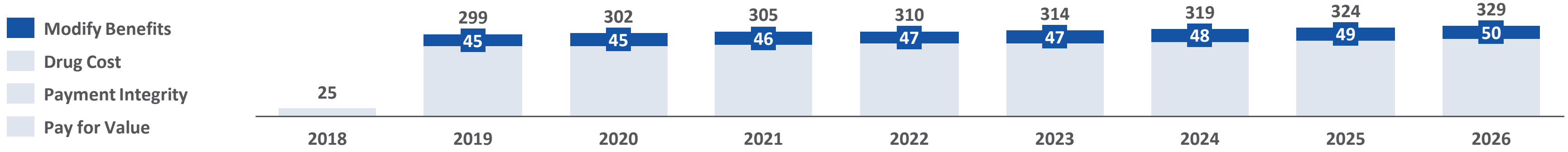
Utilization of generic drugs amount to 90% however, it represents 20% of gross spending

Brand drugs represents 36% of gross spending

Total rebates represent 28% of gross spending

Modifying benefit packages is expected to reduce costs by $0.4B in 10 years

Reducing Healthcare Spending Measures, $MM



Reform Measures

C1 Pay for Value

C2 Improve Payment Integrity

C3 Reduce Drug Cost

C4 Modify Benefits Package

Current State

- Mi Salud has a wide coverage of benefits, however there are services that are only required for certain eligibility categories
  - Medicaid and CHIP populations are subject to mandated benefits and cost-sharing limits
  - Commonwealth population is not subject to mandated benefits and cost-sharing limits
  - All benefit changes are subject to CMS approval

Specific Initiatives

- Evaluate services that could be capped and/or eliminated from the current benefit package without adversely affecting access for Mi Salud beneficiaries
- Optional benefits in Mi Salud include:
  - Prescription drugs, dental, private nursing, prosthetics devices, physical and occupational therapy, optometry, hospice services, speech, hearing and language disorder services

2019 Impact of Measures **$0.05B**

Cumulative Impact of Measures **$0.4B**

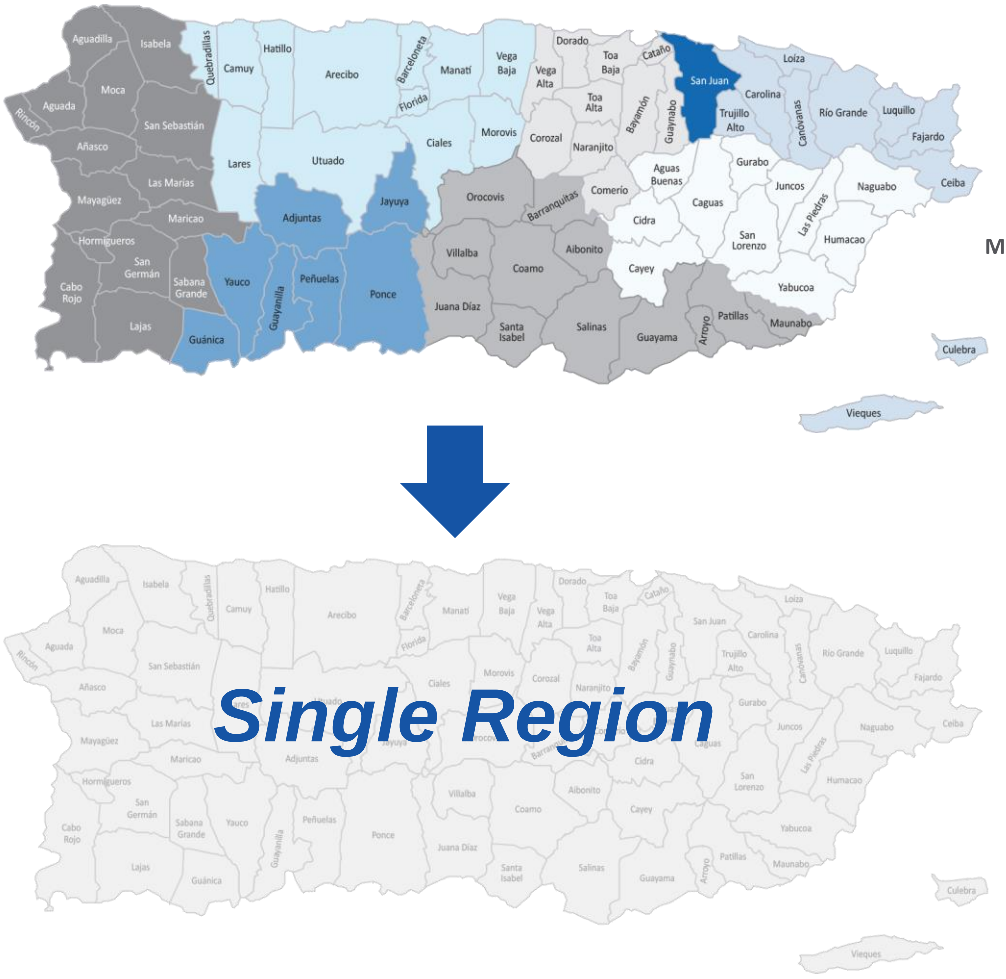
Note: Healthcare initiatives might require approval from Center for Medicare and Medicaid Services (CMS)

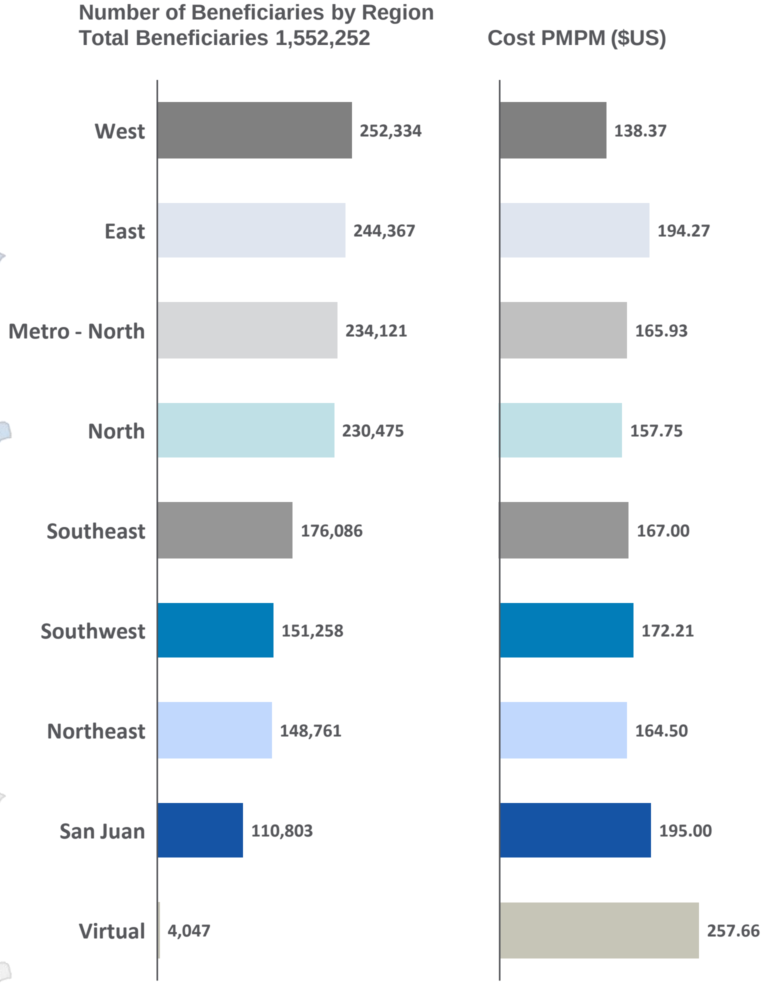
Mi Salud has a wide coverage of benefits, however there are services that are only required to certain eligibility categories

FY2017 PMPM "Other Services" by Region, $US

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

Healthcare Reform is expected to lower the average PMPM by $23 or 13%, while adding 50,000 new individuals, and still achieving net saving of $272MM

ILLUSTRATIVE

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 any premium service selected**

Approximately $270MM in estimated net savings – Government will pay $144 PMPM ($5 higher than current minimum) v. current average of $167, while adding **50,000 individuals.**

Key

V = PMPM Cost

$\overline{V}$ = Current Average PMPM Cost

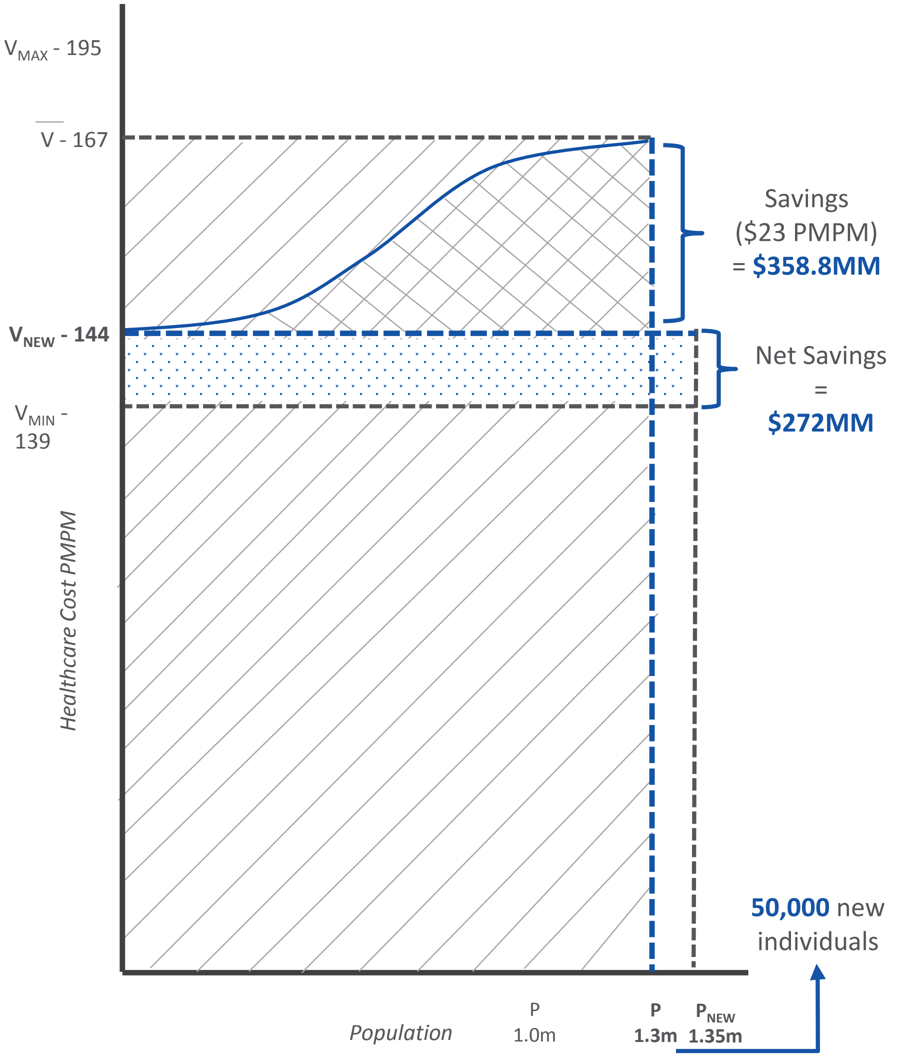
V_{MAX} = Current Maximum PMPM Cost

V_{NEW} = New Average PMP Cost

V_{MIN} = Current Minimum PMPM Cost

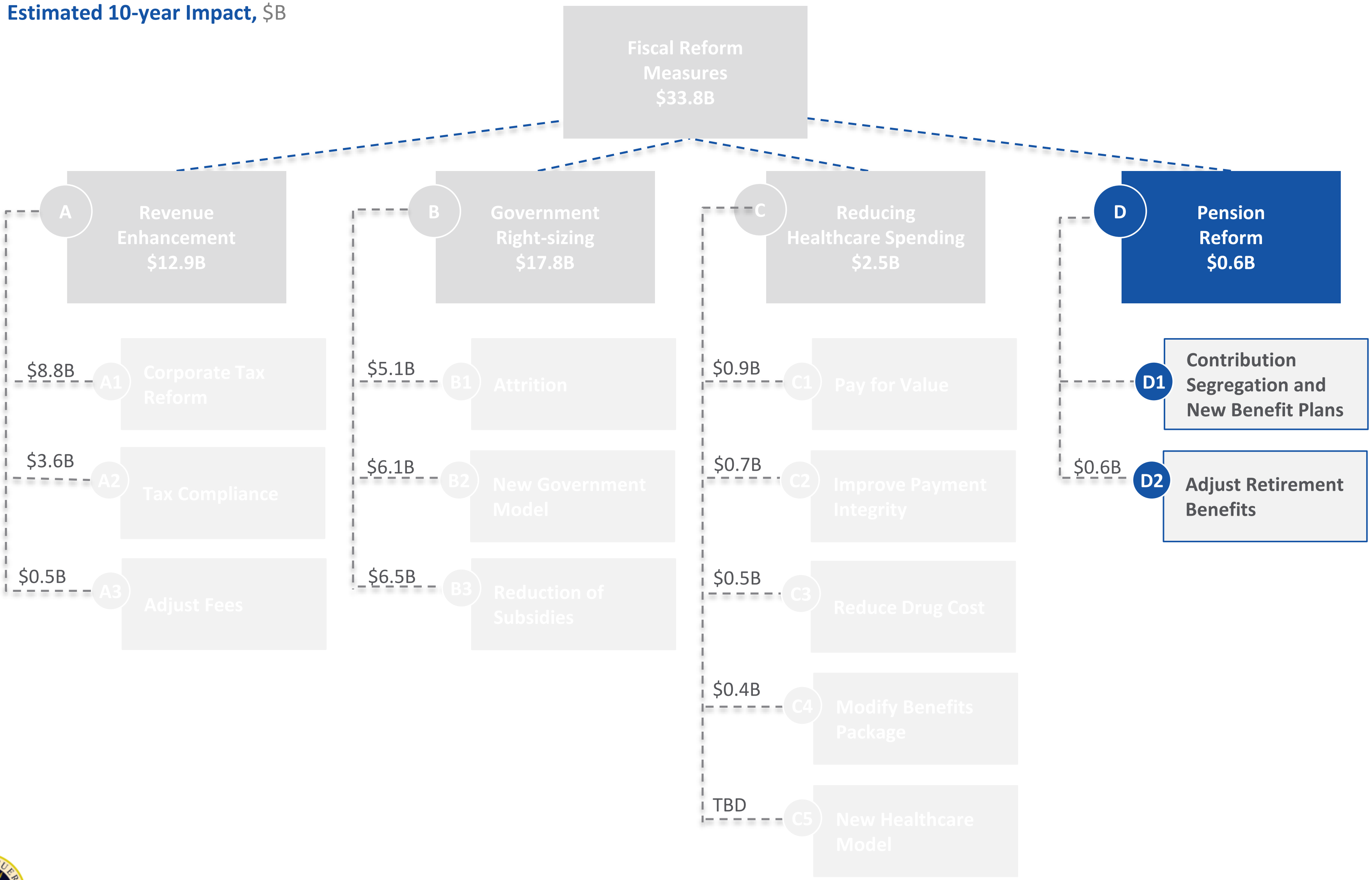
P = Population

P_{NEW} = Population Objective/Goal



Pension reform reduce the 10-year financing gap by $0.6B

Estimated 10-year Impact, $B



Fiscal Reform Measures $33.8B

A Revenue Enhancement $12.9B
- $8.8B A1 Corporate Tax Reform
- $3.6B A2 Tax Compliance
- $0.5B A3 Adjust Fees

B Government Right-sizing $17.8B
- $5.1B B1 Attrition
- $6.1B B2 New Government Model
- $6.5B B3 Reduction of Subsidies

C Reducing Healthcare Spending $2.5B
- $0.9B C1 Pay for Value
- $0.7B C2 Improve Payment Integrity
- $0.5B C3 Reduce Drug Cost
- $0.4B C4 Modify Benefits Package
- TBD C5 New Healthcare Model

D Pension Reform $0.6B
- **D1 Contribution Segregation and New Benefit Plans**
- $0.6B **D2 Adjust Retirement Benefits**

Note: Values may not add up due to rounding

Summary of Retirement Plans

Summary of Key Data	Employees' Retirement System (ERS)	Teacher's Retirement System (TRS)	Judiciary Retirement System (JRS)
Participants[1]			
Active Members	119,790	37,700	364
Retired Members	97,056	36,210	372
Disabled Members	15,820	2,301	0
Beneficiaries	13,866	3,150	58
Terminated Vested Members	10,658	527	59
Total	**257,190**	**79,888**	**853**
Covered Payroll[1]	3,319 million	1,127 million	32 million
Available Assets[2]	1,089 million	724 million	33 million
Liquid Assets	667 million	349 million	0 million
Illiquid Assets[3]	422 million	375 million	33 million

Recent Reform Efforts

Changes due to Act 3-2013:

Froze accrual of benefits under defined benefit plans

Increased retirement age

System 2000 participants will receive a lifetime annuity benefit instead of lump sum payment

Changes due to Act 160-2013

New members covered by a contributory hybrid plan funded solely from member contributions

Segregation of assets attributable to hybrid plan members

Changes due to Act 162-2013

(Hired between 12/24/13 & 6/30/14) – Reduced benefits under defined benefit plan

(Hired after 7/1/14)
Hybrid plan with defined benefit and defined contribution components

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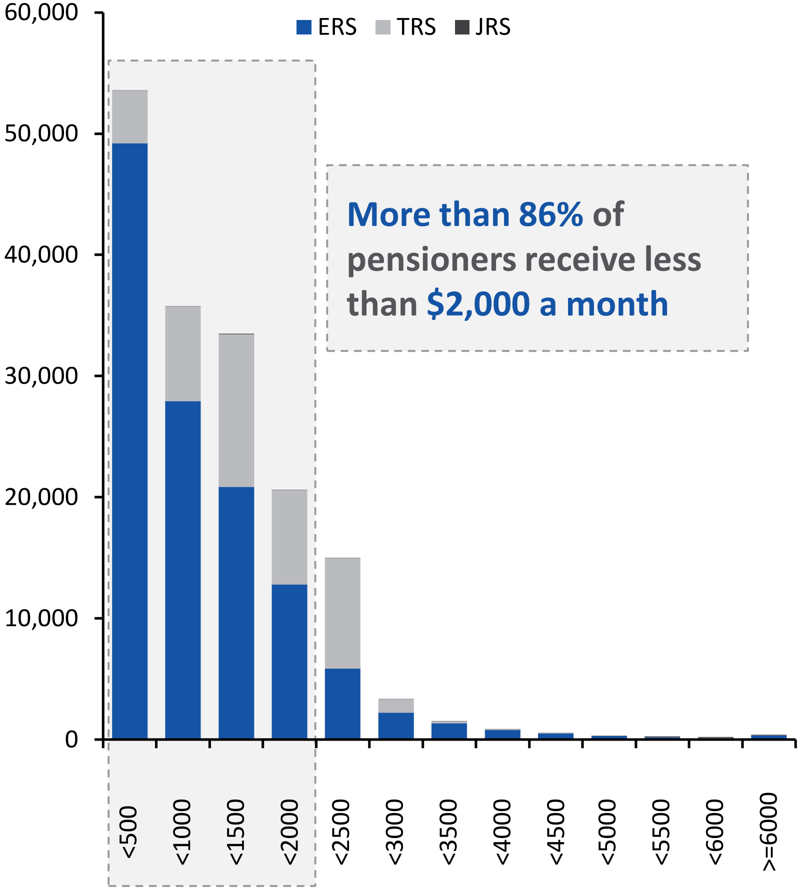
1) Based on June 30, 2015 actuarial reports
2) As of December 31, 2016
3) Includes private equity, loans, and real estate

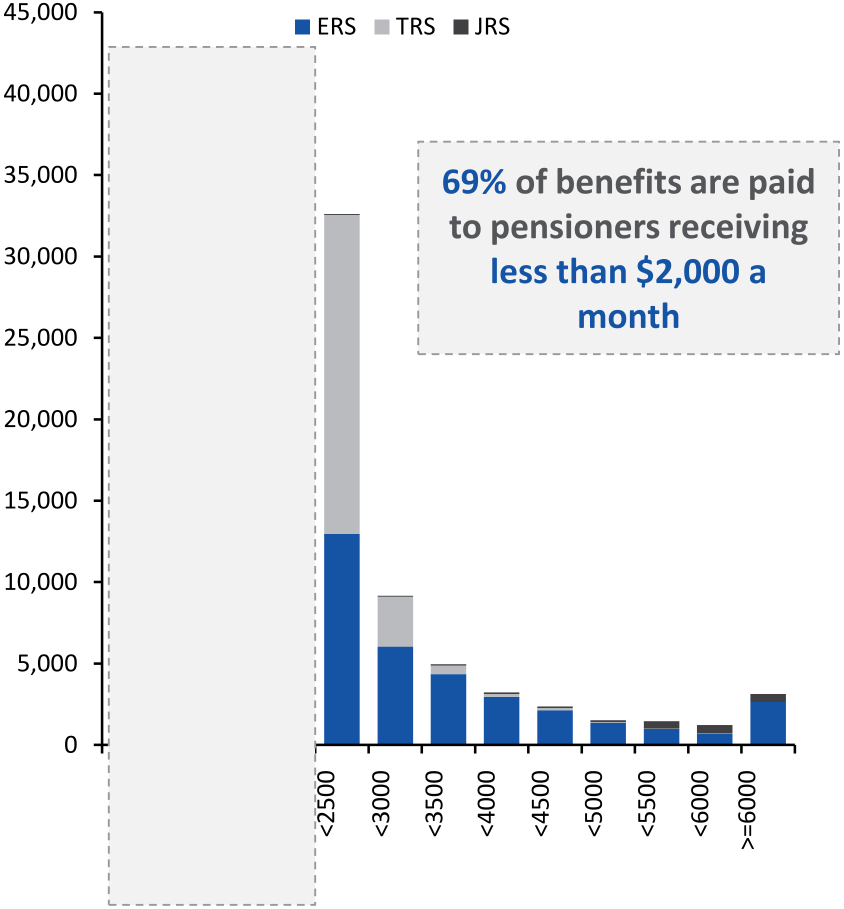
Pension Benefit Overview

Members Receiving Benefits



More than 86% of pensioners receive less than **$2,000 a month**

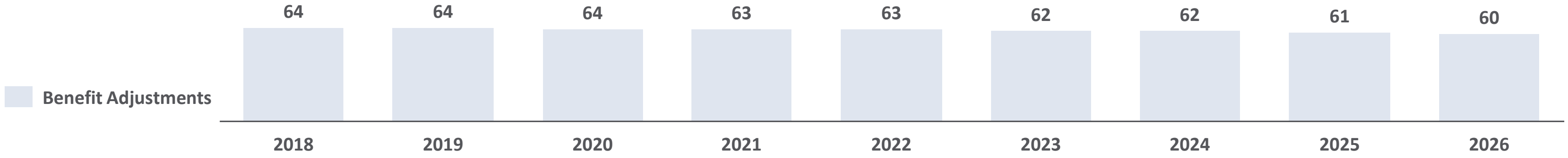
Monthly Benefit Payments ($M)



69% of benefits are paid to pensioners receiving **less than $2,000 a month**

Segmentation of the defined contribution structure will protect the retirement savings of government employees

Pension Reform Measures, $MM



Reform Measures

D1 **Contribution Segregation and New Benefit Plans**

D2 **Adjust Retirement Benefits**

Current State

- Three major pension systems, all currently set up as a hybrid defined benefit program
- All three pension systems are severely underfunded and are projected to deplete their assets in the near future

Specific Initiatives

- Switch to pay-as-you-go model to cover remaining defined benefit obligations
- Segregate prospective employee contributions into a new and separated defined contribution plans
- Facilitate enrollment in Social Security for qualifying participants
- Improve investment alternatives offered to participants, taking into consideration personal retirement objectives.

2019 Impact of Measures **$0.0B**

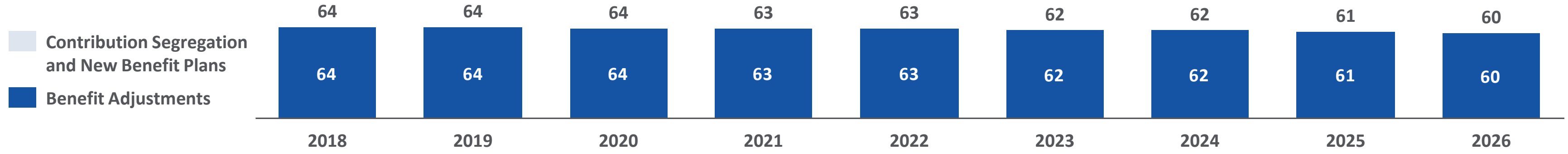
Cumulative Impact of Measures **$0.0B**

Pension Reform

Objective	Strategy	Considerations
Address Cash Flow Shortfall	▪ Switch to pay-as-you-go model ▪ Timely payment of contributions to ensure continuity of benefit payments	▪ Legislation needed to enact pay-go contribution calculations and schedules
Maintain Quality of Life	▪ Protect benefits for lowest pension income earners ▪ Progressive strategy to reduce retirement benefit costs	▪ Potential legal challenges to any changes in benefit structure
Secure Appropriate Use of Employee Contributions	▪ Segregate prospective employee contributions into a new and separated Defined Contribution model	▪ Changes in legal and operational structure of retirement systems ▪ Increases cash flow shortfall for payment of benefits under current plans and tiers
Ensure Adequate Retirement Income	▪ Facilitate enrollment in Social Security for qualifying participants ▪ Improve investment alternatives offered to participants, taking into consideration personal retirement objectives.	▪ Requires flexibility in contribution policy under new defined contribution plan and requires additional funding sources for employer contribution

Progressively reducing benefits only to the top pension income earners will protect the most vulnerable retirees

Pension Reform Measures, $MM



Reform Measures

D1 Contribution Segregation and New Benefit Plans

D2 Adjust Retirement Benefits

Current State

- The retirement systems pays over $2.4 billion year in benefits
- Due to the depletion of the assets, participating employers will need to allocate additional resources to cover benefits payments. This will further reduce the Government's capacity to offer essential services and maintain quality of life for it's citizens.

Specific Initiatives

- Protect benefits for lowest pension income earners
- Establish progressive strategy to reduce retirement benefit costs

2019 Impact of Measures $0.06B

Cumulative Impact of Measures $0.6B

GOVERNMENT OF PUERTO RICO

Progressively adjust benefits

- The Fiscal Oversight Board suggested a 10% reduction in retirement system benefits as part of its fiscal recommendations to the Government of Puerto Rico
- The Government proposes a strategy which provides for progressive adjustments of pension benefits and “special law” benefits that protect the pensioners with lowest retirement income
- The proposed strategy provides for a potential 3% aggregate reduction in retirement plan disbursements without impacting pensioners receiving less than $2,000 per month

Monthly Benefit	Adjustment	Adjusted Benefit	% Adjustment
500.00	-	500.00	0.00%
1,000.00	-	1,000.00	0.00%
1,500.00	-	1,500.00	0.00%
2,000.00	-	2,000.00	0.00%
2,500.00	(150.00)	2,350.00	6.00%
3,000.00	(300.00)	2,700.00	10.00%
3,500.00	(450.00)	3,050.00	12.86%
4,000.00	(600.00)	3,400.00	15.00%
4,500.00	(750.00)	3,750.00	16.67%
5,000.00	(900.00)	4,100.00	18.00%
5,500.00	(1,050.00)	4,450.00	19.09%
6,000.00	(1,200.00)	4,800.00	20.00%
8,000.00	(1,800.00)	6,200.00	22.50%
10,000.00	(2,400.00)	7,600.00	24.00%

86% of Pensioners receive $2,000 or less in monthly benefits

V. STRUCTURAL REFORMS

Implementing the package of structural reforms will provide a cumulative 2.0% increase in GNP growth

1 Improve Ease of Business Activity

1a Private Sector Labor Reform

- Institute public policy measures aimed to attract new businesses, create new employment opportunities, and foster private sector employment growth

1b Permitting Process Reform

- Centralize, streamline, and modernize and expedite permitting processes; increase business friendly environmental and economic growth

1c Tax Reform

- Lower marginal tax rates and broaden the tax base; simplify and optimize the existing tax code to achieve gains in efficiency, ease of doing business and reducing tax evasion

2 Improve Capital Efficiency

2a Infrastructure Reform

- Augmenting competitiveness by investing in critical infrastructure and quality of public services in roads, ports, telecommunications, water and waste, knowledge services, and other strategically important sectors

2b Public-Private Partnerships

- Leverage key public assets through long term concessions to optimize quality of public infrastructure, services to public and sustainable operations and maintenance

3 Energy Reform

3a Energy Reform

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

4 Promoting Economic Development

4a Enterprise Puerto Rico

- Promote productivity growth, attract FDI & incentivize investments in technology through collaboration with the private sector

4b Destination Marketing Organization

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

Private sector labor reform will make the labor market more efficient and create more job opportunities

1a **In December of 2016, the Financial Oversight and Management Board (“FOMB”) prioritized formulating measures to make Puerto Rico’s private sector labor market more competitive. In doing so FOMB deemed it necessary to implement consistent public policy measures in order to ensure long-term private sector labor market growth**

Reform Measure	Description
Labor Transformation and Flexibility Act	▪ The Labor Transformation and Flexibility Act (Act 4-2017) was signed into law on January 26, 2017 ▪ Act 4-2017 amended several labor legislations with the intention of improving labor market competitiveness, enhancing the labor participation rate, and halting the migration of citizens to external labor markets ▪ This measure was enacted considering the need to reduce restrictions and economic burdens on private employers while concurrently respecting the existing rights of employees
Flextime and Elimination of “Ley de Cierre”	▪ “Alternate or flexible weekly work schedules” were authorized to allow the work week to be carried out in few working days and to allow for the modification of the extraordinary compensation requirements ▪ On the other hand, Act 1-1989 was repealed thereby eliminating restrictions on opening retail trade on any day of the year; more specifically, eliminating Sunday work day restrictions and the resulting double compensation requirement
Vacation and Sick Leave	▪ Act 180-1998 was amended in order to attract unemployed labor force participants. This measure was achieved through a reduction of the internal labor costs related to vacation leave and sick leave ▪ With respect to employees hired after the approval of this law, a minimum progressive accumulation rate was established

Reforming the permitting process will eliminate obstacles to doing business and drive increased private sector investment in modern, compliant infrastructure

1b **Demonstrable progress was made with the enactment of Act 161-2009, which organically reformed the island's 25 year old permitting processes – simplifying, centralizing and providing greater transparency. Act 161 -2009 was amended in 2013, however, reversing most of the advances legislated 4 years earlier. As such, our permitting process continues to be long and uncertain, hinders business economic growth. Permanent reform, therefore, is necessary**

Reform Measure	Description
Act 161-2009	▪ Act 161-2009 made significant improvements in the process for application, evaluation and adjudication of permits by establishing, among others, the Permit Management Office (OGPe). Permit processes were centralized, subject to metrics, efficient appeals, and were afforded greater public visibility and transparency ▪ The 2013 (Act 151-2013) amendments truncated these advances, with evident and negative impacts on economic development. 2009-12: Puerto Rico advanced 50 competitive positions according to WEF; 2013-14: the Island lost 20 positions following the reversals legislated under Act 151 ▪ Puerto Rico must now reform its permit system competitively and maintain such reforms
Senate Bill 310 of 2017	▪ Senate Bill 310-2017 seeks to improve quality and efficiency in processing requests for permits, licenses, inspections, complaints, certifications, consultations, or any other authorization that affects in any way the operation of a business in Puerto Rico. The overall objective is to simplify, expedite and provide greater certainty to small, medium and large businesses and the overall commercial and business community
Centralize Permitting Process	▪ Permit reform develops a digital platform for instant granting of certain permits for ministerial uses and integrates municipalities in the platform. Creates a Unified Information System for the integration and streamlining of all processes to do business in Puerto Rico in a single digital portal (One Stop-Doing Business PR) ▪ All Municipal and Central Government requests will be filed into the same digital platform
Improve Transparency and Uniformity	▪ Transparency is strengthened by making available to the general public all applications in the same portal, regardless of whether they are Municipal or Central Government ▪ Regulatory uniformity is created by establishing a Joint Regulation for all Puerto Rico

Leaner and simpler corporate tax regime to spur economic growth

1c

The Administration's objective through forthcoming tax reforms is focusing on simplifying Puerto Rico's tax structure, lowering marginal tax rates, broadening the tax base and reducing tax evasion. Achieving these objectives will require compromises and cooperation from all stakeholders

Reform Measure	Description
New Corporate Tax Structure	▪ **New corporate tax structure:** The new Administration is currently analyzing the entire corporate tax structure as part of a comprehensive tax reform that will **simplify the tax systems, encouraging broader participation and lower tax evasion** ▪ Reform initiatives and implementation plan will take place during FY2017 and FY2018, subject to the necessary legislative process
US Corporate Tax Reform	▪ **Proactive engagement of Federal policy makers:** Insert Puerto Rico into any serious discussions about a Federal corporate tax reform (e.g. destination based cash flow) to ensure negative implications on Puerto Rico are mitigated
Options to Increase Revenues	▪ **Whistleblower Office:** Creation of an award-based whistleblower office leveraging experience of existing Whistleblower Office of the IRS enacted under Section 7623(b) of the Tax Relief and Health Care Act of 2006. Heightened tax compliance measures like the Whistleblower Office and generalized audits will convey the need for everyone to be fiscally responsible. Whistleblower programs are effective in generating one-time and recurrent revenues, in addition to reducing the "lack of fear" that prevails today of Hacienda ▪ **Replacement/Modification of Act 154 Excise Tax after 2027:** The Government will use the additional runway space provided by the extension of Act 154 Excise Tax to seek a more stable, consistent corporate tax policy that implements a broad-based regime with fewer exemptions

A new whistleblower program will support improved tax compliance efforts to increase collection rates

1c

One of Hacienda's biggest challenges is a "lack of fear" from taxpayers as a result of recurrent tax amnesties, bespoke agreements with taxpayers and a weak history of pursuing tax evasion. Puerto Rico could generate substantial revenues by correcting the "lack of fear" of Hacienda

Reform Measure	Description

Whistleblower Programs	▪ Award-based whistleblower program to incentivize honest, hard working taxpayers to help Hacienda identify and pursue tax evaders and to collect taxes. These office currently exist in many areas, including:
	    ▪ IRS Whistleblower Office: Established by the Tax Relief and Health Care Act of 2006. Responsible for processing tips received from individuals who spot tax problems and awards between 15% and 30% of the total proceeds that IRS collects, if the IRS moves ahead with the information provided
	    ▪ SEC Office of the Whistleblower: Authorized by Congress to provide monetary awards to eligible individuals who come forward with high-quality information that leads to an SEC enforcement action in which over $1,000,000, in sanctions is ordered. The range of awards is between 10% and 30% of the money collected

Hacienda – Office of the Whistleblower	▪ Create an award-based whistleblower office within Hacienda, established by law, to process tips received from individuals who spot tax problems in their workplace or anywhere else in their day-to-day personal business ▪ Awards to be based on a percent range of the total proceeds actually collected by Hacienda ▪ Staffing from employees transferred from other public entities under the newly enacted Single Employer program ▪ Establish Whistleblower protection mechanism to protect whistleblowers for doing what's right
Risks and Benefits	**Benefits:** ▪ Low cost/high return: Single Employer will allow existing employees with relevant expertise to transfer to the Office ▪ Self-funded: Initially through appropriation under condition to repay from future collections resulting from whistleblowing activities (set aside a fixed percentage of all whistleblowing collections) ▪ Revenues: Initiative will generate one-time/recurrent revenues as tax evaders face harsh consequences, increasing the risks associated with evasion in Puerto Rico (currently very low) ▪ Moral responsibility: Creates a sense of shared responsibility ▪ Reduces "lack of fear": Effective implementation and results ("quick wins") should have a domino effect, generating wave of tax evaders wanting to come clean voluntarily, rather than facing the consequences and public humiliation

Infrastructure/P3 reform will provide various mechanisms to facilitate needed infrastructure investments to spark economic growth and environmental compliance

2a

Measures to increase market competitiveness by investing in infrastructure, knowledge services, and other strategically important sectors will aid in improving the fiscal situation in Puerto Rico

Reform Measure	Description
Federal Opportunity Center	▪ Executive Order 002-2017 creates the “Federal Opportunity Center” as an advisory body to the Office of the Governor ▪ This Executive Order seeks to strengthen the collection, maximization and control of federal funds
Critical Infrastructure Projects	▪ Executive Order 003-2017 declares a state of emergency regarding the infrastructure of Puerto Rico and orders the use of an expedited permitting process under Act. No. 76-2000 seeking to promote the development of new infrastructure that makes use of renewable energy
Inter-Agency Group: Permit Process Priority	▪ Executive Order 004-2017 creates an inter-agency group to oversee the permit process of critical infrastructure projects ▪ Declares as a priority the need to expedite financing, permit processing, and construction of infrastructure projects deemed critical and urgent in nature. Measure is meant to address the deterioration of Puerto Rico's economic development while complying with PROMESA
Governor’s Permanent Advisory Council	▪ Executive Order 016-2017 creates the “Governor's Permanent Advisory Council on the Construction Industry” with the task of advising on any matter that relates directly or indirectly to the construction industry ▪ This is one of the priority measures meant to revive the economy and enable the development of infrastructure
Integrated Services Center	▪ Executive Order 022-2017 Create as public policy the establishment of Integrated Services Centers around the Island ▪ The purpose of this Executive Order is to centralize the regional offices of government services so citizens can receive services quickly and efficiently

Infrastructure/P3 reform will provide various mechanisms to facilitate needed infrastructure investments to spark economic growth and environmental compliance

2b

Improving the legal framework of Public-Private Partnerships will enable Puerto Rico to achieve a more efficient and fiscally responsible government with more modern public infrastructure and services to the public

Reform Measure	Description
Public-Private Partnerships	▪ Under Act 29-2009, Puerto Rico was able to leverage Public Private Partnerships to modernize infrastructure and provide for long term operation and maintenance of such public assets, with improved quality for the general public and taxpayers ▪ Based on the experiences since 2009, there are further improvements that can be achieved
Amended the Public-Private Partnership Act	▪ Act 1-2017 created the Participatory Public-Private Partnerships which strengthen local citizen and business participation and streamlines private investment through mechanisms such as the Pre-Development Agreements and Unrequested Proposals
Take Advantage Of Public Participation	▪ Act 1-2017 improves the ability to evaluate, analyze and develop projects submitted through Unrequested Proposals and Pre-Development Agreements ▪ This allows the Government to obtain detailed understanding of the technical and financial viability of specific projects more cost-effectively
Updates To The Legal Framework	▪ The new amendments improve Act 29-2009 to mirror best practices that have been developed over the last few years in the mainland United States and around the world ▪ Public Participatory Private Partnerships improves the involvement of citizens and local companies
Promotion Of Cost-effective Government	▪ Participatory Public Private Partnerships enable government efforts to be cost-effective in relation to energy production, land transportation systems, infrastructure, air and maritime ports, water and sewerage management, environmental protection and conservation, solid waste disposal, and planning processes, including urban planning and housing

Puerto Rico's infrastructure quality lags behind that of comparable US states, especially in energy and transportation

World Economic Forum Ranking on Infrastructure

Puerto Rico's infrastructure quality lags behind US states with comparable income levels, especially in energy and transportation

☐ 1st quintile 🟦 2nd quintile ▨ 3rd quintile

WEF score (1-7)

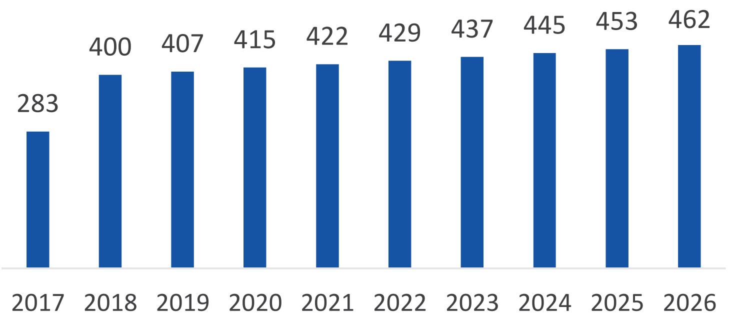
Sector	USA	Puerto Rico
Roads	☐ 5.7	🟦 5.2
Ports	☐ 5.7	☐ 5.4
Air transport	☐ 6.2	☐ 5.6
Electricity	☐ 6.4	▨ 5.1
Overall	☐ 5.8	🟦 4.9

Current State:

- Investment in infrastructure can solve some of the most pressing needs while boosting short-term GDP growth and supporting long-term economic development.
- The Commonwealth can increase the impact of public infrastructure spend through several levers:

  1. Eliminate or delay non-priority projects to focus public funds on highest impact projects.
  2. Improve maintenance efficiency through use of contractors and more preventative maintenance.
  3. Improve capex delivery efficiency through centralization of delivery and expedited permitting.
  4. Increase use of available federal funds and catalyze private funds through improved P3s.

Base Projected Capital Expenditures, $MM per year

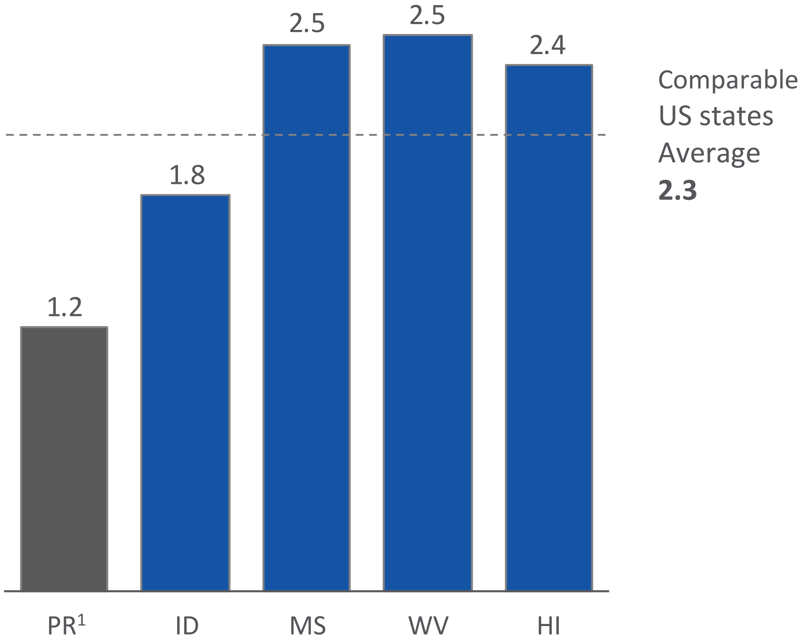


The capex in the Fiscal Plan is equal to the capex in the original baseline, and relies on delivering a significant amount of capex via P3s

Infrastructure investment to revamp economic development

- Public funding levels in the Fiscal Plan are well below US average, but P3s could **increase total infrastructure investment by up to ~67%.**
- **Total public funds for infrastructure can reach up to ~$12B.**
- The Government believes it can catalyze between **$4B-$8B of private investment (P3s).**
- Over 10 years, ~$12B-$20B of total **infrastructure spending would represent 1.2%-2%[3] of GDP**, bringing it closer to comparable states.

Public investment in infrastructure, (as a % of GDP)



1. Includes Commonwealth public capex baseline, PREPA and PRASA

Measures:

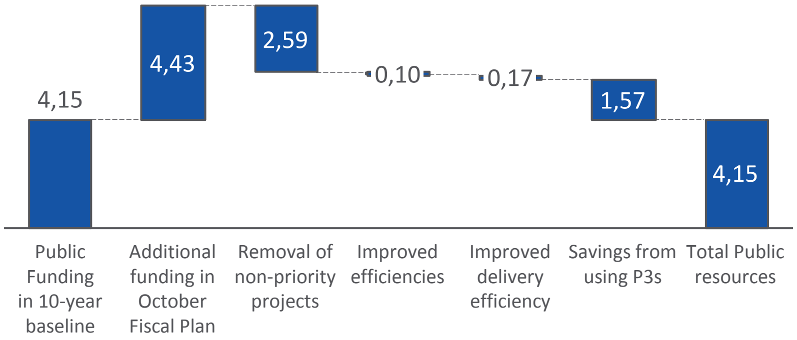
Collaboration with the Revitalization Coordinator:

- The Oversight Board and the Government have taken steps to expedite and centralize local permitting of critical projects.
- Expedite the permitting process (federal / local) for Critical Projects, through a Critical Project Process implemented by the Oversight Board Revitalization Coordinator.
- Coordinate with Fortaleza’s Infrastructure Taskforce, PRIFA and P3 Authority on infrastructure of both publicly and privately funded projects.

P3 Priority Projects:

- Recently passed legislation provides a robust P3 framework.
- The Government has initial identified key infrastructure projects that can leverage private capital through a set of P3 initiatives that represents between $4.5B to $8.0B.
- Most of the projects identified have reasonable level of private sector interest and have proven precedent in the market.

Fiscal Plan CAPEX over 10 year period



A handful of agencies can centralize project selection and delivery to ensure Puerto Rico maximizes each infrastructure dollar

Capital Budgeting Unit

- Develop centralized Capital Improvement Program across all government agencies that incorporates all funding sources and needs
- Prioritize projects and allocate / shift funds as needed, focusing on overall state priorities

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Delivery Unit

- Manage overall planning process, including conceptual planning and review of alternatives
- Interface with federal agencies (e.g., EIS)
- Develop approach to financing project (e.g., P3)
- Manage construction and operationalize asset

AFI
PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
Commonwealth of Puerto Rico

AUTORIDAD PARA LAS ALIANZAS PÚBLICO-PRIVADAS DE PUERTO RICO

Revitalization Coordinator

- Select critical projects that need to be fast-tracked via a clear, six-step process
- Provide PMO oversight of critical projects

Financial Oversight & Management Board for Puerto Rico

Public Agencies

- Continue to perform basic, “break-fix” day-to-day maintenance with in-house crews or contracts
- Provide agency budget information to OMB and agency expertise to Delivery Unit for new projects

SELLO DEL GOBERNADOR DE PUERTO RICO

Title V of PROMESA establish guidelines for identifying critical projects, expedited permitting and a Revitalization Coordinator to promote public infrastructure investment

PROMESA created the concept of Critical Projects to address the deteriorated state of Puerto Rico's public infrastructure…

- **"Critical projects are intimately related to addressing an emergency whose approval, consideration, permitting and implementation shall be expedited and streamlined"**
- Critical projects will be identified based on a number of criteria:
  - Impact the project would have on an emergency
  - Availability of funds to implement the project
  - Cost of the project (including the cost to the Government of Puerto Rico)
  - Environmental and economic benefits provided by the project
  - Current status of the project; and
  - Additional criteria related to energy production and conservation that the Revitalization Coordinator deems appropriate

…as well as a Revitalization Coordinator (RC) to oversee their identification and management

The Revitalization Coordinator has a number of responsibilities:

- Work with the Oversight Board and the Government to identify, coordinate and accelerate the execution of critical projects
- Lead the review process of potential critical projects, including recommending to the Oversight Board whether specific submitted projects should be designated critical
- Chair the Interagency Environmental Sub Committee to coordinate expedited environmental approvals
- Oversee the expedited permitting processes submitted by relevant PR agencies

Defining Critical Projects under PROMESA

There are three questions that need to be answered to design and implement the Critical Projects Program

🟦 Focus

What are Critical Projects?	What should the guiding principles of the Critical Projects program be and what is a "Critical Project?"
How are Critical Projects chosen?	What is the selection process for Critical Projects and who are the relevant agencies involved?
What can be done to facilitate Critical Projects?	What levers do the Board and the Revitalization Coordinator have to expedite Critical Projects?

Projects should be prioritized that achieve the following goals

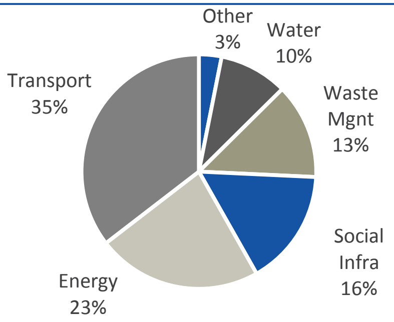
- ✓ **Address emergencies to protect life, public health and safety**
- ✓ **Comply with judgements, administrative rulings and local and federal regulations to avoid fines, penalties or loss of federal funds**
- ✓ **Carry out extraordinary repairs to extend useful life of critical public assets**
- ✓ **Significantly reduce operational costs and/or increase revenues**
- ✓ **Attract significant private investment in critical sectors**

P3 Project Implementation Sequence

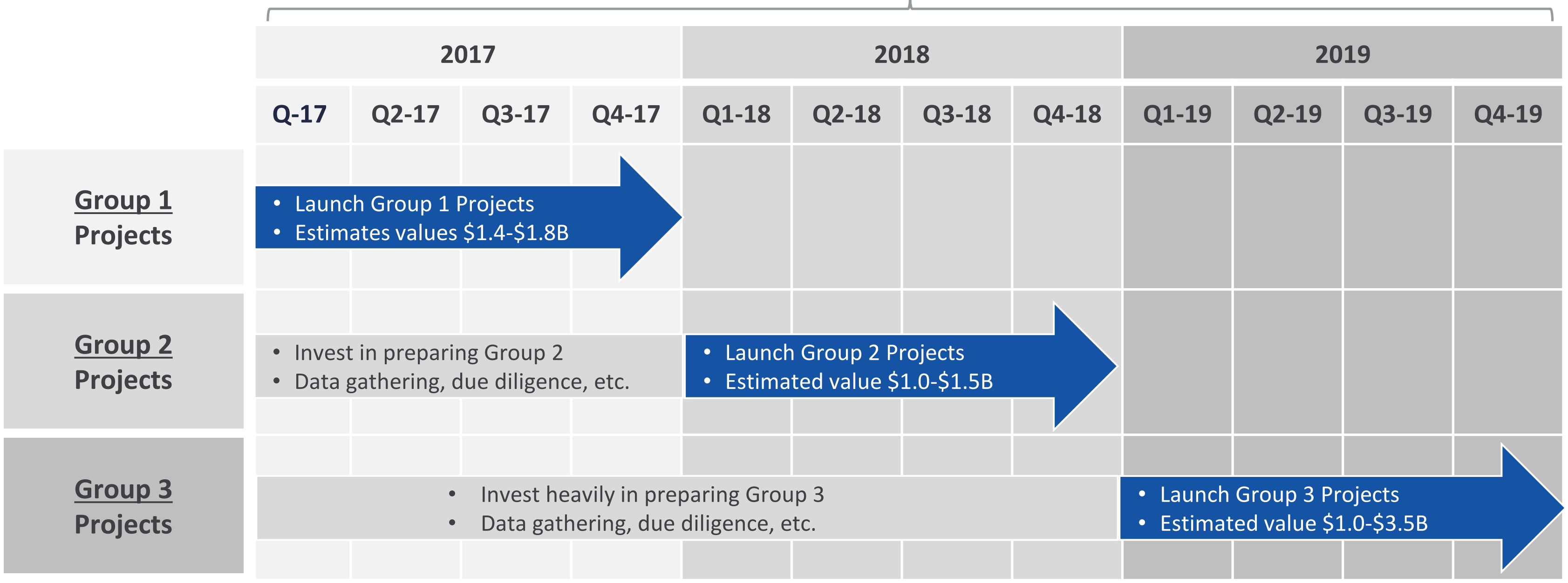
Key Considerations in the Overall P3 Implementation

- Project sequencing is designed to effectively progress the advancement of projects and avoid major obstacles in the shortest timeline possible. Thus, progression goes from easily executable/advanced permitting to more difficult/less advanced projects
- Project progression/advancement is designed to occur in 2017, 2018 and 2019, leaving 2020 focused on managing and finalizing any pending projects
- Need to promote and improve funding models to use private funds, where relevant, as leverage to maximize the unused federal funds current available

P3 key areas of focus



10-Year Impact → **Capital Improvement Investment: $4.5B | Jobs Created: 100,443**



Group 1 Projects
- Launch Group 1 Projects
- Estimates values $1.4-$1.8B

Group 2 Projects
- Invest in preparing Group 2
- Data gathering, due diligence, etc.
- Launch Group 2 Projects
- Estimated value $1.0-$1.5B

Group 3 Projects
- Invest heavily in preparing Group 3
- Data gathering, due diligence, etc.
- Launch Group 3 Projects
- Estimated value $1.0-$3.5B

(Project timeline includes P3 concessions included in Externalization measures)

P3s and infrastructure projects 10-year impact highlights

		Capital Improvement Investment	**Total Jobs Created** (Direct, Indirect & Induced)
□	Mid-Size Water Compost Plant	$7MM	158
□	Resource Recovery Plant	$1.01B	21,000
□	Non-Revenue Water & Metering	$400MM	9,000
□	New Renewable Energy Projects	$115MM	2,588
□	Alternate Fuel Source Facility in the Northern Region	$369MM	8,303
▨	Operate Property Collection System	$21MM	473
▨	Monetization of Certain Toll Roads	$400MM	9,000
▨	Natural Gas Plant Costa Sur	$265MM	5,967
▨	Natural Gas Plant Aguirre	$796MM	17,901
■	New Medical Center & Psychiatric Hospital	$175MM	3,938
■	Extension of PR-22	$750MM	16,875
■	UPR Student Life / Capital Project	$175MM	3,938

Total 10-Year Capital Investment

$4.5B

Total 10-Year Jobs Created

100,443

□ Group 1 Projects

▨ Group 2 Projects

■ Group 3 Projects

A new energy reform will provide Puerto Rico with a functional regulatory framework and governance to reduce the cost of energy

3a

Energy is the backbone of our economy and our quality of life. Effective energy reform, therefore, will enable Puerto Rico to achieve, once again, economic growth in a sustainable, cost effective and environmentally compliant manner

Reform Measure	Description
PREPA as catalyst of Economic Activity	▪ Rebase energy rates to ensure prices are sustainable/stable to support a competitive energy sector ▪ Ensure internal reforms to make PREPA a world class utility (integrate Big Data and IT Analytics) ▪ Enhance customer experience by leveraging technology ▪ Regain investor/customer confidence through independent and transparent oversight
Implement Restructuring Plan	▪ Complete debt restructuring and make PREPA a creditworthy counterparty ▪ Position PREPA to be an enabler of private investment in new compliant energy generation facilities, and invest in critical T&D and fuel delivery infrastructure (e.g., GasPort) ▪ Rebuild trust with business, commercial and residential customers to obtain best terms and grow demand
Catalyze Private Third Party Capital	▪ Develop public private partnerships for new generation facilities to enable PREPA to diversify its generation and fuel mix, comply with environmental regulations (e.g., MATS), achieve significant improvement in energy generation efficiency, heat rates and integrate a growing renewable energy generation supply ▪ Achieve the lowest possible price structure to enhance economic development and stable/quality energy supply
Accelerate Permitting And Siting	▪ Expedite and support the process for obtaining local and federal permits, through local permit reform, PREPA's active support and leveraging PROMESA's Title V provisions ▪ Leverage the Revitalization Coordinator, where appropriate and relevant, to coordinate and expedite permitting and approvals including with federal agencies (e.g., DOD, COE, EPA, DOI, DOC, DOE)
Reduce Power Demand	▪ Ensure local public agencies and municipalities account for the true consumption and cost of energy consumed ▪ Encourage consumers to limit demand by promoting pricing changes (e.g., peak-load pricing) that encourage shifts toward better demand management

The creation of Enterprise Puerto Rico will leverage and unite the private sector to attract new investments

4a

Puerto Rico's economic development and growth needs stable, aggressive and effective economic development promotion supported principally by the private sector in order to market PR as a truly pro-business jurisdiction

Reform Measure	Description
Enterprise Puerto Rico, Inc.	▪ Act 13-2017 creates a nonprofit corporation with the purpose of promoting Puerto Rico's economic development ▪ Objectives will be achieved leveraging the local public and private sectors and their resources, coordinated through the Department of Economic Development and Commerce of Puerto Rico ▪ Objectives: creation of new jobs, investment capital and economic development/growth
Inspiration by Global Success	▪ Puerto Rico's initiative is based on successfully implemented concepts similar to *JobsOhio*, and *Enterprise Florida* ▪ Although the platforms may vary, the purpose of these entities is to promote the creation of jobs by attracting new investment to their respective jurisdictions – with the good insights and benefit of private sector leaders
Promotion of Foreign Investment and Innovation	▪ The goal is to benefit from individuals from both the private and public sector who can support and advance effective economic development initiatives ▪ Focus will be on retaining current investors/businesses and attracting new sources of capital/businesses and services to Puerto Rico
Leverage Public and Private Sector Capabilities	▪ The Government is committed to the development of the private sector by creating tools that promote both local and outside investment and innovation ▪ This will be achieved through the integration of the private sector and local entities to leverage resources, relationships and knowledge
Room For Improvement	▪ Conditions to maintain and grow outside investment must be established/protected ▪ Three important tools will advance this initiative: the creation of an "Incentives Code" for the attraction of investment, the establishment of the "Puerto Rico Asset Map" and the creation of the "Investment Opportunities Inventory"

The creation of a Destination Marketing Organization (DMO) will provide much needed continuity to Puerto Rico's marketing as a tourism destination

4b

Externalizes the integrated marketing of Puerto Rico as a tourism destination to improve performance, exposure, continuity, transparency, and accountability

Reform Measure	Description
DMO House Bill 004 of 2017	▪ The DMO will take the reins of the Puerto Rico promotion and the development of its brand as a destination of the first order for all sectors ▪ It will 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 ▪ The new entity will replace and provide continuity to the Puerto Rico Convention Bureau
Public and Private based Initiative	▪ The DMO will have a wide and representative participation of sectors, both public and private, local industry and other interested parties, in order to generate benefits by attracting not only visitors but also investors ▪ Key private sector visitor economy stakeholders have been actively engaged in the design and implementation of the reform ▪ The DMO will contract with the Puerto Rico Tourism Company for the transfer of functions and resources and for the establishment of monitoring and compliance
Integrated Brand Strategy	▪ Study, develop and implement an integrated brand strategy to promote Puerto Rico as a destination ▪ Brand inclusion of all sectors of the economy, not only tourism ▪ DMO organizations that have led best practices on a long lasting brand strategy include Hawaii and Visit Florida
Monitoring and Compliance	▪ Over the past 10 years, Puerto Rico has radically changed its destination brand. This has led to a lack of consistency in its promotional campaign, effectiveness to capture visitors, and waste of government funds – over $300 million ▪ Incentive alignment between the government and the private sector with increase transparency, monitoring, and accountability for promotional efforts and investments

A complete package of economic development initiatives will drive the marketing and attraction of new investments and the creation of new jobs in Puerto Rico

Initiative	Description	Impact metrics
Enterprise Puerto Rico	Externalizes the economic development promotion and investment attraction function to improve performance, exposure, continuity, transparency, and accountability	✓ New Businesses ✓ Jobs & Payroll ✓ Capital Investment
Destination Marketing Organization	Externalizes the integrated marketing of Puerto Rico as a tourism destination and improve performance, exposure, continuity, transparency, and accountability	✓ Visitors ✓ Occupancy & ADR ✓ Length of Stay & Spend
Incentives Code	Consolidates all incentives into one code and creates a new uniform and electronic process for providing incentives and capturing performance metrics to measure return on investment	✓ New & Expanded Businesses ✓ Incentives ROI ✓ Tax Revenue
Interactive Asset Map	Provides an interactive inventory of all economic development assets including real-estate, academic institutions, R&D & innovation centers, clusters and infrastructure, among others	✓ New Projects ✓ Properties Sold or Leased ✓ P4's
Innovative Startups	Provide a tax credit for innovative startups that receive Federal research and development grants (NIH, NSF, etc.) and perform that research in Puerto Rico	✓ Startups Attracted & Created ✓ Research & Development Spend ✓ Companies in Scale-up Phase
Sharing Economy	Promote the sharing economy, especially in the hospitality sector, in order to increase the supply of lodging and services, provide specialized services, and distribute the benefits of the visitor economy across all regions of the island	✓ Length of Stay & Spend ✓ Regional Visitors ✓ Lodging Facilities
Electronic Export Information	Work with the US Department of Commerce to eliminate the requirement to file an Electronic Export Information (EEI) for interstate commerce between Puerto Rico and the mainland US	✓ Volume of Interstate Commerce ✓ Availability & Price of Goods in PR ✓ Shipping Costs

VI. DEBT SUSTAINABILITY ANALYSIS

Debt summary

- Below is a summary of the debt (excluding pension liabilities) considered in the fiscal plan
- Note: Amounts are estimated as of January 2017 and based upon preliminary unaudited numbers provided to AAFAF by issuer agencies and from publicly available information. Estimated amounts are subject to further review and may change

Summary of debt outstanding as of January 2017 ($MM)

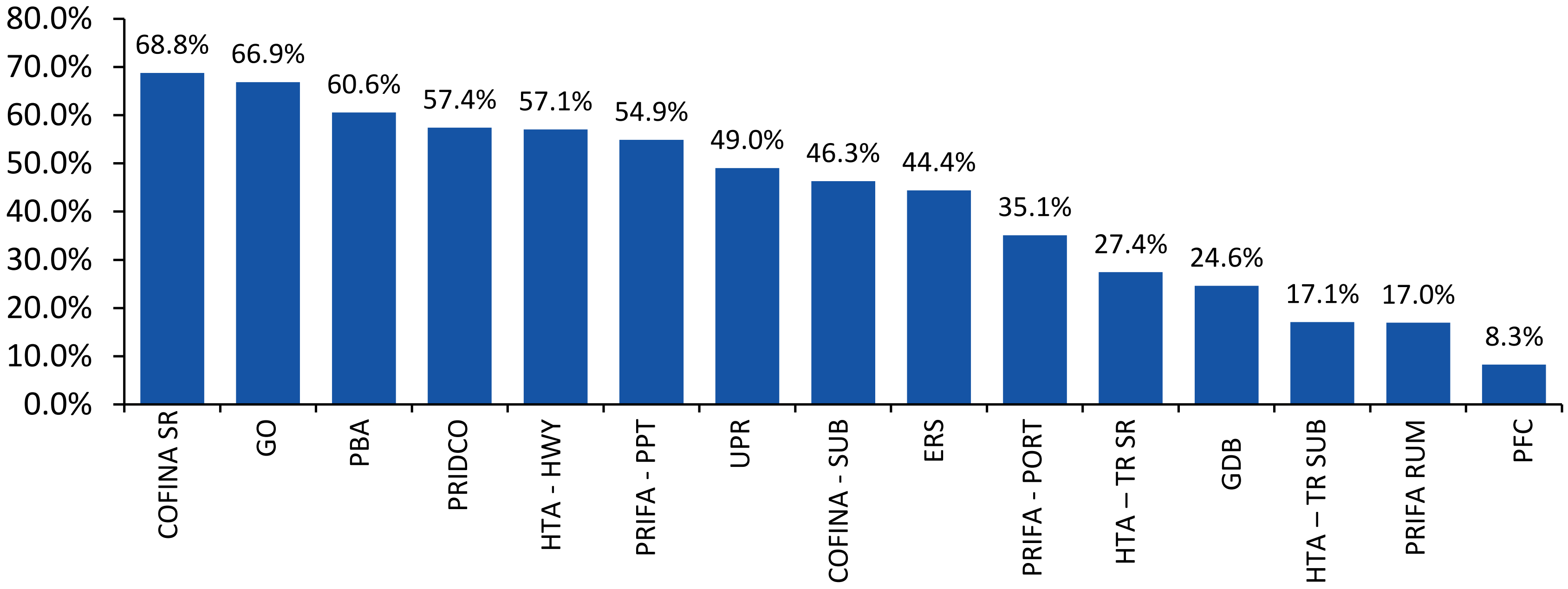
Issuers included in Fiscal Plan	**Bond principal**	**CAB**	**Unpaid P&I[1]**	**Private Loans**	**Total Bonds & Private loans**	*Loans from GDB/MFA Entities*	*Total Debt Service FY 17-19*	*DSRF Balance*
GO	$12,013	$84	$1,146	$24	$13,267	*$169*	$3,284	--
COFINA	11,725	6,155	--	--	17,880	--	*2,126*	--
HTA[2]	4,106	135	6	--	4,247	*1,734*	*943*	*101*
PBA	4,012	--	117	--	4,129	*182*	*776*	*6*
GDB[3, 4]	3,182	--	742	203	4,126	--	*1,887*	--
ERS	2,658	498	--	--	3,156	--	*500*	*44*
PRIFA[5]	1,683	409	232	--	2,324	*127*	*487*	*2*
PFC	1,025	--	172	--	1,197	--	*258*	--
UPR[6]	496	--	--	--	496	*76*	*128*	*61*
PRCCDA	386	--	--	--	386	*145*	*91*	*9*
PRIDCO	145	11	--	--	156	*78*	*54*	*19*
AMA	--	--	--	28	28	--	--	--
Other Central Gov't Entities	226	--	29	413	667	*3,897*	--	--
Total	**$41,657**	**$7,293**	**$2,444**	**$668**	**$52,062**	**$6,409**	**$10,533**	**$242**
Debt Issuers not incl. in Fiscal Plan								
PREPA	8,259	--	--	697	8,956	*36*	*2,775*	*6*
PRASA[7]	3,943	--	21	584	4,549	*229*	*995*	*93*
Children's Trust	847	789	--	--	1,636	--	*140*	*85*
HFA	542	--	--	--	542	*85*	*134*	*33*
PRIICO	--	--	--	98	98	--	--	--
Municipality Related Debt[8]	556	--	--	1,140	1,696	*2,036*	*n.a.*	*59*
Total	**$14,147**	**$789**	**$21**	**$2,520**	**$17,477**	**$2,386**	**$4,044**	**$276**
Total	**$55,804**	**$8,081**	**$2,465**	**$3,188**	**$69,538**	**$8,795**	**$14,577**	**$518**
Less: GDB Bonds (excl. TDF)					(3,556)			
Plus: Loans from GDB/MFA Entities					8,795			
Public Sector Debt					**$74,778**			

Notes:

1) Unpaid principal and interest includes debt service that has been paid by insurers and is owed by the government
2) HTA includes Teodoro Moscoso bonds
3) GDB private loans includes Tourism Development Fund ("TDF") guarantees
4) Includes GDB Senior Guaranteed Notes Series 2013-B1 ("CFSE")
5) PRIFA includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANs, PRIFA Port Authority bonds and $34.9m of PRIFA ASSMCA bonds
6) UPR includes $64.2m of AFICA Desarrollos Universitarios University Plaza Project bonds
7) PRASA bonds includes Revenue Bonds, Rural Development Bonds, Guaranteed 2008 Ref Bonds
8) Municipality Related Debt includes AFICA Guyanabo Municipal Government Center and Guaynabo Warehouse for Emergencies bonds

Secondary Market Pricing for Uninsured Bonds by Issuer

Shown as % of accreted principal



Source: JJ Kenney as of 2/3/2017
Note: Internal calculations based on secondary market pricing data

Debt service schedule

The table below summarizes the annual debt service through FY 2027 for all issuers included in the fiscal plan

FY 2018 – FY 2027 debt service ($MM)

Fiscal year ending June 30,	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Cash Interest										
GO	$714	$699	$680	$658	$641	$621	$597	$571	$545	$518
PBA	183	179	175	171	165	158	153	147	140	135
COFINA	687	686	686	685	692	698	704	710	707	704
HTA[1]	207	201	197	191	182	174	170	166	160	151
PRIFA[2]	80	77	75	72	69	65	61	57	53	45
PRCCDA	18	17	17	16	15	15	14	13	12	11
PFC	56	54	53	52	50	48	47	44	42	40
UPR[3]	24	22	21	20	18	17	15	14	12	11
ERS	167	167	167	167	164	159	155	154	152	151
GDB	150	135	92	69	54	49	34	21	14	3
PRIDCO	8	7	7	6	5	5	4	3	2	2
Total	**$2,292**	**$2,245**	**$2,168**	**$2,105**	**$2,055**	**$2,010**	**$1,953**	**$1,900**	**$1,840**	**$1,770**
Principal										
GO	$351	$392	$439	$334	$358	$378	$402	$428	$454	$481
PBA	66	70	74	101	109	100	101	107	96	106
COFINA	19	48	78	98	120	159	203	248	294	344
HTA[1]	136	81	111	162	151	95	79	109	183	146
PRIFA[2]	48	50	51	54	62	86	64	72	74	221
PRCCDA	12	13	14	14	15	16	17	17	18	19
PFC	30	32	33	34	36	37	39	41	43	46
UPR[3]	25	26	27	29	30	31	33	35	24	26
ERS	(0)	--	(0)	50	70	80	19	22	29	36
GDB	277	848	432	434	143	47	541	--	248	127
PRIDCO	10	11	11	11	13	13	14	15	16	17
Total	**$975**	**$1,569**	**$1,271**	**$1,320**	**$1,105**	**$1,043**	**$1,512**	**$1,094**	**$1,480**	**$1,570**
Total debt service										
GO	$1,066	$1,090	$1,118	$991	$999	$999	$999	$999	$999	$999
PBA	249	249	249	272	273	258	254	253	236	241
COFINA	705	734	764	782	812	857	907	958	1,002	1,049
HTA[1]	343	282	308	354	333	269	249	275	343	297
PRIFA[2]	127	127	126	126	130	151	125	130	127	267
PRCCDA	30	30	30	30	30	30	30	30	30	30
PFC	86	86	86	86	86	86	86	86	85	85
UPR[3]	48	48	48	48	48	48	48	48	36	36
ERS	167	167	167	217	234	239	174	176	181	187
GDB	428	983	525	503	196	97	575	21	261	130
PRIDCO	18	18	18	16	18	18	18	18	18	18
Total	**$3,267**	**$3,814**	**$3,439**	**$3,426**	**$3,160**	**$3,053**	**$3,465**	**$2,994**	**$3,321**	**$3,340**

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1 HTA includes Teodoro Moscoso Bridge

2 PRIFA includes PRIFA BANs

3 UPR includes AFICA UPP

Debt sustainability

The table below summarizes the annual cash flow available for debt service, and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35 year term

- Cash flow available for debt service incorporates (i) the payment of essential services, (ii) benefit of clawback revenues and (iii) a prudent contingency reserve
- Due to the substantial financial impact, the sensitivity analysis is shown both (i) assuming loss of ACA funding and (ii) assuming ACA funding restored

Debt sustainability sensitivity analysis ($MM)

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Baseline Projections											
Revenues	$18,952	$17,596	$16,514	$16,623	$16,799	$17,013	$17,255	$17,502	$17,746	$18,042	$174,040
Expenses	(17,542)	(18,496)	(18,671)	(18,875)	(19,255)	(19,705)	(20,017)	(20,358)	(20,935)	(21,209)	(195,063)
Cash Flow Excl. Debt Service & Measures	**1,410**	**(901)**	**(2,157)**	**(2,252)**	**(2,456)**	**(2,692)**	**(2,762)**	**(2,856)**	**(3,189)**	**(3,167)**	**(21,022)**
Impact of Measures											
Revenue Measures	--	834	1,468	1,490	1,495	1,504	1,514	1,525	1,536	1,549	12,914
Expense Measures	(262)	643	1,848	2,160	2,357	2,468	2,503	2,540	2,728	2,766	19,751
Total Measures	**(262)**	**1,477**	**3,315**	**3,650**	**3,852**	**3,972**	**4,017**	**4,066**	**4,264**	**4,315**	**32,666**
Cash Flow Available for Debt Service	**$1,148**	**$576**	**$1,158**	**$1,398**	**$1,396**	**$1,280**	**$1,255**	**$1,209**	**$1,075**	**$1,148**	**$11,643**
Plus: ACA Funding Restored	--	864	1,515	1,580	1,677	1,831	1,950	2,066	2,248	2,379	16,112
Cash Flow Available with ACA Restored	**$1,148**	**$1,441**	**$2,673**	**$2,977**	**$3,073**	**$3,111**	**$3,206**	**$3,275**	**$3,323**	**$3,527**	**$27,755**

Scenario: Assumes Loss of ACA Funding

Sensitivity Analysis: Implied Debt Capacity at 1.25x Interest Coverage

Illustrative Cash Flow Available		**$175**	**$300**	**$425**	**$550**	**$675**	**$800**	**$925**	**$1,050**	**$1,175**
Interest Rate Sensitivity Analysis	*3.75%*	3,219	5,518	7,817	10,116	12,415	14,714	17,013	19,312	21,611
	4.00%	3,057	5,240	7,423	9,606	11,789	13,973	16,156	18,339	20,522
	4.25%	2,910	4,989	7,068	9,147	11,226	13,305	15,383	17,462	19,541

Sensitivity Analysis: Implied Debt Capacity at 4.00% Interest Rate

Illustrative Cash Flow Available		**$175**	**$300**	**$425**	**$550**	**$675**	**$800**	**$925**	**$1,050**	**$1,175**
Interest Coverage Sensitivity Analysis	1.10x	3,473	5,954	8,435	10,916	13,397	15,878	18,359	20,840	23,321
	1.25x	3,057	5,240	7,423	9,606	11,789	13,973	16,156	18,339	20,522
	1.40x	2,729	4,678	6,628	8,577	10,526	12,476	14,425	16,374	18,324

Scenario: ACA Funding Restored

Sensitivity Analysis: Implied Debt Capacity at 1.25x Interest Coverage

Illustrative Cash Flow Available		**$1,200**	**$1,450**	**$1,700**	**$1,950**	**$2,200**	**$2,450**	**$2,700**	**$2,950**	**$3,200**
Interest Rate Sensitivity Analysis	*3.75%*	22,071	26,669	31,268	35,866	40,464	45,062	49,660	54,258	58,857
	4.00%	20,959	25,325	29,692	34,058	38,425	42,791	47,158	51,524	55,891
	4.25%	19,957	24,114	28,272	32,430	36,587	40,745	44,903	49,061	53,218

Sensitivity Analysis: Implied Debt Capacity at 4.00% Interest Rate

Illustrative Cash Flow Available		**$1,200**	**$1,450**	**$1,700**	**$1,950**	**$2,200**	**$2,450**	**$2,700**	**$2,950**	**$3,200**
Interest Coverage Sensitivity Analysis	1.10x	23,817	28,779	33,741	38,703	43,665	48,627	53,588	58,550	63,512
	1.25x	20,959	25,325	29,692	34,058	38,425	42,791	47,158	51,524	55,891
	1.40x	18,713	22,612	26,511	30,409	34,308	38,207	42,105	46,004	49,902

Principles for consensual restructuring process

- Establish rational debt burden for each issuer based upon responsible projection of net cash available for debt service (including SUT and clawback revenues) after payment of essential services and contingency reserves
  - *Potential for creation of one or more series of cash flow notes*
    - *Create additional tradeable securities*
    - *Potential additional recoveries for creditors in high growth scenarios*
- Coordinate with Board under PROMESA law to provide creditors with reasonable certainty that any agreed upon restructuring will be implemented in good faith and not subject to subsequent renegotiation by multiple parties
- Preserve, to the extent possible, Puerto Rico's access to both the GO and securitization markets
- Ensure restructuring assumptions create a sustainable (and not excessive) burden on Puerto Rico citizens and promote economic growth, consistent with Governor Rosselló's stated public policies
- Develop a capital structure which facilitates private market participation in on-island economic activity
- Utilize consensual, good faith negotiations and implement under Title VI, where possible

VII. LIQUIDITY DISCUSSION

The scope of this liquidity plan is the Treasury Single Account (TSA), which channels approximately two thirds of the Government's cash flow

Scope	Description	Select Examples of Covered Entities[1]
TSA Treasury Functions	▪ TSA performs treasury functions for agencies without self-generated revenues and independent treasuries ▪ These agencies primarily rely on General Fund (GF) appropriations for operations	▪ Department of Education ▪ Police ▪ Legislative Assembly ▪ Department of Health ▪ Department of Family ▪ Other Agencies
Outside TSA Pool	▪ Entities that maintain independent treasuries (i.e., manage their own cash flows and bank accounts) ▪ Many of these receive either GF and/or pledged revenues that are disbursed from the TSA ▪ Interactions with the TSA are noted beside the entity in the box to the right	▪ UPR - Receives GF appropriations incl. formula ▪ PREPA/PRASA - Receives GF appropriations for central gov't utilities ▪ HTA - Receives pledged to debt and others ▪ PBA - Receives GF rent appropriations for OpEx and debt service ▪ ASES - Receives fed. funds, GF appropriations ▪ ASEM – GF appropriations ▪ Pension Funds[2] ▪ Municipalities -Receives GF appropriations ▪ COFINA

The Government will centralize the flow of information from Treasuries outside the TSA Pool in order to have a clearer perspective of it's complete cash position. This will drive strategic decision making, and anticipate necessary balances for large upcoming payments and/or fiscal cliffs.

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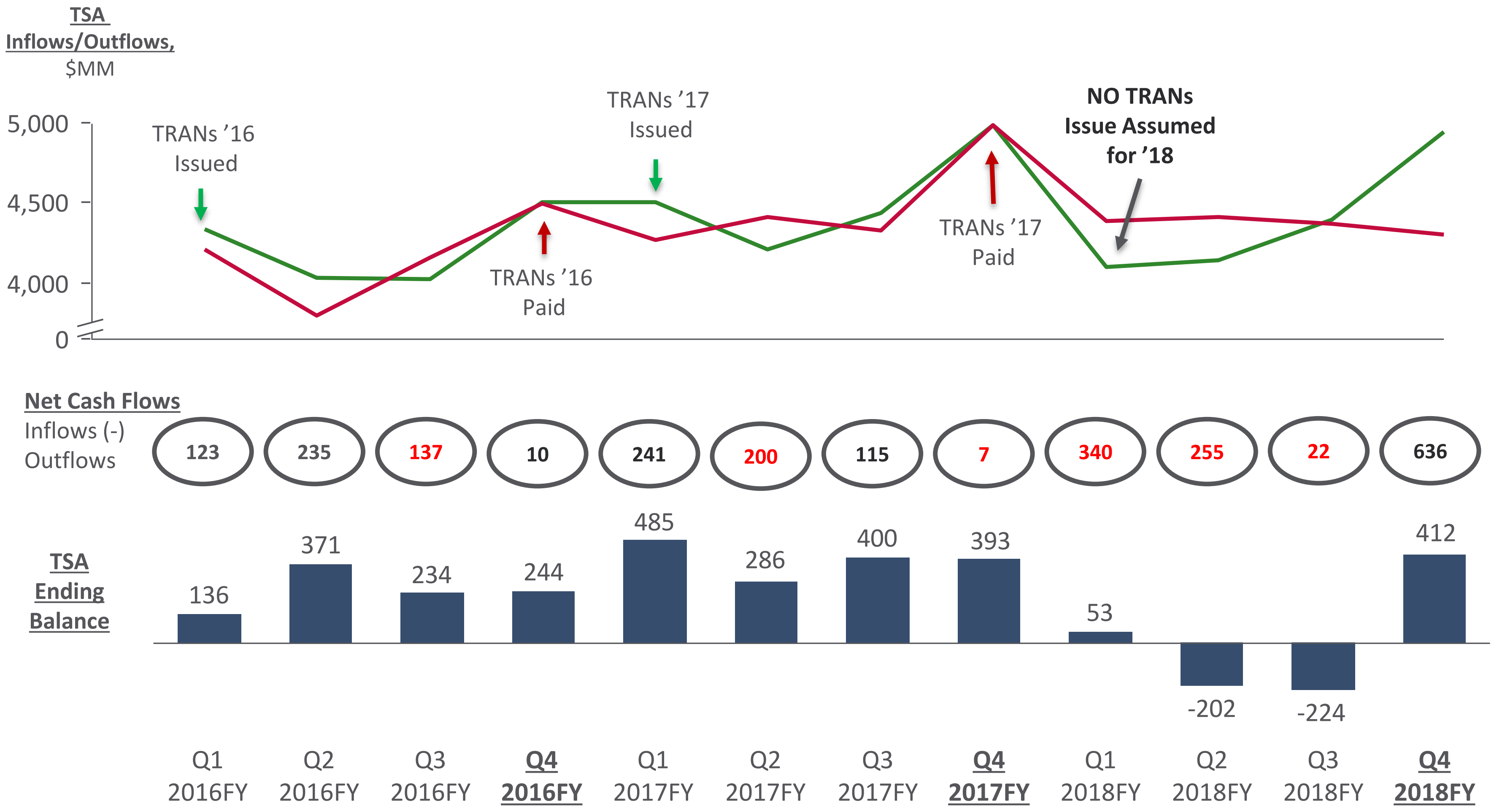
1) List is not inclusive of all entities.

2) TRS and ERS manage the fund assets which are periodically liquidated to transfer to the TSA for the payment of benefits.

Tax Revenue Anticipation Notes (TRANs) transactions have kept TSA balances have positive over time, Assuming no TRANs Issuance in Q1 of 2018FY, the TSA Balance would turn negative



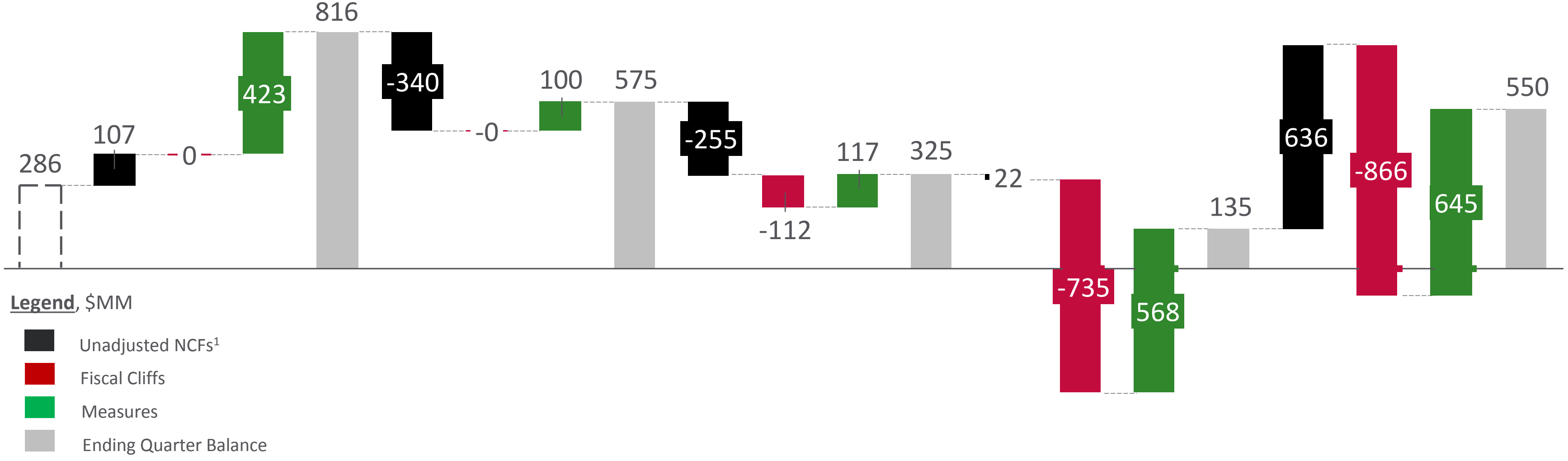
Base Forecast Excluding Debt Service

The next slide shows how upcoming fiscal cliffs further worsen the TSA's base liquidity forecast, and the measures the Government is taking to maintain it in positive territory.

Excludes clawback account.

The Government is applying short and long term liquidity measures to counteract fiscal cliffs amounting to 850MM+ a quarter by end of FY 2018

Q3, Q4 2017FY	Q1 2018FY	Q2 2018FY	Q3 2018FY	Q4 2018FY
Ending 6/30/2017	*9/30/2017*	*12/31/2017*	*3/30/2018*	*6/30/2018*



	Q3, Q4 2017FY	Q1 2018FY	Q2 2018FY	Q3 2018FY	Q4 2018FY
⬛	*- Repayment of TRANs (423)* *- Retention of pledged revenues <u>stops</u> after March 31, 2017*	*- Lower 1st half revenues due to SUT related debt payments*	*- Lower 1st half revenues due to SUT related debt payments* *- Xmas bonus payments*	*- Full collection of SUT after debt paid in 1st half and tax collections in 2nd half of yr*	*- Higher income tax collections in 4Q*
🟥			*- ACA Funding Gap (112)*	*- ERS Liquidity (169)* *- Act 154 Expiration (229)* *- ACA Funding Gap (337)*	*- ERS & TRS Liquidity (240)* *- ACA Funding Gap (337)* *- Act 154 expiration (290)*
🟩	*- Defer repayment of TRANS (423)* *- Asset Valuation and Monetization Management RFQ*	*- Gov't Right Size (115)* *- Health care savings (6)* *- Pension Reform (16)* *- Reduction in AP (-38)*	*- Gov't Right Size (132)* *- Health care savings (6)* *- Pension Reform (16)* *- Reduction in AP (-38)*	*- Gov't Right Size (197)* *- Health care savings (6)* *- Pension Reform (16)* *- Reduction in AP (-38)* *- Revenue enhancements (157)* *- Extension of Act 154 (229)*	*- Gov't Right Size (213)* *- Health care savings (6)* *- Pension Reform (16)* *- Reduction in AP (-38)* *- Revenue enhancements (157)* *- Extension of Act 154 (290)*

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1. *Unadjusted net cash flows include repayment of interest and principal on tax revenue anticipation notes issued in FY 2017. Excludes debt service. Ending cash balances exclude clawback account. Numbers may not add due to rounding*

Detailed 13-week TSA cash flows, before cliffs and measures

		1	2	3	4	5	6	7	8	9	10	11	12	13	TOTAL	PRIOR	Favorable /
		W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	W/E	Mar-3 -	Mar-3 -	(Unfavorable)
	(figures in $mm)	Mar-3	Mar-10	Mar-17	Mar-24	Mar-31	Apr-7	Apr-14	Apr-21	Apr-28	May-5	May-12	May-19	May-26	May-26	May-26	Variance
1	General Collections	$67	$75	$349	$254	$58	$71	$66	$760	$186	$63	$66	$334	$60	$2,409	$2,407	$2
2	Sales and Use Tax	8	5	18	13	146	5	17	14	163	5	18	5	167	584	581	3
3	Excise Tax through Banco Popular	–	–	64	–	–	–	77	–	–	–	–	68	–	210	210	–
4	Rum Tax	7	–	–	10	–	–	–	11	–	–	–	18	–	46	39	7
5	Electronic Lottery	–	37	–	–	–	–	–	–	–	–	–	–	–	37	37	–
6	Subtotal	$81	$117	$432	$277	$204	$76	$161	$784	$349	$68	$84	$424	$227	$3,284	$3,273	$11
7	Government Employee and Judiciary Retirement	–	56	–	–	–	–	56	–	–	–	56	–	–	169	169	–
8	Teachers Retirement System	–	–	–	–	–	–	70	–	–	–	–	–	–	70	70	–
9	Retirement System Transfers	–	$56	–	–	–	–	$127	–	–	–	$56	–	–	$240	$240	–
10	Federal Funds	70	106	93	110	83	123	95	119	123	95	126	93	123	1,360	1,384	(24)
11	Municipal Revenue Collection Center	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Other Inflows	3	–	9	–	11	–	–	9	11	–	–	–	–	43	48	(5)
13	GDB Transactions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Tax Revenue Anticipation Notes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	**Total Inflows**	**$154**	**$280**	**$534**	**$388**	**$298**	**$199**	**$382**	**$912**	**$483**	**$163**	**$267**	**$517**	**$350**	**$4,926**	**$4,944**	**($18)**
16	Payroll and Related Costs	($97)	($110)	($18)	($51)	($120)	($23)	($95)	($62)	($101)	($35)	($90)	($65)	($96)	($963)	($890)	($73)
17	Pension Benefits	(82)	(82)	–	–	(87)	–	(82)	–	(87)	–	(82)	–	(87)	(589)	(507)	(82)
18	Health Insurance Administration - PRHIA / ASES	(1)	(53)	(53)	(53)	(55)	(53)	(53)	(53)	(60)	(53)	(53)	(53)	(53)	(640)	(639)	(1)
19	University of Puerto Rico - UPR	(6)	(18)	(18)	(18)	(24)	(18)	(18)	(18)	(24)	(18)	(18)	(18)	(18)	(235)	(235)	–
20	Municipal Revenue Collection Center - CRIM	–	(8)	(21)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(104)	(104)	–
21	PR Highway Transportation Authority - PRHTA / A	(17)	–	–	–	(16)	–	–	–	(16)	–	(19)	–	–	(68)	(68)	–
22	Public Building Authority - PBA / AEP	(5)	–	(9)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	–	(53)	(53)	–
23	Other Governmental Entities	(16)	(3)	(20)	(9)	(54)	25	(20)	(9)	(54)	25	(20)	(9)	(12)	(174)	(175)	1
24	Subtotal - Government Entity Transfers	($44)	($81)	($120)	($92)	($160)	($57)	($103)	($92)	($165)	($57)	($122)	($92)	($90)	($1,273)	($1,273)	($0)
25	Supplier Payments	(96)	(76)	(76)	(76)	(77)	(88)	(88)	(88)	(88)	(69)	(69)	(69)	(69)	(1,027)	(1,018)	(10)
26	Other Legislative Appropriations	(13)	–	(24)	(14)	(5)	(2)	–	(38)	(5)	(6)	(22)	(10)	(5)	(144)	(140)	(3)
27	Income Tax Returns	(10)	(24)	(27)	(29)	(9)	(3)	(12)	(78)	(8)	(14)	(9)	(9)	(64)	(294)	(275)	(19)
28	Nutrition Assistance Program	(32)	(31)	(30)	(70)	(22)	(35)	(40)	(54)	(36)	(22)	(43)	(56)	(36)	(507)	(518)	11
29	Other Disbursements	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
30	Contingency	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31	Tax Revenue Anticipation Notes	–	–	–	–	–	–	–	–	(152)	–	–	–	–	(152)	(152)	–
32	**Total Outflows**	**($372)**	**($404)**	**($294)**	**($332)**	**($480)**	**($207)**	**($419)**	**($411)**	**($641)**	**($203)**	**($437)**	**($301)**	**($448)**	**($4,948)**	**($4,772)**	**($176)**
33	**Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures**	**($218)**	**($125)**	**$239**	**$56**	**($181)**	**($8)**	**($36)**	**$501**	**($158)**	**($40)**	**($170)**	**$216**	**($98)**	**($22)**	**$172**	**($194)**
34	Cash Position, Beginning	$629	$411	$286	$526	$582	$400	$392	$356	$857	$699	$659	$489	$705	$629	$326	$303
35	**Cash Position, Ending (a)**	**$411**	**$286**	**$526**	**$582**	**$400**	**$392**	**$356**	**$857**	**$699**	**$659**	**$489**	**$705**	**$607**	**$607**	**$497**	**$110**

Only measure in 13-week period is deferment of 1st TRANS payment ($152MM), resulting in an ending balance of $759MM

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a) *Excludes clawback account.*

Cash flow forecast assumptions - baseline

Applied through forecast

- Does not include funding for potential liquidity shortfalls at component units/others (e.g., PRHTA, PRITA, etc.). These considerations have yet to be quantified and could have a material impact on TSA liquidity
- Cash flow assumes funds previously set-aside during clawback period (at BPPR accounts) are inaccessible for general use over the forecast period
- Debt service, excluding principal and interest due on 2017 tax revenue anticipation notes (TRANS), is not paid

Exclusive to FY2017

- Beginning May 1, 2017 (and through 6/30/2018), Treasury will stop retaining pledged revenues related to relevant moratorium legislation
- ERS and TRS will have sufficient liquidity to make transfer projected through year end
- Estimated year-over-year reduction in $260MM and $200MM for accounts payable and income tax refunds payable, respectively
- As projected by PR Department of Treasury as of February 24th, 2017

Exclusive to FY2018

- No financing proceeds (i.e, no TRANS)
- FY 2018 General Fund revenues forecasted by Puerto Rico Department of Treasury (~$9.06B). Revenue assumptions do not incorporate economic assumptions in the Fiscal Plan. General Fund expenditures based on the approved FY 2017 budget adjusted for certain items such as TRANs interest
- Supplier and tax refund payments are projected to result in no year-over-year change in liability
- ERS and TRS have sufficient liquidity to continue transferring required amounts to cover net pension benefits Fiscal Cliffs are shown separately from the baseline to emphasize significant liquidity challenges expected to occur in FY 2018
- Includes $24MM of additional Oversight Board costs compared to FY 2017

Cash flow forecast assumptions – fiscal cliffs and measures

Fiscal Cliffs

- Pension Asset Depletion - assumes ERS and TRS run out of liquid assets and are unable to transfer funds to the TSA beginning January 2018 and~~,~~ April 2018, respectively.
- Act 154 Expiration - impact assumed to be equal to approximately 50% of second half of FY 2018 foreign company tax revenues
- Affordable Care Act (ACA) cliff - impact estimated at $110MM per month beginning December 2017

Fiscal Plan Measures[1]

- Revenue enhancements: extension of Act 154, Improved tax compliance, Right-rate fees
- Right-size government and efficiency: mobilization, new government model, and reduction of subsidies[2]
- Reducing health care spending
- Pension reform
- Countermeasure: Pay local businesses for past services – paydown of supplier payments accounts payable stock from current levels.

Short Term Measures

- Defer repayment of TRANs until after FY 2018
- Asset Monetization RFQ – proceeds resulting of potential asset monetization is not included in forecast; however, work is ongoing to assess impact

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[1] Full detail in Section III.

[1] Includes UPR.

VIII. 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

	Current State	Structural Changes
1 Budget	▪ "Top-down" approach, based on prior year's Budget ▪ No tracking mechanisms exist to measure intra-year actual expenditures vs. budget on an accrual basis	**1** ▪ **Definition of Core Services** ▪ **Inclusion of Measures from Fiscal Plan** ▪ **Transition towards Zero-based Budget**
2 Procurement	▪ No central office has visibility across all spending ▪ Procurement agencies do not actively enforce terms and specifications ▪ Processes often lack transparency ▪ Disincentives to using a Total Cost of Ownership approach ▪ Government failed to incorporate modern technology	**2** ▪ **Formation of a Procurement Assessment Group** ▪ **Creation of PMO to implement reforms**
3 Disbursement	▪ No well-defined priority of payments in place ▪ Cash disbursements is a manual and subjective process handled at Hacienda ▪ Checks are held for weeks, sometimes months before final release to vendors ▪ Bank-to-book reconciliations are not prepared in a timely manner	**3** ▪ **Establishment of Disbursement Authorization Group at Hacienda** ▪ **Priority of payments protocol based on Core Services definition (see #1)** ▪ **Implementation of rolling 13-week forecast and weekly reporting vs. plan (see Liquidity Section)**

1 Identifying Critical Government Services & Type of Expenses

Critical Government Services

Critical Government Services

Healthcare

- Preventive, diagnostic and treatment services
- Specialized services: Mental Health, Substance Abuse Treatments
- Emergency Care (Hospital)

Education

- Education for K-12, vocational and special education
- Post-secondary and graduate Sports and Recreation

Public Infrastructure

- Basic maintenance and repairs for public roads
- Public buildings administration
- Ports
- Power grid
- Potable water supply pipelines
- Information technology
- Permit Expedition
- Basic capabilities for disbursements and collections
- Basic legislative and Executive tasks to ensure business continuity & economic development

Justice Department

- Crime prevention & investigation
- Disaster /Emergency response
- Inmate custody
- Protection of minors and family
- Protection of Environment

Public Safety

- Prosecution of complaints and legal counsel to Government
- Adjudication of criminal and civil complaints, including labor disputes and child support administration matters

Catalogue Type of Expenses [1]

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

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

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

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

1 Definition of Core Expenses: Identifying Core Functions and sizing impact

Final step of the Protocol requires to identify if each expense is indispensable to accomplishing the Agency's core objective.

Core Function Score Matrix

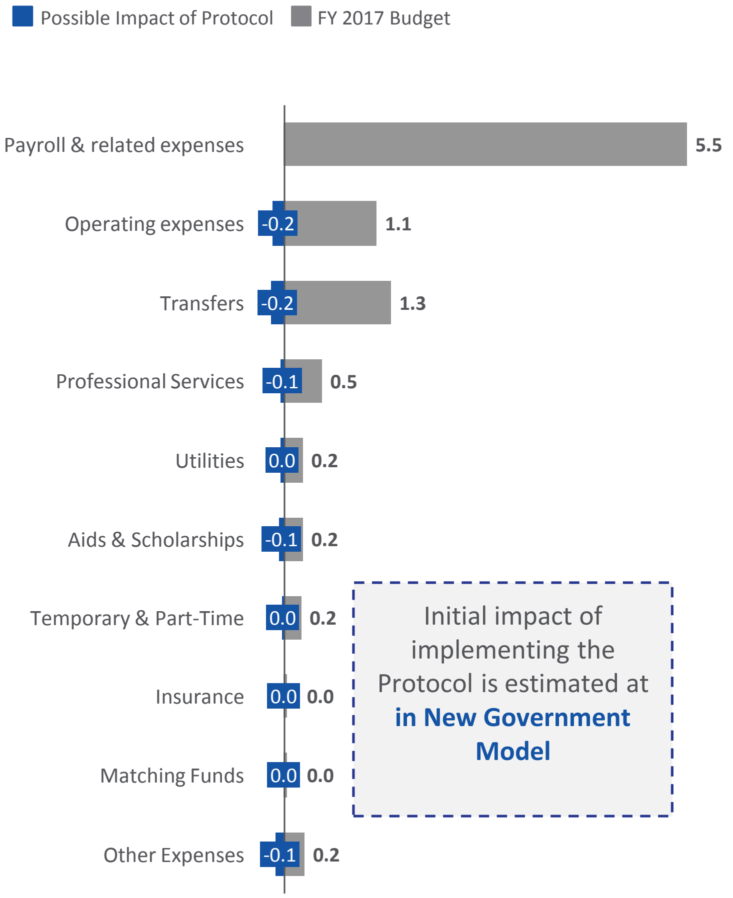
Agency is Critical if:

- Service strictly related to the five *Critical Government Service* Categories?

- Is the agency the main provider within the government structure?

	Code	Critical Service Agency	Non Critical Service Agency
Core Function	1	100%	90%
	2	90%	75%
	3	80%	50%
Non-Core Function	4	70%	25%
	5	60%	10%

Core Function Analysis Impact (figures in $b)



Initial impact of implementing the Protocol is estimated at **in New Government Model**

2 Procurement review[1]

- **Puerto Rico's recent procurement spending is between $8-$10bi/year and is fragmented across over 110 executive branch agencies, 17 public corporations and 78 municipalities**
- **For FY2015:**
  - Government and Public Corporations signed ~39,000 contracts
  - Municipalities signed ~75,000 contracts
  - Total procurement spending: ~$13.5B
- **For FY2016:**
  - Government and Public Corporations signed ~44,921 contracts
  - Municipalities signed ~69,490 contracts
  - Total procurement spending: ~$8.2B
  - Note: reduction between FY15 and FY16 is due to multi-year contracts related to health services signed in FY15 worth approximately $3.1B
- **Total procurement is spread amongst multiple goods/service categories:**
  - Major categories include insurance, purchases/leases of equipment, vehicles, real property, materials and supplies, construction/repairs of public roads, structure, advertising, health, consulting services, professional services, information systems and many others
  - The categorization of expenditures varies from year-to-year (based on Comptroller Office records), often overlapping in description and insufficiently clear for public review, enforcement, oversight or basic transparency – making it difficult to analyze spending of taxpayer money
- **Government's procurement combined spending between FY2015-16 on Consulting services and Professional services (described in very similar terms in Comptroller records) alone** amounted to $817MM. Information systems and related services amounted to nearly $200MM. Together, these three categories alone, totaled $1.0B

Consulting services:	**$377MM**
Professional services:	**$440MM**
Information systems:	**$200MM**

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[1] Puerto Rico Office of the Comptroller: https://www.ocpr.gov.pr/wp/

2 Government procurement reform

Implement reform initiatives to centralize, streamline and build capability in government procurement, achieve necessary cost savings and provide structural transparency

Strategic Imperatives

- Transparency: Increase visibility of spending
- Leverage Scale: Consolidate procurement, strategic sourcing and economies of scale
- Enforcement: Enforce compliance with contract terms, specifications, performance standards and warranties
- Ownership: Apply Total Cost of Ownership approach to reduce re-work and technical failure

Improvements to the Procurement Process

- Incorporate technological advances in the process of purchasing goods and services
- Arrange web-based auctions for registration and bidding processes
- Leverage purchasing power through consolidation of process and vendors
- Create / attract category experts to manage key areas of spend, under expert leadership
- Establish a more transparent and competitive bidding process
- Reduce corruption of the contract award process
- Establish a payment mechanism with the goal of incentivizing timely payments through discounts

Measures to Refine the Procurement Process

- Implement Zero-Based Budget culture – Executive Order 2017-005
- Form a Procurement Assessment Group ("PAG") comprised of three delegates:
    - *Executive Director of AAFAF (or noted delegate)*
    - *Director of OMB (or noted delegate)*
    - *Chief Information Officer*
    - *Agency Representatives (presenters)*
- As part of the foregoing, the Government is preparing additional reforms to procurement laws, processes, and standard operating procedure (SOP) to allow for a Total Cost of Ownership (TCO) approach, to ensure adequate focus on quality, in addition to price authority (power of the purse) to maximize implementation effectiveness and results
- Establish a PMO to manage the creation of a centralized Government-wide procurement office, with oversight and budgetary implementation effectiveness and results

Compliance

- **Reforms hereunder aim to promote compliance with applicable laws, maintain a transparent registry of all contracts executed,** including amendments thereto, and to ensure remittance of copies to the office of the Comptroller for inclusion in a comprehensive and well maintained database available to the public **in alignment and compliant with PROMESA under Section 204(b)(1)**
- **The Government's fiscal plan for procurement reform is aligned and complies with PROMESA's Sense of Congress – under Section 204(b)(3)** – calling for a contracting process that is more effective, increasing the public's faith in the procurement/contracting process, making the Government a facilitator and not a competitor to private enterprise, and avoid creating any additional bureaucratic obstacles to efficient contracting

② Savings should be realized through consolidation, optimization, greater visibility and a TCO approach

	Current state	Future state
Consolidated purchasing	▪ **Not leveraging Government's scale to ensure the best rates** and suppliers across spending categories ▪ Purchases (e.g., IT, professional services, facility maintenance, utilities) **currently made across numerous agencies, public corporations and municipalities** and do not have standard rates and specifications	▪ **Central procurement with consolidated purchasing might be more effective given expertise** in strategic sourcing approaches (e.g., TOC, product market analysis, design-to-value, clean sheets, and advanced negotiation techniques)
Optimize contractual terms and enforcement	▪ Up to 50% of negotiated savings are generally currently lost due to **lack of supplier compliance,** price compliance, and spec compliance	▪ Negotiated savings can be realized through **aggressive enforcement of contractual terms** through QA and better processing of claims, as well as timely payment by the Government
Spending visibility	▪ **Detailed spending data is only available for a few agencies** (e.g., UPR, schools) with modern financial systems ▪ **Considerable duplication within and across agencies, public corporations and municipalities**, as they order the same or slightly different services and supplies	▪ Detailed data on contracts and use of those contracts (e.g., actual spend) is **managed centrally and shared across agencies** ▪ Itemized lists of purchases, detailed lists of contingent workforce, specifications demanded across agencies ▪ Can **empower centralized procurement teams**

Total cost of ownership	▪ Puerto Rican procurement laws and processes generally **do not take a total cost of ownership approach** and instead prioritize low bids
	    ▪ Leads to **inferior technology** and supplies / materials, and ultimately reduced productivity
	    ▪ True in heavy material sectors (e.g., DTOP) but also for IT and other technical procurements
		▪ Reformed procurement processes and scoring approaches in centralized authority to **take into consideration TCO approach**
		▪ In the case of goods purchased, this results in reduced asset downtimes, leading to reduced expenditures, **and thus, greater services and goods for the Puerto Rican taxpayer**

2 Reform implementation

To implement these reforms, the Government will form a Procurement Assessment Group to design the restructuring of the GSA and contracting processes

Implementation Steps

- **Reform procurement laws (Reorganization Plan ASG 2011), processes and SOPs focusing on** a TCO approach – quality and price
- **Create PMO structure to begin implementation and establish clear transparency mechanisms**
- **Implement Government-wide procurement office**, with oversight of:
    - All tenders / bids (via central website) over a certain amount
    - Codification and standardization of contracts and specifications
    - Strong category leads to project demand and flag over-purchasing
    - Undertake capability building program focused on weakest areas, such as data sharing, bid / spec writing, and contract enforcement
    - Divide Executive Legislative Judicial branches, Public Corporations and the 78 municipalities

Risks and Mitigants

- **Processes will be revised** and staff trained; currently designing a PMO to ensure effectiveness of implementation and sustainability
- **Skilled procurement professionals will be trained or identified through the implementation/PMO process:**
    - IT systems will face procurement /implementation risks
    - Processes will be created for sharing contracts and specs, and staff trained and have buy-in to new approach
    - Process to reform purchasing may lead to initially slower purchasing
    - Capability building will be implemented on a sustainable basis

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)*
  - *Chief Information Officer (or noted delegate)*
- “Real time” access to the DAG’s data
- 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.

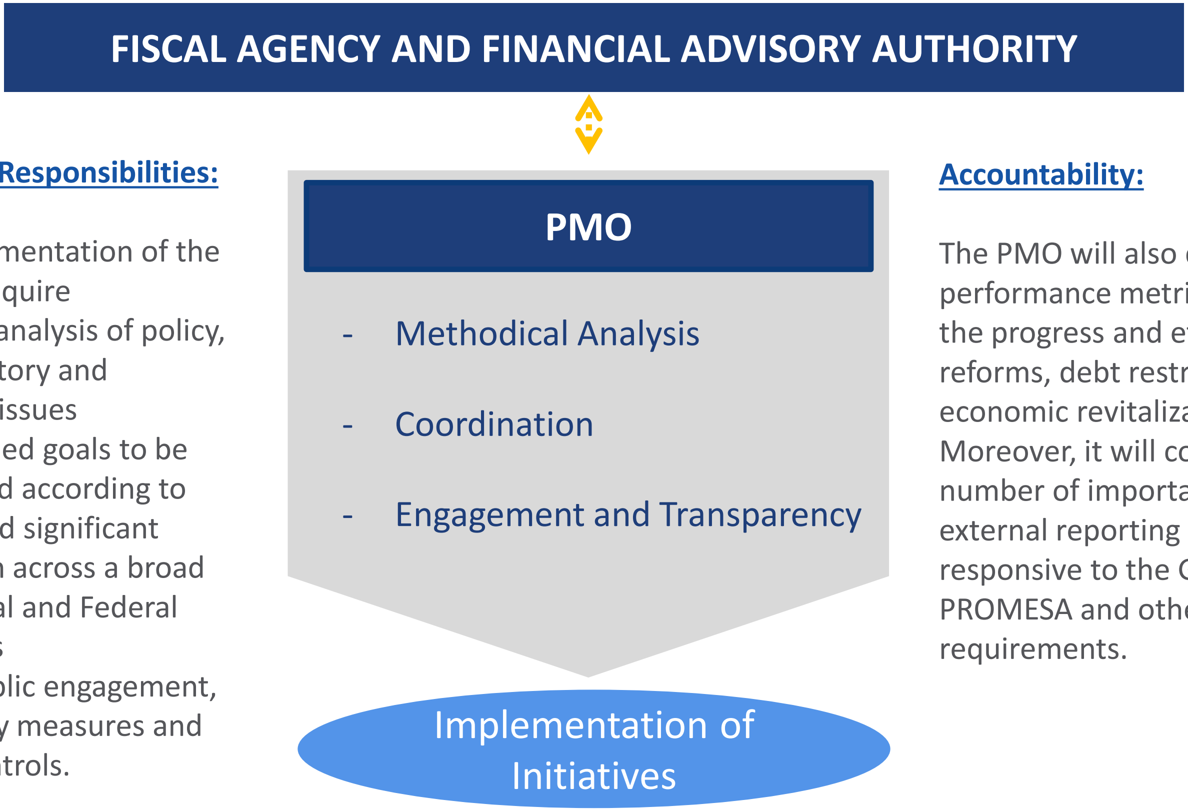
	Disbursement Amount	
Disbursement Description:	<=[$100,000]	>[$100,000]
Payroll and benefits	Hacienda	Hacienda
Pension	Hacienda	Hacienda
Safety	Hacienda	Hacienda
Health	Hacienda	Hacienda
Education (K-12)	Hacienda	Hacienda
Component Unit Appropriations	Hacienda	DAG
Supplier and Tax Refund Payments	Hacienda	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
- Therefore, the DAG would have approval authority over disbursement activity (i.e., batch releases of tax refund payments and certain CU appropriation payments).

IX. FISCAL PLAN IMPLEMENTATION

Proposed PMO Structure

The Government is establishing a PMO to effectively and efficiently execute the implementation of the Fiscal Plan



FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

PMO

- Methodical Analysis
- Coordination
- Engagement and Transparency

Implementation of Initiatives

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 basic structure generally sets forth AAFAF's vision for a PMO structure that would be further organized into working groups populated with Government leaders and staff to carry out the necessary functions. The final objective is to provide continuity and sustainability to the Fiscal Plan's implementation long-term success

First steps to getting the PMO started

- Creation of working groups, and eventually sub-working groups, centered around critical sectors

- Creation of working group(s) to address capacity challenges (and facilitate engagement) of local government instrumentalities to evaluate options and implement initiatives

- Each working group will evaluate necessary contributions:
  - *Relevant Departments & Agencies participation (key leadership and staffing resources)*
  - *Relevant Public Corporations participation (key leadership and staffing resources)*
  - *Other necessary entities / resources participation (Municipalities; Federation; Association)?*

- In order to form the Fiscal Plan's focus and further develop its design, AAFAF will identify for each relevant sector:
  - *Critical fiscal and financial challenges*
  - *Opportunities for Puerto Rico's revitalization and reforms*
  - *Key Administration priorities and strategic initiatives*

- Based on the foregoing, the Government will develop **fundamental** (e.g., fiscal reforms, debt management) and **strategic** (e.g., corporate tax reform, job creation, creative financing) Working Group priorities

Revenue enhancement implementation timeline

▬ Implementation timeline ◑ Effort to implement

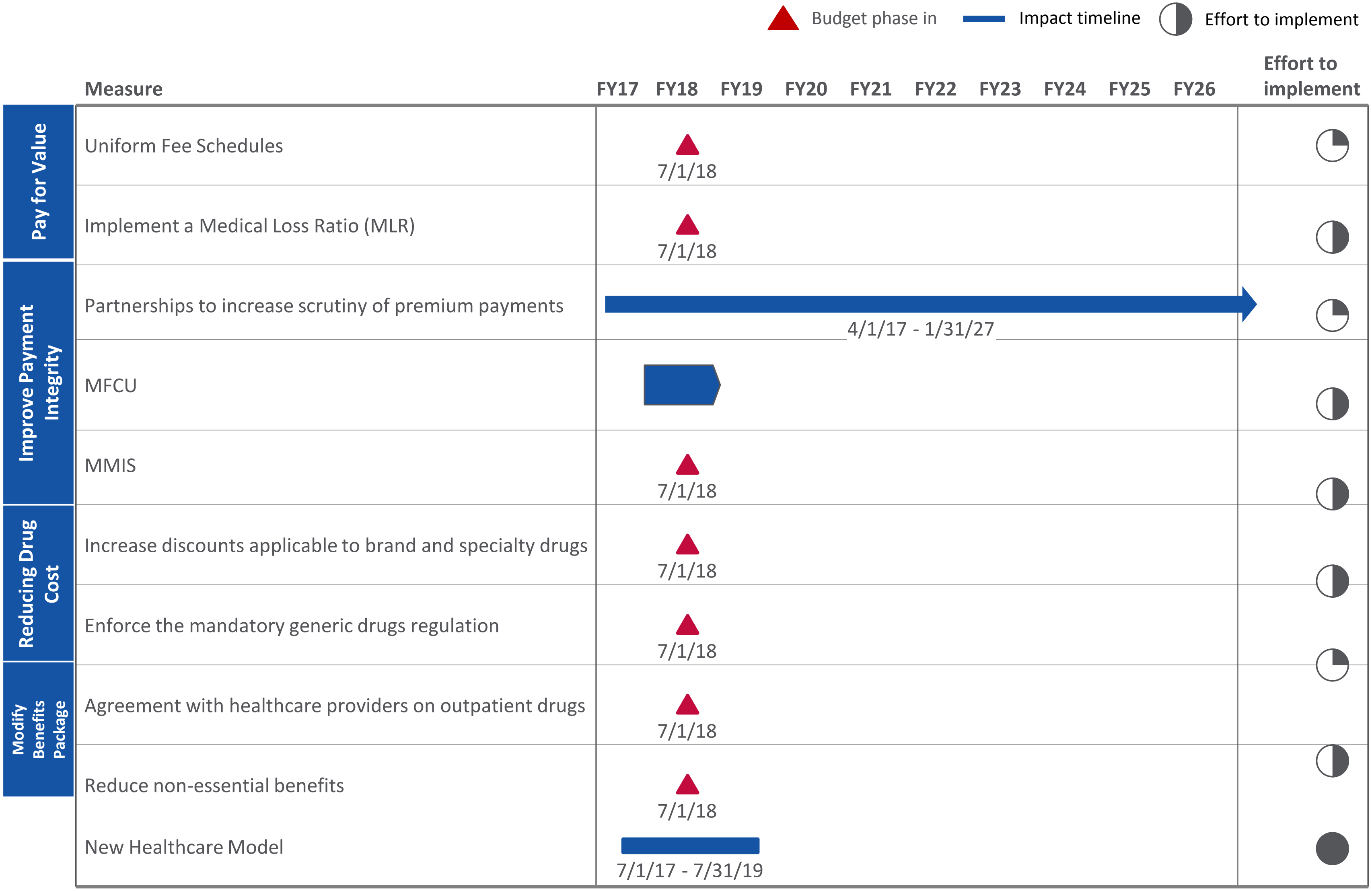
	Measure	FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24 FY25 FY26	Effort to implement
Improve compliance	Use advanced analytics to identify opportunity areas (SURI Integration)	2/1/17 - 12/31/19	◑
	Target small and medium sized audit opportunity	12/1/17 - 8/31/19	◑
	Implement POS and Internet Sales SUT Collections	7/1/17 - 1/31/20	◕
	Establish large corporate unit	7/1/17 - 10/30/18	◑ ●
Corporate tax reform	Conduct lean operations transformation of Hacienda	11/1/17 - 5/31/20	●
	Develop and implement Act 154 replacement	6/1/17 - 12/31/18	◑
Adjust Fees	5%-10% increment in Fees	8/1/18 - 6/30/20	◔

Government right-sizing implementation timeline

▲ Budget phase in ▬ Impact timeline ◑ Effort to implement

	Measure	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Effort to implement
Mobilization	General Attrition	▬ 7/1/17 - 7/31/19										◔
	Adjust Benefits		▬ 12/1/17 - 8/31/19									◕
New Government Model	Externalization Plan	▬ 4/1/17 - 6/30/19										◑
	Integration Plan	▬ 6/1/17 - 6/30/20										◕
Reduction of Subsidies	Non-core services budget adjustments	▲ 7/1/17	▲ 7/1/18	▲ 7/1/19								◕ ◑
	UPR	▲ 7/1/17	▲ 7/1/18									●
	Municipal Subsidies	▲ 7/1/17	▲ 7/1/18									◑
	Other Subsidy Reductions	▲ 7/1/17	▲ 7/1/18									◑

Healthcare spending implementation timeline



▲ Budget phase in ▬ Impact timeline ◑ Effort to implement

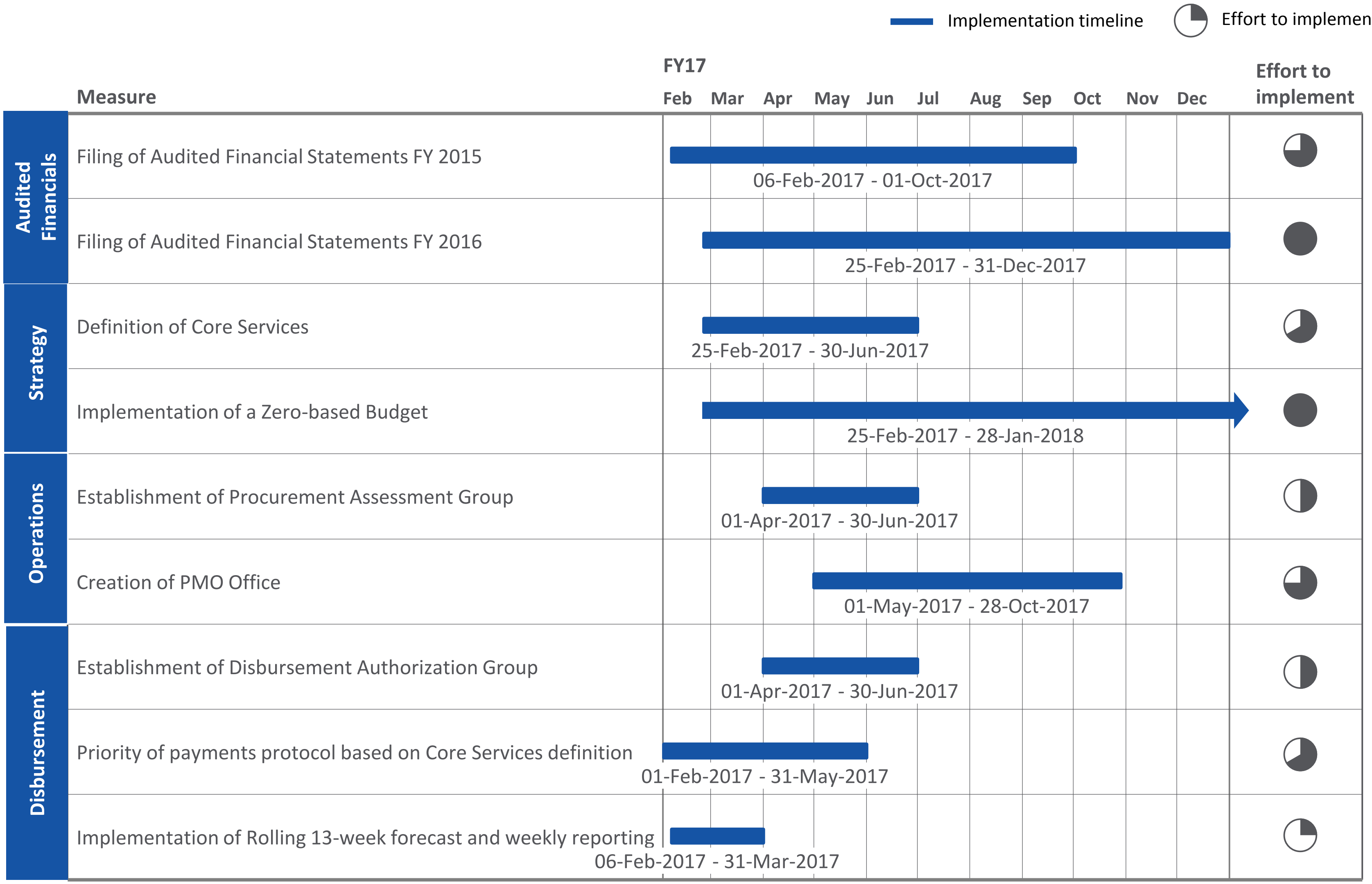
	Measure	FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24 FY25 FY26	Effort to implement
Pay for Value	Uniform Fee Schedules	▲ 7/1/18	◔
	Implement a Medical Loss Ratio (MLR)	▲ 7/1/18	◑
Improve Payment Integrity	Partnerships to increase scrutiny of premium payments	▬ 4/1/17 - 1/31/27	◔
	MFCU	▬	◑
	MMIS	▲ 7/1/18	◑
Reducing Drug Cost	Increase discounts applicable to brand and specialty drugs	▲ 7/1/18	◑
	Enforce the mandatory generic drugs regulation	▲ 7/1/18	◔
Modify Benefits Package	Agreement with healthcare providers on outpatient drugs	▲ 7/1/18	◑
	Reduce non-essential benefits	▲ 7/1/18	
	New Healthcare Model	▬ 7/1/17 - 7/31/19	●

Pensions implementation timeline

▬ Impact timeline ◑ Effort to implement

	Measure	FY17 (Feb–Dec)	Effort to implement
Legal	Draft necessary amendments to retirement system laws	2/25/17 - 3/31/17	◑
	Submit and enact legislation	4/1/17 - 6/30/17	●
	Address potential legal challenges	5/1/17 - 6/30/17	●
Strategy	Identify and allocate funding under pay-as-you-go status	3/1/17 - 4/30/17	◕
	Develop investment options for new DC plans / financial education strategy	2/25/17 - 6/30/17	◔
	Analysis of new operational structure	4/1/17 - 6/30/17	◕
	Assess the segregation of employer contributions from public corporations that generate revenue	5/1/17 - 6/30/17	◕
Operations	Fund benefits under pay-as- you –go statue segregate of employee contributions	6/1/17 - 7/31/17	●
	Implementation New Operational Structure for RSs	7/1/17 - 12/31/17	◔
	Reduce redundancies in management of legacy plans and new DC plans	7/1/17 - 12/31/17	◑

Financial controls implementation timeline



	Measure	FY17	Effort to implement
Audited Financials	Filing of Audited Financial Statements FY 2015	06-Feb-2017 - 01-Oct-2017	◕
	Filing of Audited Financial Statements FY 2016	25-Feb-2017 - 31-Dec-2017	●
Strategy	Definition of Core Services	25-Feb-2017 - 30-Jun-2017	◕
	Implementation of a Zero-based Budget	25-Feb-2017 - 28-Jan-2018	●
Operations	Establishment of Procurement Assessment Group	01-Apr-2017 - 30-Jun-2017	◑
	Creation of PMO Office	01-May-2017 - 28-Oct-2017	◕
Disbursement	Establishment of Disbursement Authorization Group	01-Apr-2017 - 30-Jun-2017	◑
	Priority of payments protocol based on Core Services definition	01-Feb-2017 - 31-May-2017	◕
	Implementation of Rolling 13-week forecast and weekly reporting	06-Feb-2017 - 31-Mar-2017	◔

X. LEGAL COMPLIANCE WITH PROMESA

PROMESA - Fiscal Plan Statutory Requirements: Overview

- **During September 2016**:
  - *Oversight Board announced an initial list of entities designated as covered entities subject to oversight.*
- ***On September 30, 2016***:
  - *Oversight Board issued an adjusted list to reflect changes resulting from mergers, eliminations or creations since publication of the Government's 2014 Comprehensive Annual Financial Report*
- ***On November 23, 2016***:
  - *Oversight Board communicated five (5) principles that will guide the Board's deliberations concerning Plan certification*
- ***Section 201(b) of PROMESA***:
  - *Itemizes fourteen (14) components and objectives that the Plan must address*

Immediate challenges under PROMESA

A. Preference for Voluntary Title VI Agreements

- The submission of the Fiscal Plans to the Oversight Board represents a watershed event in the PROMESA process which began upon its enactment on June 30, 2016
- Numerous priorities and tasks must be accomplished prior to May 1, 2017 (no additional extensions possible)
- Intent and preference of the Government is to achieve restructuring “voluntary agreements” in the manner and method provided for under the provisions of Title VI of PROMESA
- Government and its agencies designated by the Oversight Board as “covered entities” under PROMESA do not desire “to effect a plan to adjust [their] debts” under Title III of PROMESA at this time

B. Short Circuited Title VI Process

- The Government is responsible under PROMESA to make “good faith efforts to reach a consensual restructuring with creditors” under Title VI of PROMESA
- Title VI, as envisioned by Congress, was intended to give the Government sufficient runway to achieve negotiations of modifications and adjustments to bondholder debt
- Resorting to Title III is required where, after a reasonable period of time, the parties cannot achieve consensus under Title VI
- Because the prior administration wasted six months from the enactment of PROMESA to its last day in office, the new administration has been put in a difficult time constraint basically leaving it with a mere 45 days to achieve consensus under Title VI. This clearly was not the intent of Congress and is fundamentally unfair to the new administration
- Failure of former government to submit a compliant fiscal plan was due to its negligence in allowing for financial statements to go unaudited for FY 2015 and FY 2016

Immediate challenges under PROMESA

C. Request for Oversight Board Recommendations to the President and Congress

- Government requests the Oversight Board to submit to the President and Congress an emergency report in advance of its Annual Report (as required under PROMESA Section 208), recommending an amendment to PROMESA which extends the stay imposed under Section 405(b) to December 31, 2017
- The Government believes that as a matter of fairness it should be allowed to achieve what Congress set out to do under PROMESA: namely, a robust good faith negotiation process with bondholders and insurers within a reasonable period of time to achieve consensus under Title VI
- A recommendation for an extension of the May 1st Stay deadline is eminently reasonable, given that:

i. The former administration bears full responsibility for dissipation of valuable time to negotiate consensual Title VI

ii. While in office only 58 days, Governor Rosselló-Nevares has accomplished significant progress to-date, including reinstating bondholder communications and a commitment to a transparent flow of financial information

iii. After a long and obscure period of no financial reporting under the prior government, the current administration has made demonstrable progress in “turning the lights on”, timely submitting fiscal plans requested by the Board

iv. An extension of the PROMESA stay through the end of the year will allow additional time for the issuance of FY15 audited financials by Summer 2017 and the FY16 financials by Fall 2017

D. Continued Progress

- Promptly convene meetings with organized bondholder groups, insurers, unions, local interest business groups, public advocacy groups and municipality representative leaders to discuss and answer all pertinent questions concerning the fiscal plan and to provide additional and necessary momentum as appropriate
- Government will continue, nevertheless, with its aggressive pursuit of fiscal and economic reforms as outlined in the fiscal plan

PROMESA - Fiscal Plan statutory requirements: Sense of Congress

*"…any durable solution for Puerto Rico's fiscal and economic crisis should include **permanent, pro-growth fiscal reforms** that feature, among other elements, a **free flow of capital** between possessions of the United States and the rest of the United States." Sec. 701*

☑ The Fiscal Plan constitutes a **permanent** solution to Puerto Rico's fiscal problems, contemplates **immediate implementation**, and provides the pro-growth fiscal reform that is necessary to promote sustainable economic growth, allowing for a **more efficient and freer flow of capital** between Puerto Rico and the United States

PROMESA – 14 Fiscal Plan statutory requirements

The Fiscal Plan provides a method to achieve **fiscal responsibility** and paves the way for the Government to regain **access to the capital markets in addition to the following 14 statutory requirements:**

① **Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan**

- ✓ The Fiscal Plan, as presented, provides revenue and expenditure estimates that are in conformance with agreed accounting standards, are based on existing and applicable laws, and do not incorporate the impact of future legislation. The revenues include estimates from anticipated infrastructure projects that will be realized.
- ✓ It must be noted that the Fiscal Plan is based on unaudited financials for FY2015 and FY2016, in addition to the result of the Executive Branch change after a prolonged period of public finance obscurity. Thus the underlying assumptions of the Fiscal Plan may materially change upon issuance of the past due audited financial for FY2015 and FY2016, scheduled to take place later this summer and fall.

② **Ensure the funding of essential public services**

- ✓ Neither PROMESA nor local laws or executive orders to date define the term “essential services.” Section 201 of the Fiscal Responsibility Act provides that the Governor shall designate which services provided by the Government of Puerto Rico and its instrumentalities are deemed to be essential services. No such designation has yet been made, although it is under development. In this regard, the Fiscal Plan: (i) guarantees essential services by providing prudent cash flow and liquidity planning, (ii) establishes a hierarchy for classifying essential services, and (iii) provides a means of enforcing a disciplined disbursement policy.
- ✓ The classification scheme presented for essential services carefully identifies expenses that are indispensable for the delivery of those critical services, granting higher disbursements in the fiscal plan relative thereto.
- ✓ Savings and suitable funding of essential services will be optimized through the consolidation of service providers, optimization of the way services are rendered, collaboration with the private sector, and improved utilization of resources.

PROMESA – 14 Fiscal Plan statutory requirements

The Fiscal Plan provides a method to achieve **fiscal responsibility** and paves the way for the Government to regain **access to the capital markets in addition to the following 14 statutory requirements:**

③ Provide adequate funding for public pension systems

- ✓ The Fiscal Plan is in line with the Government's commitment to provide adequate funding for its pension systems. To accomplish such, the Fiscal Plan provides a progressive benefit adjustment strategy that protects pensioners with low retirement income while achieving a potential reduction in retirement plan disbursement.

- ✓ Adequate funding for public pensions systems is further accomplished by addressing cash flow shortfalls, facilitating enrollment in Social Security, switching to a new pay as you go pension plan model (PAYGO), and safeguarding employee's future contributions by establishing a fully funded Defined Contribution Plan.

④ Provide for the elimination of structural deficits

- ✓ The Fiscal Plan provides for the elimination of structural deficits by implementing assertive reforms initiatives aimed at:
  - i. enhancing revenue collection;
  - ii. transforming the current bureaucratic structure of the Government into a leaner and more streamlined one;
  - iii. reducing the unsustainable workforce and compensation related expenditures through attrition and incentivized retirement;
  - iv. centralizing government procurement to achieve necessary cost saving, quality improvements and provide structural transparency with potential incremental annual savings;
  - v. right-sizing spending with an aggressive program for externalization of operational government services;
  - vi. improving financial reporting and controls;
  - vii. reducing healthcare expenditures; and
  - viii. reforming the pension systems.

PROMESA – 14 Fiscal Plan statutory requirements

The Fiscal Plan provides a method to achieve **fiscal responsibility** and paves the way for the Government to regain **access to the capital markets in addition to the following 14 statutory requirements:**

5 For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable

- ✓ The Fiscal Plan incorporates revenue enhancing and expense reduction measures aimed at achieving a pro-growth fiscal reform which is necessary to promote sustainable economic growth, resulting in the maximum available resources to meet a sustainable debt burden.
- ✓ The Government's final debt burden will be determined through the good-faith consensual negotiations pursuant to Title VI of PROMESA.

6 Improve fiscal governance, accountability, and internal controls

- ✓ This Fiscal Plan incorporates the establishment of a Project Management Office (PMO) structure designed to establish new governance, accountability, internal control, reporting requirements, and transparency measures, among other initiatives.
- ✓ The Fiscal Plan also incorporates zero-based budgeting to enhance efficiency, visibility and control over the Government's expenditures through the use of, among other things, technology, periodic reporting requirements and other transparency and accountability metrics.

7 Enable the achievement of fiscal targets

- ✓ The Fiscal Plan contains measures aimed at insuring that its fiscal targets are successfully met through the adoption of a methodical approach to regulatory and governance improvements, significant coordination among local and federal governments, and the implementation of transparency measures based on specific performance metrics.
- ✓ Furthermore, the Government will establish working groups via the PMO to address the capacity needs and effectively address the challenges of local government instrumentalities to adhere to the specific initiatives and enforce their implementation.

PROMESA – 14 Fiscal Plan statutory requirements

The Fiscal Plan provides a method to achieve **fiscal responsibility** and paves the way for the Government to regain **access to the capital markets in addition to the following 14 statutory requirements:**

8 Create independent forecasts of revenue for the period covered by the Fiscal Plan

- ✓ This requirement is met as the enclosed Fiscal Plan includes forecast for a 10-year period using information currently available
- ✓ As discussed earlier, the underlying assumption of the Fiscal Plan may materially change upon issuance of the past due audited financials for FY2015 and FY2016 this year. Please refer to the response (above) to requirement No. 1

9 Include a debt sustainability analysis

- ✓ This requirement is met. Please refer to the response (above) to requirement No.5. The debt sustainability analysis which is part of this fiscal plan considers the Government's available resources after providing for funding of its essential services
- ✓ The debt sustainability analysis summarizes the annual cash flow available for debt services and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35-year term
- ✓ The debt sustainability analysis also presents an enhanced debt recovery scenario based on continuation or substitution of ACA funding.

10 Provide for capital expenditures and investments necessary to promote economic growth

- ✓ The Fiscal Plan recognizes the need for capital investment and economic development initiatives that ensure the well-being of American citizens residing in Puerto Rico
- ✓ As such, the Fiscal Plan provides for a cumulative 2.0% increase to GNP growth and incorporates recently proposed and enacted legislation, as well as executive actions of the Governor, that will promote Puerto Rico as an investment friendly jurisdiction
- ✓ More specifically, the Fiscal Plan includes initiatives and monetary assignments that will: (i) create the environment necessary to attract new investment in the manufacturing, services sector, technology and innovation industries; (ii) modernize the energy, water, solid waste and transportation infrastructure to be more efficient and environmentally compliant; and (iii) promote job creation, demand for housing, transportation, and fuel and goods consumption, positively impacting the local economy and increasing tax revenues

PROMESA – 14 Fiscal Plan statutory requirements

The Fiscal Plan provides a method to achieve **fiscal responsibility** and paves the way for the Government to regain **access to the capital markets in addition to the following 14 statutory requirements:**

11 Adopt appropriate recommendations submitted by the Oversight Board

- ✓ Awaiting recommendations from the Oversight Board as these may be forthcoming

12 Include such additional information as the Oversight Board deems necessary

- ✓ Awaiting recommendations from the Oversight Board as these may be forthcoming

13 Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted

- ✓ The Fiscal Plan does not contemplate the lending, transfer, or use of the assets, funds, or resources of a territorial instrumentality for the benefit of another covered territory or covered territorial instrumentality of a covered territory

14 Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA

- ✓ The Fiscal Plan is cognizant of this requirement and is designed to comply with applicable legal obligations once a final resolution is reached as to the priority of disbursements among creditors. The Fiscal Plan also contemplates the commencement of Title VI negotiations conducted by the Government, in coordination with the Oversight Board and its advisors, upon its certification

- ✓ The Fiscal Plan does not contemplate any violation of the lawful priorities or liens in the Puerto Rico Constitution, laws and agreements in effect prior to the enactment of PROMESA

PROMESA – Oversight Board - Fiscal Plan Principles

Principle 1: The Fiscal Plan must cover at least the next 10 fiscal years with meaningful progress in the first five and meet the standards set forth in the law (14 criteria). It should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

- ✓ The Fiscal Plan, as presented, covers the next 10 fiscal years and incorporates substantial structural reforms, fiscal adjustments proposals and debt restructuring negotiations that will successfully achieve fiscal balance by 2019 and maintain fiscal stability with balanced budgets thereafter through 2027 and beyond.

- ✓ The Fiscal Plan is consistent with PROMESA's criteria and objectives and will ensure sustained fiscal stability together with access to the capital markets at reasonable rates necessary for the termination of the Oversight Board within 10 years.

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

- ✓ The Fiscal Plan will help close a multi-billion dollar financing gap, adopting necessary reforms that will provide a cumulative 2.0% increase to GNP growth. This will further attract private capital and have a $33bn impact on the deficit, while guaranteeing the delivery of essential services to the people of Puerto Rico. The myriad of legislative, executive orders and other policy achievements to-date are specifically designed and intended to address the priorities highlighted under this Principle 2.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g. No ACA support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

- ✓ The Fiscal Plan assumes no additional federal support beyond that which is already established by law and all other initiatives contained therein are based on existing legislation and specific proposed bills that will be timely enacted.

- ✓ The Fiscal Plan assumes that ACA funding is expected to end during FY 2018.

- ✓ Based on the recent 10-year extension of Act 154, the Fiscal Plan relies on the tax revenues from Act 154 into the foreseeable future (into 2027).

PROMESA – Oversight Board - Fiscal Plan Principles

Principle 4: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the Government of Puerto Rico is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

- ✓ The Fiscal Plan includes a mix of strategic imperatives for accomplishing structural reforms, fiscal adjustments and debt restructuring that include:
  - i. restoring credibility with all stakeholders through transparent, supportable financial information and honoring our obligations in accordance with the Constitutions of Puerto Rico and the United States;
  - ii. reworking and ensuring that economic development processes are efficient and include or incentivize the necessary capital to promote economic growth;
  - iii. reducing the bureaucratic structure of the Government to insure delivery of essential services in a more cost-effective manner while achieving fiscal balance;
  - iv. monitoring liquidity and managing anticipated shortfalls in current forecast;
  - v. providing adequate funding and restructuring the pension systems; and
  - vi. restructuring debt obligations through Title VI.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the Government of Puerto Rico will achieve the changes and reforms it proposes.

- ✓ In order to attain the changes and reforms proposed in the Fiscal Plan, the Government is beginning to develop and will perfect a Project Management Office (PMO) structure, to effectively and efficiently execute the Fiscal Plan.

- ✓ The PMO will be composed in part by designated/key Government officials and staff of the specialized agency(ies) that will implement the necessary reforms, functions and enforcement, including the development of performance metrics aimed at measuring the progress and efficacy of fiscal reforms, debt restructuring and economic revitalization initiatives.

- ✓ The Fiscal Plan also contains an implementation timeline for each proposed initiative therein and the Government continues working on these structures in preparation for a final implementation plan by June 1, 2017.

XI. APPENDIX

Financial Projections – revenues before measures

($MM)

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
PR Nominal GNP Growth	*(1.6%)*	*(1.6%)*	*(2.1%)*	*0.8%*	*1.2%*	*1.9%*	*2.3%*	*2.3%*	*2.2%*	*2.7%*	
Revenues											
General Fund Revenues:											
Individual Income Taxes	$1,811	$1,781	$1,744	$1,757	$1,778	$1,811	$1,852	$1,895	$1,936	$1,987	$18,351
Corporate Income Taxes	1,515	1,490	1,459	1,470	1,487	1,515	1,550	1,585	1,619	1,662	15,351
Non-Resident Withholdings	685	685	685	685	685	685	685	685	685	685	6,850
Alcoholic Beverages	268	264	258	260	263	268	274	280	286	294	2,716
Cigarettes	112	110	108	109	110	112	115	117	120	123	1,135
Motor Vehicles	330	325	318	320	324	330	338	345	353	362	3,344
Excises on Off-Shore Shipment Rum	172	173	175	176	178	179	180	182	183	184	1,782
Other General Fund Revenue	506	391	382	385	390	397	406	415	424	436	4,132
Total	**5,399**	**5,219**	**5,128**	**5,162**	**5,214**	**5,296**	**5,399**	**5,504**	**5,606**	**5,733**	**53,660**
General Fund Portion of SUT (10.5%)	1,718	1,670	1,614	1,601	1,596	1,608	1,630	1,652	1,670	1,701	16,460
Net Act 154	2,075	1,556	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	11,931
General Fund Revenue	**$9,192**	**$8,445**	**$7,779**	**$7,800**	**$7,848**	**$7,942**	**$8,067**	**$8,193**	**$8,313**	**$8,471**	**$82,051**
Additional SUT (COFINA, FAM & Cine)	850	878	906	939	973	1,009	1,047	1,087	1,127	1,171	9,985
Other Tax Revenues	1,337	1,399	1,399	1,405	1,422	1,434	1,436	1,436	1,436	1,438	14,143
Other Non-Tax Revenues	579	574	579	590	621	633	642	651	659	676	6,204
Adj. Revenue before Measures	**$11,958**	**$11,295**	**$10,663**	**$10,734**	**$10,863**	**$11,018**	**$11,193**	**$11,367**	**$11,536**	**$11,756**	**$112,383**
Federal Transfers	6,994	7,164	7,365	7,469	7,614	7,825	8,013	8,202	8,458	8,665	77,769
Loss of Affordable Care Act ("ACA") Funding	--	(864)	(1,515)	(1,580)	(1,677)	(1,831)	(1,950)	(2,066)	(2,248)	(2,379)	(16,112)
Revenues before Measures	**$18,952**	**$17,596**	**$16,514**	**$16,623**	**$16,799**	**$17,013**	**$17,255**	**$17,502**	**$17,746**	**$18,042**	**$174,040**

- Decline in revenues before measures, from $19.0bn in FY 2017 to $16.8bn in FY 2021, mainly due to the expiration of ACA funding
- Improvement in nominal GNP growth in the later years of the projection period based on Structural Reforms

Financial Projections – Expenses Excluding Debt Service

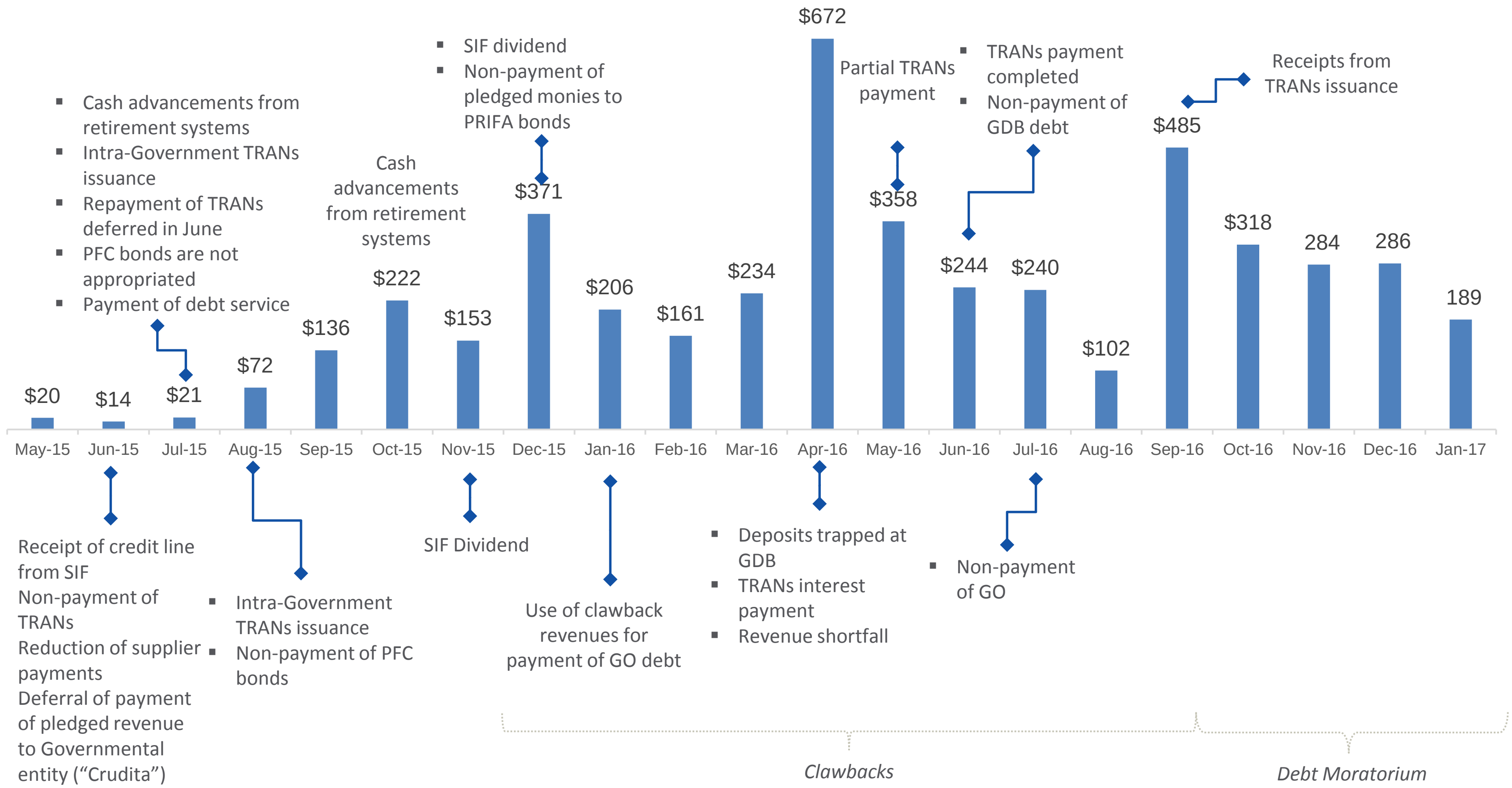
($MM)

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Expenses											
General Fund Expenditures:											
Direct Payroll	($3,271)	($3,271)	($3,271)	($3,279)	($3,288)	($3,299)	($3,311)	($3,324)	($3,337)	($3,350)	($33,003)
Direct Operational Expenses	(907)	(907)	(907)	(909)	(912)	(915)	(918)	(922)	(925)	(929)	(9,150)
Utilities	(260)	(332)	(352)	(360)	(373)	(372)	(369)	(374)	(387)	(395)	(3,575)
Special Appropriations	(3,890)	(4,037)	(4,068)	(4,068)	(4,209)	(4,140)	(4,143)	(4,136)	(4,250)	(4,147)	(41,090)
General Fund Expenses	**(8,329)**	**(8,547)**	**(8,598)**	**(8,616)**	**(8,782)**	**(8,727)**	**(8,742)**	**(8,756)**	**(8,900)**	**(8,822)**	**(86,818)**
Other:											
Paygo Contributions in Excess of Asset Balance	--	(989)	(1,014)	(985)	(964)	(1,151)	(1,177)	(1,217)	(1,251)	(1,278)	(10,026)
Run-Rate Capital Expenditures	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(4,154)
Total other	**(283)**	**(1,389)**	**(1,421)**	**(1,400)**	**(1,386)**	**(1,581)**	**(1,614)**	**(1,662)**	**(1,704)**	**(1,739)**	**(14,180)**
Component Units, Non-GF Funds and Ent. Funds:											
Net Deficit of Special Revenue Funds	(107)	(122)	(137)	(139)	(141)	(140)	(138)	(137)	(136)	(133)	(1,330)
Independently forecasted non-enterprise Cus	(410)	(347)	(399)	(518)	(591)	(708)	(808)	(917)	(1,043)	(1,141)	(6,882)
HTA Operational Expenses	(246)	(234)	(236)	(238)	(239)	(243)	(246)	(250)	(254)	(258)	(2,444)
Other	(44)	(41)	(30)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(335)
Total	**(807)**	**(744)**	**(802)**	**(926)**	**(1,001)**	**(1,121)**	**(1,224)**	**(1,336)**	**(1,466)**	**(1,564)**	**(10,990)**
Disbur. of Tax Revenues to Entities Outside Plan	(335)	(303)	(305)	(309)	(317)	(321)	(324)	(328)	(332)	(343)	(3,218)
Adj. Expenses before Measures	**($9,755)**	**($10,982)**	**($11,126)**	**($11,251)**	**($11,487)**	**($11,750)**	**($11,904)**	**($12,082)**	**($12,401)**	**($12,469)**	**($115,206)**
Federal Programs	(6,994)	(7,164)	(7,365)	(7,469)	(7,614)	(7,825)	(8,013)	(8,202)	(8,458)	(8,665)	(77,769)
Reconciliation Adjustment	(300)	(200)	(175)	(150)	(150)	(125)	(100)	(75)	(75)	(75)	(1,425)
Other non-recurring	(493)	(150)	(5)	(5)	(5)	(5)	--	--	--	--	(663)
Total	**(7,787)**	**(7,514)**	**(7,545)**	**(7,624)**	**(7,769)**	**(7,955)**	**(8,113)**	**(8,277)**	**(8,533)**	**(8,740)**	**(79,857)**
Noninterest Exp. before Measures	**($17,542)**	**($18,496)**	**($18,671)**	**($18,875)**	**($19,255)**	**($19,705)**	**($20,017)**	**($20,358)**	**($20,935)**	**($21,209)**	**($195,063)**

- Excluding Paygo contributions and federal programs, non interest expenses before measures is forecasted to increase from $10.5bn to $11.3bn during the 10 year period, representing 0.7% average annual growth

TSA cash balances (1) and sequence of emergency measures

($MM)



- Cash advancements from retirement systems
- Intra-Government TRANs issuance
- Repayment of TRANs deferred in June
- PFC bonds are not appropriated
- Payment of debt service

Cash advancements from retirement systems

- SIF dividend
- Non-payment of pledged monies to PRIFA bonds

Partial TRANs payment

- TRANs payment completed
- Non-payment of GDB debt

Receipts from TRANs issuance

- Receipt of credit line from SIF
- Non-payment of TRANs
- Reduction of supplier payments
- Deferral of payment of pledged revenue to Governmental entity ("Crudita")

- Intra-Government TRANs issuance
- Non-payment of PFC bonds

SIF Dividend

Use of clawback revenues for payment of GO debt

- Deposits trapped at GDB
- TRANs interest payment
- Revenue shortfall

- Non-payment of GO

Clawbacks

Debt Moratorium

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(1) Represents bank cash balances. Excludes clawbacks deposited into GDB from January to March 2016 totaling $144 million are subject to the provisions of Act 21 and subject to the limitations on the withdrawal of funds (EO 014-2016). Excludes $146 million of cash retained through "clawbacks" deposited at BPPR from April to June 2016, which is held in a separate bank account at BPPR

(2) The end of month TSA cash balances presented are not adjusted by outstanding checks and deposits in transit, which if added result in negative book balance.

GOVERNMENT OF PUERTO RICO

Additional clawback and Moratorium revenues detail

($ in thousands)

FY 2016 Clawback Revenues

Entity	Concept	Through Dec '15	Jan. '16 – Jun. '16	Total
PRIFA	Rum Tax	$113,000	–	$113,000
PRIFA	Petroleum Tax	–	12,826	12,826
PRMBA	Cigarette Tax	323	4,674	4,997
PRCCDA	Hotel Room Tax	3,033	9,100	12,134
PRHTA	Petroleum Tax	20,000	60,000	80,000
PRHTA	Gasoline/Diesel/License	27,561	86,369	113,930
PRHTA	Petroleum Tax	–	53,638	53,638
PRHTA	Motor Vehicle Fines	–	29,117	29,117
PRHTA	Motor Vehicle Licenses	–	21,814	21,814
PRHTA	Cigarette Tax	–	11,662	11,662
Total Amount Transferred		**$163,917**	**$289,201**	**$453,118**
GDB - Account Reconciliation (1)				
Beginning Balance		**–**	**$163,917**	**–**
Transfers to Clawback Acct. *(Dec. 2015 - Mar. 2016)*		163,917	143,199	307,116
Amount disbursed from Clawback Acct.		–	(163,917)	(163,917)
Interest Earned		–	375	375
Ending Balance		**$163,917**	**$143,574**	**$143,574**
BPPR - Account Reconciliation				
Beginning Balance		**–**	**–**	**–**
Transfers to Clawback Account *(Apr. 2016 - Jun. 2016)*		–	146,002	146,002
Amount disbursed from Clawback Acct.		–	–	–
Interest Earned (2)		–	70	70
Ending Balance		**–**	**$146,072**	**$146,072**
Total Ending Balance		**$ 163,917**	**$ 289,646**	**$ 289,646**

FY 2017 Moratorium Revenues Deposited in the TSA (3)

Debt Instrument	**Jul. '16 - Jan. '17**
PRHTA Bonds (Resolution 98 and 68 bonds)	$ 186,209
PRMBA Line of Credit (Scotiabank)	5,600
PRIFA Bonds Anticipation Notes	88,987
PRIFA Rum Bonds	113,000
Moratorium - TSA	**$ 393,796**

FY 2017 Moratorium Revenues Retained Directly by Component Units

Component Unit	**Jul. '16 - Jan. '17**
ERS	$ 151,274
UPR	24,000
Desarollos Universitarios	3,804
PRHTA	77,961
Tourism Company	15,000
PR Ports Authority	7,078
PRIDCO	9,165
Moratorium - Component Units	**$ 288,282**

(1) Deposits at GDB are subject to the provision of Act 21-2016 and Executive Orders.

(2) Includes $55k of accrued interest from July to September 2016. Interest accrued after September 2016 is not included.

(3) Includes approximately $113 million corresponding to rum excise tax revenues that would have otherwise been transferred to PRIFA for the payment of Special Tax revenue Bonds.

Detailed TSA cash flows, before Cliffs, measures, and debt service

		FY 2017							FY 2018						
		Jul. '16 -	February	March	April	May	June	FY 2017	July	August	September	Q2	Q3	Q4	FY 2018
	(figures in $mm)	Jan. '17	2017	2017	2017	2017	2017	Total	2017	2017	2017	2017	2018	2018	Total
1	General Collections	$4,565	$653	$775	$1,083	$546	$790	$8,411	$638	$513	$768	$2,078	$2,018	$2,387	$8,401
2	Sales and Use Tax	722	194	185	199	197	210	1,706	88	90	86	266	559	600	1,689
3	Excise Tax through Banco Popular	285	77	64	77	68	57	629	48	72	19	40	150	229	558
4	Rum Tax	147	11	10	11	18	22	218	20	28	15	46	20	42	172
5	Electronic Lottery	78	–	37	–	–	37	152	25	–	23	32	38	38	157
6	Subtotal	$5,796	$934	$1,072	$1,370	$829	$1,116	$11,116	$820	$703	$910	$2,463	$2,784	$3,297	$10,976
7	ERS, JRS Administration	339	70	56	56	56	56	635	56	56	56	169	169	169	678
8	Teachers Retirement System	131	70	–	70	–	–	272	87	–	–	44	70	70	272
9	Retirement System Transfers	$470	$140	$56	$127	$56	$56	$906	$144	$56	$56	$214	$240	$240	$949
10	Federal Funds	3,270	469	428	460	460	460	5,547	387	495	494	1,424	1,367	1,380	$5,547
11	Municipal Revenue Collection Center	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Other Inflows	150	19	20	20	11	25	244	4	8	9	44	38	33	$136
13	GDB Transactions	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Tax Revenue Anticipation Notes	400	–	–	–	–	–	400	–	–	–	–	–	–	–
15	**Total Inflows**	**$10,086**	**$1,562**	**$1,576**	**$1,976**	**$1,356**	**$1,658**	**$18,214**	**$1,354**	**$1,263**	**$1,470**	**$4,144**	**$4,428**	**$4,949**	**$17,609**
16	Payroll and Related Costs	(2,130)	($280)	($313)	($280)	($304)	($280)	($3,587)	($306)	($284)	($290)	($975)	($873)	($860)	($3,587)
17	Pension Benefits	(1,216)	(169)	(169)	(169)	(169)	(169)	(2,061)	(194)	(181)	(181)	(580)	(542)	(542)	(2,220)
18	Health Insurance Administration - PRHIA / ASES	(1,503)	($248)	($212)	($217)	($217)	($212)	($2,609)	($210)	($214)	($208)	($611)	($719)	($646)	($2,609)
19	University of Puerto Rico - UPR	(481)	(78)	(78)	(78)	(78)	(78)	(872)	(73)	(73)	(73)	(218)	(218)	(218)	(873)
20	Municipal Revenue Collection Center - CRIM	(247)	(30)	(43)	(30)	(30)	(49)	(430)	(31)	(31)	(31)	(117)	(126)	(111)	(448)
21	PR Highway Transportation Authority - PRHTA / ACT	(77)	(17)	(16)	(16)	(38)	(38)	(201)	(38)	(38)	(38)	(115)	(115)	(115)	(460)
22	Public Building Authority - PBA / AEP	(73)	(19)	(18)	(18)	(18)	(18)	(162)	(8)	(8)	(8)	(23)	(23)	(23)	(90)
23	Other Governmental Entities	(385)	(60)	(57)	(57)	(62)	(67)	(688)	(61)	(61)	(65)	(176)	(188)	(185)	(736)
24	Subtotal - Government Entity Transfers	($2,765)	($452)	($424)	($416)	($443)	($462)	($4,962)	($421)	($425)	($422)	($1,260)	($1,389)	($1,298)	($5,216)
25	Supplier Payments	(1,960)	(270)	(351)	(351)	(304)	(291)	(3,527)	(270)	(270)	(270)	(811)	(811)	(811)	(3,244)
26	Other Legislative Appropriations	(346)	(45)	(45)	(45)	(45)	(45)	(571)	(45)	(53)	(58)	(143)	(135)	(135)	(570)
27	Tax Refunds	(442)	(11)	(97)	(100)	(100)	(100)	(851)	(52)	(52)	(52)	(160)	(156)	(156)	(627)
28	Nutrition Assistance Program	(1,201)	(165)	(165)	(165)	(165)	(165)	(2,026)	(167)	(200)	(194)	(476)	(494)	(495)	(2,026)
29	Other Disbursements	(51)	(0)	–	–	(4)	(4)	(58)	(6)	(30)	(6)	7	(51)	(17)	(100)
30	Tax Revenue Anticipation Notes	–	–	–	(152)	(137)	(135)	(423)	–	–	–	–	–	–	–
31	**Total Outflows**	**($10,111)**	**($1,393)**	**($1,565)**	**($1,678)**	**($1,670)**	**($1,650)**	**($18,065)**	**($1,460)**	**($1,494)**	**($1,473)**	**($4,399)**	**($4,450)**	**($4,314)**	**($17,591)**
32	**Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures**	**($25)**	**$169**	**$12**	**$299**	**($314)**	**$8**	**$149**	**($106)**	**($232)**	**($3)**	**($255)**	**($22)**	**$636**	**$19**
33	Bank Cash Position, Beginning	$244	$220	$388	$400	$699	$385	$244	$393	$287	$56	$53	($202)	($224)	$393
34	**Bank Cash Position, Ending (a)**	**$220**	**$388**	**$400**	**$699**	**$385**	**$393**	**$393**	**$287**	**$56**	**$53**	**($202)**	**($224)**	**$412**	**$412**

a) Excludes clawback account

Detailed TSA cash flows, after fiscal cliffs and measures, before debt service

		FY 2017							FY 2018						
	(figures in $mm)	Jul. '16 - Jan. '17	February 2017	March 2017	April 2017	May 2017	June 2017	FY 2017 Total	July 2017	August 2017	September 2017	Q2 2017	Q3 2018	Q4 2018	FY 2018 Total
1	**Bank Cash Position, Beginning (a)**	**$244**	**$220**	**$388**	**$400**	**$699**	**$385**	**$244**	**$393**	**$287**	**$56**	**$53**	**($202)**	**($224)**	**$393**
2	Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures	($25)	$169	$12	$299	($314)	$8	$149	($106)	($232)	($3)	($255)	($22)	$636	$19
3	**Bank Cash Position, Ending (a)**	**$220**	**$388**	**$400**	**$699**	**$385**	**$393**	**$393**	**$287**	**$56**	**$53**	**($202)**	**($224)**	**$412**	**$412**

Fiscal Cliff Considerations

		FY 2017							FY 2018						
	(figures in $mm)	Jul. '16 - Jan. '17	February 2017	March 2017	April 2017	May 2017	June 2017	FY 2017 Total	July 2017	August 2017	September 2017	Q2 2017	Q3 2018	Q4 2018	FY 2018 Total
1	**Bank Cash Position, Beginning (a)**	**$244**	**$220**	**$388**	**$400**	**$699**	**$385**	**$244**	**$393**	**$287**	**$56**	**$53**	**($314)**	**($1,071)**	**$393**
2	Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures	($25)	$169	$12	$299	($314)	$8	$149	($106)	($232)	($3)	($255)	($22)	$636	$19
	Fiscal Cliffs:														
	Pension Asset Depletion:														
3	ERS Asset Depletion	–	–	–	–	–	–	–	–	–	–	–	($169)	($169)	($339)
4	TRS Asset Depletion	–	–	–	–	–	–	–	–	–	–	–	–	(70)	(70)
5	Subtotal	–	–	–	–	–	–	–	–	–	–	–	($169)	($240)	($409)
6	Act 154 Expiration	–	–	–	–	–	–	–	–	–	–	–	($229)	($290)	($519)
7	Affordable Care Act (ACA) Cliff	–	–	–	–	–	–	–	–	–	–	($112)	($337)	($337)	($786)
8	**Fiscal Cliffs - Total**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**($112)**	**($735)**	**($866)**	**($1,714)**
9	**Net Cash Flows After Consideration of Fiscal Cliffs**	**($25)**	**$169**	**$12**	**$299**	**($314)**	**$8**	**$149**	**($106)**	**($232)**	**($3)**	**($367)**	**($757)**	**($230)**	**($1,695)**
10	**Bank Cash Position, Ending (a)**	**$220**	**$388**	**$400**	**$699**	**$385**	**$393**	**$393**	**$287**	**$56**	**$53**	**($314)**	**($1,071)**	**($1,302)**	**($1,302)**

Liquidity Measures

		FY 2017							FY 2018						
	(figures in $mm)	Jul. '16 - Jan. '17	February 2017	March 2017	April 2017	May 2017	June 2017	FY 2017 Total	July 2017	August 2017	September 2017	Q2 2017	Q3 2018	Q4 2018	FY 2018 Total
1	**Bank Cash Position, Beginning (a)**	**$244**	**$220**	**$388**	**$400**	**$850**	**$673**	**$244**	**$816**	**$741**	**$543**	**$575**	**$325**	**$135**	**$816**
2	Net Cash Flows After Consideration of Fiscal Cliffs	($25)	$169	$12	$299	($314)	$8	$149	($106)	($232)	($3)	($367)	($757)	($230)	($1,695)
	Liquidity Measures:														
	Revenue enhancements:														
3	Extension of Act 154	–	–	–	–	–	–	–	–	–	–	–	$229	$290	$519
4	Improved tax compliance	–	–	–	–	–	–	–	–	–	–	–	144	144	288
5	Right-rate fees	–	–	–	–	–	–	–	–	–	–	–	13	13	27
4	Right-size government and efficiency	–	–	–	–	–	–	–	36	38	40	132	197	213	657
6	Reducing health care spending	–	–	–	–	–	–	–	2	2	2	6	6	6	25
7	Pension reform	–	–	–	–	–	–	–	5	5	5	16	16	16	64
8	Deferment of TRANs Repayment	–	–	–	152	137	135	423	–	–	–	–	–	–	–
9	Pay Local Businesses for Past Services	–	–	–	–	–	–	–	(13)	(13)	(13)	(38)	(38)	(38)	(150)
10	Subtotal	–	–	–	$152	$137	$135	$423	$31	$33	$35	$117	$568	$645	$1,429
11	**Net Cash Flows After Measures**	**($25)**	**$169**	**$12**	**$450**	**($177)**	**$142**	**$571**	**($75)**	**($198)**	**$32**	**($250)**	**($189)**	**$415**	**($265)**
12	**Bank Cash Position, Ending (a)**	**$220**	**$388**	**$400**	**$850**	**$673**	**$816**	**$816**	**$741**	**$543**	**$575**	**$325**	**$135**	**$550**	**$550**

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a) Excludes clawback account, b) February outstanding checks as of February 22, 2017. ; c) Does not consider deposits in transit and pending EFTs ; d) Estimates based on Commonwealth report dated December 18, 2016.

Historical Trend for 2014 through 2016 as Compared to FY 2017 Projection

Governmental Funds – Comparison to Fiscal Plan

	Historical Trend			Fiscal Plan
($MM)	**2014**	**2015**	**2016**	**2017**
Normalized Net Change in Fund Balances	**$1,829**	**$1,687**	**$1,860**	**$2,003**
Variance to Fiscal Plan B/(W)	*($174)*	*($316)*	*($143)*	

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

Component Units / Enterprise Funds – Comparison to Fiscal Plan

	Historical Trend			Fiscal Plan
($MM)	**2014**	**2015**	**2016**	**2017**
Normalized Net Change in Position	**$580**	**$794**	**$794**	**$810**
Variance to Fiscal Plan B/(W)	*($229)*	*($16)*	*($16)*	

Excludes Governmental Development Bank normalized change in net position. For certain entities, information for FY 2015 and FY 2016 was not available. For the purposes of the trend above, the latest available financials were used.

**Data contained in this analysis is unaudited beyond 2014 and Puerto Rico Department of Treasury has used significant estimates in the data for 2015 and 2016. Material changes may occur once audits are complete.*