

# NEW FISCAL PLAN FOR PUERTO RICO

GOVERNMENT VISION | REBUILDING PUERTO RICO | PATH TO STRUCTURAL BALANCE | GOVERNMENT TRANSFORMATION | STRUCTURAL REFORMS



GOVERNMENT OF PUERTO RICO



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- *Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;*
- *The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;*
- *The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;*
- *The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;*
- *The timeline for completion of the work being done by the Puerto Rico Electric Power Authority (“PREPA”) to repair PREPA’s electric system and infrastructure and the impact of any future developments or issues related to PREPA’s electric system and infrastructure on Puerto Rico’s economic growth;*
- *The impact of the measures described herein on outmigration; and*
- *The impact of the resolution of any pending litigation in the Title III cases*

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# List of Acronyms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)	Hacienda	Puerto Rico Treasury Department
ADEA	Agricultural Enterprise Development Administration (Spanish acronym)	HHS	U.S. Health and Human Services
Administration	Administration of Governor Ricardo Rosselló	HUD	U.S. Housing and Urban Development
ASEM	Puerto Rico Medical Services Administration (Spanish acronym)	Hurricanes	Hurricane Irma and Hurricane Maria
ASES	Puerto Rico Health Insurance Administration (Spanish acronym)	IMF	International Monetary Fund
BBB	Request for supplemental federal assistance submitted on November 13, 2017 by the Government titled Build Back Better Puerto Rico	Island	Puerto Rico
CAGR	Compound Annual Growth Rate	KPIs	Key Performance Indicators
Cardiovascular	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	LEA	Local Education Agency
CDBG	Community Development Bank Grant	MCOs	Managed Care Organizations
CDL	Community Disaster Loan from the CDL program	MFCU	Medicaid Fraud Control Units
Certified Fiscal Plan	Fiscal Plan certified on March 13, 2017 by the FOMB	MMIS	Medicaid Management Information System
CFC	Controlled Foreign Corporations	OMB	Office of Management and Budget
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)	P3	Public Private Partnerships
COSSEC	Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (Spanish acronym)	P3 Authority	Public Private Partnership Authority
CRRO	Central Recovery and Reconstruction Office	PA	Public Assistance
DDEC	Puerto Rico Department of Economic Development Commerce (Spanish acronym)	Parties	AAFAF and the Government
DOH	Department of Health	PBA	Public Building Administration
DOJ	Puerto Rico Department of Justice	PMO	Program Management Office
DOL	Department of Labor	PMPM	Per Member Per Month
DOT	Department of Transportation	PRASA	Puerto Rico Aqueduct and Sewer Authority
EEl	Electronic Export Information	PREMA	Puerto Rico Emergency Management Agency
EITC	Earned Income Tax Credit	PRCCDA	Puerto Rico Convention Center District Authority
ERS	Employee Retirement System	PREPA	Puerto Rico Electric and Power Authority
FEMA	Federal Emergency Management Agency	PRHFA (or HFA)	Puerto Rico Housing Finance Authority
FOMB	Financial Oversight and Management Board of Puerto Rico	PRHTA (or HTA)	Puerto Rico Highway and Transportation Act
GAO	U.S. Government Accountability Office	PRIDCO	Puerto Rico Industrial Development Company
GDB	Government Development Bank for Puerto Rico	PRITS	Puerto Rico Information Technology Service
GDP	Gross Domestic Product	PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
GF	General Fund	PRTC	Puerto Rico Tourism Corporation
GFEWG	Governor's Fiscal and Economic Working Group	PSC	Puerto Rico Public Service Commission
GILTI	Global Intangible Low Income Tax	RFQ	Request for Quote, or Request for Qualification
GNP	Gross National Product	SCO	State Coordinating Officer
GOSR	State of New York's Office of Storm Recovery	SIFC	State Insurance Fund Corporation
Government	Government of Puerto Rico	UPR	University of Puerto Rico
Governor	Governor Ricardo Rosselló	WIOA	Workforce Innovation and Opportunity Act



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# GOVERNMENT VISION

TRANSFORMING PUERTO RICO THROUGH A NEW SOCIOECONOMIC MODEL

BACKGROUND AND CONTEXT | A NEW VISION FOR PUERTO RICO



GOVERNMENT OF PUERTO RICO



# BACKGROUND AND CONTEXT



## Puerto Rico’s residents as US Citizens have made great contributions to the Country in serving during times of war and peace

Puerto Rico’s second class treatment has deprived its residents of the life they deserve as US Citizens.

### Spanish American War

*Puerto Rico becomes a U.S. Territory; “Unincorporated Territory” clause.*

1898

### Foraker Act

*Created a governance structure with a Governor, Legislative Assembly, and Judicial System.*

1900

### Jones-Shafroth Act

*Granted U.S. Citizenship to anyone born in Puerto Rico.*

1917

### PR Federal Relations Act

*Enabled the Government of Puerto Rico to organize; leads to 1952 Puerto Rico Constitution.*

1950

Past decisions regarding Puerto Rico have deprived it of a credible voice in Congress to demand and protect fair and equal access to basic benefits and programs provided by the Federal Government.



No  
Presidential Vote



No  
Voting Representation  
in Congress



No  
Parity in Medicaid



Foreign Entity  
for Federal Tax  
Purposes

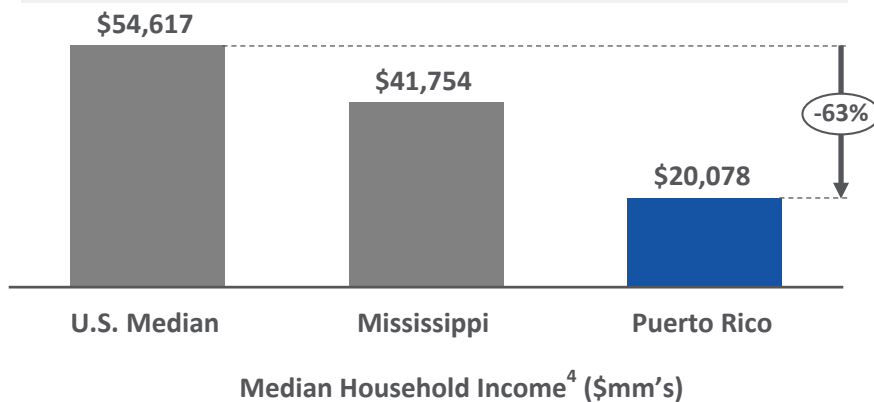
The Congressional approval of the *Tax Cuts and Jobs Act* of 2017, as well as delays in restoring the energy grid, among other recovery initiatives, are the most recent evidence that, unlike the States, Puerto Rico has been an afterthought in the mind of Congress across a wide variety of federal assistance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



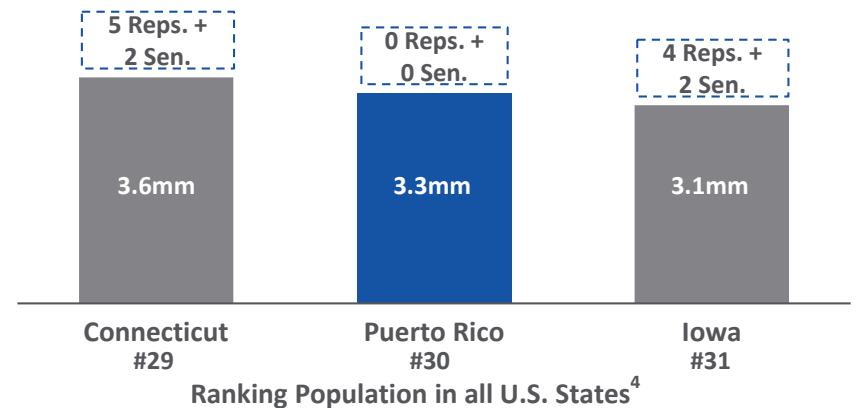
## Puerto Rico’s unfair and inequitable treatment as a territory has been a driving factor in our decade-old fiscal and economic crisis

- Since 2006, Puerto Rico’s real GNP has shrunk by more than 14%.
- In the past decade more than 300,000 people left Puerto Rico. The impact of Hurricanes Irma and Maria accelerated this trend with an additional 600,000 people or about 19% decline expected by FY23.
- Student population has declined by over 40% since 2000 with an additional 16% decline expected by FY22.<sup>1</sup>
- More than 45% of Puerto Rico residents live in poverty, which is the highest poverty rate of any U.S. state (Mississippi is the next highest at 21.9%). Puerto Rico’s 10.9% unemployment rate is almost three times the national level.<sup>2</sup>
- Concerns about quality of life, poor delivery of public services and high unemployment have led to a historic population outmigration.
- Puerto Rico is treated unequally under key federal programs such as Medicaid as compared to states. For example, the Census Bureau has reported that Oregon, a relatively prosperous state with a population size similar to Puerto Rico, received over \$29bn from the Federal Government, whereas Puerto Rico received \$19bn for the same year.<sup>3</sup>
- As discussed further, the impact of Hurricanes Irma and Maria requires that the New Fiscal Plan provides a roadmap to fiscal recovery and long-term sustainability.

*Inequality created by Puerto Rico’s treatment as a territory is one of the primary causes of the severe disparity in personal income that exists between residents of the U.S. mainland and Puerto Rico.*



*Puerto Rico ranks 30<sup>th</sup> in terms of population, but Puerto Rico has no voting representation in Congress unlike US States.*



<sup>1</sup> Department of Education, official public school registry

<sup>2</sup> US DOL Bureau Labor of Statistics

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

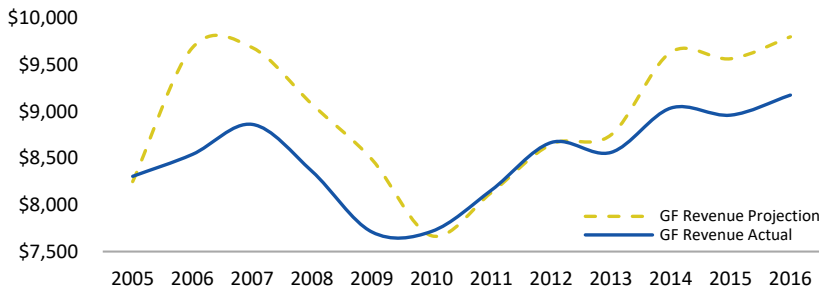
<sup>4</sup> United States Census Bureau, 2016





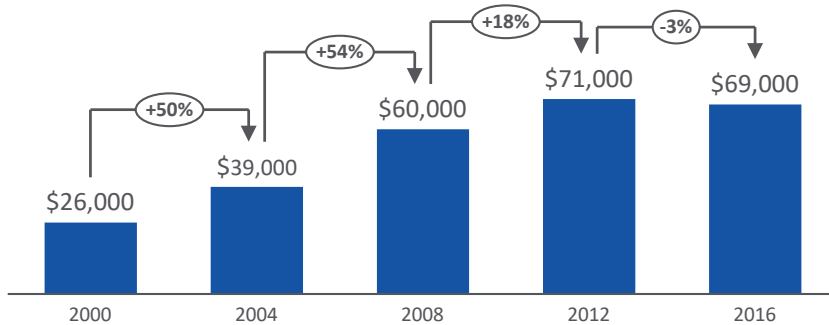
## Periods of fiscal irresponsibility and lack of economic planning and transparency also contributed to Puerto Rico's financial crisis

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



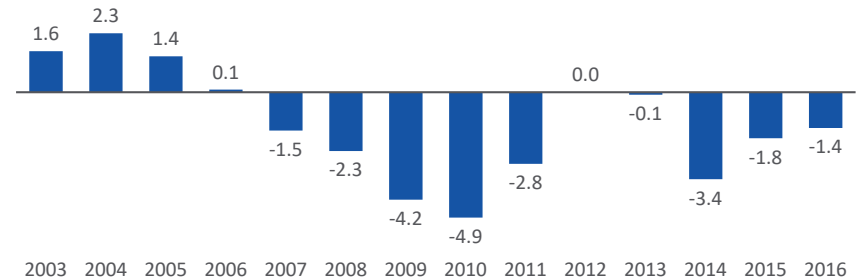
Revenue Projections vs Actual Revenues Since 2005 (\$mm's)

*Unchecked fiscal deficits between 2001 and 2008 led to a recurrent practice of deficit financing, resulting in a 131% growth in public debt during the period*



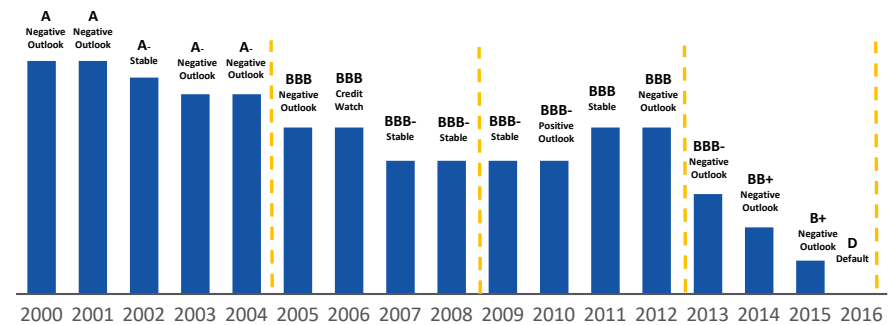
Public Debt Since 2000 (\$mm's, calendar years)<sup>1</sup>

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



GDB Economic Activity Index (%)

*An increase in expenditures and public debt led to a consistent decline in Puerto Rico's credit ratings, except for the period between 2009 and 2012*



Puerto Rico Credit Rating FY00 – FY16: S&P Rating on General Obligation Bonds

<sup>1</sup> Source: Government Development Bank of Puerto Rico



# A NEW VISION FOR PUERTO RICO



## Our vision for the socioeconomic transformation is founded on a new Government model to drive fiscal and economic stability

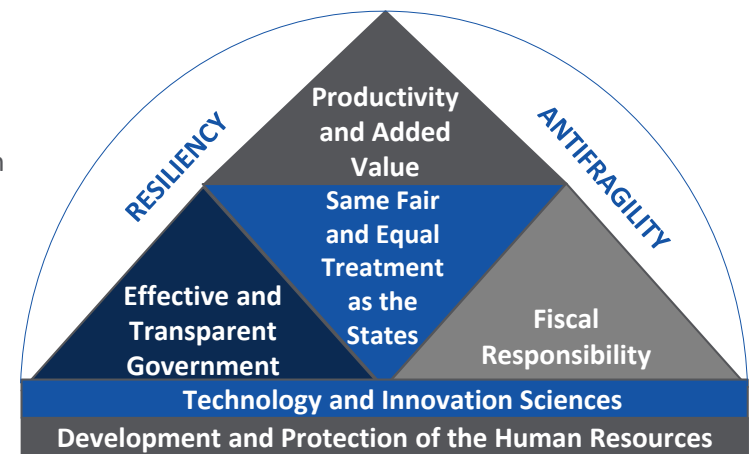
The devastation caused by Hurricanes Irma and Maria creates an opportunity to redesign major components of the Island's critical infrastructure, invest in the quality and resiliency of public and private buildings, and restructure and modernize and reevaluate delivery of services to residents.

### Strategic Goals:

- To establish a new Government which facilitates and implements strategies that achieve sustainable economic growth and provides opportunities for job growth and personal advancement.
- To develop an educated, healthy, productive and vibrant society, observant of law, order and integrity.
- To establish effective, efficient, and responsible government policies and practices that remain sensitive to the needs of Puerto Rico's most vulnerable residents.
- To incorporate practices and operations based on scientific- and performance-based models into Government; where evidence and results matter; and where resident participation, collaboration, and trust in government are the main focus of its validation.

### Main Objectives:

1. Develop and **protect human capital**.
2. Correct structural issues, **bolster economic growth** efforts, and utilize areas of opportunity.
3. Improve **Puerto Rico's competitiveness** through less regulation, energy reform and other various structural reforms.
4. Position Puerto Rico as a **global investment** destination.
5. Upgrade policies of **public private partnership** investment in energy, water, waste management, and other infrastructure projects.
6. Increase labor force flexibility and create **high quality jobs**.
7. Develop a **safe, educated, healthy and sustainable society**.
8. Achieve **equality** for all residents of Puerto Rico consistent with other U.S. states.
9. Eliminate **inequality** at the local level.
10. Use and maximize **science and technology** as a driver for transformation.
11. More **efficient delivery** of government services.





## Our economic development model rests on various fundamental premises related to fiscal concerns and the management of public finances



1

The government must invest in technology to achieve total transparency regarding the management of economic data and financial information, in addition to implementing a system to monitor, control and oversee all of the public financial apparatus, including the collection of taxes and the application of diverse tax and economic incentives.



2

The role of government is to promote, incentivize and facilitate economic development.



3

Economic incentives must provide a tangible return to increase fiscal revenues and promote economic development in a more ample, balanced and diversified fashion.



4

For Puerto Rico to be competitive, the reduction of corporate income tax rates is necessary, especially regarding small and medium sized businesses. Furthermore, business to business taxes over goods and services must be reduced or eliminated.



5

Corporate, Individual and sales and use taxes should be reduced.



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

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



### Fiscally Responsible Administration

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



### Spearheading Economy & Infrastructure Rebuilding

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



### PROMESA Compliant

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



### Enhanced FOMB Reporting Framework

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



# EXECUTIVE SUMMARY



## The New Fiscal Plan integrates the required response to the devastation caused by the Hurricanes as well as the most recent assumptions available for Disaster Relief Assistance and private insurance claims proceeds

The FOMB approved the Certified Fiscal Plan covering a 10-year period on March 13, 2017. Thereafter, the Government began the difficult task of implementing the proposed initiatives to achieve structural balance by FY20. In the aftermath of the Hurricanes, the FOMB directed the Government to revise the Certified Fiscal Plan. The New Fiscal Plan is built upon the pillars of fiscal and structural reforms with the main objective of revitalizing the economy and critical infrastructure.

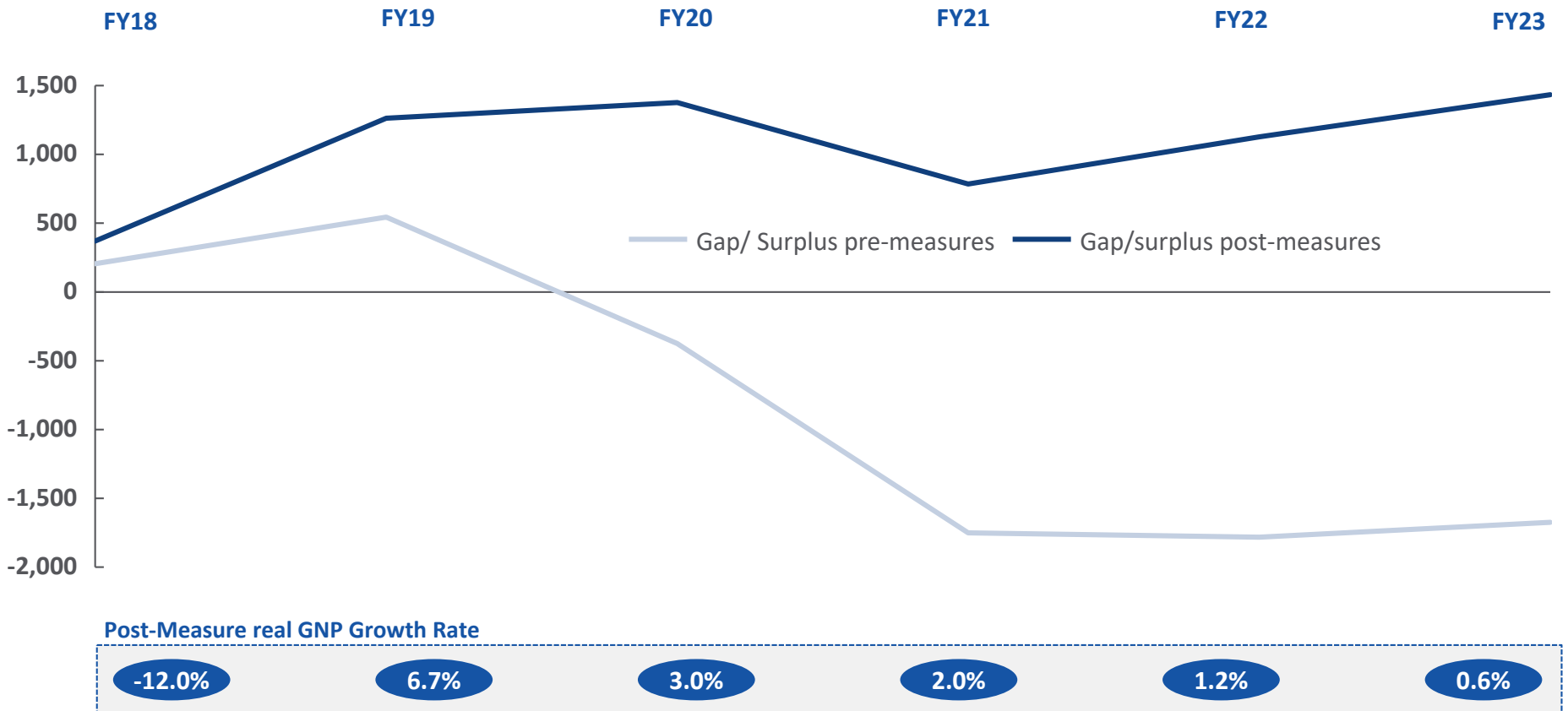


<sup>1</sup>Build Back Better Puerto Rico, Request for Federal Assistance for Disaster Recovery November 13, 2017.



**By implementing structural reforms and fiscal measures, the Government will achieve an annual surplus of \$1.4B by FY23, putting Puerto Rico on a path to structural balance and restore growth and opportunity for the people of Puerto Rico**

**Gap/surplus before and after measures and structural reforms (\$mm's)**







# REBUILDING PUERTO RICO

A COMPREHENSIVE DISASTER AND INFRASTRUCTURE RECOVERY STRATEGY

BUILD BACK BETTER | FUNDING SOURCES | CRRO & P3 UPDATE



GOVERNMENT OF PUERTO RICO

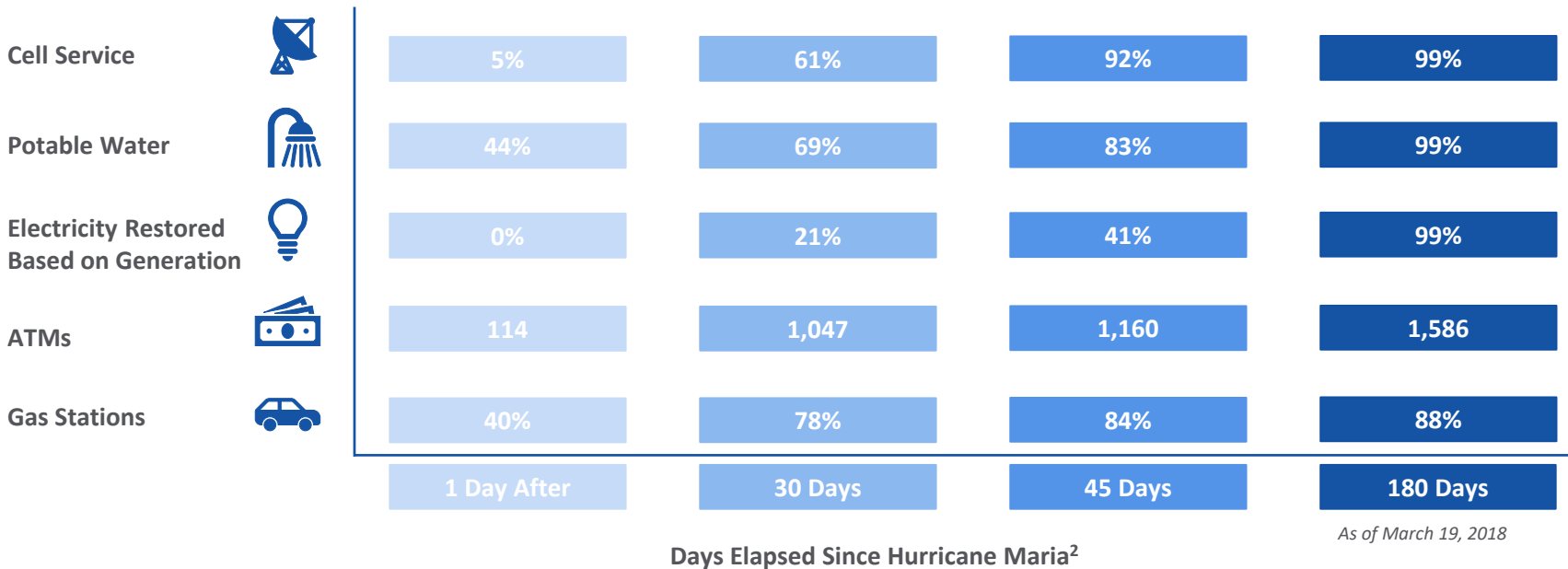


**BUILD BACK BETTER**



## Notwithstanding the precautionary measures taken prior to the Hurricanes, Puerto Rico’s infrastructure was significantly damaged

Initial repair efforts are focused on temporary fixes and still require significant permanent investments that will provide the resiliency needed to withstand future natural disasters.



On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure related damages disrupting the daily lives of 3.3mm residents, including housing, infrastructure, environment, safety, health and social services, and municipal operations. The response to the catastrophe by the U.S. and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history.<sup>3</sup>

<sup>1</sup> Translates to 93% of PREPA’s customer-base

<sup>2</sup> FEMA and Status.pr

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



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

### \$31.5bn<sup>1</sup> DAMAGE ASSESSMENT

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

### RECOVERY EFFORTS

- FEMA's critical response teams arrived on the Island on September 23, 2017, three days after the Hurricane, to assist with stabilizing cell towers, water treatment plants, hospitals, gas stations, and installing emergency generators.
- Damage Status update as of March 19, 2018<sup>2</sup>:
  - 99% of electricity generation restored (from 0% post storm)
  - 99% of telecommunications were restored (from 0% post storm)
  - 99% of PRASA customers had water (from 0% post storm)
  - 1,586 ATMs were open (from 114 post storm)
  - 100% of hospitals were operating
- FEMA Assistance status update as March 20, 2017<sup>3</sup>:
  - 442,657 Individual Assistance Applications had been approved
  - A total of \$1.1bn had been approved for the Individuals and Household Programs.

### \$94.4bn BUILD BACK BETTER

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

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

<sup>2</sup> Status.pr

<sup>3</sup> FEMA Damage Assessment dated January 25, 2018.



# FUNDING SOURCES



## An Overview of Federal Funding Resources Made Available Immediately After a Major Disaster

In a presidentially-declared major disaster such as Hurricane Maria, certain Federal funding streams are activated to assist local governments, businesses, and residents with immediate emergency response efforts as well as long-term recovery. In addition, supplemental appropriations are typically provided and other funding opportunities may be available from private insurance, the National Flood Insurance Program, and other like programs.



**Public Assistance:** FEMA provides disaster grant assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged publicly-owned – and certain private, non-profit organizations’ – facilities and assets.



**Individual Assistance:** FEMA’s Individuals and Households Program (IHP) provides financial and/or direct assistance to eligible applicants who, as a result of a major disaster or emergency, have necessary expenses and serious needs. The IHP provides grant funding up to \$33,300 per household through two provisions.

- **Housing Assistance (HA):** HA is used for temporary housing/rental assistance, or for certain repairs to storm-damaged primary residences not covered by private or NFIP insurance.
- **Other Needs Assistance (ONA)** – ONA is used to repair or replace damaged personal property and for other eligible disaster-related expenses. These include funds for: child-care costs; medical and dental costs; disaster-related funeral expenses; clothing and other household items; and moving/storage expenses.



**HUD Community Development Block Grant:** HUD provides CDBG funding that can be given in the form of assistance to individuals (e.g., housing repair) and public assistance (e.g., infrastructure development), and can also be used for certain areas of operational costs (e.g., to pay for their disaster relief spending match.) The supplemental appropriation included in the 2018 continuing resolution (as well as other amounts announced separately by HUD) amounts to ~\$12.5B.



**SBA Individual and Business Loans:** The Small Business Administration offers loans rather than grants, which are intended to help individuals replace personal property and small businesses replace assets lost in the storm. To date, \$1B in SBA loans has been approved for Maria.



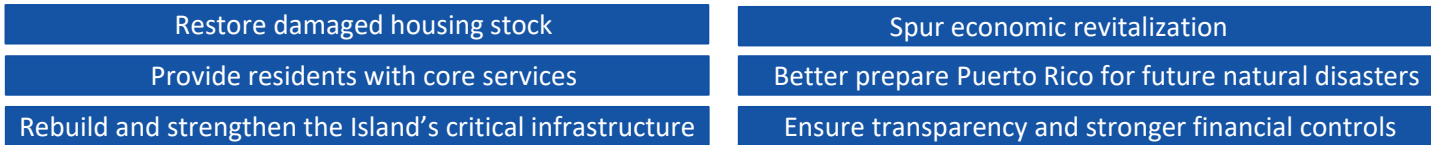
**Private Sector Funding:** Large personal property and casualty losses are anticipated in the aftermath of Hurricane Maria. Early estimates released by the Property Claims Services (PCS) indicate that \$21.9B in Maria and Irma-related damages will be reimbursed in Puerto Rico. However, historical data from Katrina has been used to discount this figure by 24% to account for business interruption insurance payouts to large multinationals, that would be unlikely to impact the local economy, resulting in an adjusted total of \$16B.



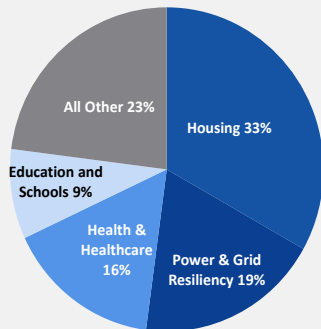
## On November 13, 2017, the Government submitted a formal request for supplemental Federal assistance, titled Build Back Better Puerto Rico (BBB)

The BBB plan is a roadmap for rebuilding a more resilient Puerto Rico that details the funds requested for disaster recovery by sector. The plan was prepared with the joint support of the State of New York GOSR, 100 Resilient Cities, Ford Foundation, Open Society Foundation, Deloitte, and other state and Federal agency experts.<sup>1</sup>

### Mission Critical Goals



### \$94.4bn Request by Category



### Uses

- **Housing:** \$31.1bn for damaged and destroyed buildings, structures, and equipment.
- **Power Grid & Utility Resiliency:** \$17.8bn to repair the damaged utility infrastructure of the Island.
- **Healthcare:** \$14.9bn to repair, strengthen, and make more resilient healthcare facilities, to bolster state emergency stockpiles, and to augment existing Medicaid program.
- **Cost-share** (part of all other): Estimated 10% FEMA cost-share to be covered through alternate Federal funding (to the extent the cost-share is not eliminated entirely).

### Sources

- Additional Federal funding is obtained from special disaster relief bills that appropriate additional funds to Federal agencies earmarked for disaster relief and recovery.

### Commitment to Transparency and Financial Controls

- The CRRO was created to ensure transparency and accountability of disaster recovery funding and for the oversight of all recovery efforts.

<sup>1</sup> Build Back Better Puerto Rico, Request for Federal Assistance for Disaster Recovery, Acknowledgement Section, November 13, 2017



## Although Puerto Rico requested significantly more Federal Disaster Relief Assistance, only \$49.7bn is included in the New Fiscal Plan

- Puerto Rico has requested \$94.4bn in Federal Disaster Relief Assistance.
- However, as required by FOMB guidelines, the New Fiscal Plan assumes only \$49.7bn of federal assistance.
- In addition, \$15.8bn from private insurance companies claims is included.

Disaster Related Funding in the New Fiscal Plan				
\$49.7bn Federal Assistance	+	\$15.8bn Private Insurance	=	\$65.4bn Disaster Relief Assistance

- Certain federal funding contains a 10% local cost share component. The Government’s cost-share related to FEMA’s PA program is estimated at \$1.7bn, excluding the amounts related to PREPA and PRASA which are addressed in their respective fiscal plans.
- Puerto Rico is requesting a cost-share adjustment for FEMA’s programs under the Stafford Act to 100% Federal. To the extent the cost-share is not eliminated entirely, the Government has requested authorization to use CDBG-DR funds to cover the cost-share match requirements. Historically, either FEMA or Congress have authorized a 100% Federal cost-share for catastrophic disasters such as in Hurricanes Andrew and Katrina.
- Congress has approved \$4.9bn of liquidity funds for Puerto Rico and the U.S. Virgin Islands in the form of a Community Disaster Loan. Terms have been under negotiation since October 2017. On March 22, 2018, the Government of Puerto Rico and the Federal Government reached an agreement in principle on the structure of the Community Disaster Loan.
- Early estimates released by the Property Claims Services (PCS) indicate that \$21B<sup>1</sup> in Maria and Irma-related damages will be reimbursed in Puerto Rico. However, historical data from Katrina has been used to discount this figure by 25% to account for business interruption insurance payouts to large multinationals, that would be unlikely to impact the local economy, resulting in an adjusted total of \$15.8B.<sup>2</sup>

### \$35.3bn FEMA Public Assistance Funding<sup>3</sup>

The \$35.3bn estimate is based on FEMA Public Assistance program guidelines with a damage assessment by category.

Proposed funding uses:

- 51% – Repairing, modernizing, and strengthening Puerto Rico’s water and power infrastructure.
- 24% – Reconstructing critical publicly mixed buildings and fixing of equipment.
- 25% – Rebuilding and strengthening emergency response capabilities, water control facilities and other.

### Bipartisan Budget Act of 2018-CDBG Funds

Due to the passing of the Bipartisan Budget Act of 2018 on February 2, 2018 and other granted federal funding, \$13.2bn of supplemental appropriations are included in the New Fiscal Plan.

Estimated allocation for Puerto Rico is as follows:

- \$11.7bn – CDBG supplemental
- \$1.5bn – HUD CBDG First supplemental

<sup>1</sup> Property Claims Services Estimate, dated October 2017.

<sup>2</sup> Based on outlays of Hurricane Community Development Fund during Hurricane Katrina recovery.




<sup>3</sup> PR Government estimates reviewed by third party subject matter experts.

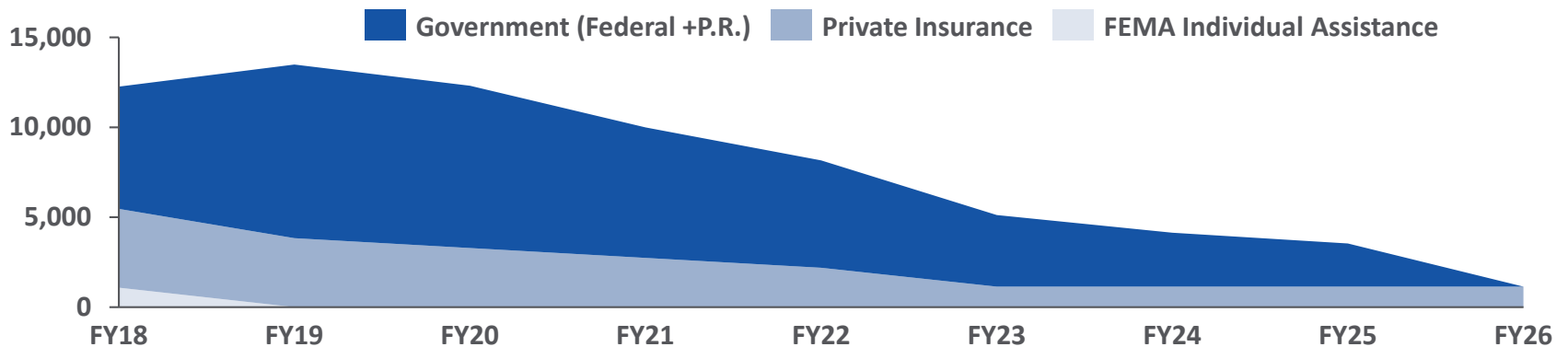




## Disaster Relief Assistance Outlay Curve

The disaster spend curve was derived using historical disaster relief spending experience coupled with a Puerto Rico specific capacity analysis adjusted for actual FEMA outlays as of March 2018. The approach was confirmed by an LSU study<sup>1</sup> that noted approximately 75% of federal assistance occurs within 5 years (PR spend curve: 77% spend occurs within 5 years).

		Total Yearly Outlay (\$mm's)									Cumulative Outlay (%)	
		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	TOTAL	% TOTAL
	Federal Government	4,971 10%	8,866 18%	9,205 19%	7,769 16%	6,373 13%	4,613 10%	3,361 7%	2,641 5%	673 1%	\$48,741	74%
	Private Insurance	3,285 21%	2,875 18%	2,464 16%	2,054 13%	1,643 10%	858 5%	858 5%	858 5%	858 5%	\$15,752	24%
	FEMA Individual Assistance	1,200 100%									\$1,200	2%
<b>TOTAL</b>		<b>9,456</b>	<b>11,741</b>	<b>11,668</b>	<b>9,823</b>	<b>8,015</b>	<b>5,471</b>	<b>4,219</b>	<b>3,499</b>	<b>1,531</b>	<b>\$65,422</b>	
<b>SPENDING AS A % OF GDP</b>		<b>14%</b>	<b>18%</b>	<b>18%</b>	<b>15%</b>	<b>12%</b>	<b>8%</b>	<b>6%</b>	<b>5%</b>	<b>2%</b>		



<sup>1</sup> LSU Law Center: Climate Change Law and Policy Project: Cost of Hurricane Katrina Relief and Rebuilding, Richards



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

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

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



# CRRO AND P3 UPDATE



## CRRO's Vision for Puerto Rico's Future

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

### 21<sup>ST</sup> CENTURY INFRASTRUCTURE

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

### FISCAL RESPONSIBILITY AND GOVERNMENT EFFICIENCY

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

### PARTNERSHIP WITH STATE AND FEDERAL GOVERNMENTS

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

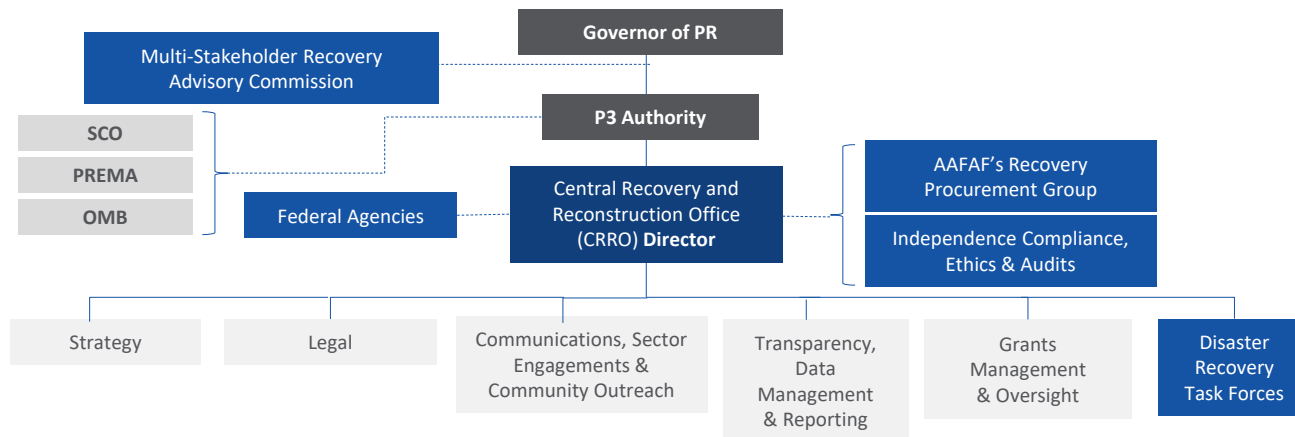
### INCREASE COMMERCE AND TRADE

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



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

The CRRO was created following global best practices used in many jurisdictions including without limitation New Jersey, Louisiana, New York and New Zealand to ensure accountability and coordination of the disaster recovery efforts expected by residents of Puerto Rico and U.S. taxpayers. It will ensure that the Government can implement reconstruction efforts with efficiency, effectiveness, and transparency, while capitalizing on opportunities to build back Puerto Rico better, stronger, and more resilient.



### The Purpose and Responsibilities of the CRRO – Transparency, Efficiency and Controls

- CRRO was established to promote transparency and efficiency in the disaster recovery process and will:
  - Monitor contracting for compliance and effectiveness purposes.
  - Implement and enforce checks and balances for procurement and approval of contracts and payments.
  - Deploy a proven grant-management software and provide external visibility via frequent status updates to its public website.
  - Coordinate and channel all efforts and activities of the Government related to recovery efforts.
  - Process, finance, and execute works and infrastructure projects related to recovery efforts.
- Managing funds and the recovery process in this fashion will be critical to Puerto Rico's long term reconstruction.
  - Third party assistance within the reconstruction process will be optimized by engaging consultants with expertise in managing FEMA, HUD, and other grant programs and a national accounting firm to develop financial controls, policies and procedures.

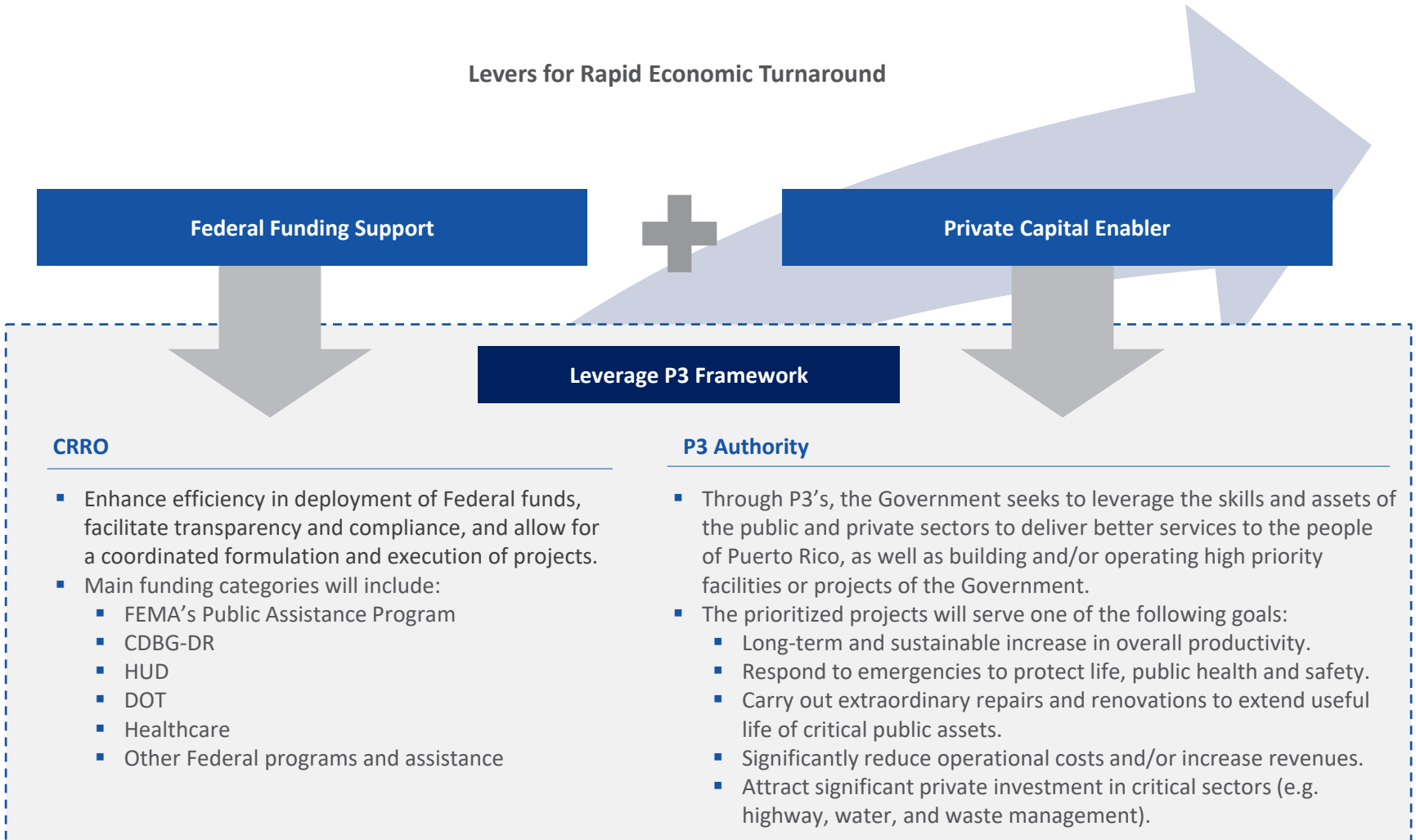
### Key Milestones

- December 6, 2017: P3 Authority Board formalized the creation of the CRRO as a division within the P3 Authority.
  - Charter Resolutions and proposed organizational structure of the CRRO were approved by the P3 Authority.
  - Contract support structure and related proposals for implementation of policies and procedures were approved and subsequently issued.
  - March 11, 2018 - submitted update to congress on progress towards the development of the economic and disaster recovery plan.



## Disaster recovery optimization and execution will leverage Puerto Rico’s historically successful P3 framework and the CRRO to guide our transformational plan and economic revival

### Levers for Rapid Economic Turnaround



#### CRRO

- Enhance efficiency in deployment of Federal funds, facilitate transparency and compliance, and allow for a coordinated formulation and execution of projects.
- Main funding categories will include:
  - FEMA’s Public Assistance Program
  - CDBG-DR
  - HUD
  - DOT
  - Healthcare
  - Other Federal programs and assistance

#### P3 Authority

- Through P3’s, the Government seeks to leverage the skills and assets of the public and private sectors to deliver better services to the people of Puerto Rico, as well as building and/or operating high priority facilities or projects of the Government.
- The prioritized projects will serve one of the following goals:
  - Long-term and sustainable increase in overall productivity.
  - Respond to emergencies to protect life, public health and safety.
  - Carry out extraordinary repairs and renovations to extend useful life of critical public assets.
  - Significantly reduce operational costs and/or increase revenues.
  - Attract significant private investment in critical sectors (e.g. highway, water, and waste management).



## Status update of drafting the Economic and Disaster Recovery Plan

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

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

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

## Puerto Rico's proven P3 framework will adapt to the current economic and fiscal circumstances to achieve a real incremental effect on long-term growth

- As proven in different jurisdictions around the world, centralizing implementation of P3 project delivery within a statewide team with technical, financial, and legal expertise has been beneficial to the delivery and intensifying of P3 projects. Puerto Rico has a proven track record in P3s having executed landmark projects such as Toll Roads PR-22 / PR-5 and LMM International Airport.
- P3 pipeline has been revised to reflect a six-year Fiscal Plan time horizon, leveraging Federal funding and world wide exposure. The P3 Authority is focusing on developing critical infrastructure projects across the Island, modernizing public services and building stronger and more resilient infrastructure in close collaboration and partnership with the private sector.
- Recently enacted laws provide for the private sector to submit unsolicited proposals which are private bids for public-private projects. This process will enable collaboration and partnership with the private sector to accelerate development of critical infrastructure and optimization of government operations. Since January 2017, over 20 unsolicited proposals, encompassing all infrastructure sectors, have been received.
- Puerto Rico Revitalization Authority
  - CAPEX and infrastructure development will be streamlined by leveraging the capabilities and resources of the P3 Authority, PRIFA, certain other instrumentalities, and Title V of PROMESA into a new Puerto Rico Revitalization Authority.

### P3 IMPACT AREAS:





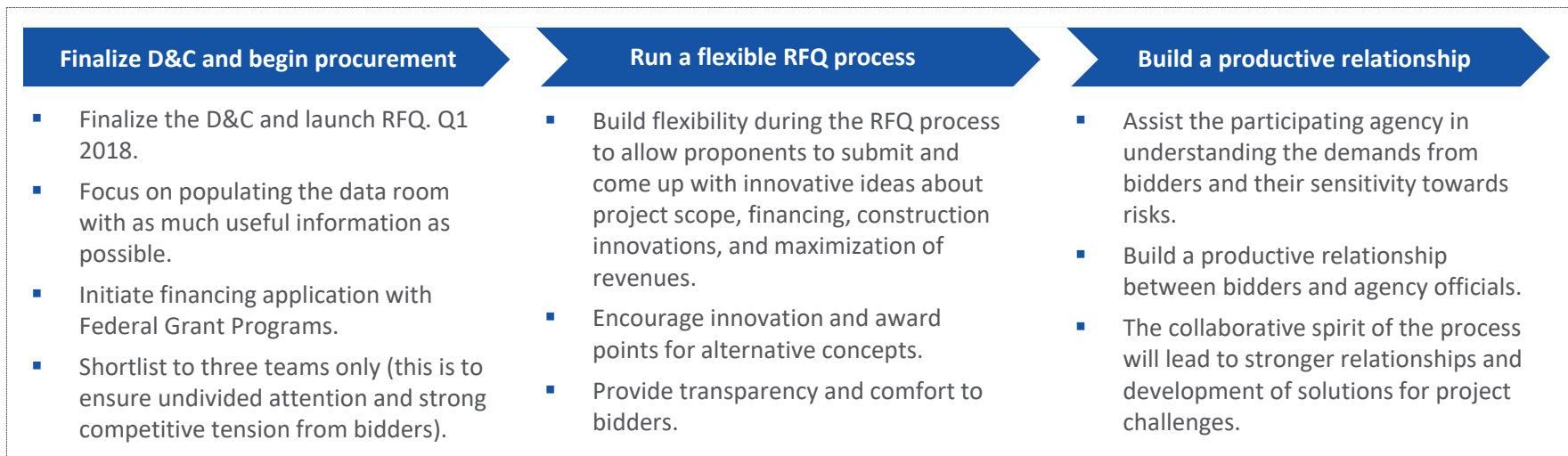


## A path forward with current P3 pipeline

Given Puerto Rico’s fiscal and economic conditions, it is expected for projects to carry certain risk premiums and have feasibility challenges. However, the market recognizes well-structured projects, critical and transformative projects and has the ability to formulate innovative solutions to improve the financial profile of projects.

**Despite challenges and adjustments, there is a path forward for P3 projects in Puerto Rico:**

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

<sup>2</sup>Desirability and Convenience (“D&C”) Study performed to see how attractive externalization of public agencies/functions is to the private market.



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

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
<b>Federal Opportunity Center</b>	<ul style="list-style-type: none"> <li>Executive Order 002-2017 creates the “Federal Opportunity Center” as an advisory body to the Office of the Governor.</li> <li>This Executive Order seeks to strengthen the collection, maximization and control of federal funds .</li> </ul>
<b>Critical Infrastructure Projects</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Inter-Agency Group: Permit Process Priority</b>	<ul style="list-style-type: none"> <li>Executive Order 004-2017 creates an interagency group to oversee the permit process of critical infrastructure projects.</li> <li>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.</li> </ul>
<b>Governor’s Permanent Advisory Council</b>	<ul style="list-style-type: none"> <li>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.</li> <li>This is one of the priority measures meant to revive the economy and enable the development of infrastructure.</li> </ul>
<b>Integrated Services Center</b>	<ul style="list-style-type: none"> <li>Executive Order 022-2017 Create as public policy the establishment of Integrated Services Centers around the Island.</li> <li>The purpose of this Executive Order is to centralize the regional offices of government services so citizens can receive services quickly and efficiently.</li> </ul>



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

## CRRO

- CRRO will lead the coordination, development and execution of long term recovery and reconstruction efforts.



## Capital Budgeting Unit

- Signal in the development of 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.



## 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.



## 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.





# PATH TO STRUCTURAL BALANCE

ECONOMIC AND FINANCIAL CONSIDERATIONS FOR THE FUTURE

ECONOMIC OUTLOOK | FINANCIAL PROJECTIONS | DEBT SUSTAINABILITY



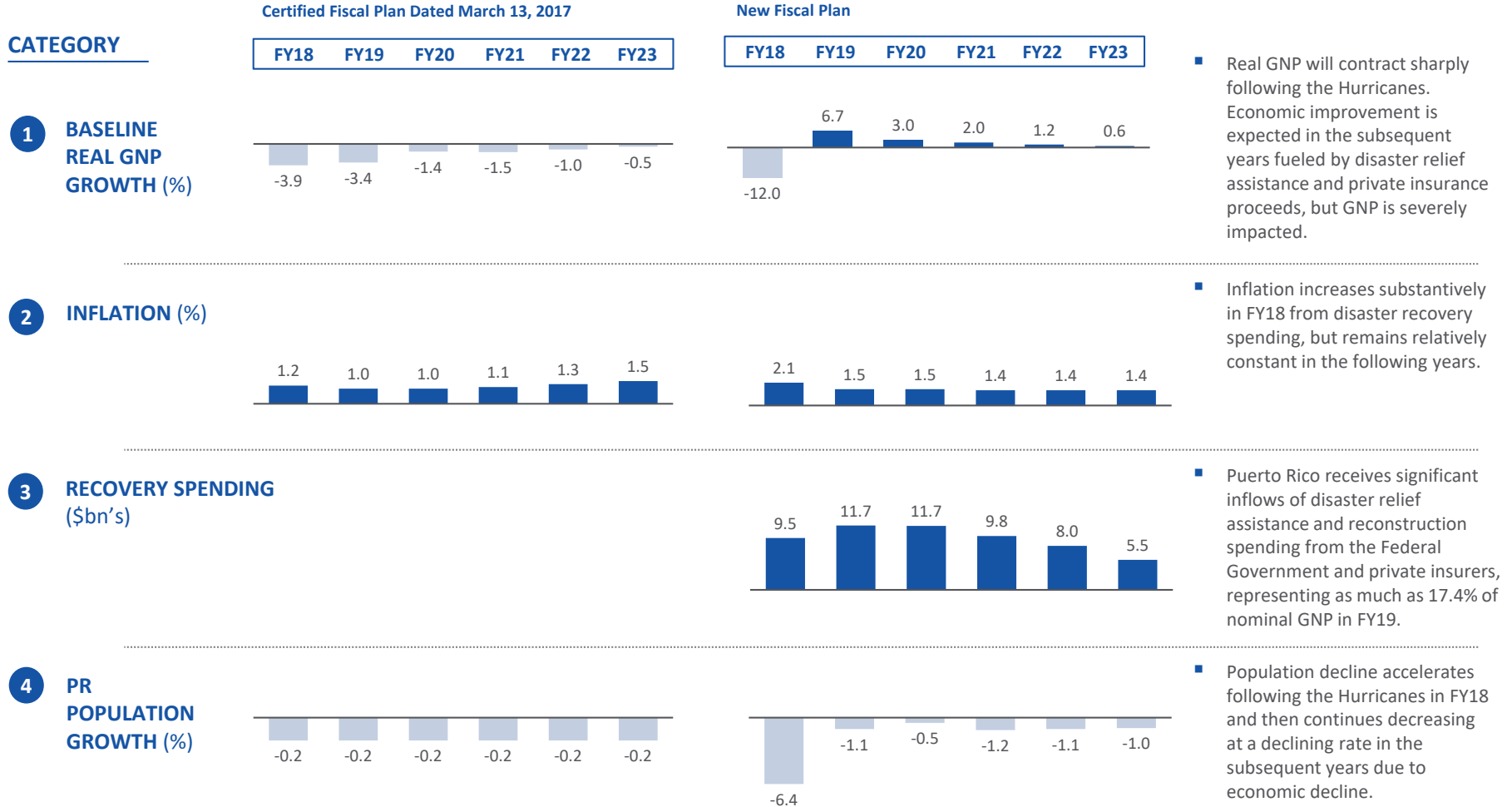
GOVERNMENT OF PUERTO RICO



# ECONOMIC OUTLOOK



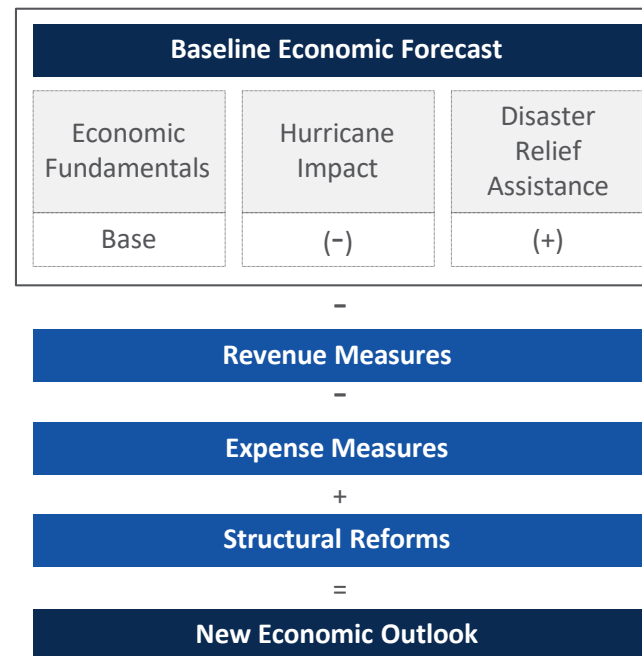
# Baseline projections for the Island have been significantly impacted by the Hurricanes and disaster relief assistance funding





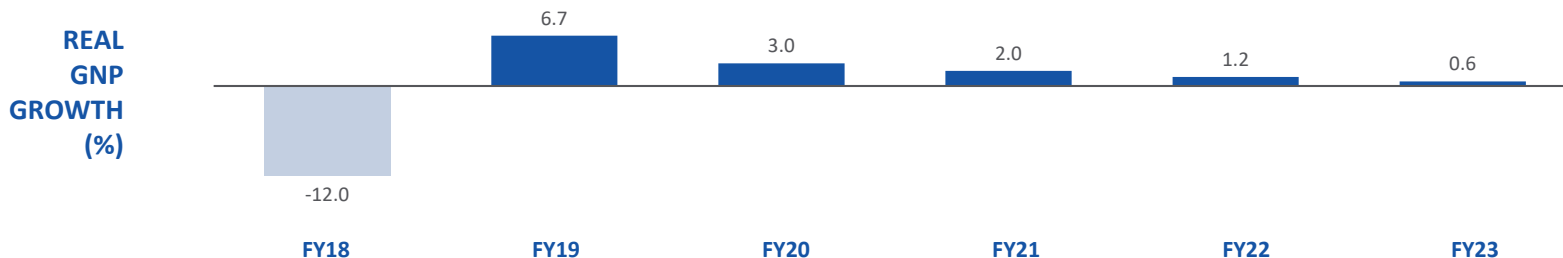
## The macroeconomic model is premised upon four major factors

- The Government has developed an economic outlook model with 50 years of historic economic data from Puerto Rico to estimate GNP growth, inflation rates, and population growth rates, which in turn are used as the main drivers for financial projections. The model also incorporates U.S. GDP growth, net transfers from the Federal Government, historical capital investment in the economy, and world oil prices.
- In addition, there are four additional key drivers in the economic model that have a significant impact on the projections:
  1. **Pre-hurricane trendline**
    - The structural recession in Puerto Rico before the hurricane is reflected in the projected GNP growth rate.
  2. **Hurricane Impact**
    - The level of hurricane destruction is the variable that is greatly influencing economic projections in FY18.
  3. **Disaster Relief Assistance**
    - Disaster relief assistance funding (Federal funding and private insurance claims proceeds) helps rebuild the Island’s infrastructure and businesses and leads to a positive impact on economic projections.
  4. **Revenue and Expense Measures and Structural Reforms**
    - Revenue measures improve the tax collection efficiency of the Government.
    - Expenditure measures have an impact on government spending.
    - Both revenue and expense measures have a negative impact to GDP.
    - The impact of the structural reforms is positive as they improve the business environment and play a complementary role in stimulating investment and job creation.





## Hurricanes' impact on Puerto Rico's macroeconomic outlook is modelled using historical documented storm damage on GNP



### Historical Influence of Hurricanes on Economies

- An IMF study demonstrates that over seven years after a hurricane strike, per capita GDP falls relative to pre-storm levels. The most severe effects are felt by small states and islands.<sup>1</sup>

### Economic Impact (Base Scenario) of Hurricanes Maria and Irma

A December 1, 2017 preliminary damage assessment estimated total damages from Hurricanes Irma and Maria in Puerto Rico to be \$31.5bn, consisting of \$26.6bn in damages to structures and \$4.9bn in loss of income.<sup>2</sup>

Real GNP is forecasted to increase by .4% by FY23.

The model incorporates the damages caused by the Hurricanes through two channels:

1. Total damage lowers GNP directly in FY18, based on historical storm damage and its impact on GNP in Puerto Rico.
2. The damage to structures represents destruction of Puerto Rico's capital stock.
  - An economy's capital stock is the stock of durable physical assets which contribute to the production of goods and services.
  - A reduction in capital stock has a persistent negative effect on growth throughout the forecast period. Capital stock must be rebuilt or replaced. For example, a damaged factory must rebuild its roof and replace machinery before production can resume.

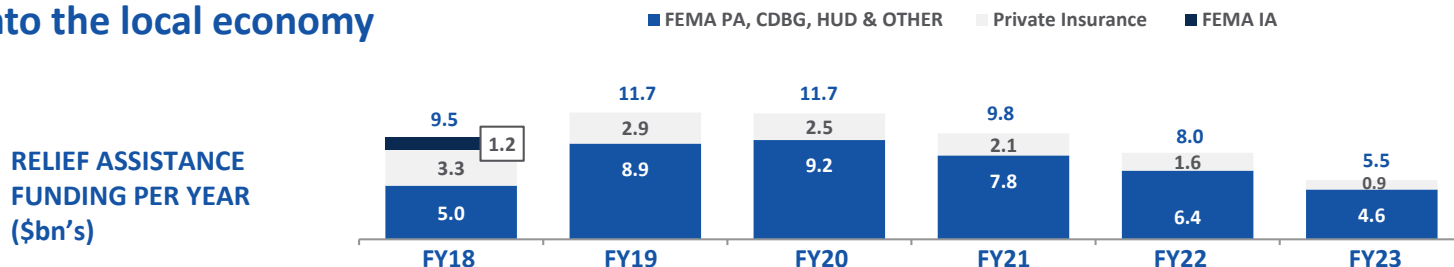
In the following years, the capital stock recovers, in part due to the natural resilience of an economy, but is buoyed by the large infusion of disaster relief aid from both private and public sources. When combined, this aid approaches the total value of Puerto Rico's projected GNP by 2023, thus having a large impact on the economic growth of the island.

1. "The Growth Impact of Tropical Cyclones", International Monetary Fund World Economic Outlook, October 2017.  
 2. FEMA Hazus estimate, December 1<sup>st</sup>, 2017.  
 3. Estimated federal assistance received as of December 2017.





## Disaster relief funding causes a spike in growth in the short term due to pass-through of funds into the local economy



### Estimated Disaster Recovery Funding: 65.4bn

- Federal disaster relief assistance funding is estimated to be \$48.5bn with \$35.3bn from FEMA’s Public Assistance Program, which is funded through the Disaster Relief Fund, and \$13.2bn of additional federal funds (HUD, CBDG-DR, etc) signed into legislation on February 2.<sup>1</sup>
  - The Government anticipates the receipt of additional Federal funding based on the Build Back Better funding request made to the President and Congress on November 13, 2017 (discussed in the “Disaster Recovery” section). Since this additional funding is contingent on supplemental appropriations, it is not included in the macroeconomic or financial projections.
  - The February 2<sup>nd</sup> passing of the Bipartisan Act of 2018 has authorized over \$12.8bn of supplemental appropriations.
- Private insurance proceeds are estimated at \$15.8bn, distributed over eight years.<sup>2</sup>
- Congress has approved \$4.9bn of liquidity funds for Puerto Rico and the U.S. Virgin Islands in the form of a Community Disaster Loan. Terms have been under negotiation since October 2017. On March 22, 2018, the Government of Puerto Rico and the Federal Government reached an agreement in principle on the structure of the Community Disaster Loan.

### Economic Impact of Disaster Recovery Funding to Puerto Rico

Disaster relief assistance funding positively impacts the economy throughout the forecast period (shown above). The economic outlook model incorporates disaster recovery funding through two different channels:

- A portion of the relief funding rebuilds the capital stock destroyed in the storm, contributing to an improvement in economic potential in both the short and long term.
  - 88% of the relief funding received is assumed to contribute directly to rebuilding the capital stock: rebuilding roads, utilities, and other infrastructure.<sup>2</sup>
  - While capital rebuilding allows for increased economic potential in the long run, because goods and services are chiefly imported rather than purchased on-island, this spending passes through the economy and does not have a fiscal impact.
- The remaining portion of the funding, 12%, is spent on expenses that do not directly contribute to capital rebuilding.<sup>3</sup> This portion impacts the economy as fiscal spending with a positive impact on GNP.

<sup>1</sup> The Bipartisan Act of 2018 authorized \$11.7bn of supplemental CDBG-DR funds. Includes \$1.5bn of CDBG-DR funds from prior supplemental appropriation.

<sup>2</sup> Based on timing of outlays for Hurricane Katrina.

<sup>3</sup> Based on analysis of GAO Report on FEMA historical spending and Hurricane Maria specific contracts.

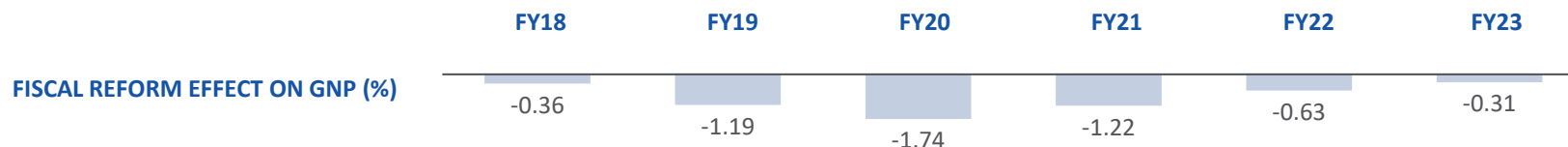


## Fiscal and Structural Reforms will put Puerto Rico on the path to structural viability

Fiscal and structural reforms aim to make the Government more efficient and achieve and create the conditions to allocate capital for long term sustainable growth. Fiscal reforms, considering all revenue and expense measures together, have a short-term negative impact on growth. Structural reforms provide long-run growth potential.

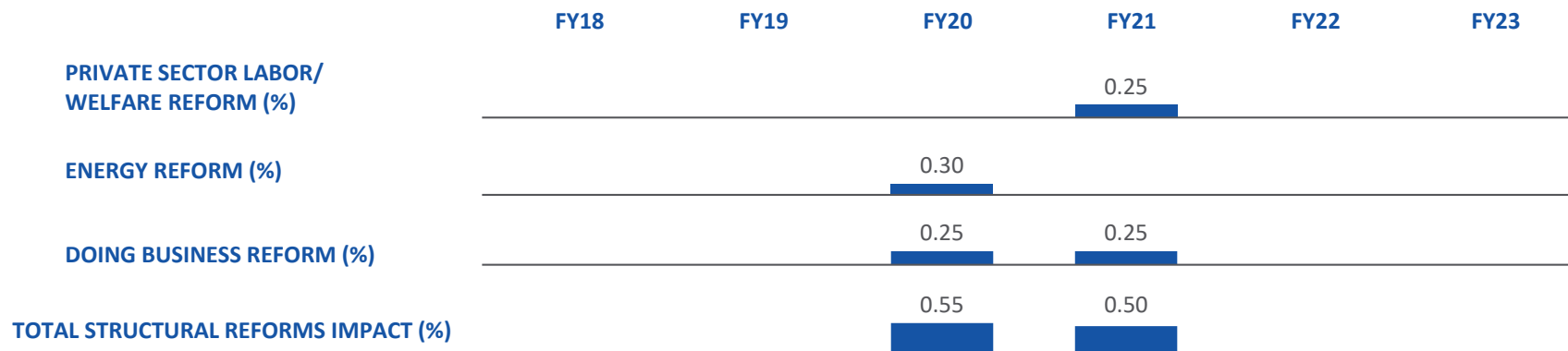
### Fiscal Reforms

- By increasing revenues while not increasing taxes and reducing government wide expenses, fiscal reforms (identified in the Government Transformation Section) seek to revitalize and transform the Government of Puerto Rico.
- The cumulative effect is expected to be **-5.33%** of real GNP by FY 23.



### Structural Reforms

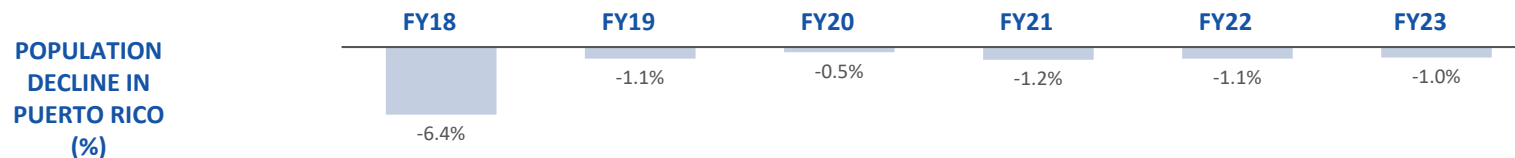
- The timing and impact of structural reforms (detailed in the Structural Reforms section) are based on work done by the IMF on such types of reforms implemented in the European periphery.
- The identified structural reforms do not influence the economic forecast until FY20 but continue to positively affect growth in the long term. The cumulative effect is expected to be **1.05%** of real GNP by FY 23.
- K-12 education reforms add an additional 0.01% annual impact beginning in FY33-60, resulting in total GNP increase of **1.33% by FY60**.





## Population is projected to decline steeply in FY18 due to outmigration from the hurricane, with slight annual declines afterward, in line with historical trends

- Population is estimated jointly with GNP. The estimation is anchored on historical data since 1965.
- GNP contraction causes population decline, as people leave the island due to poor economic conditions.
  - People leave the island because there are no jobs – jobs do not disappear because people leave.
- The main drivers of long-run population growth are:
  - **Past GNP growth:** When the economy is doing better, people are less likely to leave the island.
  - **Past population growth** reflects the high persistence of demographic trends.
  - The growth of **net federal transfers** to Puerto Rico, in real terms: higher transfers from the federal government reflect better resources for households in Puerto Rico.
  - The effects of **Maria and Irma** are included in the estimation: as expected, the results indicate that net outward migration increases following a storm.
  - **Relief spending** is incorporated into the model representing increased resources for residents of Puerto Rico.
- However, these long-run growth factors do not completely capture short-term demographic factors impacting migration in the wake of an extraordinary hurricane.
- The New Fiscal Plan adopts demographic projections calculated by Lyman Stone, an expert in demography. The projections were presented in the First FOMB listening session held on November 16, 2017<sup>1</sup> and have since been updated to incorporate the latest migration data and economic growth projections.
- The demographic model is consistent with the statistical model in the long run: an 10.9% cumulative decline in population is expected over six years.



<sup>1</sup>Cresting the Wave: Puerto Rico’s Once and Future Population Decline



# FINANCIAL PROJECTIONS



## Hurricanes Irma and Maria temporarily set back Puerto Rico's fiscal progress

After all Government transformation initiatives and structural reforms are implemented and incorporating Federal support received related to healthcare and disaster relief, Puerto Rico will accumulate a surplus of \$6.3bn through FY23.

### 1 FINANCIAL PROJECTIONS



#### AN UPDATED FINANCIAL PROJECTION IS REQUIRED TO ACCOUNT FOR PUERTO RICO'S NEW REALITY

- Hurricane Maria's landfall worsened an already fragile infrastructure and economy.
- Increased federal support and positive impacts of reconstruction spend and structural reforms offset the negative impacts of the hurricane and increased spend related to Title III costs.
- A contributing factor to the situation is general lack of access to traditional capital markets to fund growth and rebuilding efforts. In the short term, this has been partially mitigated by increased Federal support.
- Over the six year period, the Government went from a \$4.5bn cash flow surplus in the March 13, 2017 Certified Fiscal Plan to a surplus of \$6.3bn.

### 2 TEMPORARY REVENUE DECLINE



#### IMPACTS ON REVENUE FROM HURRICANES IRMA AND MARIA DRIVE DEFICITS

- Depressed GNP increases outmigration. Baseline government revenues are materially impacted in FY18 and FY19 and start stabilizing in FY20 – FY23.
- FY18 is the most impacted as the hurricanes immediately disrupt the economy while the positive impact of disaster relief assistance spend and recovery in revenue lags.
- Prior to implementation of measures, the funding gap for the six year period is \$4.8bn.

### 3 FISCAL MEASURES



#### THE GOVERNMENT IS COMMITTED TO CONTINUE IMPLEMENTING TRANSFORMATIONAL MEASURES

- Gross expense and revenue enhancement measures reduce the pre-measures funding gap.
- Net measures of \$11.2bn help restore the government to fiscal balance. There is an accumulated surplus of \$6.3bn over the six years.

### 4 LIQUIDITY SUPPORT



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

- In addition to disaster relief assistance, Puerto Rico may require external liquidity support to finance the recovery effort and provide necessary, interim support to PREPA and PRASA.
- The availability of this funding source is a critical risk to the near term success of Puerto Rico's recovery efforts.

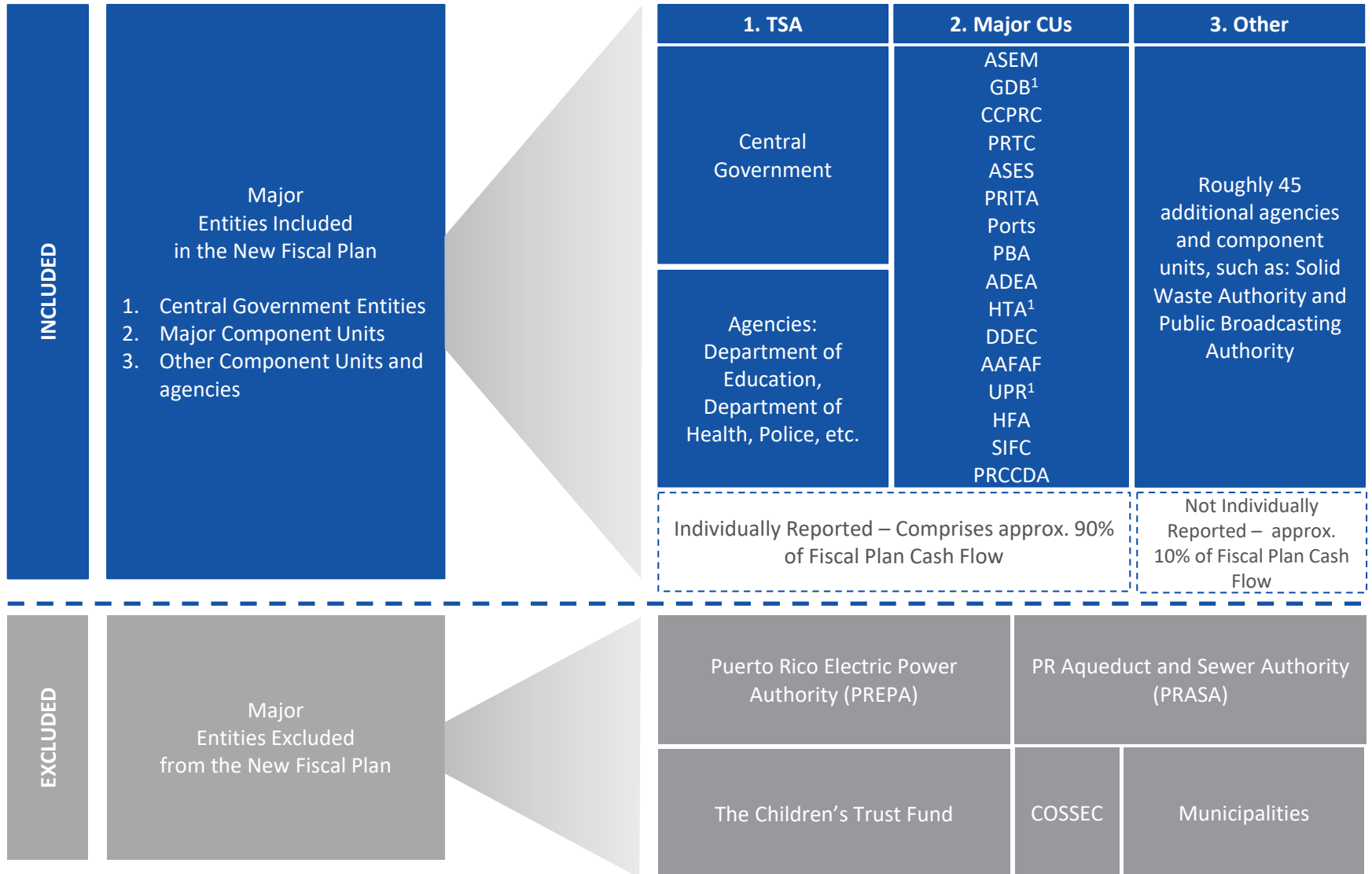


## Key Presentation Differences in New Fiscal Plan from Certified Fiscal Plan

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



## Government Entities and Relation to the New Fiscal Plan



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

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



## Summary of Entities Included in Fiscal Plan

### ENTITIES INCLUDED IN FISCAL PLAN

- 9-1-1 Service Governing Board
- Additional (Electronic) Lottery
- Agricultural Enterprises Development Administration
- Automobile Accidents Compensation Administration
- Cardiovascular Center Corporation of Puerto Rico and the Caribbean
- Commonwealth of Puerto Rico (Primary Government)
- Commonwealth of Puerto Rico Regional Center Corporation
- Company of the Integral Development of the "Peninsula de Cantera"
- Corporation for the "Cano Martin Pena" Project (ENLACE)
- Culebra Conservation and Development Authority
- Economic Development Bank for Puerto Rico
- ELA Regional Center of PR
- Employees' Retirement System
- Farm Insurance Corporation of Puerto Rico
- Fine Arts Center Corporation
- Fiscal Agency and Financial Advisory Authority
- Housing Financing Authority
- Institute of Puerto Rican Culture
- Institutional Trust of the National Guard of Puerto Rico
- Judiciary Retirement System
- Land Authority of Puerto Rico
- Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
- Model Forest
- Musical Arts Corporation
- Ponce Ports Authority
- Port of the Americas Authority
- PR Infrastructure and Finance Authority
- PR Medical Services Administration
- PR Sales Tax Financing Corporation
- Public Building Authority
- Puerto Rico and Municipal Islands Transport Authority
- Puerto Rico Conservatory of Music Corporation
- Puerto Rico Convention Center District Authority
- Puerto Rico Council on Education
- Puerto Rico Energy Commission
- Puerto Rico Health Insurance Administration
- Puerto Rico Industrial Development Company
- Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
- Puerto Rico Integrated Transit Authority
- Puerto Rico Land Administration
- Puerto Rico Ports Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico Public Private Partnerships Authority
- Puerto Rico School of Plastic Arts
- Puerto Rico Tourism Company
- Puerto Rico Trade and Export Company
- Solid Waste Authority
- Special Communities Perpetual Trust
- State Insurance Fund Corporation
- Teachers' Retirement System
- Traditional Lottery
- Unemployment Insurance Fund
- University of Puerto Rico Comprehensive Cancer Center





## Summary of Entities Excluded from Fiscal Plan

### ENTITIES ISSUING STANDALONE FISCAL PLAN

- Governmental Development Bank of PR
- PR Aqueduct and Sewer Authority
- PR Electric Power Authority
- PR Highways and Transportation Authority
- Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
- University of Puerto Rico

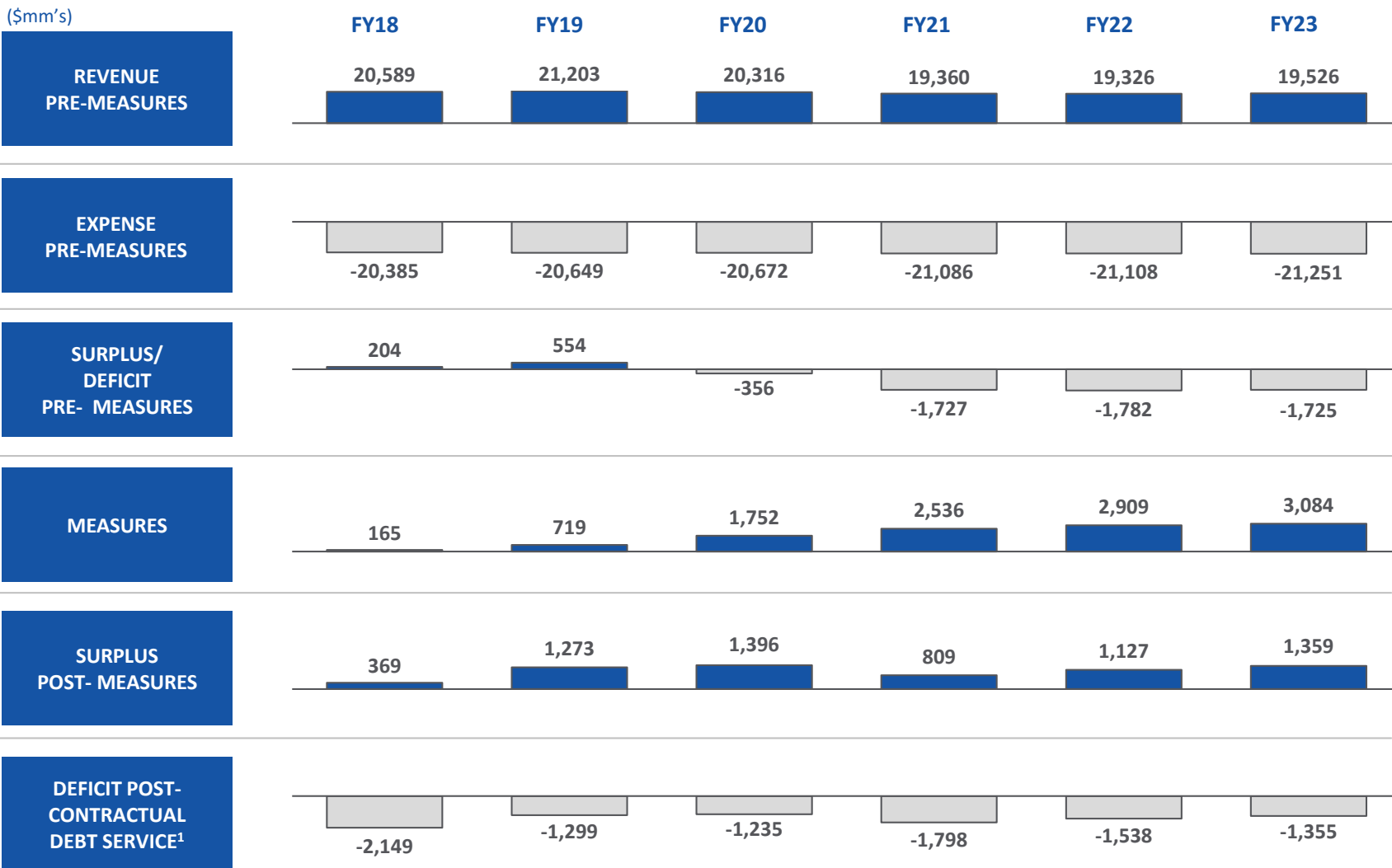
### ENTITIES EXCLUDED FROM FISCAL PLAN

- Agency Fund (Special Deposit Fund)
- Municipal Revenue Collection Center
- Puerto Rico Government Investment Trust Fund
- Puerto Rico Municipal Finance Agency
- Puerto Rico Municipal Finance Corporation
- Puerto Rico Water Pollution Control Revolv. Fund
- Safe Drinking Water Treatment Revolving Loan Fund
- The Children's Trust Fund



## Surplus/Deficit Post Measures and Post Debt Service

By FY23 the accumulated surplus is \$6.3bn across six years before debt service, reflecting impact of increased federal support, a recovering economy, and implementation of measures. After debt service, the FY accumulated deficit is \$9.4bn.



<sup>1</sup> Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.



## Key Revenue Baseline Assumptions

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

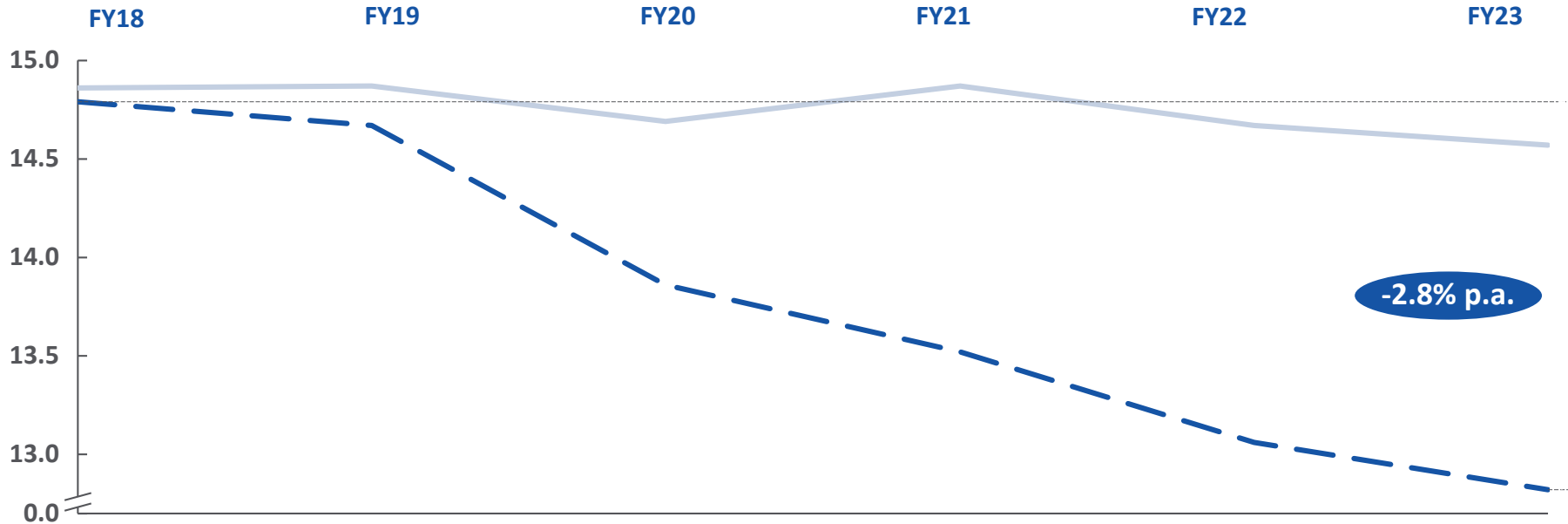
Line Item	FY18 Base	FY19 – FY23
<b>General Fund Revenue Sources</b>		
1 <b>Act 154</b>	Detailed build of monthly revenues by company, based on feedback from top 10 Act 154 tax payers (representing ~92% of total Act 154 revenue in FY18).	(i) production decline factor of 10%, offset by 3.6% price inflation annually, and (ii) gradual deterioration of revenue to account for companies potentially transferring patents and/or leaving the island due to lasting effects from the hurricanes, federal tax reform and future creditability (10% in FY20, 20% thereafter).
2 <b>Non-resident withholding</b>	Baseline derived from normalized FY17 and YTD FY18 results with estimated discount for reductions in payments from certain large corporations.	Base separated into two classifications: Act 154 payers and non-Act 154 payers. The Act 154 base is discounted to reflect the risk of major Act 154 payers leaving. The remaining NRW base is projected to grow with Puerto Rico nominal GNP.
3 <b>Sales &amp; Use Tax</b>	Trended at FY18 post-hurricane rate relative to FY17. Favorable temporary impacts from mortgage moratorium and replacement purchases are offset by temporary exemptions on prepared foods and small businesses.	Gross consumption (based on capture rate of 67.9%) forecast at the PR nominal GNP growth rate; assumes no change in capture rate over the projected period, so total SUT moves directly in line with the PR nominal GNP growth rate.
4 <b>Individual &amp; Corporate Income taxes, other excise taxes</b>	Trended at FY18 post-hurricane increase/decline relative to FY17 with additional adjustments for identified risks related to increased deductions, refunds and reserves.	Grown at PR nominal GNP FY19-FY23.
5 <b>Rum excise taxes</b>	FY18 incorporates actual YTD data and assumes trailing twelve month average volume continues through year-end, with cover-over of \$13.25 per proof barrel retroactive for the whole fiscal year.	Volume of rum exports to the US (for which the cover-over applies) is assumed to grow with US population; cover-over remains at \$13.25 per proof barrel through December 21, after which point the cover-over is reduced to \$10.50 per proof barrel.
6 <b>Cigarette &amp; Alcohol taxes</b>	Forecast based on run-rate, excluding non-recurring revenues from extraordinary promotions; year-over-year growth in cigarette mainly driven by increase in tobacco taxes in May 2017 (Act 26-2017).	Grown at PR population and inflation.
<b>Select Non-General Fund Revenue Sources</b>		
7 <b>Petroleum taxes</b>	Assumes 11.6% increase over FY17 due to higher utilization of generators and impact of recovery efforts.	Anticipated to take two years to return to normalized levels at which point the revenue is projected to remain constant at \$265 million / year.
8 <b>Gasoline taxes</b>	Assumes 23.4% increase over FY17 due to higher utilization of generators and impact of recovery efforts.	Anticipated to take two years to return to normalized levels at which point the revenue is projected to remain constant at \$165 million / year.



## Own expenditures decrease by 2.8% annually from FY18 – FY23 after measures

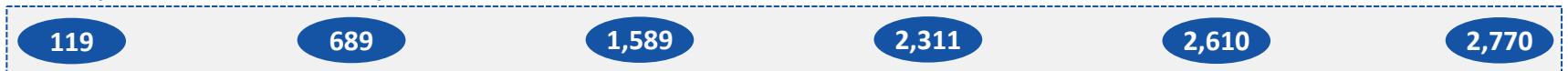
— Pre-measure Expense  
 - - - Post-measure Expense

FY18-FY23 Own Expenses<sup>1</sup> (\$mm's)



**-2.8% p.a.**

Total expense measures (excl. implementation costs) (\$mm's)



- Major drivers of expenditures include payroll and non-payroll operating expenditures, pension costs, non-recurring expenses, and appropriations to other entities; without any measures costs would remain constant into perpetuity, totaling \$14.6B by FY23 relative to \$14.9B in FY18.
- Measures include reductions in appropriations and rightsizing of government services.

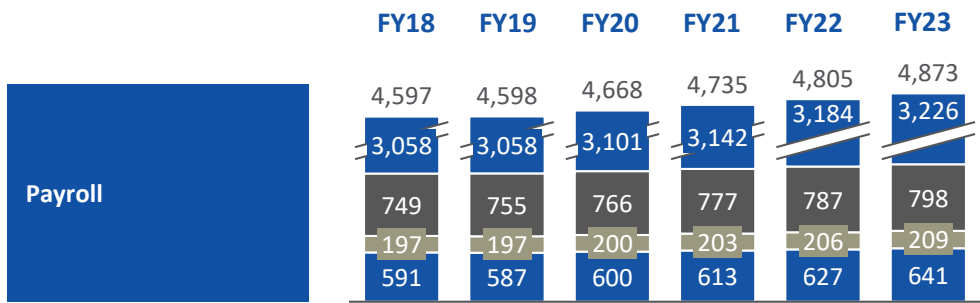
<sup>1</sup> Expenses exclude Medicaid as Medicaid expenses are partially funded with federal transfers. Measures also do not include healthcare, which adds ~\$522mm per year over the six-year projection period.



## Key Baseline Expense Drivers – Pre Measures

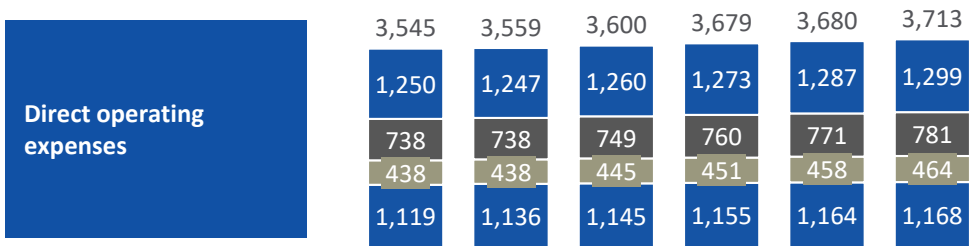
(\$mm's)

■ General Fund    ■ Special Rev Fund  
■ Fed Fund       ■ Indep. Forecasted Component Unit

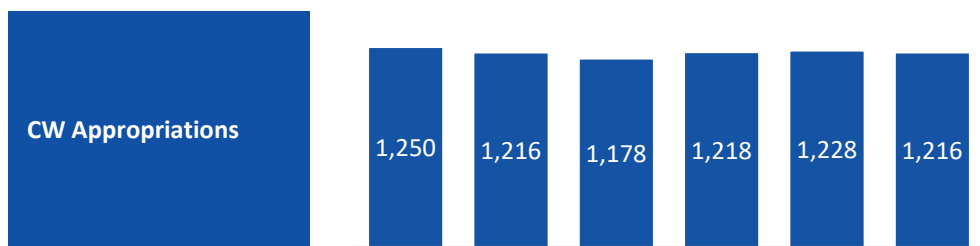


### DESCRIPTION

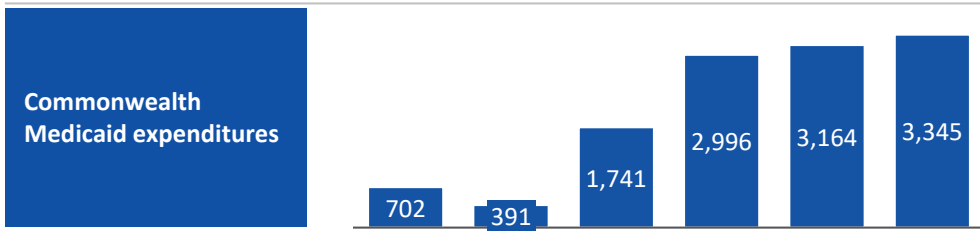
- In FY18 - FY19, most payroll costs are projected to remain flat due to the payroll freeze.
- From FY19 - FY23, payroll expense is expected to grow at PR inflation.
- The six year CAGR is 1.2%.



- In FY18 - FY19, most op ex costs are projected to remain flat due to the operating expense freeze.
- From FY19 - FY23, op ex is expected to grow at PR inflation
- The six year CAGR is 0.9%



- FY18 CW municipal appropriations are comprised of \$220M related to statutory appropriations plus payments of \$100M related to muni recovery in FY18 - FY20.
- UPR appropriation of \$708 million in FY18 increases to \$717 million in FY19 and remains constant through FY23.
- HTA appropriation is \$232 million on average, but varies based on timing of certain reconstruction and capital investment projects.



- The expense baseline for FY18 - FY20 assumes increased Federal support, which drastically reduces the Commonwealth's portion of Medicaid Funding.
- The interim Federal support ends in September 2019, increasing the Commonwealth's Medicaid funding in FY20.










# Cash Flow Detail Post-Measures (\$mm's)

	2018	2019	2020	2021	2022	2023	Total	CAGR
<b>Revenues</b>								
<u>General Fund Revenues:</u>								
Individual Income Taxes	\$ 1,788	\$ 1,938	\$ 2,025	\$ 2,095	\$ 2,151	\$ 2,193	\$ 12,189	4.2%
Corporate Income Taxes	1,340	1,452	1,518	1,570	1,612	1,644	9,135	4.2%
Non-Resident Withholdings	530	548	561	540	481	433	3,093	-3.9%
ACT 154	1,761	1,683	1,551	1,303	1,026	1,026	8,351	-10.2%
SUT	1,419	1,572	1,647	1,699	1,733	1,750	9,819	4.3%
Other	1,261	1,295	1,330	1,356	1,369	1,378	7,989	1.8%
<b>General Fund Revenue</b>	<b>\$ 8,099</b>	<b>\$ 8,487</b>	<b>\$ 8,632</b>	<b>\$ 8,562</b>	<b>\$ 8,373</b>	<b>\$ 8,425</b>	<b>\$ 50,577</b>	<b>0.8%</b>
Other Revenues (Component Units, Special Revenue Funds, Non-Tax, etc.)	6,032	5,689	5,782	5,900	5,978	6,051	35,433	0.1%
<b>Revenues pre-measures, pre-federal transfers</b>	<b>\$ 14,131</b>	<b>\$ 14,176</b>	<b>\$ 14,414</b>	<b>\$ 14,462</b>	<b>\$ 14,352</b>	<b>\$ 14,475</b>	<b>\$ 86,010</b>	<b>0.5%</b>
Revenue Measures	45	318	420	429	503	519	2,235	62.8%
<b>Revenues post-measures, pre-federal transfers</b>	<b>\$ 14,177</b>	<b>\$ 14,494</b>	<b>\$ 14,834</b>	<b>\$ 14,891</b>	<b>\$ 14,855</b>	<b>\$ 14,994</b>	<b>\$ 88,244</b>	<b>1.1%</b>
Federal Transfers	6,458	7,027	5,902	4,898	4,974	5,051	34,309	-4.8%
<b>Total Revenues</b>	<b>\$ 20,635</b>	<b>\$ 21,521</b>	<b>\$ 20,736</b>	<b>\$ 19,789</b>	<b>\$ 19,829</b>	<b>\$ 20,044</b>	<b>\$ 122,554</b>	<b>-0.6%</b>
<b>Expenses</b>								
<u>General Fund Expenses:</u>								
Direct Payroll	\$ (3,058)	\$ (3,058)	\$ (3,101)	\$ (3,142)	\$ (3,184)	\$ (3,226)	\$ (18,770)	1.1%
Non-Personnel Operating Expenses	(1,250)	(1,247)	(1,260)	(1,273)	(1,287)	(1,299)	(7,616)	0.8%
Utilities	(226)	(253)	(256)	(265)	(261)	(262)	(1,523)	3.1%
Municipal Expenses	(320)	(320)	(320)	(220)	(220)	(220)	(1,618)	-7.2%
Pension Expenses	(2,254)	(2,261)	(2,276)	(2,296)	(2,315)	(2,338)	(13,740)	0.7%
UPR Appropriation and Other GF Expenses	(1,358)	(1,719)	(1,437)	(1,297)	(1,186)	(1,040)	(8,038)	-5.2%
Loan to PREPA	(300)	-	-	-	-	-	(300)	-100.0%
Medicaid - Commonwealth funded	(702)	(391)	(1,741)	(2,996)	(3,164)	(3,345)	(12,339)	36.7%
Social Programs - Commonwealth funded	(15)	(15)	(15)	(15)	(15)	(15)	(91)	0.0%
<b>General Fund Expenses</b>	<b>\$ (9,483)</b>	<b>\$ (9,263)</b>	<b>\$ (10,407)</b>	<b>\$ (11,504)</b>	<b>\$ (11,632)</b>	<b>\$ (11,747)</b>	<b>\$ (64,036)</b>	<b>4.4%</b>
<u>Non-General Fund Expenses</u>								
Direct Payroll	\$ (1,538)	\$ (1,540)	\$ (1,567)	\$ (1,593)	\$ (1,620)	\$ (1,648)	\$ (9,505)	1.4%
Non-Personnel Operating Expenses	(2,295)	(2,313)	(2,339)	(2,366)	(2,392)	(2,414)	(14,119)	1.0%
Medicaid - Federally funded	(2,069)	(2,597)	(1,411)	(356)	(379)	(402)	(7,214)	-27.9%
Social Programs - Federally funded	(2,734)	(2,772)	(2,812)	(2,847)	(2,884)	(2,920)	(16,969)	1.3%
Maintenance Capex	(191)	(241)	(199)	(200)	(197)	(202)	(1,230)	1.1%
Enterprise funds	(1,191)	(1,210)	(1,228)	(1,245)	(1,263)	(1,281)	(7,419)	1.5%
Disbursements of Tax Revenues to Entities Outside Plan	(572)	(573)	(567)	(752)	(720)	(616)	(3,800)	1.5%
Others	(20)	(20)	(20)	(21)	(21)	(21)	(122)	
Other Non-Recurring	(292)	(122)	(122)	(202)	--	--	(737)	-100.0%
<b>Non-General Fund Expenses</b>	<b>\$ (10,902)</b>	<b>\$ (11,386)</b>	<b>\$ (10,265)</b>	<b>\$ (9,582)</b>	<b>\$ (9,476)</b>	<b>\$ (9,504)</b>	<b>\$ (61,115)</b>	<b>-2.7%</b>
<b>Expenses pre-measures</b>	<b>\$ (20,385)</b>	<b>\$ (20,649)</b>	<b>\$ (20,672)</b>	<b>\$ (21,086)</b>	<b>\$ (21,108)</b>	<b>\$ (21,251)</b>	<b>\$ (125,151)</b>	<b>0.8%</b>
Expense Measures	119	401	1,332	2,107	2,406	2,565	8,930	84.7%
<b>Expenses post-measures</b>	<b>\$ (20,266)</b>	<b>\$ (20,248)</b>	<b>\$ (19,340)</b>	<b>\$ (18,979)</b>	<b>\$ (18,702)</b>	<b>\$ (18,685)</b>	<b>\$ (116,221)</b>	<b>-1.6%</b>
<b>Cash Flows Post Measures (excl. Debt Payments)</b>	<b>\$ 369</b>	<b>\$ 1,273</b>	<b>\$ 1,396</b>	<b>\$ 809</b>	<b>\$ 1,127</b>	<b>\$ 1,359</b>	<b>\$ 6,333</b>	
<b>Memo: Title III Fees</b>	<b>(290)</b>	<b>(439)</b>	<b>(234)</b>	<b>(195)</b>	<b>(161)</b>	<b>(143)</b>	<b>(1,462)</b>	<b>-13.1%</b>
<b>Memo: Contractual Debt Service</b>	<b>(2,518)</b>	<b>(2,572)</b>	<b>(2,631)</b>	<b>(2,607)</b>	<b>(2,665)</b>	<b>(2,715)</b>	<b>(15,708)</b>	<b>1.5%</b>
<b>Memo: Cumulative Surplus / (Deficit) (Post Debt Service)</b>	<b>(2,149)</b>	<b>(1,299)</b>	<b>(1,235)</b>	<b>(1,798)</b>	<b>(1,538)</b>	<b>(1,355)</b>	<b>(9,374)</b>	



## Measures are comprehensive and balanced to avoid further economic deterioration and will yield net savings of \$3.1bn by FY23

### FISCAL MEASURES IMPACT NET OF IMPLEMENTATION COSTS (\$mm)

	FY18	FY19	FY20	FY21	FY22	FY23
 <b>NEW GOVERNMENT MODEL</b>	-	260	759	1,167	1,353	1,466
 <b>REDUCTION OF APPROPRIATIONS</b>	-	85	215	330	397	397
 <b>NEW HEALTHCARE REFORM</b>	49	199	500	750	795	841
 <b>REVENUE MEASURES</b>	45	224	354	430	509	522
 <b>SPECIAL REVENUE FUNDS DEFICIT REDUCTION</b>	70	62	63	63	64	65
<b>SUBTOTAL</b>	<b>165</b>	<b>830</b>	<b>1,891</b>	<b>2,741</b>	<b>3,119</b>	<b>3,291</b>
 <b>EITC</b>	-	(204)	(205)	(204)	(204)	(204)
 <b>TAX REFORM</b>	-	93	66	(1)	(6)	(4)
<b>SUBTOTAL</b>	<b>-</b>	<b>(111)</b>	<b>(139)</b>	<b>(205)</b>	<b>(210)</b>	<b>(208)</b>
<b>TOTAL</b>	<b>165</b>	<b>719</b>	<b>1,752</b>	<b>2,536</b>	<b>2,909</b>	<b>3,084</b>



## Revenue Detail Post-Measures, Excluding Debt Service (\$mm's)

	2018 -						2018 -
Fiscal Year Ending June 30 (\$ in Millions)	2018	2019	2020	2021	2022	2023	2023 Total
General Fund Revenues:							
Individual Income Taxes	\$1,788	\$1,938	\$2,025	\$2,095	\$2,151	\$2,193	\$12,189
Corporate Income Taxes	1,340	1,452	1,518	1,570	1,612	1,644	9,135
Non-Resident Withholdings	530	548	561	540	481	433	3,093
Alcoholic Beverages	270	271	274	275	276	276	1,642
Cigarettes	148	135	137	138	138	139	835
Motor Vehicles	335	343	358	371	381	388	2,176
Excises on Off-Shore Shipment Rum	205	206	207	208	200	192	1,217
Other General Fund Revenue	299	324	339	350	360	367	2,039
<b>Total</b>	<b>\$4,914</b>	<b>\$5,217</b>	<b>\$5,419</b>	<b>\$5,545</b>	<b>\$5,599</b>	<b>\$5,633</b>	<b>\$32,327</b>
SUT Collections (excl. PSTBA, FAM & CINE)	1,419	1,572	1,647	1,699	1,733	1,750	9,819
Act 154 Collections	1,761	1,683	1,551	1,303	1,026	1,026	8,351
PREPA Loan Repayment	5	15	15	15	15	15	80
<b>General Fund Revenue</b>	<b>\$8,099</b>	<b>\$8,487</b>	<b>\$8,632</b>	<b>\$8,562</b>	<b>\$8,373</b>	<b>\$8,425</b>	<b>\$50,577</b>
Component Unit Revenue	1,446	1,533	1,582	1,616	1,647	1,673	9,497
Additional SUT (PSTBA, FAM & CINE)	865	904	941	978	1,015	1,053	5,756
Third party ASES receipts (rebates and municipal contributions)	339	352	361	373	383	395	2,204
Other Tax Revenues	2,400	2,364	2,365	2,393	2,384	2,373	14,279
Other Non-Tax Revenues	982	536	533	541	549	556	3,697
<b>Adj. Revenue Before Measures</b>	<b>\$14,131</b>	<b>\$14,176</b>	<b>\$14,414</b>	<b>\$14,462</b>	<b>\$14,352</b>	<b>\$14,475</b>	<b>\$86,010</b>
Revenue Measures	45	318	420	429	503	519	2,235
<b>Adj. Revenue Post Measures (Excl. Federal Transfers)</b>	<b>\$14,177</b>	<b>\$14,494</b>	<b>\$14,834</b>	<b>\$14,891</b>	<b>\$14,855</b>	<b>\$14,994</b>	<b>\$88,244</b>
Federal Transfers to Central Government	4,221	4,262	4,322	4,373	4,427	4,480	26,086
Federal Transfers - Medicaid	2,069	2,597	1,411	356	379	402	7,214
Federal Transfers to Independent Component Units	168	168	168	168	168	169	1,009
<b>Revenues Post Measures</b>	<b>\$20,635</b>	<b>\$21,521</b>	<b>\$20,736</b>	<b>\$19,789</b>	<b>\$19,829</b>	<b>\$20,044</b>	<b>\$122,554</b>





## Expense Detail Post-Measures, Excluding Debt Service (\$mm's)

2018 -

<b>Fiscal Year Ending June 30 (\$ in Millions)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2023 Total</b>
<b>General Fund Expenditures:</b>							
Direct Payroll	(\$3,058)	(\$3,058)	(\$3,101)	(\$3,142)	(\$3,184)	(\$3,226)	(\$18,770)
Non-Personnel Operating Expenses	(1,250)	(1,247)	(1,260)	(1,273)	(1,287)	(1,299)	(7,616)
Utilities	(226)	(253)	(256)	(265)	(261)	(262)	(1,523)
Municipal Expenses	(320)	(320)	(320)	(220)	(220)	(220)	(1,618)
Pension Expenses	(2,254)	(2,261)	(2,276)	(2,296)	(2,315)	(2,338)	(13,740)
Disaster Recovery Cost Match	(230)	(432)	(356)	(255)	(178)	(50)	(1,501)
Restructuring / Title III Costs	(290)	(439)	(234)	(195)	(161)	(143)	(1,462)
UPR Appropriation and Other GF Expenses	(838)	(847)	(847)	(847)	(847)	(847)	(5,074)
Loan to PREPA	(300)	--	--	--	--	--	(300)
<b>Total General Fund Expenses (excl. Inter Governmental Transfers)</b>	<b>(\$8,765)</b>	<b>(\$8,857)</b>	<b>(\$8,650)</b>	<b>(\$8,493)</b>	<b>(\$8,453)</b>	<b>(\$8,386)</b>	<b>(\$51,605)</b>
Medicaid - Commonwealth Funded	(702)	(391)	(1,741)	(2,996)	(3,164)	(3,345)	(12,339)
Social Programs - Commonwealth Funded	(15)	(15)	(15)	(15)	(15)	(15)	(91)
<b>Total General Fund Expenses (excl. Inter Governmental Transfers)</b>	<b>(\$9,483)</b>	<b>(\$9,263)</b>	<b>(\$10,407)</b>	<b>(\$11,504)</b>	<b>(\$11,632)</b>	<b>(\$11,747)</b>	<b>(\$64,036)</b>
<b>Federal Funds, SRF, and CU Operating Expenses:</b>							
Direct Payroll	(1,538)	(1,540)	(1,567)	(1,593)	(1,620)	(1,648)	(9,505)
Non-Personnel Operating Expenses	(2,295)	(2,313)	(2,339)	(2,366)	(2,392)	(2,414)	(14,119)
Medicaid - Federally Funded	(2,069)	(2,597)	(1,411)	(356)	(379)	(402)	(7,214)
Social Programs - Federally Funded	(2,734)	(2,772)	(2,812)	(2,847)	(2,884)	(2,920)	(16,969)
Other Expenses	(20)	(20)	(20)	(21)	(21)	(21)	(122)
<b>Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding</b>	<b>(\$18,139)</b>	<b>(\$18,504)</b>	<b>(\$18,556)</b>	<b>(\$18,687)</b>	<b>(\$18,928)</b>	<b>(\$19,151)</b>	<b>(\$111,966)</b>
<b>Net Operating Cash Flows</b>	<b>\$2,615</b>	<b>\$3,418</b>	<b>\$3,512</b>	<b>\$3,209</b>	<b>\$3,307</b>	<b>\$3,458</b>	<b>\$19,519</b>
<b>Capex and Other Expenses:</b>							
Maintenance Capex	(191)	(241)	(199)	(200)	(197)	(202)	(1,230)
Enterprise Funds	(1,191)	(1,210)	(1,228)	(1,245)	(1,263)	(1,281)	(7,419)
Disbursements of Tax Revenues to Entities Outside Plan	(572)	(573)	(567)	(752)	(720)	(616)	(3,800)
Other Non-Recurring	(292)	(122)	(122)	(202)	--	--	(737)
<b>Total Capex and Other Expenses</b>	<b>(\$2,246)</b>	<b>(\$2,145)</b>	<b>(\$2,115)</b>	<b>(\$2,399)</b>	<b>(\$2,180)</b>	<b>(\$2,099)</b>	<b>(\$13,185)</b>
<b>Surplus Post Measures (excl. Debt Payments)</b>	<b>\$369</b>	<b>\$1,273</b>	<b>\$1,396</b>	<b>\$809</b>	<b>\$1,127</b>	<b>\$1,359</b>	<b>\$6,333</b>
Contractual Debt Service Payments <sup>1</sup>	(2,518)	(2,572)	(2,631)	(2,607)	(2,665)	(2,715)	(15,708)
<b>Surplus after Measures and Debt Payments</b>	<b>(\$2,149)</b>	<b>(\$1,299)</b>	<b>(\$1,235)</b>	<b>(\$1,798)</b>	<b>(\$1,538)</b>	<b>(\$1,355)</b>	<b>(\$9,374)</b>

<sup>1</sup> Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.



## Puerto Rico will establish an emergency reserve of \$130mm or about 1.4% of general fund expenditures per year, in line with the 50 states

### Rainy Day Funds Overview

- They are typically established as a percentage of general fund revenues or expenditures subject to deposit and withdrawal rules.
- Rating agencies, such as S&P and Fitch, believe that best practices for design of rainy day funds are as follows:
  - There must be enabling legislation that establishes them.
  - They must operate across fiscal years and over the whole economic cycle. They must serve as government-wide reserves for general purposes.

### Comparable Rainy Day Funds (Pew Charitable Trusts)

- Pew Charitable Trusts performed research on rainy day funds for the 50 States and found that proper design and management of a municipality's rainy day fund indicated likely future credit upgrades.
- 47 States have rainy day funds and six - Alaska, California, New Mexico, New York, South Carolina, and Vermont - have two funds.
  - Rain day funds generally range from 10% to 1% of general fund expenditures.
- Specific examples of municipal rainy day funds are as follows:
  - South Carolina requires 5% of general fund revenues each year to be set aside in a general fund reserve
  - Vermont's rainy day funds legally mandate that the funds have to be maintained at a maximum of 5% of the previous year's appropriations.
  - Louisiana requires the rainy day fund to be 4% of the state's total revenue from the previous year and limits withdrawals to one-third of the balance over two years.
  - Minnesota targets 4.8% of biennial general fund projected revenues.



# DEBT SUSTAINABILITY



## Debt Sustainability Overview

The debt sustainability analysis is intended to provide an informative guideline for the long-term financial capacity of the Government and to minimize future default risk. Returning to the capital markets will require managing Puerto Rico’s debt in accordance with municipal best practices, including benchmarking its borrowing capacity with the metrics rating agencies utilize to evaluate the creditworthiness of U.S. states and territories.

- 1 The objective of the Debt Sustainability Analysis is to provide a forward-looking and transparent analysis of borrowing capacity to regain and maintain capital market access in compliance with PROMESA requirements.
- 2 This analysis is intended to be “creditor agnostic” and does not take any position on the allocation of debt repayments to any particular constituency.
- 3 Borrowing capacity is analyzed using benchmark average U.S. state debt metrics to imply a range of potential debt capacity.

The Government will adopt the following elements generally regarded as key components of a debt affordability study:

1



### Actual Comparables

Benchmark against peers considering the appropriateness of the comparison group and using multiple metrics to get a full picture of where Puerto Rico stands.

2



### Projects obligations

Forecasts debt obligations and/or capacity to repay beyond the current fiscal year, considering various issuance and revenue scenarios and looking at multiple measures of future debt levels.

3



### Comprehensive debt analysis

Consider the majority of debt outstanding from both the primary Government and major component units, and discuss the impact of other long-term obligations on debt affordability.

4



### Produced regularly

Require regular completion of a debt study which contains a clear statement of remaining debt capacity.



## Factors Under Consideration to Determine Future Credit Ratings

- As the Government of Puerto Rico seeks to re-establish capital market access, it needs to show improvements in its economy, finances, governance, and management of long term liabilities such as debt and pensions.
- The following list from Moody's provides metrics according to which the Government of Puerto Rico's credit will be evaluated and the basis on which a future investment grade rating will be assigned:

Factor	Description
<b>Per-Capita Income</b>	Higher-income taxpayers are generally capable of paying higher taxes than lower-income taxpayers, and income is a proxy for the revenue generating potential of a state's economy.
<b>GNP/GDP</b>	A measure of the overall economic output of a state or territory and a more widely recognized and understood economic indicator.
<b>Structural Balance (Budget)</b>	The ongoing relationship between inflows and outflows is a strong indication of whether a state is balancing its budget, whether it is at risk of converting deficits into long-term liabilities and how difficult it would be to return to balance.
<b>Fixed Costs to Revenue</b>	Fixed costs are debt service, pension and OPEBs. The ratio of fixed costs to a state's own-source revenue is an indication of a state's ability to reduce expenditures.
<b>Liquidity</b>	Liquid reserves help a state bridge temporary budgetary imbalances. The goal is to reduce reliance on cash flow borrowing (TRANS).
<b>Governance / Constitutional Framework</b>	The goal is to strengthen financial management and budgeting practices. Financial policies lead to balanced budgets, reduce the accumulation of unaffordable liabilities and improve liquidity. Best practices include consensus revenue forecasts, debt affordability analysis and conservative budgeting.
<b>Debt and Pensions</b>	As these liabilities grow, states face rising expenses to pay debt and pension benefits. High fixed debt service and pension costs can crowd out other budgetary priorities and force states to raise taxes in order to meet them. Debt and pensions can curtail a state's budgetary flexibility and heighten the risk that it will seek to deleverage through a debt restructuring.

Source: Moody's Investor Services, Proposed Update to the US States Rating Methodology (December 5, 2017).



## State Benchmarking

The Debt Sustainability Analysis utilizes metrics from the May 2017 Moody's Investors Services' U.S. State Government Debt Analysis.<sup>1</sup>

- In considering debt burden, Moody's focuses on net tax-supported debt (or "NTSD"), defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local Government revenues).

### Generally included in NTSD <sup>1</sup>

- General obligation debt paid from statewide taxes and fees.
- Appropriation backed bonds.
- Lease revenue bonds.
- Special tax bonds secured by statewide taxes and fees.
- Highway bonds, secured by gas taxes and DMV fees.
- GARVEE bonds.
- Lottery bonds.
- Moral obligation debt paid from statewide taxes and fees.
- Capital leases.
- P3's with state concession obligations.
- Pension obligation bonds.

### Generally excluded from NTSD <sup>1</sup>

- Self-supporting GO debt with an established history of being paid from sources other than taxes or general revenues.
- Moral obligation debt with an established history of being paid from sources other than taxes or general revenues.
- Tobacco securitization bonds, with no state backup.
- Unemployment insurance obligation bonds.
- Debt guaranteed, but not paid, by the state.
- Special assessment bonds.

#### The NTSD metrics used to calculate potential debt capacity for Puerto Rico are:

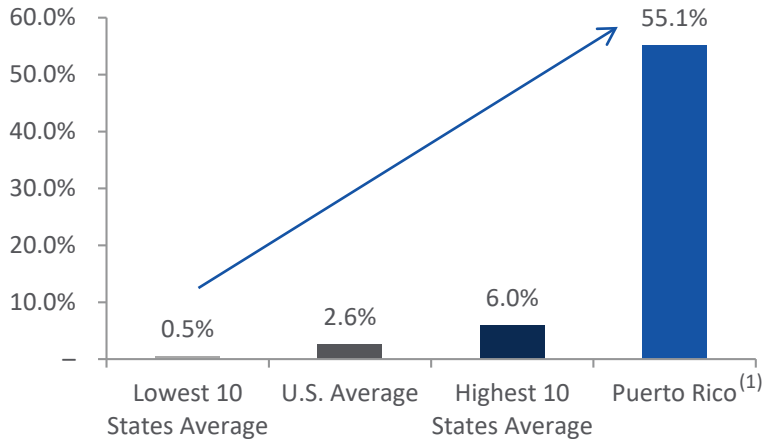
- |          |                 |          |                              |
|----------|-----------------|----------|------------------------------|
| <b>1</b> | Debt / GDP      | <b>2</b> | Debt / State Personal Income |
| <b>3</b> | Debt per Capita | <b>4</b> | Debt Service / Revenue       |



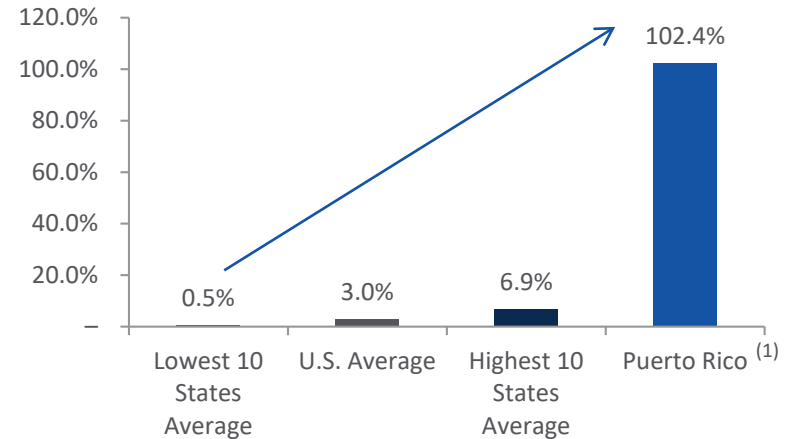
## U.S. State Debt Metrics Provide a Benchmark for Potential Debt Capacity

- Utilizing any of the following rating agency metrics to measure debt burden, Puerto Rico significantly exceeds the average of the ten highest states, clearly indicating an unsustainable debt portfolio and insufficient capacity to meet debt service requirements while maintaining adequate funding for services.

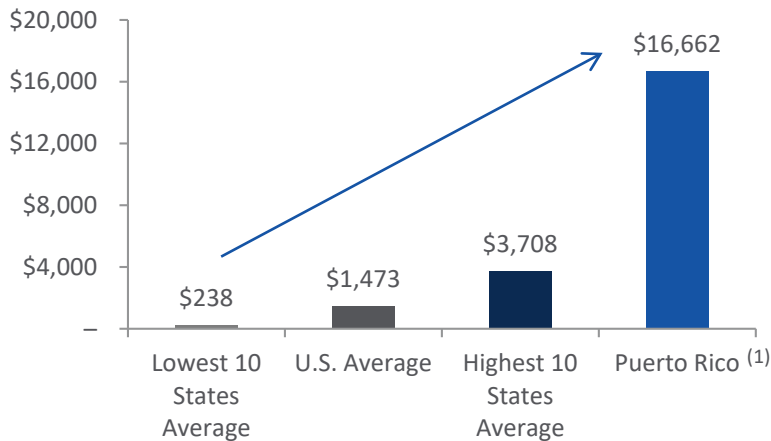
### 1 Debt to GDP



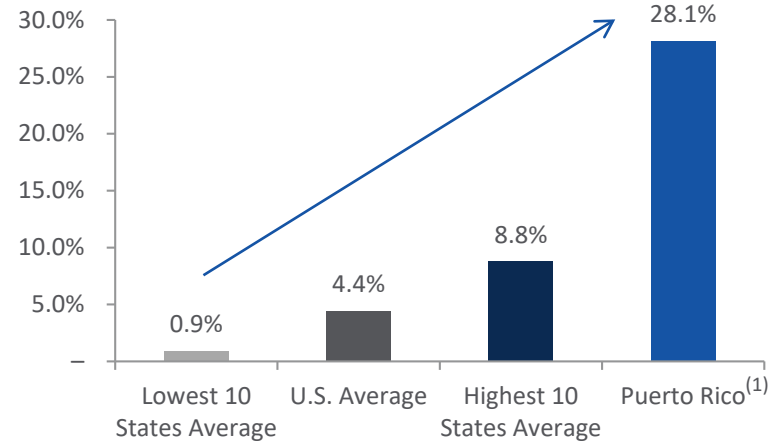
### 2 Debt to State Personal Income



### 3 Debt Per Capita



### 4 Debt Service to Revenues



Source: Moody's Investors Services, U.S. State Government Report (May 3, 2017).

Note: (1) Puerto Rico benchmark metrics per Moody's. Debt service as % of revenue based on 2015 Own-Source Government Revenues. Personal Income reflects FY18 preliminary estimates.



## Debt Sustainability Analysis

- The debt sustainability analysis utilizes data from the Moody’s U.S. State Government Report, published on May 3, 2017
  - The report utilizes data from all 50 states to assess the total net tax-supported debt (NTSD) for US state governments and debt service costs<sup>1</sup>
- The debt sustainability analysis uses NTSD metrics to calculate potential debt capacity for Puerto Rico

### 1 NTSD as a % of GDP

### 2 NTSD as a % of Personal Income

### 3 Debt per Capita (U.S. dollar)

### 4 Debt Service to Revenue

<b>Low 10</b>	<b>0.5%</b>	<b>Low 10</b>	<b>0.5%</b>	<b>Low 10</b>	<b>\$238</b>	<b>Low 10</b>	<b>0.9%</b>
<b>Mean</b>	<b>2.6%</b>	<b>Mean</b>	<b>3.0%</b>	<b>Mean</b>	<b>\$1,473</b>	<b>Mean</b>	<b>4.4%</b>
<b>Top 10</b>	<b>6.0%</b>	<b>Top 10</b>	<b>6.9%</b>	<b>Top 10</b>	<b>\$3,708</b>	<b>Top 10</b>	<b>8.8%</b>

1	Connecticut	9.2%	1	Hawaii	10.5%	1	Connecticut	\$6,505	1	Connecticut	13.3%
2	Hawaii	8.9%	2	Massachusetts	9.8%	2	Massachusetts	\$5,983	2	Massachusetts	10.4%
3	Massachusetts	8.4%	3	Connecticut	9.7%	3	Hawaii	\$5,018	3	Hawaii	10.4%
4	New Jersey	6.9%	4	New Jersey	7.3%	4	New Jersey	\$4,388	4	New Jersey	10.1%
5	Mississippi	5.2%	5	Delaware	5.4%	5	New York	\$3,070	5	Illinois	8.8%
6	Kentucky	4.7%	6	Washington	5.4%	6	Washington	\$2,717	6	New York	7.4%
7	Washington	4.5%	7	Kentucky	5.3%	7	Delaware	\$2,544	7	Kentucky	7.4%
8	New York	4.2%	8	New York	5.3%	8	Illinois	\$2,511	8	Washington	7.0%
9	Illinois	4.1%	9	Mississippi	5.2%	9	California	\$2,217	9	Maryland	6.5%
10	Rhode Island	4.0%	10	Illinois	5.1%	10	Rhode Island	\$2,131	10	Mississippi	6.3%

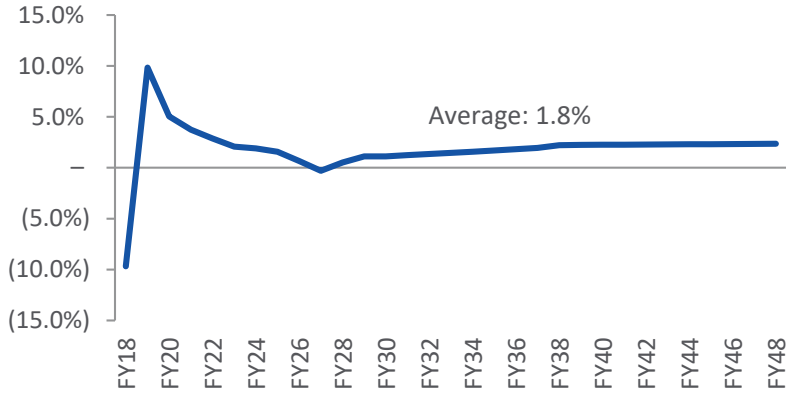
Notes  
 1 Our 2017 state debt medians are based on an analysis of calendar year 2016 debt issuance and fiscal year 2016 debt service



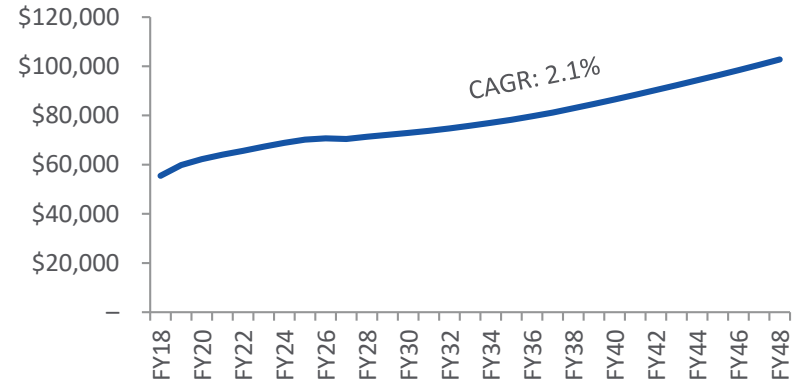


# Puerto Rico 30-year Economic Forecast

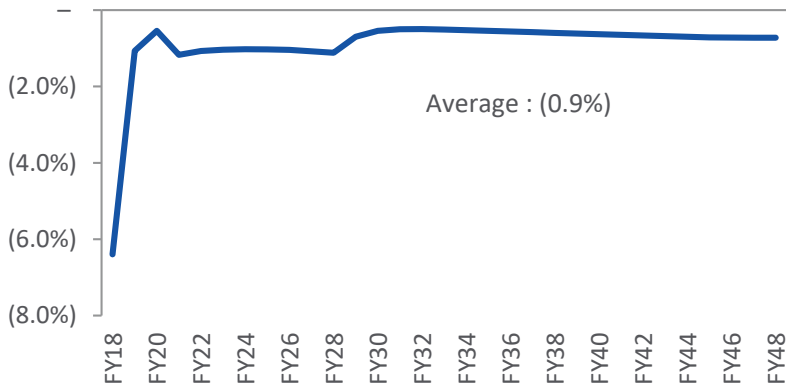
## 1 Change in Nominal GDP (YoY Growth %)



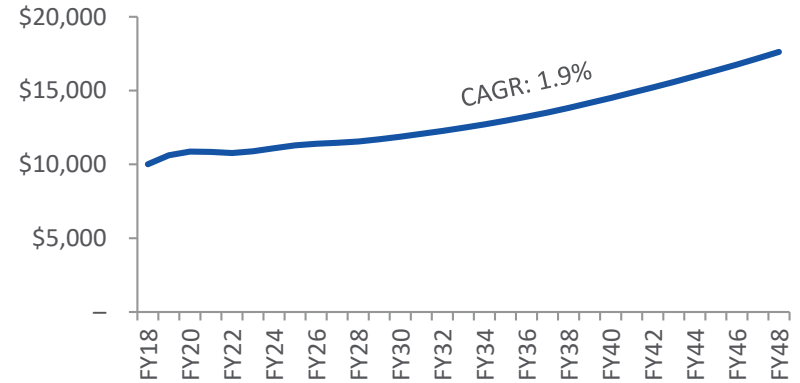
## 2 Nominal Disposable Personal Income (\$mm's)



## 3 Change in Population (YoY Growth %)



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





## 30 year forecast of own-source revenue – key assumptions

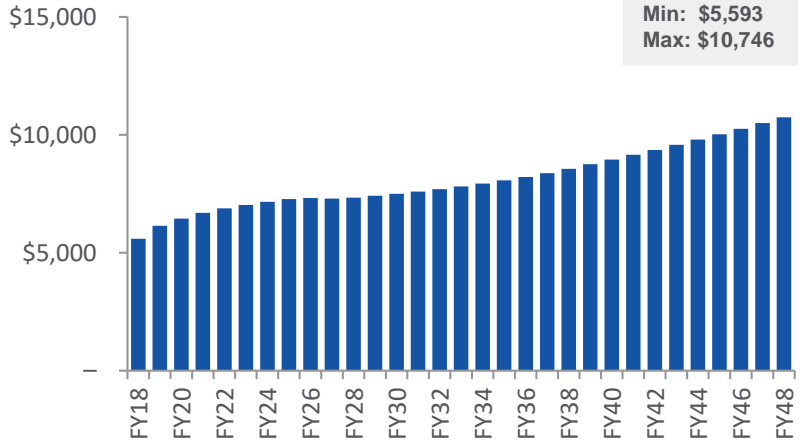
		ITEM AND DESCRIPTION		
	<u>Metric</u>	<u>FY 24 – FY28</u>	<u>FY29 – FY38</u>	<u>FY39 – FY48</u>
<b>MACRO ASSUMPTIONS</b>	<b>Puerto Rico nominal GNP growth:</b> Real GNP growth and inflation.	0.8%	1.5%	2.3%
	<b>Puerto Rico inflation:</b> Based on regression incorporating oil/food prices and anchored on US inflation.	1.4%	1.5%	1.9%
	<b>Puerto Rico population growth:</b> Long-term forecast based on regression incorporating economic growth, federal transfers, and population trends.	(1.1%)	(0.6%)	(0.7%)
	<b>Puerto Rico real GNP growth:</b> Based on regression incorporating past growth, and capital dynamics.	(0.5%)	(0.0%)	0.4%
	<b>US nominal GDP growth:</b> Extension of the IMF World Economic Outlook forecast.	3.6%	3.6%	3.6%
	<b>US population growth:</b> US Census Bureau Population Division forecast.	0.7%	0.6%	0.5%
<b>OWN-SOURCE REVENUE<sup>1</sup> ASSUMPTIONS</b>	<b>With the exception of the line items described below, all revenues and revenue measures are assumed to grow by Puerto Rico nominal GNP from FY 2024 through FY 2048.</b>			
	<b>US nominal GDP:</b> Non-resident withholdings and Act 154 collections.			
	<b>Puerto Rico inflation and population growth:</b> Alcoholic beverages and cigarette revenue.			
	<b>US population:</b> Excise taxes on off-shore shipments of rum.			
	<b>Puerto Rico real GNP:</b> Gasoline excise tax revenue and vehicle license fees.			

Note: (1) FAM SUT, CINE SUT, Special Revenue Funds revenue, Enterprise Funds revenue, FEDE portion of corporate income taxes and non-resident withholding, net income of component units, paygo asset sales and PREPA loan repayment and related interest revenue

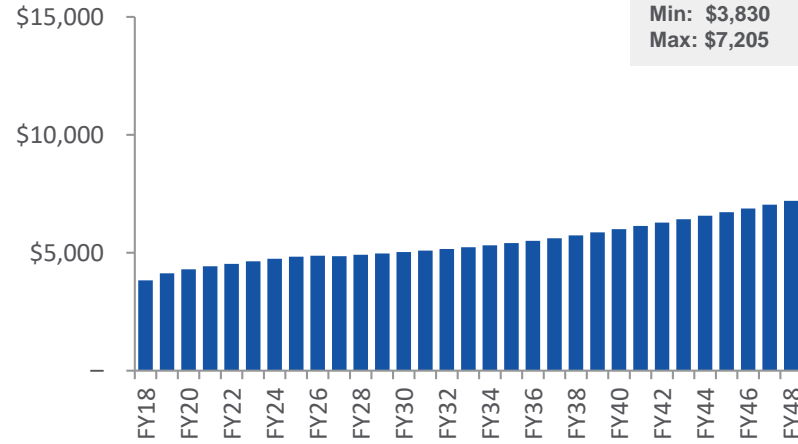


## Debt Capacity Detail (Based on Top-10 U.S. State Metrics – \$mm's)

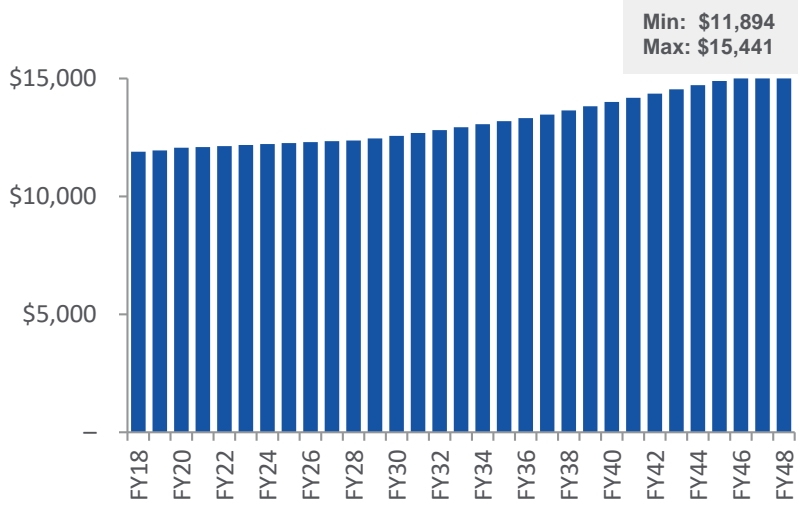
### 1 Debt to GDP



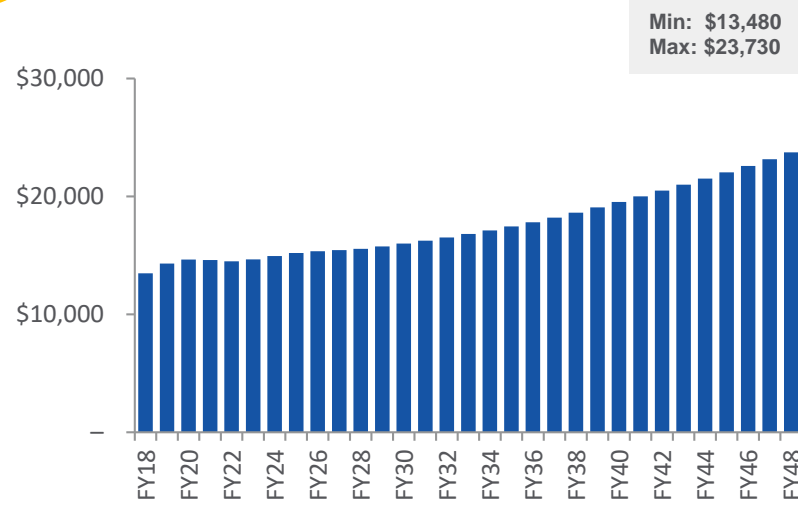
### 2 Debt to State Personal Income



### 3 Debt Per Capita



### 4 Debt Service to Revenues<sup>1</sup>



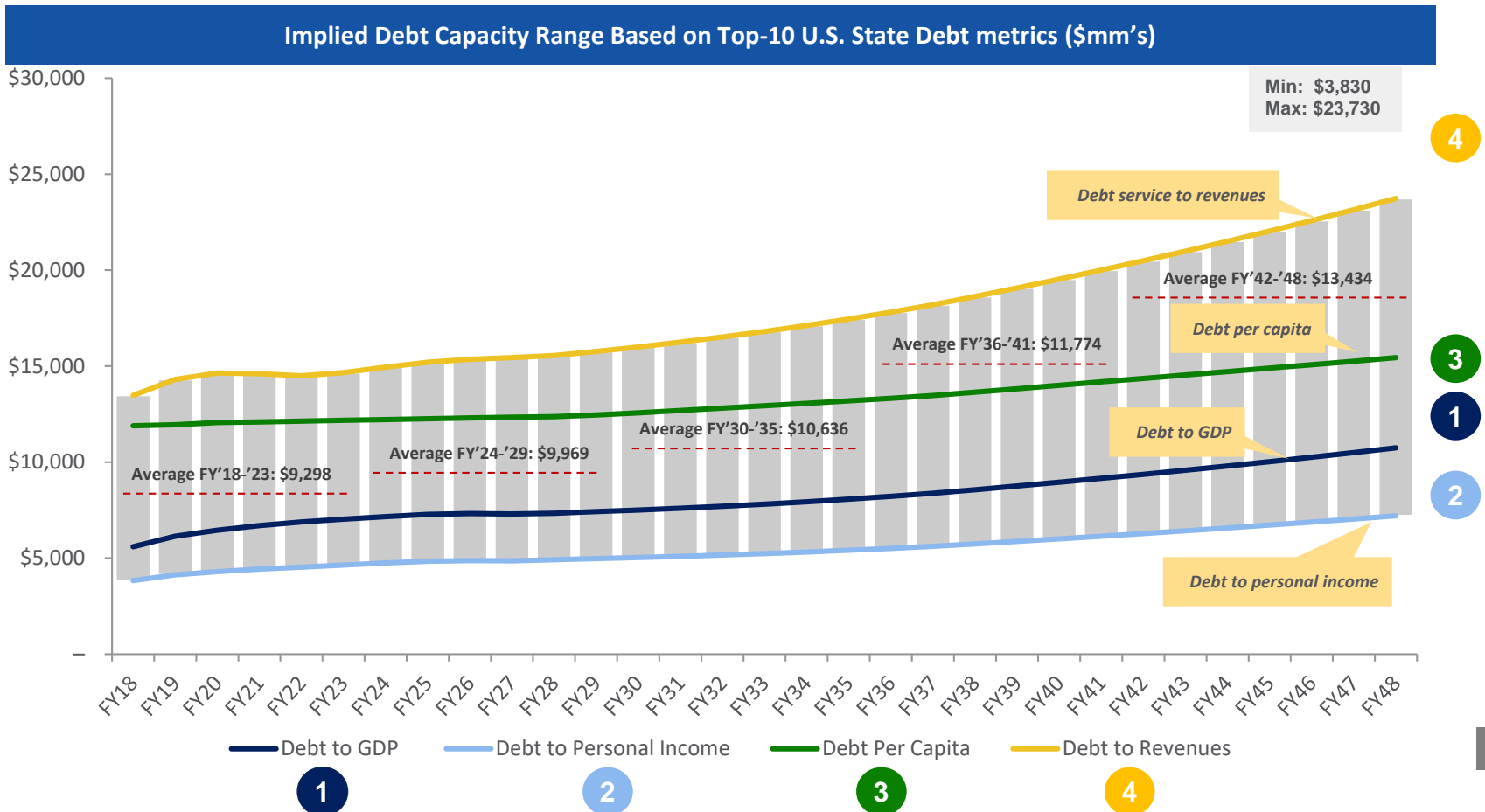
The illustrative implied level of Puerto Rico debt in the scenarios shown above are calculated by applying the NTSD ratios of the top 10 U.S. states (in terms of debt load) to Puerto Rico's 30-years forward projected GDP, personal income, population and revenues. The implied annual total debt shown in each of these scenarios builds the Illustrative Implied Debt Capacity Range on the following page

Note: (1) Converted to debt to revenue by assuming debt service is based off 30 year level of debt service assuming a 5% coupon rate



## Illustrative Implied Debt Capacity Range (Based on Top-10 U.S. State Metrics)

- Analysis uses 30-year macro economic forecast to determine a range of debt capacity based on (i) the debt metrics of the average U.S. state and (ii) the debt metrics of the 10 highest U.S. states.
- Debt capacity ranges shown below are based off of the four methodologies previously described: (i) Debt to Revenues, (ii) Debt per Capita, (iii) Debt to State Personal Income and (iv) Debt to GDP.
- Implied debt capacity and expected growth in debt capacity must be sufficient to cover both restructured debt and future debt issuance.





## Debt Sustainability Sensitivity Analysis

In addition to the NTSD analysis, the table below summarizes the annual cash surplus (funding need)

### Debt Sustainability Sensitivity Analysis (\$MM)

	FY18	FY19	FY20	FY21	FY22	FY23	FY18 - FY23
<b>Financial Baseline</b>							
Own-Source Revenues	\$9,965	\$10,305	\$10,451	\$10,417	\$10,261	\$10,370	\$61,768
Other Revenue	\$2,397	\$1,992	\$2,016	\$2,047	\$2,077	\$2,107	12,635
Expenses and Net Federal Funds	(12,156)	(11,752)	(12,842)	(14,215)	(14,120)	(14,150)	(79,235)
<b>Baseline Net Cash Flow</b>	<b>\$205</b>	<b>\$544</b>	<b>(\$375)</b>	<b>(\$1,751)</b>	<b>(\$1,782)</b>	<b>(\$1,674)</b>	<b>(\$4,832)</b>
<b>Impact of Measures</b>							
Total Measures	165	719	1,752	2,536	2,909	3,084	11,165
<b>Net Cash Flow / (Funding Need)</b>	<b>\$370</b>	<b>\$1,263</b>	<b>\$1,377</b>	<b>\$785</b>	<b>\$1,127</b>	<b>\$1,410</b>	<b>\$6,333</b>
Adjustments for Non-Recurring Items	45	(1,095)	455	774	529	322	1,031
<b>Net Adj. Cash Flow / (Funding Need)</b>	<b>\$415</b>	<b>\$169</b>	<b>\$1,832</b>	<b>\$1,559</b>	<b>\$1,656</b>	<b>\$1,732</b>	<b>\$7,364</b>

The table below calculates the implied debt capacity based on a range of interest rates and assuming an illustrative 30 year term

Illustrative Cash Flow Available		Sensitivity Analysis: Implied Debt Capacity at 20% Contingency						
		\$600	\$800	\$1,000	\$1,200	\$1,400	\$1,600	\$1,800
Sensitivity Analysis: PV Rate %	4.0%	\$8,300	\$11,067	\$13,834	\$16,600	\$19,367	\$22,134	\$24,901
	5.0%	7,379	9,838	12,298	14,758	17,217	19,677	22,136
	6.0%	6,607	8,809	11,012	13,214	15,417	17,619	19,821
Illustrative Cash Flow Available		Sensitivity Analysis: Implied Debt Capacity at 5% PV Rate						
		\$600	\$800	\$1,000	\$1,200	\$1,400	\$1,600	\$1,800
Sensitivity Analysis: % Contingency	10.0%	\$8,301	\$11,068	\$13,835	\$16,602	\$19,369	\$22,136	\$24,903
	20.0%	7,379	9,838	12,298	14,758	17,217	19,677	22,136
	30.0%	6,456	8,609	10,761	12,913	15,065	17,217	19,369

Note: (1) Includes funding of emergency reserve, Title III expenses, FOMB costs, payment of State Revolving Funds / other Federal Funds deposits at GDB, additional Medicaid funding, payment of past-due tax refunds, payment for past local services, measures-related implementation costs, Municipal Recovery Fund, cost share portion of Federal / FEMA funding, loan to PREPA and related interest revenue



# GOVERNMENT TRANSFORMATION

DELIVERING HIGHER QUALITY SERVICES THROUGH AN ENHANCED GOVERNMENT MODEL

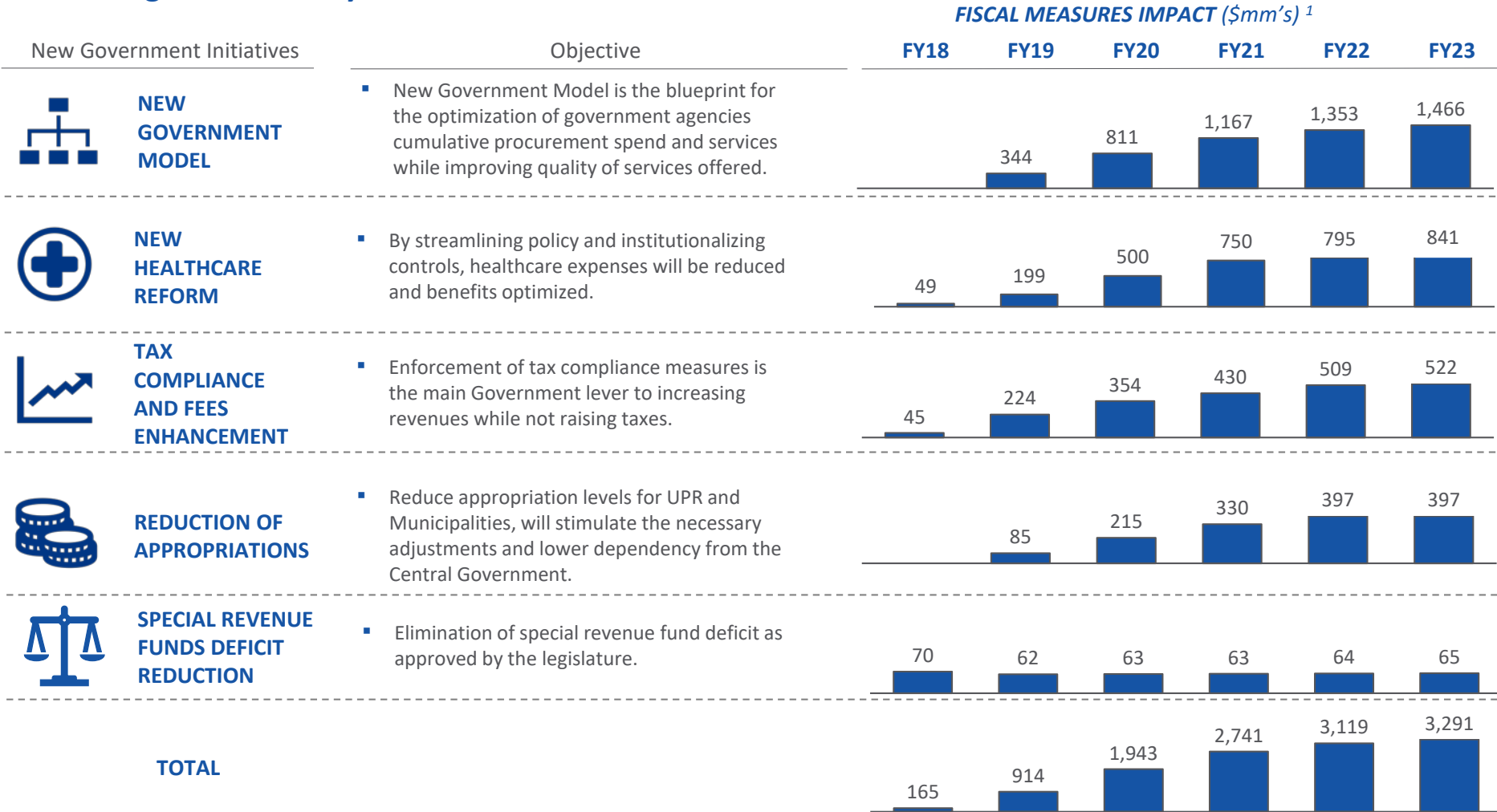
NEW GOVERNMENT MODEL | HEALTHCARE REFORM | TAX COMPLIANCE AND FEE ENHANCEMENTS | REDUCTION OF APPROPRIATIONS | REGIONALIZATION OF SERVICES | GOVERNMENT PMO AND IMPLEMENTATION STRATEGY



GOVERNMENT OF PUERTO RICO



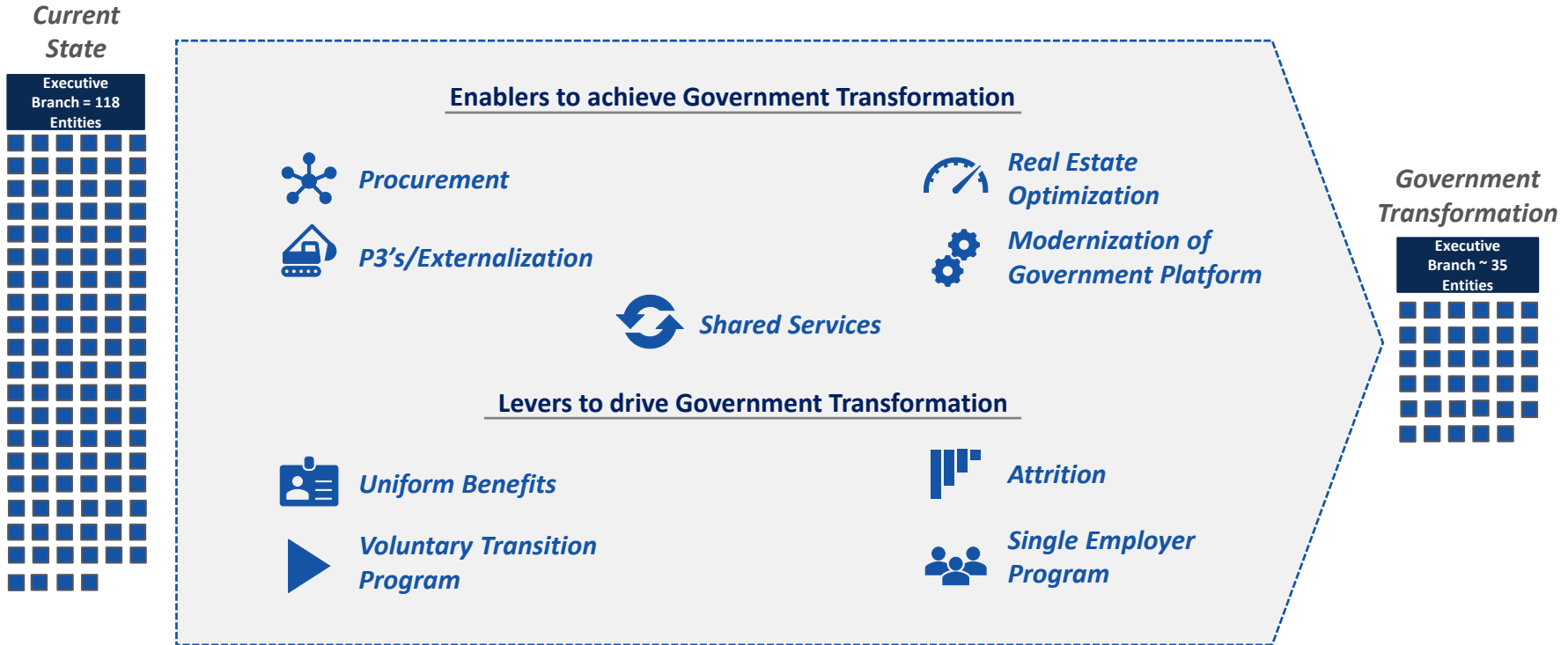
# Government Transformation and better revenue management is expected to yield annual savings of \$3.3bn by FY23



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



# The Government will reduce expenses by transforming the way it operates and increasing revenues while avoiding the imposition of new taxes by focusing on compliance initiatives



- Savings will be achieved through the elimination of duplicative processes, digitization, scale efficiencies productivity/lean management practices.
- Other initiatives include consolidating leases and related maintenance, IT rationalization and increased buying power through centralization of procurement function across government agencies.





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

## Act 122 of 2017 – New Government of Puerto Rico Act

- The main issue with the existing executive branch government model is decentralization and excessive agencies.
  - The existence of 118 entities causes inefficiencies and ineffective government.
  - Too many departments perform similar or identical processes.
  - Central oversight is limited.
- As part of overall Government transformation, Puerto Rico will address the inefficiencies within the Executive Branch through careful analysis of service offerings that will allow for externalizations and consolidations of agencies.
- Specifically, the Government plans to reduce the Executive Branch from 118 entities to a maximum of 35.

On January 9, 2018, the Government announced the first five Reorganization Plans (DDEC, Education Counsel, Regulatory, Labor, Bosque Model)

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

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

## Evaluation Process

Approved 12/18/17

1

### Evaluation & Reorganization Plan



- The Governor will evaluate adjustments or consolidation of either programs or entities.
- That evaluation will be presented in a Reorganization Plan to the Legislative Assembly.

2

### Timeline for Legislative Process



- Upon filing, the Legislative Assembly has **30 days** to either approve or reject the Reorganization Plan.
- If approved, the Legislative Assembly will approve a Concurrent Resolution to that effect.
- If an agreement is not reached within 30 days, a **15 day** extension is provided.

3

### Extension in Legislative Process



- After the **15 day** extension, each legislative body may pass a resolution, approving or rejecting the Reorganization Plan.
- If neither chamber expresses opposition through Concurrent Resolution by the end of the **15 day** extension, the Reorganization Plan is deemed approved.

4

### Amendment to Acts



- Bill to amend organic acts and other laws as introduced.
- Effectiveness of approved Reorganization Plans is temporary until the particular organic act is amended.

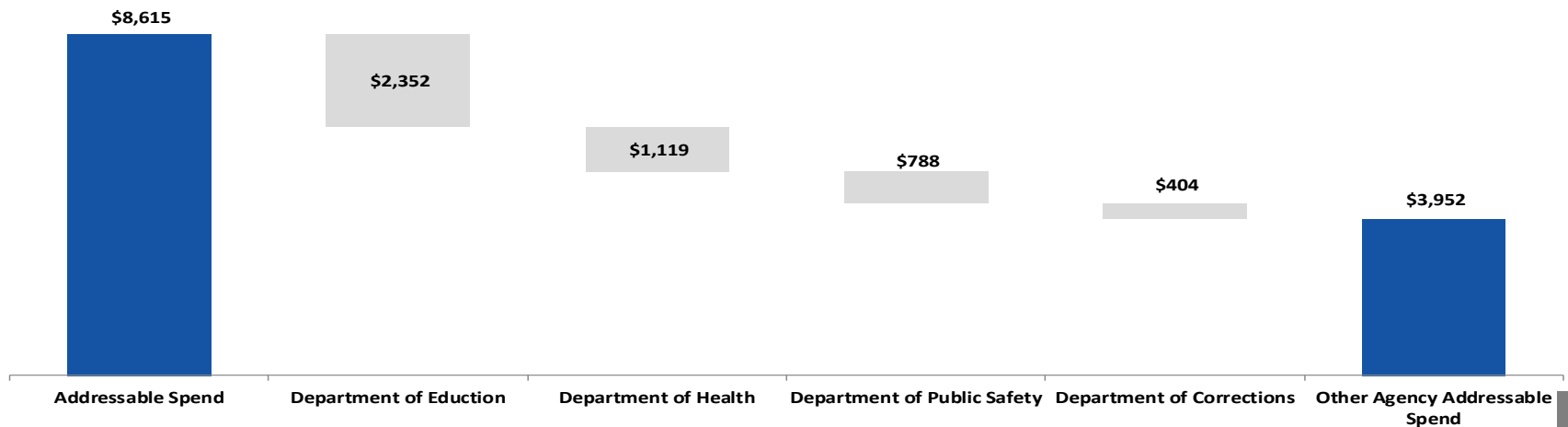
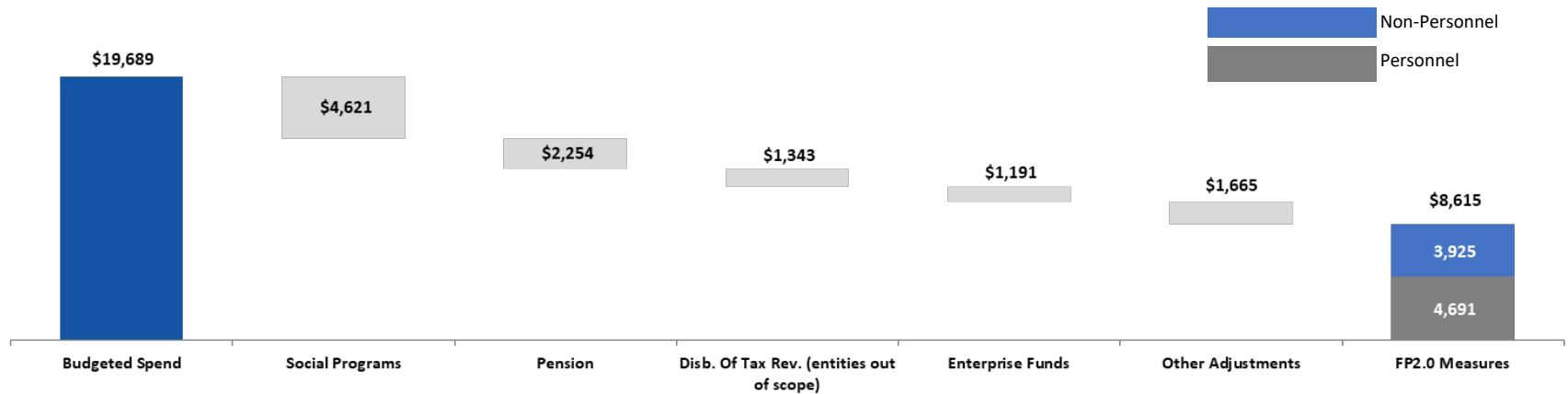


# NEW GOVERNMENT MODEL



## Of \$20bn of budgeted spend, \$8.6bn is considered addressable. By FY23 the Government anticipates \$1.4bn of expense savings on addressable spend, representing a 17% reduction to addressable spend

- The four largest agencies account for 53% of addressable spend and 54% of FY23 fiscal measures savings. This agencies include the Department of Education, Department of Health, Department of Corrections and Department of Public Safety

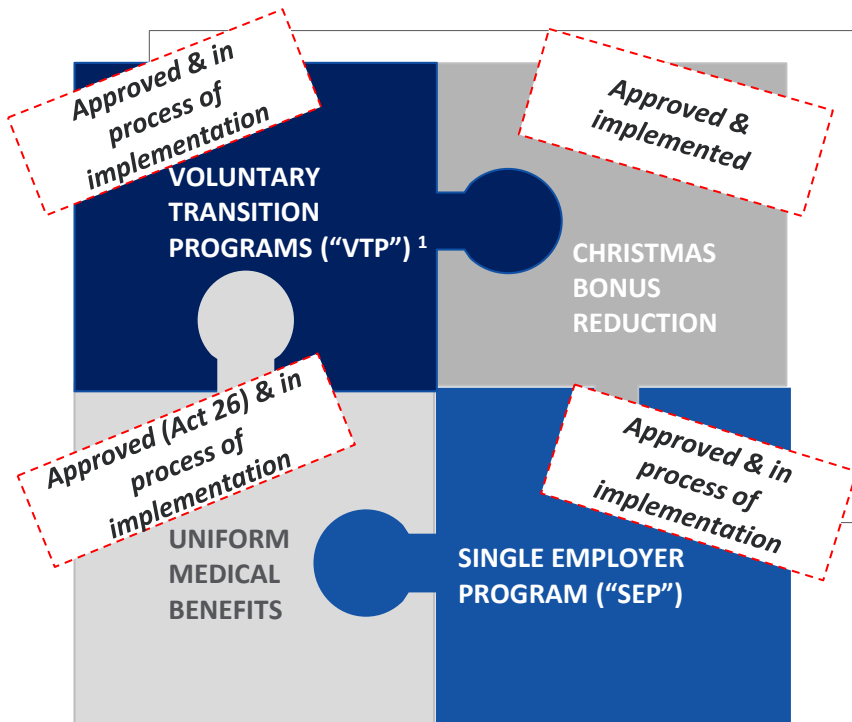




## Levers driving Government Transformation

To facilitate the reduction in headcount, resulting from consolidation of agencies and/or functions, multiple programs and initiatives have been implemented to encourage employees to seek opportunities outside the Government

- Puerto Rico currently has approximately 121,000 Government Employees and \$4.7bn in addressable personnel expenses.
- Together, these programs and initiatives facilitate and support Governmental Transformation and drive needed reductions to public spending, resulting in a right sized Government.



The VTP provides eligible public service employees the opportunity to voluntarily resign in exchange for transitional benefits for a period of time.

The New Government Model along with uniform benefits, single employer, and voluntary transition programs will produce higher attrition rates and generate reductions in payroll-related expenses.

SEP positions the Government as a sole public service employer and establishes the concept of mobility for public service employees, to reallocate resources more efficiently.

<sup>1</sup> Review "ORDEN ADMINISTRATIVA OA-2017-05" for definitions, exceptions, procedural terms, and other relevant information regarding the Voluntary Transition Program.



## By digitizing processes that will enable organizational changes, the Government can enhance delivery of services and achieve operational savings

- The foundation for the Government’s socioeconomic development model is based on science, technology and innovation. This led to the creation of the Puerto Rico Innovation and Technology Service (PRITS).
- PRITS’s mission is to enable the transformation of Puerto Rico through innovation, technology, and a collaborative approach to challenges that will result in new knowledge and real impact.

### Digital Transformation Objectives



#### **Innovation Plan**

Present a comprehensive strategic and tactical innovation plan for Puerto Rico that addresses short-term initiatives and outlines a long-term vision.



#### **Dashboard**

Provide real-time and historic data to measure performance and accountability, recognizing data as a strategic resource.



#### **Technology Infrastructure**

Design and build a resilient, cutting-edge technical infrastructure as a basic building block to support Puerto Rico's innovation agenda and technology development.



#### **Proactive Institute**

Improve strategy definition and decision making with the aid of data analytics, predictive models, and artificial intelligence.

### Timeline of Digital Transformation Initiatives

	Q1	Q2	Q3	Q4	Other Near Term Initiatives
Digital DMV (CESCO)	<i>Integrated, real time fine payments</i>	<i>Car license renewal notifications</i>	<i>License renewals</i>	<i>Car permits renewals</i>	<i>Education Services</i>
Single Citizen Identity		←	<i>Single Sign-on</i>	→	<i>Family/Child Services</i>
		←	<i>Digital Signatures</i>	→	<i>Labor &amp; Tax Services</i>
		←	<i>Demographic Registry</i>	→	
	<b>2018</b>				<b>2019</b>



## Real Estate optimization and modernization strategy

- Lack of occupancy planning strategies, deferred maintenance, and fragmented ownership have resulted in a highly inefficient Government-owned real estate portfolio spread among a large number of public entities.
- To date, with very few exceptions, the Government lacks a clear understanding of the number, type, location, legal status, and condition of the real estate assets it owns.
- Strategy follows a five-step process:



### Steps and Progress:

<i>Inventory</i>	<i>Assessment</i>	<i>Legal Rehabilitation</i>	<i>Structural Implementation</i>	<i>Implementation</i>
Create real estate owned (REO) inventory by entity prioritizing the identification of vacant and unused properties.	Perform assessments to understand legal status, conditions need/cost of improvements and best optimal use.	Perform necessary surveys, title searches, reviews on property registry issues, property demarcation and cure title deficiencies.	Perform cost improvements where necessary and justified.	(i) Office space planning strategy or (ii) Disposition of land strategy.



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

*Procurement reform aims to transform Puerto Rico's fragmented & decentralized procurement system within 18 to 24 months.*

### Current Situation

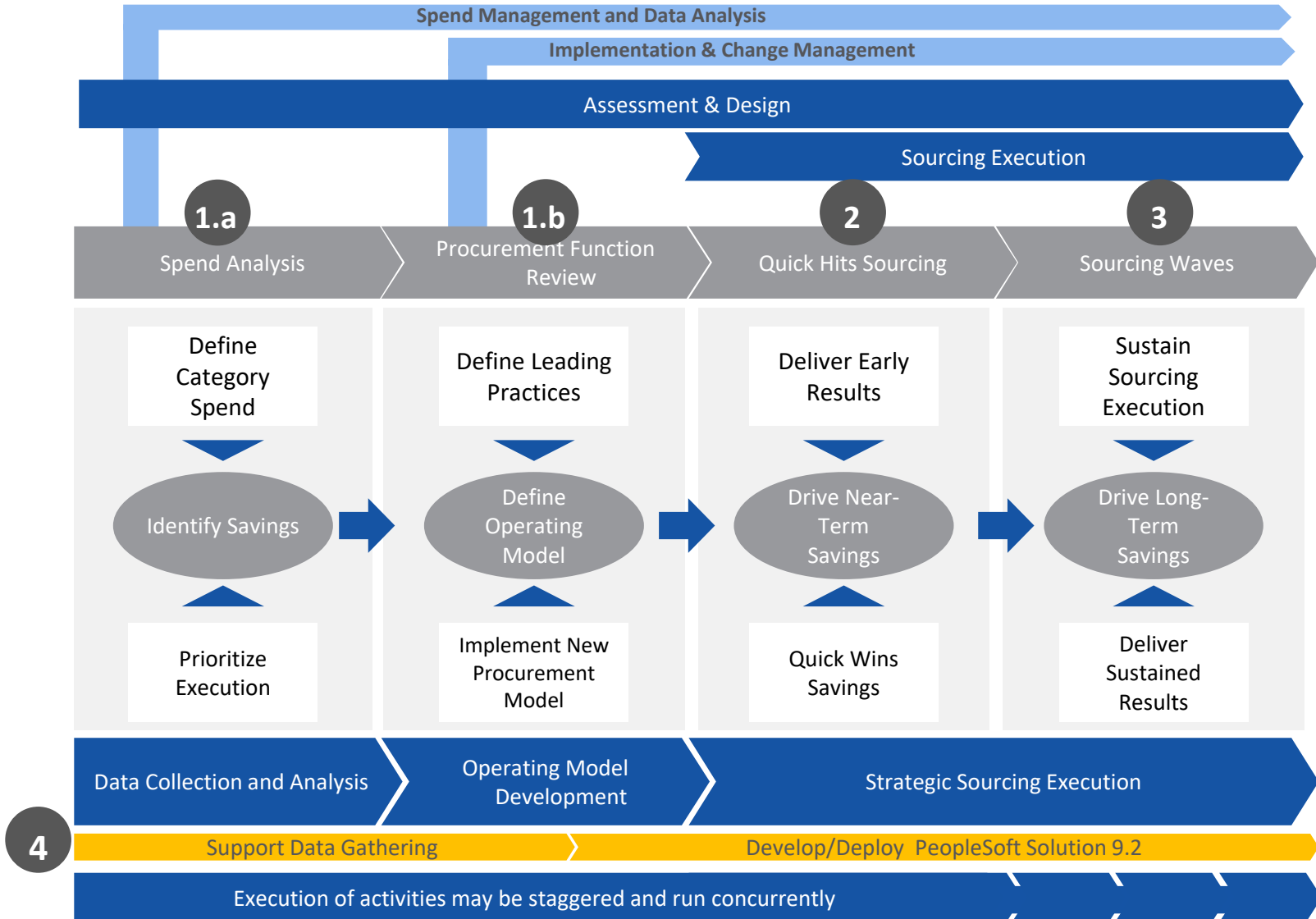
- The Government of Puerto Rico is significantly behind other public organizations as it relates to the procurement function and the strategic value it delivers.
- The primary entity tasked with statewide procurement, “*Administración de Servicios Generales*” (ASG), has minimal visibility and limited enforcement over government-wide spending & it’s fragmented and decentralized authority for procurement / contracting decisions, creates limited insight into where dollars are being spent.
- The objective is to build a centralized, transparent, and efficient procurement function that ensures the Government will act as a single customer, rather than separate entities, when purchasing goods and services.
- The procurement function in Puerto Rico, must be transformed into a high- performing organization by addressing the following key capability gaps:
  - No overarching vision guiding a holistic centralized strategic approach to procurement (policy, process and technology)
  - Limited visibility or control over government-wide spending making it difficult to drive down cost
  - Outdated purchasing laws and policies
  - Limited ability to manage contract compliance and savings over time because of manual, paper-based processes ;Decentralized procurement authority
  - No usage of GSA contracts via PROMESA
  - No modern procurement techniques like strategic sourcing, e-procurement, auctions or electronic invoicing

### AAFAF/ASG Requirements

- Develop a serious procurement reform program, focused on improvements to the following key components of a high-functioning procurement organization is mission critical:
  - Reform Procurement Organization, Policy, and Process**
    - Implement a centralized operating model that effectively leverages the purchasing power of the entire Puerto Rican government.
    - Reform policies to drive greater compliance with government-wide contracts, policies and procedures.
    - Improve all of the processes across the entire procurement lifecycle process to make the procurement function more efficient and effective.
  - Implement Category Management & Strategic Sourcing Programs**
    - Develop and execute Spend Analytics capabilities that provide government-wide visibility into all expenses.
    - Utilize modern Strategic Sourcing and Category Management practices and tools to realize and sustain savings.
    - Leverage modern negotiation techniques to maximize the Puerto Rican governments purchasing power.
  - Technology – Enable e-Procurement Capabilities**
    - Investing in innovative technological capabilities that enable e-procurement processes across the entire procurement lifecycle and facilitates the execution of a centralized procurement organization.
    - Efficient technology in procurement frees up resources that can be reallocated, maximize competition in private sector, and creates a strong supplier base that will be able to withstand open competition.



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



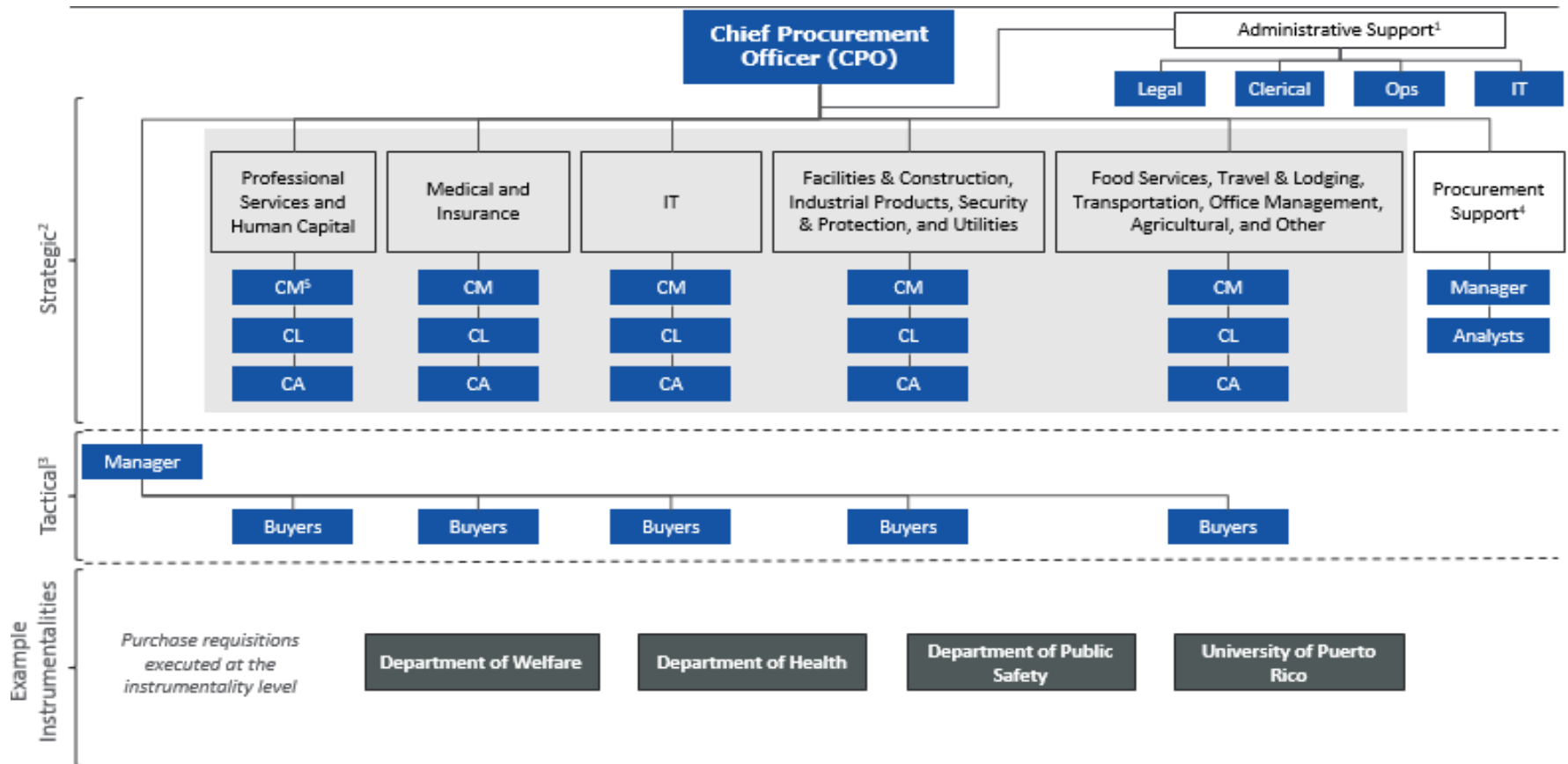
Note: Implementation plans can be provided upon request





## Centralized Procurement Operating Model Under “Office of the CFO”

New procurement centralized operating model requires that all of the procurement strategic and tactical activities to be centrally executed, following new processes and legislation; Model based on the category management model currently being deployed by the *US General Services Administration (GSA)*.

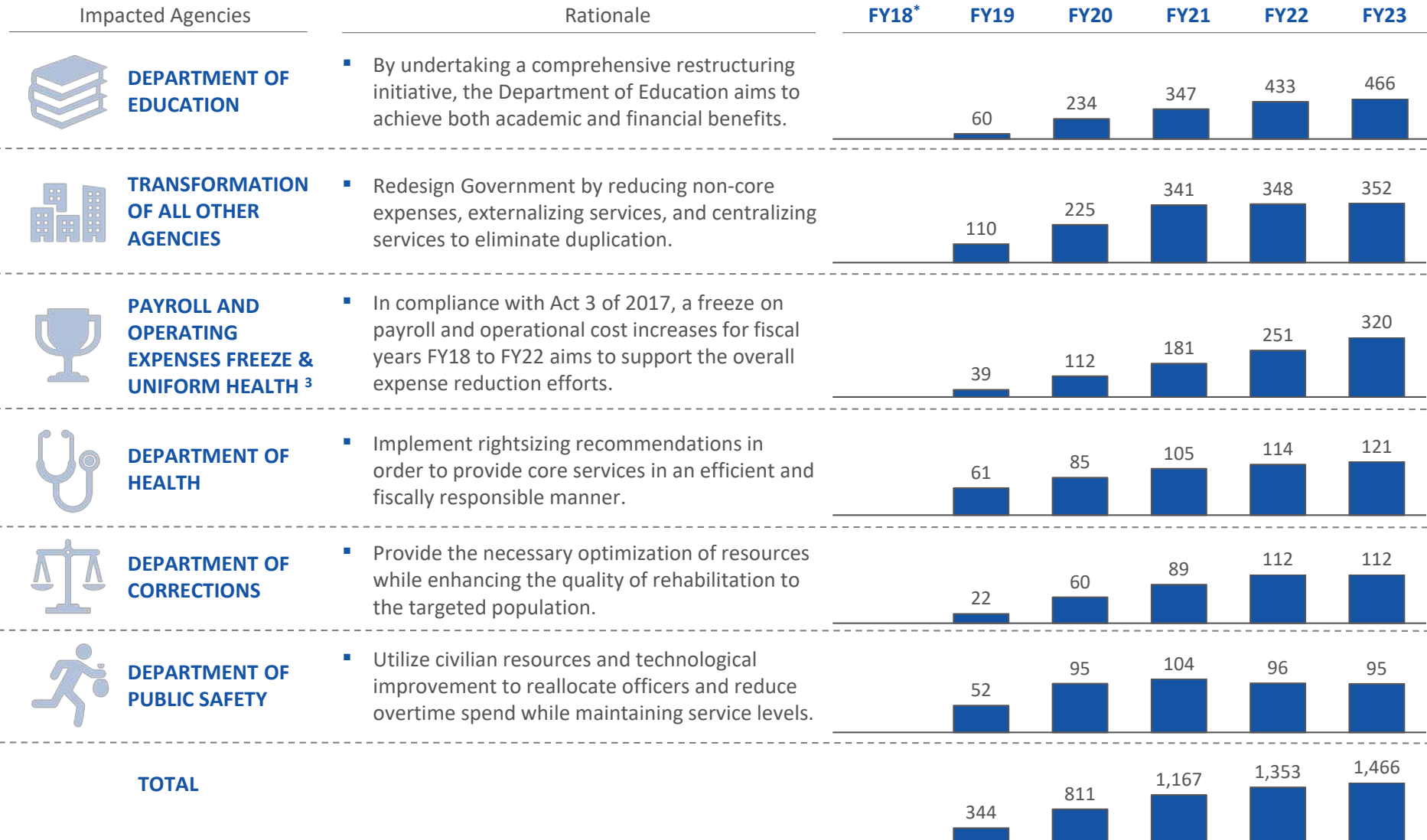


*The Government’s procurement reform is aligned with PROMESA’s Sense of Congress – under Section 204(b)(3) – calling for a contracting process that is more effective, increasing the public’s faith in the procurement/contracting process, making the Government a facilitator and not a competitor to private enterprise, and avoid creating any additional bureaucratic obstacles to efficient contracting*



## New Government Model: Summary of Impact

FISCAL MEASURES IMPACT (\$mm's)<sup>1,2</sup>



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

<sup>2</sup> All forecast savings are predicated on FOMB certification of the Fiscal Plan on or before April 20, 2018. Any delay in certification will result in a commensurate reduction in savings over the forecast period.

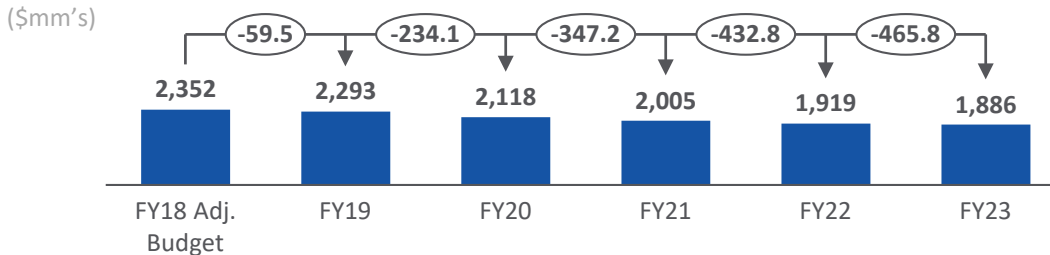
<sup>3</sup> Payroll and Operating Expenses Freeze & Uniform health savings are \$276.6mm and \$43.7mm, respectively, by FY23.

\*951mm of measures in the certified fiscal plan have been captured in the FY18 budget.



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

### DEPARTMENT OF EDUCATION SPEND, \$2.4bn per year



**\$465.8mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF DEPARTMENT OF EDUCATION TRANSFORMATION PLAN

- Over the past decade, the department has experienced enrollment declines, shifts towards private schools and Federal and state revenue declines.
- An increase in outmigration following Hurricanes Irma and Maria is expected to further impact the downward trend in student enrollment.
  - Student population is expected to decline by 10% for the upcoming FY18 – FY19 academic school year.
- Transforming the system from the current Unitary System and shifting towards a Local Education Agency (LEA) structure.
- Initiatives are projected to save 19% on today’s spend driven by reducing the size of the system, making better use of resources and increasing autonomy of regional leaders.
- Implementation will continue for the upcoming FY18 – FY19 academic school year with full transformation by FY23.
- To fully capture academic benefits, a level of re-investment in instructional materials, professional development, technology and facility upgrades is being analyzed and may partially offset identified savings over the five year period.

CURRENT STATE	END STATE
<b>DISTRICTS/REGIONS</b>	
35	7
<b>SCHOOLS</b>	
1,110	805
<b>STUDENTS (K-12)</b>	
346k*	298k

\*- Enrolled student count as of August 2017



## By undertaking a comprehensive restructuring initiative, the Department of Education aims to capture both academic and financial benefits

- Throughout the last decade, Puerto Rico's Department of Education (PRDE) has encountered longstanding challenges which have resulted in students' low academic performance. Some of these challenges include: fragmented and bureaucratic organizational structure, highly politicized "top-down" practices, poor data quality and limited use of data in decision making, ineffective methods for classifying schools and evaluating professional performance, non-strategic approaches to fiscal and human capital management and continuous shifts in academic improvement strategies.
- PRDE has undertaken a **comprehensive restructuring initiative** to address longstanding academic achievement needs of students in Puerto Rico; reduce the size of the system; make better use of resources and increase autonomy of regional leaders. This will be a locally driven reform. By weighing local interests and idiosyncrasies in education practices we can better apply a structured planning process and improve outcomes, while at the same time empowering the community to participate in these changes.

### GOALS

- Improve student academic achievement
- Attend to the student as a whole individual, not just academics
- Access to high quality professional development for teachers and principals
- Reduce size of the system and better use resources

### STRATEGIES

- Create Regional Local Educational Agencies (LEAs) and invest in human capital development to lead and deliver a sustainable school system
- Strategic and focused investment in instructional practices to improve proficiency
- Implement relevant curriculum and work force initiatives based on local market opportunities
- Reduce administrative costs associated unitary system and allowing for reinvestment based on new regional LEAs

### EXPECTED BENEFITS

- An established sustainable system which creates conditions for continuous improvement
- Develop and implement strategies consist with Regionally defined academic needs
- Increase local autonomy and accountability, for teachers and administrators
- Improve student outcomes as evidence by career and college readiness



## Creating a smaller self-contained system of schools will increase autonomy, accountability, efficiencies and reduce bureaucracy.

- Student population has seen a decline of 18% since 2014
- Closing of approx. 400 schools over the past seven years
- 31k teachers with a student to teacher ratio of 11:1
- Low student proficiency rates in core subjects  
**Spanish 49%, Mathematics 33% and English 42%**
- Below national industry average **graduation rate of 75%**

### UNITARY SYSTEM



- Population projected to decline approximately 14% by FY 2023 leading to a reduced school footprint island wide
- School budget reprioritized to optimize available resources
- Implementing human capital management strategies leading to a projected 14:1 student teacher ratio thereby moving the school system closer towards the national industry average of 16:1
- Investing in the quality of instruction to improve student proficiency rates by FY 2023, **Spanish 80%, Mathematics 73% and English 77%**
- Improving the systems **graduation rate to 90%** by FY 2023 and beginning to track employability and retention of new graduates, **target of 75% after 6 months**

### LOCAL EDUCATIONAL AGENCIES





# The transformation of the educational system will achieve annualized savings of \$465.8mm by FY23

## DEPARTMENT OF EDUCATION TRANSFORMATION LEVERS

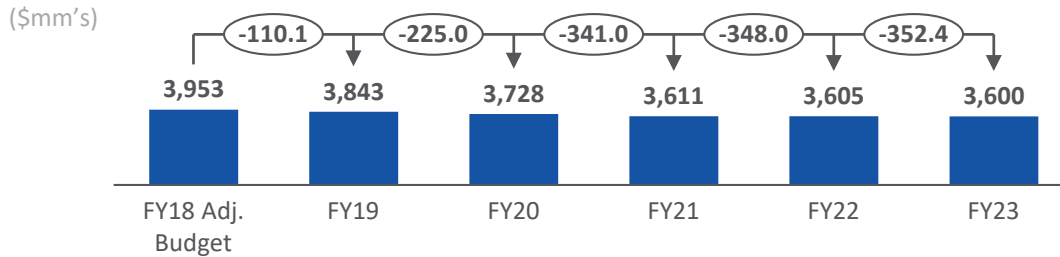
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INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>IMPROVE STUDENT TEACHER RATIO</b>	<ul style="list-style-type: none"> <li>Improving the student teacher ratio from an average of 11:1 to 14:1 by FY22 will align Puerto Rico school system with comparable stateside benchmarks.</li> </ul>	33.6	194.5	14:1 STUDENT TEACHER RATIO BENCHMARK
<b>FACILITIES OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Continuing to optimize the school footprint for the FY18-FY19 academic year will yield both personnel and non-personnel savings across the system.</li> <li>Building of new facilities will be analyzed to ensure optimal footprint.</li> </ul>	11.7	124.8	805 SCHOOL TARGET LEVEL BY 2022
<b>NON-PAYROLL SPEND</b>	<ul style="list-style-type: none"> <li>Procurement reform aims to transform Puerto Rico's inefficient and ineffective decentralized procurement system within 24 months</li> <li>School closings will yield \$47k in savings per school by FY23</li> </ul>	6.0	108.9	12% PROCUREMENT SAVINGS
<b>RIGHT-SIZING REGIONAL &amp; CENTER LEVEL STRUCTURE</b>	<ul style="list-style-type: none"> <li>Implementing the regional Local Education Agency model will decrease district level headcount requirements.</li> <li>Realigning Center Level personnel with the new regional LEA structure allows for consolidating functions and departments.</li> </ul>	8.2	37.6	REDUCING 35 DISTRICTS TO 7
<b>TOTAL</b>		59.5	465.8	



## All Other Agencies – Transforming the system by reducing total expense base while driving auxiliary employee efficiency

ALL OTHER AGENCIES SPEND, \$4.0B per year



**\$352.4mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF ALL OTHER AGENCIES TRANSFORMATION PLAN

- In order to achieve an agile, efficient organization, the Government is performing reviews of agency programs and services to determine the optimal structure.
- A careful analysis of service offerings and Government programs will allow for consolidations and externalizations of agency functions or programs to achieve cost savings and improve the quality of services offered. Savings will be achieved through process and productivity improvements, reducing duplication, digitization and scale efficiencies. Other initiatives include consolidating leases and related maintenance, IT rationalization and increased buying power through centralization of procurement function across government agencies.
- The Government has enacted various laws (i.e. Act 122 of 2017) to assist in the implementation of the New Government Model. Personnel related savings would be facilitated by the Single Employer Program, Voluntary Transition Program, and Uniform Medical Benefits initiatives.

CURRENT STATE	END STATE
<b>TOTAL AGENCIES <sup>1</sup></b>	
118	~35

<sup>1</sup> Includes Department of Education, Department of Corrections, Department of Health and Department of Public Safety



## Best practices benchmarks have been utilized in order to estimate savings resulting from transforming Government operations

- Agencies can be **merged** when benchmarking and best practices determine that activities across agencies could be better served through a single mission and management (e.g., to eliminate redundancies), and/or where economies of scale make shared services more economical without inhibiting quality of service.
- An agency can be **left independent but made more efficient** through a series of streamlining efforts related to both personnel and operations.

Savings Assumptions	Merging	Efficiency
<b>Back-office / support personnel</b>	30% Through process improvement, elimination. duplication, digitization, scale efficiencies, productivity/lean mgmt. practices, etc.	15-20% Through digitization, process improvement, productivity/lean management practices
<b>Front-line / service personnel</b>	Variable	Variable
<b>Non-Personnel (excl. certain line items)</b>	20% Based on central team sophistication, better demand management, increased buying power, ability to consolidate leases and related maintenance, IT rationalization, digitization, process improvements, externalization	20% Based on strategic sourcing, IT rationalization, digitization, process improvements, externalization

Implementation Timeline	FY18	FY19	FY20	FY21	FY22	FY23
<b>Wind downs</b>	0%	10%	50%	100%	100%	100%
<b>Consolidations / Mergers / Efficiencies</b>	0%	33%	66%	100%	100%	100%





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

### ALL OTHER AGENCIES TRANSFORMATION LEVERS

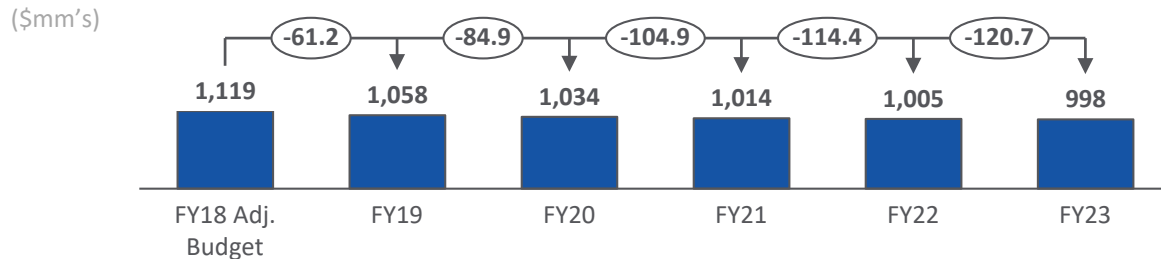
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INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>PERSONNEL OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Drive higher attrition rates via Single Employer Program and targeted Voluntary Transition Program available to employees when centralizing/externalizing services.</li> </ul>	62.3	188.2	VARIOUS BENCHMARKS DEPENDING ON AGENCY
<b>CONSOLIDATION (NON PERSONNEL EXPENSE)</b>	<ul style="list-style-type: none"> <li>Focus on achieving economies of scale through the elimination of duplicate and unnecessary services and maximizing shared service structures to reduce overhead costs and improve internal service levels.</li> </ul>	47.7	164.2	VARIOUS BENCHMARKS DEPENDING ON AGENCY
<b>TOTAL</b>		110.1	352.4	



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

### DEPARTMENT OF HEALTH SPEND, \$1.1bn per year



**\$120.7mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF DEPARTMENT OF HEALTH TRANSFORMATION PLAN

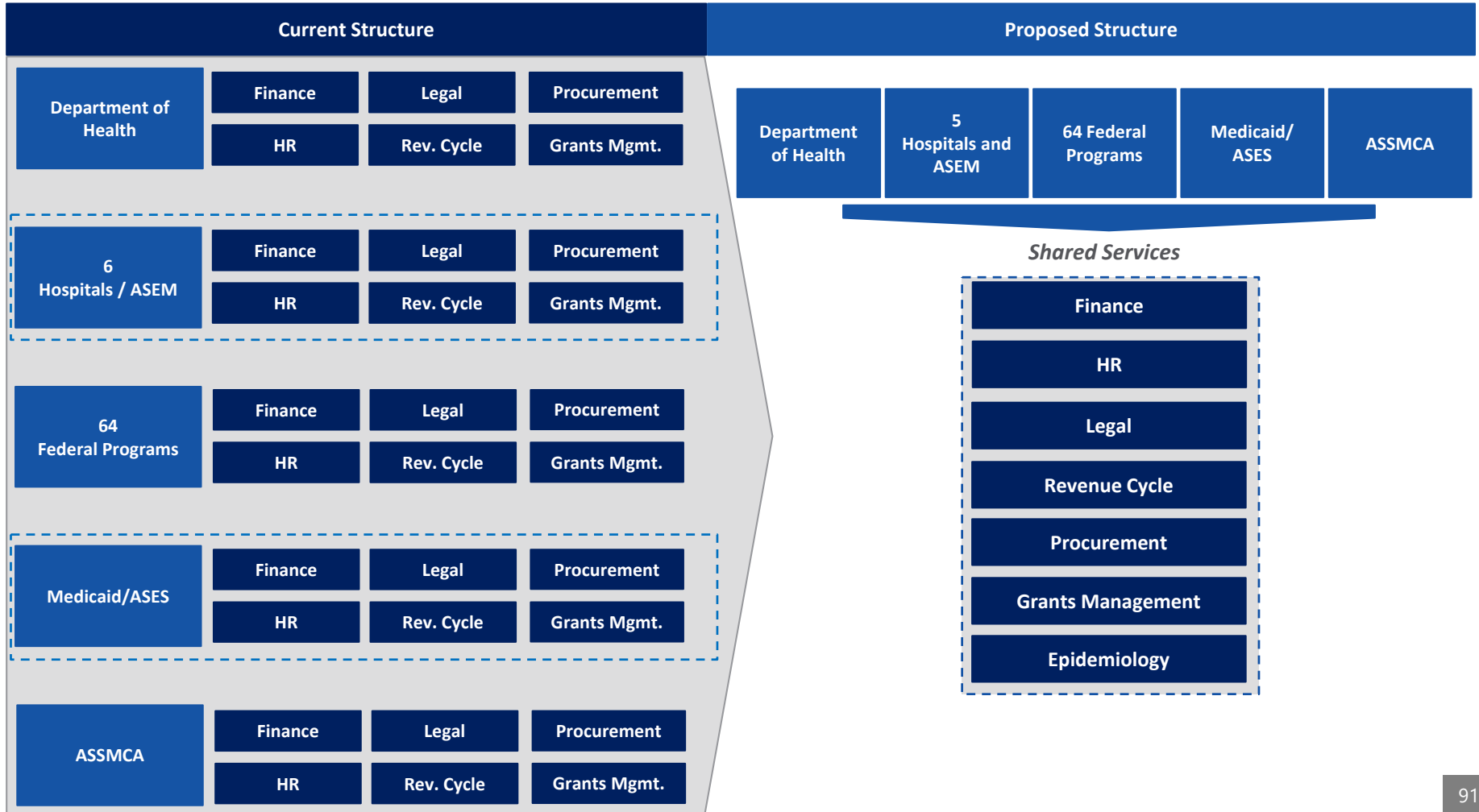
- The Department of Health (“DOH”) is highly fragmented, consisting of three public corporations, 64 federally funded programs, three public hospitals, seven sub-secretaries, six regional offices, eight program offices with decentralized human resources, legal, administration and finance functions. As a result, there's a need for organizational controls, an implementation of efficiency measures and a centralization of functions in order to provide public health services to citizens in an efficient and fiscally responsible manner.
- Medicaid has 85 offices across 78 municipalities that can be consolidated and established in strategic locations. Online services will be encouraged to improve eligibility data management and track trends.
- ASEM is a public corporation created to serve as a central procurement office for Government hospitals to create economies of scale for medical supplies, devices and services. Over time, rates, salaries and services have increased above industry averages, causing a disproportionate decentralization of procurement processes across the hospitals it serves. ASEM also has an ER, ORs and a level three trauma center. Demand for services is high, but they still have a need for Government subsidy due to higher operating costs than private sector.
- ASEM also has an ER, ORs and a level three trauma center. These services and the five hospitals (including three psychiatric) under DOH can achieve savings through hospital optimization initiatives, including savings on procurement for commodities, indirects, and physician preference items; personnel through wage and hour optimization; and facilities.
- Centralization of Chief Business Office and management of ASEM and the DOH Government hospitals will provide structure, efficiency and effectiveness while increasing revenue and eliminating duplicative efforts that cause redundancies and inappropriate staffing.
- Having a strong leadership and organizational structure, controls, an efficient workforce and the necessary technology are the baseline for the effective implementation of healthcare reforms and the new healthcare model.

CURRENT STATE	END STATE
<b>REGIONAL HOSPITAL STRUCTURES</b>	
5	0
<b>ASEM &amp; HOSPITAL ORG STRUCTURE</b>	
4	1
<b>FTEs</b>	
6.4k	5.0k



## Department of Health Personnel Optimization and Centralization

*The Department of Health is highly fragmented consisting of three public corporations, 64 federally funded programs, three public hospitals, seven sub-secretaries, six regional offices, and eight program offices with decentralized HR, legal, administration and finance functions. As a result, there's a need for organizational controls, an implementation of right-sizing measures and a centralization of functions in order to provide public health services to citizens in an efficient and fiscally responsible manner.*





## Restructuring ASEM and Public Hospital Centralization

*ASEM is a public corporation originally created to serve as a central procurement office for government hospitals to create economies of scale for medical supplies, devices and services. Throughout the years, rates, salaries and services have increased at a higher rate than industry causing a disproportionate de-centralization of procurement processes across the hospitals it serves. Public hospitals, including UDH, Pediatric and Cardiovascular, and ASEM have a total of 597 licensed beds altogether. Centralization of management, administrative and business office, front, middle and end revenue cycle, functions would standardize processes, increase patient access, improve operational efficiencies, optimize revenue and enhance services.*

### Focus Areas



*Establish a centralized Medical Center including ASEM, University, Pediatric and Cardiovascular Hospitals*



*Identify and establish Key Hospitals across the island*



*Design and implement a Referral System among key hospitals and clinics*



*Establish a Physician Network*

### Key Levers



#### People

- Re-design Organization Structure (only one C-Suite with an Administrator for each facility)
- Re-visit job descriptions, establish career tracks and assign staff accordingly
- Implement a training program, including customer service as one of its main components
- Provide Leadership Development training
- Implement a performance evaluation plan linked to non-monetary and monetary incentives



#### Process

- Establish a patient centered culture
- Re-design and implement controls, policies and procedures
- Establish a quality assessment unit
- Develop and implement a reporting and data management program
- Centralize administration offices (all in the same building and under one administrator with directors managing each area)
- Referral Unit (Nursing station with established referral protocols by patient need and acuity of care required)
- Establish a standardized procurement







#### Technology

- Implement an automated Time Entry Software
- Implement or optimize finance software
- Implement a data management and reporting software
- Implement EMR



## ASES and Medicaid Consolidation & Optimization

*The Puerto Rico Health Insurance Administration's (PRHIA) is public corporation whose core function is to manage the healthcare services for the Medicaid and CHIP-eligible populations in Puerto Rico under the health plan MI Salud. Consolidating ASES and the Medicaid Office as the Single State Unit would eliminate redundancies and promote sharing resources for the effective management of the MI Salud population, which is key for the successful implementation of the New Healthcare Model.*

Focus Areas	Description
 <p><b>Centralize ASES and Medicaid offices</b></p>	<ul style="list-style-type: none"> <li>There are 85 Medicaid offices in the 78 municipalities in Puerto Rico. The office structure will be reduced to strategic areas around the island.</li> <li>ASES and the Medicaid Office should be consolidated as the Single State Unit for the MI Salud/Medicaid population with only one governance structure. The consolidation would result in an optimization of processes, communication and technology.</li> </ul>
 <p><b>Redesign the Medicaid eligibility and enrollment process (web based, MCO dependent, hospital responsibility, etc.)</b></p>	<ul style="list-style-type: none"> <li>In the US, external companies are housed within hospitals to identify, run eligibility and enroll patients with no insurance into the Medicaid program. The hospitals have agreements with them and establish protocols for identifying these patients, classifying them as "Medicaid Pending" in their revenue cycle software and following up on the enrollment status before billing the claims.</li> </ul>
 <p><b>Implement data management software and establish a formal data management and population health management team</b></p>	<ul style="list-style-type: none"> <li>The MMIS implementation, along with the appropriate data management software, will play an important role in analyzing and forecasting population health trends, identifying potential epidemics, modifying benefit packages, and in the creation of carve outs for chronic conditions, among other functions.</li> </ul>
 <p><b>Work in conjunction with Department of Justice for the identification of potential fraud and abuse cases</b></p>	<ul style="list-style-type: none"> <li>As part of the drive to increase efficiencies, the local Department of Justice is teaming up with Federal Law Enforcement units to establish a Medicaid Fraud Control Unit (MFCU). This unit seeks to curtail prevalence of providers fraud and abuse.</li> </ul>



## Department of Health centralization and consolidation initiatives are expected to yield a savings of \$121mm by FY23

### DEPARTMENT OF HEALTH TRANSFORMATION LEVERS

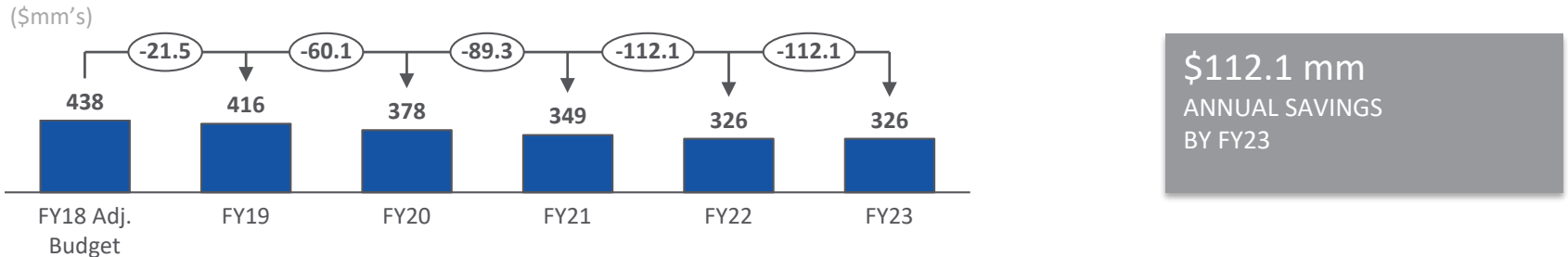
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INITIATIVE	RATIONALE	FY19	FY23	TARGET
<b>PERSONNEL OPTIMIZATION &amp; CENTRALIZATION</b>	<ul style="list-style-type: none"> <li>Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Health's transformation.</li> <li>Implement right-sizing and centralization of functions recommendations in order to provide public health services to citizens in an efficient and fiscally responsible manner.</li> </ul>	47.9	76.9	PROCESS IMPROVEMENT, ELIMINATE DUPLICATION INCREASED OPERATIONAL EFFICIENCY VIA CENTRALIZATION
<b>ASES AND MEDICAID CONSOLIDATION AND OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Reduction and centralization of Medicaid offices and regional hospital office structure to eliminate duplication of effort and redundancies and implement an appropriate staffing model.</li> </ul>	0.5	0.5	100% ELIMINATION OF REGIONAL HOSPITAL OFFICES
<b>SUPPLY CHAIN MANAGEMENT</b>	<ul style="list-style-type: none"> <li>Procurement efficiency improvements based on implementing best practices, economies of scale through consolidation</li> </ul>	6.2	19.9	10% OF ADDRESSABLE SPEND
<b>HOSPITAL MANAGEMENT TRANSFORMATION</b>	<ul style="list-style-type: none"> <li>Procurement efficiency improvements based on implementing best practices, economies of scale through consolidation</li> </ul>	3.6	11.4	7% OF ADDRESSABLE SPEND
<b>RESTRUCTURING ASEM/CM</b>	<ul style="list-style-type: none"> <li>Right-sizing initiatives focused on revenue optimization, organizational design, consolidation of Chief Business Office and management of ASEM and DOH public hospitals.</li> </ul>	3.0	12.0	100% CENTRALIZATION OF MANAGEMENT
<b>TOTAL</b>		61.2	120.7	



## Transformation of the Department of Correction’s operations will optimize available resources and improve the quality of service to the targeted population

### DEPARTMENT OF CORRECTION AND REHABILITATION SPEND, \$438mm per year



### SUMMARY OF DEPARTMENT OF CORRECTIONS TRANSFORMATION PLAN

- Corrections and rehabilitation services in Puerto Rico are segmented into two separate budget entities:
  1. Department of Corrections and Rehabilitation, which administers all services provided to the adult and juvenile corrections population including services provided at correctional facilities, and services provided to the population at community programs.
  2. Correctional Health (“Salud Correccional”), which provides health services to the adult imprisoned population.
- Transformation plan aims to reduce service costs through:
  1. The optimization and consolidation of correctional facilities
  2. Externalization of imprisonment services
  3. Efficient procurement processes
  4. Addition of state-of-the-art technology
  5. Reduction of central administration and support offices

CURRENT STATE	END STATE
<b>ADULT PROGRAM PER DIEM<sup>1</sup></b>	
\$95.8	\$81.59
<b>JUVENILE PROGRAM PER DIEM<sup>1</sup></b>	
\$691.4	\$369.0
<b>COMMUNITY PROGRAM PER DIEM<sup>1</sup></b>	
\$7.0	\$4.9
<b># OF CORRECTIONS AGENCIES</b>	
2	1

<sup>1</sup> Per diem data included in the appendix of the Government Transformation section.



## To achieve operational efficiencies and savings, the new operating model will result in a significant footprint reduction supported by improved technology

### DEPARTMENT OF CORRECTIONS TRANSFORMATION LEVERS

(\$mm's)

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

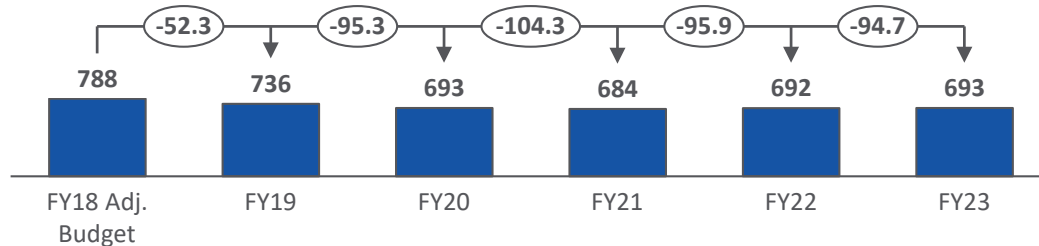




## Transforming the Department of Public Safety operations by leveraging the civilian workforce in order to reduce the cost of administrative tasks while not compromising safety and security

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

(\$mm's)



**\$94.7mm**  
ANNUAL SAVINGS  
BY FY23

### SUMMARY OF DEPARTMENT OF PUBLIC SAFETY TRANSFORMATION PLAN

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

CURRENT STATE	END STATE
<b>ADMISTRATIVE PERSONNEL PER STATION</b>	
3.5	1
<b># OF POLICE STATIONS</b>	
262	249



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

### DEPARTMENT OF PUBLIC SAFETY TRANSFORMATION LEVERS

(\$mm's)

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

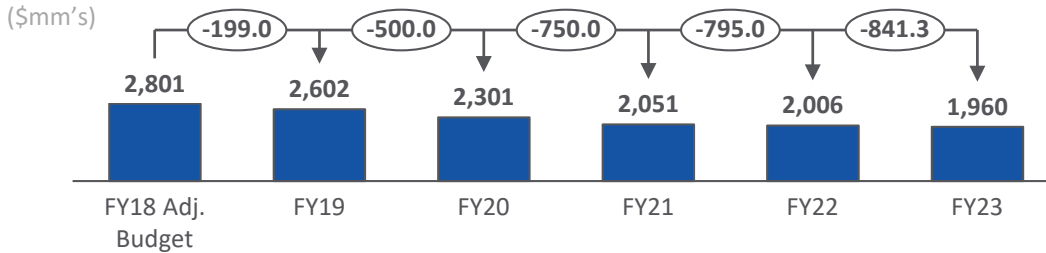


# HEALTHCARE REFORM



# The Government is committed to improving quality of service of MI Salud Program while designing a New Model that achieves fiscal and efficiency objectives

## HEALTHCARE SPEND, \$2.8bn per year



**\$841.3mm**  
ANNUAL SAVINGS  
BY FY23

## SUMMARY OF HEALTH REFORM MEASURES

- The Puerto Rico Health Insurance Administration’s (ASES, for its acronym in Spanish) is a public corporation whose core function is to manage the healthcare services for the Medicaid (federal and Commonwealth) and CHIP-eligible populations in Puerto Rico under the health plan MI Salud.
- ASES faces many challenges, such as: chronic underfunding, low capitated rates and payments for providers, high outmigration impacting provider-patient ratios, rapidly changing demographics, increased prevalence of chronic diseases, and an increasing demand for specialty drugs.
- While the model will benefit from the recently approved 100% Congressional funding, which will help the Commonwealth provide adequate and accessible healthcare, the historical federal funding disparity will continue to be an issue after FY20. Thus, the new healthcare model will provide adequate and accessible healthcare in the face of federal funding disparity. It will incorporate actuarial data with updated demographics, expense control measures, and data management to reduce pressure on the system.
- Fraud, waste, and abuse programs have been historically mostly delegated to MCOs, limiting information sharing and hindering trend development capabilities to identify cases. Efforts have been complemented by the Commonwealth through CMS’ Medical Recovery Audit Contractual Program whose focus is aligned to promote program integrity. A Medicaid Fraud Control Unit (MFCU) is being developed by the local DOJ in conjunction with the US Health and Human Services Office of Inspector General to investigate and prosecute providers and patients that misuse Medicaid funds. This is a requirement to receive a portion of the recently legislated Medicaid funding package by Congress.
- TMSIS reporting for PR has already been officially approved by CMS, providing the Federal Government, for the first time, with visibility into program claims and utilization data. The Medicaid Management Information System (MMIS) implementation will enhance ability for key data mining, identifying population health trends, and adjusting benefits aligned with identified population health needs.

CURRENT STATE	END STATE
<b>MEDICAL LOSS RATIO*</b>	
91%	92%
<b>REGIONS</b>	
9	1
<b>REIMBURSEMENT RATE**</b>	
78%	70%
<b>GENERIC DRUG UTILIZATION</b>	
90%	90%

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



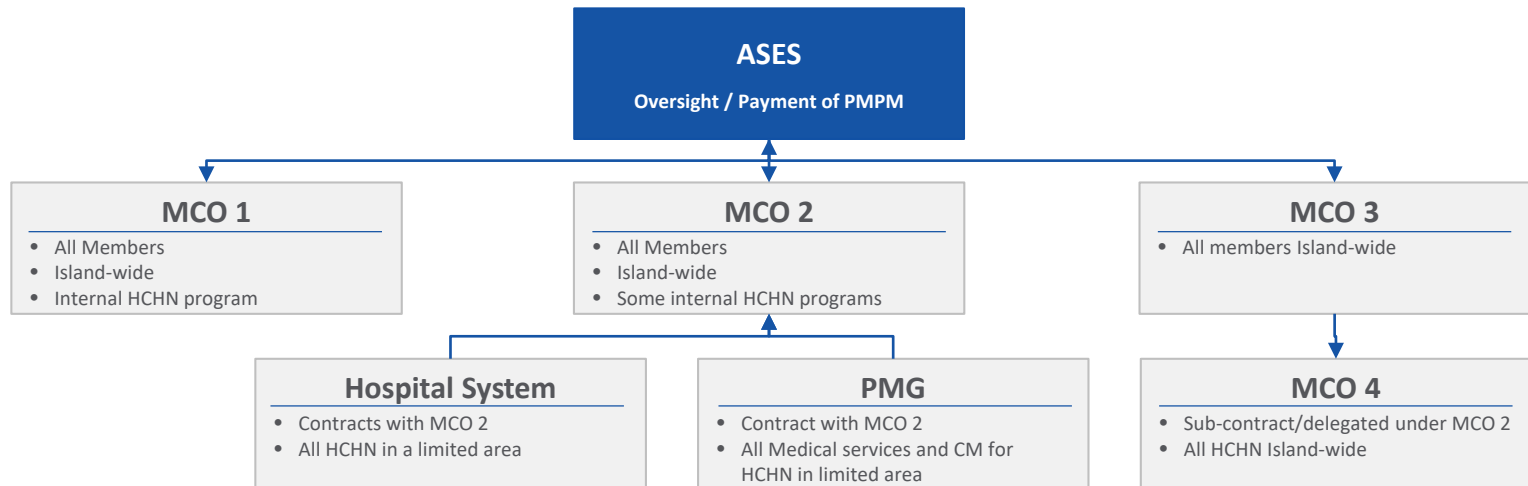
# The New Healthcare model is made up of multiple initiatives that together will achieve fiscal targets (1/3)

## Key Pillars:



**Establish the program within the financial requirements outlined in the Fiscal Plan.** The RFP published February 9, 2018 is based on a scoring methodology to encourage and reward competitive pricing with a focus on efficiencies and approaches to cost reductions. The RFP has three sections: Mandatory Requirements, Technical and Cost Proposals. The methodology created reflects the Administration’s commitment to comply with fiscal objectives.

**Island wide coverage.** Require MCOs to provide island-wide coverage and access to services in all geographic areas of Puerto Rico, develop administrative simplicity in ASES’ oversight of the program, create opportunity for economies of scale for administrative functions at the MCO level and promote competition for enrollees among MCOs. This is incentivized, and possible to achieve even for smaller participants, through sub-contractual relationships. MCOs may propose strategies to ensure island-wide coverage utilizing partnerships, delegation arrangements and/or subcontracted relationships with other insurers, provider groups or facilities. Here are some scenarios contemplated as possible outcomes:





## The New Healthcare model is made up of multiple initiatives that together will achieve fiscal targets (2/3)

### Encourage MCOs to partner with local provider entities

- MCO contracts with Primary Medical Groups (PMGs), which in turn, create a Preferred Provider Network (PPN) of specialists and other Providers as a subset of the MCO's networks.
- The key advantage of the PPN model is improved access to services for the enrollee because (a) the enrollee will not need a referral from the PCP to receive most services within the PPN (including necessary labs and specialist visits) and (b) co-payments will not be collected for Federal and CHIP enrollees.
- Copays will be collected for labs, x-ray and ancillary services for the Commonwealth population. Partnering with local provider entities, such as PMGs, provider groups, and provider associations will leverage island-based best practices while maintaining existing enrollee-provider relationships where possible (i.e. should a current MCO not continue to participate in the program some enrollee-provider relationships may be affected as they are transitioned to a different MCO).
- The New Model will allow MCOs the ability to selectively contract a provider network as long as it meets network adequacy standards. The opportunity may reduce less favorable contracting with providers who exceed the requirements and are more costly.

### Promote competition

- Improvement in service quality outcomes by encouraging competition among MCOs through the bidding process and by implementing annual open enrollment periods in the program that maintain a competitive environment as members choose their MCOs.
- The open enrollment period will begin with the start of the New Model on October 1, 2018 and will last for 90 days.

### Address the High Cost High Need (HCHN) population

- Implement an MLR requirement of 92%.
- Ensure appropriate and timely access to services for enrollees across Puerto Rico, including facilitating and promoting access to preventive care.
- Require MCOs to propose and demonstrate cost saving initiatives, programs, and value-based payment models for provider reimbursement to address HCHN enrollees in Puerto Rico, which are the populations that drive most of the cost to the program. MCO's will need to comply with HCHN Quality Incentive Measures, which will drive their efforts into these practices and result in efficiencies. They will also be required to identify this population, address it in a specialized model, track the results, and meet certain outcome measures, as indicated. MCO's will be encouraged to utilize staff/clinical models to share incentives and risk with providers and encourage positive outcomes.



## The New Healthcare model is made up of multiple initiatives that together will achieve fiscal targets (3/3)

### Establish HCHN cohorts with enhanced MCO management and cost-saving requirements

- Promote provider-based care coordination models that address social determinants of health and are likely to reduce healthcare expenditures.
- Require MCOs to implement best practices to address high users of services that are more appropriately delivered in less costly settings (i.e. strategies to decrease non-emergent use of the emergency room).
- Improve the quality of care and resulting outcomes, and reduce unnecessary or ineffective care resulting in a reduced cost to the program.

### Implement Diagnosis Related Groups (DRG)

- Due to the complexity of the implementation of this initiative, MCOs are instructed to develop it during FY2019 for Go Live during FY2020.
- DRG implementation will benefit the GHP by focusing on a practice model that drives hospital billing practices (i.e. avoiding unnecessary rehospitalizations), and incentivizes hospitals to improve systems and quality outcomes, which results in provider accountability towards the program.

### Additional initiatives that will drive efficiencies

- Allow MCOs to locate staff and administrative functions in the most cost-efficient environment.
- Request information about possible efficiencies on costs and operations, if the MCO provides management of the prescription drug benefits. MCOs must provide evidence to support this.
- Request information about possible cost efficiencies, if the MCO is allowed to require Prior Authorization (PA) of certain services where no PA is currently required.
- Include requirements for coordination of benefits with Medicare and penalties for failure to refer enrollees eligible for Medicare Advantage.



## Measures from improving efficiencies, optimizing benefits, and developing a new healthcare model are expected to save \$841mm by FY23

### HEALTHCARE REFORM TRANSFORMATION LEVERS

(\$mm's)			FY19	FY23	TARGET
INITIATIVE	RATIONALE				
PAY FOR VALUE	<ul style="list-style-type: none"> <li>Establish uniform fee schedules, standardize reimbursement rates for providers and a high Medical Loss Ratio (MLR).</li> </ul>	91.0	<b>Part of New Healthcare Model</b>		HIGHER MEDICAL LOSS RATIO
REDUCE DRUG COSTS	<ul style="list-style-type: none"> <li>Reduce drug spending by enforcing mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives.</li> </ul>	41.0			GENERIC DRUG UTILIZATION > 90%
MODIFY BENEFITS PACKAGE	<ul style="list-style-type: none"> <li>Evaluate services that could be capped from the current benefits package without adversely affecting access for MI Salud beneficiaries.</li> </ul>	45.0			BENEFITS ALIGNED WITH POPULATION TRENDS
IMPROVE PAYMENT INTEGRITY	<ul style="list-style-type: none"> <li>Establish partnerships to increase scrutiny of premium payments for beneficiaries that have left the system or have another primary health insurance. Establish MFCU to reduce waste, fraud and abuse. Implement MMIS for claim data mining and population health trending.</li> </ul>	22.0		22.0	REDUCE WASTE, FRAUD AND ABUSE
NEW HEALTHCARE MODEL	<ul style="list-style-type: none"> <li>Develop a new healthcare model in which the Government pays for basic, less costly benefits and the patient pays for premium services selected resulting in cost reductions attributed to greater competition along with the capped PMPM amount.</li> </ul>	0.0		819.3	NET SAVINGS: \$199MM IN FY19
<b>TOTAL</b>		<b>199.0</b>		<b>841.3</b>	





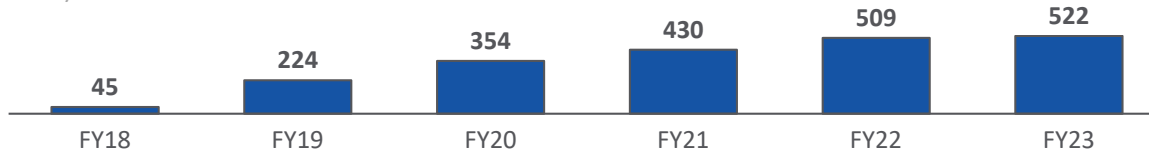
# TAX COMPLIANCE AND FEE ENHANCEMENTS



## Increased tax compliance and collections lead to higher revenues

### TAX COMPLIANCE AND FEES ENHANCEMENT, \$1,118mm by FY23

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



**\$522.4mm**  
ANNUAL IMPACT BY FY23

### SUMMARY OF TAX COMPLIANCE AND FEES ENHANCEMENT

- For years, the tax system has been impacted by high rates of non-compliance. Hacienda’s tax collection center has antiquated technology and analytical tools and data that hinder its ability to detect tax evaders.
- The Government has identified revenue enhancement reforms to increase tax revenues by broadening the tax base, enforce compliance with existing tax laws, and optimize specific tax rates and fees.
- Transforming the collection of taxes and improving technology will enhance compliance of existing tax laws for all businesses and individuals in Puerto Rico.

#### END STATE

##### TAX COMPLIANCE INITIATIVES

9

##### FEE ENHANCEMENT INITIATIVES

4

##### ADDT’L COLLECTION EMPLOYEES

200 – 300



## Improving collections and reevaluating fees will broaden the tax base to help improve revenues by \$552.4mm through FY23

### TAX COMPLIANCE AND FEES ENHANCEMENT

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY23
TAX COMPLIANCE	<b>Increase tax compliance and collections by:</b>		
	<ul style="list-style-type: none"> <li>Transitioning to an integrated tax administration software (“Unified Internal Revenue System”).</li> </ul>		
	<ul style="list-style-type: none"> <li>Working smarter on tax debt collection through advance analytics and providing more flexible payment plan rules.</li> </ul>	58.7	332.0
	<ul style="list-style-type: none"> <li>Promoting voluntary compliance program.</li> </ul>		
	<ul style="list-style-type: none"> <li>Establish an electronic record for certain SUT Credits and point of sale monitoring.</li> </ul>		
ADJUST TAXES AND FEES	<ul style="list-style-type: none"> <li>Increase collection of SUT on internet sales.</li> </ul>		
	<ul style="list-style-type: none"> <li>Maintain fees including licenses, traffic fines, and other charges for services to maintain market trends.</li> </ul>	165.7	190.4
<b>TOTAL</b>		<b>224.4</b>	<b>522.4</b>



## Hacienda has already embarked in a transformation on how it administers the Internal Revenue Code and how it interacts with its taxpayers

### *Implementation of New Tax System – Integrated Internal Revenue System (SURI)*

- FAST Enterprise is the company responsible to implement all Puerto Rico taxes in only one system (“GenTax”).
- In October 2016 the Department of Treasury took its 1<sup>st</sup> step and started with the implementation of SUT in its new tax system, SURI.

### HOW HAS SURI HELPED WITH THE INCREASE IN COMPLIANCE?

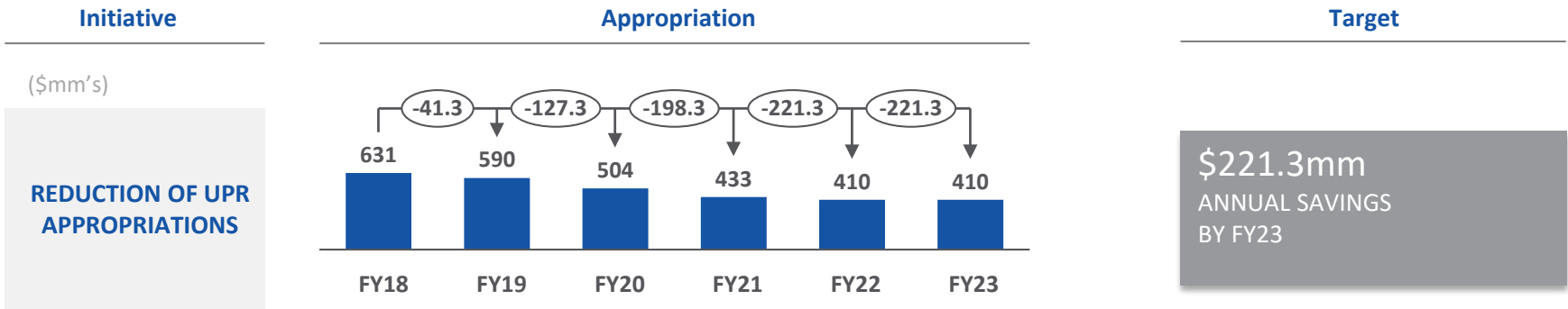
- Easier online merchant registration
  - 3,602 average of monthly **online** registrations
- Provide more payment options
  - now accepting credit cards
- Merchants have more detailed information of their account balances
  - payments, credits, balance, etc.
- Being able now to file and pay without the need to create a log-in account
  - since October 2016 we have received 17,535 incidental import returns with payments
- Upfront validation of credits before filing the Monthly Return
- Able to file and process original and amended returns within 24 hours of filing
- Automatic bank account debit for SUT Payment Plans
  - 1,650 SUT payment plans have been established. Which we have been able to recover approximately \$4.9M
- More and better communication with merchants
  - Emails
  - Text messages
  - Online account notifications (notice to pay, billing and collections notices)
  - Electronically Quarterly Statement of Account
- Quick access to balance information
  - Online access to SUT Debt Certificate and SUT Certificate of Filing
- Implementation of EBN (Electronic Bankruptcy Notifications)
- SURI was critical to sustain an increase of more than \$130m in SUT revenues from FY16 to FY17



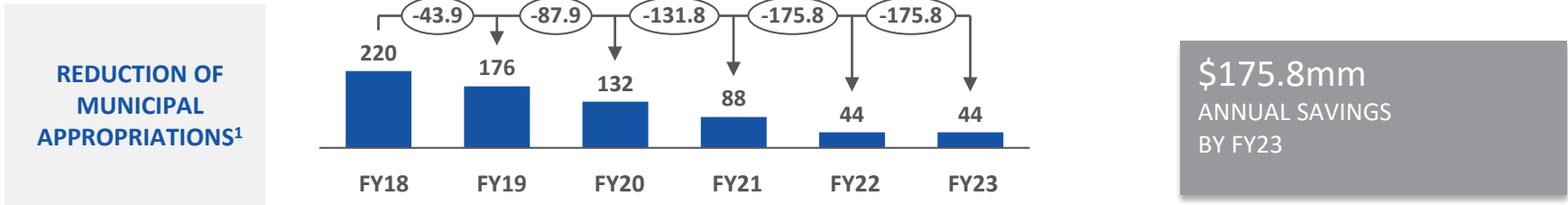
# REDUCTION OF APPROPRIATIONS



## Reduction of Government Appropriations



- The transformation of the UPR is focused on obtaining new revenue sources, modernizing, and optimizing its current facilities and campuses, and revamping its academic programs, all of which will result in a reduction on Central Government support, while transforming the University into a more competitive and modern higher education system.



- The reduction in direct payments to municipalities could be offset by improved property tax collections, cost savings, and regionalization of services that will provide cost efficiencies.

<sup>1</sup>Includes a county support fund of \$100mm per year through FY20.



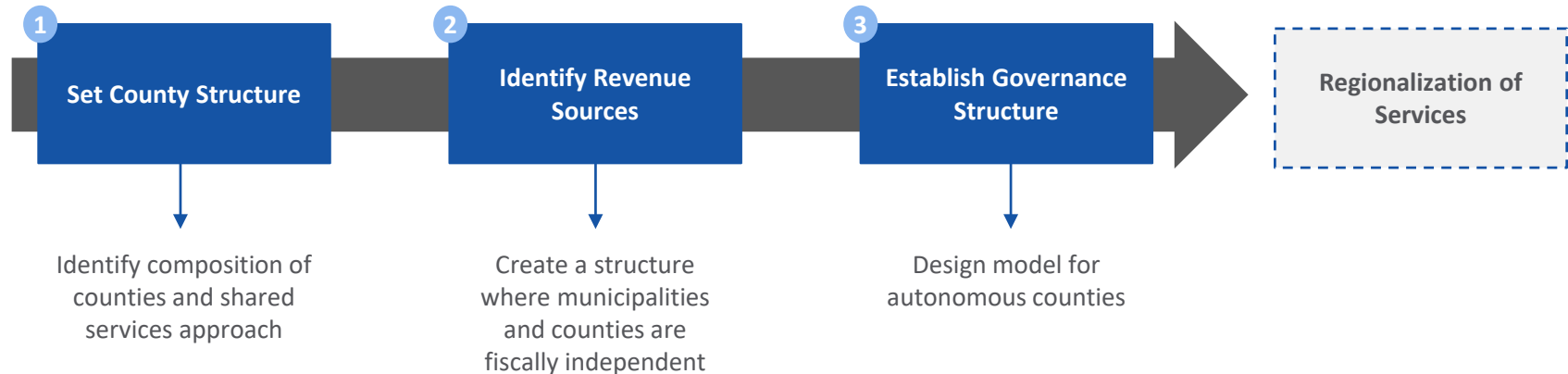
# REGIONALIZATION OF SERVICES



## Regionalization of services will help municipalities achieve economies of scale that will alleviate negative impact in revenues due to reduction of subsidies and the Hurricanes

- The Government is proposing a strategy that will allow municipalities to achieve efficiencies to establish the path for municipal fiscal autonomy.
- The strategy focuses on transitioning towards a “county structure” where counties take a prominent role in the administration of essential services currently performed by the Central Government or at the municipal level.
- There is an overlap between the services offered by the Central Government and most municipalities. Implementing a shared-services approach at the county level will provide better management and utilization of services by reducing redundancy and bureaucracy.
- A county support fund of \$100mm per year, with a sunset in FY23, is being considered as an investment to incentivize and enable a smooth transition into the new county structure.

### Roadmap to County System Transformation







## The shared services approach will generate efficiencies by consolidating functions

### Composition

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

### Shared Services Approach

- There are four services that are crucial to have in each county:



*Public Safety*



*Family Services*



*Education*



*Housing*

- These services are mainly rendered by the Central Government but there is overlap with some municipalities.
- One of the main challenges of any Government is striking a balance between offering high quality services and keeping costs down. This approach has the potential to mitigate cost by decentralizing many of the services provided by the Central Government, while improving their quality.
- Other administrative functions (i.e. HR, Finance, etc.) will be evaluated to be included in shared services model.



# GOVERNMENT PMO AND IMPLEMENTATION STRATEGY



## Implementation will be directed by a centralized project management office

Historically, the Government has suffered from inconsistent execution, due in part to not having a defined, centralized project management structure. It has historically operated in silos, suffered staffing and coordination challenges, and has been limited by weak technology to report and keep track of expenses. In order to mitigate implementation risk, an enhanced and centralized PMO structure will be established.

**Developing a centrally run PMO is an important step toward ensuring the implementation and tracking of the core operational transformation and right-sizing measures that will achieve savings targets under the New Fiscal Plan.**

### Governor's Fiscal and Economic Working Group (GFEWG)

- The GFEWG is the central PMO with defined reporting to the Governor of all economic and transformation measures.
- The GFEWG, comprised of senior leadership, oversees Agency PMOs and reports directly to the Governor.
- The GFEWG has already been established and is in operations.

### Agency Program Management Offices (PMOs)

- The Agency PMOs are generally led by designated Agency Heads and report directly to the GFEWG.
- Agency PMOs undertake the required work to implement initiatives.
- The daily activities of PMOs are managed and undertaken by staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making.
- Agency PMOs will be responsible for assembling a taskforce to:
  - Complete validation and definition of full scope of projects and priorities.
  - Finalize reporting tools and tracking responsibilities.
  - Perform ongoing weekly tracking and reporting.

**Individual Agency PMOs will be established with direct reporting to the GFEWG. Each Agency Head will be responsible for developing and implementing a PMO structure that best fits their respective agency. Through this PMO structure, the Government is positioned to effectively manage and implement the Plan.**



Accountability



Efficiency



Reliability



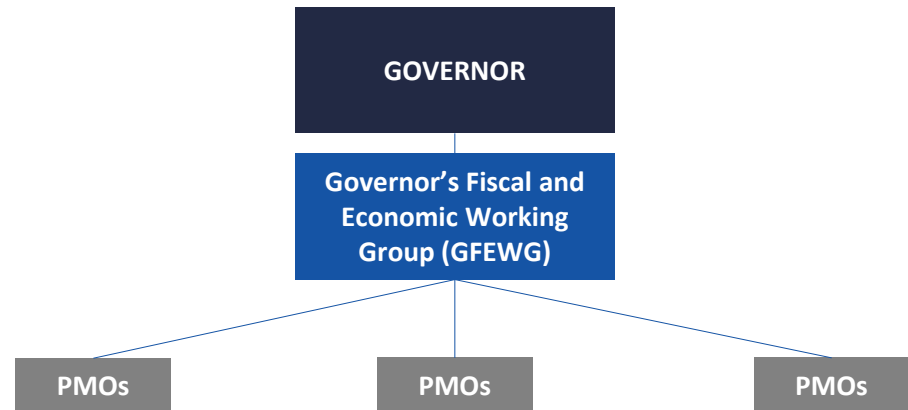
Transparency



## Project Management Office of all Government projects

**Mission Statement: To recommend and manage the implementation of the Fiscal and Economic Policy of the Government, per the certified fiscal plans, the recovery plans, and public policy established by the Executive & Legislative branches of Government.**

- The GFEWG will have oversight over the implementation of all fiscal and economic measures. Members represent all government fiscal and economic leaders with statutory authority under their enabling acts to implement fiscal reforms. The GFEWG members exercise authority within their respective agencies, but the GFEWG is chaired and led by the Governor’s Representative. In cases of disagreement amongst parties, the Governor’s Representative is responsible for deciding the course of action or escalating matters to the Governor as appropriate.
- The GFEWG will coordinate with stakeholders such as the Governor’s Office personnel and other Government leaders and agencies to implement fiscal and economic policy as appropriate.
- GFEWG Charter Members:
  - Governor’s Representative (Chair)
  - Executive Director of AAFAF
  - Hacienda Secretary
  - Economic Development Secretary
  - Labor Secretary
  - Executive Director of OMB
  - P3 Authority Executive Director
  - Governor’s Infrastructure Advisor
  - Commissioner of Financial Institutions
- No new legislation is required for enabling the GFEWG.





Accountability



Efficiency



Reliability



Transparency



## Robust tracking and reporting tools that foster growth in transparency, ownership and assure continued implementation progress

### 1 PROJECT CHARTER

- Single page charter establishing goals and structure of the measure that is being undertaken.
- Provides and establishes the fundamental purpose of undertaking the activities.
- Allows for risks and obstacles to be identified and considered prior to actions being taken.
- Establishes metrics and KPIs in determining the progress and status of each initiative.

### 3 IMPLEMENTATION PLAN

- Detailed layout of each activity required for accomplishing sub-measures associated with overall measure.
- Provides proactively considered risks and mitigants to the specifically designated activity.
- Assigns leaders and owners for the activity.
- Provides the metric and KPI in which the activity progress is considered.
- Provides “live” calendar of updates and status of each measure; if an activity goes behind schedule, the workplan will reflect that the activity is still in progress. The comparison lies in the sub-measure dashboard, in which accountability is held.

### 2 SUB-MEASURE DASHBOARD

- Provides “zoomed in” view of a specific sub-measure.
- Each measure will have a dashboard prepared listing the sub-measures associated with the overall measure.
- Provides details and commentary to items in alert statuses from the first page of implementation plan tracker.
- Provides gradient analysis of progress towards completion.
- The completion dates do not change in the executive sub-measure dashboard, allows for full transparency and accountability of staff in meeting targets and held accountable to delays.
- Provides for comments/footnotes as explanation to off-track or materially changed initiatives.
- Allows for alerts and actions for proactive adjustments when required.

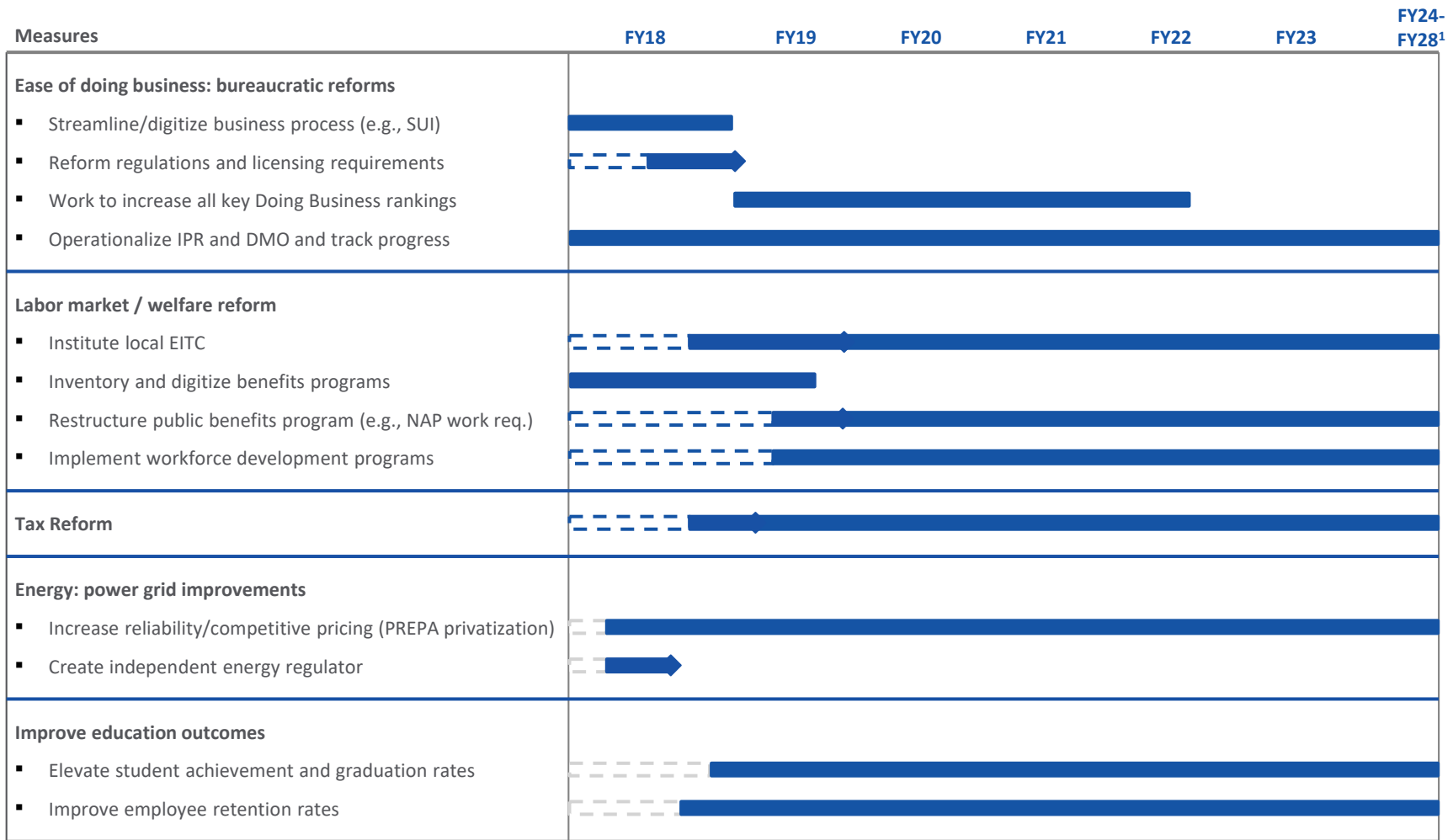
### 4 IMPLEMENTATION PLAN TRACKER

- Provides for single snapshot of entire transformation plan.
- Allows management to know the status of each initiative in a distinct status
  - Complete
  - In Progress
  - Delays
- Materially changed from Certified Fiscal Plan.
- Does not provide details, but allows for simple report cards at face value.
- Further detail with action items provided in other tools .



# Structural reforms implementation timeline

---- Soft implementation/planning   
 — Implementation   
 % GNP uptick  
—◆ Legislation timeline & milestone (Bill/Act passed)   
 Fiscal impact



<sup>1</sup> Fiscal value is cumulative 5 year contribution to GNP  
<sup>2</sup> Total 30 year aggregate impact from FY24-54, with runrate GNP uptick constant and compounding year-over-year  
<sup>3</sup> Education reforms include 20 year impact sum only, beginning in 2030 (GNP impact anticipated to begin at 0.01%) and sums through 2050. Run rate GNP annual uptick expected to reach 0.47% by 2048



# Measures implementation timeline

■ ■ ■ Soft implementation/planning    ■ Implementation  
▶ Legislation timeline & milestone (Bill/Act passed)

Measures	FY18	FY19	FY20	FY21	FY22	FY23	FY24- FY28 <sup>1</sup>
<b>Tax compliance and fees enhancement</b> <ul style="list-style-type: none"> <li>Improve compliance in major taxes (SUT, CIT, PIT)</li> <li>Right-rate other taxes and fees</li> </ul>							
<b>New government model</b> <ul style="list-style-type: none"> <li>Education</li> <li>Corrections</li> <li>Health</li> <li>Public Safety</li> <li>All other agencies</li> </ul>							
<b>Healthcare reform</b> <ul style="list-style-type: none"> <li>Pay for value</li> <li>Reduce drug costs</li> <li>Modify benefits package</li> <li>Improve payment integrity</li> <li>Overall new healthcare model</li> </ul>							
<b>Reduction of appropriations</b> <ul style="list-style-type: none"> <li>UPR appropriations</li> <li>Municipal appropriations</li> </ul>							



# INTEGRATED FINANCIAL MANAGEMENT – OFFICE OF THE CFO





## Proposed mission and critical objectives of the Office of the Chief Financial Officer (OCFO)

Puerto Rico’s Office of the CFO will ensure fiscal responsibility, promote long-term economic sustainability, and enable optimal resource allocation in accordance with the Fiscal Plan and the annual budget.

### CRITICAL OBJECTIVES

#### FISCAL RESPONSIBILITY

- Enforce and manage a consolidated treasury for the Government.
- Estimate, protect and enhance collections and revenue streams.
- Establish budgetary priorities and exercise budgetary oversight.
- Establish effective expense controls and oversee the implementation of the procurement reform.

#### CONTROLS & ACCOUNTABILITY

- Standardize and implement accounting policies and processes for the Government.
- Establish and enforce contracting protocols and disbursement priorities.
- Drive internal process integrity analysis and continuous improvement.
- Help produce the required reports and monitor fiscal plan implementation, right-sizing, and recovery spending.

#### COMPLIANCE & TRANSPARENCY

- Reinforce the timeline to release pending audited financial statements.
- Establish a new process to assure timely release of audited financials for FY18 onwards.
- Drive the comprehensive upgrade and standardization of accounting and IT systems across all agencies.
- Establish a higher level of ongoing financial reporting and disclosure in coordination with AAFAF and the FOMB.

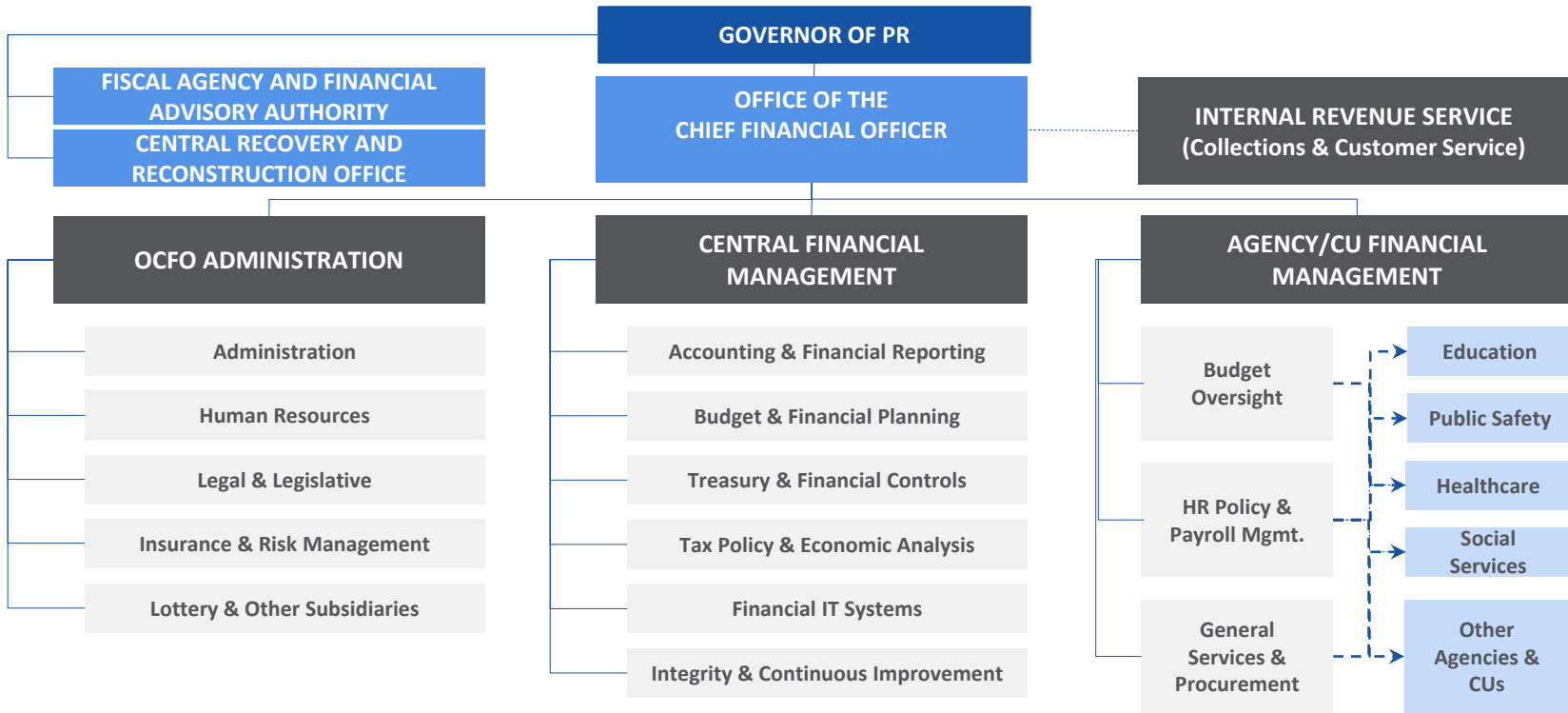
#### RISK MANAGEMENT

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



## Office of the CFO – Proposed Organizational Structure and Critical Functions

Puerto Rico’s Office of the CFO will be established through a Reorganization Plan as part of the New Government Model that will consolidate OMB with Hacienda to establish clear accountability for all central and agency-level financial, procurement, and human resources functions in a new structure that will ensure permanent long-term reform.



### NEXT STEPS

- Establish scope of OCFO’s immediate authority and accountability.
- Confirm organizational design and develop detailed implementation plan.
- Complete legal / regulatory review and approve Reorganization Plan and associated bills.
- Initiate agency organizational and procedural integration.



## Centralized management and accountability for the implementation of these immediate work streams will drive the integration of the financial planning and management functions

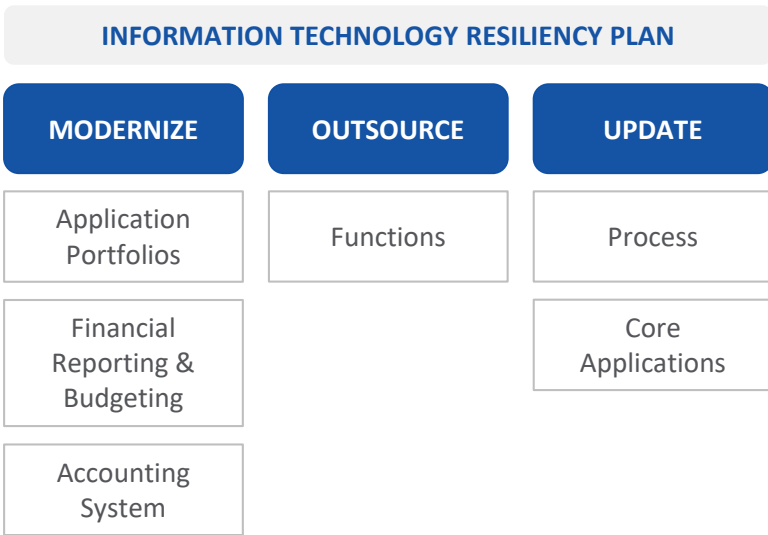
CENTRALIZED TREASURY & LIQUIDITY MANAGEMENT	BUDGET DEVELOPMENT AND MONITORING	FINANCIAL IT SYSTEMS INTEGRATION	CAFR & REPORTING TO FOMB
<ul style="list-style-type: none"> <li>▪ Consolidate visibility and control of all Government bank accounts, including CU accounts at private banks.</li> <li>▪ Rationalize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



## Integrated Financial System Stabilization and Transformation

Due to current financial situation, the Government’s investments in information technology to facilitate financial management with accuracy and transparency is critical.

- The current state of financial IT systems is far from optimal. Critical IT applications and equipment are three to four versions old, no longer supported by vendors, and have been impacted by persistent power and telecommunications fluctuations.
- The number of applications and layers of legacy technology is overly complex and a challenge to maintain.
- Risk of failure of IT system could shut down or significantly impair the Hacienda’s and the Government’s daily financial operations.
- **Objective:** modernize legacy applications and technology to provide a platform to run the Government’s revenue management, accounting and payroll systems in a cost effective and secure manner through consolidation and coordination.



- | COST IMPROVEMENT BENCHMARKS*   |
|--|
| <ul style="list-style-type: none"> <li>▪ 10-25% cost improvement from data center consolidation.</li> <li>▪ 20-50% cost improvement from storage consolidation.</li> <li>▪ 10-30% cost improvement from server consolidation.</li> <li>▪ 10-50% cost improvement from LAN / WAN / Voice and Data Network Optimization.</li> <li>▪ TBD for consolidation of PeopleSoft licenses, Strategic sourcing and integrated budgeting and leveraging their cloud service.</li> </ul> |

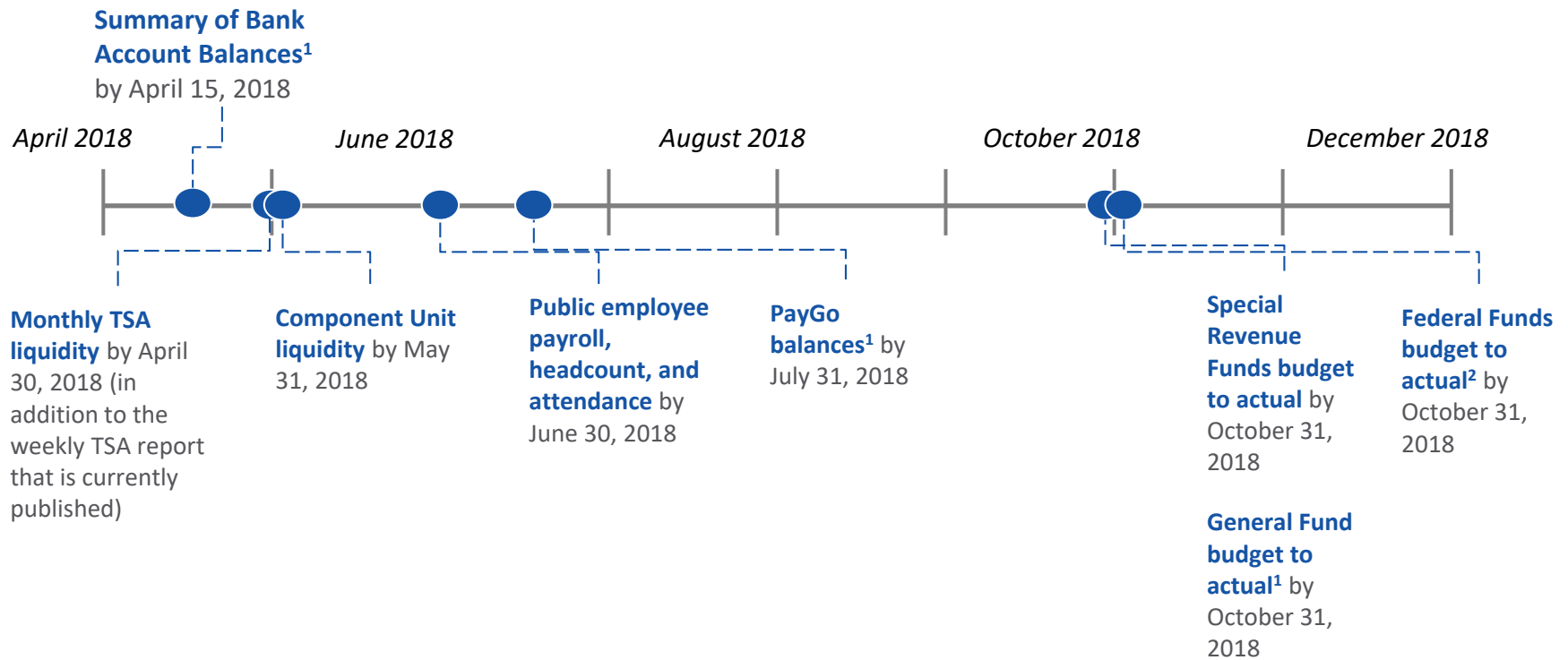
\*Cost implementations are related to technology enhancement initiatives.



## Fiscal controls and reporting

**Public reporting of the Government’s data regarding finances and budget** is critical to improve fiscal governance, accountability, and internal controls.

The Government is committed to publishing the following reports with data through the close of the previous month (i.e. April 30 report includes data through March 31) on a monthly basis:



**“Government contracts and change orders** are publicly available online on the Comptroller’s website. Enhancements to the webpage to allow full access to contracts in their entirety shall be ready during the first half of FY19.

<sup>1</sup> Reported on a one and half to two month lag.

<sup>2</sup> For Federal Funds flowing through the Central Government and captured by Hacienda’s centralized system. Additional information will be integrated at later dates.



# STRUCTURAL REFORMS

A FOCUS ON PUERTO RICO'S STRENGTHS AND CORE COMPETENCIES

EASE OF DOING BUSINESS | POWER SECTOR REFORM | INFRASTRUCTURE DELIVERY AND MOBILITY REFORM | HUMAN CAPITAL | COMPREHENSIVE WORKFORCE REFORM | INTEGRATED FINANCIAL MANAGEMENT



GOVERNMENT OF PUERTO RICO



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





# The new structural reforms package seeks to complement and extend the structural reforms that have already been implemented to drive private sector investment and economic growth



## Tax Reform and Incentives Code

- Proposed tax reforms address inequality and reduces the cost of doing business and promote compliance.
- The new Incentives Code will rationalize all economic development incentives, exemptions, subsidies, grants, and credits, based on the ROI to Puerto Rico.
- The Code will conform to the Tax Cuts and Jobs Act to protect and enhance Puerto Rico's competitiveness.
- The Code will establish a new digital and transparent process for the application, award, and compliance of all incentives.

## Ease of Doing Business

- Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector (DALE Tigera Program).
- Consolidate all public service & utility regulatory agencies into one.
- Deregulation of land freights to help reduce the price of consumer goods and the cost of doing business on the island.
- Deregulation of occupational licensing to reduce unnecessary hurdles for individuals entering the labor market.
- Modify the condominium law to accelerate decision-making.



## Power Sector Reform

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



## Human Capital

### Welfare Reform

- Implement a Local EITC program to drive integration into the formal economy.
- Update the welfare structure to protect vulnerable segments while promoting self-sustainability.

### Workforce Reform

- Focus the Workforce Innovation and Opportunities Act (WIOA) incentives to develop high-priority sectors and capabilities.



## Government Transformation

### Digital Services Reform

- Maximize the use of technology to streamline all citizen services.
- Modernize the property registry by leveraging the use of technology through a public-private partnership.

### Transparency Reform

- Approve and implement the Administration's transparency and public documents bill (PS0561 / PC1095).



### Partnering with the Federal Government

### Executive & Congressional Measures

- Provide equal treatment to Puerto Rico in Federal funding and programs and implement the recommendations of the PROMESA Congressional Bi-Partisan Task Force Report.



## Tax Reform and Ease of Doing Business Reforms



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

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



### THE INCENTIVES CODE WILL HELP ATTRACT NEW COMPANIES TO PUERTO RICO

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



### OCCUPATIONAL LICENSING REFORM

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



### DEREGULATION OF ON-ISLAND FREIGHTS

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



### THE REGULATORY REFORM WILL SIMPLIFY THE PROCESS OF BUSINESS FORMATION

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



### MODIFY CONDOMINIUM LAW TO ACCELERATE DECISION MAKING

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

## Human Capital Reforms



### WELFARE REFORM WILL PROVIDE INCENTIVES TO ENCOURAGE LABOR PARTICIPATION

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



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

- Update the Workforce Innovation and Opportunity Act (WIOA) State Plan to focus the programs and incentives to high-priority sectors and capabilities such as aerospace, software development, and creative services, among others.
- Integrate the WIOA program with the broader promotional efforts of the Department of Economic Development & Commerce.
- Increase productivity and competitiveness by revamping labor laws.
- Increase minimum wage to improve worker's welfare and help reduce outmigration.

## Partnering with the Federal Government



### PARTNERING WITH THE FEDERAL GOVERNMENT FOR EQUAL TREATMENT FOR PUERTO RICO

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

## Government Transformation Reforms



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

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



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

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



### REIMAGINING PROPERTY REGISTRATION

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



### THE TRANSPARENCY REFORM WILL INSTILL GREATER INVESTOR CONFIDENCE

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

## Specific examples of regulatory reform



### OCCUPATIONAL LICENSING REFORM WILL REDUCE UNNECESSARY HURDLES TO WORKING

- Excessive licensing can impose costs and place unnecessary hurdles for individuals entering the labor market. Conducting a review and reform of occupational licensing requirements will provide PR with a more open labor market and promote entrepreneurship.
- Puerto Rico will also consider joining the Compact for the Temporary Licensure of Professionals to make it easier for professionals with licenses from other states to easily enter the Puerto Rican labor force without undue barriers.



### DEREGULATION OF ON-ISLAND FREIGHTS WILL REDUCE THE PRICE OF GOODS

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



### THE REGULATORY REFORM WILL SIMPLIFY THE PROCESS OF BUSINESS FORMATION

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- Promote development of rental residence investment to increase population density.



# TAX REFORM



## A Tax Reform and Incentive model that addresses inequality, lowers the cost of doing business and streamlines the approach to government incentives and subsidies

Now more than ever, the Government is seeking a broad based tax reform and incentive package that promotes a sustainable economic development, through all sectors

### CURRENT INCENTIVES / GRANTS

- Minimal accountability and visibility on how incentives and grants are issued
- Limited to certain industries and sector
- Not aligned with Fiscal Plan and necessary Government Funding needs



### COMPREHENSIVE TAX REFORM

- The proposed tax reform has a positive long term impact on Puerto Rico's economy and reduces the cost of doing business
- Improve compliance
  - Simple tax policy
- Encourage economic development

#### How is it going to be paid:

- Pay-for – Revenue Neutral/Neutral Tax Reform
- Adjust the alternative minimum tax rate for individuals and corporations
- Broad based reduction of incentives and tax credits



### NEW INCENTIVE CODE\*

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

\* Exemptions granted will remain the same. Only re-distribution is on cash / tax incentives.



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

### THE INCENTIVES CODE WILL HELP ATTRACT NEW COMPANIES TO PUERTO RICO

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

### KEY BENEFITS OF PROPOSED TAX INITIATIVES



Increase in economic activity as a result of the reduction in Tax Rates for business entities and individuals.



Allow small businesses to choose between re-investing the tax reduction in their businesses or distributing the increases to their shareholders, who will then have the option to either spend it in the Puerto Rico economy or save for retirement.



Decrease in compliance costs, simpler tax returns.



Increase efficiency for Hacienda, resources currently assigned to tax return processing can be re-assigned to other revenue generating measures (e.g. Income Tax Audits and Correspondence Audits, SUT and Excise Tax Audits and other Taxpayer Services).



Decrease in Audit Risk, uncertainty and the associated compliance costs.



Decrease in SUT compliance and associated costs on the acquisition of services in Puerto Rico.



Increase in Tax Revenues as a result of the proposed changes to the Alternative Basic Tax Regime. These changes will produce higher tax revenues from taxpayers who are not currently complying with the Code.



## Tax policy changes to lower cost of doing business and make Puerto Rico more competitive

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY20	FY21	FY22	FY23
<b>INDIVIDUAL INCOME TAX &amp; PENSIONS EXCLUSIONS</b>	<ul style="list-style-type: none"> <li>First \$12.5k no tax; up to \$21k 1% tax; surtax above \$200k; top rate 31%.</li> </ul>	-257	-575	-582	-585	-585
<b>REGULAR CORPORATE INCOME TAX</b>	<ul style="list-style-type: none"> <li>Reduces base tax from 20% to 19%; top rate from 39% to 31%.</li> </ul>	-65	-152	-157	-159	-159
<b>SALES &amp; USE TAX ("IVU") B-TO-B</b>	<ul style="list-style-type: none"> <li>Reduces current 4% rate to 3% in Natural Year 2019 and fully eliminates by Natural year 2020</li> </ul>	-19	-101	-169	-172	-172
<b>REDUCE TAX RATE TO PREPARED FOODS</b>	<ul style="list-style-type: none"> <li>Reduces current 11.5% rate to 7%, on transactions paid through electronic methods, excludes alcoholic sales (30% of tax base).</li> </ul>	-79	-87	-87	-87	-87
<b>TOTAL TAX INITIATIVES</b>		-420	-915	-995	-1,003	-1,003
<b>TAX INITIATIVE OFFSETS</b>		514	981	994	997	999

As part of the local corporate tax initiative, the Government will need to consider the following:

- Account for the corporate tax rate and GILTI rules of the Tax Cuts and Jobs Act of 2017.
- Provide certainty to Controlled Foreign Corporations operating in Puerto Rico.
- Promote economic development and growth.





## Tax initiatives and offsets -- detailed

	Revenue Impact (FY, \$ millions)					
	FY19	FY20	FY21	FY22	FY23	Total
<b>Tax cuts/revenue reductions</b>						
Individual income tax reductions and pension exclusions	(\$257)	(\$575)	(\$582)	(\$585)	(\$585)	(\$2,584)
Corporate income tax reductions	(65)	(152)	(157)	(159)	(159)	(692)
Phase out of B2B tax	(19)	(101)	(169)	(172)	(172)	(633)
Reduction of SUT on prepared foods	(79)	(87)	(87)	(87)	(87)	(427)
<b>Subtotal</b>	<b>(\$420)</b>	<b>(\$915)</b>	<b>(\$995)</b>	<b>(\$1,003)</b>	<b>(\$1,003)</b>	<b>(\$4,336)</b>
<b>Tax initiative offsets</b>						
Individual income tax deduction and exemption adjustments	\$160	\$347	\$348	\$351	\$353	\$1,560
Tax credits	109	128	128	128	128	621
Cash grants	75	123	123	123	123	568
Corporate AMT & Withholding at Source Revenue	126	286	289	289	289	1,279
Individual AMT & Withholding at Source Revenue	69	156	158	158	158	698
Other Measures	16	22	26	27	28	119
<b>Subtotal</b>	<b>\$555</b>	<b>\$1,062</b>	<b>\$1,072</b>	<b>\$1,076</b>	<b>\$1,079</b>	<b>\$4,845</b>
<b>Subtotal Total Net Impact Before Cushions</b>	<b>\$135</b>	<b>\$148</b>	<b>\$78</b>	<b>\$74</b>	<b>\$77</b>	<b>\$510</b>
<b>Proposal/Implementation</b>						
Electronic Transactions and Prepared Foods SUT Limitations	\$4	\$4	\$4	\$4	\$4	\$21
Corporate AMT behavioral adjustment discount	(22)	(48)	(50)	(50)	(50)	(220)
Corporate AMT economic adjustment discount	(5)	(16)	(12)	(12)	(12)	(56)
Individual AMT behavioral adjustment discount	(2)	(4)	(4)	(4)	(4)	(18)
Individual AMT economic adjustment discount	(4)	(8)	(8)	(8)	(8)	(37)
Other measures behavioral adjustment discount	(8)	(5)	(5)	(5)	(6)	(29)
<b>Total Net Impact After Proposed Cushions</b>	<b>\$98</b>	<b>\$70</b>	<b>\$3</b>	<b>(\$1)</b>	<b>\$1</b>	<b>\$172</b>



## Comprehensive tax expenditure report and its roadmap

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

### Tax expenditure report in Puerto Rico

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

### Tax expenditure roadmap

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

Defining a tax expenditure

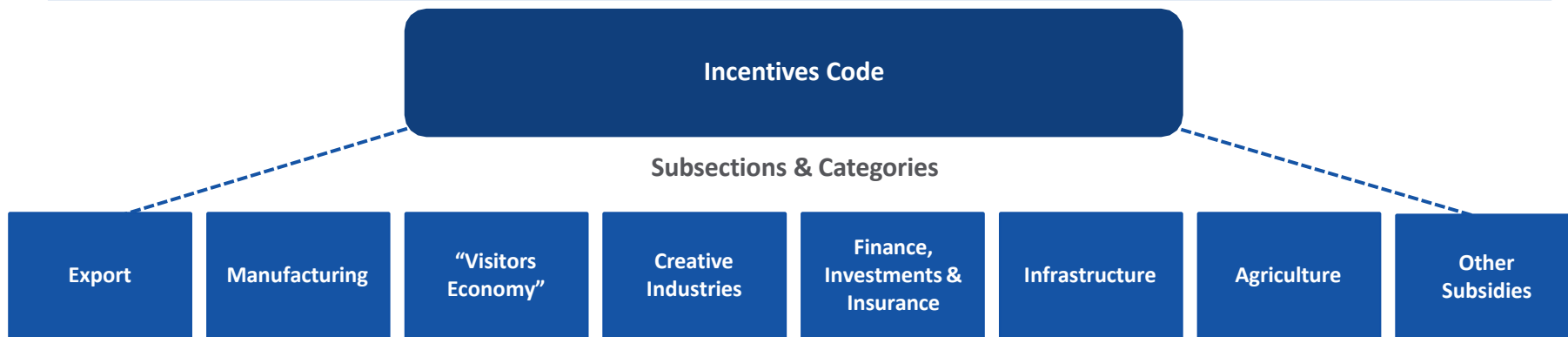
Identifying tax expenditures

Measuring tax expenditures

- In 2016, Hacienda began identifying tax expenditures for regular corporations. Identifying tax expenditures requires identifying each deduction, exemption, exclusion and credit in the law and deciding (keeping the definition of a tax expenditure in mind) which of these are tax expenditures. The term for this is benchmarking the tax law.
- In order to produce the Tax Expenditures Budget, the following steps are necessary: finish the benchmarking for the three tax regimes so that the specific tax expenditures are identified; write descriptions of the tax provisions creating the tax expenditures; and estimate the cost of each tax expenditure.
- Staff time has to be dedicated to these tax expenditure tasks exclusively. **First draft of tax expenditures budget by the end of calendar year 2018.**

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

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



1



### The Incentive Code seeks to encourage activities that produce a positive ROI for Puerto Rico

- Reform based on economic/financial guiding principles
- Change in public policy - redirected towards activities that encourage competitiveness, export & investment.
- New agile paradigm that provides support for the continuous improvement of the development strategy.
- Ability to identify emerging risks and opportunities.

2



### Establish an easy and efficient process to request incentives

- Single designated office for all aspects of the incentive process.
- Standardized incentive contracts.
- Clear and easy communication between agencies (integrated single digital platform).

3



### Strengthen compliance and control of incentives

- Simplify the annual reporting process for beneficiaries while at the same time strengthening its audit.
- Clear, rational and objective penalty process with well-defined triggers.
- Participation of the private sector (CPAs, tax professionals, lawyers, etc.) to facilitate the compliance verification process.

4



### 100% fiscal transparency, accountability and fiscal risk for all the economic incentives

- Publish on a recurrent basis all costs and benefits of the incentives offered by the New Incentives Code.
- Reporting information should be periodically evaluated to constantly improve incentive programs and ensure that incentives are allocated to maximize the economic impact for Puerto Rico.



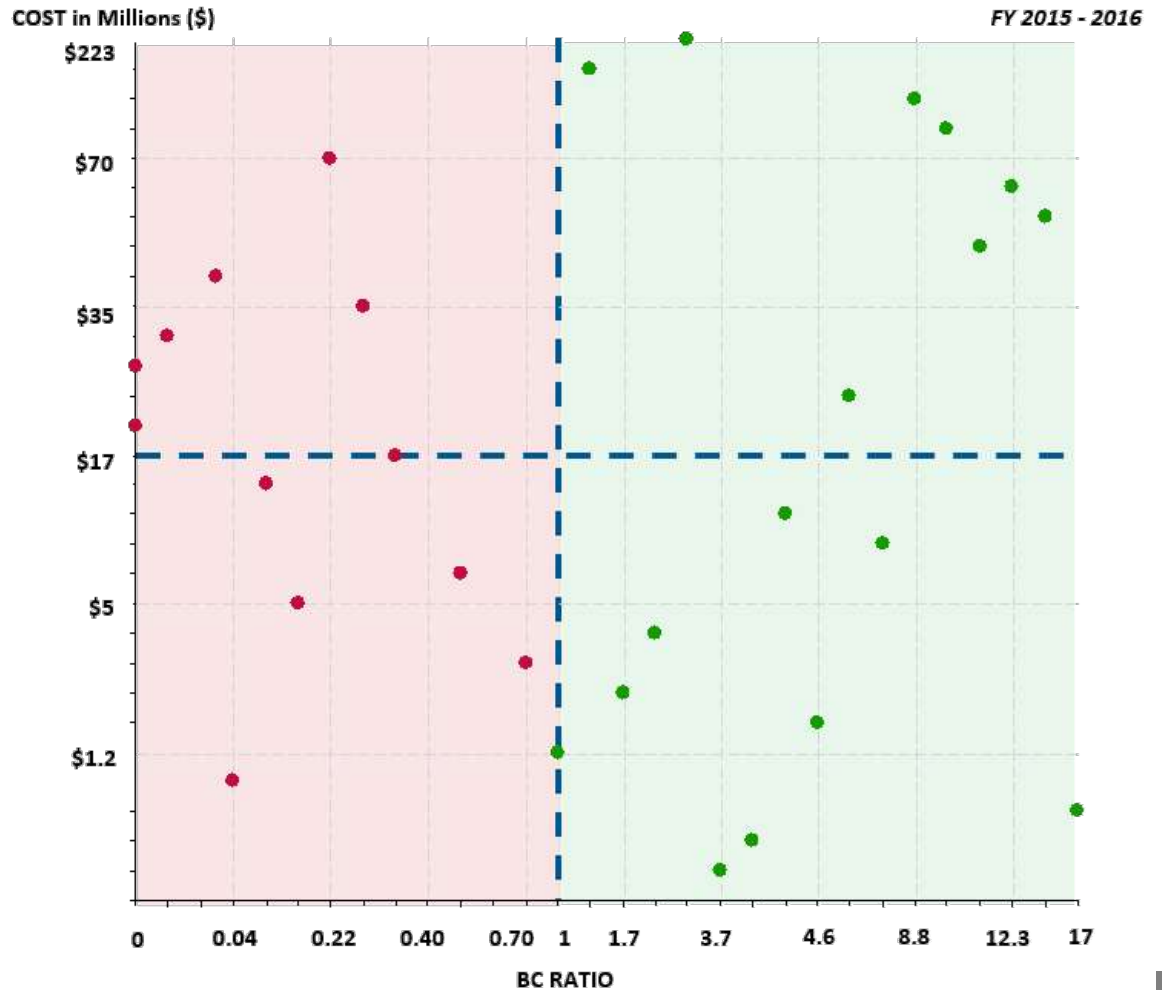
## The Incentives Code is the result of a comprehensive economic and fiscal analysis

Revising and eliminating certain dated incentive policies provide the ability to lower the overall corporate tax rate.

Over 50 incentives laws are being re-evaluated and consolidated with a total cost of over \$450mm.

A Benefit to Cost (BC Ratio) analysis is being performed for every law and a BC Ratio of more than 1 is beneficial for the Government of Puerto Rico.

Incentives for activities with a high degree of exports and foreign direct investment usually result in higher BC Ratios (green grid).





# POWER SECTOR REFORM



## PREPA - Regulation during Electric Sector Transformation

### Independent Regulation

The transformation process is expected to formally run from the date of certification of PREPA's revised fiscal plan until confirmation of a plan of adjustment and completion of the necessary concession and sale transactions (Transformation Period). The Transformation Period is expected to last 12-18 months, during which:

- A new, independent regulator for the energy sector will be established through legislation). The New Regulator may be the Energy Bureau within the Public Service Commission (PSC).
  - 5 energy commissioners who serve staggered terms to remain insulated from political interference
  - Advisory and advocacy staff and functions strictly separated for fairness and due process reasons
  - A ratepayer advocate exists separately from the regulator
  - Appointments made from a list of persons with specified technical credentials identified through an externally led process.
  - Supported by expert utility staff.
  - Decisions will comply with traditional administrative procedures

### Factors for the Future

- **Principles for regulation during the Transformation Period will include the below:**
  - Rates, rate designs, and ongoing rate setting mechanisms will work in in harmony with PREPA's certified fiscal plan.
  - Regulatory authority will be clearly defined and focused on ratemaking, reliability, consumer protection.
  - Post-transition regulation, including ratemaking, will avoid regulatory conflicts and provide the certainty and stability necessary to attract initial and ongoing investment.
  - Regulatory structure will support the steps leading to sector transformation, including in the selection of private participants and the regulatory transition.
- **Certified yearly budget will incorporate the transformation process.**
  - Funding for the New Regulator during transition period to be in line with current regulatory budget.
  - May be separate filing fees / funding for major cases (e.g., IRP, rate cases).
  - New Regulator will establish a bridge rate in line with PROMESA certified budget to maintain PREPA during transformation.
  - Transitional IRP will be conducted, but the PROMESA certified budget will control.
- **Certified fiscal plan for PREPA will:**
  - Act as a guide for IRP process.
  - Be amended or modified as necessary to incorporate the IRP process, results of market process to obtain private concessionaire and sell generation, realities of federal funding and other factors.



## PREPA - Post-Privatization Regulation – Title III

- The post-privatization structure will be fully in place upon exit from Title III and closing of the transformation transactions.

### Title III Exit – Structure:

- New Regulator will remain as established during transition, with funding increased to be more consistent with mainland jurisdictions.
- Concession will be granted through the plan of adjustment/T3 process and legislative enactment as necessary:
  - Concession will include initial rate (or revenue requirements and rate structure), performance standards, private investment requirements, etc. and any other rate or services obligations or limitations intended to bind the Government, the commission, and the Concessionaire.
  - Concession will be long term (25+ years)
- Revised IRP and Fiscal Plan will be harmonized with exiting the Title III process as set forth above.
- Initial retail rates to be harmonized with Fiscal Plan, IRP and Title III process, through the partnership contract process and/or through an immediate rate case based on a revenue requirement consistent with the transformation process [Fiscal Plan?].
- New Regulator will thereafter have suite of regulatory powers below.
  - New Regulator will begin exercising traditional roles of regulating private utilities, and can set retail rates and use rate tools such as formula and other rate mechanisms, performance standards, and multi-year investment plans, but cannot but cannot contravene Partnership Contracts and their requirements
  - Flexibility to meet future needs created through “rate tools” (e.g., riders, multi-year rate plans, reconciling formula rates, etc.).
  - FOMB will retain budgetary approval rights as long as PREPA is a covered entity functioning as a utility, but budget must comply with new rate case.
  - New Regulator will assume approval rights for issuance of new debt and significant corporate changes.



## Post-Privatization Regulation – Regulatory Powers

### Regulatory Powers

- Regulate retail delivery provider in areas and under standards generally comparable to mainland wires companies with specifically defined authority and limitations based on accepted mainland regulatory models.
  - Rates will be set to recover prudent costs of service including pass-through of generation costs and recovery of certain subsidies.
  - Rates will recover required capital costs of new investment over term.
  - Regulator will have approval mechanism for major capital projects.
  - Rate design will be economically efficient and cost-based and will minimize cost shifts, avoid stranding economic assets and discourage uneconomic bypass.

### Generation

- Regulate reliability and performance, and as required to prevent market power, economic terms of PPAs.
- Performance metrics for delivery and generation functions that send the right signals to encourage the best performance and pricing and include incentives and penalties.
- CPCN regulation.
- Migration to competitive structure as and when such markets develop.

### Regulation of Monopoly Functions (including T&D / retail service)

- Use “rate tools” including formulas, multi-year rate plans, and others to create efficiency and performance incentives and create rate stability and minimize risk and “rate shock”.
- Efficiently and equitably address consumer issues and complaints as well as disputes between regulated entities.
- Maintain the safety and reliability of the power sector.
- Ensure regulated entities are operating prudently through ratemaking processes.
- Evaluate utility performance and assess any incentives and penalties.
- Determine reasonable market-based return on equity (new equity investment) subject to potential incentive adjustment.
- Support and integrate renewables, distributed generation, and new energy technologies as appropriate.
- Establish mechanisms providing for the efficient and reasonable enforcement of final orders and determination.





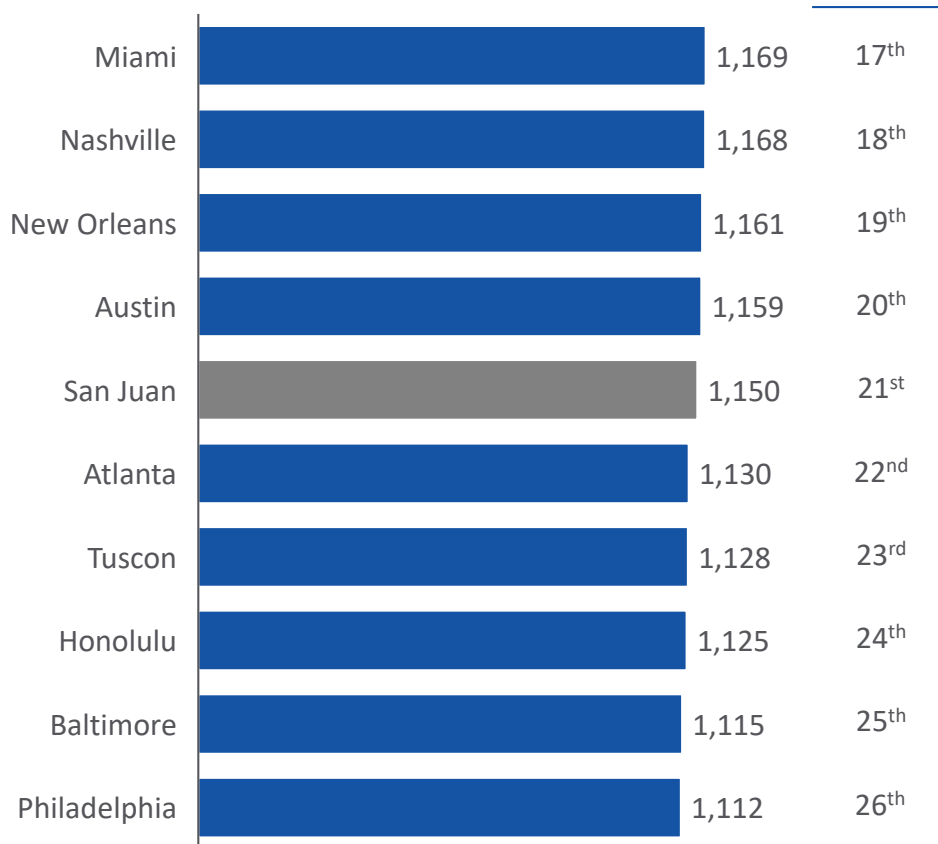
# INFRASTRUCTURE DELIVERY AND MOBILITY REFORM



## Urban congestion remains a serious issue in San Juan, costing the average commuter \$1,150 annually, on par with Atlanta, Miami and other congested cities

Annual cost of congestion per auto commuter by Metropolitan Statistical Area (MSA)<sup>1</sup>

In \$'s, 2014



- The average automobile commuter in San Juan **experiences 43 hours of delay and wastes 24 gallons of excess fuel**
- This has led to **wasted costs of \$1,150 directly attributable to congestion** for every commuter, an amount on par with congested cities such as Austin, Atlanta and Honolulu
- Reducing these congestion costs, by improving urban mobility, is vital to improving the free flow of goods and commuters as to **promote economic development**

<sup>1</sup> Value of travel time delay (estimated at \$17.67 per hour of person travel and \$94.04 per hour of truck time) and excess fuel consumption (estimated using state average cost per gallon for gasoline and diesel)



## HTA will continue to implement high benefit-to-cost ratio solutions to manage congestion and positively impact economic recovery

### IMPLEMENT TRAVELER INFORMATION SYSTEMS

- Further Develop HTA's capability to provide real-time traveler information to major roadways in the San Juan – Caguas – Gurabo corridor, including:
  - Install Additional Intelligent Transportation Systems (ITS) field devices which allow HTA to provide real time information to the traveling public.
  - Utilize real-time data to provide roadside messaging and alerts to the traveling public
  - Support enhanced performance management through traffic data consolidation and analysis, and utilize congestion data to inform future capital investments
- Improve traveler alert capabilities with the inauguration of HTA's traffic management center and improvement of integrated capabilities

### ENHANCED INCIDENT MANAGEMENT

- Improve efficiency of incident clearing by integrating services with Police and EMS on major roadways
- Facilitate expedited incident clearance (towing, patch and debris clearing) in high traffic corridors.

### ELECTRONIC TOLL SYSTEMS

- Invest in improvements to traffic signaling hardware and software
- Consider the expansion of lane control and dynamic merge control to ease traffic during commuting hours, construction projects, and for special events w/ use of reversible lanes.
- Explore use of Active Traffic Management, including variable speed limits, shoulder use, and dynamic restrictions to improve efficiency of current highway networks

### IMPROVE CONGESTION MANAGEMENT INFRASTRUCTURE

- Optimize toll collection systems to improve traffic flow on major toll roads, increase compliance and improve revenue capture.
- Reduce reliance on toll plazas in favor of overhead tolling, decreasing labor costs and improving rate of travel



## Congestion Management Projects as a Priority for HTA (1 of 2)

- HTA continues to invest in congestion management through innovative technology and key infrastructure investments. HTA recognizes that effective congestion management will contribute to Puerto Rico’s economic recovery.
- HTA prioritizes congestion management within Capital Improvement Programs based on cost/benefit analysis which include economic impact on a project-specific basis, but has not conducted the econometric studies required to estimate impact on the Island’s overall GNP.

### ESTIMATED COMPLETION

#### PR-52 TRAFFIC MANAGEMENT CETER

#### Collect incident and traveler information and marshal resources to manage congestion:

- Facility will house EMS, Police of P.R., PRHTA – Traffic Management and Freeway Operations, and Public Services Center
- Center will continue data collection practices in place since Jan 2016
- 100% Federally Funded

December, 2018

#### PR-66 INTEGRATED TRAFFIC INCIDENT MANAGEMENT FACILITY

#### Facilitate quicker responses to incidents:

- Facility will house EMS, PRHTA, Police of P.R., and Public Services
- 100% Federally Funded

October, 2018

#### PR-18/26/30/52 HIGHWAY SERVICE PATROL

#### Expedite resolution of roadway incidents safely:

- Implementation limited by independent contractors and regulatory issues
- Phase 1 started April 2017; Phase 2 (for PR-1/2/20) underway

May, 2018



# Congestion Management Projects as a Priority for HTA (2 of 2)

**ESTIMATED COMPLETION**

**PR-52/18/30/1  
CONGESTION  
MANAGED LANES  
DYNAMIC TOLLS  
REVERSEABLE  
LANES**

**Reduce congestion in major intersection in Caguas, enable public transportation and lane capacity management through variable toll rates:**

- \$148 M total investment in congestion management, funded with regular Federal funds. An Infrastructure for Rebuilding America (INFRA) discretionary grant of \$118M is currently pending. HTA is not currently considering this grant in its baseline projections, but if the grant is received it would allow for redirection of resources to other projects.
- The DTL project facilitates PR-52 Bus Rapid Transit Implementation
- Phases I-III (PR-52/18/1) Replaces and improves Reversible Contraflow Lane Replacement providing two lanes with shoulders up to PR-18.
- Phases III-V (PR-52/30/1) Bridge Construction (connecting PR-52 and PR-30) for congestion management lanes, facilitating seamless transfer from highway to high-traffic surface road.

**December, 2019  
PHASE 1 - 3**

**October, 2022  
PHASE 4 - 5**

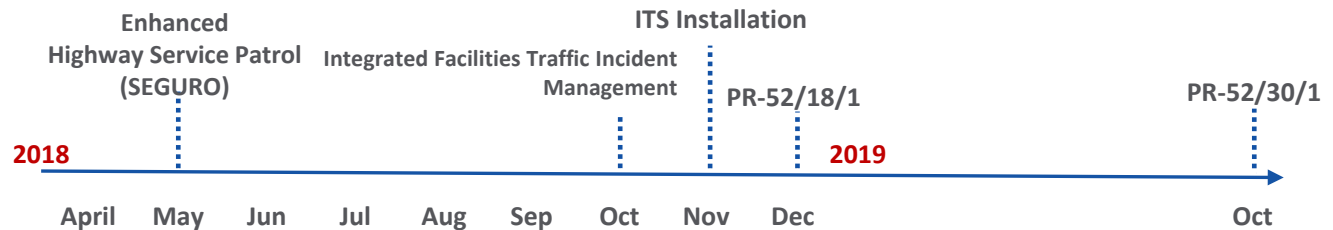
**PR-26 ITS  
DEVICES AND  
TRAVELER  
INFORMATION**

**Install Intelligent Transportation System(ITS) Devices to gather traveler information:**

- Closed Circuit Television (CCTV) cameras; Bluetooth (travel time and origin/destination); Microwave Vehicle Detection Systems (MVDS) (speed and volume); Fiber Optics; and Dynamic Message Signs (DMS) (traveler communication) – a first in Puerto Rico

**November, 2018**

**CONGESTION  
MANAGEMENT  
COMPLETION  
TIMELINE (SELECT  
INITIATIVES)**





## Infrastructure reform and capital investment

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

### Infrastructure Priority per Federal Report



*Housing*



*Workforce  
Development*



*Health & Social  
Services*



*Governance &  
Civic Institutions*



*Electric Power  
system & Grid  
Restoration*



*Environmental  
Issues*



# EASE OF DOING BUSINESS



## Ease of Doing Business Critical levers to improve Puerto Rico’s ranking

By targeting structural reforms to problem indicators, the Government is addressing the issues with the most impact on Ease of Doing Business and Competitiveness. Current ranking is 64 out of 190. With the actions being taken, we are striving to be in the top 50 by FY23.

Key topics	Problem Indicator	Government Action
<b>DEALING WITH CONSTRUCTION PERMITS</b> Target 138 out of 190   87	<b>22</b> <b>Procedures:</b> Too many separate steps required to commence operation. <b>165</b> <b>Time (days):</b> 120 days (or 73% of the time) is due to evaluation in Municipal permits offices. <b>6.3</b> <b>Cost (% of value):</b> 80% of total cost is due to Municipal construction.	New Single Use Permit in place.  15 out of 19 autonomous municipalities have been integrated into the <i>Unified Information System</i> .  Municipal construction tax will be evaluated as part of Regionalization of Services initiative.
<b>REGISTERING PROPERTIES</b> Target 153 out of 190   95	<b>8</b> <b>Procedures:</b> 5 different entities intervene in the current process. <b>191</b> <b>Time (days):</b> 180 days (or 94% of time) is due to delays in the Property Registry Agency. <b>14</b> <b>Quality Index:</b> Limited geographic coverage and transparency of information.	<p><i>Modernize the property registry by leveraging the use of technology through a public - private partnership.</i></p>
<b>PAYING TAXES</b> Target 161 out of 190   99	<b>16</b> <b>Payments:</b> Federal, state and municipal taxes through different agencies. <b>218</b> <b>Time (hours):</b> 158 days (or 69% of time) is due filing of corporate and sales tax to Hacienda. <b>63</b> <b>Total Tax Rate:</b> 30% of total tax due to municipal inventory and license taxes.	<p><i>Tax Reform will provide a more simplified tax structure to facilitate compliance and reduce administrative burdens.</i></p> Municipal construction tax will be evaluated as part of Municipal Regionalization initiative.
<b>GETTING ELECTRICITY</b> 69 out of 190   59	<b>4</b> <b>Reliability of supply and transparency of tariff index (0 – 8):</b> Improve grid, regulatory framework and partnerships with the private sector.	<p><i>Will be Implemented as part of PREPA’s Transformation Plan</i></p>

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





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

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

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

### Analysis to Date:

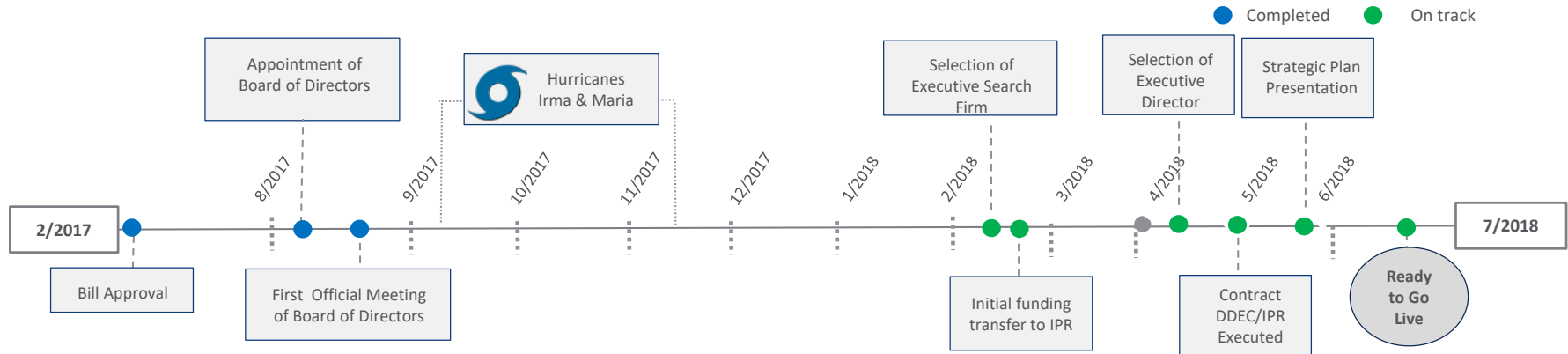


### Objectives of Program:





# Operationalizing IPR and DMO will increase foreign investment potential in the economy



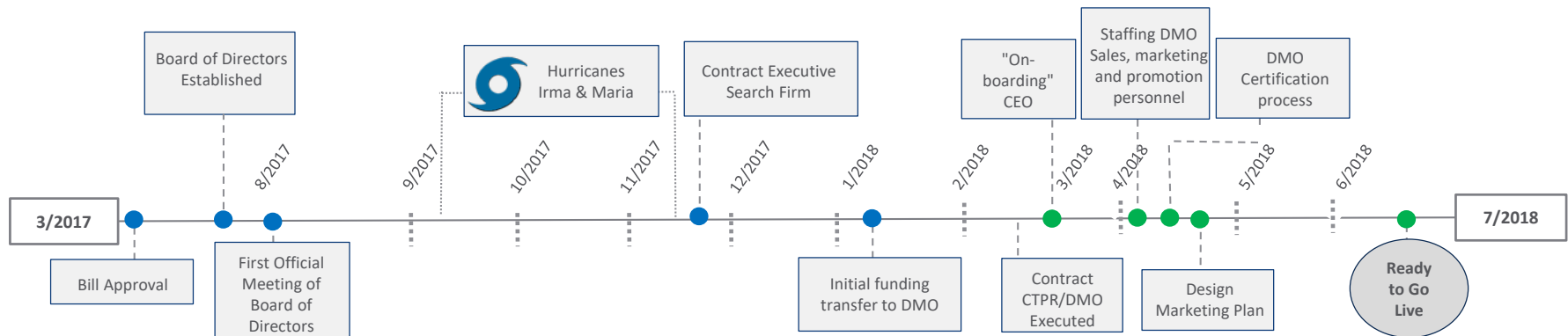
### Achievements:

- Election of certain officers of Invest Puerto Rico.
- Approval by the Board of Invest Puerto Rico Corporate By-Laws.
- Approval by the Board of the Collaboration Agreement between DDEC and Invest Puerto Rico.
- Approval by the Board of the Fiscal Sponsorship Agreement with Foundation for Puerto Rico.

### Key Performance Indicators:

- New business formation / expansion / closure
- New jobs created / retained / lost
- New capital investment
- Incentives provided & Return on Investment

## Destination Marketing Organization (DMO) – Timeline



### Achievements:

- Election of certain officers of Invest Puerto Rico.
- Approval by the Puerto Rico DMO Corporate By-Laws.
- Contract executive search firm and project manager to established DMO.
- Operating Funds Transfer from CTPR to DMO.

### Key Performance Indicators:

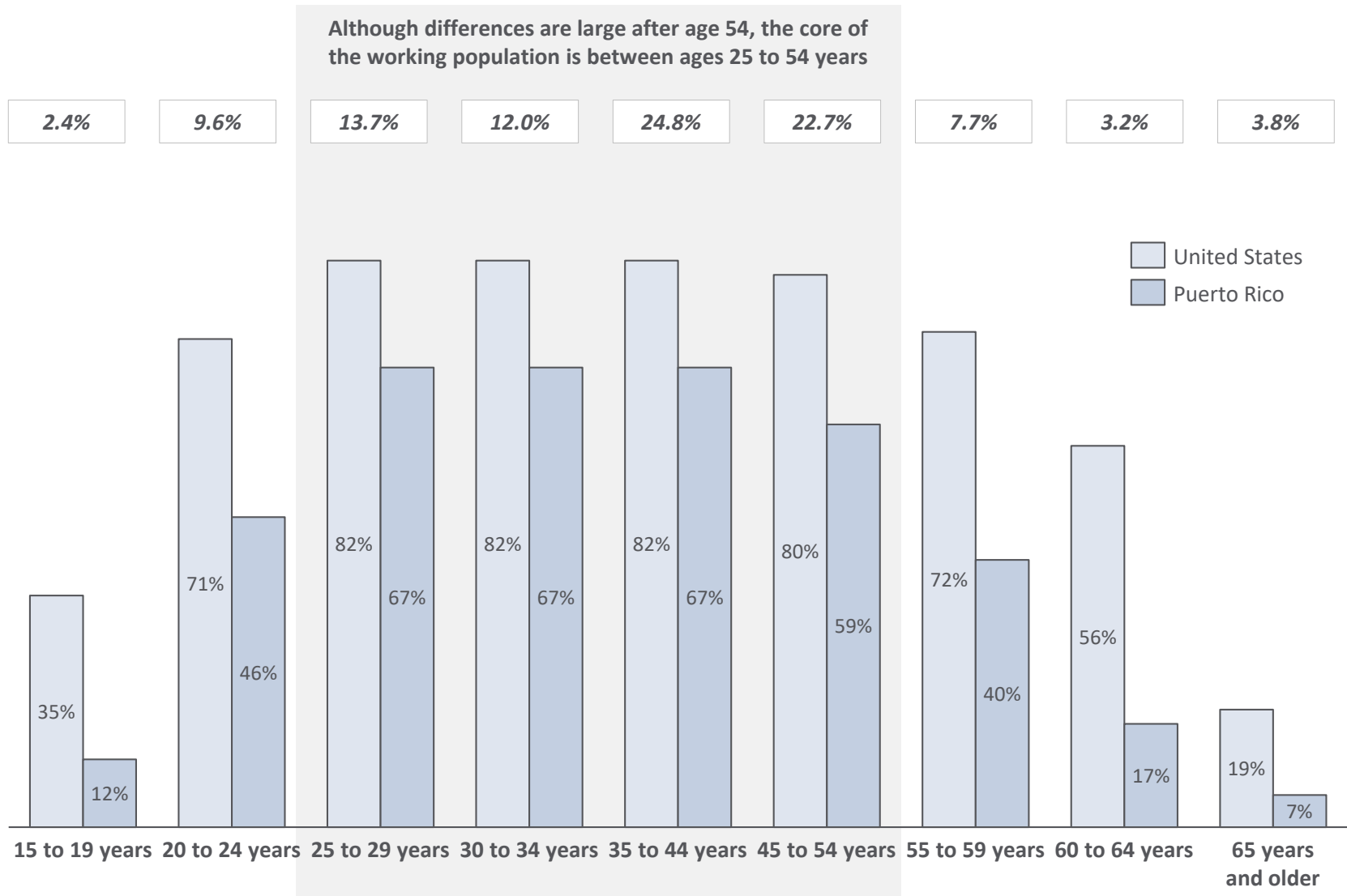
- Tourism GDP contribution
- Number of inbound visitors, source, length of stay, average spend on-island
- Visitor satisfaction ratings
- Occupancy rate, ADR, number and type of accommodations



# HUMAN CAPITAL



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





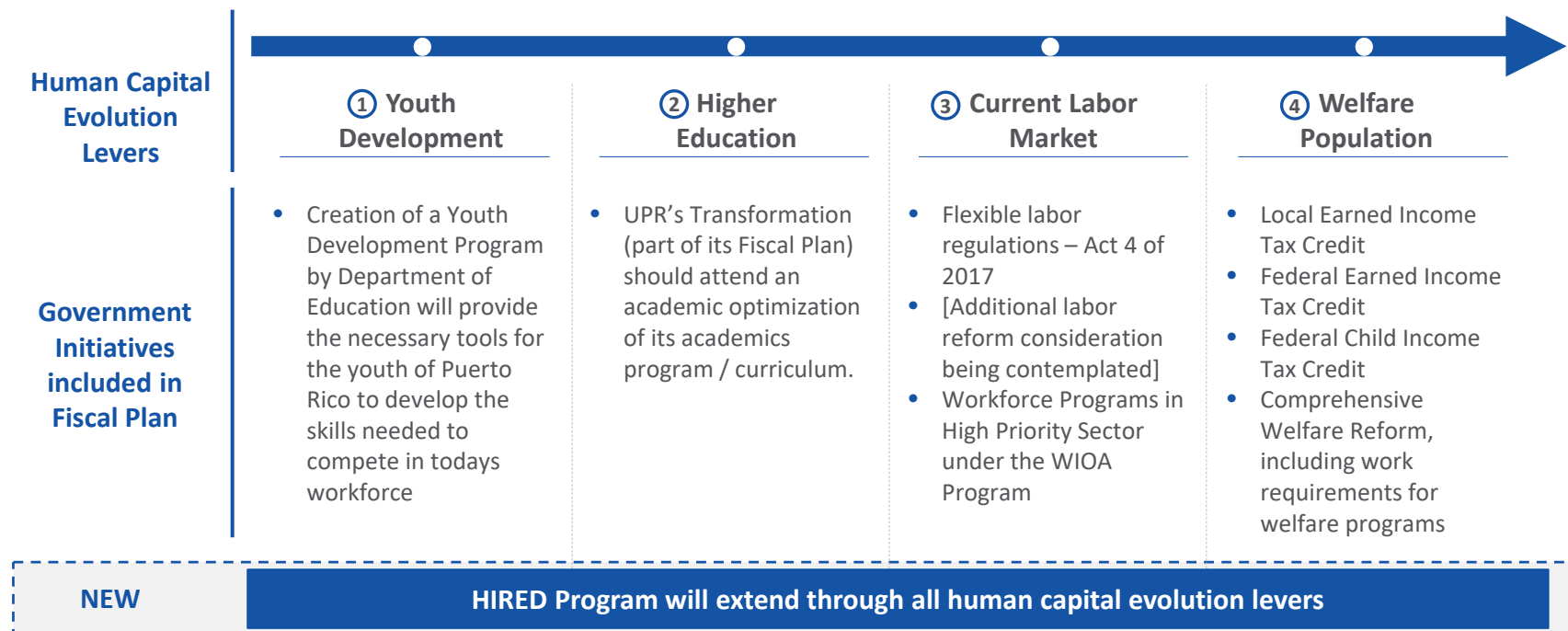
## The Government has already made substantial changes (through Act 4 of 2017) to reduce labor law restrictions that have made it costly to do business and contributed to the low labor participation

CATEGORY	BEFORE ACT 4	PUERTO RICO LABOR TRANSFORMATION AND FLEXIBILITY ACT (ACT 4-2017) IN JANUARY 2017
<b>Workweek</b>	5-day workweek	Permits 4 day workweeks, with 10-hour workdays
<b>Workday</b>	The normal workday - 8 hours over a 24-hour period	The normal workday – 8 hours in a calendar day.
<b>Overtime rule</b>	Work on a Sunday was considered overtime	Work on a Sunday is no longer considered overtime unless working time exceeds eight hours for the day or 40 hours for the week
<b>Overtime rate</b>	Companies covered by local overtime law had to pay 200% of pay for overtime.	Overtime pay is standardized at 150% of pay for normal working time
<b>Christmas Bonus eligibility</b>	700 hours	1,350 hours
<b>Christmas Bonus level</b>	6% of pay for companies with 20 or more employees	Reduced to 2% of pay for companies with 20 or more employees
<b>Paid/sick leave requirement</b>	The minimum number of working hours to qualify for paid vacation and sick leave is 115 hours per month	The minimum number of working hours to qualify for paid vacation and sick leave is 130 hours per month
<b>Probationary period</b>	3 months	Automatic 9 month period, for new hires. Bonus is half the statutory amount during 1st year of employment
<b>Severance pay</b>	2, 3 or 6 months' basic salary plus 1, 2 or 3 weeks' pay per year of service (respectively)	3 months' salary plus 2 weeks' pay per year of service up to nine months' salary



## Long-term Human Capital Reform focused on stimulating both the demand and supply sides of the labor market

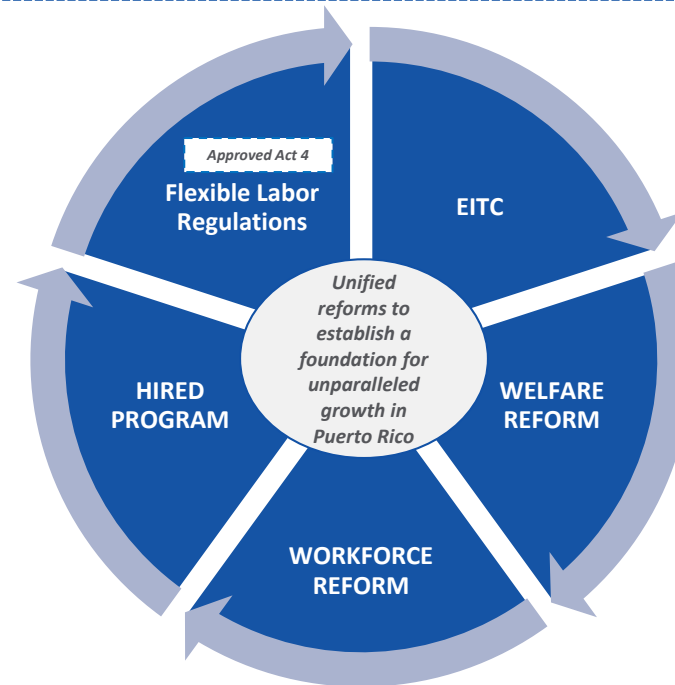
- The Human Capital Reform seeks to create a thriving private sector that can provide jobs for the residents of the island and an intelligent welfare structure that works as a safety net for the most vulnerable segment of the population while supporting and encouraging their return to the formal workforce.
- Employer directed measures of Act-4 of 2017 reduce the economic and legal burdens that may slow or discourage job creation.
- The Government (through the Department of Labor, Department of Education, and the Department of Economic Development and Commerce) is working with existing and new programs that can promote an increase in labor participation.
- Most of the reforms are heavily driven by statutory changes. Some of these amendments, however, are at the Federal level. Due to Puerto Rico’s status, any change at this level will require direct assistance from the FOMB with Congress.
- A new program named the **Human Impact Reform and Economic Development Program (“HIRED”)** seeks develop the supply of talent and incentivize the demand for high-impact jobs which will support Puerto Rico’s labor market transformation.





## Human Capital initiatives will provide Puerto Rico's workforce the required skills to be competitive in the ever changing global economy

The Government's transformational agenda calls for major changes to Puerto Rico's stock of human capital with five levers:



- The Human Capital Reform seeks to create a thriving private sector that can provide jobs for the residents of the island (i.e. boost employment demand) and an intelligent welfare structure that works as a safety net for the most vulnerable segment of the population while supporting and encouraging their return to the formal workforce (i.e. promote supply of workers).
- Employer directed measures of Act-4 of 2017 reduce the economic and legal burdens that may slow or discourage job creation.
- The Government (through the Department of Labor, Department of Education, and the Department of Economic Development and Commerce) is working with existing and new programs that can promote an increase in labor participation. Additionally, the Government will work with local partners to identify additional programs and services that could benefit from increase collaboration.
- Most of the reforms are heavily driven by statutory changes. Some of these amendments, however, are at the Federal level. Due to Puerto Rico's status, any change at this level will require direct assistance from the FOMB with Congress.



## Transformation of government in Puerto Rico will incorporate improvements to Human Capital

### The Government's transformational agenda calls for major changes to Puerto Rico's stock of human capital in at least three ways:

1. The reconstruction effort has already created a significant demand for mainland and international consultants because the supply within Puerto Rico is constrained and for the most part, inexperienced in key areas of governance and development. This supply shortage will quickly expand downwards as the infrastructure construction program overwhelms local construction markets, in particular the needs for engineers, managers, computer operators, and financial analysts.
2. The medium and long-term development model calls for shifting Puerto Rican skills sets up the value chain and creating a knowledge ecosystem. At the top end, Puerto Rico needs fewer civil servants. The ones they have need to have the skills that the governor's core team already has, but now spread across all government ministries and agencies. This includes being able to make, draw on, and use evidence-based policy. The knowledge economy growth strategy similarly means that the private sector has to be able to draw on a large, disciplined, and smart labor force. Many firms will bring in their own core workforce and they should be encouraged to, but Puerto Ricans should be in a position to compete vigorously for those positions as well. Ultimately, coupled with civil service reform, this could decrease Puerto Rico's reliance on external firms.
3. Functional illiteracy and innumeracy rates are reported to be high. If these are leading causes of poverty now, unless redressed during reconstruction they will be even more damaging to the job prospects for the poor of the future.





## Comprehensive approach to improving the human capital in Puerto Rico

### Treating Knowledge as a Sector

A financial risk analysis of the overall knowledge sector would help give the macro landscape of where the binding constraints on education lie. They could then establish a pipeline of skill sets where rising demand is coming through (economists, IT, engineers) - with graduate programs for private and public sectors in areas of key demand/need. As with any other sector, it is highly likely that there are cross-cutting regulatory and incentive barriers to building a healthy knowledge sector.

### Human Capital Development Fund

Assuming that some of the binding constraints include access barriers, a human capital development fund using reconstruction funds could be structured to include broad-based educational access. Two potentially useful ideas would be: (i) partial revolving fund that would let people borrow for tuition but not begin repayments until they had a job; and (ii) link concessionary interest rates on student loans to staying on the island, with full market rates taking over for people who move away.

### High Quality Universities and Training Institutes Would Generate Income and Revenue

Puerto Rico potentially serves two enormous markets – a North American market, and the Latin American markets, both of which are already sending students overseas for high quality tertiary education. However, while the national university has an ok reputation already (at high cost and inefficiency), Puerto Rico’s potential attractiveness for both becoming a “winter” campus for top universities and for high quality, professionally certified institutes seems badly under-exploited. Convincing top quality universities to open Puerto Rican campuses could have big payoffs, including to IT and knowledge firms looking also co-locating nearby.

### Vocational Education

Vocational education should be fully private. But given Puerto Rican’s ability to migrate to the mainland where there is huge demand for mechanics, skilled construction workers, programmers and the like, enabling incentives such as student loan programs and corporate tax vouchers for bona fide workforce training could be explored. These will be particularly useful for absorbing the reconstruction workforce as that flush of money ebbs and local demand for skilled and semi-skilled labor drops off.

### Guarantee minimum service quality standards for education (and health) to every municipality in the island

As part of school consolidation, municipal and civic leaders should have a credible message that the quality of education will be upgraded and sustained through a new, community level compact made directly with the Governor. The core of this compact would be minimum quality standards for school infrastructure, fully equipped primary through secondary classrooms now included in the recurrent budget, and, most of all, upgraded education and certification standards for all teachers, with online, public information on performance.



## The EITC is a key tool of the Welfare Reform

- The EITC is a benefit for working people with low to moderate income. To qualify, people must meet certain requirements and file a tax return, even if they do not owe any tax or are not required to file. EITC reduces the amount of taxes people owe and may result in a refund. After the welfare reform in 1996, the EITC has become the cornerstone of U.S. anti-poverty policy in the United States. It has refocused the U.S. safety net on working families; dramatically increasing employment among single women with children; and removing more children from poverty than any other program.
- The proven benefits of implementing an EITC are:
  - Increased labor force participation → a critical factor in the long term sustainability of Puerto Rico
  - Poverty reduction
  - Increase in tax filings
  - Transition from an informal to a formal labor force
  - Decrease in welfare dependency, especially for single mothers

### Local EITC

- No Federal EITC contemplated
- Requires local legislation
- Structure mirrors the Federal model, but adjusted to Puerto Rico median
- Average credit per person: **\$525.30**
- Refundable

Sources: Center on Budget and Policy Priorities (2016). Policy Basics – The Earned Income Tax Credit. Updated October 2016; Hoynes Hilar (2014); A Revolution in Poverty Policy; The Earned Income Tax Credit and the Well-Being of American Families. Pathways Summer 2014; Center on Budget and Policy Priorities (2016). Policy Basics – The Earned Income Tax Credit. Updated October 2016; Haskins, Ron (2006). Welfare Reform, Success or Failure? It Worked. Policy & Practice. The Brookings Institution. March, 2006.

Note: Projections made using PR taxable year data from 2015 and Federal EITC rates for 2015



## Federal vs. Local Earned Income Tax Credit Comparison

	Federal	Local
<b>Earned income</b>		
Defined as wages, tips and other compensation includes in gross income	✓	✓
Earned income includes net self-employment income	✓	✓
More than half of income must come from wages (w-2) for eligibility to EITC credit		✓
<b>Income not considered earnings</b>		
Pensions including Social Security	✓	✓
Annuity Income	✓	✓
Income of non residents aliens not from a U.S. business	✓	✓
Income earned while incarcerated for work in prison pension	✓	✓
TANF benefits	✓	✓
<b>Investment income</b>		
Limit in investment income	Up to \$3,450	Up to \$1,934
Interest Income	✓	✓
Dividends	✓	✓
Net Rent	✓	✓
Net Capital	✓	✓
Net Passive Income	✓	✓
Royalties	✓	✓



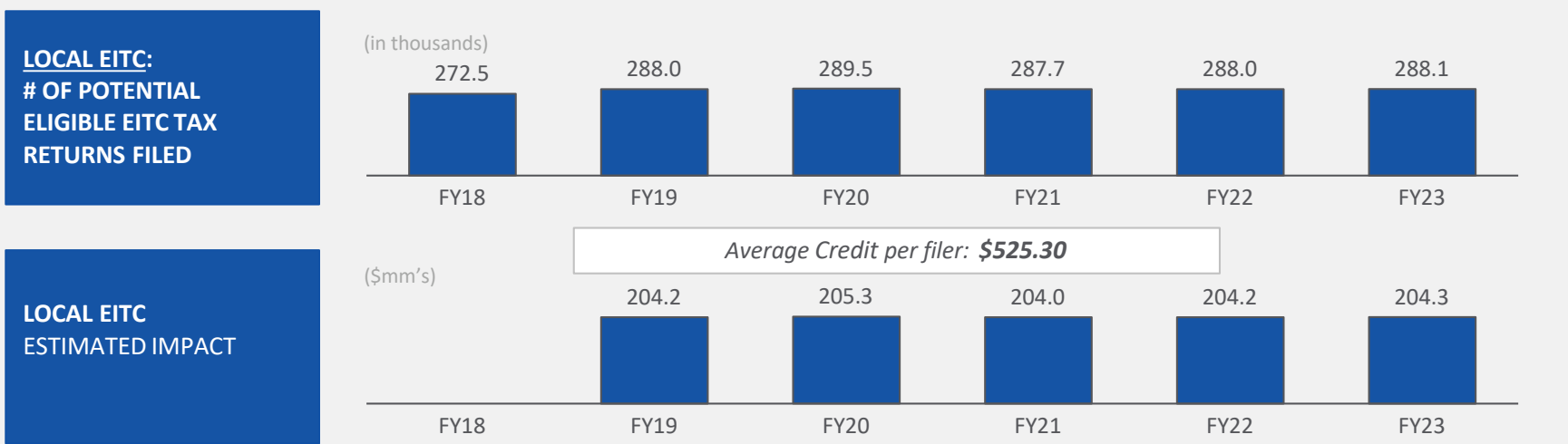
## Local EITC for Puerto Rico has simple phase-in and phase-out formula for beneficiaries and results in average tax credit of \$525.30 per person

### Local EITC Tax Parameters

- The EITC provides a tax refund beginning with the first dollar earned, increasing as income increases at the “phase-in rate” (up to the maximum credit) until it reaches the phase-in maximum.
- Between the phase-in and phase-out thresholds, the EITC rate is held constant.
- Once income reaches the phase-out threshold, it begins diminishing at the phase out rate until it is cut off entirely.
- The EITC provides different benefit parameters depending on household characteristics (e.g., number of children, married/single)

Number of Children	Phase-in	Phase-in rate %	Phase-out Start	Individual/Single	Married	Maximum Credit
0	6,000	5.00%	18,000	20,500	21,750	<b>300</b>
1	12,000	7.50%	13,000	20,500	24,250	<b>900</b>
2	15,000	10.00%	16,000	28,500	34,750	<b>1,500</b>
3 or more	16,000	12.50%	17,000	33,500	42,000	<b>2,000</b>

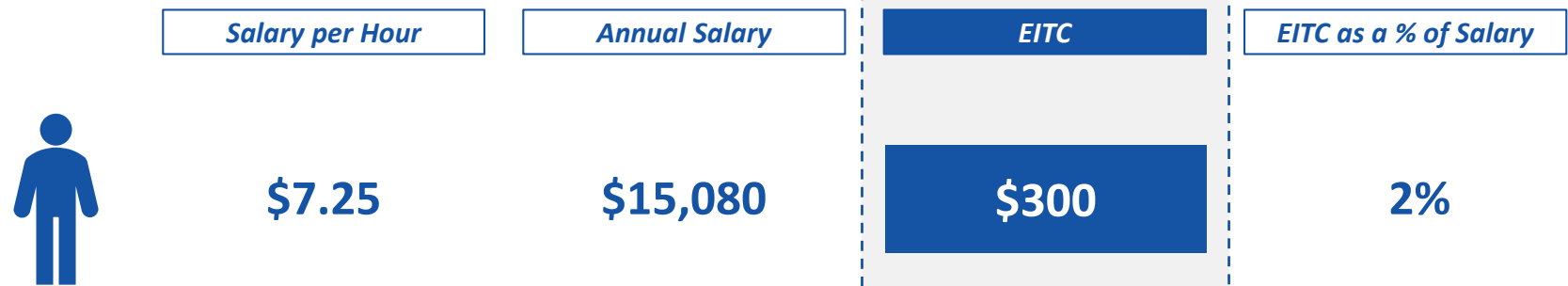
**Local EITC Cost:** An estimated 288,000 individuals are estimated to be eligible to receive the EITC beginning in FY19, costing \$204M





## Local EITC Case Study

### Single Individual, No Children, Working Full Time



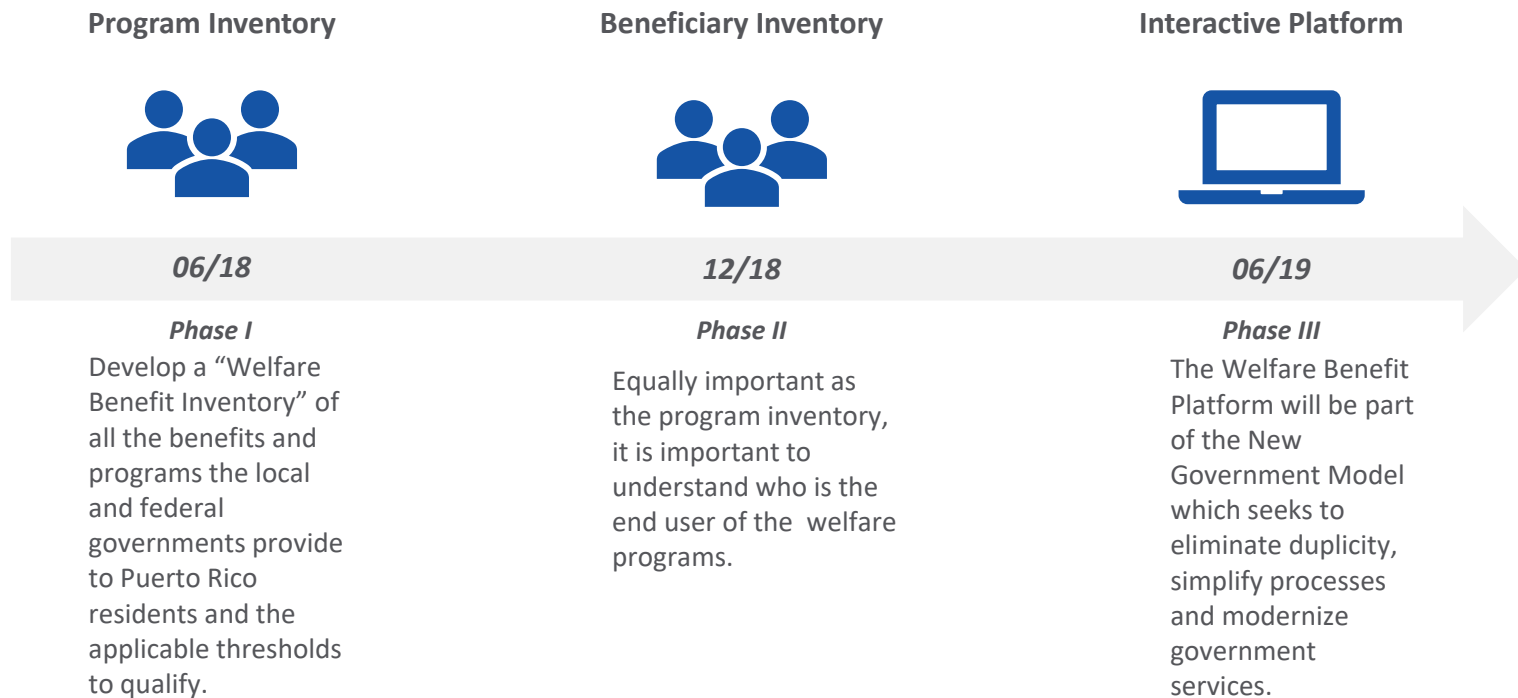
### Married, Three Children, Working Full Time





## Comprehensive Welfare Reform

- It is imperative to assess the welfare structure. Ultimately, it must provide reasonable protection to vulnerable parties, while promoting self-sustainability (i.e. entrepreneurship and re-entry into the workforce).



**Digitization of benefit application and eligibility reviews, consolidation of processing centers, and process improvements could reduce costs associated across all agencies with welfare benefit programs.**



## Initial Welfare Benefit Inventory

Federal Programs		Local Programs
Nutrition Assistance Program (“PAN” for its Spanish acronym)	Temporary Assistance for Needy Families (“TANF”)	Food Bank (donations from Dept. of Education)
Economic & Social Development Opportunities Program	Low Income Household Energy Assistance Program	Subsidized Housing
Child and Adult Care Food Program (“CACFP”)	The Emergency Food Assistance Program (“TEFAP”)	Mi Salud
Section VIII Vouchers	Low-Income Housing Tax Credits	Subsidized Utilities
Child Care	Head Start	
Lifeline (Cellphone subsidy)	<i>Other Unemployment benefits</i>	



## The Workforce Reform will produce skilled workers for key industries that are poised for growth

### What is WIOA?

#### Public Law 113-128 Workforce Innovation and Opportunity Act of 2014 (WIOA)

- WIOA seeks to help job seekers and workers access employment, education, training, and support services to succeed in the labor market and match employers with the skilled workers they need to compete in the global economy.

#### WIOA Governance

- The Governor is the Grantee of the WIOA funds.
- Some of the Governor’s responsibilities include:
  - State Agency Designation
  - State Workforce Development Board (SWDB) Appointments
  - Criteria for Local Workforce Development Board (LWDB) Member Appointments
  - Policy and Guidance
  - Designation of Regions and Local Areas
- Governing bodies that establish State, Regional and Local Workforce Investment Priorities:
  - WIOA business-led, state and local workforce development boards. The boards roles are: coordinating and aligning workforce programs and developing strategies to meet worker and employer needs.

### Workforce Development System

#### Local Areas

- The Workforce development system consists of fifteen (15) local areas.
- Each of the local areas, through the one-stop comprehensive centers and affiliated sites provide employment and training services under the Adult, Dislocated Workers and Youth and the Employment Service programs.
- Each local area has one-stop career center (also known as American Job Center) service delivery system and core programs:
  - WIOA Title I (Adult, Dislocated Workers and Youth formula programs);
  - Adult Education and Literacy Act (Department of Education);
  - Wagner-Peyser Act employment services administered by DOL; and
  - Rehabilitation Act Title I programs administered by Department of Education.

#### Budget

#### Program Year 2017-2018

- Puerto Rico received \$84.9mm for Program Year 2017-2018, of which \$68.3mm (80%) were delegated to the local areas. The remaining 20% (\$16.5mm) is destined for administration, projects development (statewide funds/reserve), and rapid response services.

### Workforce Reform Implementation

#### Key tasks and new initiatives aligned with the Fiscal Plan

- Unified State Plan: Modification to focus the programs and incentives to high-priority sectors, and to include the vision contained in the fiscal plan and public policy (Q1)
- Cross-training with DDEC/PRIDCO to integrate WIOA program with the broader promotional efforts of DDEC. (Q1 and Q2).
- Promotion of the state’s labor system reform through legislation. (Q2).
- MOU Agreement with the Puerto Rico Department of Labor and Human Resources to establish the Apprenticeship Program, aiming to impact innovative industries and post-María labor market needs. (Q2).
- MOU Agreements:
  - UPR to professionalize the public servants that implement WIOA’s policies and procedures, according to EO2017-021 (Q1). Status: Submitting the training needs to the UPR for them to issue a proposal;
  - High-skilled industry clusters and hi-priority sectors. Status: Aerospace Cluster will share the industry’s needs for us to design an initiative under the Governor’s Reserve (funds available to implement the administration’s public policy). (Q1 and Q2).





## Considerations and initial proposed work requirements for the NAP Program

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

### WORK REQUIREMENT CONSIDERATIONS FOR NAP

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

### IMPLEMENTATION OF A REVISED NAP ANNUAL PLAN

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

### INITIAL PROPOSED WORK REQUIREMENT STRUCTURE FOR NAP

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

#### What qualifies as work?

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



## Marshall Plan for Talent – Michigan Case Study

On February 22, 2018 the state of Michigan unveiled the Marshall Plan for Talent; a broad plan to train Michigan residents for high-demand, high-wage careers that will power the state’s economic future.

- To implement the plan, Michigan is proposing a \$100mm investment over a five year period in the following areas:

Program	Concept	Investment
Youth Development	<ul style="list-style-type: none"> <li>Marketing campaign to woo students to study in Michigan</li> </ul>	\$10mm
	<ul style="list-style-type: none"> <li>Grants for STEM related programs (Cybersecurity education, Robotics)</li> </ul>	\$5mm
	<ul style="list-style-type: none"> <li>Training K-12 teachers to teach computer science and IT courses</li> </ul>	\$10mm
Higher Education	<ul style="list-style-type: none"> <li>Curriculum development grants for colleges and universities focused on the IT industry</li> </ul>	\$15mm
	<ul style="list-style-type: none"> <li>Michigan IT &amp; Computer Science Promise Scholarship<sup>1</sup></li> </ul>	\$15mm
	<ul style="list-style-type: none"> <li>One-time grant for capital costs associated with adding more computer science and IT classes</li> </ul>	\$15mm
Current Labor Market	<ul style="list-style-type: none"> <li>Subsidize cost of child care for IT workers</li> </ul>	\$15mm
	<ul style="list-style-type: none"> <li>IT job apprenticeship programs that target underemployed workers and unemployed individuals</li> </ul>	\$10mm

(1) – Scholarship to provide up to \$750 per year for two years in “last dollar tuition assistance” for students enrolled in a computer science or IT credential program



## Proposed HIRED Program Snapshot

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

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

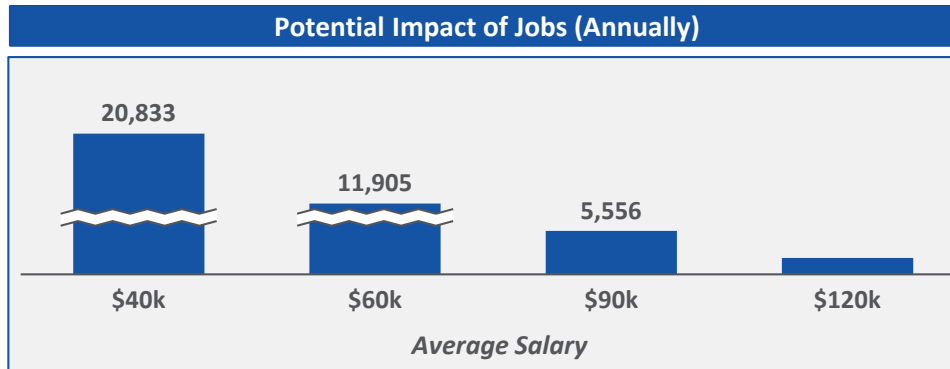


## Proposed HIRED Program: Tactical Economic Development Cash Incentive

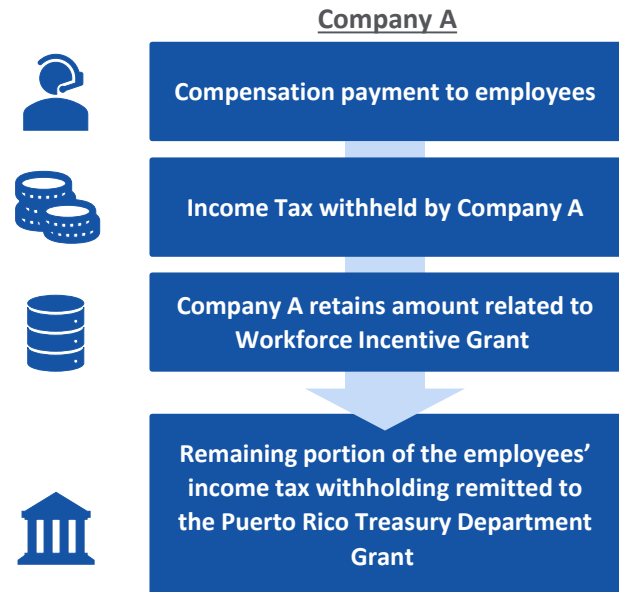
*The workforce incentive grant would be eligible for new positions created by companies. The incentive would be structured up to 20% of the annual salaries payable up to \$120,000 per full time employee amortized for 10 years.*

### Incentive Mechanics:

Salary Level	Effective Tax Rate	Proposed Incentive
Less Than \$40,000	6.66%	6.00%
\$40,000 to \$60,000	6.20%	7.00%
\$60,000 to \$90,000	10.77%	10.00%
\$90,000 to \$120,000	16.57%	15.00%
\$120,000+	26.05%	20.00%



- For large companies with over 1,000 employees, the ability to secure payment of cash incentives is key. The following flow of funds for the Workforce Incentive Grant is proposed:



- The proposed incentive are geared towards the following business characteristics:



Large Business



High Impact Industries



Exports



Service Industry



## Marshall Plan for Talent – Additional Considerations



### World-Class Curricula

- Provide World-Class Curricula grants to schools that collaborate with businesses to create and develop classes and programs that do not exist, or fill in gaps in existing classes, for high-demand career.

Part of UPR's scholarship proposal. Identify key industries.



### Competency Based Certification

- Programs such as the Cisco Networking Academy – a partnership between Cisco and schools – provide skills training and certification exam preparation for in-demand IT careers. The courses and credits earned as part of the academy transfer to many colleges and universities.

Similar program contemplated in Dept. of Education



### Professional Equipment Grants

- Grants will be offered to schools that partner with employers that match funds and provide critical technical expertise in high-demand career fields, so students can learn on the same state-of-the-art equipment and technology businesses use.

Part of UPR's scholarship proposal. Identify key industries



### Competency Based Education

- Support early-adopters to transform their schools to a competency-based education style so students learn the way they naturally learn, at their own pace. Using their own interests, in hands-on engaging projects.

Dept. of Education consideration



### University Partnerships

- Collaborate with the world's best universities to provide ongoing evaluation of program progress, develop curricula and support the Future Talent Council.

Collaboration between Dept. of Education and UPR contemplated



### Future Talent Council

- Bring businesses into the fold with the new Future Talent Council, a group of employers, policymakers and educators that will meet every year to determine which skills and credentials are in high-demand now and in the future.

Possible collaboration with InvestPR



### Cybersecurity Opportunities

- Offer incentives for increasing the number of students with skills and credentials to pursue careers in the emerging field of cybersecurity.

Part of UPR's scholarship proposal. Identify key industries.



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

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



### Create Occupational Opportunities

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



### Develop Skills for the Global Economy

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



### Prepare for Minimum Employment Requirements

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



### Establish Adult Courses

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



### Teachers and Students Obtain Certifications

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



### Establish Business and Entrepreneur Programs

Provide students the education to promote small business creation.



### Work Based Learning

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



### Collaborative Agreements with Companies

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



# APPENDIX



# APPENDIX | REBUILDING PUERTO RICO





## BBB: Sources of funds by category

BBB \$94.4bn by Category	
Housing	\$ 31,068,532,671
Power Grid and Resiliency	\$ 17,789,375,000
Health and Healthcare	\$ 14,946,507,962
Agriculture	\$ 2,076,500,000
Social Services	\$ 288,262,193
Economic Development	\$ 3,194,677,600
Communications Infrastructure	\$ 1,500,000,000
Roads and Bridges	\$ 4,497,725,000
Ports and Airports	\$ 1,345,700,000
Public Building Revitalization	\$ 153,100,000
Water and Water Control Facilities	\$ 1,280,822,003
Sanitary Sewer and Storm Drainage	\$ 1,409,716,413
Education and Schools	\$ 8,413,208,822
Environment and Natural Resources	\$ 1,581,050,000
Public Safety and First Response Coordination	\$ 486,990,571
Long-Term Recovery Management and Coordination	\$ 9,000,000
Cost-share	\$ 4,358,445,905
<b>Grand Total</b>	<b>\$ 94,399,614,140</b>



# APPENDIX | PATH TO STRUCTURAL BALANCE



## Projections on disaster spend pass through are estimated at 12% via a variety of methodologies

Estimating pass-through of disaster relief funds to the economy is a difficult task. It depends on myriad factors, many of which are uncertain. For one, different types of funding have different pass-through rates: relief given to an individual is more likely to hit the local economy in a more direct way than that given to a contractor, regardless of whether that contractor is Puerto Rican or from the mainland. In addition, it heavily depends on the local capacity to absorb that spend: the more contracts that go to Puerto Rican contractors or suppliers, the more funds will hit the local economy (as very few funds that go to mainland providers will likely flow through to the Puerto Rican economy). Additionally, for highly specialized projects such as PREPA/ PRASA rebuilding, it is likely the majority of workers will be from the U.S. mainland, as will many of the specialized materials/ tools needed for these types of projects.

To counter this uncertainty, multiple approaches were used to size the impact of disaster spending on the economy:

**Step 1: Analyze contracts on the ground. To estimate the value of capital that impacts the Puerto Rican economy directly, we looked at contracts from proposed projects post-hurricane:**

- For public assistance, a PREPA contract was used to estimate that ~10% of spending for the contract would impact economic activities on the island whereas the remainder would be used on labor and imported materials
- Maintenance and repair of projects related to individual assistance (e.g., housing) has less specialized requirements and can expect a larger pass-through. Examining the economic benefit estimated in a public housing contract from direct labor and business activity ~17% of estimated spending will hit the economy.

Taking a weighted average of these numbers based on assumed proportion of disaster spend that is individual versus public assistance provides an estimate of ~12% for pass-through. While not used in our final calculations, this 12% number is supported by the fact that ~18% of total contracts to date have been granted to Puerto Rican companies.

**Step two: Validate with historical FEMA reports:**

We looked at historical FEMA spending between public and individual assistance estimated pass-through via different spend categories. This first estimate resulted in a projected 12.5% pass-through which has been refined to reach the current estimate of 12% described above. The first methodology, looked at previous breakouts of FEMA spending to approximate how much would be allocated to Public Assistance, for which we assumed the passthrough would be 10% based on a released PREPA contract, and how much would be allocated to Individual Assistance, for which we assumed a higher passthrough rate (15-20%). When we excluded FEMA Administrative and Mission Assignment costs, we found that about one-third has historically been obligated to Individual Assistance, with the rest being obligated to Public Assistance and Hazard Mitigation. Based on this historical data, we reached an approximate pass-through of 12.5%

**Step three: Validate supply-side capacity:**

We looked at the history of the construction sector in Puerto Rico and the size of the spending over time. From 1999, \$2.3B is the peak of the value the construction sector added to GNP, in 2016, the number was projected to be \$1.0B, yielding an “output gap” of ~\$1.3B. Based on our pass-through of 12%, the maximum impact of disaster spend on the economy is \$1.1B, occurring in 2018, on a total disaster spend (incl. private insurance) of \$9.4B. While these numbers do not match exactly, the average impact from FY18-FY23 is ~\$1.0B/year, and the island’s immediate capacity to support construction spending domestically is smaller than it was in the pre-Recession downturn (loss in population, sell-off of construction-related assets, etc.)



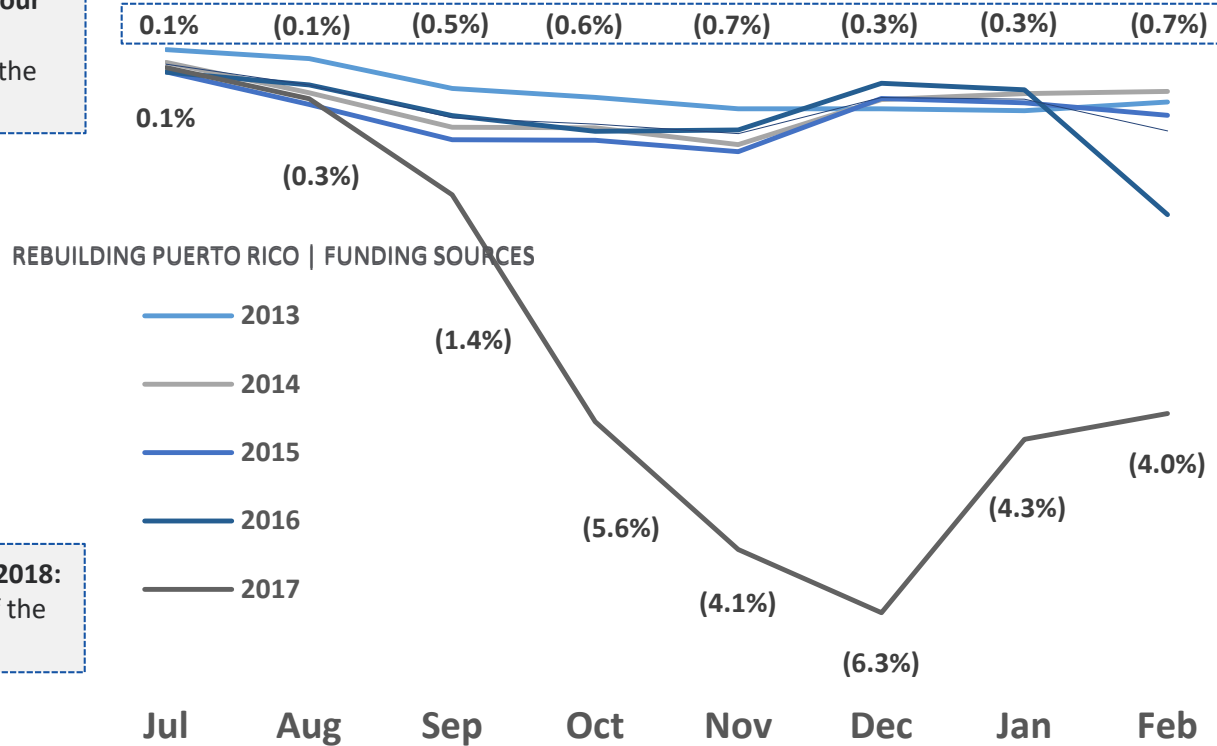
## Three months after Hurricanes Irma and Maria, Puerto Rico has experienced a net migration of 132,327 people, or approximately 4.0% of the population<sup>1</sup>

- The storm has dramatically accelerated the outmigration pattern of prior years.



### Accumulated Net Departures

Average Total – Last four years - July to Feb (24,882) or (0.7%) of the population.



Total July 2017 to Feb 2018: (132,327) or (4.0%) of the population.

<sup>1</sup>Analysis based off of the tracking of incoming and outgoing passengers from the Luis Munoz Marin International Airport. Data is preliminary and subject to revision. Part of the negative trend might be reversed as people who temporarily left after the Hurricanes return to Puerto Rico. Population statistics were obtained from the Census Bureau.



## Financial Projections Methodology – FY 18 to 23

Category	Methodology
<b>1</b> Macroeconomic Assumptions	<ul style="list-style-type: none"> <li>■ Quantify acceleration of population decline due to reduced GNP from Hurricane Maria.</li> <li>■ Layer in positive impact of disaster relief spend on GNP.</li> <li>■ Reflect impact of fiscal policy on GNP.</li> </ul>
<b>2</b> Baseline Revenue	<ul style="list-style-type: none"> <li>■ Build from FY17 and YTD FY18 actual results, normalized for non-recurring items.</li> <li>■ Discount revenues for remainder of FY18 forecast at post-hurricanes trend, with the exception of Act 154, non-resident withholdings, rum and cigarette taxes, which are projected separately.</li> <li>■ FY19 – FY23 projected using appropriate macroeconomic derived growth factors.</li> </ul>
<b>3</b> Baseline Expense	<ul style="list-style-type: none"> <li>■ Built from FY18 budget normalized for non-recurring items.</li> <li>■ FY18 budget is adjusted for known assumption differences.</li> <li>■ Reconciliation adjustment removed from the projected period.</li> <li>■ FY19 – FY23 projected using appropriate macroeconomic derived growth factors.</li> </ul>
<b>4</b> Revenue Measures	<ul style="list-style-type: none"> <li>■ Detailed assumptions listed in “Government Transformation” Section.</li> <li>■ Determine and incorporate fiscal impact of new policy decisions.</li> <li>■ Impact of measures is layered over baseline.</li> </ul>
<b>5</b> Expense Measures	<ul style="list-style-type: none"> <li>■ Detailed assumptions listed in “Government Transformation” Section.</li> <li>■ Determine and incorporate fiscal impact of new policy decisions.</li> <li>■ Impact of measures is layered over baseline.</li> </ul>
<b>6</b> Component Units	<ul style="list-style-type: none"> <li>■ Individual projections for 13 independently forecasted major component units.</li> <li>■ Update information and utilized Certified Fiscal Plan approach for remaining component units.</li> </ul>
<b>7</b> Capex	<ul style="list-style-type: none"> <li>■ Assumes total maintenance capital expenditures of \$400 mm in FY18, (including capital expenditures related appropriations to HTA and UPR) grown annually by inflation. Investment capex included in disaster relief spend build up.</li> </ul>
<b>8</b> Pension	<ul style="list-style-type: none"> <li>■ AAFAF actuaries provided updated analysis of pension funding requirements based on latest actuarial reports and consideration of new laws.</li> </ul>
<b>9</b> Disaster Relief	<ul style="list-style-type: none"> <li>■ Determine spending priorities and timing.</li> <li>■ Size potential capital need based on level of Federal funding and working capital needs.</li> <li>■ Identify external funding sources and internal funding requirements.</li> </ul>



## Act 154

### Overview

- 1 The FY18 baseline reflects actual revenue through February 2018 and feedback from top 10 Act 154 payers (representing ~92% of total Act 154 revenue) for remainder of the year
- 2 For FY19 – FY23 two discounts are applied cumulatively to the Act 154 base to account for the risk of Act 154 payers reducing production, transferring patents, and leaving the island due to the impacts of Hurricane Maria, federal tax reform, future creditability and patent expirations
  - The gradual, persistent deterioration through FY22 reflects the view that it will take a major player at least 1 – 2 years, if not longer, to move production facilities
  - While the 2017 Fiscal Plan contemplated corporate tax reform measures to “replace” lost Act 154 revenue, due to the current post-Federal tax reform landscape the Draft Fiscal Plan does not consider offsetting measures

### Comparison of 2018 Fiscal Plan to 2017 Fiscal Plan

	(FY, \$ in millions)	2018	2019	2020	2021	2022	2023	Total
Draft FP	Act 154 base	\$1,761	\$1,761	\$1,761	\$1,761	\$1,761	\$1,761	\$10,564
	Production decline	–	(3.4%)	(9.9%)	(16.0%)	(21.7%)	(21.7%)	<i>n.a.</i>
	Loss of Act 154 payers	–	(1.0%)	(2.0%)	(10.0%)	(20.0%)	(20.0%)	<i>n.a.</i>
	<b>Act 154 post Federal tax reform</b>	<b>\$1,761</b>	<b>\$1,683</b>	<b>\$1,551</b>	<b>\$1,303</b>	<b>\$1,026</b>	<b>\$1,026</b>	<b>\$8,351</b>
2017 FP	Act 154 base	\$2,075	\$2,075	\$2,075	\$2,075	\$2,075	\$2,075	\$12,450
	Act 154 / foreign co. tax losses	(519)	(1,038)	(1,038)	(1,038)	(1,038)	(1,038)	(5,706)
	Corporate tax revenue measure	519	788	688	838	938	1,038	4,806
	<b>Act 154 post-measures</b>	<b>\$2,075</b>	<b>\$1,825</b>	<b>\$1,725</b>	<b>\$1,875</b>	<b>\$1,975</b>	<b>\$2,075</b>	<b>\$11,550</b>
<b>Difference</b>		<b>(\$314)</b>	<b>(\$142)</b>	<b>(\$174)</b>	<b>(\$572)</b>	<b>(\$949)</b>	<b>(\$1,049)</b>	<b>(\$3,199)</b>



## Non-resident withholdings

### Overview

- 1 The NRW baseline is delineated between payers that are also subject to Act 154 and those that are not. Approximately 73% of the NRW base are also Act 154 payers.
- 2 The group that overlaps with the Act 154 payers is held constant, similar to the Act 154 base, and then a discount factor is applied to capture risk associated with a major Act 154 payer leaving the island or patents expiring
- 3 The remaining NRW revenue base is projected to grow at Puerto Rico nominal GNP

### Comparison of 2018 Fiscal Plan to 2017 Fiscal Plan

		<b>(FY, \$ in millions)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Draft FP		Non-resident withholdings	\$530	\$552	\$573	\$595	\$617	\$639	\$3,507
		Discount for Act 154 correlation	–	(1.0%)	(2.0%)	(10.0%)	(20.0%)	(20.0%)	
		<b>Non-resident withholdings</b>	<b>\$530</b>	<b>\$538</b>	<b>\$541</b>	<b>\$516</b>	<b>\$482</b>	<b>\$485</b>	<b>\$3,093</b>
2017 FP		<b>Non-resident withholdings</b>	<b>\$666</b>	<b>\$650</b>	<b>\$647</b>	<b>\$644</b>	<b>\$646</b>	<b>\$652</b>	<b>\$3,905</b>
		<b>Difference</b>	<b>(\$136)</b>	<b>(\$112)</b>	<b>(\$105)</b>	<b>(\$128)</b>	<b>(\$164)</b>	<b>(\$167)</b>	<b>(\$812)</b>

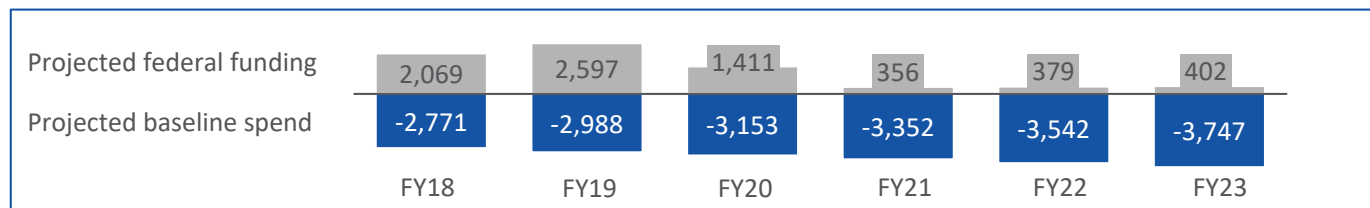


## Deep-dive: projected baseline Medicaid spending and federal funding

- Medicaid spending is projected to increase substantially by FY23, driven primarily by high healthcare cost inflation that offsets projected decline in Medicaid enrollment.
- Federal funding received will cover most Medicaid costs in the near-term, but funding gap returns in FY20.

	FY18 <sup>1</sup>	FY19	FY20	FY21	FY22	FY23	Total
<b>Expenditures: Projected Costs</b>							
PMPM Cost Inflation		7.1%	7.1%	7.1%	7.1%	7.1%	
Enrollment Change		-0.9%	-1.3%	-0.5%	-1.2%	-1.1%	
Medicaid MCO Cost	2,662	2,877	3,041	3,240	3,429	3,633	
Platino Cost	29	29	29	29	29	28	
Other Medicaid Costs <sup>1</sup>	80	81	82	84	85	86	
<b>Total Mi Salud</b>	<b>\$2,771</b>	<b>\$2,988</b>	<b>\$3,153</b>	<b>\$3,352</b>	<b>\$3,542</b>	<b>\$3,747</b>	<b>\$19,554</b>
<b>Revenues: Projected Federal Funds</b>							
Existing funds (ACA, Omnibus) <sup>2</sup>	483	-	503	-	-	-	
Net Federal Matching Funds <sup>3</sup>	294	183	334	356	379	402	
Supplemental Funding <sup>4</sup>	1,291	2,415	574	-	-	-	
<b>Total Federal Funds</b>	<b>\$2,069</b>	<b>\$2,597</b>	<b>\$1,411</b>	<b>\$356</b>	<b>\$379</b>	<b>\$402</b>	<b>\$7,214</b>

- Items to note**
- Healthcare costs are projected to increase based on normal healthcare inflation, plus an additional hurricane-related factor.
  - Population is projected to decline based on:
    - Island population decline, currently projected at approx. 5% by FY23 (over FY18), but effects are lagged by 1 year due to emigrants remaining on Medicaid rolls.
    - Adjustment of proportion of population on Medicaid due to Hurricane Maria.
  - Supplemental funding assumed to be 100% reimbursement for federally-eligible populations from Jan-18 to Sept-19.



<sup>1</sup> Including admin costs

<sup>2</sup> Assumes all other federal funds are deferred until supplemental funding time frame expires Sept. 30, 2019

<sup>3</sup> Standard FMAP funds, net of FQHC and PRDH Medicaid Operations funding. Assumes federal funds are deferred until supplemental time frame expires Set. 30, 2019

<sup>4</sup> Total \$4.8B allocated to Puerto Rico by Continuing Resolution passed in February 2018. Eligible spending retroactive through January 2018 and expires September 2019





## Commonwealth Title III and restructuring expenses vs. other large restructurings

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

	Date filed	Outstanding debt	Total fees and expenses	Fees to funded debt %
American Airlines	Nov. 2011	11,000,000,000	391,637,858	3.56%
Washington Mutual, Inc.	Sep. 2008	8,000,000,000	271,085,213	3.39%
Sabine Oil & Gas Corp.	Jul. 2015	2,800,000,000	78,553,223	2.81%
Residential Capital, LLC	May-12	15,000,000,000	409,321,308	2.73%
Edison Mission Energy	Dec. 2012	5,000,000,000	96,244,628	1.92%
Caesars Entertainment Operating Company	Jan. 2015	18,000,000,000	258,278,005	1.43%
Energy Future Holdings Corp.	Apr. 2014	40,000,000,000	450,110,233	1.13%
Lyondell Chemical Company	Jan. 2009	22,000,000,000	205,932,292	0.94%
City of Detroit, Michigan	Jul. 2013	20,000,000,000	177,910,000	0.89%
<b>Puerto Rico *</b>	<b>2017</b>	<b>112,784,961,000</b>	<b>1,032,343,196<sup>1</sup></b>	<b>0.91%</b>
Lehman Brothers Holdings Inc.	Sep. 2008	613,000,000,000	956,957,469	0.16%

### Summary Statistics

Avg.	1.96%
Max	3.56%
Min	0.16%
Med	1.68%

\*Puerto Rico outstanding debt excludes PREPA and PRASA debt. Includes pensions unfunded liability of \$48.8b – same comparison with the debt outstanding of the City of Detroit (included Pensions)

<sup>1</sup> This number represents a six year projection of expenses including FOMB advisors and Other Court Approved Professionals, but excluding FOMB non-Title III expenses of \$430mm.



# APPENDIX | GOVERNMENT TRANSFORMATION



## Voluntary Transition Program

The purpose of the Voluntary Transition Program (“VTP”) is to provide eligible public service employees the opportunity to voluntarily resign in exchange for transitional benefits for a period of time.<sup>1</sup> This program has been established to help employees who may want to seek opportunities outside the government while also providing the benefit of reducing public spending in the long term. Outlined below is a review of key economic terms related to the VTP.

### VTP SECTION

### SECTION DESCRIPTION

#### SECTION 3: ELIGIBILITY

- VTP is available to Executive branch employees of the Government, who maintain regular status and whose salaries are not paid with federal funds.

#### SECTION 4: ECONOMIC INCENTIVE

- Employees will receive their salary through 6/30/18 in accordance with the customary payroll periods.
- Employees eligible for retirement benefits from the Employees Retirement System of Puerto Rico (“ERS”) may accept the economic incentive and receive their retirement annuity beginning on 7/1/18.
- Employees participating in the Hybrid program of ERS will receive a match of their contributions within 12-months of 7/1/18.

#### SECTION 6: VACATION & OVERTIME

- Employees are eligible to receive owed vacation and overtime pay, in accordance with Act No. 26-2017, to be paid within 12-months of 7/1/18.

#### SECTION 7: HEALTH PLAN INCENTIVE

- Employees are eligible to receive a \$100/month stipend towards healthcare costs from the month succeeding their resignation through 6/30/18.

#### OTHER KEY TERMS

- VTP enrollment period will commence on 11/15/17 and conclude on 3/15/18.
- Employees are not eligible to return to the Executive Branch of the Government for a 10 year period.

<sup>1</sup> Review “ORDEN ADMINISTRATIVA OA-2017-05” for definitions, exceptions, procedural terms, and other relevant information regarding the Voluntary Transition Program.



## Single Employer Program

The purpose of the Single Employer Program (“SEP”) is to position the Government as a sole public service employer and establish the concept of mobility for public service employees. SEP guarantees employment for public service employees and provides the Government with an opportunity to reallocate resources more efficiently.

### SEP SECTION

### SECTION DESCRIPTION

#### EXPLANATORY STATEMENT

- SEP authorizes mobility of employees across the Government in order to avoid lay-offs of employees.
- All Government employees are no longer employed by individual agencies. The Government is now recognized as the single employer of the public sector.

#### SECTION 2: PUBLIC POLICY STATEMENT

- Government will act as the centralized function of human resource activity.
- Government will review and access job descriptions, job classifications, and compensation to create greater transparency and uniformity across the Government.

#### SECTION 6: HUMAN RESOURCE MANAGEMENT

- External recruitment for vacant positions is not permitted unless all internal human resource options are exhausted.
- SEP will act as a vehicle to enable the government transformation by allowing the Government to more efficiently allocate resources across the new Government structure.
- Peripheral benefits such as increased revenue from improved employee production or increased attrition from dislocated employees was not measured for conservatism.
- SEP mobilization plans will be aligned with right-sizing efforts as opportunities are identified to place employees in areas of greater need within the Government.



## The Department of Education will undertake a comprehensive transformation (1/2)

	FY18	FY19	FY20	
<b>RESTRUCTURING</b>	<b>Rightsizing</b>	~ 300 school closures; optimize student enrollment; i.e. revised organizational structure at Central level		New sustainable financial model
	<b>Break Unitary System</b>	Establish regional super intendencies	New law to formalize new regional structure; formal administrator preparation program implemented	Merit based Regional Leadership selection system; priority given to allocation of resources to schools
	<b>Educator Evaluation System</b>	Revised evaluation tools in collaboration with teachers and directors to increase buy-in and foster culture of positive feedback	Full implementation of evaluation system with consequences for noncompliance; evaluation of administrators for first time	Ongoing revision of evaluation tools with engagement of stakeholders; create merit based rewards system and career ladders
	<b>School Leadership Academy</b>	Identification of school-level management and leadership issues; analysis and review of existing PD options	Design and implement school leadership academy; implementation of supervision practices (temp); creation of new supervision structure	Cohort 2 Implementation; ongoing assessment of impact; pay for performance strategies
	<b>Teacher Professional Development</b>	Reduce PD topics and focus on core practices that leverage past experience; provide access to online resources to support direct instruction complementary practices	Continued focus on strategies. Incorporation of new training on PRI & RTI to support special education students; introduce training in content areas	Continued focus on core practices to ensure continuity; identify new focus areas based on results of teacher evaluation
<b>ACADEMICS</b>	<b>Bilingual Programs</b>	Plan and launch 50 new bilingual schools across the island	Strengthen implementation and explore additional grade levels. Train additional teachers. Identify and address areas of improvement	Expansion of program, and an increase of fluency in English. Diversify strategies such as student exchange programs
	<b>STEM Programs</b>	Planning focused on middle school level	28 Middle school STEM labs. Certification of 400 middle school teachers. 1 <sup>st</sup> STEM Expo	Additional STEAM labs and regional STEM expos. Expansion of program into high school level
	<b>PBL Implementation</b>	Development of instructional resources and training	Training and implementation. Partnership with private schools	Redesign of traditional classroom settings. Incorporation of new performance assessments
	<b>Special Education</b>	Survey and engage community; identify focus areas; develop workplan based on community interest; analyze costs and administrative practices	Implementation of improvement strategies based on workplan; focus on integration; development of new service models and options for services; budgeting based on actual needs	Revise and refine evaluation criteria and process; assess improvements in service quality, and transition/exit rates



## The Department of Education will undertake a comprehensive transformation (2/2)

		FY18	FY19	FY20
INFRASTRUCTURE	Technology	Purchase 12,000 devices and assessment of school level connectivity issues. Comparison to effective systems.	Additional purchases and development of systems to ensure effective support/customer service. Provide online access to resources such as courses, libraries and databases.	Develop fiscal plan for ensuring developing of necessary infrastructure; increase opportunities for learning outside the traditional classroom.
	Facilities	Conduct review and analysis of current practices; identify best practices and apply to PR. Engage CGSC.	Create mentor program and develop capital planning budget and new managerial structure. Creation of real estate portfolio management strategy.	Conceptualization of reconstruction projects.
HOLISTIC	Social Emotional Wellness	Create program portfolio to address identified issues; develop central level plans to provide structure and expectations of services. Development of parent and community engagement strategies. Integrate character and value focus into academic projects.	Oversee, evaluate and manage structures and procedures that facilitate delivery of services and greater family and community engagement. Implementation of character and value based programs to improve school atmosphere.	Gather data to demonstrate improvements in school atmosphere; increase consistency and quality of service delivery.
	Discipline and Atmosphere	Identify weaknesses; create new protocols; engage experts; develop new plan to support use of restorative discipline.	Revise discipline programs and promote increased use of restorative practices. Launch of training programs.	Improved coherence of implementation of new practices across the system. Expand impact of SEM efforts. Indicators reported and tracked to inform policy and investment decisions.
ACCOUNTABILITY	Coherence in the System	Engagement of universities, NGO and other stakeholders to align efforts across stakeholders in the education system and promote coherence in use of funds.	Continued collaboration with stakeholders; revise teacher certification policies and preparation programs. Increase opportunities for dual enrollment for students and advanced placement courses.	Ongoing development of teacher preparation and K16 programs; revision and update of K12 standards.
	Data Driven Decisions	Design and implement new data and reporting formats. Enforce data entry requirements. Train data coaches to create differentiated lessons.	Annual evaluation of administrators using achievement data. Requirement to use evidence to inform policy decisions.	Consistent and comprehensive use of data and evidence driven policy development; open data policy.



## Corrections Facility Optimization – Why an Out-of-State Program is the option?

The Government has identified 11 out of the 35 total adult population facilities being considered for closure. The Out-of-State Program (lowers average per diem and minimal implementation costs) is the only viable option to achieve a high number of closures.

### Current facilities per diem is high

A thorough analysis was performed to identify the facilities that can be consolidated. Operational and economic factors were considered including, but not limited to, current use of the facility (“mission” or custody levels), occupancy, per diem, location, size, potential for monetization of the premises, etc. Only direct operational costs are contemplated in the before mentioned savings. Therefore, when considering a closure or consolidation of a facility the cost associated with that facility is direct. Current average per diem is \$95.62.

### Current facilities high occupancy

The current “occupancy rate” is approximately 87% (benchmark suggest around 90%), there are only 1,525 vacant beds in the system. In addition, there is an understandable segmentation of the population (maximum level, medium level, minimum level) that cannot be commingled, therefore the true available beds that could be utilized is much less. Assuming that all beds could be utilized (1,525) it is only half of the impact of what the Government is proposing through its “Out-of-State Program” (3,200).

### Officer to inmate not an accurate benchmark

The Government’s assessment concludes that there is an actual deficiency in staffing in several facilities – current overtime paid to officers is more than \$31 million annually. An officer-to-inmate ratio can be analyzed, but the benchmarks could be disproportionate since it depends highly on the facility efficiency and level of custody of each facility. Premises are archaic, lack modern technology and low capacity (many below 300 beds), resulting in operational costs substantially over benchmarks. Due to the atypical conditions of each facility, the prisons staffing needs are calculated on a facility by facility methodology as explained on slide 11.

### Development of a new facility is not an option

The Government does not believe that developing or retrofitting current facilities is financially viable. With the Government’s limited resources and financing capacity, it is not in a position to reconfigure its current correctional facility infrastructure. The recently announced State of Kansas controversial and expensive development of a new correctional facility (\$360 million for 2,400 inmates) is a good reference point.

### State-wide benchmark program

The Out of State Program is a nation-wide known program used by most states. The State of California has over 10,000 inmates through its Out-of-State Program, with an average per diem costs of less than \$60 per inmate. The Out-of-State program is utilized nation-wide to address population peaks and overcrowding of facilities, as well as to reduce higher per diem rates at state owned facilities.

### Realistic & well-designed program

The program will initially be a voluntary program with a priority given to entities that could operate in Puerto Rico, assuming a cost-benefit analysis is adequate. In addition, bidders for this program will be expected to provide the opportunity to train and become certified in vocational programs (plumbing, carpentry, heavy machinery operation, etc.) that would improve their probabilities to become employed upon their completion of their confinement.

A similar program was contracted in 2012 at a lower scale with approximately 400-460 inmates. The process of volunteer enrollment was very successful resulting in oversubscription of candidates with interest in the program. The consensus of inmates and immediate family was of satisfaction with the program.

The program was discontinued due to the lack of will of the past administration to consolidate facilities, therefore presenting a financial challenge to the DCR. The current administration is aware of the need to completely shut-down facilities, reduce general and administrative expenditures resulting from a reduced footprint and minimize operational cost through an efficient procurement process to contract services to serve the in-state remaining population.



## Facility Optimization & Externalization – Officer Staffing Methodology

### Staffing Methodology

DCR's Security Division determines and monitors prisons custody staff levels on a monthly basis. A monthly report is issued detailing the number of custody officers required at each facility together with the resulting excess or deficiency determined at the time of the calculation. In order to determine the ideal number of custody officers required, each facility has been evaluated to determine the number of posts required to be covered and the schedule of coverage. The number of posts is a function of the particular conditions of each facility (custody level, structure design, availability of electronic surveillance, etc.). Once the number and schedule of coverage is determined, a formula calculation is applied to determine the number of officers required at each facility. The formula takes into consideration a provision for officers' vacation time, sick days, and unforeseen absences.

### Fundamentals of the staffing methodology: Morales Feliciano vs Carlos Romero Barceló US District Court for the District of Puerto Rico (Case 79-4)

**The current methodology utilized to determine custody staff needs at prison facilities was derived from the Settlement Accord of the class action suit "Morales Feliciano vs. Carlos Romero Barceló" (Case 79-4) of the US District Court for the District of Puerto Rico. The Settlement Accord contains all the obligations that DCR must comply with in regards to all areas of the case which includes, among other, "staffing and security". Pertinent excerpts of the Settlement Accord are partially cited below.**

*1. This Settlement Accord, which the Court may consider as a form of consent decree, resolves all outstanding issues and claims for equitable relief regarding the conditions of confinement at any and all of the penal and/or correctional institutions within the Department of Corrections and Rehabilitation of the Commonwealth of Puerto Rico (hereinafter referred to as "DCR") which are the subject of this whole litigation...*

*2. This litigation, which has been ongoing since 1979, has generated over 1,300 Orders ...*

*4. This Settlement Accord contains all of the obligations that the Defendants must comply with in regards to all the areas of the case which are: access to courts; laundry services; classification; medical services; food services; admission cells; recreation; staffing and security; environmental conditions; crowding; visitation; and parole. The obligations set forth in this document are the product and result of a comprehensive and arms-length negotiation process between the parties and constitute the final agreement with regards to the equitable relief sought in this case...*

#### **Category 8: Staffing and Security**

*59. The parties recognize that adequate levels of staffing in DCR institutions, of custodial and civilian personnel, are essential to provide security, safety, access to medical services, access to courts, recreation and other essential services.*

*60. With regards to custodial officers, the parties have identified a current deficiency of 635 officers system-wide. The parties have also identified a yearly attrition rate of 250 officers. In order to reach adequate levels of staffing of custodial officers, Defendants will undertake and maintain a recruitment plan. Defendants will recruit, train and employ 400 new custodial officers yearly until the deficiency is satisfied. This will be achieved by holding two academies of 200 cadets each year.*

*61. Newly recruited custodial officers will be distributed throughout DCR institutions as needed. As an exception, any institution without a custodial officer assigned to distribute correspondence and inmate grievance forms will fill this vacancy as soon as possible.*

*62. Once the adequate level of correctional officers is reached, Defendants will continue yearly recruiting of officers in an amount, at least, comparable to the Case 3:79-cv-00004-PJB-AKJ Document 10195 Filed 12/13/12 Page 13 of 32 Morales Feliciano v. Fortuño Buset USDC-PR Civil No. 79-4 (PJB-LM) established attrition rate, so that adequate levels of staffing are maintained. This attrition rate will be reviewed yearly.*





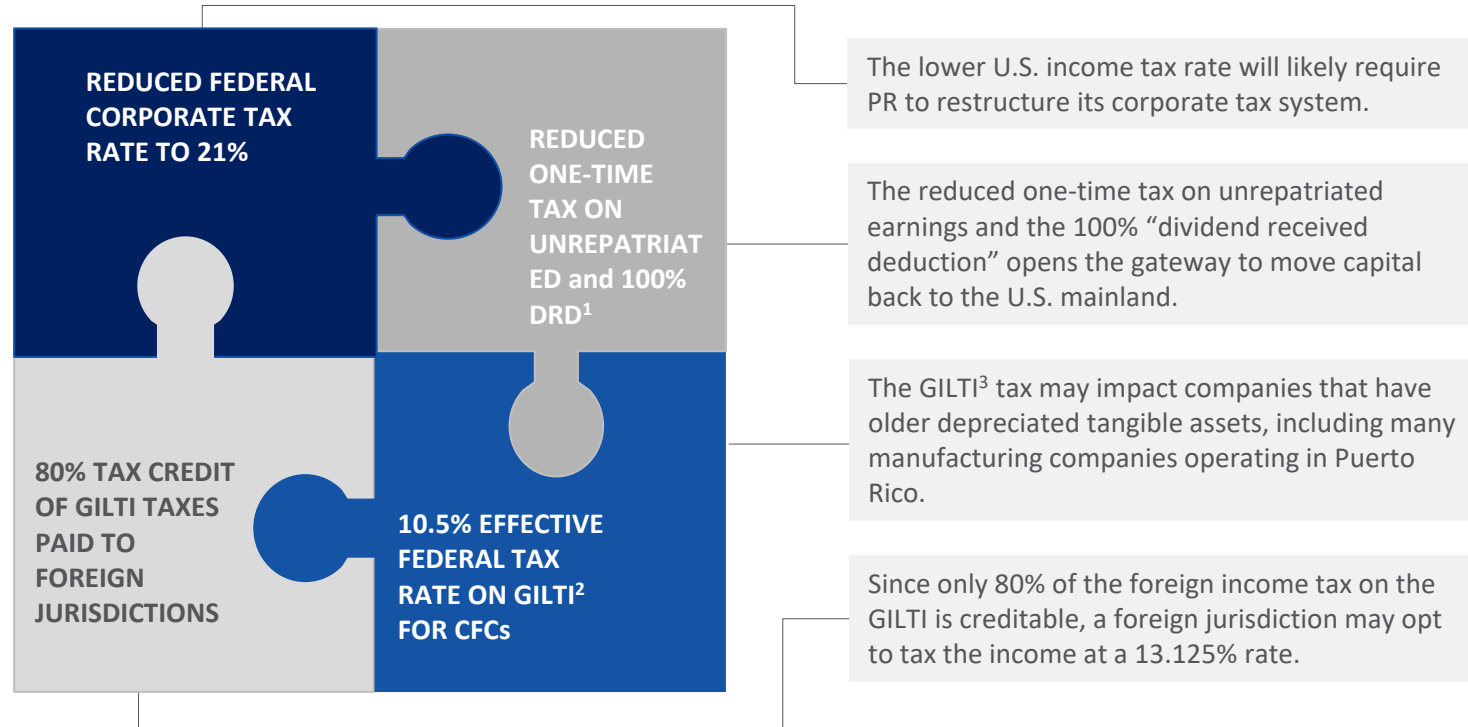
# APPENDIX | STRUCTURAL REFORMS



## US Tax Reform and its potential impact on Puerto Rico

The approval of the Tax Cuts and Jobs Act of 2017 (U.S. Tax Reform) requires that Puerto Rico redesign its corporate tax and incentives regime in order to remain competitive, protect ongoing business activities and attract new investment.

- The U.S. Tax Reform reduces the U.S. corporate income tax rate to 21%.
- In general, Puerto Rico is treated as if it were a foreign country for U.S. income tax purposes and, therefore, foreign subsidiaries of U.S. companies operating in Puerto Rico are subject to the new international U.S. tax rules that apply to operations conducted in other actual foreign countries.
- US multinationals are currently analyzing the impact of the US Tax Reform on their worldwide operations.



<sup>1</sup> Dividend Received Deduction

<sup>2</sup> Global Intangible Low-Taxed Income. The GILTI of a controlled foreign corporation (CFC) is income that exceeds a return of 10% of its depreciable assets and is currently taxed in the hands of the U.S.

<sup>3</sup> Parent at a rate of 10.5%



## Competitiveness and Ease of Doing Business – Permitting Reform

### Before -- Puerto Rico's competitiveness had been hampered by tedious, long, and bureaucratic permitting processes

- In 2009 Act 161 was passed that formed the Permit Management Office (OGPE). The purpose of this act and office was to combine and centralize all the permits as well as to expedite the process, create metrics, visibility and transparency.
- Currently, the approval time of a permit for a critical project is of approximately 155 days. The objective is for this to be streamlined and reduced to 35 days.
- A study referenced by the Puerto Rico Federal Affairs Administration concluded that obtaining a building permit involved 20 separate approvals.
- According to a 2017 World Bank ranking, Puerto Rico ranked 138 of 190 countries in issuing permits.

Type of Measure	Rank
Dealing with Construction Permits	138
Getting Electricity	69
Registering Property	153
Paying Taxes	161
Enforcing Contracts	113

**Note:** Rank from 1 to 190 where 1 is the best

**Source:** World Bank Group: Ease of doing business 2017

### After – The PR Government responds by passing the Permitting Reform Act (Law 19-2017) in March 2017\*

- Streamlines the permitting process for businesses to promote new investments, job creation, and economic development in the Island.
- Promotes economic development and reduces burdensome processes, turning Puerto Rico into an attractive destination for investment.
- Expedites and consolidates the process to obtain permits, certifications of fire prevention, environmental health licenses, and authorizations into one Single Permit.
- Increases Puerto Rico's competitiveness and places the island in a better position to attract foreign investment.
- Small and mid-sized businesses are now able to obtain the Single Permit automatically.
- Creates the Unified Information System, which integrates all requirements to do business in Puerto Rico into a single website (One Stop-PR Doing Business) and allows users to apply for both state and municipal permits and licenses online.

\* Currently in one year implementation process. Full impact of reform expected after 2Q 2018.



## Partnering with the private sector to promote economic development with the DMO and InvestPR will produce better results and ensure continuity

**Puerto Rico's tourism marketing is now in the hands of a more specialized private sector entity, the destination marketing organization (DMO), through the approval of Act 17 of 2017**

- The DMO will maximize the use of available marketing funds by investing strategically and providing continuity to marketing and promotional efforts.
- The DMO will be self funded with income from the industry through casino revenues, room taxes, and others.
- The entity was incorporated in June 2017, and its thirteen Board members were named. The DMO is now able to receive donations, establish and collect reasonable fees for its services, develop a sponsorship program for private funding, and formalize cooperation agreements with governmental and non-governmental organizations.

**To promote private sector investment and growth on the island, Invest Puerto Rico was created through the approval of Act 13 of 2017\***

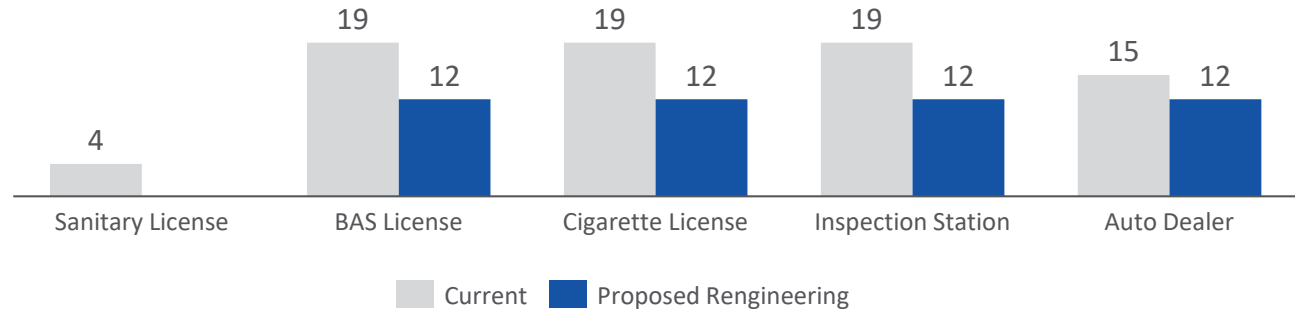
- The Purpose of Invest Puerto Rico is threefold:
  - Market Puerto Rico a business friendly jurisdiction in order to attract new investors, and to develop new export strategies.
  - Provide a portfolio of services to potential investors that facilitate their establishment on the Island.
  - Develop strategies that result in the development of supply chain linkages on the Island.
- The entity was incorporated and its eight Board members were named in August 2017 and are meeting regularly to establish the entity's bylaws (approved November 2017), administrative processes, and initial programs. Contract with DEDC expected to be signed in December 2017.

\* DMO and Invest PR are expected to be operational on or before June 30th, 2018

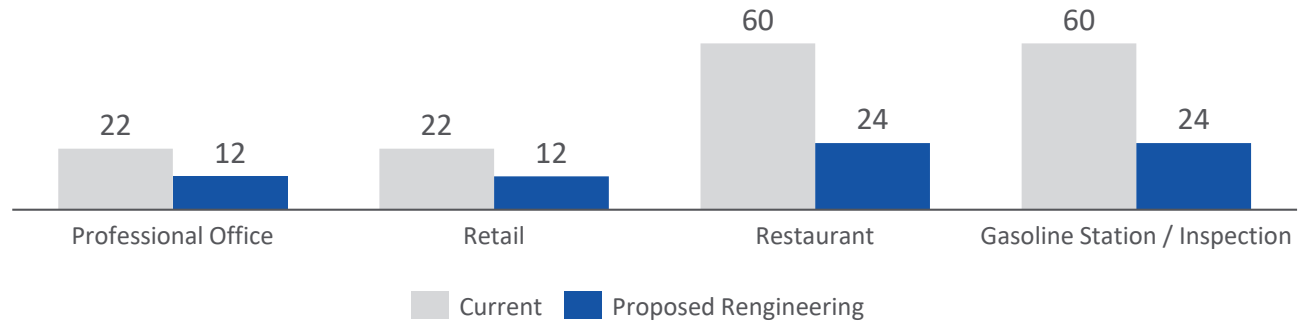


## Ease of Doing Business Reengineering Requirements Snapshot

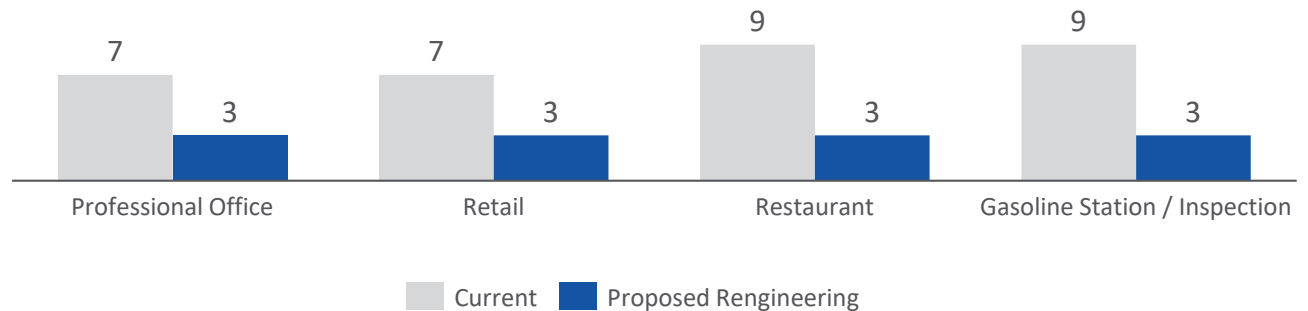
### Requirements for Licenses



### Requirements for Businesses

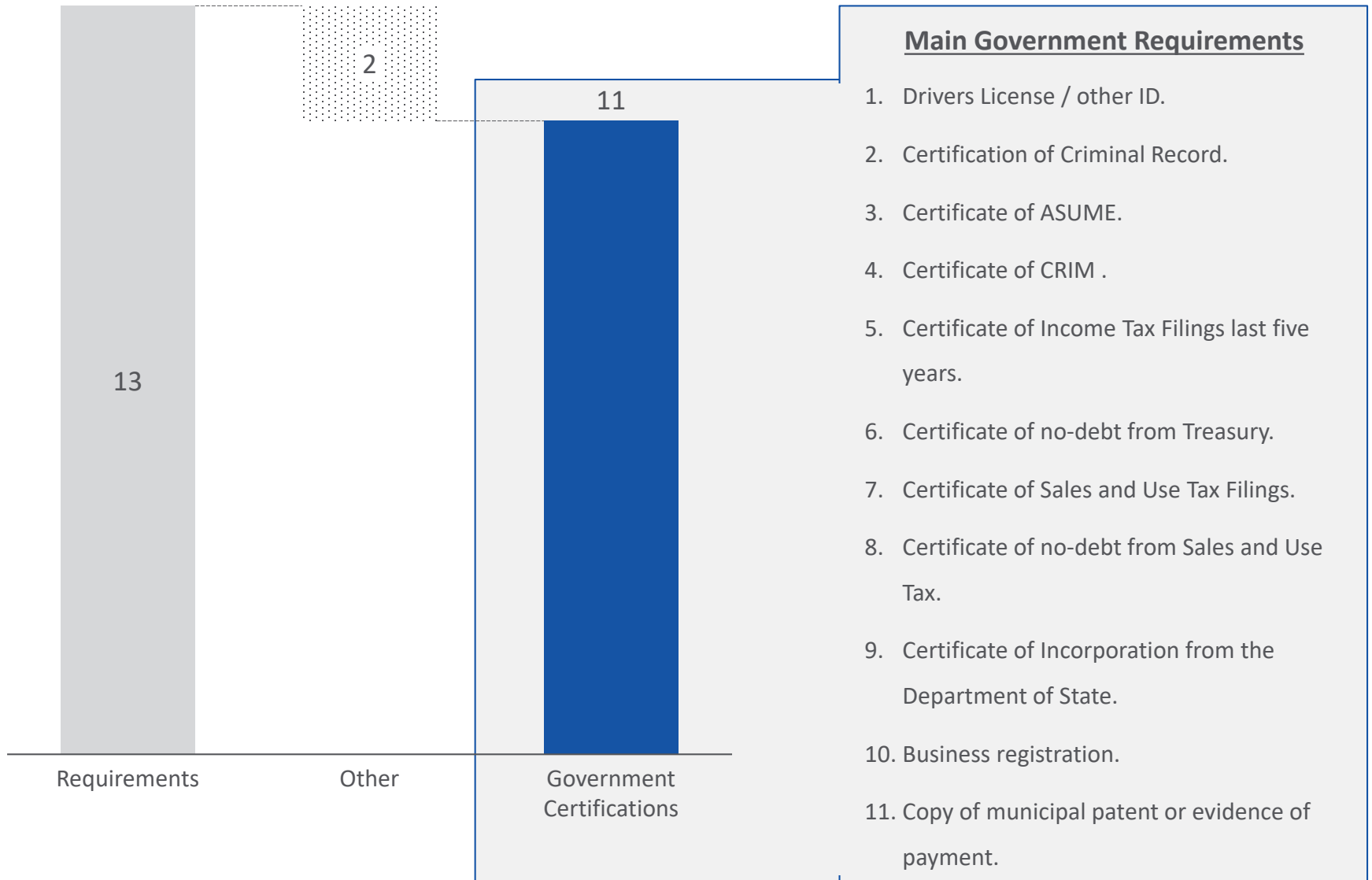


### Requirements for Businesses for Use Permit





## Reengineering Requirements for a Business





## Identified Key Performance Indicators for the Permit & License Reforms

Measure	Key Performance Indicator
<b>Permits &amp; Licenses</b>	Licenses integrated into the SUI Platform (number)
	Licenses integrated into the SUI Platform (% of total)
	Cases Filed in SUI Platform (number)
	Cases Filed in SUI Platform vs previous processes (% of total)
	Cases Issued in SUI Platform (number)
	Cases Issued in SUI Platform vs previous processes (% of total)
	Concerned Entities integrated into the SUI Platform (number)
	Concerned Entities integrated into the SUI Platform (% of total)
	Autonomous Municipalities integrated into the SUI Platform (number)
	Autonomous Municipalities integrated into the SUI Platform (% of total)
	Average permit processing days
	Requirements for Licenses actual vs goal
	Requirements for Businesses actual vs goal
Requirements for Business for Use Permit actual vs goal	

### World Bank Ease of Doing Business Report Methodology

Measure	Key Performance Indicator	Measure	Key Performance Indicator
<b>Starting a Business</b>	Procedures (number)	<b>Getting Electricity</b>	Procedures (number)
	Time (days)		Time (days)
	Cost (% of income per capita)		Cost (% of income per capita)
	Minimum Capital (% of income per capita)		Reliability of supply and transparency of tariffs index (0-8)
<b>Dealing with construction permits</b>	Procedures (number)	<b>Registering Property</b>	Procedures (number)
	Time (days)		Time (days)
	Cost (% of warehouse value)		Cost (% of income per capita)
	Building quality control index (0-15)		Reliability of supply and transparency of tariffs index (0-8)



## Restoring Credibility with Key Stakeholders

One of the main challenges facing Puerto Rico has been the need for transparency regarding financial information. Investors, both local and national, have raised the need for transparency as a condition to good faith discussions and negotiations.

### Key Items



Produced long requested deliverables to stakeholders through the creation of a dataroom.



Provided draft fiscal plans to major creditor constituencies for review and comment.



Held numerous information, question, and diligence sessions with major creditor constituencies.



Disclosed voluminous information and documents in response to inquiries and requests made by creditors committee and retiree's committee appointed in the Title III case.





## Many states offer their own versions of the Earned Income Tax Credit to complement the federal credits

	State	Year Enacted	Percentage of Federal EITC
1	California	2015	85 percent for those earning up to \$22,300
2	Colorado	1999, 2013	10 percent
3	Connecticut	2011	30 percent
4	Delaware	2005	20 percent
5	District of Columbia	2000	40 percent
6	Hawaii	2017	20 percent
7	Illinois	2000	18 percent
8	Indiana	1999	9 percent
9	Iowa	1989	15 percent
10	Kansas	1998	17 percent
11	Louisiana	2007	3.5 percent
12	Maine	2000	5 percent
13	Maryland	1987	Refundable EITC – 26 percent in 2016, 27 percent in 2017 and 28 percent thereafter; Non-refundable – 50 percent
14	Massachusetts	1997	23 percent
15	Michigan	2006	6 percent
16	Minnesota	1991	Calculated as a percentage of income (ranges from 25 to 45 percent of federal)
17	Montana	2017	3 percent
18	Nebraska	2006	10 percent
19	New Jersey	2000	30 percent
20	New Mexico	2007	10 percent
21	New York	1994	30 percent
22	Ohio	2013	10 percent, limited to 50 percent of liability for Ohio taxable income above \$20,000
23	Oklahoma	2002	5 percent
24	Oregon	1997	8 percent
25	Rhode Island	1986	15 percent
26	South Carolina	2017	125 percent
27	Vermont	1988	32 percent
28	Virginia	2004	20 percent
29	Washington	2008 (but not yet implemented)	Originally scheduled to be 10 percent or \$50 (whichever is greater)
30	Wisconsin	1989	One child – 4 percent Two children – 11 percent Three children – 34 percent



## Proposed Local EITC Scenarios

### Single Working Full Time

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

### Married Working Full Time

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

### Married or Single Working Part Time

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

### Single Individual, one child, working full time

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

### Married, one child, working full time

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

### Married or Single, one child, working full time

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

### Single Individual, two children, working full time

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

### Married, two children, working full time

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

### Married or Single, two children, working full time

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

### Single Individual, three children, working full time

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

### Married, three children, working full time

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

### Married or Single, three children, working full time

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