



# 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	PPPA	Puerto Rico Port Authority
DST	Daylight Savings Time	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	Puerto Rico Housing Finance Authority
FOMB	Financial Oversight and Management Board of Puerto Rico	PRHTA	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
GILIT	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



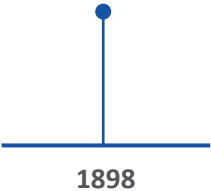
# BACKGROUND AND CONTEXT



# Puerto Rico’s territorial status deprives its residents of the quality of life they deserve as U.S. citizens

### Spanish American War

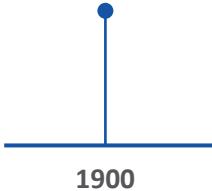
*Puerto Rico becomes a U.S. Territory; “Unincorporated Territory” clause.*



1898

### Foraker Act

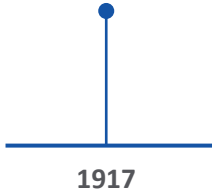
*Created a governance structure with a Governor, Legislative Assembly, and Judicial System.*



1900

### Jones-Shafroth Act

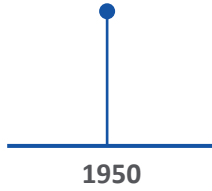
*Granted U.S. Citizenship to anyone born in Puerto Rico.*



1917

### PR Federal Relations Act

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



1950

Past decisions have led to the territorial status, highlighting the lack of basic rights the people of Puerto Rico are entitled to as U.S. citizens:



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 Puerto Rico’s territorial status and lack of voting representation in Congress poses the greatest impediment to its sustainable economic development.

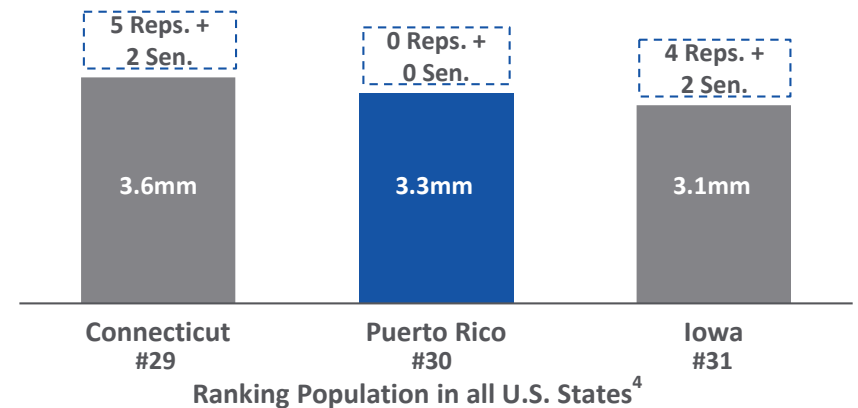
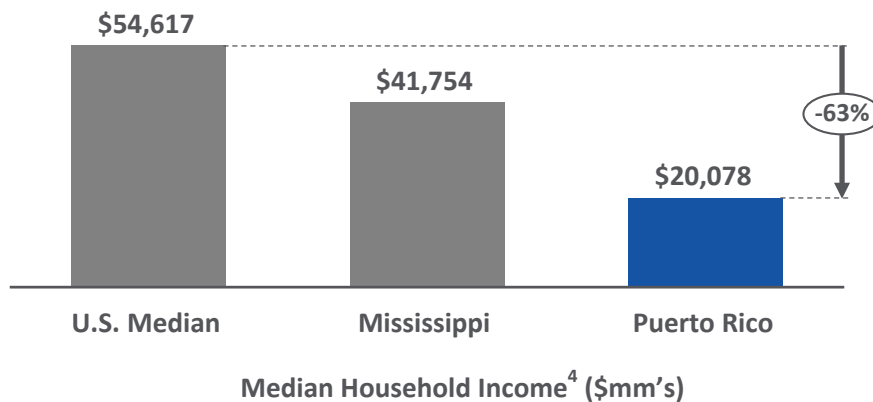


## The net effect of the territorial status is inequality, a driving factor in our decade-old fiscal and economic crisis

- 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 19% decline expected by FY22.
- 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 the territorial status 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 because Puerto Rico is not a state it has no voting representation in Congress.*



<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

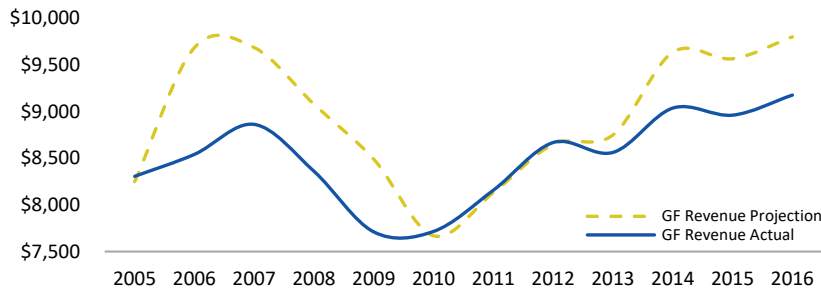
<sup>4</sup> United States Census Bureau, 2016





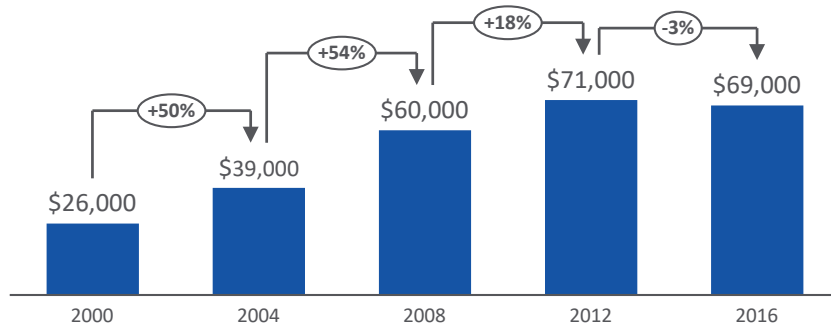
## Periods of fiscal irresponsibility and lack of economic planning and transparency also contributed to Puerto Rico’s financial crisis

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



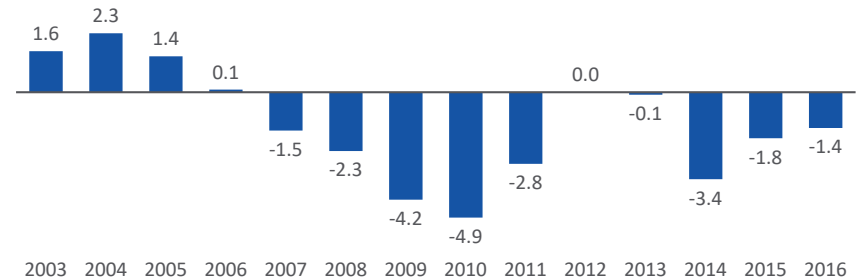
Revenue Projections vs Actual Revenues Since 2005 (\$mm's)

*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*



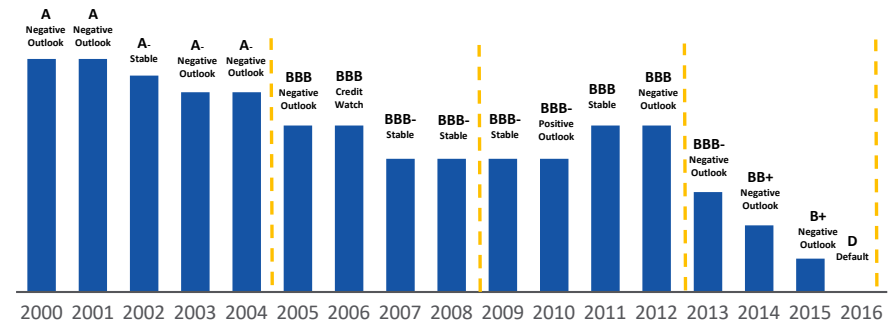
Public Debt Since 2000 (\$mm's, calendar years)<sup>1</sup>

*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

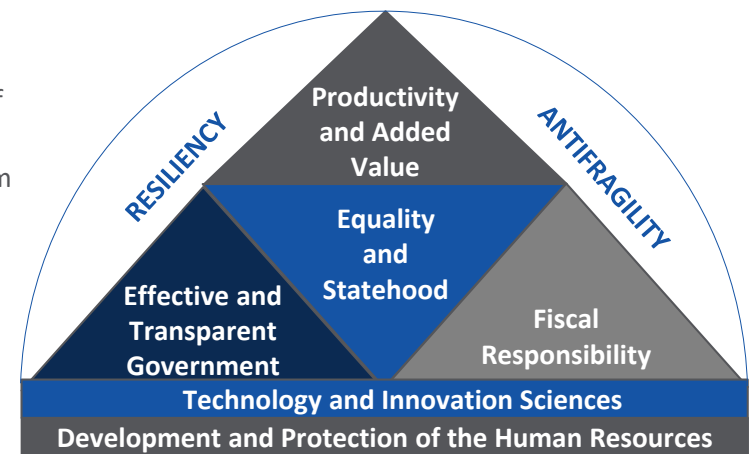
The devastation caused by Hurricanes Irma and Maria creates an opportunity to redesign major components of the Island's critical infrastructure, invest in the quality and resiliency of public and private buildings, and restructure and modernize and reevaluate delivery of services to residents.

### 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.





## The New Fiscal Plan integrates the devastation caused by the Hurricanes as well as most recent facts and assumptions underlying 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 reform 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.



# REBUILDING PUERTO RICO

A COMPREHENSIVE DISASTER AND INFRASTRUCTURE RECOVERY STRATEGY

BUILD BACK BETTER | FUNDING SOURCES | CRRO & P3 UPDATE



GOVERNMENT OF PUERTO RICO

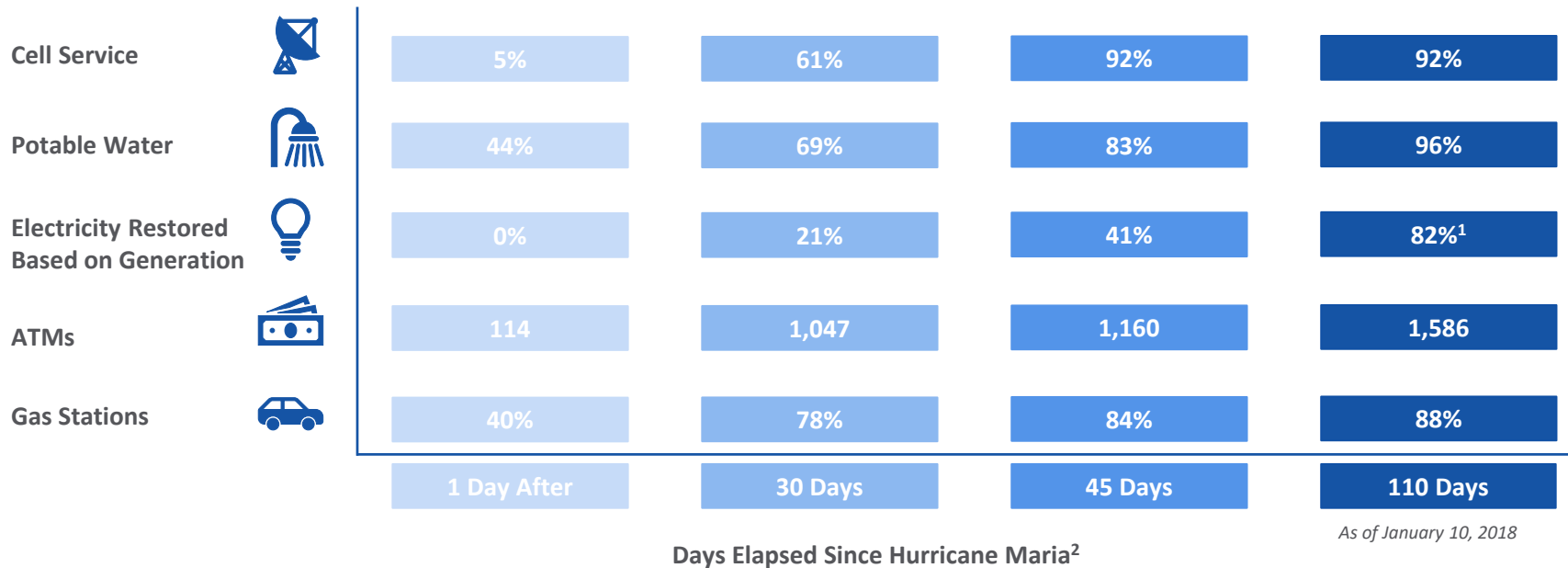


**BUILD BACK BETTER**



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

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 3.4mm 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 68% 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



# FUNDING SOURCES





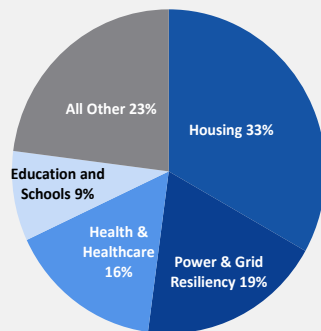
## On November 13, 2017, the Government submitted a formal request for supplemental Federal assistance, titled **Build Back Better Puerto Rico**

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

Restore damaged housing stock	Spur economic revitalization
Provide residents with core services	Better prepare Puerto Rico for future natural disasters
Rebuild and strengthen the Island’s critical infrastructure	Ensure transparency and stronger financial controls

### \$94.4bn Request by Category



### Uses

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

### Sources

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

### Commitment to Transparency and Financial Controls

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

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



## Although Puerto Rico anticipates significantly more Federal Disaster Relief Assistance, only \$35.3bn 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 \$35.3bn under FEMA’s Public Assistance Program as per current law.<sup>1</sup>
- In addition, \$21.9bn from private insurance companies is included.<sup>2</sup>

Disaster Related Funding in the New Fiscal Plan		
\$35.3bn FEMA Public Assistance Program <sup>1</sup>	+	\$21.9bn Private Insurance and FEMA IA <sup>2,3</sup>
		= \$57.2bn Disaster Relief Assistance

- The Government’s cost-share is estimated at 10% or \$1.4bn, with \$1.3bn to be spent during the five years covered by the New Fiscal Plan, 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 CDL. Terms have been the subject of negotiation since October 2017. This loan is not additive to the economy.
- Property Claims Services, a subsidiary of Verisk Analytics, estimates \$21bn of private insurance funds, with 75% spent over the first five years.<sup>4</sup>

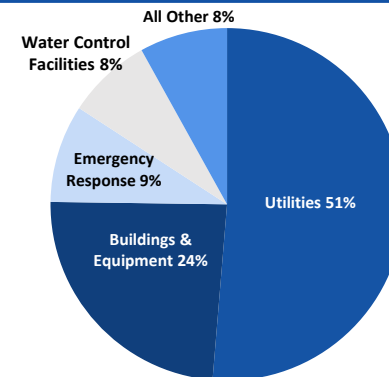
### \$35.3bn FEMA Public Assistance Funding

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.

\$35.3bn of FEMA Disaster Relief Assistance by Category



<sup>1</sup> PR Government estimates reviewed by third party subject matter experts.

<sup>2</sup> Property Claims Services Estimate, dated October 2017.

<sup>3</sup> Includes \$938mm of FEMA Individual Assistance.

<sup>4</sup> Based on outlays of Hurricane Community Development Fund during Hurricane Katrina recovery.

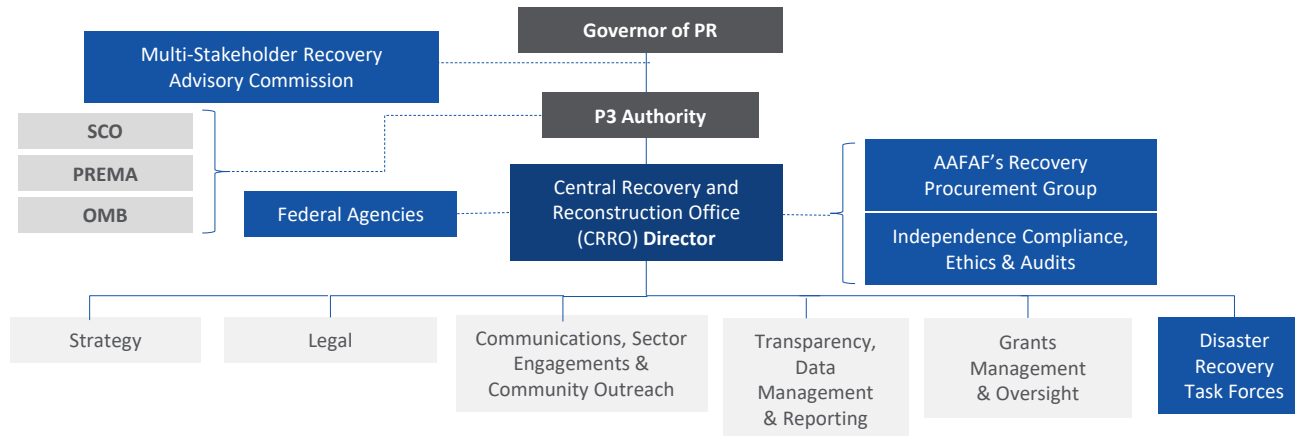


# CRRO AND P3 UPDATE



## The Central Recovery and Reconstruction Office will assist in providing oversight and financial controls during the rebuilding process

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 in a way that makes 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.



## 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 five-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, 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:



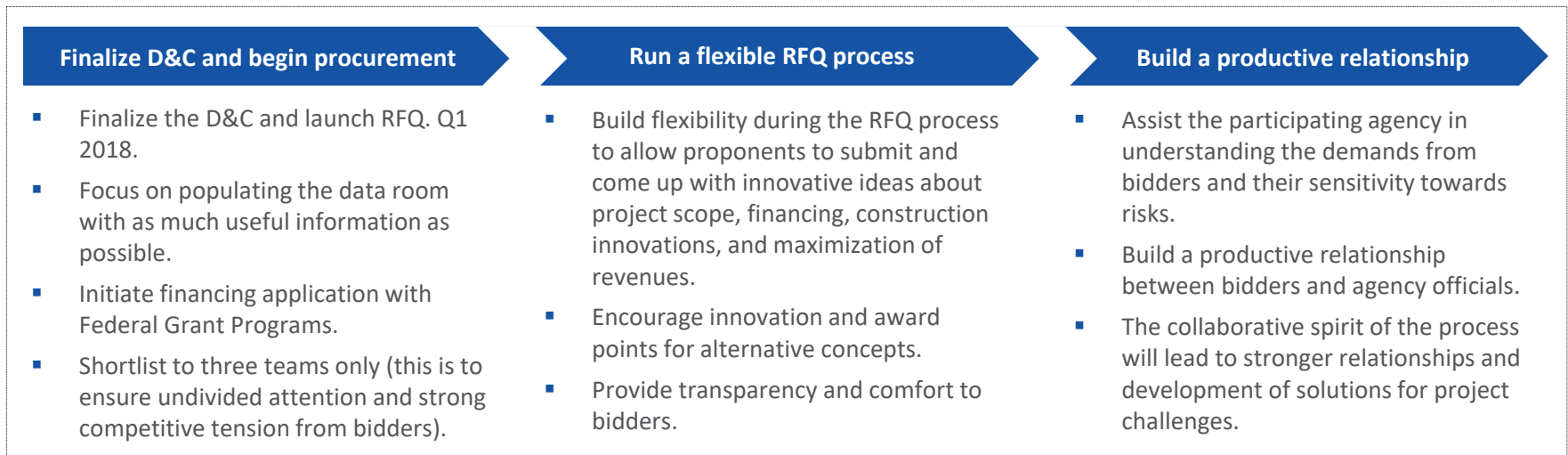


## A path forward with current P3 pipeline

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:**

<b>1</b>	<b>Student Life</b>	<b>2</b>	<b>Maritime Transportation</b>	<b>3</b>	<b>Parking Facilities Modernization</b>
	<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 January 2018</li> </ul>		<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>		<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>



<sup>1</sup>Request for Quote is the title for the standard bidding process in which businesses invite suppliers to bid on goods and services.

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



# PATH TO STRUCTURAL BALANCE

ECONOMIC AND FINANCIAL CONSIDERATIONS FOR THE FUTURE

ECONOMIC OUTLOOK | FINANCIAL PROJECTIONS | DEBT SUSTAINABILITY



GOVERNMENT OF PUERTO RICO



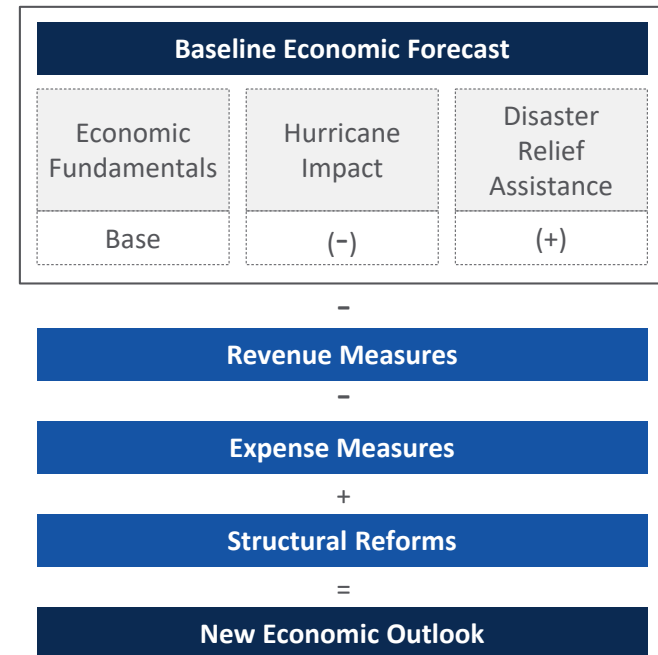
# ECONOMIC OUTLOOK





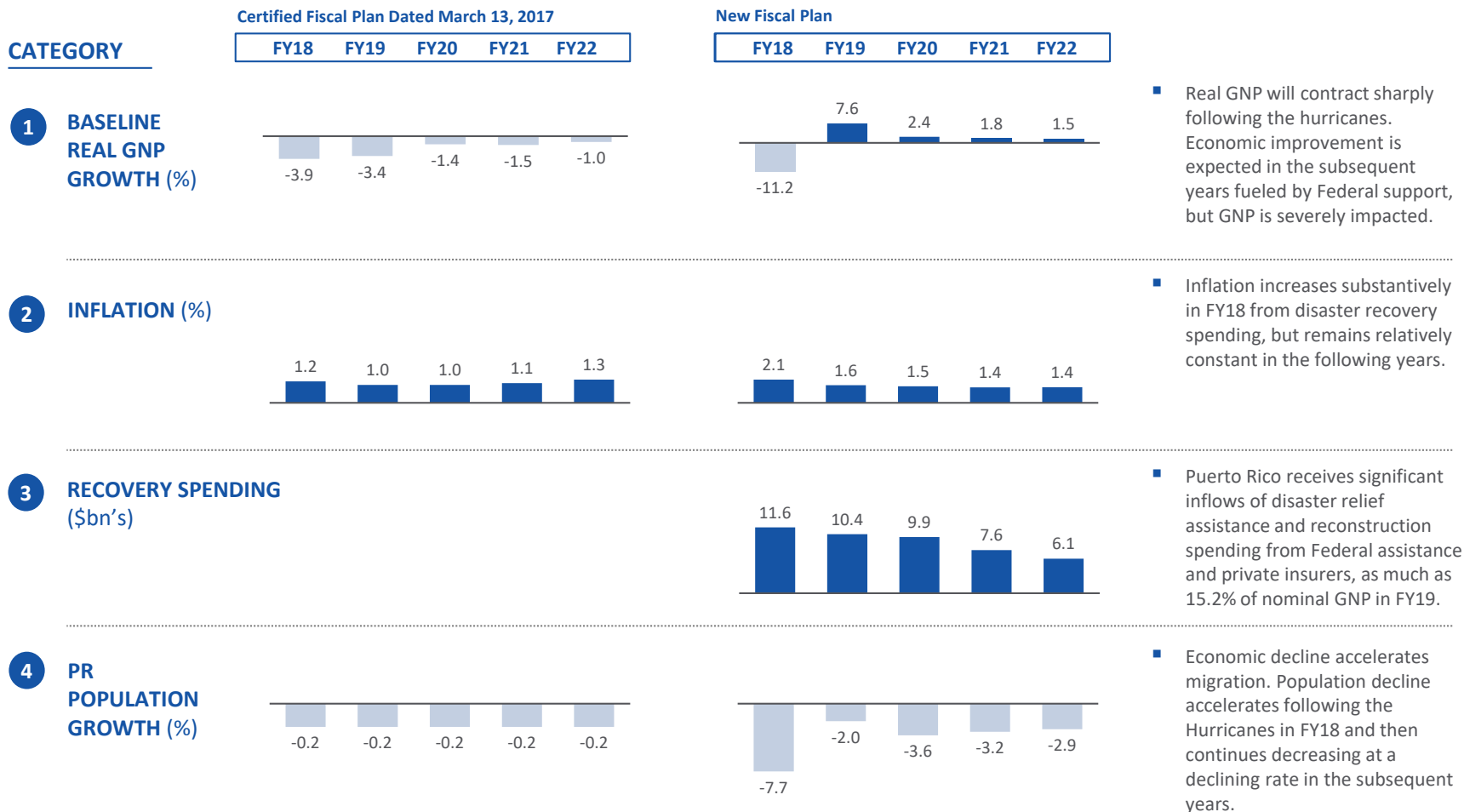
## Macroeconomic Model Post Hurricanes Irma and Maria

- The Government has developed an economic outlook model with 50 years of historic economic data from Puerto Rico to estimate GNP growth, inflation rates, and population growth rates, which in turn are used as the main drivers for financial projections.
  - The model also incorporates U.S. GDP growth, net transfers from the Federal Government, historical capital investment in the economy, and world oil prices.
  - The methodology used is consistent with that used in IMF macroeconomic projections in the context of surveillance and lending programs.
  
- In addition, there are four additional key drivers in the economic model that have a significant impact to the projections:
  - Hurricane Impact**
    - The level of hurricane destruction is the variable that is greatly influencing economic projections.
  - 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.
  - Revenue and Expense Measures**
    - Revenue measures improve the tax collection efficiency of the Government.
    - Both revenue and expense measures have a negative impact to GDP.
  - Structural Reforms**
    - Improve the business environment and play a complementary role in stimulating investment and job creation, the impact of the structural reforms is positive.





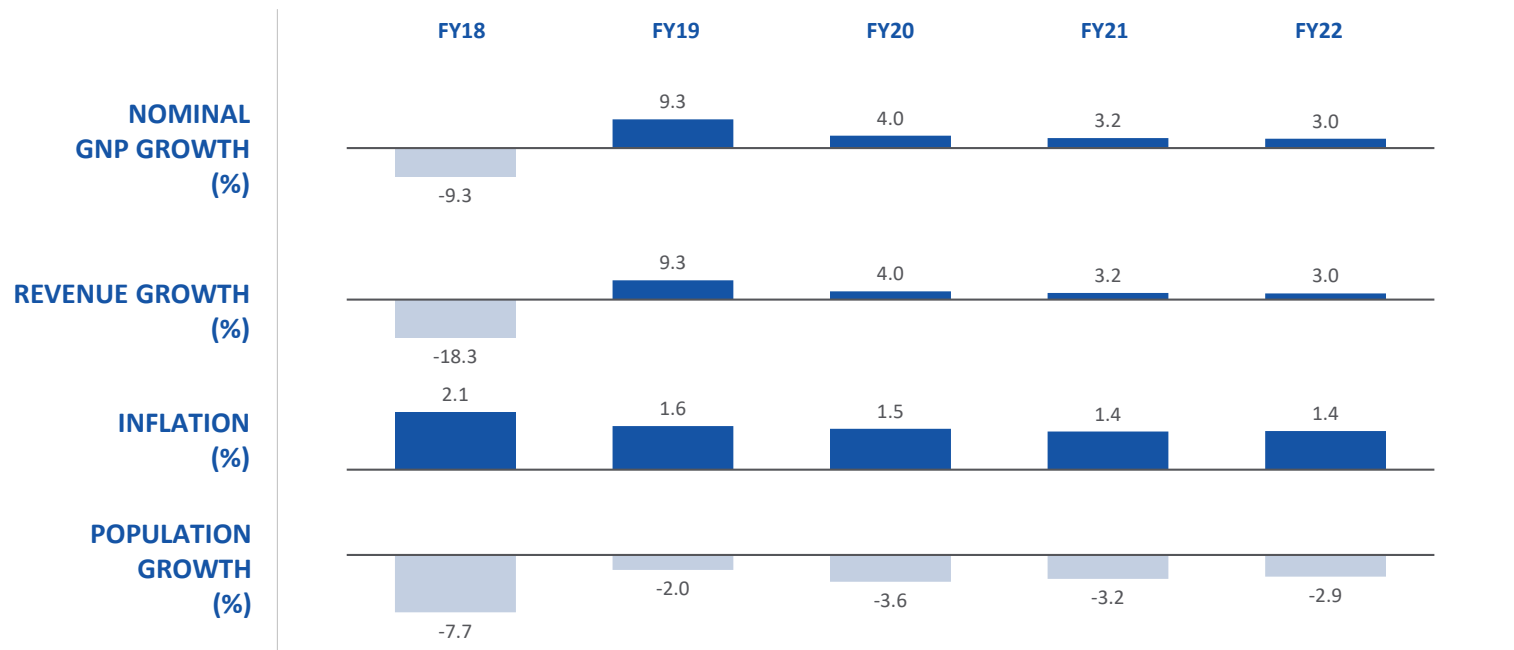
## Hurricanes Irma and Maria have significantly altered the economic landscape





## Negative impact of Hurricanes on economic outlook is mitigated by Federal support and positive impact of Structural Reforms

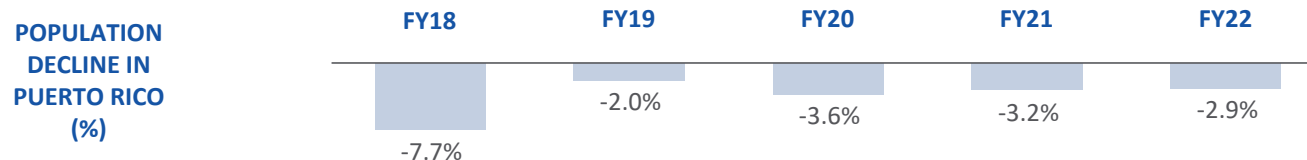
- Nominal GNP is estimated to fall sharply in FY18 due to the impact caused by Hurricanes Irma and Maria. Disaster recovery assistance and rebuilding efforts drive higher nominal growth in subsequent years.
- The key driver to the financial projection is revenue growth, which is estimated for FY18 using the elasticity of revenue to nominal GNP observed during the U.S. Great Recession and is consistent with general fund collections through November.
- Revenues are not anticipated to recover to pre-Hurricanes levels through the projection period: revenues are forecasted to remain 1.3% lower than pre-storm levels by FY22, in nominal terms.





## Population Decline

- Population is estimated jointly with GNP. The estimation is anchored on historical data since 1965.
- GNP contraction causes population decline, as people leave the Island due to poor economic conditions.
  - People leave the Island because there are no jobs – jobs do not disappear because people leave.
- The main drivers of long-run population growth are:
  - **Past GNP growth:** When the economy is doing better, people are less likely to leave the Island.
  - **Past population growth** reflects the high persistence of demographic trends.
  - The growth of **net Federal transfers** to Puerto Rico, in real terms: higher transfers from the Federal Government reflect better resources for households in Puerto Rico.
  - The effects of **Maria and Irma** are included in the estimation: as expected, the results indicate that net outward migration increases following a storm.
  - **Relief spending** is incorporated into the model representing increased resources for residents of Puerto Rico.
- However, these long-run growth factors do not completely capture short-term demographic factors impacting migration in the wake of an extraordinary hurricane.
- The New Fiscal Plan adopts demographic projections calculated by Lyman Stone, an expert in demography. The projections were presented in the First FOMB listening session held on November 16, 2017.<sup>1</sup>
- A 19.4% cumulative decline in population is expected over five years.



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



# FINANCIAL PROJECTIONS

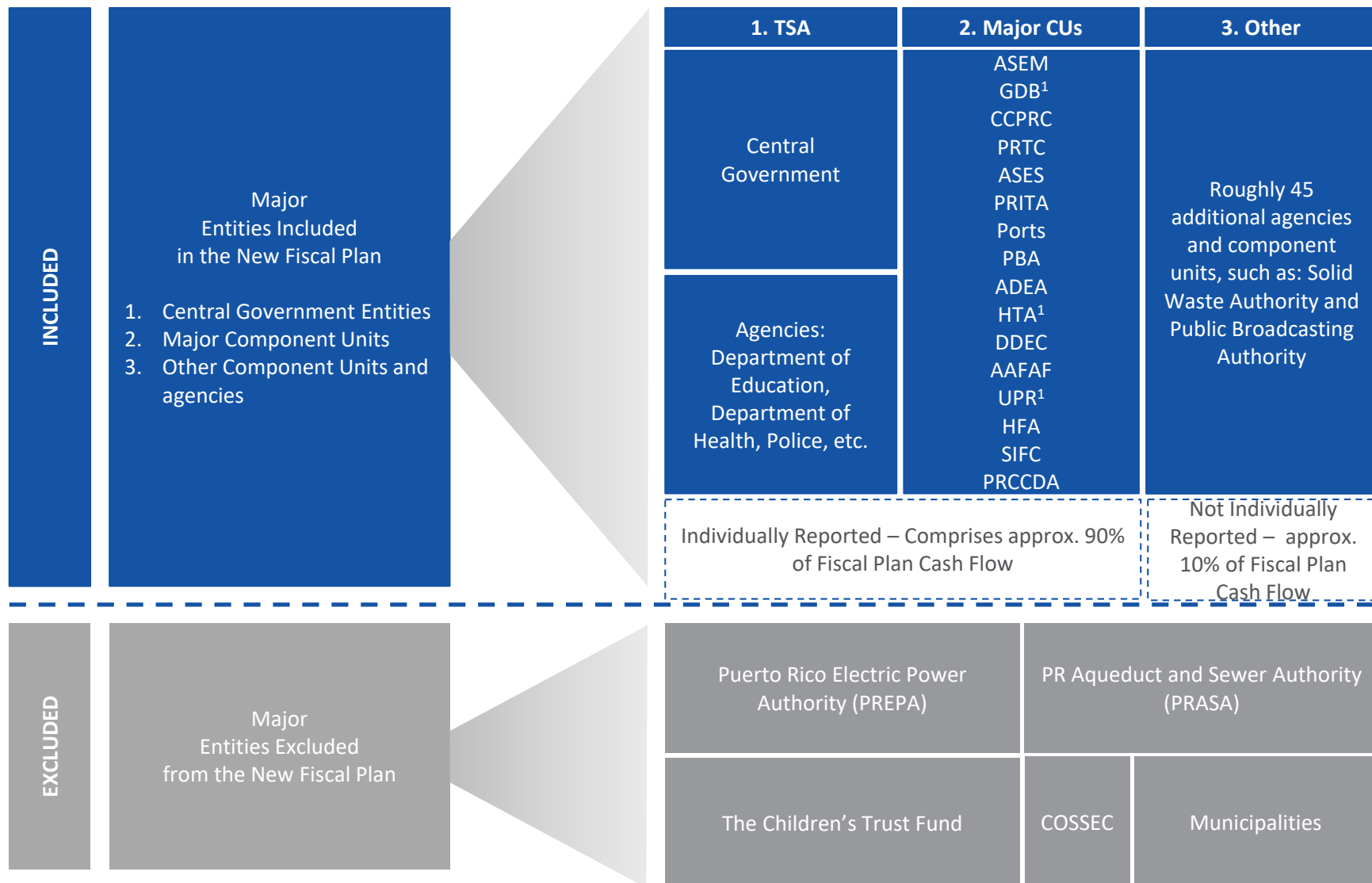


## Key Presentation Differences in New Fiscal Plan from Certified Fiscal Plan

Category	Certified Fiscal Plan	New Fiscal Plan
<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> <li>Typically presented on a net deficit basis, or separately for comparison purposes.</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 fiscal plan 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>COFINA</b>	<ul style="list-style-type: none"> <li>Included in “Other SUT,” not general fund.</li> </ul>	<ul style="list-style-type: none"> <li>Included in general fund SUT collections.</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.



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

After all Government transformation initiatives and structural reforms are implemented, Puerto Rico will have a funding gap of \$3.4bn through FY22. As a result, a liquidity facility will be needed to bridge the gap to structural balance.

### 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.
- Over the five year period, the Government went from a \$3.7bn cash flow surplus in the March 13, 2017 Certified Fiscal Plan to a deficit of \$3.4bn driven by the hurricane’s impact on the economy, government revenues and need for recovery spending.
- A contributing factor to the situation is general lack of access to traditional capital markets to fund growth and rebuilding efforts.

### 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 – FY22.
- 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 five year period is \$5.7bn.

### 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 \$4.3bn help mitigate the gap, offset by proposed tax reform, resulting in an accumulated deficit of \$3.4bn.

### 4 LIQUIDITY SUPPORT



#### PUERTO RICO WILL NEED A LIQUIDITY FACILITY THROUGH FY21 TO BRIDGE THE GAP CAUSED BY HURRICANES IRMA AND MARIA

- In addition to disaster relief assistance, Puerto Rico requires external liquidity support to finance the gap until fiscal measures are fully implemented.
- The availability of this funding source is a critical risk to the success of this Fiscal Plan and the long term viability of Puerto Rico.





## Cash Flows Post Measures, Excluding Debt Service

By FY22 the accumulated deficit is \$3.4bn, requiring a liquidity facility to maintain the ability to provide public services to residents of Puerto Rico.

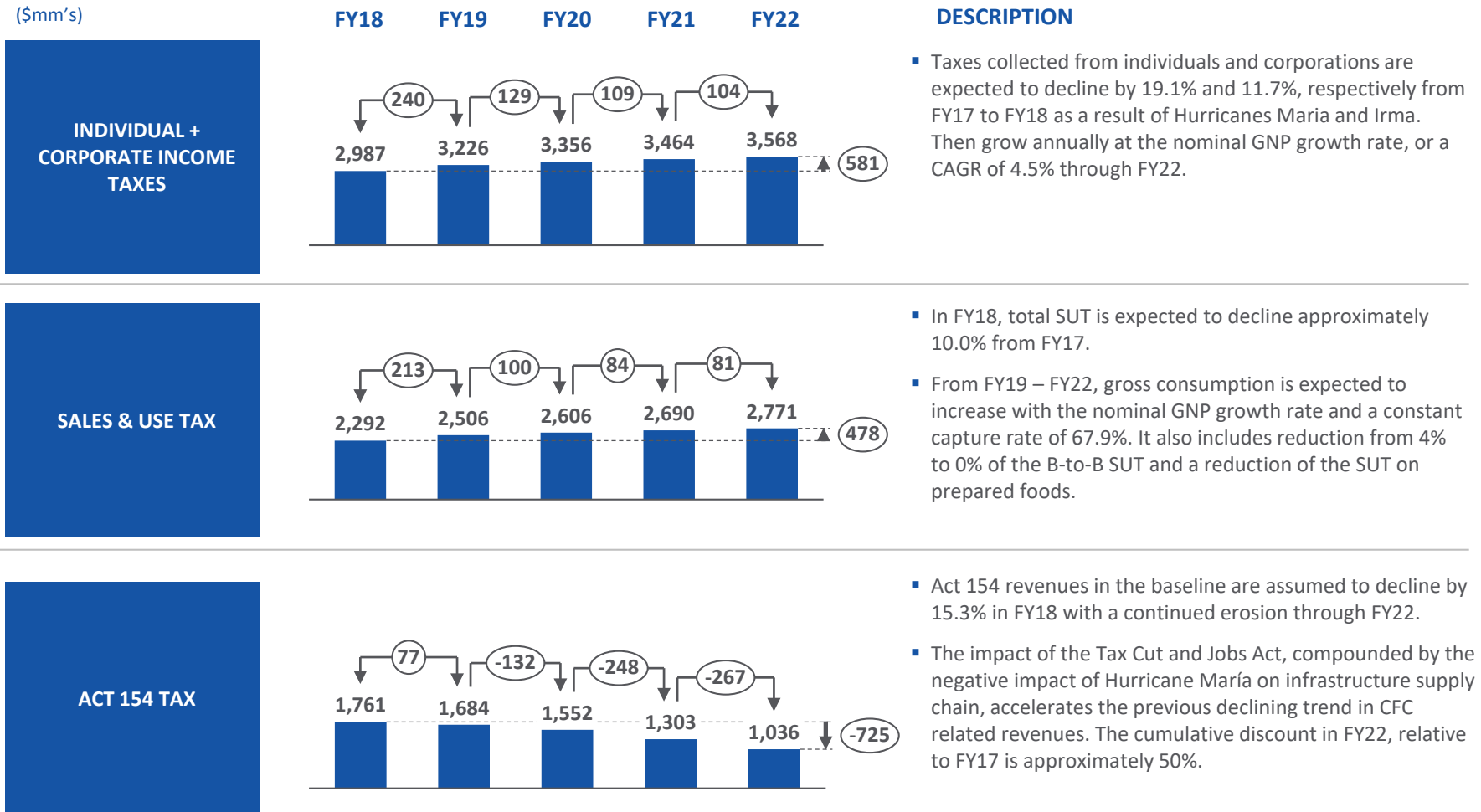


<sup>1</sup> Component units are legally separate from the Government, but are discretely presented as component units in the Government's financial statements.



## Key General Fund Revenue Drivers

The following General Fund Revenue drivers comprise 60% of total revenue, excluding Federal transfers and revenue from Component Units, over the five year projection period.

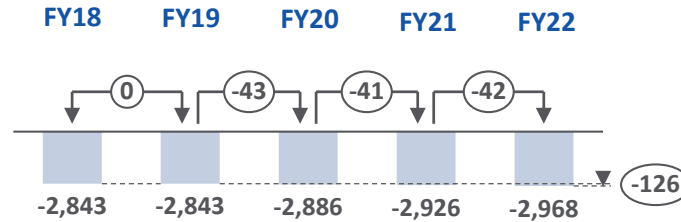




## Key Expense Drivers

(\$mm's)

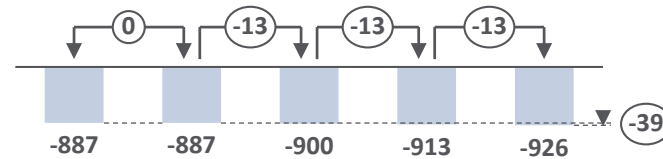
### PAYROLL



### DESCRIPTION

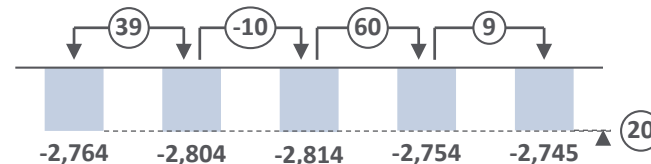
- Through FY22, baseline payroll expenses are expected to increase at the rate of 1.1%.
- Department of Education and Police comprise approximately 40% and 21% of total baseline direct payroll, respectively.

### DIRECT OPERATING EXPENSES<sup>1</sup>



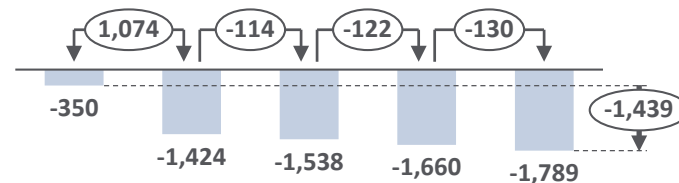
- Through FY22, baseline direct operational expenses are expected to increase at the rate of inflation at a CAGR of 1.1%.
- Department of Education and Department of Health comprise approximately 29% and 12% of total direct operational expenses, respectively.

### APPROPRIATION TO GOVERNMENT ENTITIES



- Formula-based appropriations to Government entities are assumed to remain flat over the projection period. Non-formula based appropriations are assumed to grow by inflation (1.1% annually).
- There's some variability year to year in FOMB appropriations, declining from \$100mm in FY19 to \$30mm in FY22.

### MEDICAID FUNDING











- Federal Medicaid funding available to ASES is expected to run out in April 2018 (the "cliff"), resulting in \$350mm in Central Government funds to cover the loss of Federal funding through June 2018.
- For FY19 - FY22, the expense baseline assumes the cliff is equal to the approximately 55% average would be Federal funding reimbursement for healthcare insurance premiums & claims, less the remaining federal funds from block grants amounting to \$294mm.

<sup>1</sup> Service payments, professional fees, medicine costs and other expenses that are directly attributable to a department.



## Measures are comprehensive and balanced to avoid further economic deterioration and will yield net savings of \$2.0bn by FY22

		FISCAL MEASURES IMPACT NET OF IMPLEMENTATION COSTS (\$mm)				
		FY18	FY19	FY20	FY21	FY22
	<b>NEW GOVERNMENT MODEL</b>	(1)	296	736	1,023	1,243
	<b>PROCUREMENT REFORM</b>	-	12	33	43	43
	<b>REDUCTION OF APPROPRIATIONS</b>	-	161	302	428	506
	<b>NEW HEALTHCARE REFORM</b>	49	199	500	750	795
	<b>REVENUE MEASURES</b>	65	210	265	366	415
	<b>SUBTOTAL</b>	<b>113</b>	<b>879</b>	<b>1,836</b>	<b>2,610</b>	<b>3,002</b>
	<b>PAYMENT FOR PAST SERVICES</b>	-	(100)	(100)	(100)	-
	<b>EITC</b>	-	(219)	(212)	(205)	(199)
	<b>TAX REFORM</b>	(150)	(625)	(732)	(748)	(757)
	<b>SUBTOTAL</b>	<b>(150)</b>	<b>(945)</b>	<b>(1,043)</b>	<b>(1,053)</b>	<b>(956)</b>
	<b>TOTAL</b>	<b>(37)</b>	<b>(66)</b>	<b>792</b>	<b>1,557</b>	<b>2,046</b>



## Cash Flows Post-Measures, Excluding Debt Service<sup>1</sup>

(\$mm's)

	FY18	FY19	FY20	FY21	FY22	FY18-FY22
<b>Revenues</b>						
ACT 154	\$1,761	\$1,684	\$1,552	\$1,303	\$1,036	\$7,336
SUT (excl. FAM & CINE)	2,180	2,383	2,478	2,559	2,636	12,236
Other General Fund Revenue	<u>4,806</u>	<u>5,137</u>	<u>5,305</u>	<u>5,440</u>	<u>5,571</u>	<u>26,259</u>
Total General Fund Revenues	8,747	9,203	9,335	9,302	9,243	45,830
Additional SUT (FAM & CINE)	112	123	127	131	135	629
Other Non-General Fund Revenue	2,867	2,903	2,928	2,953	2,972	14,623
<b>Total Revenue Excl. Federal Transfers and CU's</b>	<b>\$11,726</b>	<b>\$12,229</b>	<b>\$12,391</b>	<b>\$12,387</b>	<b>\$12,351</b>	<b>\$61,082</b>
<b>Expenses</b>						
General Fund	8,989	9,087	9,108	9,222	9,310	45,716
Other Expenses	2,886	2,624	2,647	2,672	2,690	13,519
Medicaid "Cliff"	350	1,424	1,538	1,660	1,789	6,761
<b>Total Expenses Excl. Federal Transfers and CU's</b>	<b>\$12,225</b>	<b>\$13,135</b>	<b>\$13,293</b>	<b>\$13,553</b>	<b>\$13,790</b>	<b>\$65,996</b>
<b>Central Government Surplus / (Deficit)</b>	<b>(\$499)</b>	<b>(\$907)</b>	<b>(\$902)</b>	<b>(\$1,166)</b>	<b>(\$1,439)</b>	<b>(\$4,913)</b>
Component Units Revenue	4,825	4,949	5,073	5,201	5,342	25,390
Component Units Expense	4,781	4,992	5,210	5,445	5,699	26,127
<b>Component Units Surplus / (Deficit)</b>	<b>\$44</b>	<b>(\$44)</b>	<b>(\$137)</b>	<b>(\$244)</b>	<b>(\$356)</b>	<b>(\$737)</b>
<b>Operating Surplus / (Deficit) - Pre Measures</b>	<b>(\$455)</b>	<b>(\$950)</b>	<b>(\$1,040)</b>	<b>(\$1,410)</b>	<b>(\$1,795)</b>	<b>(\$5,650)</b>
<b>Measures Net of Structural Reforms</b>	(37)	(66)	826	1,557	2,046	4,326
<b>Operating Surplus / (Deficit)</b>	<b>(\$492)</b>	<b>(\$1,016)</b>	<b>(\$214)</b>	<b>\$147</b>	<b>\$251</b>	<b>(\$1,324)</b>
FEMA Cost-share	327	352	317	192	111	1,299
Title III Costs	119	233	236	99	112	800
<b>Surplus / (Deficit)</b>	<b>(\$938)</b>	<b>(\$1,601)</b>	<b>(\$766)</b>	<b>(\$144)</b>	<b>\$27</b>	<b>(\$3,423)</b>

<sup>1</sup> Excluding Federal Transfers

**NOTE:** In addition to federal disaster relief assistance, the Government will continue investing in the upkeep and maintenance of its infrastructure. For the period FY18-FY22, the Government will invest approximately \$400mm a year in the following categories: (i) \$275mm in the Central Government and its CUs; (ii) \$85mm in PRHTA; (iii) \$40mm in UPR.



# DEBT SUSTAINABILITY







## Debt Sustainability Overview

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

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

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

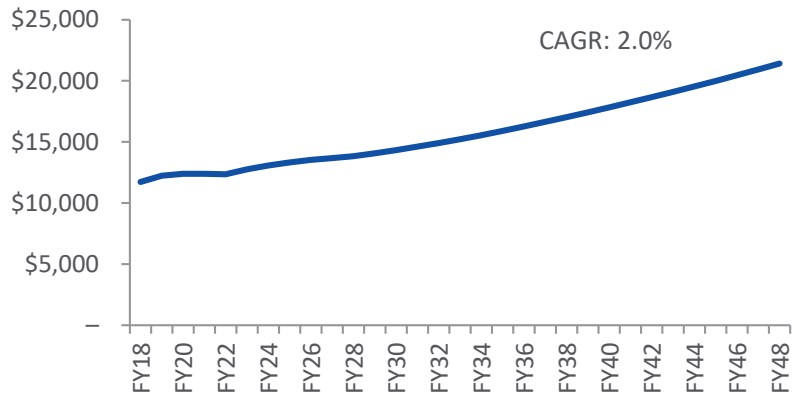
<p>1</p>  <p><b>Actual Comparables</b> Benchmark against peers considering the appropriateness of the comparison group and using multiple metrics to get a full picture of where Puerto Rico stands.</p>	<p>2</p>  <p><b>Projects obligations</b> Forecasts debt obligations and/or capacity to repay beyond the current fiscal year, considering various issuance and revenue scenarios and looking at multiple measures of future debt levels.</p>
<p>3</p>  <p><b>Comprehensive debt analysis</b> 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.</p>	<p>4</p>  <p><b>Produced regularly</b> Require regular completion of a debt study which contains a clear statement of remaining debt capacity.</p>



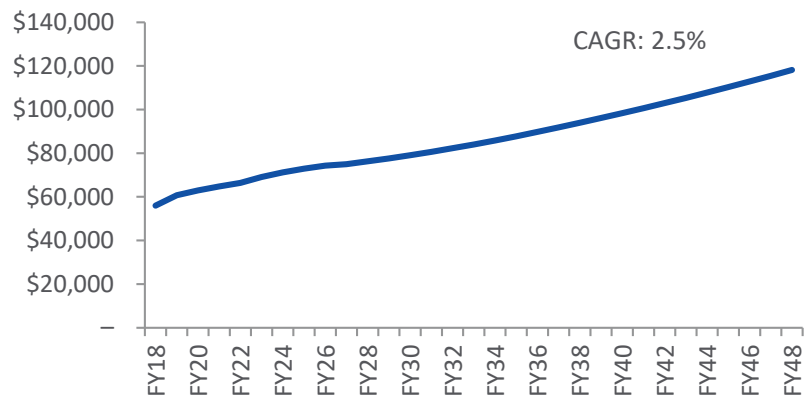
## Puerto Rico 30-year economic forecast

The analysis utilizes a 30-year macroeconomic model consistent with the five year fiscal plan.

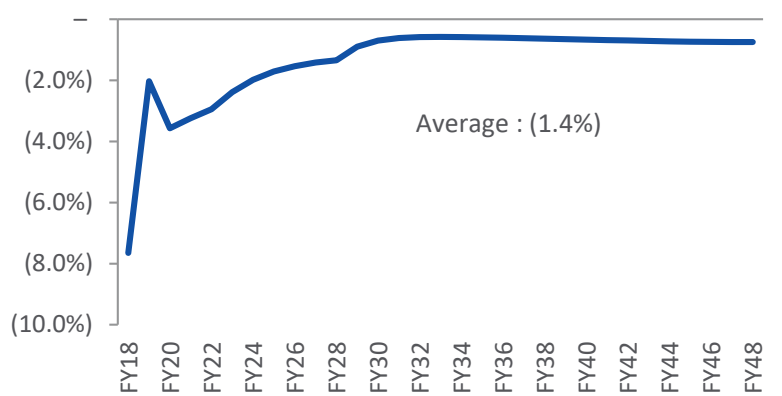
### Revenues (\$mm's)



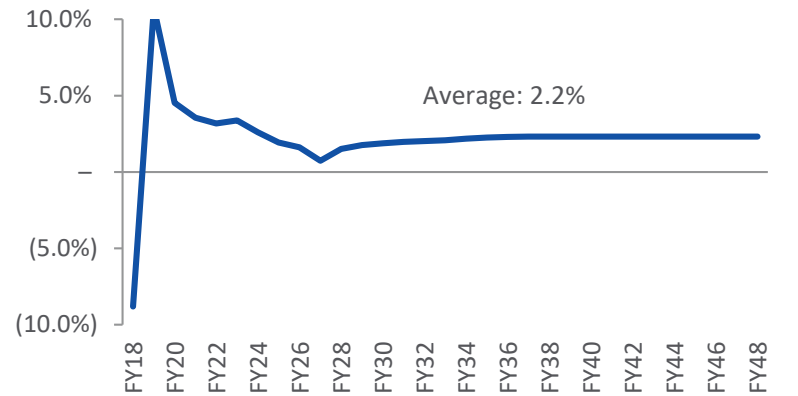
### Nominal Disposable Personal Income (\$mm's)



### Change in Population (YoY Growth %)



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







## 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 in 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 following two pages use NTSD metrics to calculate potential debt capacity for Puerto Rico:

- |                           |                                   |
|---------------------------|-----------------------------------|
| I. Debt Service / Revenue | III. Debt / State Personal Income |
| II. Debt per Capita       | IV. Debt / GDP                    |

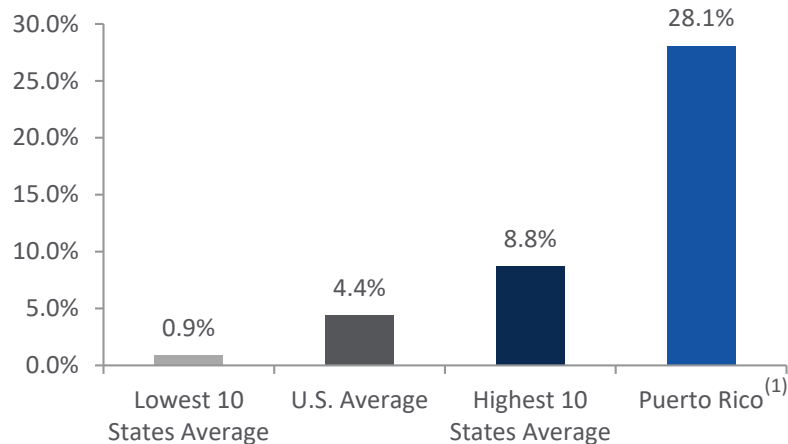
<sup>1</sup>Moody's Investors Services' U.S. State Government Debt Analysis, May 2017.



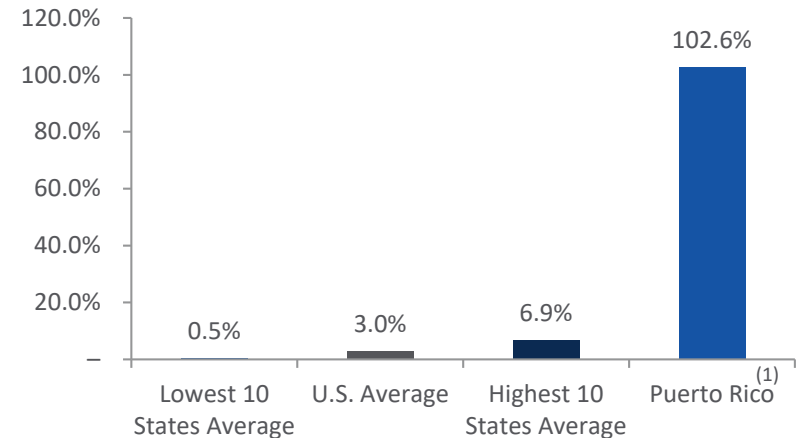
## U.S. state debt metrics provide a benchmark for potential debt capacity

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

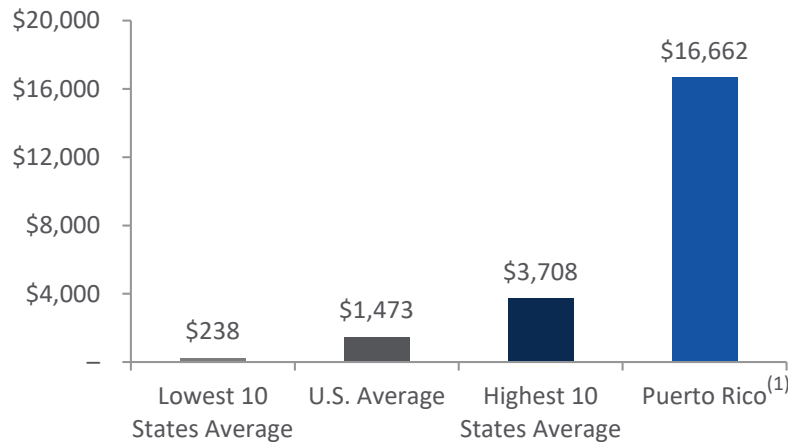
### I. Debt Service to Revenues



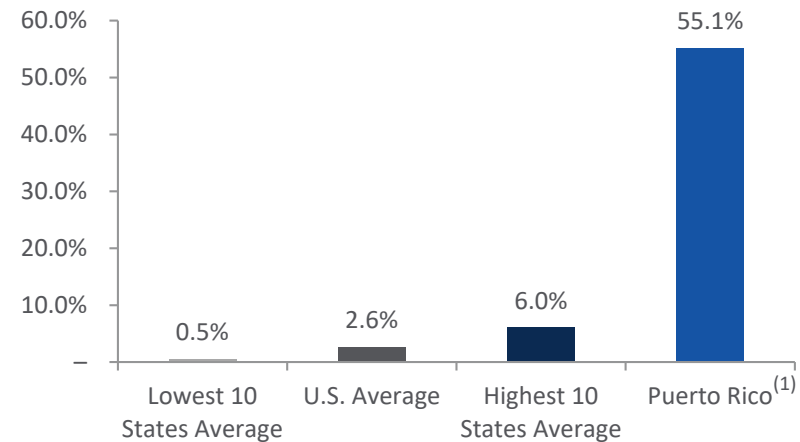
### III. Debt to State Personal Income



### II. Debt Per Capita



### IV. Debt to GDP



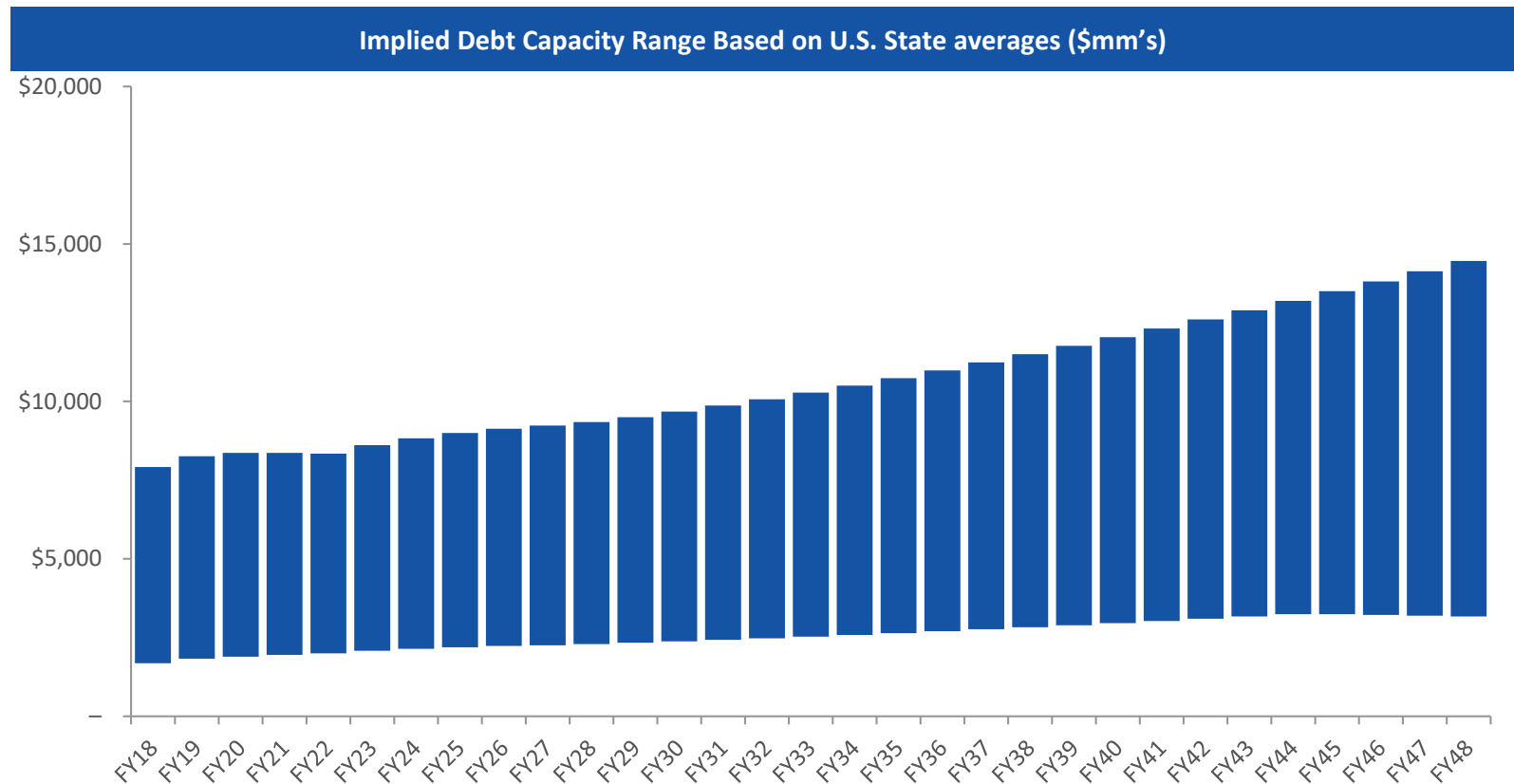
Source: Moody's Investors Services, U.S. State Government Report (May 3, 2017).

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.



## Illustrative Implied Debt Capacity Range (Based on Average 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.





# GOVERNMENT TRANSFORMATION

DELIVERING HIGHER QUALITY SERVICES THROUGH AN ENHANCED GOVERNMENT MODEL

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



GOVERNMENT OF PUERTO RICO



# Government Transformation and better revenue management is expected to yield annual savings of \$3.0bn by FY22

New Government Initiatives

Objective

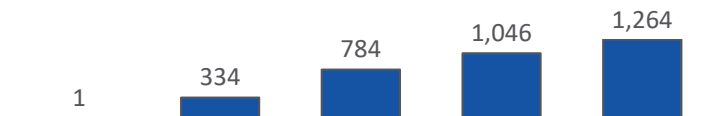
FISCAL MEASURES IMPACT (\$mm's) <sup>1</sup>



**NEW GOVERNMENT MODEL**

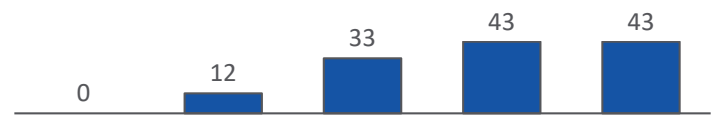
- New Government Model is the blueprint for the optimization of government agencies and services while improving quality of services offered.

FY18    FY19    FY20    FY21    FY22



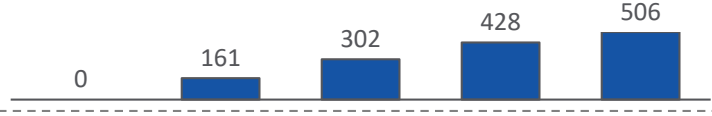
**PROCUREMENT REFORM<sup>2</sup>**

- Build a centralized, transparent, and efficient procurement function that ensures best value for money by acting as a single customer, rather than separate entities, when buying goods and services.



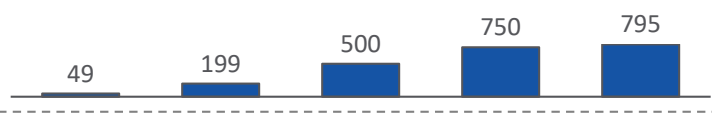
**REDUCTION OF APPROPRIATIONS**

- Reduce appropriation levels for UPR and Municipalities, while revamping Incentives Code, will stimulate the necessary adjustments and lower dependency from the Central Government.



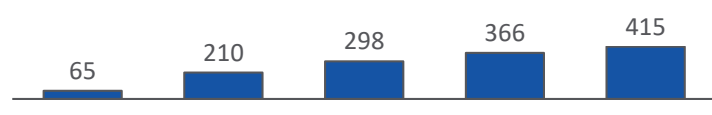
**NEW HEALTHCARE REFORM**

- By streamlining policy and institutionalizing controls, healthcare expenses will be reduced and benefits optimized.



**TAX COMPLIANCE AND FEES ENHANCEMENT**

- Enforcement of tax compliance measures is the main Government lever to increasing revenues while not raising taxes.



**TOTAL**

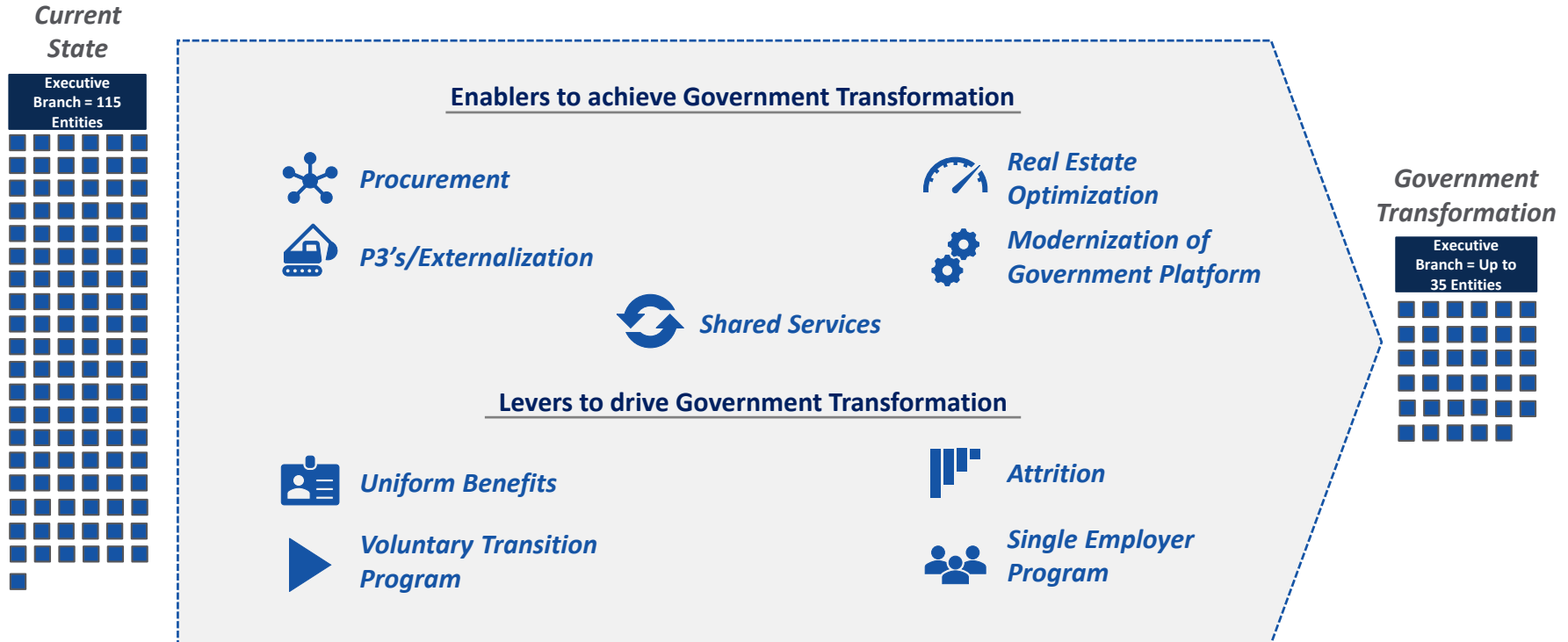


<sup>1</sup> All measures reflect gross savings. Estimated total net costs to implement are \$132mm over the five year period.

<sup>2</sup> Third party consultants are currently conducting a thorough analysis of all applicable expense categories. Estimated savings will be updated and are anticipated to be higher than current estimates.



# The Government aims to achieve savings through reducing expenses by transforming the way Government operates and increasing revenues while avoiding the imposition of new taxes and focusing on compliance initiatives





# NEW GOVERNMENT MODEL



# Recently approved New Government of Puerto Rico Act is an additional vehicle that will enable streamlined legislative approval of the Government’s transformation/New Government Model

Approved 12/18/17

## 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 115 entities causes inefficiencies and ineffective government.
  - Too many departments perform similar or identical processes.
  - Central oversight is limited.
- As part of the overall Government transformation, Puerto Rico plans to address the inefficiencies within the Executive Branch through a careful analysis of service offerings that will allow for externalizations and consolidations of agencies.
- Specifically, the Government plans to reduce the Executive Branch from 115 entities to a maximum of 35.

On January 9, 2018, the Government announced the first five Reorganization Plans

## Evaluation Process

1

### Evaluation & Reorganization Plan



- The Governor is to evaluate adjustments or consolidation of either programs or entities.
- That evaluation is to 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 expressing their approval or rejection of 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

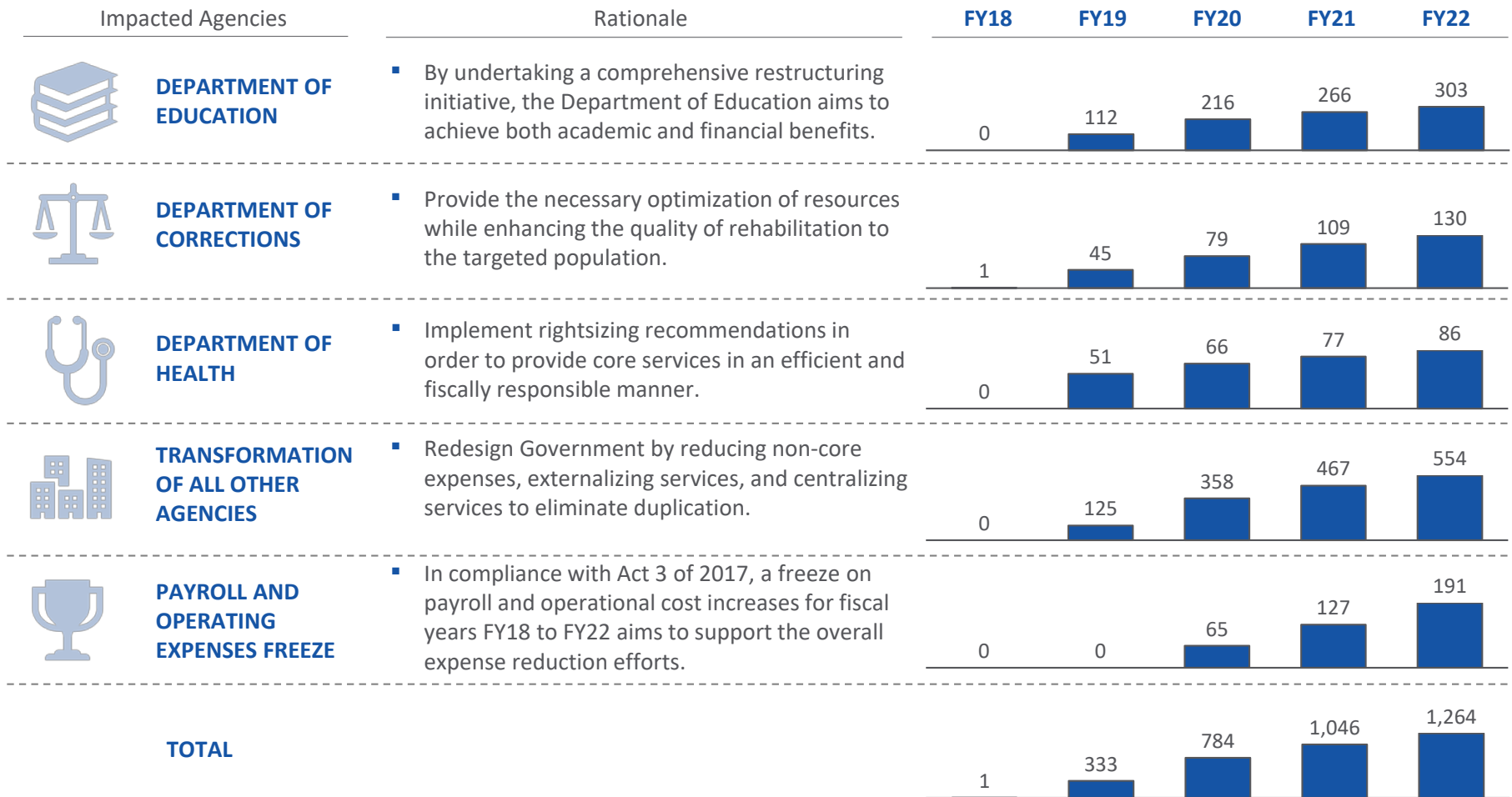


- Bill to amend organic acts and other laws is introduced.
- Effectiveness of approved Reorganization Plans is temporary until the particular organic act is amended.





## New Government Model: Summary of Impact

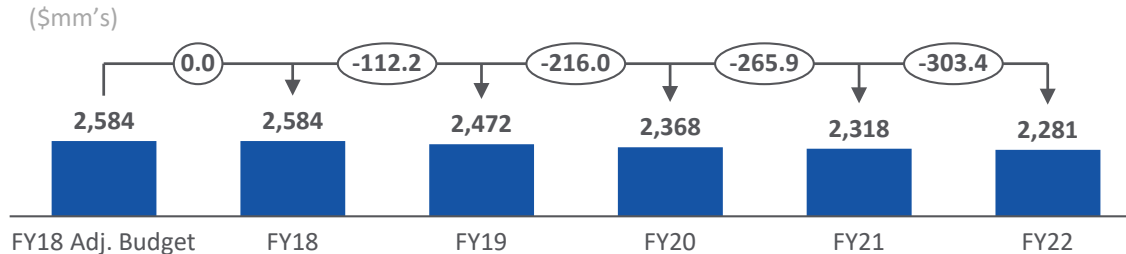


<sup>1</sup> All measures reflect gross savings. Estimated total net costs to implement are \$132mm over the five year period.



## Reducing total expense base while improving educational outcomes

### DEPARTMENT OF EDUCATION SPEND, \$2.5bn per year



**\$303.4mm**  
ANNUAL SAVINGS  
BY FY22

### 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 11% 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 FY22.
- 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>	
1,112	805
<b>STUDENTS (K-12)</b>	
346k*	292k

\*- Enrolled student count as of August 2017



# Annualized savings of \$303mm will be achieved by the transformation of the educational system

## DEPARTMENT OF EDUCATION TRANSFORMATION LEVERS

(\$mm's)

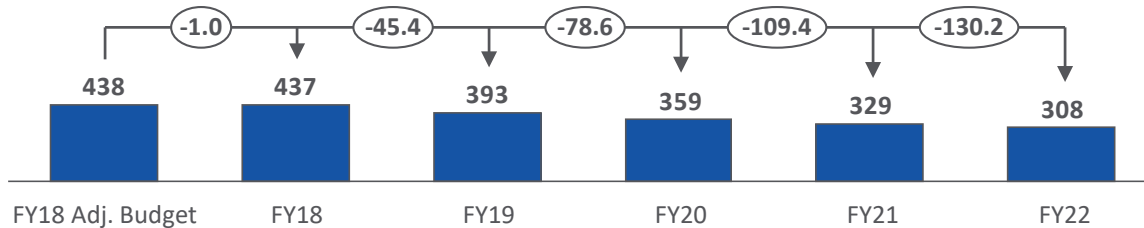
INITIATIVE	RATIONALE	FY19	FY22	TARGET
<b>IMPROVE STUDENT TEACHER RATIO</b>	<ul style="list-style-type: none"> <li>Improving the student teacher ratio from an average of 11:1 to 14:1 by FY22 will align Puerto Rico school system with comparable stateside benchmarks.</li> </ul>	83.9	190.3	14:1 STUDENT TEACHER 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>	22.6	90.7	805 SCHOOL TARGET LEVEL BY 2022
<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>	5.8	22.4	REDUCING 35 DISTRICTS TO 7
<b>TOTAL</b>		112.3	303.4	



## 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

(\$mm’s)



**\$130.2mm**  
ANNUAL SAVINGS BY FY22

### 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</b>	
\$95.8	\$75.3
<b>JUVENILE PROGRAM PER DIEM</b>	
\$691.4	\$369.0
<b>COMMUNITY PROGRAM PER DIEM</b>	
\$7.0	\$4.9
<b># OF CORRECTIONS AGENCIES</b>	
2	1



## 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

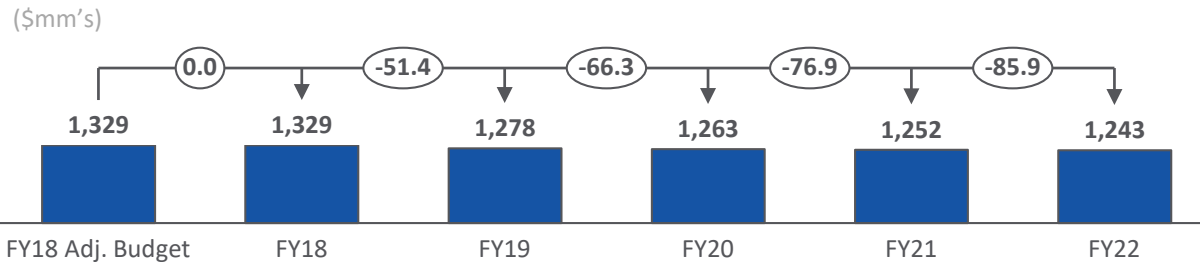
(\$mm's)

INITIATIVE	RATIONALE	FY19	FY22	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>	17.2	46.9	PER DIEM OF \$75.3 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 FY22
<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>	4.9	6.1	PER DIEM OF \$4.9 AT THE END OF FY22
<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>	0.4	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>	11.1	21.6	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>	11.8	34.5	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY
<b>TOTAL</b>		45.4	130.2	



## Maintain high quality of public health services while achieving efficiencies is a high priority for the Health Department

### DEPARTMENT OF HEALTH SPEND, \$1.3bn per year



**\$85.9mm**  
ANNUAL SAVINGS  
BY FY22

### SUMMARY OF DEPARTMENT OF HEALTH TRANSFORMATION PLAN

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

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



## Centralization and consolidation initiatives are expected to yield a savings of \$86mm by FY22

### DEPARTMENT OF HEALTH TRANSFORMATION LEVERS

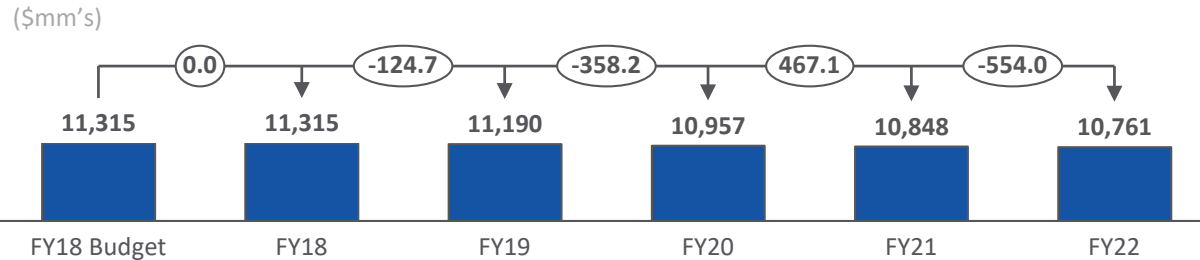
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INITIATIVE	RATIONALE	FY19	FY22	TARGET
<b>PERSONNEL OPTIMIZATION &amp; CENTRALIZATION</b>	<ul style="list-style-type: none"> <li>Normal attrition, voluntary transition program, and uniform medical benefits impact will benefit the Department of Health's 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	73.4	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY  INCREASED OPERATIONAL EFFICIENCY VIA CENTRALIZATION
<b>REGIONAL OFFICES</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>RESTRUCTURING ASEM/RCM</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>		51.4	85.9	



## Transformation of all other agencies by consolidation or externalization of functions or services

### ALL OTHER AGENCIES SPEND, \$11.3bn per year



**\$554.0mm**  
ANNUAL SAVINGS  
BY FY22

### SUMMARY OF 105 AGENCIES TRANSFORMATION PLAN

- A portion of the Executive Branch includes 105 agencies which provide services at a cost of \$11.3bn annually.
- In order to achieve an agile, and efficient Government, the Government is performing reviews of agency programs and services to determine the optimal right sizing actions.
- A careful analysis of service offerings and Government programs will allow for externalizations and consolidations of agency functions or programs to achieve cost savings and improve the quality of services offered.
- The Government has enacted various laws (i.e. Act 122 of 2017) to assist in the implementation of the New Government Model. Personnel related savings would be facilitated by the Single Employer Program, Voluntary Transition Program, and Uniform Medical Benefits initiatives.
- Individual implementation plans will be prepared and actively monitored during the implementation phase to ensure cost savings targets are met.

#### CURRENT STATE      END STATE

##### HEADCOUNT

48.1k <sup>1</sup>	40.5k
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##### AGENCIES

105	Max of 35
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<sup>1</sup> Includes transitory employees





## Savings from personnel measures and improved delivery of Government services are expected to yield gross savings of \$554mm by FY22

### ALL OTHER AGENCIES TRANSFORMATION LEVERS

(\$mm's)

INITIATIVE	RATIONALE	FY19	FY22	TARGET
<b>PERSONNEL OPTIMIZATION</b>	<ul style="list-style-type: none"> <li>Drive higher attrition rates via Single Employer Program and Voluntary Transition Program available to employees when centralizing/externalizing services.</li> </ul>	62.2	264.0	3.1% BASELINE 1.9% LEVERS 50% TRANSITORY
<b>UNIFORM HEALTHCARE INSURANCE</b>	<ul style="list-style-type: none"> <li>Align healthcare insurance benefits to promote uniformity and payroll consistency across agencies.</li> </ul>	58.9	58.9	\$100 UNIFORM MONTHLY BENEFIT
<b>EXTERNALIZATION</b>	<ul style="list-style-type: none"> <li>Transfer services from the Government to outside entities (including not-for-profits) that have proven experience in order to reduce expenses, mobilize resources to areas of need and improve quality of services.</li> </ul>	0.0	4.3	30% REDUCTION OF AGENCY FY18 NON-FF BUDGET SPEND
<b>CONSOLIDATION</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>	3.7	226.8	REDUCTION OF AGENCY FY18 NON-FF BUDGET SPEND
<b>TOTAL</b>		124.7	554.0	



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



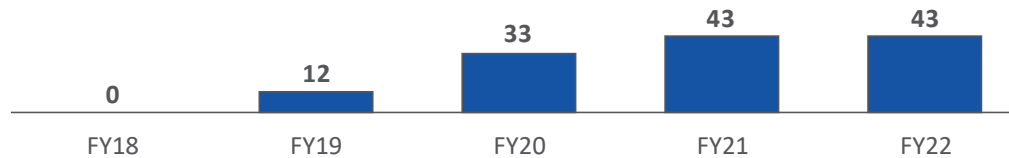
# PROCUREMENT



## Government Procurement Reform will create a centralized operating model with improved technology, transparency and efficiency that translates to substantial cost savings

### PROCUREMENT SAVINGS, \$43mm by FY22

(\$mm's)



**\$42.6mm**  
ANNUAL SAVINGS  
IN FY22

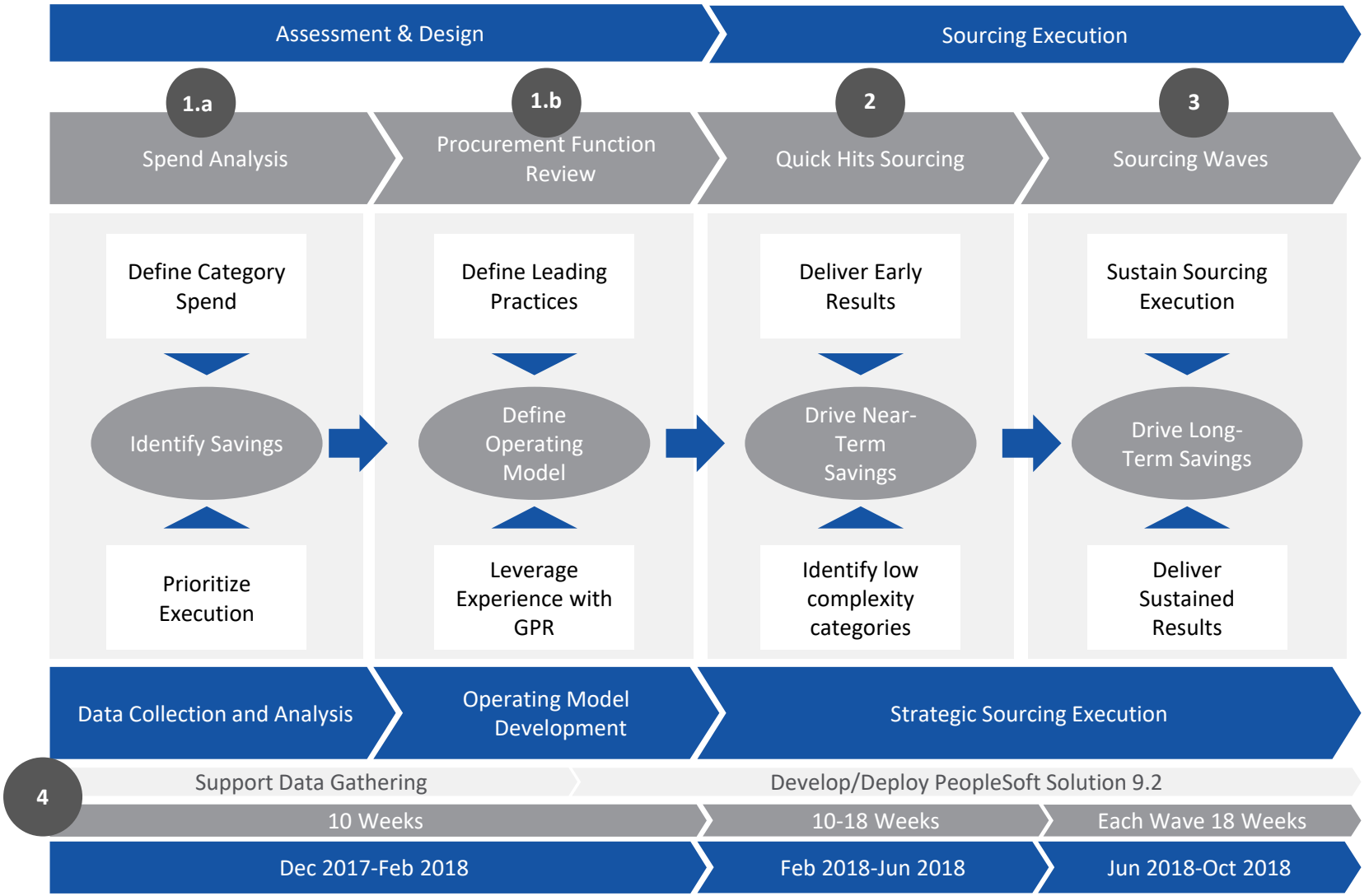
### SUMMARY OF PROCUREMENT REFORM INITIATIVES

- Procurement reform aims to transform Puerto Rico’s inefficient and ineffective decentralized procurement system within 24 months.
- The objective is to build a centralized, transparent, and efficient procurement function that ensures the Government will act as a single customer, rather than separate entities, when purchasing goods and services.
- The three main components of reform are: 1) **new operating model**, 2) **spend management** and 3) **strategic sourcing and improved technology**.
- The new centralized operating model will make the procurement function more efficient and effective by leveraging the purchasing power of the Central Government and improving policies to ensure greater compliance with Government-wide contracts and policies.
- Spending levels will be adjusted by implementing modern strategic sourcing and category management practice and by executing spend analytics capabilities that provide visibility to sourcing spend. **A spend analysis is currently being performed to identify cost savings targets.**
- Investing in innovative technological capabilities will enable procurement processes across the entire procure-to-pay lifecycle and facilitate the execution of a centralized procurement organization.

Current procurement related savings reflects a review of only 40% of Puerto Rico’s addressable spend. Third party consultants are currently conducting a thorough analysis of all applicable expense categories. Estimated savings will be updated and are anticipated to be higher than current estimates.



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

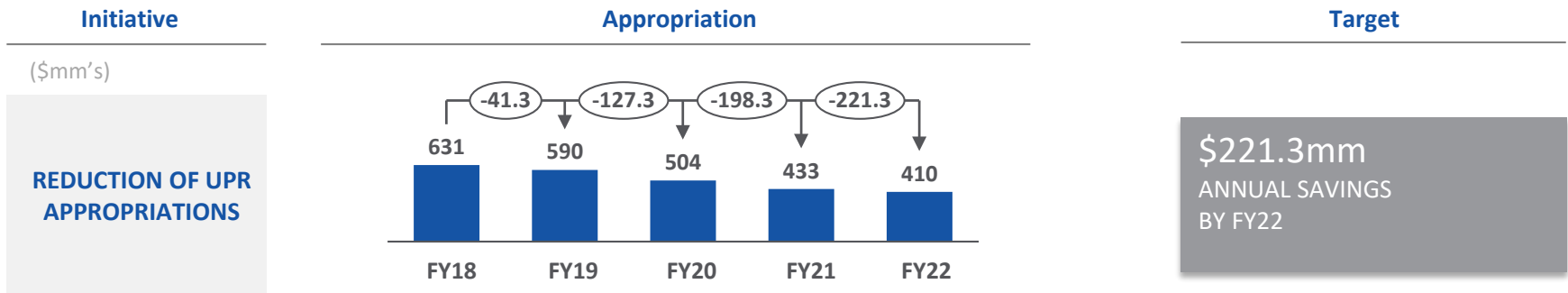




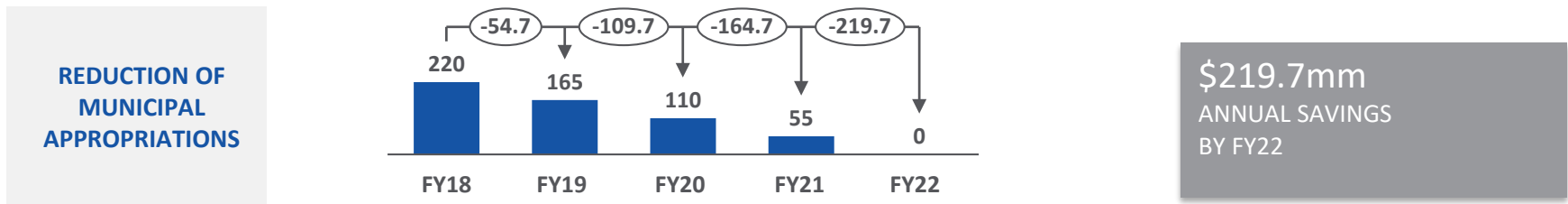
# REDUCTION OF APPROPRIATIONS



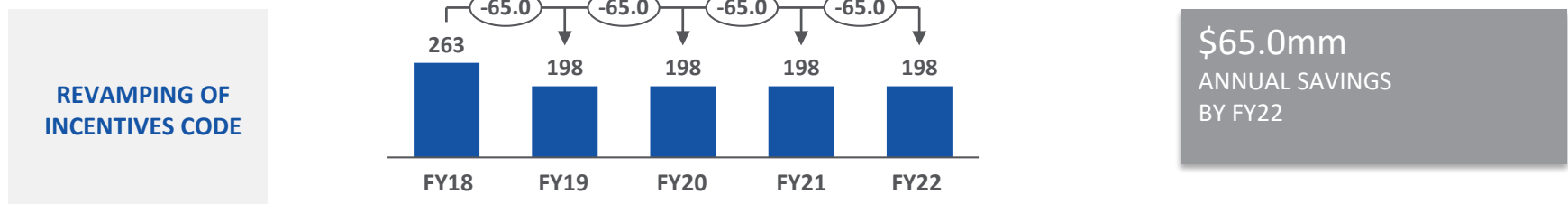
## Reduction of Government Appropriations



- 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 a modernized tax regime that will focus on updated property values, improved property tax collections, cost savings, and regionalization of services that will provide cost efficiencies.



- A detailed analysis of the cost-benefit of the economic incentives offered by the Government to diverse industries and economic activities yielded savings of \$35mm per year (already incorporated in the New Fiscal Plan baseline). As part of the New Incentives Code, an additional \$65mm in savings will be generated by eliminating incentives that have a negative ROI.



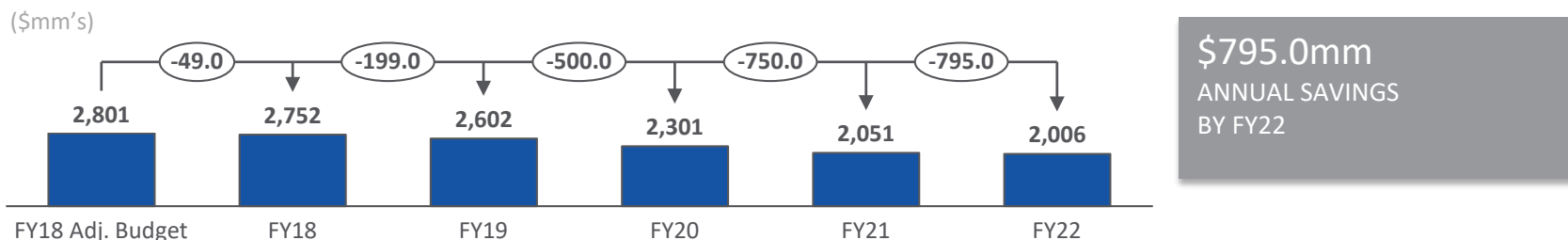


# HEALTHCARE REFORM



## Establish a comprehensive healthcare model to drive efficiency and quality service

### HEALTHCARE SPEND, \$2.8bn per year



### 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.
- 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 are mostly delegated to MCOs, limiting information sharing and hindering trend development capabilities to identify cases. A Medicaid Fraud Control Unit (MFCU) will be established 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.
- The Medicaid Management Information System (MMIS) implementation will be key for data mining, identifying population health trends, and modifying benefits packages aligned with identified beneficiary 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



## Optimize, standardize, and modernize the current healthcare system in Puerto Rico

### Key Pillars:



Expand current regional structure to a Single Region



Promote competition among MCOs for market share offerings



Allow Patient Choice by letting members choose their MCO based on quality, network, and benefits offered



Establish limits to benefits according to the actual needs of the beneficiaries and in alignment with market trends



Implement the Medicaid Management Information System (MMIS)



Establish Medicaid Fraud Control Unit (MFCU) to reduce waste, fraud, and abuse

### Other Key Initiatives:

#### Improved negotiations with stakeholders:

- Negotiate pharmacy costs based on new formularies, mandatory generics dispensing and population needs.
- Establish Preferred Provider Specialty Hospitals with capitated payment agreements.

#### Optimization of programs:

- Establish programs with focused on care coordination for beneficiaries with chronic conditions.
- Implement incentives for preventive care, healthy habits, and to promote higher quality of services.
- Establish centers of excellence for special conditions with a limited beneficiary volume, but at a high treatment cost to maximize efficiencies and lower costs, such as pharmacy benefits (i.e., Department of Health HIV Program).

#### Establish a robust infrastructure and monitoring to support information exchange:

- Establish a population health and integrated health program.
- Implement patient accountability and responsibility measures.
- Establish a referral system across health systems.
- Implement value-based payments and uniformed fee schedules.

Develop and implement an education program for providers, payors, and beneficiaries.



## Fiscal measures from improving efficiencies, adjusting benefits, and developing a new healthcare model are expected to save \$795mm by FY22

### HEALTHCARE REFORM TRANSFORMATION LEVERS

(\$mm's)			FY19	FY22	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 benefit 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		773.0	NET SAVINGS: \$199MM FOR FIRST YEAR
<b>TOTAL</b>		199.0	795.0		



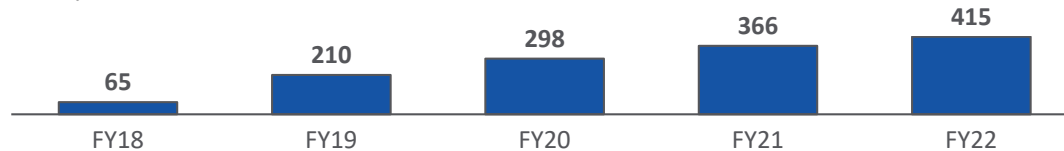
# TAX COMPLIANCE AND FEE ENHANCEMENTS



## Increased tax compliance and collections reduce leakage through advanced analytics

### TAX COMPLIANCE AND FEES ENHANCEMENT SAVINGS, \$415mm by FY22

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



**\$415.0mm**  
ANNUAL SAVINGS  
BY FY22

### SUMMARY OF TAX COMPLIANCE AND FEES ENHANCEMENT

- For years, the tax system has been impacted by high rates of non-compliance. Hacienda’s tax collection center has antiquated technology and analytical tools and data that hinder its ability to detect tax evaders.
- The Government has identified revenue enhancement reforms to increase tax revenues by broadening the tax base, enforce compliance with existing tax laws, and optimize specific tax rates and fees.
- Transforming the collection of taxes and improving technology will enhance compliance of existing tax laws for all businesses and individuals in Puerto Rico.
- It is important to note that the revenue enhancement measures projections are subject to material changes that may be required as a result of the Tax Cuts and Jobs Act of 2017 and its impact on Puerto Rico.
- As part of the local corporate tax reform, the Government will need to consider the following:
  - Account for the corporate tax rate and GILTI rules of the Tax Cuts and Jobs Act of 2017.
  - Provide certainty to Controlled Foreign Corporations operating in Puerto Rico.
  - Promote economic development and growth.

#### 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 \$415mm through FY22

### TAX COMPLIANCE AND FEES ENHANCEMENT

(\$mm's)

INITIATIVE	RATIONALE	SUB-INITIATIVE	FY19	FY22
TAX COMPLIANCE	<p><b>Increase tax compliance and collections by:</b></p> <ul style="list-style-type: none"> <li>Transitioning to an integrated tax administration software (“Unified Internal Revenue System”)</li> <li>Working smarter on tax debt collection through advance analytics and providing more flexible payment plan rules</li> <li>Promoting voluntary compliance program</li> <li>Establish an electronic record for certain SUT Credits and point of sale monitoring</li> <li>Increase collection of SUT on internet sales</li> </ul>	Fiscal terminal	15.0	45.0
		Internet Sales Tax	30.0	60.0
		Correspondent audits	15.0	15.0
		Installment Agreements	20.0	30.0
		Large taxpayer cases	15.0	20.0
		Call Center	5.0	10.0
		Credit bureaus	5.0	5.0
		Electronic Filing of Tax Liens	5.0	15.0
		Transition to GenTax	0.0	100.0
		<b>Subtotal</b>	<b>110.0</b>	<b>300.0</b>
ADJUST TAXES AND FEES	<p><b>Maintain fees including licenses, traffic fines, and other charges for services to maintain market trends.</b></p>	Tobacco products excise	35.0	35.0
		Gaming tax	40.0	40.0
		Licenses and other fees	20.0	20.0
		Medical marijuana	5.0	20.0
		<b>Subtotal</b>	<b>100.0</b>	<b>115.0</b>
<b>TOTAL</b>			<b>210.0</b>	<b>415.0</b>



# REGIONALIZATION OF SERVICES

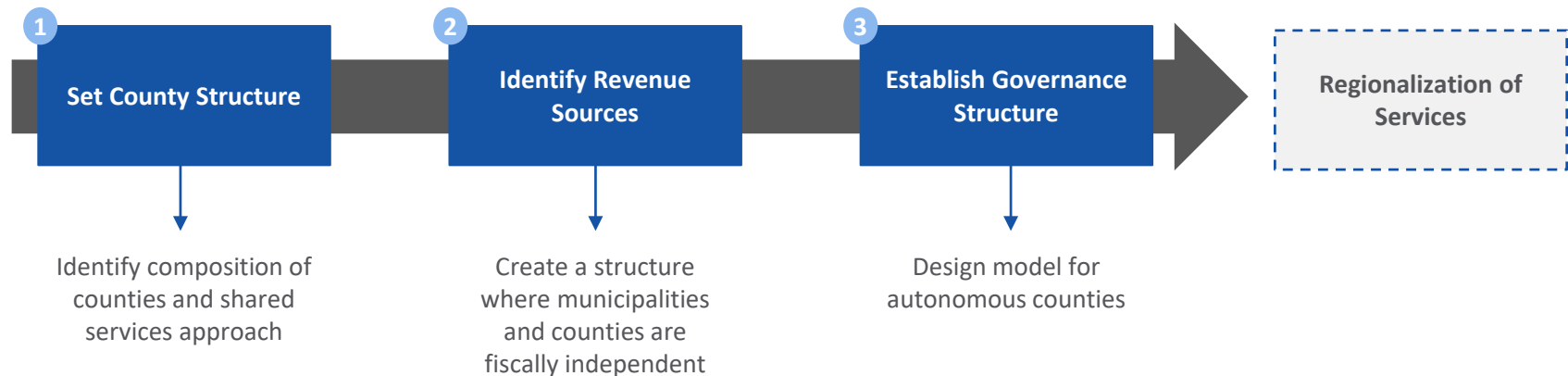




## Regionalization of services will help municipalities achieve economies of scale that will alleviate negative impact in revenues due to reduction of subsidies and the Hurricanes

- 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.
- A guiding principle is that all counties have to be fiscally independent and self-sufficient, without the need for any financial support from the Central Government.
- 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.

### Roadmap to County System Transformation





## The shared services approach will generate efficiencies by consolidation of functions

### Composition

- Municipal distribution is based on two main criteria: total population and urban-rural areas.
- In order to have a balanced distribution between these two factors, four possible county-like structures have been identified.

### Shared Services Approach

- There are five 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.
- Counties could be funded by modifying the property tax system that currently appraises property taxes at 1957 levels, replacing it with an updated property appraisal system.
  - Re-appraise property values at current market rates by phasing in re-appraisals of property over a period of 4-5 years.
  - Register previously unregistered properties to capture property taxes from non-compliant properties.
  - Identify and re-categorize properties that are misclassified (e.g. commercial properties incorrectly classified as residential).



# **GOVERNMENT PMO AND IMPLEMENTATION STRATEGY**



## Introduction to implementation

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

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

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

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

### Agency Program Management Offices (PMOs)

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

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



Accountability



Efficiency



Reliability



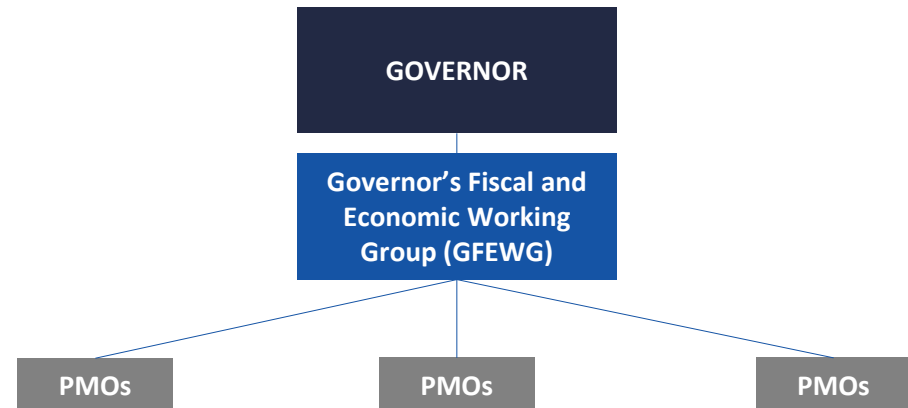
Transparency



## 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
- No new legislation is required for enabling the GFEWG.





Accountability



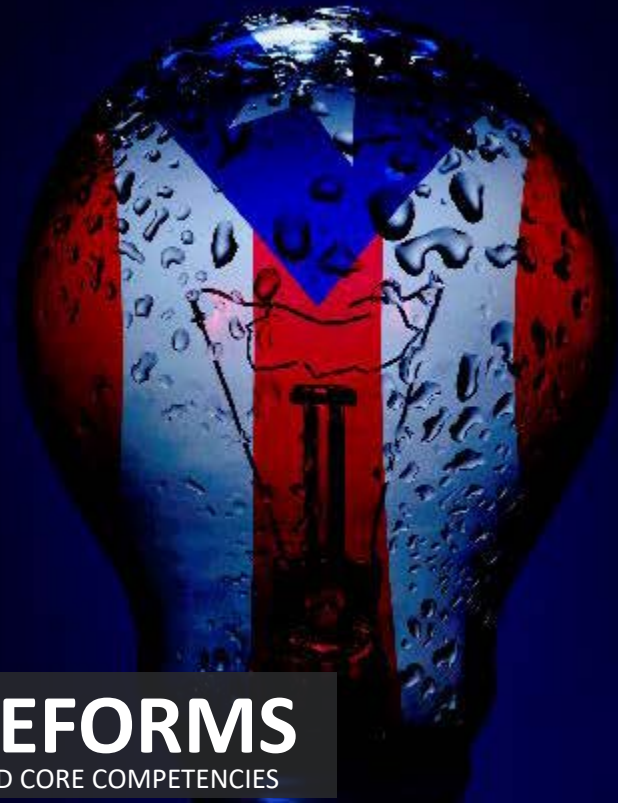
Efficiency



Reliability



Transparency



# STRUCTURAL REFORMS

A FOCUS ON PUERTO RICO'S STRENGTHS AND CORE COMPETENCIES

STRUCTURAL REFORMS | INTEGRATED FINANCIAL MANAGEMENT



GOVERNMENT OF PUERTO RICO



## Structural reforms drive economic growth, but the impact is felt over the long run

The current crisis creates momentum to implementing a comprehensive structural reforms package to attract private capital investment and achieve strong, sustainable and balanced economic growth.





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



## Ease of Doing Business

### Tax Reform and Incentives Code

- Tax Reform will provide the necessary modifications to help counteract the Tax Cuts and Jobs Act.
- The new Incentives Code will rationalize all economic development incentives, exemptions, subsidies, grants, and credits, based on the ROI to Puerto Rico.
- The Code will conform to the Tax Cuts and Jobs Act to protect and enhance Puerto Rico’s competitiveness.
- The Code will establish a new digital and transparent process for the application, award, and compliance of all incentives.

### Regulatory Reform

- Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector.
- Consolidate all public service & utility regulatory agencies into one.
- Deregulation of land freights to help reduce the price of consumer goods and improve carriers/shippers service.
- Deregulation of occupational licensing to reduce unnecessary hurdles for individuals entering the labor market.
- Modify the condominium law to accelerate decision-making.



## Energy Reform

### Utility Reform

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



## Human Capital

### Welfare Reform

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

### Workforce Reform

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



## 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.



## Government Transformation

### New Government Model

- Establish a right-sized, integrated, and agile government that facilitates the growth of the private sector.
- Consolidate & externalize the production of economic statistics to the Federal Government.

### 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).





## The Tax Cut and Jobs Act and the impact of the Hurricanes accelerate the need for a comprehensive tax reform that will spur economic development, lower cost of doing business and make Puerto Rico more competitive

INITIATIVE	RATIONALE	FY18	FY19	FY20	FY21	FY22
INDIVIDUAL INCOME TAX	<ul style="list-style-type: none"> <li>A reduction in individual income tax rates will result in a maximum tax rate <b>lower than 30%</b>.</li> </ul>	-100	-273	-284	-291	-294
REGULAR CORPORATE INCOME TAX	<ul style="list-style-type: none"> <li>A reduction in corporate income tax rates will result in a maximum tax rate <b>lower than 30%</b>.</li> </ul>	-50	-188	-196	-202	-204
SALES & USE TAX (“IVU”) B-TO-B	<ul style="list-style-type: none"> <li>A reduction in Sales &amp; Use Tax B-to-B from 4.0%, to 2.0% in FY19 and <b>0% in FY20</b>.</li> </ul>	0	-79	-165	-169	-172
REDUCE TAX RATE TO PREPARED FOODS	<ul style="list-style-type: none"> <li>A reduction in prepared food tax from 10.5%, to 6.0% in FY19.</li> </ul>	0	-85	-87	-87	-87
TOTAL TAX REFORM		-150	-625	-732	-748	-757




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

The Incentives Code will be more a 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.



## 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 marginal 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 reform will provide a revenue-neutral transition from the Act 154 excise 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 \$450mm in cash and equivalents.
- Incentives for activities high in exports and private capital investment, including the visitor economy, usually have a positive ROI.
- 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.



### 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.



## Energy Reform

### The Transformation Plan is Intended to Provide a Roadmap for a Transformed Energy Sector for Puerto Rico



Provides Puerto Rico with a 21<sup>st</sup> century energy sector that serves as an engine of economic growth while protecting the environment.



Builds energy infrastructure that recognizes the need for a transformed and resilient system, while taking into account the projected decrease in demand.



Achieves low-cost and reliable energy.



Provides sustainable structural and financial models for energy on the Island.



Leverages available federal funding for disaster recovery.



Increases generation from renewable energy.



Provides platform for the implementation of innovative technology to drive efficiencies and improve customer service through operational excellence.



Provides, as applicable, professional and independent governance.



Relies on a robust and transparent regulatory framework to regulate private and monopoly components of the new energy sector, promote private investment, and implement and manage efficient rate designs and effective incentives.



## Human Capital Reforms



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

- The EITC program will drive economic integration.
- Parameters will be calibrated to the Puerto Rican condition (demographic factors, labor conditions, poverty levels and resources).
- The Local EITC could be modified to be complement any future Federal EITC expand in Puerto Rico (similarly to the 29 States and the District of Columbia).
- Digitalization 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.

## 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 agency operations and services to residents and simplify programs, services and processes. To help agencies modernize their operations to improve efficiency and service delivery 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.

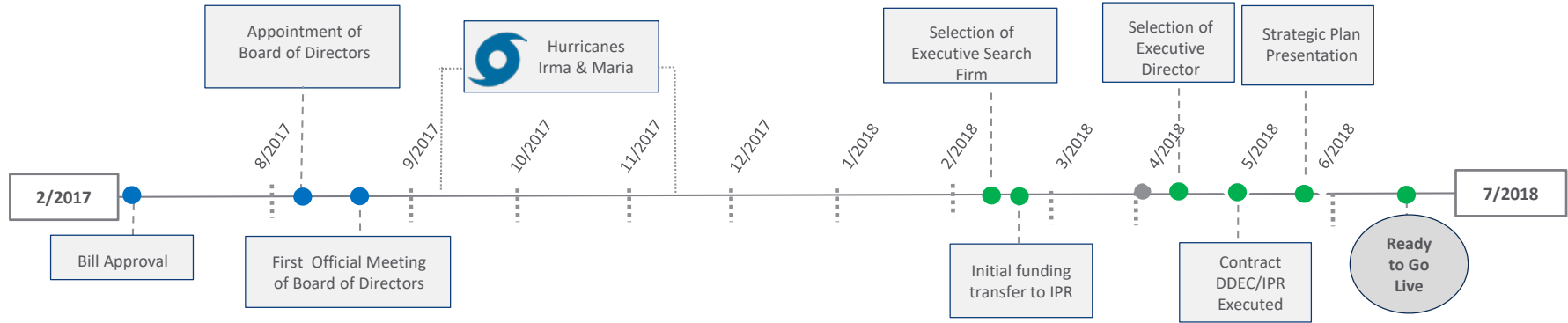


### THE TRANSPARENCY REFORM WILL INSTILL GREATER INVESTOR CONFIDENCE

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



## Invest PR (IPR) - Timeline

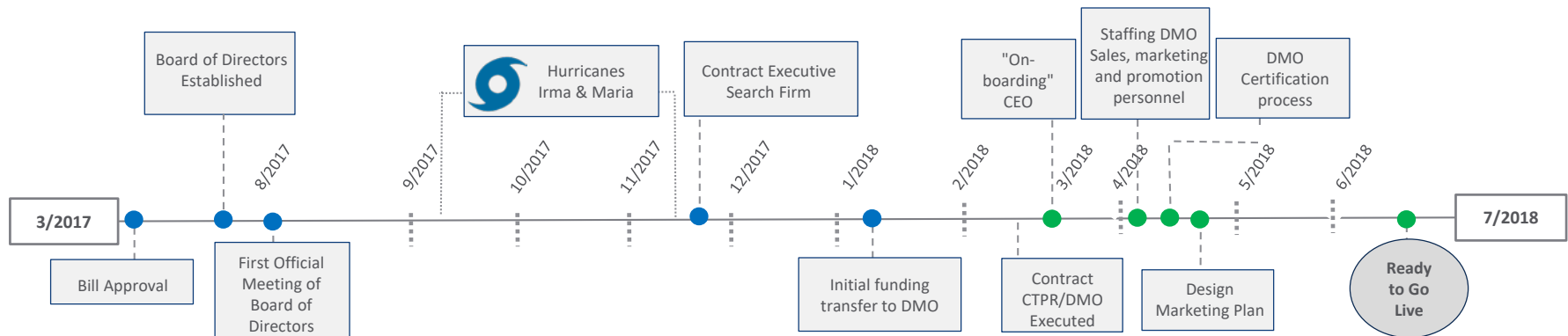


### Achievements:

- Incorporation of Invest Puerto Rico with the Puerto Rico State Department.
- Designation of the members of the Board.
- Approval by the Board of Invest Puerto Rico Corporate By-Laws.
- Creation of the following Committees of the Board: (i) Executive Committee; (ii) Audit Committee; and (iii) Ethics Committee.

- Election of certain officers of Invest Puerto Rico.
- Finalize organizational structure of Invest Puerto Rico.
- 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.

## Destination Marketing Organization (DMO) - Timeline



### Achievements:

- Incorporation of DMO with the Puerto Rico State Department.
- Designation of the members of the Board.
- Approval by the Board of DMO Corporate By-Laws.

- Contract executive search firm.
- Contract Project Manager to established DMO.
- Operating Funds Transfer from CTPR to DMO.



# INTEGRATED FINANCIAL MANAGEMENT





## Integrated financial management function proposed mission and critical objectives

**Puerto Rico's integrated financial management function will protect fiscal responsibility, promote long-term economic sustainability, and ensure responsible resource allocation in accordance to the Fiscal Plan and the annual budget.**

### CRITICAL OBJECTIVES

#### CONTROLS & ACCOUNTABILITY

- Standardize and implement accounting processes.
- Establish and enforce disbursement priorities.
- Steer the island-wide implementation of financial and accounting systems.
- Produce the required reports and help monitor fiscal plan implementation, right-sizing, and recovery spending.

#### RISK MANAGEMENT

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

#### FISCAL RESPONSIBILITY

- Enforce and manage a consolidated treasury for the Government.
- Protect and enhance collections and revenue streams.
- Estimate revenues and exercise budget oversight.
- Establish effective expense controls and oversee the implementation of the procurement reform.

#### COMPLIANCE & TRANSPARENCY

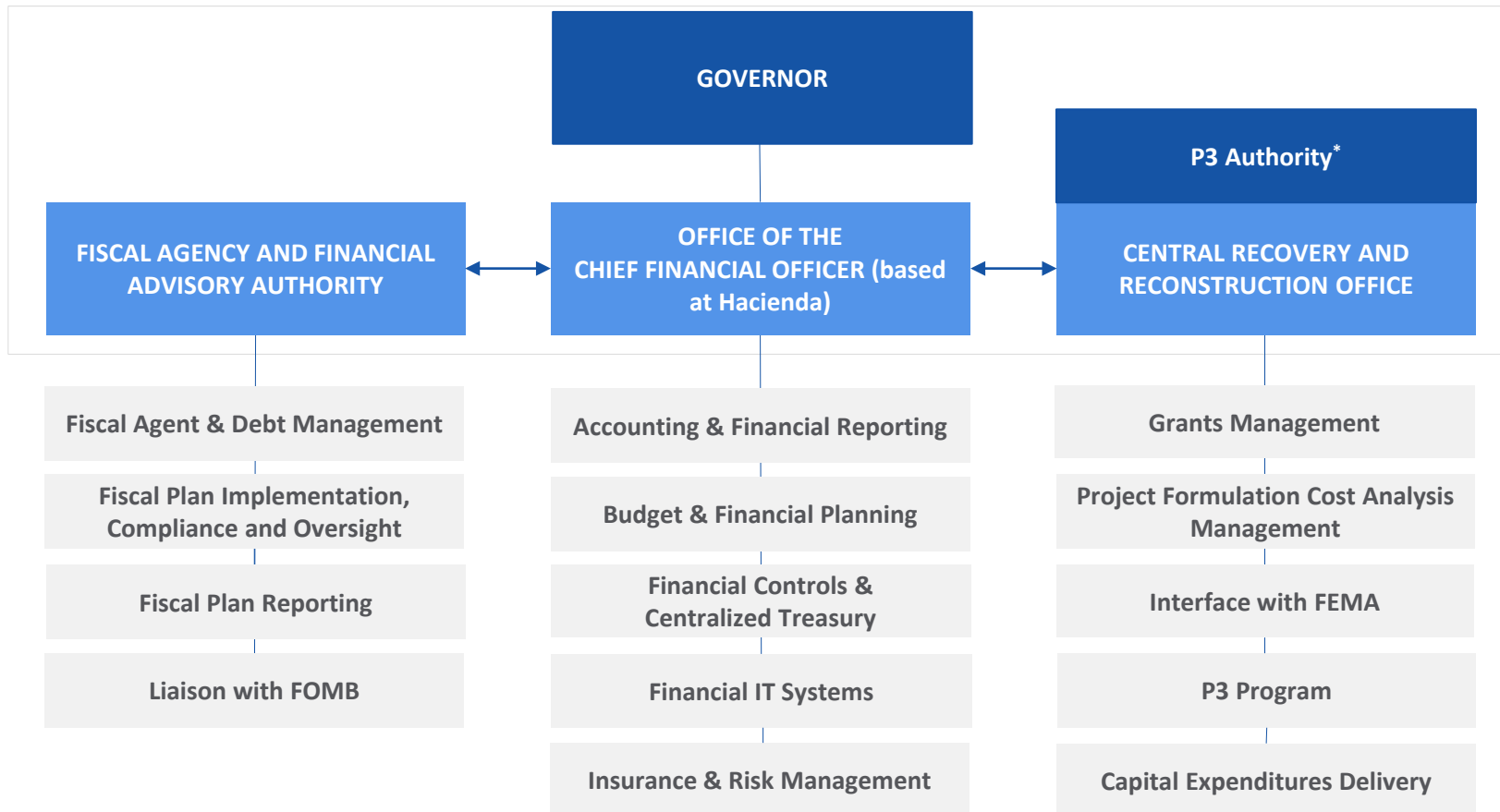
- Reinforce timeline to release pending audited financial statements.
- Establish a new process to assure timely release of audited financials for FY18 onwards.
- Drive the comprehensive upgrade and standardization of accounting and IT systems across all agencies.
- Produce and publish comprehensive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



## Implementing an integrated financial management function is a key component to enhance transparency

**Current Situation** – Puerto Rico’s financial management functions are currently dispersed across various specialized agencies and further fragmented at the agency level.

**Proposed Solution** – Consolidate most central financial management functions and agency financial operations to provide greater uniformity and accountability.



\*To be named PR Revitalization Authority once reorganization plan is implemented.



## The implementation of these immediate work streams will require greater collaboration and drive the integration of resources into Government

CAFR & REPORTING TO FOMB	CENTRALIZED TREASURY & LIQUIDITY MANAGEMENT	FINANCIAL IT SYSTEMS INTEGRATION	BUDGET DEVELOPMENT AND MONITORING
<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>	<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>▪ 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</li> <li>▪ Leverage new forecasting, e-settlement, and analytics capabilities to support all OCFO functions</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</li> </ul>



## Audited Financials Timeline Update

### Financial Reporting Update

- The pre-audited financials are currently being finalized for FY16 and FY17.
- Key deliverables are: 1) Bank Reconciliations, 2) Financial Statement Analyses, and 3) Draft Financial Statements
- Target Dates of final packages are:
  - FY16 – February 2018
  - FY17 – April 2018

### Audited Financial Statements Timeline

- Two separate teams from KPMG will work on the FY16 and FY17 audits concurrently.
- A two month turnaround from KPMG is planned once they receive the final draft financials.
- Based on the progress of the FY16 and FY17 financials, the audited financial statements are on track to be finalized by the end of June 2018.

Financial Reporting Status	June 2016 Draft FS			June 2017 Draft FS		
	Status	Completion %	Target Date	Status	Completion %	Target Date
1 Calculation of Lottery Revenues	On-track	75%	Dec-17	On-track	25%	Jan-18
2 Fund Balance (Equity) Presentation & Compliance Assessments	On-track	50%	Jan-18	On-track	0%	Feb-18
3 Calculation of Payroll & Related Expenses	Caution	25%	Jan-18	Caution	0%	Jan-18
4 Valuation of Capital Assets & Leases	On-track	50%	Jan-18	On-track	0%	Mar-18
5 Calculation of Pension and Retirement Liabilities	Caution	25%	Jan-18	On-track	0%	Feb-18
6 Calculation of Expenses and Payables	On-track	25%	Feb-18	On-track	0%	Mar-18
7 Journal Entries Creation & Finalization	On-track	50%	Feb-18	On-track	25%	Apr-18
8 Bank Reconciliations and Timing of Cash Movement Assessment	On-track	25%	Feb-18	On-track	0%	Apr-18
9 Calculation of Revenues and Accounts Receivable	On-track	25%	Feb-18	On-track	25%	Apr-18
10 Debt and Obligation Balance & Compliance Assessments	On-track	50%	Feb-18	On-track	25%	Mar-18
11 Review of Component Entities as Reporting Units	On-track	50%	Feb-18	On-track	25%	Apr-18
12 Budget to Actual Comparison	On-track	25%	Feb-18	On-track	25%	Mar-18
13 Finalization of Draft Financial Statements & Footnotes	On-track	0%	Feb-18	On-track	0%	Apr-18

An entirely new process will be implemented for the FY18 audited financial statements. This process will commence before the end of the current fiscal year and will leverage monthly closings and other interim steps and information requests.

Complete
On-track
Caution
Off-track