



The Economic and Fiscal Reconstruction Plan of Puerto Rico

The Municipal Forum of New York

**Mr. Carlos M. García
Chairman and President**

April 16, 2009



1. Introduction and Action taken in the first 100 days

2. The Economic and Fiscal Reconstruction Plan

3. Financial Stabilization Measures



Puerto Rico is a Regional Economy of the U.S.

Factors	Description
Economic Relation with the U.S.	<ul style="list-style-type: none">• P.R. is a Top 20 trading partner of the U.S.• Resilient consumer sector• 41% of GDP is manufacturing / Top 5 pharmaceutical cluster in U.S.
Favorable Demographics	<ul style="list-style-type: none">• Population ~4.0 million.• Population ranks higher than 25 states; comparable to Oregon• Slightly younger: median age is 32 years versus 35 years in U.S
U.S. Regulatory System	<ul style="list-style-type: none">• U.S. Constitutional and Legal Protection• U.S. Banking and Financial Regulatory System• U.S. Federal Court Presence and Intellectual Property Protection



GDB has a comprehensive role and an adequate capital base

Comprehensive Role

Banker

- Public
- Private

Fiscal Agent

- Metrics and Monitoring
 - Fiscal Compliance
 - Public Corporations
 - Central Government

Objectives

Fiscal Reconstruction
Economic Reconstruction
Sustainable Development

- Treasury and ALM*
- Asset Management
- Investment Strategies

Financial Advisor

- Macro & Regional Analysis
 - Economic Modeling
 - Statistical Reliability

Strategic Planner

Ratings: **BBB (Stable) / A-2 S&P**
Governance: **7 member board (6 from private sector)**

Balance Sheet** (millions) Mar-31-09

Invested Assets	\$4,819
Loans	6,757
Other Assets	920
Total Assets	\$12,496
Deposits	\$5,972
Bonds and Notes	3,311
Other Liabilities	791
Total Liabilities	\$10,074
Net Assets	\$2,422
Net Assets/Total Assets	19.4%

Source: GDB. Dollars in millions.

*ALM = Asset and Liability Management.

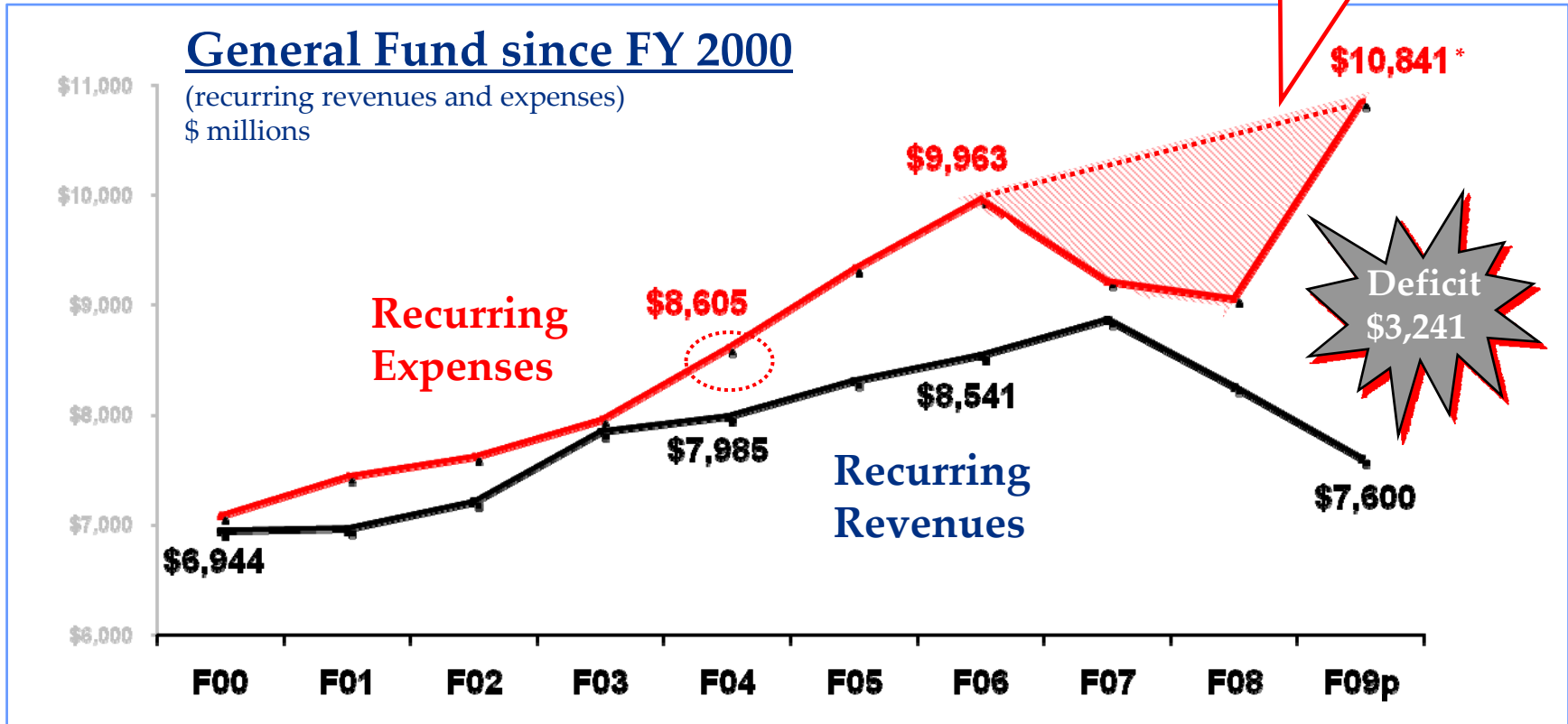
** Consolidated GDB balance sheet. Preliminary and subject to change.



Fiscal Emergency: due to a recurrent gap between revenues and expenses

- In FY 2004, expense growth accelerated
- Temporary measures to postpone expenses in fiscal years 2007 and 2008 exploded in 2009
- Reported deficits were covered with non-recurring measures that have run out

Expenses not taken into account in the budget



Source: P.R. Planning Board, 2008 Transition Reports.

* Excludes payment for \$1,000 million of a portfolio of tax receivables from the PR Treasury Department.

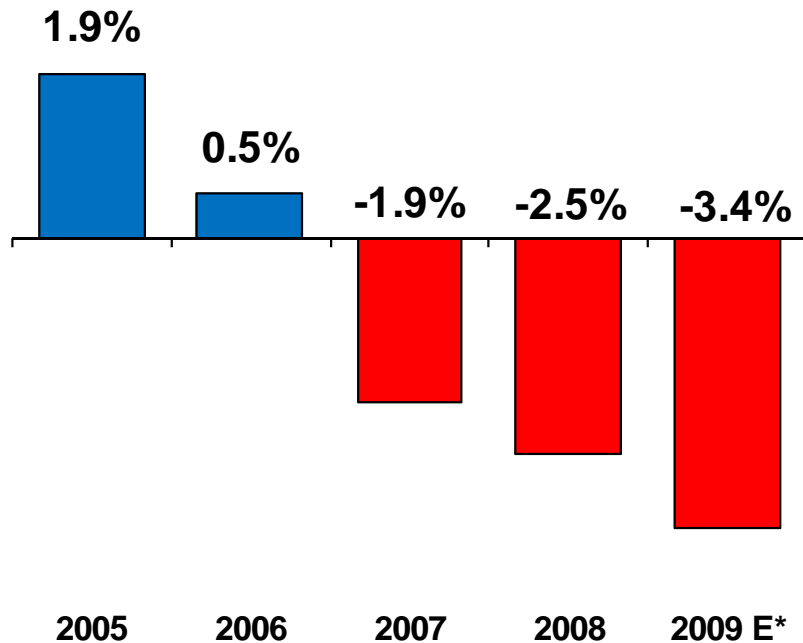


We have recognized the challenges affecting Puerto Rico

1

Economic Recession

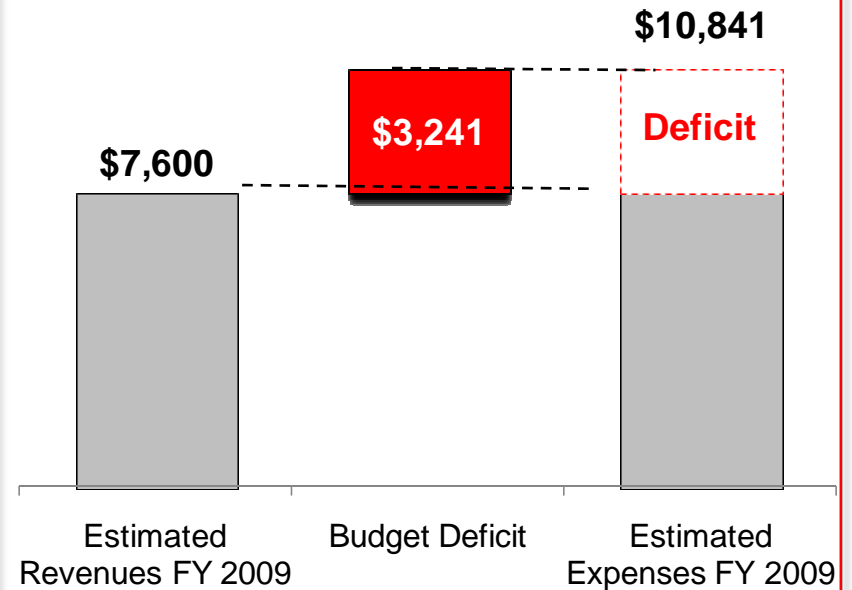
Real GNP Growth



2

Fiscal Emergency

General Fund Data (Million)



We have responded with swift action

Fiscal and Economic Challenges:

- **Economy in recession**
- **Need of stimulus and investment**
- **Fiscal deficit of \$3.2 bn**
- **Multi-Year Budget Plan**

**SWIFT
ACTION**

We have taken action:

- **Developed a Reconstruction Plan for the next 4 years**
- **Have enacted 7 bills to implement the Plan**
- **Enhanced investor relations program**
- **Strong fiscal agent**

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3. **Financial Stabilization Measures**



The Executive and Legislative Branches worked together to successfully approve a Reconstruction Plan with three main goals

Goals of the Reconstruction Plan

- 1. Stabilize the fiscal situation**
- 2. Safeguard Puerto Rico's investment grade credit**
- 3. Rebuild the local economy**

1

Enacted Legislation Jan-14-09

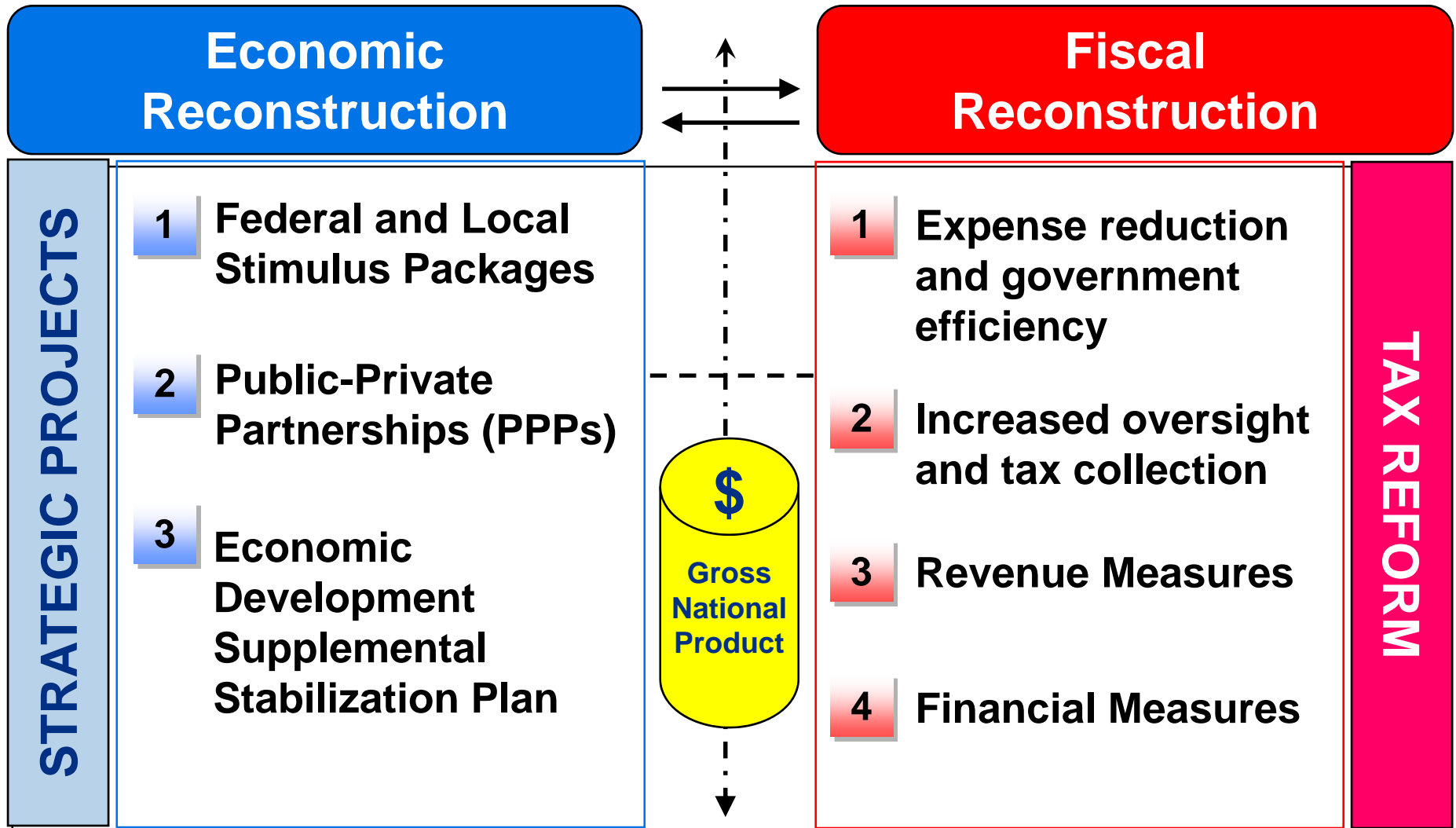
- Act # 1:** Additional 1% allocation to COFINA
- Act # 2:** Temporary use of deficit financing
- Act # 3:** PRIFA Corpus Account restructuring
- Act # 4:** Temporary increase in limit on GDB loans

2

Enacted Legislation Mar-09-09

- Act # 7:** Fiscal Emergency Act
- Act # 8:** PRIFA as Federal Stimulus manager
- Act # 9:** Local Stimulus Plan

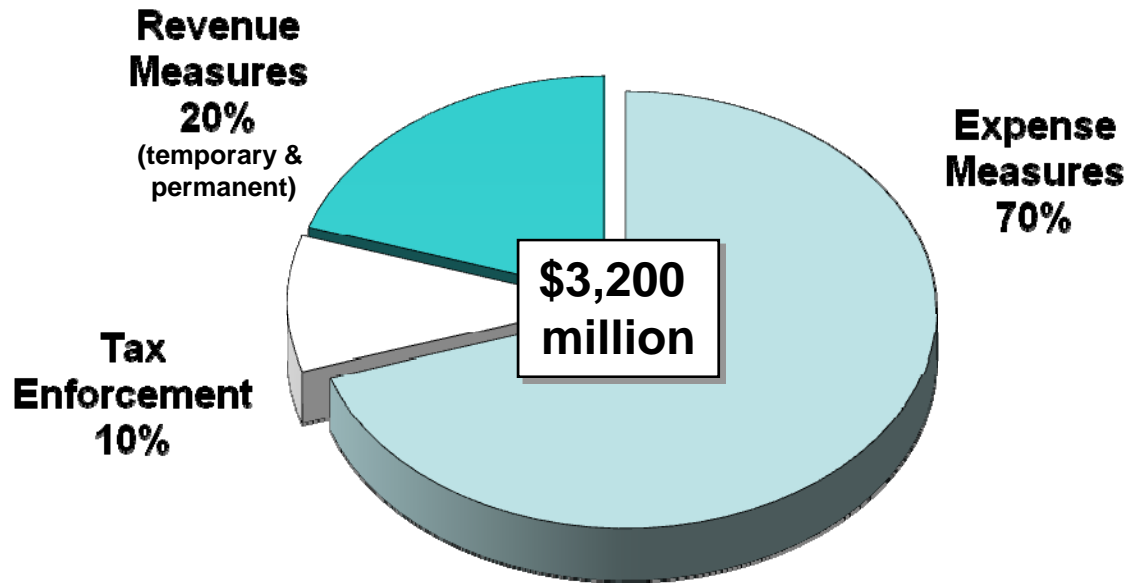
The Administration has started implementing a balanced and comprehensive multi-year Plan





The Fiscal Reconstruction Plan is based on a combination of measures

Distribution of Fiscal Reconstruction Measures



Financial Stabilization Measures



Expense Reduction Measures

Goal: \$2,000 million savings

Expense Reduction Measures

PAYROLL EXPENSES

- 30% reduction of non-career personnel
- Salary reduction of agency heads
- Salaries freeze, ban of new posts and elimination of vacant posts
- PHASE I: Incentivized resignations and work load reduction
- PHASE II: Transition of employees
- PHASE III: Temporary freeze in economic conditions

OPERATIONAL EXPENSES

- Austerity: 10% of operational expenses, including cell phone use, credit cards and official vehicles.
- Executive Branch reorganization, supported by budgeting and accounting processes and IT.

Public Employees Alternatives Program

Educational Voucher

**Retraining / Vocational
Voucher**

**50% salary subsidy for
transition to private or
non profit sector job
up to \$15,000**

**Self-Employment
Voucher**

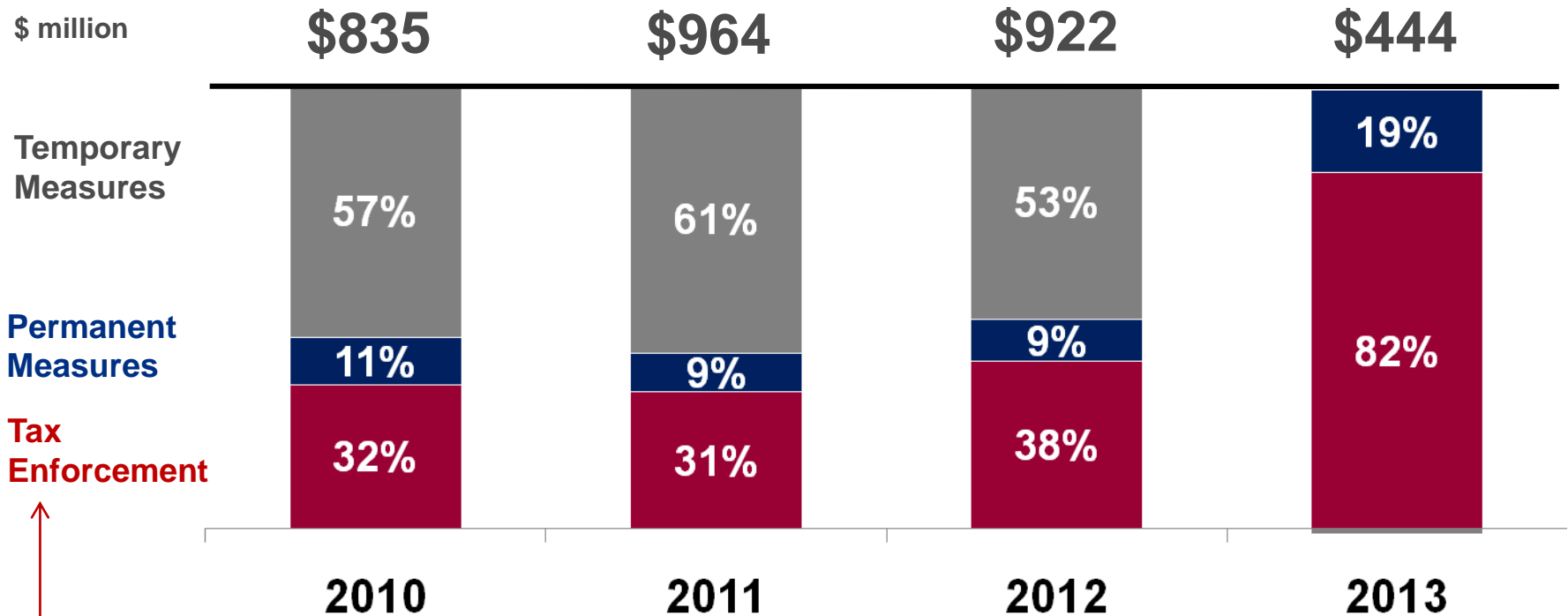


We are following a strict calendar in implementing the expense measures

• Enactment of Act No. 7 and effective day of Phase III (temporary freeze of economic conditions)	Mar-09-09: Completed	✓
• Creation of Fiscal Restructuring & Stabilization Board (FRSB)	Mar-09-09: Completed	✓
• Release of Circular Letter with details on Expense Reduction Program	Mar-20-09: Completed	✓
• Public Agencies Notify Employees about Phase I (Voluntary)	Mar-27-09: Completed	✓
• Orientation about Transition Alternatives to Public Employees	Weekend Apr-18-09	
• Eligible Employees Submit Form for Phase I	Apr-27-09	
• Voluntary Resignations Effective	May-29-09	
• Notification of first round of Phase II (if necessary)	May-29-09	
• Voluntary Workday Reduction becomes Effective	Jun-01-09	
• First round of Phase II is effective (if necessary)	Jul-03-09	



A combination of permanent and temporary tax measures and enforcement initiatives should increase revenues



Tax Enforcement

Improvement in tax enforcement and collections is key for the Plan

Distribution of Measures

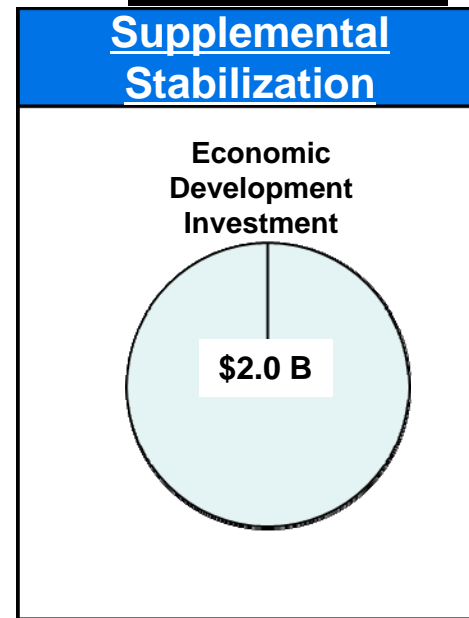
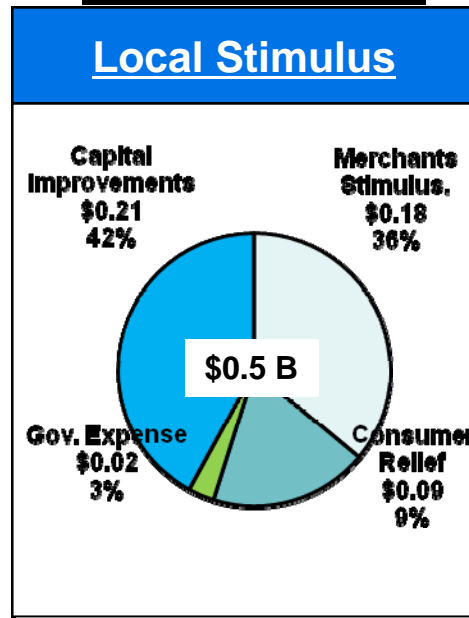
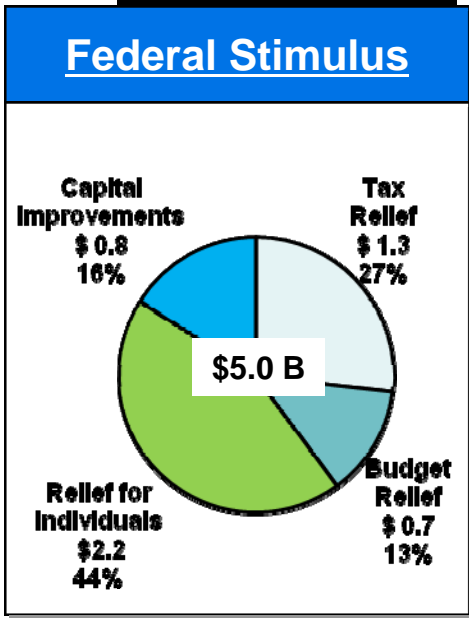
- 3 Permanent revenue measures
- 6 Temporary revenue measures
- 6 Tax Enforcement Measures

The Economic Reconstruction Plan consists of significant stimulus and investment measures

Jun-09 -----> 2011

(\$ billions)

$$\begin{array}{ccccccc}
 \$5.0 & + & \$0.5 & + & \$2.0 & = & \$7.5 \text{ BN} \\
 \text{PHASE Ia} & & \text{PHASE Ib} & & \text{PHASE II} & &
 \end{array}$$



12%
of GNP

Public-Private Partnerships



Comments from Rating Agencies have been Positive

Moody's Investors Service, March 2009:

“These measures... support plans to reestablish fiscal solvency for the commonwealth... it [is] a significant achievement that the administration and legislature have worked together to quickly produce a plan for recovery...”

E. Raimés, E. Behr and B. Kurtter

Standard & Poor's (in Bloomberg News), March 9, 2009:

“Puerto Rico is taking the right steps to preserve its investment-grade credit rating with a deficit-reduction plan ...”

Horacio Aldrete

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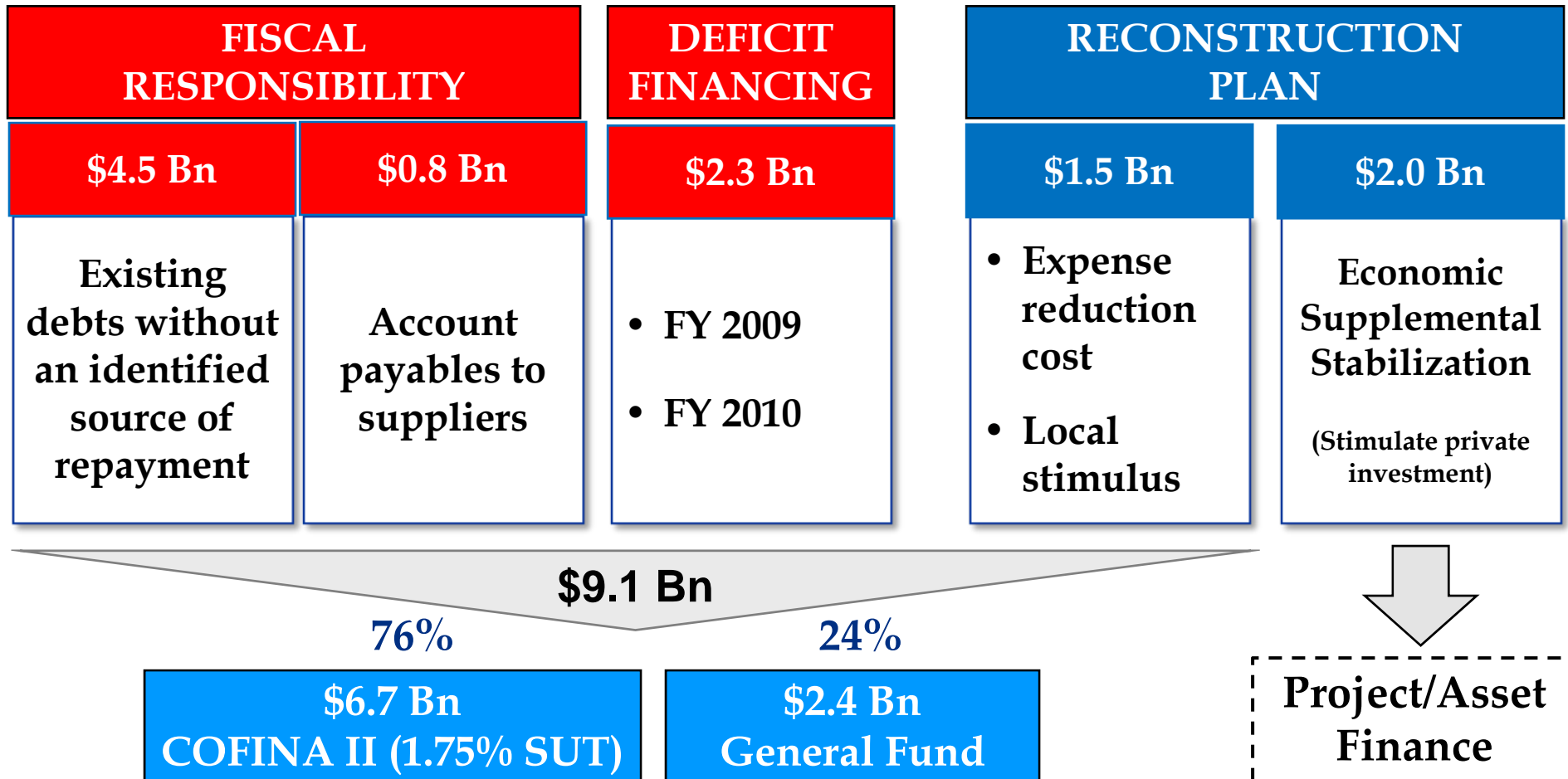
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Financial Stabilization Measures

- Recognizing outstanding obligations/identifying a source of repayment
- Bridging the timing gap to a balanced budget
- Funding the Reconstruction Plan towards economic growth





COFINA II is the financial “anchor” of the Fiscal Reconstruction Plan

COFINA is a affiliate of the GDB that receives a dedicated portion of the sales tax and has the capacity to issue bonds.

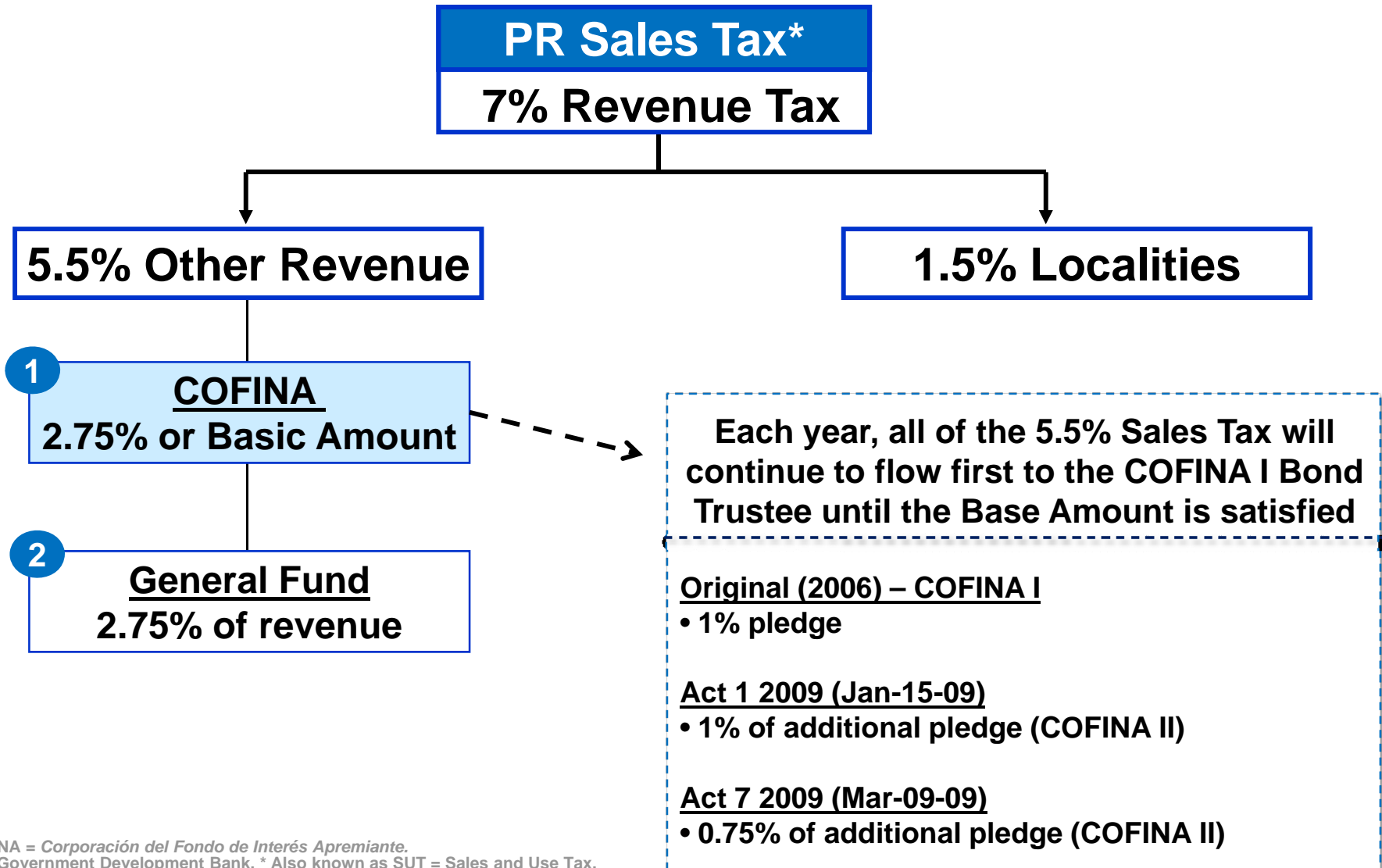
Proposed financing of COFINA II:

Deal Component	Comments*
Initial Deal Size:	\$3.0 - \$4.0 billion
Timing of financing:	May 2009
Market access:	103 Market & Puerto Rico markets

* Preliminary and subject to market conditions.



Dedicated tax revenue structure



* COFINA = *Corporación del Fondo de Interés Apremiante*.
Source: Government Development Bank. * Also known as SUT = Sales and Use Tax.



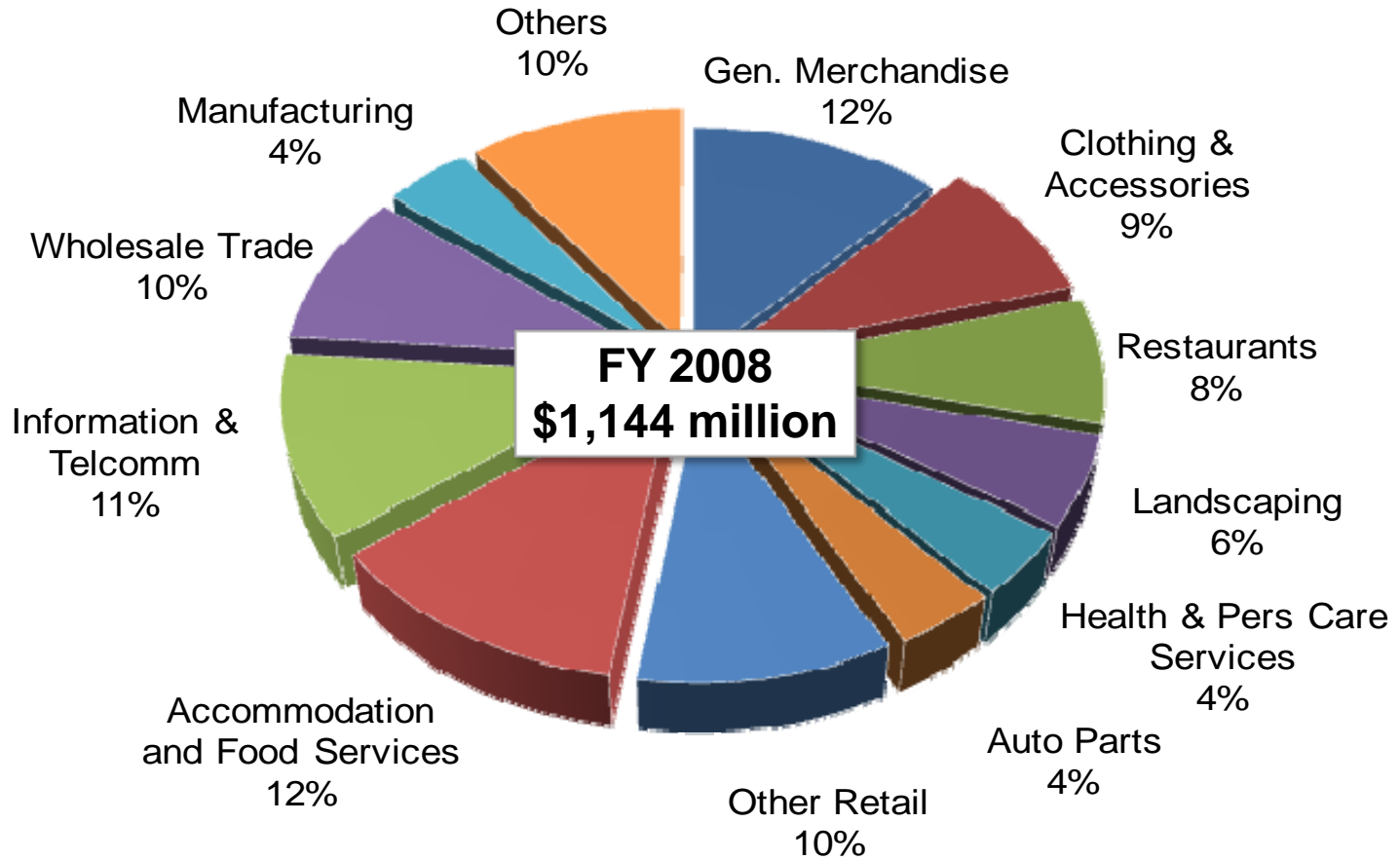
The sales tax is Puerto Rico's single strongest tax pledge

Fundamental Factors	Description
Broad-based and Stability	<ul style="list-style-type: none">• Broad based tax• Demographics provide stability• Excludes volatile items such as vehicle sales and others
Strong Consumer and Resiliency	<ul style="list-style-type: none">• Large and resilient consumer sector• Retail is strong in Puerto Rico• Trend of resiliency in Sales Tax
Up-side Revenue Opportunity with Tax Enforcement	<ul style="list-style-type: none">• Sales tax capture rate remains low• Enforcement efforts will improve the capture rate and substantially increase annually recurring revenues



The Sales Tax is stable

Broad-based sales tax that includes services

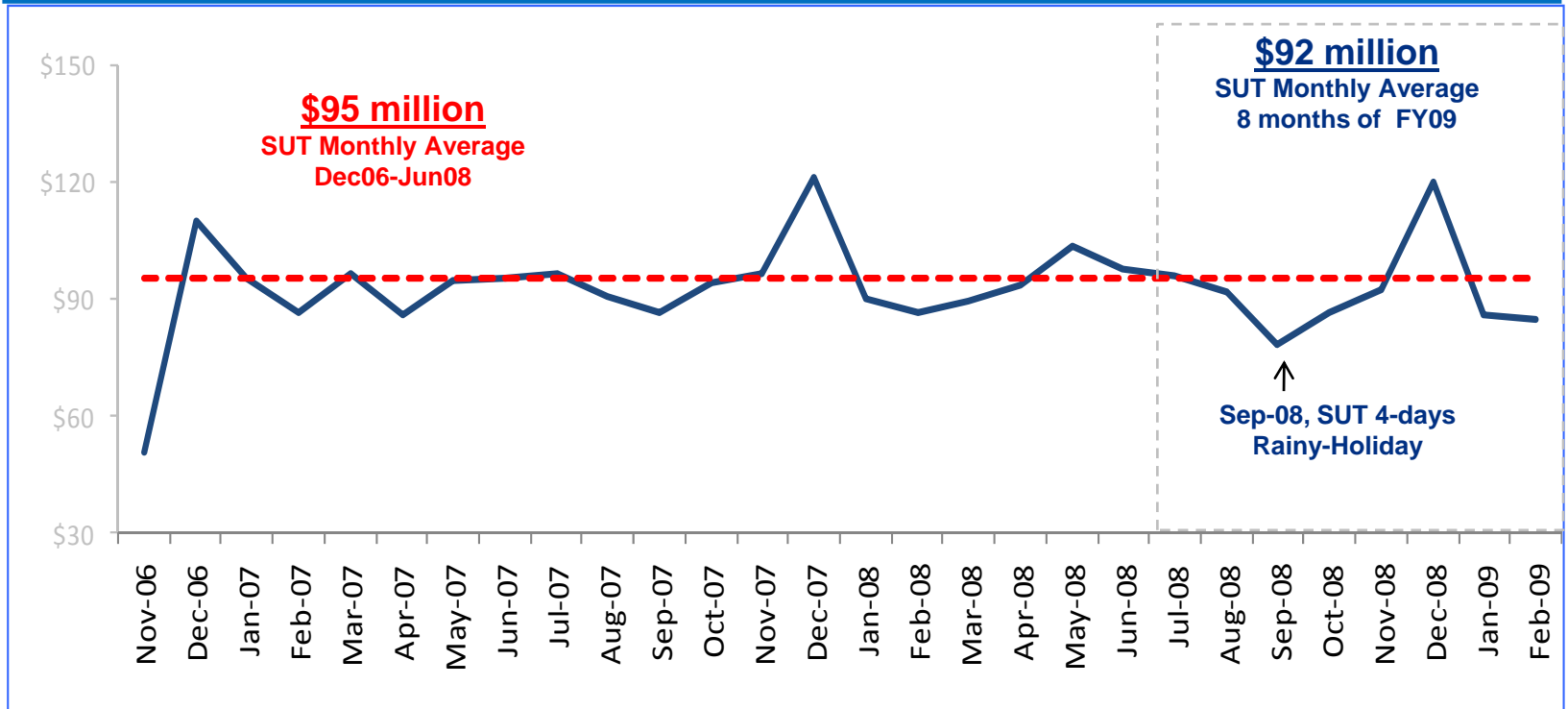




The Sales Tax is Resilient

The Sales Tax collections remain in line with historical monthly average collections

SUT monthly trend remains steady in spite of the recession



Source: P.R. Dept. of the Treasury
* Gross revenues without excluding the assignment to COFINA.



COFINA has a stronger coverage than comparable programs

Program	Coverage	Rating	ABT*
Massachusetts Bay TA Sales Tax Bonds	2.0x	Aa2 / AAA	No ABT
Massachusetts School Building Aut. Bonds	2.0x	Aa2 / AA / AA	1.4x
California Economic Recovery Bonds	1.1x	A1 / A+ / A+	1.5x
Nassau County Interim Finance Authority Sales Tax Secured Bonds	4.5x	Aa2 / AAA	3.0x
COFINA I	5.5x	A+	3.0x

* ABT = Additional Bond Test



Commonwealth Committed to Protecting Existing COFINA Bondholders

- No parity bonds except:
 - Refunding bonds, provided the refunding must produce annual savings
 - Refinance extra-constitutional debt, provided that debt service cannot exceed the Original Base Amount*
- New, subordinate lien will be created to finance the fiscal stabilization measures
- Current COFINA bonds will have access to all of the increased dedicated sales taxes flowing to COFINA (\$550 million, up from \$200 million)
- Sales tax revenues in any year are pledged first to current COFINA bonds

Original Base Amount was \$185 million in 2007, escalated by 4% thereafter.



Concluding Remarks



Concluding Remarks

- 1** We have responded with swift action through the Reconstruction Plan to address the economic and fiscal challenges.
- 2** We are already implementing the Reconstruction Plan and are committed to providing Progress Reports on the implementation process.
- 3** COFINA II is the financial “anchor” of the Fiscal Reconstruction Plan. We are proposing an initial financing of \$3.0-\$4.0 billion for the month of May 2009.
- 4** The Sales Tax is Puerto Rico’s single strongest tax pledge due to broad-base and stability, consumer and tax resiliency and the opportunity to improve tax revenues through enforcement.
- 5** We are committed to protecting the existing COFINA bondholders.



Investor Relations – Information

Main Websites for Investor Information

Government Development Bank	www.gdbpr.com	English
	www.bgfpr.com	Spanish

Other Related Websites

Treasury Department	www.hacienda.gobierno.pr	Spanish (some English information at bottom right of the site)
Office of Management & Budget	www.ogp.gobierno.pr	Spanish
Planning Board	www.jp.gobierno.pr	Spanish
Governor's Office	www.buengobiernopr.com	Spanish



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