

La Cámara de Comercio de Puerto Rico presenta



Foro de Perspectivas ECONÓMICAS

Y REFORMA CONTRIBUTIVA 2015

Restructuring Public Finances

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President

Government Development Bank for Puerto Rico

Recent accomplishments



| Challenges faced... | ...Puerto Rico has taken action: | |
|---|--|---|
| <p>1 Funding of the Commonwealth's Pension System</p> | <ul style="list-style-type: none"> Act 3 delivered on the long-standing promise of enacting meaningful and comprehensive pension reform to the ERS that reduces the projected need for approximately \$900 million in annual pay-as-you-go contributions in the future and provides mechanism for cash flow to be sufficient to pay pension obligations when due. |  |
| <p>2 General Fund budget absent deficit financing</p> | <ul style="list-style-type: none"> FY 2015 budget first in years without deficit financing or refinancing of GO or PBA maturing debt. General Fund expenditures reduced through \$1.53 billion in corrective expense measures. |  |
| <p>3 Financing Options and GDB Liquidity</p> | <ul style="list-style-type: none"> Closing of \$900mm GDB notes to fund Commonwealth TRANS ensures sufficient working capital to meet General Fund cash flow needs. Proposed PRIFA/HTA transactions designed to place HTA on path to self-sufficiency and materially strengthen GDB's liquidity and balance sheet. Puerto Rico will re-access market, subject to market conditions, to strengthen liquidity |  |
| <p>4 Restructuring Public Corporations</p> | <ul style="list-style-type: none"> Forbearance Agreement ("FA") with PREPA creditors places public corporation on restructuring path based on consensual, negotiated solutions. Recent Court decision surrounding restructuring law has no impact on established PREPA reforms and milestones. PRASA continues to hit milestones with deleveraged balance sheet, rate adjustments, and cost flexibility. |  |
| <p>5 Tax Reform and Economic Growth</p> | <ul style="list-style-type: none"> Transition from a traditional income tax to a consumption based VAT system is designed to promote economic growth by broadening the tax base, repealing certain tax exemptions, and improving compliance. Proposed tax reform will increase revenues through a more equitable tax structure and effective tax collection mechanism. Aimed at reducing tax inefficiencies that act as a hindrance to economic growth. |  |

General Fund's corrective measures

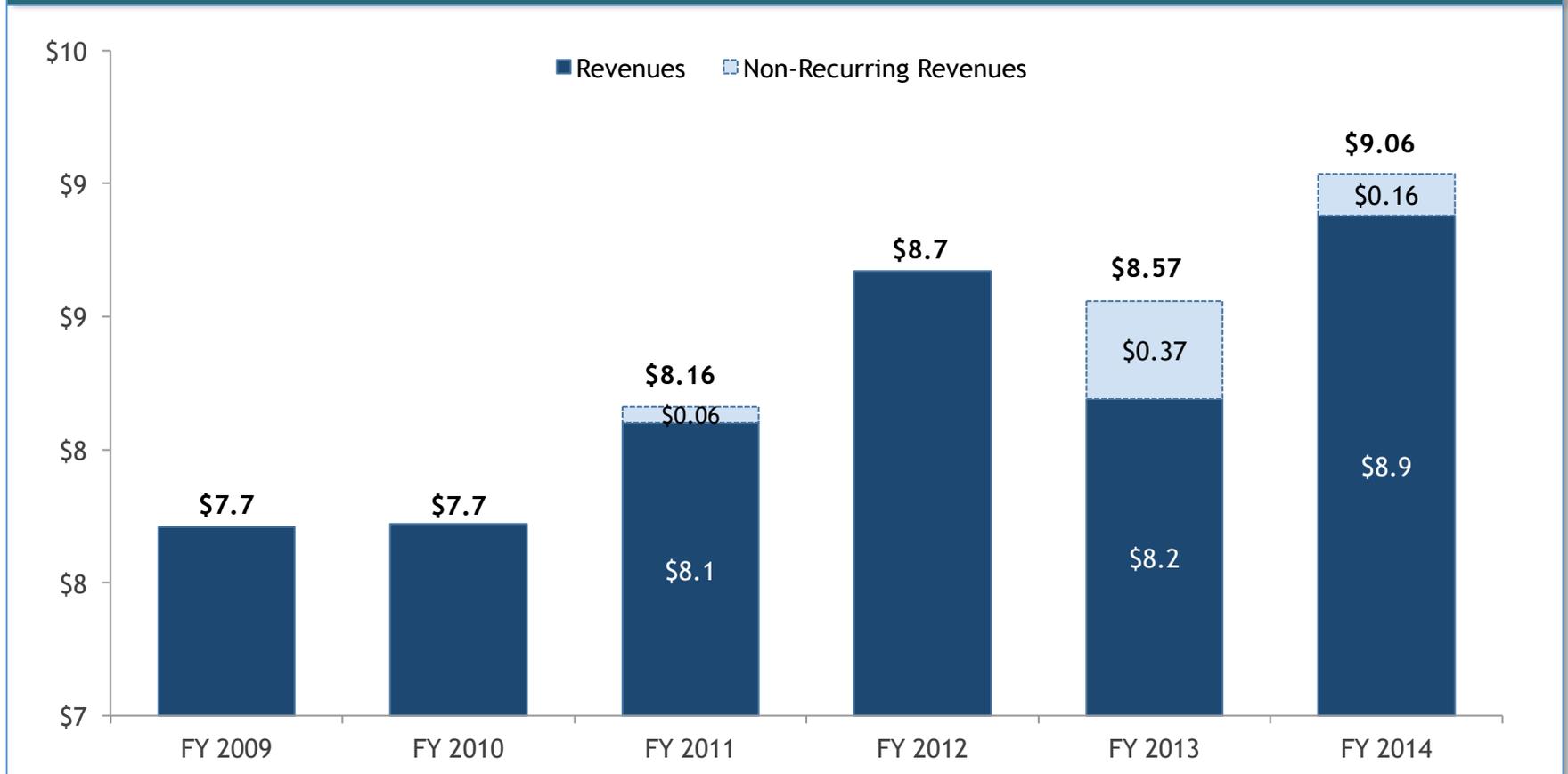


- Reduced and eliminated reliance on debt service restructurings following the recent GDB senior notes issue to fund Commonwealth TRANs. For the first time since 2009, the FY 2015 budget contains no General Obligation or PBA debt service restructuring. General Fund expenditures reduced through \$1.53 billion in corrective expense measures.
- Enhanced General Fund revenue based on proposed tax reform that is designed to promote economic growth by broadening the tax base, repealing certain tax exemptions and implementing an effective tax collection mechanism.
- HTA bill expected to provide a permanent solution to Highway's recurring cash shortfall and corresponding annual increase in GDB loans without the use of the Recovery Act.
- For FY2014, General Fund payroll for July and August reflects an 11% decrease over the same period in the prior year. As of August 30, 2013, cumulative General Fund headcount was approximately 5,000 less than January 1, 2013.
- The Fiscal Sustainability Act (FSA), Act 66-2014, freezes all wage and benefit increases during a three year period; reduces or eliminates certain benefits, including the Christmas Bonus and intra-year sick leave liquidations, and adds flexibility to non-economic collective bargaining agreement clauses.

Total recurring General Fund revenues reached their highest levels to date in FY 2014



Revenue Historical Data (in \$ billions)



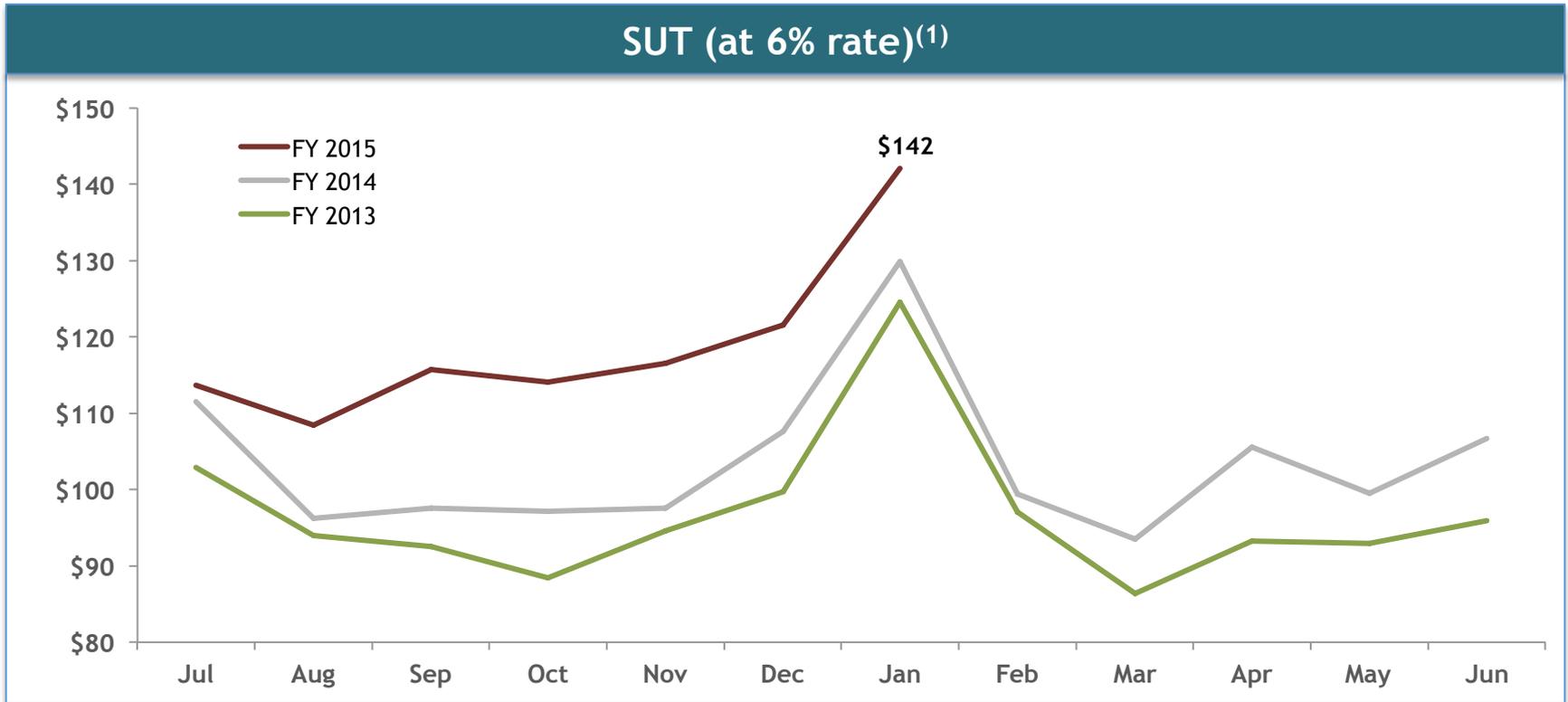
FY 2014 revenues increased by \$686 million, or 8.4 %, when compared to FY 2013 revenues due to the impact of new revenue measures.

Please refer to Appendix A for additional details.

SUT collections have increased consecutively during the last 14 months



- SUT increase driven primarily by implementation of new enforcement and legislative measures, including Act 40 of 2013 (which expanded the SUT base) and Act 80 of 2014 (which expanded collection at point of entry).



January FY 2015 was the highest January for SUT revenues since the introduction of the SUT in 2006.

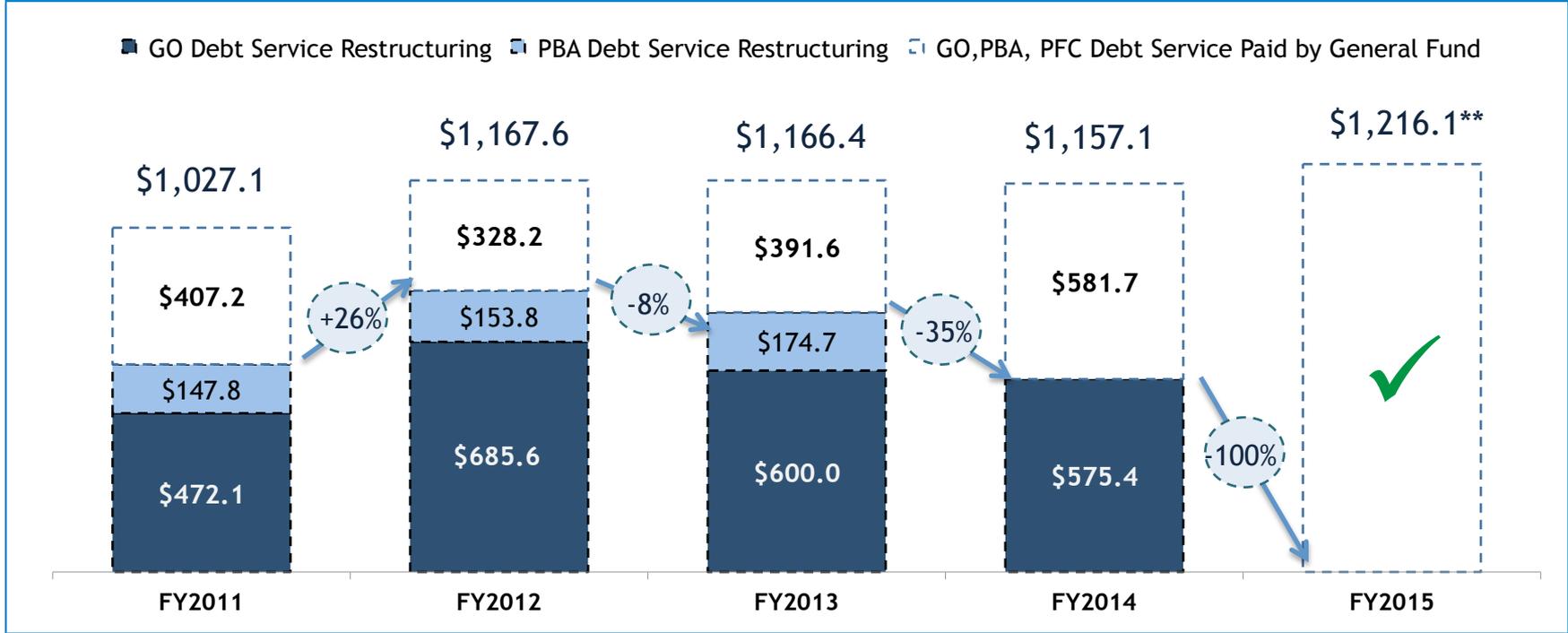
⁽¹⁾ “State” portion of Sales and Use Tax (“SUT”) increased from 5.5% to 6.0% pursuant to Act 18 of 2014; “municipal” portion of SUT decreased simultaneously from 1.5% to 1.0%. For purposes of proper comparison, SUT incomes from non-recurring tax amnesty are excluded from July 2013 results.

FY 2015 budget does away with historic practice of restructuring GO and PBA debt service payments for budgetary relief



Total General Fund Debt Service* (in millions)

■ GO Debt Service Restructuring ■ PBA Debt Service Restructuring ■ GO,PBA, PFC Debt Service Paid by General Fund



- General Fund budgets for FY 2013 and FY 2014 contemplated debt service restructurings of \$775 million (\$600 million in GOs and \$175 million in PBA bonds) and \$575 million (in GOs), respectively.
- For the first time since FY 2009, the FY 2015 budget contains no GO or PBA debt service restructuring.
- The FY 2015 budget contains appropriations covering the full amount of GO and PBA debt service payments due in such fiscal year (\$1.2 billion).

Source: "Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 15, 2013"; Proposed FY 2015 Budget.

*Total debt service due for each fiscal year before any refinancing. Does not include GDB lines payable from legislative appropriations, \$250 million of which were eliminated by executive order in 2014.

** Excludes capitalized interest on GO 2014 Series A Bonds of \$280 million.

General Fund's corrective measures



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Public Corporations



Focus has been on increasing revenue and reducing operating costs

2013

2014

JAN FEB MAR APR MAY JUN JUL AUG - DEC

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

PRPA P3 LMM Int'l Airport Transaction

Transaction resulted in repayment of approximately \$400 million in PRPA debt

PRASA rate Increase

60% average rate increase has permitted PRASA to operate without support from the General Fund or GDB

Act 24 - GDB Lending Practices

Bars GDB from extending credit to public corporations without an identifiable source of repayment

Act 66 - Sustainability Act

Requires, and provides necessary tools to achieve, material reductions in operating expenses at our public corporations

PREPA executed **forbearance agreements** with its creditors.

New Revenues for PRHTA

Acts 30 and 31 of 2013 provided approximately \$260 million in new revenues for PRHTA to repay certain financial obligations

Energy Act - Limits PREPA's contribution in lieu of taxes to the municipalities

New Mass Transit Authority - Moves Urban Train's operation to a new Mass Transit Authority, leaving HTA with highway-related operations only

Bill 2212-Petroleum tax to provide a way that will leave PRHTA on firm financial footing and improve GDB liquidity.

The Recovery Act is a solution to ensure that vital public services such as the delivery of electricity, gas and clean water are not interrupted in the short-term.

Mass Transit Rate Increase

Rates at Urban Train increased 50%, back to FY2010 levels, to provide financial support for mass-transit operations

Reform of GDB's lending practices, along with passage of Sustainability Act, provides the tools for public corporations to strengthen their operations.

GDB's liquidity



- Proposed tax reform will increase revenues for all General Fund related credits as well as COFINA through an expected increase in the tax base. COFINA will continue to receive a pledged portion of the proposed VAT tax, while the structure, security and payment system remain unchanged.
- Act 24 requires public corporations to approve any rate increases for the repayment of loans prior to loans being approved. The measure imposed additional fiscal discipline on public corporations and preserved GDB liquidity.
- Enhanced financing options for municipalities: created a new financing entity similar to COFINA to issue debt backed by the municipal SUT, which should allow (“COFIM”) municipalities to refinance outstanding municipal SUT debt with GDB.
- Improved GDB Liquidity: granted GDB additional oversight authority, including the power to require the transfer of certain public funds to GDB.
- Passed legislation that increases the cap of GDB debt that can be guaranteed by the full faith and credit of the Commonwealth from \$550 million to \$2 billion.
- Proposed PRIFA/HTA transactions designed to place HTA on path to self-sufficiency and materially strengthen GDB's liquidity and balance sheet.
- Affirmative and unprecedented steps to significantly improve the Commonwealth's disclosure practices: Quarterly Webcasts, Commonwealth reports, General Fund Cash Flows, GDB Liquidity Report, Budget Results, Disclosure Counsel for bond transactions, and others.

The PRIFA financing program may allow GDB to refinance its entire HTA loan Portfolio, which would decrease GDB's total loan portfolio to approximately \$7.4 billion.

Thank you



Síguenos en:

