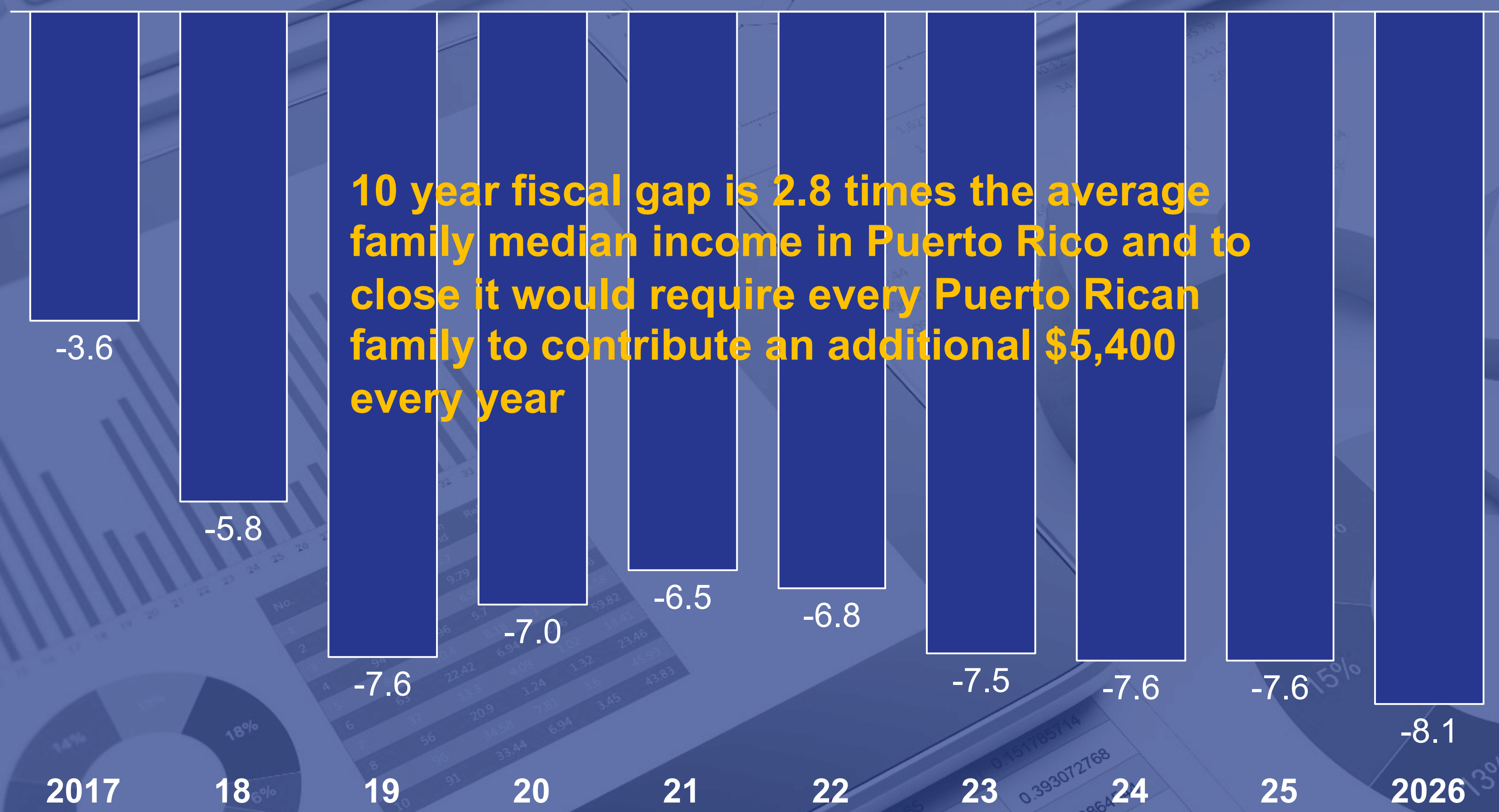
Fiscal Plan Targets
Presentation

January 28, 2017

Fajardo, Puerto Rico

Puerto Rico faces an annual average fiscal gap of $7.0B after FY 2019

Annual fiscal gap including debt service, $ billions, fiscal years ending June 30th



SOURCE: Government of Puerto Rico December 2016 Fiscal Baseline

PROMESA provides the Government with a powerful tool to restore opportunity to the people of Puerto Rico

Restore economic growth and opportunity through structural reforms

Achieve sustainable, balanced fiscal budgets

Restructure Puerto Rico’s debt to a sustainable level and to reform pensions

The Board has provided the Government with a set of guiding principles

"Once and done" approach with a target balanced budget by FY 2019

Demonstrate viability through implementation plans

Ensure funding of essential government services

Provide adequate funding for pension systems

Provide capital expenditures and investments necessary to promote economic growth

Include aspirational goals for Puerto Rico and its people

A “once and done” sustainable solution

Facts and Principles

- Puerto Rico’s economy has contracted for 9 of the last 10 years
- Debt restructuring is necessary, but it alone is neither sufficient nor a sustainable solution
- Scope of the response to these fiscal challenges must be commensurate with the problem
- Reforms will require shared sacrifice but should protect the most vulnerable
- Reforms must also focus on structural changes to promote growth and opportunity

Meaning of a ”once and done” solution

– Necessary changes to the structure of the government, spending and revenues to **achieve and maintain a balanced budget** that adequately supports essential services

– Debt restructuring to a sustainable level based on **realistic economic and revenue assumptions**

– Changes to ensure the **pension systems are sustainable** and on track to adequate funding

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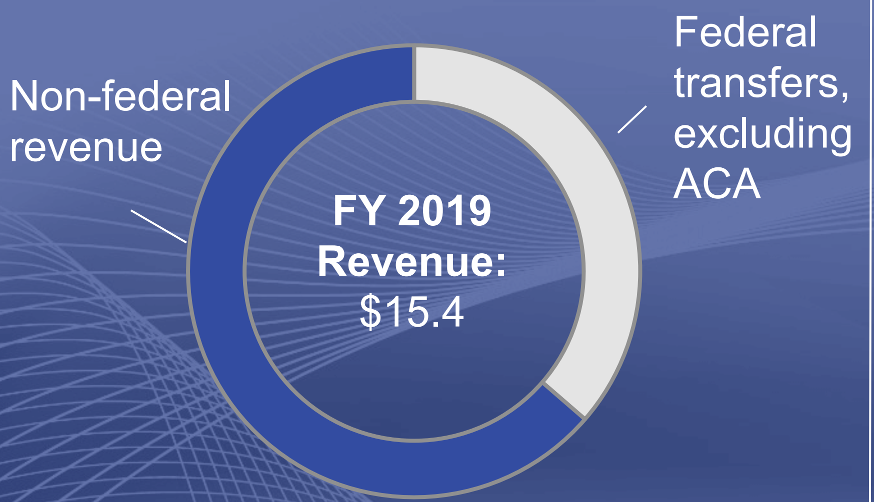
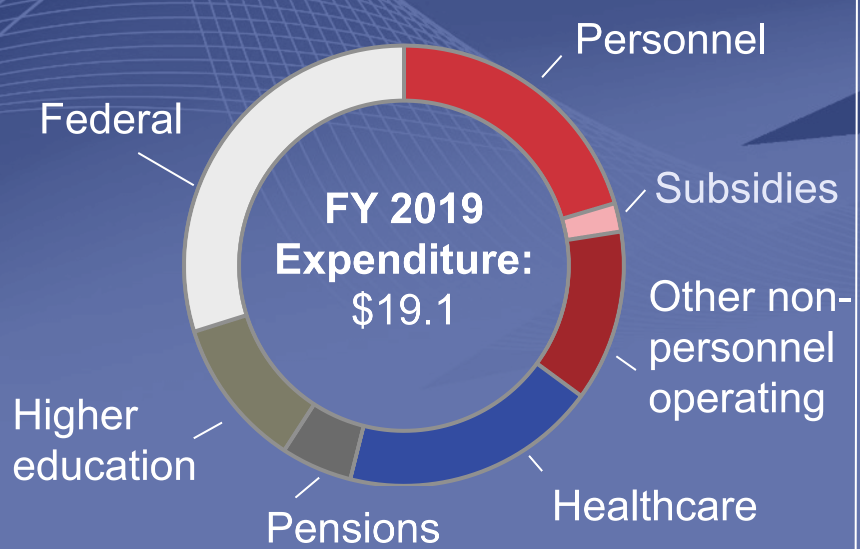
Roadmap for closing the fiscal gap in FY 2019

$ billions





$ billions

FY 2019 projected primary surplus	-3.7

Potential impact of fiscal reforms

Revenue Enhancements		+1.5
Right-size Gov't and Efficiency	Personnel	+0.9
	Subsidies	+0.4
	Other operating	+0.2
Reducing Health Care Spending		+1.0
Reducing Higher Education Spending		+0.3
Pension Reform		+0.2

Total: +4.5

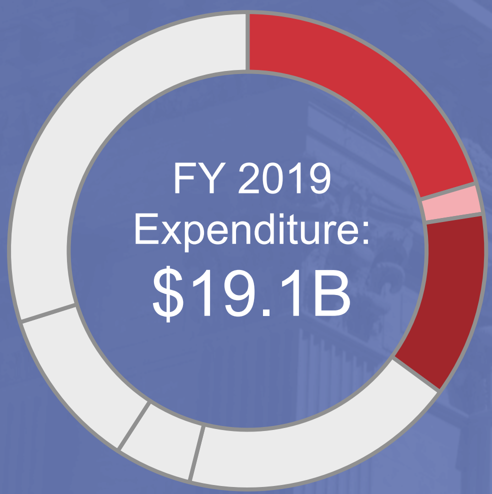
Implied primary surplus available for Debt Service in FY 2019	+0.8

Increase non-federal revenue by 15%

Grow revenues $1.5B by FY 2019 through:

- Improving compliance to increase the amount of tax Government collects
- Widening the taxable base through a reduction in exemptions
- Maintaining Act 154 revenues and reviewing tax regime for Act 154 companies; broader corporate tax reform
- Improving property tax collection through reappraisals and property registration efforts (and lowering municipal subsidies accordingly)
- Right-sizing government fees and tolls

Right-size government by 22% through efficiency and reduction



- Personnel (3.9B)
- Subsidies (0.4B)
- Other non-personnel operating (2.4B)

Reduce expenditures $1.5B by FY 2019 through:

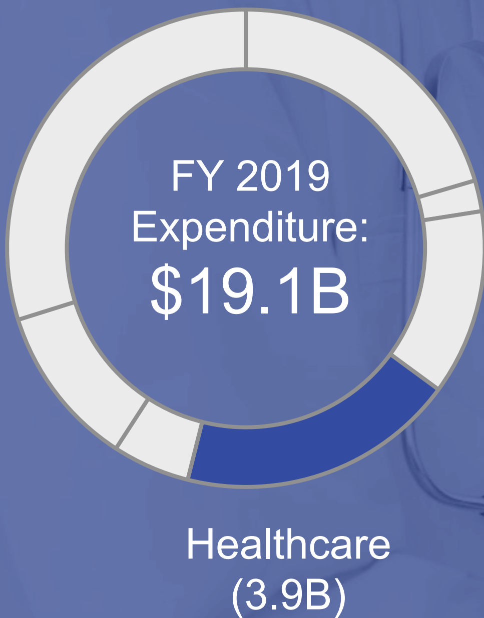
- Reducing non-essential services through consolidation and headcount reduction
- Bringing compensation in line with private sector and reducing special benefits
- Replacing subsidies to municipalities and eliminating direct private sector subsidies
- Reducing procured expenditure by at least 10% through consolidated purchasing and demand controls

Healthcare challenges and the fiscal plan

- **MiSalud is a critical element of Puerto Rico's safety net and is fundamental to the stability of the health care delivery system**
- **However, like other states and many businesses, the government of Puerto Rico has been challenged by rapidly rising health care costs that far outpace realistic revenue growth**
- **The expected loss of $1.2B in federal Medicaid funds by the end of 2017 / beginning of 2018 makes significant reductions in health care spending necessary**

The Board supports initiatives to seek additional federal healthcare funding, but does not believe that at this time it would be a prudent budgetary practice to include in the fiscal plan any such potential additional federal healthcare funding

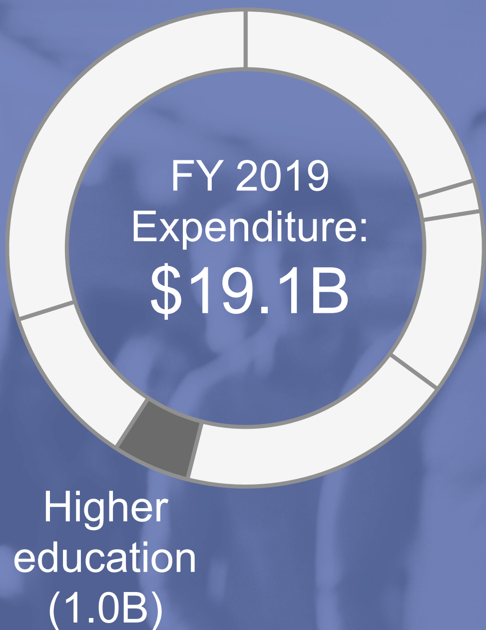
Reduce healthcare spending by 28% to address loss of federal funding



Reduce expenditures $1.0B by FY 2019 through:

- Streamlining operating costs at healthcare agencies
- Reducing miSALUD operating expenditures:
  - Improving efficiencies (e.g., reducing non-emergency ER visits, lowering duration of hospital stays)
  - Reducing access to healthcare services (e.g., increasing share of service costs paid by patients, reducing non-generic drug coverage)
  - Eliminating non-life threatening benefits or coverage for parts of the Commonwealth population
- **All effort should be taken to sequence initiatives to avoid cuts that inhibit access to essential care and overly stress the public healthcare system**

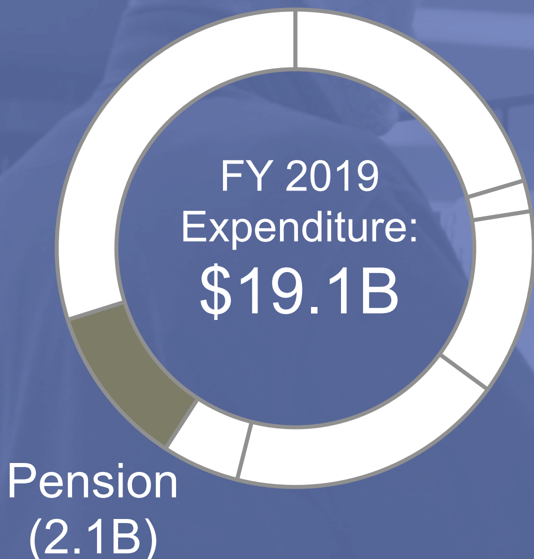
Reduce Government outlays to higher education by 27%



Reduce expenditures $0.3B by FY 2019 through:

- Applying a means-based tuition increase to be more in line with Pell grant subsidies and peer institutions
- Consolidating programs and campuses
- Reducing both academic and non-academic operating expenses (headcount, compensation and non-personnel operating expenditure)
- Attracting new sources of revenue (e.g., increase international students, Federal grants)

Reduce pension expenditures by 10%



Reduce expenditures $0.2B by FY 2019 through:

- Making pensions more sustainable and better funded (funded assets are <1% of liabilities today)
- Ensuring reductions in benefits target those with highest payments; target very modest or no reductions to majority of recipients
- Enrolling public safety and education employees in the Social Security system to provide them with diversified sources of retirement income
- Segregating future contributions in accounts owned by employees to ensure employees' contributions will be available for their future retirement

The fiscal plan should also address underspending on infrastructure, which hampers economic growth while also catalyzing private investment in PPPs

Broad-base program partnering with private sector (particularly in areas like transportation and power)

Development program focused on prioritizing projects and delivering results

Supported by Title V of PROMESA and the Board's Revitalization Coordinator (e.g., to expedite projects)

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Creating a sustainable capital structure for Puerto Rico will require a combination of fiscal levers and debt restructuring

Current baseline projections show a fiscal deficit of ~$4.8B by 2026 before servicing any debt obligations

Even after potential fiscal measures, the current debt-load is not sustainable with over $3B in debt-service due for each of the next 10 years

A sustainable fiscal plan will need to restructure debt obligations to align to a realistic and achievable go-forward surplus

The Fiscal Plan will include a debt sustainability analysis to help understand what level of debt can realistically be serviced after implementation of fiscal measures

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Board guidance to the Government of Puerto Rico

PROMESA offers an opportunity for recovery that will require tough choices but allows for a better future; a responsible fiscal plan should:

- Be honest, realistic and balanced --- propose a ”once and done” solution
- Fund essential services
- Make pension systems sustainable, protect the lowest income retirees, and strengthen the future safety net for teachers, police, and firefighters
- Deal with the healthcare challenges and anticipated federal funding loss
- Protect working people and the most vulnerable
- Invest in necessary infrastructure
- Timely payment for vendors and taxpayers supporting the economy
- Provide a foundation for growth, job opportunities and a stronger future

The fiscal plan will be a dynamic document and should be revised at least annually

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