GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

FISCAL PLAN FOR PUERTO RICO

March 13th Certified Fiscal Plan - REVISED VERSION
See Red boxed to track corrections

San Juan, Puerto Rico
March 13, 2017

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I. INTRODUCTION

What the Government's Proposed Fiscal Plan Seeks to Achieve

Closing the Projected Baseline Fiscal Plan Deficit

- At the direction of the Oversight Board, the Government's new administration has prepared this Fiscal Plan which supersedes the prior administration's December 2016 fiscal plan that was rejected by the Board. From the date the new administration took office, AAFAF and its advisors have earnestly worked in cooperation with the Board's input to put forth a credible and reliable Fiscal Plan that will guide Puerto Rico's fiscal and economic recovery
- **The Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.** In particular, the Fiscal Plan averts the $67bn fiscal deficit from the prior administration's plan and achieves +$7.9bn in cumulative cash flow available for debt service through the 10 year period

Further Improvement

- The Government fully appreciates that despite fiscal and economic uncertainties, now is the time to set the benchmark for the needed fiscal and economic measures as outlined in the Fiscal Plan. The Government is demonstrating its commitment to correcting the mistakes of the past. The Government is also mindful that in stopping the cycle of deficit spending, it must do so without undermining economic recovery or endangering the health, welfare or safety of the 3.5 million US citizens living in Puerto Rico

Bondholder Negotiations and Consensus

- Per PROMESA Section 2.01(b)(1)(I), the fiscal plan must provide a debt sustainability analysis. The Government's Fiscal Plan consolidates available cash resources that can be made available for debt service payments. The Fiscal Plan as proposed does not presume cash flow for debt service for any particular bondholder constituency, including clawed back cash and special revenues, nor does it take a position with respect to asserted constitutional or contractual rights and remedies, validity of any bond structure, or the dedication or application of tax streams / available resources
- The Government believes that any fiscal plan should reflect commitment to develop and implement operational and structural improvements that demonstrate the Government's willingness to achieve maximum payment of its debt obligations as restructured. However, in achieving debt sustainability, Puerto Rico's bondholders will be called upon to share in the sacrifice needed for a feasible debt restructuring. **The Government believes communication, grounded in fiscal responsibility, can create the opportunity for maximum consensus among stakeholders and pave the way for Puerto Rico's long-term fiscal stability and economic growth**

What the Fiscal Plan does not determine

Major Entities Impacted by the Fiscal Plan

- The Fiscal Plan is for the Government as a covered entity under PROMESA. The Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, this Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities: (1) Public Building Authority, (2) PR Sales Tax Financing Corporation ("COFINA"), (3) PR Highways and Transportation Authority ("HTA"), (4) PR Convention Center District Authority ("PRCCDA"), (5) PR Infrastructure Finance Authority ("PRIFA"), (6) Employees' Retirement System ("ERS"), (7) University of Puerto Rico ("UPR"), (8) Puerto Rico Industrial Development Company ("PRIDCO"), and (9) Government Development Bank ("GDB")

Major Entities Not Covered by the Fiscal Plan

- There are four entities whose revenues and expenses are not included in this Fiscal Plan: (1) Puerto Rico Electric Power Authority ("PREPA"), (2) Puerto Rico Aqueduct and Sewer Authority ("PRASA"), (3) The Children's Trust Fund and (4) Puerto Rico Housing Finance Authority ("PRHFA"). As a result, this Fiscal Plan does not take a position with respect to these entities' financial prospects or the debt sustainability of such entities

Legal & contractual issues not determined by the Fiscal Plan

The Fiscal Plan does not attempt to resolve, among others, the following issues:

- The mechanisms by which projected cash flow available for debt service should be allocated to different debt instruments
- What is an essential service for purposes of the exercise of the Government's police power
- The scope, timing or specific use of revenues to be frozen or redirected as 'claw back' revenue
- The value, validity and /or perfection of pledges
- Whether any particular bond or debt issuance may have been improvidently issued
- What the Government is permitted to accomplish through the increase or decrease of dedicated taxes, fees, tolls or other revenue sources

II. FINANCIAL PROJECTIONS

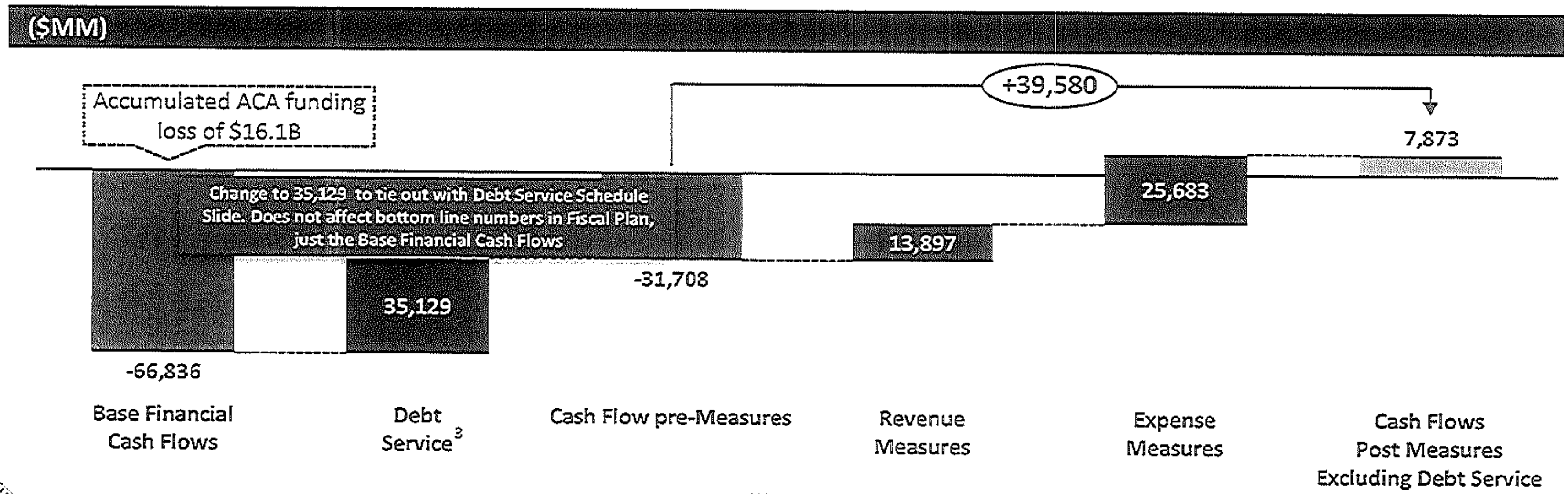
The Government will undertake fiscal measures that will reduce the fiscal gap by $39.6B, and create a 10 year cash flow surplus of $7.9B

- Based on the currently stated debt obligations, the 10-year budget gap is expected to reach $66.9B
  - ~$35.1B of expected principal and interest payments during the forecast period

Corrected to conform to $35.1B on debt service bar below at $35.1 same as debt service bar below

- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
  - Base fiscal gap of [Corrected to conform to debt service bar below] cost of debt service and does not include the impact of revenue and expense measures
  - Revenue and expense measures of $13.9B and $25.7B[1]
    - Revenue Measures: stabilizing corpo[Corrected extra 0]rough tax reform positively affects cash flows by $7.9B
    - Expense Measures: $19.2B of $25.7B (79%) due to Government right-sizing initiatives[2]

Corrected the 25.7MM vs $25.1MM to tie out to bar graph, which increases from 76% to 79%

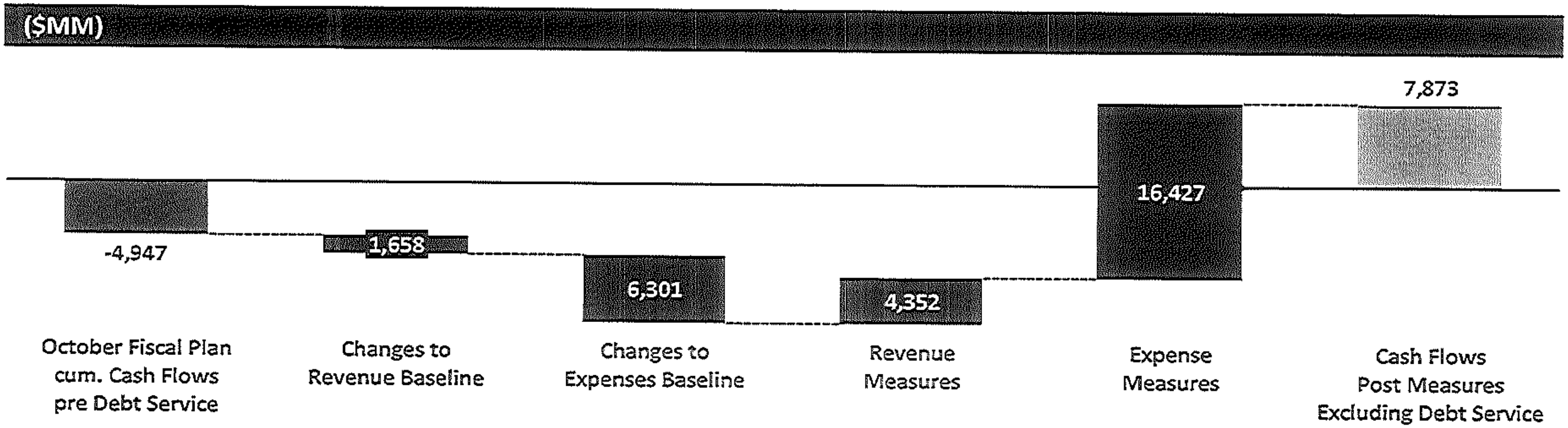


[1] See Section IV, Fiscal Reform Measures for full detail
[2] See government right-sizing section
[3] Includes $1,415 of past due P&I (A

Corrected Footnote (2) to direct reader to right place
Added Footnote (3) so Debt Service amount ties to Debt Service Schedule

The current fiscal plan is a significant departure from the version presented in October, as it commits to higher revenue and expense measures of $4.4B and $16.4 B, respectively

- The October proposed Fiscal Plan estimated negative cumulative cash flows pre-debt service over the projection period ('17-'26) of ($4.9B) vs. the Current Fiscal Plan projections estimating positive cumulative cash flows pre-debt service of $7.92B. The change is comprised primarily of:
  - Negative net impact on cash flows available for debt service, pre-Measures of -$8.0B
    - Decrease in total revenues of $1.7B
    - Decreased expenses of $6.3B
  - Enhanced revenue measures of $4.4B
  - Additional savings from Expense Measures of $16.4B



A summary of financials for the 10-year projection period shows positive cash flows post-measures, before debt service of $7.9B

($MM)

Fiscal year ending June 30 ($ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
PR Nominal GNP Growth	*(2.2%)*	*(2.8%)*	*(2.4%)*	*(0.5%)*	*(0.4%)*	*0.3%*	*1.0%*	*1.6%*	*2.1%*	*2.6%*	
Revenues before Measures [1]	$18,952	$17,511	$16,407	$16,434	$16,494	$16,590	$16,746	$16,953	$17,204	$17,509	$170,799
Noninterest Exp. before Measures [1]	($17,872)	($18,981)	($19,233)	($19,512)	($19,950)	($20,477)	($20,884)	($21,310)	($21,973)	($22,316)	($202,507)
Cash flows pre-Measures	$1,080	($1,470)	($2,826)	($3,077)	($3,456)	($3,886)	($4,139)	($4,357)	($4,769)	($4,807)	($31,708)
Measures											
Revenue measures	–	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897.1
Expense measures	–	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683.3
Net impact of measures	–	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash flows post-Measures, before Debt Service	$1,080	$404	$567	$722	$1,059	$903	$857	$751	$722	$808	$7,873

Cash flows post-measures, before debt service ~~trends:~~

- FY 2017 estimate of $1.1B, declining to a low of $0.4B in FY 2018, driven by GNP contraction and ERS Paygo contributions of $1.0B in FY 2018 Corrected to $1.1 vs $0.8B
- Forecast peaks at $1.1B in FY 2021 before declining to $0.8B by FY 2026. Decline is primarily driven by Affordable Care Act ("ACA") funding expiration that increase steadily from ~$0.9B in FY 2018 to ~$2.4B in FY 2026
- Expense measures include $1.3B in supplier payment pay downs through the projection period

1 Full details in Appendix

2 This addback is illustrative, and is not reflected in the amounts available for debt service elsewhere in this Plan

Revenues Before Measures

($MM)

Fiscal year ending June 30 ($ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
PR Nominal GNP Growth	*(2.2%)*	*(2.8%)*	*(2.4%)*	*(0.5%)*	*(0.4%)*	*0.3%*	*1.0%*	*1.6%*	*2.1%*	*2.6%*	
Revenues											
General Fund Revenues:											
Individual Income Taxes	$1,892	$1,760	$1,718	$1,709	$1,703	$1,708	$1,725	$1,752	$1,789	$1,836	$17,592
Corporate Income Taxes	1,515	1,473	1,437	1,430	1,424	1,429	1,443	1,466	1,497	1,536	14,649
Non-Resident Withholdings	685	666	650	647	644	646	652	663	677	694	6,624
Alcoholic Beverages	268	260	254	253	252	253	255	259	265	272	2,591
Cigarettes	112	109	106	106	105	106	107	108	111	114	1,083
Motor Vehicles	330	321	313	311	310	311	314	319	326	335	3,191
Excises on Off-Shore Shipment Rum	206	173	175	176	178	179	180	182	183	184	1,816
Other General Fund Revenue	391	386	377	375	373	374	378	384	392	402	3,833
Total	5,399	5,146	5,030	5,007	4,989	5,005	5,055	5,134	5,239	5,372	51,378
General Fund Portion of SUT (10.5%)	1,718	1,655	1,596	1,553	1,511	1,484	1,472	1,474	1,487	1,512	15,463
Net Act 154	2,075	1,556	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	11,931
General Fund Revenue	$9,192	$8,360	$7,664	$7,598	$7,538	$7,527	$7,565	$7,646	$7,764	$7,921	$78,773
Additional SUT (COFINA, FAM & Cine)	850	877	906	936	968	1,003	1,039	1,078	1,118	1,161	9,936
Other Tax Revenues	1,337	1,396	1,401	1,411	1,423	1,429	1,436	1,445	1,455	1,467	14,199
Other Non-Tax Revenues	579	576	582	594	622	630	635	642	649	666	6,174
Adj. Revenue before Measures	$11,958	$11,208	$10,552	$10,539	$10,550	$10,588	$10,675	$10,810	$10,986	$11,215	$109,082
Federal Transfers	6,994	7,168	7,372	7,477	7,623	7,835	8,023	8,212	8,469	8,675	77,847
Loss of Affordable Care Act ("ACA") Funding	–	(865)	(1,516)	(1,582)	(1,680)	(1,833)	(1,953)	(2,069)	(2,251)	(2,382)	(16,130)
Revenues before Measures	$18,952	$17,511	$16,407	$16,434	$16,494	$16,590	$16,746	$16,953	$17,204	$17,509	$170,799

Reclassified $81m to Individual Income Taxes and $34m to Excise on Off-shore Shipment of Rum from Other General Fund Revenue in FY2017 only

Non-Interest Expenses Before Measures

($MM)

Fiscal year ending June 30 ($ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Expenses											
General Fund Expenditures:											
Direct Payroll	($3,271)	($3,309)	($3,342)	($3,375)	($3,413)	($3,458)	($3,509)	($3,563)	($3,619)	($3,675)	($34,532)
Direct Operational Expenses	(907)	(918)	(926)	(936)	(946)	(959)	(973)	(988)	(1,003)	(1,019)	(9,574)
Utilities	(260)	(332)	(352)	(360)	(373)	(372)	(369)	(374)	(387)	(395)	(3,575)
Special Appropriations	(3,890)	(4,037)	(4,068)	(4,068)	(4,209)	(4,140)	(4,143)	(4,136)	(4,250)	(4,147)	(41,087)
General Fund Expenses	(8,329)	(8,596)	(8,688)	(8,738)	(8,941)	(8,929)	(8,993)	(9,060)	(9,259)	(9,236)	(88,768)
Other:											
Paygo Contributions in Excess of Asset Balance	–	(989)	(1,014)	(985)	(964)	(1,151)	(1,177)	(1,217)	(1,251)	(1,278)	(10,026)
Run-Rate Capital Expenditures	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(4,154)
Total other	(283)	(1,389)	(1,421)	(1,400)	(1,386)	(1,581)	(1,614)	(1,662)	(1,704)	(1,739)	(14,180)
Component Units, Non-GF Funds and Ent. Funds:											
Net Deficit of Special Revenue Funds	(110)	(130)	(146)	(154)	(162)	(169)	(173)	(176)	(176)	(174)	(1,571)
Independently Forecasted Non-Enterprise CUs	(452)	(380)	(433)	(558)	(639)	(752)	(859)	(963)	(1,109)	(1,210)	(7,356)
HTA Operational Expenses	(246)	(234)	(236)	(238)	(239)	(243)	(246)	(250)	(254)	(258)	(2,444)
Other	(44)	(41)	(30)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(335)
Total	(853)	(785)	(845)	(980)	(1,071)	(1,194)	(1,310)	(1,420)	(1,572)	(1,675)	(11,705)
Disbur. of Tax Revenues to Entities Outside Plan	(335)	(302)	(304)	(307)	(313)	(314)	(316)	(319)	(322)	(334)	(3,168)
Adj. Expenses before Measures	($9,800)	($11,071)	($11,259)	($11,425)	($11,712)	($12,018)	($12,234)	($12,461)	($12,857)	($12,984)	($117,822)
Federal Programs	(6,994)	(7,168)	(7,372)	(7,477)	(7,623)	(7,835)	(8,023)	(8,212)	(8,469)	(8,675)	(77,847)
Reconciliation Adjustment	(585)	(592)	(598)	(604)	(610)	(618)	(627)	(637)	(647)	(657)	(6,175)
Other non-recurring	(493)	(150)	(5)	(5)	(5)	(5)	–	–	–	–	(663)
Total	(8,072)	(7,910)	(7,975)	(8,086)	(8,238)	(8,458)	(8,650)	(8,849)	(9,116)	(9,332)	(84,685)
NonInterest Exp. before Measures	($17,872)	($18,981)	($19,233)	($19,512)	($19,950)	($20,477)	($20,884)	($21,310)	($21,973)	($22,316)	($202,507)

Removed "AP paydown" row that had zero values – no impact

ADDED SLIDE, missing from march 13th version

Assumptions and Methodology: Revenue

Category	Description	'17 Revenue $MM	'26 Revenue $MM	2017 – 2026 Growth Methodology
1 Taxes	• Individual Income Taxes • Corporate Income Taxes	3,407	3,371	• Grows with PR Nominal GNP Growth Factor • Excludes corporate tax reform and compliance impact which is included within fiscal measure reform analyses
2 Other General Fund Revenue	• General Fund	391	402	• Grows with PR Nominal GNP Growth Factor
3 Act 154	• Act 154 • Act 154 / Foreign Company Tax Losses	2,075	1,038	• Act 154 revenue is sustained at 2017 levels until 2026 • Losses equal (519) in 2018, double in 2019, and sustained at 2019 levels
4 SUT	• General Fund Portion of SUT (10.5%) • Additional SUT (COFINA, FAM, & Cine)	2,568	2,673	• Total SUT grown at PR Nominal GNP growth • Allocation proportions grow at historical levels
5 ACA Loss	• Loss of Affordable Care Act ("ACA") Funding	0	-2,382	• Initial decrease from (865) in 2018 to (1,516) in 2019 • Annual growth in loss of 6.7% from 2019 to 2026
6 Component Units	• Other Tax Revenues • Other Non-Tax Revenues	1,916	2,132	• Grows with PR Nominal GNP Growth Factor & Elasticity

Assumptions and Methodology: Expenses (1/2)

Category	Description	2017 $MM	2026 $MM	2017 – 2016 Growth Methodology
1 Direct Payroll	• Payroll and Operational Expenses • Education Payroll • Police Payroll	-3,271	-3,675	• Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
2 Direct Operational Expenses	• Legislature • Department of Education • Other Agencies	-907	-1,019	• Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
3 Utilities	• Power and Water • PBA Operating Subsidy (Rent) • Insurance Premiums	-260	-396	• PBA Operating Subsidy maintains • Power and water have initial increase due to subsidy reduction with steady year-over-year growth until 2026
4 Special Appropriations	• UPR • Judicial and Municipalities • Retirement Systems • Health Insurance	-3,890	-4,147	• UPR, Judicial and Municipalities increase in 2018, maintain steady-state following initial growth
5 Paygo Contributions in Excess of Asset Balance	• Required Pay-go contribution: ERS, TRS and JRS	0	-1,278	• Paygo program for ERS, TRS and JRS is initiated in 2018 with initial expenses of $989MM • Steady growth in expenses starting in 2020
6 Run-Rate Capital Expenditures	• Non-Growth Capital Expenditures in the Base (Run-Rate) • Growth Capex Corrected to negative	-284	-462	• Initial increase in 2018 to $400MM and steady growth in following years based on previous year multiplied by PR Inflation following

Assumptions and Methodology: Expenses (2/2)

Only formatting changes

Category	Description	2017 $MM	2026 $MM	2017 – 2026 Growth Methodology
7 Reconciliation Adjustment	• Reconciliation Adjustment	-585	-657	• Initial increase in 2018 to $592MM with steady increase until 2026 • Reconciliation adjustment based on midrange estimate provided by E&Y analysis and audit
8 Other Non-Recurring	• Payment of Past-Due Tax Refunds • Transition and restructuring costs	-493	0	• Initial decline in tax refunds in 2018 from $493MM to $150MM, decline in 2019 from $150MM to $5MM, and elimination of non-recurring expenses in 2023 • Costs to implement restructuring ($370MM over 10 years)
9 Component Units	• Net Deficit of Special Revenue Funds • Independently forecasted non-enterprise • HTA Operational Expenses	-853	-1,675	• Net Deficit of Special Revenue Funds growth is based on previous year multiplied by PR Inflation • Non-enterprise expenses include ASEM, ASES, ADEA, PRCCDA, PRIDCO, PRITA, Tourism, and UPR deficits • PBA and the Port Authority run a surplus in 2017 that transitions towards deficit beginning in 2018 • Initial HTA decline in expenses due to a reduction in Past Due AP costs

Assumptions and Methodology: Macroeconomic Factors

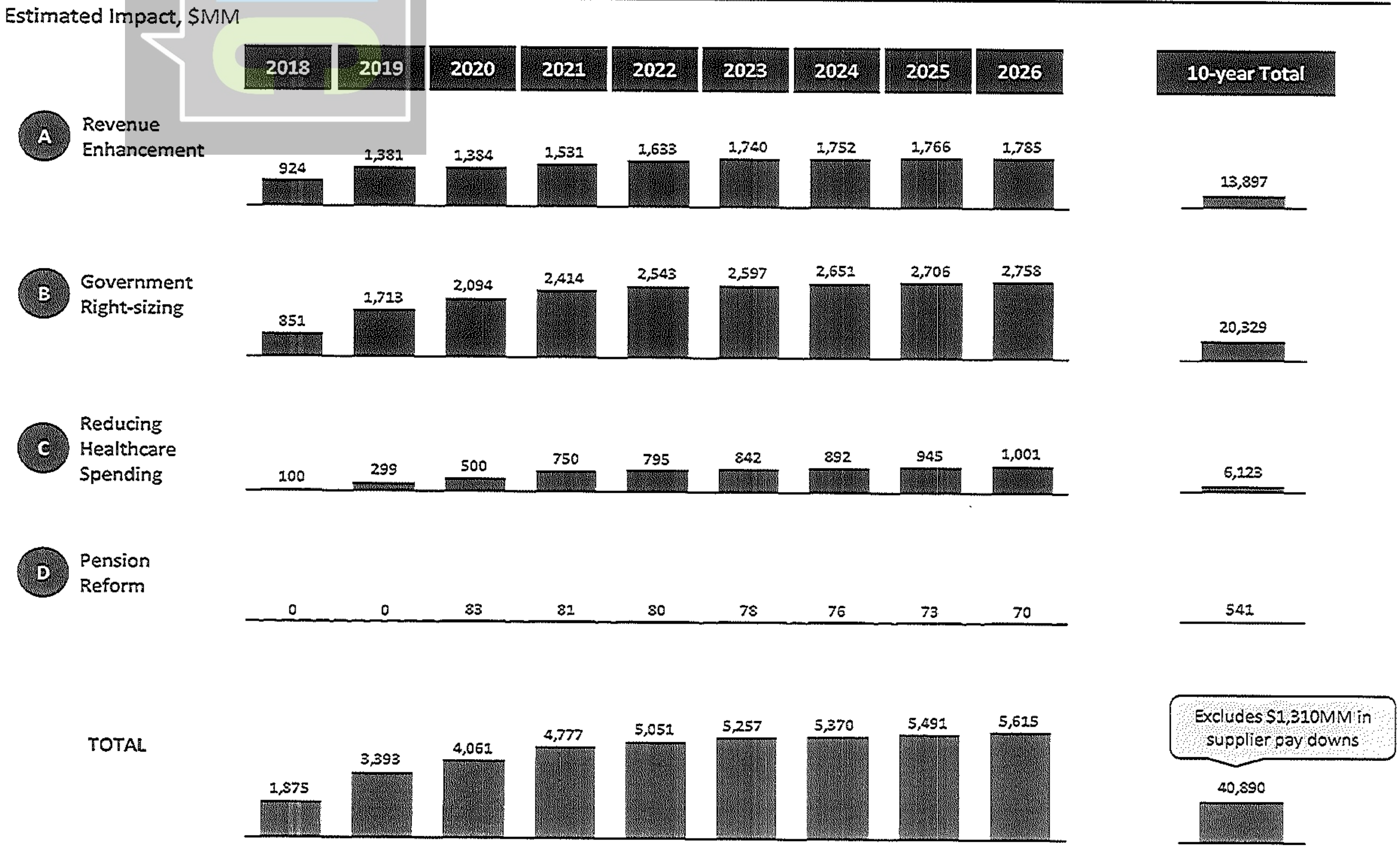
Only formatting changes

Category	Description, %										2017 – 2026 Growth Methodology
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
1 PR Nominal GNP Growth Factor	-2.2	-2.8	-2.4	-0.5	-0.4	0.3	1.0	1.6	2.1	2.6	• Initial decrease to 97.2% in 2019 • Increase in 2020 to 99.5% • Steady, minimal growth until 2026
2 PR Inflation	-0.2	1.2	1.0	1.0	1.1	1.3	1.5	1.5	1.6	1.6	• Initial negative inflation of -0.2% in 2017 increasing to 1.2% in 2018, 1.0% in 2019 with steady, minimal growth in Inflation until 2026
3 PR Population Growth Factor	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	• Maintenance of 2017 PR Population Growth Factor of 99.8%
4 US Population Growth	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	• Maintenance of 2017 US Population Growth of 100.8% until 2024, where it drops to 100.7%

Added Year Line

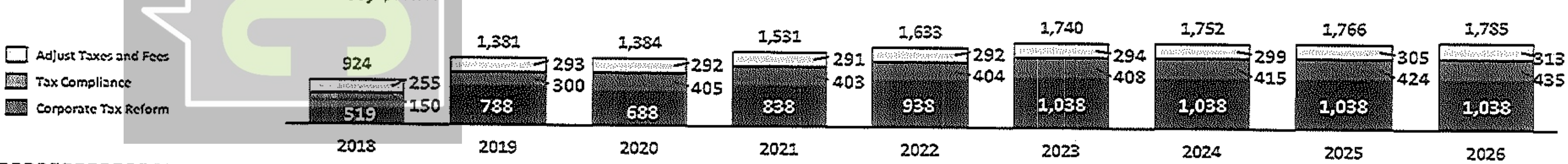
III. FISCAL REFORM MEASURES

Fiscal Reform measures reduce the 10-year financing gap by $39.6B



Note: Values may not add up due to rounding; Excludes expenditures related to rehabilitation of trade terms with local suppliers

Hacienda will embark in a multi-year transformation process to reduce leakage, improve revenue collections and adjust fees

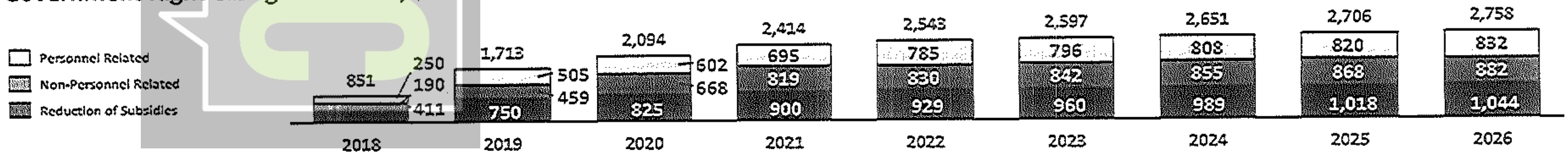


Reform Measures	Description	2018 Impact
Corporate Tax Reform	▪ The Government will use the breathing room provided by the extension of Act 154 to seek a more stable, consistent corporate tax policy that implements a broad-based regime with fewer exemptions by no later than January 2019	$519MM
Tax Compliance	▪ Reduce leakage by increasing electronic SUT tax collections at the point of sale, including internet sales ▪ Improve revenue collections by using advanced analytics, expanding capacity and conducting targeted interventions	$150MM
Adjust Taxes and Fees	▪ Increase tobacco-related products excise tax and implement new property tax regime ▪ Revise fees including licenses, traffic fines, insurance fees and other charges for services to keep up with market trends	$255MM

Note: To meet fiscal plan objectives, the Government may consider additional measures.

The Government must embark on a transformative journey in order to provide core services to citizens in an efficient and fiscally responsible manner

Government Right-Sizing Measures[1], $MM



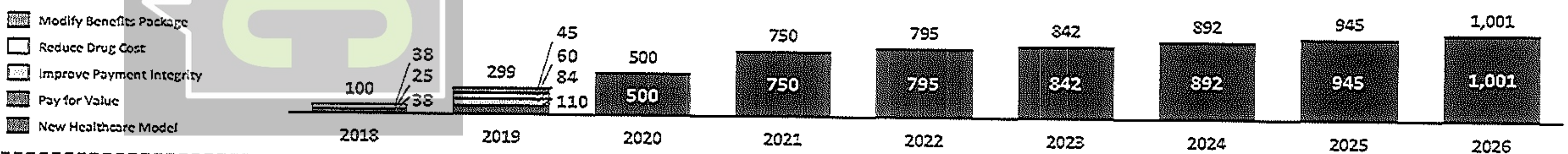
Reform Measures	Description	2018 Impact
Personnel Related	▪ Freeze on payroll increases for fiscal years 2018 to 2020 ▪ Improve employee mobilization across government, uniform fringe benefits and eliminate vacation and sick day liquidations to produce higher attrition rates or other payroll-related savings	$250MM
Non-Personnel Related	▪ Freeze on operational cost increases for fiscal years 2018 to 2020 ▪ Re-design the way the Government works by reducing non-core expenses, externalizing services to private entities, centralizing services to eliminate duplication, achieve procurement savings or other cost-cutting measures	$190MM
Reduction of Subsidies	▪ Gradually reduce general fund subsidies to the University of Puerto Rico, municipalities and other direct subsidies to the private sector ▪ Proactively engage with the University of Puerto Rico, municipalities, as well as industry partners, to mitigate the economic development impact of subsidy removal	$411MM

Note: To meet fiscal plan objectives, the Government may consider additional measures.

1) Post 2018, the relative distribution of savings between personnel and non-personnel related expenses will be decided as part of updates to the Fiscal Plan and the annual budget

The Government will focus on improving efficiencies, adjusting benefits and developing a new healthcare model in order to achieve savings in healthcare spend

Reducing Healthcare Spending Measures, $MM

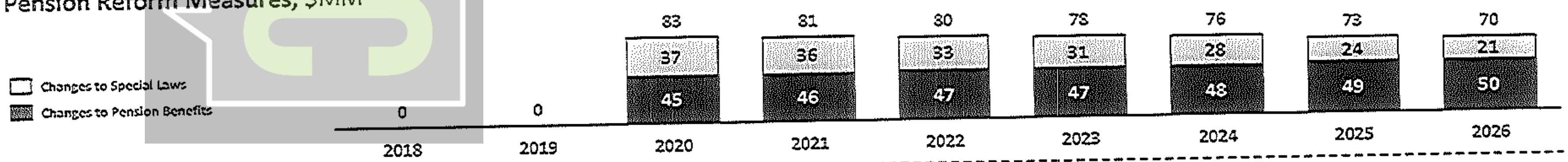


Reform Measures	Description	2018 Impact
Pay for Value	▪ Establish uniformed fee schedules and limit reimbursement rates for providers ▪ Replace current profit sharing arrangement with MCOs and replace with a Medical Loss Ratio	$38MM
Improve Payment Integrity	▪ Establish partnerships to increase the scrutiny of premium payments for beneficiaries that have left the system or have another health insurance plan ▪ Establish Medicaid Fraud Control Unit and implement the Medicaid Management Information System to reduce waste, fraud and abuse	$25MM
Reduce Drug Cost	▪ Reduce outpatient drug spending by increase pharmacy discounts on branded drugs, enforce mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives	$38MM
Modify Benefits Package	▪ Evaluate services that could be capped and/or eliminated from the current benefit package without adversely affecting access for Mi Salud beneficiaries	$0
New Healthcare Model	▪ 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	$0

Note: To meet fiscal plan objectives, the Government may consider additional measures.

Segmentation of the defined contribution structure will protect the retirement savings of government employees

Pension Reform Measures, $MM



Reform Measures	Initiative	2018 Impact
Contribution Segregation and New Benefit Plans	▪ Switch to pay-as-you-go model, segregate prospective employee contributions, facilitate Social Security enrollment and improve investment alternatives	$0
Adjust Retirement Benefits	▪ Protect benefits for lowest pension income earners. Progressive strategy to reduce retirement benefit costs including other post-employment benefits.	$0

Note: To meet fiscal plan objectives, the Government may consider additional measures.

IV. STRUCTURAL REFORMS

Implementing the package of structural reforms will provide a cumulative 2.0% increase in GNP growth

1 Improve Ease of Business Activity

1a Increase Labor Participation

- Institute public policy measures aimed to attract new businesses, create new employment opportunities, and foster private sector employment growth to increase labor demand
- Change welfare and labor incentives to encourage greater sector participation thus increasing labor supply

1b Permitting Process Reform

- Centralize, streamline, and modernize and expedite permitting processes; increase business friendly environmental and economic growth

1c Tax Reform

- Lower marginal tax rates and broaden the tax base; simplify and optimize the existing tax code to achieve gains in efficiency, ease of doing business and reducing tax evasion

1d Regulatory Reform

- Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector

2 Improve Capital Efficiency

2a Infrastructure Reform

- Augmenting competitiveness by investing in critical infrastructure and quality of public services in roads, ports, telecommunications, water and waste, knowledge services, and other strategically important sectors

2b Public-Private Partnerships

- Leverage key public assets through long term concessions to optimize quality of public infrastructure, services to public and sustainable operations and maintenance

2c Critical Projects

- Implement management system to boost development of critical projects through expedited processes

3 Energy Reform

3a Energy Reform

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

4 Promoting Economic Development

4a Enterprise Puerto Rico

- Promote productivity growth, attract FDI & incentivize investments in technology through collaboration with the private sector

4b Destination Marketing Organization

- Externalize the overseeing of marketing efforts & continuity under a single brand and as a unified front representing all of Puerto Rico's tourism components

The initial stage of the P3 program includes launching of ~$5B of projects during the 2017-2019 calendar years that have been identified and are in project preparation

P3 Project Identification

- Identified initial list of priority projects with P3 potential
- Assessed project business cases and impacts on priority infrastructure needs, the economy, and efficient delivery of public services
- Split into 3 groups based on projected sequencing, **designed to launch in 2017, 2018 and 2019**

Key Considerations in the Overall P3 Implementation

- Project sequencing is designed to effectively progress the advancement of **projects and avoid major obstacles in the shortest timeline possible** (i.e., progression from easily executable/advanced permitting to more difficult/less advanced projects)
- Need to **promote and improve funding models to use private funds**, where relevant, as leverage to maximize the unused federal funds current available

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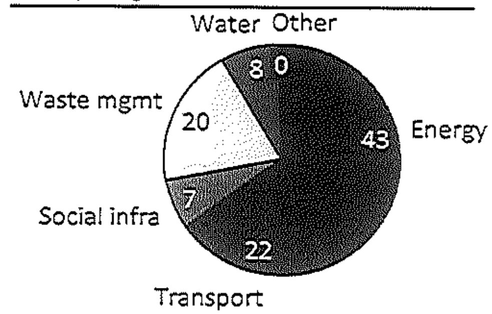
P3 Key Target Areas %



10-Year Impact → Capital Improvement Investment: ~$5B | Jobs Created: ~100,000

	2017				2018				2019			
	Q-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19
Group 1 Projects	• Launch Group 1 Projects • Estimated value ~$1B											
Group 2 Projects	• Invest in preparing Group 2 • Data gathering, due diligence, etc.				• Launch Group 2 Projects • Estimated value ~$2B							
Group 3 Projects	• Invest heavily in preparing Group 3 • Data gathering, due diligence, etc.								• Launch Group 3 Projects • Estimated value $2B			

(Project timeline includes P3 concessions included in Externalization measures)

Removed bullet

V. DEBT SUSTAINABILITY ANALYSIS

Debt summary

- Below is a summary of the debt (excluding pension liabilities) considered in the fiscal plan
- Note: Amounts are estimated as of February 2017 and based upon preliminary unaudited numbers provided to AAFAF by issuer agencies and from publicly available information. On behalf of the Board, Ernst & Young is conducting an assessment of the debt outstanding to confirm these figures. Estimated amounts are subject to further review and may change

Summary of debt outstanding as of February 2017 ($MM)

Issuers included in Fiscal Plan	Bond principal	CAB	Unpaid P&I[1]	Private Loans	Total Bonds & Private loans	Loans from GDB/MFA Entities	Total Debt Service FY 17-19	DSRF Balance
GO	$12,013	$84	$1,146	$24	$13,267	$169	$3,284	–
COFINA	11,425	6,155	–	–	17,580	–	2,121	–
HTA[2]	3,983	135	6	–	4,124	1,734	997	101
PBA	3,980	–	117	–	4,097	182	782	6
GDB[3,4]	3,182	–	742	203	4,126	–	1,863	–
ERS	2,658	498	–	–	3,156	–	500	44
PRIFA[5]	1,566	409	232	–	2,207	49	464	2
PFC	1,025	–	172	–	1,197	–	257	–
UPR[6]	496	–	–	0	496	76	145	61
PRCCDA	386	–	–	–	386	145	91	9
PRIDCO	145	11	–	–	156	78	54	19
AMA	–	–	–	28	28	–	–	–
Other Central Gov't Entities	197	–	29	413	639	3,975	–	–
Total	$41,056	$7,293	$2,444	$668	$51,461	$6,409	$10,558	$242
Debt Issuers not Incl. in Fiscal Plan								
PREPA	8,259	–	–	697	8,956	36	2,775	6
PRASA[7]	3,943	28	13	584	4,568	229	995	93
Children's Trust	847	613	–	–	1,460	–	140	85
HFA	542	–	–	–	542	85	134	33
PRIICO	–	–	–	98	98	–	–	–
Municipality Related Debt[8]	556	–	–	1,140	1,696	2,036	n.a.	59
Total	$14,147	$641	$13	$2,520	$17,320	$2,386	$4,044	$276
Total	$55,203	$7,933	$2,457	$3,188	$68,781	$8,795	$14,602	$518
Less: GDB Bonds (excl. TDF)					(3,766)			
Plus: Loans from GDB/MFA Entities					8,795			
Public Sector Debt					$73,810			

Reflects corrected debt amounts:
COFINA: reduced by $300m
HTA: reduced by $123m
PBA: reduced by $32m

Notes:
1) Unpaid principal and interest includes debt service that has been paid by insurers and is owed by the government
2) HTA includes Teodoro Moscoso bonds
3) GDB private loans includes Tourism Development Fund ("TDF") guarantees
4) Includes GDB Senior Guaranteed Notes Series 2013-B1 ("CFSE")
5) PRIFA includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANs, PRIFA Port Authority bonds and $34.9m of PRIFA ASSMCA bonds
6) UPR includes $64.2m of AFICA Desarrollos Universitarios University Plaza Project bonds
7) PRASA bonds includes Revenue Bonds, Rural Development Bonds, Guaranteed 2008 Ref Bonds
8) Municipality Related Debt includes AFICA Guyanabo Municipal Government Center and Guaynabo Warehouse for Emergencies bonds

Debt Service Schedule

Changed Schedule to include 2017, exclude 2027 in order to tie out to Fiscal Plan projection period.

Corrected debt service amounts impacting GO, PBA, COFINA, HTA, PRIFA, PFC and GDB
Total debt service over the projection period reduced by $68m

The table below summarizes the annual debt service through FY 2026 for all issuers included in the fiscal plan

FY 201 – FY 202 debt service ($MM)

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Cash Interest										
GO	$733	$714	$699	$680	$658	$641	$621	$597	$571	$545
PBA	186	186	183	179	175	169	163	157	151	145
COFINA	686	685	684	697	709	703	696	688	680	671
HTA[1]	206	201	194	188	182	175	167	160	153	145
PRIFA[2]	86	80	77	75	72	69	65	61	57	53
PRCCDA	19	18	17	17	16	15	15	14	13	12
PFC	56	55	54	53	51	50	48	47	44	42
UPR[3]	25	24	22	21	20	18	17	15	14	12
ERS	167	167	167	167	167	164	159	155	154	152
GDB	163	142	125	79	55	46	43	18	16	11
PRIDCO	8	8	7	7	6	5	5	4	3	2
Total	$2,333	$2,279	$2,229	$2,161	$2,109	$2,054	$1,999	$1,916	$1,857	$1,790
Principal										
GO	$395	$351	$392	$439	$334	$358	$378	$402	$428	$454
PBA	91	66	70	74	100	102	96	103	107	100
COFINA	0	19	48	78	98	120	159	203	248	294
HTA[1]	131	140	126	136	142	150	146	155	164	169
PRIFA[2]	124	48	50	51	54	62	86	64	72	74
PRCCDA	12	12	13	14	14	15	16	17	17	18
PFC	29	30	32	33	34	36	37	39	41	43
UPR[3]	23	25	26	27	29	30	31	33	35	24
ERS	(0)	0	–	0	50	70	80	19	22	29
GDB	309	277	848	432	434	143	47	541	–	248
PRIDCO	10	10	11	11	11	13	13	14	15	16
Total	$1,124	$979	$1,614	$1,296	$1,299	$1,097	$1,091	$1,590	$1,149	$1,470
Total debt service										
GO	$1,128	$1,066	$1,090	$1,118	$991	$999	$999	$999	$999	$999
PBA	277	253	252	253	274	270	259	260	258	245
COFINA	686	704	732	776	807	823	855	891	928	965
HTA[1]	337	340	320	324	324	325	314	315	317	314
PRIFA[2]	210	127	127	126	126	130	151	125	130	127
PRCCDA	30	30	30	30	30	30	30	30	30	30
PFC	86	86	86	85	85	85	85	86	86	85
UPR[3]	48	48	48	48	48	48	48	48	48	36
ERS	167	167	167	167	217	234	239	174	176	181
GDB	472	419	973	512	488	189	91	559	16	259
PRIDCO	18	18	18	18	16	18	18	18	18	18
Total	$3,457	$3,257	$3,843	$3,457	$3,408	$3,152	$3,090	$3,506	$3,006	$3,261

1 HTA includes Teodoro Moscoso Bridge
2 PRIFA includes PRIFA BANs
3 UPR includes AFICA UPP

Debt sustainability

The table below summarizes the annual cash flow available for debt service, and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35 year term

- Cash flow available for debt service incorporates (i) the payment of essential services, (ii) benefit of clawback revenues and (iii) a prudent contingency reserve
- In the Fiscal Plan summarized below, the cash flow after Measures but before Debt Service averages $787m per year during the period 2017 - 2026

Debt sustainability sensitivity analysis ($MM)

Fiscal year ending June 30 ($ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Baseline Projections											
Revenues	$18,952	$17,511	$16,407	$16,434	$16,494	$16,590	$16,746	$16,953	$17,204	$17,509	$170,799
Expenses	(17,872)	(18,981)	(19,233)	(19,512)	(19,950)	(20,477)	(20,884)	(21,310)	(21,973)	(22,316)	(202,507)
Cash Flow Excl. Debt Service & Measures	1,080	(1,470)	(2,826)	(3,077)	(3,456)	(3,886)	(4,139)	(4,357)	(4,769)	(4,808)	(31,708)
Impact of Measures											
Revenue Measures	–	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897
Expense Measures	–	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683
Total Measures	–	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash Flow Available for Debt Service	$1,080	$404	$567	$722	$1,059	$903	$857	$751	$722	$808	$7,873

Illustrative Sustainable Debt Capacity Sizing Analysis

Sensitivity Analysis: Implied Debt Capacity at 10% Contingency

Illustrative Cash Flow Available		$700	$750	$800	$850	$900	$950	$1,000	$1,050	$1,100
Sensitivity Analysis: PV Rate %	*3.5%*	12,600	13,500	14,400	15,301	16,201	17,101	18,001	18,901	19,801
	4.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	4.5%	11,000	11,786	12,572	13,358	14,143	14,929	15,715	16,501	17,286

Corrected to reflect shift of $262m of AP paydown from FY 2017 to FY 2024

Sensitivity Analysis: Implied Debt Capacity at 4% PV Rate

Illustrative Cash Flow Available		$700	$750	$800	$850	$900	$950	$1,000	$1,050	$1,100
Sensitivity Analysis: % Contingency	*5.0%*	12,412	13,299	14,185	15,072	15,958	16,845	17,731	18,618	19,505
	10.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	15.0%	11,105	11,899	12,692	13,485	14,278	15,072	15,865	16,658	17,451

VI. TSA LIQUIDITY

Weekly cash flow forecast through 2017FY

	Cash Flows Before Cliffs, Measures and Debt *(figures in $mm)*	Fcst-1	Fcst-2	Fcst-3	Fcst-4	Fcst-5	Fcst-6	Fcst-7	Fcst-8	Fcst-9	Fcst-10	Fcst-11	Fcst-12	Fcst-13	Fcst-14	Fcst-15	Fcst-16
		3/17	3/24	3/31	4/7	4/14	4/21	4/28	5/5	5/12	5/19	5/26	6/2	6/9	6/16	6/23	6/30
1	General Collections	$349	$254	$58	$71	$66	$760	$186	$63	$66	$334	$60	$44	$59	$134	$520	$57
2	Sales and Use Tax	18	13	146	5	17	14	163	5	18	5	167	4	5	13	14	171
3	Excise Tax through Banco Popular	64	–	–	–	77	–	–	–	–	68	–	–	–	57	–	–
4	Rum Tax	–	10	–	–	–	11	–	–	–	18	–	–	–	–	22	–
5	Electronic Lottery	–	–	–	–	–	–	–	–	–	–	–	–	–	–	14	37
6	Subtotal	$432	$277	$204	$76	$161	$784	$349	$68	$84	$424	$227	$48	$64	$210	$570	$265
7	Employee/Judiciary Retirement Admin.	–	–	–	–	56	–	–	–	56	–	–	–	–	56	–	–
8	Teachers Retirement System	–	–	–	–	70	–	–	–	–	–	–	–	–	–	–	–
9	Retirement System Transfers	–	–	–	–	$127	–	–	–	$56	–	–	–	–	$56	–	–
10	Federal Funds	93	110	83	123	95	119	123	95	126	93	123	49	59	107	107	121
11	Other Inflows	9	–	11	–	–	9	11	–	–	–	–	11	–	–	–	11
12	Tax Revenue Anticipation Notes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	**Total Inflows**	$534	$388	$298	$199	$382	$912	$483	$163	$267	$517	$350	$108	$163	$373	$677	$397
14	Payroll and Related Costs	(18)	(51)	(120)	(23)	(95)	(62)	(101)	(35)	(90)	(65)	(96)	(18)	(22)	(95)	(56)	(106)
15	Pension Benefits	–	–	(87)	–	(82)	–	(87)	–	(82)	–	(87)	–	–	(82)	–	(87)
16	Health Insurance Administration - ASES	(53)	(53)	(55)	(53)	(52)	(53)	(60)	(53)	(53)	(53)	(53)	(7)	(53)	(53)	(53)	(55)
17	University of Puerto Rico - UPR	(18)	(18)	(24)	(13)	(18)	(18)	(24)	(12)	(13)	(18)	(13)	(6)	–	(36)	(18)	(24)
18	Muni. Revenue Collection Center - CRIM	(21)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	–	–	(15)	(8)	(26)
19	Highway Transportation Authority - HTA	–	–	(16)	–	–	–	(16)	–	(19)	–	–	(19)	–	–	(19)	(19)
20	Public Building Authority - PBA / AEP	(9)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	–	(4)	(4)	(4)	(4)	(4)
21	Other Governmental Entities	(20)	(9)	(54)	25	(20)	(9)	(54)	25	(20)	(9)	(12)	(18)	(3)	(20)	(9)	(63)
22	Subtotal - Government Entity Transfers	($120)	($92)	($160)	($57)	($103)	($92)	($165)	($57)	($122)	($92)	($90)	($54)	($59)	($128)	($111)	($191)
23	Supplier Payments	(57)	(57)	(58)	(86)	(86)	(86)	(87)	(68)	(68)	(68)	(68)	(53)	(65)	(65)	(65)	(66)
24	Other Legislative Appropriations	(24)	(14)	(5)	(2)	–	(38)	(5)	(6)	(22)	(10)	(5)	(4)	–	(16)	(22)	(5)
25	Tax Refunds	(12)	(13)	(4)	(1)	(6)	(39)	(4)	(7)	(4)	(4)	(31)	(3)	(1)	(4)	(6)	(41)
26	Nutrition Assistance Program	(30)	(70)	(22)	(35)	(40)	(54)	(36)	(22)	(43)	(56)	(36)	(16)	(37)	(30)	(70)	(20)
27	Other Disbursements	–	–	–	–	–	–	–	–	–	–	–	(4)	–	–	–	(4)
28	Contingency	(16)	(16)	(16)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(23)	(23)	(23)	(23)	(23)
29	Tax Revenue Anticipation Notes	–	–	–	–	–	–	(152)	–	–	–	–	(137)	–	–	–	(135)
30	**Total Outflows**	($277)	($313)	($472)	($233)	($440)	($399)	($665)	($223)	($459)	($324)	($442)	($312)	($208)	($443)	($353)	($676)
31	Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures	$257	$75	($174)	($34)	($58)	$513	($182)	($60)	($193)	$194	($92)	($204)	($44)	($70)	$324	($279)
32	Bank Cash Position, Beginning (a)	$319	$576	$650	$477	$442	$384	$397	$716	$655	$462	$656	$564	$360	$316	$246	$570
33	**Bank Cash Position, Ending (a)**	$576	$650	$477	$442	$384	$897	$716	$655	$462	$656	$564	$360	$316	$246	$570	$291

(a) Excludes clawback account.

Corrected from liquidity discussion to TSA liquidity to match section name

Liquidity Principles for FY 2018

- No external short-term financing
- Rollout of Disbursement Authorization Group in order to enforce priority of payments through defined critical services (see Section VII)
- Consolidate dispersed treasury functions and put in place oversight over accounts not centrally managed
- Refine and regularly update 13 week cash analysis with detailed forecasting of cash receipts and disbursements
- Provide detailed daily performance projections, results, and variances

1 Cash management authority is granted to AAFAF under Act 5-2017 and other relevant legislation

VII. FINANCIAL CONTROL REFORM

Current state of financial controls

- Cash is not centrally managed
  - No central office has visibility across all spending
  - Procurement agencies do not actively enforce terms and specifications
  - Limited coordinated effort to eliminate major cash outlays
  - Limited sweep of cash into general fund accounts
  - Cash disbursements is a manual and subjective process handled at Hacienda
  - No formal structure for reporting and release of audited financials
- Target is to improve level of detail on forecasting and specificity around assumptions
  - "Top-down" approach, based on prior year's Budget
  - Bank-to-book reconciliations are not often prepared in a timely manner
  - No tracking mechanisms exist to measure intra-year actual expenditures vs. budget on an accrual basis

Budget certification per PROMESA § 202

March · April · May · June · July

3/13:
- Certification of Fiscal Plan

3/17:
- Set timeline for budget certification per PROMESA § 202 (a)
- Work with Oversight Board in designing a reporting structure and reporting forms

4/14:
- Adopt procedures to deliver timely statements and to make public per PROMESA § 202(a)

4/28:
- Submit budget and implementation plan to Oversight Board

5/22:
- Submit revised budgets and supporting documents to Board, if necessary

6/5:
- Budget certification

6/30:
- Last day for budget certification per PROMESA § 202(e)

7/1:
- Beginning of FY2018

Quarterly budget compliance process per PROMESA § 203

Quarterly Action	PROMESA section	Description	Proposed dates (mm/dd/yy)
Reporting[1]	§ 203 (a)	Governor to submit a report describing: (1) the actual cash revenues, expenditures, and flows and (2) any other information requested by the Board	Q1: 10/15/17[1] Q2: 1/16/18 Q3: 4/16/18 Q4: 7/16/18
External auditing	§ 203 (b)	Oversight Board to communicate the result of external auditing report to the government and identify any inconsistencies with the projected revenues, expenditures, or cash flows set forth in the certified Budget for such quarter	Q1: 11/10/17 Q2: 2/12/18 Q3: 5/10/18 Q4: 8/10/18
Correction of variance	§ 203 (b)	Government to provide additional information regarding any inconsistencies with the certified budget and implement remedial action to correct variances	Q1: 11/20/17 Q2: 2/20/18 Q3: 5/21/18 Q4: 8/20/18
Certification of variance / or Budget reductions by Board	§ 203 (c) and (d)	Board to certify that the government is at variance with the applicable certified Budget, and that the Government has initiated such measures as the Board considers sufficient to correct it If the variances are not corrected, the Board shall make appropriate reductions in nondebt expenditures and may institute automatic hiring freezes in instrumentalities and prohibit them from entering in any contract in excess of $100,000	Q1: 12/11/17 Q2: 3/12/18 Q3: 6/11/18 Q4: 9/10/18
Termination of budget reductions	§ 203 (e)	The Board should decide whether the government or instrumentality has made the appropriate measures to reduce expenditures or increase revenues and cancel the reductions	Ongoing

1 Per PROMESA, these dates must be 15 days after end of each quarter

Budget and Forecasting process

Define a timeline for each quarter's budget

- Certification process must adhere to PROMESA requirements
- Should include, but not be limited to:
  - Certification process according to PROMESA requirements
  - Reporting, external auditing, and variance certifications

Set guiding principles for budget and forecasting

- Budget should be prepared…
  - Within the **confines of the overall fiscal plan**
  - As a **positive cash balance** with sufficient safety margin, due to lack of access to capital markets

Set, update, and track targets every quarter

- Use performance metrics, e.g.,:
  - Status? On track / Delayed / Completed
  - Reached target?
  - Above / below past instances?
- Implement measures to correct variances from budget

Disbursement process

Define disbursement process	▪ Set guidelines and principles ▪ Work to match budget to disbursement authorizations ▪ Identify an effective, centralized, and time-sensitive disbursement process that involves the adequate authorities – Incorporate a mechanism that confirms alignment between revenues and expenses
Implement a centralized disbursement digital database	▪ Centralize into a single Treasury account with a corresponding database ▪ Update and review periodically ▪ Set a minimum available liquidity threshold and an alert-system
Set, update, and track metrics every quarter	▪ Establish preventive measures ▪ Implement detective procedures to correct problems before they arise ▪ Design a process to correct variances from budget mid-year