Natalie A. Jaresko
Executive Director
Financial Oversight and Management Board for Puerto Rico

<u>Puerto Rico Manufacturers Association (PRMA)</u>
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Buenos tardes a todos y buen provecho. Es un placer estar aquí hoy con ustedes.

Thank you so much for inviting me and giving me the opportunity to speak to you today about Puerto Rico, and about the Oversight Board's work here on this beautiful island that is full of opportunities.

I'd like to thank the Puerto Rico Manufacturers Association, President Rodrigo Masses, and all your guests from the public and private sectors for their continued work and shared efforts in restoring economic growth in Puerto Rico and help to turn these opportunities into reality. Two years ago today, I spoke with you in Fajardo, just as I was beginning my work here. So this is a great opportunity to look back and see where we've travelled together.

The title of your conference is the Puerto Rico Renaissance. It is a fascinating theme. We all have been working on the revival of Puerto Rico. But the Renaissance, of course, also stands for the period that profoundly changed Europe and the world. A time full of innovation, full of art and beauty – and of rapid economic development. And that is what I think of when I talk about the opportunities Puerto Rico has today.

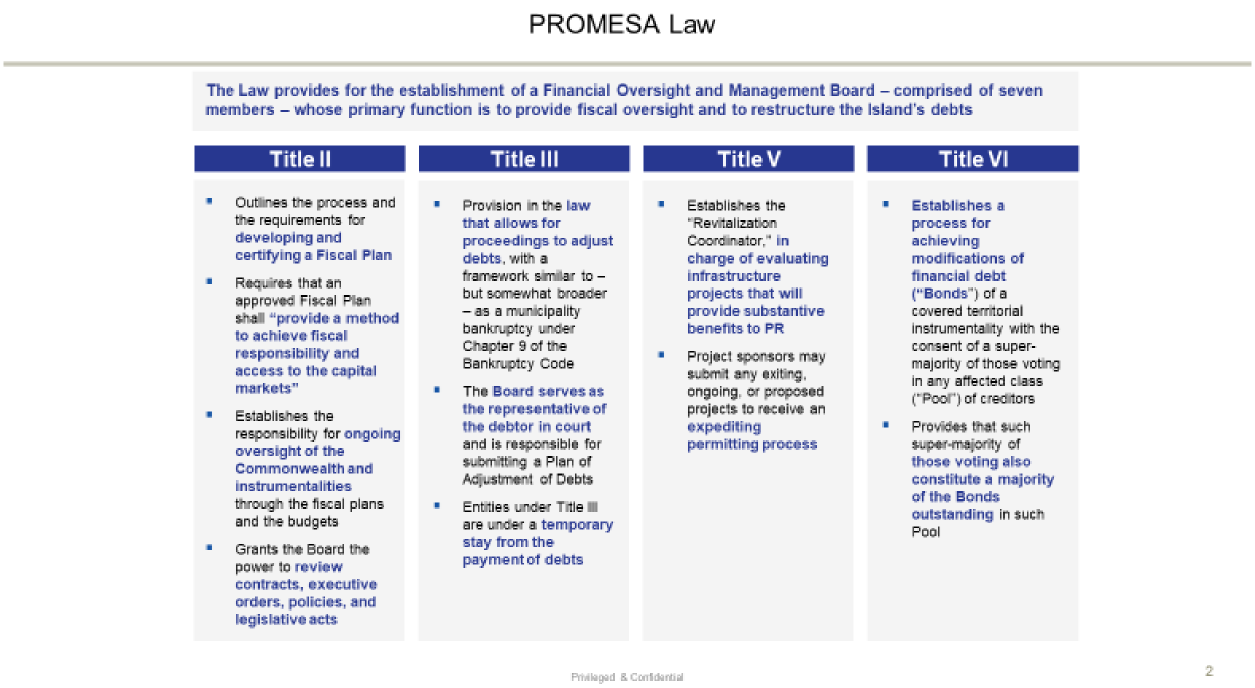
We have begun this renaissance, although we are not quite in the peak of it yet. Your businesses have created new jobs here in Puerto Rico to help the recovery. The Oversight Board has been restructuring th e island's debt and laid the foundation for fiscal responsibility and structural reform of the Island's economy for the future.

It is our goal to have restructured 70% of Puerto Rico's debt by the end of the 2020 fiscal year, filing plans of adjustment for the Commonwealth and for PREPA in addition to those already completed. PROMESA mandates that we get to four years of balanced budgets and once the debt is restructured and the debt service is established, these four years will begin immediately because we worked hard to provide the guard rails for a balanced budget, accountability, and transparency.

We are seeing things coming together. We are moving forward.

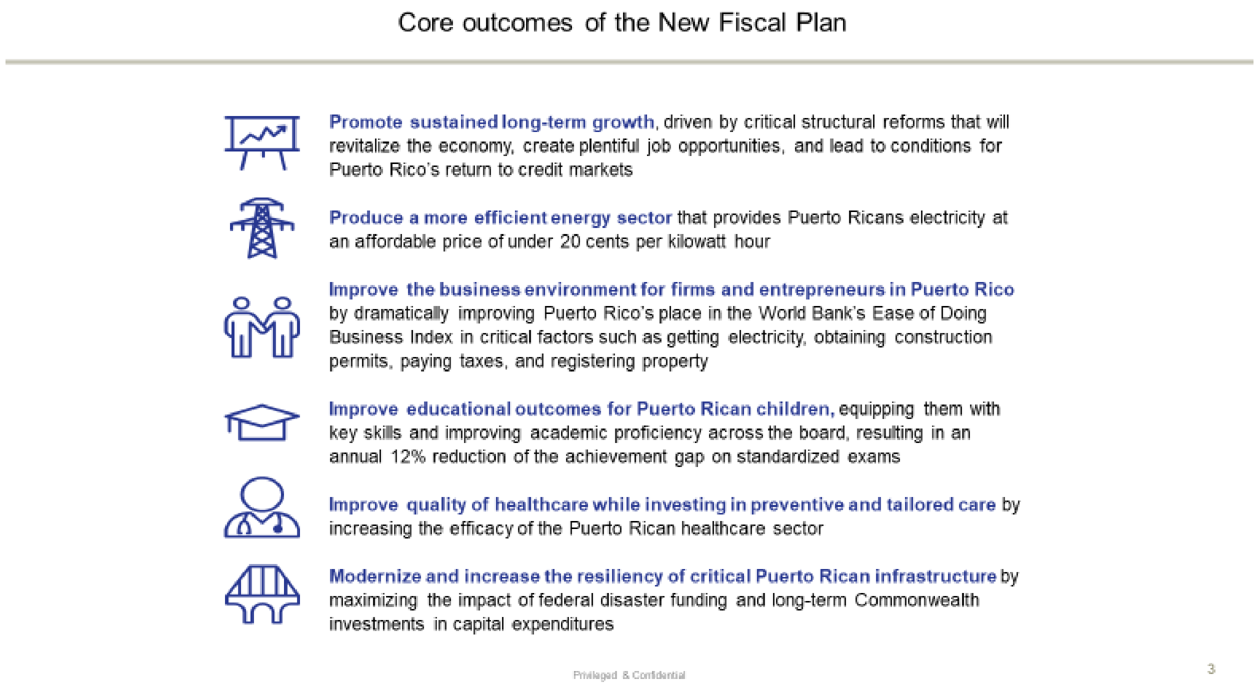
Perhaps it would be helpful if I give you a brief overview of how the Oversight Board is moving forward, it's work and its mandate under PROMESA.

On this slide (SLIDE 2) you see the four main pillars of PROMESA



Let me start with Title II. Last month, the Oversight Board certified an updated Fiscal Plan that will help secure Puerto Rico's future. The Fiscal Plan ensures spending is focused on the key areas of public safety, public education and public health. A particular focus on public safety after a year of debates on the Island, because improving public safety helps make residents, investors and tourists feel safe to live in, invest in and visit the Island.

The Fiscal Plan is built on core outcomes necessary to put Puerto Rico on a path of sustainable growth, several of which directly impact you and your businesses, particularly reforms around ease of doing business, education and energy. A summary of those reforms are on the slide up now (SLIDE 3).



The Fiscal Plan also sets the spending limit for the government budget. This week, we sent the Legislature a budget for the Commonwealth of Puerto Rico consistent with the Certified Fiscal Plan that will begin the process of stabilizing the island's finances over the long run.

As business people, I know you enjoy talking about numbers and I suspect you might be interested in some details about this budget. I am happy to walk you through some of the highlights. Don't worry: I will be brief. I know you were told this is a lunch speech.

The total Commonwealth budget has three elements.

The General Fund budget includes funds the government uses for its day-to-day operations. It is funded by personal and corporate income taxes and the Commonwealth's share of the sales tax. The total spending is $9.1 billion, with the great majority going to pensions, and the three key priorities, public safety, health and education.

There is, however, an additional $3.5 billion in spending that occurs via Special Revenue Funds, which includes revenue the government generates from fees and services dedicated to particular uses. For example, traffic fines and your oil and tire collection fees – that revenue is also part of the Certified Fiscal Plan, but it is not part of the General Fund budget submitted to the Legislature.

Together the General Fund and Special Revenue Funds total $12.6 billion. You can see how the spending of this $12.6 breaks down by area of focus on this slide (SLIDE 4)

Components of the FY20 General Fund & Special Revenue Fund Budget

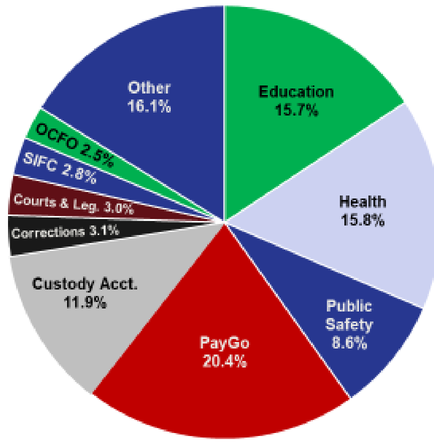
Education	
K-12 Education	$1,338
UPR	560
UPR Scholarship[1]	39
Teacher Salary Increase	14
Teacher's Social Security	12
Other	12
Total Education	**$1,975**

Public Safety	
Police Department	$706
Police Back Pay	122
Fire Department	74
Police & Fire Salary Incr.	73
Police Social Security	34
Emergency Medical	26
9-1-1 Service	20
Other	32
Total Public Safety	**$1,087**

Health	
ASES	$1,281
Dept. of Health	361
ASEM	160
ASSMCA	83
Other	110
Total Health	**$1,994**

FY20 Expenditures in GF & SRF Budget
In Millions $

Total Expenses = $12.6 Billion



1. These amounts were reclassified from the Hacienda custody account solely for purposes of this table
Note: Budgets are shown net of PayGo pension costs which are allocated to each agency in the budget resolutions

Other	
Families & Children	$261
Public Works	256
Economic Dev.	195
Independent Agencies	177
Executive Office	159
Agriculture	141
Municipal Subsidy	132
Environmental	112
FOMB	64
Other	535
Total Other	**$2,033**

Custody Accounts	
Federal Unemplmt.	$248
RUM Cover Over Pmts.	179
Title III Fees	176
Fiscal Plan CapEx	163
Emergency Reserve	130
COFIM	130
GDB Liabilities	105
Disaster Cost Share	100
FEDE	76
HTA Transfer	67
FDM	53
Other	73
Total Custody Acct.	**$1,501**

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Finally, the Commonwealth is also receiving, spending, and investing $6 billion in additional funding from the Federal Government (not including federal disaster aid), for example for Medicaid and education. Those funds are allocated by law and cannot be spent on anything other than those allocations. So a grand total of some $18-19 billion in annual spending.

This year, in an effort to increase transparency and understanding of spending choices, there are two sets of major changes. First, we have worked with the Government and major agencies to provide a deeper level of detail, one the Legislature has not had previously. Second, the consolidated budget at the end of June will be more comprehensive and include items not budgeted in prior years, such as COFIM, FAM, all cash subsidies to industry and more. Nothing should be spent that isn't identified in some budget somewhere in the Commonwealth and held to the light of taxpayers' eyes.

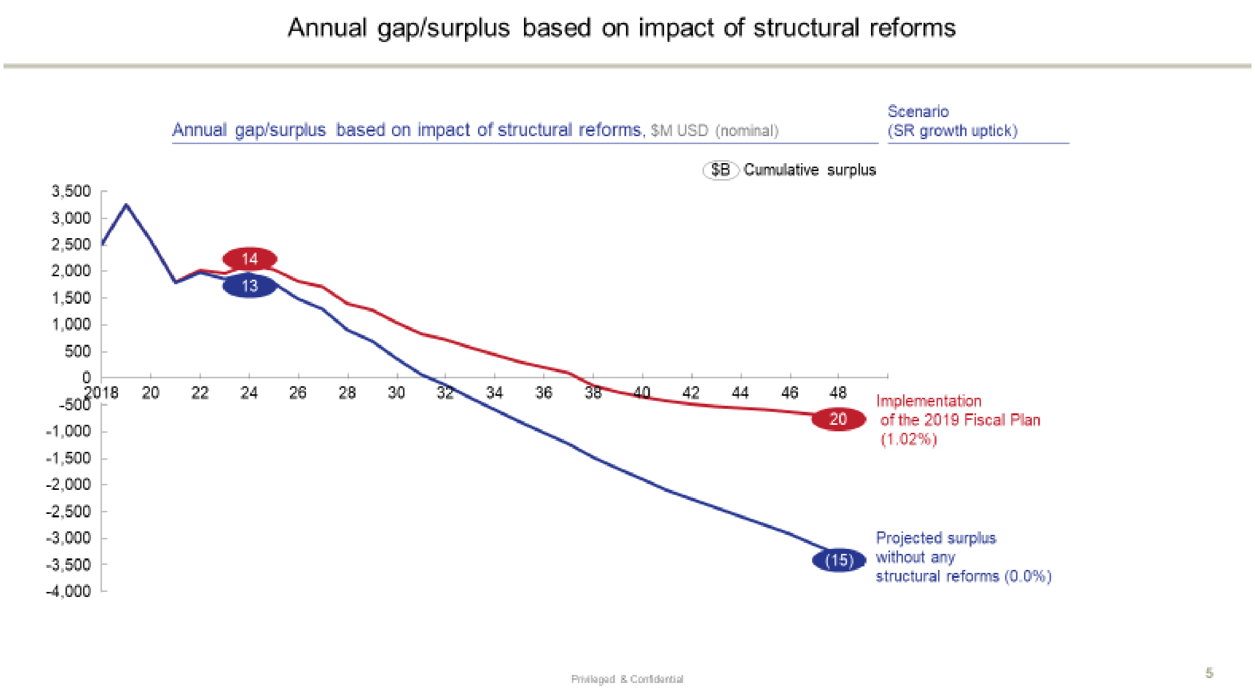
PROMESA mandates a balanced budget, and that means the government has to stay within a budget that is balanced even when Puerto Rico will start servicing its debt again, likely in fiscal year 2021, when the budget will reflect payments according to a Commonwealth Plan of Adjustment confirmed in the Title III court.

The targeted level of spending in the Certified Fiscal Plan was determined in collaboration with the Government and based on demographic changes in the past and expected in the future, along with agency efficiency savings to realign government spending to U.S. mainland benchmarks and reflect consolidations of redundant agencies or programs, and improvement in back office efficiencies.

Yes, the government does currently generate a surplus. Currently. But, as you all know, Puerto Rico has not been paying debt service. As soon as next year, the restructured debt will have to be serviced, and the Oversight Board is looking ahead to make sure the government of Puerto Rico will remain within its means even when we do have to pay our debt.

But let me be very clear: The surplus is NOT only to pay future debt service. As the Certified Fiscal Plan states, there is a need to use surplus funds in the years we generate them to manage the deficits in the future. Those deficits begin as early as 2031 based on how rapidly and fully structural reforms are implemented and are the equivalent or more of the pension payments via PayGo the Government will need to make in those outyears.

If everything in the Certified Fiscal Plan is implemented, we reach those deficits from fiscal year 2038 onward. We reach them in 2031 if structural reforms are not implemented. You see this on the slide here (SLIDE 5).



And what happens? In those years, there are insufficient funds to balance the budget. Thus, some of the surplus needs to be used to reduce those deficits and ensure that retirees never again face the situation they are facing today and PayGo and other key public services are affordable in those years notwithstanding anything else.

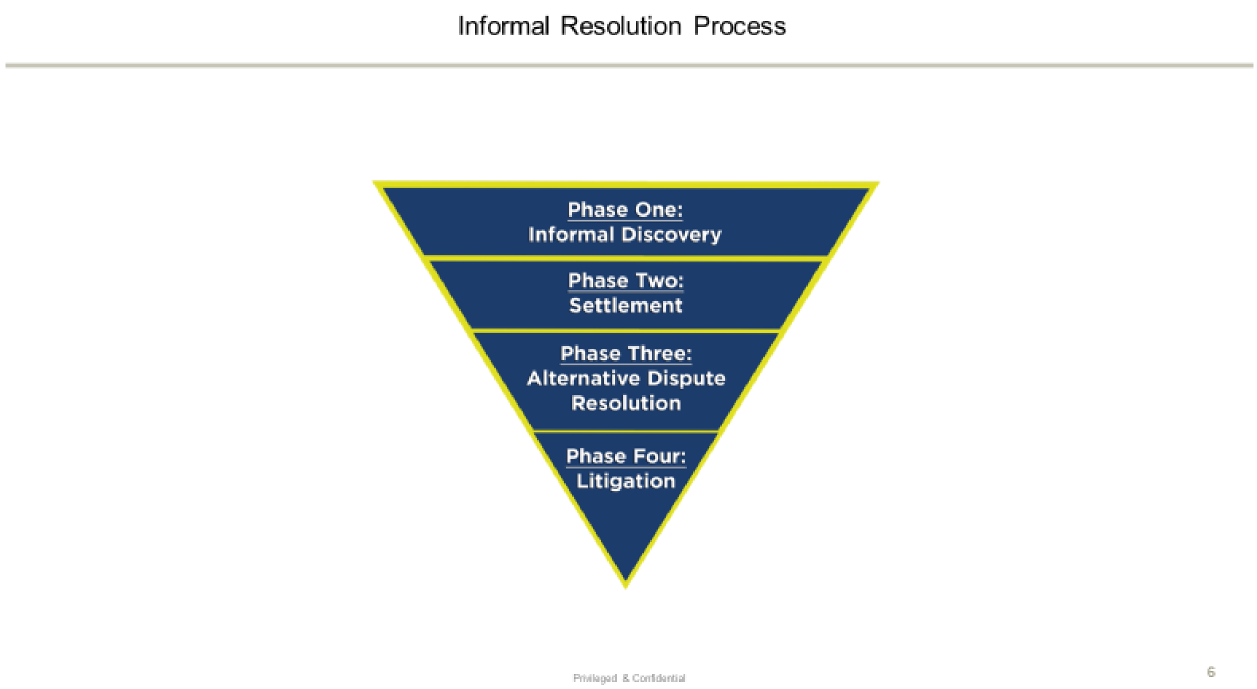
Fiscal responsibility is about making choices, choices on where to spend and where to cut. More money does not necessarily mean better services or better access, or the spending of the previous decades in Puerto Rico would have yielded the best public education and government services in the nation. More money and more spending is how Puerto Rico got into the crisis we are now painfully working through each day. Qualify of spending matters as well as quantity.

Before I go into some details of the debt restructurings we have been negotiating, I would like to take a moment to address an issue that has created a lot of unease on the Island. I am talking about the legal action taken by the Oversight Board's Special Claims Committee's to file about 250 claims against vendors that have received payments by the Commonwealth, the HTA and ERS in the four years before Puerto Rico's bankruptcy.

The Special Claims committee has not taken that action lightly. It has gone over more than 1.2 million payments made to over 140,000 vendors to detect any payments that may have not been made in accordance with Puerto Rico and federal bankruptcy law. This does not mean the about 250 vendors have indeed received inappropriate payments. It means that we have questions about payments for which we did not find a valid contract, or which do not match the respective contract. But we were running against a statute of limitations deadline and therefore had to preserve our ability to review those payments by filing claims.

We owe it to the people of Puerto Rico to make sure these payments were proper. The Oversight Board has a responsibility to recover any payments made not in accordance with Puerto Rico and U.S. bankruptcy law.

Most of these claims, we expect will not go to court. We set up a four-phase alternative resolution process that begins with an exchange of information to determine whether the payments were legitimate and the claim should be dismissed. (SLIDE 6)



Local counsels Estrella and Casillas; and Santiago, and Torres will assist the information gathering and provide one point of contact for each vendor.

Vendors whose matters were not resolved during this first phase will have the opportunity to settle out of court. Claims that are not dismissed or settled will enter a mediation process. Only claims that cannot be resolved would go into litigation.

But let me get back to something that will help your digestion: the restructuring of Puerto Rico's debt. We have made considerable progress in negotiating sustainable deals.

PROMESA established two procedures to restructure the debt. One is Title III, the part that follows roughly the U.S. bankruptcy law. The Oversight Board negotiates plans of adjustments approved by federal court, applied to all claims, including non-consenting creditors. The other, Title VI, is an out of court action that applies to bonded debt and requires that two-thirds of each creditor class accepts the terms.

Puerto Rico has already successfully used both procedures**.** We have completed two restructurings, have an agreement that drives a third, and are in active negotiations for a fourth.

First, there is the Government Development Bank, the GDB, whose more than $4 billion in legacy bond debt and approximately $8 billion in liabilities were resolved last year with the issuance of $2.6 billion in new bonds under PROMESA's Title VI procedure. GDB's legacy creditors agreed to a 45% reduction in face amount of claim par.

The second completed restructuring is a deal with the largest group of holders of Puerto Rico's debt, COFINA. The face value of the bonds issued since COFINA's creation in 2006 was $18 billion. This was a Title III restructuring. That agreement reduced total debt service by 32%, saving approximately $17.5 billion that will now be available to the government for expenses, including for payments to Puerto Rico's government retirees and potentially other creditors at the Commonwealth.

The third, another Title III restructuring is of particular significance for the manufacturing sector because it part of a critical structural reform: the transformation of PREPA. Here the government and the Oversight Board have made significant progress.

This slide gives you an overview of the transformation (SLIDE 7).

Energy sector transformation

Focus	Target	Actions
Rates	Rates below 20c to support economic growth	▪ Modernize generation fleet ▪ Introduce operational improvements ▪ Enhance governance
Generation	Low cost, clean, and resilient generation	▪ Low-cost generation mix ▪ Reduced volatility ▪ IRP to evaluate technical feasibility
Grid	Modernized, resilient, reliable grid	▪ Stormproof infrastructure ▪ Critical facility support ▪ Distributed generation
Operations	Operational efficiencies to lower costs and increase investment capacity	▪ Identify areas for improvement ▪ Size potential savings ▪ Communicate milestones
Financial sustainability	Cash flow positive, fiscally sustainable entity	▪ Measures to enhance position ▪ Impact on long-term position ▪ Plan to incorporate stakeholder goals
Regulator	Robust, independent, well-funded, and expert	▪ Approve IRP and utility rate ▪ Cases ▪ Enforce performance standards ▪ Ensure system resiliency

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On this slide, we outlined the state of the transformation. (SLIDE 8)

Summary of PREPA's T&D Transformation

PREPA is currently undergoing a transformation that is expected to result in operational improvements and the deployment of significant renewable energy generation resources and battery storage.

Key Goals of the Transformation	T&D Transformation Progress Report
• Modernization of PREPA's T&D infrastructure and the introduction of private-sector T&D operational expertise • Deployment of new technology and the modernization of the generation landscape • Delivery of affordable, less volatile, and reliable power to Puerto Rico customers, increasing economic opportunities and growth • Full separation of T&D and generation operations, allowing for increased competition in generation on the island	☑ Market Sounding ☑ T&D Request for Qualifications ("RFQ") ☑ T&D Request for Proposals ("RFP")

Next Steps in PREPA's T&D Transformation

Note: * denotes date is estimated.

The agreement with PREPA Ad Hoc bondholders announced on May 3 will give PREPA greater certainty in proceeding with the privatization and transformation of its power grid. The agreement sends a message to potential privatization counterparties that PREPA has put in place the foundation for a plan of adjustment that will lead to an exit from bankruptcy.

The agreement would reduce PREPA debt by up to 32.5%. PREPA's debt payments are funded through a fixed Transition Charge that is added to PREPA customers' bills. The Transition Charge is fixed to protect PREPA's customers from potentially larger rate increases in the future. It will be set at approximately 2.7 cents per kilowatt hour and rise gradually over the first 23 years to approximately 4.5 cents per kilowatt hour for the remainder of the term of the bonds.
The Oversight Board and the Puerto Rico government continue to work through the PREPA transformation to reduce the cost of electricity and compensate for the increase in debt. First through the work ongoing move to LNG, then to more alternative, cleaner fuels such as solar.

I know this is important to you. Reliable and cost efficient energy is so important not only for the quality of life of every resident, but for business. And your business, manufacturing, is particularly has been a defining part of Puerto Rico and Puerto Rico's modern history and was the cornerstone of its economic success.

In that sense, 2018 marks a significant break from the decade long downturn. As a share of GDP, manufacturing has remained steady at approximately 47% for the past decade. But for the first time in ten years, manufacturing employment as a share of total employment has begun to rise. Average monthly manufacturing employment rose from 71.4k in 2017 to 71.8k in 2018, and as of April 2019, manufacturing employment was 72.5k, a 7.4% rise this year. These improvements are modest but significant in the current economic context, and suggest manufacturing has the potential to be a leading-sector in the economic recovery.

As you know, short term stability is good, but long term growth is better. And for the Government, fiscal responsibility means more than a balanced budget this year. It means being able to grow investment into public services as a result of a growing economy and growing revenues into the future. And that is why the structural reforms we outlined in the Fiscal Plan are so important. Simply balancing the budget will not assure us of a competitive and growing economy once the federal funds stimulus we are enjoying already today is over.

So the Oversight Board has done quite a bit of research into Puerto Rico's competitive landscape and what needs to change for us to compete for your and new investors' precious investment dollars. The areas upon which we have focused are human capital and welfare reform, education, ease of doing business, power reform, and infrastructure.

In that first area, the goal is to increase labor participation on the Island. We developed a package of reforms to tackle the different issues, all aimed at maintaining or increasing the numbers of individuals in the formal labor market. The EITC implemented this January is a successful example of that, while unfortunately Puerto Rico has not implemented employment at will, which we feel would have helped growth, and is implementing welfare to work reforms at a much slower pace than outlined in the Certified Fiscal Plan.

One area, near and dear to your hearts, where Puerto Rico still needs to move forward aggressively is the ease of doing business on the Island. Puerto Rico's rankings by the World Bank annually do not show progress in several key areas: permitting, registering property and tax administration. Even if we are making progress, we are being ranked as compared to the rest of the world, which is racing to prove its worthiness of those investment dollars. So incremental change leaves us behind. Only massive improvement will be noticed by the markets. Hopefully, the new permitting process being introduced by the Government will be just that – a front page news change in the business processes, the time, the administration and the cost of permitting on the Island. However, progress in the other areas remains very slow.

Like many crises, the one Puerto Rico is emerging from is an opportunity to foster real change. Political will fades quickly when conditions stabilize, and it becomes more and more difficult to make the hard choices that are the foundation of lasting change.

Puerto Rico's economy is growing for the first time in a decade. That could lessen the sense of urgency to make the difficult decisions that enable our future. We need to change the competitiveness of this island, we need a labor market that feeds into the jobs of the future. The best time to make these changes is now.

We need to not only continue our path towards balanced budgets and regain access to markets, but also to implement the structural reforms that will lay the foundation for a better future. And if we do all of that, and restructure the debt so it is sustainable, then we will have used this crisis well, we used it to benefit the people, and we used it to build competitive advantages. I trust I have your support in moving forward, moving towards a better future for Puerto Ricans. I believe we can do this together.