



Puerto Rico Sales Tax Financing Corporation (COFINA)

Investor Webcast

July 20, 2012



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COFINA

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Recent Economic Indicators

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Concluding Remarks



Participants

Government Development Bank & Office of Management & Budget

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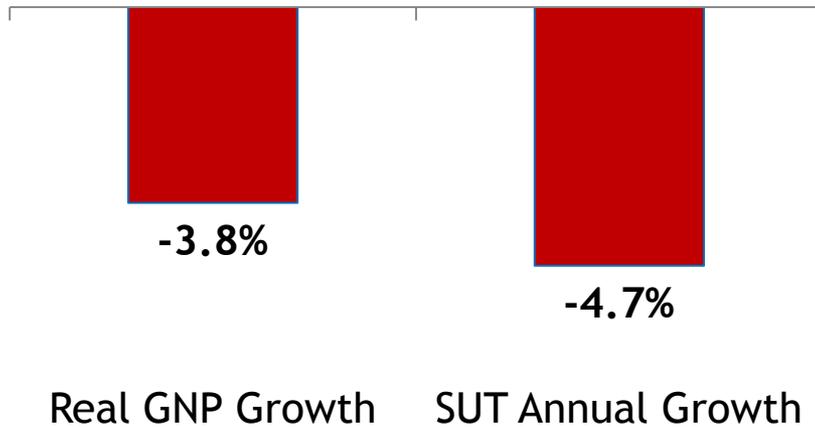


On July 18th, 2012, Moody's took the unfortunate action of downgrading COFINA's Senior Lien to Aa3 from Aa2 and its Subordinate Lien to A3 from A1.

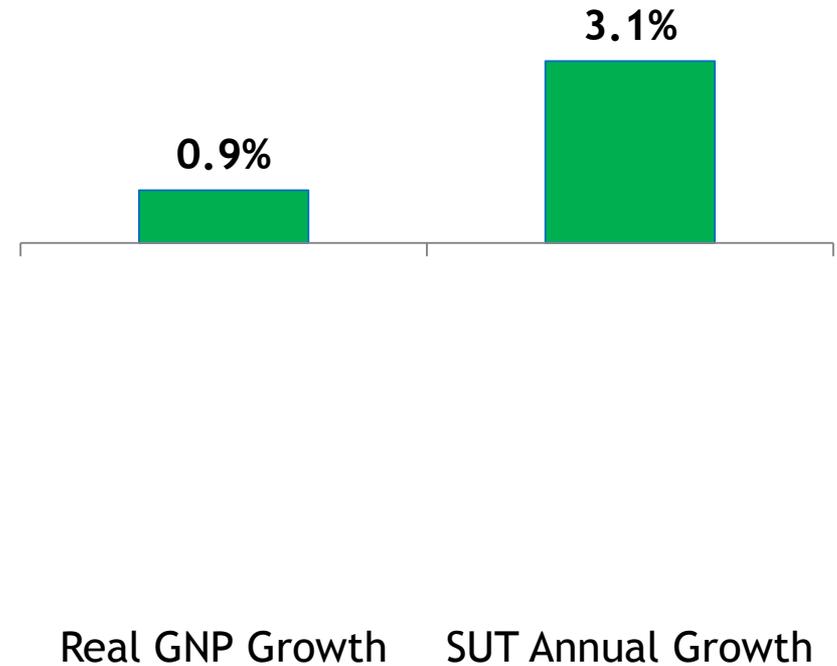


Moody's action is not reasonable...

Back in 2009...



TODAY:



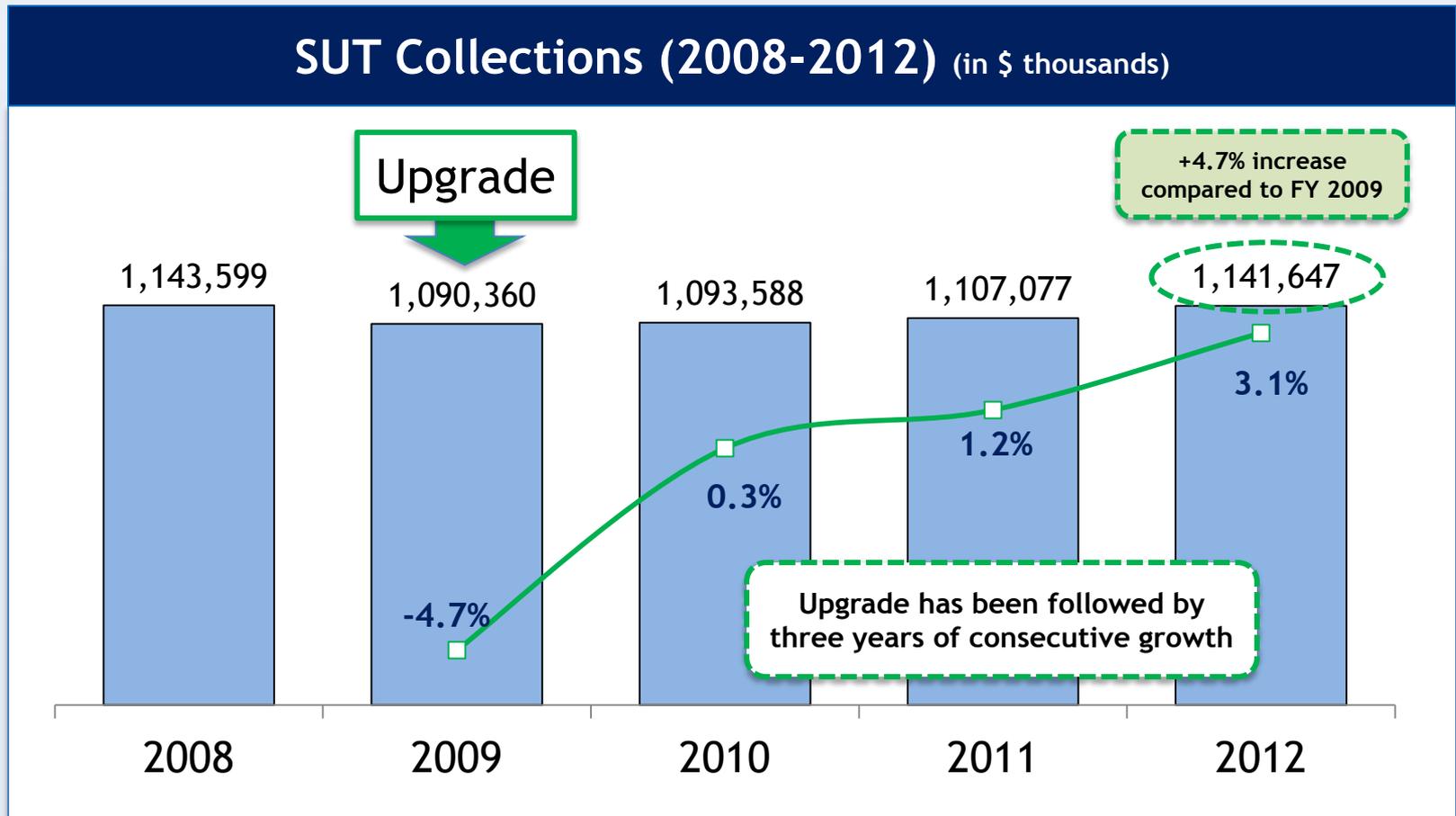
When Moody's upgraded COFINA in 2009, the economy was contracting at a rate of 3.8% and SUT collections were down 4.7%. Today, SUT collections are up 3.1% and the overall economy is poised to grow for the first time since 2006...



Recent trend in SUT collections



Since 2009, SUT collections have been improving year after year, with marked improvement during fiscal year 2012...



Recent internal studies conducted by the Treasury Department indicate that 55% of SUT collections growth is a result of implemented compliance measures



Year-over-year SUT collections continue to reflect an improving trend

(in \$ millions)

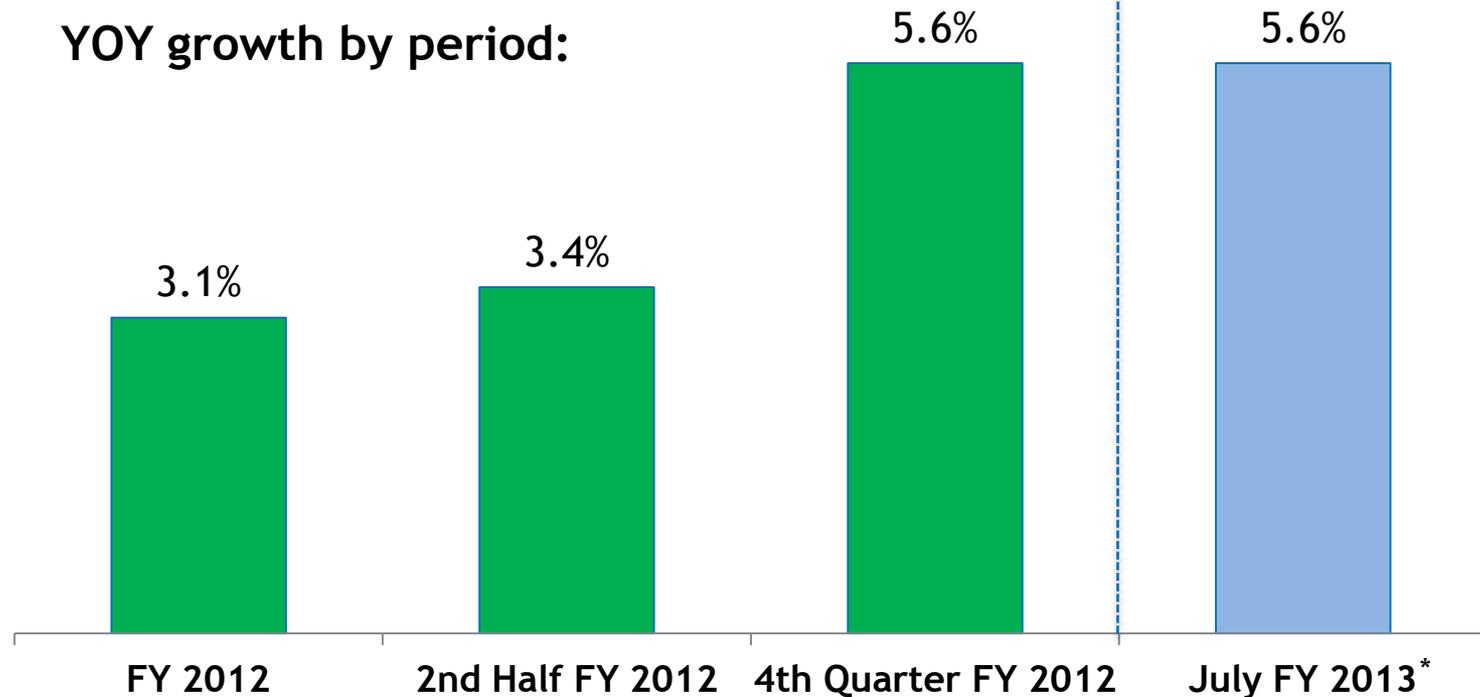
Fiscal Year	2011	2012	% YOY Change
July	95.91	95.50	-0.4%
August	90.42	92.33	2.1%
September	86.70	89.28	3.0%
October	83.70	85.92	2.7%
November	88.60	91.38	3.1%
December	94.80	100.82	6.4%
January	123.20	121.37	-1.5%
February	85.60	90.46	5.7%
March	86.53	87.69	1.3%
April	91.59	98.11	7.1%
May	86.53	89.90	3.9%
June	93.50	98.89	5.8%
Total	\$1,107.08	\$1,141.65	3.1%



Recent trends in SUT collections, including the start of fiscal year 2013, are irrefutable evidence that COFINA is stronger today than it was in 2009

Recent Trend in Sales and Use Tax Collections

YOY growth by period:



* YOY preliminary data as of July 20, 2012 (FY 2013).



SUT Revenue Enforcement Measures



Recent internal study conducted by Treasury Department indicates that implemented compliance measures are resulting in increased collections

Two main sources of information regarding SUT collections:

- 1) SUT monthly tax filings from retail sector group
- 2) Total Retail sales as reported by Exports and Commerce Company

- These two sources have historically reflected gaps among both series, a discrepancy of what businesses are reporting to the ECC as sales and sales reported in their monthly SUT filing
- An internal study was conducted to analyze how this gap has behaved over the last year after the implementation of several compliance measures, including the SUT lottery system.



Results show that the gap between total retail sales (as reported by ECC) and sales reported in monthly filings to Treasury has narrowed over recent months. On average, collections have increased by 5.4% since stronger compliance measures were implemented.



Treasury has adopted a tangible and assertive compliance approach to assure equitable participation of all taxpayers

1

Complete organizational and operational overhaul of the Treasury Department

2

Addition of tax specialized district attorneys

3

Completion of SUT Lotto program deployment

4

Implementation of SUT collection task force

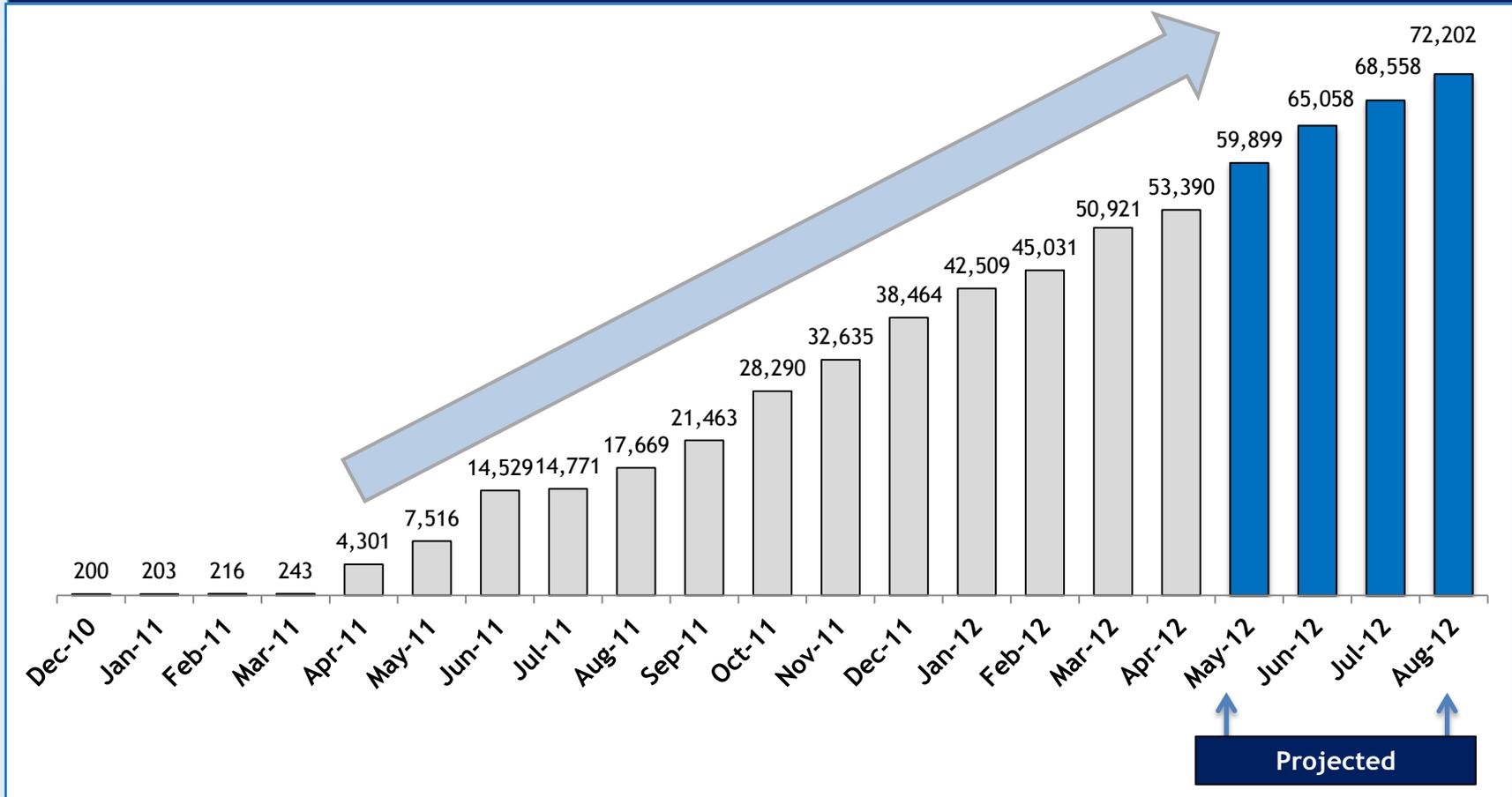
5

Started imposition of liens on bank accounts



SUT Lottery program (“IVU LOTO”) provides valuable information, not only to increase SUT collections but also to detect other compliance deviations...

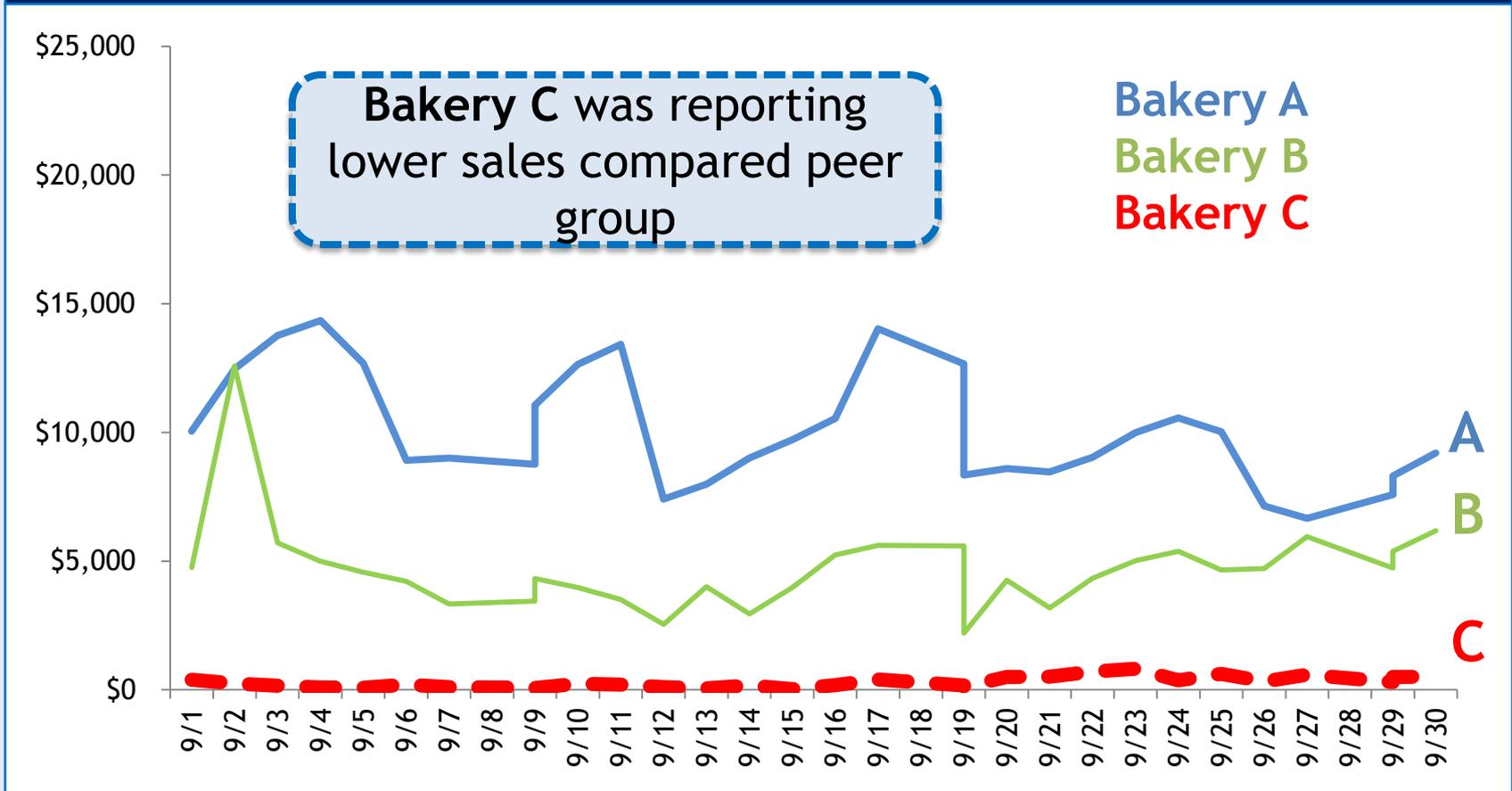
Sales Tax Lottery System - Device Deployment





SUT Lotto fiscal device provides critical information to assist in identifying potential tax evasion of SUT as well as other valuable analytical information...

Daily Sales for the month of September 2011 - Selected Bakeries





...as well as provides objective data to measure results of enforcement actions

Daily Sales for the month of December 2011 - Selected Bakeries





For the first time since the inception of the SUT in 2006, aggressive collection efforts have been launched to accelerate collections...

New Specialized SUT Collection Unit started operations in April 2012

21,209 notifications to SUT withholding agents have been sent



\$95.8 million* tax due from 2006 through 2011



Specialized personnel is proactively conducting collection efforts, including visits to selected tax withholding agents

*Includes interest, surcharges & penalties

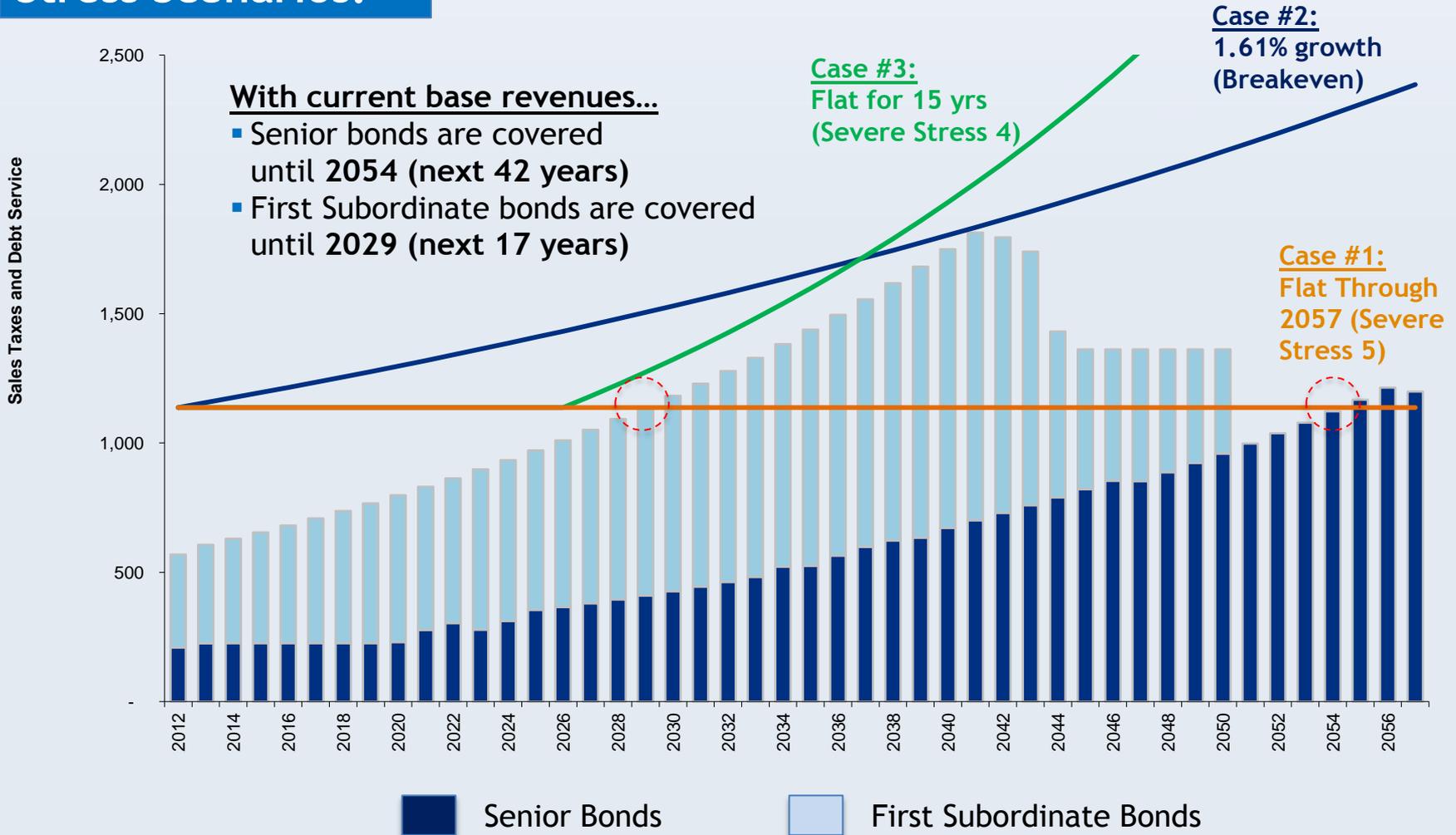


COFINA's strong coverage



SUT collections today support a stronger case for COFINA's debt service coverage than when Moody's upgraded in 2009

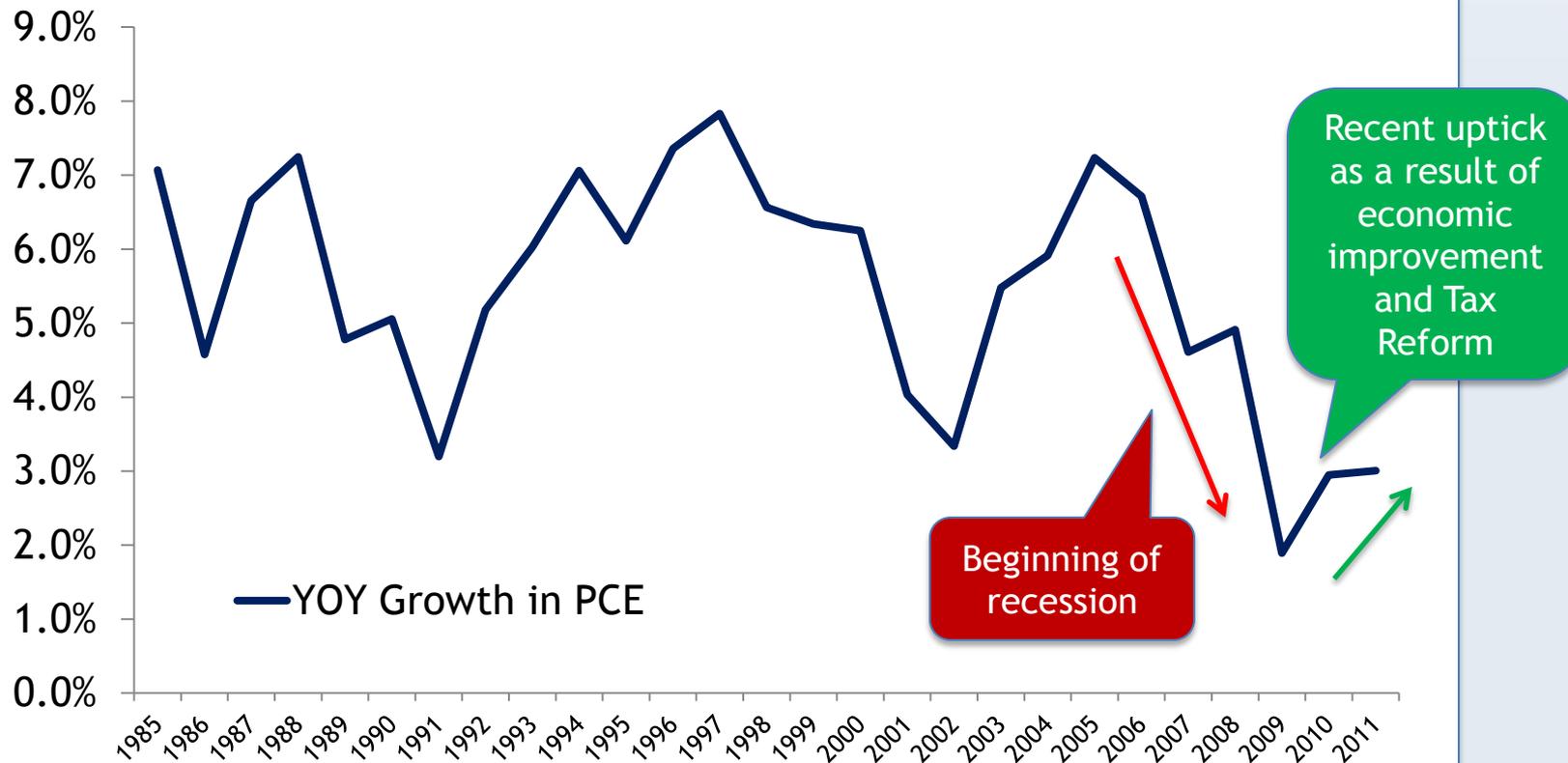
Stress Scenarios:





Recent economic improvement and implementation of Tax Reform has resulted in improving trend in consumption, a similar trend shown by SUT collections

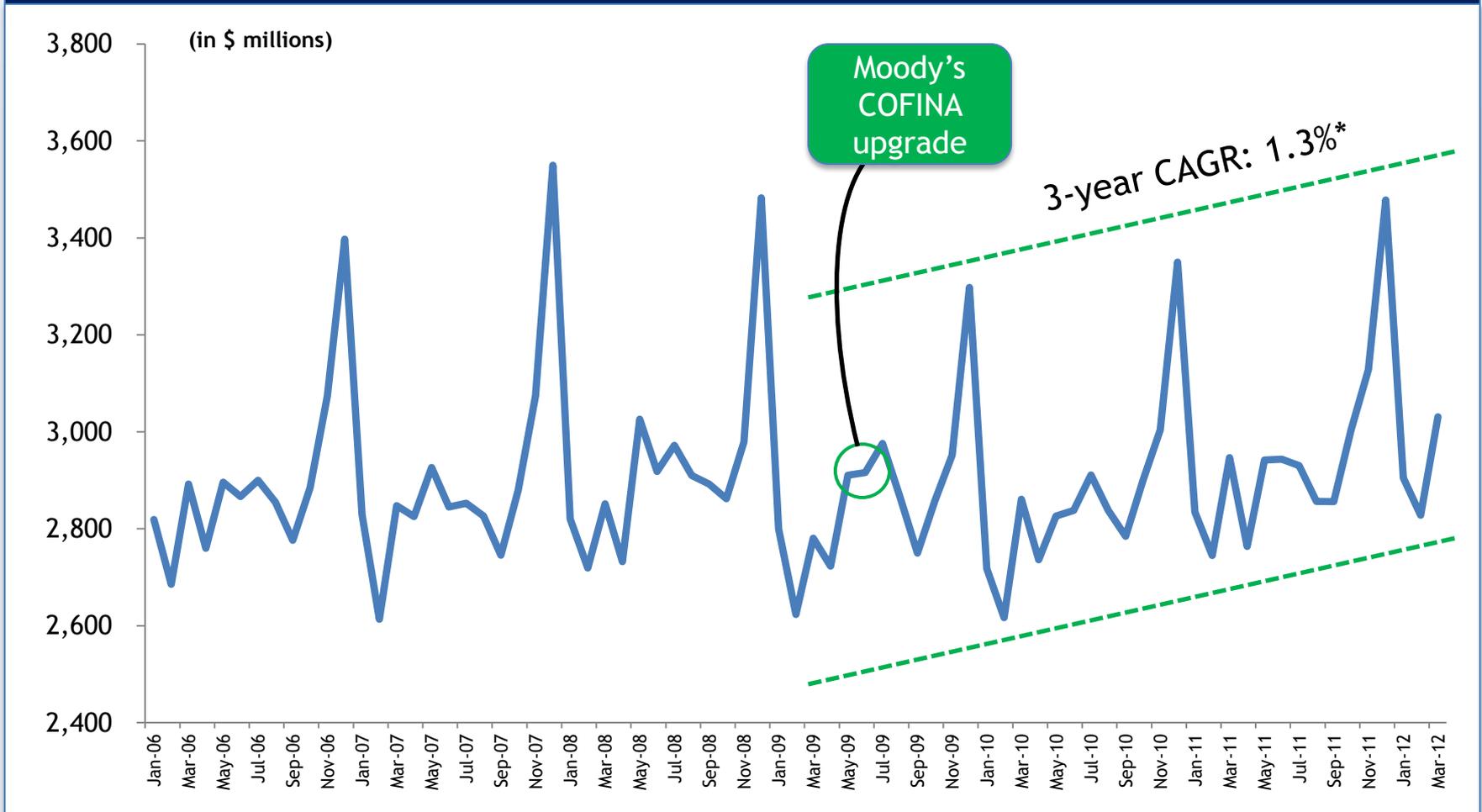
Growth in Personal Consumption Expenditure since 1985





Retail sales are following overall economic trend with real positive growth since 2009, supported by increased disposable income resulting from Tax Reform

Retail Sales (2006-Present)

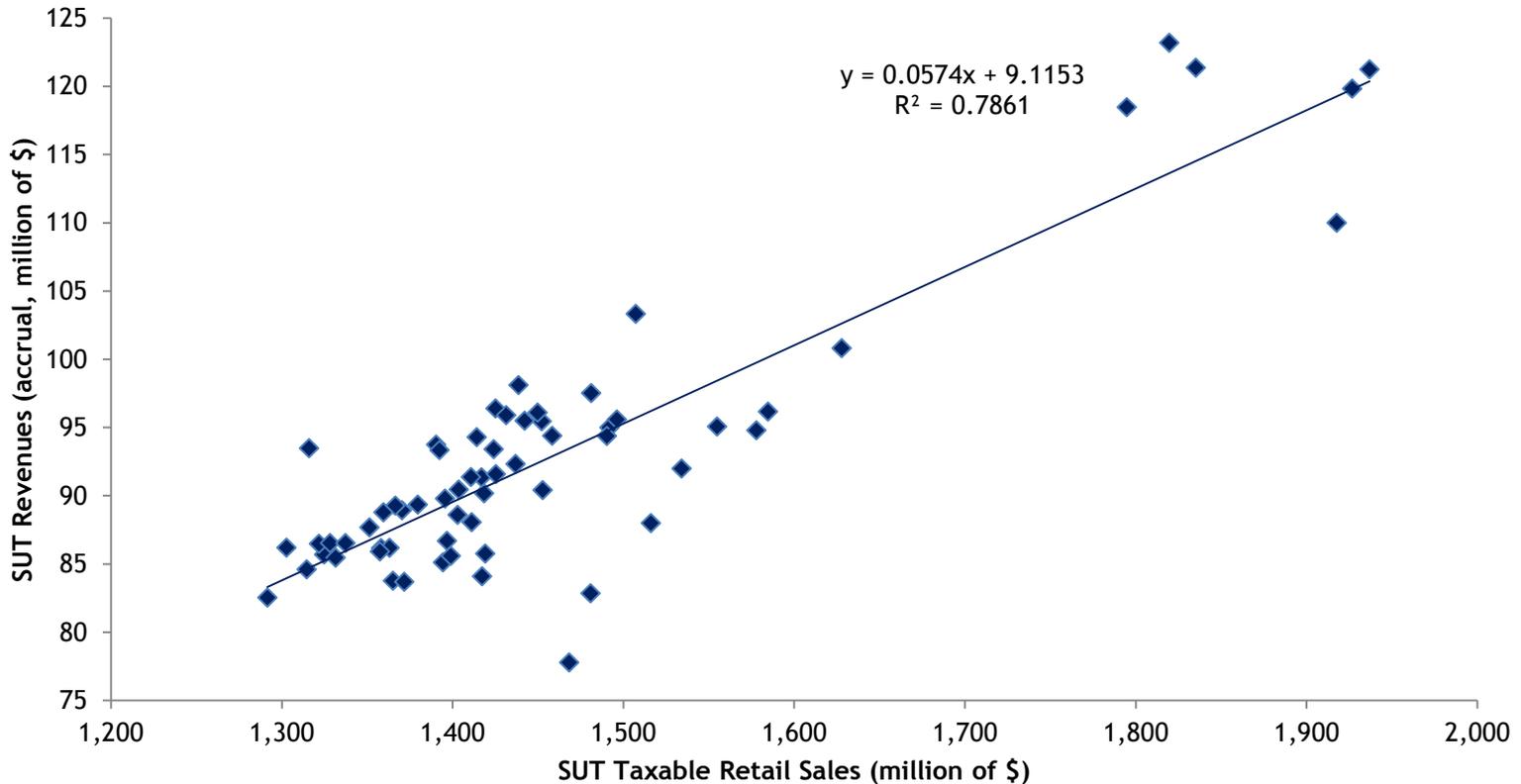


* Project FY 2012 total. Assuming no YOY growth in retail sales for the Q4 of fiscal year.



Taxable retail sales are an important proxy of sales and use tax revenues as reflected by its very strong correlation

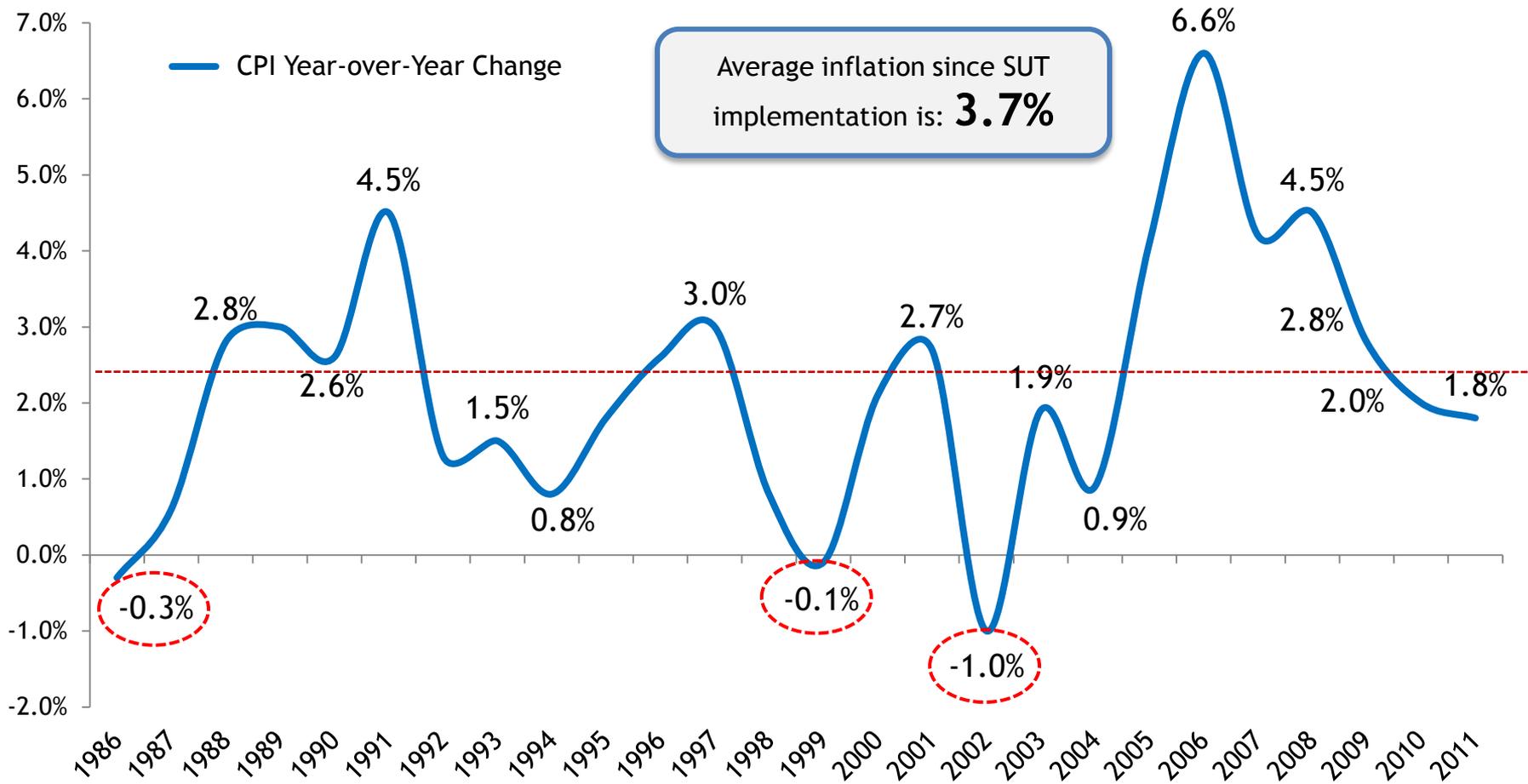
SUT Revenues (accrual basis) vs. SUT Taxable Retail Sales





We have had only three periods of deflation over 25 years...
Inflation alone should drive SUT collections higher than minimum
needed to comfortably meet debt service through maturity...

Consumer Price Index: Puerto Rico





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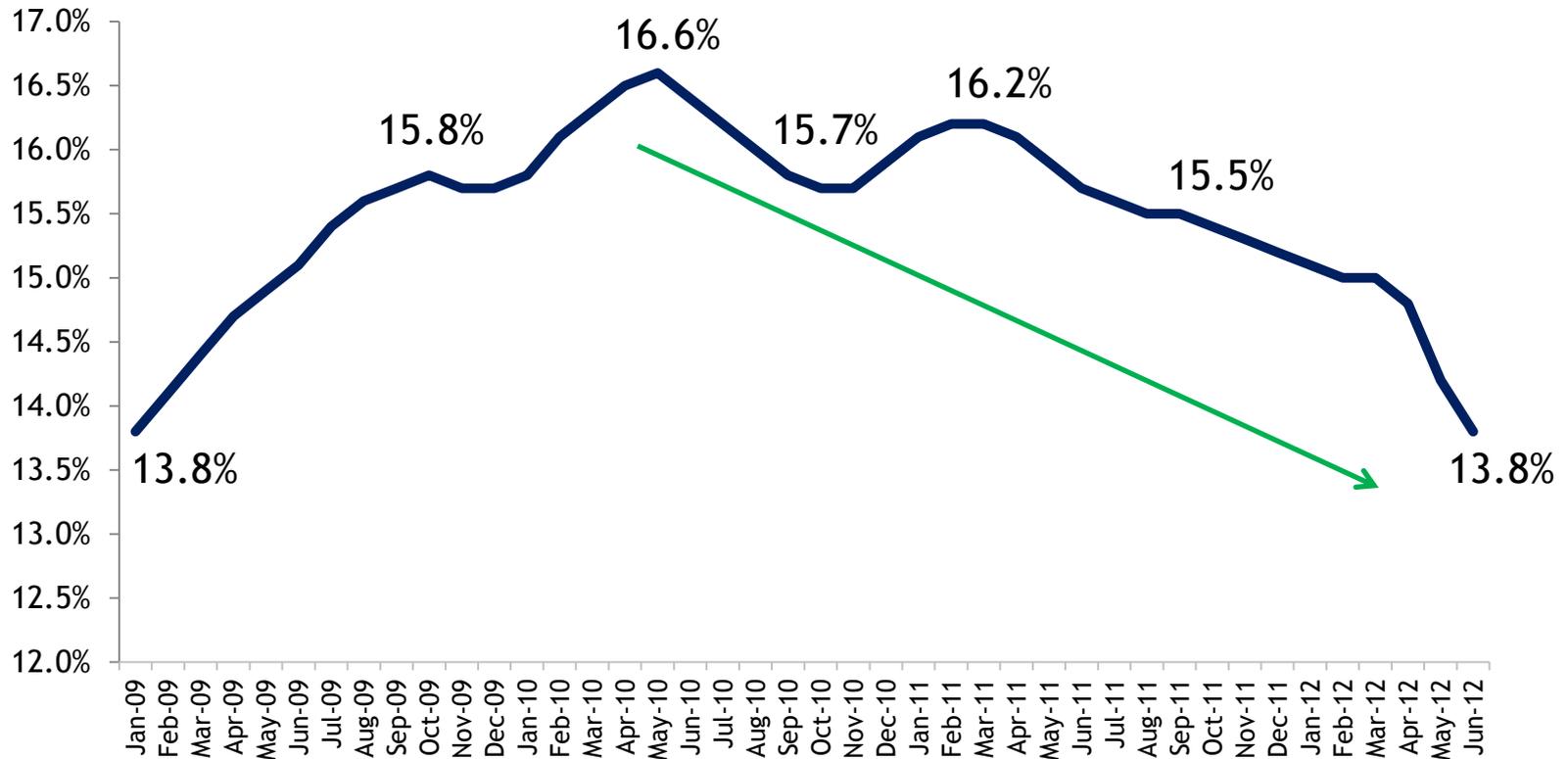
Concluding Remarks



Unemployment rate for the month of June 2012 registered the lowest level since January 2009

Unemployment Rate

(as of June 2012)

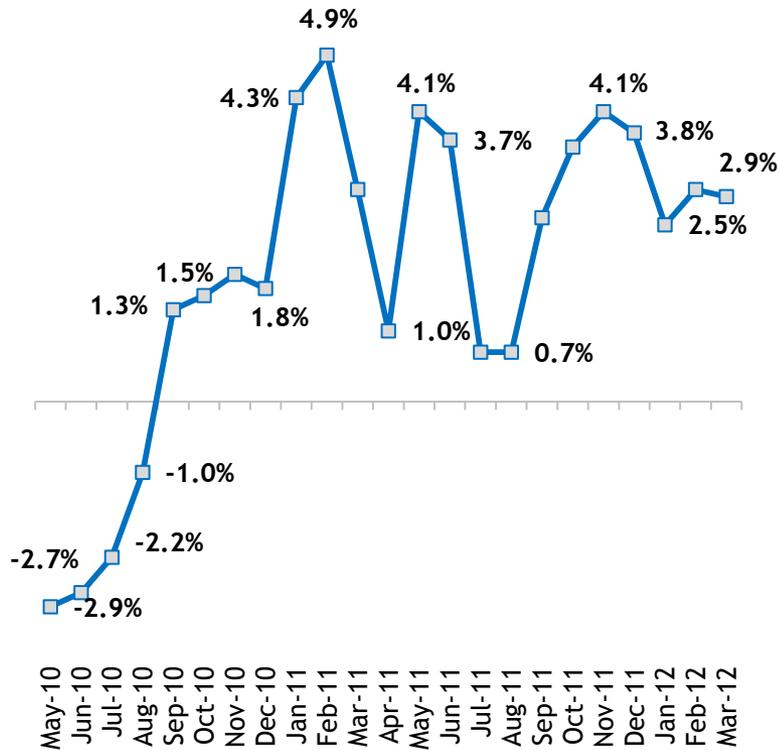




Increased consumer confidence is evidenced by rise in retail and auto sales...

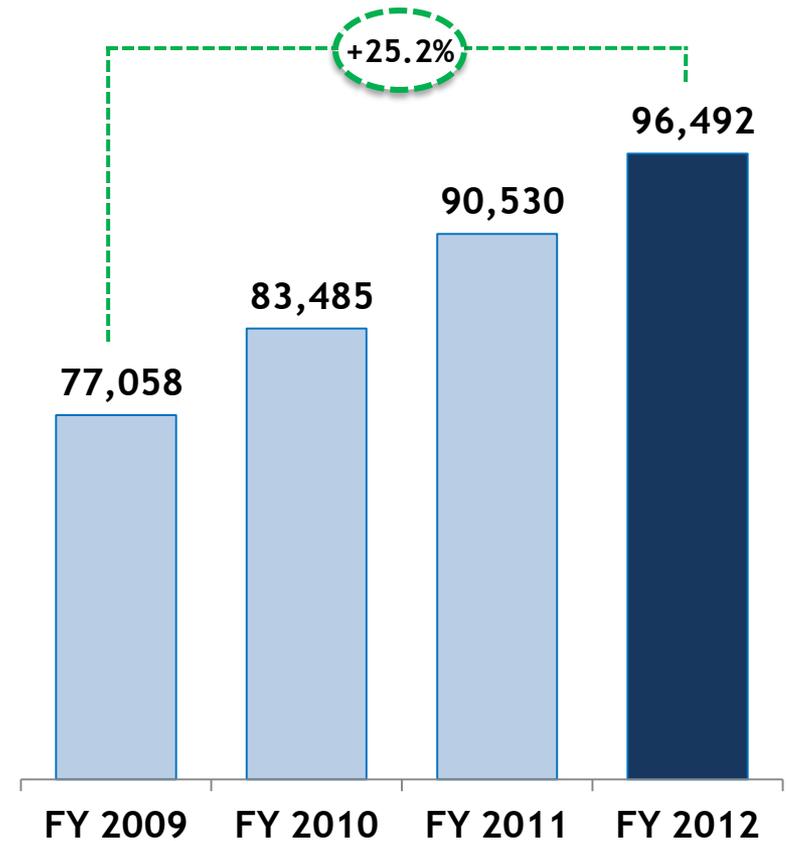
Retail Sales

(as of March 2012)



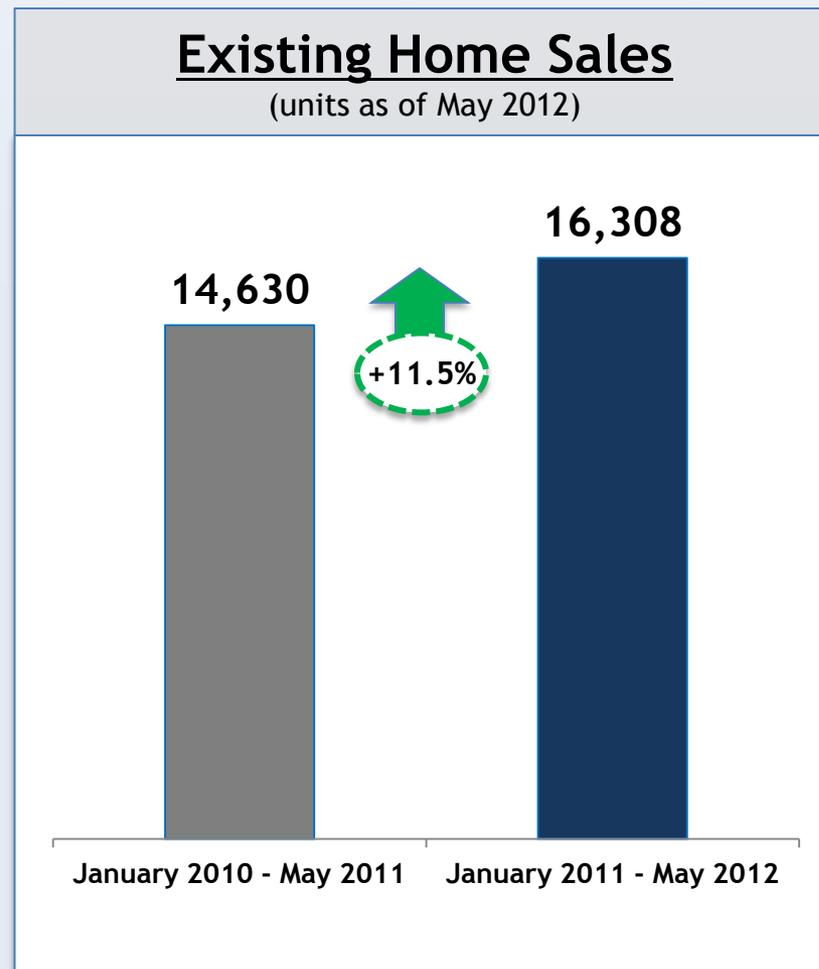
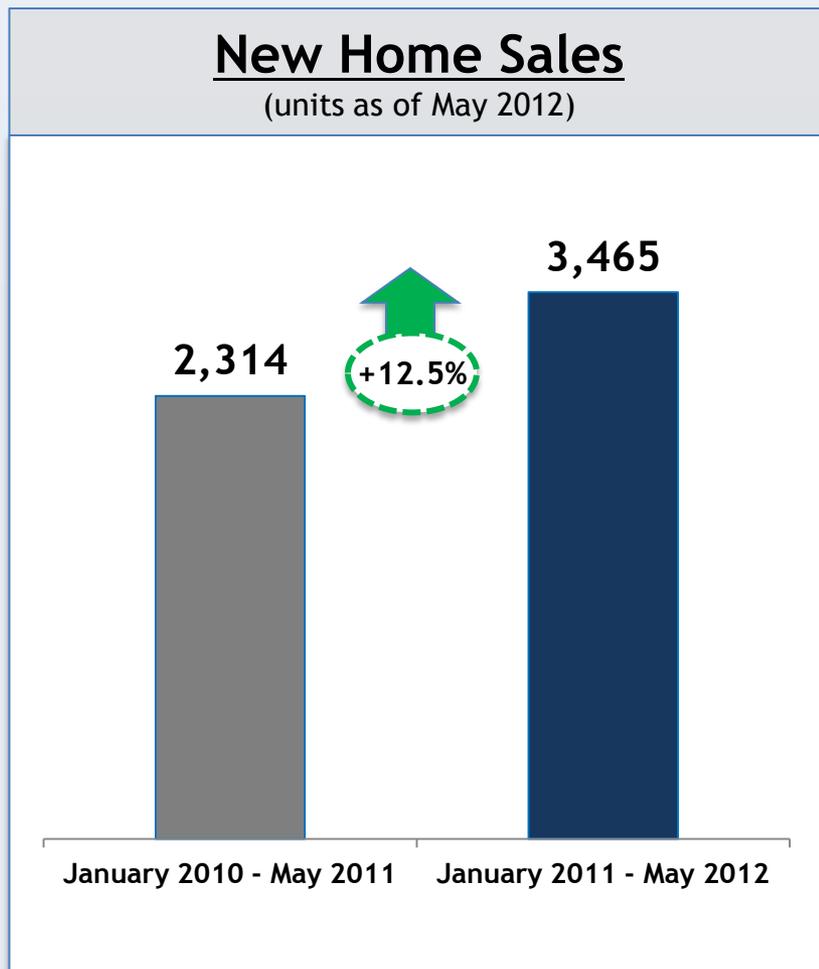
Auto Sales

(as of June 2012)





...and a rise in home sales, with over 25,284 new and existing residences sold since stimulus program implementation in September 2010



Source: : Office of the Commissioner of Financial Institutions (OCIF by its Spanish Acronym)

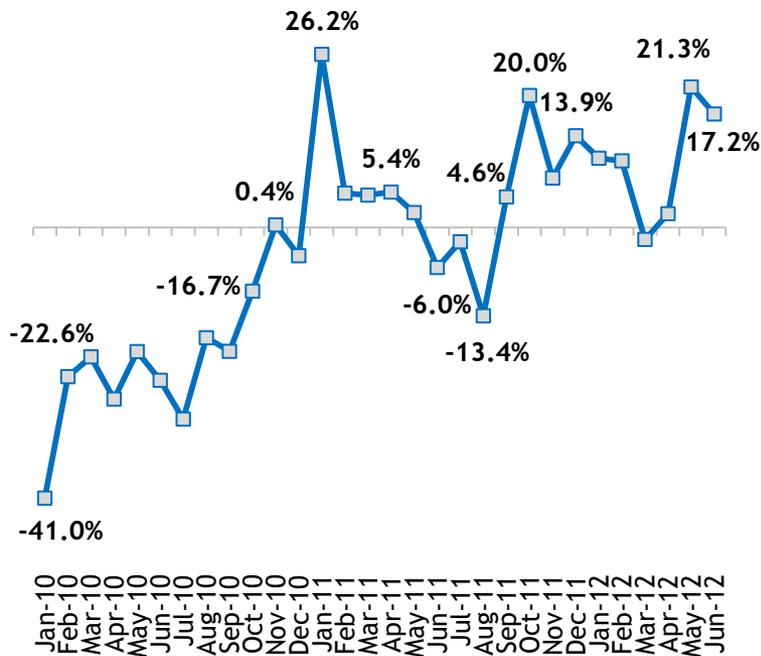


Cement sales have also seen a recovery, evidenced by a 7.3% year-over-year increase during fiscal year 2012...

Cement Sales

(as of June 2012)

% Year-over-year change



Cement Sales

(Fiscal Year 2012 Growth)

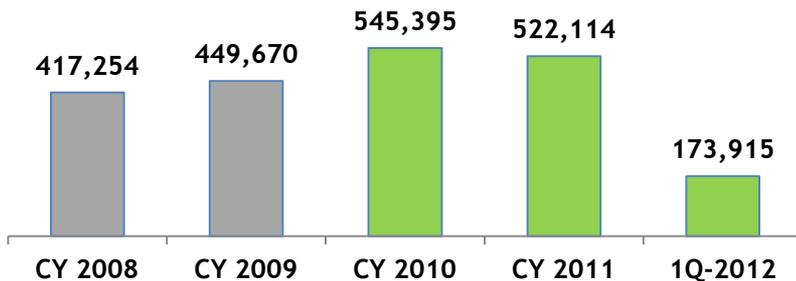
In thousands of bags



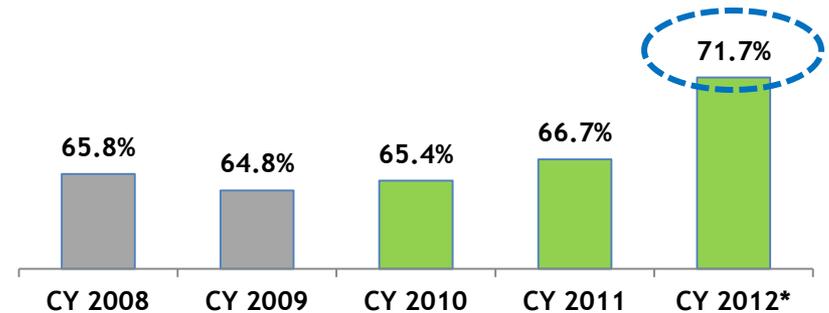


The tourism sector experienced the highest hotel occupancy in years...

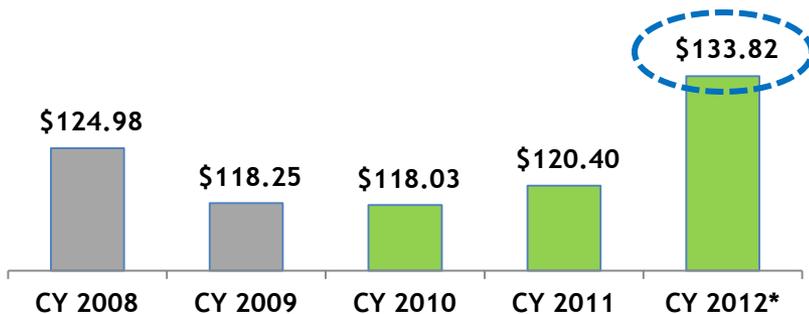
Cruiseship Passengers (“Homeport”)



Hotel Occupancy Rate



Average Rate per Room



RevPar**



* Average for the first 4 months of CY 2012.

** RevPAR is an important ratio used by the hotel industry to evaluate the financial performance of a particular chain or establishment.



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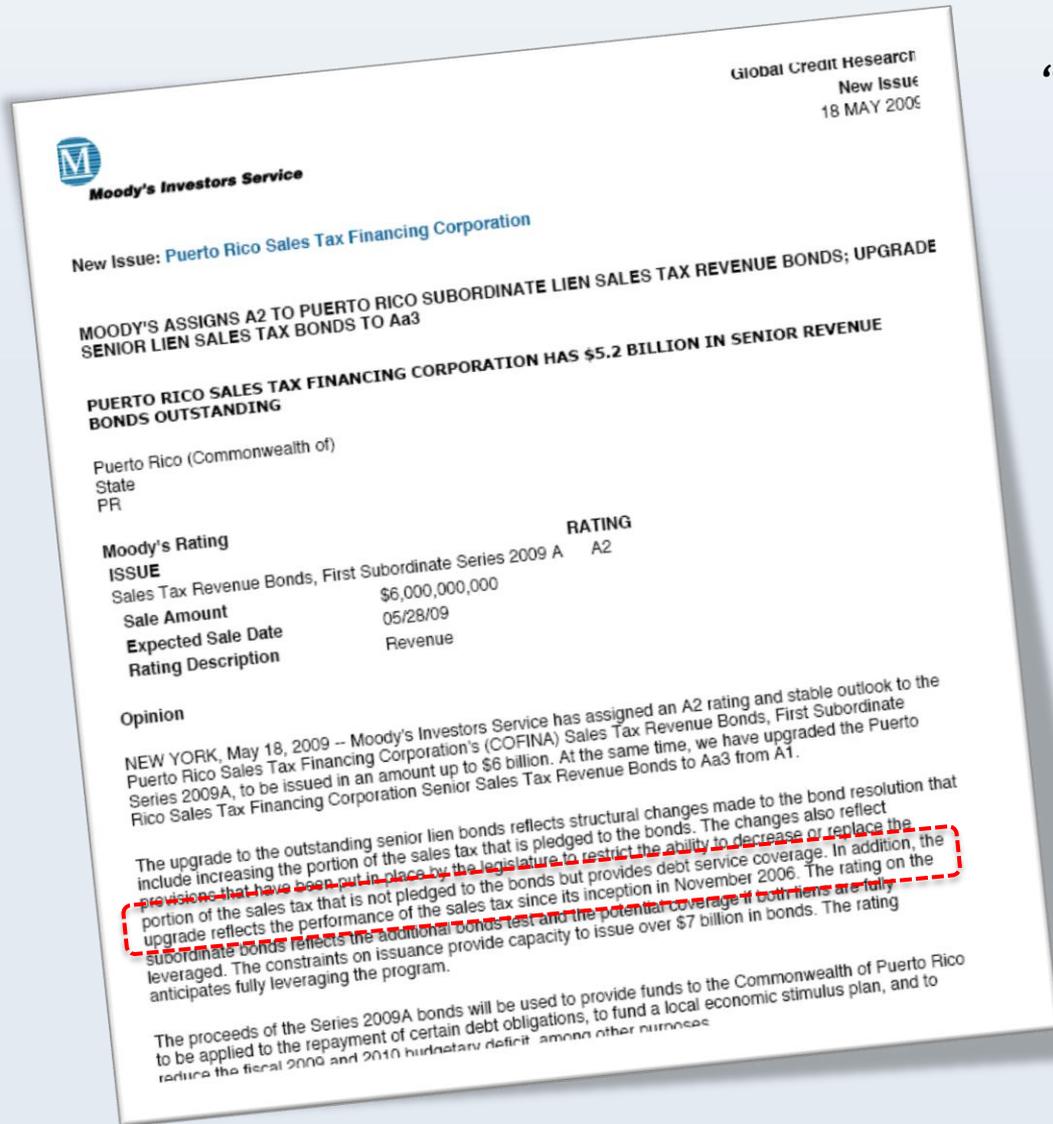
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Concluding Remarks



Ever since Moody's upgraded COFINA back in 2009, SUT collections have been consistently growing



“ The upgrade reflects the performance of the sales tax since its inception in November 2006” - May 18th, 2009

- Collections were declining back then...and have been growing since...

Sales tax collections when upgrade received:



\$1.090 billion

Sales tax collections for fiscal year 2012:



\$1.142 billion



We strongly believe that Moody's negative action against COFINA is unmerited...

- **The sales tax is Puerto Rico's single strongest tax pledge**
 - Broad-based, stable tax provided by large, island-wide population with favorable household formation demographics
 - Sales tax base derived from diverse sector mix that includes services, excludes volatile energy and vehicle sales and has a low dependence on tourism and durable goods
 - Personal consumption expenditures and GNP as proxies for sales taxes show long and favorable history, even in recessionary periods
 - Consumption bolstered by high Federal payments to individuals, which have remained stable in economic downturns
 - Consumer-driven culture with high consumption as a percentage of income
- **Latest sales tax collections remain favorable**
 - Commonwealth tax reform will serve to increase disposable income that should help consumer spending and sales tax collections
 - Sales tax collections are favorable despite the continued recession, up 3.1% on a year-over-year basis for FY 2012
- **COFINA benefits from first collections of the sales tax, up to the \$595 million in FY 2012, escalated, Base Amount**
- **Stress testing proves robust debt service coverage**
- **Strong legal protections**



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