



The Reconstruction Plan: Safeguarding the Credit of Puerto Rico

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Health and Insurance Conference 2009

Keynote Speaker

March 25, 2009

Agenda

1. Swift Action to Safeguard the Credit Rating

2. The Implementation Phase is in Process

3. Concluding Remarks

We are responding with swift action

A Fiscal Emergency:

- Economy in recession
- Need of stimulus and investment
- Fiscal deficit of \$3.2 bn
- Need for Multi-Year Plan

SWIFT
ACTION

We have taken action:

- Developed a Reconstruction Plan for the next 4 years
- Enacted 7 bills to implement the Plan
- Providing transparency

RISK OF DOWNGRADE

SAFEGUARD PR CREDIT



The Executive and Legislative Branches worked together to successfully approve the legal framework for the Reconstruction of PR

Fiscal Reconstruction

Act # 7 of 2009: Fiscal Emergency Act

- Far reaching legislation that establishes:
 - 7 permanent revenue measures
 - 7 temporary revenue measures
 - Mandatory reduction of \$2.0 billion in expenses
 - 4 financial measures to stabilize fiscal process

Economic Reconstruction

Act # 8 of 2009: PRIFA Designation

- Designates PRIFA as the recipient, administrator and manager of the funds and projects to be undertaken by the America Recovery and Reinvestment Act of 2009

Act # 9 of 2009: Local Stimulus Plan

- Approves the implementation of a Local Stimulus Plan that amounts to \$500 million and will complement the American Recovery and Reinvestment Act of 2009

Agenda

1. Swift Action to Safeguard the Credit Rating

2. The Implementation Phase is in Process

3. Concluding Remarks



We have started the implementation phase

Goals	Implementation actions
Stabilize the fiscal situation	<ul style="list-style-type: none">• Approval of Legislative package• Implementing Expense Reduction Measures• Implementing Financial Measures
Strengthen PR's credit	<ul style="list-style-type: none">• Formulating a multi-year budget plan• Commitment to frequent progress reports and transparency
Re-build the economy	<ul style="list-style-type: none">• PRIFA implementing the Federal Stimulus Plan• Drafting Agency regulations for Local Stimulus Plan• Working on a Supplemental Stimulus for Long-term growth

Economic Reconstruction:

- Federal Stimulus Plan
- Local Stimulus Plan
- Public-Private Partnerships
- Supplemental Stimulus: Strategic Projects

Significant stimulus and investment during the next two fiscal years

Jun-09 -----> Dec-10 -----> 2011

(\$ billions)

\$5.0

+

\$0.5

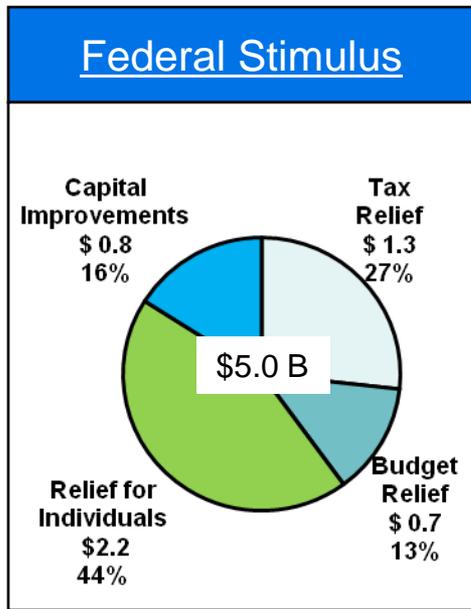
+

\$2.0

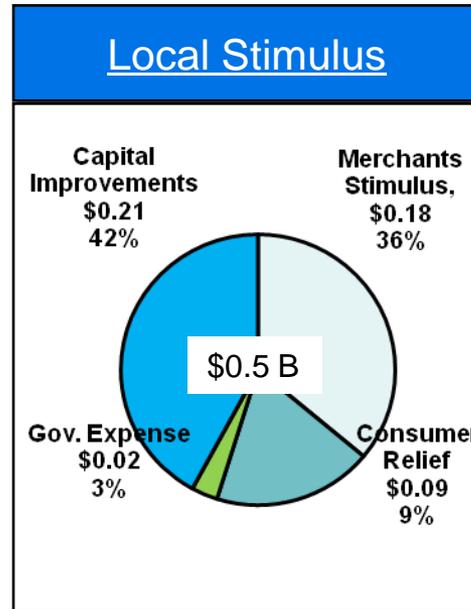
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\$7.5 BN

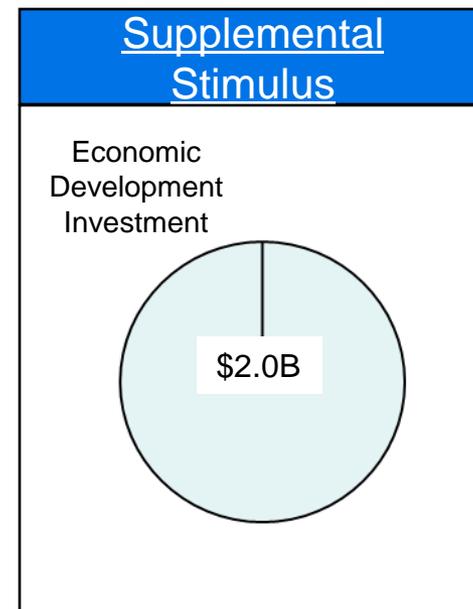
PHASE Ia



PHASE Ib



PHASE II

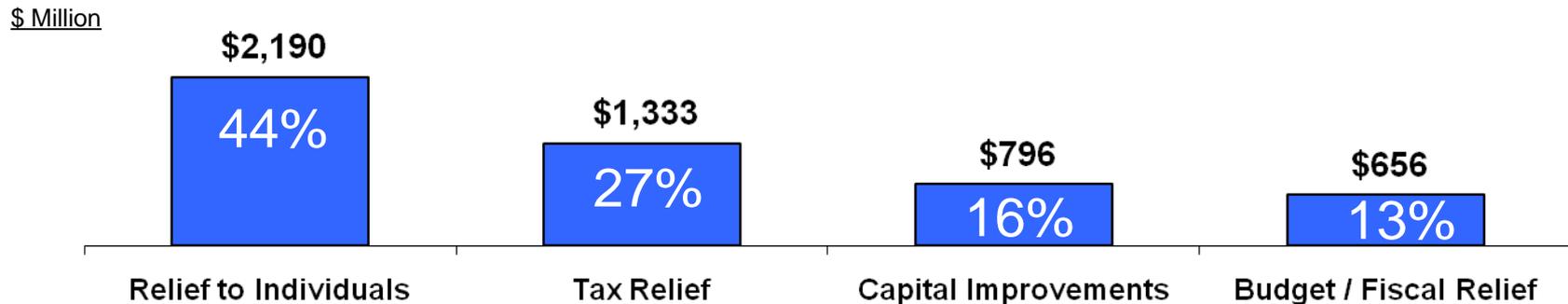


12%
of GNP
in
Total
Stimulus

Public-Private Partnerships

Federal Stimulus: provide significant boost to the local economy*

~\$5 billion for P.R. during the next 2 fiscal years*



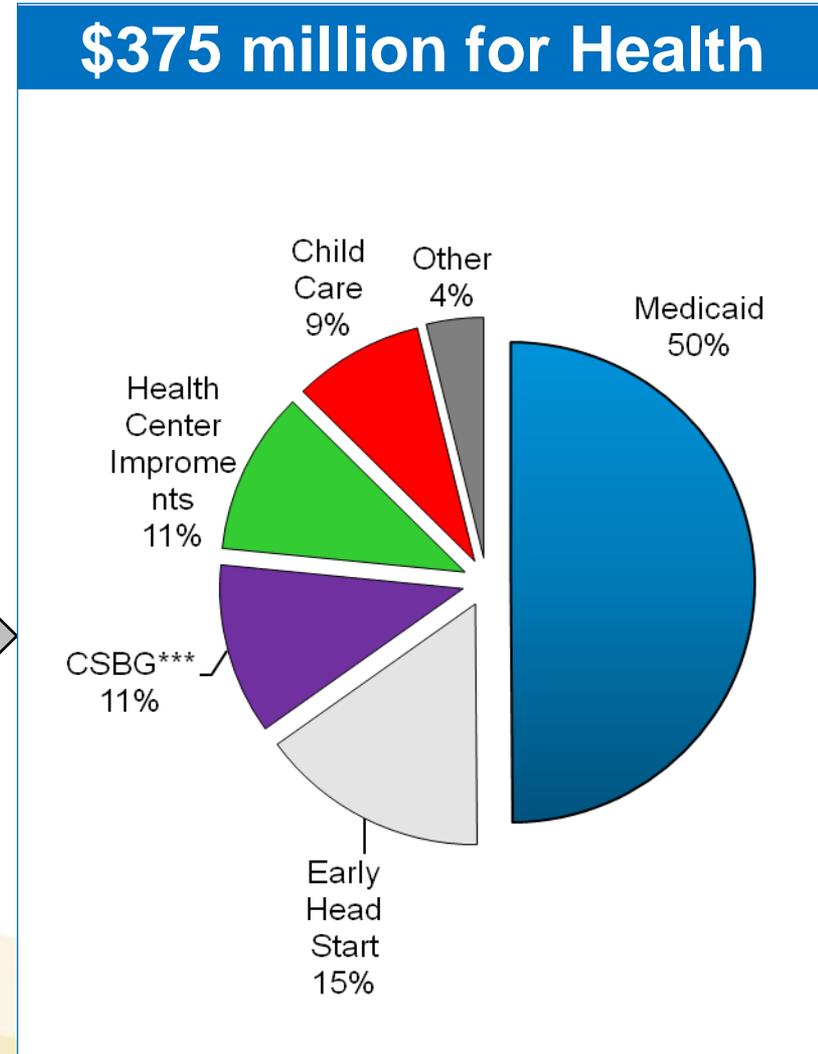
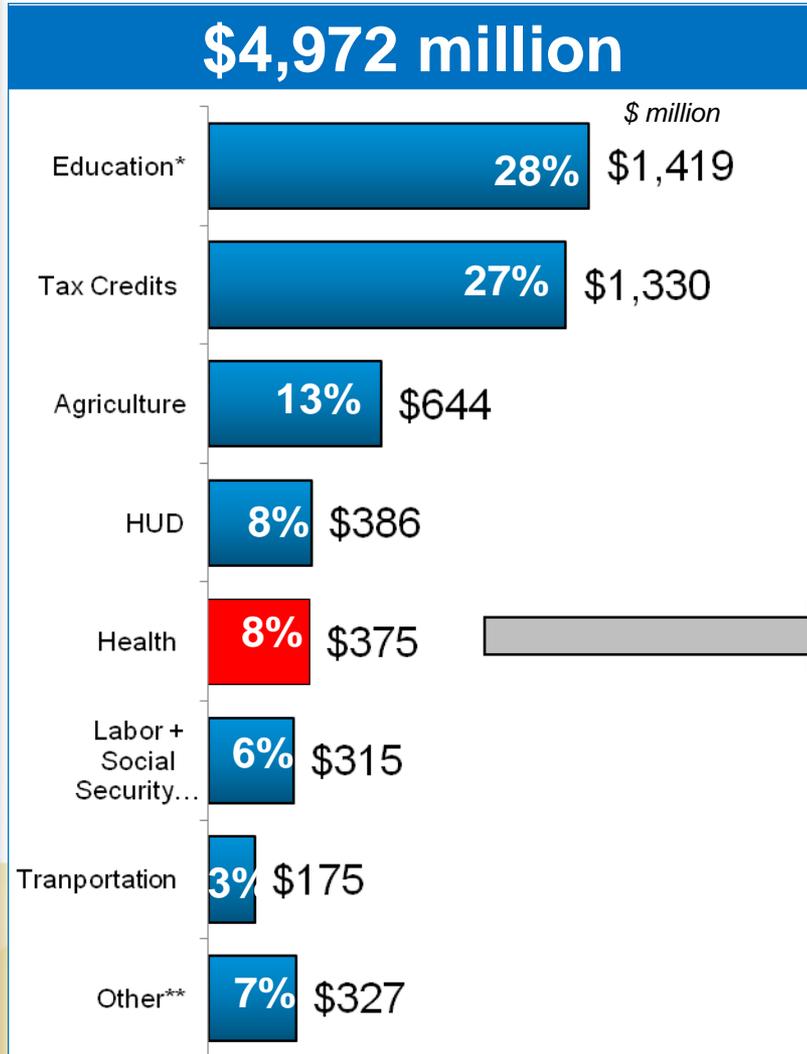
Distribution* (\$ millions)	F 2009*	F 2010*	F 2011*	F 2012-14*	TOTAL*
Tax Relief	\$0	\$1,165	\$165	\$0	\$1,330
Budget / Fiscal Relief	\$60	\$298	\$298	\$0	\$656
Relief for Individuals	\$82	\$1,160	\$744	\$204	\$2,190
Capital Improvements	\$39	\$412	\$344	\$0	\$796
TOTAL*	\$181	\$3,035	\$1,552	\$204	\$4,972

Source: P.R. Federal Affairs Administration, Fortaleza, GDB and Planning Board.

* Figures and funds distributions are preliminary estimates and subject to revision.



Health funds concentrated on Medicaid increases and access to basic services



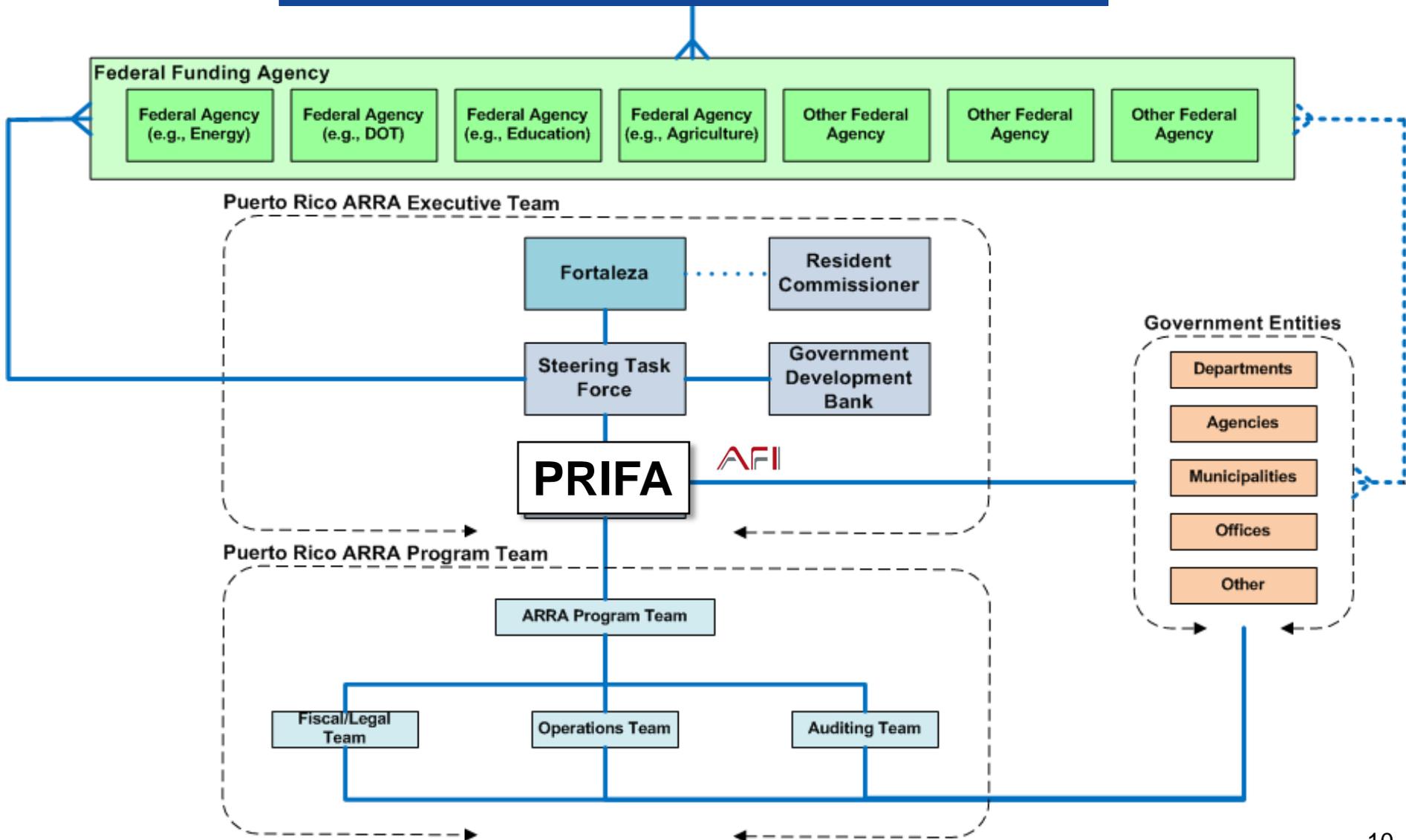
* Includes Fiscal Stability Fund.

** Includes funds for EPA/Environment, Commerce, Energy, Justice, Veterans and TANF.

*** CSBG = Community Services Block Grant.

Workflow and organization is already in place

American Recovery and Reinvestment Act



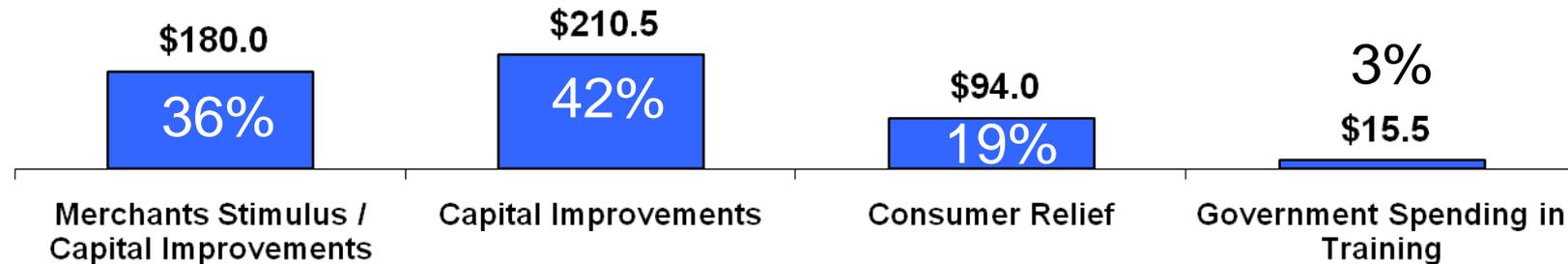
Local Stimulus Plan*

Estimated total economic impact of \$953 million

- A Local Plan that complements the Federal Stimulus Plan

\$500 million in relief and investment funds that will complement the Federal Plan

\$ Millions



Distribution* (\$ millions)	F 2010 *	F 2011 *	TOTAL*
Merchants Stimulus/ Capital Improvements	\$90.0	\$90.00	\$180.0
Capital Improvements/ Infrastructure Projects	\$105.25	\$105.25	\$210.5
Consumer Relief	\$47.0	\$47.0	\$94.0
Government Spending on Training	\$15.5	-	\$15.5
LOCAL STIMULUS PLAN TOTAL	\$257.75	\$242.25	\$500.0

Source: Economic and Financial Affairs Office of *Fortaleza*, PR Planning Board and GDB.

* Figures and funds distributions are preliminary estimates and subject to revision.

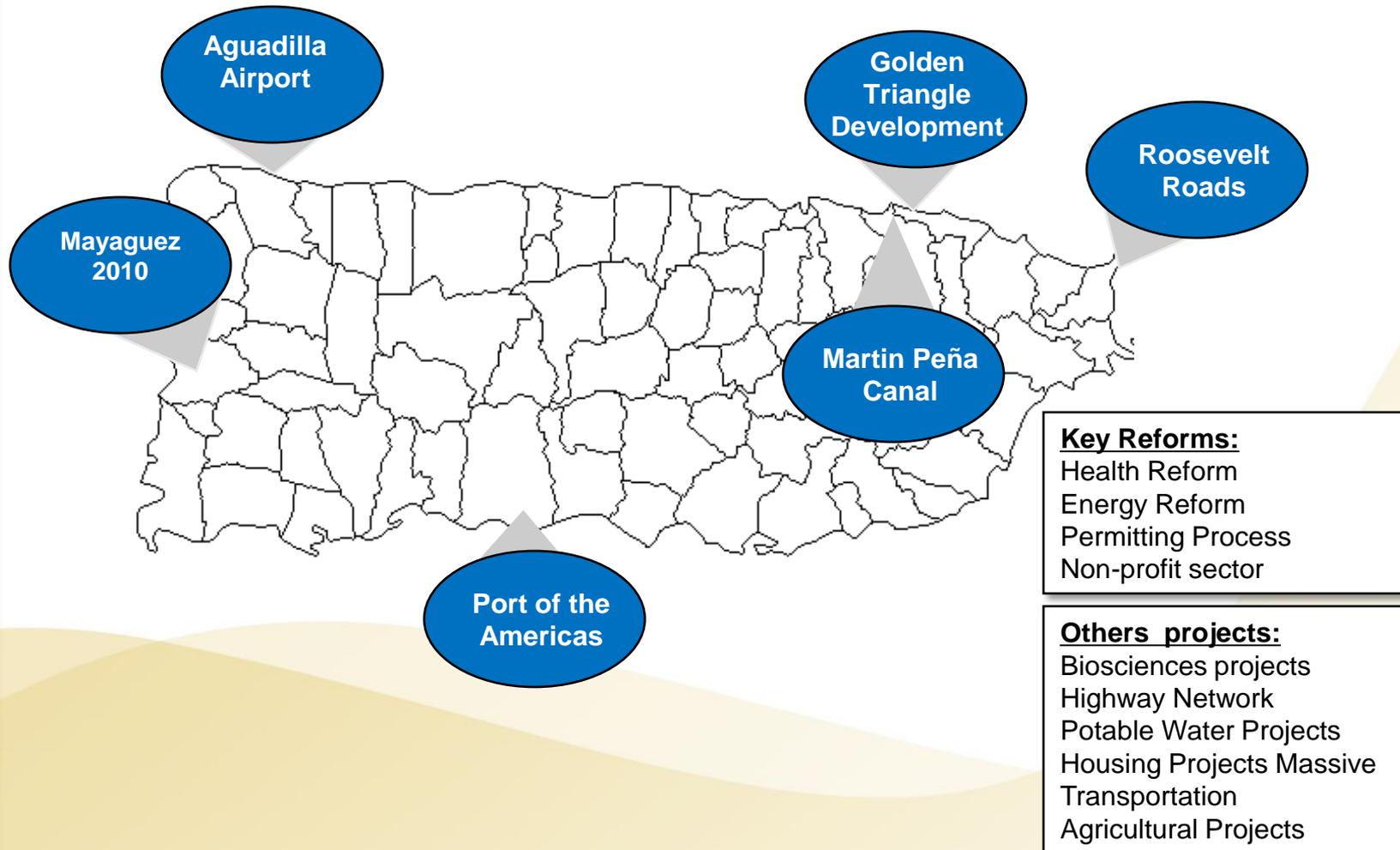
Local Stimulus Plan*

Summary of Programs

Estimated total
economic impact of
\$953 million

Merchants Stimulus (\$180MM)	Program	Investment	Economic Impact
	1. Small & Medium Businesses Program	\$180 million	\$383.9 million in loans and reach over 76,770 jobs and over 7,677 loans
Strategic Infrastructure Projects (\$142.5MM)	Program	Investment	Economic Impact
	2. PINI I	\$100 million	Economic Impact of \$163 million
	3. PINI II	\$25 million	Economic Impact of \$41 million
	4. PRASA	\$12.5 million	Economic Impact of \$20.4 million
	5. Mayagüez 2010	\$5 million	Support to carry out the Mayagüez 2010 Games
Consumer Relief (\$94MM)	Programs	Investment	Economic Impact
	6. Retirees Bonus	\$40 million	Benefit for 106 thousand retirees
	7. New Housing and Re-sale Stimulus	\$24 million	8,000 new units and 4,000 re-sales
	8. Mortgage Restructuring	\$30 million	Reach more than \$1,000 million in mortgages and more than 5,000 families
Housing Construction Stimulus (\$68MM)	Program	Investment	Economic Impact
	9. Low Cost Housing Construction Financing Plan	\$68 million	Build 6,488 new units, create over 40,303 jobs and over \$300 millions in loans
Streamline Permits Process (\$0.5MM)	Program	Investment	Economic Impact
	10. Inter-Agency Permits Office (CIPE)	\$0.5 million	Expedite over 900 projects pending at the Planning Board and 4,900 at ARPE, and over \$12,600 million in investment
Workforce Retraining (\$15MM)	Program	Investment	Economic Impact
	11. Re-training	\$15 million	Provide training for 9,975 citizens

Supplemental Stimulus: 16 strategic projects and reforms that will enhance competitiveness of local economy

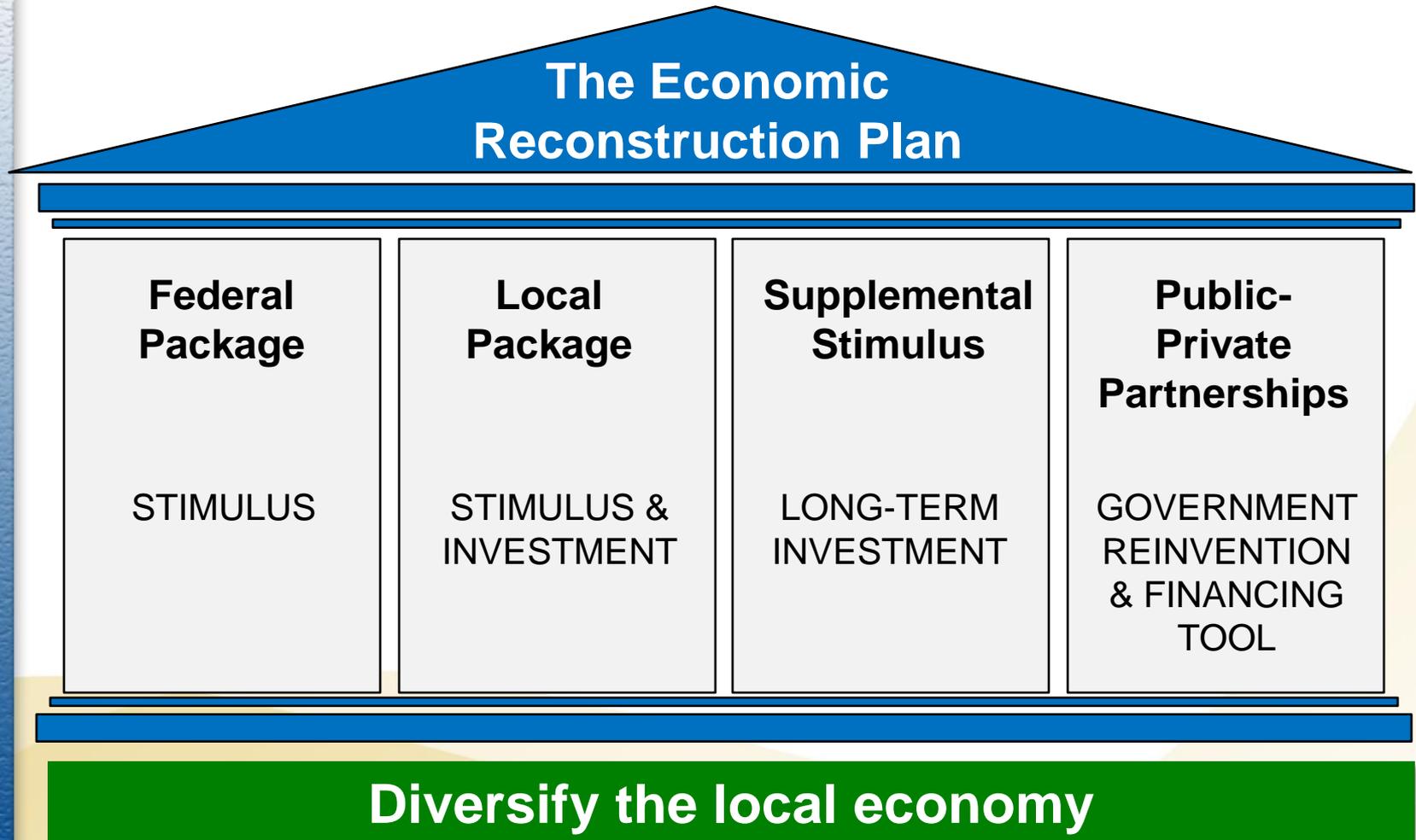


Public-Private Partnerships provide a tool for economic development in times of fiscal scarcity

Main benefits for the Government

- Lower costs to develop projects and provide services for the public sector
- Reduction of financial risk
- Creation of new sources of revenue
- Setting ways to measure quality of service
- Re-direct resources to focus on the implementation of public policy

We are implementing an Economic Plan that covers stimulus and long-term growth

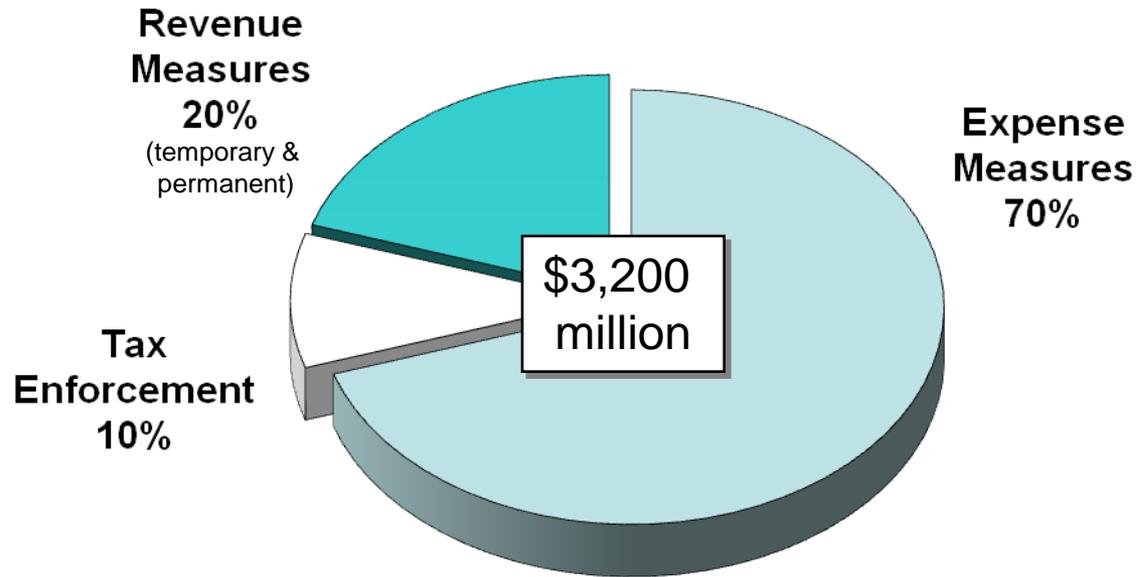


Fiscal Reconstruction:

- Expense Measures
- Tax Enforcement and Compliance
- Revenue Measures
- Financial Measures

The Fiscal Reconstruction Plan is based on a combination of measures

Distribution of Fiscal Reconstruction Measures

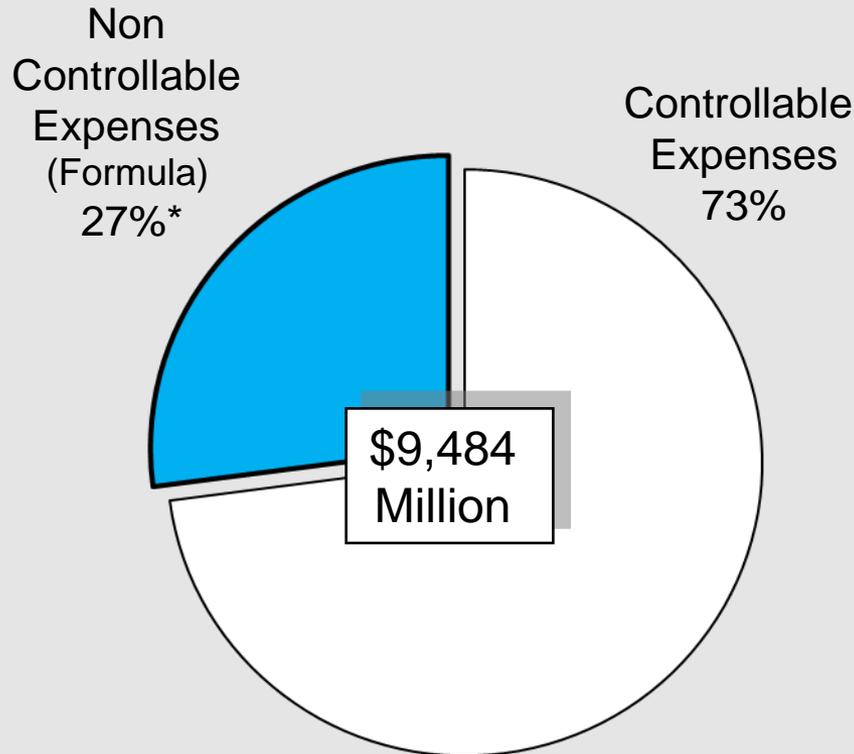


Financial Measures
(stabilization measures)

There are opportunities for savings in the Government expense base (Budget 2009)

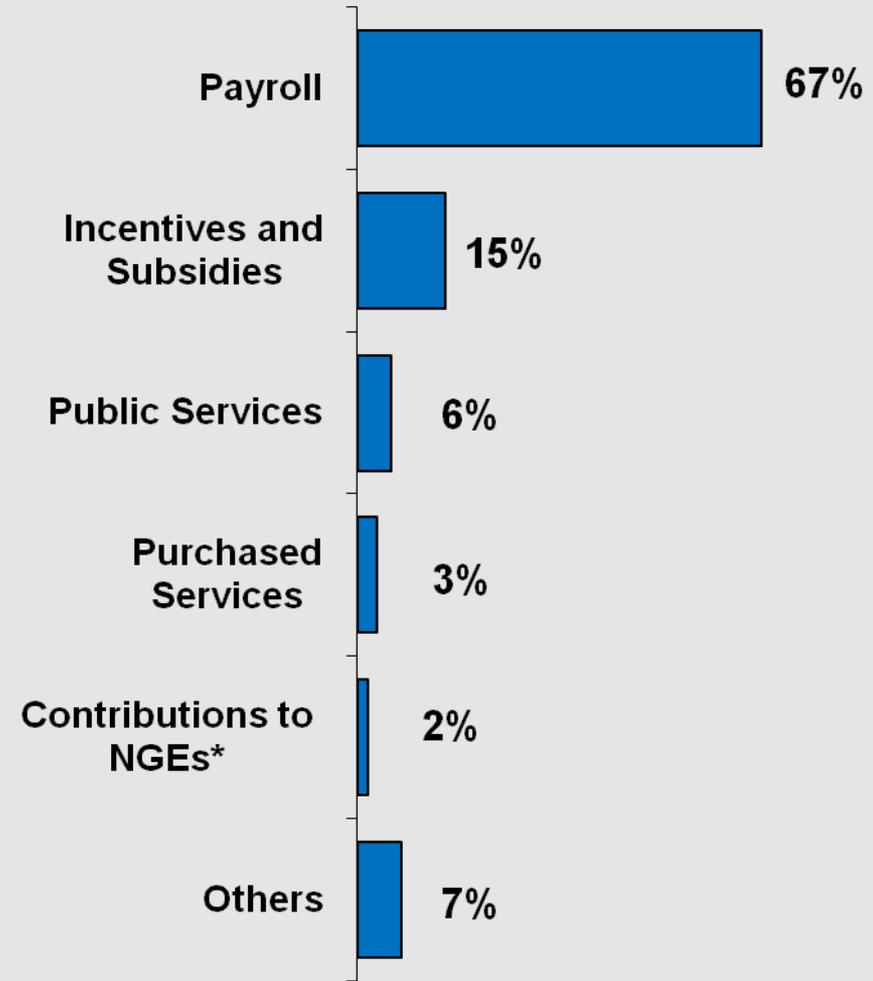
FY2009 Total Expense Breakdown

\$ million



Does not include tax credits claimed and cost of tax exemptions and deductions (to be reviewed as part of tax reform)

FY2009 Controllable Expense Breakdown**



Source: OMB. * NGE = Non Governmental Entities (includes Planning Board, Education, Sports and Recreation)

** Includes \$392.9 million of debt service that is considered not to be controllable plus \$2,174 of regular non controllable expenses.



Expense Reduction Measures

Expense Reduction Measures

PAYROLL EXPENSES

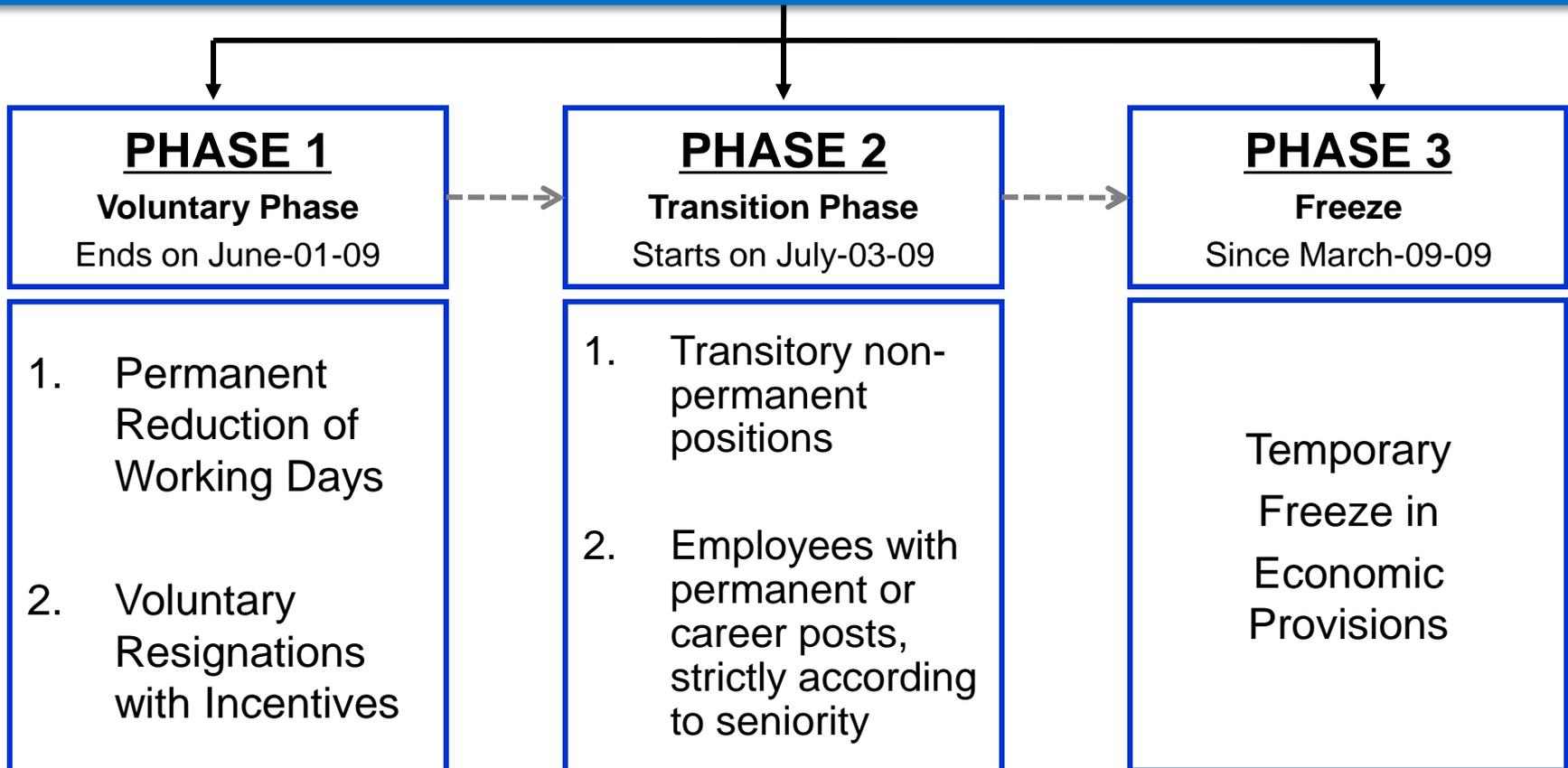
- Salary reduction of appointed employees and agency heads
- Salaries freeze, ban of new posts and elimination of vacant posts
- PHASE I: Encouraged resignations and voluntary work load reduction
- PHASE II: Transition of employees
- PHASE III: Salary Freeze

OPERATIONAL EXPENSES

- Austerity: 10% of operational expenses, including cell phone use, credit cards and official vehicles.
- Reduction in public health plan costs
- Executive Branch reorganization, supported by budgeting and accounting processes and IT.

Multi-phase expense reduction program already in implementation

Payroll Expenses Reduction Plan



Alternatives Program for
Government Employees



We are following a strict calendar in implementation the expense measures

• Circular Letter OMB 85-09	Mar-20-09: Completed	✓
• Public Agencies Notify Employees about Phase I	Mar-27-09	
• Eligible Employees Submit Form for Phase I	Apr-27-09	
• Voluntary Resignations become Effective	May-29-09	
• Notification of First Round of Phase II	Jun-01-09	
• Voluntary Workday Reduction becomes Effective	Jul-03-09	
• First Round of Phase II becomes Effective		

Permanent revenue measures will expand the tax base of the General Fund

Initial Forecast of Fiscal Stabilization Plan*

(\$ Millions)

Permanent Revenue Measures	Avg. Annual Revenues F10-13	Assumptions
Tax Enforcement Measures	\$311.8	
Change in AMT* - Individuals	\$10.0	Expands taxable base and limits mortgage interest deductions
Enhancement of federal funds receipts	\$112.5	Increases in indirect costs reimbursement, new procedure for collections, initial request time shortened, dedicated staff at Treasury and OMB . Independent of federal stimulus grants.
SUT enhancements (collection rate/auditing)	\$76.8	Credit and not exception to re-sellers & increase collection rate
Voluntary tax compliance and oversight	\$112.5	Based on compliance program of the Treasury Dept.
Revenue Measures	\$85.3	
Excise tax on cigarettes	\$71.5	Increase of \$1.0 excise tax per cigarette packet
Excise tax on motorcycles	\$1.0	Include motorcycles as automobiles for tax purposes
Excise tax on alcoholic beverages	\$12.8	Increase in excise taxes in imported and local wines and beer
Permanent Revenue Measures	\$397.0	12% of Fiscal Deficit

Source: GDB and Dept. Treasury.

* Initial estimated figures. Subject to final revision.

Temporary revenue measures will play a significant part in balancing the budget

... While tax reform is designed within a multi-year plan

Initial Forecast of Fiscal Stabilization Plan* (\$ Millions)

Temporary Revenue Measures	Avg. Annual Revenues F10-13	Assumptions
Tax Enforcement Measures	\$10.0	
Change in AMT* - Corporations (3 yrs)	\$10.0	Limits deductions of expenses related to services out of PR
Revenue Measures	\$518.6	
5% Surtax on Individuals (3 yrs)	\$66.0	Increases taxable base on approximately 33,500 tax returns
5% Surtax on Corporations (3 yrs)	\$46.0	Increase tax revenues on an estimated tax base of \$1.2B
5% tax on Credit Unions (3 yrs)	\$5.0	Taxable net income of \$93 million (Entities >\$250K net income)
5% tax on Intl. Banking Entities (3 yrs)	\$30.0	Estimated net income taxable base of ~\$600 million.
Special tax on residential RE (4 yrs)	\$238.3	Establishes a State tax equal to the municipal real estate tax
Moratorium on tax credits (3 yrs)	\$133.3	No tax credits F09-11. Except Tourism, Films, Industrial (Act 73)
Temporary Revenue Measures	\$528.6	17% of Fiscal Deficit

Comments from Rating Agencies

Moody's Investor Services, March 2009:

“These measures... support plans to reestablish fiscal solvency for the commonwealth... it [is] a significant achievement that the administration and legislature have worked together to quickly produce a plan for recovery...”

E. Raimés, E. Behr and B. Kurtter

Standard & Poors (in Bloomberg News), March 9, 2009:

“Puerto Rico is taking the right steps to preserve its investment-grade credit rating with a deficit-reduction plan ...”

Horacio Aldrete

**SAFEGAUARDING PUERTO RICO'S CREDIT
RATING**

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Concluding Remarks

- 1** We have responded with swift action with a Reconstruction Plan to address the economic and fiscal challenges.
- 2** The implementation has began with progress in various fronts:
 - The stimulus packages (Federal, Local and Supplemental)
 - Financial Measures
 - Expense Reduction Measures.
- 3** We are committed to providing quarterly progress reports about the Reconstruction Plan.



Investor and General Public Information

Main Websites for Investor Information

Government Development Bank	www.gdbpr.com	English
	www.bgfpr.com	Spanish

Other Related Websites

Treasury Department	www.hacienda.gobierno.pr	Spanish (some English information at bottom right of the site)
Office of Management & Budget	www.ogp.gobierno.pr	Spanish
Planning Board	www.jp.gobierno.pr	Spanish
Governor's Office	www.buengobiernopr.com	Spanish



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