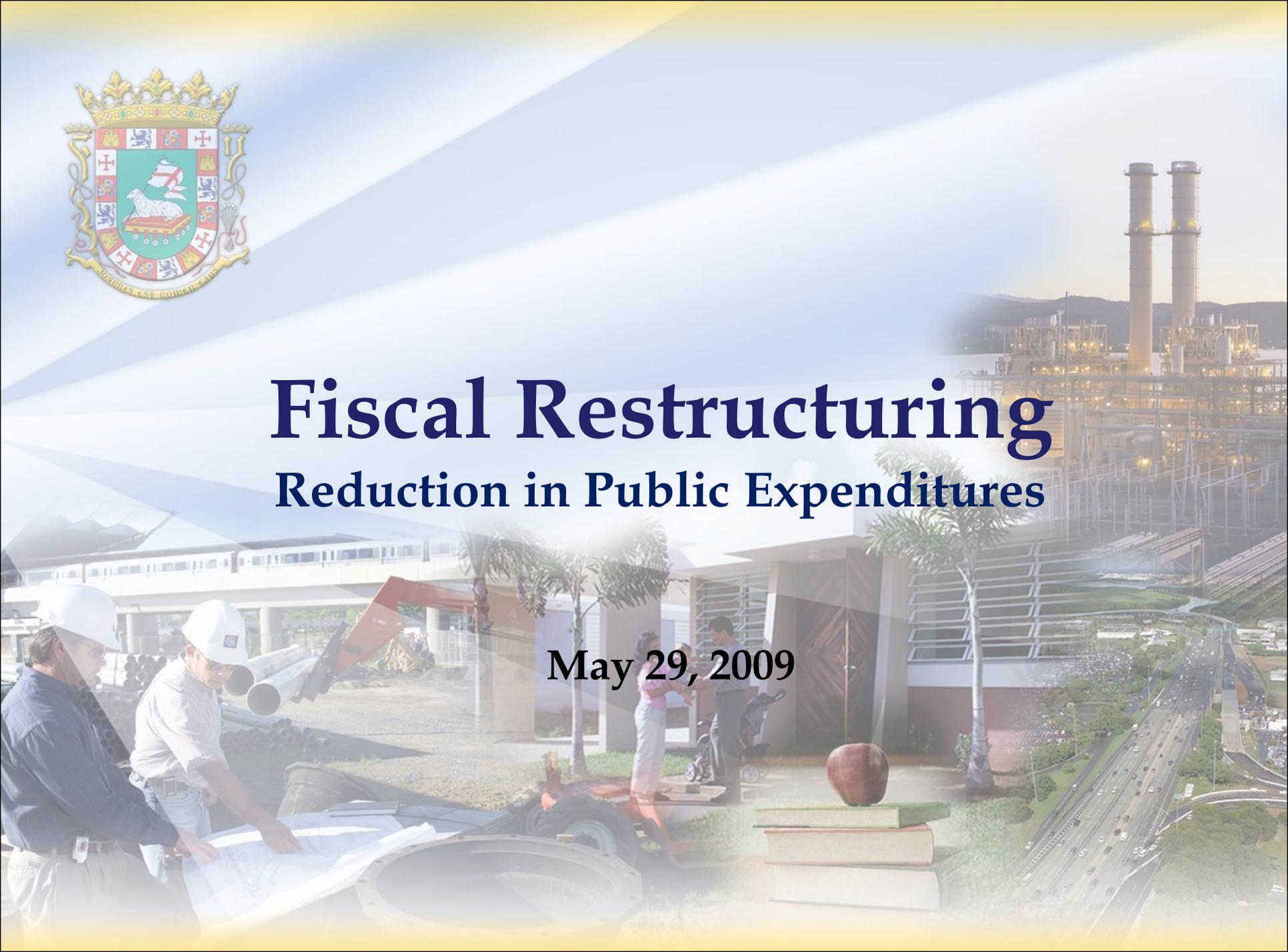




Fiscal Restructuring

Reduction in Public Expenditures

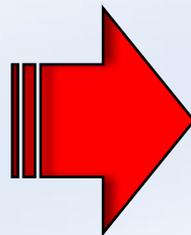
May 29, 2009



Current Situation and Objectives

Current Situation

- **Puerto Rico was on the verge of an economic catastrophe.**
- **We continue to face a deep recession, for which our economy requires stimulus and investment.**
- **The fiscal deficit rises to \$3.2 billion, which nears us to a credit rating downgrade, if we do not act.**
- **The Government had maintained a high level of expenditures in spite of sharp revenues fall.**
- **We continue to be at risk of losing our current credit rating.**
- **A decade of growth has been lost. However, we have begun to act not to lose another.**

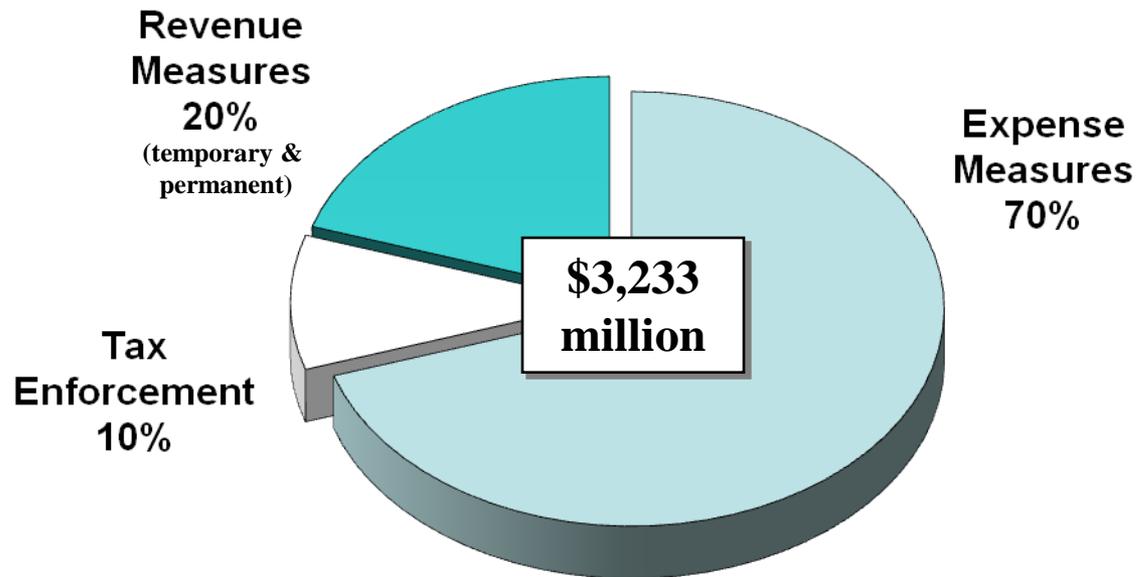


Objectives

- 1. To stabilize the fiscal situation**
- 2. To save Puerto Rico's credit**
- 3. To rebuild the economy**

The Fiscal Reconstruction Plan is based on a combination of measures

Distribution of Fiscal Reconstruction Measures



Financial Stabilization Measures

A balanced plan was chosen instead of the following non viable alternatives

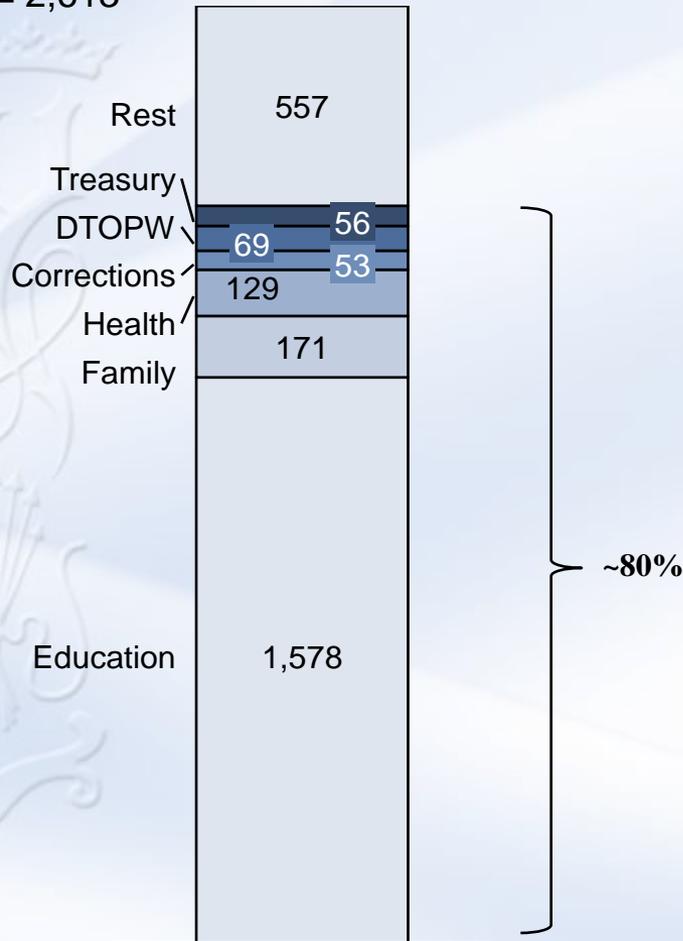
In order to avoid a high negative impact on more people

- Increasing the SUT to 17%
- Increasing other taxes (such as those on gas, cell phones, etc.)
- Increasing taxes on individual income by 77%
- Increasing taxes on corporations from 38% to 98%
- Reducing by 50% the working hours of over 150,000 public employees

Phase I resulted in 2,585 incentivized resignations and 28 furloughs

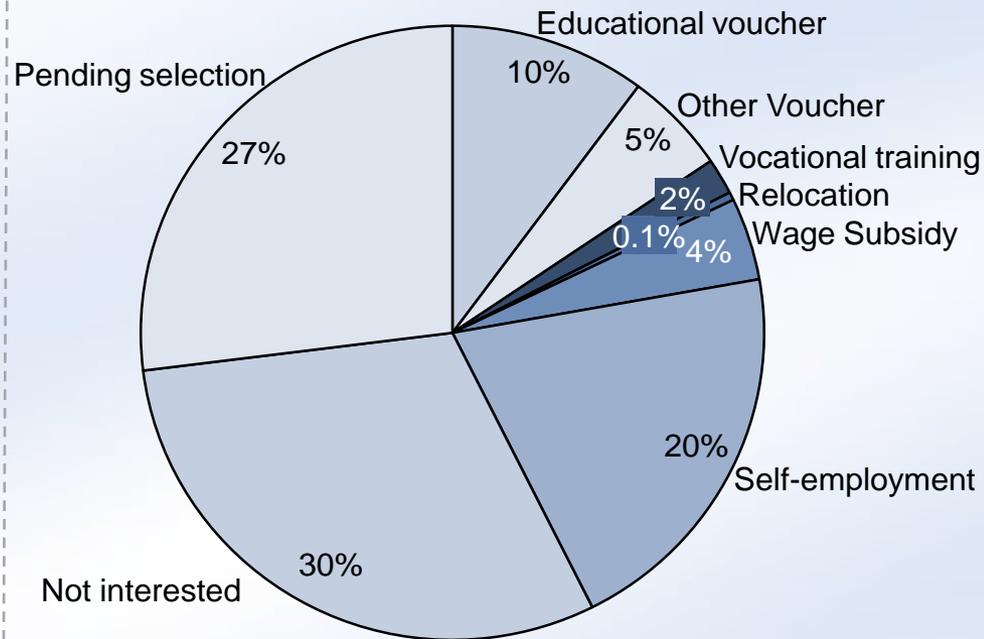
Breakdown: Participation per Agency

100% = 2,613**



Participation Breakdown: Employee Options Plan

100% = 2,585



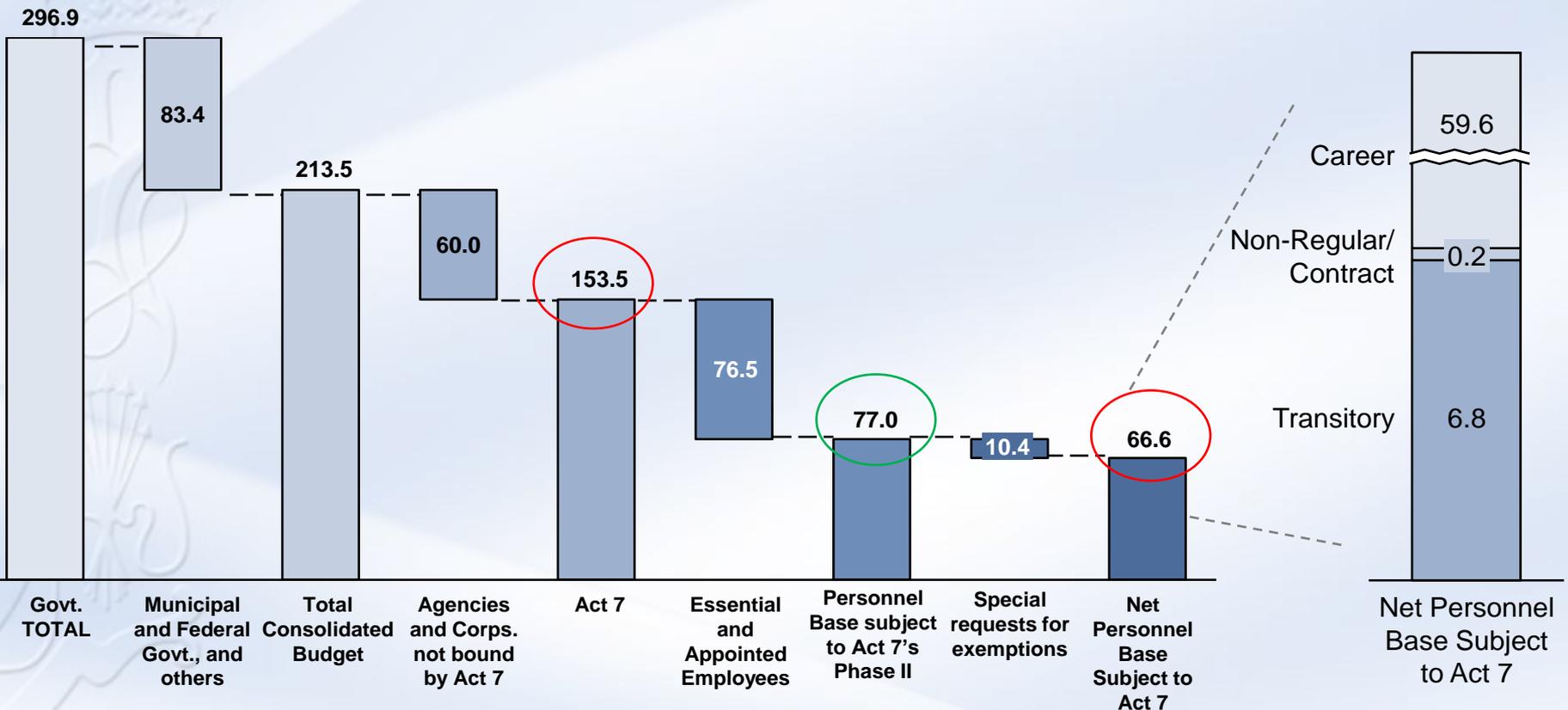
The self-employment option was the option most frequently requested

Phase II has to be implemented

The employee base subject to Phase II (layoff) evaluation are 77 thousand people

ESTIMATE

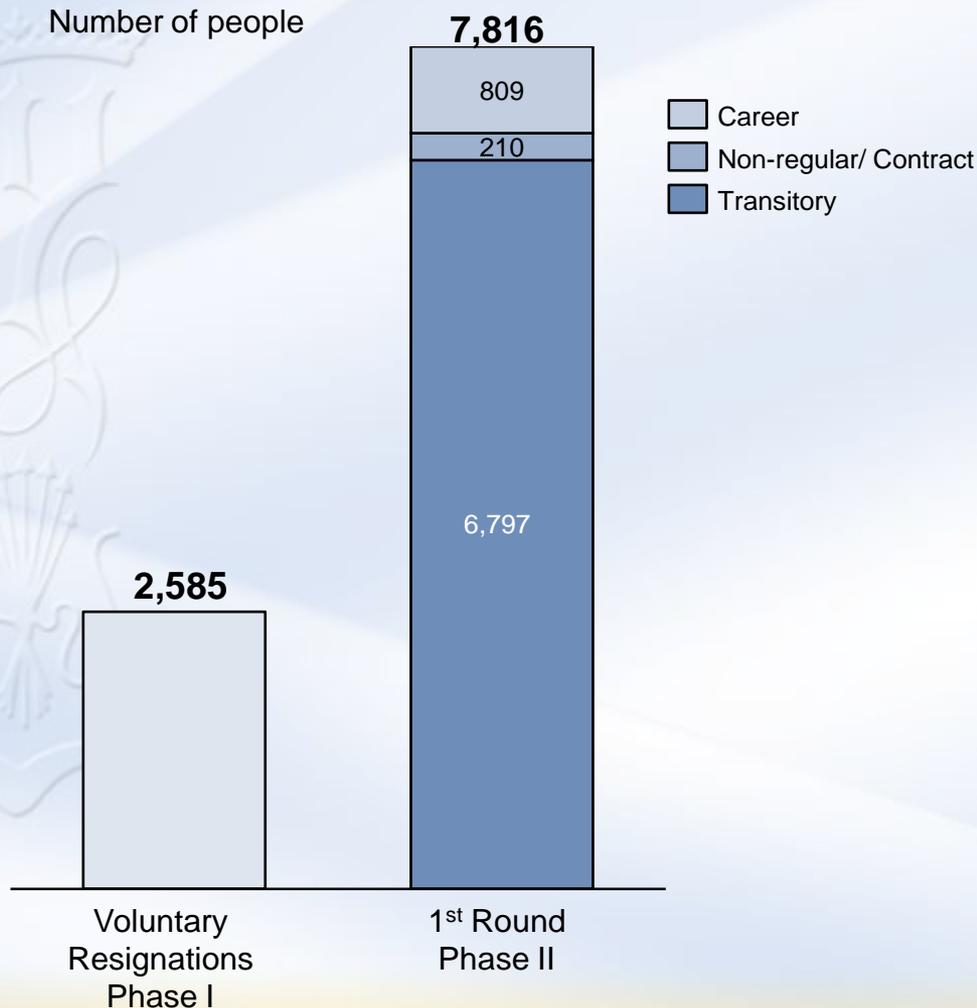
Thousands of people



* Includes 62,900 municipal employees, 14,600 federal gov. employees and 5,900 Others.

Source: OMB FY09 Budget, OMI, Labor Department Survey of Businesses – March 2009, RHUM

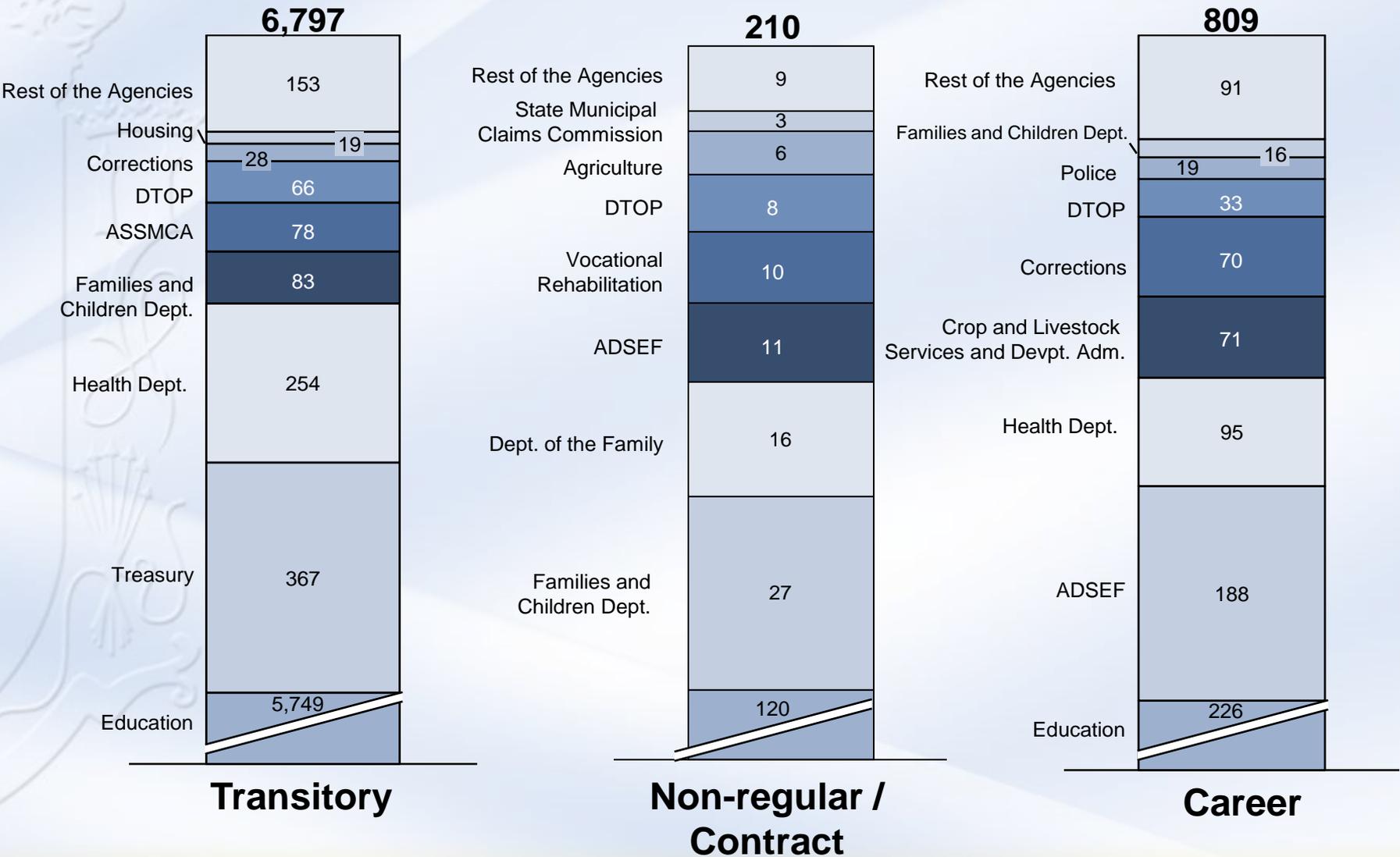
Voluntary resignations (Phase I), terminations of transitory and non-regulars, and layoffs (Phase II: 1st round) reduce government personnel by ~ 10,400



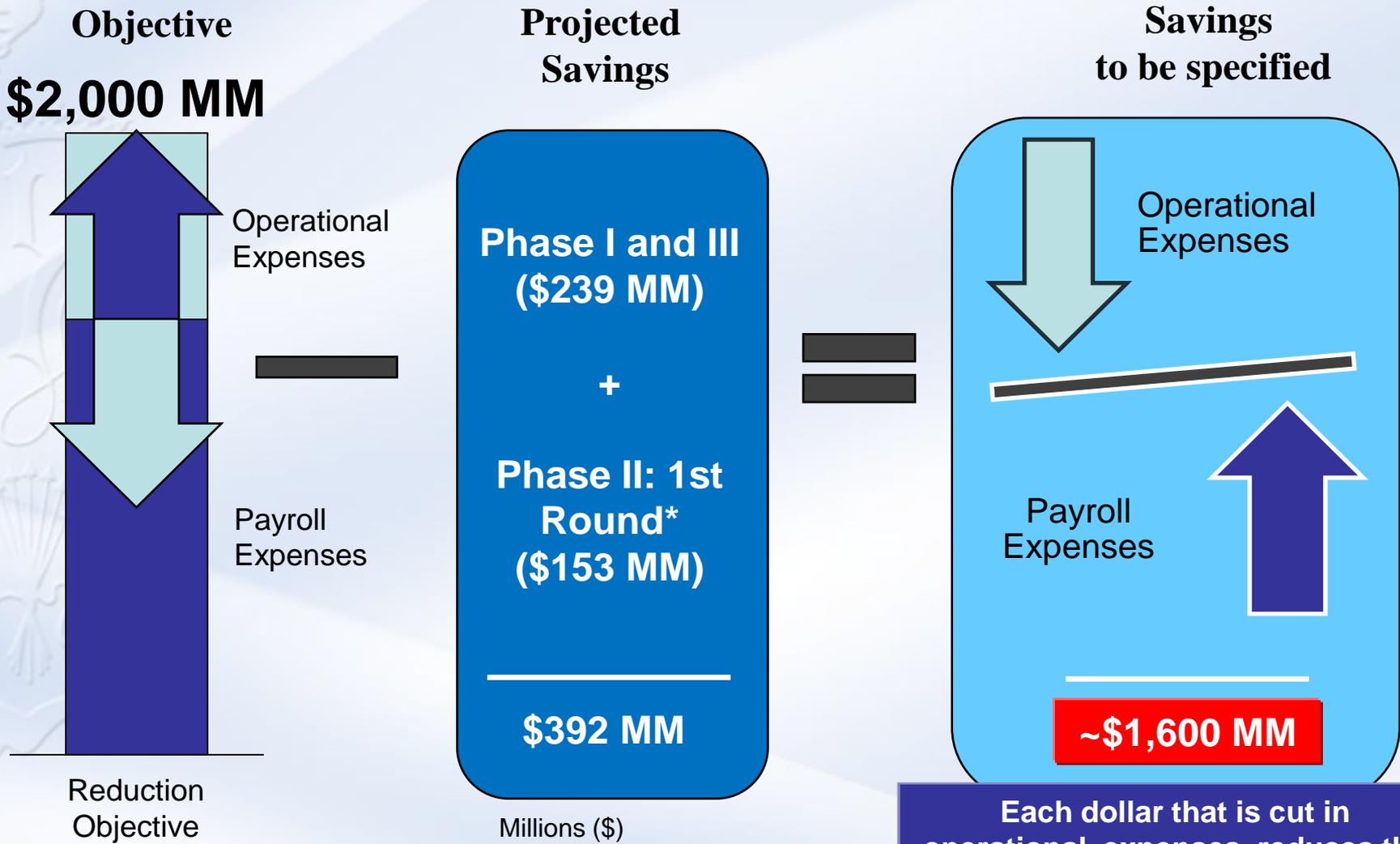
- Transitory and non-regular appointments end on June 30, at the end of their term.
- The **1st Round** of layoffs and suspension of contract will come into effect on **July 10**
- At present, the **number of layoffs in future rounds** cannot be estimated due to :
 - The seniority evaluation process
 - The impact of savings due to operational expenses in the recommended budget
 - Savings due to government reorganization

Agencies Affected by Phase II: 1st round

Thousands of people



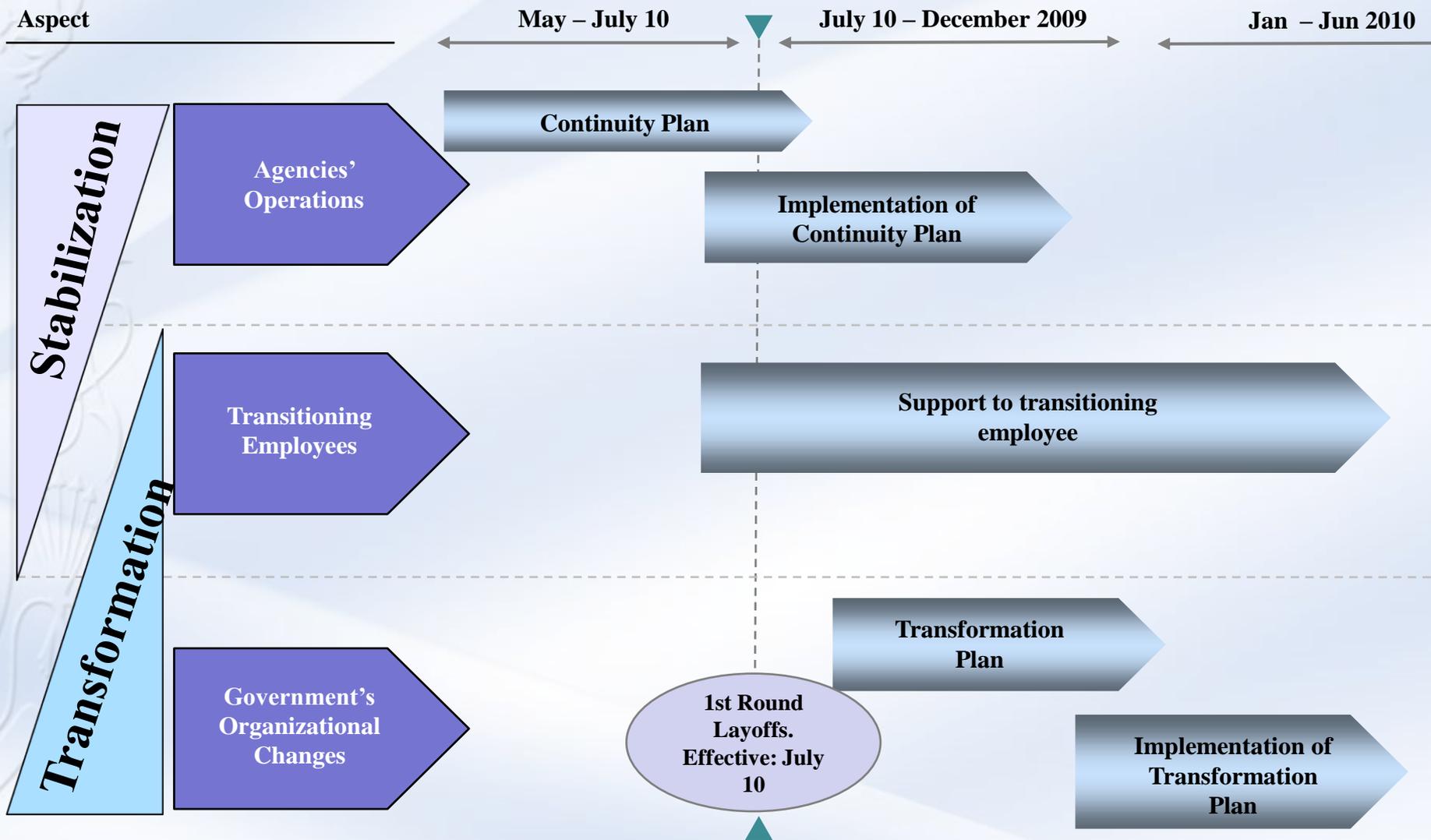
The reduction objective of \$2,000 million in expenses depends on Payroll and Operational Expenses



Each dollar that is cut in operational expenses reduces the likelihood of payroll cuts

*Estimated, based on variable costs of transitory, non-regular and career personnel.

Two Phases: Stabilization (agency functioning) and Designing the Transformation Plan by Agency

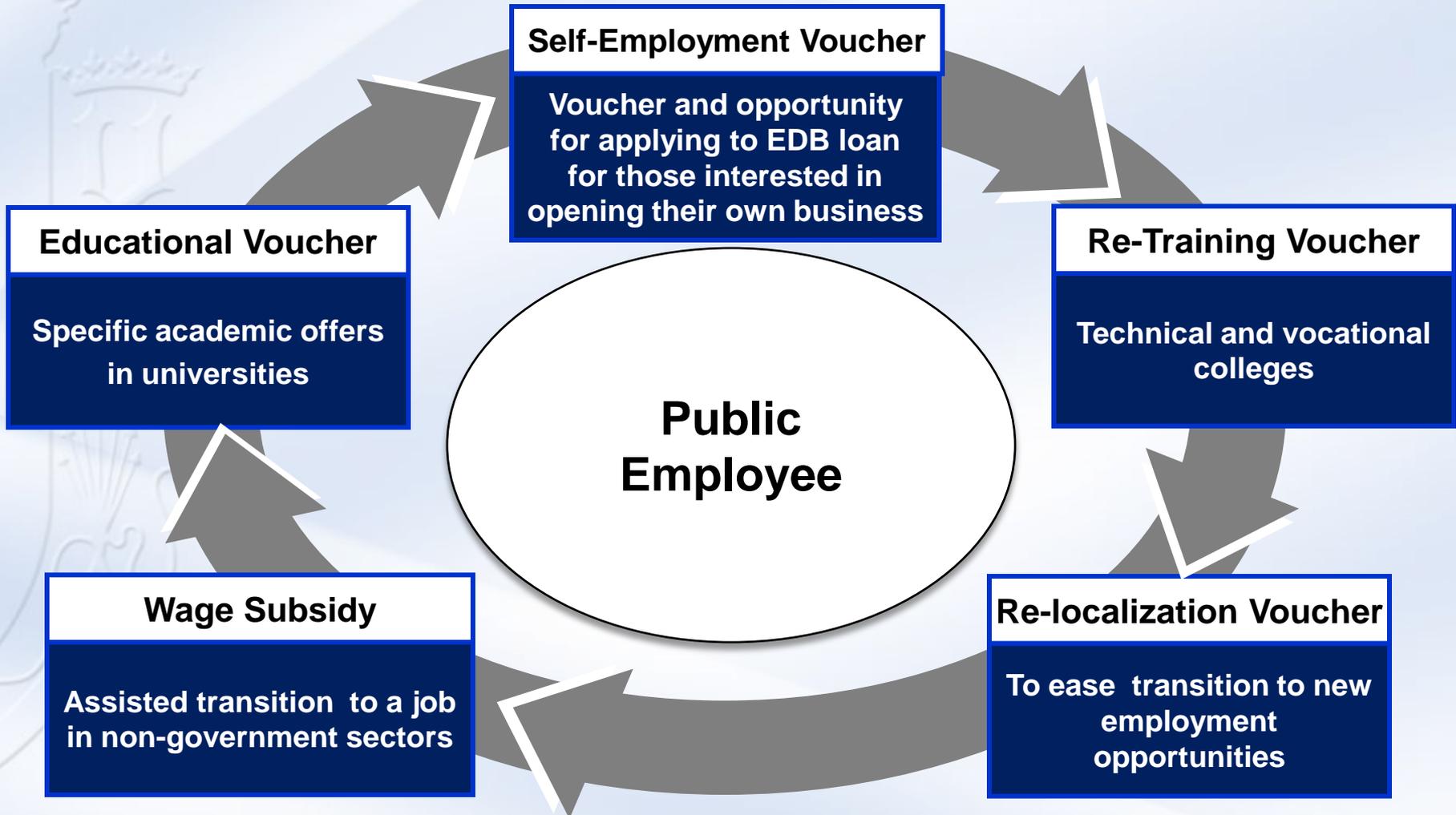


Employees will receive support from One- Stop Centers run by the Dept. of Labor's Occupational Development Council

Services Offered	Main Benefits	Employees	
		Career	Transitory and non-regular
<div style="border: 1px solid black; background-color: #ADD8E6; padding: 10px; display: inline-block; transform: rotate(-90deg); transform-origin: left top;"> Personalized Services </div>	<ul style="list-style-type: none"> • Orientation and offering of job opportunities in the non-public sector • Preparation of resumes and career counseling • Processing and payment of Treasury fees for documents, for those who need it to finish the process for a new job (Birth Certificate, Basic Health Plan Certificate, Police Clearance Certificates...) 	✓	✓
<div style="border: 1px solid black; background-color: #ADD8E6; padding: 10px; display: inline-block; transform: rotate(-90deg); transform-origin: left top;"> Group Activities </div>	<ul style="list-style-type: none"> • Workshops for planning and establishing your own business or commercial activity • Orientation about your rights, creditors and your credit • Bankers Association' orientation on payment plans • How to financially protect your home and tenants rights • Group therapy for managing this transition • Offers for studying, training or re-training in the Local Areas WIA (municipal consortiums) • Orientation on other services, subsidies and economic benefits through WIA 	✓	✓
<div style="border: 1px solid black; background-color: #ADD8E6; padding: 10px; display: inline-block; transform: rotate(-90deg); transform-origin: left top;"> Management of Public Employees Options Program </div>	<ul style="list-style-type: none"> • Registration and Management of Vouchers: <ul style="list-style-type: none"> – Educational Voucher for university studies, for \$5,000 – Technical Voucher, for \$2,500 – Re-Localization Voucher, for \$2,500 – Voucher to begin your own business, for \$5,000 – Voucher for Wage Subsidy in the private sector, up to \$15,000 	✓	✗

Options for the Public Employee

Easing access to a new route



In addition, the public employee will have support through a phone line with personnel trained to orient people on the procedures to receive services.

**For more information,
the public employee can call
1-800-981-9108 or
1-787-999-7575**

Summary

- **In spite of the progress of the past five months, Puerto Rico continues to face a serious fiscal and economic crisis that requires immediate action.**
- **The \$2,000 million expense reduction objective (Act 7) requires a significant cut in government payroll. Otherwise, there would have to be an increase in SUT and new taxes on cell phones, gas and others.**
- **After the exclusions of Act 7, 75% of public employees are not eligible for layoff.**
- **Voluntary resignations were 2,585; terminations of transitory and non-regular personnel were 7,007; and layoffs (career) in the first round were 809.**
- **A comprehensive plan of government reform will be implemented, which will stabilize agencies' functioning—ensuring the continuity and excellence of services to the citizenry—and transform the government into a less bureaucratic, less expensive, more agile and more efficient entity.**
- **A support system has been implemented for public employees affected by Act 7, which includes one-stop service centers run by the Occupational Development Council of the Department of Labor, in order to ease the transition to another employment, to self-employment (own business) or to continuing studies.**