



The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

Investor Webcast - February 2014

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Commonwealth Report

This webcast presentation should be read in conjunction with the information contained in the Commonwealth of Puerto Rico Quarterly Report, dated as of February 18, 2014 (the “Quarterly Report”), which is intended to update certain information included in the Commonwealth’s Financial Information and Operating Data Report dated October 18, 2013. The Quarterly Report contains a summary of the principal fiscal and economic challenges faced by the Commonwealth. In case of any conflict between this presentation and the Quarterly Report, the Quarterly Report shall prevail.

Agenda

1 Recent Accomplishments

2 Liquidity and Plan of Finance

3 Revenue and Expense Update

4 Comprehensive TRS Reform and Other Legislation

5 Economic Development

6 Concluding Remarks

The Government of Puerto Rico has worked aggressively to strengthen Puerto Rico's fiscal condition

Challenges faced...	...Puerto Rico has taken action:	
<p>1 Funding of Teacher's Pension System</p>	<ul style="list-style-type: none"> Enacted Act 160-2013 delivering on the promise of enacting meaningful and comprehensive pension reform to the Teachers Retirement System ("TRS"). TRS reform projected to eliminate approximately \$560 million of future annual pay-as-you-go contributions and ensures cash flow sufficiency to pay pension obligations as they become due. 	
<p>2 Meeting Revenue and Spending Targets</p>	<ul style="list-style-type: none"> For the first seven months of fiscal year 2014 general fund revenues are \$39 million above budgeted estimates For fiscal year 2014 revised total revenue projection continues to be in line with budget and expenses are expected to be reduced by \$170 million when compared to the original budget. The Governor has pledged to submit a balanced budget for fiscal year 2015 to the legislature, improving the fiscal year 2015 budget outlook by approximately \$400 million. 	
<p>3 Financing Options and GDB Liquidity</p>	<ul style="list-style-type: none"> PR Legislature passed key new measures to: <ol style="list-style-type: none"> <u>Strengthen COFINA's financial capacity</u>: raised the state portion of SUT to 6.0% from 5.5%, increasing by approximately 9% revenues available for COFINA debt service. <u>Enhance financing options for municipalities</u>: created a new financing entity similar to COFINA to issue debt backed by the municipal SUT, which should allow ("COFIM") municipalities to refinance outstanding municipal SUT debt with GDB. <u>Improve GDB Liquidity</u>: granted GDB additional oversight authority, including the power to require the transfer of certain public funds to GDB. 	

The Government of Puerto Rico has worked aggressively to strengthen Puerto Rico's fiscal condition (cont'd)

Challenges faced...	...Puerto Rico has taken action:	
<p>4 Public Corporations' Dependence on the Commonwealth and GDB</p>	<ul style="list-style-type: none"> • Newly-enacted legislation limiting GDB's ability to provide deficit financing is expected to result in additional fiscal discipline in public corporations. <ul style="list-style-type: none"> ◦ Limitations on new loans expected to help GDB preserve its liquidity ◦ Exceptions in case of possible debt service non-payment or emergencies that may impact level of service (subject to certain limits) • Proposed new Mass Transit Authority* would merge mass transit assets currently held by Highway and Transportation Authority (HTA), including "Tren Urbano", Metropolitan Bus Authority and Maritime Transportation Authority into new entity. <ul style="list-style-type: none"> ◦ Expected to result in operational and budgetary efficiencies and help lead HTA to financial self-sufficiency, accelerating its return to the capital markets. 	
<p>5 Economic Development Prospects</p>	<ul style="list-style-type: none"> • Commonwealth continues to execute short-term, aggressive outreach plan with clear and achievable goals and benchmarks that we are confident will result in thousands of new jobs and reposition Puerto Rico as a competitive business and investment destination. • Key wins include Seabourne, Crowley, Puma Energy, Lilly, as well as noteworthy projects in agriculture. Key economic markers reveal improved month to month conditions. • Our focus on job creation has already led to commitments expected to generate approximately 25,000 direct and indirect jobs. 	

*Legislation creating new MTA currently in public hearing process. Expected to pass Legislature shortly.

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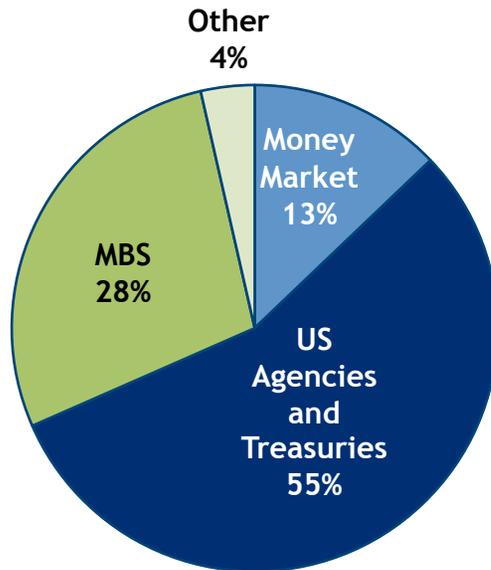
6 Concluding Remarks

GDB's stable, liquid investment portfolio continues to be a primary source of liquidity for GDB and the Commonwealth

Investment Portfolio Composition*

(\$ in millions, mark-to-market)

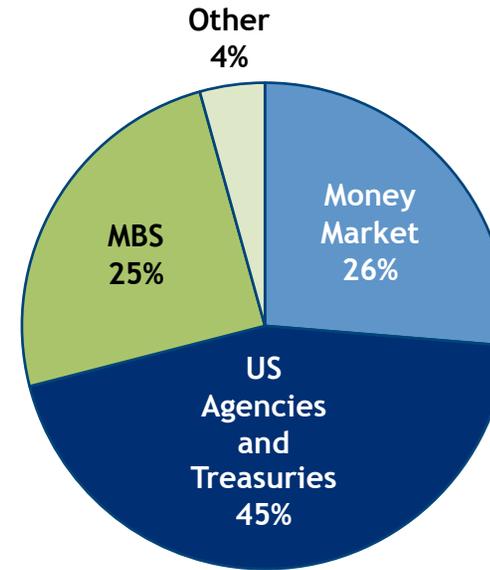
September 30, 2013



Market Value: \$2.77 B

- High-grade investment portfolio (96% > A-)
- Portfolio average life is 3.48 years

December 31, 2013



Market Value: \$2.71 B

- High-grade investment portfolio (96% > A-)
- Portfolio average life is 2.64 years

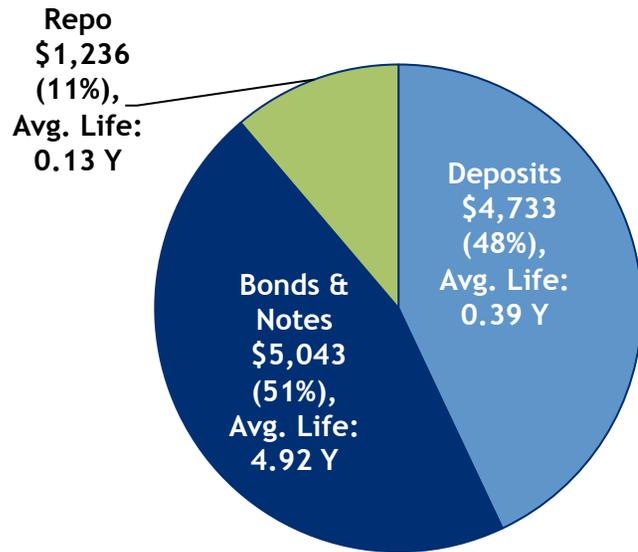
During the past months, GDB has sought to shorten the average life of its investment portfolio in order to increase financial flexibility.

* GDB liquidity has served during last 120 days to finance approximately \$923 million in short term liabilities of the Commonwealth and its instrumentalities. Preliminary financial information is unaudited as of September 30, 2013 and December 31, 2013, and subject to change.

Public sector deposits have increased at GDB by more than \$500 million in Q2 of Fiscal Year 2014

Cost and Average Life of Funding Sources*

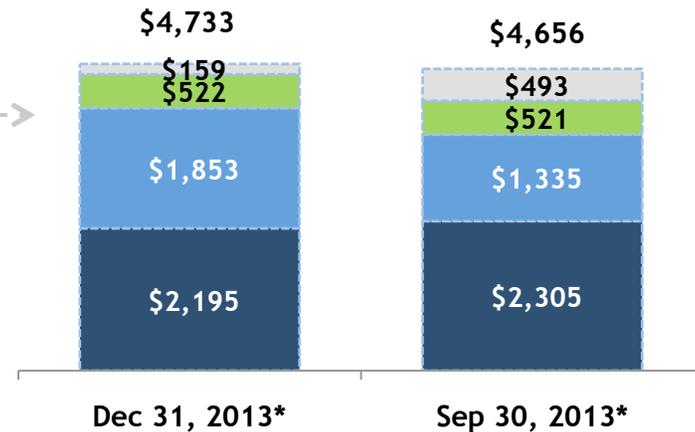
	Average Cost	Average Life
Liabilities	2.52%	2.43 Y



- Average cost of funding has decreased by 20 basis points since September 30, 2013.
- GDB Notes outstanding have remained stable. GDB issued \$110 million in notes in December 2013. Approximately \$70 million in GDB notes were paid off during the same month.
- Outstanding repos have increased from \$437 million to \$1.24 billion during period.

Deposits Detail (in \$ millions)

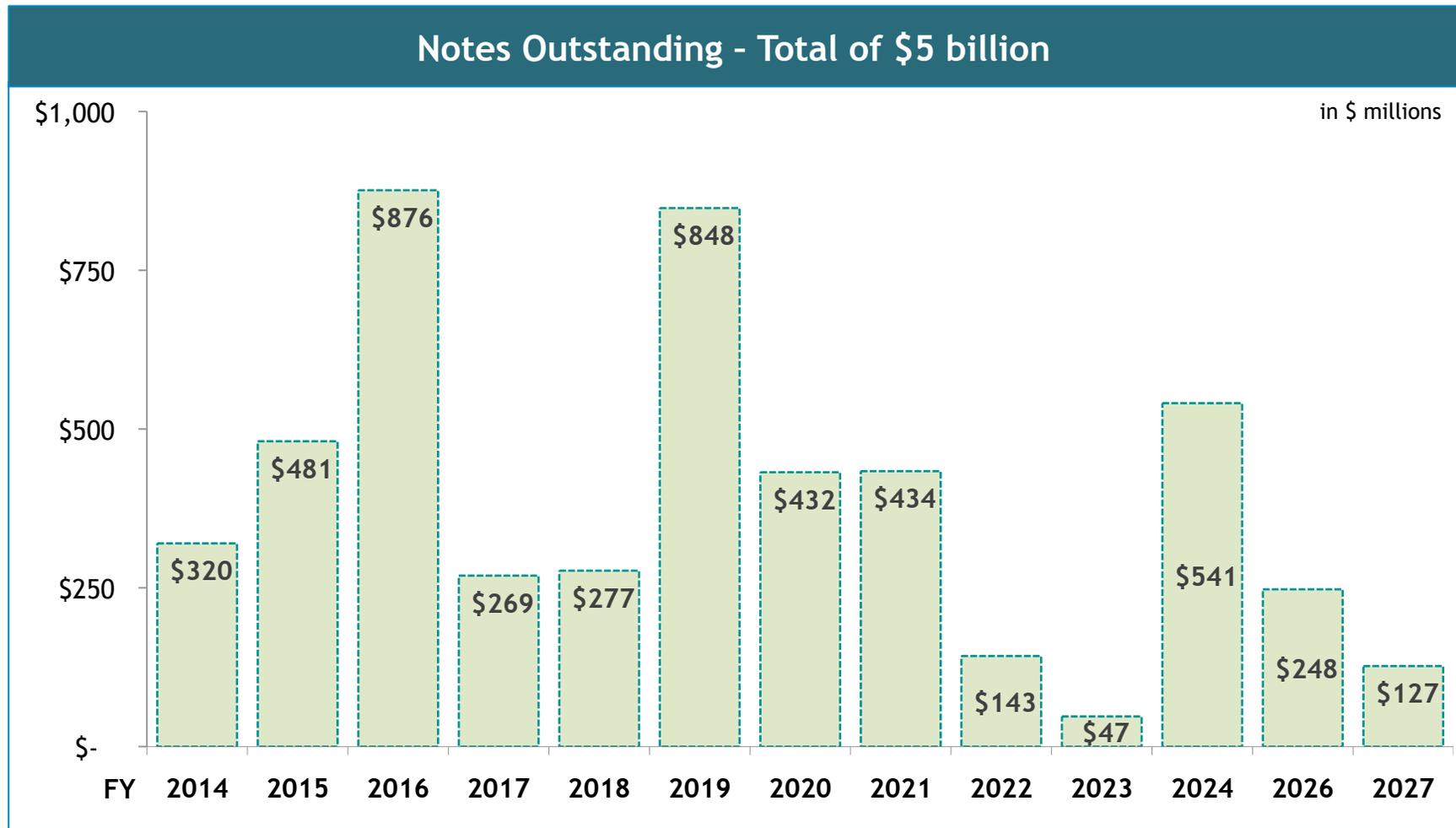
- Demand Deposits (Public)
- Escrow Deposits (Public)
- CD (Public)
- CD (Private)



- Public sector CDs experienced a net increase of approximately \$500 million from September 30, 2013 to December 31, 2013.
- Total deposits have increased by \$77 million during period.
- Private sector CDs have decreased as such CDs have matured.
- GDB has identified approximately \$450 million in public deposits that GDB's management currently expects to capture during the remainder of FY2014. According to OCIF, public deposits at private financial institutions amounted to approximately \$2.2 billion as of December 31, 2012.

* Unaudited and preliminary financial information as of December 31, 2013.

Staggered maturities of our Senior Notes' program reduce roll-over risk

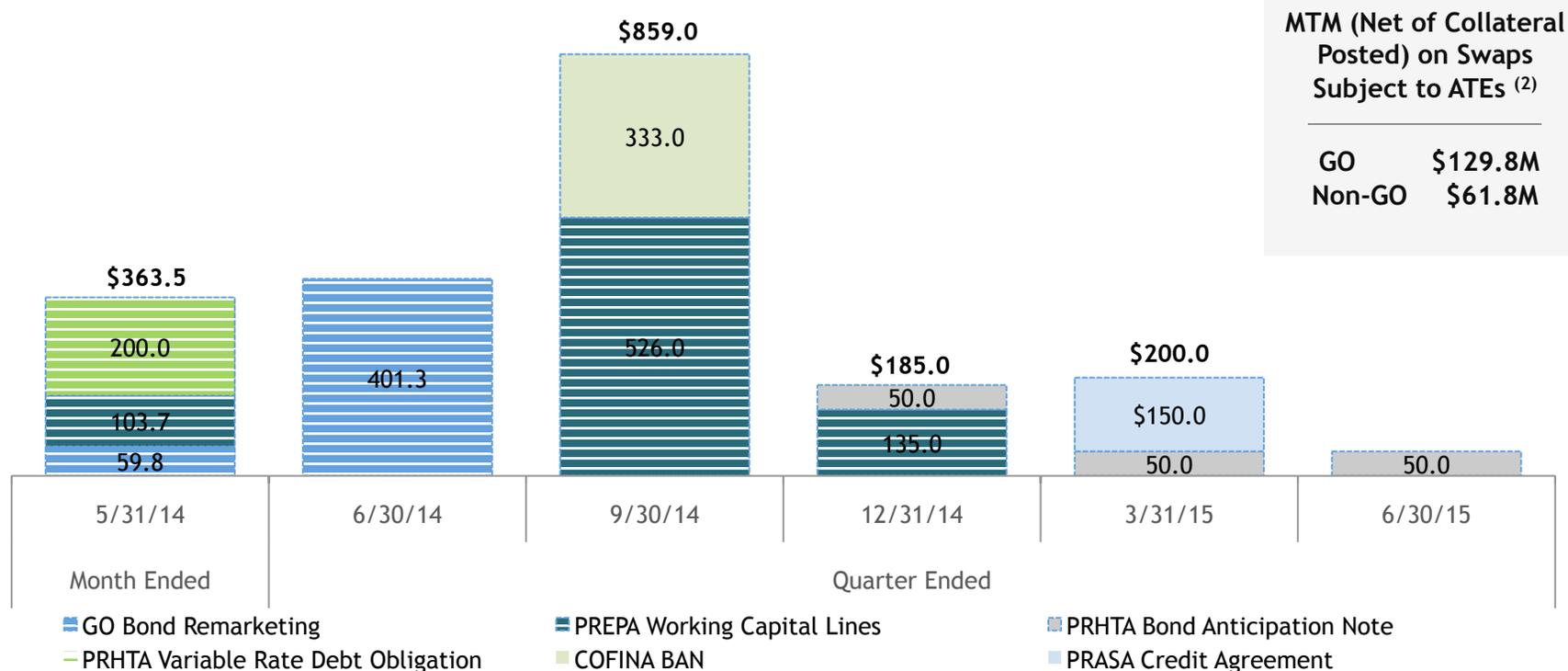


* As of December 30, 2013. Outstanding amount distributed as of fiscal year.

In December, GDB issued \$110 million in GDB notes to the Puerto Rico State Insurance Fund.

Certain short-term obligations of the Commonwealth and its instrumentalities may be accelerated due to the recent downgrades

Downgrades also give option to swap counterparties to request additional collateral or terminate. To date, no counterparty has exercised acceleration or termination rights.



GO Financing Plan expects to refinance approximately \$1.1 billion of these short-term liabilities.

- (1) BAN counterparty has waived certain acceleration rights as a result of downgrade. BAN may still accelerate upon occurrence of certain events.
- (2) Swap obligations may be terminated at current mark-to-market (net of collateral posted), plus cost.
- (3) \$188.7 million may be accelerated only if liquidity provider (i) causes mandatory tender of bonds and (ii) cancels bond insurance policy.
- (4) Negotiations to renew and/or waive accelerations provisions in PREPA working capital lines at advanced stage.

Puerto Rico G.O. Series 2014A Plan of Finance

Potential Financing Components	Up to
1. Restructuring of FY2013 G.O. Debt Service	\$600M
2. Restructuring of FY2014 G.O. Debt Service	\$575M
3. Redemption of COFINA BANs	\$333M
4. Refunding of G.O. Floating Rate Bonds and Termination of Related Swaps	\$540M
5. FY2014 Deficit Financing	\$245M
6. FY2012 and FY2014 New Money GOs	\$390M
7. Restructuring of FY2013 PBA Debt Service	\$175M
8. Appropriation Debt at GDB	TBD
9. Capitalized Interest and Issuance Expenses	TBD

The principal purpose of the GO Plan of Finance is to repay outstanding line of credits with GDB and refinance other outstanding debt. Additional transaction details will be announced shortly.

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2 Liquidity and Plan of Finance

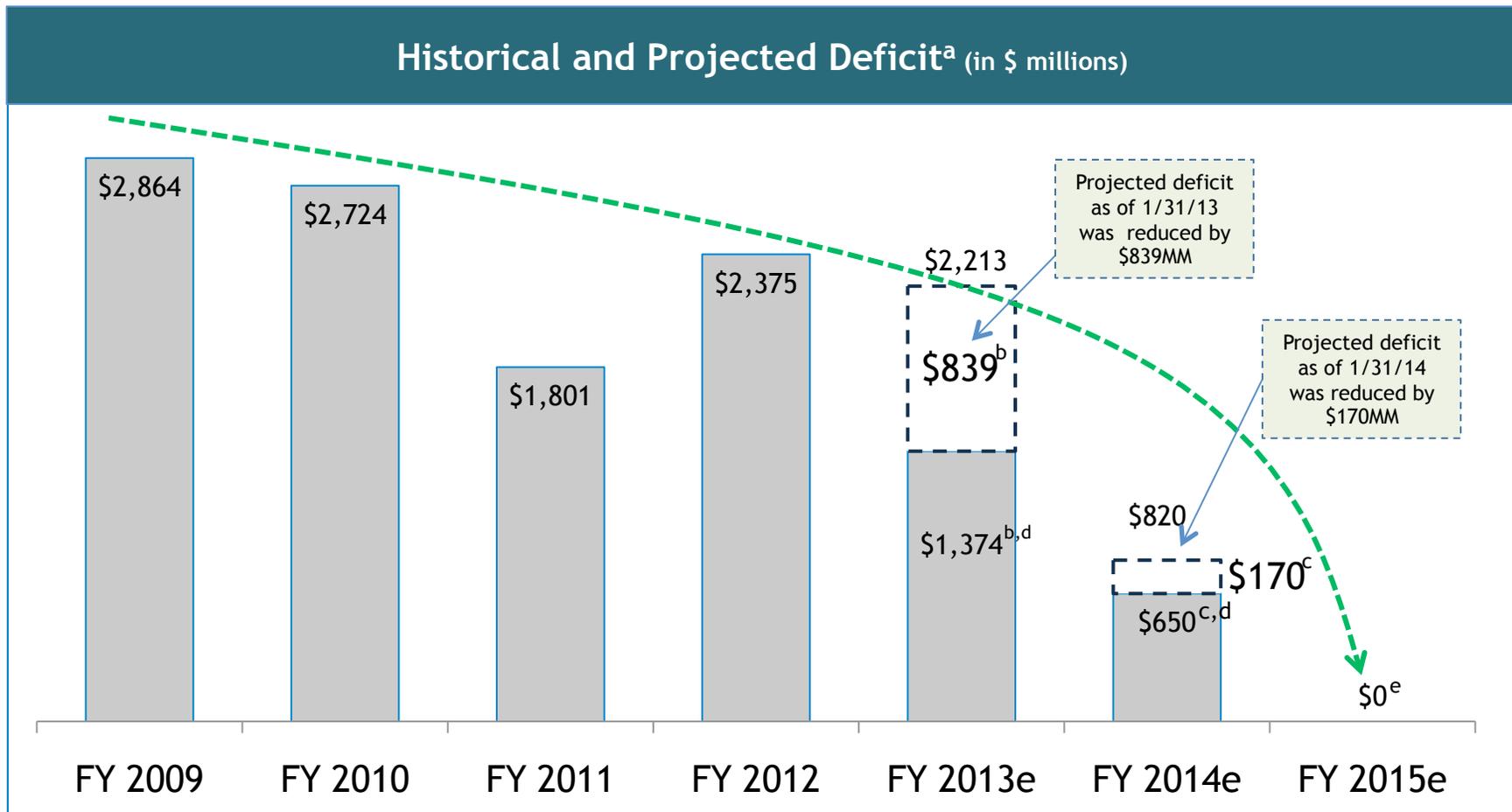
3 Revenue and Expense Update

4 Comprehensive TRS Reform and Other Legislation

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6 Concluding Remarks

Puerto Rico continues on track to achieve a significant reduction in, and eliminate, the General Fund deficit



- (a) Source for Fiscal Years 2009-2012: Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 18, 2013. Deficits for fiscal years 2013 and 2014 are preliminary and subject to change. Results presented for FY 2009 and FY 2010 exclude approximately \$442 million and \$50 million, respectively, of non-recurring expenses accrued during prior fiscal years that have been previously accounted as part of total expenditures for such fiscal years.
- (b) After implementation of corrective measures by the current Administration, deficit for FY 2013 was initially revised from \$2.213 billion as of January 31, 2013 to \$1.602 billion as of April 30, 2013, and again revised to \$1.290 billion as of June 30, 2013. As of January 24, 2014, the audit process produced \$84 million of additional expenses attributable to FY2013, and based on these adjustments, the revised estimate for FY2013 is \$1.374 billion.
- (c) Assumes (i) deficit will be in line with budgetary projections notwithstanding that YTD revenues are above projections and expenditures are below budgeted appropriations for the period and (ii) passage of proposed Administration bill to decrease budget appropriations for fiscal year 2014 by \$170 million.
- (d) Estimated, preliminary and subject to change.
- (e) Assumes balanced budget.

FY2013 CAFR is on schedule as a result of Administration's measures to ensure compliance with May 1, 2014, filing deadline

With FY2013 audit in an advanced stage, in contrast to FY2012, audit process to date has not uncovered material revisions to previously reported General Fund deficit.

- Significant risk at start of audit process:
 - (i) Decentralized accounting system;
 - (ii) Large amount of component units included in the CAFR;
 - (iii) Change of auditors; and
 - (iv) Implementation of New GASB pronouncements (i.e. GASB 61).

- Measures taken by Administration:
 - (i) Assignment of additional resources from local and international audit firms to component units whose financial statements have not been timely provided to the Commonwealth;
 - (ii) Execution of a memorandum of understanding between the Treasury Department, OMB and GDB for the coordination of all financial statement-related tasks and the designation of GDB, in its role as fiscal agent of the Commonwealth, to review and monitor the progress of certain component units;
 - (iii) Establishment of an Audit Oversight Committee comprised of Treasury Department and GDB personnel in order to continuously monitor the status and progress of the audit and the Commonwealth's financial statements; and
 - (iv) Taken action to speed the provision of data to Central Accounting and outside auditors.

- Audit Status:
 - (i) As of February 7, 2014, 42 of 68 (62%) component units and other fiscal independent agencies have issued their financial statements.
 - (ii) 16 component units and other fiscal independent agencies are expected to issue their financial statements before February 28, 2014, at which point approximately 85% of relevant entities will have had their financial statements issued.
 - (iii) Financial statements of the remaining entities (15%) are expected to be received on or before March 31, 2014. This would represent a significant advance over last year, when several entities (i.e. UPR, Ports Authority, PRGERS) issued their financials after July 2013.
 - (iv) Speed of providing auditing data and support to auditors has increased significantly when compared to the prior year.

Due to delayed audit process, the FY2012 CAFR was issued on September 16, 2013, four and a half months after the May 1 filing date.

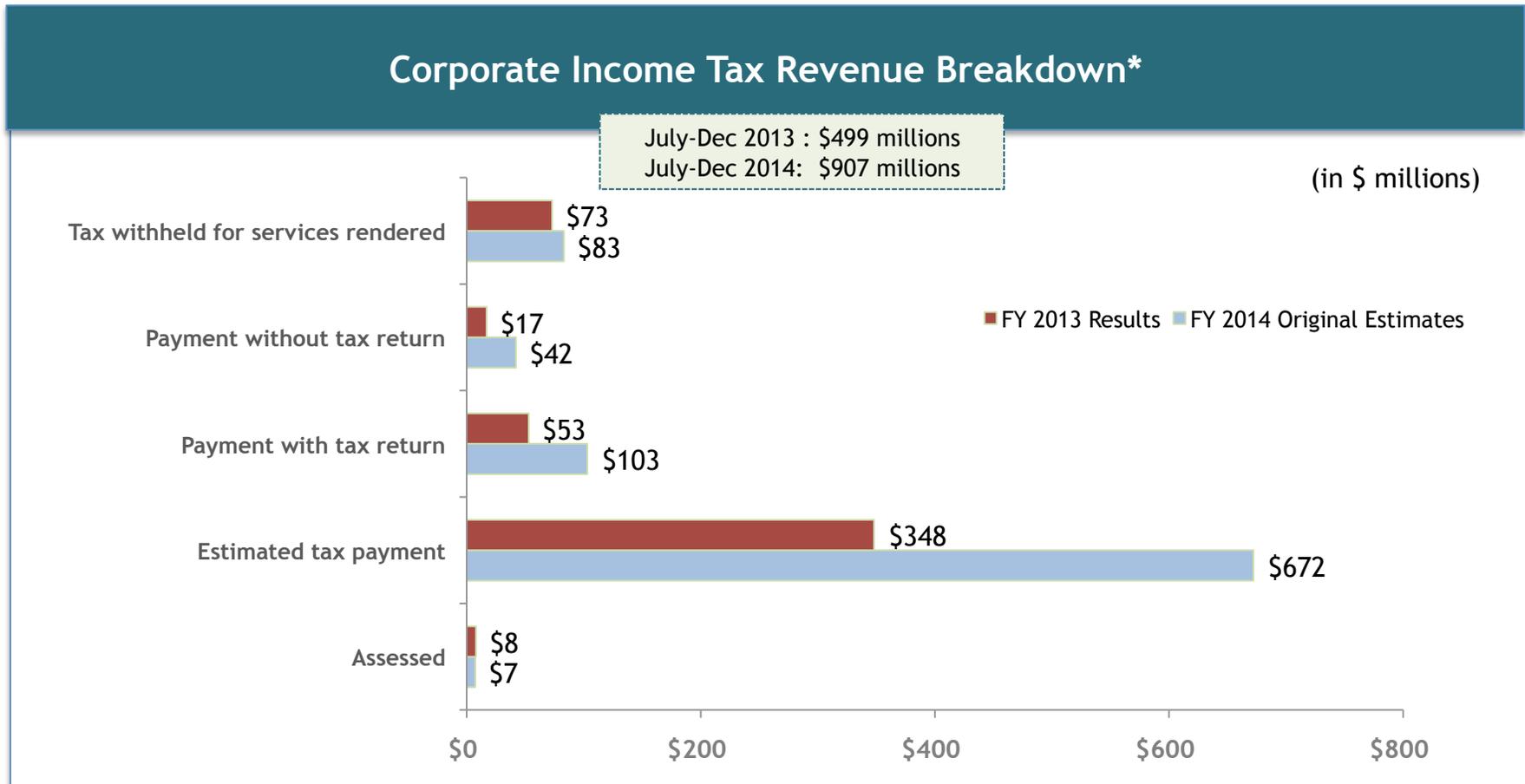
FY2014 Revenue Update

July-December FY 2014 revenue results are above the original budget estimates

The Commonwealth exceeded its total revenue budget for the first six months. Certain revenue components were either over or under budget, and Treasury has revised the estimates for individual revenue components, while keeping the same total revenue estimate, as discussed in the following slides.

General Fund Revenues (July - December FY 2014)							
Tax Type	Results				Estimated July-Dec FY2014	Revenues vs. Estimate (\$)	Revenues vs. Estimate (%)
	FY13	FY14	Variance	% Change			
Individual	\$926	\$879	(\$47)	-5.08%	\$929	(\$50)	-5.69%
Corporations	\$486	\$924	\$438	90.12%	\$816	\$108	11.69%
Non-Resident Withholdings	\$345	\$433	\$88	25.51%	\$422	\$11	2.54%
Sales and Use Tax	\$0	\$0	\$0	0.00%	\$26	(\$26)	-100.00%
Property Taxes	\$6	\$10	\$4	66.67%	\$0	\$10	0.00%
Foreign (Act 154)	\$898	\$901	\$3	0.33%	\$892	\$9	1.00%
Alcoholic Beverages	\$145	\$143	(\$2)	-1.38%	\$146	(\$3)	-2.10%
Tobacco Products	\$89	\$81	(\$8)	-8.99%	\$89	(\$8)	-9.88%
Motor Vehicles	\$195	\$196	\$1	0.51%	\$196	\$0	-0.00%
Off-Shore Shipment Rum	\$134	\$158	\$24	17.91%	\$144	\$14	8.86%
Others	\$197	\$234	\$37	18.78%	\$206	\$28	11.97%
Total Results	\$3,421	\$3,959	\$538	15.73%	\$3,866	\$93	2.35%

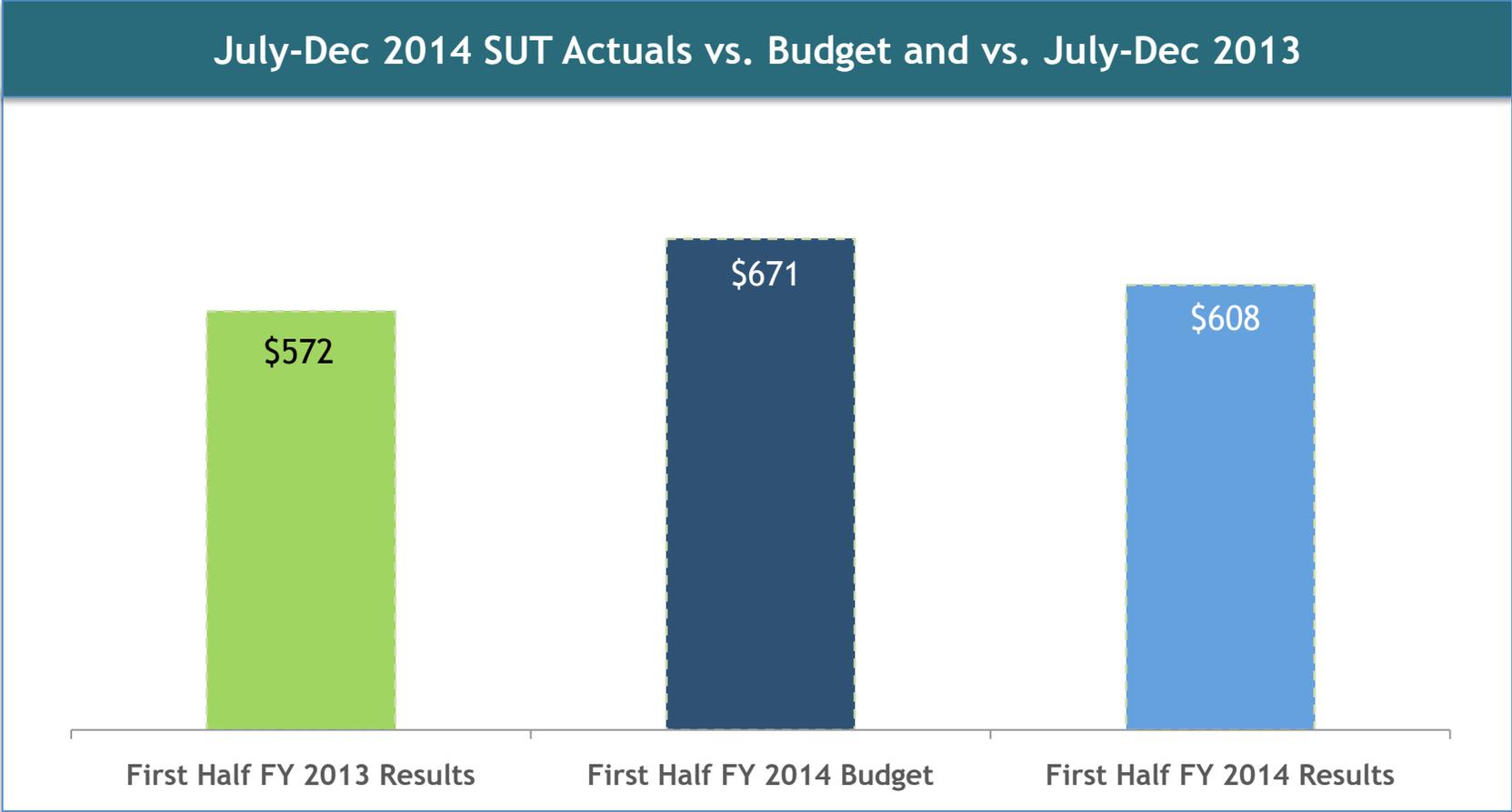
Corporate income tax revenues were substantially above the original budget estimates for the first six months of FY 2014



Net Corporate income tax revenues were \$408 million over July-December 2013 and \$108 million over July-December 2014 original budget estimate.

* Results mostly because estimate was based on 2010 tax data, which was the latest data available when the estimates were prepared. These numbers are net of the reserve for reimbursement and other accounting adjustments. Gross corporate tax revenues are estimated to be \$438 million as shown on slide 17.

SUT has increased versus historical years; SUT Revenues for First Half FY 2014 were \$36 million higher than the same period in FY2013



July-December FY 2014 SUT collections of \$608 million are (i) 6.3% above the same period of FY 2013 and (ii) 9.3% below original budget estimates.

Given the results of the First Half of FY 2014, FY 2014 budget estimate was revised for the remainder of the year, including SUT budget estimate

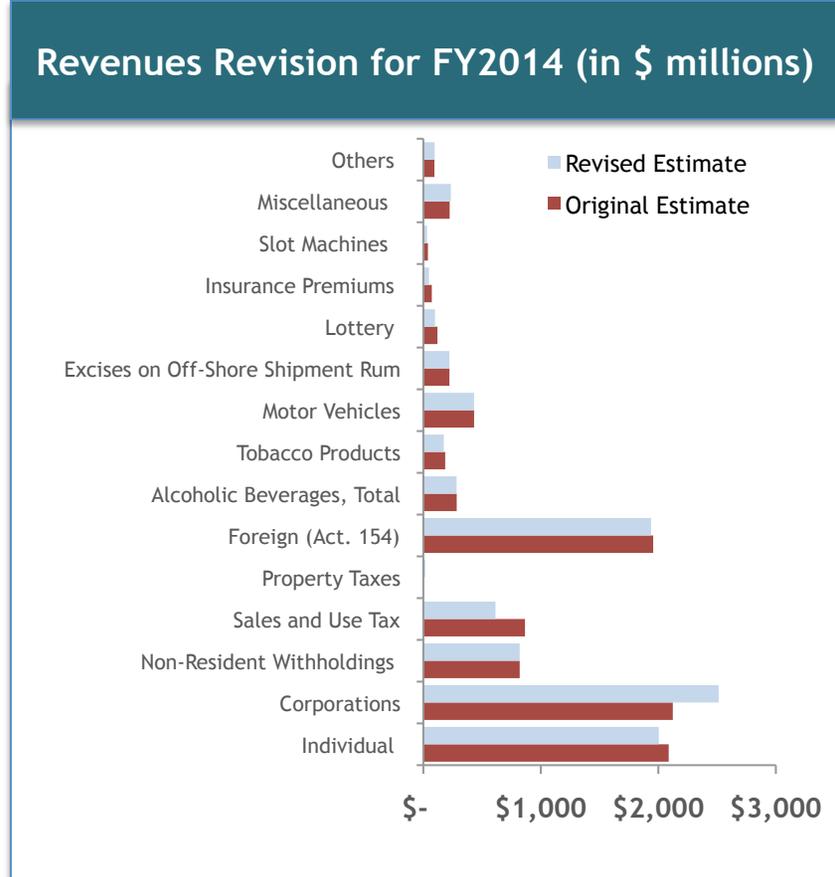
- FY2014 SUT Revenues are expected to be \$240 million under budget for the year
 - General Fund SUT revenues are expected to be \$251 million lower than originally estimated (after accounting for film fund and amnesty revenues)
- Primary drivers:
 - Lower than expected total sales after elimination of certain business-to-business services sales tax exemptions.
 - Approved budget assumed that certain tax-exempt transactions would become taxable. However, certain of these transactions were already being taxed, resulting in a lower than expected increase in taxable transactions/revenues.

	First Half Actuals	Second Half Revised	Total Revised 2014	Original 2014 Estimate	Revised vs. Original
2013 Revenues	\$572	\$591	\$1,163	\$1,176	(\$13)
<u>Additions for 2014</u>					
Business to Business Services	\$13	\$28	\$41	\$155	(\$114)
Institutional purchases	1	5	6	54	(48)
Others (e.g. enforcement, reseller's)	22	43	65	129	(64)
Total Additional Revenues	\$35	\$76	\$111	\$338	(\$227)
2014 Estimate	\$608	\$666	\$1,274	\$1,514	(\$240)
<u>Component Funds</u>					
Film Fund			\$3	\$3	\$0
COFINA			644	644	0
Amnesty			13	0	13
General Fund			614	865	(251)
2014 Estimate			\$1,274	\$1,514	(\$240)

* FY 2014 COFINA debt service payment is \$644 million, which was satisfied during January 2014. Figures may not always add to the totals due to rounding.

**FY2014 revenue estimates have been revised to reflect YTD results.
Total FY 2014 revenues are still projected to total \$9.53 billion**

FY2014 General Fund Revenue Estimates			
	Estimate		
<i>(in \$ millions)</i>	Original	Revised	Change
General Fund Net Revenues	\$9,525	\$9,525	-
Components:			
Individual Tax	\$2,088	\$2,004	(\$84)
Corporate Tax	2,123	2,513	390
Non-Resident Withholdings	820	820	-
Sales and Use Tax	865	614	(251)
Property Taxes		16	16
Foreign (Act. 154)	1,956	1,938	(18)
Alcoholic Beverages, Total	284	283	(1)
Tobacco Products	186	174	(12)
Motor Vehicles	432	432	-
Excises on Off-Shore Shipment Rum	222	222	-
Lottery	120	99	(21)
Insurance Premiums	72	48	(24)
Slot Machines	39	32	(7)
Miscellaneous	224	234	10
Others	94	96	2



- Increases in corporate taxes were offset by reduced estimates for sales and use tax and individual income tax
- **Corporate taxes:**
 - Actual July-December FY 2014 corporate income tax revenue was already \$108 million over the original budget estimate
 - In order to address potential shortfalls, the budget excluded two FY 2014 estimate tax payments related to new legislation that was enacted in June 2013 (approximately \$250 million in total)
- **Individual taxes:** Estimates for individual tax revenues were lowered due to headcount reduction by government employers
- **Sales tax:** As explained in previous slides

Based on revised estimates, July-January FY 2014 revenues continue to exceed estimates

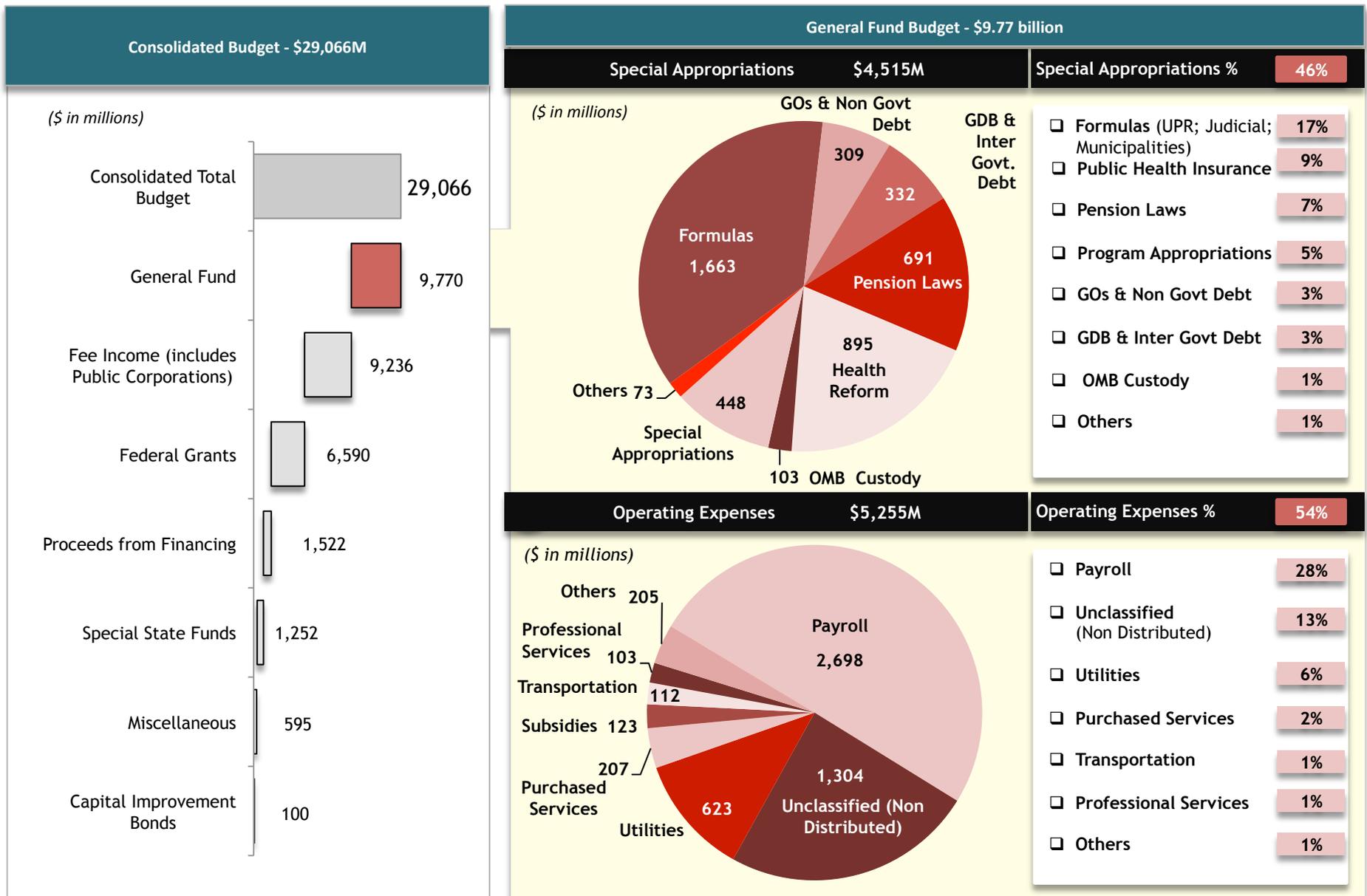
- Revenues for FY 2014 have significantly exceeded FY 2013 revenues and are above budget YTD
- Individual taxes, corporate income taxes, and foreign (Act 154) are up versus revised estimates; and year to date revenues are nearly \$40 million over revised budget estimates

YTD General Fund Revenues (July - January)								
Tax Type	Actual		Year over Year Variance		Actual FY 2014	Estimated FY2014	FY 2014 Actual vs Estimated	
	FY 2013	FY 2014	(\$)	(%)			(\$)	(%)
Individual	\$1,102.7	1,054.7	(48.0)	-4.4%	\$1,054.7	1,030.0	24.7	2.4%
Corporations	546.3	1,017.6	471.3	86.3%	1,017.6	1,003.4	14.2	1.4%
Non-Resident Withholdings	411.2	476.4	65.2	15.9%	476.4	500.2	(23.8)	-4.8%
Sales and Use Tax ⁽¹⁾	75.8	79.0	3.2	4.2%	79.0	76.0	3.0	3.9%
Property Taxes	7.4	11.3	3.9	52.7%	11.3	11.1	0.2	1.8%
Foreign (Act 154)	1,034.7	1,042.0	7.3	0.7%	1,042.0	1,032.4	9.6	0.9%
Alcoholic Beverages	168.4	164.6	(3.8)	-2.3%	164.6	164.5	0.1	0.1%
Tobacco Products	106.6	101.4	(5.2)	-4.9%	101.4	97.8	3.6	3.7%
Motor Vehicles	234.6	231.7	(2.9)	-1.2%	231.7	235.6	(3.9)	-1.7%
Off-Shore Shipment Rum	171.2	174.1	2.9	1.7%	174.1	174.0	0.1	0.1%
Others	227.1	272.5	45.4	20.0%	272.5	261.3	11.2	4.3%
Total YTD Revenues	\$4,086	\$4,625.3	+539.3	+13.2%	\$4,625.3	\$4,586.3	+39.0	+0.9%

¹ Sales and Use tax revenues flow to COFINA until satisfying the Pledged Sales Tax Base Amount.

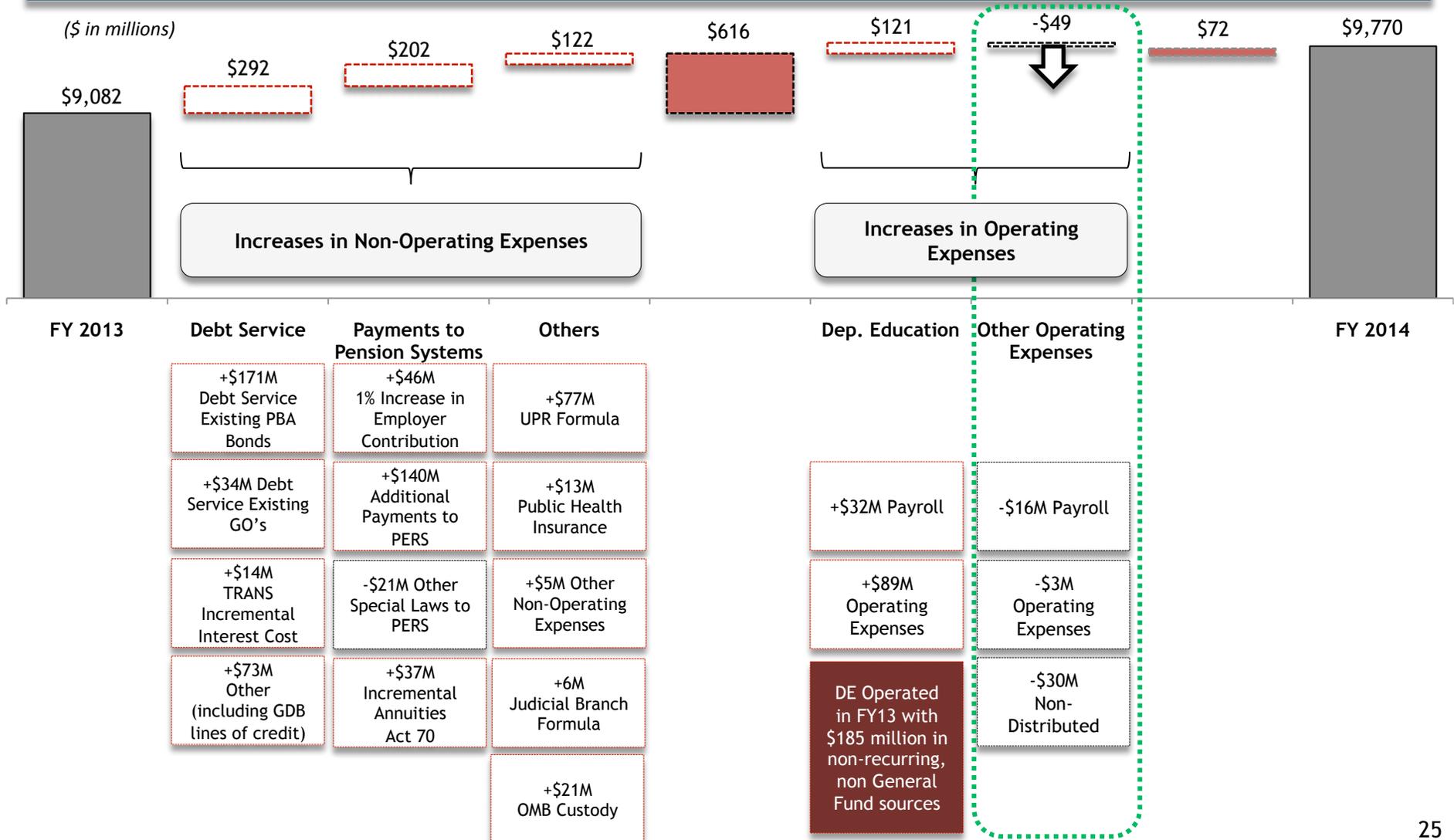
FY2014 Expense Update

The Consolidated Budget for FY14 totals \$29.0 billion, with \$9.77 billion appropriated to the General Fund

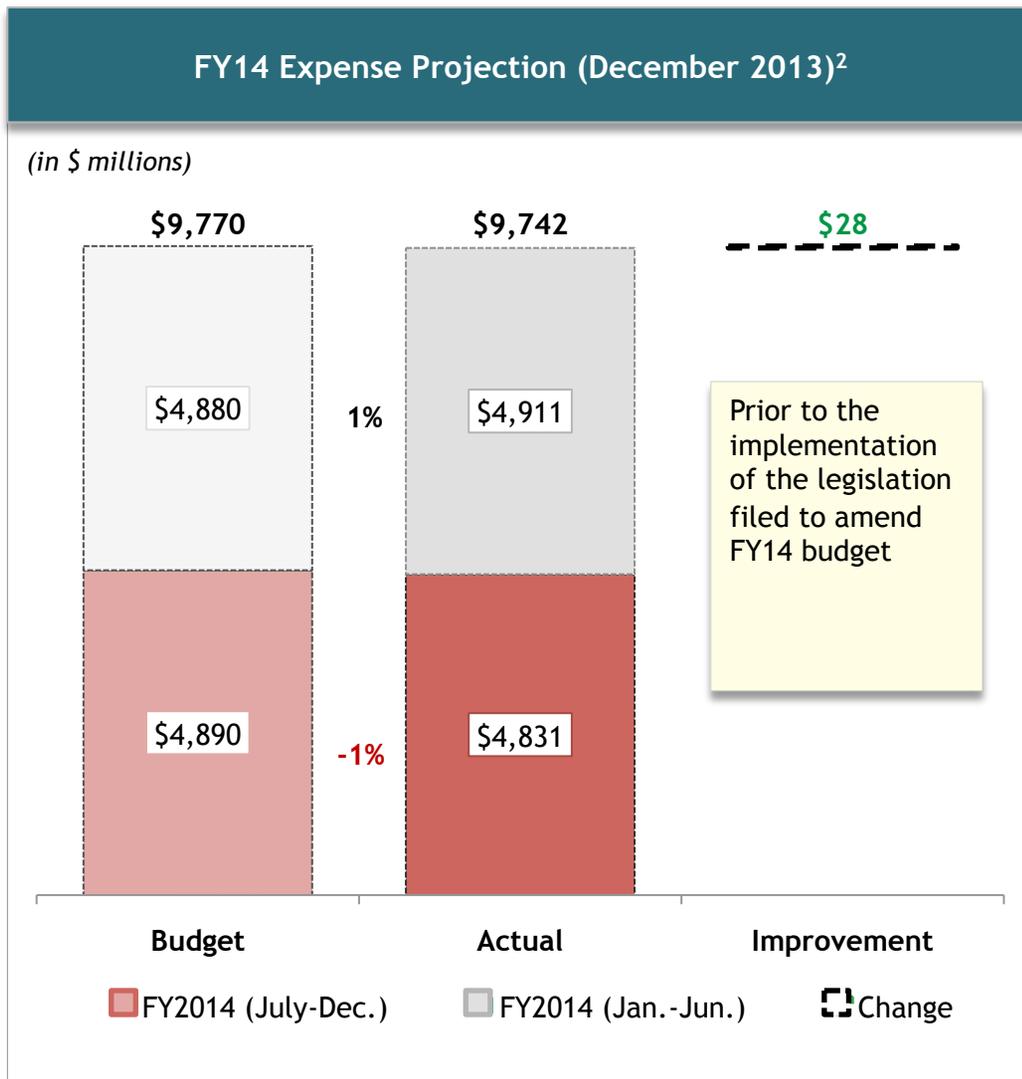


The net budget increase for FY14 was largely due to fiscal responsibility measures and not to operating cost increases

Net Year over Year Changes in the Approved General Fund Budget (\$ in millions)



OMB projects an underspending in the General Fund FY14 of \$28 million prior to the proposed budget cuts

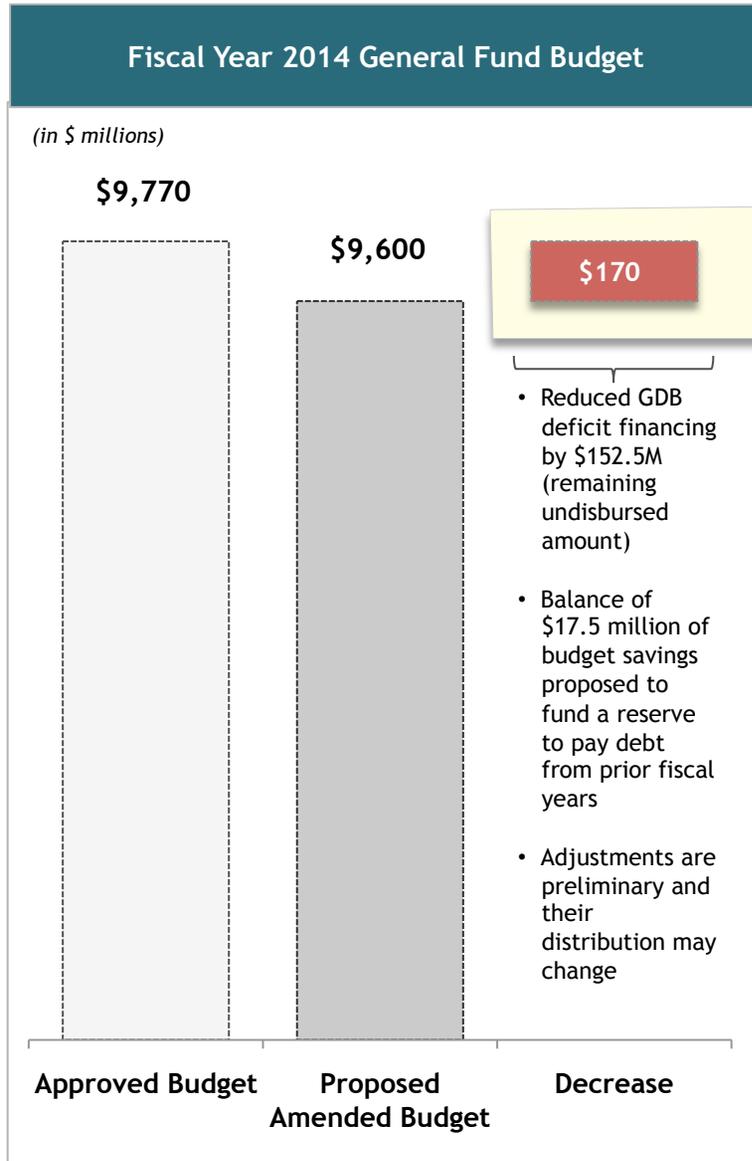


- OMB projects expenses and obligations chargeable to FY2014 appropriations will be lower than the approved balance.
- Department of Education: Projection assumes
 - Continued implementation of DOE corrective action plan leading to a \$9 million deficit.
 - Does not consider following expenses: payment of FY13 school dining debt, potential FY14 special education service and transportation overruns
 - Does not consider application of \$58 million in carryforward surplus reserve to FY14 non-recurring expenses
- Projected deficit/surplus of public corporations are not included in the General Fund forecast. PR Health Insurance Administration’s currently forecasted deficit is \$60 million, down from \$110 million included in the Commonwealth Report dated October 18, 2013.
- Expenses charged to Non General Fund revenue sources or prior year General Fund carryover special appropriations are not included as FY14 General Fund expenses ⁽¹⁾.

(1) OMB transferred surplus about-to-expire nonrecurring balances totaling \$47.6m from FY12 General Fund special appropriations to another FY12 General Fund special appropriation being used to cover certain FY14 recurring retirement contributions. The corresponding FY14 appropriation as budgeted, however, is sufficient to cover all FY14 expenses for such retirement contributions. Thus, an equivalent remaining balance on the corresponding FY14 appropriation is expected at FY14 end.

(2) Preliminary and subject to change. Expenses for special appropriations considered fully expended due to three year life. Operating expenses YTD per PRIFAS Treasury system with adjustments by OMB, including related to correction of intra-year timing delays in the procurement cycle and normalizing the intra-year timing effect of budget reserves and transfers. Operating expense forecast based on agency projections adjusted by OMB analysts, managers and executive team to correct for errors, projected but yet unauthorized hires, and analogous adjustments. Additional adjustments for intra-year timing. Department of Education projection not adjusted by OMB (either expense level or intra-year timing).

The proposed budget amendment would empower OMB to reduce authorized appropriations by \$170 million



- Reduced GDB deficit financing by \$152.5M (remaining undisbursed amount)
- Balance of \$17.5 million of budget savings proposed to fund a reserve to pay debt from prior fiscal years
- Adjustments are preliminary and their distribution may change

Special Appropriations

77M

29M

Operating Expense

64M

Includes the \$28 million underspending currently forecast.

Reserves and Contingencies under OMB Custody

- Accounts created to cover anticipated expenses that we do not expect will materialize in FY14
- Includes \$40M appropriation to cover municipal debt in anticipation of the reduction in the municipal SUT, which was effectively eliminated
- Includes \$27M of the \$62M appropriated to subsidize non-General Fund employers in the incremental cost imposed by the Act 3 Retirement System Reform.

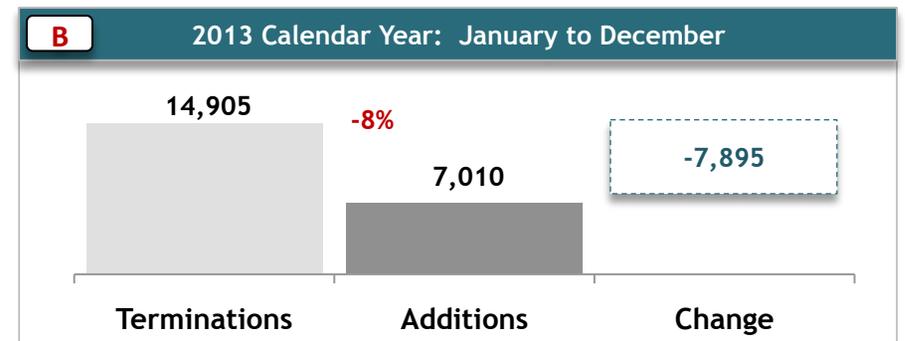
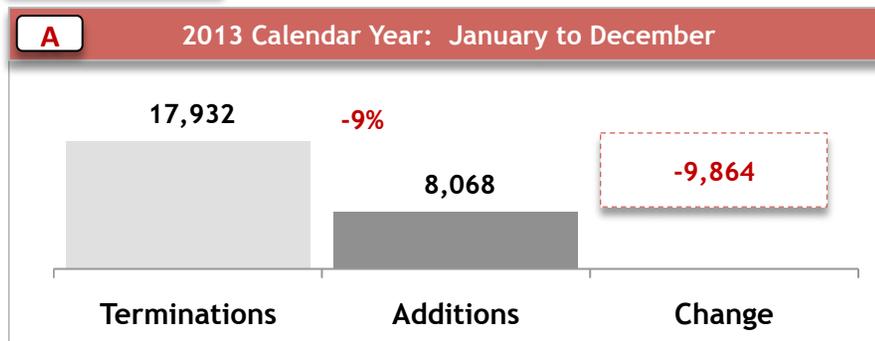
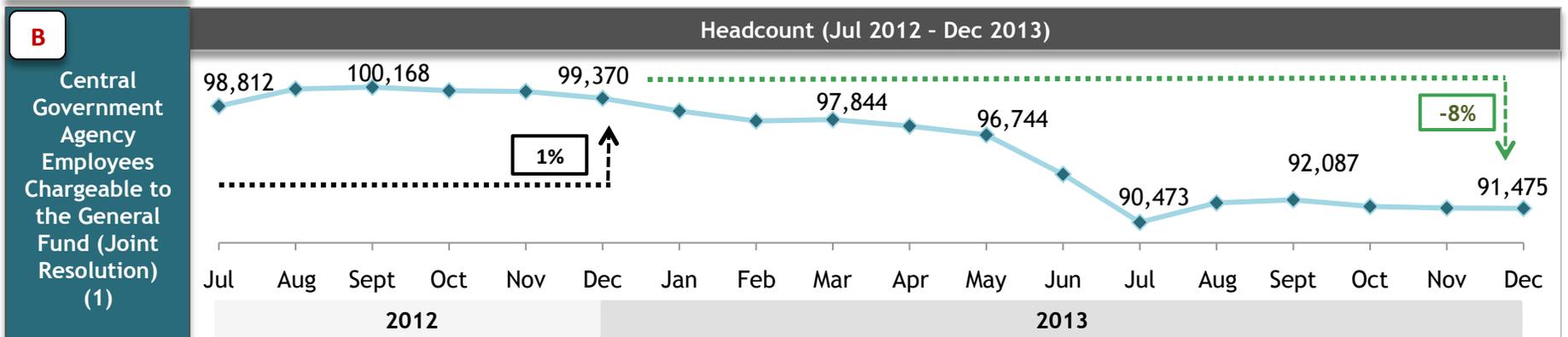
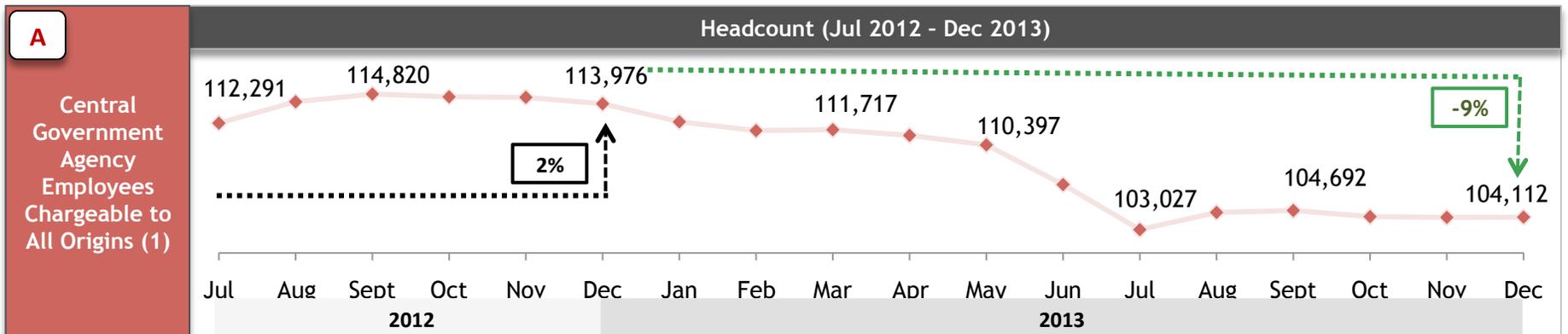
Special Appropriations for Programs or Operations

- Appropriations to cover program expenses that we believe may be reduced because they are no longer necessary, are not a priority, or are a priority but are being funded or could be funded by other agency resources including their fee income or prior year carryforward appropriations
- Example: \$5M appropriation to cover the pilot for a new model for the Public Health Insurance Program
- ~\$16M of this reduction will come from appropriations in the Budgetary Support Fund that will be reduced to make room for the expenditures formerly slated to be covered by remaining balance on the \$245M GDB deficit financing

Reduction in Agency Operating Budget

- Reduction in the appropriations from the Joint Resolution for Operating Expenses for accounts such as payroll and purchased services
- Excludes the Department of Education and certain autonomous agencies (for example, Office of the Comptroller)
- Approximately 2% of the operating budget, adjusted individually according to agency conditions
- Given pre-existing forecast, incremental savings of net \$36 million would be required.
- OMB will push for the full \$64 million and for maximum underspending

The budget amendment is enabled in part by a substantial decline in headcount at agencies funded by the General Fund



1. Information collected from the Treasury RHUM payroll system. Excludes irregular (part time) employees. Excludes employees for (i) agencies whose payroll is drawn from General Fund Special Appropriations, including the Judicial Branch and the UPR; and (ii) agencies whose payroll is drawn from the Joint Resolution of the General Fund but not processed through RHUM, primarily smaller or autonomous entities such as the Government Ethics Office and the Comptroller. For the PR Police Department, which is outside RHUM, the net change in total employees are self-reported, but adds and terms are not detailed. Not an official statistic and subject to data quality and manual error.

The Governor has announced the commitment of the Commonwealth to a balanced budget in FY15, earlier than anticipated

The configuration of the Fiscal Year 15 General Fund recommended budget is underway

	COST ESCALATORS	COST REDUCTORS
<ul style="list-style-type: none"> We face substantial challenges in cost escalators such as revenue-based formula appropriations, collective bargaining agreements, and higher retirement contributions 	Revenue-based Formula Appropriations (UPR; Judicial Branch; Municipalities) 	Lower Starting Base Headcount 
<ul style="list-style-type: none"> These are partially offset by cost reducers, particularly a lower starting operating payroll expense base 	Collective Bargaining Agreements 	Economies from Teacher Retirement 
<ul style="list-style-type: none"> We have not yet made final decisions on specific expense measures. Certain expense data pending including agency budget petitions. The revenue forecast is still in process. We expect the recommended budget to be presented in March or April. 	Higher Water Utility Rates 	Lower Leave Liquidation Payments 
<ul style="list-style-type: none"> We have not yet made final decisions on specific expense measures. Certain expense data pending including agency budget petitions. The revenue forecast is still in process. We expect the recommended budget to be presented in March or April. 	Higher Retirement Contributions and Debt Cost (GO & TRANS) 	Potentially Lower Electricity Rate 
<ul style="list-style-type: none"> We have not yet made final decisions on specific expense measures. Certain expense data pending including agency budget petitions. The revenue forecast is still in process. We expect the recommended budget to be presented in March or April. 	Higher GDB Debt Service 	No IVU Municipal Debt and Other Non-Priority Appropriations 
<ul style="list-style-type: none"> The Governor has a proven track record with respect to his commitment, and that of the Commonwealth, to fiscal responsibility 	Subsidized Public Corporation Shortfalls 	Better Leverage of Agency Fee Income 
	Expenses Charged Against Non General Fund Revenue Sources 	Availability of Non-General Fund Sources including Carryover Appropriations 

Agenda

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2 Liquidity and Plan of Finance

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5 Economic Development

6 Concluding Remarks

TRS Reform

Commonwealth's enactment of meaningful, comprehensive pension reform of Teachers Retirement System ("PRTRS") is a credit positive

Key Takeaways:

- Similar to Act 3-2013, Act 160-2013 is designed to eliminate projected need for pay-as-you-go contributions from General Fund by:
 - (i) restructuring the System's benefits so as to decrease projected System disbursements; and
 - (ii) increasing contributions to the System so as to provide additional cash flow to pay pension benefits as they become due.
- The restructuring of future liabilities of the System, coupled with an increase in inflows into the System, is projected to allow the System to pay all pension benefits as they become due.
- Reform is designed to protect accrued pension benefits. Core pension benefits of all current retirees are left untouched.
- Restructuring of System benefits expected to result in present value reduction in System pension payments of approximately \$3.7 billion*.
- The constitutionality of Act 160 is currently being challenged in several lawsuits brought by participants of the Teachers Retirement System. The Puerto Rico Supreme Court appointed a Special Master to conduct an evidentiary hearing on the facts and suspended the effectiveness of Act 160 pending final resolution at the constitutional challenge. On February 7, 2014, the Special Master issued its report and on February 11, 2014, the Puerto Rico Supreme Court issued an order granting parties until March 3, 2014 to file briefs on the constitutionality of Act 160.

Everyone contributes:

Current Retirees

- Reduced Special Law Benefits

Active Employees

- Change in benefit structure and retirement age
 - Elimination of defined benefits plan
 - Increase in minimum pension for future retirees to compensate for the fact that teachers do not receive Social Security benefits
- Gradual increase in employee contribution

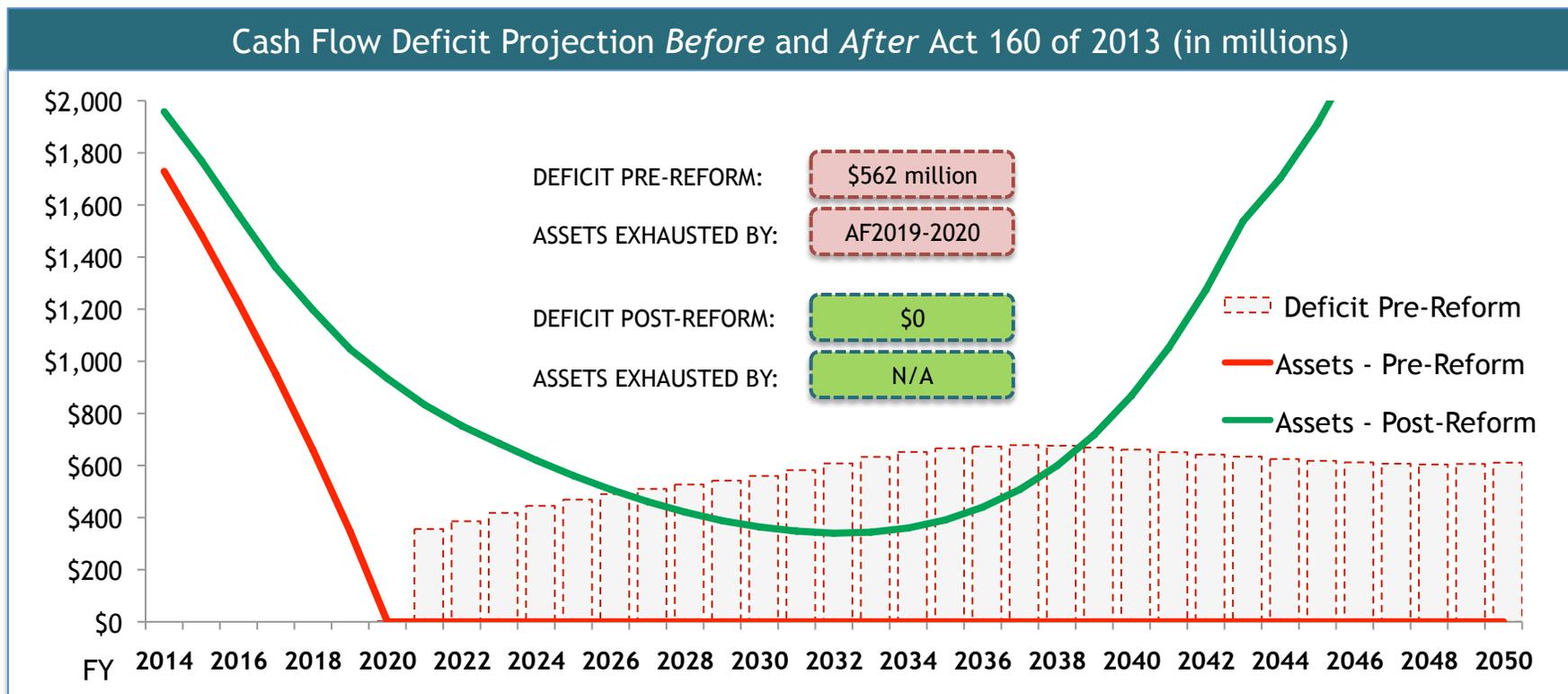
Taxpayers Generally

- Act 160-2013 conforms employer contributions with employer contributions for PRGERS (max 20.525% in FY2022, an increase of an additional 0.525%)
- Annual contribution of \$30 million from FY17 until FY18 and \$60 million from FY19 until FY42
- Additional variable annual contribution from FY19 until FY42 to maintain PRTRS's assets above \$300M
- PRTRS keeps savings resulting from changes in Special Laws' benefits

* Disbursement reduction from FY2015 through FY2050, assuming a 5.95% discount rate.

Act 160-2013 reduces TRS disbursements by approximately \$3.7 billion* on a present value basis and is expected to eliminate the Systems' the projected cash flow deficit

- Annual cash flow deficit prior to Act 160-2013 averaged \$562 million per year beginning in FY2019-FY2020 until FY2049-2050, which would have required the General Fund to contribute, on average, \$562 million, in addition to (i) employer contributions already legislated under Act 114-2011 and (ii) funding annually of “Special Law” benefits.
- Post-reform, based on existing assumptions and expected investment returns, the pension system is expected to be self-sufficient.

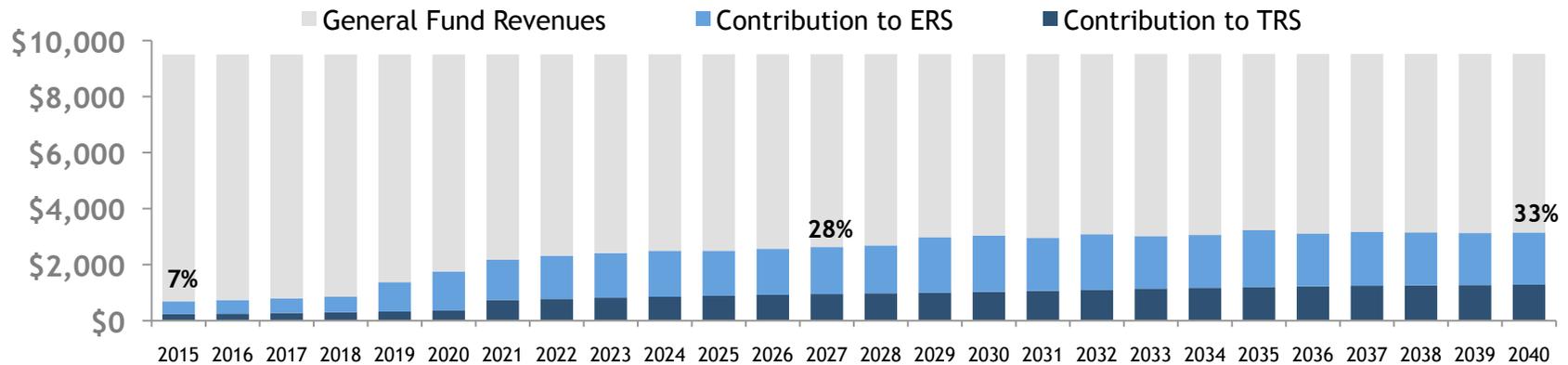


* Disbursement reduction from FY2015 through FY2050, assuming a 5.95% discount rate.

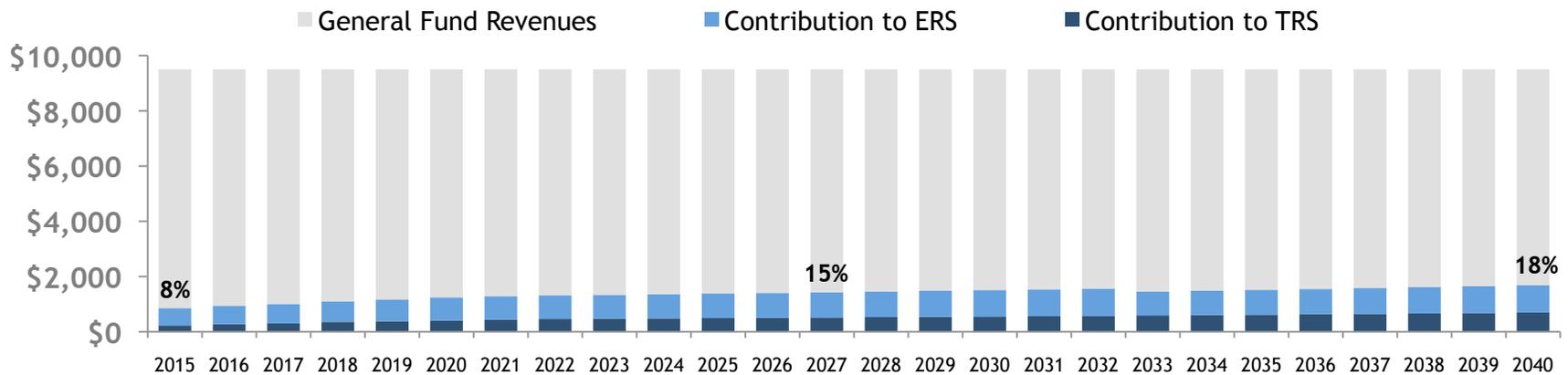
Note: Numbers presented are estimates; final results could vary. Projection considers an investment return of 5.95%, teacher hiring, retirement and attrition at historical levels, among other important assumptions. For a summary of TRS actuarial assumptions, consult the FY2012 Actuarial Report. Variation in asset depletion will depend on the number of teachers that retire earlier than expected, hiring activity and investment return.

As a result of 2013 PRGERS and PRTRS pension reforms, aggregate General Fund contributions to cover pension obligations are expected to remain manageable

Impact on General Fund *before* ERS and TRS Reforms



Impact on General Fund *after* ERS and TRS Reforms



*Analysis assumes that General Fund revenues during the next 25 years to be \$9.5 billion, consistent with FY2014 projected General Fund revenues. General Fund contributions to Systems include standard Employer Contribution, Special Laws transfers, fixed additional annual contributions (\$140 million in the case of ERS, \$60 million in the case of the TRS) and, in the case of graph before ERS and TRS reforms, any projected annual "pay-as-you-go" deficit.

Other Legislative Measures

New legislative measures, taken together with strong YTD financial results, should enhance market access and liquidity

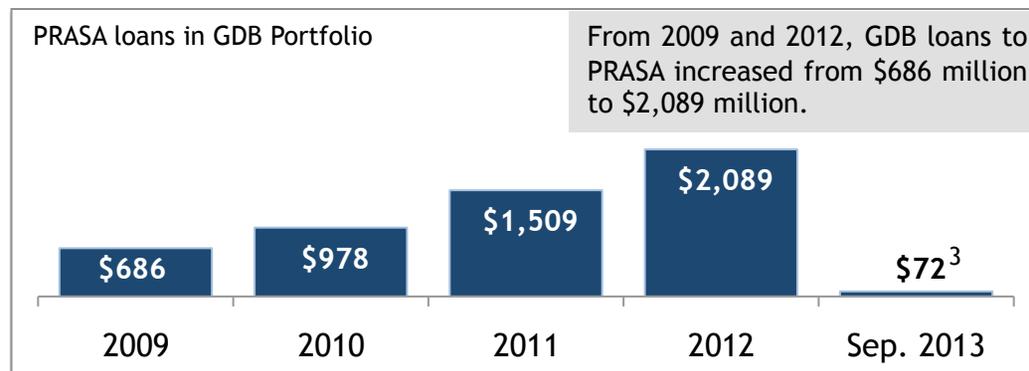
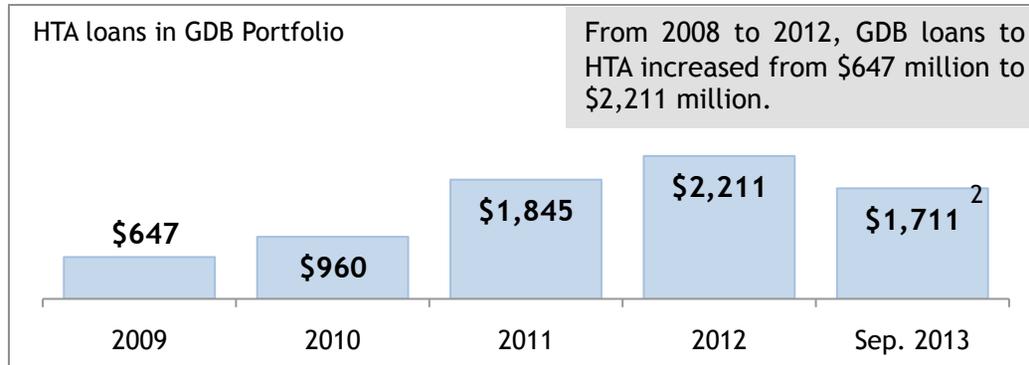
	GDB	GO	COFINA	COFIM	HTA
	<p>New law grants GDB new fiscal oversight powers over governmental deposits.</p> <p>Reinforcement of other credits speeds up repayment of interim financing.</p>	<p>TRS Reform materially reduces future “pay-as-you-go” pressure.</p> <p>FY14 YTD revenues and expenses on track with budget.</p> <p>FY15 Balanced Budget pledge improves fiscal outlook.</p>	<p>New pledge of 0.5% of SUT revenues reinforces existing Senior and First Sub liens.</p> <p>Pledge also expands potential COFINA Third Lien bond capacity.</p>	<p>New financing vehicle analogous to COFINA that can issue debt backed by municipal SUT.</p> <p>Allows GDB to refinance approx. \$500M of GDB SUT-backed loans on its books.</p>	<p>Legislation transfers mass transit assets currently held by HTA (i.e. Tren Urbano) to new MTA (approx. \$90 million in annual budgetary relief).</p> <p>Transfer intended to speed HTA’s return to self-sufficiency and capital markets.</p>
Approx. max principal capacity ¹ :	N/A	\$3.0 B+	\$1.0 B+	\$500 M+	\$1.0 B+

Legislative measures facilitate the refinancing of GDB loans.

¹ Subject to certain market assumptions, including yield and maturity.

To protect GDB's financial condition, new legislation limits GDB's ability to provide deficit financing

A. The public corporations have required significant GDB funding, compromising GDB's balance sheet and liquidity.



B. Deficit financing loans by GDB have been paid based on future increases in rates, taxes or other charges, which permitted public corporations to unduly rely on GDB and avoid making decisions necessary to ensure self-sufficiency.

New Substantive Restrictions

Legislation requires public corporations to approve any rate increases for the repayment of loans prior to loans being approved, subject to certain exceptions.¹

Measure seeks to impose additional fiscal discipline on public corporations and help preserve GDB liquidity.

¹ For example, GDB will continue to extend loans to public corporations to ensure the timely payment of principal and interest on maturing debt obligations. Legislation also provides for "emergency" lines of credit to particular public corporations in the aggregate of up to 10% of such public corporations average annual revenues, up to a \$50M cap per public corporation.

² Sept. 2013 reduction due to issuance of \$400 million RBC BAN to repay outstanding GDB lines to HTA.

³ Reduction due to issuance during fiscal year 2012 of PRASA Series 2012A Bonds.

Recently enacted legislation seeks to further strengthen GDB's liquidity and oversight role



Additional oversight authority over public funds will maximize liquidity and efficient use of public resources



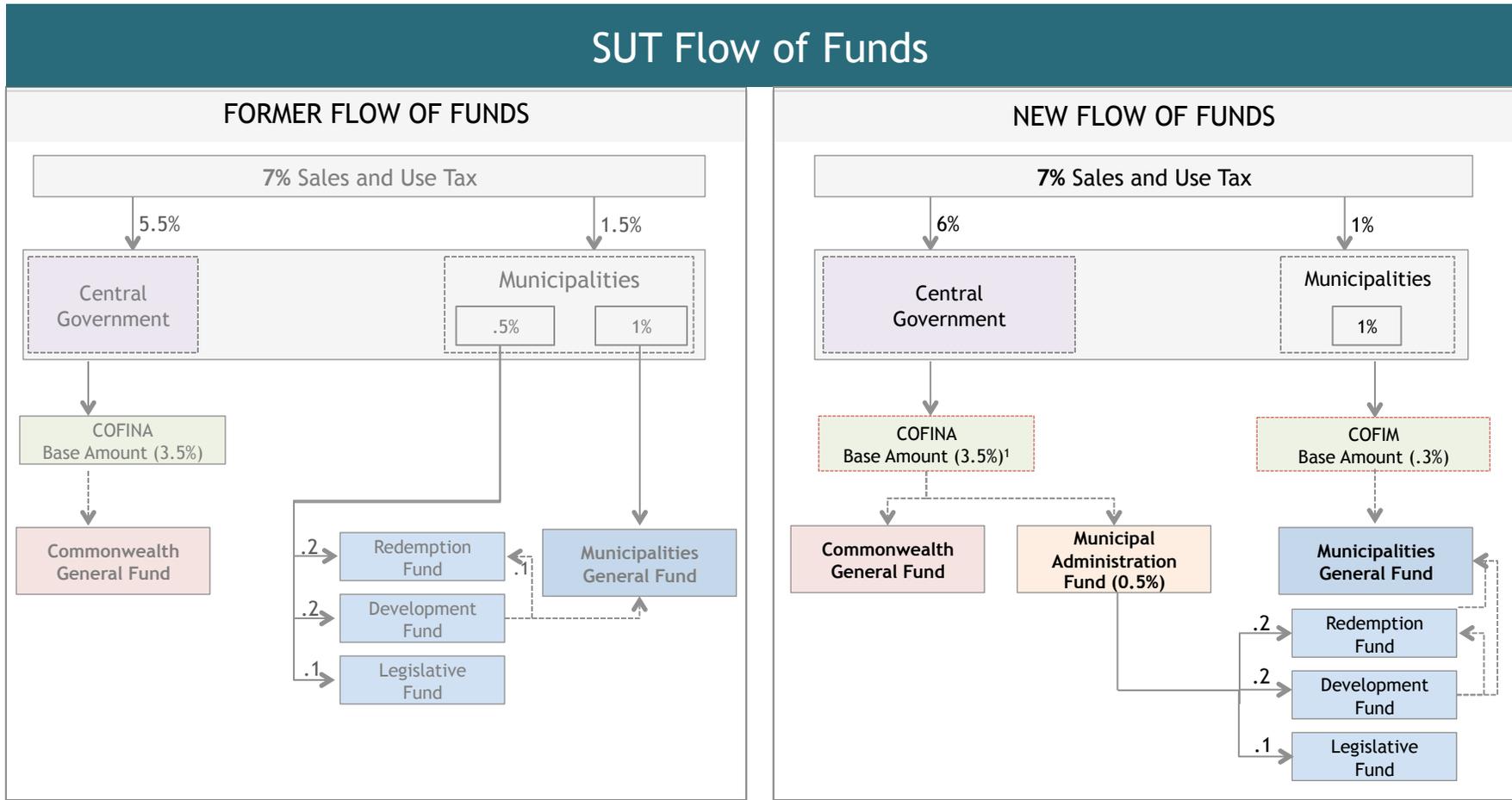
- Legislation grants GDB the ability to require public funds deposited at private financial institutions, with certain exceptions (i.e. municipalities, Judicial Branch, UPR, pensions plans), to be deposited at GDB and to receive periodic reports from the financial industry with respect to the amount and location of such public funds.
- Measure also grants OMB additional visibility and leverage over non-General Fund resources, allowing for integrated budgeting and efficient resource allocation.



Increase in GO guarantee of GDB Notes will grant additional financial flexibility and strengthen its role as interim lender

- Legislation increases the cap of GDB debt that can be guaranteed by the full faith and credit of the Commonwealth from \$550 million to \$2 billion.
- This additional GO guarantee capacity will be used as necessary to reinforce GDB's liquidity position.

New State and Municipal SUT flow of funds allows Commonwealth to better leverage the strength and stability of SUT cash flow

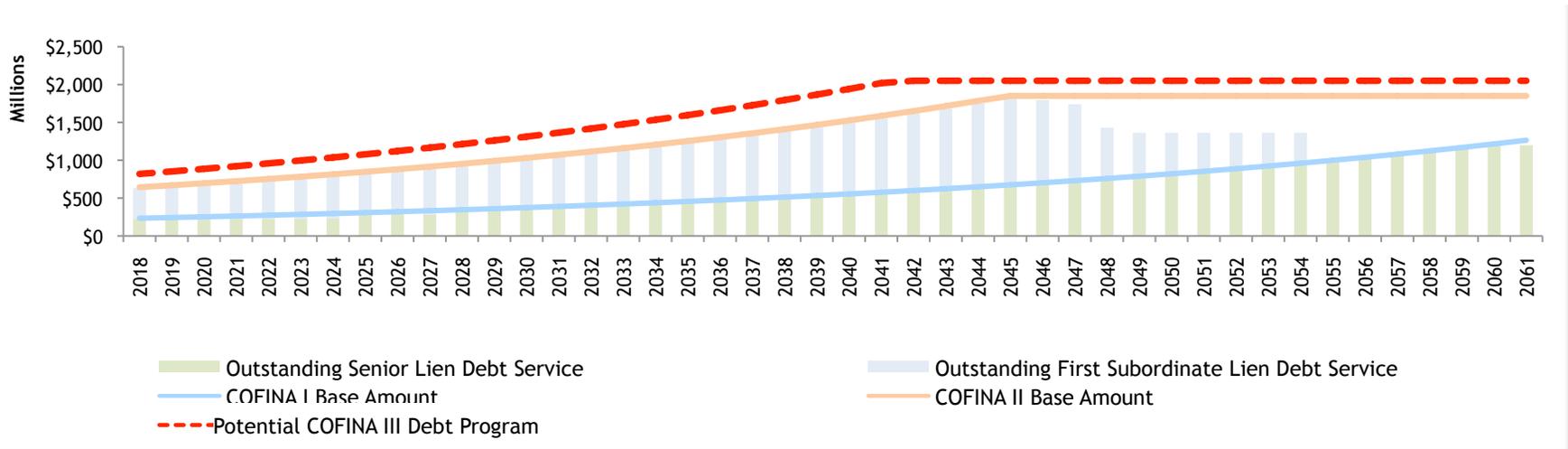


Measures expand COFINA capacity and coverage levels, improve General Fund finances and create new municipal SUT financing vehicle

¹ SUT amounts not leverage by COFINA are returned to General Fund after Base Amount is filled.

Increase in State SUT from 5.5% to 6.0% strengthens COFINA credit profile

COFINA Outstanding Debt Service by Lien¹



Expands COFINA Third Lien Capacity

- New 0.5% pledge of State SUT increases revenue available for COFINA debt service/coverage by approximately 9%, expanding potential COFINA Third Lien principal capacity to more than \$1 billion assuming 6% FY2014 revenue growth and 1.75x coverage requirement.
- Additional SUT pledge also improves the state SUT break-even growth rates for outstanding Senior Lien and First Subordinate Lien bonds.
 - Break-even growth rate for the Senior lien and for First Subordinated lien in the aggregate is now projected to be approximately -0.3% and 1.1%, respectively.

Results in General Fund Savings

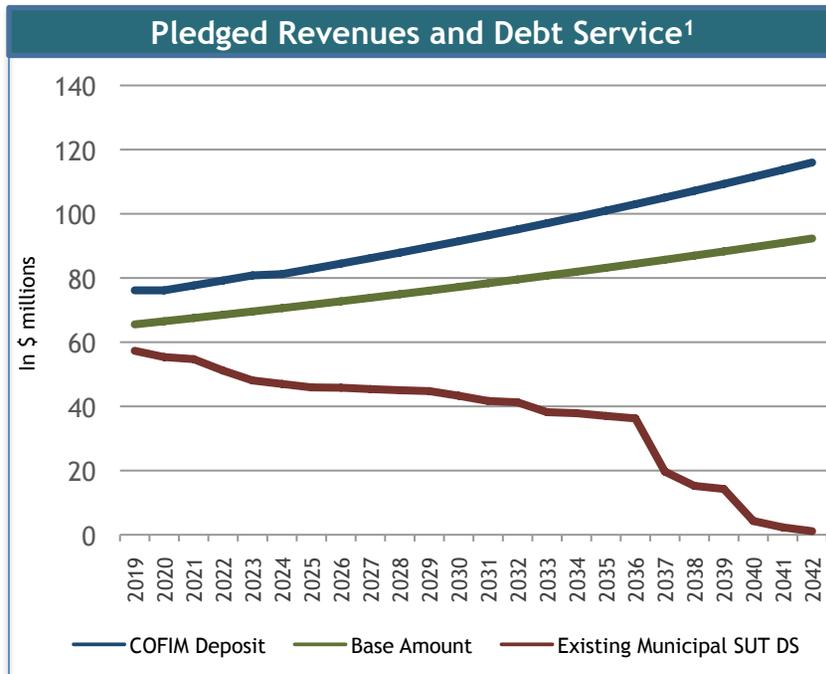
- New measures also cancel (i) legislated decrease in aggregate (State + Municipal) SUT from 7.0% to 6.5%² and (ii) assumption of outstanding Municipal SUT debt by General Fund.
- Legislation is therefore expected to result in recurrent avoided General Fund expenses. For FY2014, \$40 million was appropriated to service Municipal SUT debt.

¹ Preliminary and included for illustrative purposes only.

² Law 40-2013 provided for a decrease, commencing December 1, 2013, in the municipal SUT without a corresponding increase.

New COFIM structure mimics COFINA to create a potentially highly-rated SUT-backed financing vehicle

- COFIM could leverage up to 0.3% of 1.0% municipal SUT (approximately \$250 million in annual SUT revenues).
- As with COFINA, entire municipal SUT would flow through COFIM until the highest of (i) COFIM Base Amount (\$65.5 million for fiscal year 2015, growing annually at 1.5%) and (ii) COFIM Deposit (0.3% of municipal SUT) is satisfied.
 - Potential capacity of up to +\$500 million



- Credit strengths include:**
- Dedicated SUT cash-flow with established seven-year history.
 - 1.5% annual growth in Base Amount requires low SUT break-even growth rates.
 - Ratio of Base Amount to 1.0% SUT would provide at least 3.3x debt service coverage.
 - No “claw-back” risk at either the Commonwealth or municipal level.
 - Municipal SUT applies to certain articles not covered by State SUT.
- *COFIM senior lien debt has the potential to become a highly rated credit.*

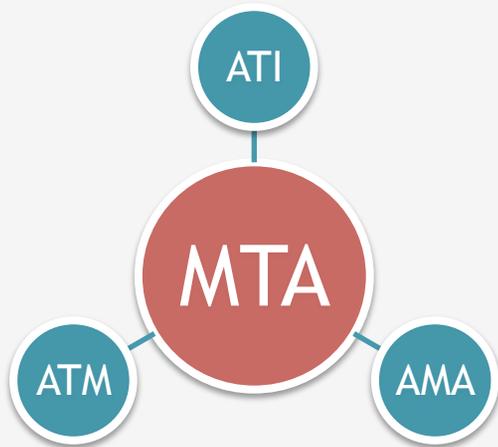
COFIM should allow municipalities to refinance up to approximately \$500 million in Municipal SUT-backed loans in GDB’s books, which should strengthen GDB’s liquidity.

¹ Preliminary and included for illustrative purposes only.

New Mass Transit Authority will result in operational efficiencies and speed HTA's return to self-sufficiency and the capital markets

Proposed legislation creates new Mass Transit Authority ("MTA") to merge mass transit assets at Highways and Transportation Authority ("HTA"), the Metropolitan Bus Authority and the Maritime Transportation Authority:

MTA STRUCTURE



Once MTA receives FTA grantee status, *Tren Urbano*'s assets and liabilities will be transferred from HTA to MTA. Such transfer is expected to transfer the cost of *Tren Urbano* to MTA, leading HTA to financial self-sufficiency and paving the way for its return to the capital markets.

- New issuance will allow HTA to refinance short-term liabilities (including \$400M BAN with RBC) and outstanding debt with GDB

New entity expected to result in operational and budgetary efficiencies, including improved capturing of available federal grants, all of which should reduce Commonwealth resources destined to mass transit.

Agenda

1 Recent Accomplishments

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Robust Roadmap guiding successful execution

Vision

Build upon Puerto Rico's historic strengths to achieve a *more diversified, knowledge-driven economy* that addresses the challenges of globalization and seizes upon emerging opportunities

Goals

Near-term goal

Shore up and diversify the economy by leveraging Puerto Rico's competitive advantages and consolidating its productive base

Long-term goal

Build sustainable competitive advantage with a diversified, adaptive economy and workforce driven by technology and innovation

Policy Priorities

- 1 *Defend anchor industries* while diversifying job sources on the Island
- 2 *Stimulate local entrepreneurship* - drive growth of small and medium enterprises (SMEs)
- 3 Restore Puerto Rico's credibility as a *stable, business-friendly jurisdiction*
- 4 Take full advantage of opportunities tied to *Puerto Rico's relative fiscal autonomy*

Impact

By beginning of 2016

Over 90,000 jobs created
\$6 to \$7 billion in incremental GDP

By beginning of 2018

Over 130,000 jobs created
\$10 to \$12 billion in incremental GDP

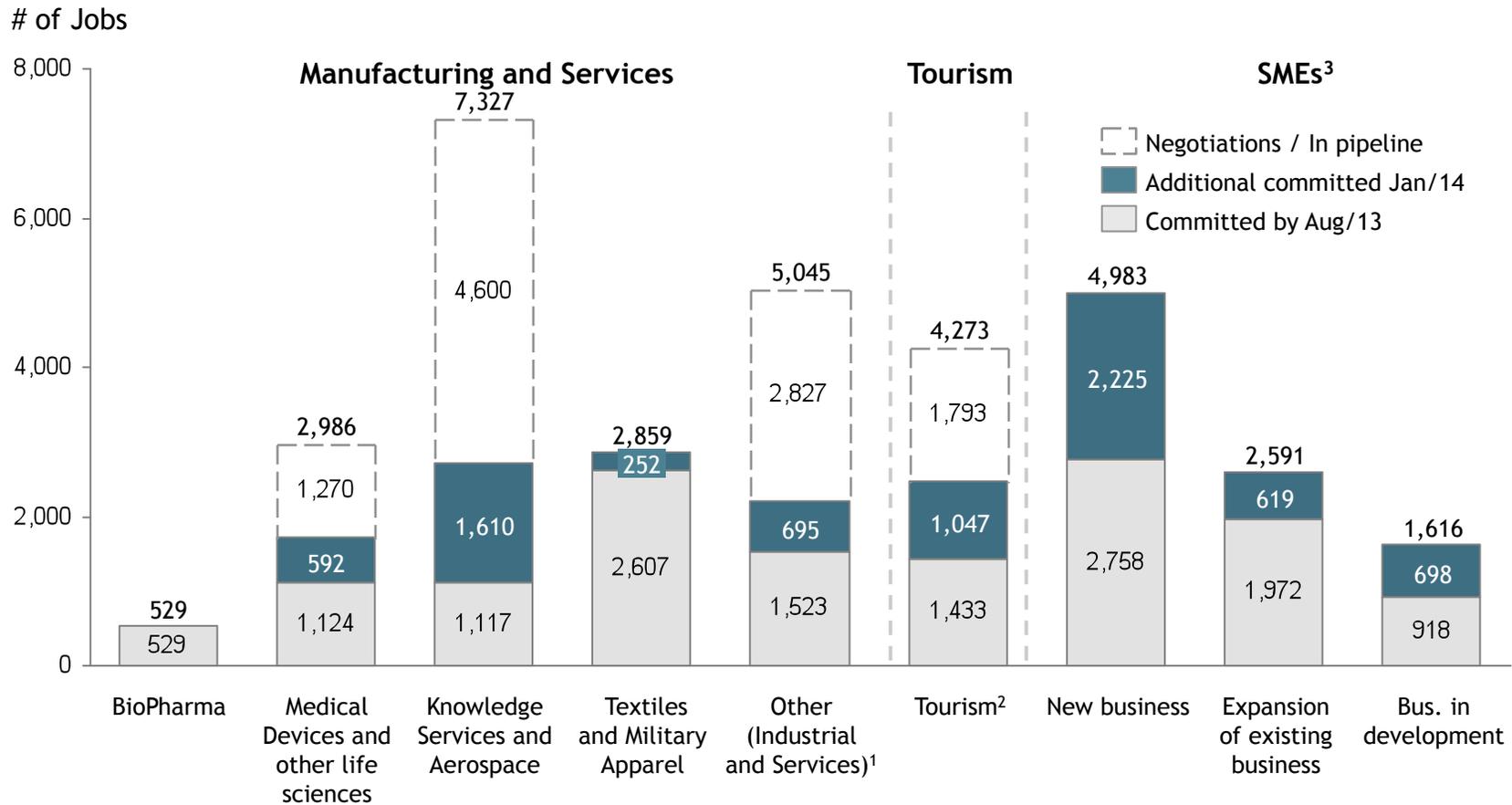
We continue to make progress on growth in jobs and improvements in key sectors

- New activity in key growth sectors is on track, which is diversifying and reshaping the economy
- Jobs committed have increased from approximately 14K in Aug to more than 21K in Dec

Key Sectors	Major projects	Implementation and reporting
<ul style="list-style-type: none"> – <u>Pharma / Generics manufacturing</u> - targeting new jobs and pursuing new companies to take over plants planned for closure – <u>Medical devices</u> - committed jobs increased to over 1,700 from 1,124 – <u>Knowledge services</u> - jobs committed increased from 1,117 to 2,727 – <u>Tourism</u> - significant increase in cruise passengers vs. 2012 (121K more vs. 2012), hotels increasing PR's room inventory, new air routes and hubs (Seaborne, AirEuropa, Avianca, JetBlue) 	<ul style="list-style-type: none"> – Aerospace - Continued prongs on development of cluster with announcement of Infosys (300 jobs) – Energy - renewable energy projects approved in January, \$60M in energy cost savings – Major projects - Seaborne, sugar cane, and rum production and infrastructure projects continue marching forward – Investors and financiers - More than \$1B investment committed from Paulson and Putnam Bridge, 2014 investment starting to materialize. 	<ul style="list-style-type: none"> – New group in DDEC focused on successful execution of Economic Roadmap

More than 21k jobs committed by EOY 2013, showing continued positive trend toward Roadmap 2016 goal of ~48.7k

Sample of jobs committed by sector (figures for Sept 2013 report vs. present)



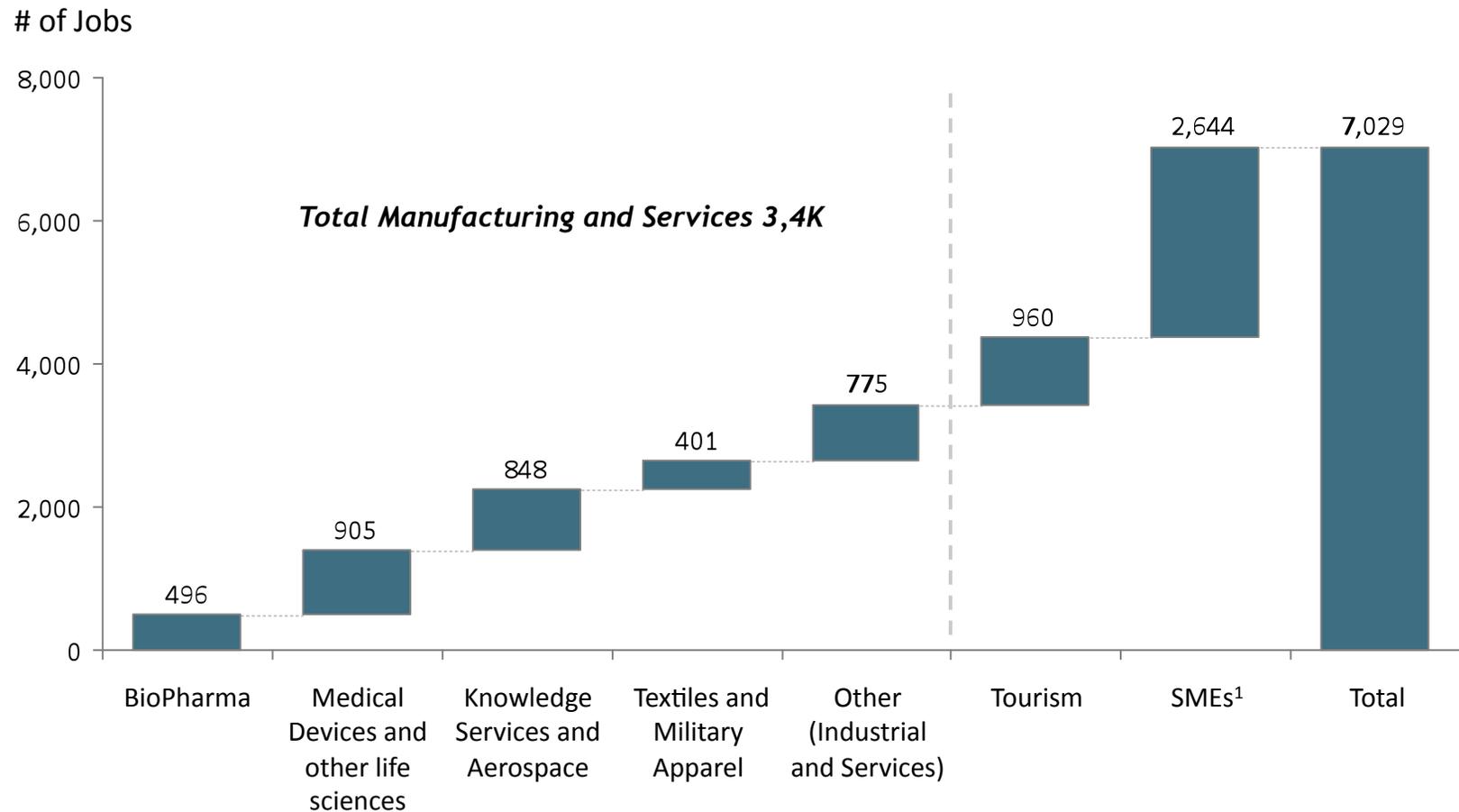
Committed jobs in Aug were 13.9K; figure has risen to 21.7K for EOY, with >10.4K jobs in negotiations pipeline

1. Includes electronics, IT, Construction & Engineering and Other 2. Includes Casino & gaming, airlines and cruises, tourism products, hotels under construction and hotels opened 3. Data as of Feb, 10th, 2014.

Source: Puerto Rico Industrial Development Corporation, Puerto Rico Trade Company, Puerto Rico Tourism Company and Fortaleza

7K of the 21K job commitments in Manufacturing and Services, Tourism and SMEs have already turned into created jobs

Jobs created: Manufacturing and Services, Tourism and SMEs (Jan - Dec 2013)



1. Data as of Jan, 23rd, 2014

Source: Puerto Rico Industrial Development Corporation, Puerto Rico Trade Company, Puerto Rico Tourism Company

Travel & Tourism - Clear progress in improving air access, generating jobs and increasing hotel offerings

Recent wins, progress and main projects in pipeline (Feb 2014)

Seaborne Airlines	<ul style="list-style-type: none"> In Dec/13 Seaborne announced flights to 16 destinations & 2,600 monthly flights In March they will consolidate hub (management, operations, reservations and customer service) in PR (from Saint Croix), 400 jobs
Additional Air Access	<ul style="list-style-type: none"> New routes in 2013: JetBlue and United to Chicago, Southwest to Orlando, Avianca to Bogota, Colombia, JetBlue to Santiago and Punta Cana, Dominican Republic Negotiated direct air access to Madrid with Air Europa starting May 2014
Hyatt Place, Bayamon	<ul style="list-style-type: none"> Inaugurated on Dec/13; 352 direct jobs in casino, hotel and restaurant
Hyatt Place, Manati	<ul style="list-style-type: none"> To be inaugurated on March/5th - 104 rooms, \$38M investment, 205 jobs when in operation and 308 construction jobs
Cruise-lines	<ul style="list-style-type: none"> New routes in 2013: MSC's Divina arrival in November 2013, Norwegian Cruises' Breakaway arrival in December 2013
Additional Cruise-line announcements	<ul style="list-style-type: none"> Disney Cruises with 4 homeport visits in Sept.-Oct. 2014 Quantum of the Seas from Royal Caribbean arriving Dec. 2014, +6k passengers each visit Larger Navigator of the Seas replacing Jewel of the Seas in Spring 2015, 52k passengers annualized

**Goal to increase room inventory to 20K in 5 years.
Currently 14.5K ; 2.2K rooms in construction or operation
in 2013**

**Cruise passenger movement
increase by 121k
(11.5% increase 2012 vs.2013)**

Impactful progress in all additional economic sectors

Sector	<u>Sample Recent wins & progress (Sept -Jan 2014)</u>
SMEs	<ul style="list-style-type: none">• Jobs Now Act continues promoting growth - 9,190 jobs committed & 2,644 created by Jan/2014• Organizational enhancements to support SMEs (announced by CCE and EDB)
Textiles & Apparel	<ul style="list-style-type: none">• Federal contract win: \$137M 3-year military apparel manufacturing (2,200 jobs)• Lifestyle Footwear - LOI in Jan 2014 (180 jobs)
Agriculture	<ul style="list-style-type: none">• First harvest of rice in last 30 years (420K pounds of rice, initial investment of \$1.5M)• Sugar cane: 20K acres, \$9.5 M investment, 4K jobs potential, ~ \$75M investment
Rum	<ul style="list-style-type: none">• Working with producers to increase volume to achieve higher cover over
Other Mfg.	<ul style="list-style-type: none">• Poultry plants reopening in Coamo and Salinas (750 direct jobs with salaries avg. \$27,5K), \$7M investment

Sample relevant deals negotiated and executed during 2013 and early 2014

Company	Job Commitment / Date	Segment
Lifestyle Footwear	180 / January 2014	Military Apparel
Infosys	300 / January 2014	Aerospace & Knowledge Services
Sugarcane	150 / January 2014	Rums & Agriculture
Seaborne	400 / December 2013	Tourism & Aerospace
Medtronic	150 / December 2013	Medical Devices
Lilly	400 / November 2013	Pharmaceutical
Rock Solid	100 / November 2013	Knowledge Services & IT
Vention	100 / October 2013	Medical Devices
Proper International	2,200 / September 2013	Military Apparel
SNC Technical Services	200 / July 2013	Military Apparel
Johnson Control	214 / June 2013	Industrial Services
IBM / True North	400 / May 2013	Knowledge Services
CooperVision	350 / April 2013	Medical Devices
Covidien	200 / April 2013	Medical Devices
AON Hewitt	200 / February 2013	Knowledge Services

Progress in Energy and Permitting support growth in other economic sectors

Sector

Sample Recent wins & progress (Sept -Jan 2014)

Supporting areas

Energy

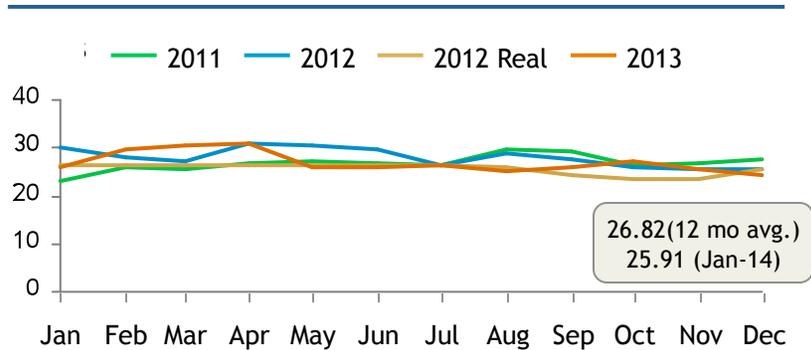
- Continuing to maintain reduced energy prices (lowest levels since early 2011 with temporary increase in Jan/2014 due to scheduled maintenances)
- Transition to natural gas - first plant converted June 2013; Major Aguirre plant for 2015
- Increasing share of energy produced with natural gas from 24% to 72% by 2017
- Agreements with six companies to provide renewable energy (photovoltaic systems), \$635 million investment, 365 MW

Permitting

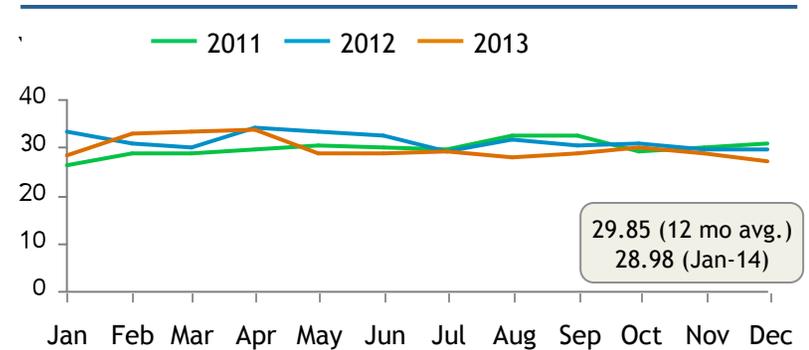
- IT systems improvement plan in place
 - \$71M (10%) increase in value of total construction permits (\$747 million) from 2012 to 2013 {\$300 million increase as compared to 2011}
-

Continuing to maintain reduced energy prices, with temporary increase in January due to scheduled maintenance of plants

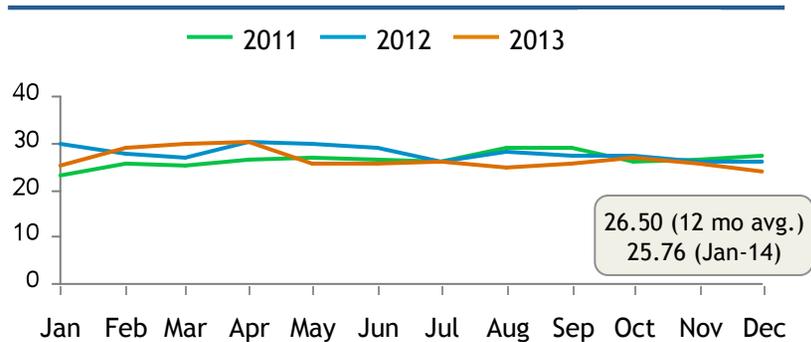
Residential
(800 kWh avg. consumption)



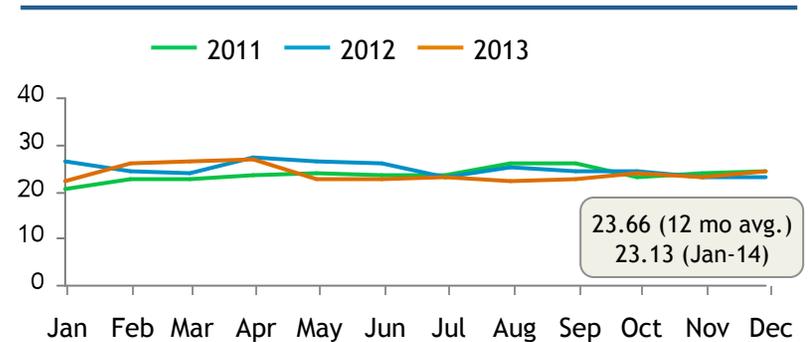
Small business
(1,200 kWh avg. consumption)



Medium-sized business
(91,800 kWh avg. consumption)



Medium industrial
(550,800 kWh avg. consumption)



During 2013, achieved lowest prices in Puerto Rico since early 2011, when price of crude was much lower (<\$80 vs. >\$97)

Major projects driving jobs and increasing PR's competitiveness

Selected projects with clear commitments and progress; total potential of \$5B, 56K jobs

Type of Project	Expected Investment (\$M)	Jobs	Comment
Public-Private Partnerships	1,265	13,651	
Correctional Facilities	356	3,346	Beginning June 2014 (two facilities)
Housing	217	2,605	Puerto Rico Housing Authority / AVP
Sugarcane processing for rum prod.	17	800	\$10M initial investment (2014)
Other	675	6,900	Valenciano Dam, Caguas - San Juan train
Public Infrastructure	200	2,402	
Water and Sewage	21	247	Three PRASA projects (Ponce, Palo Hincado, Río Arriba)
Other	179	2,155	Includes Cancer Center (\$131 M investment)
Private Construction	560	9,120	
Housing and Commercial	550	9,000	Murano Town Center, Ramblas de Guaynabo, Finca Elena
Ports	10	120	Sea Star
Energy	1,599	15,015	Includes Aguirre Offshore Gasport, \$254M investment ; 24 projects, with numerous projects in renewable energy (solar, wind)
Air Transportation	719	5,813	
International airports	205	2,455	Aerostar: Luis Muñoz Marín Airport
Regional airports	73	894	7 projects, includes Rafael Hernandez airport (\$45M investment)
Aerial access	441	2,464	Seaborne airlines, Jet Blue , Southwest, Avianca, Air Europa
Hotels	579	5,960	7 projects of different size and location throughout the island
Cruises	18	487	Navigator of the Seas, Disney, Quantum of the Seas
Other	71	3,100	Roosevelt Road (four initial RFPs due Dec 20th), Port of Americas
TOTAL	5,011	55,548	

~\$800M in projects starting in H1 2014

\$626 million in public infrastructure in 2013, Comprehensive Cancer Center started Dec 2013

Investments committed for 2014 starting to materialize and will help drive job growth and economic activity

Companies	Expected Investment	Major activities
John Paulson and Co.	\$500M in 2014 \$500M in 2015 (\$1B total)	Acquired an 80% interest in the Bahía Beach Resort & Golf Club, including the St. Regis Resort, and plan to invest \$500 million in further development
Putnam Bridge Investments	\$200M in 2014	Invested \$450 million in renovating Marina Puerto Del Rey, creating up to 400 construction jobs and up to 500 permanent jobs
Total	\$700M in 2014 \$1.2B expected by 2015 (cumulative)	

Number of investment funds exploring new operations in Puerto Rico, with some (e.g., Blue Fund) already in process

To recap, Puerto Rico on track to meet Roadmap's goals - showing significant progress since last update in September

Progress continues in manufacturing, services, SMEs and Tourism



Since August, 56% increase in jobs commitments

- 7.8K additional jobs committed

Additionally, 7K jobs created in key sectors that drive economy

More than 10K jobs in negotiations pipeline for Manufacturing and Services

Additional projects and opportunities are continuing to develop

- Sugar cane project (20K acres, \$9.5M investment, 4K jobs)
- Poultry project (800 jobs) to be completed by end of Feb 2014
- Hyatt Place Bayamon inaugurated Dec/13
- Seaborne Airlines to consolidate hub in PR (starting March)

Agenda

1 Recent Accomplishments

2 Liquidity and Plan of Finance

3 Revenue and Expense Update

4 Comprehensive TRS Reform and Other Legislation

5 Economic Development

6 Concluding Remarks

The Commonwealth has demonstrated it has the political will to address long-standing fiscal and economic challenges

Year-over-year comparisons underscore the Administration’s achievements

<u>Topic</u>	<u>Status December 2012</u>	<u>Status January 2014</u>
Pension Systems	<ul style="list-style-type: none"> Pension systems represented a significant future burden on General Fund 	<ul style="list-style-type: none"> Comprehensive central employee pension and teachers employee pension systems reforms executed
Budget Deficit	<ul style="list-style-type: none"> Projected \$2.2B budget deficit for FY2013 	<ul style="list-style-type: none"> \$820M budget deficit for FY 2014 was reduced by \$170M mid fiscal year, demonstrating fiscal discipline FY2015 target budget deficit was reduced from \$400M to \$0
Market Access	<ul style="list-style-type: none"> Limited capacity to issue through COFINA, the only “A” rated vehicle 	<ul style="list-style-type: none"> Strengthened COFINA to increase issuance capacity & created COFIM
PRASA Finances	<ul style="list-style-type: none"> Significant operating deficits at PRASA 	<ul style="list-style-type: none"> PRASA rate increases makes it less dependent on funding from General Fund and GDB
PRHTA/GDB	<ul style="list-style-type: none"> \$2B in PRHTA loans at the GDB without clear source of repayment 	<ul style="list-style-type: none"> Raised over \$270M in new revenues to refinance and/or amortize these loans Reformed GDB’s lending practices to limit its funding of operating deficits at public corporations
Workforce Size	<ul style="list-style-type: none"> Decreasing consistently Jan - Dec 2012 (-22k) 	<ul style="list-style-type: none"> Increasing consistently Jun-Dec 2013 (+26K), economic development plan has resulted in thousands of new jobs

We are confident investors will recognize what we have accomplished through hard work and shared sacrifice.

Recognizing the significant achievements of this Administration, we are nonetheless aware of the significant challenges that remain...

In the upcoming year, we shall:

Present a balanced budget for FY 2015

- The Commonwealth will present a FY 2015 budget that is balanced.
- The goal is also not to have any deficit financing at the public corporations.
- Shall act decisively to address any projected revenue shortfall or overspending for FY2014.

Reform our public corporations, beginning with the Puerto Rico Electric Power Authority, so they achieve operational and financial self-sufficiency

- Public corporations cannot continue to rely on the Commonwealth or the GDB to satisfy its fiduciary needs.
- Near-term self-sufficiency of our public corporations is a critical challenge to the long-term economic health of the Commonwealth.

Continue executing on an ambitious economic plan

- The Commonwealth will continue on its aggressive agenda to create jobs, expand our industrial base and attract foreign investment in order to reshape and diversify the economy.

Access the market with a GO transaction

- We will update the market shortly about how this transaction is expected to address the Commonwealth's liquidity needs for FY 2014 and FY 2015.

The Commonwealth is committed to continue demonstrating its willingness and determination to further strengthen its fiscal and economic health.



The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

Q & A Session

Appendix A - YTD Revenue Detail

Revised General Fund Monthly Revenue Estimates

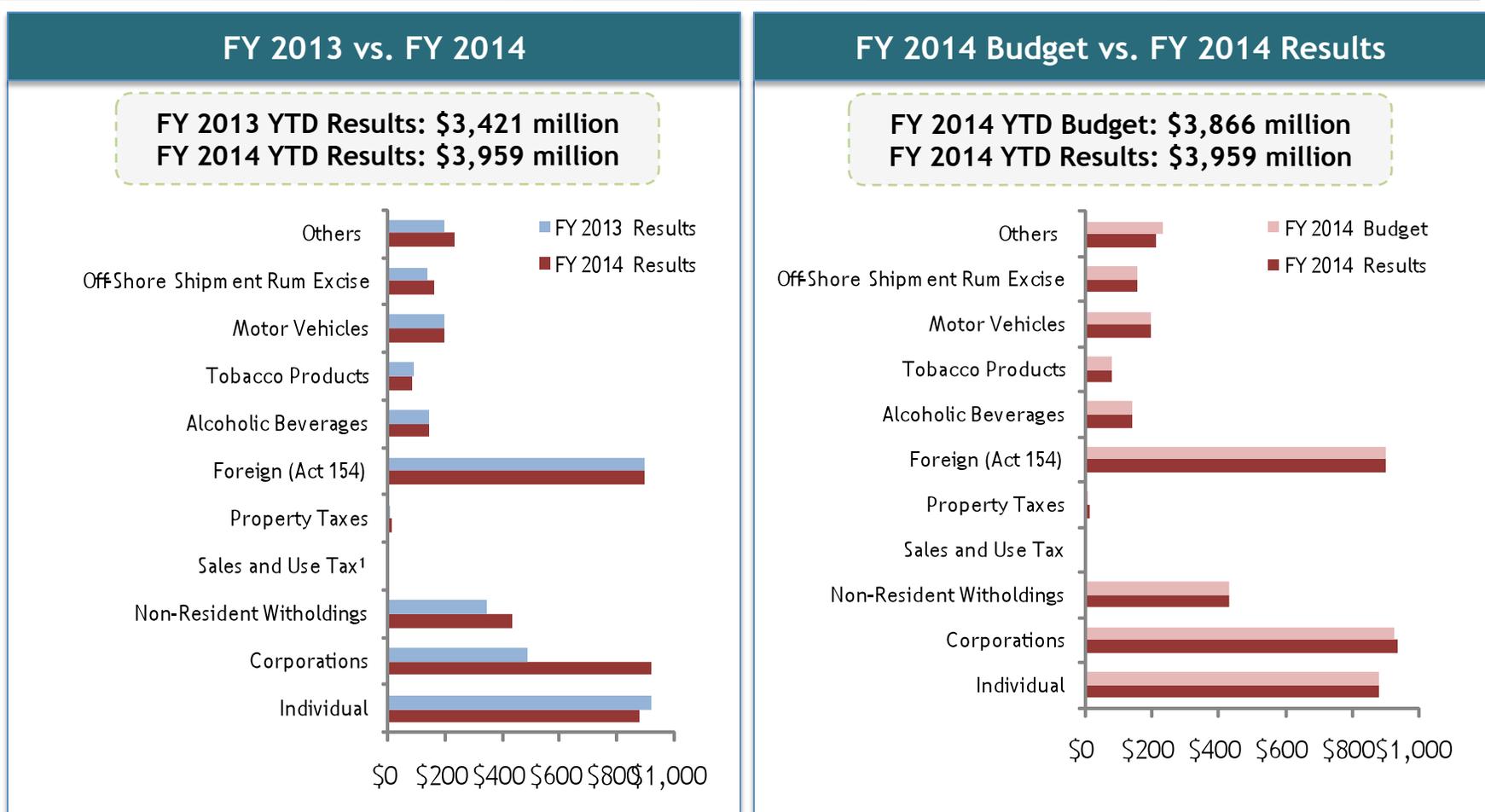
<i>General Fund Monthly Revenue Estimates and Actual Results</i>													
TaxType	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
	Actual FY 2014 Q1 & Q2 Results						Revised Monthly Revenue Estimates for Remainder of FY 2014						
Individuals	\$140,399	\$129,189	\$145,765	\$159,559	\$131,971	\$172,586	\$150,607	\$137,744	\$166,953	\$360,689	\$155,681	\$152,857	\$2,004,000
Corporations	83,261	23,924	250,501	230,779	29,690	305,535	79,661	24,893	138,070	776,234	104,397	466,055	2,513,000
Non-Resident Withholdings	28,711	41,600	49,392	176,579	62,510	73,787	67,636	60,303	75,265	60,000	43,634	80,583	820,000
Sales and Use Tax (SUT)	0	0	0	0	0	0	76,008	105,704	96,991	109,027	108,857	117,413	614,000
Act 154 Excise Tax	134,984	150,312	149,727	153,677	135,290	176,534	131,858	175,994	163,373	184,727	194,163	187,361	1,938,000
Alcoholic Beverages	19,215	25,200	19,292	26,670	26,361	26,445	21,332	20,197	22,074	20,552	24,063	31,599	283,000
Tobacco Products	17,299	10,728	9,691	17,705	9,360	15,725	17,296	13,429	15,382	15,578	14,764	17,043	174,000
Motor Vehicles	13,292	37,187	30,182	43,035	31,245	40,720	39,896	38,145	42,401	37,546	38,455	39,896	432,000
Off-Shore Rum Shipment Excise Tax	29,176	31,522	27,515	29,963	14,437	25,643	15,754	8,686	9,596	8,077	8,824	10,807	220,000
Other	28,664	23,048	49,038	23,517	32,161	88,349	27,599	27,681	64,728	50,744	31,471	80,000	527,000
Total	\$495,001	\$472,710	\$731,103	\$861,484	\$473,025	\$925,324	\$627,647	\$612,776	\$794,833	\$1,623,174	\$724,309	\$1,183,614	\$9,525,000

Source: Department of the Treasury

Sales and Use Tax Fiscal 2014 YTD Revenue

SUT Revenues (in millions)							
	FY13	FY14	FY13 to FY14 Variance	FY13 to FY14 %	FY2014 Budget	FY2014 Actual Vs Budget (\$)	FY2014 Actual Vs Budget (%)
July	\$102.9	\$111.5	\$8.6	8.4%	\$105.2	\$6.3	6.0%
August	\$93.9	\$96.3	\$2.4	2.6%	\$96.1	\$0.2	0.2%
September	\$92.6	\$97.5	\$4.9	5.3%	\$99.3	(\$1.8)	-1.8%
October	\$88.5	\$97.1	\$8.6	9.7%	\$116.8	(\$19.7)	-16.9%
November	\$94.5	\$97.6	\$3.1	3.3%	\$123.3	(\$25.7)	-20.8%
December	\$99.8	\$107.7	\$7.9	7.9%	\$130.7	(\$23.0)	-17.6%
YTD Results	\$572.2	\$607.7	\$35.5	6.2%	\$671.4	(\$63.7)	-9.5%

90% increase in corporate revenue has driven 16% growth in YTD General Fund revenues vs. FY 2013



General Fund July-December preliminary revenues are higher by (i) \$537 million above FY 2013 results and (ii) \$93 million over budgeted estimates for FY 2014 (July-December).

¹ Sales and Use tax revenues flow to COFINA until receiving the Pledged Sales Tax Base Amount.

Appendix B - TRS Reform

By closing the existing defined benefit plan and increasing the retirement age, projected obligations/cash outflows are substantially reduced

1 Creation of a New Defined Contribution Plan¹

- Freezes accrual under defined benefit plan (annual accrual rate of 1.8% of average salary) for current teachers
 - Under New Plan, an existing participant will receive, at retirement, a pension equal to (i) what they have accumulated up to July 31, 2014 under existing defined benefit plan, plus (ii) an additional annuity based on contributions made by such participant under a defined contribution plan on or after August 1, 2014.
 - Eliminates future accrual of “merit pension” (payable once the participant has achieved 30 years of creditable service), equivalent to 65% or 75% (if participant is 50 years or older) of average salary (calculated based on the highest salaries earned by the participant during any 36 months).
- Any new teacher hired on or after August 1, 2014 will receive, at retirement, an annuity based on the contributions made by such participant and any corresponding investment return.
- Current teachers will benefit from a minimum pension of \$1,625 per month if they retire with at least 30 years of service and at age 55 or older. New teachers hired on or after August 1, 2014 will also benefit from a minimum pension if they retire with at least 30 years of service and at age 62 or older.

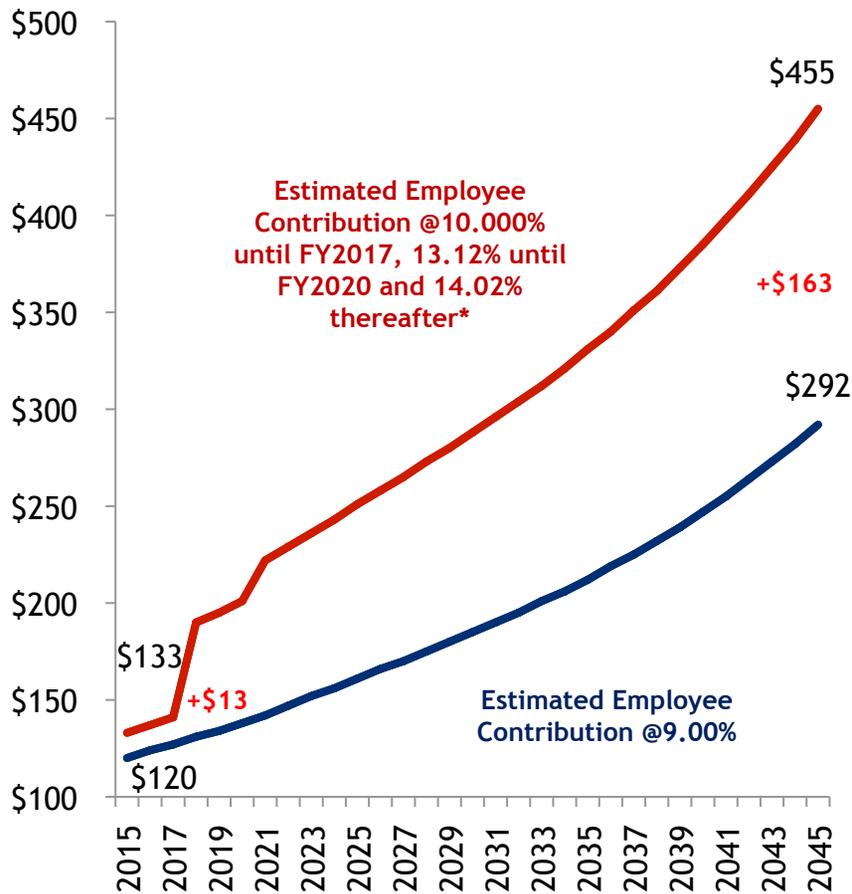
2 Increase in Retirement Age

Prior to Reform	Post Reform
<ul style="list-style-type: none"> • Age 47 (with 25 years of service) • 30 years of service with a minimum of 47 years of age • Age 60 (with 10 years of service) 	<ul style="list-style-type: none"> • Age 55 (with 30 years of service) • Age 60 (with 10 years of service) • Age 62 (with 5 years of service) for new teachers

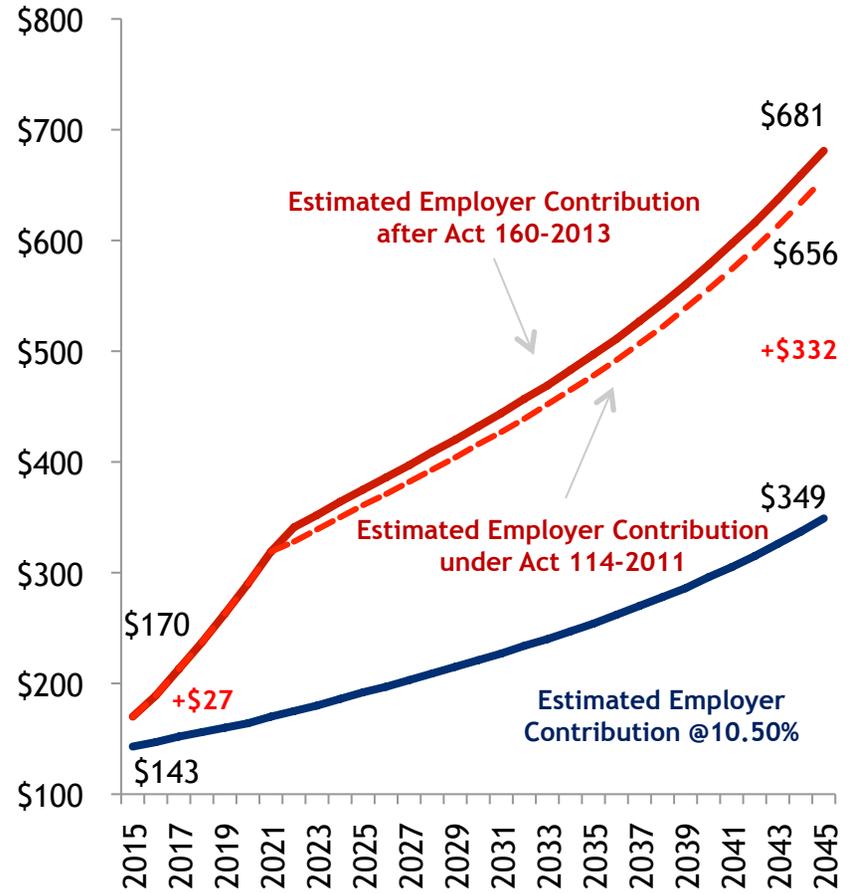
¹Minimum pension benefit of \$1,625 per month could be deemed to be a “defined benefit” feature within defined contribution plan.

Gradual increase in employee contribution, along with previously legislated increase in employer contribution, will significantly improve System cash flow

3 Increase in Employee Contribution (in millions)



4 Increase in Employer Contribution** (in millions)



* Unless actuaries determine no actuarial need for such increase.

** Act 114-2011 gradually increased employer contribution to the System up to a maximum of 19.750% in FY2022. Act-160 increases employer contribution in fiscal year 2022 from 19.750% to 20.525%, making it equivalent to the PRGERS employer contribution legislated under Act 116-2011.

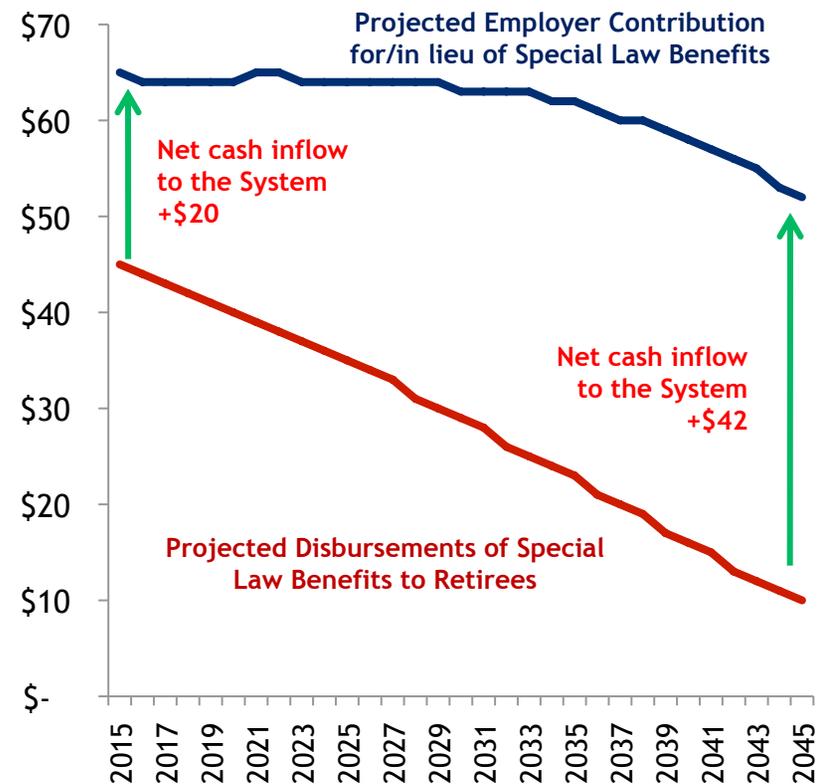
Reduction and gradual phase out of “Special Law” benefits will also result increase cash flowing into the System, extending life of System assets

5

Modification of “Special” Law Benefits

- “Special Law” benefits for retirees as of August 1, 2014 are modified as follows:
 - Christmas Bonus is reduced by 66% (from \$600 to \$200);
 - Summer Bonus is eliminated (\$100); and
 - Medical Plan Contribution (up to \$1,200 per year) and Medication Bonus (\$100) are maintained in full.
- “Special Law” benefits are eliminated for all future retirees.
- Notwithstanding reductions, General Fund will continue to make annual contributions to the System of \$1,675 (average annual cost of “Special Law” benefits) per retiree, with reduction in System outflows benefiting net System assets.

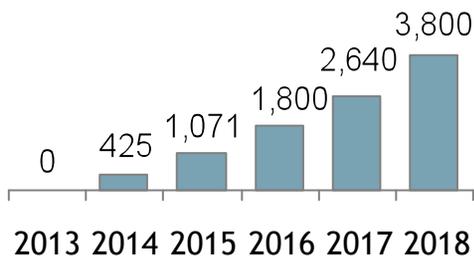
Impact of Change in “Special Law” Benefits (in millions)



Appendix C - Economic Roadmap

Life Sciences - Bio Pharma focused on shoring up industry while increasing generics & advanced technologies (biologics)

Goals: Cumulative direct jobs created¹



Milestones and targets

2014	Establish relations with all global HQs of Big Pharma
2015	"Go" or "no go" decision for contract manufacturing
2017	Spin off contract mfg of orphans to self-manufacturing
2018	Solidify biotech cluster

Status and accomplishments

Jobs activity - 529 jobs committed

Recent wins

- Expansion of **Johnson & Johnson** with 308 new jobs and \$226 million in investment - 31 jobs already created by November
- Expansion of **Bristol Myers Squibb** with the creation of 100 new jobs and an investment of \$200 million in expansion and renovation of the physical plant and factor equipment
- Investment of **Eli Lilly** of \$200 million to strengthen its competitiveness and manufacturing capacity resulting in the creation of up to 400 construction jobs and 100 indirect jobs

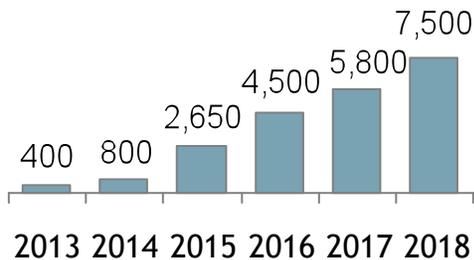
Strategy and outreach

- Target new companies (e.g., LatAm generics producers) to replace outgoing manufacturing operations
- Recent outreach to > 60 companies, some firms actively engaging with government (PRIDCO) to discuss options in Puerto Rico
 - e.g. contract manufacturing, plant purchases

1. Represents end-of-year cumulative numbers (e.g., 3,800 jobs created by the end of 2018).

Life Sciences - more than 1,700 jobs committed in Medical Devices sector, with continued positive momentum

Goals: Cumulative direct jobs created¹



Milestones and targets

2013	Strengthen relationship with existing med tech companies in PR; Launch med tech marketing campaign
2014	Upgrade PRIDCO facilities
2014	Recruit suppliers, support investments in contract manufacturing
2015	Establish public-private partnership with universities
2016	Host Caribbean/LatAm med tech congress

Status and accomplishments

Jobs activity - 1,716 new jobs committed (up from 1,124 committed in August)

- Nearly 1,500 jobs in pipeline

Recent wins

- Expansion of **Medtronic**s generating 150 new jobs
- Expansion of **CooperVision**'s manufacturing facilities attracting \$250 million investment and 350 new jobs
- Expansion of **Covidien**'s mfg. facilities attracting 200 new jobs
- Expansion of **Saint Jude Medical** with the creation of 150 new jobs over a period of 5 years, with estimated payroll expansion worth \$6.2 million

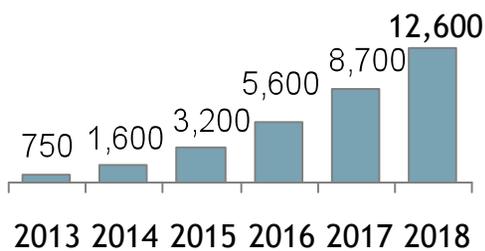
Strategy and outreach

- Increase awareness and target newly-growing companies that are increasingly sensitive to cost and tax pressures
- Focus on key sub-sectors: Cardiovascular, Orthopedics-Trauma, Minimally Invasive Surgery, and Vision
- Recent outreach to over 50 companies with two new companies in discussions with PRIDCO

¹. Represents end-of-year cumulative numbers (e.g., 7,500 jobs created by the end of 2018). Incremental to baseline of 19,323 med tech jobs (as of July 2012)

Knowledge Services & Aerospace - over 2,700 committed jobs cover goals through 2014, with over 4,000 jobs in the pipeline

Goals: Cumulative direct jobs created Knowledge Services¹



Milestones and targets

2014	Infrastructure "Plug & play" experimental initiative launched
2014	Host industry reps in PR
2014	Sign internship agreements with universities
2015	Launch PR's outsourcing white paper
2015	Implement KS cluster
2016	Host outsourcing trade show in San Juan

Status and accomplishments

Jobs - 2,727 jobs committed (up from 1,117 in August)

- More than 4K jobs in pipeline

Recent wins

- Accenture looking for clients to start operation, searching for potential clients
- Infosys to create 300 Jobs (LOI in Jan 2014)
- Expansion of IBM / True North with the creation of 400 new jobs
- Expansion of AON Hewitt with the creation of 200 new jobs
- Expansion of Rock Solid Technologies with the creation of 100 new computer engineering jobs

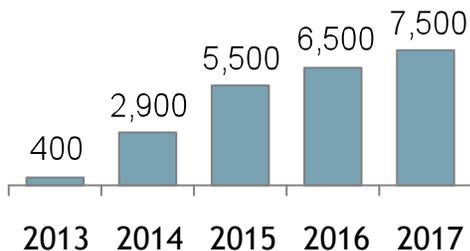
Strategy and outreach

- Increase awareness and promote Puerto Rico's value proposition, particularly in most sophisticated sub-sectors (e.g., R&D / engineering)
- Tied to broader strategy targeting "under the flag" industries
- Recent outreach to over 40 companies
- Confidential negotiations with several multinational companies, some of which are considering Q1 pilots in 2014
 - One company starting pilot to ramp up to 100 employees by end of 2014

1. Represents end-of-year cumulative numbers (e.g., 12,600 jobs created by the end of 2018).

Travel and Tourism - more than 600 created jobs and several milestones accomplished (e.g. new JetBlue route to CHI)

Goals: Cumulative direct jobs created¹



Milestones and targets

2013	JetBlue and United open route to CHI
2013	"Posadas" project launch
2013	LMM International airport and Aguadilla airport remodeling
2014	Reinitiated direct flight to Madrid
2016	Increase hotel rooms from 15k to 20k
2016	Tourism accounts for 8% GDP
2016	10m annual flight passengers

1. Represents end-of-year cumulative numbers

Status and accomplishments

Jobs - 2,354 new jobs committed (up from 1,433 committed in August), includes 960 created jobs

Recent wins

- **Increased air access, with potential to scale via code-sharing**
 - (Southwest to Orlando, Avianca to Bogota, expanded Caribbean services via Seaborne); with focus on LatAm.
 - Negotiated direct air access to Madrid with Air Europa starting May 2014. Expansion ongoing (e.g. Brazil)
- **Cruise ships visits increased 84%** in August 2013 vs. year before and targeted incentives in place to drive traffic in years to come, supported by Pier 3 infrastructure improvement
- **Over 900 hotel rooms under construction** and hundreds more in the pipeline
- **Successful marketing campaigns** - "Summer is easy" and "Five-Star Reviews" through alliance with TripAdvisor

Strategy and outreach

- Increasing air/sea routes, building new hotel capacity
- Spain and Bogota tourists can bring up to \$200M in GDP impact
- Exploring new activity in specific geographies (e.g., Brazil, Russia, Germany, UK,) - potential to add over \$800M to GDP impact

Roadmap has clear cumulative direct jobs targets (I/II)

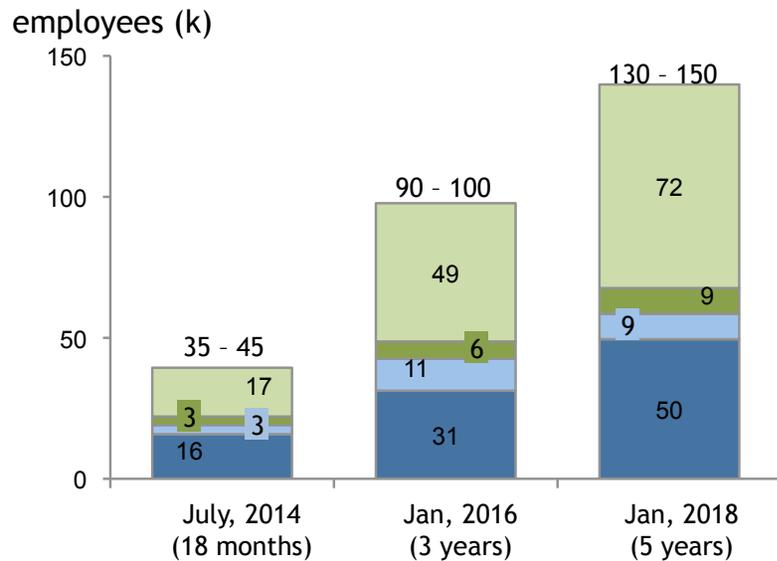
Group	Initiative	2013	2014	2015	2016	2017	Description
Life sciences	Biopharma. mfg.	0	400	1,100	1,800	2,600	1. Defend pharma: Goal to defend projected jobs loss. 2. Generics, co-mfg, supply chain: Goal of 5 plants / packing operations each
	Medical devices mfg	400	800	2,700	4,500	5,800	Target of 40 new projects in 5 yrs. Attract global giants, cardiac, high growth segments.
	Ag-bio (scientists)	100	200	300	400	500	Jobs growth driven by creation and expansion of seed research laboratories.
	Ag-bio (contract farmers)	400	800	1,300	1,900	2,600	Assumes 5x contract farmer jobs created per scientist job created. Contract farmer works 8-12 months/yr
Services	Knowledge services	800	1,600	3,200	5,600	8,700	Target of 28 new co's in 5 yrs. Attract ITO, BPO, KPO, Integrated outsourcers, Aerospace & defense.
	Insurance & financial services	0	100	100	200	300	Target attract 90 insurers incl. 15 class 4 co's in 5 yrs.
Tourism	Traditional tourism	400	2,900	5,500	6,500	7,500	90% jobs growth is in new hotel, diversifying offerings
	Medical tourism & related health services	0	300	500	900	2,700	Based on PRHA projections for US and LatAm market penetration
SMEs	SMEs	4,600	7,400	7,800	8,100	8,400	Jobs mostly driven by Jobs Now. Others include incubator, Urban Center programs.
Agriculture	Traditional agriculture	2,500	5,000	7,500	10,000	10,000	Jobs driven by 5.5k jobs in coffee, 4k in sugarcane and 500 jobs in greenhouses
	Agriculture - seasonal workers	1,600	3,300	4,900	6,500	6,500	Seasonal workers for coffee picking
Other	Film & media production	0	100	100	200	200	Jobs driven by Film Co's incentive promotions
	MRO	0	0	400	400	400	Potential MRO facility - currently in discussion w/ co's
	Military apparel mfg	0	2,200	2,200	2,200	2,200	Jobs growth from one large Federal contract.
INITIATIVES TOTAL		10,800	24,900	37,400	49,300	58,600	

Roadmap has clear cumulative direct jobs targets (II/II)

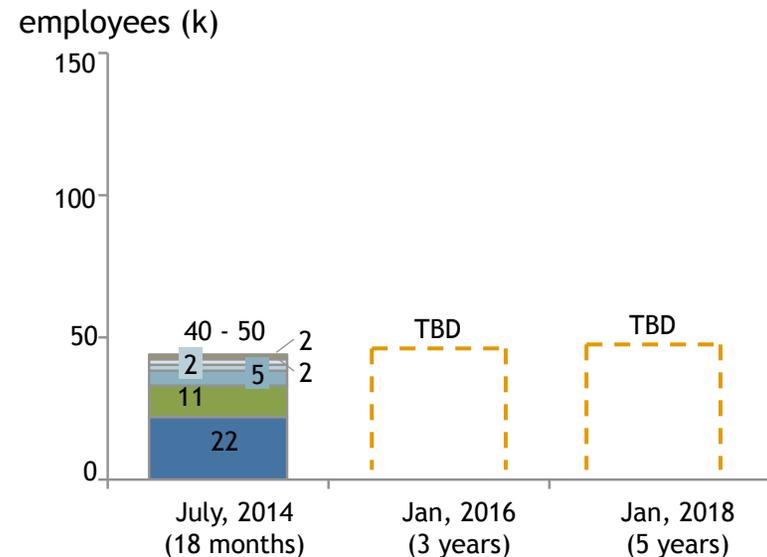
Group	Initiative	2013	2014	2015	2016	2017	Description
Strategic bets	Roosevelt Roads	-	100	1,600	1,700	1,700	Construction of Industrial Zone, Academic project, Eco-tourism, Marina
	Science Trust	-	-	100	200	300	Estimates for Oso Blanco, Cancer Center, Biomolecular bldg, & Bioprocess Dev't Complex - to be refined
	Port of the Americas	-	-	400	400	400	350 operating jobs once begins operations.
Strategic bets total		-	100	2,000	2,200	2,300	
Infra-structure	Airport P3	-	600	600	600	600	PPP w/ \$195M investment in 3yrs, \$1,400M in 40 yrs
	Highways (PR-22)	-	-	4,000	4,000	4,000	\$1B investment across 2015-2017.
	Caguas Commuter Rail	-	-	1,200	1,200	1,200	\$400M investment. Currently in feasibility / desirability phase.
	PRASA (water)	-	1,300	1,300	1,300	-	\$354M construction for Valencia water treatment plant and reservoir
	Correctional facilities	-	-	900	900	900	\$220M investment. Feasibility / desirability phase set to finish Oct. 2013
	Natural Gas Infrastructure	-	1,300	1,300	-	-	\$180M-\$300M investment . Feasibility / desirability phase set to finish Dec. 2013
Infrastructure total		-	3,200	9,300	8,000	6,700	
TOTAL DIRECT JOBS		10,900	28,200	48,700	59,500	67,600	

Estimated potential jobs creation

Jobs created by strategic initiatives in Economic Roadmap



Jobs added by broader economic growth in non-focus sectors¹

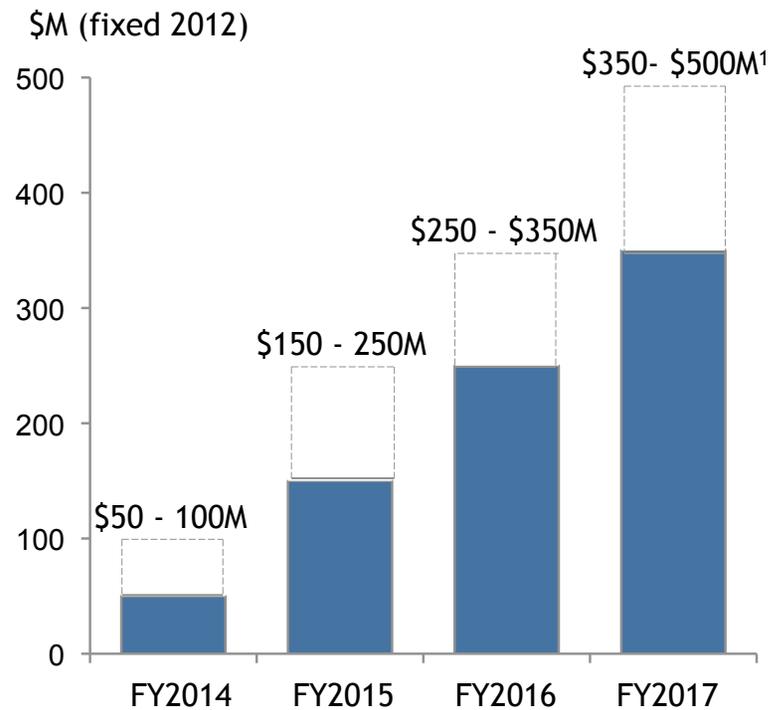


After accounting for overlap, Puerto Rico's economy expected to create 55 - 65k jobs by July 2014³

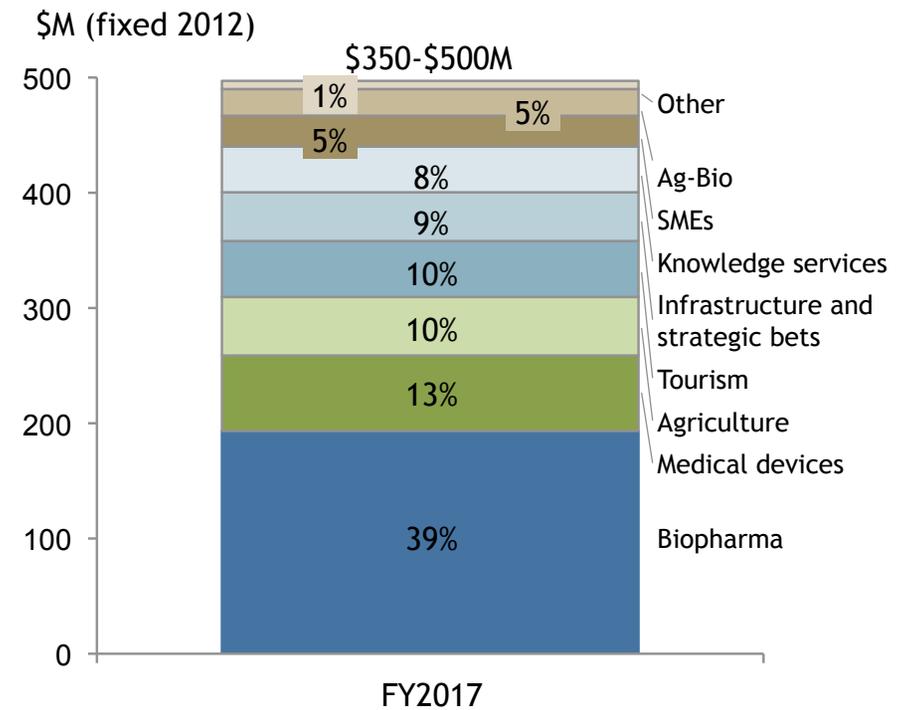
1. Jobs added in non-focus sectors based on La Fortaleza's job tracker, but excludes jobs which overlap w/ strategic initiatives in Economic Roadmap (eg. Jobs Now). Assumes all committed jobs will be created within 18 months, given current run-rate of 22k jobs created in 7 months. 2. Includes strategic bets (RR, Port of the Americas); 3. Total number of jobs will depend on degree of overlap between indirect jobs created from strategic initiatives and jobs projected outside of strategic initiatives; Note: Initiative job impacts estimated by PR initiative leads w/ BCG validation; Sources: BCG economic model, PR Economic Planning Board, Bureau of Labor Statistics, Bureau of Economic analysis, Initiative leads, La Fortaleza jobs tracker

Estimated potential impact on go-forward tax revenues

Potential gross tax revenue from Roadmap's strategic initiatives



Example: Potential gross tax revenue by sector²



Initial investments to support growth will see fiscal returns as economy returns to growth trajectory

1. Upper range assumes historical average effective tax rates from 2008 to 2012 multiplied by incremental GDP over baseline. Note that recent tax changes and revenue collection efforts may push average effective tax rates upwards in the future. 2. Includes impact from both direct and indirect jobs created. Source: Puerto Rico Planning Board, Puerto Rico Treasury Department, BCG analysis