INVESTOR WEBCAST: UPDATE ON FISCAL AND ECONOMIC PROGRESS - JULY 2014

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Transcript

Operator: Good evening, and welcome to the Government Development Bank for Puerto Rico conference call. My name is Kellen and I will be your conference operator today. A slide presentation will accompany the speakers' remarks. Instructions for accessing the web presentation are in the invitation notice you received. The presenting speaker will control the slides. A replay of the call, with slides, will be available shortly after the call ends on the GDB website. All lines have been placed on mute to prevent any background noise.

Once the presentation concludes, there will be a questions-and-answers session. Questions that have been sent in in advanced will be answered. Participants can also formulate questions throughout the course of the webcast at allocated spaces within the site. We will do our best to address any unanswered questions in writing by posting a Q&A on GDB's website.

If you are having technical problems with the audio, press *0 for technical support.

On behalf of all of us at the Government Development Bank for Puerto Rico, I would like to welcome everyone to this call. Our focus today will be an update on fiscal and economic progress. The speakers for today's call will be the Honorable Alejandro García Padilla, Governor of Puerto Rico, David Chafey, Chairman of the Board of the GDB, José Pagán, Interim President of the GDB, Melba Acosta, Secretary of Treasury, Carlos Rivas, Director of the Office of Management and Budget, Alberto Bacó, Secretary, Department of Economic Development and Commerce, Antonio Medina, Executive Director of the Puerto Rico Industrial Development Company, José Coleman-Tió, Executive Vice President and General Counsel of the GDB, and Natalia Guzmán, Advisor to the President and Senior Vice President of the GDB.

I will now turn the call over to the Hon. Alejandro García Padilla, Governor of Puerto Rico for the opening remarks.

Governor Alejandro García Padilla: Welcome all to my Administration's Investor Webcast on fiscal and economic progress.

For the last 18 months you have witnessed first-hand our commitment to making the complex decisions needed to correct our long-standing fiscal challenges and lay the ground work for an economic development plan that will lead us back to sustainable growth on the island. Our resolve to do what is right and necessary to preserve our credit and grow the island economy is now stronger than ever.

You have seen the General Fund's Budget Deficit shrink from an estimate of $2.2 billion when this administration came to office to $0 in just 18 months. It gives me great pleasure to inform yet again that on July 1st I signed the first balanced budget in Puerto Rico in over 22 years. Approving the balanced budget a year ahead of schedule is an important step towards fiscal health and long-term economic growth for the island. These significant milestones represent our determination to break with the irresponsible fiscal and financial behavior of the past.

The lack of new deficit finance or GO refinancing in the Fiscal Year 2015 budget and the pledge to operate government within its means demonstrates our commitment to fiscal discipline and self-sufficiency. The budget reduces government expenses even when, different from past budget configuration, we have incorporated GO repayment appropriation within budget expenses so that they are paid with our tax revenue and not with more loans.

The Fiscal Year 2015 budget is also a window into our priorities—economic development, health and public safety–while honoring the Commonwealth's financial commitment. Furthermore, following our reform of our main pension system and the strengthening of the Commonwealth's liquidity position, a new budget set the stage for tackling the important challenge of reforming our main public corporations so that they do not depend on the General Fund or the Government Development Bank. To that end we have granted public corporations the tools necessary to achieve self-sufficiency. We have enacted legislation limiting GDB's ability to provide deficit financing to public corporations, reducing their historical reliance on GDB. The Fiscal Sustainability Act provides public corporations with tools to responsibly reduce operating costs. The recently enacted Recovery Act provides public corporations with an orderly debt enforcement process similar to the process available to companies and municipalities in the States.

As you can see, it is important to note that our commitment to honoring the financial responsibilities of the Commonwealth remains unshaken. Moreover, we continue making progress in stabilizing our economy and indicators now provide signs of recovery in very important sectors. Since the last investor webcast in February this year we have made good our promise to deliver more than 55,000 private sector jobs by realigning and refocusing government incentives towards strategic sectors. We landed Lufthansa Technik's new maintenance, repair and overhaul facilities for the western hemisphere, and we continue our focused and determined efforts to incentivize industrial expansion and tourism development, boost air access to the island, and expand agricultural production. We will continue vigorous efforts to build a diversified economic model for Puerto Rico.

Five fundamental sectors will define our economic prosperity heading into the future: manufacturing, export services, tourism, agriculture, and small business. These sectors highlight our historic competitive advantage: a highly skilled workforce, the benefits provided by our fiscal autonomy, our strategic geographical position, and the security of the United States regulatory environment. To support these efforts, we will introduce a plan for comprehensive tax reform during the first half of the fiscal year. These reforms to our tax code will provide certainty to our industrial base as well as to small business owners. We'll incentivize strategic sectors, simplify compliance oversight and provide revenue consistency to the General Fund.

Our early successes, the sign of recovery in very important sectors and our record of achievement make us very optimistic in the recovery that is underway.

My fiscal and economic team will now provide you with more information on our recent accomplishments and our plans for the future. So, I thank you for your interest in Puerto Rico and your continued support.

Operator: Thank you Governor. I will now turn the call over to Mr. Chafey, Chairman of the Board of the GDB.

David Chafey: Thank you, Governor. Good afternoon everybody. This is David Chafey, I am Chairman of the GDB, and I would like to welcome you to our webcast to provide an update on the fiscal and economic progress of the Commonwealth of Puerto Rico.

As was previously mentioned, we have the full economic and fiscal team of Puerto Rico here on the call. We have Melba Acosta, Secretary of Treasury, Carlos Rivas, Head of the Office of Management and Budget, José Pagán, Interim President of the GDB, José Coleman, General Counsel to the GDB, Natalia Guzmán, Senior Vice President of the GDB, Alberto Bacó, our Secretary of Economic Development, and Antonio Medina, who heads PRIDCO.

Turning to slide 5 of the presentation, I would like to discuss our plan to stabilize and grow Puerto Rico's economy. This administration has taken a swift and decisive action to strengthen our fiscal position while simultaneously creating a sound foundation for economic growth. First, Puerto Rico obtained a liquidity runway to provide itself time and flexibility to execute on its comprehensive economic and fiscal plan. In March of 2014, the Commonwealth improved its liquidity through the successful placement of $3.5 billion dollars of General Obligation bonds in an offering which was 4½ times oversubscribed. These proceeds were used to improve GDB's liquidity through the repayment of certain lines with the GDB. The Commonwealth expects to access the market again, as needed, to bolster its liquidity. The Commonwealth has many financing vehicles and we believe that we will be able to raise additional liquidity based on the fiscal and economic plan we have articulated.

In addition, we have made improvements to our financing vehicles, notably COFINA. The Commonwealth increased the COFINA base rate from 2.75% to 3.5%. We have pledged an additional 50 basis points of the Sales and Use Tax of COFINA. We expanded the sales tax base in the Fiscal Year 2014 budget and we are implementing the collection of the Sales and Use Tax at our ports, beginning in Fiscal Year 2015. The Commonwealth will continue to protect the GO, COFINA, GDB, and other related credits. In addition to obtaining a liquidity runway, this administration quickly decreased the Commonwealth budget deficits. On July 1st, the Governor signed Puerto Rico's budget, marking a watershed for Puerto Rico as the first balanced budget in over 20 years. The 2015 budget relies on $1.5 billion of corrected measures to reduce the expenditures of the Commonwealth. The balanced budget is a significant achievement, in particular, given the current administration inherited a budget deficit in excess of $1 billion dollars.

The Commonwealth is also improving its liquidity by performing on its commitment to make public corporations self-sufficient, a marked departure from the historical reliance on funding from GDB and the General Fund. Over the past 18 months, PRASA has raised its rates and HTA revenues were bolstered by additional revenues under Acts 30 and 31. The Legislature also passed three key pieces of legislation to put the public corporations on a path to self-sufficiency. First, Act 24 of 2014 significantly reduces GDB's ability to provide deficit financing to public corporations and only allows it to do so when it has an identified source of repayment for that financing. Second: Act 66 of 2014, known as The Fiscal Stability Act, offers the public corporation tools to materially reduce operating costs. And three, Act 71 of 2014, or the Recovery Act, protects citizen's access to critical services while creating an orderly forum for public corporations to adjust their obligations through mutual burden-sharing amongst stakeholders. It is important to note that the Commonwealth, GDB, COFINA, and credits guaranteed by the Full Faith and Credit of Puerto Rico are not eligible to utilize the Recovery Act. Finally, the Commonwealth has articulated a plan for economic growth and job creation and has started to reap the benefits of this strategy. Acts 20, 22, and 399 are stimulating new industry and knowledge-driven services and are attracting people and capital from the mainland US. Over 600 grants have been provided under these acts. In addition, we have had some early wins in our long-term economic development strategy, targeted to attract business investment in certain target sectors. This is starting to create tens of thousands of jobs for the people of Puerto Rico. We will discuss all of these measures at length during today's presentations. Over the last year and half, Puerto Rico has implemented many difficult but necessary measures to restore its fiscal health and has demonstrated its determination to improve services for its citizens, to protect its credit, and to honor all of its obligations.

Now, I turn the presentation over to José Pagán to provide more details on the financials of GDB.

José Pagán: Thank you, David! I will now discuss the GDB's liquidity and other financial highlights.

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GDB's conservative investment portfolio continues to be a primary source of liquidity for the Commonwealth. GDB's portfolio primarily consists of high-quality liquid securities. Market value of GDB's portfolio has increased from December 31st, 2013 to June 30, 2014 by 500 million to a combined market value of $3.2 billion dollars. 98% of the portfolio is invested in high-grade securities, rated above A-. During the last 6 months, GDB has shortened the average life of its investment portfolio from 2.64 years to 0.8 years and increased the percentage of assets invested in money markets from 26% to 55%. GDB's investment portfolio, net of outstanding repos, increased from approximately $1.5 billion to $3.15 billion, a 110% increase. These measures have improved GDB's liquidity and financial flexibly.

Please turn to the next slide. Total deposits of GDB have increased by approximately $877 million, I am sorry, $837 million over the past 6 months. Public sector certificate of deposits have increased by $1.2 billion since December 31st, 2013, from $4.7 billion to $5.6 billion. This increase is mainly due to the purchase of GDB's timed deposits with amounts on deposit in the GO redemption fund and PREPA’s reserve fund and construction fund. GDB has identified approximately 300 million in public deposits it currently expects to capture during Fiscal Year 2015. According to the office of the Commissioner of Financial Institutions, public deposits at private financial institutions amounted to approximately $2.4 billion, as of March 31st, 2014. Average cost of funding has increased by 9 basis points since December 31st, 2013, to 2.61%. Average life of liabilities remains stable at 2.5 years during the past 6 months. Outstanding GDB notes total $4.7 billion, a decrease of approximately $320 million since December 31st, 2013, net of $110 million issuance to the State Insurance Fund. As you can see from the pie chart, public sector deposits continue to constitute the majority of GDB funding.

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During the past 6 months, GDB's total loan portfolio has been reduced by 11.3%, from $9.97 billion to $8.84 billion. The GO Series 2014 A transaction repaid approximately $1.9 billion in GDB loans substantially decreasing the amount of outstanding GDB loans to the Commonwealth. As you can see from the charts on the left, public corporation loans composed the majority of GDB's loan portfolio. As of June 30, 2014, the Highway and Transportation Authority has $2 billion outstanding out of a total of $5 billion public corporation loans. Over the last 6 months, the Commonwealth has reduced its GDB loans from $2.9 billion to $1.6 billion. Loans to the municipalities have remained stable at $2.2 billion. PREPA and PRASA loans have remained low. GDB intends to further reduce the size of its loan portfolio.

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This slide shows the available financing vehicles that provide potential sources of additional liquidity to the Commonwealth and the GDB. Puerto Rico may seek to access the market during 2015 to further strengthen its liquidity position, subject to market conditions.

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As a result of the March GO transaction, the Commonwealth's General Obligations now have a simpler, more conservative debt structure. Over the last 6 months, the Commonwealth has reduced its outstanding variable rate debt. The Commonwealth repaid $460 million variable rate demand obligations, and its debt profile is now entirely fixed rate, except for $126 million in CPI bonds outstanding. As of June 30, 2014, the Commonwealth has no debt subject to acceleration, no outstanding swaps, and no short term debt.

The chart on the right shows the Commonwealth's General Obligation debt service schedule. This debt is constitutionally protected. The Commonwealth has incremental debt capacity of $793 million based on average Fiscal Year 2014 and 2013 revenues, and its maximum annual debt service is $1.1 billion in Fiscal Year 2017. Article 6, section 2 of the Puerto Rico Constitution provides that GO bondholders can require the Secretary of the Treasury to first apply available Commonwealth's resources to the payment of bonds in the event available revenues in the Commonwealth, for any fiscal year, are insufficient to meet appropriations made for that year.

Please turn to the next slide.

The Commonwealth and its public corporations have materially reduced their swap portfolio exposure during the last 4 years. During the past 6 months, total notional swap exposure has decreased from $4.1 billion to $389 million, a more than 90% decrease. Mark-to-market value has decreased from $349 million to $108 million. All basis swaps have been terminated. Only 3 interest rate swaps remain outstanding. GO, HTA, and PBA no longer have swaps outstanding.

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Repayment or refinancing of $3.3 billion in short-term debt liability during the past 12 months has materially reduced the short-term maturity profile of the Commonwealth and its instrumentalities. In addition, on July 1, 2014, the Commonwealth and its instrumentalities made, in aggregate, $1.8 billion in principal and interest payments when due. GDB has also repaid $469 million in GDB notes during the period. This aggregate reduction in outstanding short-term liabilities, excluding TRANs, has decreased system-wide liquidity pressure.

I will now turn the presentation to Melba Acosta, Secretary of the Treasury, who will discuss the Commonwealth's budget.

Melba Acosta: Good afternoon. If you go to slide 15…

Slide 15 shows you the historical deficits from 2009 to 2013, which are audited figures, the unaudited preliminary deficit for 2014, the year that just closed, and the new budget for Fiscal Year 2015. As you can see from the slide, since this administration began in 2013, the deficit has been reduced to $783 million for Fiscal Year 2014 and down to zero for Fiscal Year 2015 as part of the preparation and approval of a budget without any deficit financing or refinancing of debt.

If we go to the next slide...

Slide 16 shows how from fiscal 2011 to Fiscal Year 2014 all the budgets have included different restructurings of the Commonwealth General Obligation debt or PBA guaranteed debt. The wide bar shows the amount of debt service actually paid from the General Fund. From Fiscal Year 2013 to Fiscal Year 2014, the amount paid, not restructured, increased by almost $200 million dollars. The Fiscal Year 2015 budget for the first time since Fiscal Year 2009 does not include a restructuring of either GO or PBA debt service. The full amount of debt-service, approximately $1.2 billion, is included as appropriations in the budget.

If we move to slide 18...

Looking at 2014 revenue, slide 18 shows on the left table that Fiscal Year 2014 revenue was 5.5% higher than Fiscal Year 2013 results. But the right table shows that the results were below budget estimates by $488 million. Corporate income tax was the driver of the year-over-year revenue growth, but also the item that missed the estimate in Fiscal Year 2014 by the largest margin. In the slides you have a description of the other remaining items.

If we move to the next slide...

The lower result in corporate income tax collections [audio distortion] tax credits and other residual items from previous fiscal years that were higher than estimates, purchase of credits by, and waivers granted to corporations that affected the payment of the gross receipts tax, or also known as *patente nacional*, timing differences of corporations that file extension of time to file returns, which were due on July 15, 2015, the next fiscal year, changes in some corporate structures that ended up reducing tax liabilities, corporations with negative operating results and lower tax liabilities, among other reasons. These results were considered when the Fiscal Year 2015 budget was prepared... [audio distortion] amended to prevent it from being affected by the purchase of credit and the use of carryover credit, as happened in Fiscal Year 2014.

The next slide shows the Sales and Use Tax revenues for Fiscal Year 2014. Revenues were higher than the prior year by $80 million or 7% and lower by $90 million when compared to the revised estimate.

The next slide 21, next one, slide 21 shows the preliminary non-audited budget results for Fiscal Year 2014. The initial budget was configured with a deficit of $820 million, composed mostly of refinancing of debt in the amount of $575 million and a deficit financing of $245 million. The preliminary results show that the year ended with a deficit of $783 million, or 4.5% lower, consisting of the refinancing of $575 million, a deficit financing of $93 million and an additional deficit of $150 million. Although revenues of the General Fund were short by $488 million, there was also a reduction in budget... [audio distortion] of $525 million that will be explained later.

Now I pass the presentation to Carlos Rivas, our Budget Director.

Carlos Rivas: Good afternoon.

The next slide shows the detail on the two amendments to the budget that were executed during Fiscal Year 2014. It was amended on two occasions to reduce the amount of approved appropriations for a total of $525 million dollars. The first amendment for $170 million occurred on February and happened in context of the credit downgrade and prior to the issuance in March. The amendment primarily cut operating, programmatic and contingency appropriations that were non-priority or were no longer needed. As the enabler of this amendment was a lower payroll due to a material reduction in headcount during the year. The Legislature approved the amendment to show the Commonwealth's commitment to a sustainable cost structure.

The second amendment for $355 million happened in June and was a response for the April revenue shortfall. The Constitution for the Commonwealth provides that whenever resources are insufficient to cover the authorized appropriations, the Governor may adjust disbursements and the underlying appropriations according to priorities set forth by law. We note that that is the very same provision of the Constitution and the OMB organic law that also states that the payments of General Obligations of the Commonwealth have a first claim on all available resources. In the second amendment, through executive order 19-2014, the Governor adjusted appropriations to the contributions mainly to governmental entities. The affected cuts were selected so that they (a) complied with the priority order set in law, (b)were large enough to address a resource shortfall of the magnitude of April, and (3) were not yet disbursed at the time. The specific appropriations that were cut were repayment of appropriation debt to the GDB, certain statutory non-payroll contributions to the retirement system enacted as part of the retirement system reform, and a fraction of the non-disbursed rent payments to the PBA. The executive order requires the Office of Management and Budget to prepare draft legislation to recognize a payable to the affected public entities and to set an appropriation payment plan over a number of years to compensate the entities for the forgone funds. So, that is essentially the description of the changes of the budget amendment.

We can move to the next slide.

And this is a summary of our projected... this is a summary of our projected year-end performance versus that amended budget of $9,245 million. We currently estimate that expenses will be $9,180 million for an underspending of approximately $55 million dollars, which [audio distortion] divide that between special appropriations and operating expenses. The $65 million come from operating expenses of the Commonwealth, $26 million of which come from the Department of Education, which accounts for 25% of the budget. The Department of Education historically accounts for the majority of the performance variance in the budget. The Department with its executive team successfully executed a comprehensive corrective action plan and turned to correct an initial overdraft projection, including measures to control staffing, to ration [sic] school security, and to reduce purchase services. We note that the surplus at the Department was enhanced by OMB budgetary support transfers and by the use of nonrecurring reserves, which are explained in the call out. However, even when these are netted out, the Department finished approximately breakeven. The rest of the central government agencies are projected at an underspending of $38 million in their operating cost. We note that this underspending is not yet included in the numbers for deficit that the Secretary of Treasury just presented because they are preliminary and that they do not necessarily, for accounting reasons, translate into a dollar-for-dollar improvement in the budgetary accounting deficit. As methodological notes, that does not include the result of subsidized public corporations and it considers all special appropriations are spent, even if they have a surplus balance at the end of the year because they have a multi-year life and can be spent on future years.

On a closing note, we are satisfied with the expense results of the year. We know that when considering the initial approved budget of $9,770,000 and the intervening budget amendment for $170 million, we have a $235 million dollars underspending vis-à-vis the budget that are related to programmatic, operating and contingency appropriations. Obviously, we know that we have our work cut out for us in the upcoming year on the expense side.

Next slide.

This slide is a little bit more detailed about what the main driver, or one of the key drivers, in the underspending that was explained in the previous slide. It is a reduction in the headcount in the employees of agencies, chargeable to the General Fund. Total employees at agencies whose operating funds are drawn from the General Fund and who are paid through the PR Treasury payroll declined by approximately 10,000 employees or 9%. Total employees actually paid by the General Fund, excluding those paid with Federal funds and special state funds, declined in a similar fashion of approximately 8,500 employees or 9%.

As we will see in the next section, the upcoming Fiscal '15 budget assumes and requires a further net declining headcount, particularly at the Department of Education. We are establishing further operational controls in terms of recruitment in the government. We have the new Fiscal Sustainability Act, which elevates to statutory level some of the existing norms, sets fines for realizing unauthorized transactions. Plus we are linking OMB's authorization platform directly with the Treasury payroll system to ensure that unauthorized hires are not able to be executed.

This ends the session regarding the expenses for the fiscal year end.

Melba Acosta: Now we are going to be moving to slide 27. We are going to be talking about the revenues that were included in the 2015 budget.

Slide 27 shows the revenues for the Fiscal Year 2015 approved budget compared to the actual results of the 2014 budget. You can see an increase of 6% when compared with those actual results. Most of the increases are coming from new revenue measures that were approved as part of the budget. As you are going to see in another slide, the Fiscal year '15 revenues were adjusted for nonrecurring revenues, new revenue measures, and the impact from the Fiscal Year 2014 fourth quarter revenue shortfall.

If we move to slide 28, this slide... next slide please.

Slide 28 shows a graphic configuration of how the budget was prepared. Even though that the approved budget for 2015 is just $40 million over the approved budget of 2014, $9,525 versus $9,565, the configuration of the budget required several reductions and increases. In general terms, there was a reduction of $765 million in the revenue base related to various adjustments that include the elimination of nonrecurring items such as two one-time transition estimate payments of the gross receipts tax, a reduction due to the shortfall of revenues that took place in the 4th quarter of Fiscal Year 2014, an increase in the reserve for refunds from $588 million to $688 million, an additional adjustments that are listed in the slide. There is then, after the reduction of $765 in the base revenues, there is an increase of $282 mostly coming from measures that were already enacted, another adjustment, and then a final increase of $523 million related to new revenue measures that were approved with the budget.

In the next slide, we can see the detail of the increase of $288. This is due to a change that will be implemented beginning on August 1st that is the collection of the Sales and Use tax at the point of entry of goods. We expect this measure to increase the capture rate of the sales tax in around $170 million, according to estimates of certain economists that were retained to study this matter. The number included in the budget, the $170 million dollars, already considers the implementation of August 1st. In addition, there is $27 million increase that is related to the expanded production of rum of a local producer and there is some additional $85 million, which is related to other different adjustments as they are explained in the slides.

The next slide shows basically the list of measures that were approved with the budget, that add to $523 million, and finally the final step in the configuration of the budget, which, you know, they are all revenue measures introduced and approved as part of the approval of the Fiscal Year '15 budget. The measures relate to various taxes, but most of the increase is a base on corporate and individual income taxes. You have a list of some of the measures. Some of them as I said are related to individuals, some are related to corporate, and some are related to changes in passive income, including the introduction of some new gains, and they all add up to $523 million.

Now Carlos is going to take over for the projected 2015 expenses.

Carlos Rivas: Next slide please.

This slide shows the overall feature of the configuration of next year's budget for the expense and for the revenue side. We have a reduction in the net authorized appropriations from $9.77 billion to $9.565 billion, which is a reduction of $205 million in the authorized appropriations. Revenue increase, from $9.55 billion to $9.565 billion, which is a $40 million dollar increase. That adds up to the $245 million, which was the initially authorized amount of the GDB deficit financing in the prior year's budget. In addition to that, through net expense cuts, the budget makes space to pay for the $575 million dollars that were part of the GO refinancing in the prior budget. That adds to $820 million, which was the configured deficit in the preceding fiscal year.

Next slide.

This slide is essentially a summary of the approved budget for Fiscal Year '15. The consolidated budget totals $28.1 billion. The main components are the General Fund at $9.6, the income at $9.1, and the Federal fund at $6.4. The vast majority of Federal funding is administered by agencies whose operations are paid by the General Fund, the largest exception being Transportation. The fee income includes the main public corporations, such as, PREPA, PRASA, and Highway, but it also includes fee income generated by central government agencies. The two pie charts on the right show the distribution of the General Fund. The top pie chart distributes special appropriations, which are essentially allocations for a specific legislative purpose. These add up to $4.65 billion, or 48%. The main special appropriations are a transfer out of revenue based formulas to the University, Judicial Branch and municipalities, debt service, and payment of public health insurance. The bottom pie chart distributes operating expenses of the agencies of the Commonwealth which adds up to $4.92 billion, or 52%. These are items like payroll, rent, utility services, and materials. By far the largest entity is the Department of Education, which is more than almost half of the operating expenses of the Commonwealth agencies. As a side note, payroll is allowed three-quarters of the operating expense, if you look at it from that point of view.

Next slide.

This slide summarizes the evolution and the configuration of the budget, how it starts in 2014 Fiscal Year and it ends in Fiscal Year 2015 from the expense side. These show cost escalators and the corrective measures contemplated. These numbers, as explained in the left column, have been updated from the estimates at the time of budget configurations, underlying assumptions and estimates have been updated, policy decisions involved… policy decisions involved, and the legislative assembly has exercised its prerogatives. The prior year initially approved budget was $9,770 million.

The cost escalators are estimated at $1,325 million and the corrected measures add up to $1,530 million, which means that the appropriations are reduced by $205 million, resulting in a final budget of $9,565 million. The main drivers in escalating costs for next year were number (1) elimination of the GO refinancing, (b) additional debt service and retirement contributions, (c) agreed upon labor benefits and pre-legislated revenue based formula—these are the University, the municipalities and the Judicial Branch, (d) additional programs and appropriations, whether legislative throughout the past fiscal year or legislated during the approval process, (e) the carryover deficit from subsidized public corporations. These are not infrastructure corporations that access the market; these are corporations that provide social services, such healthcare and health insurance. And (f) non-recurring origins and reserves, that were used during the year to charge program or recurring expenses.

The main corrective actions are—and we group them in a way that you can assess what the element of implementation risk may be in each one—is number (1) to neutralize the increase in the required appropriations (b) the shifting of some of the expenses to non-General Fund origins, (c) carry forward effect of having a lower expense basis. So that means a cost that we don't have next year because we cut it during the current year, and a lot of that is correlated with the amendment of the budget, and actual new cuts in reductions in appropriations for expenses.

In the next slide, we have a discussion of the details of the cost escalators. The first cost escalator is elimination of the GO refinancing for $575 million. The second is labor benefits and revenue based formulas. We have the fulfillment of the collective bargaining agreements at $166 million, pre-legislated raises for teachers for $50 million, and the increases in revenue based formulas would have been $132 million in absence of corrective action. Additional programs and operating appropriations add up to $172 million. These are appropriations approved during the past fiscal year or in the legislative approval process. We do note that off-setting adjustments were made and these are shown as corrective measures. The deficit at subsidized public corporations adds up to $219 million. These are the effect of the Health Services Insurance Administration projected deficit of $53 million, $36 million for the Medical Services Administration and approximately $30 million for the Transportation Authority. They add up to $119 million, not $219 million.

The next category is additional debt service and retirement contributions. There is an incremental 1% in the retirement system payroll contribution rate, an increment on GDB debt service and particularly interest rates on the TRANs because of a higher interest rate. Finally, we have $72 million from program appropriations and expenses that were charged to non-General Fund origins that we increase the expense basis because those origins are not necessarily recurring in nature. That adds up to the $1.325 billion.

Next slide.

This slide, which is the most important slide, is the one that shows what the corrective actions, that were included as part of the General Fund budget, were. $288 million in neutralizing increases in appropriations, $132 million of those are freezing the increases in revenue-based formulas. $120 million is freezing the benefits on collective bargaining agreements and existing legislated raises. It was not possible to neutralize the full effect of the collective bargaining agreements because next year we have the full effect of a partial year increase in the prior year, and the net increase in utility payments. The $260 million in changing of expenses to non-General Fund origins includes charging expenses against non-General Fund origins. This includes the repurposing of special state funds for payment of lawsuits, the repurposing of certain nonrecurring funds, which we attempted, though not fully, matched to expenses that were nonrecurring in nature, and eliminating operating or program subsidies to public corporations that have the financial capacity. For example, a cruise ship incentive to the Tourism Company, which is seeing an increase in room tax revenue because of the improving tourism picture.

We have corrective measures for $250 million which we call the carry forward effect of the lower expense basis. Essentially, these are two items. Number (1) the hiring freeze or having a lower starting headcount for the next year for $117 million and eliminating special appropriations for unneeded contingencies for $133 million. We have details in the annex (sic) as to what kind of appropriations we are talking about. Some of these were appropriations for example to pay for liquidations for sick leave and vacation leave because of the retirements that were expected and that actually did materialize in the previous year, and there are a number of other ones that are explained in the annex. That adds up to $250 million. I know that there is a correlation between that amount and the amendment of the budget of about $170 million and the $65 million underspending projected for the year. Not an exact correlation but there is a logical correlation between those.

And the final cuts are $732 million on actual cuts in the expenses to the Fiscal Year '15 basis. These are $165 million, which are reductions in intergovernmental appropriations to public entities. These are primarily the GDB and the retirement systems, particularly with respect to the GDB appropriations. Some of these cuts were of legislative initiatives and we have also been granted legal authority to --

---- [inaudible]... these… the effect of these cuts negotiations with the Government Development Bank. $142 million of that is a further attrition from a reduction of net headcount that will occur during the year. A large majority of that is in the Department of Education, and we will see how that is going in the next slide. $133 million of that is a reduction in program and operating special appropriations. Some of that is off-setting with the increases that were described in the previous slide. $110 million is reduction in payments of services. These are not... this is not payments of service per se. These are also reductions of expenses in the purchasing of services, the largest being the reduction in school transportation costs, reduction in school facility costs due to the consolidation of 70 schools, and of certain driven cuts in pricing. Another $86 million in measures are measures to be identified and executed by subsidized public corporation management. As we previously included, the cost escalators... we appropriated for some of that, and there are plans that the management of the corporations have to execute to compensate for the effects. $51 million of the cuts are reductions in non-salary benefits, such as Christmas bonus and sick leave liquidation of central government employees. Another final $45 million are a decrease in the budget of the other branches of the government and autonomous entities. These budgets were reduced to the same levels at the same percentage that the overall budget of the General Fund was reduced with debt services excluded. Again, this is... I took a little bit of extra time here because it is the most important slide but there is significant detail in the annexes as to what the cuts are, specifically that correspond to each grouping.

In the next page, we illustrate a little bit for the Department of Education what some of these corrective actions are, that many of these measures, in fact, have already begun to be implemented. Obviously, some of these headlines are in Spanish. We do apologize for that but we think it is important to highlight that some of these plans are under way. The August school year begins in two weeks. There is $374 million dollars in corrective measures at the Department of Education and a lot of these measures have actually begun to be implemented. The 70 schools that will be consolidated are being consolidated. They will not be opened in two weeks. The students are being shifted to schools with more resources. The changes in the transportation rates for the providers of school transportation were actually modified in April, and the contracts were cancelled and a new regulation was issued. Those savings are estimated at $60 million, and that new regulation has already been issued. The change in teacher staffing policies has resulted in a reduced need for recruitment of teachers, or a net decline in the recruitment of teachers of approximately 3,100 teachers without layoffs of teachers and with minimal non-renewal of contract teachers where the same individual is teaching... the contract is not renewed for the same individual. In those cases, the Department will make employment opportunities on a priority basis, an absolutely priority basis, available to those contract teachers in areas such as After Schools, such as Adult Education, and the many hundreds, actually, thousands of positions that there are in the Department, well compensated positions, in these areas, to ensure that the no-layoffs policy is observed.

On the next page, we have the highlights of the Fiscal Sustainability Act. I am not going to go into the detail. A lot of these items are actually the same measures that we were discussing that are enabled by this act. The act has duration of three years unless some element... if some conditions happen, it could have a shorter duration, and it applies to all entities of the executive branch, including public corporations.

Next slide.

This slide… it takes a little bit of a step back. We think it is really important to go quickly over it. It compares the Fiscal Year '13 budget with the Fiscal Year '15 budget. And what we have done is we have added back to the Fiscal Year '13 budget the debt service that was not budgeted and was not paid and was funded through the GDB balance sheet. Total expenses—if we add back that—is $9.857 billion. The approved budget is $9.565 billion. So, we actually have a lower budget once GO debt service is considered, of $293 million. In addition, when you look at how that change over time is configured, you see that there is an even more substantial reduction in the operating expenses of the Commonwealth, $372 million, and that goes to fund even further increments in debt service and further contributions to the retirement system and to the University of Puerto Rico. So, we have three elements going on: payment of debt service from tax revenue that was not being paid, a net decline of the total budget, and the reconfiguration of the expense priorities over the 18-month period.

Next slide.

This final slide very quickly illustrates an important initiative that is under way that we think will have a long term impact successfully executed on the finances of the Commonwealth. It's Federal fund maximization. On the lower part of the graph, you have what a recurring impact on the economy would be of moving from last place in competitive grants per capita to next to last $530 million; if we move to the median, $1.6 billion, and if we move to the top 10, $3.1 billion. If we move to the top ten in competitive grants per capita… There is an extensive initiative that has been going on for more than a year. We have recently hired a former president of the National Grants Management Association, Former Director of the Maryland Governor's Grants Office, and someone we believe is one of the top experts in the entire nation on Federal Funds management. And a number of initiatives are under way that we feel will support the budgetary balance. We need to have the $28 billion dollars of the consolidation budget working together to assure the fiscal operations of the Government, not just the General Fund. So, that concludes this part of the expenses update.

Natalia Guzmán: Good afternoon. This is Natalia Guzmán. Moving to page 43...

During the past 18 months, this administration has shown its commitment to reforming the public corporations to enable them to be self-sufficient. This chart summarizes all the actions this Administration has taken towards this objective. First, weeks after this administration came into office we closed the P3 Lease agreement of the San Juan International Airport. This transaction allowed the Ports Authority to repay approximately $400 million in outstanding debt and provided the framework for significant improvements in the airport facilities and operations. In June 2013, additional revenues were legislated for the Highways and Transportation Authority, also known as HTA, that have resulted in approximately $260 million in new annual revenues for the public corporation to pay its debt service. Eight months later, the Puerto Rico Aqueduct and Sewer Authority, also known as PRASA, enacted a 60% average water rate increase.

In February of this year, the administration enacted Act 24 of 2014, which reforms the lending practices of the Government Development Bank for Puerto Rico. This legislation prohibits the GDB from lending to the public corporations without an identifiable source of repayment, subject to certain limited exceptions. This legislation was designed to put a stop to GDB's prior practice of providing any public corporation with a bridge to nowhere, promoting the self-sufficiency of the public corporations as well as the financial health of GDB.

In May of this year, the Energy Act established a new regulatory framework for the Puerto Rico Energy sector and imposed reductions in the contributions in lieu of taxes for municipalities. In June, the Sustainability Act was approved to provide public corporations with tools to reduce their operating costs, including setting benchmarks and caps on employee benefits and operational contracts. Also in June, the Legislature approved transferring operations of the urban trains to a new mass transit authority in order to leave only highway related operations in HTA. This legislation is currently before the Governor. And finally, as recently as this month, the user rate for the urban train was increased by 50% to increase revenues to fund the train's operating expenses.

Thanks to the Sustainability Act, key public corporations are projecting significant operating cost reductions for Fiscal Year 2015. The Puerto Rico Electric Power Authority projects that it may be able to attain 70 million in cost reductions, driven primarily by an 8% labor force reduction due to a wave of retirements prior to July 1st of this year. HTA projects cost reductions of 70 million due to savings in employee benefits and operating contracts. And PRASA projects savings of 37 million, mostly related to reductions in employee benefits.

If we include the Bus, Maritime and Ports authorities, total Sustainability Act operating savings for some of the principal public corporations are estimated at approximately 140 million for Fiscal Year 2015.

On page 45, you have a summary of PRASA’s current situation. As a result of the recent rate increase last year, PRASA’s most recent unaudited financial results as of June 30, 2014, show an increase in total annual revenues of 360 million; or 50% above Fiscal Year 2013 results. This increase is in line with budgeted projections. Based on information provided by PRASA, we believe that PRASA will continue to operate in line with their budget and continue improving its financial profile. We will continue to work with them to refinance the maturing Bond Anticipation Notes and finance their capital improvement needs for the next fiscal year.

As mentioned before, HTA received additional revenues last year and that provided the public corporation with an identifiable source of repayment for its outstanding debt with GDB. In addition to cost reduction measures, such as moving the Urban Train’s operation to the new Mass Transit Authority, HTA has also identified funds needed to satisfy the 20 percent state matching requirements for federal grants used for highway construction projects, reducing liquidity needs. The Authority however still expects an operating shortfall during Fiscal Year 2015 and it's evaluating various options to address this deficiency. The Governor has asked the GDB to develop a plan to address HTA's challenges without using the Recovery Act. GDB is also working with the Authority to refinance the Bond Anticipation Notes that have monthly set-aside payments that increase materially beginning in October.

Recent news on PREPA's financial situation has made the market, PREPA's customers and employees aware of all the challenges the public corporation faces. On July 6th, PREPA signed a forbearance agreement with its working capital bank lenders who currently have outstanding revolving lines of credit totaling 696 million dollars. This forbearance, which expires on July 31, allows PREPA and the GDB to engage in conversations with these and other creditors, to discuss PREPA's financial situation and work on a path forward. PREPA is in constructive discussions with its creditors and is seeking to reach a consensual agreement with its lenders, bond creditors and other stakeholders, to permanently fix the challenges it faces, particularly, its recurring operational and budgetary shortfalls. We will continue to work hand in hand with PREPA and HTA to ensure that these public corporations can stand on their own, without further financial support from the GDB or the Commonwealth’s General Fund. I will now turn to José Coleman who will go over the Recovery Act.

José Coleman: Thanks, Natalia. Turning to the next section I'll be providing a brief overview of the Puerto Rico Public Corporations Debt Enforcement and Recovery Act. In June 2014, this administration enacted the Recovery Act as a necessary measure to provide an orderly framework for debt enforcement. As many investors, analysts and commentators have noted, public corporations are now eligible for relief that is available to public corporations in the United States under Chapters 9 and 11 of the United States bankruptcy code. Given this legislative gap, no comprehensive framework existed to enable a public corporation to address its financial challenges, creating unnecessary risk related to a disorderly enforcement of remedies to the detriment of all creditors.

To address this conspicuous lack of an orderly framework, the Recovery Act establishes two types of processes, which are designed to work together either concurrently or sequentially. The first type of process established by the Recovery Act, which we call a Chapter 2 process, is a consensual debt relief process with limited judicial intervention that culminates in the approval of amendments in financial debt instruments and the adoption of a recovery program that lays out the plan for the public corporation to become financially self-sufficient. The goal of Chapter 2 is to allocate any burdens equitability among all stakeholders and to provide equal treatment to all creditors within a class of debt. In a Chapter 2 process, financial creditor's remedies will be suspended for up to 9 to 12 months. Importantly, any modification to affected debt instruments must be approved by the affected class of creditors. At least 50% of creditors must vote and at least 75% of those who vote must agree. This means that a relatively small group of creditors can block a consensual debt relief transaction in a Chapter 2. Chapter 2 is ultimately designed to facilitate a consensual resolution among affected creditors with limited judicial involvement.

Turning now to Chapter 3. Chapter 3 provides a judicially supervised debt enforcement proceeding, borrowing from types of procedures found in state laws governing insurance and bank insolvencies, as well as Chapters 9 and 11 of the United Bankruptcy code. The process begins with the filing of a petition for relief, which automatically stays any action for the enforcement of claims against a petitioner. Under Chapter 3, a public corporation must propose a plan with recoveries at least equal to what each creditor would have received if all had immediately exercised their remedies. Plus a right to a portion of excess cash flow on such public corporation. Unlike Chapter 2, Chapter 3 is not limited to financial debt and can affect other types of debt. That said, it cannot be used to adjust trade debt that is less than a million dollars. In addition certain contracts including collective bargaining agreements may be rejected under certain circumstances under a Chapter 3 process.

Turning to the next slide.

As emphasized throughout this presentation, this administration has expressed an unwavering commitment to protect the Commonwealth, COFINA, the GDB and related credits. The administration sees the Recovery Act as an emergency tool to aid public corporations in financial distress, without resorting to the central government or the GDB for financial aid. Contrary to misconceptions by some, the act is both designed to strengthen and protect the Commonwealth and the GDB finances. The graphic below illustrates which entities are subject to the Recovery Act and, importantly, which entities are not subject to the Recovery Act. Furthermore, it bears repeating that the mere fact that an entity is nominally subject to the Recovery Act does not mean that such entity will or has any plans or obligations to avail itself of the protections afforded by the statute. Puerto Rico public corporations should not be analyzed differently than state-side public corporations, all of which could have recourse to Chapter 9 of the United States Bankruptcy Code.

Turning to the next slide.

The Recovery Act fills a conspicuous statutory gap by providing public corporations with a framework to achieve debt relief that is not available to Puerto Rico public corporations because they're ineligible for Chapter 9 or Chapter 11 of the United States Bankruptcy Code. Given this lack of an orderly process, the Recovery Act is a reasonable and necessary measure to protect the interest of all stakeholders. To illustrate the issue and in contrast to state-side counterparts, absent the Recovery Act, a public corporation in financial distress could end up in a disorganized default with a host of potentially adverse consequences, including: individual creditors pursuing disjointed remedies; damages to business operations in critical contracts, and impairment of the ability of the public corporation to provide essential public services, which importantly can include the electricity that Puerto Rico businesses, hospitals, law enforcement and regular households depend on. All of these adverse consequences would ultimately harm the collective interest of creditors. In other words, without the Recovery Act the Commonwealth not only risks irreparable injury to the collective interest of creditors, but also risks irreparable damage to businesses and residents of the island.

I now want to clarify certain misconceptions regarding the Recovery Act. First, the Recovery Act requires stakeholders, all stakeholders, including the GDB, to be treated equitably. Debt owed to the GDB or another Commonwealth entity does not have special status in Chapter 2 or Chapter 3. Second, it is important to underscore that the Recovery Act does not impair beneficiaries of Commonwealth or GDB guarantees. Finally, I want to clarify that the Recovery Act provides protections to revenue bondholders that are similar to those provided by Chapter 9. Just as in Chapter 9, a revenue bondholder's security interest remains, before, during and after any Recovery Act proceedings, subject to—as in Chapter 9—a public corporation's ability to use such revenues to fund ongoing operations.

I also want to address the suit brought by a certain PREPA bondholders challenging the constitutionality of the Recovery Act. The United States Supreme Court has clearly established precedents protecting the rights of sovereigns to pass debt enforcement laws when such relief is not provided by federal statute. The Government of Puerto Rico will vigorously defend the act's constitutionality and will formally respond to the suit in the next few days.

I want to end by underscoring certain key Recovery Act principles. First, the Act is to be used only when no other reasonable alternatives are available to protect the collective interests of stakeholders. Second, any process under the Recovery Act would be based on open dialogue with creditors and other stakeholders, including trade creditors. We want to stress that the statute provides robust protections for trade creditors to ensure continuation of essential public services. Finally, and perhaps more importantly, the Recovery Act being an emergency measure, there's strong preference for consensual negotiated solutions.

I will now turn the presentation to Alberto Bacó, Secretary of Economic Development and Commerce.

Alberto Bacó: Let's turn to page 53 please. Good afternoon. As the Secretary of Economic Development and Commerce of Puerto Rico, I am very pleased to have this opportunity to share with you the progress of our economic development initiatives.

Puerto Rico is undergoing a great economic transformation fueled by strategically targeted investment incentives, the new realities of the global economy, and our unique status of a US jurisdiction. The economic development team has embarked on a comprehensive strategy to build on Puerto Rico's strengths, creativity and innovative spirit to diversify our economic base. We're pursuing niche markets, like, aerospace, and leveraging Puerto Rico's human capital and fiscal autonomy to attract new investment opportunities. As discussed in the previous webcast, our goal is to protect our manufacturing core while we transition our economic ecosystem into a regional-service and high-tech industrial-activities hub. Our priorities include to reenergize anchor industries building on past success in life sciences, tourism and other related contributors to Puerto Rico economy, to attract high-impact investment for projects like Roosevelt Roads' redevelopment, and to draw new investments in knowledge services, financial services and insurance sectors. I can assure you that we are on track to achieve these goals.

Trends in employment distribution confirm this progress in the private sector. The data show that across multiple industries including the service industry we're seeing growth in net job creation. In other sectors like construction and manufacturing, there is now consistency and stability.

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As we have sought to stimulate private sector job growth, one of the key goals of the administration has been to reduce the size of public sector. We have made great strides in our efforts here, ultimately diversifying Puerto Rico's economy with growth in the private sector and significant progress in right-sizing the public sector.

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The progress doesn't stop there. Incentives like Act 20 and Act 22, which target businesses and investors, and other relevant economic development initiatives, are expected to directly or indirectly contribute to the creation of the nearing 90,000 jobs that we have committed by the end of 2016. We already delivered on the 50,000 goal for the first 18 months. And this potentially adds $6 billion to the Commonwealth's GDP. And the GDP forecast echoes the positive movement with 0.2% growth expected for this fiscal year, and 2% growth by 2016. Until now we have been working with early adopters in the first wave of investors. But we are starting to see a second phase emerging as investors find new opportunities in growing service sectors. The president of the New York Federal Reserve recently endorsed the potential of Puerto Rico's future. Other investors have also confirmed their confidence in our island. While the strong economic recovery we seek has not yet broadly taken hold, we are beginning to see very encouraging signs of improvement.

We are moving towards, and achieving real progress in creating a more diversified knowledge driven economy that addresses the challenges of globalization. The drivers are attractive fiscal incentives, global experience, the island's unique geographical location, along with world class infrastructure, bilingual and bicultural human capital, and also US legal framework. Puerto Rico offers a suit of tax incentives each of which meets specific needs for organizations and individual investors. The interconnectivity of Acts 20, 22 through 273 and 399 provide an aggressive service platform which firms can leverage to enhance operational efficiencies and better serve their client basis. The interconnectivity—and I will repeat that—it's what's making the difference. These incentives have been measureable success of part, have seen measurable... Act 20 has resulted in 249 new tax grant applications for exportation of services. Act 22 has drawn 288 individual investor applications. The International Financial Center under Act 273 has granted 12 operating licenses. The International Insurance Center under Act 399 has attracted more than 100 segregated asset plans and 149 million in premium income for 2013, more than double that of the previous year.

And we aren't done yet. The Department of Economic Development is constantly working on more initiatives to seize upon emerging opportunities. For example, the first ever Puerto Rico investment summit in April of this year co-hosted with John Paulson attracted over 200 attendees and it was a total success. In conjunction with the tax incentives, we are opening new commercial offices, increasing our bilateral commerce with Latin America. The latest one opened a week ago in Bogotá and a second is slated to open in September of this year in Perú.

We're more competitive than Miami and closer then Singapore.

The results in terms of jobs are encouraging, and measurable. Clear and binding commitments for 29,000 new jobs as of last month based upon a combination of incentives laws and relevant government programs. 14,000 of those jobs have already been created. Our manufacturing sector continues to be the mainstay of our economy and my colleague Antonio Medina will share with you some of our success stories.

And remember more competitive than Miami and closer than Singapore.

Antonio Medina: Thank you, Secretary Bacó, and good afternoon to everyone.

From the beginning of our administration, the Puerto Rico Industrial Development Company, PRIDCO, has been focused on the execution of a strategy to protect, diversify and expand our industrial ----[inaudible], driving business opportunities in the manufacturing and expert service sectors.

But why manufacturing? As you may recall Puerto Rican manufacturing represents the largest segment of our economy, counting for over 46% of our gross domestic product. As a result our efforts have stimulated the creation of over 5,000 new jobs already in the economy and within the private sector, including segments of biopharma, medical devices, textiles, aerospace, and information technology. These results have been a shift to the aggressive implementation and promotion of the advantages provided by the fiscal autonomy of the Commonwealth of Puerto Rico, including the economic incentive instruments provided by Act 73, known as the Economic Incentives Act, and Act 20, which Secretary Bacó mentioned, which is the expert services promotion act.

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Manufacturing employment data provided by the US Bureau of Labor Statistics reflects how these efforts have helped to stop the declining trend of erosion experienced by the manufacturing sector since the elimination of section 936 of the US IRS Code. As you can see in this graph, we have been able to curve the loss of manufacturing jobs and have been able to achieve stability in our manufacturing numbers. As you can see in the graph, since January of 2013, we show that the number of jobs in manufacturing has been centering around 76,000 jobs.

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As part of our industrial development strategy, PRIDCO is focused on promoting business opportunities for the traditional, established and emerging segments of our economy. The traditional segment comprises the rums and textiles industries. The established segment comprises those related to life sciences: pharmaceuticals, biotechnology, medical devices and agricultural bio. And on the emerging segments we have aerospace, information technology, knowledge service outsourcing, and electronics. We would like to share some of the most recent advances of the industrial development plan, including key wins for the emerging, established and traditional segments of our industrial development strategy.

A significant win for the established industrial segment of biopharma is Actavis. Actavis, which is the largest generics company in the US, has introduced… it purchased the Warner Chilcott facilities in the island. The company acquired 2 operations in Puerto Rico and they resumed the manufacturing operations in one of the facilities and expanded the second one. They will manufacture generic pharmaceutical products with a $48 million investment and 300 job commitments.

On the traditional side of our industrial segments, there has also been significant progress within the rums industry. Puerto Rican rum distiller Destilería Serrallés is increasing its rum production on contract manufacturing, adding an excess of 8 million proof-gallons in a 3-year period, which will consequently drive an estimated $80 million increase and cover-over revenues from the federal government to Puerto Rico during that same period. Also a request for proposal is currently in place for the sugar cane project operation. And we expect to select an operator for the sugar cane project by August of this year.

However, the most significant investments and wins are happening within the emerging aerospace segment. With 2 relevant projects that are already taking place. As previously mentioned, Lufthansa Technik is building in Puerto Rico its first MRO site in the Americas. And this will represent a $56 million combined investment and will drive over 400 new jobs when it's completed next year. In addition to that, Honeywell aerospace will build in Puerto Rico its new high-tech laboratory with a $35 million combined investment. The operation will serve and support Honeywell activities for the aerospace and defense sectors. And has a potential of over 300 new jobs within the next two years. When we add up these 2 projects with others announced over the last 6 months, we can affirm that there will be a 50% increase in the number of jobs related to aerospace activity in Puerto Rico over the next year. These projects are the result of a consistent cluster strategy that seeks to attract anchor industries of the aerospace sector, enhancing the growth of local supply chains for these industries.

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One of these anchor industries will be Lufthansa Technik, which according to analyses should have a total estimated cumulative economic benefit of $2.2 billion, or $220 million, on the 30-year projection. This figure considers direct, indirect and induced economic benefits of the construction and operational phases of the project. Our analysis reveals that the net present value of benefits for Puerto Rico significantly exceeds the net present value of this investment. Even on the short term and during the construction period, the estimated direct, indirect and induced economic benefits to the GDP of this project will exceed $100 million, while the estimated economic benefit just on salaries earned will be approximately $62 million. Therefore, we are confident that this project represents the birth of a new industry in Puerto Rico with the potential of being as large as the biopharma segment is today.

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Several projects currently under negotiation will drive additional growth and acceleration to this industry in the coming months. Also, we expect continuous progress in the key projects we have already announced. As these additional pieces fall into place we are committed to moving forward economic diversification strategy that is leading Puerto Rico's road to recovery.

Thank you for your attention.

David Chafey: This is David Chafey again with some concluding remarks. When this administration took office, we embarked on a mission to implement fiscal and economic reform for the Commonwealth and its public corporations with the intent of strengthening the creditworthiness and liquidity of the Commonwealth providing mechanisms for the public corporations to achieve self-sustainability and restoring economic growth to the island. In less than 2 years the Commonwealth has made substantial progress towards each of these goals. Building on our progress toward our long term goals in fiscal 2014, we must continue to execute on our ambitious plan during the next fiscal year.

In order to continue our progress we have 5 key priorities. First, we must demonstrate our commitment to fiscal reform by executing on our balanced budget. The new budget is a landmark achievement for the Commonwealth and delivering the projected revenues while actively managing expenses is critically important for the Commonwealth.

Second, the Commonwealth and the GDB will work with PREPA and HTA to develop concrete achievable plans to realize self-sustainability for the long run. It's critical for the long-term fiscal and economic health that these public corporations no longer rely on the GDB or the General Fund for support. In addition, with the right structure and incentives, PREPA can be an engine for economic growth, which is the goal we would like to reach.

In order to reach these goals we have implemented many measures to provide tools for the public corporations. The Sustainability Act provides a tool for the public corporations to achieve significant cost savings. And the Recovery Act, while an emergency measure, provides a legal framework for public corporations to address their financial challenges in an orderly fashion. Importantly, the Governor has directed the GDB and HTA to find alternatives for HTA to address its financial challenges without using the Recovery Act.

Third, the Commonwealth has laid out an economic growth strategy and we'll continue to execute on this plan. We have created tens of thousands of jobs for the people of Puerto Rico and will continue to build on our success today to attract additional business investment in target sectors for the Commonwealth.

Fourth, the Commonwealth expects to implement a set of comprehensive tax reforms by the end of fiscal 2015. Such reform will be designed to support our economic growth and development plans by providing greater certainty to revenue streams, attracting investment to strategic components of the economy, and simplifying oversight burdens. Tax reform will not affect the revenues or the pledge of COFINA.

Finally, the Commonwealth expects to access the market if necessary to continue managing its liquidity. The recent action of the rating agencies misrepresent the intentions of the Commonwealth and do not reflect the many important improvements that this administration has made to the worthiness of Puerto Rico. The Commonwealth's willingness to honor all of its obligations should be unquestioned in light of these unprecedented achievements.

Given our commitment to improve and protect our credits, we believe our credit ratings will not preclude our market access and there is appetite from investors to provide liquidity as needed to the Commonwealth to support its reform plan. The Commonwealth plans to refinance its TRANs in the first quarter of fiscal 2015 and will access the market as conditions permit to refinance short-term maturities and extend its liquidity horizon.

In summary, the Commonwealth will proceed based on the following guiding principles. The Commonwealth will continue to strengthen and protect the GO, GDB, COFINA and related credits. The Commonwealth is committed to meeting its 2015 balanced budget. We have implemented many measures to ensure the self-sustainability of the public corporations and will continue to assist PREPA and HTA to meet that goal. The Recovery Act was implemented as a tool to be used only in an emergency to foster an orderly process for certain public corporations to address their financial challenges. We are committed to finding negotiated consensual solutions with our stakeholders, and we'll only use the Recovery Act if such solutions are not available. We value our many stakeholders, including our creditors, suppliers and employees. And each stakeholder will be an important contributor towards long-term fiscal and economic health of the Commonwealth and public corporations. And finally, while we believe the rating agencies have severely misunderstood and misrepresented the intentions of the Commonwealth, we recognize that the downgrades have had an adverse impact on many of the investors who have supported us for many years. We will continue working with the rating agencies and expect to continue having a constructive dialogue with them. We hope to help them gain a better understanding of the progress we have made in the past 2 years to improve the Commonwealth's fiscal position and economic growth initiatives with the goal of improving the ratings of our outstanding securities as early as possible.

Thank you for spending your time today with us as we discussed the many achievements we've made on our path to economic and fiscal reform and outlined the next steps in our plan. We appreciate the support we have received in the citizens of Puerto Rico, our employees and our investors. And we look forward to discussing the results of our reform programs on a future webcast. Thank you very, very much.

And now we have questions?

Operator: Thank you! And at this time we will begin the question and answer session.

Our first question is "What are your plans going forward regarding quarterly calls, disclosure and responding to investor questions?"

David Chafey: I'll take that one, this is David Chafey. The Commonwealth and GDB, we are committed to transparency and continuing disclosure. We have performed on those commitments and plan to continue periodic updates through webcast presentations and updates to the Commonwealth report. In addition, Treasury will continue to provide monthly updates related to the revenues of the Commonwealth.

Operator: Thank you! Our next question is "Were the General Fund expense cuts made in FY14 ($525 million) actually made or were they simply deferred into FY15? If the latter, what is the impact on the balanced FY 2015 budget in the liquidity needs?"

Carlos Rivas: The $170 million February amendment to the budget was primarily programmatic, operational and contingent natures… contingent appropriations, and are not deferred expenses. The $355 million amendment in June, intergovernmental contributions, will result per the executive order of the governor in a legislative repayment plan for the forgone funds over a number of years not specifically the next fiscal year.

Operator: Thank you! Our next question is "In the event that the courts decide in favor of Doral Financial, how will the Government handle this liability?"

Melba Acosta: We are very confident that the courts will decide in favor of the Government. Doral has not shown evidence that in fact they overpaid $152 million of taxes regarding income related to the IO transactions, as they represented in the 2012 Closing Agreement. In the event that the court resolves against the government, which we doubt, the 2012 Closing Agreement states clearly that the supposed amount owed would be paid throughout a 5-year period.

Operator: Thank you! Our next question is "Do you intend to nullify any other tax refund agreements with other corporations?"

Melba Acosta: No, we don't intend to nullify any other tax agreements. Given that no agreement was even similar to the Doral agreement. Treasury doesn't have any other closing agreements that converted a deferred tax asset to be amortized throughout a period of years into a supposed refund to be paid. So the answer is no, we don't intend to nullify any other tax agreements.

Operator: Thank you! Our next question is "How has the Doral situation impacted your relationships with other private banks?"

Melba Acosta: We believe that we have healthy working relationships with all of our local financial institutions. These institutions are crucial providers of credit to businesses in the Commonwealth and the Commonwealth Government itself and we value our relationship with them.

Operator: Thank you! Our next question is "Regarding the new legislation from last fall: are the first and second liens closed now by resolution?"

David Chafey: Why don't we go to the next one, as we get the answer to that one?

Operator: Thank you! Our next question is Can you....

Melba Acosta: Go to the next one. Coleman will be back in a minute.

Operator: Okay, thank you. And our next question is "Please explain the modifications made for FY2015 to the *patente nacional*. Newspaper reportage indicates that certain businesses no longer need to pay the tax and others will pay at a lower rate. How much revenue is expected to be collected? How does this compare to FY2014 collections?"

Melba Acosta: The *patente nacional* is now calculated outside of the alternative minimum tax computation. Therefore, it will not be negatively impacted by the use of credits as it happened in the prior year. There were some reductions and adjustment in the *patente* tax rates that were introduced by the legislature for certain particular industries that the tax impacted in a very aggressive way. All together the changes represented an increase of the revenues estimate of 68 million and also eliminated the possibility of a reduction of the tax by credits.

Operator: Thank you! Our next question is "What procedures are in place to safeguard liquidity for the payment of constitutionally-protected debt service?"

Natalia Guzmán: As we disclosed in the OS for the 2014 Series A GO transaction, starting on July 1st of this FY, deposits for the sinking fund payment of the GO will be held in trust outside of the GDB.

José Coleman: Can we go back to the question…

Operator: Yes, I was going to proceed with Jose's question, just one moment. And our next question is "Regarding the new legislation from the last fall. Are the first and second liens closed now by resolution?"

José Coleman: This administration has taken affirmative steps in the past 18 months to strengthen the COFINA credit, prospectively increasing the COFINA based rate, pledging an additional .5 in SUT to COFINA, expanding the sales tax base in the FY2014 budget. And for the FY15 budget, charging the SUT at the point of entry, which should strengthen the SUT capture rate. These measures have increased COFINA's debt capacity, improved coverage ratios, and breakeven growth rates, and resulted in unprecedented SUT growth rates during FY14. The COFINA first and second liens are effectively closed but if Puerto Rico decides to access the market with a COFINA transaction in the near future, such transaction would be issued under the junior third lien. At such point, we would formally close the COFINA senior and first subordinate liens except for refundings for savings.

Operator: Thank you. Our next question is, "Can you please verify that the Puerto Rico Public Finance Corporation and the Puerto Rico Housing Finance Authority are excluded from the provisions of the debt Recovery Act?"

José Coleman: Yes, these entities are each affiliates or subsidiaries of the Government Development Bank of Puerto Rico, and all such affiliates or subsidiaries are excluded from the Recovery Act.

Operator: Thank you! Our next question is, "Has the Governor made US Treasury and White House officials providing technical assistance aware of FERC's delay in issuing the permit?"

David Chafey: The Commonwealth has ongoing dialogue with US Treasury, the White House and other officials in Washington to keep them informed of the situation of the Commonwealth and its instrumentalities, and we request technical assistance when appropriate. They have been supportive in providing technical assistance to the Commonwealth.

Operator: Thank you! Our next question is, "Has PREPA acknowledged that they are in default on their debt because of the draw on the Reserve Account?"

José Coleman: PREPA is not in default, technical or otherwise, due to the previously disclosed draw on the reserve account.

Operator: Thank you! Our next question is "Can the GDB do debtor or in-possession financing? Is there a lender such as the IMF that could provide interim financing in the event of a bankruptcy filing?"

José Coleman: The GDB expects to provide non-financial assistance to the public corporations which could pursue relief under the Recovery Act, but does not expect to provide debtor-in-possession financing to these public corporations. We do not believe obtaining loans from the IMF is a realistic alternative given our relationship with the United States.

Operator: Thank you! Our next question is "Please explain the status of the plan to collect sales tax at point of entry to minimize avoidance. How much additional sales tax collections are expected as a result of port-of-entry collection. Reports say that (a) the implementation date has been postponed into August; and (b) it will be possible to post a bond to avoid payment at point of entry?"

Melba Acosta: Treasury will begin collecting the sales tax at the point of entry of goods on the 1st of August 2014. The amount included in the budget for this initiative $170 million already assumed the implementation in August. Yes, it is possible to post a bond to delay the payment at the entry. These companies will then have to remit the tax on the 10th day of the next month after the entry.

Operator: Thank you! Our next question is "What is the status with the TRANs financing for fiscal 2015? I know the Commonwealth needed $900 million and the GDB agreed to fund $300 million. Did the Commonwealth privately finance the remaining $600 million or will the GDB have to cover the whole $900 million?"

José Pagán: This is José Pagán. We are currently working on obtaining TRANs financing with several interested investors.

Operator: Thank you! Our next question is "Will there be an update of the GDB's March 5th cash flow projections?"

José Pagán: Yes, we expect to update the market with liquidity projections within the next two weeks.

Operator: Thank you! Our next question is "What is the amount of General Obligation, Appropriation and COFINA debt service budgeted for payment in FY2015? (a) Is any of the General Obligation, Appropriation and COFINA debt service scheduled to be paid in FY2015 expected to be paid from refunding debt proceeds?"

Melba Acosta: The 2015 budget contains 1.2 billion of debt service for the GO, PBA, and appropriation debt, and 670 million in COFINA debt. In the case of COFINA the debt service is paid from the first amount of collections of sales tax, which is collected by a separate escrow agent not by the Government. The remaining sales tax collected then goes to the General Fund. All of these payments of debt service that I just mentioned are being paid from the General Fund, not from refunding debt proceeds.

Operator: Thank you! Our next question is "How much money does the Commonwealth and the various public corporations owe to PREPA?"

Natalia Guzmán: As of May 31, the Commonwealth and its instrumentalities owe approximately $240 million to PREPA. Of this amount, approximately $110 million is past due.

Operator: Thank you! Our next question is "After the draw on reserves for the 7/1 debt service payment for PREPA, what is the annual interest reserve supposed to be for the next twelve months?"

Natalia Guzmán: We currently don't have that number here with us but we'll check and publish it.

Operator: Thank you! Our next question is "How will PREPA pay for fuel?"

Natalia Guzmán: PREPA currently has adequate liquidity on hand to make payments to suppliers of fuel and all other services and goods.

Operator: Thank you! Our next question is "How does PREPA expect to repay the bond proceeds used for fuel purchases and within what time frame?"

Natalia Guzmán: Contrary to erroneous reports in the media, PREPA has actually not used loan proceeds for fuel purchases.

Operator: Thank you! Our final question is "What concrete steps have been implemented to date to reduce PREPA's reliance on oil?"

Natalia Guzmán: PREPA has taken numerous steps to reduce reliance on oil. Currently, PREPA is seeking funding for its Aguirre gas port, which will enable the full conversion of the Aguirre plant to natural gas. PREPA has also contracted with EcoElectrica, AES and providers of renewable energy in order to bring efficient generation into the stack and to diversify the fuel mix for the island.

Operator: Thank you. And there are no further questions or comments in the queue at this time.

Natalia Guzmán: Thank you.

Operator: And this concludes today's question and answer session. We will do our best to address any unanswered questions in writing by posting a Q&A document on the GDB's website. That concludes today's conference call. You may all now disconnect.

<END OF TRANSCRIPT>