



Economic and Fiscal Reconstruction Plan

**Government Development Bank for Puerto Rico
Investor Presentation**

March 12, 2009

Agenda

- 1. Responding to the Call for Action**
- 2. Economic and Fiscal Reconstruction Plan**
- 3. Financial Measures and Fiscal Agent Role**
- 4. Concluding Remarks**



Responding to the call for action

An economy in recession and a fiscal emergency:

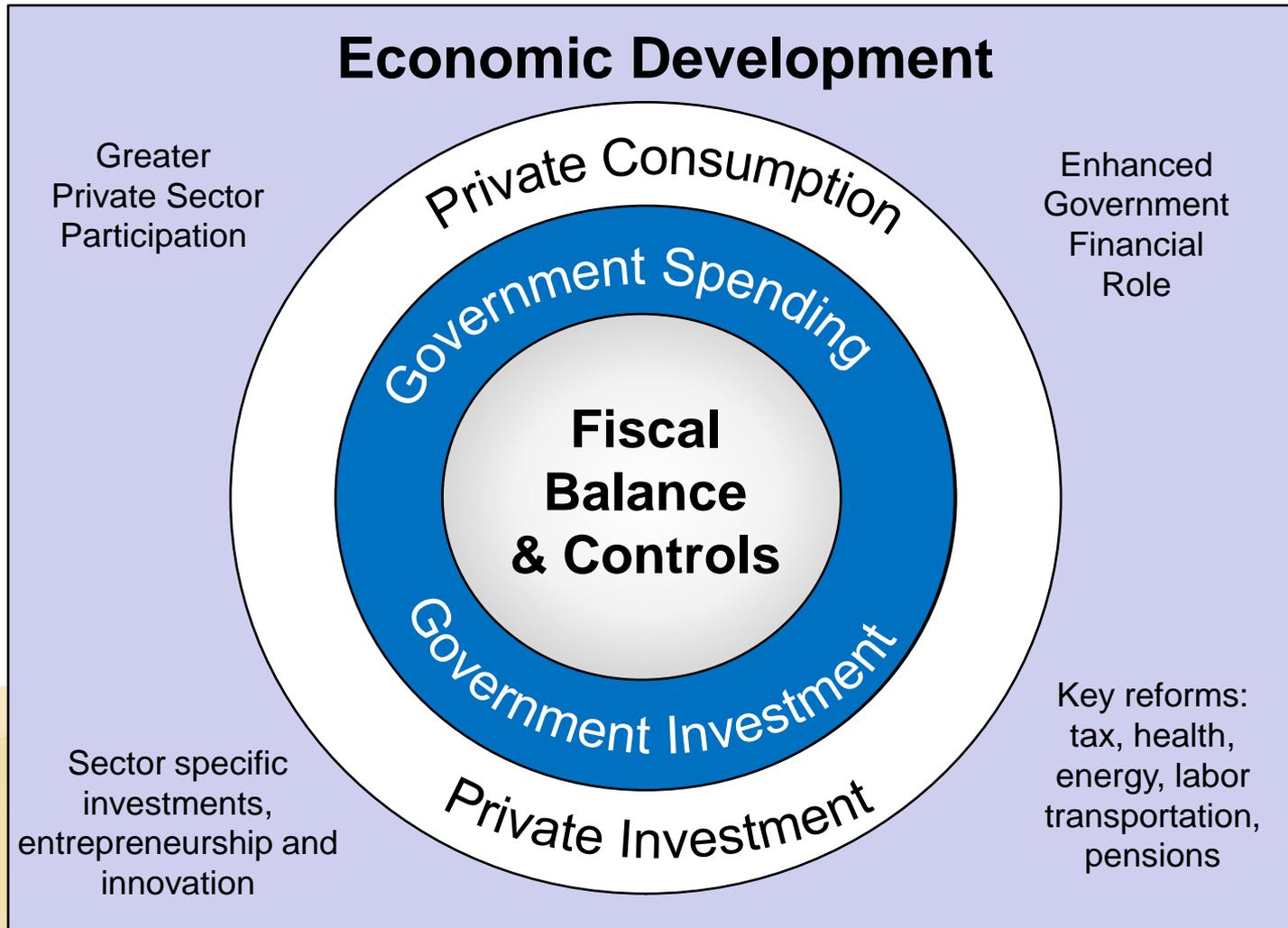
- Need to jump-start the economy and start a new phase of development
- Bring about a more agile and responsive government
- Solve a fiscal deficit that reaches \$3.2 billion in FY 2009
- Strengthen Puerto Rico's credit rating

We have taken action:

- Effectively communicated the risks and the need for action
- Developed a comprehensive Plan for the next four years
- Legislation enacted seven bills that allow for implementation of the Plan
- We are reaching out to the investor community with timely information



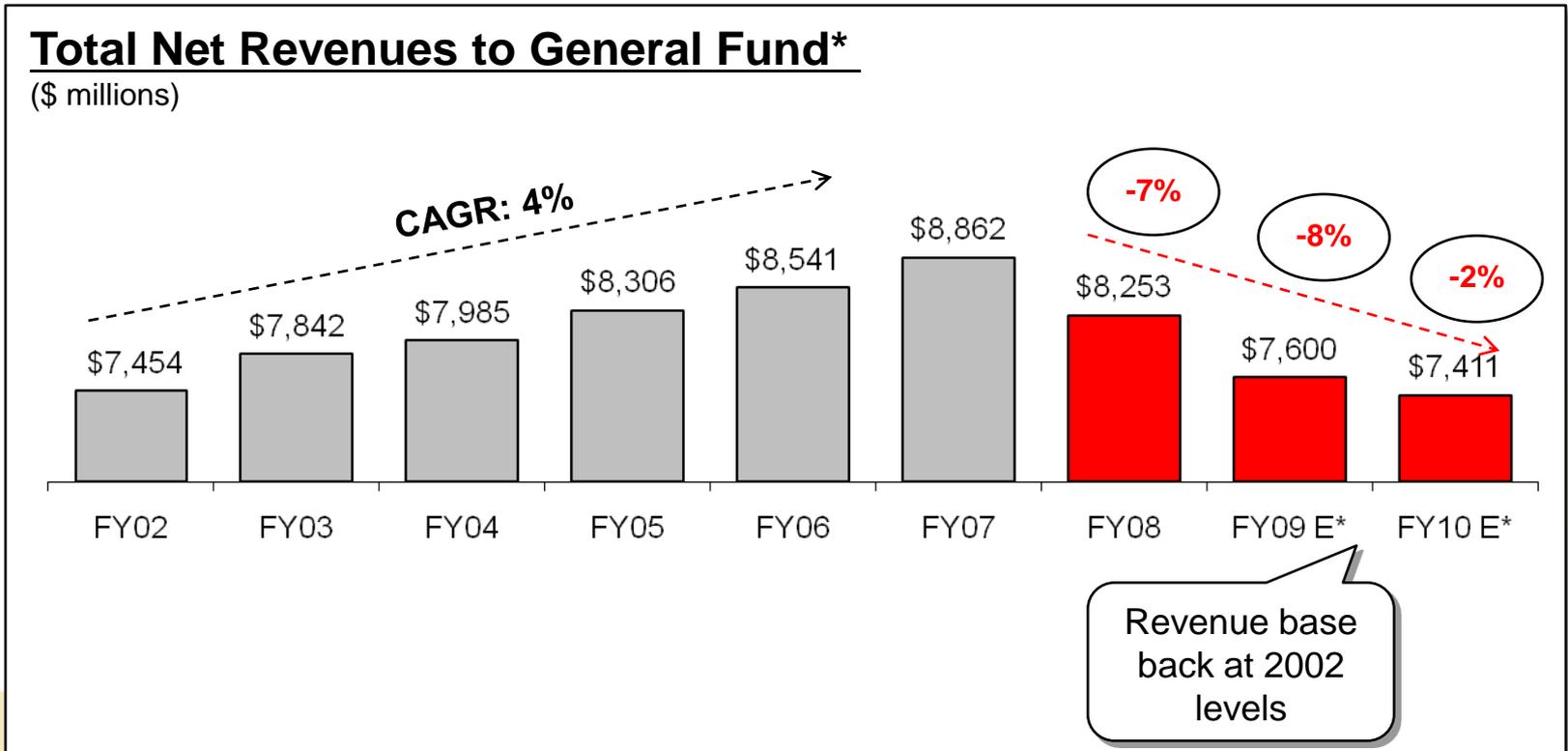
We are addressing the fiscal imbalance, a key requirement to begin a new phase of economic development in Puerto Rico





We are taking the appropriate steps given the trend in General Fund net revenues

Pending revenues from new measures and subsequent tax reform



Source: PR Treasury Department.

* Estimates for FY 2009 are preliminary and subject to change. Forecast for 2010 does not include effects from the different stimulus plans or any other effect coming from the fiscal adjustment. Estimates for 2010 do not take into account the latest modification to the SUT. In other words, these are GF net revenues with SUT of 5.5%. 4



Dealing with the expense side is critical in fixing the fiscal imbalance

Item (\$ millions)	FY 2009 Expenses*		Factors
	Budget	Overbudget	
Budgeted Expense Base	\$9,484		Over 60% of the budget base is estimated to be payroll**
Public Health Plan Deficit		\$300	Recurring excess expenses
Education Dept. Deficit		\$200	Recurring excess expenses
Debt service of PIF		\$350	FY08-F09 payments of Public Improvement Fund
PBA non-budget income		\$145	Non-budgeted rent to PBA***
GDB non-budgeted notes		\$143	Non-budgeted loans payable to GDB
Other deficits		\$118	Deficits attributed to agencies and payments for unused sick leave
TRANS Debt Service		\$86	Non-budgeted TRANS debt service
EQB Retirement Plan		\$15	Early retirement plan without repayment source
Sub-Total	\$9,484	\$1,357	14% of additional non-budget expenses
Total Expenses		\$10,841	

Sources: GDB , Office of Management and Budget.

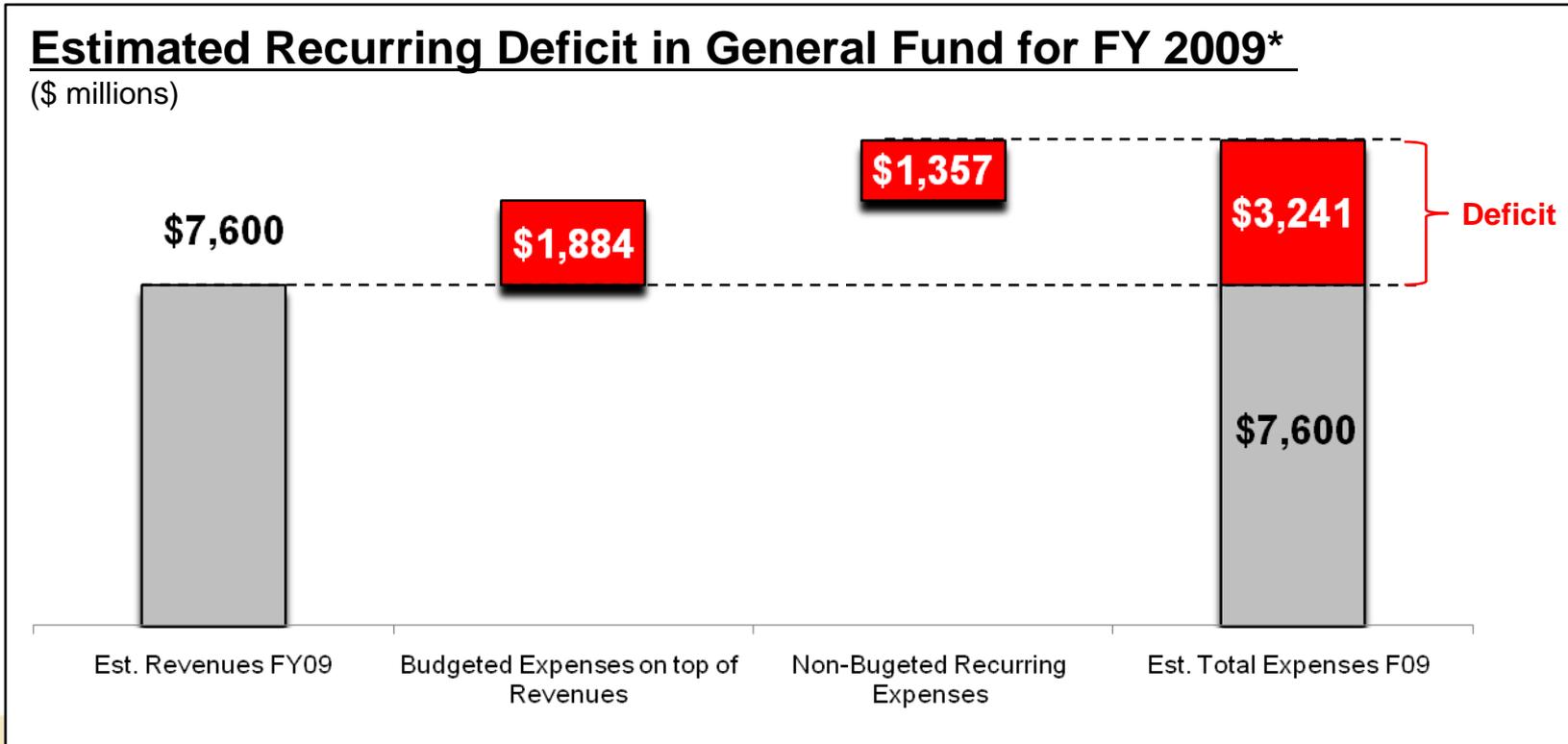
* Preliminary estimates and subject to final revision and certification from the Office of Management and Budget.

** Calculation based on total expense base that includes non-controable expenses or expenses that are disbursed from the GF by Formula.

*** PBA = Public Building Authority.



We understand the imbalance and will implement a plan to achieve fiscal balance



Sources: GDB , Office of Management and Budget.

* Preliminary estimates and subject to final revision and certification from the Office of Management and Budget.



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

Fiscal Reconstruction

Act # 7 of 2009: Fiscal Emergency Act

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

Economic Reconstruction

Act # 8 of 2009: PRIFA Designation

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

Act # 9 of 2009: Local Stimulus Plan

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

Agenda

1. Responding the Call for Action

2. Economic and Fiscal Reconstruction Plan

3. Financial Measures and Fiscal Agent Role

4. Concluding Remarks



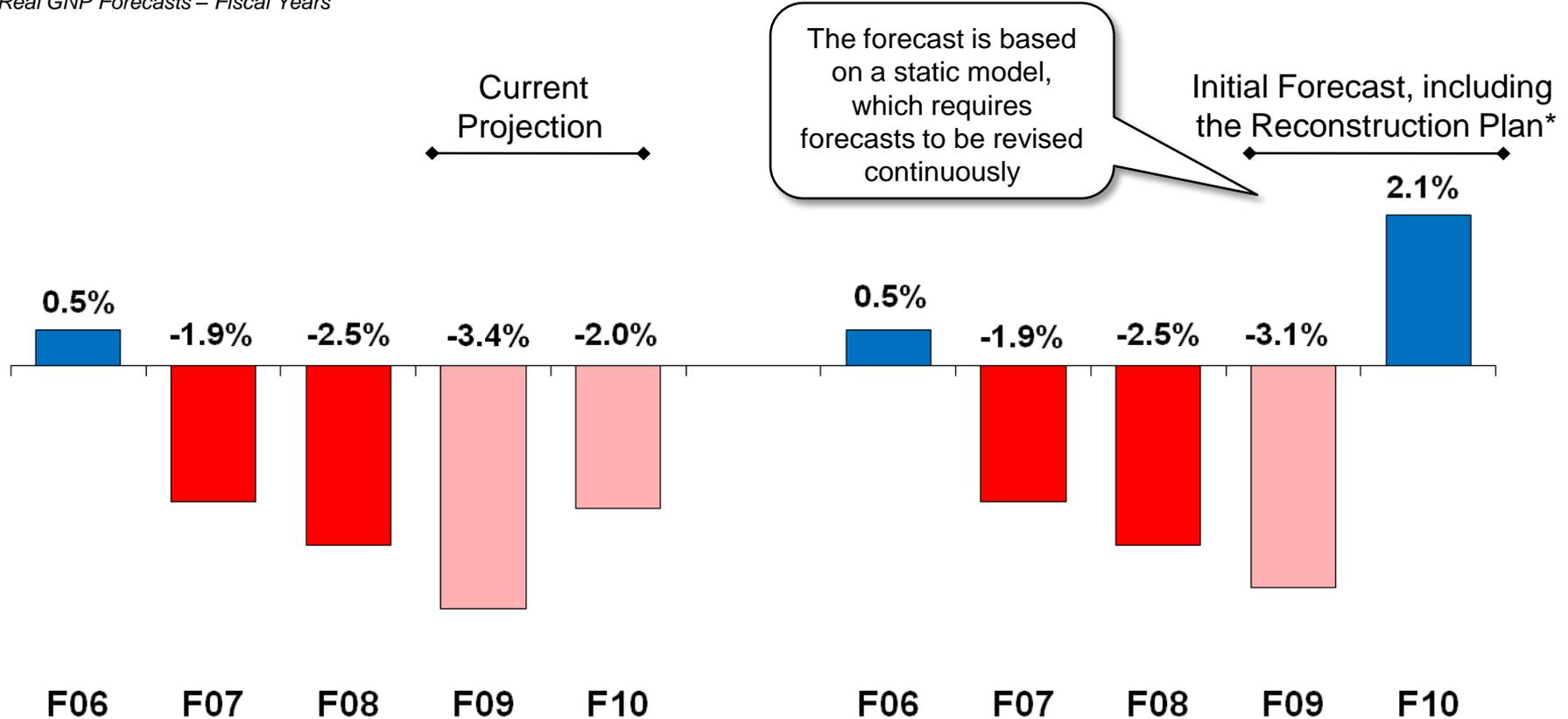
We are ready to start the implementation phase and meet the goals of the Plan

Plan Goals	Specific actions and components of the Plan
Stabilize the fiscal situation	<ul style="list-style-type: none">• Approval of Legislative package to implement the Plan• Implement Expense and Revenue Measures• Implement Financial Measures
Strengthen PR's credit	<ul style="list-style-type: none">• Formulate and implement a multi-year plan• Re-establish transparency and investor relation programs
Re-build the economy	<ul style="list-style-type: none">• Establish organizational framework for Federal Stimulus Plan• Design a Local and Supplementary Stimulus Plans• Implement Public-Private Partnerships

Initial economic forecasts indicate a short-term jump-start of the economy... economic revisions are an ongoing task throughout implementation

Initial economic forecasts taking into account the Reconstruction Plan *

Real GNP Forecasts – Fiscal Years



Sources: PR Planning Board.
* Preliminary and subject to revision.

Significant stimulus and investment during the next two fiscal years

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

(\$ billions)

\$5.0

+

\$0.5

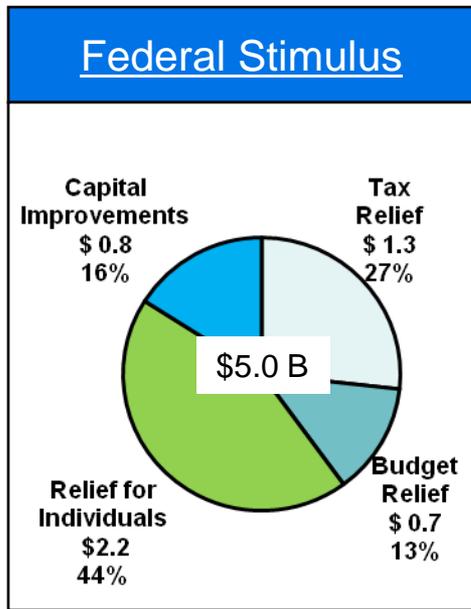
+

\$2.0

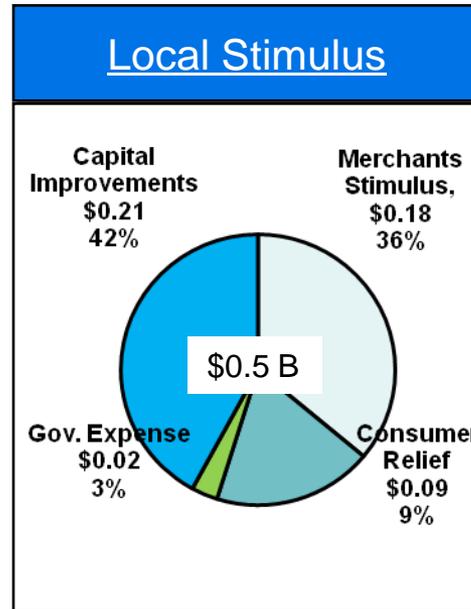
≈

\$7.5 BN

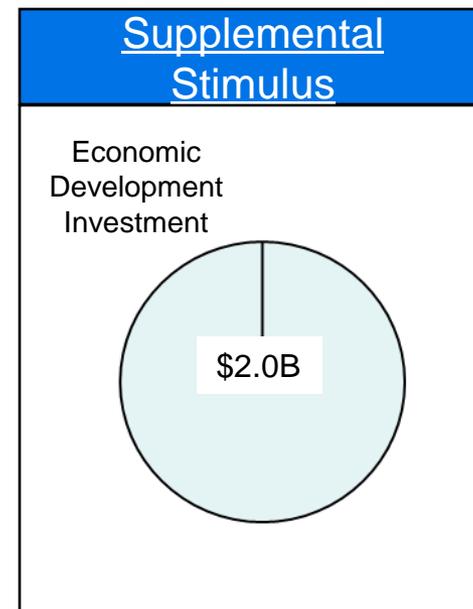
PHASE Ia



PHASE Ib



PHASE II



12%
of GNP
in
Total
Stimulus

Public-Private Partnerships

The economic modeling will monitor F2010 and F2011 fiscal and economic measures*

\$7.5 BN

(\$ millions)

Economic Account	Plan Components	FY09	Main Fiscal Measures and Economic Stimuli		Supplemental Stimulus	FY13-14	Total
			FY10	FY11	FY12		
Government Spending	Expense Measures & Local Stimulus	\$0	(\$1,985)**	\$0	\$0	\$0	(\$1,985)
Construction Investment	Local & Supplemental Stimuli Plans	\$0	\$198	\$921	\$1,328	\$0	\$2,447
Federal Transfers Individuals	Federal & Local Stimuli Plans	\$0	\$1,138	\$760	\$0	\$0	\$1,898
Federal Transfers Govt. Agencies	Federal Stimulus Plan	\$181	\$1,300	\$1,157	\$68	\$136	\$2,841
Federal Transfers Pub. Corps.	Federal Stimulus Plan	\$0	\$89	\$88	\$0	\$0	\$176
Federal Transfers Municipalities	Federal Stimulus Plan	\$0	\$76	\$75	\$0	\$0	\$151
Total		\$181	\$815	\$3,000	\$1,396	\$136	\$5,528

Sources: PR Planning Board and GDB.

* Initial distribution of economic and fiscal measures of Reconstruction Plan. Subject to revision.

** Includes \$2,000 million in reduction in Government Spending but an increase of \$15 million due to employee training from the Local Stimulus Plan.

Economic Reconstruction:

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



Act # 8 of 2009: designates PRIFA as Federal Stimulus Plan implementation leader

- **Basic Tasks**

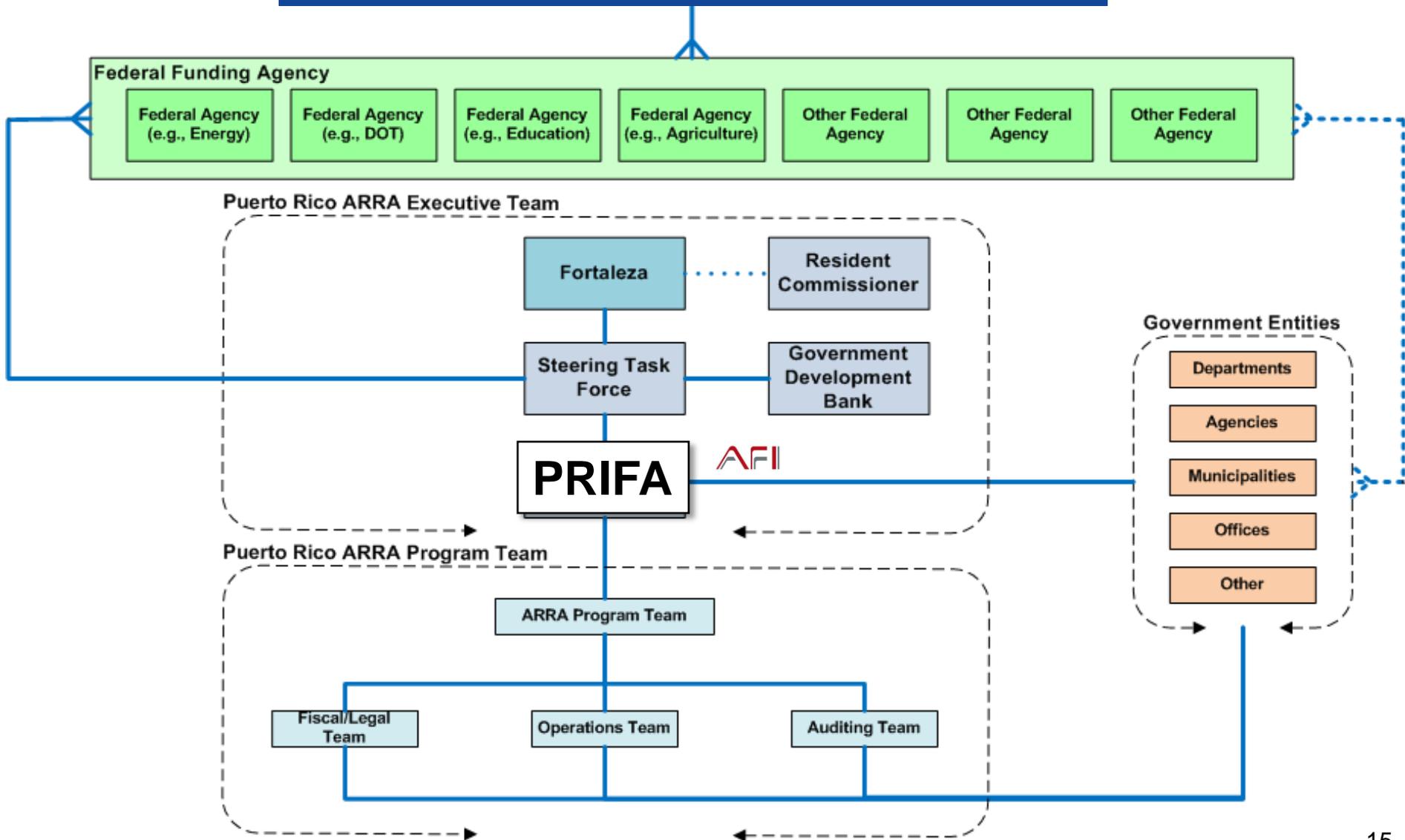
- Documenting
- Monitoring
- Reporting / Ensuring Transparency
- Problem Solving

- **Additional Tasks**

- Identify Potential Sources of Funds
- Liaison with Federal and Local Agencies
- Grant Proposals, Loans, Assisted Programs, Competitive Funds*
- Program Management / Project Execution

Workflow and organization is already in place

American Recovery and Reinvestment Act



Local Stimulus Plan*

Summary of Programs

Estimated total
economic impact of
\$953 million

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

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

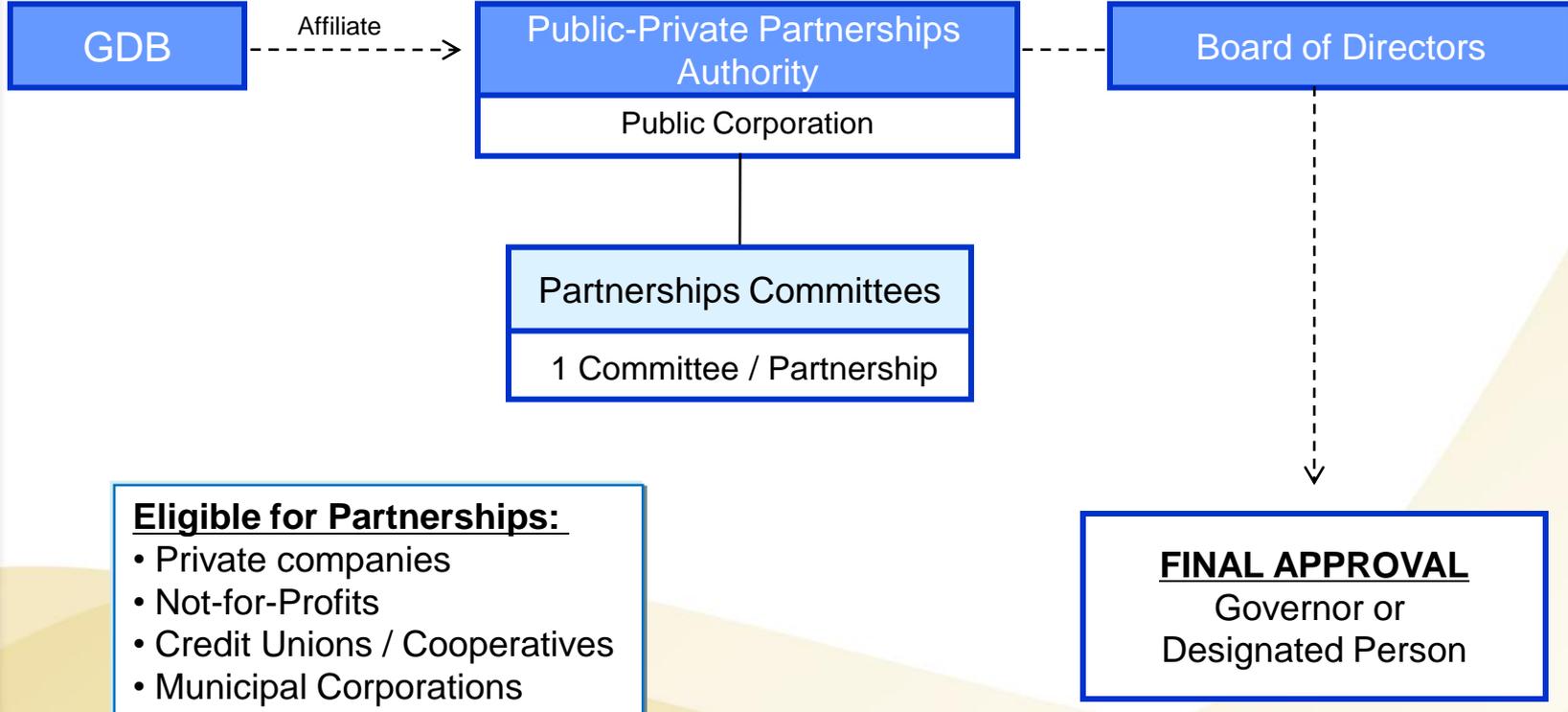
Main benefits for the Government

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



The proposed structure provides a clear framework and is designed to protect the public interest

Creation of the Public-Private Partnerships Authority





There are opportunities for partnerships in various areas

Areas of opportunity for Partnerships

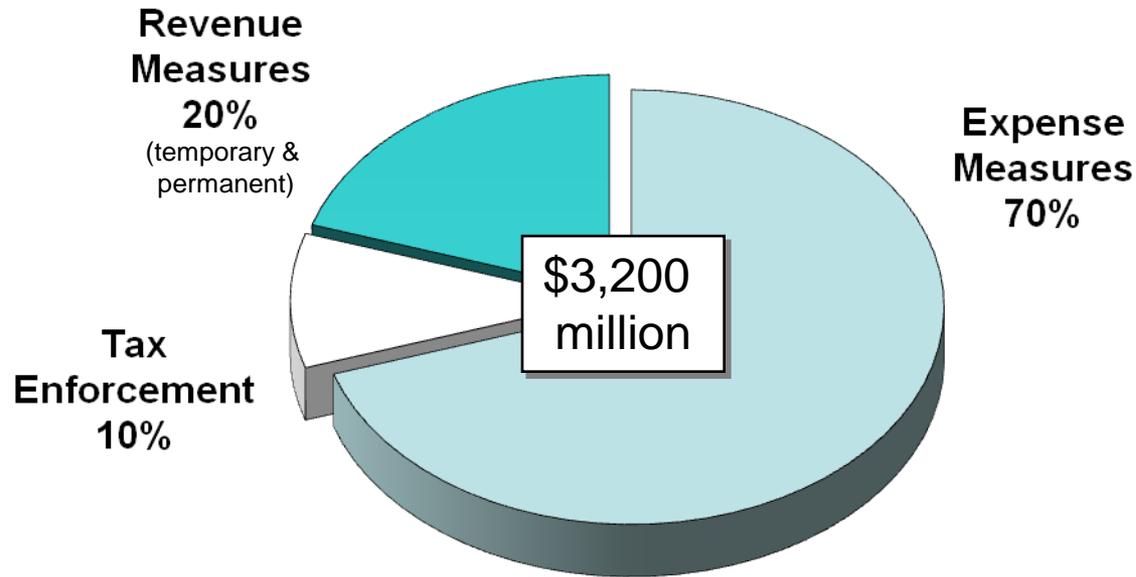
- Highways
- Maritime Ports and Airports
- Transportation
- Lottery
- Solid waste
- Drinking Water
- Renewable energy
- Real estate development
- Education and Social Services

Fiscal Reconstruction:

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

The Fiscal Reconstruction Plan is based on a combination of measures

Distribution of Fiscal Reconstruction Measures

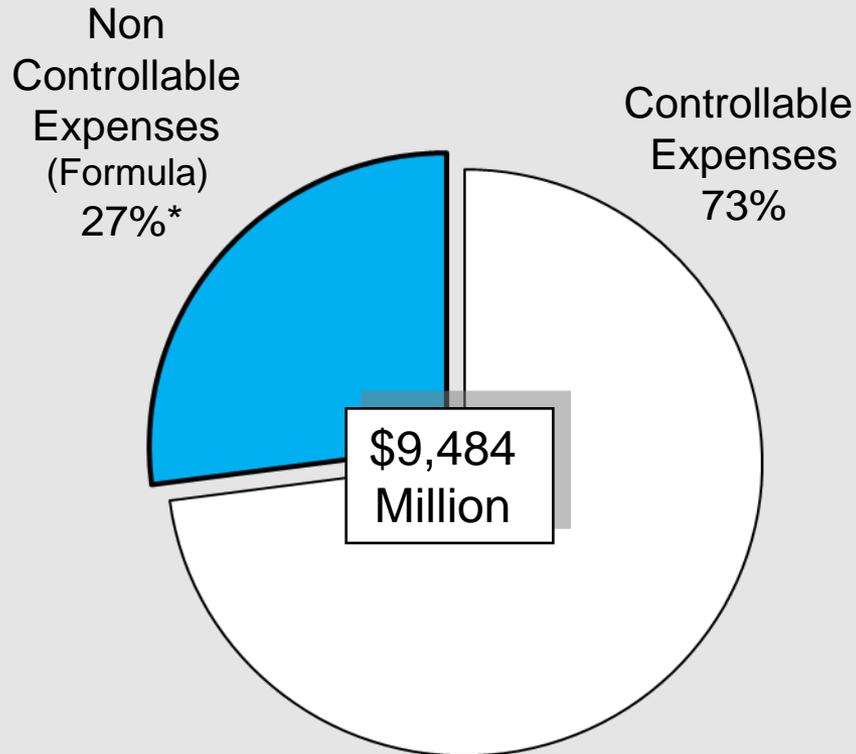


Financial Measures
(stabilization measures)

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

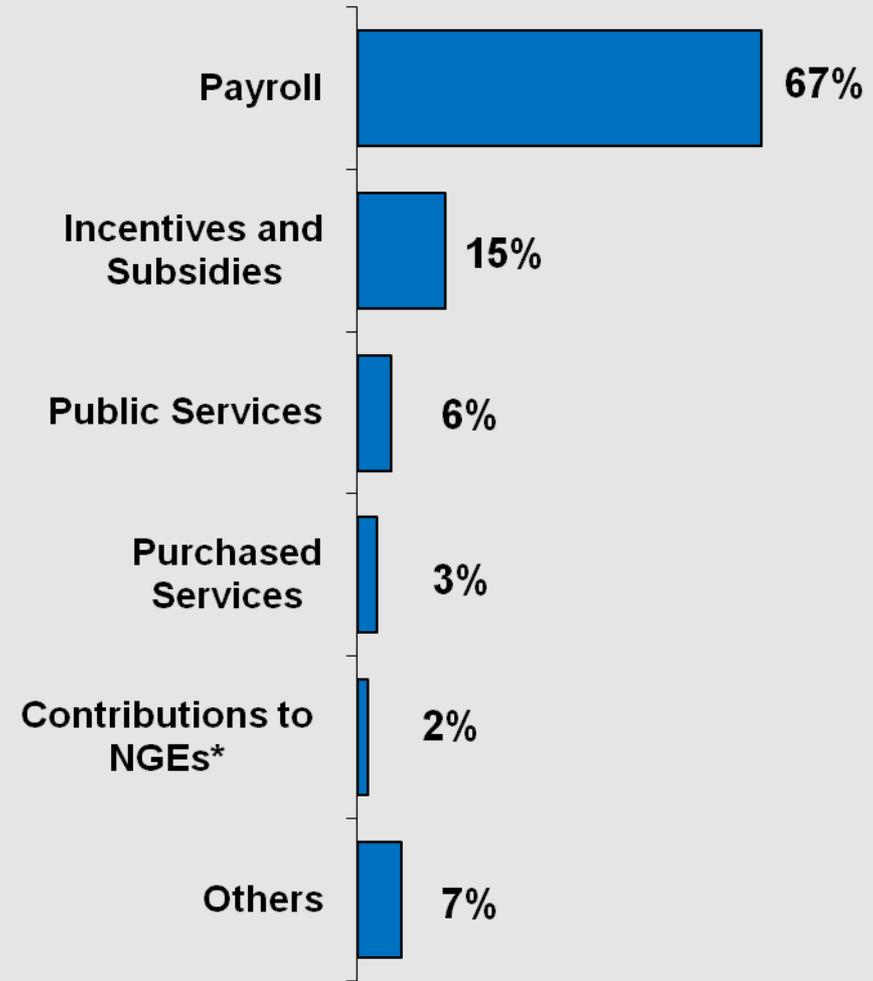
FY2009 Total Expense Breakdown

\$ million



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

FY2009 Controllable Expense Breakdown**



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

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



Expense Reduction Measures

Expense Reduction Measures

PAYROLL EXPENSES

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

OPERATIONAL EXPENSES

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

Multi-phase expense reduction program...

I Phase I: Voluntary Resignations and Reduction in Workload

Circular Letter OMB

Employees will have 30 days, after publication of OMB's circular letter, to subscribe to one of these two programs



A. Voluntary Resignations with Incentives Program

- Vacation leave settlement in 30 days
- Sick leave and accumulated overtime settlement in 30 days (eligible)
- Health insurance premium for no more than 12 month
- Retirement funds transfer in agreement with the law, regulations or terms of the plan (as applicable)

Yrs. of Public Service	Gross Amount
Up to 1 year	1 month salary
From 1 year and 1 day to 3 yrs.	2 months salary
From 3 years and 1 day, and more	3 months salary



B. Permanent Reduction of Working Days

- Employees who have 20 or more years of public service is eligible.
- A 10% reduction, equivalent to 1 day of each every two weeks
- The reduction of working days and its corresponding pay reduction are permanent in nature

Multi-phase expense reduction program...

II

Phase II: Transition Plan

Transition Plan

If the objective of \$2,000 billion is not achieved in Phase I, then Phase II will enter into effect



A. Transition Plan

- Transition will first apply to transitory non-permanent positions.
- Eventually, the Plan will apply to employees with permanent or career posts, strictly according to seniority in public service, starting with employees with least seniority.
- Employees in essential services, those paid by federal funds and required to continue, in military leave and appointed are excluded
- Health coverage payment for six (6) months, or until the former employee is eligible for health insurance coverage at another job
- If eligible, regular vacation settlement and settlement for sick leave and accumulated overtime

III

Phase III: Temporary Freeze in Economic Provisions

A. Freeze Period

- Temporary freeze of salary increases and other economic benefits included in laws, collective bargaining agreements and any other agreements



Government Employee Alternative Plan

Employees that participate in Voluntary Resignations and the Transition Plan will be eligible for the Government Employee Alternative Plan:

1. \$5,000 educational or self-employment voucher
2. \$2,500 voucher for vocational/technical training or relocation
3. 50% salary subsidy for transition to private or non profit sector job, up to a maximum of \$15,000 or gross salary of \$30,000

Direct payment to educational/vocational/technical institution, or new employer

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

Initial Forecast of Fiscal Stabilization Plan*

(\$ Millions)

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

Source: GDB and Dept. Treasury.

* Initial estimated figures. Subject to final revision.

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

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

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

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

Initial Forecast of the Fiscal Stabilization Plan

Initial forecast of the three components of the Fiscal Stabilization Plan: 1) revenue and tax enforcement measures, 2) expenses reduction measures and 3) financial measures. Complemented by initial projection of revenues derived from economic reconstruction.

Static macroeconomic model is used.
Projections will be reviewed periodically.

Initial Forecast of Fiscal Stabilization Plan*

(\$ million)	Type of Measure	FY 2010	FY 2011	FY 2012	FY 2013
A. Permanent Revenue Measures					
1	Change in Alternative Minimum Tax – Individuals	10	10	10	10
2	Enhancement of federal funds receipts	100	100	125	125
3	Excise Tax on cigarettes	75	72	70	69
4	Excise Tax on motor vehicles (to include motorcycles)	1	1	1	1
5	SUT amendments – collection rate/auditing	75	75	77	80
6	Excise Tax on alcoholic beverages	11	12	14	14
7	Voluntary tax compliance and oversight	75	100	125	150
	Subtotal	\$ 348	\$ 370	\$ 423	\$ 449
B. Temporary Revenue Measures					
1	Change in Alternative Minimum Tax – Corps.	10	10	10	-
2	5% Surtax on individuals	66	66	66	-
3	5% Surtax on corporations	46	46	46	-
4	5% Tax on Credit Unions (cooperatives)	5	5	5	-
5	5% Tax on International Banking Entities	30	30	30	-
6	Special Tax on residential real estate	230	237	242	244
7	Moratorium on tax credits	100	200	100	(250)
	Subtotal	\$ 487	\$ 593	\$ 499	\$ (6)
	Revenue Measures Total	\$ 835	\$ 964	\$ 922	\$ 444

* Initial estimated figures subject to final revision.

Initial Forecast of Fiscal Stabilization Plan*

(\$million)		FY 2010	FY 2011	FY 2012	FY 2013
A. Revenue Measures Total		\$ 835	\$ 964	\$ 922	\$ 444
B. Financial Measures					
1	SUT Transfer to COFINA	\$ (275)	\$ (208)	\$ (214)	\$ (223)
2	Refinancing of debt service of General Obligation bonds	120	187		
3	COFINA Financing	\$2,956	-	493	-
Subtotal		2,308	(21)	279	(223)
C. Expense Measures					
1	Cost of Expenses Program (Transition of Employees)	\$ (1,000)			
2	Savings in Expenses	800	2,000	2,040	2,081
Subtotal		(200)	2,000	2,040	2,081
D. Federal budgetary relief		298	298		
GOAL: BUDGET STABILIZATION		\$ 3,241	\$ 3,241	\$ 3,241	\$ 2,301
	Necessary increase in revenue base (Accumulated)	Base \$7,400	\$ -	\$ 275	\$ 567
	COFINA Financing			(493)	-
	Adjustment due to Temporary Revenue Measures			6	
GOAL: STRUCTURAL BALANCE					\$ 3,208
	Revenue Base	\$ 7,400	\$ 7,675	\$ 7,967	\$ 8,301
	Accumulated Change		275	567	901
	Annual Change		3.7%	3.8%	4.2%
	Average annual increase required for FY 2011-13		3.9%		

* Initial estimated figures subject to final revision.

Agenda

1. Responding the Call for Action

2. Economic and Fiscal Reconstruction Plan

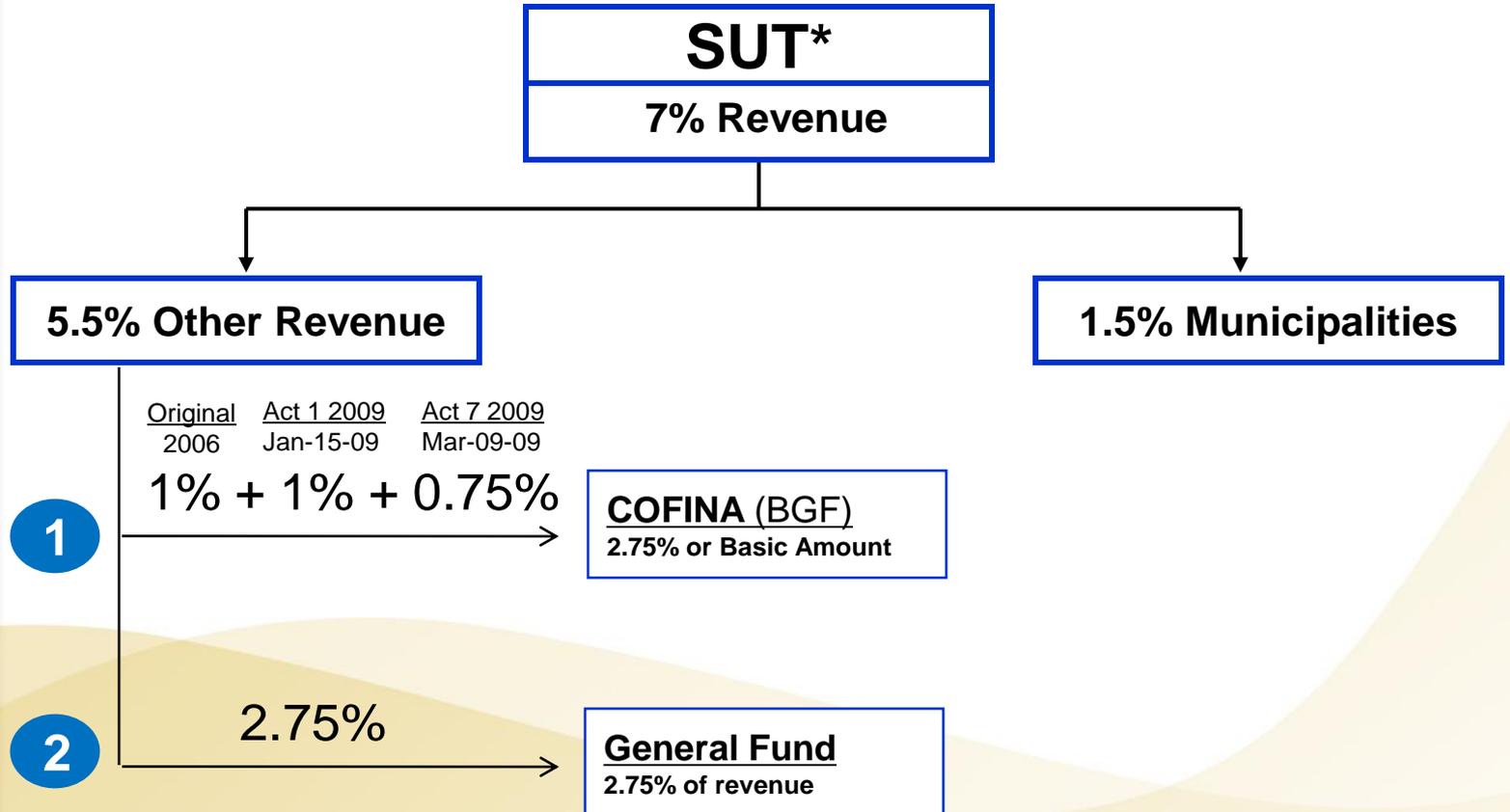
3. Financial Measures and Fiscal Agent Role

4. Concluding Remarks



Act # 7 allocated an additional 0.75% to COFINA

COFINA II is the financial “anchor” of the Fiscal Reconstruction Plan and the Commonwealth’s main financing tool for the next few years

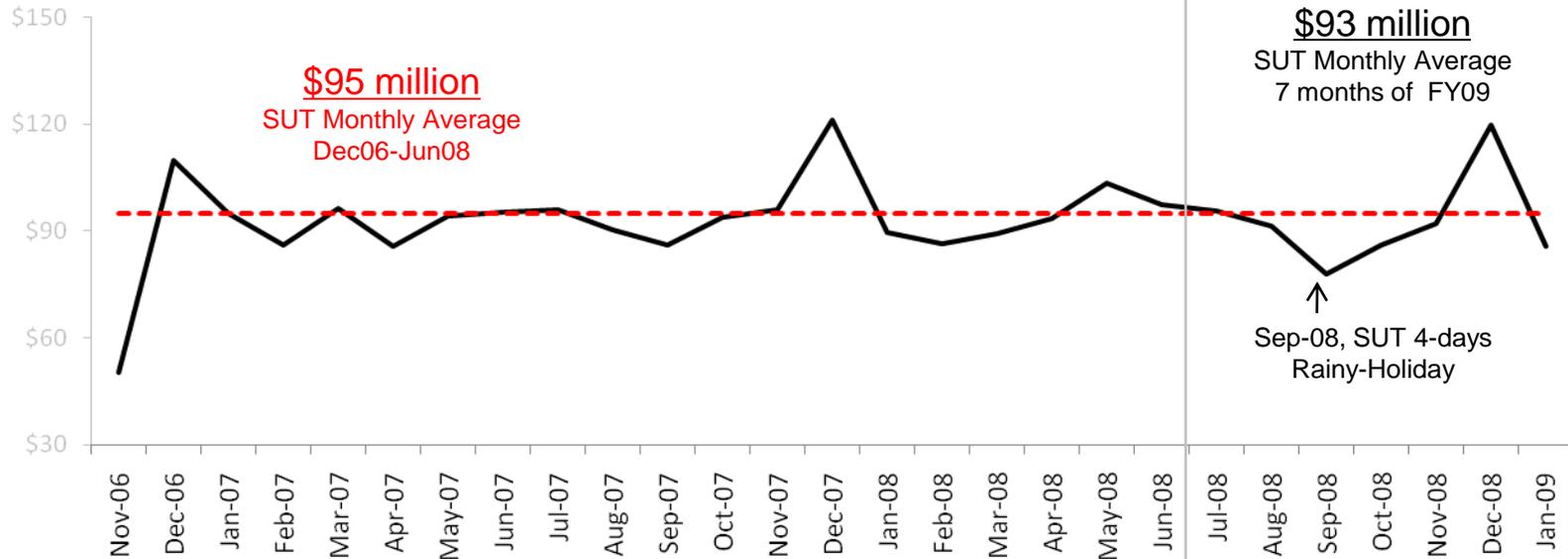


Source: Government Development Bank. * SUT = Sales and Use Tax.

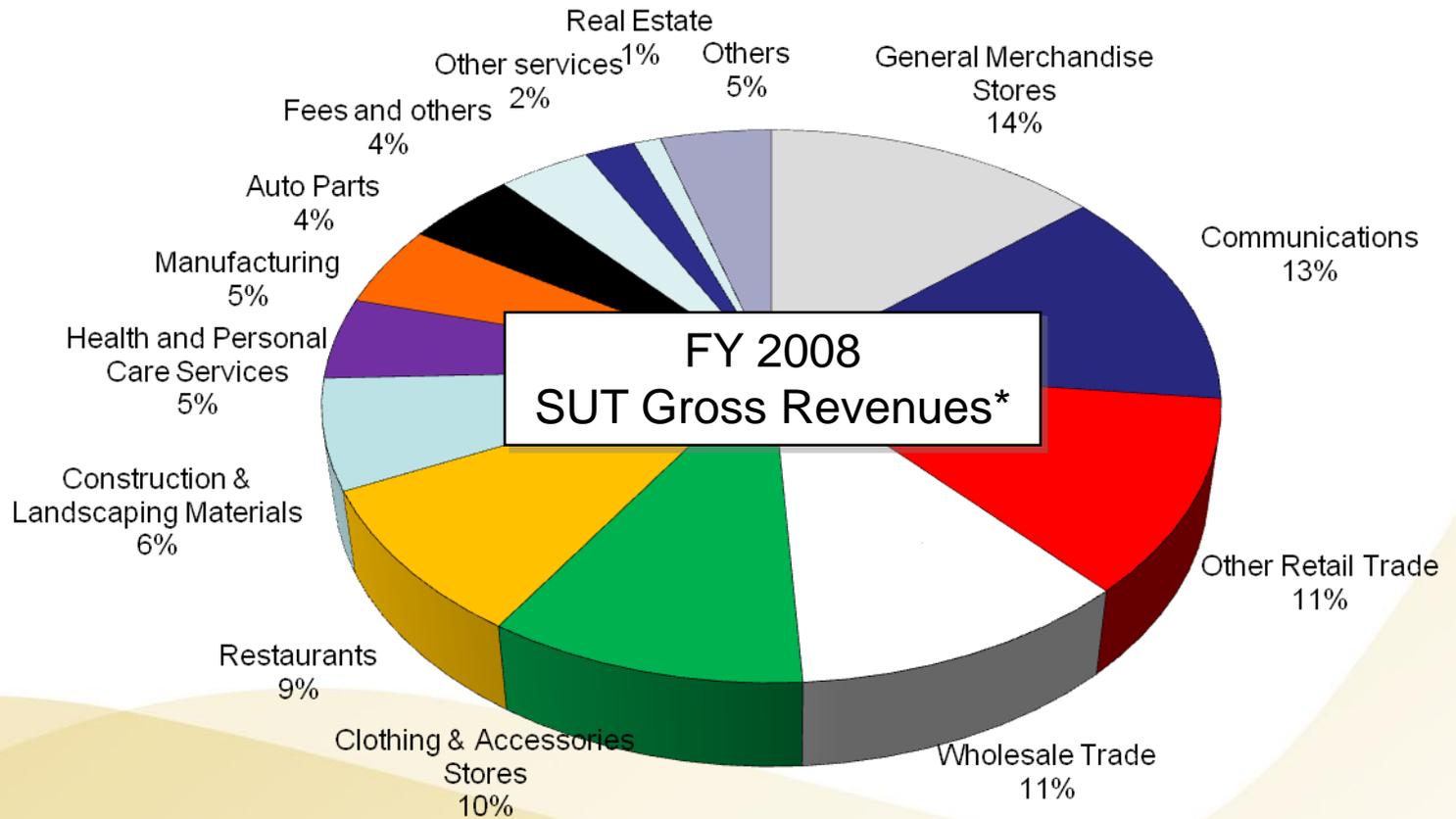


The SUT is a resilient revenue source

SUT monthly trend remains steady in spite of the recession



The SUT is a diversified repayment source that covers over 20 economic sectors islandwide



Source: Puerto Rico Treasury Department, (Revenues collection by NAICS).
* Gross without excluding the assignment to COFINA.



Summary of proposed financing program

Deal Component	Comments*
Preliminary Deal Size	~\$7,000,000,000
Timing of initial financing	To be determined based on market conditions
Structuring alternatives	Currently under review
Market access	103 & Local

* Subject to change.



Overview of Employee Retirement System (ERS)

1. Large pool of participating employers: 210 employers with over 176,000 active participants in both defined benefit and contribution plans
2. Employer contributions based on entire payroll of all ERS participants (defined benefit and defined contribution plans) at a rate of 9.275% of covered payroll
3. Employees legally obligated to make contributions into ERS
4. Defined benefit plan closed to new participants since 2000

Summary of Employers

Employer	Number Employers	Active Participants
Central Government	84	111,996
Public Corporations	48	35,628
Municipalities	78	29,213
Total	210	176,837



Transaction Overview: Senior Pension Funding Bonds (POBs)

Transaction Objectives:

- Postpone depletion of fund assets
- Support near term funding needs

Series	Amount Issued
Series A	1,588,810,800
Series B	1,058,634,613
Series C	300,202,930
Total	2,947,648,343



Overview of POBs

1. \$2.95 billion outstanding
2. Debt service on outstanding bonds ranges from a minimum of \$49.5 million to a maximum of \$429.4 million, with current debt service of \$166.5 million
3. Bonds are secured by Debt Service Reserve Fund of approx \$82 million
4. Minimum Coverage level of 2.25x under baseline projections and 2.03x under “worst case” projections
5. The ERS Plan contemplated \$7 billion of issuance with 1.40x Coverage



POBs Structure

1. Bonds secured by a pledge of future statutory contributions for all plan participants including System 2000 participants (limited, non recourse obligations)
2. Minimum debt service coverage of 1.4X (on \$7.0 billion)
3. Clawback protection in connection with employer contributions from municipalities and public corporations
4. Original model assumed over \$7 billion of total bond issuance

Issuance of Senior Pension Funding Bonds is halted until further analysis

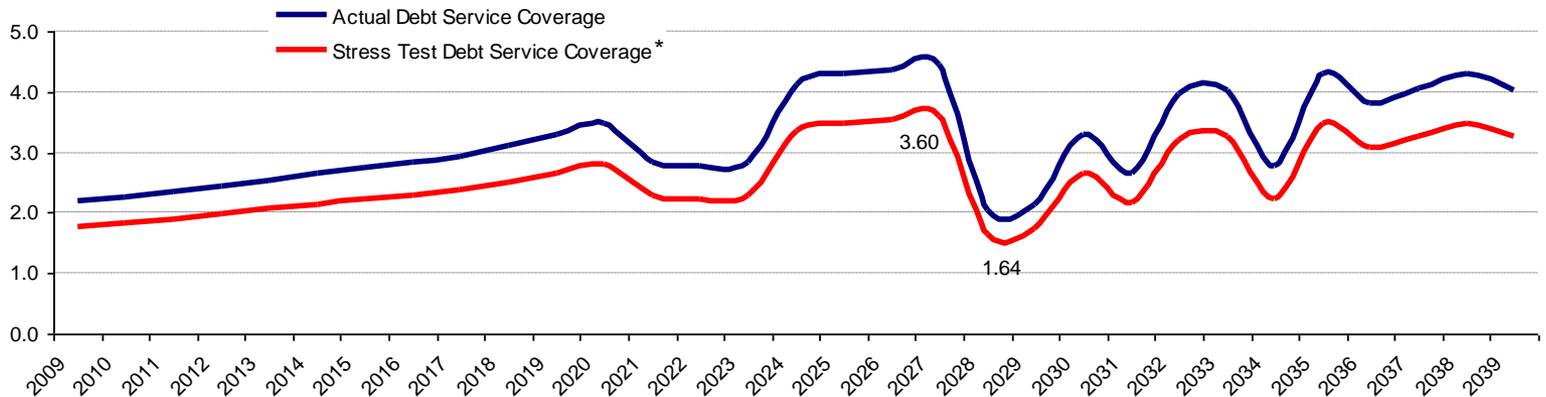


Debt service coverage remains in line with initial projections (even under the most conservative scenario*)

Conservative Projections Test Results*

Reduction Employees	30,000
Avg. Salary	\$25,000
Total Salaries	\$750,000,000
Contribution Rate	9.275%
\$ Contribution 30K employees	\$69,562,500
\$ Net Total Contribution	\$294,718,690
Debt Service	\$166,570,619
Debt Service Coverage (Jul-09)	1.77
Minimum Coverage until 2058	1.64

Trend in Debt Service Coverage



* Based on low-case 2 projections provided by Global Insights.



Additional GDB Fiscal Oversight

Progress to Date

- **Overall**
 - Private and Public Sector Risk Needs Assessment conducted to establish priorities and potential projects
 - Joint GDB-Planning Board recruitment of senior economic modeling and policy executive, supporting multi-year plan and tax reform
 - Multinational Investment Strategy working group (Treasury, EDCD, PRIDCO, GDB)
 - Private Sector Development Innovation Package designed (strengthening key institutions, strategy, venture capital, biosciences, diversification)



Additional GDB Fiscal Oversight

Progress to Date

- **Central Government**
 - Review of fiscal management procedures and technology systems (budgeting, performance measurement and accounting) to support reorganization (with OMB, Treasury, Planning Board CIP, GDB serves as project manager. Initial recommendations Q2 09)
- **Public Corporations**
 - New GDB loan approval and disbursement controls adopted
 - New multi-year operational, financial and CAPEX modeling for each corporation in process



Additional GDB Fiscal Oversight

Progress to Date

- **Pensions**
 - ERS strategic options review started
- **Municipalities**
 - Joint strategy and systems with Municipal Collections Center, Municipal Commissioner and GDB) in process
- **GDB**
 - Supplementary funding sources
 - Internal Auditor's Office recommendations being implemented
 - Review of public financing oversight and compliance (MSRB-EMMA; continuous, material disclosure; arbitrage; private activity volume cap and compliance)

Agenda

1. Responding the Call for Action

2. Economic and Fiscal Reconstruction Plan

3. Financial Measures and Fiscal Agent Role

4. **Concluding Remarks**



Concluding Remarks

- 1** We have responded with swift action through the Reconstruction Plan to address the economic and fiscal challenges.
- 2** We are committed to providing quarterly progress reports about the Reconstruction Plan.
- 3** The implementation of the Reconstruction Plan is already in process. The Fiscal Restructuring and Stabilization Board has been constituted.
- 4** The Senior Pension Funding Bonds (POBs) debt service coverage remains in line with initial projections (even under stressed scenarios).
- 5** We have sought to strengthen the COFINA credit and plan to bring to market the first bond issuance under this financing plan by April 2009.



Investor Relations – Information

Main Websites for Investor Information

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

Other Related Websites

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



Puerto Rico Economic and Fiscal Reconstruction Plan

**Government Development Bank for Puerto Rico
Investor Presentation**

March 12, 2009