



# **Fiscal Plan Comparison to Historical Results**

January 28<sup>th</sup>, 2017

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# Process Summary

<p>Overview</p>	<ul style="list-style-type: none"> <li>▪ The Financial Oversight and Management Board for Puerto Rico (“Board”) requested the Government of Puerto Rico to provide a comparison of the baseline Fiscal Plan to historical results presented on the Commonwealth’s Audited 2014 Basic Financial Statement, to assist in the diligence of the Fiscal Plan</li> </ul>
<p>Approach</p>	<ul style="list-style-type: none"> <li>▪ Analyze the audited financial information for FY2014 (“2014”) and the baseline projections for FY2017 (“2017”) in the Fiscal Plan</li> <li>▪ Adjust for differences in presentation by analyzing historical and projected results to provide a better comparison             <ul style="list-style-type: none"> <li>• Adjust for differences in accounting basis of the financial statements (combination of modified accrual and full accrual accounting) and the Fiscal Plan (primarily cash-basis)</li> </ul> </li> <li>▪ Normalize historical financial data to eliminate non-recurring items</li> </ul>
<p>Initial Results</p>	<ul style="list-style-type: none"> <li>▪ <b>Governmental funds</b> - net change in fund balances increased by \$355M from 2014 actuals to 2017P primarily due to increased SUT and petroleum tax, expenditures between 2014 and 2017 are relatively constant<sup>1</sup></li> <li>▪ <b>Component units / enterprise funds</b> – net change in position improved by \$196M from 2014 actuals to 2017P, driven primarily by a higher federal funds reimbursement rate in Health Insurance Administration<sup>1</sup></li> </ul>
<p>Limitations</p>	<ul style="list-style-type: none"> <li>• <b>The historical Governmental Funds figures included herein are limited to the latest audited financial statements</b></li> <li>• <b>The Component Unit and Enterprise Fund comparison includes audited financial information for FY2014 and FY2015 for a majority of the entities</b></li> <li>• <b>This presentation does not constitute an audit, recommendation or opinion</b></li> <li>• <b>The financial figures herein are not presented on a GAAP basis</b></li> </ul>

1. Figures represent normalized amounts.

# Governmental Funds Methodology

## Reconciliation to Historical Financial Statements to Fiscal Plan – Governmental Funds (\$MM)

	Historical	Fiscal Plan	
	2014	2017	
<b>1 Base Financing Gap (Fiscal Plan)</b>	n/a	(\$3,622)	2017 Base Financing Gap (Source: Revised Baseline Projections December 2016)
<b>2 (+) Non-Governmental Funds Debt Service (e.g. GDB, UPR, ERS and missed debt service payments)</b>		2,587	
<b>3 (+) Other adjustments for working capital, reconciliation expense, Federal Oversight Board costs and AUC/AAC</b>		186	See Component Units / Enterprise Funds Analysis
<b>(-) Non-Governmental Funds Surplus</b>		(411)	
<b>4 Governmental Funds, Net Before Normalization Adj.</b>	(3,804)	(1,260)	Deficiency of revenue under expenditures (Source: 2014 Basic Financial Statements)
<b>5 (-) Other Governmental Funds Revenues - Accruals, Global Tobacco Settlement (Children's Trust, Comp. Unit Revenue, SUT(FAM))</b>	(587)	(117)	
<b>6 (+) Other Governmental Funds Expenditures - Debt Service, Capital Expenditures, AUC/AAC</b>	5,354	2,695	
<b>7 Normalized Change in Net Position</b>	<b>\$963</b>	<b>\$1,318</b>	

# Governmental Funds Comparison

- The Governmental Funds balance change between the projected Fiscal Plan baseline in 2017 and the latest audited financials of 2014 is \$355 million on a comparable basis
- The change is driven primarily by higher SUT and petroleum tax revenues, offset by the effect of lower income tax collections due to changes in tax law, cessation of amnesty programs and declining economic activity
- On the expense side, the Fiscal Plan projections are expected to stay constant with respect to the audited 2014 figures on a comparable basis

## Governmental Funds – Comparison to Fiscal Plan

<i>(\$ in millions)</i>	<b>Governmental Funds</b>	<b>Fiscal Plan</b>
	<b>2014</b>	<b>2017</b>
Revenues (Normalized)	<b>\$16,977</b>	<b>\$17,341</b>
Expenditures (Normalized)	<b>16,014</b>	<b>16,023</b>
<b>Normalized Net Change in Fund Balances</b>	<b>\$963</b>	<b>\$1,318</b>
<i>Variance to Fiscal Plan B/(W)</i>	<i>(\$355)</i>	

*Normalized Net Change in Fund Balances for historical years represents changes in fund balances for governmental funds excluding debt service, capex, other financing sources/uses, additional uniform contributions, and material non-recurring accounting entries. Fiscal Plan baseline adjustments excludes debt service, and capital expenditures.*

# Component Units & Enterprise Funds Methodology

## Historical Trend of Change in Net Position – Component Unit / Enterprise Funds (\$MM)

Source: 2014 Basic Financial Statements

Change in Net Position:	Historical <sup>(1)</sup>		Fiscal Plan
	2014 <sup>(a)</sup>	2015 <sup>(b)</sup>	2017
1 Component Units	(\$3,471)	(\$455)	\$647
2 Enterprise Funds	(6)	50	(17)
<b>3 Total Change in Net Position</b>	<b>(\$3,477)</b>	<b>(\$405)</b>	<b>\$630</b>
4 (–) Entities Excluded from Fiscal Plan	315	327	(62) <sup>(2)</sup>
<b>5 Total for Entities Incl. in Fiscal Plan</b>	<b>(\$3,162)</b>	<b>(\$78)</b>	<b>\$569</b>
6 (+) Depreciation, Amortization & Interest Expense	1,443	1,467	–
7 (+) Normalization Adjustments	2,584	(285)	141
<b>8 Normalized Change in Net Position</b>	<b>\$864</b>	<b>\$1,104</b>	<b>\$710</b>
9 Less: GDB (Normalized Change in Net Position)	(\$252)	(\$286)	\$98
<b>10 Normalized Change in Net Position Ex. GDB</b>	<b>\$613</b>	<b>\$818</b>	<b>\$807</b>

Includes \$2.6bn GDB loan write-off

Primarily Removal of Working Capital Changes from Fiscal Plan

Variance excluding ASES is unfavorable \$21 million compared to Fiscal Plan

<b>Normalized Change in Net Position</b>	<b>\$710</b>
Capex Outside Governmental Funds	(115)
AAC/AUC Outside General Fund (ex. Catch-Up)	(169)
Other Reconciling items	(15)
<b>Non-Governmental Funds Surplus</b>	<b>\$411</b>

1) Historical results obtained from audited and internal financial statements as provided by the Commonwealth  
 a) Obtained from audited financial statements  
 b) For certain entities, information for FY 2015 was not available. For the purposes of the trend below, the last available fiscal year was used.  
 2) 2017 adjustment represents State Insurance Fund dividends to central government

# Component Units / Enterprise Funds Comparison

- The component units and enterprise funds balance change between the latest audited financials and the baseline 2017 Fiscal Plan is favorable \$196 million, excluding the Governmental Development Bank
- The key driver of the favorable variance is the Health Insurance Administration
  - Change in the Health Insurance Administration is due to an increase in effective federal fund share rate
- The Governmental Development Bank has been excluded due to the substantial change in the status of the entity making it not comparable to historical results

## Component Units / Enterprise Funds – Comparison to Fiscal Plan

(\$ in millions)	Historical Trend		Fiscal Plan
	2014	2015	2017
<b>Normalized Net Change in Position</b>	<b>\$613</b>	<b>\$818</b>	<b>\$807</b>
<i>Variance to Fiscal Plan B/(W)</i>	<i>(\$196)</i>	<i>\$11</i>	

*Excludes Governmental Development Bank normalized change in net position. For certain entities, information for FY 2015 and FY 2016 was not available. For the purposes of the trend below, the last available fiscal year was used.*

**Variance excluding ASES is unfavorable \$21 million compared to Fiscal Plan**

# Next Steps

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- The Government of Puerto Rico is currently reviewing the FY2015 and FY2016 Governmental Fund financials in order to provide the information necessary to analyze recent revenue and expenditure trends on a comparable basis with the Fiscal Plan
- Such review is expected to take approximately one month and will include the following activities:
  - An unaudited update of the Governmental Funds financial figures for FY2015 and FY2016 presented in the most recent Commonwealth Report dated December 18<sup>th</sup>, 2016
  - An explanation of the trend of historical Governmental Fund financial results for the periods of FY2014 through FY2016
- The Government will provide detailed weekly updates to the Board on said review