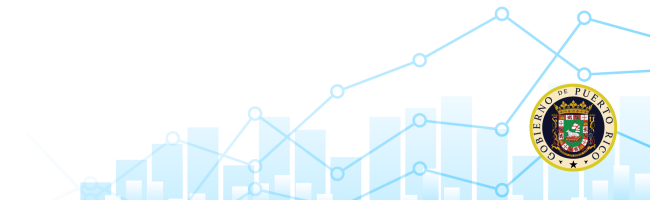


INTERAGENCY CONFERENCE on the Fiscal and Economic Results of the Government of Puerto Rico

12 de Noviembre de 2020

OMAR J. MARRERO
Chief Financial Officer
Executive Director and Chairman of AAFAF

AAFAF



EXECUTIVE SUMMARY

UNEXPECTED HEADWINDS

Over the past three years, Puerto Rico has faced numerous unexpected challenges including natural disasters, a governance disruption and the COVID-19 pandemic. These unexpected headwinds have added an additional layer of complexity in the efforts to improve the Island's fiscal and economic position. Even with major disruptions caused by these unprecedented events, the Government has made significant progress.

DEBT RESTRUCTURING EFFORTS

- Achieved – Less than one year after PROMESA's enactment, the Government successfully restructured GDB's claims covering the first \$5 billion of the Commonwealth's \$74 billion of funded debt. Shortly after, the Government completed restructuring COFINA, PRASA, and PRIFA-Ports, all during the backdrop of multiple creditor-initiated litigations involving the Government and Oversight Board. Addressing these legal actions often absorbed significant Government resources, yet progress continued.
- In Process – Significant advances have made toward completing the remaining complex restructurings of the Commonwealth, PREPA and PRIDCO. The net result is that final exit from Title III is in sight.

KEY ACCOMPLISHMENTS

With the objective of returning Puerto Rico to fiscal and economic stability, the Government has achieved significant milestones towards exiting Title III, including the following:

- Swift and effective response to the COVID-19 pandemic
- Significantly reduced government expenses
- Increased TSA cash
- Enactment of Act 106 to provide stability to the Government's (ERS) pension system
- Agency consolidations, increased transparency of public funds and implementation of structural reforms



UNEXPECTED HEADWINDS

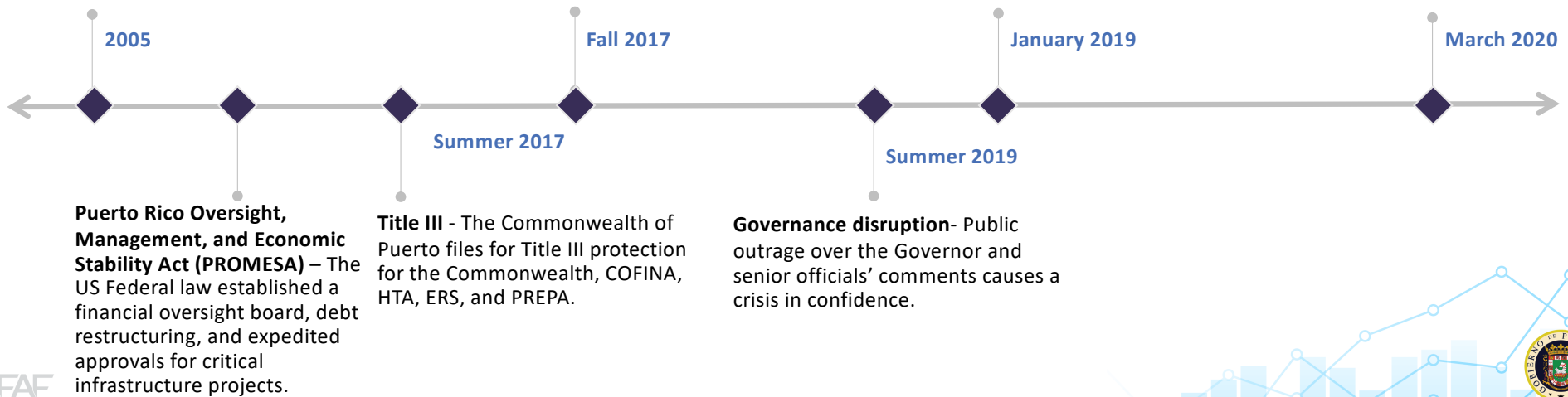
Following the enactment of PROMESA, the Commonwealth of Puerto Rico has encountered a multitude of unexpected – and uncontrollable – headwinds due to hurricanes, earthquakes, a government crisis, and the COVID-19 pandemic.

Economic conditions - Since 2005, the number of people living under the poverty line has increased, while Puerto Rico's economy began to contract, experiencing a sharper decline than the rest of the United States.

Hurricanes - Hurricanes Maria and Irma inflicted unprecedented damage on Puerto Rico, leaving large segments of the population without power for months, causing the longest and largest power outage in US history.

Earthquakes - Puerto Rico suffered the most serious earthquakes in recent memory, resulting in structural damage to buildings across southwestern Puerto Rico.

COVID-19 - Puerto Rico's economic situation, still reeling from the effects of natural disasters, is further exacerbated by the COVID-19 pandemic.



LABOR REFORM

Private labor reform began in 2017 through the Labor Transformation and Flexibility Act, the most comprehensive change in labor laws in the last 50 years. This Act amended several labor legislations to improve labor and employment reforms for private employers in Puerto Rico.



Improve Labor Market Competitiveness

- Increase talent acquisition and retention locally
- Facilitate “Flexible Work Schedules”



Enhance Labor Participation

- Amend overtime rules
- Regulate the Operations of Business Establishments “Closing Law”



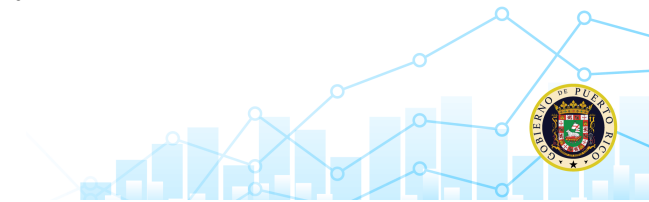
Limit Employee Turnover

- Amend severance pay to include a cap
- Amend Puerto Rico Internal Revenue Code to increase employee benefits like Cafeteria Plans



Reduce Employment-Related Costs

- Increase minimum probation period
- Amend accrual of vacation leave
- Adjust Christmas bonus criteria
- Eliminate “Ley de Cierre” restrictions



PUBLIC PRIVATE PARTNERSHIPS – SAVINGS & INNOVATION

Puerto Rico is transforming the economy and standard of living by improving infrastructure and services through effective integration of the private sector's innovation and expertise.

Ports		Modernization of the San Juan Bay Cruise Terminals	\$340 MM	Estimated Investment
		O&M Service Contract for Puerto Rico's Regional Airports	7 Years	Estimated Contract Term
MTA		O&M Contract for MTA's Ferries System	\$337 MM	Estimated Savings
PREPA		Transmission and Distribution	\$323 MM	Cumulative Net O&M Savings by FY2027
		Generation Transformation	August 2021	Target Completion Date

HEALTHCARE REFORM

The Government has completed the implementation of initiatives that will help control healthcare cost inflation. Additionally, the Puerto Rico Health Insurance Administration (“ASES”) is continuing the design and implementation of the Diagnosis Related Group (DRG) inpatient hospital payment reform that will establish the foundation for additional value-based payment models.



Launch new Managed Care Model



Reform Pharmacy Reimbursement



Lower Prescription Drug Cost Inflation



Share with Managed Care Organizations (MCOs)



HEALTHCARE PROCUREMENT SAVINGS

Estimated Annual Savings of
\$24.6M

There are several healthcare procurement initiatives currently in progress including the centralization of healthcare agencies procurement resources into the ASG Centralized Procurement Office through “destaque” and the identification of savings in Medical Supplies, Medical Services, and Drug & Pharmaceutical Goods.

Spend Category	Annual Spend (FY17)	Estimated Annual Savings Estimate (%)	Estimated Annual Savings Estimate (\$'s)
Medical Supplies	\$29.3 M	3.3%	\$0.97 M
Medical Services	\$173.1 M	9.0%	\$15.6 M
Drugs & Pharmaceutical Goods	\$167.2M	4.8%	\$8.0 M
Totals	\$369.6 M		\$24.6 M

Source: ASG Procurement Wave Details for In-Process and Future Category Waves

- The consolidation of spend from all government agencies will increase purchasing power across fewer vendors, support product standardization and lower overall costs per unit
- The total spend for these Healthcare goods and products are estimated at \$369.6 M per year. Savings from procurement reform are estimated to be \$24.6 M per year or 6.6%



TOURISM SECTOR REVITALIZATION

DISCOVER PUERTO RICO (DPR) AND PUERTO RICO TOURISM COMPANY (PRTC) MEASUREABLE RESULTS

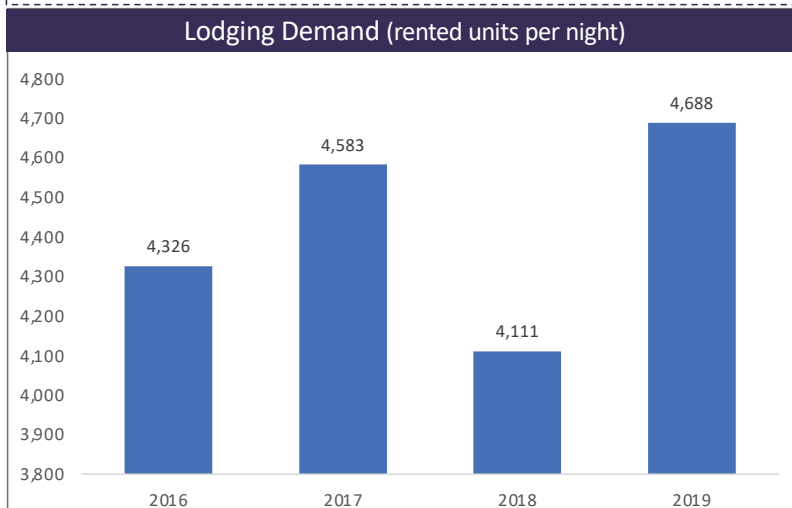
- ❑ 115% increase in internet searches for San Juan compared to 2018
- ❑ Designation as top travel destination in 22 leading travel and lifestyle publications in 2019
- ❑ Direct and indirect employment of 80,000 people in Puerto Rico
- ❑ 6.5% contribution to Island's Gross Domestic Product (GDP) from tourism sector
- ❑ Additional contributions to 17 other sectors of the economy
- ❑ Significant increase in lodging demand and airport arrivals during 2019, achieving a record performance

estimated

7x

return for every \$1
invested by DPR

Visitor demand exceeded 2018 by 14% | All-time record performance



Source: STR, AirDNA

Airport arrivals increased by 7.3% from 2016 to 2019



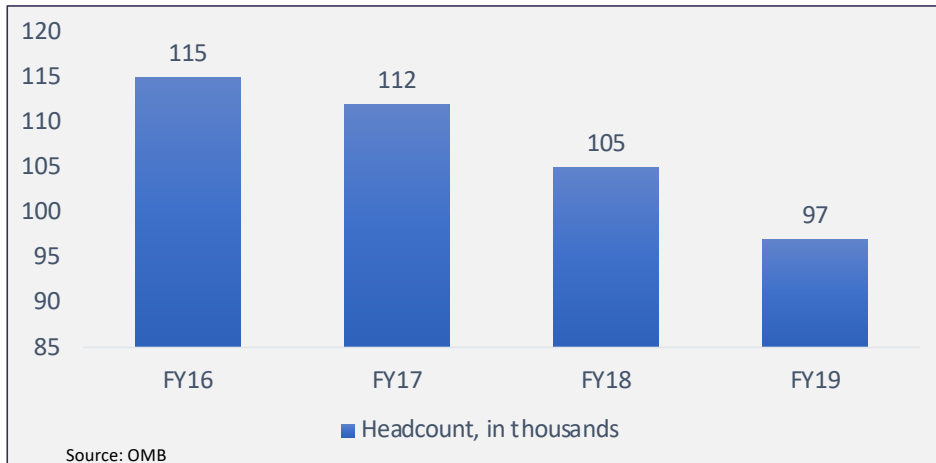
EFFICIENCY IN GOVERNMENT

The Government has achieved significant headcount and payroll reductions, as outlined below.

19%
reduction of Payroll
expenses and
\$1 billion
(or 20%) non-payroll
operating expense

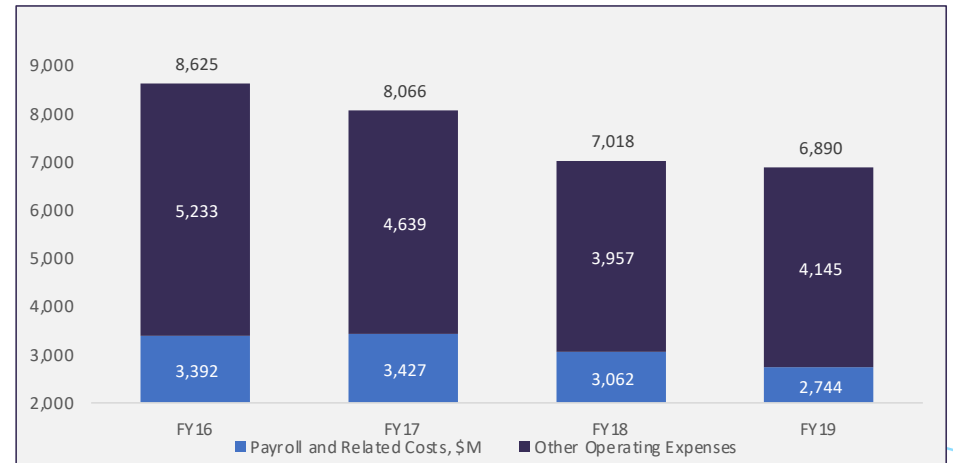
HEADCOUNT REDUCTION

Total cumulative headcount reduction of **~18,000 employees** via natural attrition, early retirement and voluntary transition programs since 2016.



PAYROLL REDUCTION

The decrease in headcount resulted in a **19% reduction** of Payroll expenses **and \$1 billion** (or 20%) non-payroll operating expense over the same period.

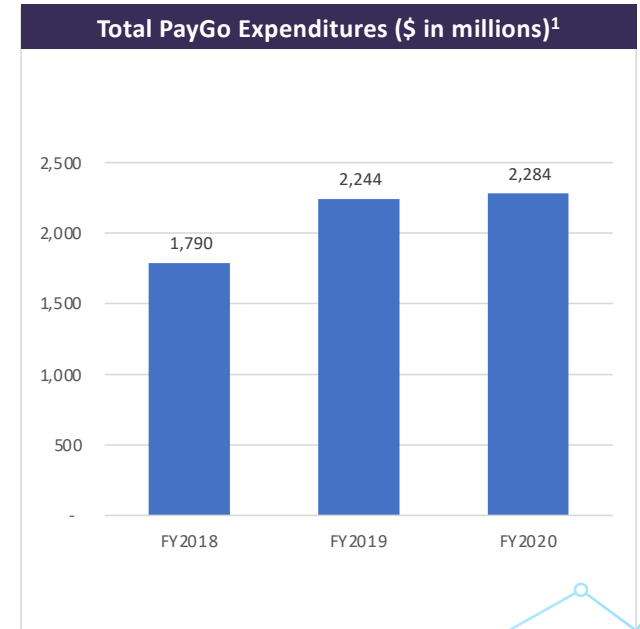
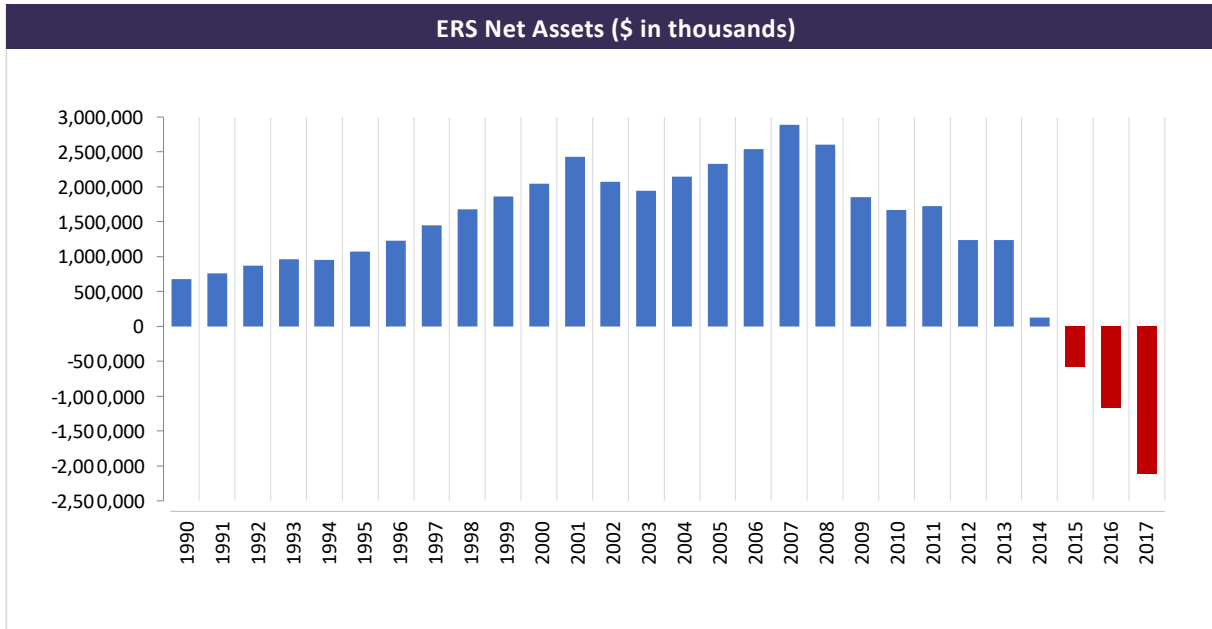


Figures above exclude Paygo costs and Debt Payments; FY2019 figures are estimates; FY2020 figures budgeted. Source: OMB



PENSIONS-TAKING CARE OF OUR RETIREES

ERS assets have been depleted by past mismanagement, but our Administration has made the necessary adjustments to continue paying benefits to our retirees.



PENSIONS – ACT 106 ENHANCEMENT

To date, the Government has taken a strong stance against any pension cuts. This Administration has made the necessary adjustments to protect pensioners with the fulfillment of Pay-Go obligations and given public employees control of their retirement futures with the launch of the Act 106 Defined Contribution Plan.

115,000
participants
192
employers
\$700,000,000
in contributions

Background

On August 23, 2017, the Government enacted the Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants (Act 106), which transformed multiple systems into a single pay-as-you-go system that is contemplated in the Fiscal Plan and supported by the FOMB.

Impact

The Government guaranteed payment of “Accumulated Pension” benefits under the Defined Benefit and “Hybrid” Benefit plans.

- The guaranteed payments are made out of: (i) a newly created “Accumulated Pensions Payment Account” funded by the liquidation of ERS, JRS, and TRS assets; (ii) a Pay-Go charge imposed on agencies, public corporations, municipal governments, and the judicial branch; (iii) budget assignments and special assignments to finance pension payment deficits; (iv) donations; and (v) other funds identified by Puerto Rico’s Legislative Assembly.

The Act also created a new “Defined Contribution Plan,” under which all required monthly contributions by over **115,000** participants across almost **200** employers in the Systems are reconciled and placed in segregated individual Defined Contribution Accounts. For each active plan participant, contributions to these accounts supplement the “Accumulated Pension” benefits that existed prior to enactment of Act 106.

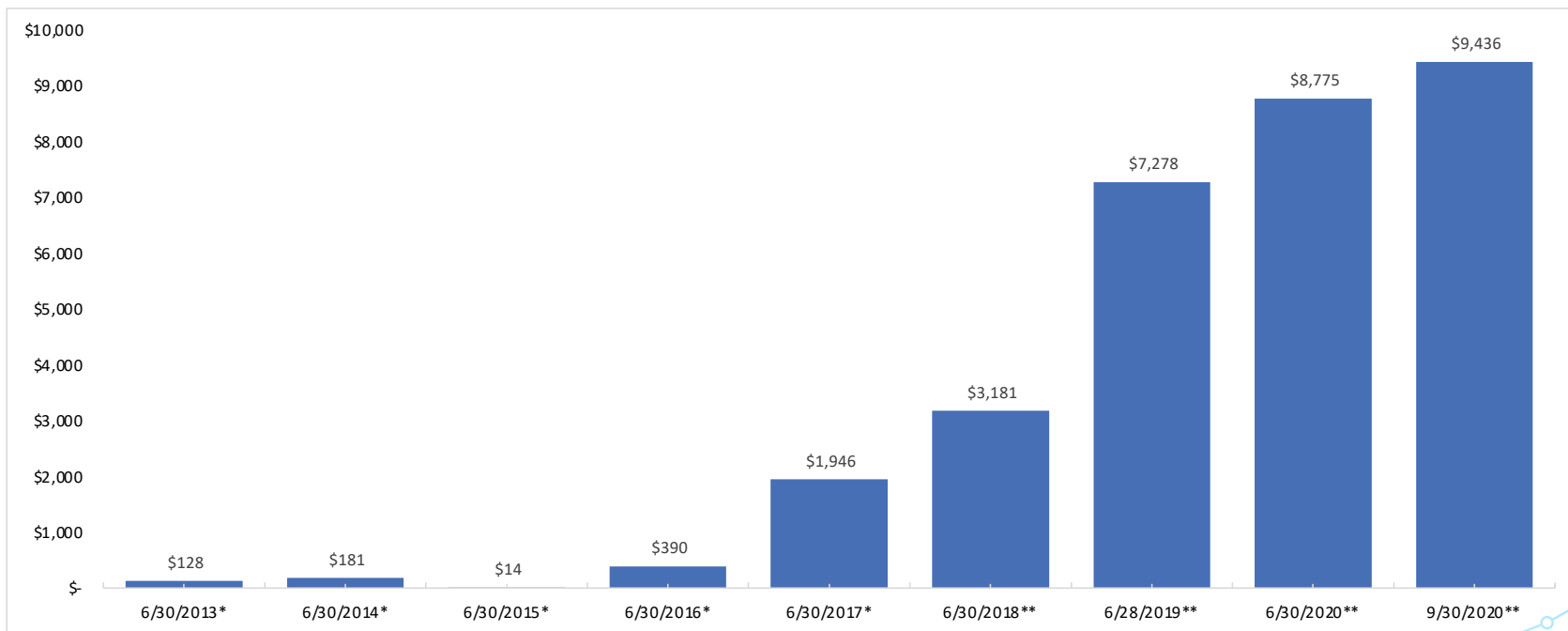
- The employee contributions to the Defined Contribution Plan, which total more than **\$700,000,000**, are deposited in a trust account held by the Trust Division of Banco Popular de Puerto Rico and separate from all funds of the Commonwealth of Puerto Rico.
- The Puerto Rico Retirement Board executed and operationalized three very complicated contracts with Alight Solutions for recordkeeping services, Banco Popular de Puerto Rico for trust and paying agent services, and Bank of New York Mellon for custody and trade settling services.
- **The new Defined Contribution Plan successfully launched on June 22, 2020.**



CASH ON HAND AT THE TREASURY

Since 2013, the Treasury Single Account (TSA) balance has increased to over \$9 billion. Prior to this, the TSA cash balance reached as low as \$13.8 million in June of 2015.

(\$ in millions)

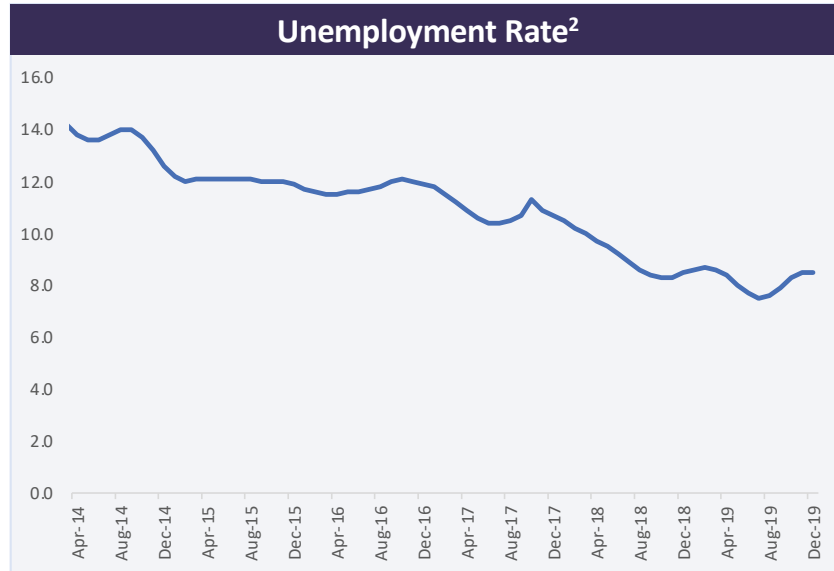
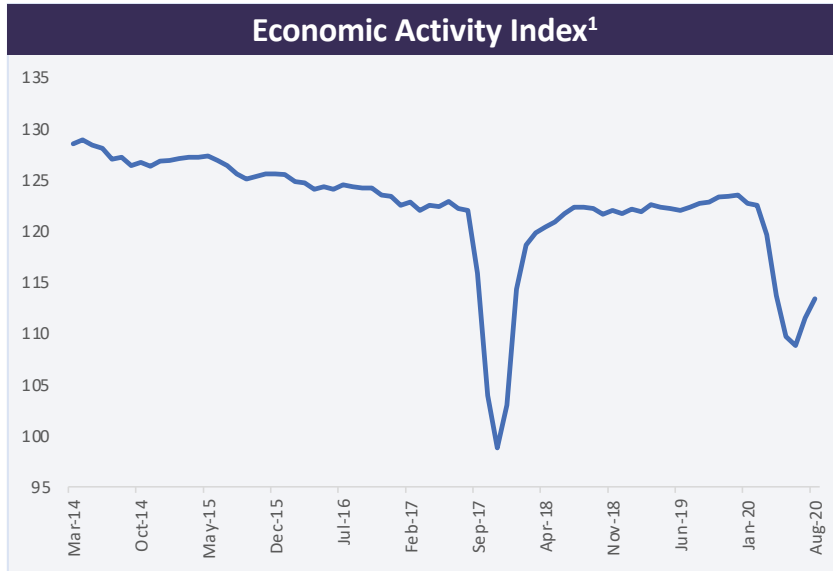


*Totals include clawback account balances, although they are typically excluded from presented TSA Total Cash Balance

**Inclusive of TSA Sweep Account

ECONOMIC INDICATORS-THE SIGNS ARE CLEAR

While hurricanes in late 2017 affected virtually all aspects of the economy sharply and negatively, there are signs of a positive recovery. The COVID-19 pandemic has added pressure to Puerto Rico's economy, along with the rest of the world, but the Government is optimistic it can continue its recovery following the pandemic.



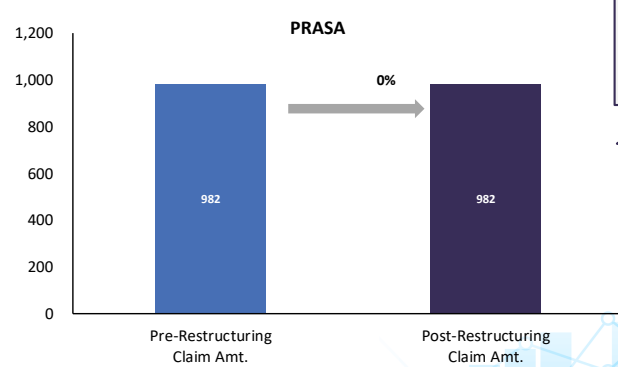
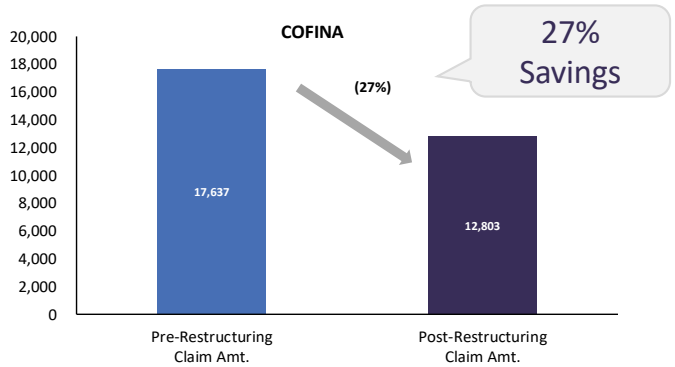
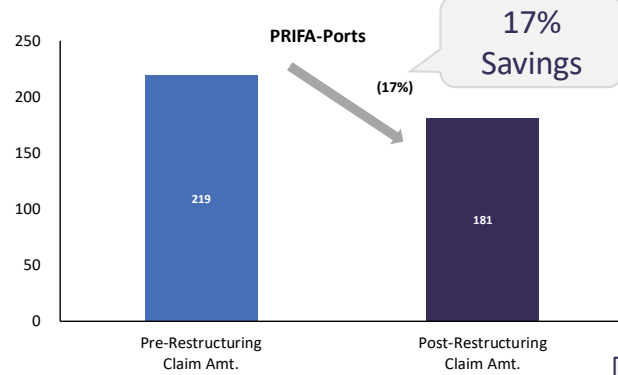
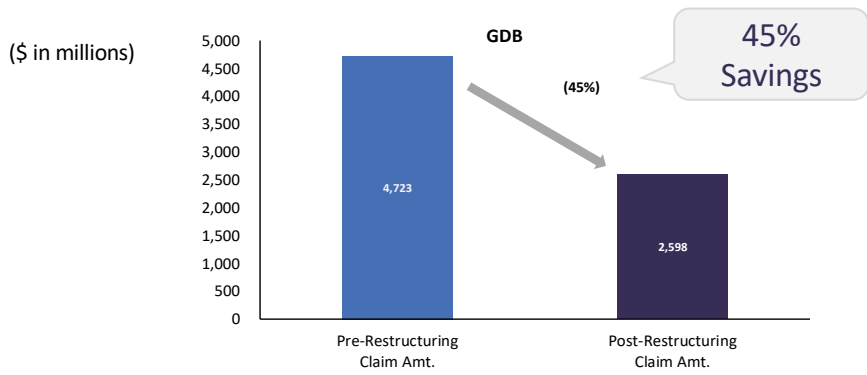
AAFAF ¹ Economic Development Bank
² Bureau of Labor Statistics



DEBT RESTRUCTURINGS-GAINING CREDIBILITY

The Government and the FOMB have shown the willingness and ability to reach consensual deals, having restructured over \$23 billion of existing indebtedness through the various mechanisms available under PROMESA, resulting in a ~30% reduction in debt.

~30%
reduction in debt



Restructuring resulted in the termination of 100% of CW Guarantee and amended terms favorable to PRASA



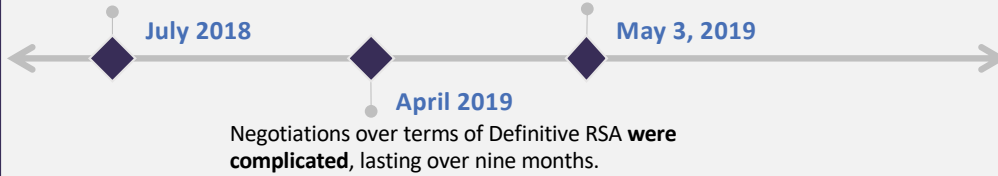
RESTRUCTURING STATUS: PREPA AND PRIDCO

PREPA

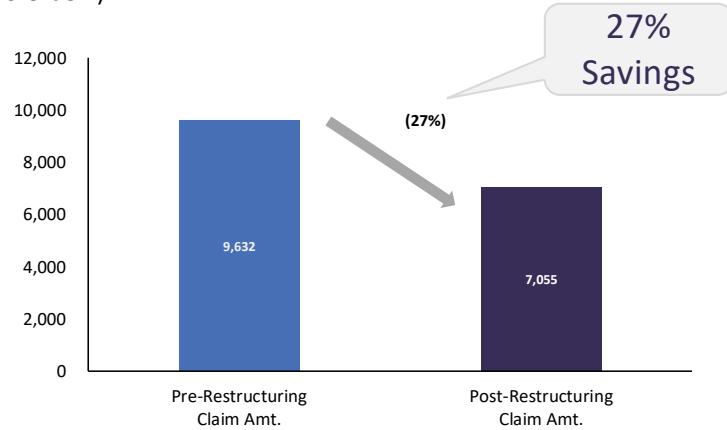
This transaction is currently under evaluation to account for impact of COVID-19

PREPA, AAFAF, the FOMB and an ad hoc group of bondholders **entered into a Preliminary RSA.**

AAFAF, FOMB, the Ad Hoc Group, and Assured executed the Definitive Restructuring Support Agreement

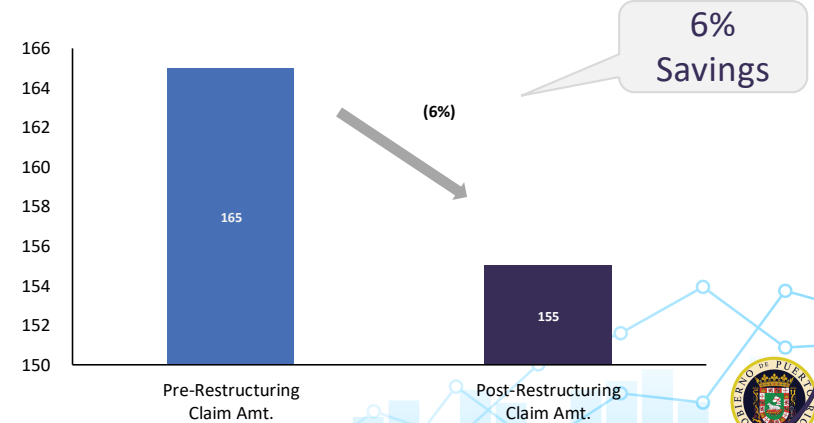
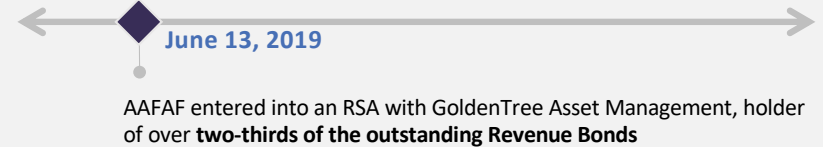


Certain aspects of the PREPA RSA (i.e. Settlement Charge and Settlement Payments) are not effective until order is entered on motion to approve settlements in the PREPA RSA (the "9019 Order").



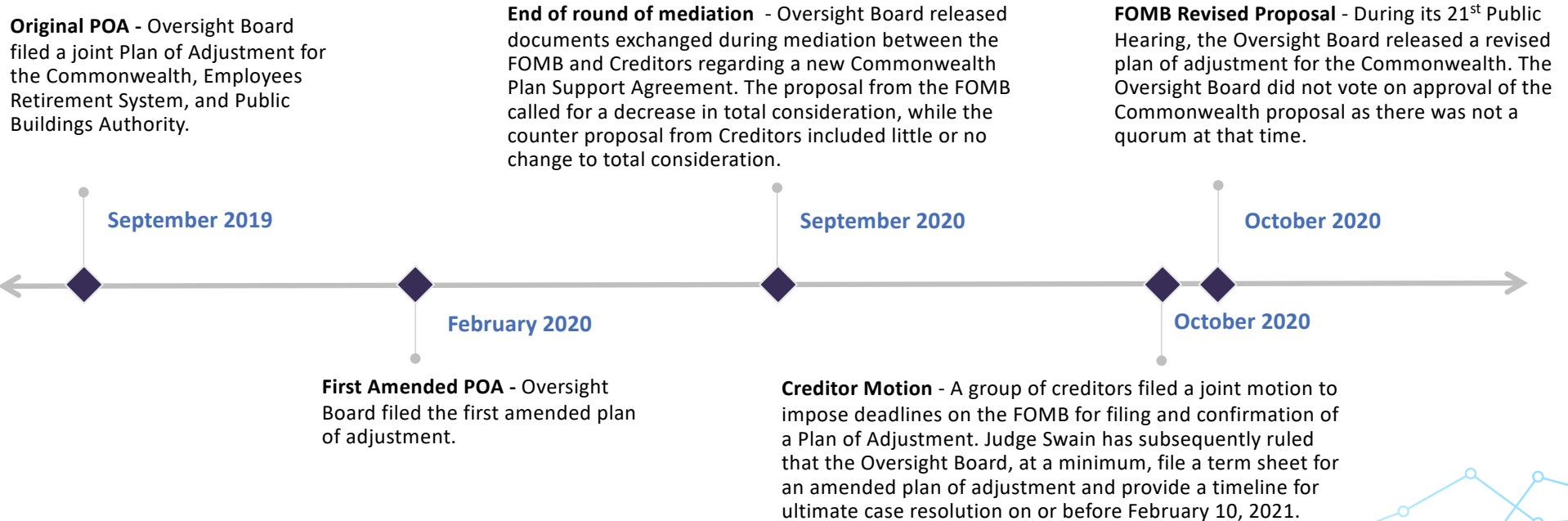
PRIDCO

AAFAF is in the process of completing milestones included in the fiscal plan required by FOMB for approval of transaction



RESTRUCTURING STATUS: COMMONWEALTH POA

The restructuring of the Commonwealth has been a complex process – involving ~\$35 billion of claims across many and very different creditor groups. The Government is committed to collaborating with all stakeholders to reach a consensual agreement in order to get out of bankruptcy and paving the way for increased investment in Puerto Rico while protecting our retirees.



RESPONSE TO COVID-19 PANDEMIC



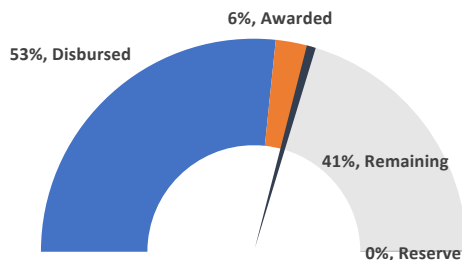
\$5M

CRF funds disbursed on average per day since March 25

Puerto Rico has been leading the way among states in **disbursing \$1.2 billion in CRF funds** to date, helping the individuals, businesses, non-profits, and public-sector agencies in Puerto Rico that need it the most. AAFAF's fiscal agent role and responsibility extends over the Commonwealth funded \$787 million Emergency Measures Support Package and the federally funded \$2.2 billion CRF. Our collective response has been strong and meaningful.

Puerto Rico is in the top 25% of states disbursing funds and has maintained 100% reporting compliance.

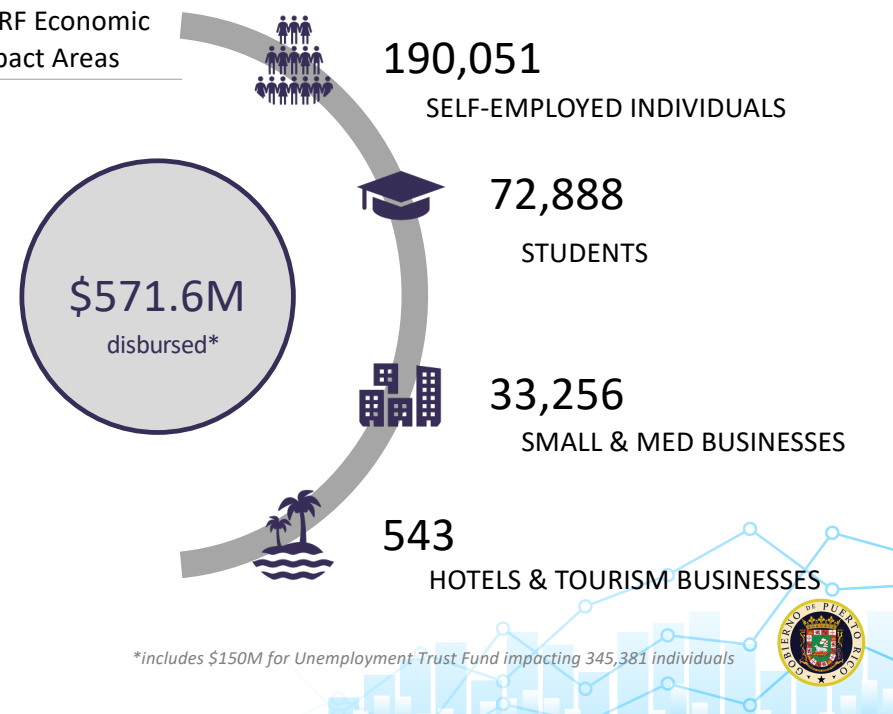
Current Disbursement of CRF Funds



Current Allocation Of CRF Funds By Impact Area



Key CRF Economic Impact Areas

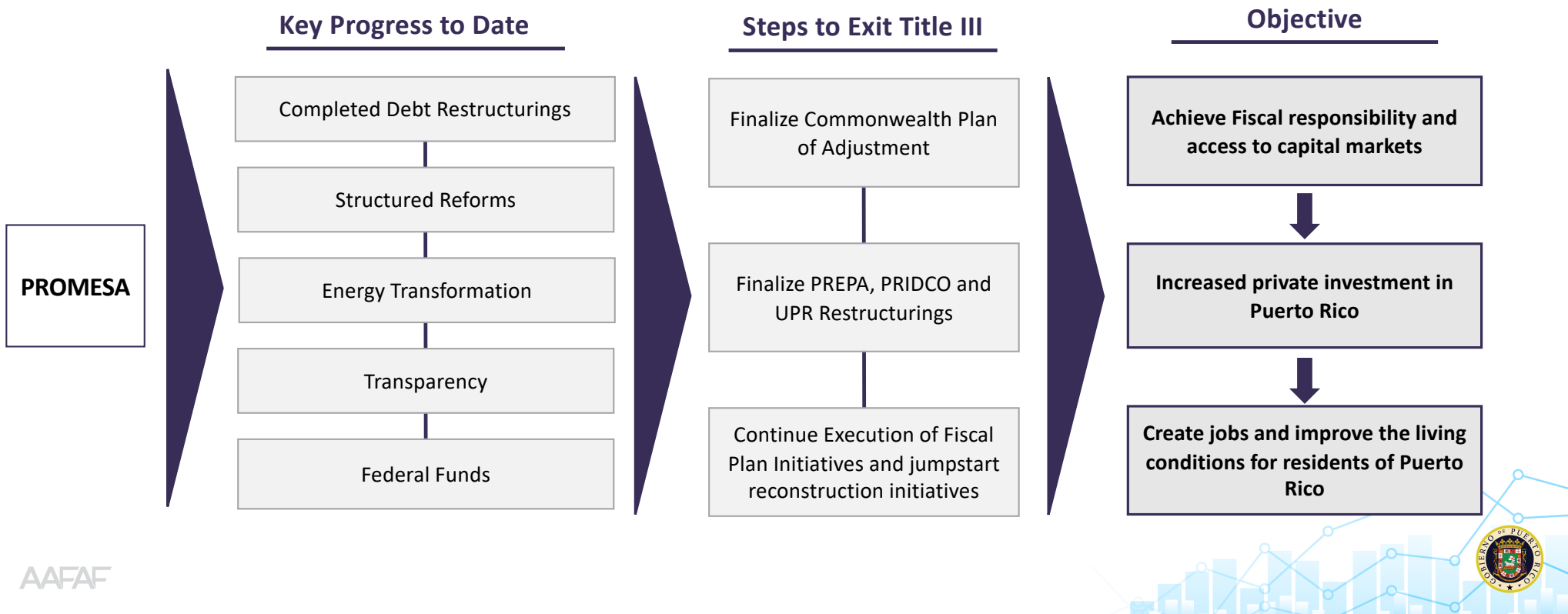


Data as of 11/5/2020
Source: AAFAF Strategic Disbursement Report



Delivering results – Transforming our Island

Despite the challenges that the Government has faced, the Commonwealth has made significant progress in its transformation of Puerto Rico. The Government is committed to continuing to improve the fiscal and economic conditions and move the Commonwealth forward, exit from Title III and focus on promoting private investment on the Island.



Thank You

AAFAF

