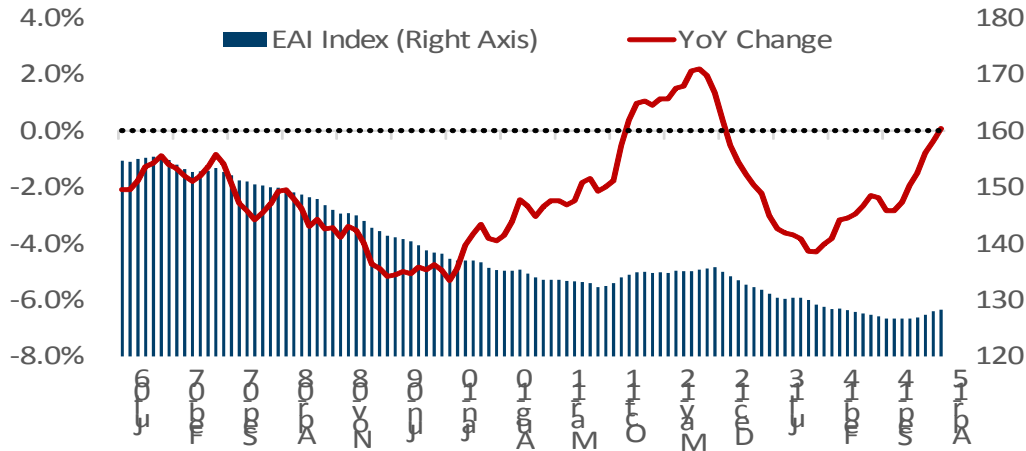


## Media Considerations Related to Puerto Rico's Fiscal Situation

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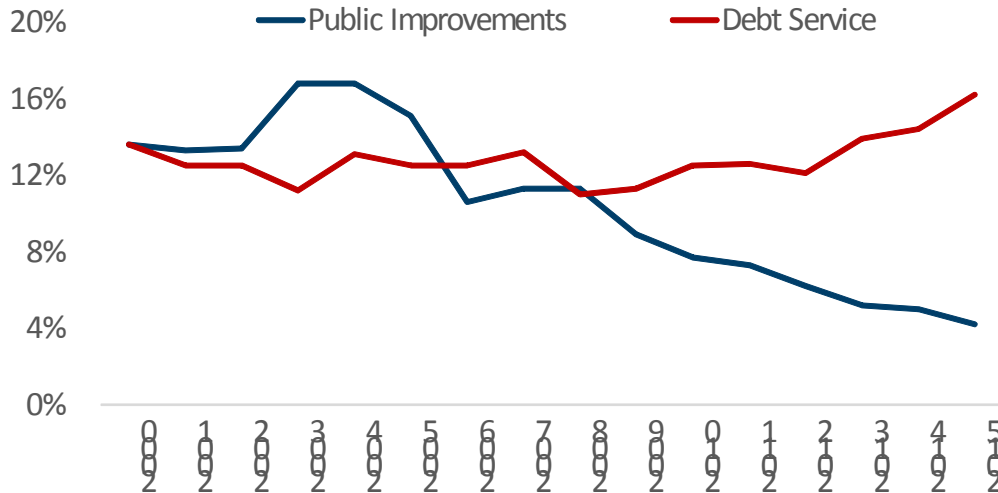
# Economy is Stagnant and Debt Continues to Grow

PE Economy Has Been Contracting for Past Nine Years



- Except for brief period in 2012, economy has been contracting since 2006
- Debt has continued to grow
- Recent and planned debt is not being invested, but is largely financing deficits
- Unsustainable

As % of Spending, Debt Service Has Been Rising while Capital Investment has Dropped



On Per Capita Basis, Liabilities are Overwhelming

	UAAL per Capita	Debt per Capita	Total Debt and UAAL per Capita	UAAL and Debt as % Per Capita Income
State Median	\$2,692	\$1,036	\$3,728	9%
State Average	\$3,155	\$1,325	\$4,480	10%
Puerto Rico	\$10,087	\$10,064	\$20,151	119%
New Jersey	\$5,305	\$4,035	\$9,340	17%
South Dakota	\$755	\$149	\$904	2%
Kentucky	\$5,963	\$1,961	\$7,924	22%

UAAL = Unfunded actuarial accrued liability (Pensions). Data is from S&P (2014 for FY 2012)

# Multiple Stakeholders and Viewpoints

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- Citizens
- Public employees
- Bureaucracy
- Lenders including bondholders (banks, mutual funds, individual investors [mainland and local], hedge funds and other institutional investors)
- Political leadership
- Federal government
- Underwriters, consultants, attorneys and other outside “experts”
- Bond analysts
- Others

It's important to identify and consider viewpoints of all stakeholders. Although as a bond analyst my focus is primarily on bondholder interests, good analysis requires consideration of all stakeholder viewpoints

# A Few Key Questions

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- Given stagnant economy, how much more pain (tax and fee increases, pension reductions, service reductions) can/will citizen stakeholders tolerate?
- How will potential voter discontent translate to political class? Elections are ahead.
- Will future loans be available if government defaults? What are repercussions if bond market access is diminished?
- Structural Challenges are Long Term. Are we looking beyond current (FY2016) budget issues?
- Will political leadership, which has significant accomplishments under belt in past 2 ½ years, take eye off ball with elections ahead?
- Does further borrowing (supported by underwriters etc) encourage poor fiscal discipline or offer leadership breathing room to address fiscal problems?

# Telling the Story

- How well do media consumers understand the issues?
- When writing about basic budget issues, is media distinguishing between
  - lasting structural measures on the one hand (revenue increases and spending cuts) **and**
  - one time fixes (incentive for tax pre-payments, intra government transfers, scoop and toss and capitalized interest).
- Is media looking ahead to out years to identify future budget issues?
  - Act 154 taxes (20% of revenue) - will it continue?
  - Health insurance expense growth +\$1.8 bln 2018
  - Annual pension costs after when pay-as-you-go kicks in (soon)
  - Rising debt service expense

## Debt Service Obligations Limit Spending on Other Priorities

Estimated Debt Service Payments in 2016	
General Obligation Debt	\$1,162 mln
Guaranteed Debt	\$695 mln
Appropriation Debt	\$94 mln
COFINA	\$681 mln
PR GDB	\$1,061 mln
PREPA	\$630 mln
PRASA	\$302 mln
PRHTA	\$359 mln
Total	\$4,983 mln

## Help From Feds on Future Healthcare Spending Unlikely

Projected Deficits of PR Health Insurance Administration				
2015	2016	2017	2018	2019
\$115 mln	\$53 mln	\$165 mln	\$1,796 mln	\$2,020 mln

# Help from Washington? / Trust and Integrity

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Help from DC unlikely

- Congressional gridlock and politics
- Concern about precedents
- Act 154 benefit could end if US tax reform gains momentum

Trust and Integrity

- Treasury and GDB disclosure practices have improved somewhat in recent years, but remain poor – missed self imposed May 1 deadline for June 30, 2014 financials
- You as journalists and we as analysts want to see more financial and related information on a timely and regular basis.
- Is this in the best interests of all stakeholders?

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