



COMMONWEALTH OF PUERTO RICO
PUERTO RICO FEDERAL AFFAIRS ADMINISTRATION

December 1, 2014

On behalf of Governor Alejandro García Padilla of the Commonwealth of Puerto Rico, I want to congratulate you on your re-election to the United States Congress. As the Governor's Representative in Washington, D.C., the Puerto Rico Federal Affairs Administration looks forward to working with you in the 114th Congress.

As you are a cosponsor of H.R. 2000, the Puerto Rico Status Resolution Act, in the 113th Congress, I wanted to take this opportunity to tell you about the efforts the Governor has taken on Puerto Rico's status. In Fiscal Year 2014, President Obama proposed, and Congress approved 2.5 million in funding to the Puerto Rico State Elections Commission. This funding is to be used by the Elections Commission to conduct a voter education campaign and plebiscite on Puerto Rico's status.

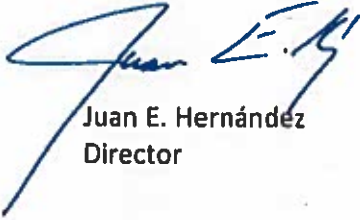
The Governor has gone to work to effectuate the implementation of this funding to conduct a plebiscite on Puerto Rico's status. The Legislative Assembly of Puerto Rico has created a Joint Commission on Status Issues to consider how a fair and transparent plebiscite would be administered. The Governor has asked the Joint Commission to prepare legislation that would establish a process upon which this plebiscite could be established. We expect that legislation will be introduced in the next legislative session. It is the Governor's goal that the plebiscite would take place before the end of 2016 and that it include all options to maintain fairness.

Given all of the progress the Governor has made to implement funding that you have already approved on a new plebiscite, I strongly urge you to avoid co-sponsorship of potential new legislation in the 114th Congress that could conflict with the current process for the use of that funding. We look forward to working with you on this matter. Please be aware that any legislation introduced in the 114th Congress that eliminates Commonwealth and Independence as an option to voters in Puerto Rico is inherently unfair to the majority of Puerto Ricans who support those options. This process must be fair and inclusive and not stand against fundamental democratic principles.

[Redacted]

Congratulations again on your re-election to the United States House of Representatives. I look forward to working with you on Puerto Rico's pressing policy priorities, including the promotion of economic development and security, as Congress considers the many important issues facing our country. For your reference I have attached a summary of the progress the Governor has made on fiscal and economic issues. Please do not hesitate to reach out to PRFAA's Legislative Director, Matthew Fery at mfery@prfaa.pr.gov if you need any further information or have any questions.

Sincerely,



Juan E. Hernández
Director



Puerto Rico: Fiscal and Economic Progress

THE GARCÍA PADILLA ADMINISTRATION HAS TACKLED KEY CHALLENGES TO STRENGTHEN CREDIT AND PROTECT BONDHOLDERS

- **Introduction of Balanced Budget**
 - The García Padilla administration introduced Puerto Rico's first balanced budget in 22 years. The budget totals \$9.565 billion, including General Fund allocations and special allocations. The approved budget assigns \$775 million to service General Obligation (GO) debt.
- **Signage of the Law of Fiscal Sustainability and Operational Government of the Commonwealth of Puerto Rico**
 - Law 66 allows the adjustments needed to confront Puerto Rico's economic reality. This measure is the legal framework that will enable Puerto Rico to guarantee the continuity of governance in key areas of health, safety, education, social work and development. The law enables budgetary balance, phases out market financing of operating budgets, and maximizes liquidity to ensure the payment of debt and the continuity of public services.
- **Introduction of the Puerto Rico Public Company Debt Enforcement and Recovery Act**
 - The Act provides a controlled, orderly route for public corporations to negotiate with creditors to lower debt and create a more promising future for their business without jeopardizing their ability to provide essential services to Puerto Ricans. The law will ensure the lights stay on, highways stay open and the water keeps running in Puerto Rico, while giving public corporations the opportunity to overcome their financial challenges and thereby no longer be a drain on the General Fund.
- **Reform of Puerto Rico's Electric Power Authority**
 - Governor Alejandro García Padilla signed into law an historic bill that will enable the most profound transformation of Puerto Rico's electricity production since 1941. The law will stabilize service rates, make a more transparent operation, and promote renewable energy, efficiency and better quality service.
 - In November, the Puerto Rico Electric Power Authority announced that it will cut its November electricity rates by 7.7 percent, achieving one of the main goals of the Governor's energy sector reforms. The rate decrease was due to reduced fuel costs for the authority's power plants and improved system efficiency.
 - Puerto Rico's Electric Power Authority (PREPA) is following a plan to cut production costs that will lower fees for consumers by 40 percent. The agency will lower the current charge of 27 cents per kilowatt hour to 16 cents by 2019. PREPA is moving towards utilizing more natural gas and renewable energy sources. This is part of Governor García Padilla's plan to decrease state subsidies for public utility corporations to make them self-sustained enterprises, which will help aid the economy and cut costs.
- **Reducing General Fund Deficit**
 - General Fund revenues reached \$676 million in October 2014, \$7 million above estimates, for a year-over-year increase of \$100 million.
 - General Fund preliminary revenues for the 1st Quarter of FY2015 (July-September) totaled \$1,774 million, an increase of \$75 million, or 4.4 percent, compared to the prior year period.
- **Reformed Pension System Funding**
 - Act 3 delivered a long-standing promise of enacting meaningful and comprehensive pension reform to the ERS that reduces the projected need for approximately \$900 million in annual pay-as-you-go contributions in the future and ensures cash flow sufficient to pay pension obligations when due.
 - In February, the Puerto Rico Supreme Court found the judicial pension reform measures signed into law at the end of 2013 to be constitutional.

NEXT STEPS OF FISCAL PLAN

- Working to enact tax code reform.
- Strengthening liquidity.
- Securing the financial stability of Puerto Rico's public corporations.
- Focusing on the long-term goals of maintaining a balanced budget and supporting sustainable economic growth.

REVENUE UPDATE

- Preliminary Net revenue collections for the close of Fiscal Year 2014 totaled \$9,037 million and exceeded final audited collections for FY 2013 by \$475 million, or 5.5 percent. The significant increase in the year's collections was driven by recurring revenue measures included in last year's budget to substantially reduce Puerto Rico's fiscal deficit. In addition to prudent tax legislation, several effective revenue management strategies were implemented throughout the fiscal year which strengthened oversight and compliance.

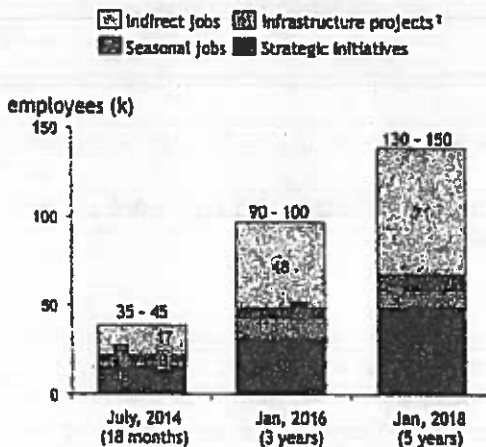
GDB LIQUIDITY UPDATE

- As of October 17th, 2014, the GDB had \$1.9 billion in liquid assets, including cash, bank deposits and unencumbered marketable U.S. Government securities, an amount consistent with projections made in the GDB's March Special Liquidity Update, net of contingencies. The GDB's liquidity has been strengthened during 2014 by the successful completion of the landmark \$3.5 billion Commonwealth GO transaction in March, which repaid approximately \$1.9 billion in GDB lines of credit, and the issuance of \$900 million aggregate principal amount of 2015 Series B Senior Notes by GDB, which was used to fund the Commonwealth's TRANs.

ECONOMIC DEVELOPMENT ROADMAP

- The García Padilla administration has presided over the creation of 55,305 new jobs in Puerto Rico, most in the private sector, since taking office on January 2, 2013, exceeding the Governor's pledge of creating 50,000 new jobs in 18 months.
- The administration outlined a 4-year economic recovery plan, which focuses on diversifying the Island's energy sources, improving the educational system, strengthening the agriculture sector and making the government more efficient.
- Seize on capabilities to provide high-quality products and services at competitive costs.
- Leverage the Commonwealth's unique geographic positioning between the U.S., Latin America and the Caribbean.
- Bring technology and innovation to build upon historic strengths and "move up value chain."
 - Five priority sectors identified: life sciences, knowledge services, tourism, SMEs, agriculture.
- Investments in infrastructure will support longer-term competitiveness.

Jobs created by strategic initiatives in Economic Roadmap



Potential gross tax revenue from Roadmap's strategic initiatives

