

PUERTO RICO  
**CREDIT**  
CONFERENCE  
— 2010 —

—A YEAR INTO THE—  
ECONOMIC & FISCAL  
RECONSTRUCTION

FEBRUARY 25-26, 2010



# Other Puerto Rico Issuers

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February 26, 2010



# Other Puerto Rico Issuers

**Puerto Rico Infrastructure and Finance Authority**

**Children's Trust**

**Puerto Rico Housing Finance Authority**

**University of Puerto Rico**

**Convention Center District Authority**

**PFC**

**PRIDCO**

**Employee Retirement System**

**Puerto Rico Sales Tax Corporation ("COFINA")**

**Main  
Issuers**

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# Puerto Rico Sales Tax Financing Corporation (COFINA)





## Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government Development Bank's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government Development Bank for Puerto Rico, the Government of Puerto Rico and its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



# COFINA Fundamental Highlights

1

**Diversified and resilient sales tax base and collection**

2

Strong dedicated tax structure & bondholder security features

3

Strong coverage even under severe stress scenarios

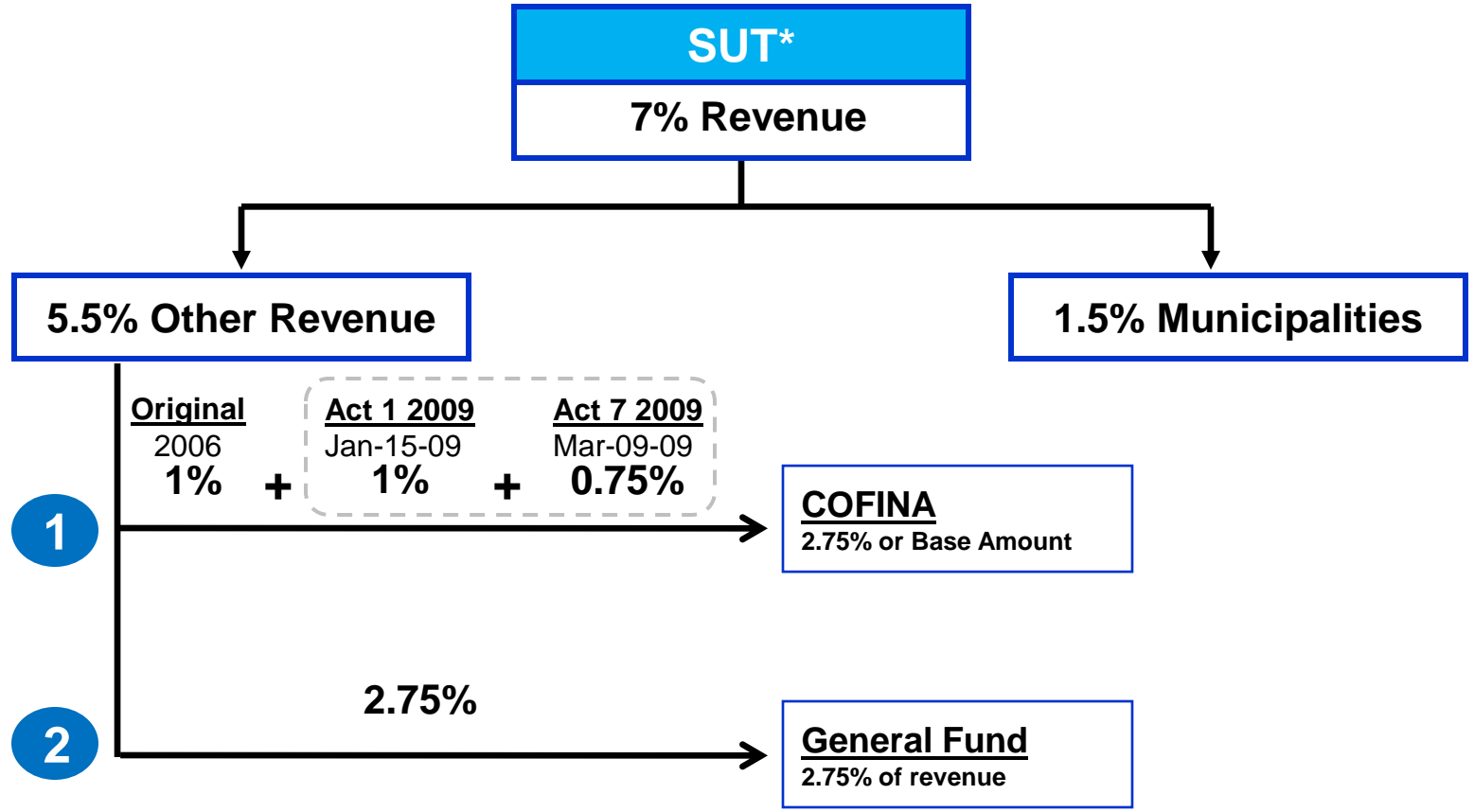
4

Concluding Remarks



On July 2007 a statewide sales tax was enacted... afterwards in 2009 legislation was passed to increase the percentage of receipts flowing to support the Bonds

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

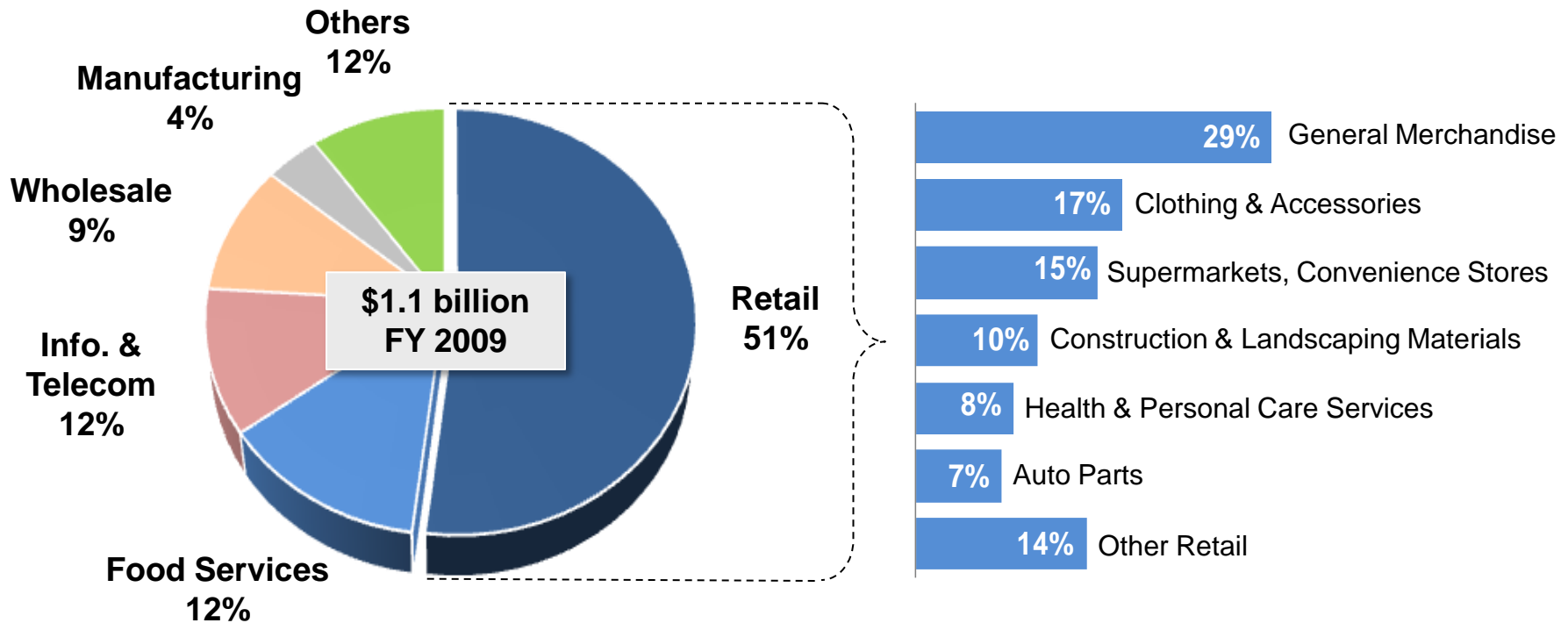




# Sales tax is derived from a broad tax base that includes diversified mix of goods and services

Highly diversified sales tax base across economic sectors

Further and deeper diversification within the retail segment





# Sales tax base stability and resiliency due in part to exclusion of volatile items and inclusion of services

## EXCLUDES: volatile items

Automobiles	Excluded
Gasoline and Diesel Fuel	Excluded
Electric Utilities	Excluded
Hotel Room Charges	Excluded

## INCLUDES: services that provide stability

Phone/Cable TV/Internet	Included
Personal Services*	Included
Personal Care Services**	Included

- **Not affected by auto industry downturn**
- **No volatility from oil prices**
- **Low dependence on tourism**

- **Provide stability to sales tax**
- **Parallels economy by inclusion of services**
- **Certain services are strong consumer items**

\* Personal services include dry cleaning and others.

\*\* Personal Care services include beauty services, non-doctor and non-prescription services and salon services.

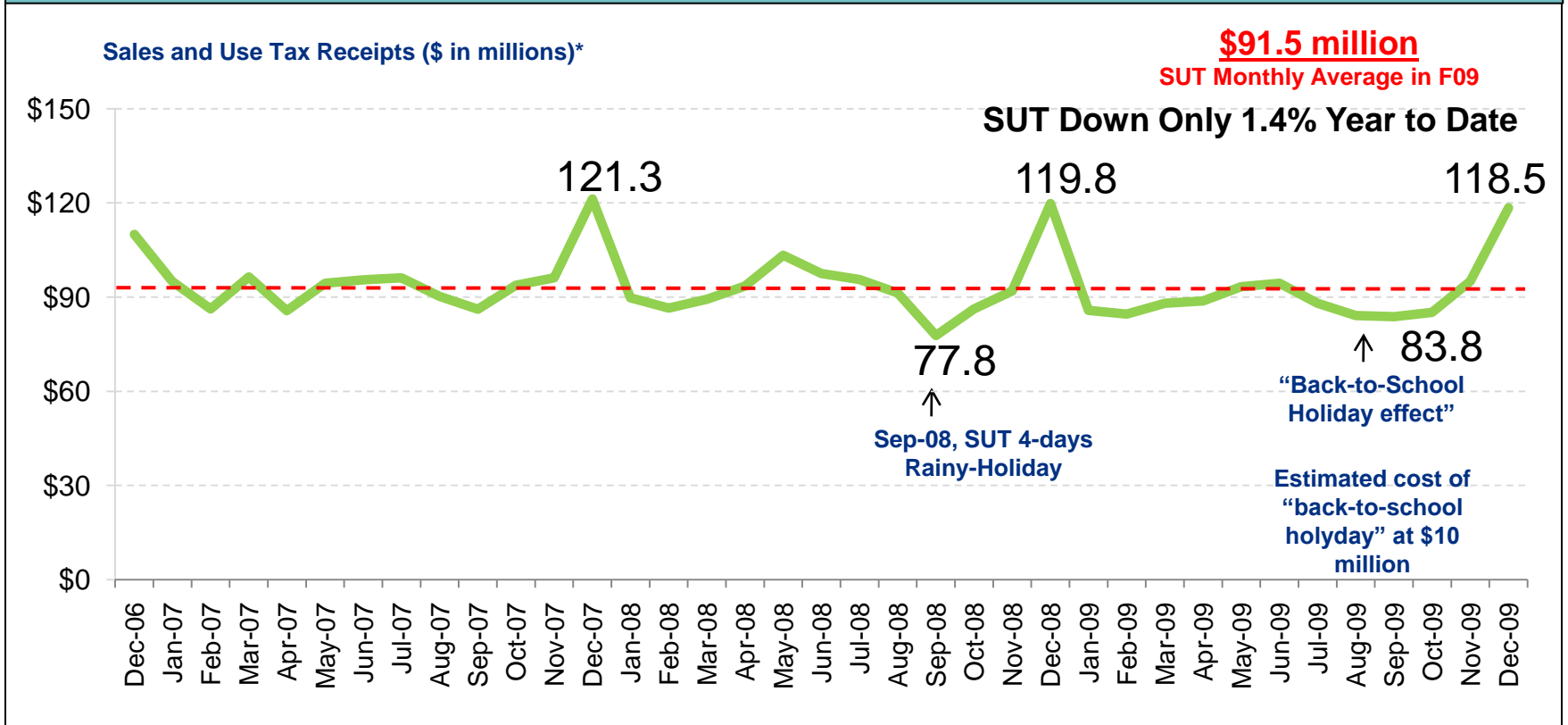
Source: PR Treasury Department.





# Sales and Use Tax revenues have remained strong in spite of recession

## SUT monthly trend continues to show resiliency





# History of Personal Consumption Expenditures and retail sales trends demonstrate stability and growth

1

**Over three years of sales tax history establishes a proven baseline of collections, further reinforced by long-term trends**

- Puerto Rico's large population, moderate population growth and high household formation all drive increasing sales and thus sales tax revenues
- Personal consumption expenditures (PCEs) and GNP, which are proxies for sales tax performance, show a long history of growth
  - PCEs are bolstered by federal transfers, with 22% of personal consumption supported by federal transfers, which generally have not been susceptible to economic downturns

2

**Strong retail sales driven by unique characteristics**

- High population density
- PCEs approach 90% of GNP, compared with about 70% elsewhere in the US
- Puerto Rico has a consumer-driven culture with high retail sales per sq foot
- As an island, no cross-border leakage, a problem in many US states
- Diverse base of tax collectors, with 31% of taxes from the top 20 merchants

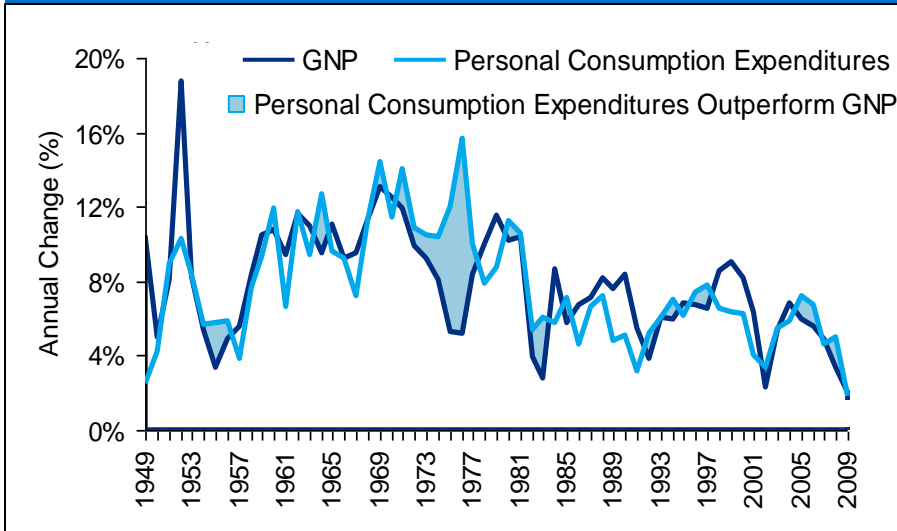


# Long history of Personal Consumption Expenditure growth, even in recessions

- Since 1947, nominal Personal Consumption Expenditures (PCEs) have never recorded an annual decline
- Recessionary conditions in Puerto Rico have persisted for the last three years, but PCEs have demonstrated strong resiliency
  - Since the local recession began, nominal PCE growth has remained positive

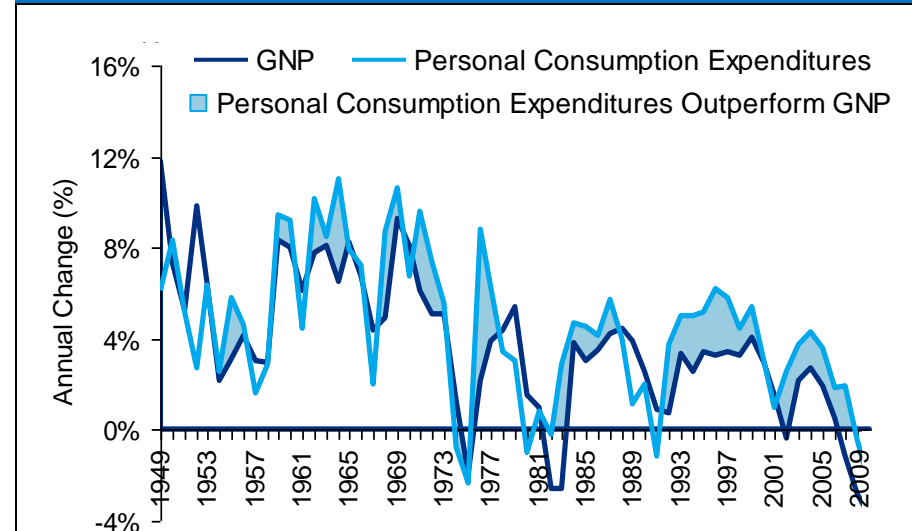
**Puerto Rico PCE & GNP Year over Year Growth**

(Based on NOMINAL dollar data)



**Puerto Rico PCE & GNP Year over Year Growth**

(Based on REAL dollar data)





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# Strong dedicated tax structure

**1 Pledge to the bonds of the greater of:**

- 50% of Puerto Rico’s sales tax (2.75% / 5.5%)
- A fixed annual Base Amount of \$550 million in FY 2010 that escalates 4% annually and is capped at \$1.85 billion

**2 The first collections of the 5.5% sales tax revenues are directed to the Dedicated Sales Tax Fund until the Base Amount is reached**

**3 In 2006, Law 91 transferred ownership of the Dedicated Sales Tax Fund (including the right to receive future collections) to the Sales Tax Financing Corporation**

**4 The Sales Tax Financing Corporation transferred its right, title and interest in the Dedicated Sales Tax Fund to the Trustee on behalf of the bondholders**

**5 Law continues to provides that no amendment shall impair any obligation to Bondholders and now requires that “like or comparable security” be provided for a future legislature to exercise its constitutional power to limit or restrict the sales tax**

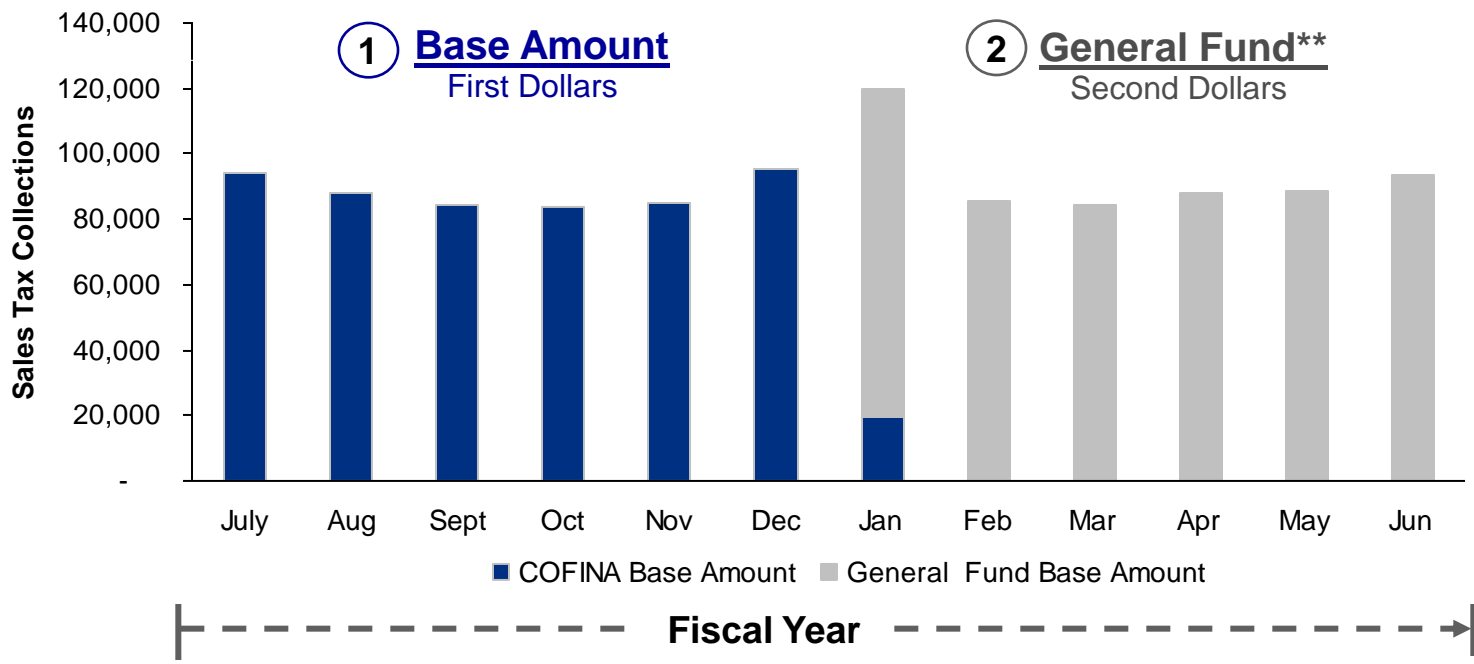
- Bond Resolution further provides for ratings confirmations and receipt of favorable “clawback” opinions as a condition of the Corporation accepting any such substitution



# \$550 million base amount fully accumulated by January

**First sales taxes in any fiscal year flow to bonds, up to Base Amount which is a fixed \$550 million in FY 2010, growing by 4% annually thereafter and capped at \$1.85 billion**

## Pro Forma Allocations of Sales Tax\* (in thousands)



\* Actual collections from January 2009 to December 2009 and pro forma allocation of taxes pursuant to amended law.

\*\* Once the general fund receives 2.75% / 5.5% of the Base Amount, additional funds are split evenly between the general fund and the Trustee.



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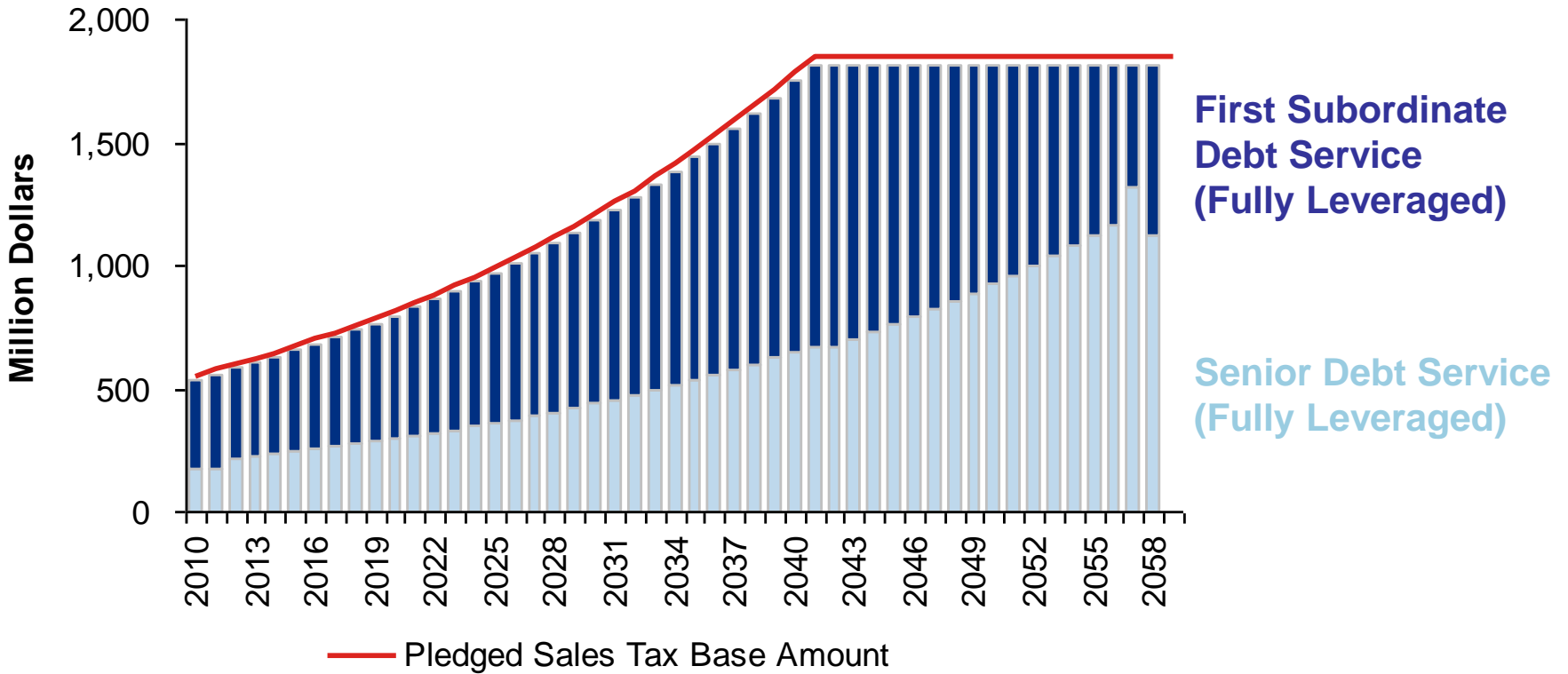
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# COFINA Fully Leveraged Debt Service







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**Concluding Remarks**



## Concluding remarks

- 1 The sales tax is Puerto Rico's single strongest tax pledge with the highest credit ratings in Puerto Rico and a stable outlook**
- 2 Sales tax collections show resiliency in the face of the economic downturn with stable year-over-year revenue trends**
- 3 Bonds benefit from first collections of the sales tax in each year, up to the Base Amount of \$550 million in FY2010, escalated by 4%/year**
- 4 Protection to bondholders include limits on additional Senior and Subordinate Bonds, strong liquidity and non-impairment provisions**
- 5 Bond coverage is strong even in severe stress scenarios**

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# Employee Retirement System



# 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
<b>Total</b>	<b>210</b>	<b>176,837</b>



# 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
<b>Total</b>	<b>\$2,947,648,343</b>



# Overview of POBs

- \$2.95 billion outstanding
- 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
- Bonds are secured by Debt Service Reserve Fund of approx \$82 million
- Minimum Coverage level of 2.25x under baseline projections and 2.03x under “worst case” projections
- The ERS Plan contemplated \$7 billion of issuance with 1.40x Coverage



# POB's 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**

**POB program has been halted, resulting in a significant coverage ratio for outstanding debt**



# Debt Service and Projected Contributions

