

Comprehending the Crisis: A Survey of Puerto Rico's History and Fiscal Situation, and Paths Forward

Hon. Enrique S. Lamoutte, Moderator

U.S. Bankruptcy Court (D. P.R.); San Juan

Zachary H. Smith, Co-Moderator

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Sequence of Events Leading to Puerto Rico's Present Economic Condition

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I. Introduction

A. This presentation will look at the events that took place from the moment Puerto Rico became a territory of the United States of America until the present day to understand the events that lead to the current economic crisis that Puerto Rico is facing.

II. 1898-1920

A. 1898-Economy based mostly around sugar cane industry and other agricultural products.¹

B. 1900-US Congress enacts the Organic Act of 1900, also known as the Foraker Act establishing a limited popular government. The Governor was appointed by the President of the United States and the House of Representatives was elected by the Island.²

C. 1917-The Jones Act was enacted by the US Congress. Granting US citizenship to all Puerto Ricans, establishing the existing political structure. Authorizing triple tax exemptions for bonds issued by PR government.³

D. 1920-Enactment of the Merchant Marines Act (the Jones Act/ Leyes de Cabotage) wherefore all traffic of goods in US waters has to be done via the United States Merchant Marines or other US approved trading vessels. It is important to note that the US has one of the highest costs of marine transportation.⁴

¹ Jose L. Bolivar Fresneda, *La Economia de Puerto Rico Durante la Segunda Guerra Mundial: ¿Capitalismo Estatal o Economia Militar?*, (http://joselbolivar.com/archives/2009_09_11_la_economia_de_pr.pdf)

² Presidential Task Force, *Report by the President's Task Force on Puerto Rico's Status* (March 2011) (https://www.whitehouse.gov/sites/default/files/uploads/Puerto_Rico_Task_Force_Report.pdf).

³ Id.

⁴ Id.

III. 1939-1947

A. 1939-Approval of Military Base construction in Aguadilla and Isla Verde. Injecting a large cash surplus in to the island of Puerto Rico and its labor force.⁵

B. 1940-Economic reform transforming from agricultural industry to an industrialized one. Specifically, manufacturing of textile goods and other products.⁶

C. 1947-Operation Bootstraps-giving private firms a 10 year exemption from Puerto Rico's tax (CRIM, INCOME and other).⁷

1. -The industrialization process under Operation Bootstrap took place in two stages.

a. The first lasted from 1947 to 1960 and was characterized by the attraction of companies that were highly labor intensive and came to Puerto Rico for the wages that were low in comparison with the United States. In 1950, for example, the daily wage in Puerto Rico was 28 percent of that of the United States. The sectors that experienced the greatest investment during the first stage were textiles, clothing and leather goods.

b. 1960 characterized by the attraction of companies that were highly capitalized which can provide high salaries

IV. 1948

A. Luis Muñoz Marín is elected governor of Puerto Rico by democratic vote of the Island.⁸

⁵ Jose L. Bolivar Fresneda, La Economía de Puerto Rico Durante la Segunda Guerra Mundial: ¿Capitalismo Estatal o Economía Militar?, (http://joselbolivar.com/archives/2009_09_11_la_economia_de_pr.pdf)

⁶ Presidential Task Force, *Report by the President's Task Force on Puerto Rico's Status* (March 2011) (https://www.whitehouse.gov/sites/default/files/uploads/Puerto_Rico_Task_Force_Report.pdf).

⁷ Id.

⁸ Id.

V. 1950-1952

A. US congress enacts the Puerto Rico Federal Relations Act (P.L. 81-600) authorizing Puerto Rico to draft its own constitution on matters of purely local concerns.

1. Puerto Rico drafted and approved its own constitution. Was subsequently approved by President Truman and Congress subject to certain condition on July 3, 1952.⁹

2. On July 25, 1952, the constitutional convention approved the Constitution as amended by the US Congress and president Truman.¹⁰

B. 1952-Creation of the Commonwealth of Puerto Rico.¹¹

VI. 1960

A. At the beginning of the 1960s, the second stage of Operation Bootstrap industrial development began, this one based on attracting companies that were highly capital intensive. The new strategy was based on the premise that capital intensive industries would provide higher salaries and would stimulate the creation of secondary industries.

B. Unemployment stood at 12%

VII. 1970-1983

A. 1970-Global recession and an energy crisis stalled out the islands economy.¹²

B. 1976-Section 936 of the Internal Revenue Code enacted. As a response to the stagnant economic growth on the island.¹³

C. 1980-Unemployment stood at 23%.¹⁴

⁹ Id.

¹⁰ Id.

¹¹ Id.

¹² Id.

¹³ Id.

¹⁴ Id.

D. 1983-Federal Minimum wage was implemented in Puerto Rico

VIII. 1993-1997

A. 1993-Section 936 was limited¹⁵

B. 1996-Began the Phase out of section 936.¹⁶

C. New indebtedness during 1996 and 1997, seven design-build contracts were awarded for different segments of the Tren Urbano Phase 1 system.¹⁷

IX. 2000

A. \$24,241,000,000.00 in public Debt.¹⁸

X. 2001

A. \$27,038,000,000.00 in public Debt.¹⁹

XI. 2002

A. \$29,291,000,000.00 in public Debt.²⁰

XII. 2003

A. \$32,316,000,000.00 in public Debt.²¹

XIII. 2004

A. \$35,950,000,000.00 in public Debt.²²

XIV. 2005

A. -Tren Urbano was officially opened. The project cost around \$2.25 Billion. The amount of daily passengers has yet to reach to expected amounts.²³

¹⁵ Id.

¹⁶ Id.

¹⁷ Federal Transit Administration Office of Planning and Environment, *The Predicted and Actual Impacts of New Starts Projects 2007*(April 2008).

¹⁸ Juan Carlos Batlle; Juan Carlos Pavía; Jesús F. Méndez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

¹⁹ Id.

²⁰ Id.

²¹ Id.

²² Id.

B. -\$38,904,000,000.00 in public Debt.²⁴

C. -End of section 936 tax incentive²⁵

XV. 2006

A. \$42,541,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference.²⁶

B. \$43,500,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.²⁷

C. Puerto Rico economy began to slow

XVI. 2007

A. \$42,818,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference²⁸

B. \$46,200,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.²⁹

C. IVU was enacted

²³ Federal Transit Administration Office of Planning and Environment, *The Predicted and Actual Impacts of New Starts Projects 2007*(April 2008).

²⁴ Presidential Task Force, *Report by the President's Task Force on Puerto Rico's Status* (March 2011) (https://www.whitehouse.gov/sites/default/files/uploads/Puerto_Rico_Task_Force_Report.pdf).

²⁵ Id.

²⁶ Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

²⁷ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

²⁸ Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

²⁹ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

XVII. 2008

- A. \$52,915,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference³⁰
- B. \$53,400,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.³¹

XVIII. 2009

- A. \$58,915,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference³²
- B. \$58,400,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.³³

XIX. 2010

- A. \$61,474,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference³⁴
- B. \$62,200,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.³⁵
- C. Unemployment stands at 15.8%

³⁰ Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

³¹ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

³² Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

³³ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

³⁴ Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012)(<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

³⁵ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

XX. 2011

- A. \$65,175,000,000.00 in public Debt as reported by the 2012 Puerto Rico Credit Conference³⁶
- B. \$64,300,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.³⁷
- C. Unemployment stood at 41%

XXI. 2012

- A. \$69,900,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.³⁸
- B. Government Revenue \$12 Billion³⁹
- C. Government Expenditures \$34.4 Billion⁴⁰

XXII. 2013

- A. Transfer of Luis Muñoz Marín Airport to Aerostar Airport Holdings under a 40 year rental agreement.
- B. \$70 Billion in public Debt as reported by the 2015 Puerto Rico Working Group Conference.⁴¹

³⁶ Juan Carlos Batlle; Juan Carlos Pavia; Jesus F. Mendez, *Puerto Rico: Restoring Growth Through Fiscal Responsibility* (2012) (<http://www.bgfpr.com/PRCC2012/documents/PRFiscalUpdatePanelPRCC2012-5-10.pdf>)

³⁷ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

³⁸ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

³⁹ Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014) (<https://www.newyorkfed.org/medialibrary/media/outreach-and-education/puerto-rico/2014/Puerto-Rico-Report-2014.pdf>)

⁴⁰ Id.

⁴¹ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015) (<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

- C. 71.9 Billion in public Debt⁴²
- D. Breakdown of the Debt as follows as follows⁴³:
 - 1. \$15.8 Billion in GO's
 - 2. \$15.6 Billion in Cofina
 - 3. \$13.2 Billion Municipalities
 - 4. \$1.1 Billion Tax revenue anticipation notes
 - 5. \$26.2 Billion Public Corps.

XXIII. 2014

- A. \$72,300,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.⁴⁴
- B. Unemployment stands at 12.1%
- C. Over 217,000 people have left the island since 2010

XXIV. 2015

- A. \$71,100,000,000.00 in public Debt as reported by the 2015 Puerto Rico Working Group Conference.⁴⁵
- B. \$73 Billion in public Debt as per the testimony of Atty. Melba Acosta, Director BGF.

⁴² Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014) (<https://www.newyorkfed.org/medialibrary/media/outreach-and-education/puerto-rico/2014/Puerto-Rico-Report-2014.pdf>)

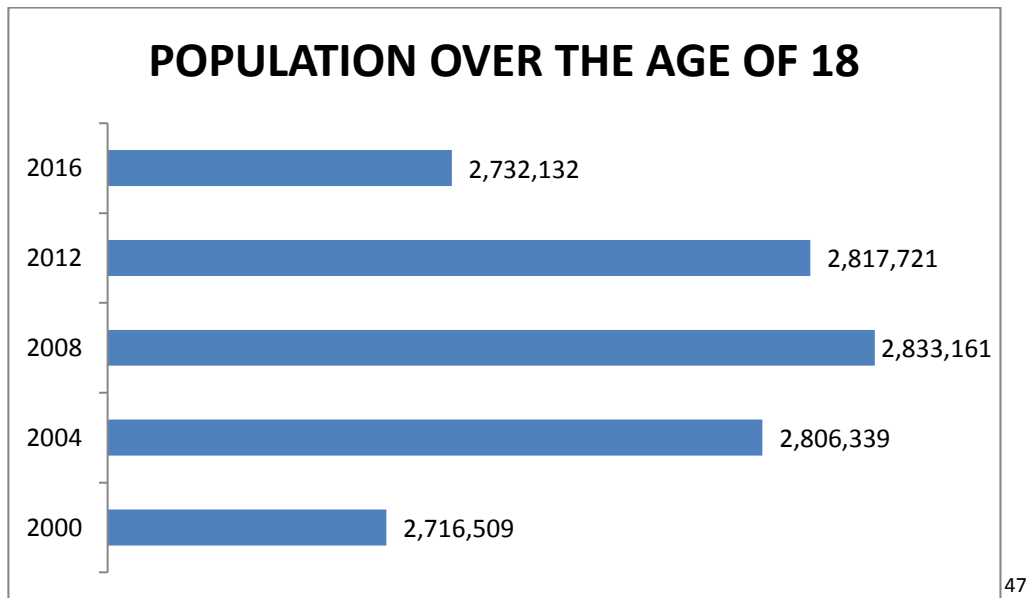
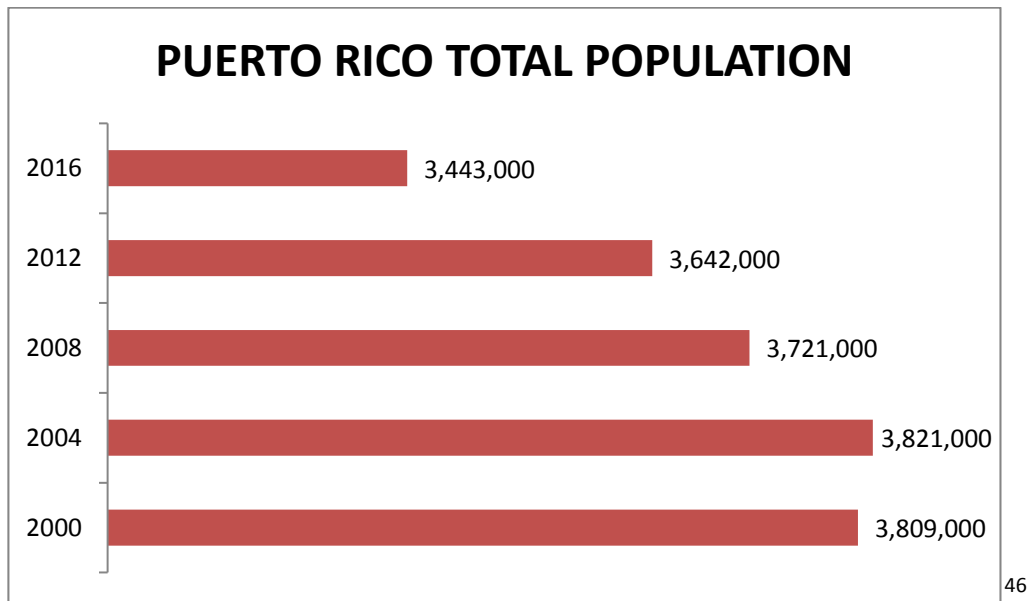
⁴³ Id.

⁴⁴ Working Group for the Fiscal and Economic Recovery of Puerto Rico, *Puerto Rico Fiscal and Economic Growth Plan* (September 9, 2015)

(<http://www.bgfpr.com/documents/PuertoRicoFiscalandEconomicGrowthPlan9.9.15.pdf>)

⁴⁵ Id.

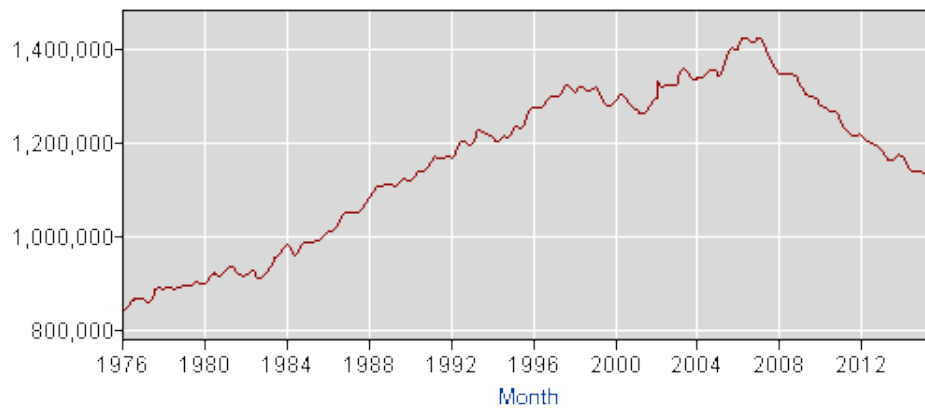
Appendix



⁴⁶ U.S. Census Bureau (<http://www.census.gov/popest/about/terms.html>)

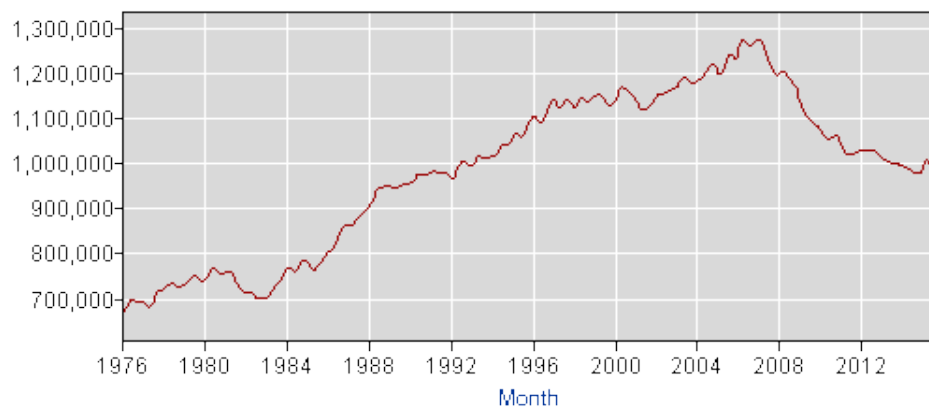
⁴⁷ U.S. Census Bureau (<http://www.census.gov/popest/about/terms.html>)

labor force



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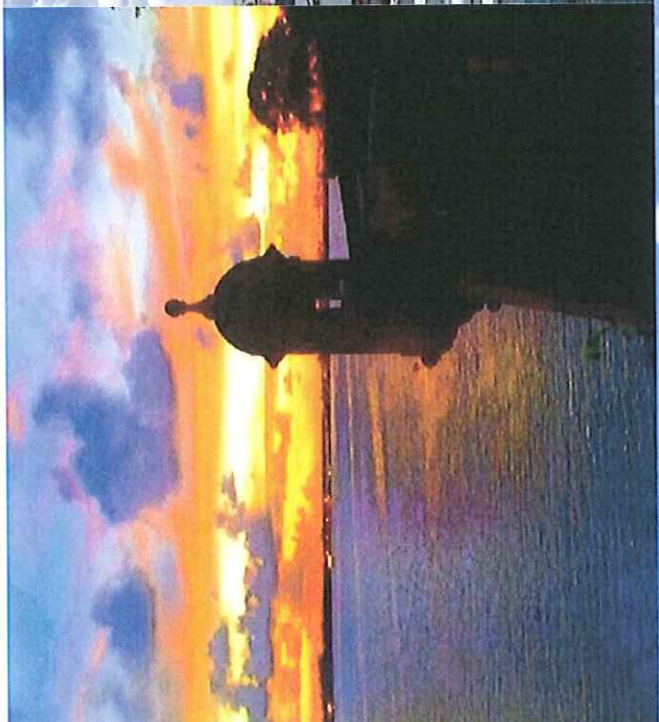
employment



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⁴⁸ U.S. Department of Labor, Bureau of Labor Statistics. (<http://data.bls.gov/pdq/SurveyOutputServlet>)

⁴⁹ U.S. Department of Labor, Bureau of Labor Statistics. (<http://data.bls.gov/pdq/SurveyOutputServlet>)



Introduction

Comprehending the Crisis: A Survey of Puerto Rico's History, Fiscal Situation, and Paths Forward

Hon. Enrique S. Lamoutte

- I. Sequence of Events Leading to Puerto Rico's Present Economic Condition
- II. What is Puerto Rico's Present Economic Condition
- III. What Can/Should be Done to Restructure Puerto Rico's Debt
- IV. Is Chapter 9 of the Bankruptcy Code a Tool to Restructure Puerto Rico's Debt or a Solution to its Economic Condition
- V. What are the Legal Issues Puerto Rico is Likely to Confront in Light of its Economic Situation

Sequence of Events Leading to Puerto Rico's Present Economic Condition

Carmen D. Conde Torres, Esq.

C. Conde & Assoc.

1898-1920

- 1898-Transfer of sovereignty from Spain to Puerto Rico at the conclusion of the Spanish-American War.
- 1898-Economy based mostly around sugar cane industry and other agricultural products.
- 1900-US Congress enacts the Organic Act of 1900, also known as the Foraker Act establishing a limited popular government. The Governor was appointed by the President of the United States and the House of Representatives was elected by the Island.

1898-1920 (Cont.)

- 1917-The Jones-Shafroth Act was enacted by the US Congress. Granting US citizenship to all Puerto Ricans, establishing the existing political structure. Authorizing triple tax exemptions for bonds issued by PR government.
- 1920-Enactment of the Merchant Marines Act (The Jones Act/ Leyes de Cabotage) All traffic of goods in US waters has to be done via the United States Merchant Marines or other US approved trading vessels. Important to note that the US has one of the highest cost of marine transportation .
- Insular Cases-SCOTUS decisions in early 20th century addressing the constitutional protections that apply to residents of U.S. territories, including Puerto Rico.
 - De Lima v. Bidwell, 182 U.S. 1 (1901)
 - Goetze v. United States, 182 U.S. 221 (1901)
 - Dooley v. United States, 182 U.S. 222 (1901)
 - Armstrong v. United States, 182 U.S. 243 (1901)
 - Downes v. Bidwell, 182 U.S. 244 (1901)
 - Huus v. New York and Porto Rico Steamship Co., 182 U.S. 392 (1901)

1939-1947

- 1939-Approval of Military Base construction in Aguadilla and Isla Verde. Injecting a large cash surplus in to the island of Puerto Rico and its labor force.
- 1940-Economic reform transforming from agricultural industry to an industrialized one. Specifically, manufacturing of textile goods and other products.
- 1947-Operation Bootstraps-giving private firms a 10 year exemption from Puerto Rico's tax (CRIM, Income and other).

Operation Bootstrap

- Include some of the following incentives:
 - Lower wages were paid to Puerto Rican workers.
 - Tax exemption status to all.

1948

- Luis Muñoz Marín is elected governor of Puerto Rico by democratic vote of the Island

1950-1952

- US congress enacts the Puerto Rico Federal Relations Act (P.L. 81-600) authorizing Puerto Rico to draft its own constitution on matters of purely local concerns.
 - Puerto Rico drafted and approved its own constitution. Was subsequently approved by President Truman and Congress subject to certain condition on July 3, 1952.
 - On July 25, 1952, the constitutional convention approved the Constitution as amended by the US Congress and president Truman.
- Thus in 1952 the status of Commonwealth was attributed to Puerto Rico.

1960

- At the beginning of the 1960s, the second stage of Operation Bootstrap industrial development began, this one based on attracting companies that were highly capital intensive. The new strategy was based on the premise that capital intensive industries would provide higher salaries and would stimulate the creation of secondary industries.
- Unemployment stood at 12%.

1970-1983

- 1970-Global recession and an energy crisis stalled out the islands economy.
- 1976- Section 936 of the Internal Revenue Code enacted.
- 1980-Unemployment stood at 23%.
- 1983-Federal Minimum wage was implemented in Puerto Rico.

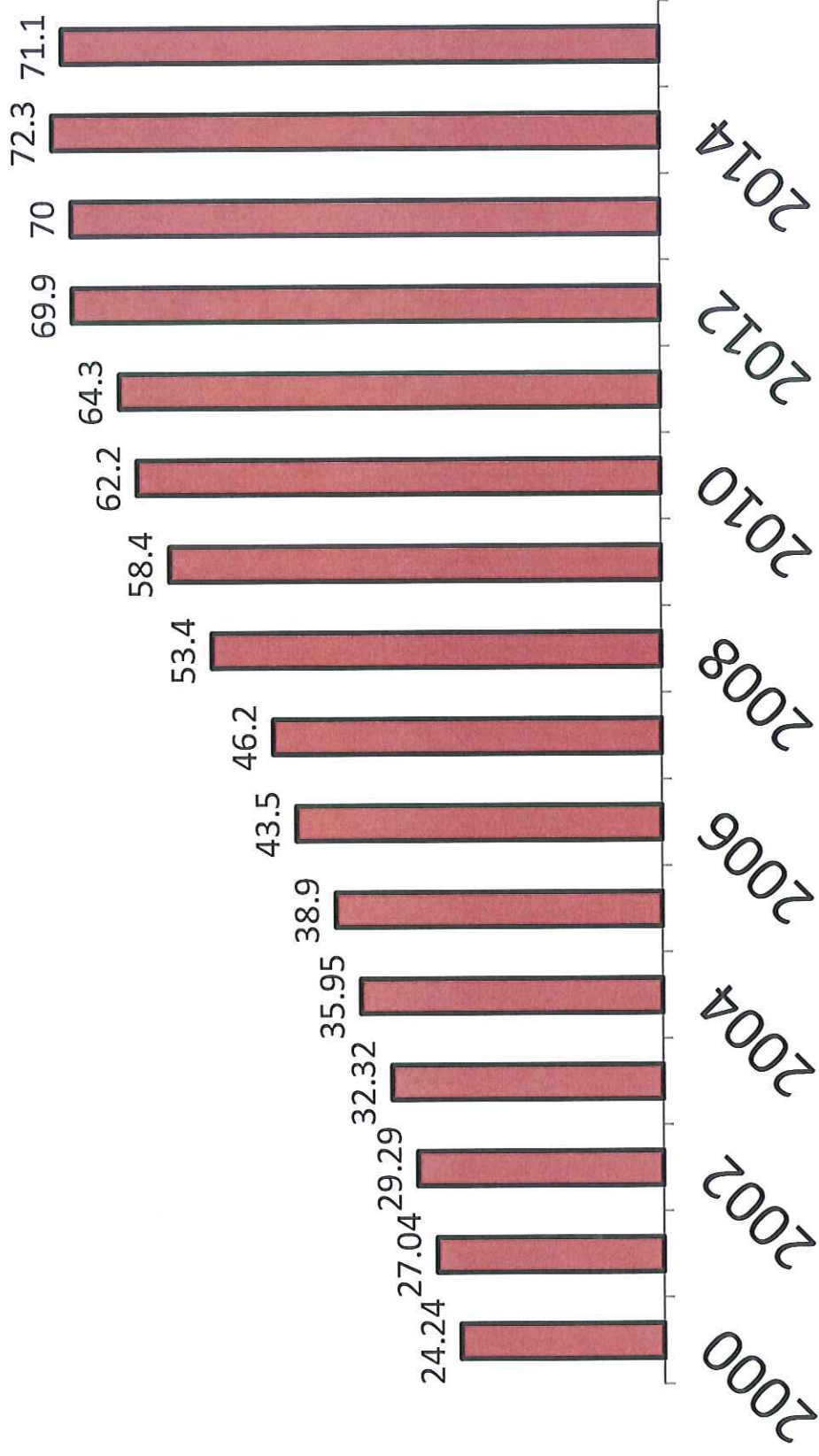
1993-1997

- 1993-Section 936 was limited .
- 1996-Began the Phase out of section 936.
- New Indebtedness during 1996 and 1997, seven design-build contracts were awarded for different segments of the Tren Urbano Phase 1 system.

2000-2016

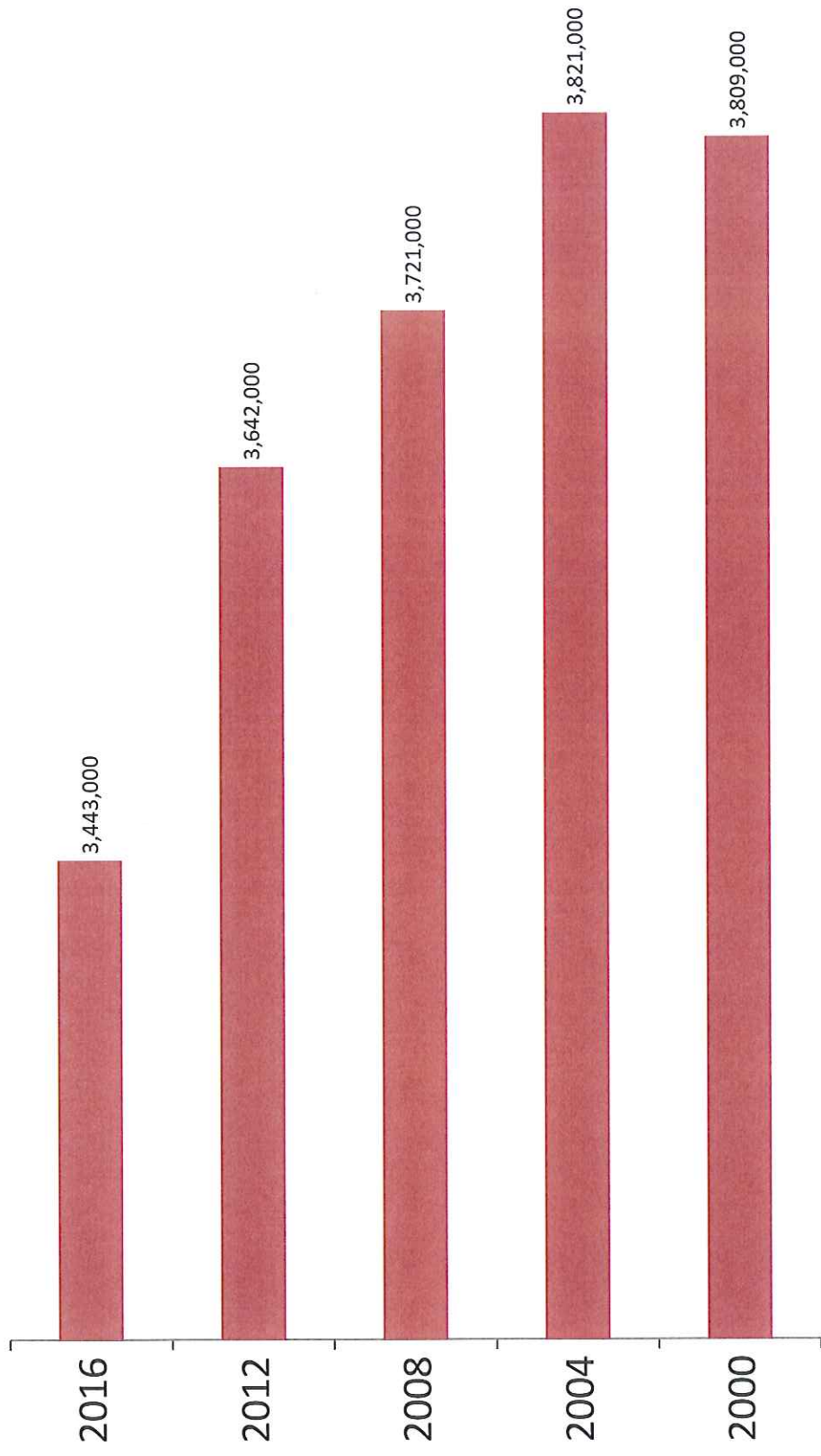
- Population Decrease
- Debt Increase
- Renew of Debt (over debt)
- Lack of Funds
- Clawback

Public Debt in Billions (\$)



Information taken from the P.R. Working Group Conf. 2015

Puerto Rico Total Population



Data provided by United States Census and El Nuevo Dia

What is Puerto Rico's Present Economic Condition?

Zachary H. Smith, Esq.
Moore & Van Allen, PLLC

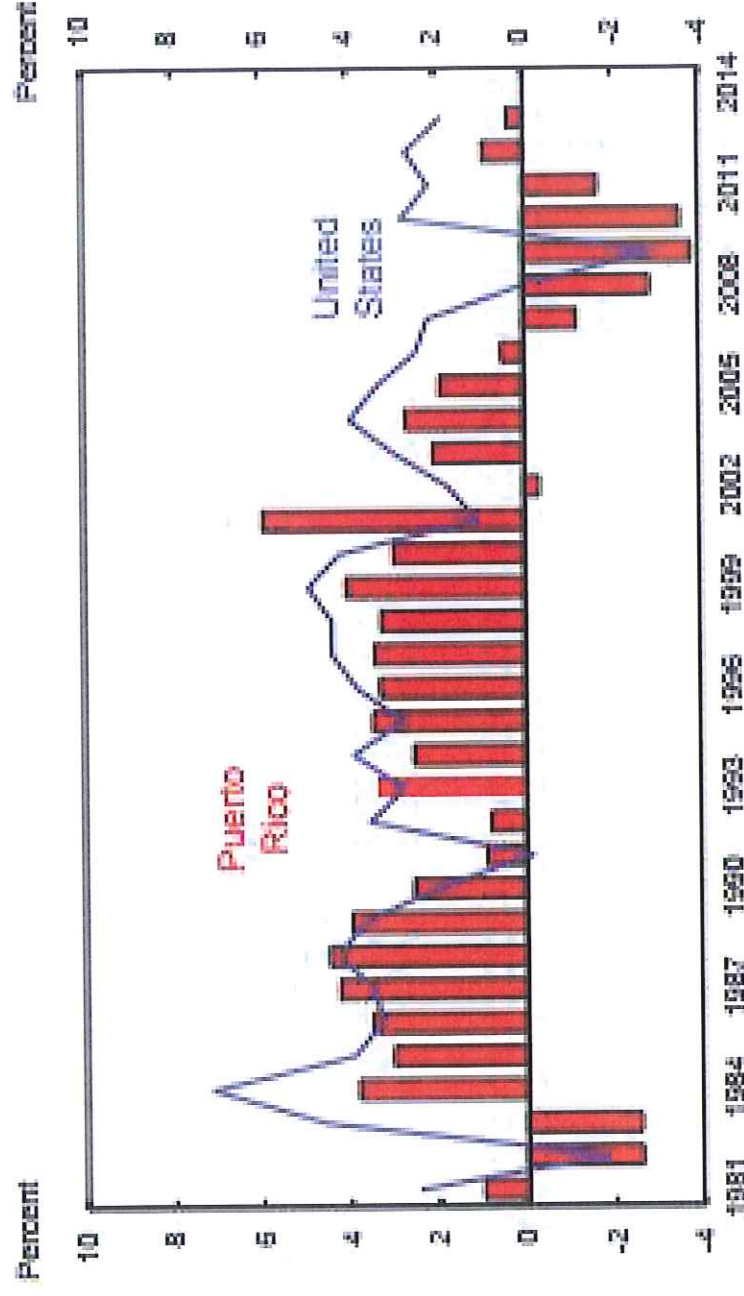
General Overview – Size of Economy

- Gross Domestic Product of \$103 billion (2013; current U.S. \$).
- Country comparisons: Haiti (\$8.4 billion); Jamaica (\$14.3 billion); Dominican Republic (\$62 billion); Cuba (\$77 billion); U.S. (\$16,768 billion).
- State comparisons: Mississippi (\$104 billion); Oklahoma (\$183 billion); Connecticut (\$253 billion).

Sources: The World Bank and The Bureau of Economic Analysis.

Lack of an Economic Rebound

Figure 1. Real GNP Growth in Puerto Rico and the United States

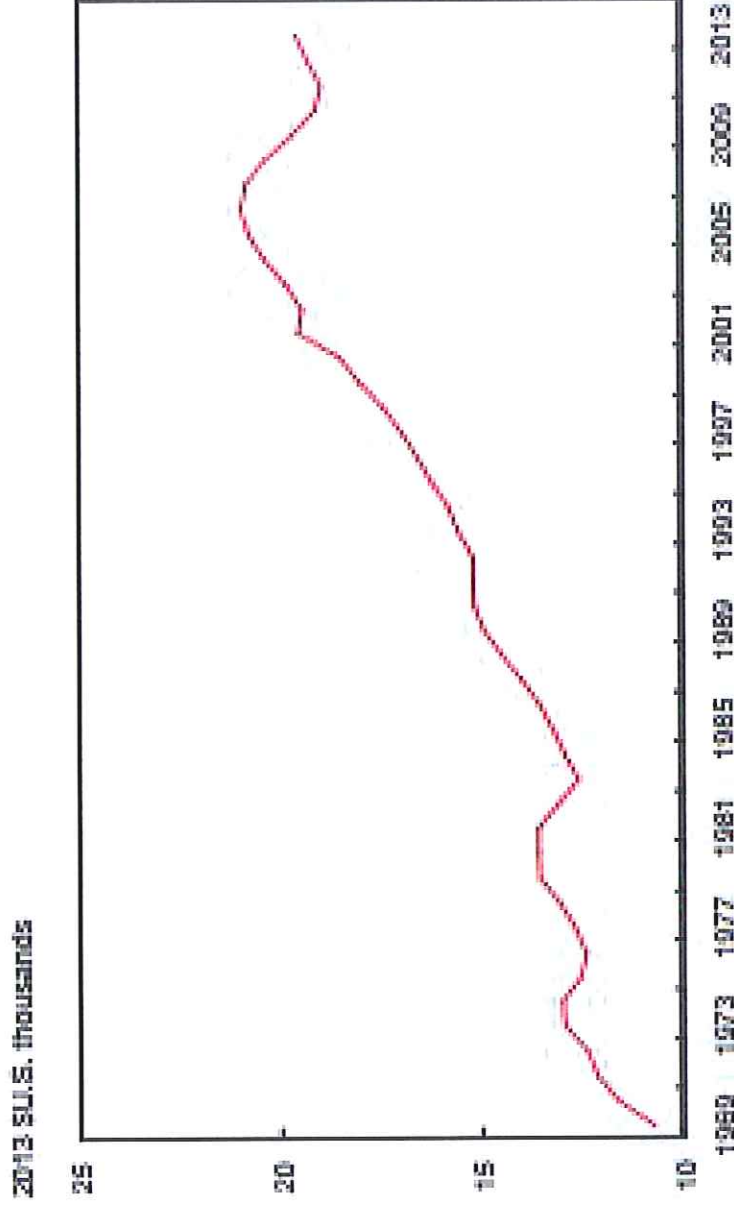


Sources: Puerto Rico Planning Board; U.S. Bureau of Economic Analysis.
Note: Puerto Rico GNP is on a fiscal year basis; U.S. GNP is on an annual basis.

Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Stagnant Growth: Stuck in 2001

Figure 2. Real GNP Per Capita: Puerto Rico

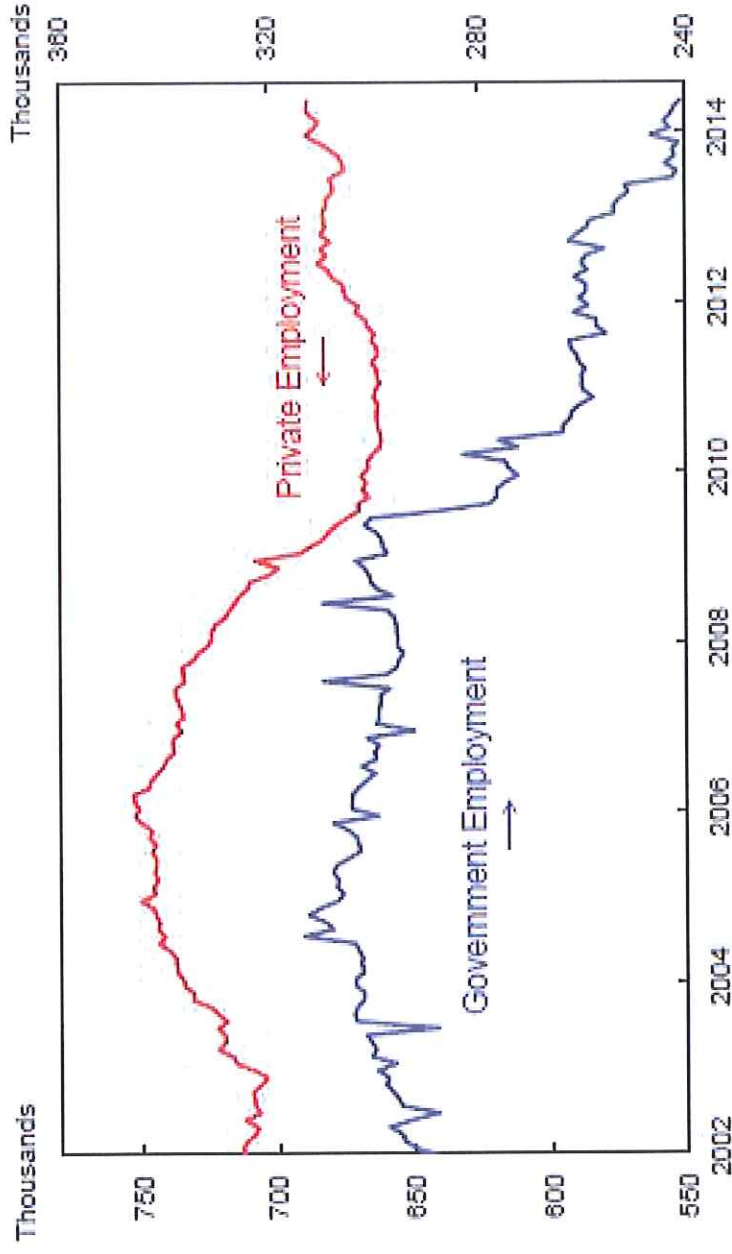


Source: Puerto Rico Planning Board.

Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Fiscal Austerity: Where is Private Job Growth?

Figure 4. Trends in Puerto Rico's Payroll Employment



Source: Bureau of Labor Statistics.
Note: Data are seasonally adjusted.

Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Select Economic Sectors: Then and Now

- Manufacturing
 - With Section 936: doubled share of PR's GNP from 1970 to 1980.
 - Without Section 936: half of all jobs left island from 1996 to 2014.
- Tourism
 - In 1980, it accounted for more than 25% of all the tourist revenue in the Caribbean.
 - By 2012, only 15%; and < 5% of Puerto Rico's GDP.

Source: James Surowiecki, *The Puerto Rican Problem*, The New Yorker (April 6, 2015).

Energy Costs: Bad, But Not as Bad

- Puerto Rico relies on imported oil for almost all of its power generation.
- Doubling in oil prices during 2005 to 2012 from approximately \$50/barrel to \$100/barrel resulted in a 3% of GNP increase in Puerto Rico's oil costs.
- Puerto Rico's economy has received respite from drop to \$40/barrel oil prices.

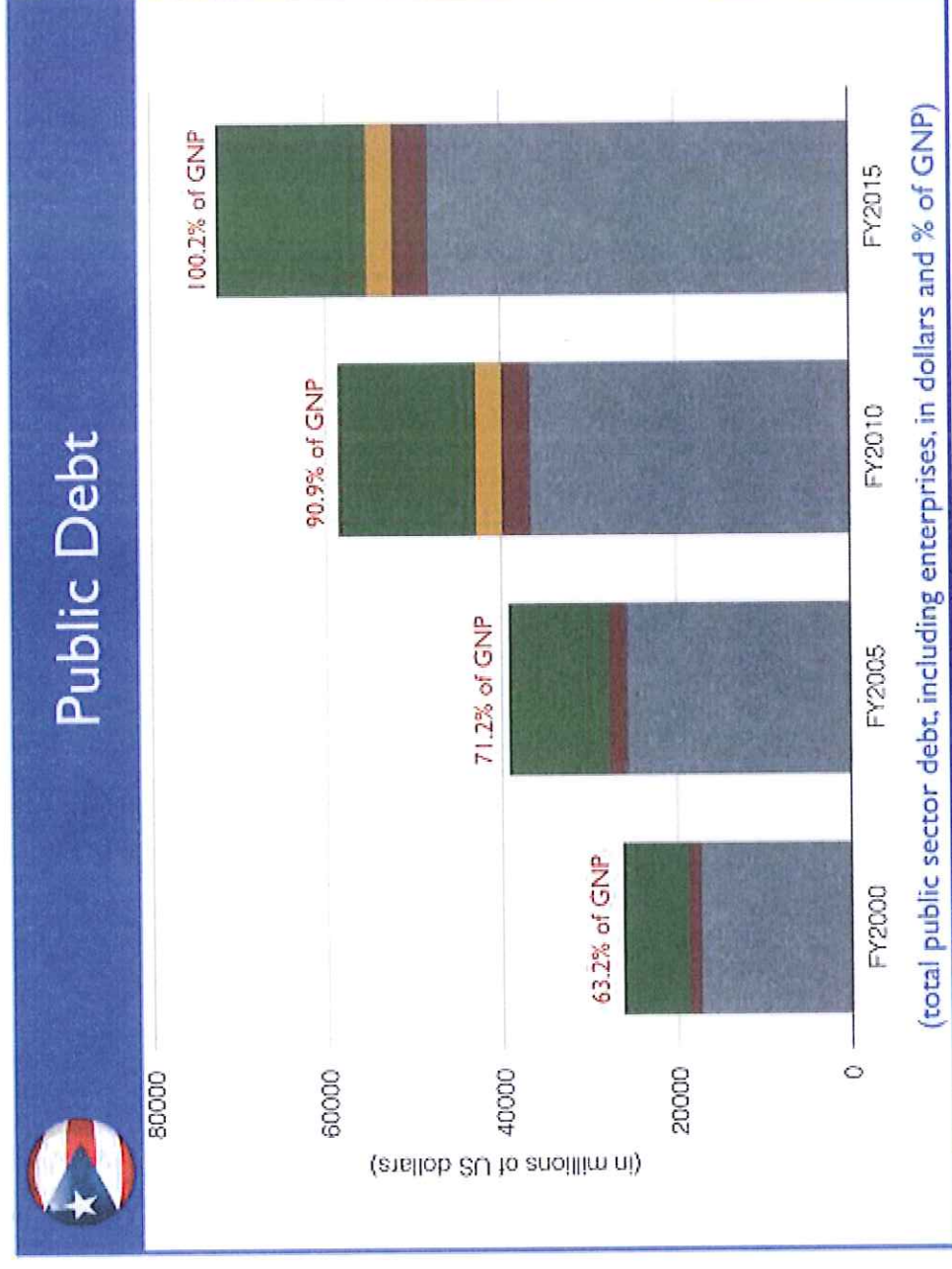
Source: Anne O. Krueger, Ranjit Teja and Andrew Wolf, Puerto Rico – A Way Forward (June 29, 2015).

General Overview – Public Debt

- Total public debt as of 2014 totaled \$72.3 billion.
- Exceeds 100% of Puerto Rico's Gross National Product of \$70.7 billion (2013; current U.S. \$).
- Higher than the ratio for any U.S. state, with highest being New York at 29%.

Sources: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014); Government Development Bank for Puerto Rico, *Puerto Rico Fact Sheet* (December 2014).

Growth Rate of Public Debt



Source: Anne O. Krueger, Ranjit Teja and Andrew Wolf, *Puerto Rico – A Way Forward* (June 29, 2015).

Breakdown of Public Sector Debt

Figure 11. Composition of Puerto Rico's Outstanding Debt

Puerto Rico: General Government Debt ¹ As of December 2013		
	\$U.S. Billions	Percent of Total
General obligation and/or full faith and credit debt ²	15.8	22.0
COFINA	15.6	21.7
Municipalities and other	13.2	18.4
Tax revenue anticipation notes	1.1	1.5
Public corporations and agencies	26.2	36.4
Total	71.9	100.0

Sources: March 2014 Series A Prospectus, p. 33; public corporation debt is sourced from Quarterly Report dated February 18, 2014, p. 36.

¹ In March 2014, Puerto Rico issued \$3.5 billion of debt securities. After refinancings and deductions, total debt rose to \$72.8 billion.

² Debt payable from revenues from "internal sources," that is, income taxes, is guaranteed by the Puerto Rican constitution.

Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Comparing Puerto Rico's Public Sector Debt

Figure 12. 2012 Debt: Puerto Rico Compared with the States and Washington, D.C.

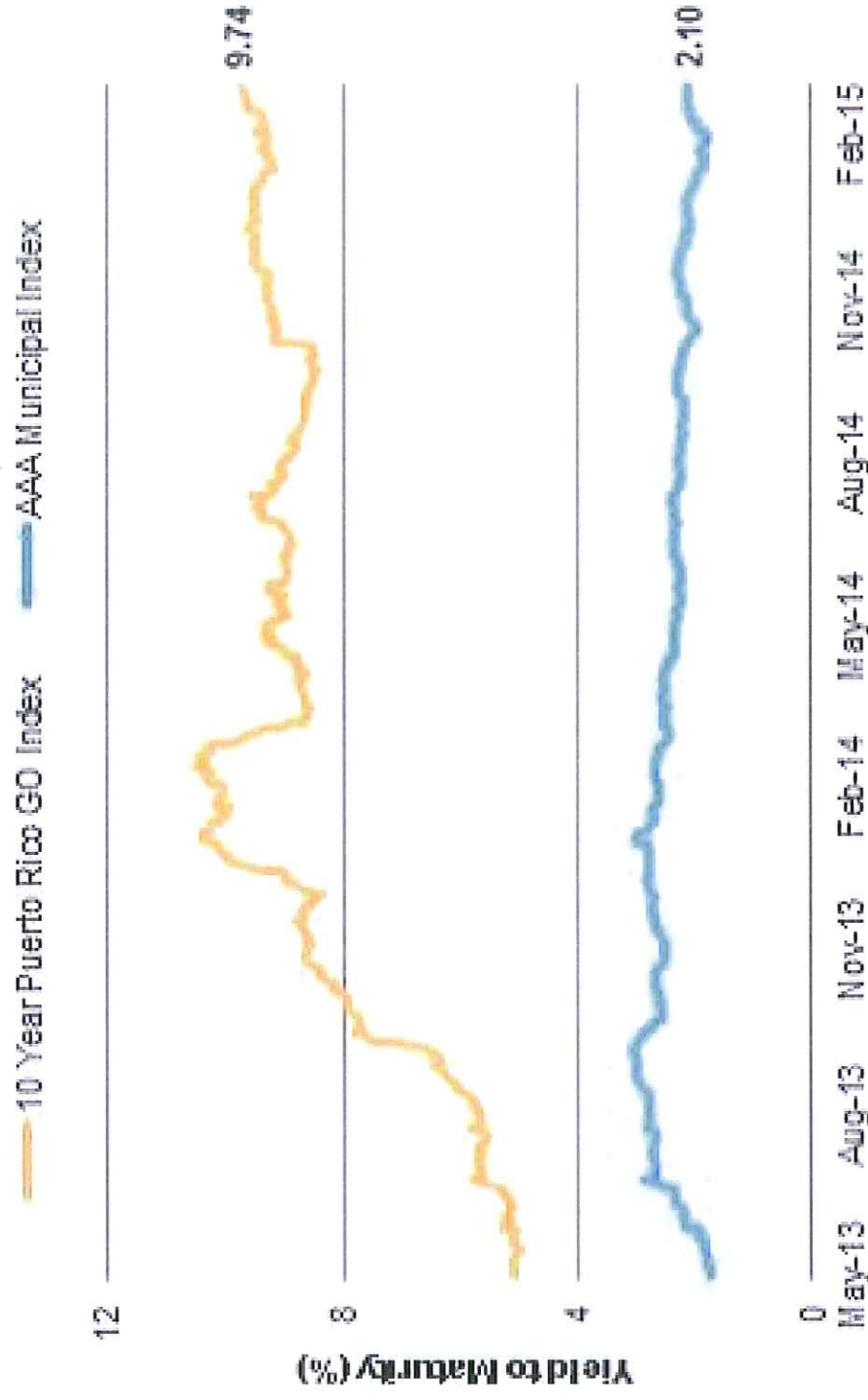
Percentile of States and D.C.	(1) Total State/Local Debt as Percentage of Aggregate Income	(2) Federal and State/Local Debt as Percentage of Aggregate Income
25 th	13.7	83.9
50 th	16.8	94.1
75 th	19.5	100.9
Puerto Rico total debt	100.7	100.7
Puerto Rico rank	1/52	14/52

Sources: Government Development Bank for Puerto Rico; Commonwealth's 2012 Comprehensive Annual Financial Report; Census of Governments, 2012; U.S. Bureau of Economic Analysis.

Note: Gross national product is used for Puerto Rico and gross state product for the states and Washington, D.C.

Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Increased Financing Costs of Public Debt



Source: Bob Stokes, *Debt Default Ahead for Puerto Rico?*, Elliott Wave International (May 15, 2015).

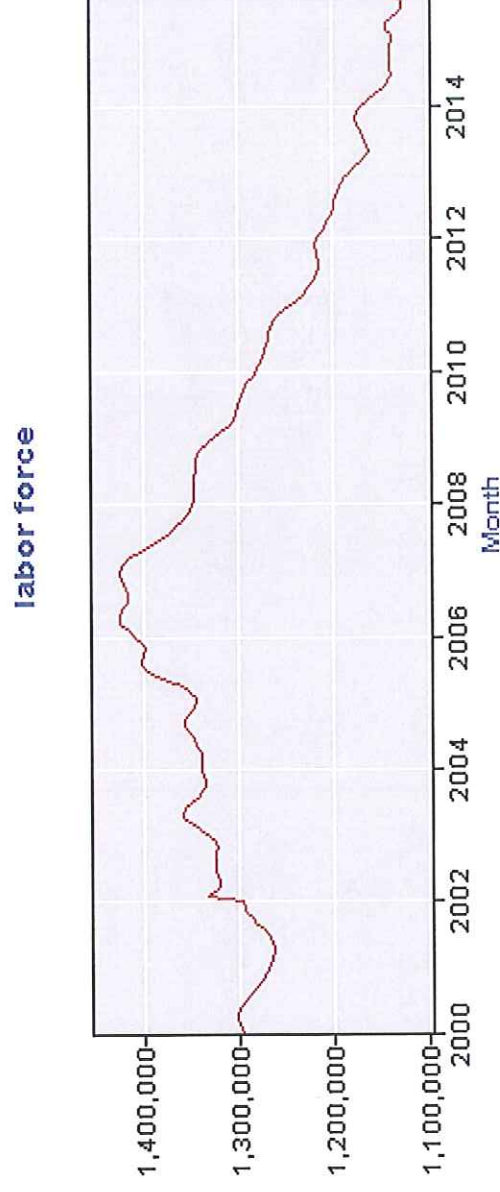
General Comparison Overview – Population

- Population of roughly 3,725,789 people (2010 U.S. Census).
 - If it were a state, then it would rank 29th.
 - For comparison: Oklahoma (3,751,351); Connecticut (3,574,097).
- Population density of 1,088 people per square mile of land area.
 - If it were a state, then it would rank 3rd.
 - For comparison: D.C. (9,856.5); New Jersey (1,195).

Sources: Government Development Bank for Puerto Rico, *Puerto Rico Fact Sheet* (December 2014; The Bureau of Economic Analysis; U.S. Census Bureau, 2010 Census.

Population and Labor Force in Decline

- Population decrease of 6.8% since 2000.
- Civilian labor force decrease by 11.9% since 2000.

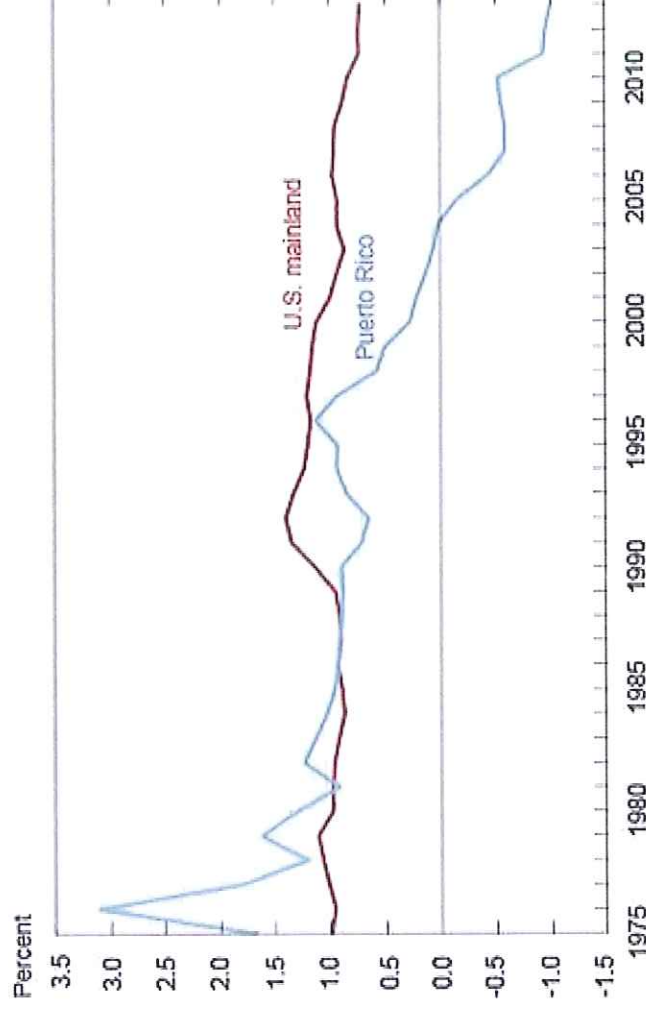


Sources: The World Bank; U.S. Department of Labor, Bureau of Labor Statistics.

Slowing Population Growth Rate

- Puerto Rico's downward trends in population and labor force are not a new phenomenon, and caused by two factors: (i) slowing growth rate and (ii) out-migration.

Annual Population Growth Rates: Puerto Rico and the U.S. Mainland



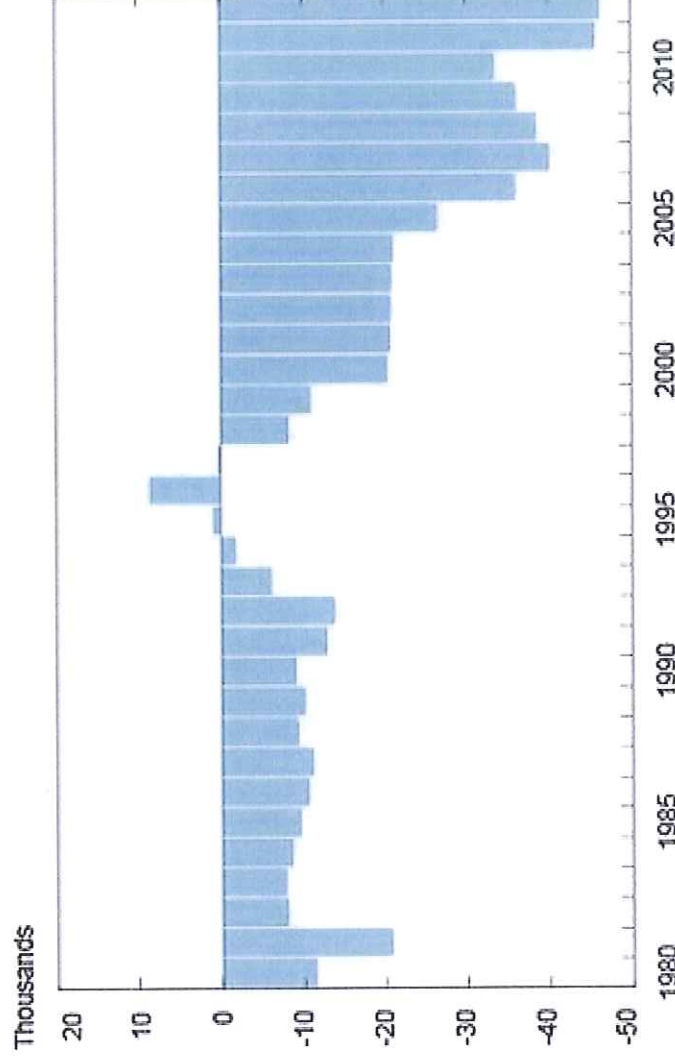
Sources: U.S. Census Bureau; Moody's Analytics.

Source: Jaison R. Abel and Richard Deitz, *Population Lost: Puerto Rico's Troubling Out-Migration*, *Liberty Street Economics* (April 13, 2015).

Increase in Out-Migration

- Larger factor in population decline; possible because of the Jones-Shafroth Act of 1917 allowing Puerto Ricans to move freely between Puerto Rico and the U.S. mainland.

Puerto Rico's Net Migration

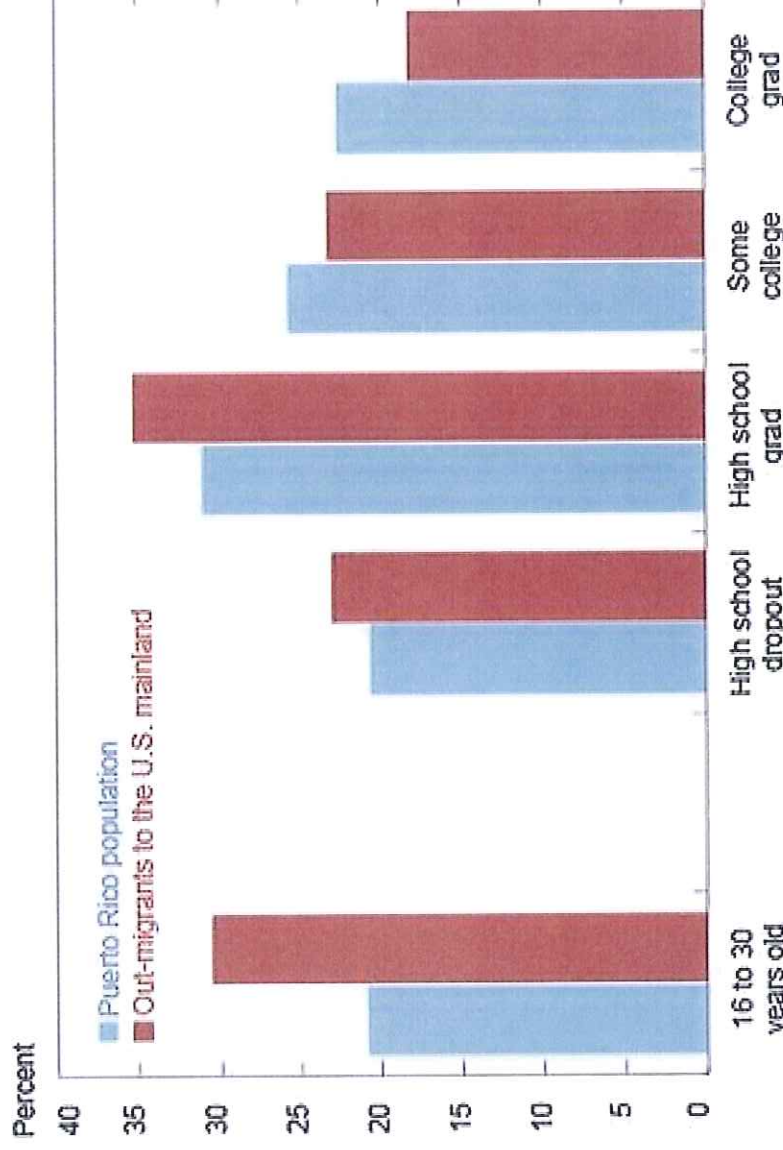


Sources: U.S. Census Bureau; Moody's Analytics.

Source: Jaison R. Abel and Richard Deitz, *Population Lost: Puerto Rico's Troubling Out-Migration*, *Liberty Street Economics* (April 13, 2015).

Out-Migration: Not Entirely Bad News

Share of Puerto Rican Population and Out-Migrants by Age and Education, 2011-13



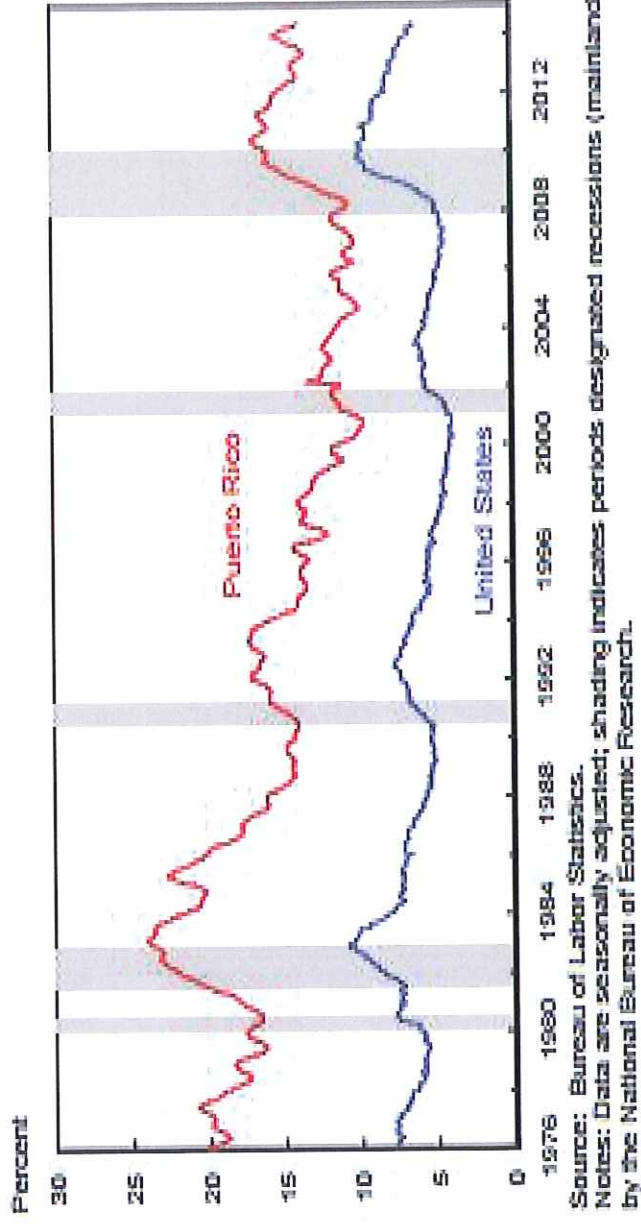
Sources: U.S. Census Bureau; American Community Survey; Puerto Rico Community Survey; Moody's Analytics.

Source: Jaison R. Abel and Richard Deitz, *Population Lost: Puerto Rico's Troubling Out-Migration*, *Liberty Street Economics* (April 13, 2015).

Unemployment: Persistent Problem

- Unemployment has been persistently high in Puerto Rico, and has consistently exceeded the rate on the U.S. mainland by several percentage points.
- May 2014: 13.8% unemployment rate in Puerto Rico; 6.3% in the United States

Figure 5. Unemployment Rate in Puerto Rico and the United States



Source: Federal Reserve Bank of New York, *An Update on the Competitiveness of Puerto Rico's Economy* (July 31, 2014).

Unemployment: Young & Less Educated

Figure 6. Unemployment Rates: Puerto Rico and the United States
Percent

	2010	United States	Puerto Rico	Difference
Total		10.7	19.2	-8.4
By age cohort				
15-24		20.4	39.0	-18.7
25-34		10.9	20.3	-9.4
35-44		8.9	17.1	-8.2
45-54		8.5	14.9	-6.4
55-64		8.2	10.8	-2.6
By education level (ages 25 to 64)				
Less than high school graduate		16.5	30.8	-14.3
High school graduate		11.9	21.9	-10.2
Some college		8.8	14.9	-6.1
Bachelor's degree or more		4.9	8.0	-3.0

Sources: 2010 Census (American Community Survey); Puerto Rico Community Survey.

Source: Federal Reserve Bank of New York, *Report on the Competitiveness of Puerto Rico's Economy* (June 29, 2012).

Labor Force Participation: Less for Young

Figure 7. Labor Force Participation Rates: Puerto Rico and the United States
Percent

	2010	United States	Puerto Rico	Difference
Total		65.4	47.5	17.9
By age cohort				
15-24		58.2	35.5	22.7
25-34		83.9	74.3	9.5
35-44		84.0	75.0	9.0
45-54		81.7	62.7	19.0
55-64		64.8	35.1	29.7
By education level (ages 25 to 64)				
Less than high school graduate		62.9	39.1	23.8
High school graduate		75.8	56.5	19.3
Some college		81.6	70.2	11.4
Bachelor's degree or more		86.3	81.2	5.2

Sources: 2010 Census (American Community Survey); Puerto Rico Community Survey.

Source: Federal Reserve Bank of New York, *Report on the Competitiveness of Puerto Rico's Economy* (June 29, 2012).