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October 14, 2016

Hon. Orrin Hatch
Chairperson
Congressional Task Force on Economic Growth in Puerto Rico
United States Congress
Washington, DC

RE: Building an Efficient, Integrated, Productive and Technology Driven Puerto Rico

Dear Mr. Chairman and Task Force Members,

I would like to begin by thanking you for the opportunity to respond to the request of the Congressional Task Force on Economic Growth in Puerto Rico (the “Task Force”) for ideas and recommendations to restore economic growth and prosperity to Puerto Rico. As the one of the largest private employers in Puerto Rico (the “Commonwealth” or the “Island”), the first and only Puerto Rican technology company to be listed on the New York Stock Exchange and the leading full-service technology provider and transaction processing company in Puerto Rico, Evertec is deeply committed and vested in the long-term economic prosperity of Puerto Rico.

We fully understand that operating a streamlined and comprehensive technology platform is essential for the Commonwealth to improve operating efficiency, jump-start economic growth, establish fiscal controls, and promote public sector transparency. Unfortunately, decades of inefficient information technology (“IT”) spending by the Commonwealth’s government and its instrumentalities have created a convoluted “spider-web” of IT systems and platforms that limit the government’s ability to effectively implement the necessary fiscal and budgetary controls, tax collection mechanisms and forecasting tools required to effectively maintain control of its finances. The overall effectiveness of the Government’s technology solutions has to improve if Puerto Rico is to have any chance to reinstate investor confidence and once again offer a future of economic prosperity to its future generations. Evertec is best positioned and committed to work with the Task Force, the Financial Oversight and Management Board and the government of Puerto Rico to be an integral part of this break with the recent past. We place our vast experience and expertise at your disposal to lead Puerto Rico in the transformation of its IT infrastructure into an accessible, effective and transparent twenty-first century platform.

Two Propositions for a More Efficient Information Technology Strategy in Puerto Rico

Below we have outlined two over-arching propositions that could enable the Commonwealth to:

- End wasteful and inefficient spending in technology by strategically prioritizing its IT investments and leveraging established IT operations in Puerto Rico
- Lower operating expenses by consolidating its current “patch-work” of IT systems and platforms and by leveraging existing information networks to streamline the hundreds of data centers used by the government and municipalities across the Island
- Increasing tax and revenue collections by leveraging existing technologies, such as the payment networks settlement process to provide daily payments of sales

Further, we believe that achieving these objectives will immediately improve ease-of-doing business in the Commonwealth by boosting accessibility and transparency to all Puerto Rico stakeholders.

1) Outsource and Transform the Management of Information Technology - Integrate Information Systems and Move Data Center Applications

We *estimate* that the Commonwealth’s central government spends in excess US\$ 250 million in technology-related services per year. This includes technology infrastructure (hardware and software), technology management, transaction-related costs, people, and third party vendors, among others. In addition to this, additional technology expenditure occurs at central government entities with independent treasuries, public corporations and seventy-eighth municipalities which the Commonwealth cannot easily quantify or identify. Part of the reason for this lack of transparency and control on a consolidated level is because, historically, IT-related budgeting and spending has been carried out, for the most part, independently and on an isolated basis by the Commonwealth’s central instrumentalities. As a result, a “patch-work” IT platform has been created with suboptimal integration and capacities, and minimum leverage of network and scale efficiencies that stifle economic progress. Even more concerning is the fact that this lack of coherence in planning has led to a slowdown in innovation and a technological lag in the government’s IT platform, as it is estimated that more than 60% of the current systems are obsolete.

We estimate that the government’s technology-related spend could be more efficiently managed and reduced by at least 30% in three years by more closely partnering with the private sector for all IT-related initiatives and expenditures. This initiative would revolve around designing and implementing a government-wide IT. Some of our specific suggestions include:

- Leverage virtualization and cloud services providers
- Eliminate duplicated and excess capacity, which could produce an estimated 50% savings in infrastructure (storage, servers, utilities, real estate, etc.)
- Improve cyber-security and protection
- Integrate telecommunication networks to allow for the creation and optimization of the Commonwealth’s government network
- Reduce costs by eliminate redundant IT functions and systems

- Integrate financial systems across agencies and public corporations
- Consolidate Human Resources IT platforms
- Outsource services and equipment, rather than acquiring them, in order to lower capital requirements and enable the Commonwealth to provide access to the latest available technologies without having to continually invest in new equipment and technologies
- To the extent possible, partner with local suppliers in order to keep investments in the Island, generate employment and promote local economic activity

2) Increase Revenue and Tax Collections by Leveraging Electronic Payments and Improved Fiscal Control Tools

Tax revenue leakage, or the sub-statutory collection rate of SUT (Sales and Use Tax or IVU for its Spanish acronym) and other taxes, is known to be one of the most pressing issues facing the Commonwealth. At a central government level, total tax-leakage is estimated at several hundred millions of dollars every year. Sub-optimal use of electronic payment methods and other existing technology platforms have historically played a critical role in enabling such low collection rates across the Commonwealth's tax structure.

Based on Evertec's experience and deep knowledge of the Commonwealth's tax collection systems and our robust payment infrastructure, we believe that by expanding the enablement and use of electronic payment platforms and networks, the Commonwealth could derive an estimated + US\$ 400 million of additional revenue and tax collections per year.

Some of our specific suggestions include:

- Create a system to track, enforce and collect taxes on e-Commerce and card-not-present sales by leveraging local information sources from shippers and payment companies. Today, internet purchases shipped to Puerto Rico effectively bypass the tax system (i.e., they do not pay sales tax and other potentially applicable taxes), incentivizing commerce outside Puerto
- Implement a government-automated collection system (even at payment capture) to foster migration to electronic payment methods, which reduces tax-leakage
- Design and implement systems to more effectively collect reported taxes
- Implement zero credit for importers with repetitive late tax payments
- Expand servicing and payment channels to leverage technology and innovation to give citizens more convenient payment alternatives
- Implement mobile and on-the-spot revenue collection systems to facilitate citizens to pay for services real time. As an example, the Commonwealth has given millions of dollars in traffic ticket waivers and discounts because they let the debts become uncollectable. Equipping the Police Department with mobile payment systems will allow instant collection at the spot and will significantly increase the collection of the same
- Consider additional alternatives to incentivize electronic payments versus cash payments – the more electronic transactions relative to cash-based transactions, the easier to monitor and track, thus, presumably, improving tax compliance and collections rate

Why Evertec?

Evertec, a Puerto Rican based company, is a leading full-service technology and transaction processing business in Latin America and the Caribbean. We provide a broad range of merchant acquiring, payment processing and business process and technology management services across 18 countries in the region. We serve a diversified customer base of more than 500 leading financial institutions, corporations and government agencies with “mission-critical” technology solutions. We manage a system of electronic payment networks that process more than 2 billion transactions annually. In addition, we own and operate the ATH® Network, the preferred and most secure payment method in Puerto Rico and one of the leading debit networks in Latin America.

We are technology experts and we manage very complex systems to reliably deliver essential technology services to the largest financial institutions in Puerto Rico as well as maintain custody of and process cash for the Federal Reserve. With technology and innovation at the center of who we are and what we do, we envision a government of Puerto Rico that is able to raise the level and quality of services offered to its stakeholders – residents, public and private sector, investors, etc. – by becoming more accessible, transparent and efficient.

What sets-us apart

We are uniquely positioned to provide an integrated best of breed solution to the Government. We are independent of technology vendors, don't sell our hardware, our software or our technology. We offer to run your operations from the most neutral position, looking for ways for technology to work on behalf of the government and its citizens. Our experience doing this and our commitment to Puerto Rico make us the ideal partner to achieve prosperity and sustained growth.

Our experience with the Government of Puerto Rico

Having spent more than 25 years as a key technology partner to the Commonwealth for specific assignments, the Evertec team has amassed a deep understanding of the inter-relationships between the myriad of IT platforms used by the Commonwealth's agencies and its instrumentalities. Today, for example, Evertec supports the Puerto Rico Treasury Department and other central government agencies and corporations in managing more than US\$ 2.0 billion annually of Electronic Benefit Transfers (“EBT”) payments across more than eight different subsidy programs. Additionally, we work with the Minors Support Administration (*ASUME*, for its Spanish acronym), the Courts Administration System, the Treasury Department, and the Puerto Rico Labor Department, among others, in a range of initiatives to improve data management and transparency through data center outsourcing, applications, IT systems maintenance and support, and building data and telecommunications networks, among others.

More importantly, Evertec has historically been the Commonwealth's trusted technical partner in thought-leadership and strategic initiatives to design and implement sales and other tax collection mechanisms. Furthermore, as the only non-financial institution contracted, audited and regulated by the United States Federal Reserve (Evertec is contracted by the Fed for all “due to”, vault, custody and

cash management for the Puerto Rico and USVI banking systems), we have developed a profound understanding of federal-local government financial relationships and related processes.

Our credentials

- Compliance with USA Regulations: As a listed company (NYSE: EVTC) Evertec complies with US federal laws, US GAAP standards, PCI compliance
- Regulated by the FFIEC and Federal Reserve to ensure we sustain the reliable services we provide
- We have solid financial foundation, with over US\$ 380 million in revenue (e) in 2016
- We are the first and only Puerto Rican technology company to list on the NYSE
- We are a leading transaction processor in Latin America and the number 1 acquirer in the Caribbean and Central America
- We serve over 30,000 merchants in Puerto Rico
- We invest over US\$ 35 million in capital, 80%+ of that in technology

Our commitment to Puerto Rico

- We are a Puerto Rican based company focused on growing its business from here and bringing long-term prosperity to Puerto Rico and its people
- We house over 1,300 employees in Puerto Rico, and growing, despite the economic challenges we are facing (we spend approximately US\$ 90 million just in salaries in Puerto Rico)
- We invest over US\$ 30 million in capital and technology in Puerto Rico
- We are one of the largest exporter of services from Puerto Rico
- We run one of the most aggressive and impactful corporate responsibility programs in Puerto Rico, benefiting thousands of citizens based on three key pillars: Community, Education and Environment



Moving Forward

As Puerto Rico's leading IT solutions provider and technology innovator, employer of +1,300 highly trained IT professionals in the Island, and strategic partner to the Commonwealth and its instrumentalities, Evertec is deeply committed to the long-term economic prosperity of Puerto Rico, its residents and stakeholders.

We look forward to continuing the conversation with the Task Force, the Financial Oversight and Management Board and the government of Puerto Rico and its instrumentalities to transform the Island's IT platform into one that spurs innovation, growth, and overall prosperity for future generations of Puerto Ricans.

We reiterate our readiness to commit the necessary resources, expertise and capabilities to work alongside local and stateside partners in this endeavor.

Kind regards,

A handwritten signature in blue ink that reads "Mac Schuessler".

Mac Schuessler
President and CEO
Evertec