

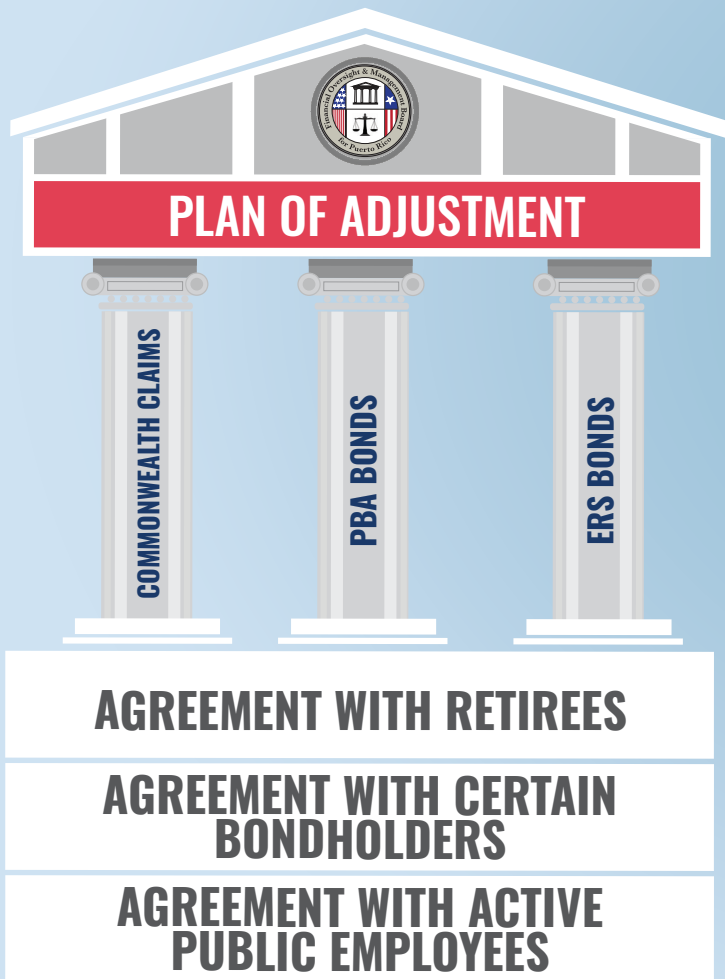


# COMMONWEALTH PLAN OF ADJUSTMENT

## FOUNDATION FOR THE PROPOSED PLAN OF ADJUSTMENT

PROMESA gave the Oversight Board authority to restructure Puerto Rico's debt. The Plan of Adjustment filed with the U.S. District Court for the District of Puerto Rico, which has jurisdiction over PROMESA, provides a framework to restructure some \$35 billion of liabilities (bonds and other claims) and \$50 billion of unfunded pension liabilities, and reduces Puerto Rico's debt to sustainable levels.

The Oversight Board reached agreements with key stakeholders who hold claims against the Commonwealth of Puerto Rico to support the Plan of Adjustment. Retirees are creditors because the retirement fund set up by the Government has been depleted and retirees therefore hold an unsecured claim against the Government.



### Agreement with Retirees

- Establishes an independently managed pension reserve trust to support PayGo in any political or economic environment
- Reduces pensions by a maximum of 8.5% of total monthly retirement benefits
- Pensions under \$1,200 will not be cut
- The pension of 74% of current and future retirees will not be cut

### Agreement with Certain Bondholders

- Reduces Commonwealth debt to sustainable levels
- Meaningful reductions in bondholder recoveries
- Provides settlement mechanism for \$6 billion in bonds challenged as unconstitutional to reduce litigation expenses and accelerate resolution

### Agreement with Certain Active Public Employees

- Supports Government right-sizing and implementation of Fiscal Plans
- Increases monthly employer contribution to medical plan to \$170
- No further cuts to benefits
- Restores \$1.3 billion of employee benefits to Sistema 2000

## THE STAY

When PROMESA was enacted in 2016, it allowed the Puerto Rico Government and its instrumentalities, like PREPA, to stop all debt payments to allow for the restructuring of the debt. That stay was replaced by the automatic stay under the Bankruptcy Code when the relevant entities commenced their respective Title III cases under PROMESA, and Puerto Rico has not made most of its debt payments since. The stay will eventually be lifted and without the restructuring, Puerto Rico would be legally obligated to pay the full debt unless a Plan of Adjustment is approved by the court.

## LITIGATION TRUST

The Plan of Adjustment establishes a litigation trust that will receive the potential savings on debt payments from settling with the holders of bonds challenged as invalid. Should the court invalidate the bonds, the Commonwealth would save money it set aside in case the court would decline to invalidate the bonds. The Government of Puerto Rico would receive 33% of those savings.

## REQUIREMENTS FOR CONFIRMATION

For the U.S. District Court to confirm the proposed Plan of Adjustment, the Plan must be feasible and in the best interest of creditors. That means it provides creditors, including bondholders and retirees, with all they can reasonably expect under the circumstances.

To determine whether the Plan is confirmable, the Court is charged with considering what all creditors would collectively receive if each were to litigate their claim in court by themselves, which would leave many creditors with no recovery at all.

The debt payments need to be feasible for Puerto Rico. That means the Government's income and expense projections that are the basis for how the Oversight Board determined the payments to creditors have to be realistic and attainable.

# TERMS OF THE PLAN OF ADJUSTMENT

The proposed Plan of Adjustment restructures general obligation bonds, Public Building Authority (PBA) bonds, Employee Retirement System (ERS) bonds, the Commonwealth's pension liabilities, and general unsecured claims against the Commonwealth, PBA, and ERS. The Plan reduces \$35 billion in Commonwealth liabilities to \$12 billion, a reduction of over 60%.

## Commonwealth Claims

Puerto Rico's Central Government has about \$13.4 billion of general obligation (GO) bonds and direct obligations outstanding and \$5 billion of other guaranteed debt. The GO bondholders claim they have priority over the Government revenues from taxes and fees.

- Reduction of unchallenged GO Bonds is 36%
- Local retail bondholders given opportunity to elect taxable bonds with monthly interest payments
- Settlement proposal for holders of challenged GO bonds and Commonwealth guaranteed claims offers reduction of between 55% and 65%
- Unsecured Creditors with claims less than \$10,000 will recover the full amount, creditors with more substantial claims receive a 96% reduction in debt

## Public Building Authority Bonds

The Puerto Rico Public Buildings Authority (PBA) is a public corporation whose primary purpose is to construct and lease government buildings, and it is used as a vehicle to issue government bonds. PBA has approximately \$4.6 billion in bonds outstanding.

- Reduction of 28% for holders of unchallenged PBA bonds and 42% for challenged bonds

## Employee Retirement System Bonds

The Employees Retirement System (ERS) is a trust established to provide pension and other benefits to retired employees of the Government, most of the public corporations, and the municipalities. ERS has approximately about \$3.2 billion of bond debt payable from ERS assets and employer contributions to ERS.

- Reduces bonds by 87%

## Others

- General unsecured creditors and clawbacks