

1st
PROMESA
Conference

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Market Participants - Expert Opinions

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Looking Forward



Legislating Promesa

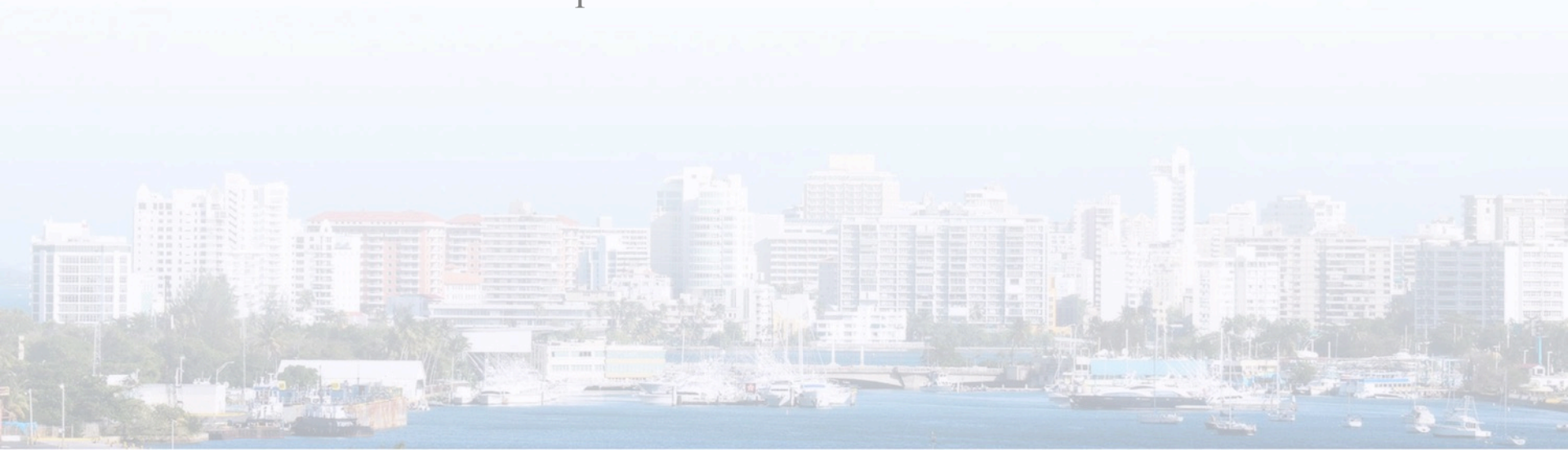
- ❖ Multiple Congressional Hearings 2015-2016
- ❖ Received testimony from many witnesses and written reports
- ❖ Concluded:
 - ❖ *There is a fiscal crisis; a large accumulation of debt; suffering declines in population; recently enacted harmful legislation; and the inability of local politicians to bring order and transparency, required congressional action...*





Correcting Local Perceptions

- ❖ PROMESA is not just about debt restructuring
- ❖ PROMESA is not about cutting jobs, slashing benefits or selling our natural reserves
- ❖ PROMESA is not about avoiding environmental compliance at the “expense” of economic development





Purpose of Promesa

- ❖ “...to establish an Oversight Board to *assist the Government of Puerto Rico, including instrumentalities, in managing its public finances.*” (Committee on Natural Resources Report, p. 40)
- ❖ Sense of Congress – Title VII
 - ❖ *It is the sense of the Congress that any **durable solution** for Puerto Rico’s **fiscal and economic crisis** should include **permanent, pro-growth fiscal reforms** that feature, among other elements, a free flow of capital between possessions of the U.S. and the rest of the U.S.*





Key Issues

❖ Key Issues Underlying PROMESA:

- Urgent Reforms:
 - Fiscal Reform (Fiscal Plan + Balanced Budget) – *TITLE 2*
 - Economic Reform (Infrastructure Investment) – *TITLE 5*
 - Debt Restructuring – *TITLES 6 & 3*
- All are equally urgent and necessary
- Driver: Credibility and Trust that flows from Transparency



Key Issues

❖ *TITLE 2 (Fiscal Plan):*

- Schedule, *with the Governor*, the process for developing and certifying a Fiscal Plan - with a term of at least 5 years
- Objectives: fiscal responsibility and access capital markets
- Option of Joint Development of Fiscal Plan (consensus driven)
- Fiscal Plan must also provide for, among others:
 - Funding essential services; adequate funding for public pensions; Improve fiscal governance, accountability and internal controls; Provide for investment to promote economic growth; and respect relative lawful priorities of different debt structures



Key Issues

❖ *TITLE 2 (Balanced Budget):*

- Schedule for Developing and Certifying Balanced Budgets
- Must be compliant with the approved Fiscal Plan
- Provides for Joint Development of Budgets (consensus)
- Establishes mechanisms to confirm on-going compliance
 - Cost/Benefit analysis + review of new laws
 - Transparency in contracting
 - Public reporting requirements (Quarterly/Annual)



Key Issues

❖ *TITLE 5 (Basis):*

- Responds to our need for energy and infrastructure development
- Addresses permitting inefficiencies and lack of competitiveness
- Helps attack bureaucracy + promote infusion of private capital
- Increases regulatory certainty
- All, with the purpose of attracting investment and generating economic growth, create new jobs, improve ailing infrastructure, ensure environmental compliance and health protection.



Key Issues

❖ *TITLE 5 (Structure):*

- Creates the Revitalization Coordinator under the Board
- Establishes a Process for Critical Project Designation
- Expedited local permitting process with federal agency support
- Reporting Requirements for publicity and transparency
- All, with the purpose of quickly identifying Critical Projects in Key Infrastructure areas, securing financing and beginning construction





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Sample of Credible, Initial Steps (Government Efficiency; Revenues; Economic Growth)

	Increased Tax Collection	Permit Reform	Public-Private Partnerships	Government Procurement Reform	PREPA Revitalization
What?	Poor Collection Rate	Long, Inefficient Permitting Process	Multiple assets available	Procurement process is decentralized	PREPA structure is obsolete - inefficient
Why?	56% Collection Rate (SUT)	Encourages and Facilitates Private Investment and new Projects	Rapidly monetize public assets	FY 2013 purchases exceed operational budget	Facilitates investment and construction, new and private
How?	Existing Technology	Executive Orders	P3 Law exists – implement it	Existing Law – implement it	Finalizing pending agreements
Estimated Value (MM)	\$400 - \$600 ⁽¹⁾	\$500 - \$1,000 ⁽²⁾	\$2,000 - \$4,000 ⁽³⁾	\$500 - \$1,000 ⁽⁴⁾	\$1,500 - \$2,500 ⁽²⁾

(1) Additional annual revenue based on an increase in collection rate from 56% to 65% to 70%

(2) Estimated incremental new investments in PR

(3) Estimated based on one time upfront and incremental new investments in PR

(4) Annual savings based on 4% to 8% of efficiency gains



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Conclusion

- ❖ PROMESA = balanced approach to Government, Economy, Debt
- ❖ Emphasizes: Consensual, Collaborative and Good Faith Discussions
- ❖ Credibility/Trust = key to success
- ❖ Economic growth = able government, providing effective essential services, while meeting debt obligations
- ❖ Most structural solutions = are local/within our control (budget, labor, permitting, energy, water, roads...)
- ❖ It's time for credible action



Thank You

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