

1st
PROMESA
Conference

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A Banker's Perspective

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The documents used for this presentation were: The PROMESA Act, Review of PROMESA by D. Andrew Austin – analyst in Economic Policy – Congressional Research Service and “The Impact of the New Restructuring Law on Puerto Rico Creditors” by Lorraine S. McGowen – partner in the restructuring group by Orrick, Herrington & Sutcliffe LLP.



No doubt - The Problem is Real

Outstanding Bonds – PR GO’s – Central Government Related and COFINA

\$000s

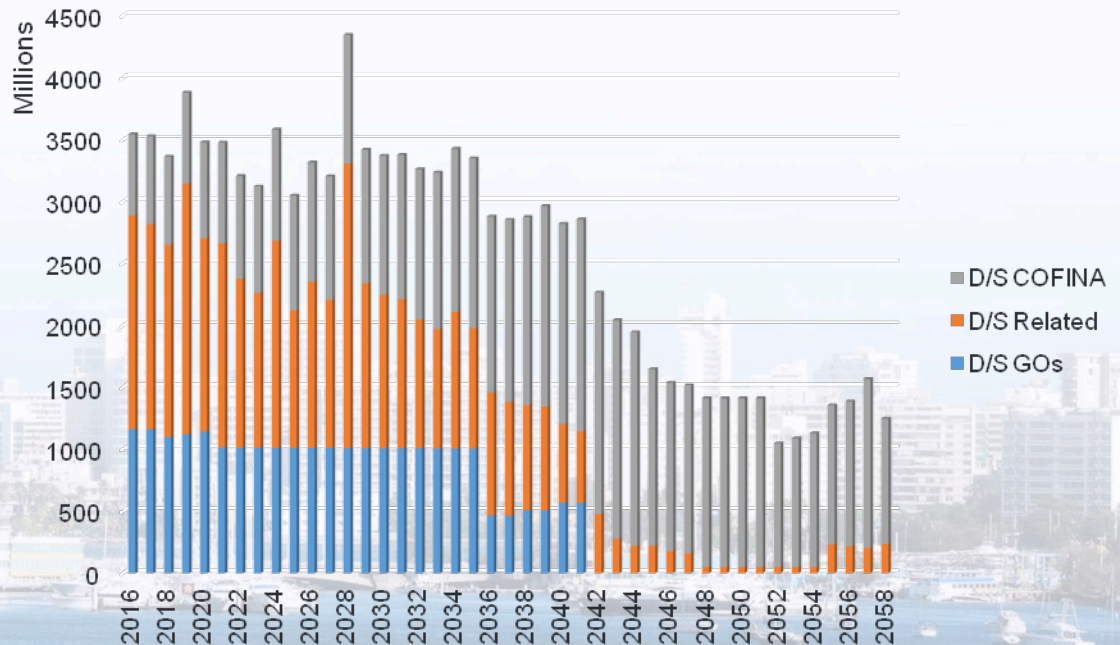
GO’s	\$12,543,779	25.25%
ERS, GDB, HTA,PBA,PFC, PRCCDA, PRIDCO, PRIFA, UPR	\$19,692,048	39.64%
COFINA	\$17,446,280	35.12%
Total*	\$49,682,108	100.00%

GO’s, COFINA and Government Related bonds show a high level of debt service due to an amortization structure concentrated within the next 20 years with payments approximating \$3,500MM from 2016 to 2022.

Total Debt Shown Excludes PREPA, PRASA, Municipalities, Bank Loans
Includes accrued values of CABs through 12-31-2016

Revenue reduction caused by the economic depression, combined with the Administration's opposition to cut governmental expenditures. Approximately \$4.4B pledged, out of \$11.8B of Revenue.

Debt Service GOs – Related Issuers & COFINA

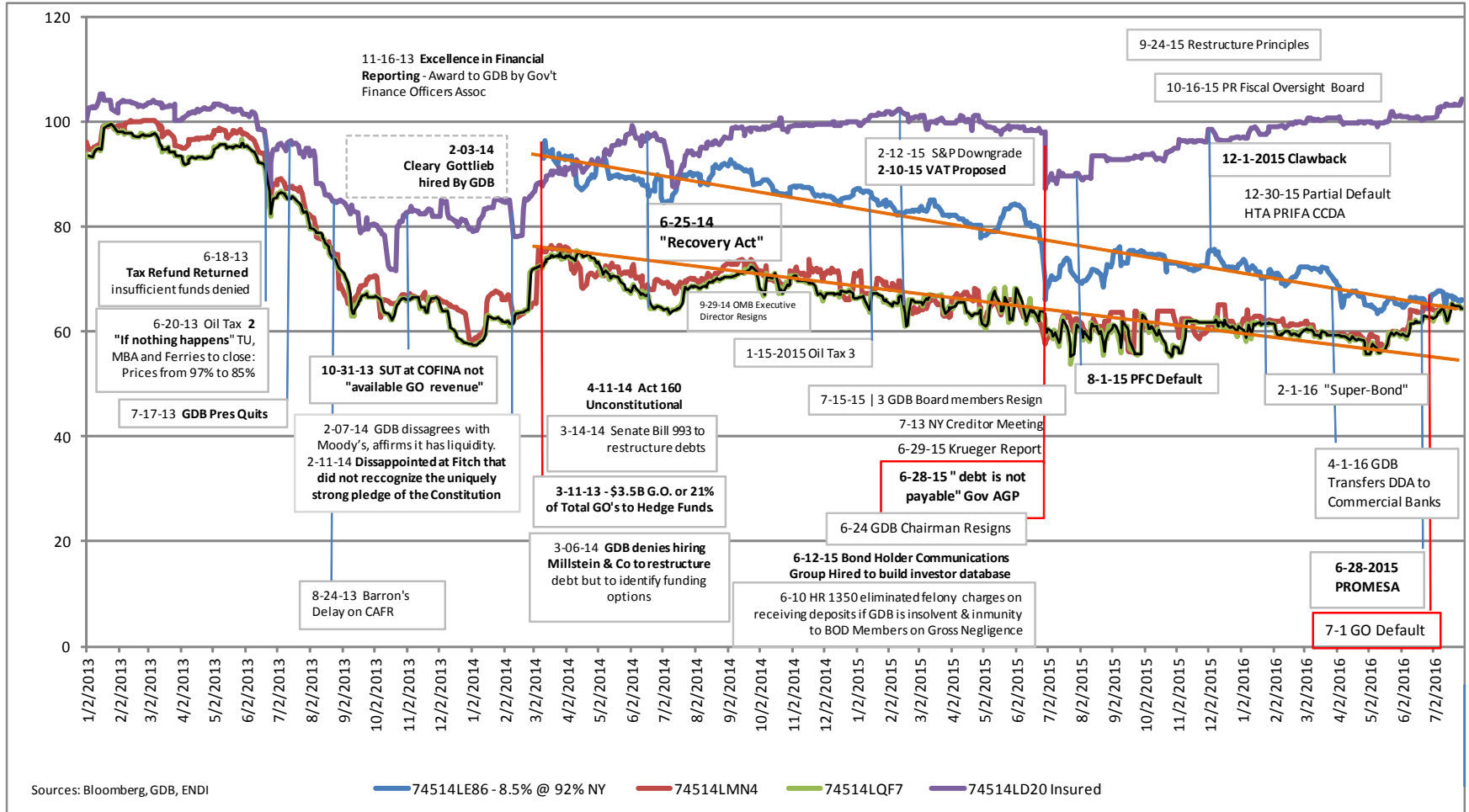




From Inability to Unwillingness to Pay

✓ Prior to PROMESA – 3.5 years of decline in the value of PR Bonds

- Uninsured GO prices declined from 99% on 1-18-13 to 62% on 6-28-2016.





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- ✓ **PROMESA establishes “a method for a covered territory to achieve fiscal responsibility and access to the capital markets”.**
 - It filled a judicial void on which the Government of Puerto Rico tried to devise a debt resolution process through Act 71 of 2014 (“Quiebra Criolla”), ultimately declared unconstitutional.
 - It seeks to bring order and focus to the financial crisis that has overwhelmed the Government’s Administration, the business community, investors and the people of Puerto Rico over the past 3.5 years.
- ✓ **Creates a Financial Oversight and Management Board with powers to approve for territory governments:**
 - Fiscal Plans
 - Budgets
 - Debt Restructuring Plans
 - Voluntary agreements with Bondholders
 - Critical Projects eligible for expedited permitting process



The Fiscal Plan

- ✓ **Sec. 201 – The Board will deliver notice to the Governor providing a schedule for the development, submission approval and certification of fiscal plans “to achieve fiscal responsibility and access to the capital markets”, and -**
 - **Ensure funding of essential public services**
 - **Ensure funding for public pension systems**
 - **Provide for a debt burden that is sustainable**
 - **Provide for capital expenditures and investments to promote growth**
 - **Ensure that assets, funds or resources are not loaned, transferred or used for the benefit of a covered territory or instrumentality unless permitted by the Constitution, an approved adjustment (title III) or a Qualifying Modification (title VI).**
 - **Respect the relative lawful priorities or lawful liens in the Constitution, other laws or agreements of the territory prior to PROMESA’s enactment.**
- ✓ **The Fiscal Plans will cover a period of not less than 5 years.**
- ✓ **The Governor may not submit a Budget unless the Board certifies the Plan’s compliance with this section 201 for such fiscal year.**



The Fiscal Plan

- ✓ **Sec. 204 – Activities of the Board to ensure compliance with the Fiscal Plan –**
 - May take the necessary actions to ensure that the enacted laws will not adversely affect compliance with the Plan
 - Promptly after enactment of a law, an estimate detailing its impact on expenditures or revenues shall be submitted.
 - May establish policies to require prior approval of certain contracts including leases and contracts to governmental entities rather than private enterprises to ensure such contracts promote market competition and are not inconsistent with the Plan.
 - After June 30, 2016 Puerto Rico shall not enact new laws that either permit the transfer of any funds or assets outside the ordinary course of business that are inconsistent with the Constitution as of enactment date of the Act.
 - Such action may be subject to review and rescission by the Board.
 - Could PR-HR 2692 of July 26, 2016, which condoned 40% of the Government's loan balances at GDB, be reviewed?
 - May review and in its sole discretion, rescind any law that was enacted after May 4, 2016 and alters pre-existing priorities of creditors in a manner inconsistent with the its Constitution or laws.
 - Is the 2016-2017 PR Budget compliant PROMESA?



The Budget

- ✓ **Sec. 202 – The Board will provide the Governor and the Legislature a schedule for developing, submitting, approving, and certifying Budgets for 1 or more years.**
- ✓ **The Board shall submit a forecast of revenues for the period.**
- ✓ **The Board will determine the Budget’s compliance with the Fiscal Plan.**
- ✓ **If the Legislature fails to adopt a compliant Budget, the Board shall develop it and submit it to the Governor and the Legislature.**
- ✓ **If the Governor and the Legislature fail to develop a compliant budget by the day before the first day of the fiscal year, the Board will submit it and:**
 - **Deem it approved by the Legislature and**
 - **In full force and effect beginning on the first day of the applicable fiscal year.**



The Budget

- ✓ **Sec. 203 - No later than 15 Days after the last day of each quarter, the Board shall receive a report describing actual cash revenues and cash expenditures compared to budget projections.**
- ✓ **If cash revenues - expenditures are not consistent with projections then the Board will advise the Government to implement remedial action.**
- ✓ **If the inconsistency continues the Board will certify the amount and nature of the inconsistency to the President, the House Committee on Natural Resources, the Senate Energy and Natural Resources, the Governor and the Legislature.**
 - **Upon continuation of such inconsistency the Board will make appropriate reductions in non debt expenditures to ensure compliance.**



Adjustment of Debts – Title III

- ✓ The Congressional Research Service states that the provisions in Title III are in many ways similar to the chapters 9 and 11 of the US Bankruptcy Code.
 - Section 1102 Title 11 USC – Committee of Creditors applies: The 7 largest claims (+) against the debtor would participate in the formulation of the plan.
 - Section 548 Title 11 USC – Trustee may repudiate Fraudulent Transfers.
- ✓ Includes a provision for a plan of adjustment to be proposed by the debtor, voted on by the creditors and confirmed by the US Court.
 - The Chief Justice (SCOTUS) to designate a district court judge for Territory.
 - The Chief Judge (court of appeals) to appoint a district judge in other cases.
- ✓ The Board would represent the debtor filing petitions to restructure debts or to modify a plan of adjustment, no competing creditor plans.
- ✓ Prior to permitting an entity to commence a Title III case, the Board at its sole discretion must certify that:
 - The entity made good faith efforts to reach a consensual restructuring with creditors.
 - The entity adopted procedures to deliver timely audited financials, draft financial statements and other sufficient information for a person to make an informed decision.
 - The entity has a Fiscal Plan in place.
 - No order approving a qualifying modification is in place.



Adjustment of Debts – Title III

- ✓ **Section 304 (j) – The Board may file petitions or submit or modify plans of adjustment jointly if debtors are affiliates; however substantive consolidation of the cases of affiliated debtors is not authorized.**
 - **Each Debtor works its plan with its creditors.**
- ✓ **Section 306 (e) 2 – The court of appeals for the circuit has jurisdiction of appeals from all final decisions.**
- ✓ **Section 314 (b) – The court shall confirm the plan if: ...(6) the plan is feasible and in the best interest of creditors, considering if other available remedies (non-bankruptcy laws and PR Constitution) would result in greater recovery.**
- ✓ **Section 314 (c) – If the plan includes only one class of claims which claims are impaired (i.e. would receive less) and the plan is not accepted by that class, not withstanding requirements (1129 (a)(8) and (a)(10) of the Code) the court shall confirm notwithstanding that the plan is fair and equitable and does not discriminate unfairly with respect to such impaired class.**



New Financing and Payment of Interest Liability

- ✓ Title III includes US Bankruptcy Codes Sections 364 (c) (d) that would enable PR or its covered instrumentalities to borrow on a “post-petition” credit basis:
 - Unsecured “super priority” basis over all administrative expenses.
 - Secured but subject to existing liens.
 - Secured by a lien senior or equal to existing lien, if the debtor cannot obtain credit and if the existing lien holder receives adequate protection.
- ✓ Title IV section 405 - To the extent the Board determines it feasible, the Government of Puerto Rico shall make interest payments on outstanding indebtedness during the length of the Stay.
 - The evaluation of the current interest defaults by the Government of PR will be evaluated by the incoming Board.



Creditor Collective Action –Title VI

- ✓ Section 601 (i) Modification may be proposed to the Administrative Supervisor (the Board) by the Issuer or by one or more holders of the right to vote the Issuer’s Outstanding Bonds (insurers will vote on insured bonds).
 - Modification means any modification, amendment, supplement or waiver affecting one or more series of “Bonds” (financial instruments).
 - The proposed Modification must be submitted to the holders of the affected financial instruments.
- ✓ The Board will separate the Bonds into separate pools:
 - Not less than one pool for each Issuer.
 - Secured Pool - one or more Bonds secured by a lien on property.
 - For Issuer that has issued multiple Bonds that are distinguished by provisions governing priority or security arrangements.
 - For Issuer that has issued senior and sub bonds.
 - For Issuer that issued bonds for which guarantee of repayment has been provided by the Territory Government.
 - For Issuer that pledged a dedicated revenue stream.



Creditor Collective Action –Title VI

- ✓ Pools that could be anticipated follow the multiple Commonwealth Issuers:
 - General Obligation Pool
 - GO Guaranteed Pool – Public Buildings Authority
 - Dedicated Revenue:
 - PR Highway - 1968 Resolution Pool, 1998 Resolution Pool, 1998 Sub Pool
 - PRIFA – “Rum Tax” Pool and GDB LOC Pool
 - PRCCDA – Room Tax
 - Employee Retirement System – Employer Contributions
 - COFINA, PREPA - Senior and Subordinate Pools
 - PRASA, UPR – Pledged Revenues
 - PFC – Legislative Appropriation
 - GDB – General Unsecured Senior Obligations
- ✓ To be approved the modifications must be consented to by holders of at least 50% of the outstanding principal amount of the affected Bonds, in the particular pool and of those who actually vote by 2/3rds of the aggregate outstanding principal.
- ✓ The proposed modification must also be approved by the Board.



PR Infrastructure Revitalization – Title V

- ✓ Overhauls the process for review and permitting of infrastructure projects.
- ✓ The Revitalization Coordinator would be appointed from a group of nominees selected by the Board.
- ✓ Any Project Sponsor (private entity or government agency) may submit applications to the Coordinator for consideration as a “Critical Project”
 - One that addresses an event or grave problem of deterioration in the infrastructure for the rendering of essential services to the people that endangers the life, public health or safety of the population or sensitive ecosystem including: energy, water, sewer, solid waste, highways, roads, ports, telecomm and other similar infrastructure.
- ✓ **Criteria to evaluate Critical Projects:** its impact on the emergency, availability of funds, cost of the project and environmental benefits among others that the Coordinator deems appropriate.
- ✓ The Board would approve the designation of Critical Project.
- ✓ Critical Projects would be required to be set forth an “Expedited Permitting Process” .



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**“The kind of actions that solve financial crises are never popular”
Stress Test by
Timothy Geithner**

- ✓ **PROMESA provides a method through which to right many wrongs in Puerto Rico during a period when those wrongs have been deeply worsened.**
- ✓ **The people of PR have been taxed to the limit to support an oversized and inefficient governmental bureaucracy while private investors in Puerto Rico have suffered massive capital losses.**
- ✓ **The imposition of an oversight entity to supervise the financial affairs of Puerto Rico carries embarrassment, the shame should fall on those that to this date do not understand that the issue at hand is about fiscal responsibility and the economy of Puerto Rico.**
- ✓ **Whether it was Mexico, Indonesia or Greece with the IMF, or the “European Troika” and now in PR a US Congressionally approved Control Board, oversight had to be implemented to procure the restoration of financial health and economic growth.**



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