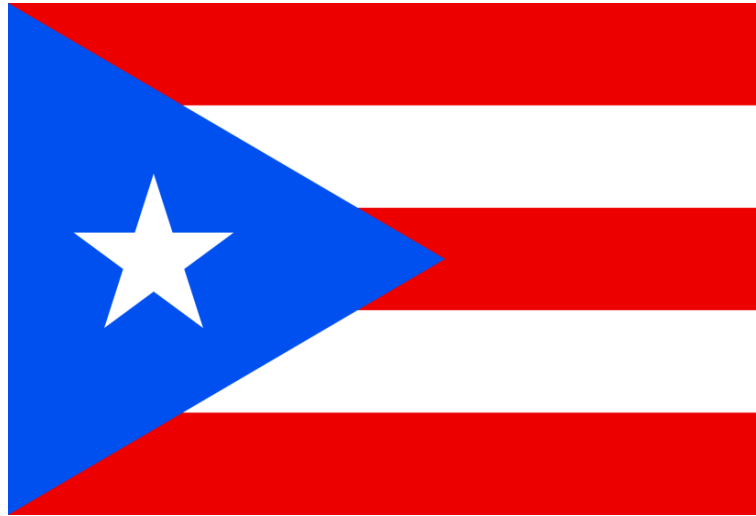


Reorg Research
Puerto Rico:
A View From the Ground



A Reorg Research Webcast Series

Reorg Research

- **Ruled Unconstitutional**

- A U.S. District Court ruled the law was preempted by Section 903(1)

- **Appeal**

- Argument heard May 6 in Boston
- The appeals court judges focused their questioning on whether Puerto Rico was stuck in a “no man’s land” such that it is not eligible for Chapter 9 nor authorized to enact its own restructuring laws
- Bondholders argued that Congress intentionally excluded Puerto Rico from access to Chapter 9 on the basis of the Commonwealth’s special relationship with the United States
- No ruling yet

“Congress has a number of options in dealing with this, and reserved for itself the ability to decide whether Chapter 9 or some other mechanism would be the right approach.”

– Chief Judge Sandra Lynch, U.S. Court of Appeals for the First Circuit

- **H.R. 870 – Puerto Rico Chapter 9 Uniformity Act of 2015**
 - Would treat Puerto Rico as a state for purposes of chapter 9 access
 - Sponsored by Puerto Rico’s Resident Commissioner to Congress, Pedro Pierluisi
 - Supported by Garcia Padilla administration
- **Current Status**
 - Supporters: John Conyers, Hank Johnson, Luis Gutierrez
 - Skeptics: Darrell Issa, Tom Marino
 - Intense lobbying effort against bill
 - Some notable support from outside Congress: Bob Dole, Jeb Bush
- **Prospects**
 - Remains in House Judiciary Subcommittee
 - Not currently scheduled for further discussion

“Is it wise to provide [Chapter 9], even prospectively, without a real plan for the Commonwealth of Puerto Rico for how they’re going to work their way out of an ongoing and systemic pattern?”

– Rep. Darrell Issa, R-Calif.

- **Restructuring options**

- PREPA, creditors are continuing negotiations
- Plans under consideration: Donahue, Houlihan, York Capital, others
- Forbearance agreement ends June 18, \$415 million bond payment due July 1

- **Regulatory changes pending**

- Energy Commission rate review: Rate proposal expected by July 1
- Federal environmental regulations
- 2010 Puerto Rico law establishing renewable energy targets: Milestone this year
- By July 1, PREPA must submit plan for compliance with energy policy, environmental rules

The Energy Commission “shall guarantee that the approved rate will be sufficient to guarantee payment of principal and interest on bonds and other financial obligations of PREPA...”

– Puerto Rico Act 57

▪ **Debt Restructuring Talk**

- The government “is in conversations with its creditors about its debt.” – La Fortaleza Chief of Staff Victor Suarez
- A lawmaker told Reorg Research that “the manner in which we are going to pay” may be a topic for renegotiation
- A cabinet official said bondholders are “part of the problem”

▪ **Budget**

- \$9.8B budget for fiscal 2016 contains \$674M in spending cuts
- Public hearings expected to wrap up next week
- Garcia Padilla to deliver 5-year fiscal plan

▪ **Other Items**

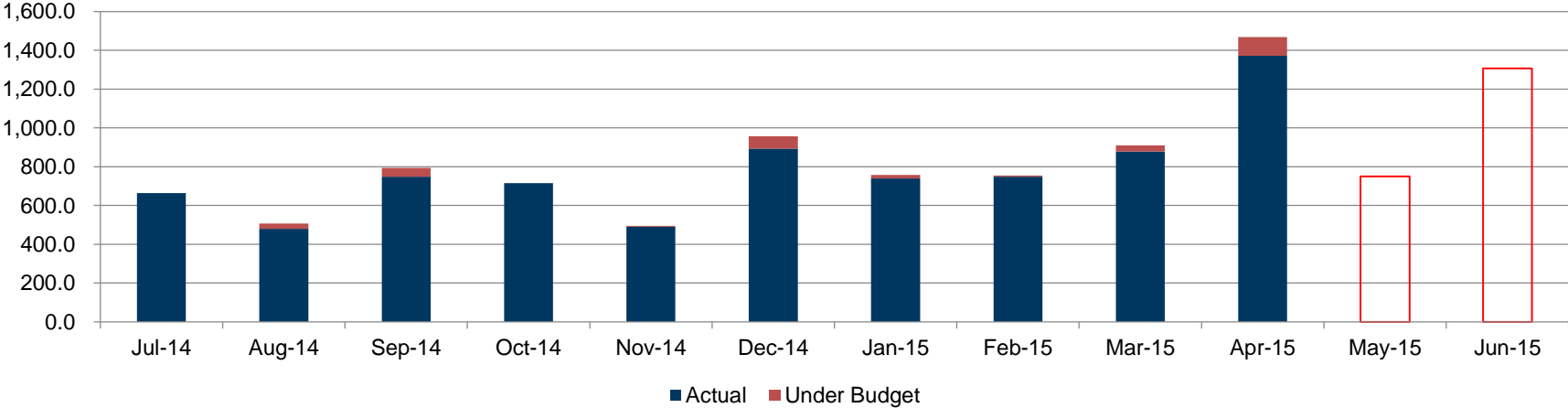
- Gov’t in talks with creditors on \$2.9B PRIFA bond deal, expected to conclude in June/July
- COFINA language under discussion
- Legislature working to broaden GDB powers

“Tough times may lie ahead and tough decisions may need to be made.”

– a Puerto Rico legislator

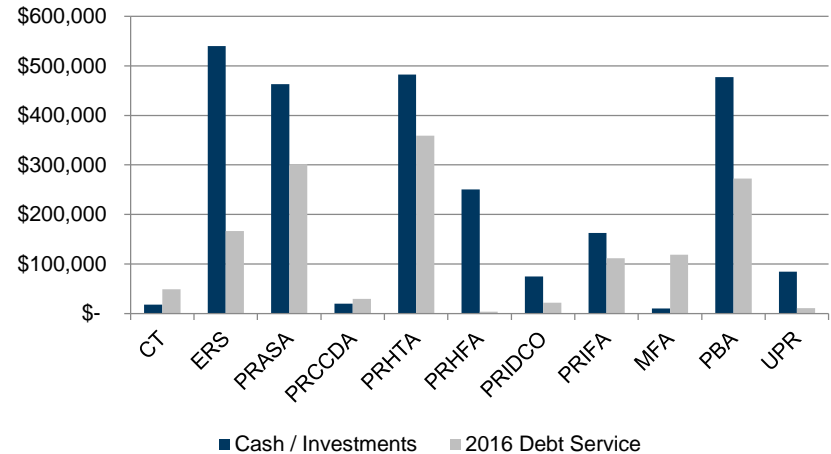
- The Government Development Bank has less than a month left for fiscal 2015 and has yet to report its May and June General Fund Revenues
- Throughout the year, with the exception of July 2014 and October 2014, General Fund collections have fallen below budget
 - Over the course of the fiscal year, every month has fallen below budget with the exception of July and October
 - YTD all categories have fallen below budget with the exception of Non-Resident Withholdings, Property Taxes & Act 154, in total approximately 3.1% or \$250 million below budget
 - Even if May and June General Fund Revenue budget figures are met -- on a full year basis Puerto Rico would still be \$250 million below full year budget of \$10.0 billion

General Fund Revenue
(\$ in millions)

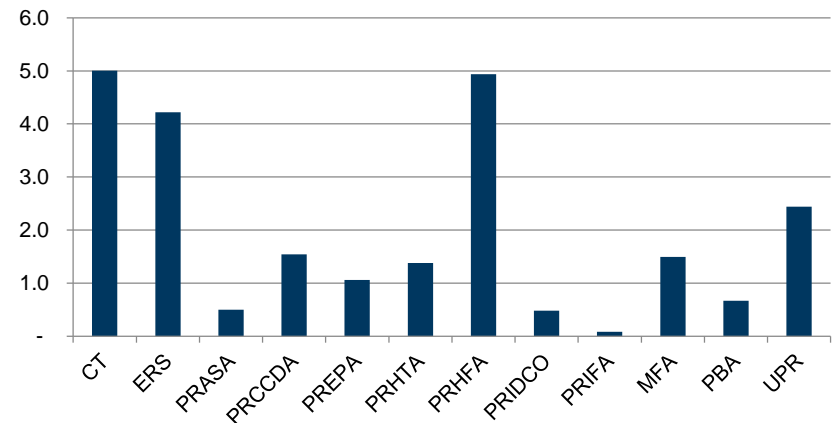


- Based on most recent financials posted on GDB website for each entity
- PREPA will serve as the precedence for other public corporation restructurings
- Other public corporations however seem to have some time before having to address liquidity issues like PREPA and HTA
 - Could result in PREPA enforcing short term collections or higher rates on public corporations
- It is unclear where HTA stands in terms of its liquidity, however at fiscal year end 2013 the entity held \$23 million in unrestricted cash, \$130 million in restricted cash and \$118 million held by trustee
 - Total of \$748.8 in cash, cash equivalents and short term investments at June 30, 2013
 - \$459 million was specifically set aside for debt service payments
 - PRHTA had \$385 million in debt service on its bonds to address in 2015 and \$359 million in 2016

**Cash / Investments vs. Debt Service
(\$ in thousands)**



Current Ratio

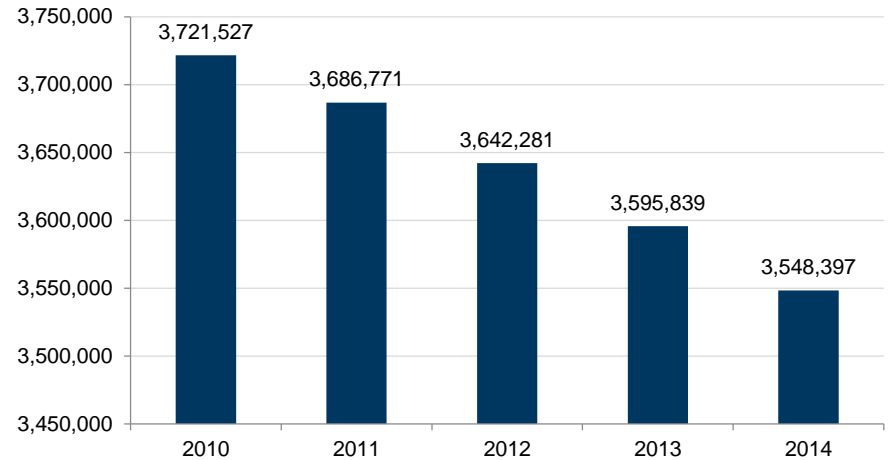


- Fundamental issues such as the continuous emigration and population drain
 - Constant reduction of the tax base
 - [Poverty rate](#) of 45.4% in 2013 versus mainland poverty rate of 15.8%
 - April non-farm payroll declines 1.9% YOY

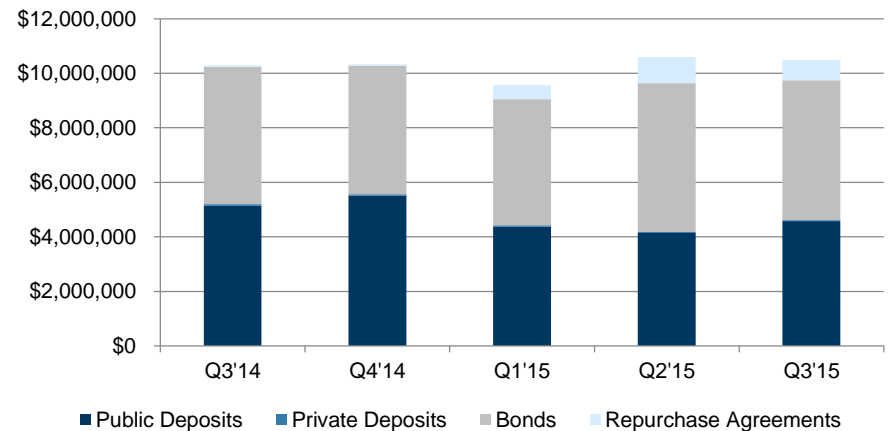
- 2016 Election Year
 - Puerto Rico has not reelected a governor since 1996
 - Resident Commissioner Pierluisi is one of the main PNP candidates challenging the current governor
 - Pierluisi is a large proponent of the Chapter 9 bill and the possibility of his election could have consequences to Puerto Rico creditors

- The Commonwealth will have to continuously come to market
 - Haircuts or unfavorable legislation could send a dire signal to the market
 - Negotiations continue to be the path of least resistance
 - Most recently – more reliance on repurchase agreements
 - Bonds have historically made up around 50% of the Commonwealth's funding

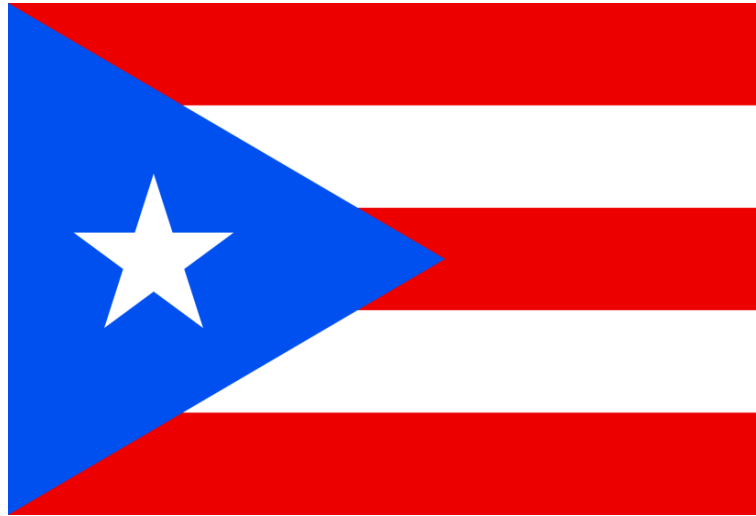
Population Trends



GDB Funding Sources (\$ in thousands)



Reorg Research
Puerto Rico:
A View From the Ground



A Reorg Research Webcast Series

Reorg Research