Working Group for the Fiscal and Economic Recovery of Puerto Rico

Bonistas del Patio Forum
Puerto Rico’s Fiscal and Economic Crisis

June 27, 2016

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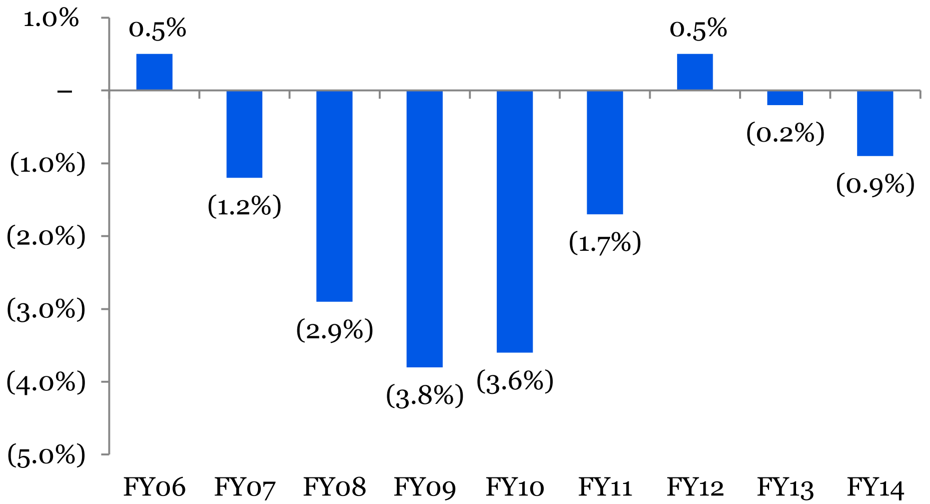
Economic Decline of Puerto Rico

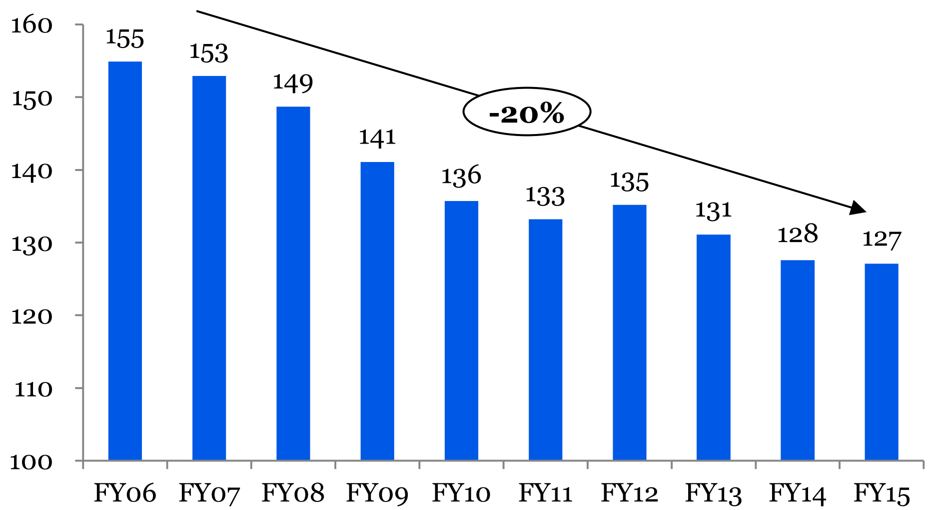
Since the expiration of Section 936 of the US Internal Revenue Code in 2006[(1)] and the onset of the global financial crisis in 2007, the Commonwealth has faced virtually continuous economic decline notwithstanding substantial stimulus spending

- GNP growth has been negative nearly every year since FY 2007; little growth was recorded in the prior decade
- The lower rate of GNP decline since FY 2009 is due in large part to the significant stimulus and deficit spending injected into Puerto Rico's economy during the same period
  - For example, the Commonwealth was allocated approximately $7.1 billion of funds through the American Recovery and Reinvestment Act ("ARRA") and, using the Puerto Rico Sales Tax Financing Corporation ("COFINA") bond proceeds from offerings in 2009 and 2010, the Commonwealth created a $500 million "Local Stimulus Fund"
  - Furthermore, tax reform enacted in 2011 sought to jumpstart the economy by reducing individual and corporate taxes by approximately $706 million, some of the provisions of which were later modified to deal with resulting revenue shortfalls

Real GNP Growth[(2)]



GDB EAI Index[(2)(3)]



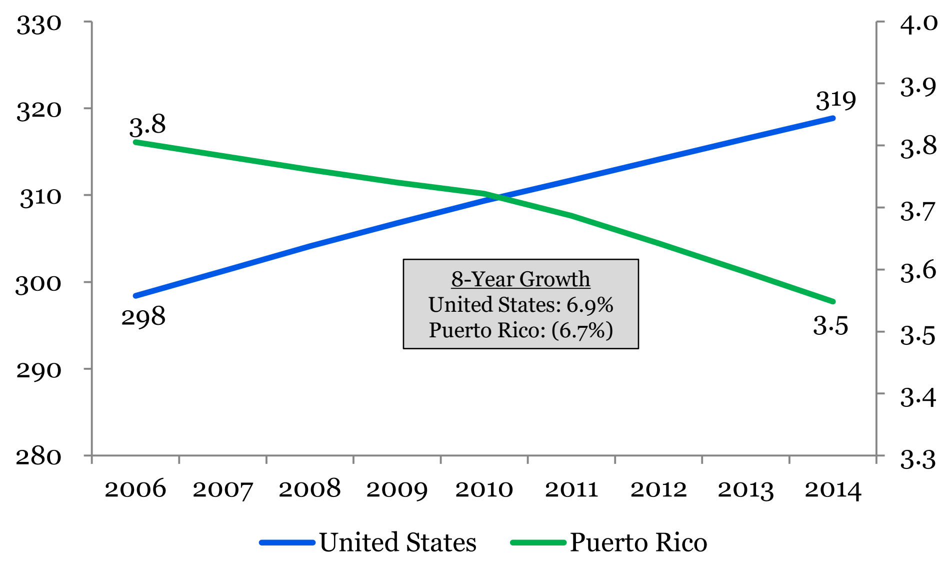
(1) Insofar as is relevant to Puerto Rico, Section 936 of the US Internal Revenue Code exempted from US taxation certain income derived by US companies from the active conduct of a trade or business in Puerto Rico and certain Puerto Rico sourced investment income.
(2) Source: Economic Activity Index ("GDB – EAI") report for June 2015.
(3) Values are as of June 30 of each year. The apex in FY 2006 occurred at 158.0 in July. EAI is comprised of four indicators: total payroll employment; total electric power generation; cement sales and gas consumption. The index is highly correlated to Puerto Rico's real GNP. For additional details on the EAI, see the GDB website under "Economy."

Deteriorating Economic Prospects & Demographic Trends

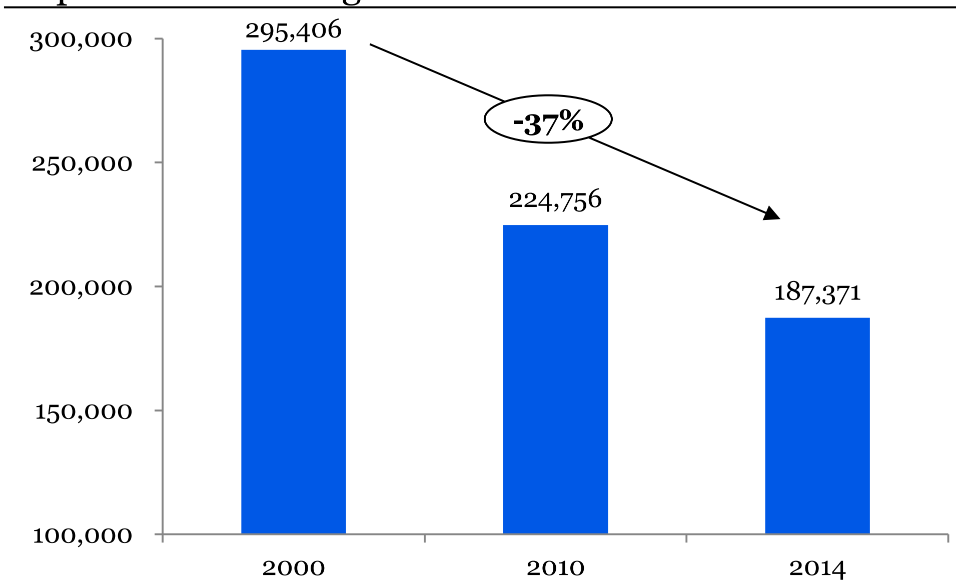
Reduced economic activity has had a marked effect on the residents of the Commonwealth, leading to stagnating incomes and increasing outmigration to the mainland

- As multinational corporations left the Commonwealth following the expiration of Section 936 and without substantial job creation, cumulative per capita income growth of 5.5%[(1)] from 2006 to 2013 has failed to keep pace with cumulative inflation of ~15%[(2)] over the same time period
- Deteriorating economic conditions have therefore led many Puerto Ricans to emigrate to the mainland
- The Commonwealth average net outmigration was approximately 48,000 residents per year from 2010 to 2013[(3)], with 42% of emigrants citing their primary reason for moving as job-related; in 2013, approximately 74,000 residents emigrated to the mainland[(4)]
- The remaining population is becoming increasingly elderly and, as a result, a higher percentage of the population is outside the labor force
  - Persons 60 years and older represent more than 20% of the population (the highest in the United States) and their labor participation rates range from 10.7% to 13.3%[(5)]; children aged five years or less have decreased from 295,406 in 2000 to approximately 187,371 in 2014, a reduction of 37%[(6)]

Population Data (millions)[(6)]



Population Under Age Five[(6)]



(1) Per capita income from World Bank. 2013 is the most recent year for which data is available for both Puerto Rico and the US.
(2) Inflation calculated using CPI as presented by GDB and sourced to Dept. of Labor and Human Resources.
(3) Puerto Rican Population Declines on Island, Grows on US Mainland, Pew Research Center, August 11, 2014.
(4) Puerto Rico Statistics Institute, "Perfil del Migrante 2013", February 8, 2015.
(5) Puerto Rico Planning Board, "Resumen Economico de Puerto Rico", December 2013.
(6) US Census Bureau.

The Commonwealth Implemented Significant Austerity Measures to Strengthen its Finances

The following chart represents a select subset of the various measures that the Commonwealth has taken since the onset of the economic crisis

Revenues	Expenditures	Other Fiscal Responsibility Measures
2007: 7% Sales and Use Tax ("SUT") implemented ~$1.1bn per year	**2010:** Voluntary resignation and work-day reduction programs ~$91mm	**2011:** Gradually increase employer contribution to ERS from 9.275% to 20.525%
2011: Act 154-2011 institutes annually declining 4% excise tax on multinationals operating in Puerto Rico ~$1.9bn per year	**2010:** Temporary suspension of certain laws, collective bargaining agreements and other contractual agreements ~$187mm	**2011:** Gradually increase employer contribution to TRS from 8.5% to 19.75% per employee
2011: UPR(1) stabilization fee ~$40mm/yr (later repealed)	**2011:** Involuntary layoffs ~$367mm	**2011:** Complete public-private partnership ("P3") of PR-22
2013: Act 154 excise tax reset at 4% rate	**2013:** Eliminate subsidies to PRASA(2) (due to PRASA rate increase) ~$340mm	**2013:** Complete P3 of LMM International Airport
2013: Petroleum products tax increase from $3.00 to $9.25 per barrel ~$190mm per year	**2014:** Reduce non-salary benefits ~$51mm (prohibited December bonus above $600 and liquidations of unused vacation or sick leave); government merit bonuses eliminated	**2013:** Increase employee contribution to ERS and TRS; eliminate special law benefits to retirees; increase retirement age
2014: Gross profits tax on corporations ~$300mm per year	**2014:** Judicial and legislative budget reductions ~$45mm	**2013:** Eliminate "scoop and toss"(3) of PBA(4) debt service ($175mm in FY 2013)
2014: SUT charged at point of entry ~$70mm per year	**2014:** UPR, Judicial and Municipality appropriation levels frozen from 2015-2017; CBA salary increases frozen	**2014:** Eliminate "scoop and toss"(3) of GO(5) debt service ($575mm in FY 2014)
2015: Petroleum products tax raised from $9.25 to $15.50 per barrel, providing an incremental ~$170mm per year	**2015:** School transportation cost reductions and school consolidations ~$110mm	**2014:** Prohibit deficit financings by GDB
2016: SUT increased from 7% to 11.5%	**2013-2015:** 3% annual payroll reduction	**2015:** Passed Act 208 (local control board)
2016: VAT(6) instituted; projected ~$1 -$1.2 billion per year	**2016:** Additional reduction in General Fund expenditures (ex. debt) by ~14% ($134 mm)	**2016:** Commence restructuring of PREPA debt (2014) and pass PREPA Restructuring Act (2016) and passage of Act 21 (moratorium)

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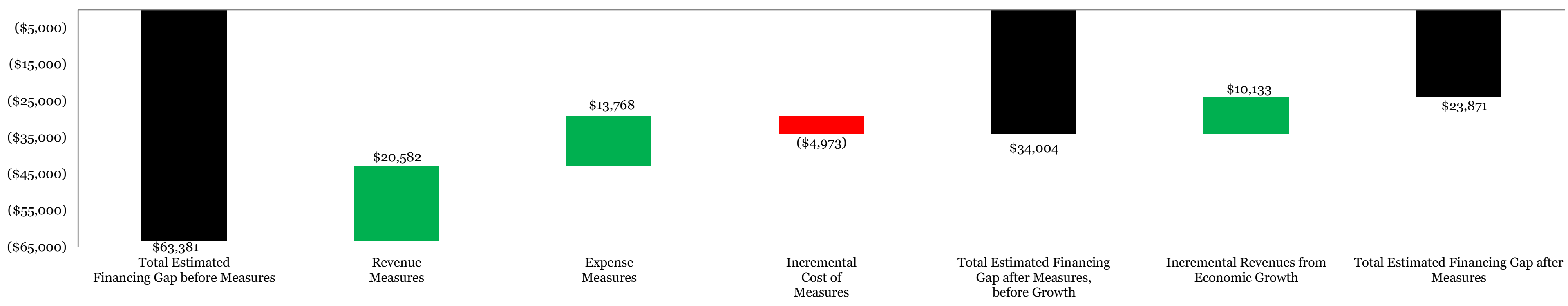
(1) University of Puerto Rico ("UPR").
(2) Puerto Rico Aqueduct and Sewer Authority ("PRASA").
(3) "Scoop and Toss" generally refers to the elimination of annual debt principal and interest through a refinancing with delayed payment dates.
(4) Public Buildings Authority ("PBA").
(5) General Obligation ("GO").
(6) Value Added Tax ("VAT").

Even After Implementing these Significant Austerity Measures, Puerto Rico's Debt Load is Unsustainable

The Fiscal and Economic Growth Plan ("FEGP") developed by the Working Group for the Fiscal and Economic Recovery of Puerto Rico shows that significant contributions in the form of expense and revenue measures, structural reforms and a substantial debt restructuring are necessary to put the Commonwealth on a path to long-term sustainability and enable it to continue providing essential services to its citizens

- As shown in the updated FEGP published January 18, 2016, based on the Commonwealth's current fiscal policies, growth trends and existing debt service schedule, the Commonwealth projects a cumulative fiscal deficit of **$63.4 billion** over the next ten years
- To address this deficit, the Working Group developed extensive revenue and expense measures, projected to result in approximately $20.6 billion and $13.8 billion of benefits, respectively, which would reduce the fiscal deficit to approximately **$34.0 billion**, before considering any incremental economic growth benefits
- With approximately $33.0 billion of scheduled principal and interest payments due over the next ten years,[1] a substantial restructuring of the Commonwealth's existing debt is required to allow the Commonwealth to bring its fiscal accounts into balance, to give it time and the financial flexibility to implement the FEGP's structural reforms and growth initiatives so as to stimulate the Puerto Rican economy and thereby to make the restructured debt sustainable in the long term

Updated FEGP Cumulative 10-Year Financing Gap[2] ($ millions)



(1) After accounting for payments made through January 1, 2016.
(2) For additional details, refer to the updated FEGP published on January 18, 2016.

Even After Implementing these Significant Austerity Measures, Puerto Rico's Debt Load is Unsustainable (cont'd)

The updated FEGP projections beyond FY 2020 show that, even with economic growth, the cumulative deficit, assuming current contractual debt service is paid, will continue to grow to approximately $23.9 billion over the ten-year projection period

- The baseline FEGP projections assumes 1.0% nominal growth per year (-1.0% real, 2.0% inflation) until FY 2018, at which point the Commonwealth experiences flat real economic growth (2.0% nominal), before gradually rising to a long-term nominal rate of 4.5% (2.5% real)
  - This long-term growth rate, while achievable and inline with the estimates in the Krueger Report for both long-term U.S. and Puerto Rico economic growth,[1] is optimistic given that Puerto Rico's real GNP growth has been below that of the U.S. every year since 2001[2]
  - See the FEGP Update and its Appendix (issued on January 18, 2015) for additional details on the assumptions supporting the extended FEGP projections
- However, in sizing the Commonwealth offer discussed in this presentation, certain key assumptions to the FEGP projections were made, including:
  - A continuation of the current percentage of healthcare funding from the U.S. Federal Government (i.e., a replacement or continuation of ACA funding); and,
  - The Commonwealth reaches a GNP growth rate of 2.0% nominal by FY 2018, as well as updates to certain other assumptions

Projected FEGP Financing Gap over the 10-year Projection Period (FY 2016 – FY 2025) ($ millions)

	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	Total 5 Yr	Total 10 Yr
Total Revenues	$17,389	$17,358	$17,560	$17,710	$17,841	$17,954	$18,080	$18,219	$18,368	$18,517	$87,858	$178,995
Total Non-interest Expenditure	(17,091)	(17,113)	(17,331)	(18,031)	(18,214)	(18,495)	(18,741)	(19,000)	(19,331)	(19,606)	(87,780)	(182,955)
Total Additional Expenses (Current Policies)	–	–	(1,082)	(2,680)	(2,812)	(2,896)	(2,958)	(3,028)	(3,089)	(3,157)	(6,574)	(21,702)
Total Debt Service	(4,121)	(3,396)	(3,272)	(3,861)	(3,463)	(3,412)	(3,173)	(3,109)	(3,522)	(3,021)	(18,113)	(34,350)
Identified Financing Sources / (Uses)	448	(1,188)	(1,127)	(876)	(626)	–	–	–	–	–	(3,369)	(3,369)
Total Est. Financing Gap before Measures	**($3,376)**	**($4,339)**	**($5,252)**	**($7,738)**	**($7,274)**	**($6,850)**	**($6,793)**	**($6,918)**	**($7,574)**	**($7,268)**	**($27,979)**	**($63,381)**
Revenue Measures	$1,006	$1,202	$1,768	$2,329	$2,346	$2,359	$2,373	$2,386	$2,399	$2,413	$8,652	$20,582
Expense Measures	51	443	1,104	1,468	1,778	1,779	1,781	1,782	1,787	1,795	4,844	13,768
Incremental Cost of Measures	(262)	(549)	(570)	(619)	(543)	(481)	(482)	(486)	(489)	(493)	(2,542)	(4,973)
Incremental Revenues from Economic Growth	–	–	89	303	573	927	1,355	1,808	2,286	2,793	965	10,133
Total Est. Financing Gap after Measures	**($2,580)**	**($3,243)**	**($2,860)**	**($4,257)**	**($3,120)**	**($2,265)**	**($1,767)**	**($1,428)**	**($1,591)**	**($760)**	**($16,060)**	**($23,871)**
Memo: Debt Service as a % of:												
Adjusted Revenues [3] (Excluding Growth)	*36%*	*29%*	*28%*	*32%*	*29%*	*28%*	*26%*	*25%*	*29%*	*24%*	*31%*	*29%*
Adjusted Revenues [3] (Including Growth)	*36%*	*29%*	*27%*	*32%*	*27%*	*26%*	*23%*	*22%*	*24%*	*20%*	*30%*	*26%*

(1) See the report "Puerto Rico – A Way Forward," updated as of July 13, 2015.
(2) Source: St. Louis Federal Reserve Database (FRED) for the Untied States historical GNP growth rates, and the Government Development Bank for Puerto Rico ("GDB") for Puerto Rico's GNP growth rates.
(3) Adjusted revenues shown represent revenues as shown in the FEGP, excluding Federal Transfers and GDB net loan inflows, plus revenue measures (and in the case of "Including Growth," the projected benefits of growth).

Puerto Rico's Debt Load Is Significantly Higher than Any U.S. State and Cannot Be Sustained

Under the proposed exchange discussed in the following pages, the Commonwealth's debt service-to-revenue ratio would be significantly reduced, but would remain at levels above the most indebted U.S. states(1)

- The ratios as calculated by Moody's include all tax-supported debt of the states, and are calculated on a basis that is generally comparable with the tax-supported debt included in Puerto Rico's FEGP
- On each metric the Commonwealth, before any restructuring, is significantly worse than the worst state. The proposed restructuring would improve Puerto Rico's metrics and put the Commonwealth on a path to sustainability; however even after a restructuring, Puerto Rico's metrics will still be worse than each of the 50 U.S. states

Moody's 2014 State Debt Ratios as Compared to Puerto Rico(1) ($ millions)

Highest 5 States	Debt Service to Revenues	Highest 5 States	NTSD Per Capita	Highest 5 States	NTSD as a % of Personal Income	Highest 5 States	NTSD as a % of GDP
Hawaii	13%	Connecticut	$5,491	Hawaii	11%	Hawaii	9%
Connecticut	12%	Massachusetts	4,887	Connecticut	9%	Connecticut	8%
New York	11%	Hawaii	4,867	Massachusetts	9%	Massachusetts	7%
Utah	11%	New Jersey	4,138	New Jersey	7%	New Jersey	7%
West Virginia	11%	New York	3,092	Washington	6%	Washington	5%
Mean of 50 States	6%		$1,419		3%		3%
Median of 50 States	5%		$1,012		2%		2%
Puerto Rico - Current(2)	**36%**		**$14,046**		**77%**		**47%**
Puerto Rico - Pro Forma(3)	**15%**		**$9,868**		**54%**		**33%**

(1) State numbers based on the statistics reported in Moody's "State Debt Medians 2015," dated June 24, 2015. Note that Moody's excludes federal transfers for the state ratios. Moody's has historically analyzed Puerto Rico's net tax-supported debt ("NTSD") including PRASA (which is excluded from the FEGP), excluding PRIDCO (which is included in the FEGP) and accounting for GDB loans to the Commonwealth while excluding the GDB bonds owed to third-parties (the FEGP excludes "intra-government" loans and includes the GDB bonds). Adjustments have not been made to the FEGP numbers to reflect these differences.

(2) The debt service-to-revenue ratio utilizes FY 2016 current contractual debt service as compared to FY 2016 Adjusted Revenues. Adjusted Revenues represent projected revenues shown in the FEGP update published January 18, 2016, excluding federal transfers and GDB loan inflows, and includes the estimated cost of the Earned Income Tax Credit ("EITC") assuming 0% real/2% nominal GNP growth from FY 2018 onwards. Note that Adjusted Revenues have also been been updated to reflect an estimated drop in revenues based on preliminary actuals, assumes the "Walmart" tax is replaced, and excludes the estimated cost of the EITC. Population data for NTSD per Capita from the U.S. Census Bureau representing 2015 estimated figures, 2013 GDP taken from the World Bank, and 2014 personal income and GNP as estimated by the Puerto Rico Planning Board.

(3) Pro-Forma ratios are shown based on an outstanding indebtedness of Puerto Rico of ~$49 billion, using the Base Bond and, for the purposes of the debt service-to-revenue ratio, utilizing the level debt service beginning in FY 2031 as compared to FY 2031 Adjusted Revenues. Current and pro-forma debt balances exclude GSA for illustrative purposes.

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Puerto Rico's Debt Load Is Significantly Higher than Any U.S. State and Cannot Be Sustained (cont'd)

Allegations that the Working Group has overstated the Commonwealth's debt service burden have been plagued by factual inaccuracies and attempts to selectively include only certain indebtedness while excluding other material Commonwealth obligations

- Various public statements have been made that the Working Group's calculation of the Commonwealth's debt service burden is erroneous and the actual debt service burden as a percentage of revenues is in the low to mid-teens(1)
- Apart from the fact that these claims have included blatant calculation and factual errors,(2) they also tend to focus solely on the line explicitly labeled debt service in the General Fund budget (i.e., they only include the General Obligation debt)

Erroneous Approach to Calculate Commonwealth Debt Burden ($m)	
FY 2016 General Fund Revenues as Estimated in the FEGP	
General Fund Revenues	$8,210
Complete Transition to VAT	996
Improve Tax Admin. & Enforcement	10
Total General Fund Revenues	**$9,217**
FY 2016 GO Debt Service (net of CRIM transfer)	**$1,013**
GO Debt Service as a % of General Fund Revenues	**11%**

An erroneous focus on just GO debt service, which is less than 1/3 of the tax-supported debt on the island is the only way to arrive at a debt service to revenue burden of only 11%

- The glaring error in this approach is twofold:
  - (1) Many of the expenses in the General Fund budget are used directly to pay other debt service. For example, the lease payments to PBA and the appropriations to UPR make up the vast majority of those entities revenues which in turn is used to pay over $4 billion in debt. Similarly, appropriations to PRIFA and PFC are the *only* sources of revenue those entities have to pay another approximately $1.5 billion of debt
  - (2) The General Fund excludes many taxes collected by the Commonwealth and used to fund substantial other debt on the island, such as the ~$17 billion of debt at COFINA or the ~$4 billion of debt at HTA(3)
- Once the additional debt service of entities such as those mentioned above, along with the associated revenues, are included along with the General Fund revenues and GO debt service it becomes clear that the debt service burden supported by the Commonwealth's tax revenues is far higher than a mere 12%

Commonwealth Debt Service Burden Inclusive of All Tax-Supported Debt ($m)	
FY 2016 Adjusted Revenues as Estimated in the FEGP	
Total General Fund Revenues	**$9,217**
Additional Revenues	2,331
Total Adjusted Revenues as Estimated in the FEGP(4)	**$11,547**
FY 2016 GO Debt Service	1,126
Additional Tax-Supported Debt Service(5)	2,995
Total Debt Service	**$4,121**
Total Debt Service as a % of Adjusted Revenues	**36%**

Focusing on all of the debt that is needed to be supported by the commonwealth's tax revenues, reveals a much higher debt service burden

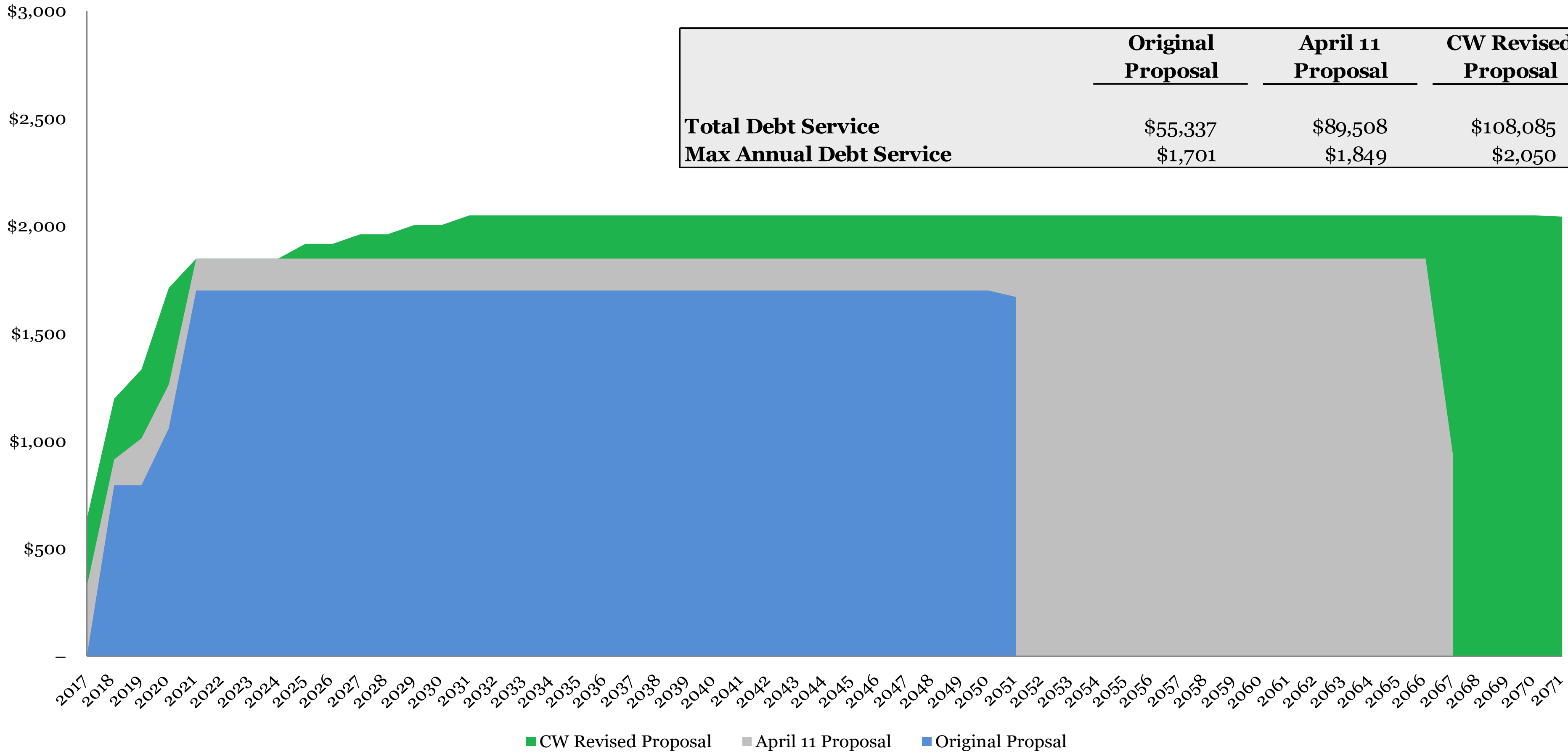
(1) See, for example, the G25 Proposal made on June 7, 2016 and the response provided by Doctor Carlos A. Colon-De-Armas to questions posted by Senator Orrin G. Hatch, as provided on Dec. 22, 2015.
(2) For further details, see the Government Development Bank for Puerto Rico's "Statement in Response to Proposal Released by G25 Credit Union Group" published on June 8, 2016. In addition see the claim in Dr. Carlos A. Colon-De-Armas' response to Senator Hatch claiming the document he relies on for his calculations contains "the aggregate debt service for the entire public debt of Puerto Rico, including…COFINA," even though said document very clearly *excludes* COFINA debt service.
(3) Balances stated include accreted interest on capital appreciation bonds ("CABs").
(4) Items included in Adjusted Revenues consist of all of the items identified as revenues in the FEGP published January 18, 2016, with the exception of Federal Transfers and GDB loan inflows. Note that the revenues used in developing the Revised Proposal assume 2% nominal GNP growth and have been slightly adjusted from those included in the January 18, 2016 to reflect additional developments in the Commonwealth economy.
(5) Includes PBA, PRIFA BANs, GDB, PFC, COFINA, PRIFA, UPR, PRCCDA, PRIDCO, GSA, HTA, and ERS.

The Commonwealth Has Made Numerous Efforts to Negotiate with its Creditors

Public offers have been made on February 1, 2016 (the "February Proposal"), April 11, 2016 (the "April Proposal") and most recently on June 14, 2016 (the "CW Revised Proposal")(1), all of which have provided significantly more value to creditors

- The CW Revised Proposal offers approximately $18.6 billion more in total debt service than in the April Proposal(2) and approximately $52.7 billion more than in the February Proposal(3)

Total Debt Service ($ millions)



	Original Proposal	April 11 Proposal	CW Revised Proposal
Total Debt Service	$55,337	$89,508	$108,085
Max Annual Debt Service	$1,701	$1,849	$2,050

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(1) The CW Revised Proposal shown herein includes the 83.5% offer made to the GO and Commonwealth-Guaranteed holders on June 17, 2016. Note that the CW Revised Proposal did not formally make an offer to the "Other" credits (i.e. credits included in the exchange that are not GO, CW-Guaranteed, or COFINA). However, the CW Revised Proposal contemplates providing consideration to these credits in line what was provided in the April Proposal.
(2) As compared to the April 11 Proposal illustratively assuming certain local holders do not opt in to the "local option."
(3) Original proposal debt service shown herein includes only mandatorily payable debt and as such it excludes the estimated growth bond payments.

The Commonwealth's Most Recent Proposal Provides for a Sustainable Capital Structure and addresses Creditors' Concerns

The most recent proposal provides numerous benefits to both creditors and the Commonwealth, including:

Key Benefits to the Commonwealth	Key Benefits to Creditors
▪ Interest in the next four years early years is payable partially in kind, which provides the Commonwealth with the ability to: ▪ Provide essential services to the people of Puerto Rico by eliminating vendor stoppages ▪ Implement the FEGP's structural reforms and growth initiatives ▪ Invest in the economy ▪ Debt service continues to grow but never exceeds 15% of Adjusted Revenues in any projected year nor 18% of FY 2016 Adjusted Revenues ▪ At this level the Commonwealth has the financial flexibility to pay down suppliers and tax payers whose amounts are overdue, make adequate pension contributions, support capital expenditures, and rebuild depleted cash resources, all benefitting the local economy ▪ Constitutional priorities are respected through differentials in recovery amounts (e.g., GO bonds receive more than PFC bonds) ▪ All bonds are addressed and all bonds receive an increase over current market values, making participation of all credits more likely and minimizing intercreditor disputes	▪ Significantly more value than provided in prior offers through: ▪ An increase in the face amount of debt being offered (including 83.5% to GO Holders and 80% to COFINA Senior Holders) ▪ The provision of PIK interest in the early years ▪ Incorporation of the potential for incremental Commonwealth revenues through the provision of debt service that grows over time ▪ All debt being mandatorily payable resulting in greater certainty of payment ▪ Implementation of new restrictions on additional issuances of tax-supported debt so that Puerto Rico can avoid over-levering its tax revenues in the future ▪ Sustainable debt levels should avoid the need for future restructurings ▪ Respects existing priority as between issuers ▪ Improvement of the market value of the new securities over time as the Puerto Rican economy grows and the Commonwealth's fiscal position improves

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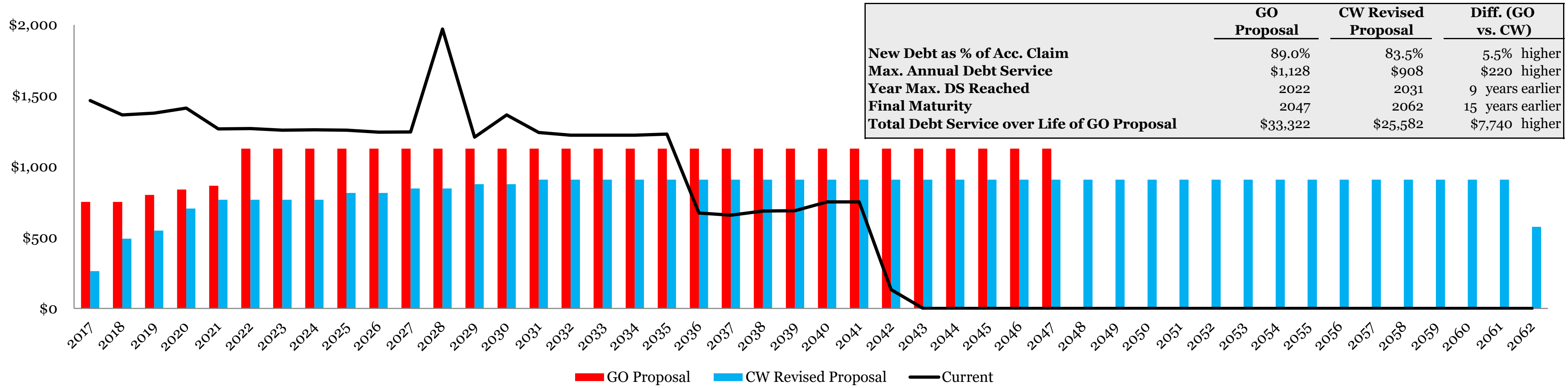
In Spite of the Significant Value Already Provided, the Creditors Continue to Demand Even More Consideration

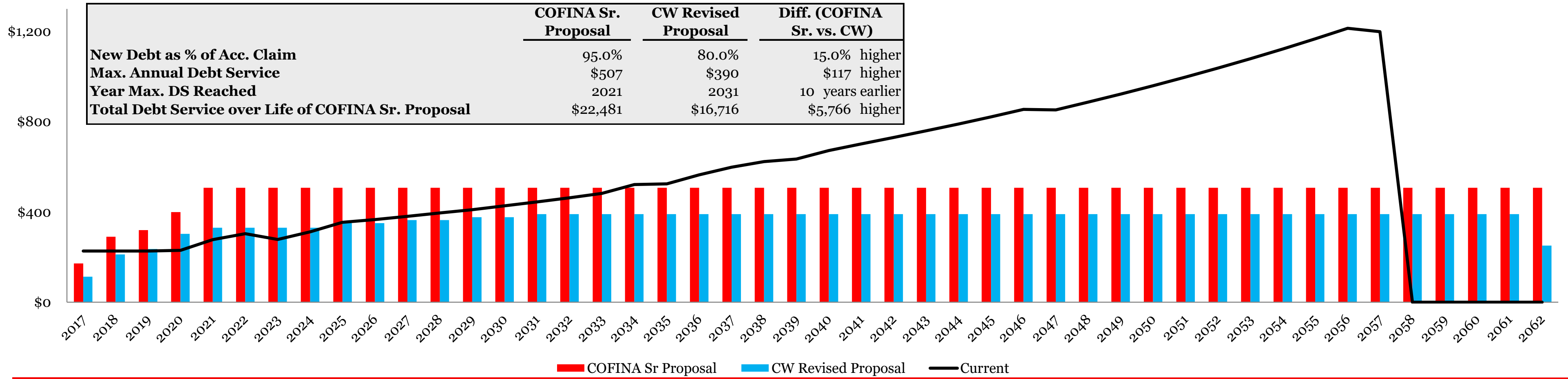
The GO Holders and COFINA Senior creditors have made proposals that provide significantly less debt relief than the CW Revised Proposal. Their proposals together call for *an additional* $13.6 billion of debt service over the life of the respective proposals *on top of* what was offered in the CW Revised Proposal

GO Proposal (June 20, 2016) vs. CW Revised Proposal – Total Debt Service ($ millions)(1)



	GO Proposal	CW Revised Proposal	Diff. (GO vs. CW)
New Debt as % of Acc. Claim	89.0%	83.5%	5.5% higher
Max. Annual Debt Service	$1,128	$908	$220 higher
Year Max. DS Reached	2022	2031	9 years earlier
Final Maturity	2047	2062	15 years earlier
Total Debt Service over Life of GO Proposal	$33,322	$25,582	$7,740 higher

COFINA Senior Proposal (June 17, 2016) vs. CW Revised Proposal– Total Debt Service ($ millions)(2)



	COFINA Sr. Proposal	CW Revised Proposal	Diff. (COFINA Sr. vs. CW)
New Debt as % of Acc. Claim	95.0%	80.0%	15.0% higher
Max. Annual Debt Service	$507	$390	$117 higher
Year Max. DS Reached	2021	2031	10 years earlier
Total Debt Service over Life of COFINA Sr. Proposal	$22,481	$16,716	$5,766 higher

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Note: CW Revised Proposal analysis as provided by Citigroup.

(1) Note that specific cash flows, in particular, the amortization schedule, was not provided in the GO proposal. As such, certain assumptions were required to estimate the debt service requirements associated with the GO proposal. Of particular note, it was assumed that level debt service would be required each year and that the final maturity would be 5 years after the current final maturity of outstanding GO and Commonwealth guaranteed debt. The weighted average interest rate reached in year five prior to the start of principal payments was assumed to stay constant over the remaining life of the outstanding GO and CW Guaranteed debt. No subsidy offsets to debt service are assumed under either the GO proposal or CW revised proposal for illustrative purposes. Note that this analysis does not include the impact of the Contingent Convertible Bonds contemplated in the GO Proposal.

(2) Note that cash flows and amortization schedules were not provided in the COFINA Senior proposal as interest rates for taxable debt were not specified. As such, certain assumptions were required to estimate the debt service requirements associated with the COFINA Senior proposal. Of particular note, it was assumed that taxable debt retained its existing interest rate (~6.1%). The final maturity was assumed to be the same year as that proposed in the CW Revised Proposal.

The Situation is Already Devolving into Chaos and Action by U.S. Congress is Needed Immediately

Creditors have already filed separate lawsuits each of which implicates other credits on the island, illustrating the need for an effective restructuring regime and a global solution to the Commonwealth's challenges

- **The monoline insurers have sued in response to the Executive Order-2015-046**
  - EO-2015-046 provided the Commonwealth with the authority to "claw back" certain revenues in order to pay the Commonwealth's public debt, including the GO bonds
  - The monoline insurers have challenged the ability to clawback revenues of certain entities, in particular the Highways and Transportation Authority, meaning the resolution of this lawsuit will affect HTA creditors and GO creditors
- **The Commonwealth has been named in law suits from three separate creditor groups challenging the constitutionality of Act 21, including creditors with whom the Commonwealth has tried to negotiate in good faith**
  - Act 21 empowers the Governor to declare a fiscal emergency and a moratorium on the payment of certain debt, which was an essential power given the lack of a clear restructuring regime and the Commonwealth's ongoing liquidity challenges
  - The GO holders have made allegations in their lawsuit that implicate other creditors, in particular claiming that sales tax revenues "purportedly earmarked for COFINA's bondholders [should] be available for service of the Constitutional Debt."
  - Certain of these GO holders are part of the same group that until June 20th was negotiating with the Commonwealth under NDA, and after providing a counterproposal without giving the Commonwealth time to respond, opted not to extend their NDA and filed their lawsuit

The litigation that *has already been filed* illustrates the dire need for an orderly restructuring regime such as that proposed in PROMESA

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Puerto Rico Needs an Effective Restructuring Regime

The following are the elements of a restructuring regime that would enable Puerto Rico to overcome many of the numerous, complex challenges that the Commonwealth faces

Tool	Benefit
Comprehensive scope and joint proceeding with clear right of access and known rules	• Allows restructuring of all targeted debt in one coordinated proceeding • Possibility for separate proceedings for entities not in the FEGP (e.g., PREPA) • Provides clear rights of access, and incorporates known rules and process from Bankruptcy Code, to permit focus on the merits and avoid expensive and distracting disputes over eligibility threshold • If agreement with substantial creditors is reached quickly, implementation of restructuring could be accelerated • The situation itself is of unprecedented complexity, with 11 different issuers, each with 20-25 different series of bonds, nearly 900 CUSIPs, each issuer with varying instruments , and countless bond holders
Stay of litigation against the Commonwealth & other issuers	• Allows Puerto Rico to continue negotiations with its creditors without a race to the courthouse and need to act unilaterally
Judicial arbiter to resolve intercreditor and other issues	• Puts in place a central, reliable judicial arbiter of disputes
Mechanism to bind hold-outs	• Eliminates holdout cost and risk inherent in an out-of-court deal, which neither Puerto Rico nor its creditors can afford
Discharge of debt	• Puerto Rico emerges with a clean slate and sustainable obligations
Interim "debtor in possession" funding	• Provides lenders with sufficient assurances to facilitate funding for Puerto Rico during the pendency of a restructuring so that essential services can be maintained
Fiscal oversight	• Pairs the necessary debt adjustment with the fiscal and economic growth plan for the Commonwealth through an oversight mechanism

The proposed PROMESA legislation includes many of these key characteristics and would provide the Commonwealth and its creditors with a means to execute an *orderly* restructuring

Key Leaders Support Critical Elements of Puerto Rico's Plan

Leaders in the financial, academic and political fields have publicly supported Puerto Rico's restructuring approach

"[PROMESA] is the Island's best shot to mitigate its financial collapse and future calls for a bailout, which would be untenable. Congress must act now to avoid a humanitarian crisis that will severely impact 3.5 million Americans living in Puerto Rico and millions of Americans on the mainland."

-Rob Bishop, Natural Resources Committee Chairman

"We believe the final legislation must include a path for Puerto Rico to restructure these liabilities. We don't advocate for restructuring authority lightly. As investors, we prefer political solutions that avert restructurings whenever possible. Yet we believe when an issuer reaches the point where debt reduction becomes inevitable, any delay only serves to engage in value destruction through additional unsustainable borrowings, economic contraction and/or population loss due to reduced government services."

-Molly Shellhorn and Shawn P. O'Leary, Nuveen Asset Management

"Washington owes Puerto Ricans a future based on democratic legitimacy and a financially and socially viable development strategy—a development strategy that is more than a set of tax breaks for profitable U.S. corporations."

-Joseph Stiglitz, University Professor and Founder of the Initiative for Policy Dialogue, Columbia University

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Bonistas del Patio Forum
Puerto Rico’s Fiscal and Economic Crisis

June 27, 2016