

Fill in this information to identify the case:

United States District Court for the:
District of Puerto Rico

Case number (if known): _____ (PROMESA Title III)

☐ Check if this is
an amended filing**Title III Petition for Covered Territory or Covered Instrumentality**

This form is designed to comply with section 304(a) of Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. § 2164 ("PROMESA").

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the Debtor's name and the case number (if known).

1. Debtor's name

The Commonwealth of Puerto Rico

2. All other names Debtor used in the last 8 years

Estado Libre Asociado de Puerto Rico

Government of Puerto Rico

Gobierno de Puerto Rico

Include any assumed names,
trade names, and doing business
as names**3. Debtor's address****Principal place of business**

Office of the Governor, La Fortaleza, 63 Calle Fortaleza

Number Street

San Juan, PR 00901

City State ZIP Code

County

**Address for Financial Oversight and
Management Board for Puerto Rico, as
Representative of Debtor per PROMESA § 315**

Jacob Javits Federal Bldg., 26 Federal Plaza

Number Street

Room 2-128, Attn: Jaime El Koury

P.O. Box

New York, NY 10278

City State ZIP Code

4. Debtor's website (URL)<http://www2.pr.gov/Pages/default.aspx>**Financial Oversight and
Management Board website (URL)**<https://juntasupervision.pr.gov/index.php/en/home/>**5. Type of Title III Debtor**☒ Covered Territory (as defined in PROMESA § 5(8))☐ Covered Territorial Instrumentality (as defined in PROMESA § 5(7))**6. Are any Title III or Title VI
cases pending or being
filed by an affiliate of the
Debtor?**☒ No.☐ Yes

Debtor

Relationship

District

When

MM / DD / YYYY

List all cases. If more than 1,
attach a separate list.

Case number, if known

**7. Why is the Title III case
filed in this District?**

Check all that apply:

☒ This is the United States District Court for the covered territory or covered territorial
instrumentality, as applicable (PROMESA § 307(a))☐ This is the United States District Court for the jurisdiction in which the Oversight Board maintains an office
that is located outside of the territory (PROMESA § 307(b))☐ Territory does not have a district court (U.S. District Court of Hawaii only) (PROMESA § 307(a))

Debtor The Commonwealth of Puerto Rico
Name

Case number (if known) _____

Request for Relief, Declaration, and Signatures**8. Declaration and signature of Financial Oversight and Management Board for Puerto Rico as Representative of Debtor per PROMESA § 315.**

- ☒ The Debtor requests relief in accordance with Title III of PROMESA
- ☒ I have been authorized to file this petition on behalf of the Financial Oversight and Management Board for Puerto Rico.
- ☒ I have examined the information in this petition and the documents attached to this petition as listed below and have a reasonable belief that the information is true and correct.
- ☒ *Schedule A:* Certification of Resolutions Adopted by the Financial Oversight and Management Board for Puerto Rico Pursuant to PROMESA §§ 104(j) and 206(a).
- ☒ *Schedule B:* List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders

I declare under penalty of perjury that the foregoing is true and correct.

Executed on May 3, 2017
MM / DD / YYYY

x 
Signature
Title General Counsel

Jaime El Koury
Printed name

Signature of Attorney for Financial Oversight and Management Board for Puerto Rico as Representative of Debtor per PROMESA § 315

x 
Signature

Date May 3, 2017
MM / DD / YYYY

Martin J. Bienenstock (pro hac vice pending)
Printed name

Proskauer Rose LLP
Firm name

11 Times Square
Number Street

New York
City

NY 10036
State ZIP Code

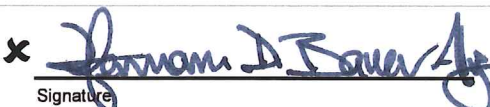
212.969.3000
Contact phone

mbienenstock@proskauer.com
Email address

1542554
Bar number

NY
State

Signature of Attorney for Financial Oversight and Management Board for Puerto Rico as representative of Debtor per PROMESA § 315

x 
Signature

Date May 3, 2017
MM / DD / YYYY

Hermann D. Bauer-Alvarez
Printed name

O'Neill & Borges LLC
Firm name

American International Plaza, 250 Muñoz Rivera Avenue, Ste. 800
Number Street

San Juan, Puerto Rico
City

00918-1813
State ZIP Code

787-282-5723
Contact phone

Hermann.Bauer@oneillborges.com
Email address

215 205, Puerto Rico
Bar number

State

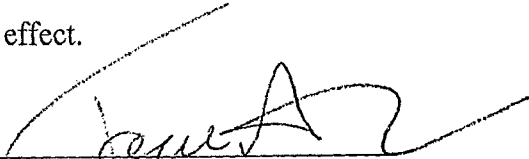
Schedule A

Certification of Resolutions Adopted by the Financial Oversight and Management Board

**CERTIFICATION OF RESOLUTIONS ADOPTED BY THE FINANCIAL OVERSIGHT
AND MANAGEMENT BOARD FOR PUERTO RICO BY UNANIMOUS WRITTEN
CONSENT**

(The Commonwealth of Puerto Rico)

I, the undersigned, General Counsel of the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), do hereby certify that (i) attached is a true and correct copy of the resolutions of the Oversight Board adopted on May 3, 2017 by Unanimous Written Consent, and (ii) such resolutions have not been modified or rescinded, and remain in full force and effect.

By: 

Name: Jaime El Koury
Title: General Counsel
Date: May 3, 2017



**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**

**UNANIMOUS WRITTEN CONSENT APPROVING AND ISSUING
CERTIFICATIONS PURSUANT TO SECTIONS 104 AND 206 OF
PROMESA FOR THE COMMONWEALTH OF PUERTO RICO**

WHEREAS on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA")¹ was enacted; and

WHEREAS Section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"); and

WHEREAS on September 30, 2016, the Commonwealth of Puerto Rico (the "Commonwealth") was designated by the Oversight Board as a Covered Territory pursuant to Section 101(d)(1)(A) of PROMESA; and

WHEREAS the Commonwealth has advised the Oversight Board that the Commonwealth desires to effect a plan to adjust its debt pursuant to Title III of PROMESA; and

WHEREAS in connection with the commencement of a Title III case for the Commonwealth, the Oversight Board is required (i) pursuant to Section 206 of PROMESA, to make certain Restructuring Determinations (as defined below) and to issue a restructuring certification as to such determinations, and (ii) pursuant to Section 104(j) of PROMESA, to certify the filing by the Commonwealth of a voluntary petition under Title III of PROMESA; and

WHEREAS following discussions with the Commonwealth and its legal and financial advisors, and after consultation with the Oversight Board's legal and financial advisors, and following extensive deliberation, the Oversight Board has determined, in its sole discretion, that (1) the Commonwealth has made good-faith efforts to reach a consensual restructuring with creditors; (2) the Commonwealth has adopted procedures necessary to deliver timely audited financial statements and made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring; (3) the Commonwealth is a Covered Territory that has adopted a Fiscal Plan certified by the Oversight Board; and (4) no order approving a Qualifying Modification under Section 601 of PROMESA has been entered with respect to the Commonwealth (the foregoing determinations, the "Restructuring Determinations"); and

¹ Capitalized terms used but not defined herein have the definitions given to them in PROMESA.

WHEREAS following discussions with the Commonwealth and its legal and financial advisors, and after consultation with the Oversight Board's legal and financial advisors, and following extensive deliberation, the Oversight Board has determined it is necessary and appropriate in order to protect the residents of Puerto Rico, and in the best interests of the creditors of the Commonwealth, for a voluntary petition under Title III of PROMESA to be filed for the Commonwealth in the United States District Court for the District of Puerto Rico (the "District Court"); and

WHEREAS it is the Oversight Board's intention in making its determinations in connection with such Title III filing (1) that such filing should not preclude efforts to implement consensual debt restructurings if possible and practicable, and (2) to continue negotiations with the creditors of the Commonwealth with a view to implementing consensual debt restructurings to the extent possible and appropriate;

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Oversight Board approves and certifies the Restructuring Determinations pursuant to section 206 of PROMESA; and it is further

RESOLVED that, pursuant to section 104(j) of PROMESA, the Oversight Board approves and certifies the filing in the District Court of a voluntary petition under Title III of PROMESA for the Commonwealth at such time as the Chair or Executive Director of the Oversight Board determines to be appropriate; and it is further

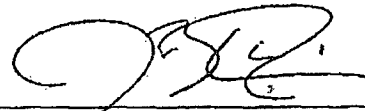
RESOLVED that, for the avoidance of doubt, these resolutions shall constitute (i) the restructuring certificate required to be issued by the Oversight Board pursuant to Section 206 of PROMESA, and (ii) the certification required to be issued by the Oversight Board for the filing of a Title III petition for the Commonwealth pursuant to Section 104(j) of PROMESA; and it is further

RESOLVED that the Executive Director, General Counsel and any other officer of the Oversight Board now or hereafter appointed by the Oversight Board (each, an "Authorized Officer") shall be, and each hereby is, authorized and empowered to execute and publish (including by attaching a copy thereof to a Title III Petition filed for the Commonwealth) a certificate or certificates that certify (i) the Restructuring Determinations of the Oversight Board pursuant to Section 206 of PROMESA, (ii) the filing of a Title III petition for the Commonwealth pursuant to Section 104(j) of PROMESA, and (iii) the other approvals and authorizations of the Oversight Board set forth in these resolutions; and it is further

RESOLVED that each Authorized Officer shall be, and each hereby is, authorized and empowered to execute and file in the name and on behalf of Oversight Board, as the "representative" of the Commonwealth pursuant to Section 315 of PROMESA, all petitions (including, but not limited to, a Title III petition), schedules, motions, lists, applications, pleadings, affidavits and other papers to be filed in the District Court (and in such other courts of competent jurisdiction as may be applicable), and, in connection therewith, to employ and retain all assistance by legal counsel, accountants, financial advisors, investment bankers and other

professionals, and to take and perform any and all further acts and deeds which such Authorized Officer deems necessary, proper, or desirable in connection with the Commonwealth's Title III case.

Dated: May 3, 2017



José B. Carrión, Chair

Dated: May 3, 2017

Andrew G. Biggs

Dated: May 3, 2017

Carlos M. García

Dated: May 3, 2017

Arthur J. González

Dated: May 3, 2017

José R. González

Dated: May 3, 2017

Ana J. Matosantos

Dated: May 3, 2017

David A. Skeel, Jr.

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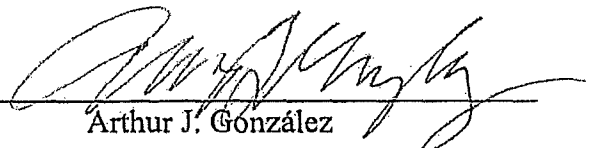
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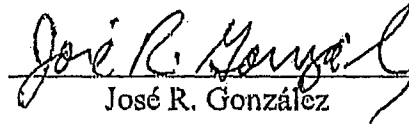
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Dated: May 3, 2017

Ana J. Matosantos

Dated: May 3, 2017


David A. Skeel, Jr.

Schedule B

List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders

Case InformationDebtor: Commonwealth of Puerto Rico

United States District Court for Puerto Rico

Case Number: _____

List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders¹

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of Claim
1	Banco Popular de Puerto Rico	209 Muñoz Rivera Avenue Hato Rey, PR 00918 Attn: Héctor Rivera & Jorge Vélez Email: hrivera@bppr.com & Jorge.velez@popular.com	Bond Trustee		\$12,096,636,080.00
2	U.S. Army Corps of Engineers	Annex Building Fundacion ANGEL RAMOS 2ND Floor Suite 202 Franklin Delano Roosevelt Avenue #383 San Juan, Puerto Rico 00917 Fax: 787-729-6875 Email: Antilles.AO@usacc.army.mil	Services		\$212,302,479.00
3	Total Petroleum Corps.	PO Box 362916 San Juan, Puerto Rico 00936-2916 Attn: Luis Llado Fax: 787-783-0407 Email: Luis.llado@tpprc.com	Supplies		\$11,506,512.98
4	EVERTEC Inc.	Carr. #176 k.m. 1.3 Cupey Bajo Río Piedras, PR 00926 Fax: 787-250-7356 Email: eserrano@evertecinc.com	Services		\$10,167,835.37
5	Microsoft	City View Plaza I Suite 107 #48 State Road 165 Km 1.2 Guaynabo, PR 00968 Attn: Jenny Rivera Fax: 787-273-3634 Email: jerivera@microsoft.com	Services		\$8,120,058.00
6	Baxter Sales & Distrib PR Corp	P.O. Box 360002 San Juan, PR 00936-0002 Attn: Eric Ruiz Malave & John Almeida Fax: 787-792-4646 Email: eric_ruiz@baxter.com pat_johnsen@baxter.com One Baxter Park Way Deerfield, Illinois 60015	Supplies		\$6,974,075.05
7	Cesar Castillo Inc.	PO Box 191149 San Juan, PR 00919-1149 Attn: Jose L. Castillo Fax: 787-999-1613 Email: jgonzalez@cesarcastillo.com	Supplies		\$6,008,917.52
8	IKON Solutions, Inc.	270 Avenida Muñoz Rivera PH1 San Juan, PR 00918 Attn: Pedro J. Latorre Negron Fax: 787-620-0590 Email: pedro.latorre@ikonpr.com	Services		\$5,857,040.37
9	Kirkland & Ellis LLP	655 Fifteen Street, N.W. Washington DC 20005 Attn: Travis Langenkamp & Michael F Williams Email: mwilliams@kirkland.com	Services		\$5,342,970.45
10	MC&CS	428 Ave Escorial Caparra Hts Viejo San Juan, Puerto Rico 00926 Attn: Carlos Colon Medina Fax: 787-774-1870	Services		\$3,998,904.15

¹ The Commonwealth of Puerto Rico reserves all rights to amend or supplement this list from time to time, in all respects, as may be necessary or appropriate. Nothing herein shall be deemed an admission or a waiver of any rights, claims and defenses.

Name of creditor and complete mailing address, including zip code		Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of Claim
		Email: carloscolon@mecspr.com ccolon@mecspr.com			
11	Manpower	268 Munoz Rivera Ave, Ground Floor San Juan, PR 00918 Attn: Melissa Rivera Fax: 787-767-7611 Email: melissa.rivera@manpower.com	Services		\$3,236,683.70
12	COSALL	Carr 181 Km 2.0 Trujillo Alto, Puerto Rico 00976 Attn: Jorge I. Valentin Ascencio Fax: 787-292-1211 Email: jorge.valentin@cosallpr.com PO BOX 1858 Trujillo Alto P.R. 00977	Services		\$3,234,442.17
13	Puerto Rico Telephone Company	1515 F.D. Roosevelt Avenue Guaynabo, PR 00968 Attn: Enrique Ortiz de Montellano Rangel Fax: 787-792-9830 Email: enrique.ortiz@claropr.com	Services		\$3,200,935.17
14	Ediciones Santillana, Inc.	Avenida Roosevelt 1506 Guaynabo, PR 00968 Attn: Daniel Sanz & Obed Betancourt Fax: 787-486-4826 Email: dsanz@santillana.com ydejesus@santillana.com obetancourt@santillana.com	Supplies		\$2,807,231.16
15	Corporacion de Servicios Educativos de Yabucoa	Sector Juan Martin, Carretera #3 Km 93.7, Ruta 901 Yabucoa, PR 00767 Attn: Dr. Roque Diaz Tizol Fax: 787-266-3881 Email: mmiedina@cosey.org	Services		\$2,517,577.33
16	Cardinal Health PR	Centro Internacional de Distribucion PR-165 Km 2.4 Edificio 10 Guaynabo, PR 00965 Attn: Deborah Weitzman & Kaleny Nazario Bartolomei Fax: 787-625-4322 Email: kaleny.nazario@cardinalhealth.com deborah.weitzman@cardinalhealth.com PO Box 366211 San Juan PR, 00936	Supplies		\$2,460,000.69
17	Institucion Educativa NETS, LLC	84-11 70 Street, Sierra Bayamon Bayamon, PR 00961 Attn: Nydia T. Rodriguez Lopez Fax: 787-785-5564 Email: mrodriguez@netspr.com	Services		\$2,439,180.09
18	Braxton School of Puerto Rico	K-2 Ave. San Patricio Guaynabo, PR 00968 Attn: Angelina Sosa Fax: 787-793-0495 Email: wmunoz@braxtonpr.com academico@braxtonpr.com braxton.dp@gmail.com	Services		\$2,153,106.90
19	Workforce Training and Employment Center, Inc. (WOTEC)	Marginal 65 Infanteria #23, Urb. San Agustin San Juan, PR 00925 Attn: Rosa J Orama Ortiz Fax: 787-815-0432 Email: info@wotecpr.org	Services		\$2,063,354.80
20	Ediciones SM	Barrio Palmas 776, Calle 7, Suite 2 Catano, PR 00962 Attn: Marisol Diaz Fax: 787-625-9799 Email: marisol.diaz@primaspr.net consultas@sm-pr.com	Supplies		\$1,893,127.81

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO**

In re:

COMMONWEALTH OF PUERTO RICO,

Debtor.

Civil No. _____

**NOTICE OF FILING OF STATEMENT OF OVERSIGHT BOARD IN CONNECTION
WITH PROMESA TITLE III PETITION**

TO THE HONORABLE COURT:

COMES NOW the Financial Oversight and Management Board for Puerto Rico (referred to as “Oversight Board”) through the undersigned counsel, and respectfully states and requests as follows:

1. On June 30, 2016, the Oversight Board was established under PROMESA section 101(b).

2. Pursuant to PROMESA section 315, “[t]he Oversight Board in a case under this title is the representative of the debtor” and “may take any action necessary on behalf of the debtor to prosecute the case of the debtor, including filing a petition under section 304 of [PROMESA] . . . or otherwise generally submitting filings in relation to the case with the court.”

3. On September 30, 2016, the Oversight Board designated the Commonwealth of Puerto Rico (the “Commonwealth”) as a covered entity under PROMESA section 101(d).

4. On May 3, 2017 the Oversight Board filed a voluntary petition for relief for the Commonwealth pursuant to PROMESA section 304(a), commencing a case under title III thereof (the “Title III Case”).

5. The Oversight Board respectfully submits a *Statement of Oversight Board in Connection with PROMESA Title III Petition* to provide the Court with information regarding the

crisis and fiscal emergency surrounding Puerto Rico that led to the filing of the Title III Case attached hereto as **Exhibit A**.

NOTICE

6. The Commonwealth has provided notice of this Motion to: (a) the Office of the United States Trustee for the District of Puerto Rico; (b) the indenture trustees and/or agents, as applicable, for the Commonwealth's secured and unsecured bonds; (c) the entities on the list of creditors holding the 20 largest unsecured claims; (d) the Office of the United States Attorney for the District of Puerto Rico; (e) counsel to the Puerto Rico Fiscal Agency and Financial Advisory Authority on behalf of the Governor of Puerto Rico; (f) the Puerto Rico Department of Justice; (g) the Other Interested Parties;¹ and (h) all parties filing a notice of appearance in this Title III Case. The Commonwealth submits that, in light of the nature of the relief requested, no other or further notice need be given.

WHEREFORE the Financial Oversight and Management Board for Puerto Rico respectfully requests that the Court and the Clerk's Office take notice of the foregoing.

¹ The "Other Interested Parties" include the following: (i) Ambac Assurance Corporation, (ii) Jones Day as counsel to certain ERS bondholders, (iii) Assured Guaranty Ltd., (iv) Bonistas Del Patio, Inc., (v) The Bank of New York Mellon, (vi) Financial Guaranty Insurance Company, (vii) Paul Weiss as counsel to the Ad Hoc Group of Puerto Rico General Obligation Bondholders, (viii) Goldman Sachs Asset Management, (ix) Aristeia Capital, LLC, (x) Decagon Holdings, L.L.C., funds 1–10, (xi) Cyprus Capital Partners, L.P., (xii) Goldentree Asset Management LP, (xiii) Merced Capital, L.P., (xiv) Scoggin Management LP, (xv) Old Bellows Partners LP, (xvi) Taconic Master fund 1.5 L.P., (xvii) Taconic Opportunity Master Fund L.P., (xviii) Tilden Park Capital Management L.P., (xix) Varde Credit Partners Master, L.P., Varde Investment Partners, L.P., Varde Investment Partners (Offshore) Master, L.P., and The Varde Skyway Master Fund, L.P., (xx) Whitebox Advisors LLC, (xxi) Canyon Capital Advisors LLC and River Canyon Fund Management LLC, (xxii) Puerto Rico AAA Portfolio Bond Fund II, Inc., Puerto Rico AAA Portfolio Bond Fund, Inc., Puerto Rico AAA Portfolio Target Maturity Fund, Inc., Puerto Rico Fixed Income Funds I–VI, Inc., Puerto Rico GNMA & U.S. Government Target Maturity Fund, Inc., Puerto Rico Investors Tax-Free Funds I–VI, Inc., Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Tax-Free Puerto Rico Fund, Inc., Tax-Free Puerto Rico Fund II, Inc., Tax-Free Puerto Rico Target Maturity Fund, Inc., and UBS IRA Select Growth & Income Puerto Rico Fund (xxiii) Syncora Guarantee Inc., (xxiv) National Public Finance Guarantee Corporation, (xxv) Franklin Advisers, Inc., (xxvi) the Oppenheimer Funds, (xxvii) First Puerto Rico Tax-Exempt Target Maturity Funds II–VII, Inc., First Puerto Rico Target Maturity Income Opportunities Funds I–II Inc., First Puerto Rico Tax Advantaged Target Maturity Funds I–II, Inc., First Puerto Rico AAA Target Maturity Funds I–II, Inc., First Puerto Rico Tax-Exempt Funds I–II, Inc., and (xxviii) Puerto Rico Sales Tax Financing Corporation (COFINA).

Dated: May 3, 2017

San Juan, Puerto Rico

Respectfully submitted,

/s/_____

Martin J. Bienenstock
Scott K. Rutsky
Philip M. Abelson
(Admission Pro Hac Vice pending)
PROSKAUER ROSE LLP
Eleven Times Square
New York, NY 10036
Tel: (212) 969-3000
Fax: (212) 969-2900

*Attorneys for the
Financial Oversight and
Management Board as representative for the
Commonwealth of Puerto Rico*

/s/_____

Hermann D. Bauer
USDC No. 215205
O'NEILL & BORGES LLC
250 Muñoz Rivera Ave., Suite 800
San Juan, PR 00918-1813
Tel: (787) 764-8181
Fax: (787) 753-8944

*Co-Attorneys for the
Financial Oversight and
Management Board as representative for the
Commonwealth of Puerto Rico*

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO**

In re:

COMMONWEALTH OF PUERTO RICO,

Debtor.

Title III

Case No. 17-_____ (____)

**STATEMENT OF OVERSIGHT BOARD
IN CONNECTION WITH PROMESA TITLE III PETITION**

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), on behalf of the Commonwealth of Puerto Rico (“Puerto Rico” or the “Commonwealth”) in the above-captioned title III case, respectfully submits this statement (the “Statement”) in connection with the Commonwealth’s petition under Title III of the *Puerto Rico Oversight, Management, and Economic Stability Act* (“PROMESA”). Title III is a specific statutory vehicle that allows Puerto Rico and other U.S. territories to restructure their debt. This Statement is submitted to provide the Court with information regarding the crisis and fiscal emergency surrounding Puerto Rico that led to the filing of its Title III petition.

I. INTRODUCTION AND SUMMARY

A. The Current State of the Puerto Rican Economy

1. In PROMESA, Congress recognizes the crisis in the Commonwealth and its instrumentalities, and explains the fiscal emergency that renders the Commonwealth unable to provide its citizens effective services, while suffering the outmigration of residents and businesses.¹ Congress points to lack of financial transparency, excessive borrowing,

¹ PROMESA § 405(m)–(n).

management inefficiencies, and a severe economic decline as having created the crisis.² The fiscal distress Congress declared is about to worsen exponentially due to the elimination of approximately \$850 million in Affordable Care Act funds in fiscal year 2018 and increasing substantially year-over-year,³ and the exhaustion of all public pension funding, the shortfall of which could cost the Commonwealth approximately \$1.5 billion per year.⁴ Negative economic growth has persisted for nine of the last ten years along with population diminution highlighted by exiting young doctors and other professionals.⁵ From current revenues, the Commonwealth and its instrumentalities cannot satisfy their collective \$74 billion debt burden and \$49 billion pension burden and pay their operating expenses.⁶ Before Congress enacted PROMESA, the Obama Administration⁷ and a dozen United States Senators concluded Puerto Rico faced a “humanitarian crisis.”⁸ Furthermore, the Commonwealth, across different Administrations, has

² *Id.*

³ The loss of Affordable Care Act funding is projected to cost the Commonwealth over \$16 billion in fiscal years 2018-2019. See GOV’T OF P.R., P.R. FISCAL AGENCY AND FIN. ADVISORY AUTH., FISCAL PLAN FOR PUERTO RICO, at 11 (2017), attached hereto as **Exhibit A**.

⁴ Nick Brown, *In Puerto Rico, pensions’ decline pits retirees against lenders*, REUTERS (Feb. 26, 2017, 11:55 AM), <http://www.reuters.com/article/us-puertorico-debt-pensions-analysis-idUSKBN1650GZ>.

⁵ CONGRESSIONAL TASK FORCE ON ECONOMIC GROWTH IN PUERTO RICO, 114TH CONG., at 9 (2016); ANNE O. KRUEGER ET AL., PUERTO RICO – A WAY FORWARD (2015) at 7.

⁶ See An Update on the Competitiveness of Puerto Rico’s Economy by the Federal Reserve Bank of New York (July 31, 2014) at 16 (Figure 12); *Wal-Mart P.R., Inc. v. Zaragoza-Gomez*, 174 F. Supp. 3d 585, 592 (D.P.R. 2016) (“The Commonwealth of Puerto Rico is insolvent and no longer able to pay its debts as they become due.”); COMMONWEALTH OF P.R., FINANCIAL INFORMATION AND OPERATING DATA REPORT, at 222 (2016).

⁷ Jeffrey Zients, *Puerto Rico’s Fiscal Crisis: What You Need to Know*, THE WHITE HOUSE (June 7, 2016, 1:40 PM), <https://obamawhitehouse.archives.gov/blog/2016/06/07/puerto-ricos-fiscal-crisis-what-you-need-know>.

⁸ Letter from Richard Blumenthal et al. to Charles Grassley, Chair, S. Judiciary Comm. (Sept. 30, 2015), <http://www.puertoricoreport.com/wp-content/uploads/2015/10/Letter-to-Grassley-re-Puerto-Rico-9-30-15.pdf>.

declared a state of fiscal emergency and that it lacks sufficient resources to protect the health, safety, and welfare of the people of Puerto Rico.⁹ And just last week, the Commonwealth enacted the “Fiscal Plan Compliance Law,” which declares that the island faces a “fiscal and socioeconomic crisis without precedent” in its history.¹⁰

The numbers are staggeringly grim:

- GNP Decline since 2007: from 2007–2016, Puerto Rico’s Gross National Product (“GNP”) declined by over 14%,¹¹ while total employment in Puerto Rico fell from 1.25 million to fewer than 1 million;¹²
- Unemployment Rate: In October 2016, Puerto Rico’s unemployment rate was 12.1%, and only 987,606 persons were employed, down 23% from 1,277,559 employed persons in December 2006;¹³
- Labor Participation Rate: the labor participation rate has plummeted to 40%, two-thirds of the level on the U.S. mainland;¹⁴
- Drop in Economic Activity Index: the Economic Activity Index composed of four factors (payroll employment, electric power generation, cement sales, and gasoline consumption) fell from 160.0 to 124.1 between August 2005 and August 2016;¹⁵
- Population Decline: since 2007, Puerto Rico’s population has declined approximately 10% down to less than 3.41 million people in 2016;¹⁶
- Poverty and Unemployment: according to the U.S. Census Bureau’s 2015 community survey, 46.1% of Puerto Rico’s residents live below the federal poverty level compared to the national average of 14.7%, and 36% of the residents of Detroit, whose financial distress was viewed by many as uniquely devastating. Puerto Rico’s is more so. For Puerto Rico children under age 5, 63.7% live under the federal poverty level, compared

⁹ See Act No. 21-2016 and Act No. 3-2017.

¹⁰ See House Bill No. 938 (signed into law on April 29, 2017).

¹¹ CONGRESSIONAL TASK FORCE ON ECONOMIC GROWTH IN PUERTO RICO, *supra* note 5, at 9.

¹² Joseph E. Stiglitz & Martin Guzman, *From Bad to Worse for Puerto Rico*, PROJECT SYNDICATE (Feb. 28, 2017), <https://www.project-syndicate.org/commentary/puerto-rico-debt-plan-deep-depression-by-joseph-e--stiglitz-and-martin-guzman-2017-02>.

¹³ CONGRESSIONAL TASK FORCE ON ECONOMIC GROWTH IN PUERTO RICO, *supra* note 5, at 11.

¹⁴ *From Bad to Worse for Puerto Rico*, *supra* note 12.

¹⁵ CONGRESSIONAL TASK FORCE ON ECONOMIC GROWTH IN PUERTO RICO, *supra* note 5, at 10.

¹⁶ *Population Estimates by Year*, U.S. CENSUS BUREAU, <https://www2.census.gov/programs-surveys/popest/datasets/2010-2016/national/totals/> (last visited Apr 27, 2017).

to the national average of 22.8%. Median household income in Puerto Rico was \$18,626 in 2015, as compared to \$56,515 in the United States, and to \$27,862 in Detroit in 2011;¹⁷ and

- Public Debt as a Percentage of Income: Puerto Rico has approximately \$74 billion of bond debt and \$48 billion of unfunded pension liabilities. As of 2012, Puerto Rico's public debt as a percentage of aggregate income was 100.7%, as compared to 29% for New York, which has the highest ratio of public debt to income in the United States (the average is 16.8%).¹⁸

Compounding matters is that these grim economic conditions will continue to spur out-migration, which will in turn reduce production and demand for goods and services and thus drive further economic contraction. A bleak spiral has begun.

2. All the while, Puerto Rico has been financing its fiscal deficits by issuing debt. The total public sector debt for Puerto Rico stands at approximately \$74 billion.¹⁹ Total pension liabilities of Puerto Rico's three principal retirement systems as of June 30, 2015 were \$49.562 billion and were only approximately 1.57% funded at such date.²⁰ These three main retirement systems are projected to deplete their liquid assets between July and December of 2017.²¹ The result is that Puerto Rico can no longer fully pay its debt and pay for government services. Nor can Puerto Rico refinance its debt—it no longer has access to the capital markets. In short, Puerto Rico's crisis has reached a breaking point.²²

¹⁷ CONGRESSIONAL TASK FORCE ON ECONOMIC GROWTH IN PUERTO RICO, *supra* note 5, at 10–11.

¹⁸ An Update on the Competitiveness of Puerto Rico's Economy, *supra* note 6, at 16 (Figure 12).

¹⁹ FISCAL PLAN FOR PUERTO RICO, *supra* note 3, at 27.

²⁰ COMMONWEALTH OF P.R., FINANCIAL INFORMATION AND OPERATING DATA REPORT, at 222 (2016).

²¹ *Id.* at 225.

²² According to investor and public policy analyst Robert Rosenkranz, "Puerto Rico is on its way to one of the largest debt defaults in history, right up there with Greece and Argentina." Nathaniel Parish Flannery, *How Bad Is Puerto Rico's Economic Crisis?*, FORBES (June 29, 2015, 9:04 AM), <https://www.forbes.com/sites/nathanielparishflannery/2015/07/29/how-bad-is-puerto-ricos-economic-crisis/#21c47645577e>.

B. PROMESA was Enacted to Make Sure Puerto Rico Emerges from its Fiscal Crisis for its Residents, Creditors, and Businesses

3. In 2016, the U.S. Congress passed PROMESA, which, among other things, created the Oversight Board and imposed an automatic stay on creditor lawsuits against the government, which stay was extended to May 1, 2017,²³ but has now expired.

4. According to PROMESA, “[t]he purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets.”²⁴ PROMESA provides the Oversight Board with the critical tools necessary to satisfy its mandate, including the ability to certify a fiscal plan for the Commonwealth and “covered entities,”²⁵ as well as two different processes (Title III and Title VI) that can be used to restructure the Commonwealth’s debts.

C. The Members of the Oversight Board

5. As described further below, the members of the Oversight Board were appointed by President Obama from a bipartisan list of nominees. Each member is independent and impartial, and though they serve with no compensation (and are separately employed), each member has devoted hundreds of hours to this challenging and often daunting endeavor. The Oversight Board has been tasked with the mission of making the difficult decisions politicians avoided and creditors oppose. Not surprisingly, this task has exposed the Oversight Board to criticism from all sides.

D. Commencement of this Title III Case

6. From December 2016 through March 2017, the Oversight Board and the Commonwealth held more than thirty meetings with creditor representatives to better understand

²³ See PROMESA § 405(d).

²⁴ *Id.* § 101(a).

²⁵ A list of covered entities under PROMESA is attached hereto as **Exhibit B**.

their perspectives and work towards achieving a consensual financial restructuring. On March 13, 2017, after almost six months and numerous internal and external meetings between the Oversight Board and its advisors, the Oversight Board certified an amended version of the current Governor's fiscal plan. Not happy with the result and the projected level of debt service, creditors requested the decertification of the current fiscal plan and the certification of a new fiscal plan that would have exceeded the certified fiscal plan's debt sustainability analysis. The Oversight Board and the Commonwealth convened mediation on April 13, 2017, to find common ground and a consensual resolution.

7. As of the termination of the PROMESA stay, no consensual agreement was reached. Given the massive debt load to be addressed, as well as the need to attain pension and operational reform in accordance with the fiscal plan, it was determined that the best path forward was to commence a Title III case to protect Puerto Rico and its citizens. Title III was especially compelled by the Commonwealth's need to restructure \$49 billion of pension liabilities because Congress did not authorize pension restructurings in Title VI. Utilizing the tools provided by PROMESA, and with the benefit of the automatic stay under Bankruptcy Code sections 362 and 922, the Oversight Board and the Commonwealth will continue efforts to negotiate, preferably through consensual deals with all constituencies, a comprehensive debt restructuring through a Title III plan of adjustment, which can incorporate all consensual agreements reached (including those that could otherwise form a qualifying Title VI modification).

II. PUERTO RICO AND ITS INSTRUMENTALITIES

A. Organizational Structure

8. Governmental responsibilities assumed by the central government of the Commonwealth are similar in nature to those of the various state governments with their focus on the health, safety, and welfare of its citizens (including, among others, education, public health and welfare programs, and economic development). Unlike the states, however, the central government also assumes responsibility for local police and fire protection.²⁶

9. There are also many governmental and quasi-governmental functions performed by public corporations created by the Legislative Assembly with varying degrees of independence from the central government. Public corporations may obtain revenues from rates charged for services or products, but many also receive sizable subsidies from the central government to fund operations. Most public corporations are governed by boards whose members are appointed by the Governor with the advice and consent of the Puerto Rico Senate.²⁷

10. Set forth below are brief descriptions of some of the Commonwealth's principal public corporations:²⁸

- Puerto Rico Highways and Transportation Authority (HTA) – created to assume responsibility for the construction and maintenance of roads and highways and related transportation facilities in Puerto Rico;
- Puerto Rico Electric Power Authority (PREPA) – supplies substantially all the electricity consumed in the Commonwealth and owns all transmission and distribution facilities and most of the generating facilities that constitute Puerto Rico's electric power system;
- Puerto Rico Aqueduct and Sewer Authority (PRASA) – owns and operates Puerto Rico's public water supply and wastewater systems;

²⁶ FINANCIAL INFORMATION AND OPERATING DATA REPORT, *supra* note 20, at 9.

²⁷ *Id.* at 117.

²⁸ *Id.* at 118–148.

- Government Development Bank (GDB) – historically, served as (i) fiscal agent, financial advisor, and reporting agent for the Commonwealth, its instrumentalities, and municipalities, (ii) an important source of financing for various Commonwealth entities, and (iii) the principal depository of the funds of the Commonwealth entities;
- Puerto Rico Health Insurance Administration (PRHIA) – created to negotiate and contract for the provision of comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents;
- Puerto Rico Medical Services Administration (PRMSA) – operates and administers certain centralized health services;
- University of Puerto Rico (UPR) – the only public university in Puerto Rico;
- Puerto Rico Integrated Transit Authority (PRITA) – created to integrate the mass transit services currently provided by HTA, MTA, and MBA;
- Puerto Rico and Municipal Island Maritime Transport Authority (MTA) – operates ferry services between the Municipalities of San Juan and Cataño, and Fajardo, Vieques, and Culebra;
- Metropolitan Bus Authority (MBA) – operates bus and paratransit services within Puerto Rico’s metropolitan area;
- Puerto Rico Public Buildings Authority (PBA) – created to design, construct, administer, and provide maintenance to office buildings, courts, warehouses, schools, health care facilities, welfare facilities, shops, and related facilities leased to the Commonwealth or any of its departments, agencies, instrumentalities, or municipalities;
- Puerto Rico Ports Authority (PRPA) – owns the major airport and seaport facilities in Puerto Rico;
- Puerto Rico Industrial Development Company (PRIDCO) – created to promote economic development by stimulating the formation of new local firms and encouraging firms in the United States and foreign countries to establish and expand their operations in Puerto Rico;
- Puerto Rico Tourism Company (PRTC) – responsible for stimulating, promoting, and regulating the development of Puerto Rico’s tourism industry;
- Puerto Rico Infrastructure Financing Authority (PRIFA) – created to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other public corporations, governmental instrumentalities, political subdivisions, and municipalities authorized to develop infrastructure facilities and to establish alternate means for financing those facilities;
- Agricultural Enterprises Development Administration (ADEA) – created to provide a wide array of services and incentives to the agricultural sector;
- Puerto Rico Housing Finance Authority (PRHFA) – created to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families;

- Puerto Rico Tourism Development Fund (TDF) – created to facilitate the development of Puerto Rico’s hotel industry by working with private-sector financial institutions in structuring financings for new hotel projects and hospitality related projects;
- Puerto Rico Development Fund – established to provide an alternate source of financing to private enterprises;
- Puerto Rico Public Finance Corporation (PFC) – established to provide agencies and instrumentalities of the Commonwealth with alternate means of meeting their financing requirements;
- State Insurance Fund (SIF) – in charge of managing and regulating the Commonwealth workers’ insurance system that covers occupational injuries, diseases, and deaths, to which all employers must be subscribed under law; and
- Puerto Rico Sales Tax Financing Corporation (COFINA) – created, among other things, to raise money for the Commonwealth in exchange for the Commonwealth’s transfer to COFINA of certain sales and use taxes.

B. Allocation of Puerto Rico’s Debt Obligations

11. A table showing how Puerto Rico’s public sector debt is allocated among the Commonwealth, its municipalities, and its public corporations as of February 2017 can be found on page 21 of the Fiscal Plan, attached hereto as **Exhibit A**. In summary, the Commonwealth and its instrumentalities owe approximately \$74 billion in the aggregate. Of that amount, \$13.3 billion is on account of general obligation bonds issued by the Commonwealth and another \$4.5 billion reflects debt guaranteed by the Commonwealth, all of which is backed by the Commonwealth’s full faith and credit. Further, there is approximately \$17.6 billion of notes issued by COFINA and backed by a sales and use tax. The amounts owed by other covered entities are equally staggering: (i) PREPA has approximately \$9 billion of debt; (ii) HTA has approximately \$4.1 billion of debt; (iii) PRASA has approximately \$4.6 billion of debt; (iv) GDB has approximately \$4.1 billion of debt; (v) ERS has approximately \$3.2 billion of debt; (vi) PRIFA has approximately \$2.2 billion of debt; (vii) Children’s Trust has approximately \$1.5 billion of debt; and (viii) PFC has approximately \$1.2 billion of debt.²⁹ Critically, the total

²⁹ See FISCAL PLAN FOR PUERTO RICO, *supra* note 3, at 27.

public sector debt figure does not account for the \$49 billion of pension liabilities, only approximately 1.57% of which were funded as of June 30, 2015.³⁰

III. PUERTO RICO'S FISCAL CRISIS

12. As shown below, the widespread impact of Puerto Rico's fiscal crisis and the crisis itself can be traced to events occurring over the past century. Flaws in Puerto Rico's governance and fiscal controls have combined to create the financial problems the Commonwealth faces today. Some of the major institutional problems that led to the widespread impact or to the fiscal crisis are identified below:

- A 1917 Law Authorizes Puerto Rico to Issue "Triple Tax Free" Bonds – in 1917, Congress passed the Jones-Shafroth Act (Pub. L. 64-368, 39 Stat. 951). Section 3 of the Act barred federal, state and local governments from taxing any bonds issued by Puerto Rico or its municipalities. 39 Stat. 951, 953 (codified as amended at 48 U.S.C. § 745). The "triple tax free" status of Puerto Rico's bonds caused them to become extremely attractive to U.S. investors;³¹
- A New Constitution Loosens Balanced Budget Restrictions in 1952 – the Puerto Rico Constitution, approved on July 25, 1952, altered the balanced budget provision by encompassing non-revenue resources, including federal assistance and funds obtained through the sale of bonds. This amendment opened the door to recurring operating deficits;³²
- Public Debt Limits Were Revised to Near Irrelevance – when it was originally enacted, the Puerto Rico Constitution contained a debt limit measured by a percentage of property value. In 1961, the constitution was amended such that the debt limit was now measured by a percentage of revenue. Notably, this revision allowed for additional debt to be issued that didn't count towards the debt limit;³³
- Repeal of Section 936 Tax Credits – in 1996, certain federal legislation phased out tax benefits (over a 10-year period) for income earned by Puerto Rico-based subsidiaries of U.S. corporations. Once these tax credits were eliminated, many capital-intensive businesses chose to relocate elsewhere;³⁴

³⁰ See FINANCIAL INFORMATION AND OPERATING DATA REPORT, *supra* note 20, at 222.

³¹ See Marc D. Joffe and Jesse Martinez, *Origins of the Puerto Rico Fiscal Crisis*, Mercatus Research, Apr. 2016, at 6.

³² See *id.* at 1011.

³³ See *id.* at 1213.

³⁴ KRUEGER ET AL., *supra* note 5, at 4.

- Massive Pension Liabilities – the Commonwealth had recognized that even after reforms to reduce future benefits, the Commonwealth and other participating employers would still need to make additional contributions to maintain sufficient system assets to make benefits payments when due. But, all three principal retirement systems for public employees in Puerto Rico are severely underfunded as the Commonwealth and other employers did not fund their contributions;³⁵
- Poor Reporting and Management of Financial Information – (i) comprehensive annual reports are completed months late, (ii) for years, the Commonwealth’s budget was based on extremely optimistic revenue projections that overestimated revenue by 15% annually, (iii) the Office of Budget Management had no power to implement spending cuts, and (iv) Puerto Rico struggles with tax collection, often accepting less money than is owed in exchange for quick payment in order to meet near-term cash shortfalls;³⁶
- Understatement of Government’s True Deficit – the government’s accounting system, which relies on the Treasury’s General Fund accounts, greatly understates the government’s true deficit. In other words, the actual deficit facing the Commonwealth is far greater than had previously been anticipated;³⁷
- Collapse in Housing and Investment – a fall in housing prices reduced the ability to borrow, which led to less investment;³⁸
- Recession on the U.S. Mainland – the Great Recession on the U.S. mainland—Puerto Rico’s largest trading partner and investor—had a negative effect on the Commonwealth;³⁹
- Bank Distress and Credit Crunch – with the drop in real estate values, commercial bank assets have fallen by 30% since 2005, and the FDIC had to intervene to backstop several banks;⁴⁰
- Low Employment and High Labor Costs – only 40% of the adult population in Puerto Rico is employed or looking for work (as opposed to 63% on the mainland);⁴¹
- Emigration and Population Loss – Puerto Rico’s population declined for the first time in 2006 and has continued to fall to approximately 3.5 million people today. The loss of approximately 1% of the population each year decreases potential growth as the labor force and consumer demand shrink;⁴²

³⁵ FINANCIAL INFORMATION AND OPERATING DATA REPORT, *supra* note 20, at 17–18.

³⁶ KRUEGER ET AL., *supra* note 5, at 9–10.

³⁷ *Id.* at 10–11.

³⁸ *Id.* at 4.

³⁹ *Id.* at 5.

⁴⁰ *Id.*

⁴¹ *Id.* at 6.

⁴² *Id.* at 7.

- Energy Costs – energy costs are several times higher than on the U.S. mainland. PREPA produces and distributes electricity using archaic oil-based facilities and technology;⁴³
- Transport Costs – Puerto Rico’s import costs are at least double those of neighboring island countries because of the federal Jones Act of 1920;⁴⁴ and
- Barriers to Competition and Business Activity – certain local laws and regulations hamper business competition and investment.⁴⁵

IV. THE COMMONWEALTH GOVERNMENT ATTEMPTS TO ADDRESS PUERTO RICO’S FISCAL CRISIS

13. The Puerto Rico government attempted to address some of the problems described above. For various reasons, however, comprehensive reform proved elusive.

A. **Moratorium Act**

14. As the fiscal crisis worsened, Puerto Rico enacted the Emergency Moratorium and Financial Rehabilitation Act on April 6, 2016, as amended (the “Moratorium Act”), which recognized that “the Government of Puerto Rico does not have sufficient resources to comply with debt service obligations as originally scheduled and, additionally, to continue providing essential services to the people[.]”⁴⁶

15. The Moratorium Act authorized the Governor to declare (by executive order) a moratorium on debt service payments for a limited period of time for the Commonwealth, GDB, and other governmental instrumentalities of Puerto Rico.⁴⁷ Such a declaration would also stay any creditor remedies that could result from a moratorium on such payments.⁴⁸ Finally, the Moratorium Act also created a new instrumentality—the Puerto Rico Fiscal Agency and

⁴³ *Id.* at 8.

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ Moratorium Act, Preamble at 1.

⁴⁷ *Id.* at 6–7.

⁴⁸ *Id.* at 7.

Financial Advisory Authority (generally known by its Spanish acronym, “AAFAF”). Under the statute, AAFAF assumed the fiscal agency and financial advisory responsibilities previously exercised by GDB.⁴⁹

16. The Governor would go on to issue several executive orders in 2016 that declared payment moratoriums on various debt, implemented a new regulatory framework for GDB operations and liquidity, and related matters.⁵⁰ As of September 30, 2016, the Commonwealth and its instrumentalities had missed nearly \$1.5 billion in debt service payments.⁵¹

B. PROMESA

17. On June 30, 2016, President Barack Obama signed PROMESA into law.⁵² Starting immediately upon enactment, PROMESA imposed an automatic stay on all litigation against Puerto Rico and its instrumentalities, as well as any other judicial or administrative actions or proceedings to enforce or collect claims against the government.⁵³ This stay initially was effective until February 15, 2017, but was extended by the Oversight Board until May 1, 2017.⁵⁴ PROMESA also created the Oversight Board with the stated purpose of “provid[ing] a method for a covered territory to achieve fiscal responsibility and access to the capital markets”⁵⁵ and established Title III and Title VI to provide a restructuring process for Puerto Rico given the prior absence of access to the Bankruptcy Code.

⁴⁹ FINANCIAL INFORMATION AND OPERATING DATA REPORT, *supra* note 20, at 9.

⁵⁰ *Id.* at 37.

⁵¹ *Id.* at 35.

⁵² Heather Long, *President Obama signs Puerto Rico rescue bill*, CNNMONEY (June 30, 2016, 5:00 PM), <http://money.cnn.com/2016/06/29/investing/puerto-rico-debt-promesa/>.

⁵³ *See* PROMESA § 405(b).

⁵⁴ *See id.* § 405(d).

⁵⁵ *See id.* § 101(a).

18. As for the Oversight Board, it is composed of seven members chosen by the President from lists presented to him by the Speaker of the House and the majority and minority leaders of the Senate, as well as by the minority leader of the House of Representatives. The Governor of Puerto Rico was designated an ex-officio member without voting rights.⁵⁶ The Oversight Board has within its control the fiscal plan and budget of the Government of Puerto Rico and each covered instrumentality.⁵⁷ If the Oversight Board concludes the Governor's fiscal plan is unacceptable, the Oversight Board may impose its own fiscal plan at its sole discretion.⁵⁸ The Oversight Board also has the power to approve restructuring agreements with creditors, file petitions for restructuring, set up a more efficient electronic system for the collection of taxes, and enforce existing laws to prevent strikes by public employees.⁵⁹ The Oversight Board has subpoena powers and access to the courts to enforce its actions.⁶⁰

19. On August 31, 2016, the President announced the appointment of the seven members of the Oversight Board: (i) Andrew G. Biggs, (ii) José B. Carrión III, (iii) Carlos M. Garcia, (iv) Arthur J. González, (v) José R. González, (vi) Ana. J. Matosantos, and (vii) David A. Skeel Jr. The seven Oversight Board members, collectively, have experience in law, public finance, public budgeting, insurance, retirement funding, and public policy.⁶¹ The Oversight Board members do not receive any compensation for their services according to the strict terms

⁵⁶ See *id.* § 101(e).

⁵⁷ See *id.* §§ 201, 202.

⁵⁸ See *id.* §§ 201(d)(2), 106(e).

⁵⁹ *Id.* §§ 104(m), (h), 206.

⁶⁰ *Id.* §§ 104(f), (k).

⁶¹ See About Us, FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, <https://juntasupervision.pr.gov/index.php/en/home/> (last visited May 1, 2017).

of PROMESA.⁶² The Oversight Board has hired as advisors, Proskauer Rose LLP and O'Neill & Borges LLC as legal counsel, McKinsey & Co. as strategic consultant, Citigroup Global Markets as municipal investment banker, and Ernst & Young, as financial advisor.⁶³

20. Since its inception, the Oversight Board has worked to understand the facts and realities prevalent in Puerto Rico, the options available to the government, and the implications of different approaches to addressing the financial and economic crisis facing the island. After hiring its advisors, the Oversight Board accelerated its process of meeting with creditors and other stakeholders, building a relationship with the current and former Governors and their staffs, and beginning to review the fiscal plan for the Commonwealth. From the end of January through the middle of February, the Oversight Board and its advisors held over twenty due diligence sessions to better understand the positions, concerns, and priorities espoused by the various creditor constituencies. AAFAF also met with creditors and other stakeholders to understand their perspectives. On January 18, 2017, Governor Rosselló Nevares enacted legislation to further increase AAFAF's power to include overseeing debt restructuring efforts.⁶⁴

21. As noted, the Oversight Board had the power to extend the automatic stay to May 1, 2017, and did so on January 28, 2017. On February 28, 2017, Governor Rosselló Nevares and

⁶² See PROMESA § 101(g) ("Members of the Oversight Board shall serve without pay, but may receive reimbursement from the Oversight Board for any reasonable and necessary expenses incurred by reason of service on the Oversight Board.").

⁶³ Press Release, Fin. Oversight and Mgmt. Bd. for P.R., Fin. Oversight and Mgmt. Bd. Selects Outside Legal Counsel and Strategic Consultant (Nov. 27, 2016), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/49/583c7b5797f1e.pdf>; Press Release, Fin. Oversight and Mgmt. Bd. for P.R., Oversight Bd. Meets in P.R. Again (Jan. 28, 2017), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/49/588ce77e0d748.pdf>; Ernst & Young Puerto Rico LLC Contract, <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/50/58b61338a2ea7.pdf>.

⁶⁴ About FAFAA, PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY, <http://www.aafaf.pr.gov/aboutfafa.html> (last visited May 1, 2017).

his administration released a fiscal plan that the Oversight Board rejected, and the Governor submitted a new fiscal plan on March 13, 2017. With amendments it imposed on pensions and conditions it imposed for cancelling public employees' Christmas bonus and imposing a furlough program, the Oversight Board voted unanimously to certify the new fiscal plan.

C. Creditor Lawsuits

22. Not surprisingly, with approximately \$74 billion of debt and insufficient resources to satisfy it, there have been many lawsuits filed against the Commonwealth (and in some instances, the Oversight Board) before the filing of this Title III case. A list of the known litigation proceedings that have been filed against the Commonwealth or one of its instrumentalities is attached hereto as **Exhibit C**.

V. THE OVERSIGHT BOARD CERTIFIED THE GOVERNMENT'S FISCAL PLAN

A. Fiscal Plan Evaluation

23. To fulfill its mission of achieving for the Commonwealth fiscal responsibility and market access, the Oversight Board evaluated the macroeconomic framework underlying the fiscal plans proposed by the Governor. Thus, starting as early as September 2016, the Oversight Board alongside its economists, municipal consultants, and financial advisors spent hundreds of hours in research and working sessions understanding the dire situation in Puerto Rico. The board also held numerous internal as well as external meetings with the government officials and the various creditor groups. The Oversight Board got up to speed on the many fiscal challenges that Puerto Rico faces and within only a few months was in a position to formulate its own fiscal plan or evaluate the Government fiscal plan.

24. The Oversight Board was also tasked with providing recommendations to ensure that the proposed plans comport with the requirements and goals of PROMESA. Among these

goals is that the fiscal plan provides Puerto Rico with long-term, sustainable economic growth,⁶⁵ fiscal responsibility,⁶⁶ and access to the capital markets.⁶⁷

25. On October 14, 2016, then-Governor Alejandro Garcia Padilla presented the Oversight Board with a fiscal plan that contemplated a budget deficit of \$4.8 billion for fiscal year 2017, after the implementation of austerity measures and revenue enhancements, and before allocating money for debt service.⁶⁸

26. On November 10, 2016, the Oversight Board issued a public invitation to interested third parties to comment on the October 14, 2016 fiscal plan.⁶⁹ Most of the stakeholders who responded were in consensus on the shortcomings of the proposed plan. The majority believed that the plan did not meet the requirements of PROMESA.⁷⁰

27. The Oversight Board declined to certify the Governor's October 2016 fiscal plan because, among other things, the Oversight Board was not satisfied that appropriate measures were taken to rein in expenses, impose discipline on the budget, or grow revenue. In rejecting the plan, the Oversight Board provided substantial comments and guidance, including by listing

⁶⁵ PROMESA § 701 (“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 United States and the rest of the United States.”).

⁶⁶ *Id.* § 201(b)(1).

⁶⁷ *Id.*

⁶⁸ COMMONWEALTH OF P.R., FISCAL PLAN (2016), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/52/58210006a3536.pdf>.

⁶⁹ Letter from Fin. Oversight and Mgmt. Bd. for P.R. to Governor Rosselló Nevares (Sept. 30, 2015), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/50/587fea840f998.pdf>.

⁷⁰ Press Release, Fin. Oversight and Mgmt. Bd. for P.R., Oversight Bd. Holds Third Meeting in P.R., (Nov. 18, 2016), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/49/582f55851a7b7.pdf>.

the five principles that would guide the Oversight Board in its decision whether to certify the next proposed fiscal plan:⁷¹

- a. The fiscal plan must cover at least the next 10 fiscal years, with meaningful progress in the next five, and meet the standards set forth in PROMESA, including the 14 criteria under PROMESA § 201(b).
- b. The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.
- c. To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (*e.g.*, no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of that act.
- d. The fiscal plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools such as a debt sustainability analysis and a detailed economic projection.
- e. The fiscal plan must be accompanied by relevant operational plans that show how the Commonwealth will achieve the changes and reforms it proposes.

28. Although the Oversight Board had requested that the prior administration submit a revised plan, the prior administration did not submit a revised fiscal plan that incorporated the Oversight Board's recommendations or that aligned with its five enumerated principles.

29. On January 2, 2017, the administration of newly elected Governor Rosselló Nevares took office. Less than two months later, on March 1, 2017, the Oversight Board confirmed receipt of a proposed fiscal plan from the new administration.⁷² Again, the Oversight Board raised concerns regarding the proposed fiscal plan. After reviewing the proposed fiscal

⁷¹ Letter from Fin. Oversight and Mgmt. Bd. for P.R. to Governor Rosselló Nevares, (Jan. 18, 2017), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/50/58c6e4e543444.pdf>.

⁷² Press Release, Fin. Oversight and Mgmt. Bd. for P.R., Oversight Bd. Confirms Receipt of Fiscal Plan for P.R. (Mar. 1, 2017), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/49/58b6db7c47c02.pdf>.

plan with the Governor's representatives and analyzing and deliberating over it with the Oversight Board's members, economists, consultants, and attorneys, the Oversight Board informed the Governor on March 9, 2017, that the Oversight Board had determined the Governor's proposed fiscal plan did not satisfy PROMESA's requirements.⁷³ The Oversight Board identified violations and recommended revisions.

30. After the new administration complied with the requirements the Oversight Board specified, the Oversight Board determined the revised fiscal plan, with two amendments, would comply with the requirements for certification. The Oversight Board voted to certify the plan, as amended, on March 13, 2017.⁷⁴

B. The Major Components of the Certified Fiscal Plan

31. The fiscal plan provides for meaningful and drastic fiscal and economic measures projected to result in an economic turnaround towards growth after six years. The fiscal plan is a carefully calibrated solution that maintains sufficient infrastructure and governmental services to arrest negative growth after several years, and respects creditors' rights. The Oversight Board recognizes that Puerto Rico's residents vehemently believe the Oversight Board has cut government services far too much and that creditors believe the money for debt services is far too little. Both residents and creditors are victims of a crisis situation exponentially getting worse due to the imminent termination of approximately \$850 million in Affordable Care Act funding (which will continue to increase substantially year-over-year) and the dissipation of pension funding of the annual \$1.5 billion pension payments needed to save public retirees from federal poverty levels. By focusing on the long-term benefits, and eschewing the impulse for

⁷³ Letter from Fin. Oversight and Mgmt. Bd. for P.R. to Governor Rosselló Nevares (March 9, 2017), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/50/58c1e7d75ab33.pdf>.

⁷⁴ Letter from Fin. Oversight and Mgmt. Bd. for P.R. to Governor Rosselló Nevares (Jan. 18, 2017), <https://juntasupervision.pr.gov/wp-content/uploads/wpfd/50/58c6e4e543444.pdf>.

short term gains, an optimal outcome for all—the island and its stakeholders—can be obtained. Moreover, the Oversight Board continues to pursue initiatives to attract more investment to Puerto Rico that may enable increased debt service and government service.

32. The fiscal plan cuts as much from government expenditures and raises revenues by as much as the Oversight Board considered feasible. It contemplates measures that will reduce the fiscal gap by \$39.6 billion and generate surplus cash flow of approximately \$7.9 billion over a ten-year period. The fiscal plan represents a significant departure from the fiscal plan proposed in October 2016, as it commits to additional revenues of \$4.4 billion and additional expenditure cuts of \$16.4 billion.

33. These additional revenue and expenditure cuts, while painful in the short term, are necessary for Puerto Rico's long-term growth. Indeed, the Puerto Rico economy is projected to contract initially as a result of these measures. The difficult task facing the Governor and the Oversight Board is to draw the line short of revenue and expense measures so drastic that they run an unacceptable risk of preventing an economic turnaround.

34. The fiscal plan is built upon the two pillars of fiscal reform and structural reform. Fiscal reform measures are aimed at (1) enhancing revenues, (2) right-sizing the government, (3) adjusting healthcare spending, and (4) restructuring the pension system. Structural reform measures are aimed at increasing economic growth by (a) aiding business activity, (b) improving capital efficiency, (c) implementing energy reforms, and (d) promoting economic development. Together, these reforms are projected to reduce the ten-year financing gap by \$39.6 billion and to achieve a surplus of approximately \$7.9 billion over ten years that will be available for debt service.

C. The Oversight Board Confirmed that the Fiscal Plan Met the Requirements of PROMESA § 206(a) Prior to Issuing its Restructuring Certification

35. In pertinent part, PROMESA provides that “[t]he Oversight Board, prior to issuing a restructuring certification regarding an entity . . . , shall determine, in its sole discretion, that—(1) the entity has made good-faith efforts to reach a consensual restructuring with creditors; [and] (2) the entity has—(A) adopted procedures necessary to deliver timely audited financial statements; and (B) made public draft financial statements and other information sufficient for any interested person to make an informed decision with respect to a possible restructuring”⁷⁵ In the Oversight Board’s sole discretion, the Oversight Board certifies that these requirements have been met by the Commonwealth.

VI. COMMENCEMENT OF THE COMMONWEALTH’S TITLE III CASE

36. Promptly after certification of the fiscal plan, the Oversight Board and the government undertook a joint effort to formulate restructuring proposals for all major creditors based on the debt sustainability analysis in the certified fiscal plan. Although the certified fiscal plan’s debt sustainability analysis makes plain the funds available for debt service, creditors responded by asking the Oversight Board to certify a new fiscal plan with more frothy and optimistic assumptions, which ultimately led to an impasse. In March 2017, the Oversight Board and the government requested holders of general obligation bonds issued by the Commonwealth and COFINA debt to participate in mediation with the Oversight Board and government commencing April 3, 2017. Those debts together account for approximately 55% of the total bond debt to be restructured. Ultimately, the mediation commenced on April 13, 2017, under the auspices of former Bankruptcy Judge Allan Gropper, who was nominated by a plurality of

⁷⁵ PROMESA § 206(a).

creditors. Despite several mediation sessions and other private negotiations, no agreements were reached before the expiration of the PROMESA stay on May 1, 2017.

37. In light of the expiration of the PROMESA stay, and because consensual negotiations seemed to reach an impasse, the Oversight Board and the Commonwealth decided the best path forward was to file a Title III case to protect Puerto Rico and its citizens. The Oversight Board and the Commonwealth intend to continue pursuing consensual negotiations under the protection of the Title III automatic stay, and remain hopeful that continued negotiations (including through mediation) will lead to consensual resolutions such that Puerto Rico will once again be able to experience economic and social prosperity after this difficult process is resolved.

38. Further information and documents filed in the Title III case are available free of charge by accessing the website maintained by Prime Clerk LLC (the “Claims and Noticing Agent”) at <https://cases.primeclerk.com/puertorico> (the “Case Website”) or by contacting the proposed Claims and Noticing Agent directly at (844) 822-9231 (toll free for United States and Puerto Rico) or (646) 486-7944 (for international callers). Copies of any documents may also be obtained by visiting the Court’s website at www.prd.uscourts.gov in accordance with the procedures and fees set forth therein.

Dated: May 3, 2017
San Juan, Puerto Rico

Respectfully submitted,

/s/ _____

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Exhibit A

Fiscal Plan for Puerto Rico



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

FISCAL PLAN FOR PUERTO RICO

San Juan, Puerto Rico

March 13, 2017



Disclaimer

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I. INTRODUCTION



What the Government's Proposed Fiscal Plan Seeks to Achieve

Closing the Projected Baseline Fiscal Plan Deficit

- At the direction of the Oversight Board, the Government's new administration has prepared this Fiscal Plan which supersedes the prior administration's December 2016 fiscal plan that was rejected by the Board. From the date the new administration took office, AAFAF and its advisors have earnestly worked in cooperation with the Board's input to put forth a credible and reliable Fiscal Plan that will guide Puerto Rico's fiscal and economic recovery
- **The Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.** In particular, the Fiscal Plan averts the \$67bn fiscal deficit from the prior administration's plan and achieves +\$7.9bn in cumulative cash flow available for debt service through the 10 year period

Further Improvement

- The Government fully appreciates that despite fiscal and economic uncertainties, now is the time to set the benchmark for the needed fiscal and economic measures as outlined in the Fiscal Plan. The Government is demonstrating its commitment to correcting the mistakes of the past. The Government is also mindful that in stopping the cycle of deficit spending, it must do so without undermining economic recovery or endangering the health, welfare or safety of the 3.5 million US citizens living in Puerto Rico

Bondholder Negotiations and Consensus

- Per PROMESA Section 2.01(b)(1)(I), the fiscal plan must provide a debt sustainability analysis. The Government's Fiscal Plan consolidates available cash resources that can be made available for debt service payments. The Fiscal Plan as proposed does not presume cash flow for debt service for any particular bondholder constituency, including clawed back cash and special revenues, nor does it take a position with respect to asserted constitutional or contractual rights and remedies, validity of any bond structure, or the dedication or application of tax streams / available resources
- The Government believes that any fiscal plan should reflect commitment to develop and implement operational and structural improvements that demonstrate the Government's willingness to achieve maximum payment of its debt obligations as restructured. However, in achieving debt sustainability, Puerto Rico's bondholders will be called upon to share in the sacrifice needed for a feasible debt restructuring. **The Government believes communication, grounded in fiscal responsibility, can create the opportunity for maximum consensus among stakeholders and pave the way for Puerto Rico's long-term fiscal stability and economic growth**



What the Fiscal Plan does not determine

Major Entities Impacted by the Fiscal Plan

- The Fiscal Plan is for the Government as a covered entity under PROMESA. The Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, this Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities: (1) Public Building Authority, (2) PR Sales Tax Financing Corporation ("COFINA"), (3) PR Highways and Transportation Authority ("HTA"), (4) PR Convention Center District Authority ("PRCCDA"), (5) PR Infrastructure Finance Authority ("PRIFA"), (6) Employees' Retirement System ("ERS"), (7) University of Puerto Rico ("UPR"), (8) Puerto Rico Industrial Development Company ("PRIDCO"), and (9) Government Development Bank ("GDB")

Major Entities Not Covered by the Fiscal Plan

- There are four entities whose revenues and expenses are not included in this Fiscal Plan: (1) Puerto Rico Electric Power Authority ("PREPA"), (2) Puerto Rico Aqueduct and Sewer Authority ("PRASA"), (3) The Children's Trust Fund and (4) Puerto Rico Housing Finance Authority ("PRHFA"). As a result, this Fiscal Plan does not take a position with respect to these entities' financial prospects or the debt sustainability of such entities

Legal & contractual issues not determined by the Fiscal Plan

The Fiscal Plan does not attempt to resolve, among others, the following issues:

- The mechanisms by which projected cash flow available for debt service should be allocated to different debt instruments
- What is an essential service for purposes of the exercise of the Government's police power
- The scope, timing or specific use of revenues to be frozen or redirected as 'claw back' revenue
- The value, validity and /or perfection of pledges
- Whether any particular bond or debt issuance may have been improvidently issued
- What the Government is permitted to accomplish through the increase or decrease of dedicated taxes, fees, tolls or other revenue sources

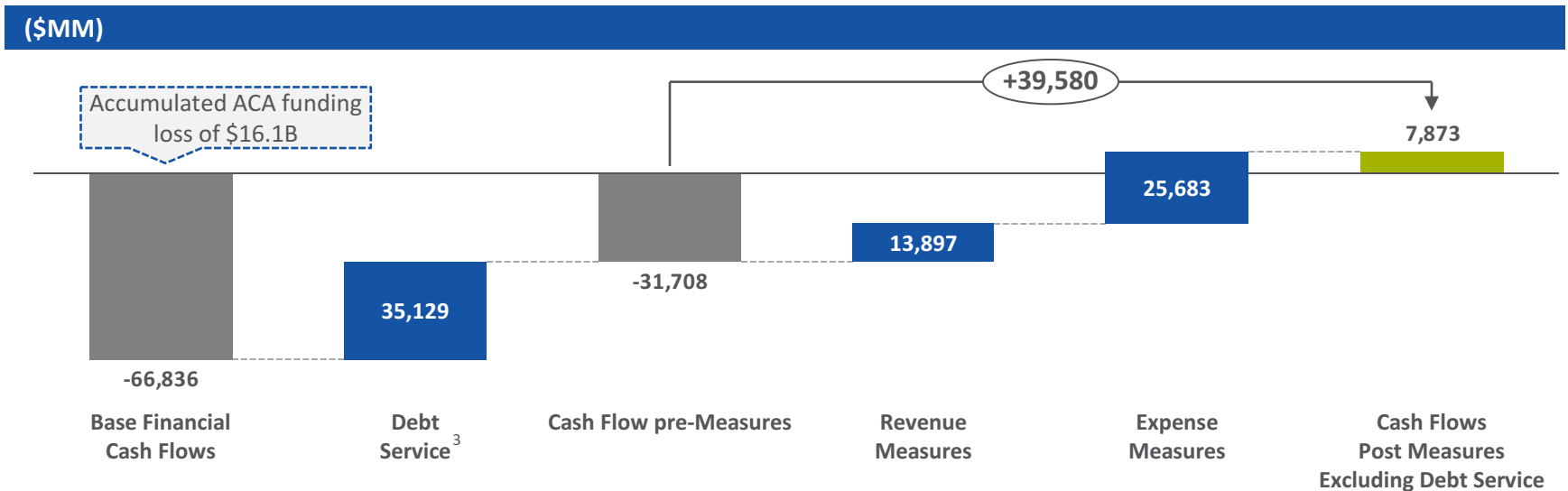


II. FINANCIAL PROJECTIONS



The Government will undertake fiscal measures that will reduce the fiscal gap by \$39.6B, and create a 10 year cash flow surplus of \$7.9B

- Based on the currently stated debt obligations, the 10-year budget gap is expected to reach \$66.9B
 - ~\$35.1B of expected principal and interest payments during the forecast period
- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
 - Base fiscal gap of \$66.8B which includes full cost of debt service and does not include the impact of revenue and expense measures
 - Revenue and expense measures of \$13.9B and \$25.7B¹
 - Revenue Measures: stabilizing corporate tax revenue through tax reform positively affects cash flows by \$7.9B
 - Expense Measures: \$19.2B of \$25.7B (79%) due to Government right-sizing initiatives²



¹ See Section IV, Fiscal Reform Measures for full detail

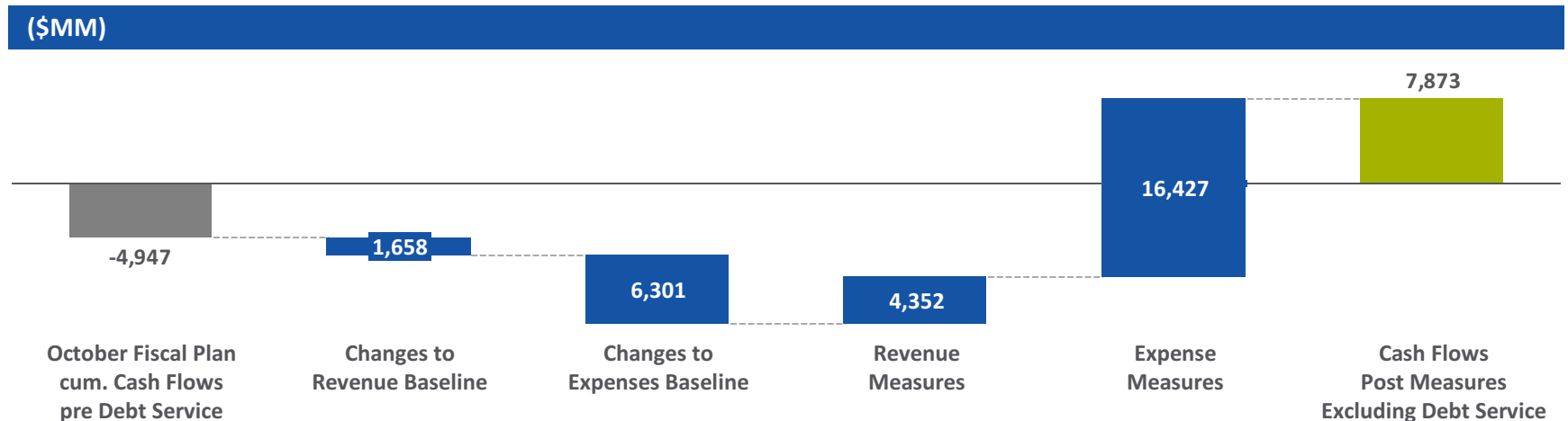
³ Includes \$1,415 of past due P&I (Aug 1, 2015 to July 1, 2016), and \$277 in Other Adjustments.

² See government right-sizing section



The current fiscal plan is a significant departure from the version presented in October, as it commits to higher revenue and expense measures of \$4.4B and \$16.4 B, respectively

- The October proposed Fiscal Plan estimated negative cumulative cash flows pre-debt service over the projection period ('17-'26) of (\$4.9B) vs. the Current Fiscal Plan projections estimating positive cumulative cash flows pre-debt service of \$7.92B. The change is comprised primarily of:
 - Negative net impact on cash flows available for debt service, pre-Measures of -\$8.0B
 - Decrease in total revenues of \$1.7B
 - Decreased expenses of \$6.3B
 - Enhanced revenue measures of \$4.4B
 - Additional savings from Expense Measures of \$16.4B



A summary of financials for the 10-year projection period shows positive cash flows post-measures, before debt service of \$7.9B

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
PR Nominal GNP Growth	(2.2%)	(2.8%)	(2.4%)	(0.5%)	(0.4%)	0.3%	1.0%	1.6%	2.1%	2.6%	
Revenues before Measures ¹	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799
Noninterest Exp. before Measures ¹	(\$17,872)	(\$18,981)	(\$19,233)	(\$19,512)	(\$19,950)	(\$20,477)	(\$20,884)	(\$21,310)	(\$21,973)	(\$22,316)	(\$202,507)
Cash flows pre-Measures	\$1,080	(\$1,470)	(\$2,826)	(\$3,077)	(\$3,456)	(\$3,886)	(\$4,139)	(\$4,357)	(\$4,769)	(\$4,807)	(\$31,708)
Measures											
Revenue measures	--	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897.1
Expense measures	--	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683.3
Net impact of measures	--	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash flows post-Measures, before Debt Service	\$1,080	\$404	\$567	\$722	\$1,059	\$903	\$857	\$751	\$722	\$808	\$7,873

Cash flows post-measures, before debt service trends:

- FY 2017 estimate of \$1.1B, declining to a low of \$0.4B in FY 2018, driven by GNP contraction and ERS Paygo contributions of \$1.0B in FY 2018
- Forecast peaks at \$1.1B in FY 2021 before declining to \$0.8B by FY 2026. Decline is primarily driven by Affordable Care Act ("ACA") funding expiration that increase steadily from ~\$0.9B in FY 2018 to ~\$2.4B in FY 2026
- Expense measures include \$1.3B in supplier payment pay downs through the projection period

¹ Full details in Appendix

² This addback is illustrative, and is not reflected in the amounts available for debt service elsewhere in this Plan



Revenues Before Measures

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
PR Nominal GNP Growth	(2.2%)	(2.8%)	(2.4%)	(0.5%)	(0.4%)	0.3%	1.0%	1.6%	2.1%	2.6%	
Revenues											
<u>General Fund Revenues:</u>											
Individual Income Taxes	\$1,892	\$1,760	\$1,718	\$1,709	\$1,703	\$1,708	\$1,725	\$1,752	\$1,789	\$1,836	\$17,592
Corporate Income Taxes	1,515	1,473	1,437	1,430	1,424	1,429	1,443	1,466	1,497	1,536	14,649
Non-Resident Withholdings	685	666	650	647	644	646	652	663	677	694	6,624
Alcoholic Beverages	268	260	254	253	252	253	255	259	265	272	2,591
Cigarettes	112	109	106	106	105	106	107	108	111	114	1,083
Motor Vehicles	330	321	313	311	310	311	314	319	326	335	3,191
Excises on Off-Shore Shipment Rum	206	173	175	176	178	179	180	182	183	184	1,816
Other General Fund Revenue	391	386	377	375	373	374	378	384	392	402	3,833
Total	5,399	5,148	5,030	5,007	4,989	5,005	5,055	5,134	5,239	5,372	51,378
General Fund Portion of SUT (10.5%)	1,718	1,655	1,596	1,553	1,511	1,484	1,472	1,474	1,487	1,512	15,463
Net Act 154	2,075	1,556	1,038	1,038	1,038	1,038	1,038	1,038	1,038	1,038	11,931
General Fund Revenue	\$9,192	\$8,360	\$7,664	\$7,598	\$7,538	\$7,527	\$7,565	\$7,646	\$7,764	\$7,921	\$78,773
Additional SUT (COFINA, FAM & Cine)	850	877	906	936	968	1,003	1,039	1,078	1,118	1,161	9,936
Other Tax Revenues	1,337	1,396	1,401	1,411	1,423	1,429	1,436	1,445	1,455	1,467	14,199
Other Non-Tax Revenues	579	576	582	594	622	630	635	642	649	666	6,174
Adj. Revenue before Measures	\$11,958	\$11,208	\$10,552	\$10,539	\$10,550	\$10,588	\$10,675	\$10,810	\$10,986	\$11,215	\$109,082
Federal Transfers	6,994	7,168	7,372	7,477	7,623	7,835	8,023	8,212	8,469	8,675	77,847
Loss of Affordable Care Act ("ACA") Funding	--	(865)	(1,516)	(1,582)	(1,680)	(1,833)	(1,953)	(2,069)	(2,251)	(2,382)	(16,130)
Revenues before Measures	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799



Non-Interest Expenses Before Measures

(\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Expenses											
<u>General Fund Expenditures:</u>											
Direct Payroll	(\$3,271)	(\$3,309)	(\$3,342)	(\$3,375)	(\$3,413)	(\$3,458)	(\$3,509)	(\$3,563)	(\$3,619)	(\$3,675)	(\$34,532)
Direct Operational Expenses	(907)	(918)	(926)	(936)	(946)	(959)	(973)	(988)	(1,003)	(1,019)	(9,574)
Utilities	(260)	(332)	(352)	(360)	(373)	(372)	(369)	(374)	(387)	(395)	(3,575)
Special Appropriations	(3,890)	(4,037)	(4,068)	(4,068)	(4,209)	(4,140)	(4,143)	(4,136)	(4,250)	(4,147)	(41,087)
General Fund Expenses	(8,329)	(8,596)	(8,688)	(8,738)	(8,941)	(8,929)	(8,993)	(9,060)	(9,259)	(9,236)	(88,768)
<u>Other:</u>											
Paygo Contributions in Excess of Asset Balance	--	(989)	(1,014)	(985)	(964)	(1,151)	(1,177)	(1,217)	(1,251)	(1,278)	(10,026)
Run-Rate Capital Expenditures	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(4,154)
Total other	(283)	(1,389)	(1,421)	(1,400)	(1,386)	(1,581)	(1,614)	(1,662)	(1,704)	(1,739)	(14,180)
<u>Component Units, Non-GF Funds and Ent. Funds:</u>											
Net Deficit of Special Revenue Funds	(110)	(130)	(146)	(154)	(162)	(169)	(173)	(176)	(176)	(174)	(1,571)
Independently Forecasted Non-Enterprise CUs	(452)	(380)	(433)	(558)	(639)	(752)	(859)	(963)	(1,109)	(1,210)	(7,356)
HTA Operational Expenses	(246)	(234)	(236)	(238)	(239)	(243)	(246)	(250)	(254)	(258)	(2,444)
Other	(44)	(41)	(30)	(30)	(30)	(31)	(31)	(32)	(32)	(33)	(335)
Total	(853)	(785)	(845)	(980)	(1,071)	(1,194)	(1,310)	(1,420)	(1,572)	(1,675)	(11,705)
Disbur. of Tax Revenues to Entities Outside Plan	(335)	(302)	(304)	(307)	(313)	(314)	(316)	(319)	(322)	(334)	(3,168)
Adj. Expenses before Measures	(\$9,800)	(\$11,071)	(\$11,259)	(\$11,425)	(\$11,712)	(\$12,018)	(\$12,234)	(\$12,461)	(\$12,857)	(\$12,984)	(\$117,822)
Federal Programs	(6,994)	(7,168)	(7,372)	(7,477)	(7,623)	(7,835)	(8,023)	(8,212)	(8,469)	(8,675)	(77,847)
Reconciliation Adjustment	(585)	(592)	(598)	(604)	(610)	(618)	(627)	(637)	(647)	(657)	(6,175)
Other non-recurring	(493)	(150)	(5)	(5)	(5)	(5)	--	--	--	--	(663)
Total	(8,072)	(7,910)	(7,975)	(8,086)	(8,238)	(8,458)	(8,650)	(8,849)	(9,116)	(9,332)	(84,685)
Noninterest Exp. before Measures	(\$17,872)	(\$18,981)	(\$19,233)	(\$19,512)	(\$19,950)	(\$20,477)	(\$20,884)	(\$21,310)	(\$21,973)	(\$22,316)	(\$202,507)



Assumptions and Methodology: Revenue

Category	Description	'17 Revenue \$MM	'26 Revenue \$MM	2017 – 2026 Growth Methodology
1 Taxes	- Individual Income Taxes - Corporate Income Taxes	3,407	3,371	- Grows with PR Nominal GNP Growth Factor - Excludes corporate tax reform and compliance impact which is included within fiscal measure reform analyses
2 Other General Fund Revenue	General Fund	391	402	Grows with PR Nominal GNP Growth Factor
3 Act 154	- Act 154 - Act 154 / Foreign Company Tax Losses	2,075	1,038	- Act 154 revenue is sustained at 2017 levels until 2026 - Losses equal (519) in 2018, double in 2019, and sustained at 2019 levels
4 SUT	- General Fund Portion of SUT (10.5%) - Additional SUT (COFINA, FAM, & Cine)	2,568	2,673	- Total SUT grown at PR Nominal GNP growth - Allocation proportions grow at historical levels
5 ACA Loss	Loss of Affordable Care Act ("ACA") Funding	0	-2,382	- Initial decrease from (865) in 2018 to (1,516) in 2019 - Annual growth in loss of 6.7% from 2019 to 2026
6 Component Units	- Other Tax Revenues - Other Non-Tax Revenues	1,916	2,132	Grows with PR Nominal GNP Growth Factor & Elasticity



Assumptions and Methodology: Expenses (1/2)

Category	Description	2017 \$MM	2026 \$MM	2017 – 2016 Growth Methodology
1 Direct Payroll	- Payroll and Operational Expenses - Education Payroll - Police Payroll	-3,271	-3,675	Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
2 Direct Operational Expenses	- Legislature - Department of Education - Other Agencies	-907	-1,019	Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll
3 Utilities	- Power and Water - PBA Operating Subsidy (Rent) - Insurance Premiums	-260	-396	- PBA Operating Subsidy maintains - Power and water have initial increase due to subsidy reduction with steady year-over-year growth until 2026
4 Special Appropriations	- UPR - Judicial and Municipalities - Retirement Systems - Health Insurance	-3,890	-4,147	UPR, Judicial and Municipalities increase in 2018, maintain steady-state following initial growth
5 Paygo Contributions in Excess of Asset Balance	Required Pay-go contribution: ERS, TRS and JRS	0	-1,278	- Paygo program for ERS, TRS and JRS is initiated in 2018 with initial expenses of \$989MM - Steady growth in expenses starting in 2020
6 Run-Rate Capital Expenditures	- Non-Growth Capital Expenditures in the Base (Run-Rate) - Growth Capex	-284	-462	Initial increase in 2018 to \$400MM and steady growth in following years based on previous year multiplied by PR Inflation following

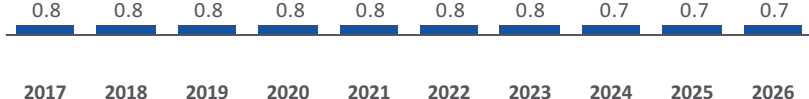


Assumptions and Methodology: Expenses (2/2)

Category	Description	2017 \$MM	2026 \$MM	2017 – 2026 Growth Methodology
7 Reconciliation Adjustment	Reconciliation Adjustment	-585	-657	- Initial increase in 2018 to \$592MM with steady increase until 2026 - Reconciliation adjustment based on midrange estimate provided by E&Y analysis and audit
8 Other Non-Recurring	- Payment of Past-Due Tax Refunds - Transition and restructuring costs	-493	0	- Initial decline in tax refunds in 2018 from \$493MM to \$150MM, decline in 2019 from \$150MM to \$5MM, and elimination of non-recurring expenses in 2023 - Costs to implement restructuring (\$370MM over 10 years)
9 Component Units	- Net Deficit of Special Revenue Funds - Independently forecasted non-enterprise - HTA Operational Expenses	-853	-1,675	- Net Deficit of Special Revenue Funds growth is based on previous year multiplied by PR Inflation - Non-enterprise expenses include ASEM, ASES, ADEA, PRCCDA, PRIDCO, PRITA, Tourism, and UPR deficits - PBA and the Port Authority run a surplus in 2017 that transitions towards deficit beginning in 2018 - Initial HTA decline in expenses due to a reduction in Past Due AP costs



Assumptions and Methodology: Macroeconomic Factors

Category	Description, %	2017 – 2026 Growth Methodology																						
1 PR Nominal GNP Growth Factor	 <table><thead><tr><th>Year</th><th>Growth Factor (%)</th></tr></thead><tbody><tr><td>2017</td><td>-2.2</td></tr><tr><td>2018</td><td>-2.8</td></tr><tr><td>2019</td><td>-2.4</td></tr><tr><td>2020</td><td>-0.5</td></tr><tr><td>2021</td><td>-0.4</td></tr><tr><td>2022</td><td>0.3</td></tr><tr><td>2023</td><td>1.0</td></tr><tr><td>2024</td><td>1.6</td></tr><tr><td>2025</td><td>2.1</td></tr><tr><td>2026</td><td>2.6</td></tr></tbody></table>	Year	Growth Factor (%)	2017	-2.2	2018	-2.8	2019	-2.4	2020	-0.5	2021	-0.4	2022	0.3	2023	1.0	2024	1.6	2025	2.1	2026	2.6	- Initial decrease to 97.2% in 2019 - Increase in 2020 to 99.5% - Steady, minimal growth until 2026
Year	Growth Factor (%)																							
2017	-2.2																							
2018	-2.8																							
2019	-2.4																							
2020	-0.5																							
2021	-0.4																							
2022	0.3																							
2023	1.0																							
2024	1.6																							
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2026	2.6																							
2 PR Inflation	 <table><thead><tr><th>Year</th><th>Inflation (%)</th></tr></thead><tbody><tr><td>2017</td><td>-0.2</td></tr><tr><td>2018</td><td>1.2</td></tr><tr><td>2019</td><td>1.0</td></tr><tr><td>2020</td><td>1.0</td></tr><tr><td>2021</td><td>1.1</td></tr><tr><td>2022</td><td>1.3</td></tr><tr><td>2023</td><td>1.5</td></tr><tr><td>2024</td><td>1.5</td></tr><tr><td>2025</td><td>1.6</td></tr><tr><td>2026</td><td>1.6</td></tr></tbody></table>	Year	Inflation (%)	2017	-0.2	2018	1.2	2019	1.0	2020	1.0	2021	1.1	2022	1.3	2023	1.5	2024	1.5	2025	1.6	2026	1.6	Initial negative inflation of -0.2% in 2017 increasing to 1.2% in 2018, 1.0% in 2019 with steady, minimal growth in Inflation until 2026
Year	Inflation (%)																							
2017	-0.2																							
2018	1.2																							
2019	1.0																							
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2022	1.3																							
2023	1.5																							
2024	1.5																							
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2026	1.6																							
3 PR Population Growth Factor	 <table><thead><tr><th>Year</th><th>Growth Factor (%)</th></tr></thead><tbody><tr><td>2017</td><td>-0.2</td></tr><tr><td>2018</td><td>-0.2</td></tr><tr><td>2019</td><td>-0.2</td></tr><tr><td>2020</td><td>-0.2</td></tr><tr><td>2021</td><td>-0.2</td></tr><tr><td>2022</td><td>-0.2</td></tr><tr><td>2023</td><td>-0.2</td></tr><tr><td>2024</td><td>-0.2</td></tr><tr><td>2025</td><td>-0.2</td></tr><tr><td>2026</td><td>-0.2</td></tr></tbody></table>	Year	Growth Factor (%)	2017	-0.2	2018	-0.2	2019	-0.2	2020	-0.2	2021	-0.2	2022	-0.2	2023	-0.2	2024	-0.2	2025	-0.2	2026	-0.2	Maintenance of 2017 PR Population Growth Factor of 99.8%
Year	Growth Factor (%)																							
2017	-0.2																							
2018	-0.2																							
2019	-0.2																							
2020	-0.2																							
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2023	-0.2																							
2024	-0.2																							
2025	-0.2																							
2026	-0.2																							
4 US Population Growth	 <table><thead><tr><th>Year</th><th>Growth (%)</th></tr></thead><tbody><tr><td>2017</td><td>0.8</td></tr><tr><td>2018</td><td>0.8</td></tr><tr><td>2019</td><td>0.8</td></tr><tr><td>2020</td><td>0.8</td></tr><tr><td>2021</td><td>0.8</td></tr><tr><td>2022</td><td>0.8</td></tr><tr><td>2023</td><td>0.8</td></tr><tr><td>2024</td><td>0.7</td></tr><tr><td>2025</td><td>0.7</td></tr><tr><td>2026</td><td>0.7</td></tr></tbody></table>	Year	Growth (%)	2017	0.8	2018	0.8	2019	0.8	2020	0.8	2021	0.8	2022	0.8	2023	0.8	2024	0.7	2025	0.7	2026	0.7	Maintenance of 2017 US Population Growth of 100.8% until 2024, where it drops to 100.7%
Year	Growth (%)																							
2017	0.8																							
2018	0.8																							
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2025	0.7																							
2026	0.7																							

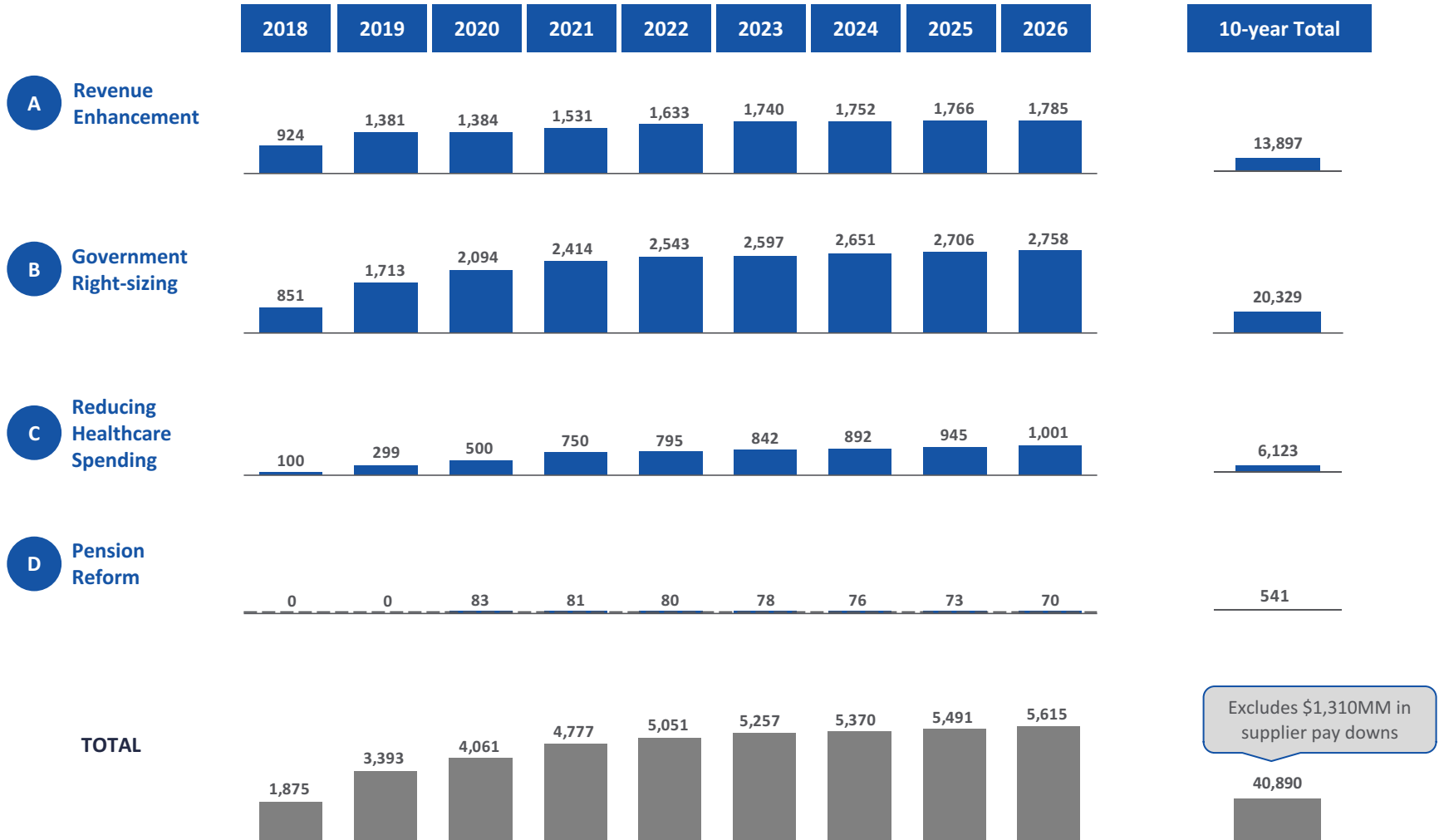


III. FISCAL REFORM MEASURES



Fiscal Reform measures reduce the 10-year financing gap by \$39.6B

Estimated Impact, \$MM

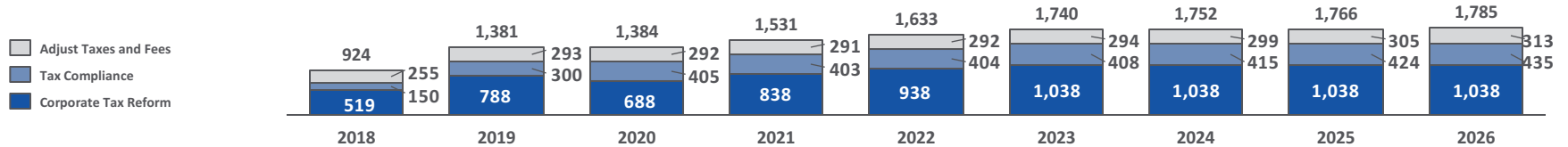


Note: Values may not add up due to rounding; Excludes expenditures related to rehabilitation of trade terms with local suppliers



Hacienda will embark in a multi-year transformation process to reduce leakage, improve revenue collections and adjust fees

Revenue Enhancement Measures, \$MM



Reform Measures

Description

2018 Impact

Corporate Tax Reform

- The Government will use the breathing room provided by the extension of Act 154 to seek a more stable, consistent corporate tax policy that implements a broad-based regime with fewer exemptions by no later than January 2019

\$519MM

Tax Compliance

- Reduce leakage by increasing electronic SUT tax collections at the point of sale, including internet sales
- Improve revenue collections by using advanced analytics, expanding capacity and conducting targeted interventions

\$150MM

Adjust Taxes and Fees

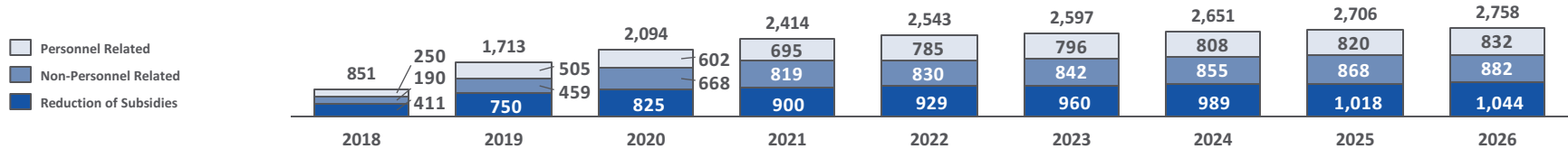
- Increase tobacco-related products excise tax and implement new property tax regime
- Revise fees including licenses, traffic fines, insurance fees and other charges for services to keep up with market trends

\$255MM



The Government must embark on a transformative journey in order to provide core services to citizens in an efficient and fiscally responsible manner

Government Right-Sizing Measures¹, \$MM



Reform Measures

Description

2018 Impact

Personnel Related

- Freeze on payroll increases for fiscal years 2018 to 2020
- Improve employee mobilization across government, uniform fringe benefits and eliminate vacation and sick day liquidations to produce higher attrition rates or other payroll-related savings

\$250MM

Non-Personnel Related

- Freeze on operational cost increases for fiscal years 2018 to 2020
- Re-design the way the Government works by reducing non-core expenses, externalizing services to private entities, centralizing services to eliminate duplication, achieve procurement savings or other cost-cutting measures

\$190MM

Reduction of Subsidies

- Gradually reduce general fund subsidies to the University of Puerto Rico, municipalities and other direct subsidies to the private sector
- Proactively engage with the University of Puerto Rico, municipalities, as well as industry partners, to mitigate the economic development impact of subsidy removal

\$411MM

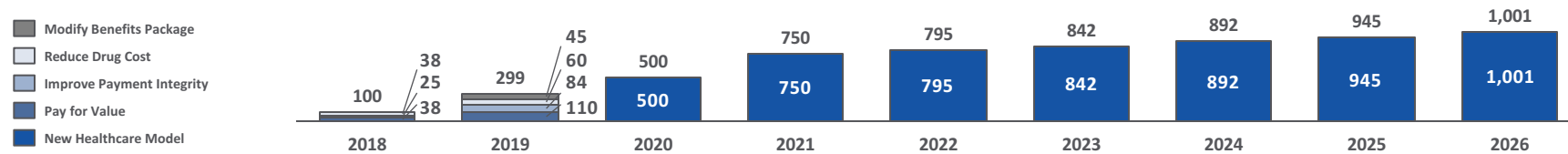
Note: To meet fiscal plan objectives, the Government may consider additional measures.

1) Post 2018, the relative distribution of savings between personnel and non-personnel related expenses will be decided as part of updates to the Fiscal Plan and the annual budget



The Government will focus on improving efficiencies, adjusting benefits and developing a new healthcare model in order to achieve savings in healthcare spend

Reducing Healthcare Spending Measures, \$MM



Reform Measures

Description

2018 Impact

Pay for Value

- Establish uniformed fee schedules and limit reimbursement rates for providers
- Replace current profit sharing arrangement with MCOs and replace with a Medical Loss Ratio

\$38MM

Improve Payment Integrity

- Establish partnerships to increase the scrutiny of premium payments for beneficiaries that have left the system or have another health insurance plan
- Establish Medicaid Fraud Control Unit and implement the Medicaid Management Information System to reduce waste, fraud and abuse

\$25MM

Reduce Drug Cost

- Reduce outpatient drug spending by increase pharmacy discounts on branded drugs, enforce mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives

\$38MM

Modify Benefits Package

- Evaluate services that could be capped and/or eliminated from the current benefit package without adversely affecting access for Mi Salud beneficiaries

\$0

New Healthcare Model

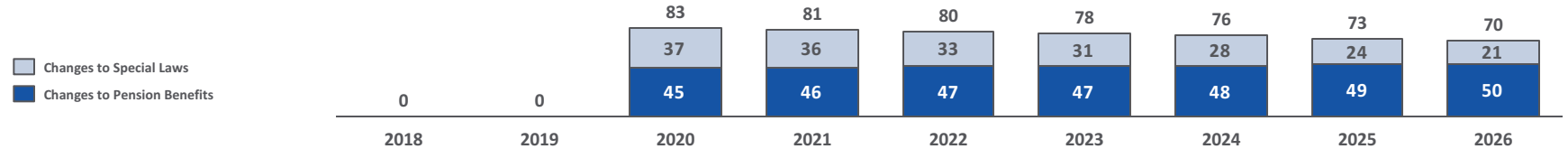
- Develop a new healthcare model in which the Government pays for basic, less costly benefits and the patient pays for premium services selected resulting in cost reductions attributed to greater competition along with the capped PMPM amount

\$0



Segmentation of the defined contribution structure will protect the retirement savings of government employees

Pension Reform Measures, \$MM



Reform Measures

Initiative

2018 Impact

Contribution Segregation and New Benefit Plans

- Switch to pay-as-you-go model, segregate prospective employee contributions, facilitate Social Security enrollment and improve investment alternatives

\$0

Adjust Retirement Benefits

- Protect benefits for lowest pension income earners. Progressive strategy to reduce retirement benefit costs including other post-employment benefits.

\$0



IV. STRUCTURAL REFORMS



Implementing the package of structural reforms will provide a cumulative 2.0% increase in GNP growth

1 Improve Ease of Business Activity

1a Increase Labor Participation

- Institute public policy measures aimed to attract new businesses, create new employment opportunities, and foster private sector employment growth to increase labor demand
- Change welfare and labor incentives to encourage greater sector participation thus increasing labor supply

1b Permitting Process Reform

- Centralize, streamline, and modernize and expedite permitting processes; increase business friendly environmental and economic growth

1c Tax Reform

- Lower marginal tax rates and broaden the tax base; simplify and optimize the existing tax code to achieve gains in efficiency, ease of doing business and reducing tax evasion

1d Regulatory Reform

- Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector

2 Improve Capital Efficiency

2a Infrastructure Reform

- Augmenting competitiveness by investing in critical infrastructure and quality of public services in roads, ports, telecommunications, water and waste, knowledge services, and other strategically important sectors

2b Public-Private Partnerships

- Leverage key public assets through long term concessions to optimize quality of public infrastructure, services to public and sustainable operations and maintenance

2c Critical Projects

- Implement management system to boost development of critical projects through expedited processes

3 Energy Reform

3a Energy Reform

- Leverage and facilitate expedited private sector investments in modern, cost-efficient, and environmentally compliant energy infrastructure; reform PREPA operations and services to clients; and allow for greater competition in energy generation

4 Promoting Economic Development

4a Enterprise Puerto Rico

- Promote productivity growth, attract FDI & incentivize investments in technology through collaboration with the private sector

4b Destination Marketing Organization

- Externalize the overseeing of marketing efforts & continuity under a single brand and as a unified front representing all of Puerto Rico's tourism components



The initial stage of the P3 program includes launching of ~\$5B of projects during the 2017-2019 calendar years that have been identified and are in project preparation

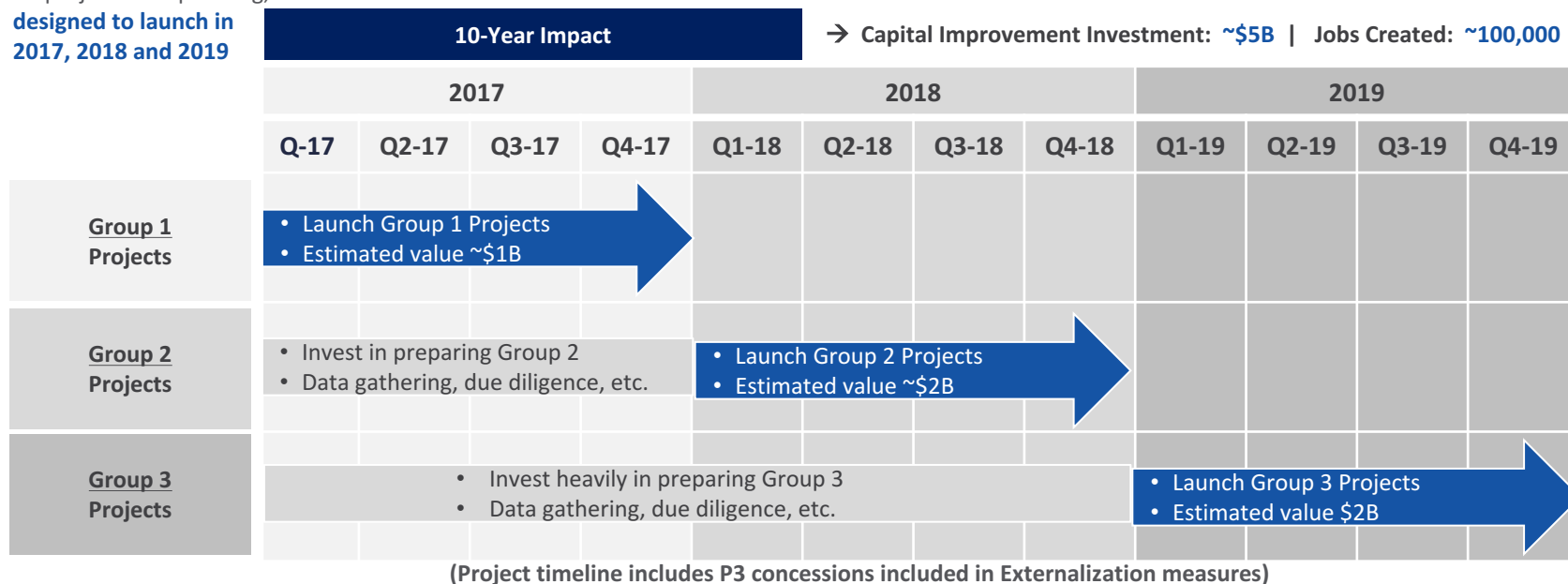
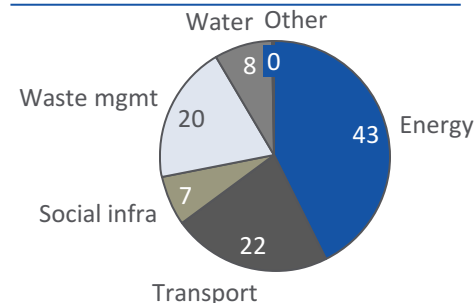
P3 Project Identification

- Identified initial list of priority projects with P3 potential
- Assessed project business cases and impacts on priority infrastructure needs, the economy, and efficient delivery of public services
- Split into 3 groups based on projected sequencing, **designed to launch in 2017, 2018 and 2019**

Key Considerations in the Overall P3 Implementation

- Project sequencing is designed to **effectively progress the advancement of projects and avoid major obstacles in the shortest timeline possible** (i.e., progression from easily executable/advanced permitting to more difficult/less advanced projects)
- Need to **promote and improve funding models to use private funds**, where relevant, as leverage to maximize the unused federal funds current available

P3 Key Target Areas %



V. DEBT SUSTAINABILITY ANALYSIS



Debt summary

- Below is a summary of the debt (excluding pension liabilities) considered in the fiscal plan
- Note: Amounts are estimated as of February 2017 and based upon preliminary unaudited numbers provided to AAFAF by issuer agencies and from publicly available information. On behalf of the Board, Ernst & Young is conducting an assessment of the debt outstanding to confirm these figures. Estimated amounts are subject to further review and may change

Summary of debt outstanding as of February 2017 (\$MM)

Issuers included in Fiscal Plan	Bond principal	CAB	Unpaid P&I ¹	Private Loans	Total Bonds & Private loans	Loans from GDB/MFA Entities	Total Debt Service FY 17-19	DSRF Balance
GO	\$12,013	\$84	\$1,146	\$24	\$13,267	\$169	\$3,284	--
COFINA	11,425	6,155	--	--	17,580	--	2,121	--
HTA ²	3,983	135	6	--	4,124	1,734	997	101
PBA	3,980	--	117	--	4,097	182	782	6
GDB ^{3, 4}	3,182	--	742	203	4,126	--	1,863	--
ERS	2,658	498	--	--	3,156	--	500	44
PRIFA ⁵	1,566	409	232	--	2,207	49	464	2
PFC	1,025	--	172	--	1,197	--	257	--
UPR ⁶	496	--	--	0	496	76	145	61
PRCCDA	386	--	--	--	386	145	91	9
PRIDCO	145	11	--	--	156	78	54	19
AMA	--	--	--	28	28	--	--	--
Other Central Gov't Entities	197	--	29	413	639	3,975	--	--
Total	\$41,056	\$7,293	\$2,444	\$668	\$51,461	\$6,409	\$10,558	\$242
Debt Issuers not incl. in Fiscal Plan								
PREPA	8,259	--	--	697	8,956	36	2,775	6
PRASA ⁷	3,943	28	13	584	4,568	229	995	93
Children's Trust	847	613	--	--	1,460	--	140	85
HFA	542	--	--	--	542	85	134	33
PRICO	--	--	--	98	98	--	--	--
Municipality Related Debt ⁸	556	--	--	1,140	1,696	2,036	n.a.	59
Total	\$14,147	\$641	\$13	\$2,520	\$17,320	\$2,386	\$4,044	\$276
Total	\$55,203	\$7,933	\$2,457	\$3,188	\$68,781	\$8,795	\$14,602	\$518
Less: GDB Bonds (excl. TDF)					(3,766)			
Plus: Loans from GDB/MFA Entities					8,795			
Public Sector Debt					\$73,810			

Notes:

- Unpaid principal and interest includes debt service that has been paid by insurers and is owed by the government
- HTA includes Teodoro Moscoso bonds
- GDB private loans includes Tourism Development Fund ("TDF") guarantees
- Includes GDB Senior Guaranteed Notes Series 2013-B1 ("CFSE")
- PRIFA includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANS, PRIFA Port Authority bonds and \$34.9m of PRIFA ASSMCA bonds
- UPR includes \$64.2m of AFICA Desarrollos Universitarios University Plaza Project bonds
- PRASA bonds includes Revenue Bonds, Rural Development Bonds, Guaranteed 2008 Ref Bonds
- Municipality Related Debt includes AFICA Guyanabo Municipal Government Center and Guaynabo Warehouse for Emergencies bonds



Debt Service Schedule

The table below summarizes the annual debt service through FY 2026 for all issuers included in the fiscal plan

FY 2017 – FY 2026 debt service (\$MM)

Fiscal year ending June 30,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Cash Interest										
GO	\$733	\$714	\$699	\$680	\$658	\$641	\$621	\$597	\$571	\$545
PBA	186	186	183	179	175	169	163	157	151	145
COFINA	686	685	684	697	709	703	696	688	680	671
HTA ¹	206	201	194	188	182	175	167	160	153	145
PRIFA ²	86	80	77	75	72	69	65	61	57	53
PRCCDA	19	18	17	17	16	15	15	14	13	12
PFC	56	55	54	53	51	50	48	47	44	42
UPR ³	25	24	22	21	20	18	17	15	14	12
ERS	167	167	167	167	167	164	159	155	154	152
GDB	163	142	125	79	55	46	43	18	16	11
PRIDCO	8	8	7	7	6	5	5	4	3	2
Total	\$2,333	\$2,279	\$2,229	\$2,161	\$2,109	\$2,054	\$1,999	\$1,916	\$1,857	\$1,790
Principal										
GO	\$395	\$351	\$392	\$439	\$334	\$358	\$378	\$402	\$428	\$454
PBA	91	66	70	74	100	102	96	103	107	100
COFINA	0	19	48	78	98	120	159	203	248	294
HTA ¹	131	140	126	136	142	150	146	155	164	169
PRIFA ²	124	48	50	51	54	62	86	64	72	74
PRCCDA	12	12	13	14	14	15	16	17	17	18
PFC	29	30	32	33	34	36	37	39	41	43
UPR ³	23	25	26	27	29	30	31	33	35	24
ERS	(0)	0	--	0	50	70	80	19	22	29
GDB	309	277	848	432	434	143	47	541	--	248
PRIDCO	10	10	11	11	11	13	13	14	15	16
Total	\$1,124	\$979	\$1,614	\$1,296	\$1,299	\$1,097	\$1,091	\$1,590	\$1,149	\$1,470
Total debt service										
GO	\$1,128	\$1,066	\$1,090	\$1,118	\$991	\$999	\$999	\$999	\$999	\$999
PBA	277	253	252	253	274	270	259	260	258	245
COFINA	686	704	732	776	807	823	855	891	928	965
HTA ¹	337	340	320	324	324	325	314	315	317	314
PRIFA ²	210	127	127	126	126	130	151	125	130	127
PRCCDA	30	30	30	30	30	30	30	30	30	30
PFC	86	86	86	85	85	85	85	86	86	85
UPR ³	48	48	48	48	48	48	48	48	48	36
ERS	167	167	167	167	217	234	239	174	176	181
GDB	472	419	973	512	488	189	91	559	16	259
PRIDCO	18	18	18	18	16	18	18	18	18	18
Total	\$3,457	\$3,257	\$3,843	\$3,457	\$3,408	\$3,152	\$3,090	\$3,506	\$3,006	\$3,261

1 HTA includes Teodoro Moscoso Bridge

2 PRIFA includes PRIFA BANs

3 UPR includes AFICA UPP



Debt sustainability

The table below summarizes the annual cash flow available for debt service, and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35 year term

- Cash flow available for debt service incorporates (i) the payment of essential services, (ii) benefit of clawback revenues and (iii) a prudent contingency reserve
- In the Fiscal Plan summarized below, the cash flow after Measures but before Debt Service averages \$787m per year during the period 2017 - 2026

Debt sustainability sensitivity analysis (\$MM)

Fiscal year ending June 30 (\$ in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	'17 - '26 total
Baseline Projections											
Revenues	\$18,952	\$17,511	\$16,407	\$16,434	\$16,494	\$16,590	\$16,746	\$16,953	\$17,204	\$17,509	\$170,799
Expenses	(17,872)	(18,981)	(19,233)	(19,512)	(19,950)	(20,477)	(20,884)	(21,310)	(21,973)	(22,316)	(202,507)
Cash Flow Excl. Debt Service & Measures	1,080	(1,470)	(2,826)	(3,077)	(3,456)	(3,886)	(4,139)	(4,357)	(4,769)	(4,808)	(31,708)
Impact of Measures											
Revenue Measures	--	924	1,381	1,384	1,531	1,633	1,740	1,752	1,766	1,785	13,897
Expense Measures	--	951	2,012	2,415	2,983	3,156	3,255	3,357	3,724	3,830	25,683
Total Measures	--	1,875	3,393	3,799	4,515	4,789	4,995	5,108	5,491	5,615	39,580
Cash Flow Available for Debt Service	\$1,080	\$404	\$567	\$722	\$1,059	\$903	\$857	\$751	\$722	\$808	\$7,873

Illustrative Sustainable Debt Capacity Sizing Analysis

		Sensitivity Analysis: Implied Debt Capacity at 10% Contingency								
Illustrative Cash Flow Available		\$700	\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100
Sensitivity Analysis: PV Rate %	3.5%	12,600	13,500	14,400	15,301	16,201	17,101	18,001	18,901	19,801
	4.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	4.5%	11,000	11,786	12,572	13,358	14,143	14,929	15,715	16,501	17,286

		Sensitivity Analysis: Implied Debt Capacity at 4% PV Rate								
Illustrative Cash Flow Available		\$700	\$750	\$800	\$850	\$900	\$950	\$1,000	\$1,050	\$1,100
Sensitivity Analysis: % Contingency	5.0%	12,412	13,299	14,185	15,072	15,958	16,845	17,731	18,618	19,505
	10.0%	11,759	12,599	13,439	14,278	15,118	15,958	16,798	17,638	18,478
	15.0%	11,105	11,899	12,692	13,485	14,278	15,072	15,865	16,658	17,451



VI. TSA LIQUIDITY



Weekly cash flow forecast through 2017FY

Cash Flows Before Cliffs, Measures and Debt <i>(figures in \$mm)</i>		Fcst - 1	Fcst - 2	Fcst - 3	Fcst - 4	Fcst - 5	Fcst - 6	Fcst - 7	Fcst - 8	Fcst - 9	Fcst - 10	Fcst - 11	Fcst - 12	Fcst - 13	Fcst - 14	Fcst - 15	Fcst - 16
		3/17	3/24	3/31	4/7	4/14	4/21	4/28	5/5	5/12	5/19	5/26	6/2	6/9	6/16	6/23	6/30
1	General Collections	\$349	\$254	\$58	\$71	\$66	\$760	\$186	\$63	\$66	\$334	\$60	\$44	\$59	\$134	\$520	\$57
2	Sales and Use Tax	18	13	146	5	17	14	163	5	18	5	167	4	5	18	14	171
3	Excise Tax through Banco Popular	64	—	—	—	77	—	—	—	—	68	—	—	—	57	—	—
4	Rum Tax	—	10	—	—	—	11	—	—	—	18	—	—	—	—	22	—
5	Electronic Lottery	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14	37
6	Subtotal	\$432	\$277	\$204	\$76	\$161	\$784	\$349	\$68	\$84	\$424	\$227	\$48	\$64	\$210	\$570	\$265
7	Employee/Judiciary Retirement Admin.	—	—	—	—	56	—	—	—	56	—	—	—	—	56	—	—
8	Teachers Retirement System	—	—	—	—	70	—	—	—	—	—	—	—	—	—	—	—
9	Retirement System Transfers	—	—	—	—	\$127	—	—	—	\$56	—	—	—	—	\$56	—	—
10	Federal Funds	93	110	83	123	95	119	123	95	126	93	123	49	99	107	107	121
11	Other Inflows	9	—	11	—	—	9	11	—	—	—	—	11	—	—	—	11
12	Tax Revenue Anticipation Notes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Total Inflows	\$534	\$388	\$298	\$199	\$382	\$912	\$483	\$163	\$267	\$517	\$350	\$108	\$163	\$373	\$677	\$397
14	Payroll and Related Costs	(18)	(51)	(120)	(23)	(95)	(62)	(101)	(35)	(90)	(65)	(96)	(18)	(22)	(95)	(56)	(106)
15	Pension Benefits	—	—	(87)	—	(82)	—	(87)	—	(82)	—	(87)	—	—	(82)	—	(87)
16	Health Insurance Administration - ASES	(53)	(53)	(55)	(53)	(53)	(53)	(60)	(53)	(53)	(53)	(53)	(7)	(53)	(53)	(53)	(55)
17	University of Puerto Rico - UPR	(18)	(18)	(24)	(18)	(18)	(18)	(24)	(18)	(18)	(18)	(18)	(6)	—	(36)	(18)	(24)
18	Muni. Revenue Collection Center - CRIM	(21)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	—	—	(15)	(8)	(26)
19	Highway Transportation Authority - HTA	—	—	(16)	—	—	—	(16)	—	(19)	—	—	(19)	—	—	(19)	(19)
20	Public Building Authority - PBA / AEP	(9)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	—	(4)	(4)	(4)	(4)	(4)
21	Other Governmental Entities	(20)	(9)	(54)	25	(20)	(9)	(54)	25	(20)	(9)	(12)	(18)	(3)	(20)	(9)	(63)
22	Subtotal - Government Entity Transfers	(\$120)	(\$92)	(\$160)	(\$57)	(\$103)	(\$92)	(\$165)	(\$57)	(\$122)	(\$92)	(\$90)	(\$54)	(\$59)	(\$128)	(\$111)	(\$191)
23	Supplier Payments	(57)	(57)	(58)	(86)	(86)	(86)	(87)	(68)	(68)	(68)	(68)	(53)	(65)	(65)	(65)	(66)
24	Other Legislative Appropriations	(24)	(14)	(5)	(2)	—	(38)	(5)	(6)	(22)	(10)	(5)	(4)	—	(16)	(22)	(5)
25	Tax Refunds	(12)	(13)	(4)	(1)	(6)	(39)	(4)	(7)	(4)	(4)	(31)	(3)	(1)	(4)	(6)	(41)
26	Nutrition Assistance Program	(30)	(70)	(22)	(35)	(40)	(54)	(36)	(22)	(43)	(56)	(36)	(16)	(37)	(30)	(70)	(20)
27	Other Disbursements	—	—	—	—	—	—	—	—	—	—	—	(4)	—	—	—	(4)
28	Contingency	(16)	(16)	(16)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(23)	(23)	(23)	(23)	(23)
29	Tax Revenue Anticipation Notes	—	—	—	—	—	—	(152)	—	—	—	—	(137)	—	—	—	(135)
30	Total Outflows	(\$277)	(\$313)	(\$472)	(\$233)	(\$440)	(\$399)	(\$665)	(\$223)	(\$459)	(\$324)	(\$442)	(\$312)	(\$208)	(\$443)	(\$353)	(\$676)
31	Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures	\$257	\$75	(\$174)	(\$34)	(\$58)	\$513	(\$182)	(\$60)	(\$193)	\$194	(\$92)	(\$204)	(\$44)	(\$70)	\$324	(\$279)
32	Bank Cash Position, Beginning (a)	\$319	\$576	\$650	\$477	\$442	\$384	\$897	\$716	\$655	\$462	\$656	\$564	\$360	\$316	\$246	\$570
33	Bank Cash Position, Ending (a)	\$576	\$650	\$477	\$442	\$384	\$897	\$716	\$655	\$462	\$656	\$564	\$360	\$316	\$246	\$570	\$291

Liquidity Principles for FY 2018

- No external short-term financing
- Rollout of Disbursement Authorization Group in order to enforce priority of payments through defined critical services (see Section VII)
- Consolidate dispersed treasury functions and put in place oversight over accounts not centrally managed
- Refine and regularly update 13 week cash analysis with detailed forecasting of cash receipts and disbursements
- Provide detailed daily performance projections, results, and variances



VII. FINANCIAL CONTROL REFORM

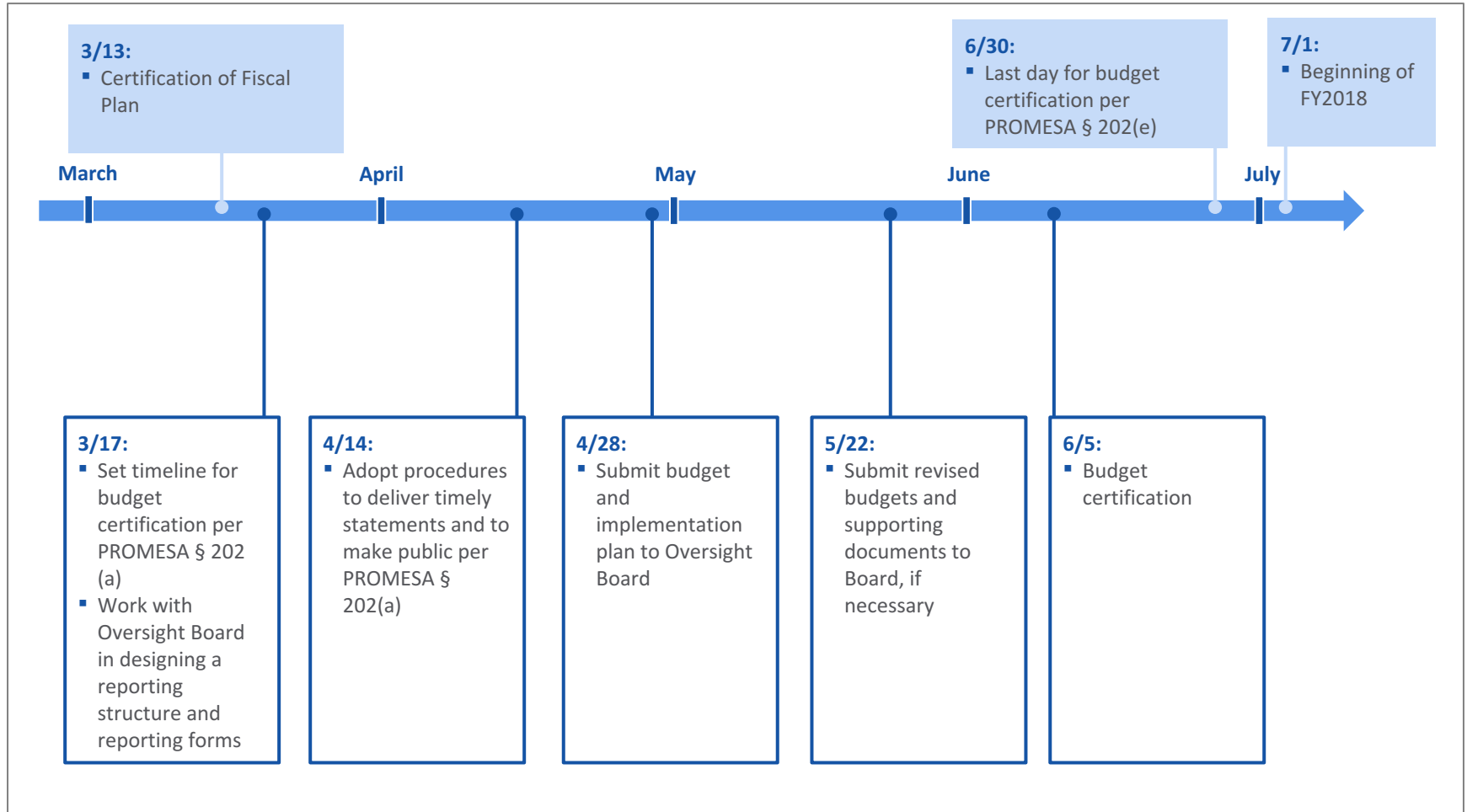


Current state of financial controls

- Cash is not centrally managed
 - No central office has visibility across all spending
 - Procurement agencies do not actively enforce terms and specifications
 - Limited coordinated effort to eliminate major cash outlays
 - Limited sweep of cash into general fund accounts
 - Cash disbursements is a manual and subjective process handled at Hacienda
 - No formal structure for reporting and release of audited financials
- Target is to improve level of detail on forecasting and specificity around assumptions
 - “Top-down” approach, based on prior year’s Budget
 - Bank-to-book reconciliations are not often prepared in a timely manner
 - No tracking mechanisms exist to measure intra-year actual expenditures vs. budget on an accrual basis



Budget certification per PROMESA § 202



Quarterly budget compliance process per PROMESA § 203

Quarterly Action	PROMESA section	Description	Proposed dates (mm/dd/yy)
Reporting¹	▪ § 203 (a)	▪ Governor to submit a report describing: (1) the actual cash revenues, expenditures, and flows and (2) any other information requested by the Board	▪ Q1: 10/15/17 ¹ ▪ Q2: 1/16/18 ▪ Q3: 4/16/18 ▪ Q4: 7/16/18
External auditing	▪ § 203 (b)	▪ Oversight Board to communicate the result of external auditing report to the government and identify any inconsistencies with the projected revenues, expenditures, or cash flows set forth in the certified Budget for such quarter	▪ Q1: 11/10/17 ▪ Q2: 2/12/18 ▪ Q3: 5/10/18 ▪ Q4: 8/10/18
Correction of variance	▪ § 203 (b)	▪ Government to provide additional information regarding any inconsistencies with the certified budget and implement remedial action to correct variances	▪ Q1: 11/20/17 ▪ Q2: 2/20/18 ▪ Q3: 5/21/18 ▪ Q4: 8/20/18
Certification of variance / or Budget reductions by Board	▪ § 203 (c) and (d)	▪ Board to certify that the government is at variance with the applicable certified Budget, and that the Government has initiated such measures as the Board considers sufficient to correct it ▪ If the variances are not corrected, the Board shall make appropriate reductions in nondebt expenditures and may institute automatic hiring freezes in instrumentalities and prohibit them from entering in any contract in excess of \$100,000	▪ Q1: 12/11/17 ▪ Q2: 3/12/18 ▪ Q3: 6/11/18 ▪ Q4: 9/10/18
Termination of budget reductions	▪ § 203 (e)	▪ The Board should decide whether the government or instrumentality has made the appropriate measures to reduce expenditures or increase revenues and cancel the reductions	▪ Ongoing

¹ Per PROMESA, these dates must be 15 days after end of each quarter



Budget and Forecasting process

Define a timeline for each quarter's budget

- Certification process must adhere to PROMESA requirements
 - Should include, but not be limited to:
 - Certification process according to PROMESA requirements
 - Reporting, external auditing, and variance certifications
-

Set guiding principles for budget and forecasting

- Budget should be prepared...
 - Within the **confines of the overall fiscal plan**
 - As a **positive cash balance** with sufficient safety margin, due to lack of access to capital markets
-

Set, update, and track targets every quarter

- Use performance metrics, e.g.,:
 - Status? On track / Delayed / Completed
 - Reached target?
 - Above / below past instances?
- Implement measures to correct variances from budget



Disbursement process

Define disbursement process

- Set guidelines and principles
- Work to match budget to disbursement authorizations
- Identify an effective, centralized, and time-sensitive disbursement process that involves the adequate authorities
 - Incorporate a mechanism that confirms alignment between revenues and expenses

Implement a centralized disbursement digital database

- Centralize into a single Treasury account with a corresponding database
- Update and review periodically
- Set a minimum available liquidity threshold and an alert-system

Set, update, and track metrics every quarter

- Establish preventive measures
- Implement detective procedures to correct problems before they arise
- Design a process to correct variances from budget mid-year



Exhibit B

Covered Entities Under PROMESA

Covered Entities

The Financial Oversight and Management Board for Puerto Rico, at its meeting on September 30th, 2016, designated the following entities as initial covered entities subject to oversight under the Puerto Rico Oversight, Management and Economic Stability Act.

The list of entities below corresponds to the entities included in the Commonwealth's 2014 Comprehensive Annual Financial Report, adjusted to reflect entities that have been merged, eliminated or created since publication. The component units, subsidiaries or successors of each entity listed below also are designated as covered entities.

1. Commonwealth of Puerto Rico (Primary Government)⁽¹⁾
2. 9-1-1 Service Governing Board
3. Additional (Electronic) Lottery
4. Agricultural Enterprises Development Administration
5. Automobile Accidents Compensation Administration
6. Cardiovascular Center Corporation of Puerto Rico and the Caribbean
7. Commonwealth of Puerto Rico Regional Center Corporation
8. Company for the Integral Development of the "Península de Cantera"
9. Corporation for the "Caño Martín Peña" Project (ENLACE)
10. Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
11. Culebra Conservation and Development Authority
12. Economic Development Bank for Puerto Rico
13. Employees' Retirement System (ERS)
14. Employment and Training Enterprises Corporation
15. Farm Insurance Corporation of Puerto Rico
16. Fine Arts Center Corporation
17. Fiscal Agency and Financial Advisory Authority (AAFAF)
18. Governmental Development Bank for PR (GDB)⁽²⁾
19. Institute of Puerto Rican Culture
20. Institutional Trust of the National Guard of Puerto Rico
21. Judiciary Retirement System (JRS)
22. Land Authority of Puerto Rico
23. Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads
24. Model Forest
25. Municipal Revenue Collection Center (CRIM)
26. Musical Arts Corporation
27. Port of the Americas Authority
28. PR Aqueduct and Sewer Authority (PRASA)⁽³⁾
29. PR Electric Power Authority (PREPA)⁽⁴⁾
30. PR Highways and Transportation Authority (HTA)
31. PR Infrastructure Finance Authority (PRIFA)
32. PR Maritime Shipping Authority
33. PR Medical Services Administration (ASEM)
34. PR Sales Tax Financing Corporation (COFINA)
35. Public Building Authority (PBA)
36. Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (COSSEC)
37. Puerto Rico and Municipal Islands Transport Authority
38. Puerto Rico Conservatory of Music Corporation
39. Puerto Rico Convention Center District Authority (PRCCDA)
40. Puerto Rico Council on Education
41. Puerto Rico Health Insurance Administration (HIA / ASES)⁽⁵⁾
42. Puerto Rico Industrial Development Company (PRIDCO)
43. Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)
44. Puerto Rico Integrated Transit Authority (PRITA)⁽⁶⁾
45. Puerto Rico Land Administration
46. Puerto Rico Metropolitan Bus Authority (AMA)

47. Puerto Rico Municipal Finance Agency (MFA)
48. Puerto Rico Ports Authority
49. Puerto Rico Public Broadcasting Corporation
50. Puerto Rico Public Private Partnerships Authority (PPP)
51. Puerto Rico School of Plastic Arts
52. Puerto Rico Telephone Authority
53. Puerto Rico Tourism Company
54. Puerto Rico Trade and Export Company
55. Solid Waste Authority
56. Special Communities Perpetual Trust
57. State Insurance Fund Corporation (SIF)
58. Teachers' Retirement System (TRS)
59. The Children's Trust Fund (CTF)
60. Traditional Lottery
61. Unemployment Insurance Fund
62. University of Puerto Rico (UPR) ⁽⁷⁾
63. University of Puerto Rico Comprehensive Cancer Center

Footnotes

- (1) Includes, all departments, offices, programs, etc. and all funds related to Governmental and Business Activities of the Primary Government such as the General Fund Operating Budget and Non-Budgetary Funds.
- (2) To avoid any confusion, component units of GDB such as Public Finance Corporation (PFC), Housing Finance Authority (HFA), and the Tourism Development Fund (TDF) are specifically listed as covered entities.
- (3) To avoid any confusion, subsidiaries of PRASA such as PRASA Holdings, LLC and Zumfiber, LLC are specifically listed as covered entities.
- (4) To avoid any confusion, component units of PREPA such as PREPA Holdings, LLC and Puerto Rico Irrigation Systems are specifically listed as covered entities.
- (5) The designation of HIA/ASES as a covered entity covers both Proprietary and Agency Funds.
- (6) To avoid any confusion, component units of PRITA such as Puerto Rico Metropolitan Bus Authority (AMA) and Puerto Rico and Municipal Islands Transport Authority are specifically listed as covered entities.
- (7) To avoid any confusion, component units of UPR, such as UPR Plaza Universitaria (Desarrollos Universitarios), are specifically listed as covered entities.

Exhibit C

Known Litigation Proceedings Filed Against the Commonwealth or its Instrumentalities

Exhibit C

Pending Litigation¹

1. On January 7, 2016, certain insurers of bonds issued by the public corporations of the Commonwealth of Puerto Rico (the “Commonwealth”) filed a complaint against the Commonwealth’s Governor, Secretary of Treasury, Sub-secretary of Treasury, Secretary of Justice, and Director of Office of Management and Budget (the “OMB Director”), the Puerto Rico Tourism Company’s Executive Director (the “Tourism Director”), the President of the Government Development Bank for Puerto Rico (the “GDB”), and certain John Does seeking declaratory judgment that certain executive orders issued by the Governor violate the Takings Clause and Contracts Clause of the U.S. Constitution. *See Assured Guaranty Corp., et al. v. Garcia-Padilla, et al.*, No. 16-01037-FAB (D.P.R. Jan. 7, 2016).
2. On January 19, 2016, an insurer of debt issued by the Commonwealth and its public corporations filed a complaint against the Commonwealth’s Governor, Secretary of Treasury, Sub-secretary of Treasury, Secretary of State, Secretary of Justice, and OMB Director, the Tourism Director, the GDB’s President, and certain John Does seeking declaratory judgment that section 8 of the Puerto Rico Constitution, the Management and Budget Office Organic Act, and executive orders relating to the foregoing (a) are preempted by the Bankruptcy Code, (b) improperly operate in a field occupied by Congress, (c) conflict with the Bankruptcy Code, and (d) with respect to the executive orders, violate the Contracts Clause and Takings Clause of the U.S. Constitution. *See Financial Guaranty Insurance Company v. Garcia-Padilla, et al.*, No. 16-01095-FAB (D.P.R. Jan. 19, 2016).
3. On April 4, 2016, certain holders of outstanding bonds of the GDB, the Commonwealth’s fiscal agent and financial advisor, filed a complaint against the GDB seeking to enjoin the GDB from (a) making payments to its creditors, and (b) forgiving or compromising debts owed to GDB. *See Brigade Leveraged Capital Structures Fund Ltd., et al. v. the Government Development Bank for Puerto Rico*, No. 16-01610-FAB (D.P.R. Apr. 4, 2016).
4. On May 10, 2016, the insurer of over \$472 million of bonds issued by the Puerto Rico Highways and Transportation Authority (the “PRHTA”) filed a complaint against the PRHTA seeking expedited discovery into the PRHTA’s financial condition, the appointment of a receiver, and an injunction against PRHTA preventing it from further breaches of fiduciary or contractual duties owed to said insurer. *See Ambac Assurance Corp. v. Puerto Rico Highways and Transportation Authority*, No. 16-01893-FAB (D.P.R. May 10, 2016).
5. On June 15, 2016, the insurer of debt issued by the (a) Commonwealth, (b) PRHTA, (c) Puerto Rico Sales Tax Financing Corporation (“COFINA”), and (d) Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority filed a

¹ In addition to the matters described herein, there are two addition actions pending: (a) *Angel L. Acevedo Llamas v. Commonwealth of Puerto Rico, et al.*, Court of First Instance, San Juan Part, Civil No. K CD2016-0559, and (b) *Municipalities of San Juan and Carolina v. Government Development Bank and the Commonwealth of Puerto Rico*, Superior Court of San Juan, Consolidated Case Nos. SJ2016CV00091 and SJ2016CV00102.

complaint against the Commonwealth's Governor, Secretary of State, and OMB Director seeking declaratory judgment that sections 201 and 202 of the Moratorium Act are without force or effect because those provisions (a) are preempted by the Bankruptcy Clause and the Bankruptcy Code, (b) violate the Takings Clause and Contracts Clause, and (c) unconstitutionally purport to bar access to the federal courts. *See National Public Finance Guarantee Corp. v. Garcia Padilla, et al.*, No. 16-02101-FAB (D.P.R. June 15, 2016).

6. On June 21, 2016, certain beneficial owners of the Commonwealth's general obligation bonds filed a complaint against the Commonwealth and the Commonwealth's Governor, Secretary of Treasury, and OMB Director seeking declaratory relief that the Moratorium Act violates the (a) U.S. Constitution and Puerto Rico Constitution, including the Contracts Clause and Takings Clause of each, and (b) laws of the State of New York, which govern such bonds. *See Jacana Holdings I LLC et al. v. Commonwealth of Puerto Rico*, No. 16-04702-GHW (S.D.N.Y. June 21, 2016).
7. On June 30, 2016, certain holders of bonds issued by the GDB and Puerto Rico Public Finance Corporation (the "PRPFC") filed a complaint against the Commonwealth's Governor and Secretary of Department of Treasury, the Puerto Rico Fiscal Agency and Financial Advisory Authority (the "PRFAFAA"), PRFAFAA's Executive Director, the PRPFC, the GDB, and GDB's President seeking declaratory judgment that sections 105, 201, 203, 301, 302, and 401 of the Moratorium Act are void because those provisions (a) are preempted by the Bankruptcy Clause and the Bankruptcy Code, (b) violate the Takings Clause, Contracts Clause, and the Puerto Rico Constitution, and (c) unconstitutionally purport to bar access to the federal courts. *See Trigo, et al. v. Garcia-Padilla, et al.*, No. 16-02257-FAB (D.P.R. June 30, 2016).
8. On July 18, 2016, certain beneficial owner of bonds issued by the PRHTA filed a motion seeking relief from the PROMESA stay to commence and prosecute an action against the Commonwealth's Governor, Secretary of Treasury, and OMB Director, PRHTA, and PRHTA's Executive Director seeking declaratory judgment that sections 105, 201, and 202 of the Moratorium Act are void because those provisions (a) are preempted by the Bankruptcy Code and PROMESA, (b) violate the Bankruptcy Clause, Takings Clause, Contracts Clause, and the Puerto Rico Constitution, and (c) unconstitutionally purport to bar access to the federal courts. *See Peaje Inv. LLC v. Garcia-Padilla, et al.*, No. 16-02365-FAB (D.P.R. July 18, 2016).
9. On July 20, 2016, certain beneficial owners of bonds issued by the Commonwealth and its public corporations, guaranteed by the Commonwealth's good faith, credit, and taxing power, filed a complaint against the Commonwealth's Governor, Secretary of Treasury, and OMB Director seeking (a) declaratory judgment that certain measures taken by the Commonwealth permitting transfers outside of the ordinary course or in violation of the Commonwealth's constitution were prohibited under PROMESA, and (b) an injunction to prevent the same such transfers. *See Lex Claims, et al. v. Garcia Padilla, et al.*, No. 16-02374-FAB (D.P.R. July 20, 2016).
10. On July 21, 2016, certain issuers of insurance policies guaranteeing payments on bonds issued by the PRHTA filed a motion seeking emergency relief from the PROMESA stay in order to file a complaint seeking to enjoin the Commonwealth, the PRHTA, the GDB, the Commonwealth's Governor, the PRHTA's Executive Director, the Commonwealth's Secretary of Treasury, and various John Doe successors to the foregoing from diverting collateral of bondholders to fund

other expenses of the Commonwealth and its affiliates. *See Assured Guaranty Corp. v. Commonwealth of Puerto Rico, et al.*, No. 16-02384-FAB (D.P.R. July 21, 2016).

11. On August 19, 2016, the trustee to certain bonds issued by the University of Puerto Rico filed a complaint against the Commonwealth, the Commonwealth's Governor, and the university's President seeking, among other things, relief from the PROMESA stay, declaratory judgment that section 201 of the Moratorium Act is invalid pursuant to the Takings Clause and Contracts Clause, and an injunction compelling the defendants to comply with the trust agreement governing such bonds. *See U.S. Bank Trust, N.A. v. Garcia-Padilla, et al.*, No. 16-02510-FAB (D.P.R. Aug. 19, 2016).
12. On September 21, 2016, certain holders of bonds issued by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the "ERS") filed a motion for relief from the PROMESA stay unless adequate protection were granted by placing ERS revenues into a segregated account for the benefit of such holders. *See Altair Global Credit Opportunities Fund (A), LLC v. Garcia-Padilla, et al.*, No. 16-02696-FAB (D.P.R. Sep. 21, 2016).
13. On September 28, 2016, a lender to the Puerto Rico Metropolitan Bus Authority (the "AMA") filed a complaint against the Commonwealth's Governor, Secretary of Treasury, and OMB Director, AMA, the AMA's President, and PRHTA's Secretary seeking (a) relief from the PROMESA stay, (b) declaratory judgment that the Moratorium Act and an executive order issued in relation thereto (i) violate PROMESA, (ii) are preempted by the Bankruptcy Code, the Bankruptcy Clause, and PROMESA, (iii) violate the U.S. Constitution, including the Contracts Clause and Takings Clause, and (c) an injunction against the defendants enjoining them from diverting transfers of certain tax revenues. *See Scotiabank de Puerto Rico v. Garcia-Padilla, et al.*, No. 16-02736-FAB (D.P.R. Sep. 28, 2016).
14. On October 26, 2016, a participant in a certain housing loan program filed a complaint against the Commonwealth's Governor and Secretary of Treasury, the GDB and its President, and the Puerto Rico Housing Finance Authority and its Executive Director seeking (a) declaratory judgment that (i) the PROMESA stay is not applicable or, in the alternative, should be lifted, and (ii) declaring that section 201 of the Moratorium Act do not apply to the plaintiff's claims or, in the alternative, such provisions are unconstitutional and preempted, and (b) injunctions against the defendants compelling their compliance with applicable law and agreements. *See Oriental Bank v. Rosello-Nevares, et al.*, Case No. 16-02877-FAB (D.P.R. Oct. 26, 2016).
15. On December 15, 2016, a contractor with the Puerto Rico Aqueduct and Sewer Authority (the "PRASA") filed a complaint against the U.S. Environmental Protection Agency (the "EPA"), the GDB, a former President of the GDB, the Puerto Rico Environmental Quality Board, the PRASA, the Puerto Rico Infrastructure Finance Administration, and the Commonwealth's Governor seeking funds allegedly controlled by the EPA arising from a contract on the grounds that they have been improperly withheld in breach of contract, and in violation of said contractor's constitutional rights, including violations of the Due Process Clause, Takings Clause, and Contracts Clause. *See Longo En-Tech Puerto Rico, Inc. v. the United States Environmental Protection Agency, et al.*, No. 16-03151-DRD (D.P.R. Dec. 15, 2016).

16. On April 12, 2017, a labor union and certain individual members filed a complaint against the Oversight Board (including its members), the Commonwealth, and the Commonwealth's Governor seeking (a) declaratory judgment that the certified fiscal plan unconstitutionally (i) impairs the plaintiffs' rights, (ii) violates the Due Process and Takings Clauses of the U.S. Constitution, and (iii) was not lawfully developed, approved, and certified under PROMESA, and (b) an injunction against the defendants from implementing such fiscal plan. *See Servidores Publicos Unidos de Puerto Rico, et al. v. Financial Oversight and Management Board, et al.*, Case No. 17-01483-FAB (D.P.R. Apr. 12, 2017).
17. On May 2, 2017, the insurer of approximately \$1.3 billion of bonds issued by COFINA filed a complaint against the Commonwealth, its Governor, Secretary of Treasury, and OMB Director, the Executive Director of the Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico ("AAFAF"), the Oversight Board, each member of the Oversight Board, including its chairman and *ex officio* member, and any successors to the foregoing seeking (a) declaratory judgment that the fiscal plan and Fiscal Plan Compliance Law (i) are unconstitutional for violating the Contracts, Takings, and Due Process Clauses, (ii) unlawfully interfere with contractual rights, (iii) are preempted by PROMESA section 303, (iv) violate PROMESA section 407, and (v) violate the Commonwealth's covenants under the COFINA Resolution, and (b) an injunction against the defendants from taking any action pursuant to the fiscal plan or Fiscal Plan Compliance Law. *See Ambac Assurance Corp. v. Commonwealth of Puerto Rico, et al.*, Case No. 17-01567 (D.P.R. May 2, 2017).
18. On May 2, 2017, the insurer of a wide variety of Commonwealth debt, across numerous structures, filed a complaint against the Commonwealth's Governor, Secretary of Treasury, and OMB Director, the AAFAF's Executive Director, the Oversight Board, each member of the Oversight Board, including its chairman and *ex officio* member, and any successors to the foregoing seeking (a) declaratory judgment that (i) each of the Moratorium Act, executive orders issued thereunder, the fiscal plan, and the Fiscal Plan Compliance Act (A) violates the Contracts, Takings, and Due Process clauses, (B) interferes with Ambac Assurance Corp.'s contractual rides, (C) is preempted by section 303 of PROMESA, and (D) violates section 407 of PROMESA, and (ii) the orders issued under the Moratorium Act unconstitutionally deprive litigants access to courts, and (b) an injunction against the defendants from taking any action pursuant to the fiscal plan or Fiscal Plan Compliance Law. *See Ambac Assurance Corp. v. Commonwealth of Puerto Rico, et al.*, Case No. 17-01568 (D.P.R. May 2, 2017).
19. On May 2, 2017, the insurer of approximately \$471 million of bonds issued by the Puerto Rico Infrastructure Financing Authority ("PRIFA") filed a complaint against the U.S. Department of Treasury, its Secretary of Treasury, and any successor thereto seeking (a) an equitable lien on taxes imposed by the U.S. government on the sale of rum produced in the Commonwealth and sold in the United States (the "Rum Taxes"), and (b) either (i) an injunction against the defendants from remitting the Rum Taxes to the Commonwealth, or (ii) the appointment of a receiver to hold all Rum Taxes in escrow pending resolution of lawsuits related thereto. *See Ambac Assurance Corp. v. U.S. Department of Treasury, et al.*, Case No. 17-00809 (D.D.C. May 2, 2017).
20. On May 2, 2017, holders of senior COFINA bonds filed a complaint against the Commonwealth's Governor, the GDB, its President, COFINA, its Executive Director, AAFAF,

board members of the GDB and COFINA, and the *ex officio* member of the Oversight Board seeking (a) declaratory judgment the defendants (i) substantially impaired the plaintiffs' contractual rights, and (ii) took property without just compensation or due process, (b) a writ of mandamus ordering the defendants to amend the fiscal plan and allowing the plaintiffs to inspect documents related to the restructuring of the Commonwealth's debts, (c) an injunction against the defendants prohibiting them from further violations of contractual, property, and constitutional rights, and (d) related relief. *See Perelló, et al. v. Nevares, et al.*, Case No. 17-01566 (D.P.R. May 2, 2017).

21. On May 2, 2017, the insurer of \$800 million in principal amount of bonds issued by COFINA filed a complaint against the trustee of such bonds seeking (a) damages against the trustee, (b) a declaration that the trustee breached (i) its fiduciary and other duties to the plaintiff, (ii) the resolution executed in connection with such bonds, and (iii) the covenant of good faith and fair dealing implied in such resolution, (c) a declaration that the plaintiff may remove the trustee, (d) an injunction against the trustee prohibiting further payments to subordinate bondholders, (e) an injunction compelling the trustee to recognize an event of default in connection with such bonds and accelerate payment thereof, and (f) a declaration that the trustee has a conflict of interest and must resign. *See Ambac Assurance Corp. v. the Bank of New York Mellon*, Case No. 652356/2017 (N.Y. Supreme Ct. May 2, 2017).
22. On May 2, 2017, certain beneficial owners of approximately \$1.4 billion in principal amount of general obligation bonds issued by the Commonwealth filed a complaint against the Commonwealth and its Secretary of Treasury seeking (a) an injunction compelling the Secretary of Treasury to "apply all available resources of the Commonwealth to timely payment of all amounts that are or become due on the [bonds]," and (b) money damages owed to the plaintiffs, including all overdue interest on principal, all amounts of principal, and prejudgment interest. *See Aurelius Investment LLC, et al. v. the Commonwealth of Puerto Rico, et al.*, Case No. 652357/2017 (N.Y. Supreme Ct. May 2, 2017).

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)

I. (a) PLAINTIFFS
Commonwealth of Puerto Rico (Debtor)

County of Residence of First Listed Plaintiff
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address, and Telephone Number)
Proskauer Rose LLP, 11 Times Square, New York, NY 10036, Tel: 212-69-3000; O'Neill & Borges LLC, 250 Munoz Rivera Ave, San Juan, Puerto Rico 00910 Tel: 787 761 0101

DEFENDANTS

County of Residence of First Listed Defendant
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys (If Known)

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

☐ 1 U.S. Government Plaintiff
☒ 3 Federal Question (U.S. Government Not a Party)
☐ 2 U.S. Government Defendant
☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

PTF DEF

Citizen of This State ☐ 1 ☐ 1 Incorporated or Principal Place of Business in This State

Citizen of Another State ☐ 2 ☐ 2 Incorporated and Principal Place of Business in Another State

Citizen or Subject of a Foreign Country ☐ 3 ☐ 3 Foreign Nation

IV. NATURE OF SUIT (Place an "X" in One Box Only)

CONTRACT

☐ 110 Insurance
☐ 120 Land Condemnation
☐ 130 Marine
☐ 140 Negotiable Instrument
☐ 150 Recovery of Overpayment & Enforcement of Judgment
☐ 151 Medicare Act
☐ 152 Recovery of Defaulted Student Loans (Excludes Veterans) of Veteran's Benefits
☐ 160 Stockholders' Suits
☐ 190 Other Contract
☐ 195 Contract Product Liability
☐ 196 Franchise

TORTS

PERSONAL INJURY

☐ 310 Airplane
☐ 315 Airplane Product Liability
☐ 320 Assault, Libel & Slander
☐ 330 Federal Employers' Liability
☐ 340 Marine
☐ 345 Marine Product Liability
☐ 350 Motor Vehicle
☐ 355 Motor Vehicle Product Liability
☐ 360 Other Personal Injury
☐ 362 Personal Injury - Medical Malpractice

PERSONAL INJURY

☐ 365 Personal Injury - Product Liability
☐ 367 Health Care/Pharmaceutical Personal Injury
☐ 368 Asbestos Personal Injury Product Liability
☐ 370 Other Fraud
☐ 371 Truth in Lending
☐ 380 Other Personal Property Damage
☐ 383 Property Damage Product Liability

PERSONAL PROPERTY

☐ 370 Other Fraud
☐ 371 Truth in Lending
☐ 380 Other Personal Property Damage
☐ 383 Property Damage Product Liability

CIVIL RIGHTS

☐ 440 Other Civil Rights
☐ 441 Voting
☐ 442 Employment
☐ 443 Housing/Accommodations
☐ 445 Amer. w/Disabilities - Employment
☐ 446 Amer. w/Disabilities - Other
☐ 448 Education

PRISONER PETITIONS

Habeas Corpus:

☐ 463 Alien Detainee
☐ 510 Motions to Vacate Sentence
☐ 530 General
☐ 535 Death Penalty

Other:

☐ 540 Mandamus & Other
☐ 550 Civil Rights
☐ 555 Prison Condition
☐ 560 Civil Detainee - Conditions of Confinement

OTHER STATUTES

☐ 375 False Claims Act
☐ 376 Qui Tam (31 USC 3729(a))
☐ 400 State Reapportionment
☐ 410 Antitrust
☐ 430 Banks and Banking
☐ 450 Commerce
☐ 460 Deportation
☐ 470 Racketeer Influenced and Corrupt Organizations
☐ 480 Consumer Credit
☐ 490 Cable/Sat TV
☐ 850 Securities/Commodities/Exchange
☒ 890 Other Statutory Actions
☐ 891 Agricultural Acts
☐ 893 Environmental Matters
☐ 895 Freedom of Information Act
☐ 896 Arbitration
☐ 899 Administrative Procedure Act/Review or Appeal of Agency Decision
☐ 950 Constitutionality of State Statutes

V. ORIGIN (Place an "X" in One Box Only)

☒ 1 Original Proceeding
☐ 2 Removed from State Court
☐ 3 Remanded from Appellate Court
☐ 4 Reinstated or Reopened
☐ 5 Transferred from Another District (specify)
☐ 6 Multidistrict Litigation - Transfer
☐ 8 Multidistrict Litigation - Direct File

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity):
48 U.S.C.A. §§ 2101-2241.

Brief description of cause:
Title III case under the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C.A. §§ 2101-2241

VII. REQUESTED IN COMPLAINT:

☐ CHECK IF THIS IS A CLASS ACTION UNDER RULE 23, F.R.Cv.P.
☐ CHECK YES only if demanded in complaint:
JURY DEMAND: ☐ Yes ☒ No

VIII. RELATED CASE(S) IF ANY

(See instructions):
JUDGE
DOCKET NUMBER

DATE
May 3, 2017

SIGNATURE OF ATTORNEY OF RECORD
Hermann D. Bauer

RECEIPT #
AMOUNT
APPLYING IFP
JUDGE
MAG. JUDGE

INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS 44

Authority For Civil Cover Sheet

The JS 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

- I.(a) Plaintiffs-Defendants.** Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.
- (b) County of Residence.** For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the "defendant" is the location of the tract of land involved.)
- (c) Attorneys.** Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section "(see attachment)".
- II. Jurisdiction.** The basis of jurisdiction is set forth under Rule 8(a), F.R.Cv.P., which requires that jurisdictions be shown in pleadings. Place an "X" in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.
United States plaintiff: (1) Jurisdiction based on 28 U.S.C. 1345 and 1348. Suits by agencies and officers of the United States are included here.
United States defendant. (2) When the plaintiff is suing the United States, its officers or agencies, place an "X" in this box.
Federal question. (3) This refers to suits under 28 U.S.C. 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.
Diversity of citizenship. (4) This refers to suits under 28 U.S.C. 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked. (See Section III below; **NOTE: federal question actions take precedence over diversity cases.**)
- III. Residence (citizenship) of Principal Parties.** This section of the JS 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.
- IV. Nature of Suit.** Place an "X" in the appropriate box. If there are multiple nature of suit codes associated with the case, pick the nature of suit code that is most applicable. Click here for: [Nature of Suit Code Descriptions](#).
- V. Origin.** Place an "X" in one of the seven boxes.
Original Proceedings. (1) Cases which originate in the United States district courts.
Removed from State Court. (2) Proceedings initiated in state courts may be removed to the district courts under Title 28 U.S.C., Section 1441.
When the petition for removal is granted, check this box.
Remanded from Appellate Court. (3) Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.
Reinstated or Reopened. (4) Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.
Transferred from Another District. (5) For cases transferred under Title 28 U.S.C. Section 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.
Multidistrict Litigation – Transfer. (6) Check this box when a multidistrict case is transferred into the district under authority of Title 28 U.S.C. Section 1407.
Multidistrict Litigation – Direct File. (8) Check this box when a multidistrict case is filed in the same district as the Master MDL docket.
PLEASE NOTE THAT THERE IS NOT AN ORIGIN CODE 7. Origin Code 7 was used for historical records and is no longer relevant due to changes in statute.
- VI. Cause of Action.** Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC 553 Brief Description: Unauthorized reception of cable service
- VII. Requested in Complaint.** Class Action. Place an "X" in this box if you are filing a class action under Rule 23, F.R.Cv.P.
Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction.
Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.
- VIII. Related Cases.** This section of the JS 44 is used to reference related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.

Date and Attorney Signature. Date and sign the civil cover sheet.

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

CATEGORY SHEET

You must accompany your complaint with this Category Sheet, and the Civil Cover Sheet (JS-44).

Attorney Name (Last, First, MI): Bauer Alvarez, Hermann D.

USDC-PR Bar Number: 215205

Email Address: hermann.bauer@oneillborges.com

1. Title (caption) of the Case (provide only the names of the first party on each side):

Plaintiff: Commonwealth of Puerto Rico (Debtor)

Defendant:

2. Indicate the category to which this case belongs:

☒ Ordinary Civil Case

☐ Social Security

☐ Banking

☐ Injunction

3. Indicate the title and number of related cases (if any).

4. Has a prior action between the same parties and based on the same claim ever been filed before this Court?

☐ Yes

☒ No

5. Is this case required to be heard and determined by a district court of three judges pursuant to 28 U.S.C. § 2284?

☐ Yes

☒ No

6. Does this case question the constitutionality of a state statute? (See, Fed.R.Civ. P. 24)

☐ Yes

☒ No

Date Submitted: May 3, 2017

rev. Dec. 2009

Print Form

Reset Form