

THE FACTS ABOUT PUERTO RICO'S PUBLIC CORPORATIONS

DEBT ENFORCEMENT AND RECOVERY ACT

The Puerto Rico Public Corporations Debt Enforcement and Recovery Act is a solution to ensure that vital public services such as the delivery of electricity, gas and clean water are not interrupted in the short-term. The Act ensures that these essential services, the institutions that provide them, and the jobs of the thousands of hard-working employees, who make it all possible, are sustained in the long-term, and that the collective interests of creditors are protected.

A Solution to a Crisis

Companies across industries. local governments and municipalities in the U.S. are able to turn to critically important restructuring laws when there is a need to overcome near-term financial obstacles. However, Puerto Rico's public corporations fall into an unintended gap in the legal system. Given the level of government ownership and control, these businesses cannot file under the chapter of the Bankruptcy Code used by privately-owned companies (Chapter 11), yet they are not municipalities of States able to file under Chapter 9. As a result, they are left with no course of action - unable to correct a financial problem, invest in future service needs, protect creditors or even ensure uninterrupted service today.

How it Works

The Recovery Act is a simple solution that fills the gaps in current law. Designed as an option of last resort, it protects the public interest and creditors by giving public corporations a controlled, orderly way to negotiate with creditors to lower debt and create a more promising future for their business — and all who depend on them. The Act not only offers a critically important option for public corporations in financial distress, it is a path to meeting the Governor's mandate that all of Puerto Rico's public corporations own their fiscal challenges and become self-sustaining businesses.

There are two paths to a successful restructuring – both of which ensure consistent service for the public, both during and after the negotiations.

CHAPTER 2: The first path, known as Chapter 2, encourages the corporation and the affected creditors to reach an agreement on their own — without the intervention of a judge. When a 75-percent supermajority of the affected creditors agrees to the plan, the parties appear in court to have the plan approved by a judge. Once approved, the amendments are binding on all affected creditors.

CHAPTER 3: The second path, known as Chapter 3, is overseen by a court in Puerto Rico, which can help to end a stalemate in negotiations. A committee is appointed to represent the interest of the named creditors. The court ensures that all creditors receive payment equal to what they would receive if they all demanded immediate payment while the corporation was in its current state of financial distress.

Helping Puerto Ricans

Passage of the Recovery Act will ensure that the lights stay on, the highways stay open and the water keeps running in Puerto Rico. Just like many families hard hit by the recession, the government of Puerto Rico needs a new set of tools and a clear legislative path to help public corporations manage their debt. The Recovery Act makes the path to sustainability more certain.

Why Now?

The importance of the services provided by public sector businesses requires immediate action to fill the gap in the restructuring law and ensure that no critical services are jeopardized. Continued speculation and uncertainty about the financial health of public corporations – and the lack of the rules and procedures to address these challenges – has begun to impact Puerto Rico's current economic and fiscal plans. The Recovery Act addresses this by giving public corporations the opportunity to overcome their financial challenges and thereby no longer depend on the General Fund.

The Outlook

The Government Development Bank, along with the individual management teams of Puerto Rico's public corporations, are optimistic that they will be able to reverse their financial challenges and continue serving customers for many years to come simply by implementing measures outlined in the recently passed Fiscal Sustainability Act, making operational improvements, and having the ability to use the restructuring options in the proposed Recovery Act.



THE FACTS ABOUT PUERTO RICO'S PUBLIC CORPORATIONS DEBT ENFORCEMENT AND RECOVERY ACT

The Recovery Act is a solution to ensure that the delivery of vital public services is not interrupted due to a financial emergency. Designed as an option of last resort, it gives public businesses a controlled, orderly way to negotiate with creditors to lower debt and create a more promising future for their business — and all who depend on them.

BENEFITS



Ensures that **critical power, water, highway, and sanitation services** will never be interrupted in a financial emergency.



The orderly process stabilizes the system.
Services continue; consumers continue to pay for those services; and a sustainable future is secured.



The Recovery Act fills a glaring gap in the legal code, giving Puerto Rican public companies the same rights as private companies and U.S. states

TWO OPTIONS*-

CHAPTER 2

Market-based approach with limited court involvement



STEP 1

The public corporation chooses debts to renegotiate. It cannot unilaterally reduce amounts owed to employees and suppliers



STEP 2

Some creditors won't be allowed to exercise remedies under their contracts for up to 9 months



STEP 3

The company and creditors negotiate with minimum business disruption



STEP 4

The company develops a "Recovery Program" to become self-sustaining



STEP 5

50% of creditors must vote and 75-percent of those must agree



STEP 6:

A judge approves and the plan becomes binding on all creditors



STEP 7

A 3-person independent oversight committee monitors progress and provides updates

CHAPTER 3

Increased court oversight

STEP 1

Company files a petition to initiate the process



STEP2

Only debt issued by the corporation is affected



STEP 3

Some creditors won't be allowed to exercise remedies under their contracts



STEP 4

A committee is appointed to represent creditors



STEP 5

Payment based on what each would have received if all demanded it immediately



STEP 6

Only one class of creditors must approve plan



STEP 7

A special court oversees the plan and it becomes binding on all creditors



^{*} The following governmental entities are not eligible to seek relief under the Recovery Act: the Commonwealth, the seventy-eight municipalities of the Commonwealth, GDB and its subsidiaries, affiliates, and ascribed entities, the Children's Trust, the Employees Retirement System, the Judiciary Requirement System, the Municipal Finance Agency, the Municipal Finance Corporation, the Puerto Rico Industrial Development Company, the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, the Puerto Rico Infrastructure Financing Authority, Puerto Rico Sales Tax Financing Corporation, the Puerto Rico System of Annuities and Pensions for Teachers, and the University of Puerto Rico.