



COMMONWEALTH OF
PUERTO RICO

Government Development Bank
for Puerto Rico

PRESS RELEASE

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**GOVERNMENT DEVELOPMENT BANK PRESIDENT MELBA ACOSTA ADDRESSES
U.S. HOUSE OF REPRESENTATIVES SUBCOMMITTEE
ON REGULATORY REFORM, COMMERCIAL AND ANTITRUST LAW**

*GDB and Commonwealth of Puerto Rico Support H.R. 870, Which Would Make Puerto Rico
Eligible for Chapter 9 of the U.S. Bankruptcy Code, Promote Stability and Enhance
Investment and Capital Markets Access*

*President Provides Subcommittee with Overview of Puerto Rico's Fiscal Situation and
Need for Legal Regime to Allow Public Corporations to Adjust Debt in Orderly Fashion*

San Juan, P.R. – Today, Government Development Bank for Puerto Rico (“GDB”) President Melba Acosta Febo addressed the U.S. Congressional Subcommittee on Regulatory Reform, Commercial and Antitrust Law to provide the GDB’s views on H.R. 870, which would amend Title 11 of the U.S. Bankruptcy Code to treat Puerto Rico as a state for the purposes of Chapter 9 related to the adjustment of municipal debt.

The GDB believes it is of critical importance that Puerto Rico have the right to reorganize the debt of its public corporations in an orderly fashion, and strongly supports any measure that would provide Puerto Rico with this right, such as H.R. 870.

In her prepared remarks, President Acosta noted that the fiscal and economic situation in the Commonwealth has reached a critical moment, and the Legislative Assembly has declared a fiscal emergency in Puerto Rico. Puerto Rico has been disproportionately impacted by the recession, and unprecedented economic difficulties have contributed to rising budget deficits at all levels of government, including Puerto Rico’s public corporations.

Key highlights from President Acosta’s remarks before the Subcommittee can be found below.

Governor Alejandro García Padilla took office in 2013 and forcefully responded to these unprecedented fiscal challenges in an effort to achieve long-term fiscal sustainability. One critical component of the administration’s commitment to fiscal sustainability is ensuring that Puerto Rico’s public corporations can become self-sufficient and are no longer dependent on voluntary contributions by the GDB or the central government for their financing needs. Puerto Rico’s public corporations are essential to the wellbeing of residents because they

provide basic public services including water and wastewater services, electric power, and transportation.

Public corporations have historically financed their deficits by relying on the central government in Puerto Rico, loans from the GDB or private sector banks, and capital market financings. These recurring deficits inflated the debt of these public corporations. Some of these public corporations currently lack market access and have been shut out from private bank financing. Neither the central government nor GDB has the liquidity to shore up deficits or finance necessary capital expenditures at these public corporations. Meanwhile, Puerto Rico's infrastructure, including its power generating plants and electricity distribution network, are outdated and inefficient and require substantial capital investment.

The Puerto Rico Legislative Assembly adopted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (No. 71-2014) (the "Recovery Act") in June 2014 in an effort to allow public corporations to address their fiscal problems, while protecting the collective interest of all of their constituents.

The Recovery Act filled a gap left by the U.S. Bankruptcy Code and is designed and intended to permit Puerto Rico's public corporations to adjust their debt in an orderly process—with creditor input and court supervision—much like Chapters 9 and 11 of the U.S. Bankruptcy Code. The Recovery Act also ensured that provision of essential public services to Puerto Rico's residents will not be interrupted in the event of a fiscal emergency at one of the public corporations.

On February 6, 2015, the U.S. District Court for the District of Puerto Rico enjoined enforcement of the Recovery Act, holding that the Recovery Act is unconstitutional. Both the Government of Puerto Rico and the GDB disagree with this decision, which is being appealed to the U.S. Court of Appeals for the First Circuit. Ultimately, the GDB believes the appeal will be successful, but there would be no need for the Recovery Act if the U.S. Bankruptcy Code is amended so that Chapter 9 applies to Puerto Rico.

The unavailability of any feasible legislative option other than the Recovery Act to adjust debts of Puerto Rico's public corporations—such as under Chapter 9 of the U.S. Bankruptcy Code—has created an environment of uncertainty that makes it more difficult to address Puerto Rico's fiscal challenges and threatens Puerto Rico's economic future.

Currently, credit markets require a risk premium to compensate for uncertainty in the market created by the lack of a clear mechanism for reorganization. The lack of a clear debt adjustment mechanism negatively affects investor appetite for Puerto Rico's upcoming bond

issuance, which is necessary to provide the central government and GDB with liquidity. It also undermines the Administration's commitment to making public corporations self-sufficient and financially independent. Lastly, the lack of a clear adjustment option generally depresses economic growth in Puerto Rico, and makes long-term investment and capital expenditure plans at public corporations nearly impossible.

Debt-adjustment tools, like those found in Chapter 9, provide significant economic benefits to public instrumentalities but also to creditors because legal regimes provide predictability. The uncertainty surrounding the high level of debt held by Puerto Rico governmental entities is an impediment to the very sort of economic activity that is fundamental to Puerto Rico's economic recovery, namely private investment.

If the Commonwealth's public corporations default on their obligations and there is no clear legal regime, creditors may attempt to engage in a race to the courthouse and exercise remedies that could trigger years of litigation, exacerbate liquidity pressures, and have an adverse effect on economic growth. This would only exacerbate Puerto Rico's overall fiscal situation, and creditors would be in a worse position than they would be in under an orderly, consensual process.

No decision has been made as to whether any public corporation intends to file under Chapter 9 were it to become available, and the Commonwealth of Puerto Rico and the GDB see Chapter 9 only as an option of last resort. Chapter 9 establishes a legal regime that is already understood by the capital markets, creditors, prospective lenders, and suppliers. It would provide an orderly process which requires public corporations to negotiate in good faith, creates an environment to reach consensus and allows the process to be supervised by an experienced court. Legal precedent under Chapter 9 will give debtors and creditors a useful roadmap that offers more certainty as to their substantive rights and expected procedures.

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