



Commonwealth of Puerto Rico Title III Case: Plan Support Agreement

February 9, 2020



Executive Summary: Plan Support Agreement Highlights

The Financial Oversight and Management Board for Puerto Rico (“FOMB” or “Board”) has reached a new and more favorable Plan Support Agreement (“PSA”)

- This PSA modifies the September 2019 Plan of Adjustment (“Initial PoA”) with regard to several factors:
 - **Lower Debt Service Payments:** Decrease of \$4.8 billion in debt service relative to Initial PoA
 - **More Rapid Deleveraging:** Debt maturity limited to 20 years versus 30 years in Initial PoA
 - **Additional Support:** Increase from ~\$3 billion in support to ~\$8 billion of creditor support

	Initial Plan of Adjustment (9.27.19)	Plan Support Agreement (“PSA”) (2.9.20)
Total Consideration in Plan of Adjustment	▪ \$14.677 billion	▪ \$14.478 billion
Reduction of Total Liabilities	▪ \$23 billion reduction of \$35 billion in liabilities, a 66% decrease	▪ \$24 billion reduction of \$35 billion in liabilities, a 70% decrease
Total Debt Service (incl. COFINA)	▪ Reduction from \$90.4 billion to \$44.6 billion, a 51% decrease	▪ Reduction from \$90.4 billion to \$39.7 billion, a 56% decrease
New Debt	▪ Maximum of \$11.8 billion	▪ \$10.7 billion
Security Structure	▪ 100% GO	▪ 50% GO / 50% COFINA Jr.
Max. Annual Debt Service (incl. COFINA)	▪ \$1.5 billion, down from \$4.2 billion, a 64% decrease	▪ \$1.5 billion, down from \$4.2 billion, a 64% decrease
PSA Fee for Retail Holders	▪ None	▪ \$50 million set aside so that retail holders are treated equally to PSA parties



Plan Support Agreement: Overview and Background

- **The Commonwealth of Puerto Rico (the “Commonwealth”) filed for a Title III proceeding on May 3, 2017**
 - About \$35 billion of funded bond debt and unsecured claims and \$55 billion in pension obligations are expected to be adjusted through a Commonwealth Plan of Adjustment
- **Puerto Rico has suffered an economic and demographic decline, as detailed in the 2019 Fiscal Plan for the Commonwealth**
 - Relative to 2005, the economy is \$16 billion smaller (in real terms) and the population has fallen by more than half a million
- **Several natural disasters hit the island, causing unprecedented and catastrophic damage to Puerto Rico**
 - Hurricane Irma and Maria hit the island in September 2017, causing over \$100 billion in damage, more than Puerto Rico’s annual GNP
 - While federal emergency funds provided a temporary boost in economic activity post-Hurricane Maria, economic fundamentals have remained fragile; the 2019 Fiscal Plan proposes a series of structural reforms to improve Puerto Rico’s economic trajectory
 - Ongoing seismic swarm since January 2020 resulting in tens of billions of dollars in estimated damage
- **On September 27, 2019, the FOMB filed the initial Plan of Adjustment (the “PoA”) and an initial Disclosure Statement**
 - Put the Commonwealth on a path to emerge from Title III with a sustainable capital structure
 - Began the process of restoring future access to the capital markets
- **Since filing the initial PoA, the FOMB, and GO/PBA creditors have continued to engage in mediation and entered into a Plan Support Agreement (“PSA”)⁽¹⁾**
 - Significantly increases creditor support and minimizes both litigation and confirmation risk
 - The FOMB expects to file an amended Plan of Adjustment consistent with the PSA, on or before February 28th

(1) The Initial Plan Support Agreement (the “initial PSA”) of May 2019 was terminated upon joint agreement and is of no force and effect.



Summary of Pension Benefit Terms

The PSA does not change treatment afforded to pensioners as part of the agreement negotiated and signed with the Official Committee of Retirees.

- Covers over 300,000 active and retired employees and their beneficiaries who are participants of Employees Retirement System (ERS), Teachers Retirement System (TRS), or Judiciary Retirement System (JRS)
- In 2016, when Congress passed PROMESA, the Commonwealth owed Puerto Rican retirees over \$50 billion in pension benefits that were unfunded

Impact on Pensions	<ul style="list-style-type: none">▪ Pensions of approximately 75% of current and future retirees unaffected▪ Pensions of <\$1,200 a month unaffected▪ Medical insurance benefits unaffected▪ No individual will have their monthly retirement benefit reduced by more than 8.5%⁽¹⁾
Pension Reserve Fund	<ul style="list-style-type: none">▪ An independently managed pension reserve fund (“Pension Reserve”) will be established to ensure sufficient funds for pension benefits▪ The Pension Reserve will receive contributions from the Commonwealth cash surpluses projected in the Fiscal Plan▪ Based on Fiscal Plan projections, the Pension Reserve is forecasted to receive ~\$6 billion in contributions from the Commonwealth over the next eight years
Pension Benefit Restoration	<ul style="list-style-type: none">▪ In any of the next 15 years, if the Commonwealth generates a higher cash budget surplus than projected per the Fiscal Plan, retirees will receive 10% of the surplus in additional cash▪ That portion of the surplus will be paid to retirees up to the amount that retirees’ original pension benefit was reduced▪ In years during which the Commonwealth’s fiscal situation is better than expected, original pension payments would effectively be restored

(1) Only benefits accrued prior to May 4, 2017 are subject to reduction. Benefits accrued on and after May 4, 2017 are unaffected.



Plan Support Agreement: Key Highlights

Financial Sustainability and Market Access

- Sets a sustainable capital structure for the Commonwealth in the future by limiting overall tax-supported debt service (inclusive of COFINA Senior) to below the average debt service of the top-10 most indebted U.S. states; **less than 9% from 28% previously**
- Restructured Commonwealth debt service (excludes COFINA Senior) is limited to **20 years**, instead of 30 years, and declines significantly over time
- PSA and PoA will provide for the implementation of sound debt management policies, including a cap on overall tax-supported debt
- Plan shall provide clarity for the Commonwealth and market participants on resolution of the Commonwealth's Title III proceedings and begins the process of restoring access to the capital markets

Deleveraging

- The PSA reduces maximum annual tax-supported debt service inclusive of COFINA from \$4.2 billion to \$1.5 billion, a reduction of **\$2.7 billion**
- The plan shall provide bondholders and creditors with blended overall recoveries on \$35 billion of Commonwealth claims of **41.3%** (excluding recoveries from non-tax supported entities)⁽¹⁾

(1) Excludes PSA Fee. Excludes recoveries from ERS Own-Source assets.



Plan Support Agreement: Key Highlights

Bond-Related Litigation

- The Initial PSA included a litigation trust and process to continue litigating the validity of the bonds issued in and after 2011
- The FOMB, through the mediation process, has reached a settlement on both the validity of the post-2011 GO bonds and on the priority of the GO bonds, realizing substantial savings for the Commonwealth
 - **Priority litigation:** FOMB has realized ***\$6.8 billion in total upfront savings*** and ***\$11.0 billion of total debt service savings⁽¹⁾***
 - **Validity litigation:** FOMB has realized ***\$435 million in total upfront savings*** and ***\$704 million of total debt service savings⁽²⁾***
- Moreover, reaching a settlement with the GO holders serves to protect the funding of the pension trust and the ongoing payments to retirees
- Notwithstanding the settlement of GO priority and validity litigation, the Board continues to pursue validity litigation with respect to other claims
 - ERS Bonds: ***\$3.1 billion***
 - Clawback Bonds: ***\$8.1 billion***
 - Third Party Claims: Claims against underwriters and other avoidance actions

(1) Includes the benefit of discounts received pursuant to the invalidity litigation.

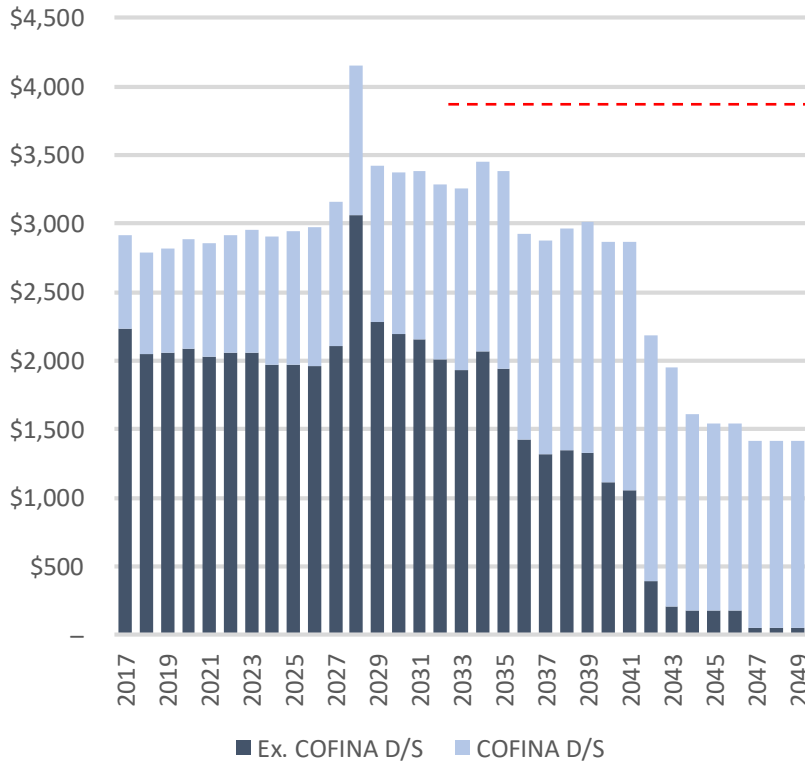
(2) Represents consideration that would have been paid to bondholders had discounts – per the settlement in lieu of litigation – not been applied.

Plan Support Agreement: Pre-Petition Debt Service Comparison

The Plan Support Agreement, together with the COFINA Plan of Adjustment, successfully achieves a sustainable capital structure by reducing total tax-supported debt service from \$90.4 billion to \$39.7 billion from FY17 to FY49.

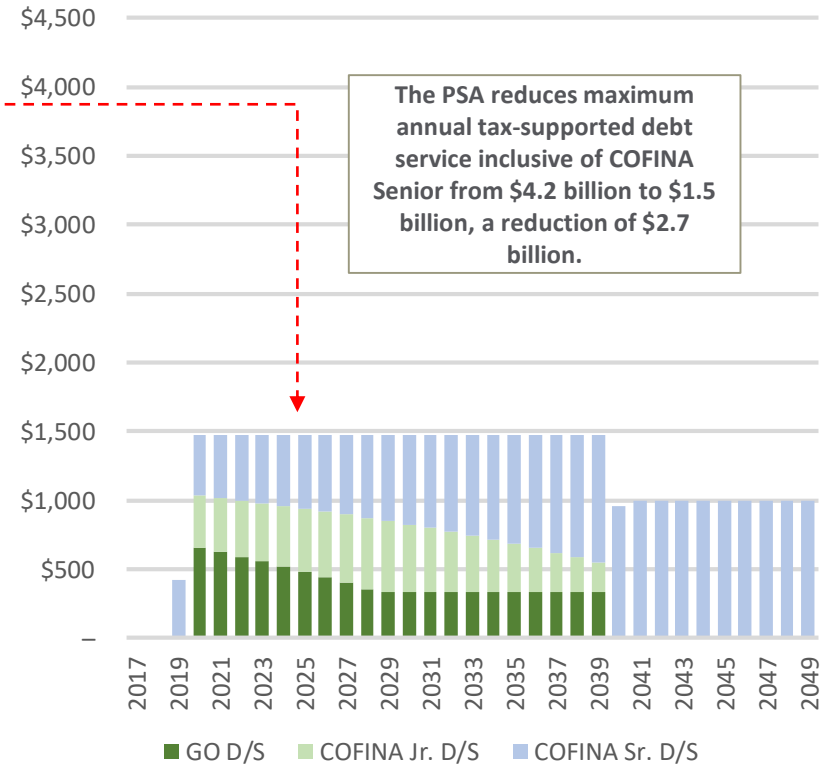
COMMONWEALTH PRE-PLAN DEBT SERVICE

(\$ in millions)



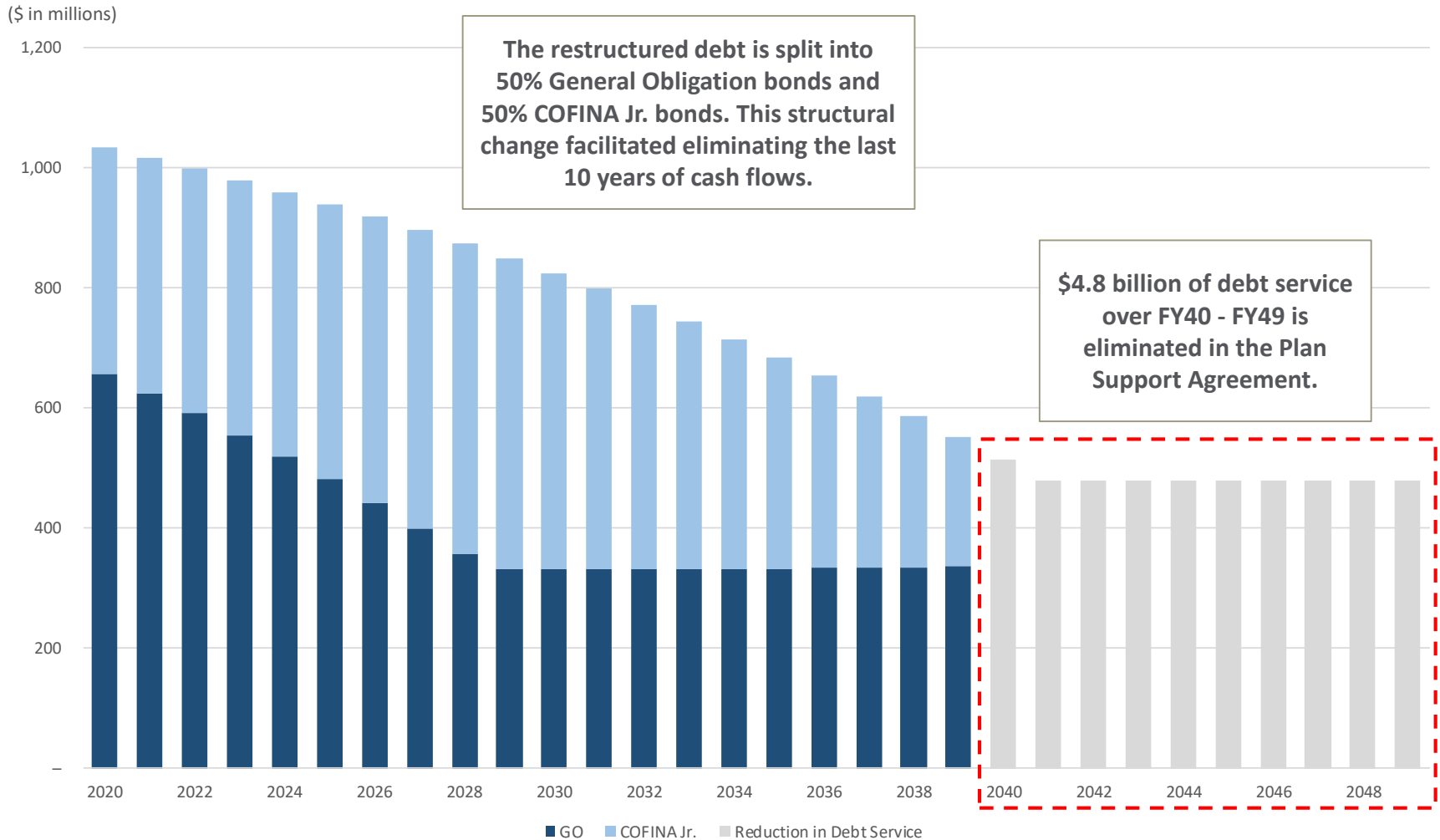
COMMONWEALTH POST-PLAN DEBT SERVICE

(\$ in millions)



Plan Support Agreement: Reduction in Maximum Maturity

The Plan Support Agreement reduces debt service from 30 years as contemplated in the filed Plan of Adjustment to 20 years, providing the Commonwealth with significant financial flexibility in the long-term.



Plan Support Agreement: Bondholder Recoveries

- The PSA provides a framework for a Plan of Adjustment with \$10.7 billion of new debt and \$3.8 billion of cash as consideration for ~\$35 billion in Commonwealth debt and unsecured claims
- Validity of the 2011, 2012, and 2014 bonds is settled via discounts to pre-2011 recoveries
 - Discounts resulting from the settlement *provide benefit to the Commonwealth in the amount of \$435 million*

(\$ in billions)

	Claim ⁽¹⁾	Recovery ⁽¹⁾ (Claims as of relevant Petition Date)	Recovery ⁽¹⁾ (Claims as of Deemed Issuance Date) ⁽²⁾
All Creditors	~\$35	▪ 41.3% blended recovery ⁽³⁾⁽⁴⁾	▪ 37.4% blended recovery ⁽³⁾⁽⁴⁾
Pre-2011 GO	\$5.8	▪ 74.9%	▪ 65.8%
2011 GO (Series D / E / PIB)	\$0.6	▪ 73.8%	▪ 64.3%
2011 GO (Series C)	\$0.5	▪ 70.4%	▪ 61.1%
2012 GO	\$2.9	▪ 69.9%	▪ 62.2%
2014 GO	\$4.2	▪ 65.4%	▪ 54.1%
Pre-2011 PBA	\$2.7	▪ 77.6%	▪ 76.0%
2011 PBA	\$1.3	▪ 76.8%	▪ 75.2%
2012 PBA	\$0.7	▪ 72.2%	▪ 70.9%
ERS, Clawbacks, and Other	~\$16	▪ ~3% ⁽⁴⁾	▪ ~3% ⁽⁴⁾

Denotes an uninsured class with >65% support⁽⁵⁾

Denotes an uninsured class with >40% support⁽⁵⁾

(1) Claim amounts are preliminary and subject to material revision. Recoveries exclude potential recoveries from non-Commonwealth entities and are shown on the basis of par + accrued interest.

(2) Includes post-petition interest through March 1, 2020.

(3) Includes PSA Restriction Fee and Consummation Costs.

(4) Excludes any potential recoveries from assets currently at ERS (approximately \$1.2 billion). Amounts are subject to further diligence and material revision. Assets remain subject to ongoing litigation.

(5) Assumes 90% and 100% of uninsured and insured claims vote, respectively.



APPENDIX: ADDITIONAL DETAIL



Comparison of Key Economic Terms to POA

<i>(\$ in millions)</i>	Initial Plan of Adjustment (9.27.19)	Plan Support Agreement (2.9.20)
Total Nominal Consideration	<ul style="list-style-type: none"> ▪ \$14,677 <ul style="list-style-type: none"> ▪ \$2,900 of Cash ▪ \$11,777 of New Bonds 	<ul style="list-style-type: none"> ▪ \$14,478 <ul style="list-style-type: none"> ▪ \$3,809 of Cash ▪ \$10,669 of New Bonds
New Bonds Structure	<ul style="list-style-type: none"> ▪ 100% GO 	<ul style="list-style-type: none"> ▪ 50% GO ▪ 50% COFINA Jr.
Max Bond Maturity	<ul style="list-style-type: none"> ▪ FY2049 	<ul style="list-style-type: none"> ▪ FY2039
True-Interest Cost	<ul style="list-style-type: none"> ▪ 5.716% 	<ul style="list-style-type: none"> ▪ 5.548%
Call Option	<ul style="list-style-type: none"> ▪ 7/1/29 Par Call 	<ul style="list-style-type: none"> ▪ Call Schedule: <ul style="list-style-type: none"> ▪ July 1, 2030 to June 30, 2031: 103 ▪ July 1, 2031 to June 30, 2032: 102 ▪ July 1, 2032 to June 30, 2033: 101 ▪ July 1, 2033 onwards: 100
Nominal Consideration to GO / PBA	<ul style="list-style-type: none"> ▪ \$13,393 <ul style="list-style-type: none"> ▪ \$2,900 of Cash ▪ \$10,493 of New Bonds 	<ul style="list-style-type: none"> ▪ \$13,951 <ul style="list-style-type: none"> ▪ \$3,809 of Cash ▪ \$10,142 of New Bonds
% of Total Consideration to GO / PBA	<ul style="list-style-type: none"> ▪ 91.3% 	<ul style="list-style-type: none"> ▪ 96.4%
Deemed Issuance Date	<ul style="list-style-type: none"> ▪ 2/29/2020 	<ul style="list-style-type: none"> ▪ 3/1/2020

(1) Represents true-interest cost per Plan of Adjustment debt service calculated on an annual actual/365 basis.



Comparison of Key Economic Terms to POA (Cont'd)

(\$ in millions)	Initial Plan of Adjustment (9.27.19)	Plan Support Agreement (2.9.20)
PSA Restriction Fee and Consummation Costs	<ul style="list-style-type: none"> Max of \$300 	<ul style="list-style-type: none"> \$350 Additional \$50 retail carve-out
PSA Fee Mechanics	<ul style="list-style-type: none"> 1.5% for every 120 days to consenting creditors who execute PSA within 60 days of initial PSA becoming effective Not subject to recovery cap 	<ul style="list-style-type: none"> Not subject to recovery cap PSA creditors as of the earlier of the PSA Threshold Attainment and the Joinder Deadline; should claims associated with a particular joinder be sold subsequently, PSA Fee will accrue to the subsequent purchaser of claims PSA Fee to include carve-out for retail holders who vote in favor of the plan; PSA Creditors share ratably in any unallocated amount of retail carve-out
Consummation Costs Mechanics	<ul style="list-style-type: none"> One time 1.25% fee Paid at the Effective Date Proposal Creditors Not subject to Recovery Cap 	<ul style="list-style-type: none"> One time 1.25% fee Paid at the Effective Date Proposal Creditors Not subject to Recovery Cap
Discounts	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> 2011 (Series D / E / PIB): 0.85% 2011 (Series C): 2.00% 2012: 5.00% 2014: 10.00%
2012/ 2014 Settlement Offer	<ul style="list-style-type: none"> 2012: 45% / 2014: 35% 	<ul style="list-style-type: none"> N/A
GO Recovery Cap	<ul style="list-style-type: none"> Global 89.4% Recovery Cap, reduced by Excess Cash 	<ul style="list-style-type: none"> Pre-2011: 74.874% 2011 Class A: 73.800% 2011 Class B: 70.401% 2012: 69.887% 2014: 68.000%
PBA Recovery Cap	<ul style="list-style-type: none"> Global 89.4% Recovery Cap, reduced by Excess Cash 	<ul style="list-style-type: none"> Pre-2011: 77.582% 2011: 76.810% 2012: 72.217%
2011 GO Classification	<ul style="list-style-type: none"> 2011: Series C, Series D, Series E, Public Improvement Bonds of 2011 	<ul style="list-style-type: none"> 2011 Class A: Series D, Series E, Public Improvement Bonds of 2011 2011 Class B: Series C



Comparison of Key Economic Terms to POA (Cont'd)

(\$ in millions)	Initial Plan of Adjustment (9.27.19)	Plan Support Agreement (2.9.20)
Tax-Exempt / Taxable Status	<ul style="list-style-type: none"> ▪ Commonwealth received benefit 	<ul style="list-style-type: none"> ▪ In the event the Government Parties obtain a favorable determination from the IRS regarding the ratio of taxable bonds prior to the Effective Date, the taxable bonds determined to be tax-exempt will have a lower coupon by 50bps or 37.5 bps for GO and COFINA Jr. bonds, respectively. ▪ If a Favorable Determination occurs subsequent to the Effective Date, the affected taxable bonds will be invited to exchange their bonds for converted bonds reflecting a yield of 25bps lower (similar mechanism to the prior exchange of COFINA Bonds in the summer of 2019)
Treatment of OID⁽¹⁾	<ul style="list-style-type: none"> ▪ For purposes of plan distributions, claims exclude any unmatured interest 	<ul style="list-style-type: none"> ▪ Class-level distributions made ratably according to claim including unmatured interest (i.e., par plus accrued interest) ▪ Allocation within classes made ratably according to claim excluding unmatured interest (i.e., par less unaccreted OID plus accrued interest)
PBA Settlement	<ul style="list-style-type: none"> ▪ \$1,073 of cash⁽²⁾ 	<ul style="list-style-type: none"> ▪ \$1,073 of cash⁽²⁾

(1) Capital appreciation bonds (“CABS”) are accreted to the relevant petition date in all cases.

(2) Settlement cash to be provided either through cash currently in PBA accounts or at the Commonwealth.



Principal and Coupon Summary

(\$ in millions)

Date	GO						COFINA Jr.					
	Tax-Exempt			Taxable			Tax-Exempt			Taxable		
	Maturity	Amort	Coupon	Maturity	Amort	Coupon	Maturity	Amort	Coupon	Maturity	Amort	Coupon
7/1/20		\$552						\$288				
7/1/21	891	340	5.750%				425	137	5.000%			
7/1/22		325						160				
7/1/23	634	309	5.750%				344	184	5.000%			
7/1/24		290						210				
7/1/25	558	269	5.750%				449	239	5.000%			
7/1/26		244						269				
7/1/27	461	217	5.750%				570	301	5.000%			
7/1/28		187						336				
7/1/29	360	173	5.750%				690	354	5.000%			
7/1/30		183						346				
7/1/31		194						337				
7/1/32		206						326				
7/1/33	801	218	6.000%				1,323	314	4.750%			
7/1/34		140			91			206			94	
7/1/35		147			98			185			100	
7/1/36		156			105			162			106	
7/1/37		166			112			137			112	
7/1/38		176			120			109			119	
7/1/39	972	187	5.625%	656	129	7.125%	877	78	4.875%	656	126	6.125%
Total	\$4,678	\$4,678		\$656	\$656		\$4,678	\$4,678		\$656	\$656	

Note: totals may not sum due to rounding.



Summary of Recoveries to GO / PBA Bondholders

(\$ in millions)

	Claim ⁽¹⁾	Consideration		Recovery	
		Cash ⁽²⁾	New Bonds	Total	%
GO:					
Pre-2011 GO	\$5,843	\$819	\$3,556	\$4,375	74.9%
2011 GO (D / E / PIB)	646	89	387	477	73.8%
2011 GO	476	63	273	335	70.4%
2012 GO	2,939	385	1,669	2,054	69.9%
2014 GO	4,182	512	2,222	2,733	65.4%
PBA:					
Pre-2011 PBA	2,661	883	1,181	2,065	77.6%
2011 PBA	1,335	441	584	1,026	76.8%
2012 PBA	674	217	270	487	72.2%
Total	\$18,757	\$3,409	\$10,142	\$13,551	72.2%

(1) Preliminary and subject to material revision. Claims include principal amount of debt plus accrued interest.

(2) Does not include PSA Restriction Fee or Consummation Costs.

