

# COMMONWEALTH - COFINA JOINT PROPOSED SETTLEMENT

May 14, 2018

## Executive Summary

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### April 2018 Oversight Board Fiscal Plan, “Restoring Growth and Prosperity” (p.5)

Puerto Rico is **committed to repaying an affordable and sustainable amount of its outstanding debt and to treating its creditors equitably**, however, it needs a comprehensive restructuring of its debt – in addition to the adoption of pro-growth structural reforms – to have renewed access to the capital markets and to create the basis for a growing, sustainable economy. The best time to implement these reforms and to restructure the debt is while Puerto Rico has the temporary benefits of Federal disaster relief funding and a stay on debt service. **Therefore, time is of the essence.** The New Fiscal Plan calls for **ambitious and immediate action** to return opportunity and prosperity to Puerto Rico as soon as possible

- ◆ These cases need to be resolved for Puerto Rico to move forward
  - Title III restructuring limits private capital formation, foreign investment and bank lending
- ◆ The Commonwealth-COFINA Joint Proposed Settlement (“Proposed Settlement”) could pave the way for Puerto Rico to exit years of disruptive default and costly litigation
  - Creditors agree that “time is of the essence,” and many have united in an attempt to substantially resolve these cases now
- ◆ The Proposed Settlement would:
  - Resolve substantial risks to the Commonwealth by creating a non-recourse currency
  - Provide approximately \$10 Bn of debt relief
  - Avoid potentially extreme and absolute litigation outcomes
  - Speed up progress of the Title III case and reduce expenses
- ◆ This presentation is not intended to be:
  - A legal document – it does not set forth legal arguments pertaining to the Commonwealth-COFINA dispute or the related stipulation, and the settlement proposal is non-binding and subject to final agreement and definitive documentation
  - An acceptance or critique of Fiscal Plans

## Proposed Settlement Framework

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### **A proposed settlement of the Commonwealth-COFINA dispute based on the retention of 5.5% Sales and Use Tax (“SUT”) by a newly-formed PR Securitization Trust (the “Trust”)**

- ◆ The Trust would take ownership of the 5.5% SUT through the effective date of COFINA plan of adjustment plus 40 years (or such later date as of which the new trust certificates are paid in full)
  - COFINA bondholders would receive Trust certificates entitling them to:
    - ❖ 52.5% of future 5.5% SUT cash flows and 52.5% of Bank of New York Mellon cash
      - To be structured with 1.2x debt service coverage into Current Interest Bonds (“CIBs”) with a 6.0% interest rate and Capital Appreciation Bonds (“CABs”) with a 6.5% interest rate along with a pro rata interest in the residual cash flows of the 5.5% SUT that remain after payment of interest and principal on the CIBs and CABs (the “Residual,” which has been valued using a 15% discount rate)
  - Participating GO bondholders would tender<sup>1</sup> their bonds into the Trust and receive:
    - ❖ 46.2% of future 5.5% SUT cash flows and 46.2% of Bank of New York Mellon cash
      - To be structured with 1.2x debt service coverage into CIBs with a 6.0% interest rate and CABs with a 6.5% interest rate along with the Residual
    - ❖ Commonwealth/GO remainder claim certificates would be supported by the remainder of GO claims, as of the effective date (assumed to be 7/1/18), in the Commonwealth Title III (as calculated by taking par plus accrued claim amount less the distributable value received by GO bondholders)
  - Participating Commonwealth General Unsecured Claims (“CW GUCs”) up to an allowed claim amount of \$500 MM would have the right to tender their claims to the Trust and receive:
    - ❖ 1.3% of future 5.5% SUT cash flows and 1.3% of Bank of New York Mellon cash
      - To be structured with 1.2x debt service coverage into CIBs with a 6.0% interest rate and CABs with a 6.5% interest rate along with the Residual

1. GO tender does not include QZAB and QSCB bonds, which receive Federal subsidies that cover approximately 80% of current interest expense

## Proposed Settlement Framework (cont'd)

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- ◆ Respective claims pools would be calculated as full par, plus pre-petition and post-petition accrued interest and capital appreciation as of the effective date (assumed to be July 1, 2018), with no discount for OID
- ◆ The Proposed Settlement would be premised on establishing a mechanism that would prohibit the Commonwealth from being able to alter or discontinue the full flow of 5.5% SUT to the Trust until its maturity
  - Property rights in 5.5% SUT continue, backed by a Federal court order
- ◆ All take-back CIBs and CABs would be tax-exempt
- ◆ Commutation options, if any, would be addressed in the COFINA plan of adjustment in a manner satisfactory to the Supporting Parties that are monoline insurers, each with respect solely to its insured bonds. To the extent the COFINA plan of adjustment includes a payment commutation option, each insured holder may elect to accept or decline such commutation option
- ◆ Title III Court would retain jurisdiction over implementation of Proposed Settlement, including amount of 5.5% SUT transferred to COFINA and allocation of 5.5% SUT to creditors of Trust
- ◆ All professional fees of restructuring Supporting Parties would be reimbursed out of the Trust

## Non-Recourse Structure

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- ◆ **The Proposed Settlement is premised on a non-recourse structure that would limit the resources pledged to creditors and is a bet on the future of Puerto Rico's economy**
  - The Proposed Settlement would limit both GO and COFINA bondholders' claims<sup>1</sup> to the 5.5% SUT, and would free all other stakeholders from significant claims on all "available resources"
  - The Trust certificates would effectively be growth bonds that rise and fall with the economy with no recourse in the event of underperformance
  - The Proposed Settlement would leave 90%+ of budgeted revenues completely unencumbered going forward
- ◆ The non-recourse nature of the Proposed Settlement structure would advantage all other stakeholders

*1: Other than the GO remainder claims*

## The Proposed Settlement Makes Sense for All Stakeholders

- ◆ The Proposed Settlement would result in significant debt relief for Puerto Rico
- ◆ As part of the deal, COFINA creditors would receive 64.5% recovery (allocated between senior and subordinated COFINA bondholders as set forth below) and GO bondholders receive 58.6% recovery
  - The split of value (52.5% to COFINA and 47.5% to the Commonwealth) would protect the Commonwealth against a potentially extreme and absolute result in the legal process
- ◆ The Proposed Settlement reduces claims by \$10 Bn

\$ in MMs

Distributable Value					
Blended PV of Fixed Debt Service from 5.5% SUT					20,241
PV of Residual 5.5% SUT					1,672
Expected Cash in COFINA as of Effective Date					1,195
<b>Total Distributable Value</b>					<b>23,108</b>
	<i>Claim (7/1/18)</i>	<i>% of BNYM Cash</i>	<i>% of 5.5% SUT</i>	<i>Recovery (7/1/18)<sup>2</sup></i>	
GO Debt Recovery (from Distributable Value)	18,244	46.2%	46.2%	58.6%	10,684
GUC Tendered Claim	500	1.3%	1.3%	58.6%	293
COFINA Recovery	18,806	52.5%	52.5%	64.5%	12,132
COFINA Sr. Recovery <sup>1</sup>	8,255	52.5%	32.2%	93.0% - 95.0%	
COFINA Sub Recovery <sup>1</sup>	10,551	–	20.3%	42.2% - 43.2%	
<b>Total</b>	<b>37,550</b>				<b>23,108</b>

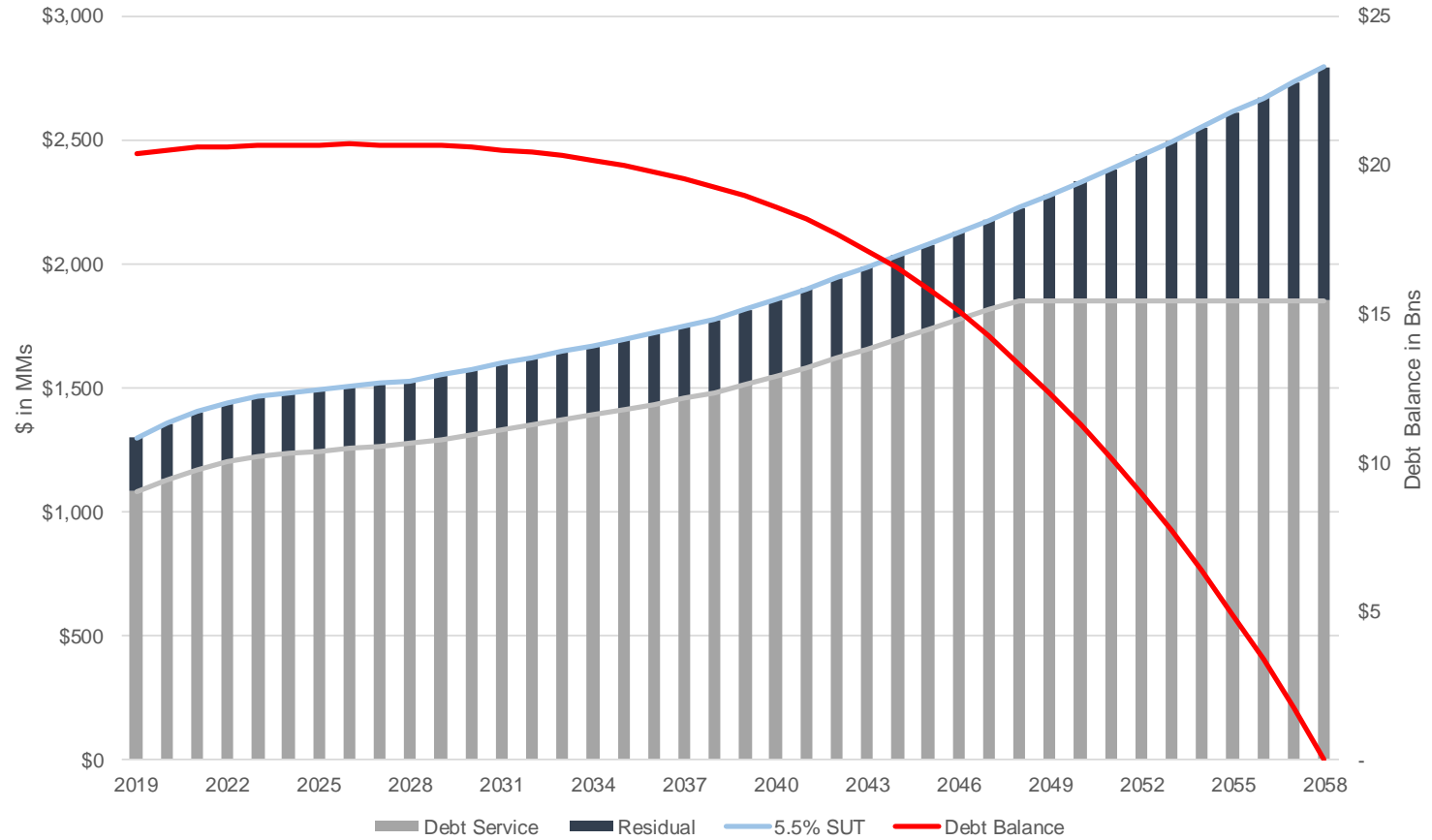
Capital Structure					
	GO Debt	GUC	COFINA Sr.	COFINA Sub	Total
Cash	553	15	627	-	1,195
Cash Pay Bonds	8,329	228	5,797	3,660	18,014
Residual	773	21	538	340	1,672
CABs	1,029	28	717	452	2,227
<b>Total</b>	<b>10,684</b>	<b>293</b>	<b>7,680</b>	<b>4,452</b>	<b>23,108</b>
<i>Distribution (%)</i>	46.2%	1.3%	33.2%	19.3%	100.0%

Total GO, GUC and COFINA Claims	37,550
New Debt in Securitization	(20,241)
<b>Debt Relief before Remaining GO Claim</b>	<b>17,309</b>
Remaining GO Claim at CW	(7,561)
<b>Debt Relief after Remaining GO Claim</b>	<b>9,748</b>

Note: 5.5% SUT assumed to grow at the overall GNP growth rates from the April 2018 Commonwealth Fiscal Plan

1. Represents illustrative average recovery value, as of the effective date of COFINA plan of adjustment, in terms of the instruments in the Distributable Value table. Recovery ranges for COFINA Senior Bonds and COFINA Subordinate Bonds are estimated depending on final securities design. Within each COFINA class, each creditor that is a monoline will be given an option to elect different securities in terms of rate and face amount depending on investment objectives; provided, however, that such options will not in any way affect or otherwise modify the timing, priority or amount of any payment of Distributable Value to the GO Bondholders, other COFINA Bondholders and GUCs

# Illustrative Cash Flows



\$ in MM\$ (Apr (FOMB) FP Projection)

	2019	2023	2030	2035	2040	2045	2050
Debt Balance	20,386	20,640	20,578	19,969	18,577	15,832	11,264
Debt/GNP	30.4%	27.1%	23.3%	20.7%	17.1%	12.8%	8.0%
Debt/Total Local Revenues	1.42x	1.38x	1.40x	1.36x	1.22x	0.99x	0.67x

Note: 5.5% SUT assumed to grow at the overall GNP growth rates from the April 2018 Commonwealth Fiscal Plan

## Conclusion

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- ◆ The Proposed Settlement reflects a constructive evolution in the Commonwealth-COFINA dispute
  - This represents the first consensual, comprehensive settlement proposal arrived at through mediation
  
- ◆ The Proposed Settlement was developed after substantial collaborative engagement between principals with divergent interests and the mediation team
  
- ◆ The Proposed Settlement has broad support from a diverse group of parties
  - Monolines, Asset Managers and Bonistas del Patio all support the Proposed Settlement
  
- ◆ Many of these institutions have significant and varied investments in Puerto Rican issuers away from COFINA and GO Bonds
  
- ◆ By significantly reducing the magnitude of GO bondholder debt against the Commonwealth, the Proposed Settlement would pave the way for a more efficient plan and confirmation process in the Commonwealth Title III
  - This could improve the position of all other creditors of the Commonwealth, including pensioners, as there would be a materially reduced GO claim class impacting the Commonwealth Title III plan and confirmation process
  - It could also pave the way for a mediation of the Commonwealth plan



## Supporting Parties

GO Supporting Parties		
Firm / Group	GO + GO Gtd Amount (\$MM)	GO + GO Gtd Aggregate Amount (%)
Assured Guaranty	1,572	
Autonomy Capital (Jersey) LP	1,063	
National Public Finance Guarantee Corp.	853	
Fir Tree Partners	612	
Aurelius Capital Management, LP	439	
FCO Advisors LP	331	
Monarch Alternative Capital LP	237	
Syncora Guarantee Inc.	212	
Ambac Assurance Corporation	166	
Candlewood Investment Group, LP	123	
Inglesea Capital LLC	12	
Local Bondholders	TBD	
<b>GO Supporting Parties</b>	<b>5,618</b>	<b>35%</b>

COFINA Supporting Parties		
Firm / Group	COFINA Senior Amount (\$MM)	COFINA Sr. Aggregate Amount (%)
Ambac Assurance Corporation	\$1,391	
National Public Finance Guarantee Corp.	1,163	
GoldenTree Asset Management LP	617	
Tilden Park Capital Management	524	
Canyon Capital Advisors LLC	263	
Old Bellow s Partners LP	198	
Aristeia Horizons, L.P.	162	
Whitebox Advisors LLC	116	
Scoggin Management LP	60	
Local Bondholders	TBD	
Wrapped Holdings	(233)	
<b>COFINA Senior Supporting Parties</b>	<b>4,260</b>	<b>54%</b>

Firm / Group	COFINA Subordinate Amount (\$MM)	COFINA Sub. Aggregate Amount (%)
GoldenTree Asset Management LP	\$642	
Tilden Park Capital Management	292	
Assured Guaranty	272	
Old Bellow s Partners LP	31	
Aristeia Horizons, L.P.	27	
Whitebox Advisors LLC	18	
Scoggin Management LP	14	
Local Bondholders	TBD	
<b>COFINA Subordinate Supporting Parties</b>	<b>1,295</b>	<b>13%</b>

Notes: For fund managers, refers to amounts held by entities managed by the fund manager

1. Amounts sourced per latest filed 2019 statements and financial reporting statements where applicable
2. For cash pay bonds, reflects face or net par amounts. COFINA capital appreciation bonds reflect accreted balance through April 19, 2018
3. GoldenTree Asset Management LP (on behalf of its participating clients) is a Supporting Party of the Joint Settlement Outline except with respect to the allocation of the Distributable Value between and among COFINA Bondholders set forth on page 6, and does not waive any of its rights, claims and defenses with respect to such allocation of Distributable Value. Other Supporting Parties are supportive of the Joint Settlement Outline based on the allocation of Distributable Value between and among senior and subordinate COFINA Bondholders set forth on page 6, and do not waive any of their respective rights, claims and defenses with respect to such allocation of Distributable Value to the extent altered, or challenged or objected to by any other party in connection with any proceeding
4. Canyon Capital Advisors LLC (on behalf of its participating clients) ("Canyon") is a Supporting Party of the settlement of the Commonwealth-COFINA Dispute on the terms and conditions described herein solely in its capacity as a beneficial holder of COFINA Bonds. Canyon does not waive any of its rights, claims, and defenses in its capacity as a beneficial holder of QZAB and QSCB, all of which rights, claims, and defenses, including with respect to the treatment of the QZAB and QSCB proposed herein, are expressly preserved
5. Totals do not include bonds held by on-island bondholders whose interests are represented by Bonistas Del Patio due to dispersion of ownership