On February 25, 2019, Mr. Christian Sobrino, CEO and President of the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) participated as a speaker at the J.P. Morgan annual Global High Yield & Leveraged Finance Conference in Miami, FL. Mr. Sobrino’s prepared remarks are attached hereto for ease of reference.

Good afternoon. I want to start by thanking J.P. Morgan for the opportunity to address all of you today. My name is Christian Sobrino and I serve as the chief executive officer of the Puerto Rico Fiscal Agency and Financial Advisory Authority, commonly known as “AAFAF.” I also represent Governor Rosselló as a non-voting ex officio member of the Financial Oversight and Management Board established in Puerto Rico under the federal statute PROMESA. My organization acts as fiscal agent, financial advisor and disclosure agent for the Government of Puerto Rico and is responsible for overseeing its debt restructuring and other liability management.

Three years ago, representatives of the Government of Puerto Rico provided a presentation on Puerto Rico’s fiscal and economic crisis at the 2016 edition of this very conference. Those were the days before Puerto Rico defaulted on its major public credit obligations, before Congress enacted PROMESA and established an Oversight Board, and right before Puerto Rico embarked on the largest and most complex municipal fiscal restructuring in United States history.

To say that the years following that presentation have been eventful does not begin to describe what Puerto Rico has endured. By the time Governor Rosselló was sworn into office on January 2, 2017, Puerto Rico had been suffering an economic decline for over a decade with year-over-year declines in real output in all but two years. Economic decline caused a demographic challenge as population decreased steadily for more than a decade.

After years of fiscal crisis, the major components of the Government of Puerto Rico were bankrupt and commenced judicial financial restructuring proceedings under Title III
of PROMESA in May of 2017. Indeed, many of us in the early days of the Rosselló Administration were concerned that the treasury of the Government of Puerto Rico would exhaust its cash at some point in 2017 and face possible shutdowns.

If that was not enough, on September 6th and 20th of 2017, Hurricanes Irma and Maria struck Puerto Rico as category 5 and 4 storms, causing unprecedented devastation and the loss of nearly 3,000 lives. The response and recovery work now represent one of the largest and most complex disaster recovery efforts in United States history.

Few jurisdictions within the United States have been forced to confront as much as Puerto Rico. But the past two years have also bared witness to Puerto Rico’s resiliency when facing any challenge—be it economic or atmospheric. Puerto Rico has advanced tremendously on the financial rehabilitation of its Government and I am here today to share with you some examples of this historic progress.

Specifically, we will focus today on the following key areas: (1) debt restructuring; (2) financial management and reporting; (3) energy sector transformation; and (4) other critical fiscal and economic development initiatives.

Debt Restructuring:

As they say, the “proof is in the pudding”. In the past four months, we have closed restructuring transactions for more than $21 billion in funded debt obligations. And we have done it largely consensually, balancing the needs and legal rights of Puerto Rico with the rights of the creditors.

On November 29, 2018, the Government Development Bank (GDB) successfully closed its debt restructuring which ultimately resulted in exchanging all financial obligations for new bonds issued through a newly created public instrumentality — GDB Debt Recovery
Authority — and other assets and liabilities transferred to a newly created public trust. The transaction was the first restructuring to close under PROMESA and is the only restructuring to implement the collective action procedure under Title VI of PROMESA. Furthermore, the transaction also involved the first full wind down and resolution of almost $8 billion in liabilities of an uninsured state government financial institution.

More recently, on February 5, 2019 the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation was confirmed by the U.S. District Court for the District of Puerto Rico and became effective on February 12, 2019. This marked the first plan of adjustment under Title III of PROMESA to be confirmed and become effective. COFINA’s emergence from Title III of PROMESA resolved $17.6 billion of of Puerto Rico’s public debt (about a quarter overall) and is an important step for Puerto Rico’s return to the capital markets.

These two transactions are proof of our commitment to continue negotiating in good faith with Puerto Rico’s creditors and pursue creative restructuring solutions that safeguard the best interests of the people of Puerto Rico while balancing the interests of all stakeholders. More importantly – it shows that Puerto Rico can close on complex transactions.

I feel obligated to recognize that the U.S. Court of Appeals for the First Circuit issued an important decision recently. On February 15, 2018, the court ruled that Oversight Board members were not appointed in compliance with the U.S. Constitution’s Appointments Clause. The court, however, delayed the effective date of its decision for 90 days and invoked the “de facto officer” doctrine to uphold actions taken by the Oversight Board. And while this decision may create uncertainty to some and has led to a myriad of comment and speculation, it is important to note that the Government of Puerto Rico stands by each of the restructurings discussed today. Each restructuring was supported by the Executive and Legislative Branches of the Government. Legislation was approved and documentation
following state and federal legal requirements were approved and executed by public officials. Furthermore, let’s be clear that the fiscal policy of the Rosselló administration has been the same since day one and will continue being the same with or without an Oversight Board. Namely,

- First: reform the Puerto Rican government so that it is more efficient and responsive in providing essential services;
- Second: establish fiscal discipline and responsible financial management; and
- Third: restructure Puerto Rico’s debt to sustainable levels, underlining the value for all parties of engaging in good faith efforts that avoid unnecessary litigation or the uncertainty of other events.

Financial Management and Reporting:

Restructuring our debt is not the only necessary step in our fiscal rehabilitation. As I mentioned earlier, one of the first challenges faced by the Rosselló Administration was the possibility that the treasury would exhaust its liquidity at some point in 2017. On November 18, 2016, the Government reported that excluding debt service, the Treasury Single Account was expected to end FY 2017 with a bank cash balance of only $71 million. Without access to the capital markets for deficit financing, the Government was relying on delaying vendor payments and postponing other obligations as a source of financing. Regular financial reporting had also been interrupted.

In response, the whole of Government implemented decisive measures to ensure government operations expended only within its budget and resources, improved financial management, and increased the quality and cadence of public reporting. For example, the Government implemented processes and system upgrades to replace the tracking of vendor payments and created a real-time accounts payable ledger to monitor and control the accounts payable balance. The Government prepared a comprehensive set of financial
reports that are published on a weekly and monthly basis in AAFAF’s website. We have developed a FY19 liquidity plan for the Treasury Single Account and for 15 of the largest Component Units (CUs). AAFAF also conducted a financial due diligence that included the preparation, organization and distribution of +1,700 documents via an electronic data-room, that has been a core component of negotiations with creditors. The Treasury Department implemented new tax compliance measures to strengthen revenues.

The results speak for themselves. The Treasury Single Account reports an actual cash balance as of February 8, 2019 of $4.078 billion with a YTD net cash flow of $980 million and cash flow variance to the Liquidity Plan of $271 million. This is largely due to strong General Fund collections, on track spending, and enhanced federal Medicaid support resulting in less required General Fund support. We should note, however, that if Puerto Rico were required to pay amounts outstanding under contractual debt service, this cash balance would be reduced dramatically.

Energy Sector Transformation:

Hurricanes Irma and María and the subsequent challenges faced to restore electricity to customers and residents in Puerto Rico revealed the need to carry out a substantial change in the operations of the Puerto Rico Electric Power Authority (PREPA). On January 22, 2018, the Governor of Puerto Rico, the Hon. Ricardo A. Rosselló Nevares, announced a transformation of PREPA to achieve private participation and modernization of the energy sector in Puerto Rico.

On June 20, 2018, Governor Rosselló signed the Puerto Rico Electric System Transformation Act to provide the legal authority and mechanism for the sale or transfer of PREPA generation assets and for the establishment of public private partnerships (P3) with respect to any function, service or facility of PREPA. The Transformation Act provides a
framework provides the transparency and flexibility needed for arms-length negotiations that result in a financially viable and consumer-centric energy system.

On June 30, 2018, AAFAF, PREPA, and the Oversight Board reached an agreement with the Ad Hoc Group of PREPA bondholders and executed a preliminary restructuring support agreement and term sheet. The parties continue to negotiate a definitive restructuring support agreement.

The process to establish a P3 for PREPA’s transmission and distribution (T&D) system commenced on October 31, 2018 when the P3 Authority issued a Request for Qualification for interested companies and consortia. Four (4) proponents were qualified in response to the RFQ and include Duke Energy, Exelon Corp., PSEG Services and a consortium composed of ATCO Ltd., IEM and Quanta Services Inc. It is expected that final selection of the proponent will take place during the third quarter of 2019.

On October 17, 2018, Senate Bill 1121 was introduced in the Legislative Assembly of Puerto Rico to enact the Puerto Rico Energy Public Policy Act. The bill was prepared by an advisory working group established under the Transformation Act. SB1121 passed the Puerto Rico Senate and House of Representatives and is currently in conference committee. Puerto Rico is pushing towards a vision of a resilient and sustainable electric system in which renewable resources will play a dominant role.

**Other Critical Fiscal and Economic Development Initiatives:**

The Government has taken many significant actions, beyond those required by PROMESA or the Oversight Board, directed at correcting Puerto Rico’s dire financial situation. Let me highlight some of the more important ones:
• Expediting the process for approval and implementation of critical infrastructure projects;
• Amended several private sector employment laws with the intention of improving labor market competitiveness, improving the labor participation rate, and halting the migration of citizens to external labor markets;
• Incorporated two non-profit corporations to promote Puerto Rico as a touristic destination and to attract foreign direct investment;
• Enacted public service and employment reform through Act No. 8-2017 and the Fiscal Plan Compliance Act;
• Approved legislation to attend the crisis in Puerto Rico’s public pension system by establishing a pay-go system for current beneficiaries and requiring a new defined contribution plan for future benefits. In January 2019, the private administrator for the defined contribution plan was selected;
• Reforming the public education system in Puerto Rico to, inter alia, allow for the establishment of charter schools, allowing school choice, and reorganizing the bureaucracy of the Puerto Rico Education Department; and
• Recently passed local tax reform to reduce rates (on a revenue neutral basis), simplify tax administration, increase tax compliance and broaden the tax base.

These are just some of the examples of how we are tackling simultaneously both fiscal and economic development initiatives, which together are key to ensure a long-term sustainable economy.

Challenges Ahead:

Substantial work and progress have been made. Critical challenges and obstacles are still present. Puerto Rico still needs to solve its demographic challenge and more work is required to ensure that Puerto Rico’s economy is on a path to sustainable long-term growth after hurricane recovery funding ends.
One area that presents both challenges and opportunities is hurricane relief. The massive devastation caused by Hurricanes Irma and Maria in September 2017 has been amply documented in the national press. These events were total game changers for Puerto Rico, laying bare the vulnerability caused by decades of underinvestment and deficient maintenance of critical infrastructure, and the immense challenges of responding to a disaster of this scale. The catastrophe and its aftermath have taught us that the lives, safety and security of the 3.2 million U.S. citizens of Puerto Rico depend as much on our local capacity to respond to the immediate emergency needs, as it does on the capacity to muster a proportionate and timely response from the federal government.

In conclusion, I recognize we have a long way to go to restore Puerto Rico’s credibility and full access to the capital markets. But let’s not lose sight of everything we have accomplished to date. Working together we can accomplish even more. I urge you to join us in ensuring Puerto Rico continues to recover, renew and rebuild not just for the benefit of the U.S. citizens who reside on the Island, but for all stakeholders involved, including the creditor community.

Thank you.