



GOVERNMENT OF PUERTO RICO
Government Development Bank for
Puerto Rico



Government Development Bank for Puerto Rico

Fiscal Plan

San Juan, Puerto Rico
April 28, 2017

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GOVERNMENT OF PUERTO RICO
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I. Executive Summary

Executive Summary

- GDB was originally created to aid the Government in the performance of its fiscal duties and more effectively carry out its responsibility to develop the economy of Puerto Rico
- Over time GDB evolved and its role expanded to include, among other services, acting as a financing backstop for fiscal losses of the Government, its Agencies, Municipalities, and Public Corporations
- The GDB was also called upon to provide financial support during periods of financial distress, leveraging its strong credit rating, reputation, access to the capital markets and its constructive relationship with the investment community, to provide financial support to troubled public entities and assist them in regaining financial stability
- Due to the expansion of services and a confluence of other decisions and actions, the GDB found itself immersed in a fiscal and viability crisis
- The loss of its investment grade rating in 2014 and the resulting loss of market access left the GDB with significant non-performing assets, limited available liquidity, and the inability to repay its debts as they come due
- With the fiscal challenges affecting the GDB, AAFAF was created to assume the roles of fiscal agent, financial advisor, and disclosure agent of the Government
- Presently, the GDB's primary role is to serve as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines



Executive Summary

- Given the reduced services that GDB is currently providing, an important question was asked and answered – Can the GDB be restructured, become a viable going concern, and reinstate its past banking operations? After review of information and current circumstances, and the exclusion of appropriations to the GDB as payment for certified government debt in the Government’s certified fiscal plan, there is no clear path to achieve long term viability for the GDB, based on its current financial condition⁽¹⁾
- GDB leadership has concluded that an orderly wind down of its operations would mitigate the impact to its stakeholders (municipalities, depositors, and other creditors, etc.)
- To efficiently effectuate the orderly wind down, GDB’s management has created a Project Management Office (“PMO”) that will allow for a smooth transition of GDB’s current operations



(1) Analysis and assessment based on unaudited financial information

Executive Summary

GDB Snapshot

Balance Sheet: Key Assets

(\$000s)	1/31/2017
Unrestricted Cash	153,845
Municipal	2,036,401
Revenue	2,971,159
Appropriations	2,832,569
Private/Other	941,935
Adjustments	(2,491,340) ¹
Loan Portfolio	6,290,725
REO Assets	62,710
Key Assets	6,507,279

Balance Sheet: Key Liabilities

(\$000s)	1/31/2017
Outstanding Balances	
Deposits	3,514,622
Accrued Interest	6,320
Total Deposit Balance	3,520,942
GDB Notes	3,763,817
Accrued Interest	113,602
Total GDB Note Balance	3,877,419
Key Liabilities	7,398,361

204 Total Employees (1/31/17)
110 Union – 73 General – 21 Appointed

Note: Differs from Assets on unaudited balance sheet:

- a) \$494mm of 'advances' through the Municipal Administration Fund (FAM, for its Spanish acronym) and COFIM were recategorized from 'Municipal' to 'Other'
- b) Revenue: Excludes investment assets

Current Objective / Services Provided

- All fundamental new business banking and origination activities have ceased
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions
- Coordinate and execute all possible collection efforts on loans held by GDB and collateral supporting the loans, when applicable
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value
- Restructure GDB's workforce through "Single Employer Program⁽²⁾" and voluntary separation program

(1) GDB FY2014 Audited Financial Statements

(2) Act 8 of 2017 (Single Employer Act), establishes the Government of Puerto Rico as a single Employer and allows greater mobility of public sector employees between Government entities

Source: Government Development Bank; unaudited financial data is subject to change





GOVERNMENT OF PUERTO RICO
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II. Fiscal Plan

Fiscal Plan

Fiscal Plan Approach and Assumptions

- The Plan is based on the expected performance of its existing loan asset portfolio over the next 10-years⁽¹⁾ and therefore, assumes GDB will not enter into any new financings and/or loan originations during the projection period
- Based on the assessment of the loan portfolio⁽²⁾ and the Government’s certified fiscal plan, the Plan assumes Municipality Loans, select Revenue/Public Corporation Loans, and the sale of real estate owned assets are the only sources of revenue to GDB after 6/30/2017
- To the extent GDB has deemed a loan asset “non-performing”, the Plan assumes such loan remains “non-performing” and therefore would not be a source of future inflows, although GDB reserves the right to pursue collection efforts to maximize recovery values
- The Plan assumes the orderly sale or other legally available disposition of most real estate owned assets at fair market value over a period of 24 months
- The Plan reflects a reduction of overall operating activities during the projection period
- The Plan assumes a cash balance of approximately \$50mm is maintained at all times to provide adequate funding of its operations. The minimum cash balance is based on 18 months of operating expenses of the FY2018 base
- The Plan does not take a position on the legality of offsetting any deposits against their obligations with GDB, except in the case of municipal escrows (representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10, but for which municipalities are paying debt service)

(1) The Plan does not make any assumption regarding the restructuring of subsidiaries, as these are considered independent of and separate from GDB. GDB Charter Section Fourth (J)(1), 7 L.P.R.A. § 552 states: “Subsidiaries of the Bank, by virtue of the powers conferred in this subsection, shall constitute government instrumentalities of the Government of Puerto Rico, independent of and separate from the Bank{...}”

(2) As of January 31, 2017



Fiscal Plan

Fiscal Plan Approach and Assumptions (continued)

- The Plan is not contradictory to the Government’s certified fiscal plan and other instrumentality fiscal plans
 - GDB has confirmed with AAFAF and its advisors that public sector deposits trapped at GDB do not have an impact on the Government’s certified fiscal plan as none of the component units assume the disbursement of such deposits
 - GDB has confirmed with AAFAF and its advisors that assumptions in the Plan are consistent with assumptions in other instrumentality fiscal plans, where applicable
- Deposits of municipalities held at GDB are an important source of funds for their normal operations, including the provision of essential services to their residents. Inability of GDB to gradually disburse these deposits could affect the ability of municipalities to cover essential services, such as payroll, waste disposal, recycling programs, health services, pavement of roads, and general welfare
- The Plan does not resolve the mechanism by which projected excess cash flow should be allocated among GDB depositors and other creditors.
- GDB holds certain deposits that are associated with specific federal programs, including approximately \$180mm in repayment for the State Revolving Fund loans. Once a final resolution of excess cash flow disbursements to depositors and other creditors is determined, an action plan will be prepared together with the Puerto Rico public entity and be presented to the pertinent federal agencies



Fiscal Plan

Overview

Government Development Bank Fiscal Plan - Fund Flows

(\$000s)	5mo. Ending 6/30/17	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Total Cash Inflows	69,545	253,172	193,011	183,807	184,192	188,335	190,477	192,162	190,113	188,840	182,858	2,016,512
Total Operating Outflows	24,626	33,954	17,425	11,258	8,755	6,881	6,981	6,328	6,426	5,839	5,929	134,402
Net Cash Flows	44,918	219,218	175,586	172,549	175,437	181,454	183,496	185,834	183,687	183,001	176,929	1,882,110
Beginning Cash Balance	153,845	158,763	50,000	46,810	48,617	49,595	49,756	49,648	49,428	49,430	49,605	153,845
Net Cash Flows	44,918	219,218	175,586	172,549	175,437	181,454	183,496	185,834	183,687	183,001	176,929	1,882,110
Disbursements	(40,000)	(327,981)	(178,776)	(170,742)	(174,459)	(181,294)	(183,603)	(186,054)	(183,685)	(182,826)	(177,986)	(1,987,406)
Ending Cash Balance	158,763	50,000	46,810	48,617	49,595	49,756	49,648	49,428	49,430	49,605	48,549	48,549

Source: Government Development Bank; unaudited financial data is subject to change

Note: FY 2017 Disbursements are estimates and subject to material change

Ending Cash Balance is subject to reduction arising from the restructuring process

Balance Sheet: Loan Assets

	Jan-2017
<u>Outstanding Balances</u>	
Municipal Loans	2,036,401
Revenue Loans	2,971,159
Appropriations Loans	2,832,569
Private Loans	1,004
Other	940,931
Total	8,782,065
Adjustments	(2,491,340)
Total Loan Balance	6,290,725

Balance Sheet: Key Liabilities

	Jan-2017
<u>Outstanding Balances</u>	
Deposits	3,514,622
Accrued Interest	6,320
Total Deposit Balance	3,520,942
GDB Notes	3,763,817
Accrued Interest	113,602
Total GDB Note Balance	3,877,419

Identified Contingent Liab. 344,312

Note: Differs from Assets on unaudited balance sheet:

- \$494mm of 'advances' through the Municipal Administration Fund (FAM, for its Spanish acronym) and COFIM were recategorized from 'Municipal' to 'Other'
- Revenue: Excludes investment assets



Fiscal Plan

Inflows Approach and Assumptions

The Plan assumes projected inflows from assets including (a) cash and cash equivalents, (b) loan portfolio assets, and (c) sale of real estate assets based on GDB’s balance sheet as of January 31, 2017

Item	Assumption
Cash on Hand ⁽¹⁾	Assumes a minimum cash balance of ~\$50mm earning interest at an annualized rate of 0.25% ⁽²⁾ Minimum cash balance is equal to approximately 18 months of operating expenses using FY2018 as the base Ending Cash Balance is subject to reduction arising from the restructuring process
<u>Loan Assets:</u>	
Appropriation Loans	The Government’s certified fiscal plan does not include any appropriations for GDB after June 30, 2017 to repay these loans Assumes the municipalities will pay all of their loans with GDB as contracted. The Plan assumes that municipal escrow deposits are set off against their applicable municipal loans on June 30 th 2016
Municipality Loans	As of March 31, 2017, all loans within the municipal loan portfolio (CAE, IVU, Operational, and Revenue) were current. Even though at times there have been instances when municipalities have made late payments on their revenue and/or operational loans, or may have other delinquent statutory debts with other Government entities, all events have been cured prior to the disbursement of any excess CAE funds historically held by GDB and now being deposited in a trust account at Banco Popular with GDB as Trustee Based on the repayment structure and safeguards of municipal obligations, GDB feels strongly about the creditworthiness of its municipal loan portfolio and has not assumed nor does it recommend assuming any impairments on current or future cash flows
Public Sector Loans	Assumes debt service payments on four loans ⁽³⁾ will continue based on a review of historical performance, collateral, and conversations with borrowing entities. For all other remaining loans, Plan assumes no debt service will be collected, although GDB reserves the right to pursue collection efforts
Private Loans	Assumes no debt service on private loans will be collected; however, GDB reserves the right to pursue collection efforts
<u>Other Assets:</u>	
Real Estate Owned (REO) Assets	Assumes real estate assets are sold at fair market values or otherwise legally disposed of within a two-year time frame

(1) Cash on Hand is subject to revision (2) Actual interest rate earned on Cash on Hand
(3) Includes two loans with CRIM, one loan with BDE, and one loan with Servicios Medicos Universitarios

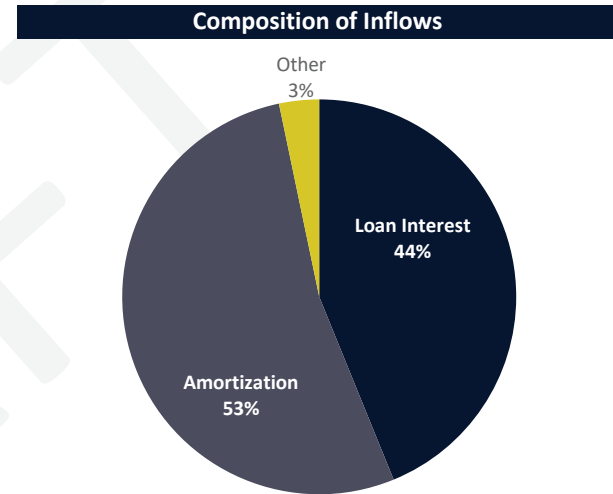


Fiscal Plan

Summary of Inflows – 2017 - 2027

The Plan projects \$2.0bn of Total Cash Inflows to be collected during the projection period primarily comprised of loan portfolio collections

- Appropriation Loans: Generate \$56mm through the end of FY 2017, then assumed to be zero pursuant to Government’s certified fiscal plan
- Municipal Loans: Generate \$1.76bn of cash flow over the projection period. Cash flows are based on contracted interest and amortization schedules
- Revenue Loans: Generate \$133mm of cash flow over the projection period. Cash flows are based on four loans that are expected to perform based on contracted interest and amortization schedules



Government Development Bank Summary of Cash Inflows

(\$000s)	5mo. End 6/30/2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Inflows from Loan Portfolio												
Total Appropriation Loans	55,815	-	-	-	-	-	-	-	-	-	-	55,815
Total Municipal Loans	-	186,600	175,869	169,679	170,111	174,302	176,600	180,287	178,288	177,063	172,195	1,760,995
Total Revenue Loans	4,032	14,104	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540	133,466
Total Loan Inflows	59,847	200,704	189,924	183,686	184,069	188,211	190,354	192,039	189,990	188,717	182,735	1,950,276
Other Inflows												
PR HTA Bond Interest	9,534	-	-	-	-	-	-	-	-	-	-	9,534
Dividends and Interest	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Cash	164	130	122	122	123	124	124	123	123	123	123	1,400
REO Asset Sales	-	52,338	2,965	-	-	-	-	-	-	-	-	55,303
Total Cash Inflows	69,545	253,172	193,011	183,807	184,192	188,335	190,477	192,162	190,113	188,840	182,858	2,016,512

Source: Government Development Bank; unaudited financial data is subject to change



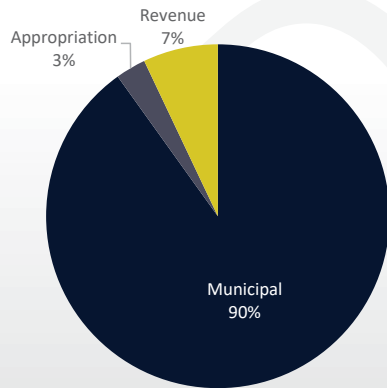
Fiscal Plan

Detail of Loan Portfolio Inflows – 2017 - 2027

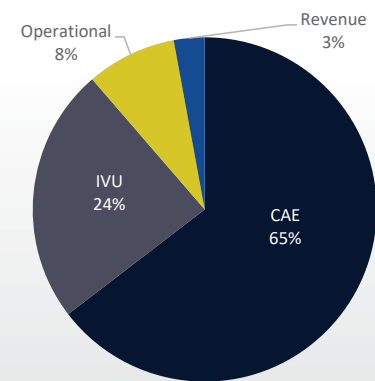
Government Development Bank
Fiscal Plan - Cash Inflows from Loan Portfolio

(\$000s)	5mo. Ending 6/30/2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
<i>Municipal Portfolio Cash Flows</i>												
CAE	-	120,612	114,732	109,867	109,891	112,217	113,044	115,073	115,458	115,436	111,170	1,137,500
IVU	-	43,321	40,971	40,310	41,213	42,811	44,131	45,246	41,896	42,079	41,701	423,678
Operational	-	17,798	15,195	14,488	13,936	14,346	14,441	14,867	15,200	14,400	14,148	148,819
Revenue	-	4,868	4,971	5,014	5,071	4,929	4,985	5,101	5,734	5,149	5,177	50,999
Municipal Portfolio	-	186,600	175,869	169,679	170,111	174,302	176,600	180,287	178,288	177,063	172,195	1,760,995
Appropriation	55,815	-	-	-	-	-	-	-	-	-	-	55,815
Revenue Loans	4,032	14,104	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540	133,466
Cash Flow From Loan Portfolio	59,847	200,704	189,924	183,686	184,069	188,211	190,354	192,039	189,990	188,717	182,735	1,950,276

Loan Portfolio by Cash Inflow



Municipal Portfolio by Cash Inflow



Source: Government Development Bank; unaudited financial data is subject to change



Fiscal Plan

Real Estate Owned (REO) Assets

- GDB owns a portfolio of real estate assets, the majority of which were transferred to the Bank in exchange for a \$150mm loan on December 30, 2008 used by the central government to cover a portion of the FY 2008-2009 deficit. The source of repayment for the \$150mm loan was expected to come from the sale proceeds of the properties; however, previous sales efforts have been uncoordinated and inconsistent with only a handful of properties sold between 2011 and 2012
- GDB has created an REO Management and Disposition Working Group Committee with the objective of managing and selling REO properties through an open, transparent, and orderly process within 24 months



Fiscal Plan

Outflows Approach and Assumptions

The Plan assumes projected outflows consisting of operational expenses deemed necessary to ensure an orderly wind down, adjusted for inflation per the Government’s certified fiscal plan

Item	Assumption
Payroll and Benefits	Assumed current payroll expenses as of Jan 31, 2017 through March 31, 2017. Workforce restructuring starting April 1, 2017 and ongoing through FY2020 with targeted reduction of 90% by FY2020
Rent and Utilities	Assumes rent and utilities will be paid monthly throughout projection period. The Plan assumes rent and utilities expenses are reduced by 50%, pro rata on a monthly basis, starting July 1, 2017 through the end of FY2018 and an additional reduction to 90% by FY2021
Other General Operating Expenses	Assumes only critical and essential operating expenses will be reduced throughout the projection period with a target of \$6mm for all operating expenses by 2026
Workforce Restructuring	Assumes cost to implement a workforce restructuring through the Single Employer Act ⁽¹⁾ and incentivized separation program
Professional and Legal Fees	Assumes constant costs for legal and financial professionals deemed necessary throughout the wind down through FY2019 and then gradually reduced for the remaining years

(1) Act 8 of 2017: An Act for the Transformation and Administration of Human Resources of the Government of Puerto Rico



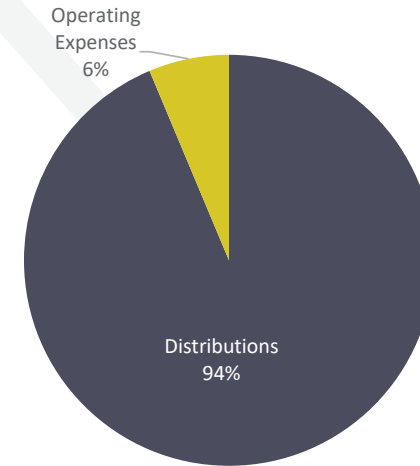
Fiscal Plan

Summary of Outflows – 2017 - 2027

The Plan projects \$2.1bn of Total Cash Outflows during the projection period

- Operating Expenses: Projected to steadily decline throughout the projection period. Expenses are reduced to essential services required to wind down operations
- Distributions: Distributable cash flow is projected to be \$2.0bn through the projection period. The Plan does not resolve the mechanism by which projected excess cash flow should be allocated to GDB depositors and other creditors

Composition of Outflows



Government Development Bank Summary of Cash Outflows

(\$000s)	5mo. End 6/30/2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Total Payroll Related	13,856	12,190	4,549	4,595	3,181	1,882	1,911	1,939	1,970	2,002	2,034	50,110
Rent/Utilities	363	643	445	450	91	92	93	95	96	98	99	2,565
Legal services	5,434	10,585	4,500	2,250	2,000	1,750	1,776	1,500	1,524	1,250	1,270	33,839
Professional services	1,929	4,865	4,707	2,000	1,500	1,520	1,542	1,250	1,270	1,000	1,016	22,598
Other Operating Outflows	3,046	5,671	3,224	1,964	1,983	1,637	1,658	1,544	1,565	1,489	1,510	25,291
Total Operating Outflows	24,626	33,954	17,425	11,258	8,755	6,881	6,981	6,328	6,426	5,839	5,929	134,402
Distributions	40,000	327,981	178,776	170,742	174,459	181,294	183,603	186,054	183,685	182,826	177,986	1,987,406
Total Outflows	64,626	361,935	196,201	182,000	183,214	188,175	190,584	192,382	190,111	188,665	183,915	2,121,809

Note: FY 2017 Disbursements are estimates and subject to material change



Fiscal Plan

Summary of Payroll and Payroll Related Expenses

The Plan projects a 75% decline in aggregate payroll expenses by FY2019 with a further reduction to 90% by FY2021 as operations wind down. The Plan assumes the workforce restructuring to be in accordance with the Single Employer Act⁽¹⁾ and incentivized separation program. For purposes of this analysis, the restructuring will be implemented in three phases:

- Phase One (Initial 30% reduction in payroll):
 - Restructuring costs are estimated to be \$2.65mm and take place evenly across April, May, and June 2017
- Phase Two (Additional 45% reduction in payroll):
 - Restructuring costs are estimated to be \$4.0mm and will take place evenly across FY2018
- Phase Three (Additional 15% reduction in payroll):
 - Restructuring costs are estimated to be \$1.3mm and will take place during FY2021
- Pro forma payroll expense at GDB is projected to be ~\$2.0mm per year in 2021 and beyond (current run-rate level is \$17.8mm)

**Government Development Bank
Summary of Payroll Expense**

(\$000s)	FY 2017	FY 2017	FY 2017	FY 2017	FY 2017	Smo. End Jun-17	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	FY 2018	YE	YE
	Feb-17	Mar-17	Apr-17	May-17	Jun-17		Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	2018	2019	
Salary & Benefits Cost Savings (pre infl.)	0%	0%	10%	20%	30%		34%	38%	41%	45%	49%	53%	56%	60%	64%	68%	71%	75%			
GDB Employees	752	752	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: AAFAF Transfer Employees	86	173	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries & Wages	838	925	832	740	647	3,983	620	585	550	515	480	445	409	374	339	304	269	234	5,124	2,836	
GDB Employees	483	483	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: AAFAF Transfer Benefits	38	75	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fringe Benefits	521	559	503	447	391	2,421	375	353	332	311	290	269	247	226	205	184	163	141	3,096	1,714	
Subsidiary Salaries & Benefits	961	961	961	961	961	4,805	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll Expense	2,321	2,445	2,296	2,148	2,000	11,209	995	938	882	826	769	713	657	601	544	488	432	375	8,220	4,549	
Workforce Restructure - Single Emp. Act	-	-	882	882	882	2,647	331	331	331	331	331	331	331	331	331	331	331	331	3,970	-	
Total Payroll Expense	2,321	2,445	3,179	3,030	2,882	13,856	1,326	1,269	1,213	1,157	1,100	1,044	988	931	875	819	762	706	12,190	4,549	

(1) Act 8 of 2017 (Single Employer Act), establishes the Government of Puerto Rico as a single Employer and allows greater mobility of public sector employees between Government entities
Source: Government Development Bank; unaudited financial data is subject to change



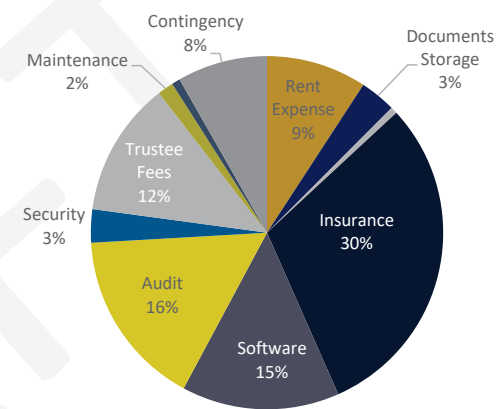
Fiscal Plan

Summary of Non-Payroll Operating Expenses

The Plan projects a 69% decline in non-payroll operating expenses from 2018 to 2020 as operations wind down and further reductions occur throughout the projection period

- Legal Fees: Assumes an increase for the remainder of FY2017 and FY2018 due to restructuring efforts and litigation, before declining
- Professional Fees: Assumes an increase from current levels for the remainder of FY2017 through FY2019, before declining
- Other Expenses: Overall reductions through out the projection period

Composition of Non-Payroll Outflows



Government Development Bank
Summary of Non-Payroll Outflows

(\$000s)	5mo. End 6/30/2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Rent Expense	363	643	445	450	91	92	93	95	96	98	99	2,565
Legal Fees	5,434	10,585	4,500	2,250	2,000	1,750	1,776	1,500	1,524	1,250	1,270	33,839
Professional Fees	1,929	4,865	4,707	2,000	1,500	1,520	1,542	1,250	1,270	1,000	1,016	22,598
Other Outflows												
Documents Storage	34	84	84	85	86	87	89	90	91	93	94	918
Utilities- Telephone	16	30	20	15	15	16	16	11	11	11	11	172
Insurance	942	2,287	1,000	500	506	512	520	528	536	545	553	8,427
Software	639	1,165	588	317	320	243	247	167	170	86	88	4,030
Audit	878	1,066	538	326	330	223	226	229	233	237	241	4,526
Security	125	152	123	93	94	63	64	33	33	34	34	848
Service and Trustee Fees	219	531	536	298	301	250	253	257	261	265	270	3,442
Maintenance	64	78	55	55	56	24	25	17	17	9	9	408
Office Supplies	24	30	30	24	24	19	19	13	13	10	10	215
Contingency	104	250	250	250	250	200	200	200	200	200	200	2,304
Total Other Outflows	3,046	5,671	3,224	1,964	1,983	1,637	1,658	1,544	1,565	1,489	1,510	25,291
Total Non-Payroll Outflows	10,771	21,763	12,876	6,663	5,574	4,998	5,070	4,389	4,456	3,837	3,895	84,293

Source: Government Development Bank; unaudited financial data is subject to change



Fiscal Plan

Debt Sustainability Analysis

Based on the Plan assumptions, GDB will not be able to service the senior unsecured notes according to contracted terms

- Framework used for GDB’s debt sustainability analysis
 - Assess current debt situation including its maturity and debt service structure
 - Compare forecasted distributions from the Plan to the Senior Unsecured Notes debt service schedule

**Government Development Bank
Senior Unsecured Note - Summary**

(\$ millions)	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDB Excess Cash Flow	328	179	171	174	181	184	186	184	183
<u>Contractual Debt Service</u>									
Principal	277	848	432	434	143	47	541	-	374
Interest	140	123	79	55	46	43	18	16	10
Total Contractual Debt Service	417	971	512	488	189	91	559	16	384

The Plan does not resolve the mechanism by which excess cash flow will be allocated between depositors and other creditors.

Source: Government Development Bank; unaudited financial data is subject to change



Fiscal Plan

Subsidiaries, Guarantees and Letters of Credit

GDB Subsidiaries

GDB is authorized under Article 2 of its enabling act, Act 17 of 1948, as amended to create subsidiaries by resolution of the Board of Directors. The GDB Charter provides that GDB Subsidiaries shall constitute government instrumentalities, independent of and separate from GDB⁽¹⁾

Puerto Rico Housing Finance Authority (HFA)

Subsidiary of GDB and a government instrumentality of the Government, created in 1977 for the purpose of financing the construction, reconstruction, improvement, alteration and repair of decent, safe and sanitary dwellings for persons of limited income under state and federally subsidized homeownership programs

- HFA has approximately \$400mm of tax-exempt bonds outstanding that are limited obligations payable solely from underlying mortgages and payments thereon or funds allocated to the Puerto Rico Public Housing Administration by HUD
- HFA owes approximately \$85mm to GDB. For purposes of the Plan, it is assumed that GDB will not collect on this HFA loan, although it reserves the right to pursue collection efforts to maximize recovery values for all stakeholders, where possible
- HFA has \$164mm in deposits at GDB

Given the current financial condition of HFA, GDB has not assumed any additional collections from HFA

Puerto Rico Development Fund (PRDF)

Established in 1977 to provide an alternate source of financing to private enterprises, including to provide guarantees and invest in equity securities of such enterprises

The Plan assumes no collections from PRDF are received by GDB



(1) Section Fourth (J)(1) of the GDB Charter, 7 L.P.R.A § 552

Fiscal Plan

Subsidiaries, Guarantees and Letters of Credit

Puerto Rico Tourism Development Fund (TDF)

Created in 1993 to promote the hotel and tourism industry by making capital investments in, or by providing financing directly or indirectly (through the use of letters of credits and guarantees) to, entities that can contribute to the development of the industry

- TDF has experienced significant losses and has an accumulated net deficits due to decreased economic activity in the hotel and tourism industries in recent years
- Although TDF has covered its deficits through contributions from the Government, as permitted by legislation, and from financial support provided by GDB, no additional contributions or support are expected
 - *The Government's certified fiscal plan does not assume any appropriations allocated to TDF*
- No recourse to GDB: GDB has confirmed, through an analysis by outside legal counsel, that the resolution that created TDF “specifically provides that GDB shall not be liable for the payment of any of TDF’s debts “of any nature,” unless expressly guaranteed by GDB
- As of December 31, 2016, TDF had outstanding guarantees on financings for six projects totaling \$247.5 mm and loans to three projects with combined outstanding balances of \$31.8 mm. All outstanding guarantees are non-current and one of the three outstanding loans is non-current
- TDF reserves the right to pursue collection efforts on all of its private sector loans in efforts to maximize stakeholder value

Given the current financial condition of TDF, GDB has not assumed any additional collections from TDF



Fiscal Plan

Subsidiaries, Guarantees and Letters of Credit

Other Guarantees and/or Letters of Credit

- **GDB Direct-Pay Letter of Credit (“Direct-Pay LOC”)** securing Puerto Rico Infrastructure Financing Authority Revenue Bonds (Ports Authority Project), Series 2011 A and 2011 B with a current outstanding balance of \$196mm. The Direct-Pay LOC is currently outstanding with an expiration date of December 15, 2026. GDB has included this guarantee as a liability on its balance sheet presented in this fiscal plan, *pari passu* with other senior unsecured creditors
- **GDB Stand-by Letter of Credit (“Stand-by LOC”)** for the benefit of Puerto Rico Public Finance Corporation 2011 Series A and B Bonds and 2012 Series A Bonds (the “Bonds”). The Stand-by LOC does not impact GDB’s Fiscal Plan. The Trustee may only draw from the Stand-by LOC when a budget for a new fiscal year is not approved and adopted, a legislative appropriation for the current fiscal year exists and is lower than the debt service payment due on the Bonds for the next fiscal year for which a new budget is not adopted. In such an instance, the Stand-by LOC may be drawn in the amount that the debt service on the Bonds for the upcoming fiscal year is higher than the appropriated amount for debt service on the Bonds during the current fiscal year, if any
 - The Stand-by LOC is not intended to and does not cover the risk that no appropriation is made by the Legislature of Puerto Rico for any particular fiscal year, or that an appropriation is made in an amount lower than the amount of debt service on the Bonds due with respect to any fiscal year. If the budget for any fiscal year is adopted but no appropriation for the payment of the Bonds is included in such budget, or an appropriation is made in an amount lower than the amount of debt services on the Bonds, the Trustee may not make a drawing under the Stand-by LOC
- **GDB Guarantee – CCHPR Hospitality, LLC:** Guarantee issued by GDB on a loan provided by a local bank syndicate for the development and construction of a hotel. Current exposure of guarantee is approximately \$149 mm



Fiscal Plan

Subsidiaries, Guarantees and Letters of Credit

Public Private Partnerships and Respective Payment Guarantees

PR-22 and PR-5 Toll Roads⁽¹⁾

- GDB payment guarantee in favor of Metropistas (toll road operator) for any “Termination Damages” due and payable in cash by the Puerto Rico Highways and Transportation (HTA in turn agreed to reimburse GDB)

Luis Muñoz Marín International Airport⁽²⁾

- GDB payment guarantee in favor of Aerostar (airport operator) for any “Termination Damages” due and payable in cash by the Puerto Rico Ports Authority, which would be reimbursable to GDB by the Ports Authority

On February 23, 2017, GDB and AAFAF received a letter from the Puerto Rico Public Private Partnership Association where it indicated that a “restructuring (rather than a liquidation) of the GDB is clearly the preferred and most beneficial approach”

The Plan assumes the payment guarantees remain outstanding during the wind down period.

Source:

(1) Concession Agreement between Metropistas and HTA and Reimbursement Agreement between HTA and GDB

(2) Lease Agreement between Aerostar and Ports Authority and Reimbursement Agreement between Ports Authority and GDB





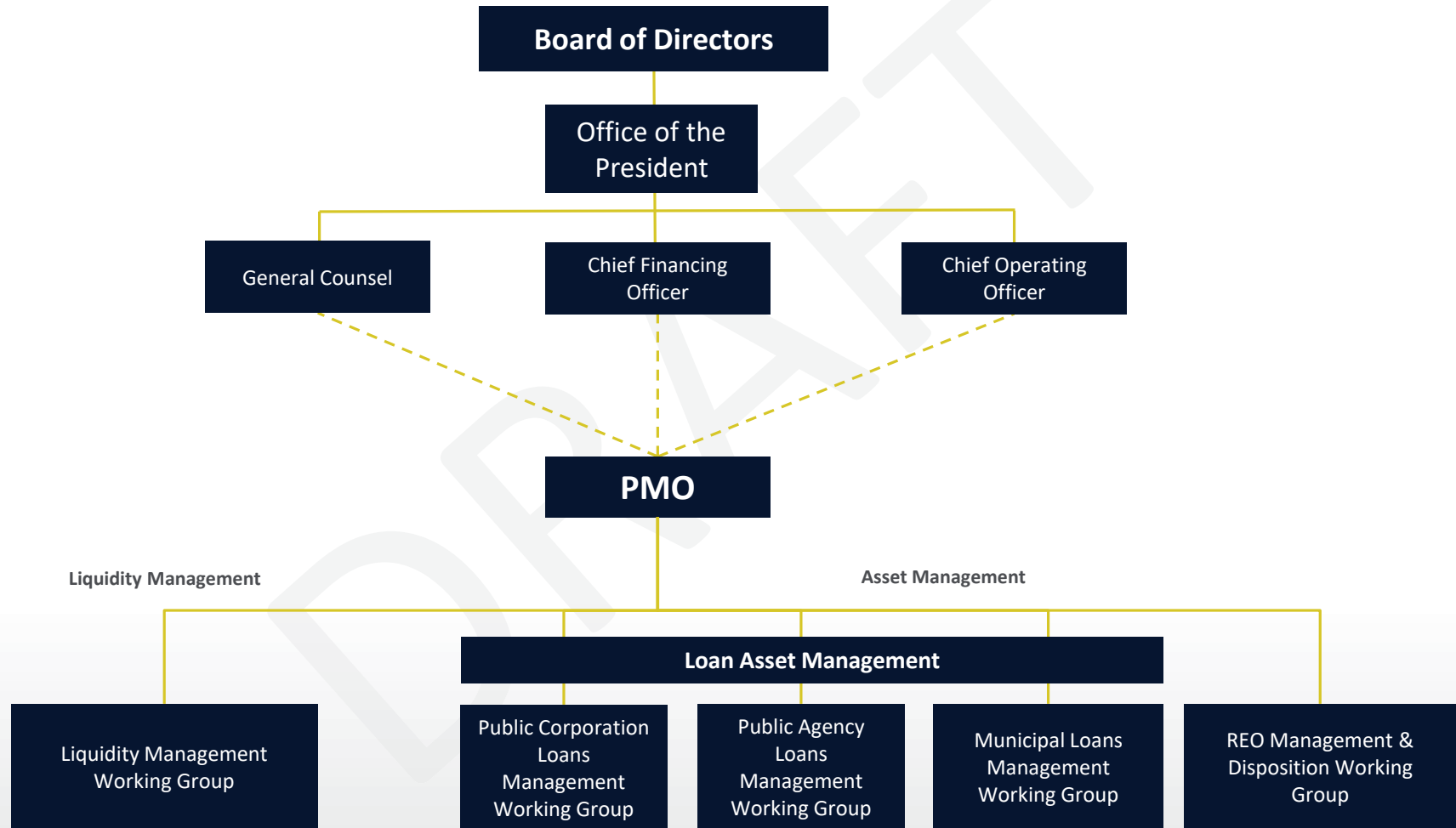
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III. Fiscal Plan Implementation

Fiscal Plan Implementation

PMO Structure



GDB Project Management Office

Driving Fiscal Plan Implementation

- In February 2017, GDB established a project management office (“PMO”) to drive the implementation of its Plan submitted to the Oversight Board. Through this PMO structure, GDB is positioned to effectively manage and implement the Plan
- PMO leadership, comprised of senior GDB personnel, is creating PMO working groups as necessary, directing them to undertake the required work to advance assigned Plan initiatives. The daily activities of these Working Groups are managed and undertaken by internal GDB staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making
- PMO leadership will ensure that implementation of initiatives are in compliance with the Plan, necessary legal and regulatory evaluations are undertaken, and best practices are incorporated whenever possible. PMO leadership is also responsible for escalating any decisions requiring approval by the GDB President and/or its Board of Directors
- Initial efforts have centered on creating and staffing Working Groups responsible for:
 - Developing and implementing enhanced liquidity management protocols to maximize cash optimization opportunities,
 - Evaluating and monetizing GDB assets, and
 - Assessing short and longer-term staffing needs to develop a workforce management plan.



PMO Implementation

Initial Working Groups established by GDB Leadership

Liquidity Management Working Group

Coordinate and manage all GDB cash receipts and disbursements and implement refined processes and procedures for all disbursements in accord with the Plan and other legal and regulatory requirements; assess and realize cash optimization opportunities

REO Management & Disposition Working Group

Evaluate and manage all real estate assets held by GDB and develop plans in accord with the Plan and other legal and regulatory requirements to effectively and efficiently monetize marketable properties

Loan Asset Working Groups

Evaluate and manage all loan assets held by GDB and develop plans in accord with the Plan and other legal and regulatory requirements to effectively and efficiently monetize marketable assets

Strategic Initiatives Working Group

Develop and implement a range of short and longer-term Plan initiatives focused on assessing GDB operational staffing needs to implement a workforce management plan and overall restructuring efforts



Projected Implementation Timelines of Fiscal Plan Initiatives

	2017				2018				2019				Beyond
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Real Estate	Evaluate real estate assets and monetize												
Loan Assets	Evaluate loan assets and monetize												
Liquidity Management	Reform policies and procedures and manage cash inflows and outflows												
Strategic Initiatives Management	Workforce and operating expenses restructuring plan												





GOVERNMENT OF PUERTO RICO
**Government Development Bank for
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IV. Appendices



GOVERNMENT OF PUERTO RICO
Government Development Bank for
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IV.i. Current Balance Sheet Information

Current Balance Sheet Information

Current Balance Sheet

- GDB's balance sheet includes a significant number of "non-performing" assets
- Historically, GDB accounted for its inherent losses in its public sector loan portfolio following applicable financial reporting and accounting pronouncements and experiences on recoveries on its loan portfolio over several decades
- Events between 2013 and 2016 resulted in loss of investment grade rating and market access that caused:
 - Total allowance for loan losses amounted to approximately \$2.5bn, in audited FY2014 Financial Statements*
- "Clawback" of revenues by the Government in its certified fiscal plan permanently impaired a large portion of GDB public corporation loans.

(\$ in millions)	1/31/2017
Assets:	
Cash & Cash Equivalents	\$260.7
Loans:	
Public Entity Loans	6,264.7
Municipal Loans	2,529.7
Private Sector Loans	1.0
Allowance for Loan Losses	(2,504.7)
Total Loans, net	\$6,290.7
Accrued Interest Receivable:	
Investments	0.0
Public Entity Loans	110.7
Municipal Loans	16.0
Private Sector Loans	0.0
Total Accrued Interest Receivable	\$126.7
Real Estate Owned	62.7
Other Assets	26.2
Total Assets	\$6,767.0
Liabilities:	
Total Deposits	\$3,514.6
Allowance For Losses on Guarantees and LOCs	52.6
Accrued Interest Payable	36.1
Accounts Payable	604.2
Notes Payable	3,384.6
Total Liabilities	\$7,592.1
Net Position	(\$825.1)
Total Liabilities and Net Position	\$6,767.0

Note:

- From unaudited Balance Sheet
- Accounts Payable includes \$360mm of GDB notes that have matured
- GDB FY2014 Audited Financial Statements
- COFIM and FAM advances totaling \$326.2mm and \$168.1mm, respectively, are being reconciled against deposits received from municipal IVU from each entity. FAM advances will be netted out completely where COFIM would still owe \$57.2mm to GDB.

Source: GDB Accounting Department Draft Financial Statements



Current Balance Sheet Information

Loans

- All loans to municipalities are currently performing while substantially all other public sector loans are non-performing

GDB Loan Portfolio (\$ in millions)	
<u>Public Corporation:</u>	
Highways & Transportation Authority (HTA)	\$1,733.7
Special Communities Trust	345.8
Ports Authority	286.5
CRIM - Ponce	107.4
PR Industrial Development Company (PRIDCO)	77.8
Other Public Corporation Loans	419.9
Total Public Corporation Portfolio	\$2,971.2
<u>Public Agency:</u>	
Hacienda	\$884.6
Medical Services Administration (ASEM)	282.4
Office of Management and Budget (OMB)	265.5
Health Insurance Administration (ASES)	183.3
Public Buildings Authority	182.2
Other Public Agency Loans	1,034.7
Total Public Agency Portfolio	\$2,832.6
<u>Municipal:</u>	
San Juan	\$414.6
Guaynabo	143.1
Ponce	98.2
Toa Baja	75.9
Aguadilla	71.9
Other Municipal Loans	1,232.7
Total Municipal Portfolio	\$2,036.4
<u>Private:</u>	
Total Private Portfolio	\$1.0
Total Portfolio	\$7,841.1

GDB Total Loan Portfolio (\$ in millions)	
Public Loans	\$5,803.7
Municipal Loans	2,036.4
Municipal FAM Advances	168.1
Municipal COFIM Advances	326.2
Private Sector Loans / Other	426.5
AFV Reverse Repo	21.1
Gross Loans	\$8,782.1
Adjustments	(2,491.3)
Net Loans	\$6,290.7

Note: Differs from Assets on unaudited balance sheet:

- 1) Public Loans: Excludes Investment assets
- 2) COFIM and FAM advances totaling \$326.2mm and \$168.1mm, respectively, are being reconciled against deposits received from municipal IVU from each entity. FAM advances will be netted out completely where COFIM would still owe \$57.2mm to GDB.



Current Balance Sheet Information

Deposits

- GDB holds approximately \$3.03bn⁽¹⁾, net of COFIM and FAM, in deposits for various government agencies, corporations, municipalities and other entities. Access to these deposits is severely restricted
- Most depositors have transitioned their operating accounts away from GDB and have been transacting via commercial banks since April 2016

Top 20 GDB Depositors (2/28/2017)			
(\$ in millions)			
Depositor	Balance	Depositor	Balance
Departamento de Hacienda	501	Autoridad de Carreteras y Transportación	43
Autoridad para el Financiamiento de Infraestructura (AFI)	230	Corporacion del Fondo del Seguro del Estado	42
Autoridad de Energia Electrica (PREPA)	149	Autoridad de Edificios Publicos	40
Municipio de San Juan	144	Administracion de Terrenos	38
Fideicomiso Comunidades Especiales	101	Municipio de Mayaguez	37
Fideicomiso para la Ciencia y Tecnología ⁽²⁾	92	Compania de Turismo de Puerto	34
Universidad de Puerto Rico	92	Administración Sistemas de Retiro de los Empleados Públicos	33
Departamento del Trabajo y Recursos Humanos	81	Administración para el Desarrollo de Empresas Agropecuarias	31
Municipio de Carolina	73	Municipio de Guaynabo	29
Fondo Especial para la Promoción de la Salud y Seguridad Operativa	48	Autoridad para las Alianzas Público Privadas ⁽³⁾	27
		Other	1,165
		Total Deposits	\$3,030⁽¹⁾

Source: GDB

- Balance of deposits excludes \$268mm and \$196mm of COFIM and FAM deposits, respectively, that are the repayment of advances made by GDB to municipalities before July 1st, 2016 through COFIM and FAM. GDB is currently reconciling its books to reflect this. Net effect will be an advance payable from COFIM of \$57.2mm.
- Indicates funds deposited by Fideicomiso para la Ciencia y Tecnología are from a private non-profit entity.
- Represents deposits held in escrow in connection with the Metro Pisas PR22/PR5 Public Private Partnership.
- Excluded from the presentation of Top 20 Depositors are affiliated entities of GDB. Fondo de Desarrollo Turistico (TDF) and Autoridad para el Financiamiento de la Vivienda (AFV) maintain deposit balances of \$158mm and \$140mm, respectively.



Current Balance Sheet Information

Senior Unsecured Medium Term Notes

Description of GDB's Medium Term Notes (MTN) Program

- MTNs are highly customizable debt securities that serve the needs of both issuers and investors and are a major source of funding for government agencies and corporations
- MTNs are an effective tool of asset-liability management for issuers and buyers as they can match terms with specific needs
- Following the 2008 global financial crisis, GDB shifted its reliance from commercial paper to a Medium Term Senior Unsecured Notes program (MTNs) for funding purposes, which provided a more stable source of funding at fixed and predictable rates
- From 2006 to 2010, GDB MTNs were issued exclusively to Puerto Rico retail and institutional investors.
- Between 2011 and 2012, GDB was able to restructure the maturity profile of its MTNs to allow for a longer and smoother maturity schedule
- Concurrently, GDB was able to diversify the composition of its investor base by issuing notes outside Puerto Rico, reducing the exposure of local investors to Puerto Rico related credits
- Proceeds from MTNs were used to fund GDB's lending activities with, the Government, certain instrumentalities, and municipalities
- **After losing its investment grade rating and market access in 2014, GDB has been unable to refinance its MTNs and is now facing a severe liquidity crisis**

Source of Repayment

- GDB MTNs are general, unsecured obligations, except for the Series 2013 B-1 Notes that were guaranteed by the Government and purchased by the State Insurance Fund
- GDB generates revenues to repay its obligations primarily from interest and principal payments from its loan portfolio
- Loss of appropriations from the Government and "claw back" of other revenues previously used to fund debt service of certain public corporations debt severely impeded GDB's ability to meet obligations





GOVERNMENT OF PUERTO RICO
**Government Development Bank for
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IV.ii. Financial Model

Financial Model

Monthly 2017 and 2018

Government Development Bank
Fiscal Plan - Fund Flows

(5000s)	Fiscal 2/28/17	Fiscal 3/31/17	Fiscal 4/30/17	Fiscal 5/31/17	Fiscal 6/30/17	Smo. Ending 6/30/17	Fiscal 7/31/17	Fiscal 8/31/17	Fiscal 9/30/17	Fiscal 10/31/17	Fiscal 11/30/17	Fiscal 12/31/17	Fiscal 1/31/18	Fiscal 2/28/18	Fiscal 3/31/18	Fiscal 4/30/18	Fiscal 5/31/18	Fiscal 6/30/18	Fiscal 2018	
Projected Inflows																				
<i>Loan Asset Portfolio Interest Income:</i>																				
Appropriation Loans	11,163	11,163	11,163	11,163	11,163	55,815	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Loans	-	-	-	-	-	-	147,699	-	-	-	-	-	38,901	-	-	-	-	-	-	186,600
Revenue Loans	172	2,516	172	172	1,001	4,032	4,318	172	538	172	172	389	4,318	172	2,492	172	172	1,019	14,104	
Total Loan Asset Portfolio Inflows	11,335	13,679	11,335	11,335	12,164	59,847	152,018	172	538	172	172	389	43,219	172	2,492	172	172	1,019	200,704	
<i>Other Cash Receipts:</i>																				
PR HTA Revenue Bond Interest	1,907	1,907	1,907	1,907	1,907	9,534	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Dividend Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income on Cash Deposits	32	33	33	33	33	164	22	10	10	9	9	9	10	10	10	10	10	10	130	
Total Other Inflows	1,939	1,939	1,940	1,940	1,940	9,698	22	10	10	9	9	9	10	10	10	10	10	10	130	
REO Asset Sales	-	-	-	-	-	-	-	-	2,403	-	-	23,210	-	-	10,555	-	-	16,170	52,338	
Total Cash Inflows	13,274	15,619	13,274	13,274	14,104	69,545	152,040	182	2,951	181	180	23,608	43,229	182	13,057	182	181	17,199	253,172	
Projected Outflows																				
<i>Operating Disbursements</i>																				
Salaries & Wages	838	925	832	740	647	3,983	620	585	550	515	480	445	409	374	339	304	269	234	5,124	
Fringe Benefits	521	559	503	447	391	2,421	375	353	332	311	290	269	247	226	205	184	163	141	3,096	
Workforce Restructuring	-	-	882	882	882	2,647	331	331	331	331	331	331	331	331	331	331	331	331	3,970	
Total Payroll - Subsidiary	961	961	961	961	961	4,805	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Payroll Related	2,321	2,445	3,179	3,030	2,882	13,856	1,326	1,269	1,213	1,157	1,100	1,044	988	931	875	819	762	706	12,190	
Rent/Utilities	73	73	73	73	73	363	70	67	64	61	58	55	52	49	46	43	40	37	643	
Legal Services	847	1,147	1,147	1,147	1,147	5,434	1,040	1,040	1,040	1,040	1,040	1,040	724	724	724	724	724	724	10,585	
Professional Services	259	417	417	417	417	1,929	422	422	422	422	422	422	388	388	388	388	388	388	4,865	
Other Operating Outflows	609	609	609	609	609	3,046	473	473	473	473	473	473	473	473	473	473	473	473	5,671	
Total Operating Outflows	4,108	4,691	5,424	5,276	5,128	24,626	3,331	3,272	3,213	3,153	3,094	3,034	2,624	2,565	2,506	2,446	2,387	2,328	33,954	
Net Cash Flows	9,166	10,928	7,850	7,998	8,976	44,918	148,708	(3,090)	(262)	(2,972)	(2,913)	20,574	40,605	(2,383)	10,551	(2,265)	(2,206)	14,871	219,218	
Beginning Cash Balance	153,845	155,011	157,939	157,789	157,787	153,845	158,763	50,000	46,910	46,648	43,676	40,762	50,000	50,000	47,617	50,000	47,735	45,530	158,763	
Net Cash Flows	9,166	10,928	7,850	7,998	8,976	44,918	148,708	(3,090)	(262)	(2,972)	(2,913)	20,574	40,605	(2,383)	10,551	(2,265)	(2,206)	14,871	219,218	
Disbursements	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(40,000)	(257,471)	-	-	-	-	(11,336)	(40,605)	-	(8,168)	-	-	(10,401)	(327,981)	
Ending Cash Balance	155,011	157,939	157,789	157,787	158,763	158,763	50,000	46,910	46,648	43,676	40,762	50,000	50,000	47,617	50,000	47,735	45,530	50,000	50,000	

Source: GDB; unaudited financial data is subject to change



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Operating outflows are subject to further adjustments arising from a restructuring 37

Financial Model

Monthly 2019

Government Development Bank
Fiscal Plan - Fund Flows

(\$000s)	Fiscal 2018	Fiscal 7/31/18	Fiscal 8/31/18	Fiscal 9/30/18	Fiscal 10/31/18	Fiscal 11/30/18	Fiscal 12/31/18	Fiscal 1/31/19	Fiscal 2/28/19	Fiscal 3/31/19	Fiscal 4/30/19	Fiscal 5/31/19	Fiscal 6/30/19	Fiscal 2019
Projected Inflows														
<i>Loan Asset Portfolio Interest Income:</i>														
Appropriation Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Loans	186,600	137,597	-	-	-	-	-	38,272	-	-	-	-	-	175,869
Revenue Loans	14,104	4,318	172	514	172	172	370	4,318	172	2,467	172	172	1,038	14,055
Total Loan Asset Portfolio Inflows	200,704	141,915	172	514	172	172	370	42,590	172	2,467	172	172	1,038	189,924
<i>Other Cash Receipts:</i>														
PR HTA Revenue Bond Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Dividend Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income on Cash Deposits	130	10	10	10	10	10	10	10	10	10	10	10	10	122
Total Other Inflows	130	10	10	10	10	10	10	10	10	10	10	10	10	122
REO Asset Sales	52,338	-	-	2,965	-	-	-	-	-	-	-	-	-	2,965
Total Cash Inflows	253,172	141,926	182	3,489	182	182	380	42,601	182	2,477	182	182	1,047	193,011
Projected Outflows														
<i>Operating Disbursements</i>														
Salaries & Wages	5,124	236	236	236	236	236	236	236	236	236	236	236	236	2,836
Fringe Benefits	3,096	143	143	143	143	143	143	143	143	143	143	143	143	1,714
Workforce Restructuring	3,970	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Payroll - Subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Payroll Related	12,190	379	379	379	379	379	379	379	379	379	379	379	379	4,549
Rent/Utilities	643	37	37	37	37	37	37	37	37	37	37	37	37	445
Legal Services	10,585	375	375	375	375	375	375	375	375	375	375	375	375	4,500
Professional Services	4,865	392	392	392	392	392	392	392	392	392	392	392	392	4,707
Other Operating Outflows	5,671	269	269	269	269	269	269	269	269	269	269	269	269	3,224
Total Operating Outflows	33,954	1,452	1,452	1,452	1,452	1,452	1,452	1,452	1,452	1,452	1,452	1,452	1,452	17,425
Net Cash Flows	219,218	140,474	(1,270)	2,037	(1,270)	(1,270)	(1,072)	41,148	(1,270)	1,025	(1,270)	(1,271)	(405)	175,586
Beginning Cash Balance	158,763	50,000	50,000	48,730	50,000	48,730	47,459	46,387	50,000	48,730	49,755	48,485	47,214	50,000
Net Cash Flows	219,218	140,474	(1,270)	2,037	(1,270)	(1,270)	(1,072)	41,148	(1,270)	1,025	(1,270)	(1,271)	(405)	175,586
Disbursements	(327,981)	(140,474)	-	(767)	-	-	-	(37,535)	-	-	-	-	-	(178,776)
Ending Cash Balance	50,000	50,000	48,730	50,000	48,730	47,459	46,387	50,000	48,730	49,755	48,485	47,214	46,810	46,810

Source: GDB; unaudited financial data is subject to change



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Operating outflows are subject to further adjustments arising from a restructuring 38

Financial Model

Annual through 2027

Government Development Bank Fiscal Plan - Fund Flows

(\$000s)	5mo. Ending 6/30/2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027
Projected Inflows											
<i>Loan Asset Portfolio Interest Income:</i>											
Appropriation Loans	55,815	-	-	-	-	-	-	-	-	-	-
Municipal Loans	-	186,600	175,869	169,679	170,111	174,302	176,600	180,287	178,288	177,063	172,195
Revenue Loans	4,032	14,104	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540
Total Loan Asset Portfolio Inflows	59,847	200,704	189,924	183,686	184,069	188,211	190,354	192,039	189,990	188,717	182,735
<i>Other Cash Receipts:</i>											
PR HTA Revenue Bond Interest	9,534	-	-	-	-	-	-	-	-	-	-
Interest and Dividend Income	-	-	-	-	-	-	-	-	-	-	-
Interest Income on Cash Deposits	164	130	122	122	123	124	124	123	123	123	123
Total Other Inflows	9,698	130	122	122	123	124	124	123	123	123	123
REO Asset Sales	-	52,338	2,965	-	-	-	-	-	-	-	-
Total Cash Inflows	69,545	253,172	193,011	183,807	184,192	188,335	190,477	192,162	190,113	188,840	182,858
Projected Outflows											
<i>Operating Disbursements</i>											
Salaries & Wages	3,983	5,124	2,836	2,864	1,158	1,173	1,191	1,209	1,228	1,248	1,268
Fringe Benefits	2,421	3,096	1,714	1,731	700	709	720	730	742	754	766
Workforce Restructuring	2,647	3,970	-	-	1,323	-	-	-	-	-	-
Total Payroll - Subsidiary	4,805	-	-	-	-	-	-	-	-	-	-
Total Payroll Related	13,856	12,190	4,549	4,595	3,181	1,882	1,911	1,939	1,970	2,002	2,034
Rent/Utilities	363	643	445	450	91	92	93	95	96	98	99
Legal Services	5,434	10,585	4,500	2,250	2,000	1,750	1,776	1,500	1,524	1,250	1,270
Professional Services	1,929	4,865	4,707	2,000	1,500	1,520	1,542	1,250	1,270	1,000	1,016
Other Operating Outflows	3,046	5,671	3,224	1,964	1,983	1,637	1,658	1,544	1,565	1,489	1,510
Total Operating Outflows	24,626	33,954	17,425	11,258	8,755	6,881	6,981	6,328	6,426	5,839	5,929
Net Cash Flows	44,918	219,218	175,586	172,549	175,437	181,454	183,496	185,834	183,687	183,001	176,929
Beginning Cash Balance	153,845	158,763	50,000	46,810	48,617	49,595	49,756	49,648	49,428	49,430	49,605
Net Cash Flows	44,918	219,218	175,586	172,549	175,437	181,454	183,496	185,834	183,687	183,001	176,929
Disbursements	(40,000)	(327,981)	(178,776)	(170,742)	(174,459)	(181,294)	(183,603)	(186,054)	(183,685)	(182,826)	(177,986)
Ending Cash Balance	158,763	50,000	46,810	48,617	49,595	49,756	49,648	49,428	49,430	49,605	48,549

Source: GDB; unaudited financial data is subject to change





GOVERNMENT OF PUERTO RICO
Government Development Bank for
Puerto Rico



IV.iii. GDB Overview, History and Root Causes of its Crisis

GDB Overview, History and Root Causes of its Crisis

Overview

- Originally created pursuant to Act 252 of 1942 for the purpose of attaining "the complete development of the human and economic resources of Puerto Rico"
 - Act 272 of 1945 authorized it to act as **fiscal agent and financial advisor of the central government and its agencies**;
 - Act 17 of 1948 created GDB's Charter and established its duties and powers
- **GDB's Mission:** "To safeguard the fiscal stability of Puerto Rico and promote its competitiveness in order to transform our economy into one of the most developed economies in the world, hence, fostering the social and economic enhancement of our people. We serve as a bank, fiscal agent and financial advisor for the Government of Puerto Rico, and its instrumentalities"
- During its prime, GDB was considered one of the island's most important and prestigious institutions with total assets of \$14bn, net assets of almost \$2bn and over 280 employees as of June 30, 2010⁽¹⁾
- Despite operating soundly for much of its history, supporting economic development as well as troubled public entities, failed political policies starting in the early 2000s and recurrent chronic public deficits had an adverse impact on GDB's financial position
- As the Government, its instrumentalities, and public corporations required increased liquidity and financing support from GDB, their financial health became interrelated

(1) Basic Financial Statements and Required Supplementary Information for FY2010



GDB Overview, History and Root Causes of its Crisis

Overview (continued)

- In working to achieve its goals, GDB historically facilitated capital markets access to the Government, its agencies, municipalities and public corporations until 2014
- During the summer of 2014, Puerto Rico's public sector lost access to the capital markets mainly due to:
 - *A confrontational governmental attitude towards the investment community*
 - *Lack of transparency interpreted by the investment community as lack of good faith*
 - *Lack of a coherent plan to facilitate economic development, reign in public spending, and safeguard Puerto Rico's credit ratings and capital market access*

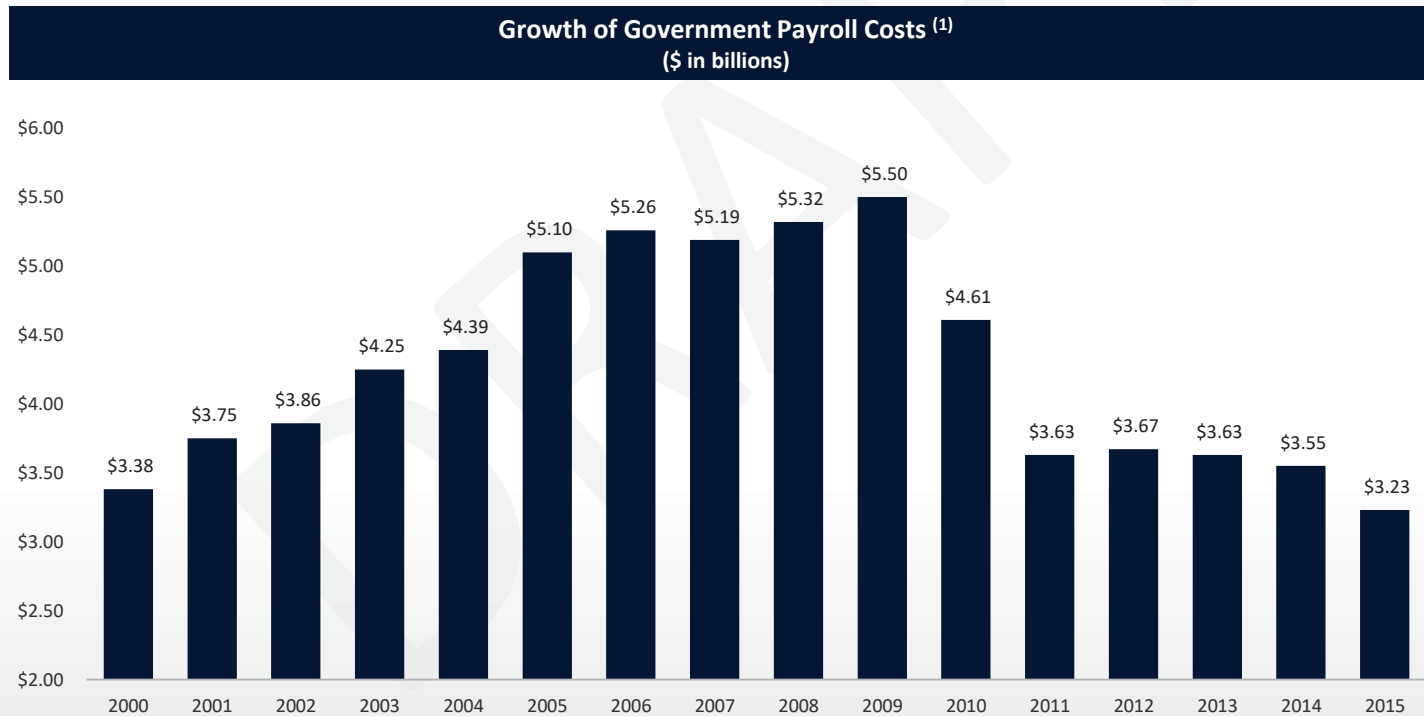
*Loss of access to readily available, cost-effective short and long-term credit triggered the collapse of the Island's public financial system and is the **primary cause for widespread defaults across Puerto Rico's debt profile and the current liquidity and solvency crisis affecting the GDB***



GDB Overview, History and Root Causes of its Crisis

Historical Context

- Available data shows that fiscal irresponsibility and ineffective leadership (public and private) was the root cause of Puerto Rico's economic and debt crisis
- The fiscal crisis began in earnest as a result of excessive spending, starkly evident, for example, with unchecked growth in government payroll between fiscal years 2001 and 2009 and persistent central government deficits



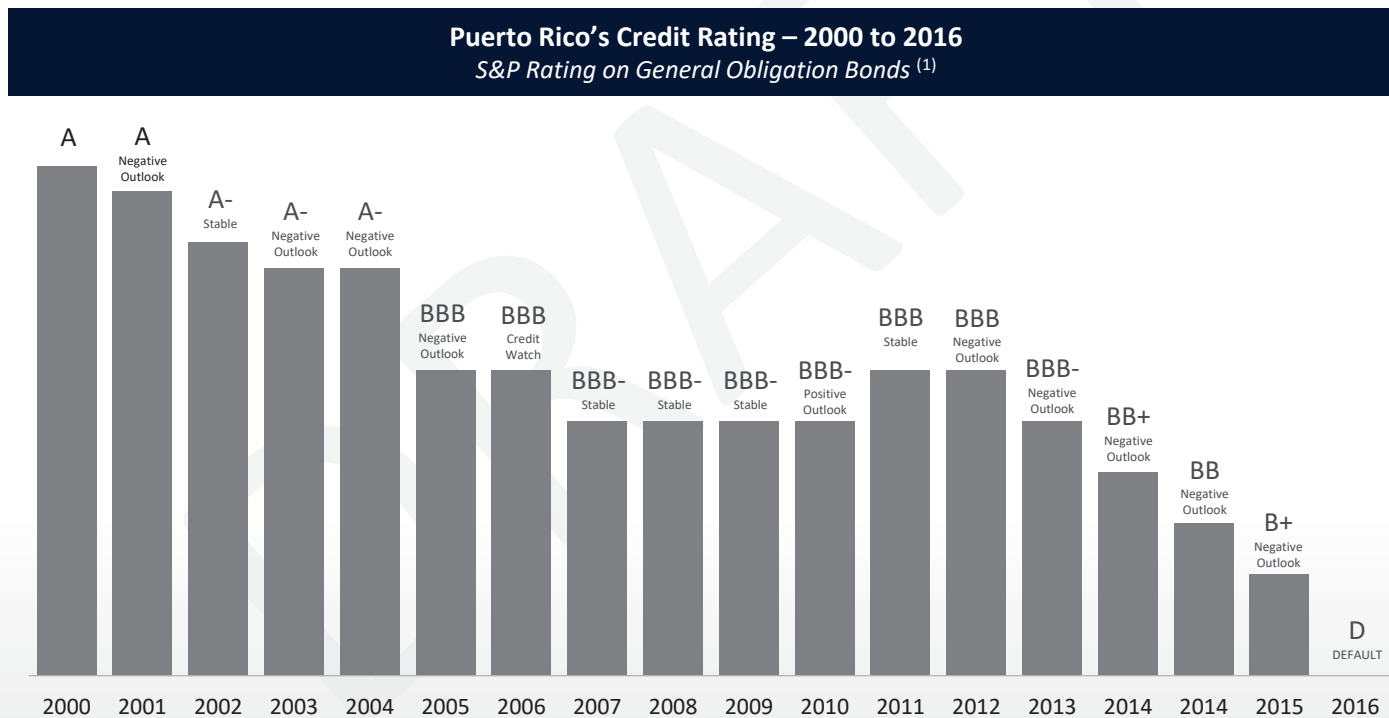
(1) Source: Government Financial Information and Operating Data Reports (various years) and Government Comprehensive Annual Financial Reports



GDB Overview, History and Root Causes of its Crisis

Historical Context (continued)

- Historical facts point to fiscal mismanagement and irresponsible behavior since 2001, except between 2009 and 2012 where credit ratings stabilized and improved



(1) Source: Standard & Poor's

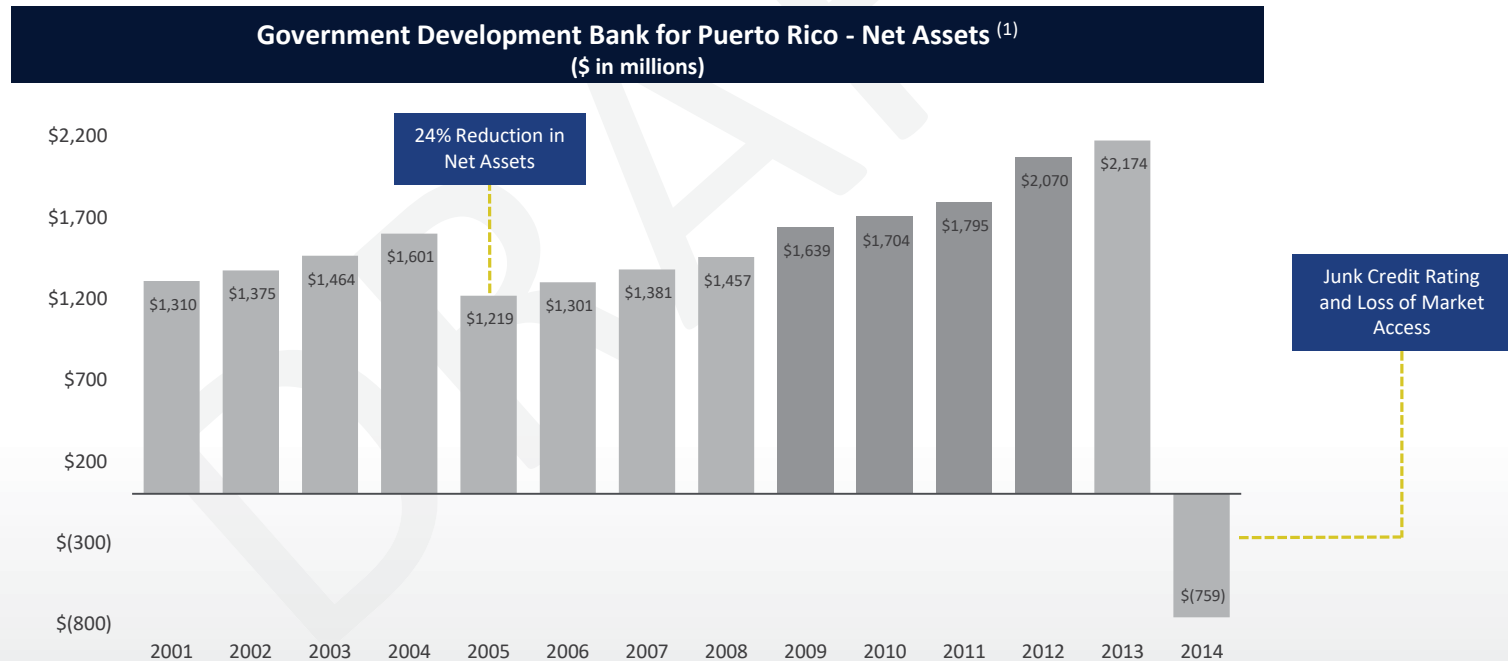
GDB Overview, History and Root Causes of its Crisis

Historical Context – Timeline of Relevant Events

2004:

Assault on GDB's Capital

Out of control public spending including fiscally unsound legislation in FY 2005 that forced GDB to make a \$500mm special dividend and a \$500mm appropriation loan to fund the Special Communities Perpetual Trust, resulted in a 24% reduction in GDB's net assets



(1) Source: GDB Basic Financial Statements and Required Supplementary Information on Fiscal Years 2001 – 2014



GDB Overview, History and Root Causes of its Crisis

Historical Context – Timeline of Relevant Events

Looking the Other Way

The public sector ignored the weakening economy, population loss, and ensuing declining government revenue base and instead increased public spending that resulted in a recurrent practice of deficit financings and a crowding out effect of the private sector starting in FY2001

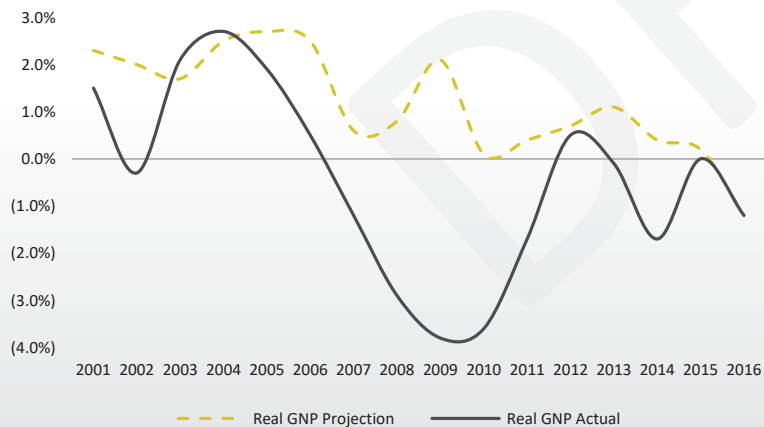
2006:

Weakening economic prospects resulting from a lack of coherent economic initiatives, government inefficiencies and a crowding out effect on private sector investment due to unchecked public sector spending triggered an accelerated population decline that fueled economic contraction

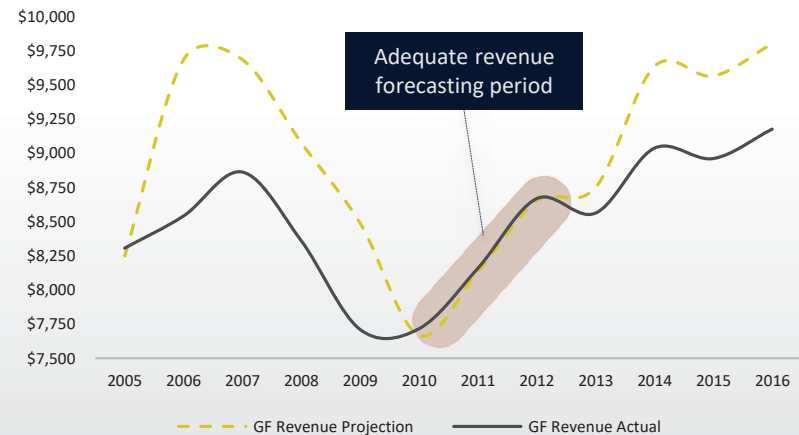
Government Shutdown & Economic Recession

A Government shutdown, overestimation of economic growth prospects and government revenues that incorrectly justified aggressive government spending, resulted in massive deficits that were covered with one-time measures and GDB loans

Economic Projections vs Actual Since 2001 – 2016 ⁽¹⁾
(% Change)



Revenue Projections vs Actual Since 2005 ⁽²⁾
(\$ in millions)



(1) Base case projection for each fiscal year as projected prior to or at the beginning of each fiscal year by the Puerto Rico Planning Board

(2) Source: Estimated General Fund Net Revenues for Fiscal Years 2001 to 2016 as presented by the Secretary of the Treasury during each fiscal year's budget approval process



GDB Overview, History and Root Causes of its Crisis

Historical Context – Timeline of Relevant Events

2007/2008:

Credit Deterioration

Credit deterioration due to persistent structural imbalances and an accelerated economic decline put additional pressure on the public sector, increasing reliance on GDB's balance sheet for short-term financing to continue funding public improvements and operational expenses

Global Financial Crisis

The global financial crisis and the temporary collapse of asset-backed commercial paper programs (CPP) forced GDB to seek alternative sources of funding

2008/2009:

Medium Term Notes Program

GDB found a funding alternative in its Medium Term Senior Unsecured Notes program (MTNs) that provided a fixed and cost-effective source of funding based on readily available market access



GDB Overview, History and Root Causes of its Crisis

Historical Context – Timeline of Relevant Events

2011/2012:

Given strong credit ratings and a proven track record in the capital markets, GDB was able to restructure the maturity profile of its MTN program to allow for a longer maturity schedule

Concurrently, GDB diversified the composition of its investor base while reducing the exposure of local retail and institutional investors to Puerto Rico credits:

**Investor Base
Diversification**

FY 2010 ⁽²⁾	FY 2012 ⁽²⁾
Noteholders	Noteholders
100% Local	69% Local; 31% Stateside

2012:

“The Government of Puerto Rico’s general obligation bonds reflects the significant progress made by the outgoing administration in implementing widespread reforms despite economic underperformance. Maintenance of the rating will require policy decisions that continue this progress and achieve budget balance and a slowing in the growth of long-term liabilities...” ⁽¹⁾

**Fitch Ratings
Disclosure**

2013:

Former Governor García Padilla’s administration adopted a hostile stance toward the investment community by publicly disregarding the input and recommendations of rating agencies, beginning a confrontational relationship with the local and national investment community

**Governor’s
Defiance**

2014:

The García Padilla administration enacted a local bankruptcy regime (later invalidated by SCOTUS), severely damaging Puerto Rico’s historic credit reputation and track record

**Credit
Reputation
Damaged**

(1) Source: Fitch Ratings Disclosure – December 18, 2012

(2) GDB audited basic financial statements

GDB Overview, History and Root Causes of its Crisis

Historical Context – Timeline of Relevant Events

2015:

**Unwillingness
to
Pay**

As the investment community lost confidence and trust in the Garcia Padilla administrations, the Governor shifted Puerto Rico's longstanding "willingness to pay" stance to an "unwillingness to pay"

Immediately following the Governor's public statements, a significant portion of GDB's public sector loan portfolio defaulted creating a domino effect within GDB's asset and liability structure, forcing the bank to consider restrictive disbursement measures on approved loans and deposits, eventually defaulting on its own debt obligations (MTNs), and threatening the provision of essential services by select depositors

2016:

GDB Default

Loss of cash flow from a significant portion of its public sector loan portfolio resulting from the central government's "unwillingness" to honor its moral obligations and other loans whose source of repayment was "clawed back" rendered the GDB practically inoperative with a rapidly decreasing liquidity base and inability to refinance maturing MTN obligations

