



HUD and the Government of Puerto Rico Announced the Execution of a \$1.5 Billion Grant Agreement for Hurricane Recovery

Fiscal Oversight Board Finalizes Amended Plan Support Agreement with COFINA bondholders, bond insurers, and the Bonistas del Patio bondholder group

New Model for Government's Healthcare Plan Announced by Governor Rosselló

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# Global▷eyes

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## Economic Outlook for Puerto Rico: One Year After María

### Headline Story

It has been a year since Hurricane María hit Puerto Rico, on September 20, 2017. Hurricane María was the third costliest storm in U.S. history, damaging more than 300,000 homes, leaving 3 million people without electricity and causing around \$100 billion in damages.

The number of deaths related to the hurricane has been subject to controversy during the past year. The official death toll directly related to Hurricane María was approximately 64. However, a study commissioned by the Puerto Rico Government and conducted by George Washington University put the death toll, including indirect deaths that could be attributed to the hurricane, at 2,975.

Before the hurricane hit Puerto Rico on September of 2017, the economy had stopped growing since 2005 and entered ten years of negative GDP growth. The population on Puerto Rico was declining by more than 10% for the past five years and the territorial government was \$70 billion in debt. In 2016, Congress passed the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), which established a seven member Financial Oversight and Management Board to work closely with the territorial government in order to turn the economy around and balance the budget.

Hurricane María destroyed 70,000 and damaged another 300,000. Many of those homes destroyed were considered "informal" housing, built without the proper title or permits.

Half of housing in Puerto Rico fits into this category, and the goal of the rebuilding efforts is to move people into better-built housing.

The U.S. Department of Housing and Urban Development ("HUD") has awarded the territory \$18.5 billion in housing grants by the Community Development Block Grant ("CDBG"), which represents the largest amount ever given for a single purpose in the history of the United States.

The injection of federal funds to Puerto Rico is one of the main elements that affect the economic projections made by the Government, which show the economy of Puerto Rico growing in the next five years. The expectation is that Puerto Rico will receive approximately \$49.7 billion in federal funds during the process, in order to rebuild and improve its infrastructure, so that it is more resistant to natural disasters such as hurricanes.

The Government estimates that the total amount of funds that would be received in Puerto Rico could increase to \$75 billion, when additional federal funds are included, as well as disbursements from insurers and the private sector. The challenge for Puerto Rico is how quickly the local economy can absorb the funds.

The economic projections for Puerto Rico after Hurricane María contemplate an approximate 6.7% growth for the 2019 fiscal year, with subsequent slighter growth during the next four fiscal years.



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## Government of Puerto Rico Executes \$1.5 Billion Grant Agreement with HUD

On September 20, 2018, the U.S. Housing Secretary, Ben Carson, and the Governor of Puerto Rico, Ricardo Rosselló, announced in San Juan, the formal execution of a \$1.5 billion grant agreement by and between the U.S. Department of Housing and Urban Development ("HUD") and the Government of Puerto Rico, to help Puerto Rico recover from hurricanes Irma and María.

Puerto Rico's long-term recovery is supported through HUD's Community Development Block Grant-Disaster Recovery ("CDBG-DR") Program, which requires grantees to develop thoughtful recovery plans informed by local residents. To address its needs, the Government of Puerto Rico identified in its disaster recovery action plan several housing, infrastructure and economic development recovery needs arising from Hurricanes Irma and María.

With respect to housing, and to restore Puerto Rico's severely damaged housing stock, the Government is investing more than \$1 billion. As part of the plan, the Government intends to provide up to \$120,000 to rebuild destroyed homes for each qualified homeowner and up to \$48,000 to repair each eligible damaged property. Additional housing investments include \$10,000,000 in funding for rental assistance, specifically for properties serving the elderly and other vulnerable households. The local Government has also proposed a \$36 million Home Emergency Resilience Program that provides up to \$6,000 per household for individual sola appliances to help families.

As for economic revitalization, Puerto Rico's recovery action plan provides \$145 million for several activities to help revitalize the post-disaster economy, by providing grants of up to \$50,000 for eligible businesses. The plan also includes \$10,000,000 to target grants for small business incubators and accelerators, with awards of up to \$2,500,000 for each eligible incubator operation, \$10,000,000 for workforce training program with awards of up to \$2,000,000 to train eligible Section 3 residents, and \$35,000,000 for a construction and commercial revolving loan program that will provide up to \$1,000,000 per loan to eligible businesses.

In order to support the repair of damaged infrastructure on Puerto Rico, the Government intends to target \$100,000,000 to match federal investments through FEMA's Public Assistance and Hazard Mitigation Grant Program projects.

Last April, HUD allocated another \$18.5 billion to further support recovery in Puerto Rico. HUD announced that will shortly publish program rules to guide Puerto Rico and others on the use of those funds.



## FOMB Finalizes COFINA's Amended Plan Support Agreement

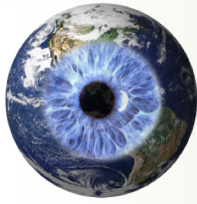
The Financial Oversight and Management Board ("FOMB") for Puerto Rico announced on September 21, 2018, that it finalized the Amended and Restated Plan Support Agreement with COFINA bondholders, as well as bond insurers, senior and junior bondholders, and the Bonistas del Patio bondholder group. It was also announced that the FOMB received the support of Aurelius Capital Master Ltd. And Six PRC Investments LLC, significant holders of COFINA senior and junior bonds, as part of the agreement.

Under the agreement, the holders of senior and junior COFINA bonds will exchange the current notes for new senior lien bonds backed by 54% of a 5.5% sales tax. Senior bondholders will receive 93 cents on the dollar, with an additional 2 cents for being in the negotiation group. Junior holder will receive 56.4 cents.

With the amended agreement, nearly 24% of Puerto Rico's "crushing debt" will be restructured, providing Puerto Rico with a 32% reduction in COFINA debt, which is backed by sales taxes, and more than \$17 billion in debt service savings. It is expected for the COFINA Plan Adjustment to be presented and approved next month in court under the Title III proceeding.

Puerto Rico's Governor, Ricardo Rosselló, called the deal between the FOMB and debt holders a "significant milestone in resolving Puerto Rico's debt crisis. Meanwhile, FOMB's executive director, Natalie Jaresko, said that "this consensual deal with all COFINA bondholders proves both the Board's and Government's commitment to reaching consensual agreements to Puerto Rico's debt wherever possible.





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## New Model for Government's Healthcare Plan Announced by the Governor

On September 25, 2018, Puerto Rico's Governor, Ricardo Rosselló announced, alongside Puerto Rico's Health Secretary, Rafael Rodríguez Mercado, and with the Executive Director of the Health Insurance Administration ("ASES"), Angie Ávila, the beginning of a massive orientation campaign about the changes to the new model for the Government's healthcare plan, which will be known as VITAL, and that will become effective on November 1, 2018.

The new healthcare model will focus on providing the patient with the option of choosing its healthcare service provider. The Governor mentioned that the current model turns 25 years on this month of September and it needs to evolve to adjust itself to the patients' needs.

Under the current model, the patient needs to be covered by a specific health insurance company depending on where the patient resides without the opportunity of being able to change its health insurance company or its healthcare service provider. The patient is currently unable to choose the network of healthcare service providers such as physicians, hospitals, laboratories, and therapists of its choice.

Furthermore, currently, Puerto Rico is divided in 8 regions which are assigned with exclusivity to a health insurance company which requires the patient to stay with the same health insurance company, irrespective of the quality of the healthcare service received or its medical needs.

The Government announced that under the new VITAL model, the patient chooses which health insurance company and which network of healthcare providers will provide the services. With this new model, Puerto Rico will only have one region and all participant health insurance companies will provide services around the island, allowing the patient to choose its health insurance company after evaluating its services.

The patient will have between November 1 and January 31 pick the insurance company of its choice and may be able to make a change of health insurance company annually, if it concludes that another insurance company could provide better services.

The Government announced that the insurance premiums under the VITAL model for chronic diseases will be higher than the regular ones, in order to adequately treat cancer patients, diabetes, asthma, as well as other mental diseases, and renal and heart disease. According to the Government, this will incentive the health insurance companies to identify and treat these diseases comprehensively.



The new healthcare plan VITAL will provide the patient with five health insurance companies to choose from, which are, First Medical, Molina Healthcare, MMM, Plan de Salud Menonita and Triple S.

During the orientation campaign phase, the Government will distribute educational material among providers and beneficiaries, in addition to written communications to be mailed to the beneficiaries, along with the new VITAL health insurance plan cards.