



ASSOCIATION OF FINANCIAL GUARANTY INSURERS

---

Unconditional, Irrevocable Guaranty

September 2, 2016

The Honorable Orrin Hatch  
U.S. Senator  
104 Hart Office Building  
Washington, DC 20510

The Honorable Bill Nelson  
U.S. Senator  
716 Senate Hart Office Building  
Washington, DC 20510

The Honorable Marco Rubio  
U.S. Senator  
284 Russell Senate Office Building  
Washington DC, 20510

The Honorable Bob Menendez  
U.S. Senator  
528 Senate Hart Office Building  
Washington, D.C. 20510

The Honorable Sean Duffy  
U.S. Congressman  
1208 Longworth HOB  
Washington, DC 20515

The Honorable Nydia M. Velázquez  
U.S. Congresswoman  
2302 Rayburn House Office Building  
Washington, DC 20515

The Honorable Tom MacArthur  
U.S. Congressman  
506 Cannon House Office Building  
Washington, DC 20515

The Honorable Pedro Pierluisi  
Resident Commissioner  
2410 Rayburn HOB  
Washington, DC 20515

Dear Members of the PROMESA Economic Development Task Force:

The Association of Financial Guaranty Insurers (AFGI) makes this submission to offer our support and assistance to you as members of the Congressional Task Force on Economic Development in Puerto Rico (Task Force) formed pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).<sup>1</sup>

Bond insurance plays an important role in the municipal bond market. Municipal bond insurance facilitates affordable financing and can improve market access for municipal and other issuers in sectors serving a substantial public purpose. Bond insurance increases market efficiency, can reduce borrowing costs for issuers, and provides guaranteed timely payments, liquidity and underwriting, surveillance, remediation and other services to investors. Indeed, financial guarantors have saved municipal borrowers – and their taxpayers – more than \$40 billion in interest costs since the industry's inception in 1971.

---

<sup>1</sup> AFGI member companies are ACA Financial Guaranty Corporation; Ambac Assurance Corporation; American Overseas Reinsurance Company Limited; Assured Guaranty companies Assured Guaranty Corp., Assured Guaranty Municipal, and Municipal Assurance Corp.; Financial Guaranty Insurance Company; MBIA Inc. companies National Public Finance Guarantee Corp. and MBIA Insurance Corp.; and Syncora Guarantee.

Historically, bond insurers have played a critical role in helping to facilitate the economic development of Puerto Rico. Bond insurers currently have approximately \$15.6 billion of coverage exposure to issuers throughout the island and are committed to standing behind Puerto Rico borrowers from bond issuance to final maturity. This means bond insurers have a vested interest in the Commonwealth's long-term economic success and that their interests are aligned with the 3.5 million American citizens that call Puerto Rico home. Accordingly, bond insurers look for solutions to Puerto Rico's problems that will be sustainable and durable for decades.

Bond insurers constitute important stakeholders in the Commonwealth's future fiscal stability and can be critical to implementation of solutions through the exercise of voting and other control rights arising under their insurance contracts. For example, bond insurers not only have been instrumental in reaching a consensual restructuring agreement with PREPA, the Commonwealth's electric utility, but also have provided PREPA with essential liquidity over the past two years as PREPA implements operational changes, improves its fiscal sustainability, and seeks long-term capital financing. In other words, we are here to stay.

AFGI encourages the Task Force to consider the use of public-private partnership (P3) projects as one tool to help Puerto Rico's economy recover. P3 initiatives could reduce government bureaucracy, attract private capital and spur economic growth. P3 projects typically involve a government-awarded concession to a consortium of contractors responsible for designing and building or refurbishing the project, then operating it under a long-term agreement. Project revenues allow recoupment of financing costs and ongoing compensation to the developers and operators. One example of such a project is the Luis Muñoz Marín International Airport. It generated \$615 million of upfront proceeds through a concession fee, removed \$1.4 billion of capital requirements, created jobs, and resulted in annual payments that will add up to \$552 million over the life of the lease.

Using P3 projects offers many advantages for Puerto Rico, and the island is well-suited to implement P3 investments. First, Puerto Rico already has a local legal framework from which to work. Puerto Rico's legal framework was established in its P3 Act, enacted in 2009 to establish the P3 Authority and set up specific public policy rules. Puerto Rico needs help with attracting, identifying and implementing P3 investment. The Task Force can assist this effort by generating investor incentives and removing regulatory road blocks.

In addition to advancing the use of P3 financings in Puerto Rico, AFGI respectfully suggests that the Task Force consider enacting legislation to extend the Overseas Private Investment Corporation's (OPIC's) jurisdiction to Puerto Rico and facilitating loans in Puerto Rico provided by the Transportation Infrastructure Finance and Innovation Act, the Department of Agriculture and other federal agencies, where applicable. Additionally, AFGI supports providing temporary relief from regulatory burdens and deadlines and optimizing federal programs for the electric utility (PREPA), highways authority (PRHTA) and water authority (PRASA) such as (1) expediting the Department of Energy loan process for capital projects for repurposing existing power plants to make them more efficient and to run on cleaner fuel; (2) supporting federal grants for highway funding; and (3) promoting Clean Water Act Federal funding for eligible projects. PREPA, PRHTA and PRASA provide essential public services and their success will benefit the people and businesses of Puerto Rico and the fiscal health of the

Commonwealth as a whole. To that end, the PREPA restructuring transaction, once implemented, will provide the island with a modernized fleet and a financially stable utility that has better governance and access to the capital markets, which ultimately will lead to lower electricity costs for the ratepayers and increased safety for PREPA employees.

The Task Force could also consider privatization of relevant public corporations and other appropriate Commonwealth assets to reduce the Commonwealth's debt level, improve operational efficiencies, and generate additional funds that could be used for, among other items, its ailing pension system. Such privatization could include assets of PREPA, PRASA, PRHTA, Puerto Rico Industrial Development Company (PRIDCO) and seaports, airports, insurance companies and banks. Based on publicly available financial information, a privatization program could reduce the Commonwealth's debt by up to \$21 billion, or 30% of the Commonwealth's debt, and generate up to \$3 billion to assist the Commonwealth with its liquidity.

Finally, there are a number of structural and fiscal reforms that could be implemented to improve revenue and capital efficiency within the government of Puerto Rico. While we realize that the PROMESA Oversight Board will consider such issues as part of the development and implementation of the Fiscal Plan required under the statute, the Task Force, with its deep experience with the Federal Government, could offer important perspective on these meaningful issues. For example, according to the Puerto Rico Treasury Secretary Zaragoza, the Sales and Use Tax (SUT) collection rate is estimated to be 64 percent. Increasing that rate to the US tax collection rate of 83 percent would generate approximately \$700 million in additional annual revenue to the Commonwealth. Government expenditures could be reduced by over \$1 billion per annum by rationalizing and consolidating the 78 municipalities, integrating the Government Services Administration procurement, and streamlining the Federal Funds process.

AFGI commends the formation of the Task Force and is committed to providing assistance and information to the Task Force as it works in a bipartisan manner to address Puerto Rico's troubles, identify needed reforms and promote prosperity on the island.

Sincerely,



Bruce E. Stern  
AFGI Chair  
Executive Officer  
Assured Guaranty