THE LOOTING OF PUERTO RICO'S INFRASTRUCTURE FUND

CARLOS M. GARCIA'S DESTRUCTIVE FISCAL POLICIES HURT PUERTO RICO ONCE. COULD IT HAPPEN AGAIN?

EXECUTIVE SUMMARY

Carlos M. Garcia is profoundly conflicted as a former Santander[1] banking executive in his current role on the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) control board, or the Junta. In the years preceding Gov. Luis Fortuño's election in 2008, Garcia built Santander Securities—the bank's municipal bond business—while Jose Ramon Gonzalez, another Junta member, headed the bank.[2] With Fortuño's election, Garcia was given vast powers over fiscal policy as president of the Government Development Bank (GDB), chair of the local control board (a special board composed of five cabinet-level officials with ministerial responsibility for Puerto Rico's fiscal matters and restructuring powers conferred by the Puerto Rico Legislature) and head of Puerto Rico's Public Private Partnerships Authority (PPPA).[3]

A previous report, Pirates of the Caribbean, documented the role Garcia and Santander played in Puerto Rico's public finance disaster and the virtual revolving door former bank executives had with the GDB from 2009 to 2012. This report details how one of Garcia's first steps at the GDB was to liquidate Puerto Rico's infrastructure fund, called the Corpus Account, and leave it with only an expensive IOU payable in the distant future.

The liquidation of the Corpus Account left Puerto Rico without capacity to modernize its water and sanitation systems.[4] These systems are vital to protecting the public's health against mosquito-borne virus epidemics and other diseases.[5] Garcia promoted public-private partnerships, which have failed to adequately meet Puerto Rico's infrastructure needs. While Garcia headed the PPPA, the only water infrastructure project launched sought private-sector investment to improve the revenue collections of the Puerto Rico Aqueduct and Sewer Authority (PRASA), to counter "water theft."[6]

The Corpus Account had more than $1 billion dedicated to essential water and sewer projects, which under Garcia, the GDB diverted into a series of financial transactions that were intended to bolster the island's credit rating but that became tied up in the issuance of billions in new debt. This debt ultimately helped push the GDB into insolvency.

FEDERACION DE TRABAJADORES DE PUERTO RICO AFL-CIO

AFL-CIO

IN PARTNERSHIP WITH HEDGE CLIPPERS

The GDB borrowing was part of a larger fiscal restructuring carried out under Garcia that has saddled Puerto Rico with debt on unfavorable terms. For example, Puerto Rico's debt today includes billions in capital appreciation bonds secured by sales tax revenue (known by Spanish acronym COFINA CABs), which accrue and compound interest over decades. This means the amounts due when the bonds mature can be 10 or more times the amount originally borrowed.[7] Even partial repayment of this debt would redirect desperately needed funds to wealthy banks and Wall Street, and would represent a catastrophic burden for Puerto Rico's people and its economy.

While Garcia directed the issuance of billions in COFINA bonds as well as GDB notes from 2009 to 2011, his former employer, Santander, earned millions as a lead or participating underwriter in these transactions. Santander is a major COFINA bondholder and has publicly petitioned the Junta asking that Puerto Rico not be forgiven its toxic debts. Santander's revolving door with the GDB in the crucial years leading up to the island's bond defaults has created major conflicts of interest with the Puerto Rican government.

The conflicts of interest now extend to Carlos M. Garcia in his role on the PROMESA control board. Garcia's relationship with Santander and his role at the GDB under the Fortuño administration compromise his ability to implement a fair fiscal program that addresses the humanitarian needs of the Puerto Rican people. Sadly, Garcia has been given another opportunity to help address the debt crisis with the same failed formula he used to exacerbate it: divert Puerto Rico's public resources to Wall Street creditors, cut critical public spending and put private interests in control of infrastructure projects vital to the public's well-being. Garcia must step down from the Junta, and Puerto Rico must be forgiven of the toxic debt he helped to create.

PRIVATIZATION OF TELEPHONE COMPANY CREATES INFRASTRUCTURE FUND AND PAYS BIG FOR INVESTORS

The Corpus Account was originally funded with $1.2 billion from the proceeds of the GDB's 1999 privatization of Puerto Rico's telephone company.[8] An act passed by the Puerto Rican Legislature (Act No. 92) established the Corpus Account as a permanent investment vehicle for infrastructure projects. The Corpus Account's income was set aside solely for financing Puerto Rico Aqueduct and Sewer Authority (PRASA) projects and improvements necessary under the provisions of the Federal Clean Water Act and the Federal Drinking Water Act.[9]

When then-Gov. Pedro Rosselló[10] announced the plan to sell a controlling stake in the phone company to a consortium including GTE, Banco Popular of Puerto Rico and an employee stock ownership plan, 6,000 telephone company workers went on strike to protest in an attempt to stop the deal.[11] Ultimately, 50 unions representing 300,000 public employees and others joined the telephone workers and staged a two-day general strike to protest the sale. The acquiring consortium ultimately gained a 53% stake.[12]

Once the Corpus Account had been established, it was managed by Puerto Rico's Infrastructure Financing Authority (PRIFA), a wholly owned subsidiary of the GDB.13 According to Act No. 92, the Corpus Account's principal was to be kept in a "segregated, permanent account" and should "never be reduced for any reason."[14] Moreover, the account's $1.2 billion was to be invested safely and "exclusively in U.S. government or U.S. government-backed obligations."[15]

Having established the Corpus Account from the proceeds of the phone company sale, PRIFA issued $1.093 billion in bonds in October 2000, secured by the interest earned on the Corpus Account. Santander helped underwrite these bonds through a cooperation agreement with Merrill Lynch, along with 10 other banks.[16] The bond issue's official statement noted that the interest received from the Corpus Account's investments would "be sufficient to pay when due the principal of, and interest on, the 2000 Series Bonds."[17] Proceeds from the bond issue went to fund PRASA projects throughout Puerto Rico, consistent with the mission of the Corpus Account.

Over the next eight years, investment income from the Corpus Account was applied to pay principal and interest on the 2000 Series Bonds. Most of the bonds, which carried interest rates between 4.1% and 5.5%, were set to mature in 25 to 40 years with about 5% of the bond principal tied to variable interest rates. As these bonds were paid off, the $1 billion in the Corpus Account was intended to secure borrowing for additional water and sewer projects.[18]

Meanwhile, the privatization of the phone company proved very profitable for the private investors. The lead investor, GTE, merged with Bell Atlantic to become Verizon, which sold its 52% stake in the Puerto Rican telephone company to Carlos Slim's America Movil in 2007 for $980 million, booking a pretax gain of $120 million.[19]

GARCIA AND SANTANDER'S RISE IN PUBLIC FINANCE IN PUERTO RICO

On Nov. 4, 2008, Luis Fortuño was elected governor of Puerto Rico as the New Progressive Party (NPP) was swept into power. Nine days later, Fortuño tapped Carlos M. Garcia, the president and COO of Banco Santander de Puerto Rico, to run the island's GDB. At the same time, Fortuño tapped former Santander executive Jose Ramon Gonzalez to serve on his Economic Reconstruction and Fiscal Advisory Committee, which was tasked with creating a plan to resolve the island's cash-flow problem and setting parameters for public-private partnerships (PPPs).[20]

Even before leaving his position at Santander, Garcia began to work for Fortuño's transition government. Garcia accompanied Fortuño on a visit to Wall Street in December 2008 to meet with rating agencies and bond investors. There, Garcia and Fortuño tried to reassure the bond market that they had a plan to address the island's fiscal situation.[21] Days later, Garcia received a $1.25 million payment from Grupo Santander as part of a severance agreement.[22]

As they took power on Jan. 2, 2009, Gov. Fortuño and Garcia moved swiftly to implement dramatic changes to the island's fiscal policy, which included liquidating the infrastructure fund. The new administration helped enact numerous laws that tied government cuts to questionable financial engineering techniques.[23] Law No. 3, passed less than two weeks after Fortuño took office and Garcia took control of the GDB, enabled one of the most important new policies. Law No. 3 overturned a previous statute that had established the $1.2 billion Corpus Account. The new law authorized the sale of the infrastructure fund's securities.[24]

AUSTERITY AND PRIVATIZATION IN 2009

The liquidation of the infrastructure fund was part of a larger fiscal overhaul of Puerto Rico, driven by the local control board, the GDB and the Fortuño administration. Together they enacted policies that laid off tens of thousands of public employees and that privatized public assets. In March 2009, Law No. 7 created a local control board to execute a fiscal stabilization plan that included "measures to provide the liquidity required to guaranty the essential services to the people of Puerto Rico and to fund the extra-constitutional debt."[25] To provide that liquidity, the administration took steps such as unilaterally suspending union contracts, overriding labor laws to dismiss public employees and denying job protections to union workers.[26]

Garcia's GDB also began to aggressively promote public-private partnerships (PPPs) in lieu of the public fund for infrastructure development.[27] PPPs typically involve entering into long-term contracts with a private company to induce the company to finance, build or operate a public service. The private company gets paid through charges paid by users, payments from the public authority or a combination of both.[28] Vast arrays of experiences in infrastructure development projects through PPPs over decades have shown their potential risks and expense to governments. PPPs can expose the public to the possibility of incomplete contracts, the likelihood of renegotiations, and liability in cases of bankruptcy or default by the private company.[29]

Garcia was appointed head of Puerto Rico's new Public-Private Partnerships Authority (PPPA) while at the GDB. The authority privatized the Luis Muñoz Marín International Airport, and launched school modernization, toll and many other initiatives.[30] According to his resume, Garcia chaired the implementation of five major infrastructure projects while at the PPPA. The only water-related infrastructure project he headed, called "Implementation of Advanced Technologies for the Reduction of Non-Revenue Water in Puerto Rico," sought private-sector support to improve PRASA's revenue collections, to counter "water theft."[31]

LOOTING THE INFRASTRUCTURE FUND

The infrastructure fund was liquidated after the enactment of Law No. 3, which allowed the GDB under Garcia to sell all the securities in the Corpus Account. According to a presentation Garcia gave to Puerto Rican creditors in 2010, the sale "took advantage of market dislocations and provided a significant one-time gain to the Government."[32]

This gain from the sale of securities, however, was not used to fund water and sewer projects needed by Puerto Rico. Instead the amount raised was $1.95 billion in cash, of which $1.2 billion went to pay off the original PRIFA bondholders from 2000. After paying the bondholders, $766 million remained, from which approximately $310 million was siphoned off to cover Commonwealth budget deficits and $155 million was used to recapitalize the GDB.[33] That left $300 million for the original Corpus Account. This amount was deposited with the GDB, and the GDB in return provided the infrastructure fund with a "guaranteed investment contract," which was supposed to have the GDB pay back the Corpus Account approximately $1.2 billion by 2040.

This transaction was, as Law No. 3 stated without irony, "consistent with the original purpose of said Act No. 92, since they both share the objective of protecting the Corpus Fund so that in 2040, said Fund shall have $1.2 billion for the benefit of the People of Puerto Rico."[34] However, the remaining $300 million could not be used for infrastructure development as it was tied up in a GDB contract, not unlike how a purchaser of a certificate of deposit account cannot spend their investment while it is deposited with the bank.

GARCIA GDB GOES ON BORROWING AND REFINANCING BINGE

During Garcia's tenure, the GDB moved from its previous role as an agent for infrastructure lending and economic development to taking a lead role in deficit financing among the Commonwealth and its related entities.[35] With the profits from the sale of the Corpus Account securities, Garcia's GDB was able to recapitalize itself and go on a borrowing and refinancing binge. Between December 2008 and December 2009, the GDB sold $2.8 billion in notes, and it sold another $2.8 billion in the same period from 2009 to 2010.[36] In total, the GDB issued roughly $11 billion in notes, mostly during Fortuño's administration, and half of that remained outstanding by 2013.[37]

Santander Securities and other local banks took the lead in underwriting these notes, earning underwriting fees and profits by selling them to their customers and placing them elsewhere in the secondary market. For example, Santander acted as a lead underwriter of four GDB bond issues worth $4.6 billion between December 2008 and 2011, sharing in over $43 million in underwriter's discount and fees.[38]

While these GDB notes were marketed all over the world, about half were sold in Puerto Rico by Santander and other banks to local investors.[39] Many Santander customers held and continue to hold the notes indirectly through their purchase of shares in the bank's "First Puerto Rico" closed-end mutual funds. The investments are now worth a small fraction of their initial value, and local investors have lost millions as the GDB has declined into insolvency.[40]

THE INFRASTRUCTURE AND PENSION FUNDS GET STUCK WITH COFINA CAB IOUS

Even the Corpus Account's remaining $300 million on deposit at the GDB proved too tempting for the financial engineers in the Fortuño administration. In 2011, the Legislature passed Law No. 96, which took $162.5 million of money left in the Corpus Account and applied it to shore up the public employees' pension plan,[41] which in turn, had been previously leveraged in 2008 through several bond issues that Santander and other banks had helped underwrite and profited from.[42]

The $162.5 million was not actually made available to the pension fund to pay benefits. Instead, it was invested in a COFINA capital appreciation bond series[43] that would accrete interest at 7% but would not mature until 2043 through 2048.[44] The accreting interest on these bonds meant that at maturity they would be worth $1.65 billion, representing a gain of more than 10 times their initial amount.[45]

Law No. 96 also obliged the remaining $165 million in the Corpus Account to be invested in the same COFINA capital appreciation bonds, noting "it is projected that the maturity value of each one of these COFINA bonds shall be of approximately $1.2 billion, thus achieving the purpose of protecting the Fund's Corpus Account."[46] In reality, Law No. 96 allowed the GDB to leave the Corpus Account with nothing but an expensive IOU payable in the distant future.

It is difficult to imagine that the GDB genuinely believed toxic COFINA CABs assigned to the Corpus Account and the pension fund would be repaid at maturity.[47] This should raise questions about why the GDB stuck the infrastructure and the public employees' pension funds with these dubious IOUs. The GDB may have calculated that it would be able to refund these high-cost bonds as early as 2016,[48] but Puerto Rico has now defaulted on its debt and the GDB has become insolvent.

In summary, the bulk of proceeds from the privatization of a profitable, publicly owned telephone company, earmarked for crucial Puerto Rican water projects, has been turned into paper dust. The Corpus Account no longer funds infrastructure development, but consists of bond notes due in 2043 that are obligations of COFINA and, ultimately, the Puerto Rican sales and use taxpayers.

AUSTERITY AND PRIVATIZATION IN 2017, A CASE OF DÉJÀ VU

Early in 2016, Garcia testified to Congress in favor of creating another control board to address Puerto Rico's fiscal crisis. In his testimony, he asserted that the "continued service" of his previous local control board (2009-2011) would have averted the "re-enacted Puerto Rico crisis." He said it had failed in two areas, to reform and overhaul Puerto Rico's labor law and its government agencies, implying that he favored further attacks on collective bargaining, pensions and privatization of public assets.[49] Within months of this testimony, the Obama White House announced the appointment of seven individuals, including Garcia, to a new PROMESA control board that would supervise Puerto Rico's fiscal affairs and restructure its debt.

Since the Junta has been established, Puerto Ricans have been subjected to new austerity measures, which have been designed in part to appease Wall Street creditors. Under current-Gov. Ricky Rosselló, Law No. 4, or the Labor Transformation and Flexibility Act, was enacted. This act dramatically weakens existing labor rules, including working time, compensation and benefits for Puerto Rican workers.[50] House Bill No. 938, signed into law April 29, 2017, nullifies collective bargaining agreements and permanently limits employee benefits in the public sector.[51]

The Junta has pushed harder for austerity than Gov. Rosselló, requesting $3 billion in spending reductions over two years, half of which are aimed at essential services: $1 billion in health care cuts, $300 million in education cuts and $200 million in cuts to the pension system.[52] The Junta has called for even deeper budget cuts by 2021 that include $1.3 billion in personnel spending and gutting nearly half of the University of Puerto Rico's budget: $450 million. The Junta has all but ignored stimulus, with the exception of including spending on public-private partnerships in its fiscal plan.[53] This is more bad news for Puerto Ricans, who need higher wages and good jobs to deal with skyrocketing costs.

SANTANDER PRESSURES JUNTA TO ENSURE COFINA DEBT IS PAID

Meanwhile, Santander has become an activist in pressuring the Junta to order repayment of the COFINA bondholders. In March 2017, Santander joined all major creditors of Puerto Rican debt in writing to the PROMESA control board, complaining that its fiscal plan did not take their concerns into account. Santander signed onto the letter as one of three major COFINA bondholders through its First Puerto Rico family of closed-end mutual funds, which held $3.65 billion in bonds issued by COFINA and $1.8 billion in general obligation bonds issued or guaranteed by the Commonwealth of Puerto Rico.[54]

As members of the Junta, former Santander executives Carlos Garcia and Jose Ramon Gonzalez will play a significant role in the negotiations that will determine whether and how these debts have to be repaid.[55] They should not be repaid—even in part. The Junta should ignore the pleas of conflicted creditors such as Santander. Instead, the COFINA bonds and GDB notes held and managed by Santander on behalf of its Puerto Rican customers should be canceled and the customers should be repaid in full, directly from Santander, which as a global concern earned $1.8 billion euros in the first quarter of 2017 alone.

CONCLUSION

Garcia's GDB directed the issuance of billions in notes and COFINA bonds, diverting funds originally intended for vital sewer and water treatment projects into unpayable high-cost debt. As a result, Puerto Rico's capacity to deal with Zika and other mosquito-borne virus epidemics has been diminished and it is being told to rely on the private sector.56 Puerto Rico also has been prevented from funding other crucial public services by the diversion of sales taxes to secure and repay bad debt deals such as COFINA CABs. As stated earlier, even partial repayment of COFINA bonds amounts to a catastrophic burden for the people and the economy of Puerto Rico.

Santander must be held accountable for its role in promoting and profiting from Puerto Rico's troubled transactions. The bank served as lead underwriter of four GDB bond issues worth $4.6 billion between December 2008 and 2011, earning over $43 million in underwriter's discount and fees.[57] Garcia also has personally profited from his close relationship with Santander, where he worked immediately before and after his tenure at the GDB, receiving a $1.25 million severance payment from the bank prior to joining the Fortuño administration.[58]

Like Santander, Garcia appears to strongly support the segregation of the COFINA bond obligations, much of which is held in costly capital appreciation bonds, and the continuing use of sales tax revenue to pay back the COFINA bonds, as noted in his PROMESA testimony on Capitol Hill in 2016.[59] Santander is a major COFINA bondholder petitioning the Junta to ensure that it recovers its investments. Garcia's conflicts of interest raise troubling questions about whether the very individuals involved in creating and profiting off of the debt should be allowed to insist that others must now pay it off.

The Junta has subjected Puerto Ricans to many controversial austerity measures but has been mostly silent on direct stimulus, with the exception of questionable public-private partnerships for infrastructure development.[60] The austerity approach will fail in Puerto Rico just as similar approaches have failed in Greece and Portugal.[61] To help Puerto Rico recover, there must be direct economic stimulus—which appears unlikely unless banks like Santander and private bank executives like Carlos Garcia are held accountable for their roles in helping drown Puerto Rico in unpayable public debt.

ENDNOTES

1 We use Santander to mean Banco Santander, SA, and all its affiliates. In Puerto Rico, for much of the time covered in this report, Santander BanCorp was the parent bank holding company for Banco Santander Puerto Rico, which had several subsidiaries.

2 See "Pirates of the Caribbean: How Santander's Revolving Door with Puerto Rico's Development Bank Exacerbated a Fiscal Catastrophe for the Puerto Rican People," Hedge Clippers and Committee for Better Banks.

3 See GDB Presentation dated June 10, 2010, about policies enacted in the previous 16 months, p. 7. The local control board had a two-year mandate. Members of the board included the chair, Carlos M. Garcia, chairman of the GDB, the secretary of the Treasury, the director of the Office of Management and Budget, the secretary of Labor, and the secretary of Economic Development and Commerce. See Carlos Garcia testimony on Feb. 2, 2016, before the Subcommittee on Indian, Insular and Alaska Native Affairs of the Committee on Natural Resources of the U.S. House of Representatives, "The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority." For Carlos Garcia heading PPPA, see here.

4 See PROMESA control board's Fiscal Plan Targets, Jan. 28, 2017.

5 "We wish to highlight the absolute necessity of updating the water distribution and treatment system in Puerto Rico, especially under the prospect of the imposition of a control board like the one imposed on Flint, Michigan." See Society for Medical Anthropology's Zika Interest Group Public Statement on Zika Virus in Puerto Rico.

6 See study for the project, "Implementation of Advanced Technologies for the Reduction of Non-Revenue Water for Puerto Rico Aqueduct and Sewer Authority," RFQ.

7 For example, the COFINA CAB assigned to the Corpus Account in 2011 with $165 million in principal is supposed to be worth $1.2 billion on maturity in 2048.

8 See PRIFA Special Obligation Bonds 2000 Series A&B, p. 3. See "Plan to Sell Puerto Rico Phone Company Leads to Strike," The New York Times, Mireya Navarro, June 19, 1998. The money from the sale ($1.8 billion) was to pay off the telephone company's current debt, finance certain retirement and health care benefits for company employees, and establish a $1 billion fund to invest in public works like sewerage and water distribution systems. "We have worked to maintain Puerto Rico Telephone at its present level and have shown ourselves to be productive workers, and the people of Puerto Rico know it," said Olga Grajales, 43, a striker who works in the billing and collections department. "The people know that really what they're doing is a theft."

9 See Act No. 92, p. 4.

10 Pedro Rosselló, who served as governor during this time, is the father of Puerto Rico's current governor, Ricky Rosselló.

11 See "Puerto Rico Paralyzed by Strike over Phone Company Sale," Washington Post, Guy Gugliotta, July 8, 1998.

12 Telecomunicaciones de Puerto Rico, Inc., Form S-4/A as filed with the SEC, Sept. 27, 1999, pp. 25-26.

13 See PRIFA issuance of 2000 Series A&B Special Obligation Bonds, p. 2.

14 See Commonwealth of Puerto Rico's Series 2004 Tax and Revenue Anticipation Notes, p. I-41, and Puerto Rico Infrastructure Financing Authority Act, p. 31.

15 See Puerto Rico Public Financing Corporation 2004 Series B Bonds, Commonwealth Appropriation Bonds, p. I-38.

16 See PRIFA Special Obligation Bonds 2000 Series A&B, p. 15

17 See PRIFA Special Obligation Bonds 2000 Series A&B, p. 11.

18 See PRIFA Special Obligation Bonds 2000 Series A&B, second page of filing. Also see Act 92 for intent of the Corpus Fund.

19 See Fitch: TELPRI Rating Unaffected by America Movil Acquisition and Verizon Communications, Inc. 10-Q for quarterly period ending March 31, 2007.

20 Carlos M. Garcia was appointed president and COO of Santander BanCorp on Aug. 28, 2008, at the same time Jose Ramon Gonzalez stepped down as president and CEO. On Nov. 13, 2008, it was announced that Garcia would head the GDB and Gonzalez would be part of the governor's committee. See "Jose Ramon Gonzalez resigns from his position at Banco Santander," PR Newswire, Aug. 29, 2008. See "Four Bankers in Fortuno's Economic Reconstruction & Fiscal Advisory Committee," Caribbean Business, Jose L. Carmona, Nov. 13, 2008. Gonzalez was also head of the GDB in the late '80s in Puerto Rico.

21 "Puerto Rico Panel Readies New Projections," The Bond Buyer, Michelle Kaske, Dec. 19, 2008. See also profile at Revolvy.com.

22 See Termination Agreement between Banco Santander and Carlos Garcia at SEC.gov.

23 Changes in policy allowed the Commonwealth to issue more and increasingly risky debt deals that relied on controversial features such as capital appreciation bonds, capitalized interest and interest rate swaps. These generated more fee income for Santander's and other banks' underwriting business. See "Pirates of the Caribbean: How Santander's Revolving Door with Puerto Rico's Development Bank Exacerbated a Fiscal Catastrophe for the Puerto Rican People," Hedge Clippers and Committee for Better Banks. See also Tom Sgouros, "Predatory Public Finance," The Journal of Law in Society, Vol. 17:1 (2014).

24 See Law No. 3.

25 See Carlos Garcia testimony, "The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority," on Feb. 2, 2016, before the Subcommittee on Indian, Insular and Alaska Native Affairs of the Committee on Natural Resources of the U.S. House of Representatives.

26 See "Puerto Rico in Crisis: Government Workers Battle Neoliberal Reform," NACLA, Yarimar Bonilla and Rafael A. Boglio Martínez.

27 See "GDB locks up the 'piggy bank,' Caribbean Business, Carlos Marquez, Jan. 29, 2009.

28 See "WHY PUBLIC-PRIVATE PARTNERSHIPS DON'T WORK: The many advantages of the public alternative," David Hall, PSIRU, January 2014. See "Government Objectives: Benefits and Risks of PPPs," World Bank Group.

29 See "WHY PUBLIC-PRIVATE PARTNERSHIPS DON'T WORK: The many advantages of the public alternative," David Hall, PSIRU, January 2014, p.46.

30 See FAA Approves PPP for Airport, Dec. 23, 2009, and other announcements on the PPPA website.

31 See Study for the Project, "Implementation of Advanced Technologies for the Reduction of Non-Revenue Water for Puerto Rico Aqueduct and Sewer Authority," RFQ.

32 See Carlos M. Garcia GDB presentation at Puerto Rico Credit Conference 2010, Feb. 25-26, 2010, p. 14.

33 See Carlos M. Garcia GDB presentation at Puerto Rico Credit Conference 2010, Feb. 25-26, 2010, p. 14.

34 Act No. 3 (H.B. 600), approved Jan. 14, 2009, p. 2.

35 See "The Sinking of the GDB," Caribbean Business, Philipe Schoene Roura & Luis. J. Valentin, June 13, 2016.

36 See GDB bond issuances on GDB website here.

37 Note that when Carlos Garcia left the GDB at the end March 2011, he was replaced as president by Juan Carlos Batlle, another Santander executive.

38 See $1.796B GDB 2011 Series H & I ($16,580,422.10 in underwriting fees, Santander lead), see $1.356B GDB 2009 Series C &D ($14,279,323.76 in underwriting fees, Santander joint lead with UBS and Popular), see $250M GDB 2009 Series A ($2,390,000 in underwriting fees, Santander joint lead with UBS and Popular), and see $1.230B GDB 2008 Series A & B ($10,301,958.16 in underwriting fees, Santander joint lead with UBS and Popular).

39 See "The Sinking of the GDB," Caribbean Business, Philipe Schoene Roura & Luis. J. Valentin, June 13, 2016.

40 See "The Sinking of the GDB," Caribbean Business, Philipe Schoene Roura & Luis. J. Valentin, June 13, 2016.

41 Act No. 96-2011 (H.B. 3336).

42 See "Pirates of the Caribbean: How Santander's Revolving Door with Puerto Rico's Development Bank Exacerbated a Fiscal Catastrophe for the Puerto Rican People," Hedge Clippers and Committee for Better Banks.

43 See for example Refund America, "Puerto Rico's Payday Loans."

44 See PRIFA Revenue Bonds (Ports Authority Project) Series 2011.

45 See Commonwealth of Puerto Rico Comprehensive Annual Financial Report Year Ended June 30, 2011, Pension Reform section.

46 Act No. 96-2011 (H.B. 3336).

47 Puerto Rico created COFINA in 2006 when it was in desperate need of money but unable to issue debt because it had run up against its 15% constitutional debt limit. The sales tax revenue bond allowed the island to issue new bonds that would not count against the 15% limit. By 2011, an extraordinary amount of debt was being issued by Puerto Rico, including in COFINA capital appreciation bonds (CABs). Refund America estimates that Puerto Rico has $37.8 billion in CAB debt, for which the underlying principal is just $4.3 billion, an effective interest rate of 785%. Refund America also estimates that $36.9 billion of Puerto Rico's debt is COFINA debt, and 63% of total CAB debt belongs to COFINA. Refund also states the investors (including hedge funds) that now own CAB debt bought the debt at steep discounts on the secondary market because the previous creditors had already written it down as bad debt, meaning the current owners (including hedge funds) never expected the island to be able to repay all of it. Moreover, the sheer magnitude of the size of this debt at maturity (in the distant future) and the effective interest rate raises the question about whether the GDB expected to be able to repay it at all, as well. See "Opinion: COFINA deal is huge blow to dwindling appeal of Puerto Rico's bonds," Ivan Rivera, Fox News, May 2, 2016, and "Puerto Rico's Payday Loans," Refund America.

48 The bond documents state that the issuer had option to redeem them as early as 2016.

49 See Carlos Garcia testimony, "The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority," on Feb. 2, 2016, before the Subcommittee on Indian, Insular and Alaska Native Affairs of the Committee on Natural Resources of the U.S. House of Representatives.

50 See "Puerto Rico: Major labor law and benefit reforms aim for flexibility and competitiveness," Willis Towers Watson, March 27, 2017.

51 "House Bill 938 Would Void Right to Collective Bargaining," Caribbean Business, Cindy Burgos Alvarado, April 26, 2017. The bill was signed into law on April 29, 2017. See footnote 10 of Statement of Oversight Board in Connection with PROMESA Title III Petition.

52 See "Puerto Rico Oversight Board Appears Doomed to Recycle Failed Austerity Schemes," Javier Balmaceda, Forbes Debtwire, March 22, 2017.

53 See “AGC-Puerto Rico Sets Eyes on Infrastructure,” Caribbean Business, Philipe Schoene Roura and Eva Lloréns Vélez, March 30, 2017.

54 See Joint Creditor Letter to Oversight Board on Fiscal Plan for Puerto Rico, March 27, 2017. See also “Bondholders Attack Fiscal Plan,” El Nuevo Dia, Joanisabel Gonzalez, March 28, 2017. Also, in November 2016, Santander joined Franklin Advisers and OppenheimerFunds in asking a federal judge to enter them as defendants in a lawsuit brought by hedge funds holding general obligation bonds. Santander, Franklin and Oppenheimer are “cross-holders in $3.6 billion in COFINA claims and $1.1 billion in GO claims.”

55 The Junta will remain the lead negotiator with the creditors through the PROMESA debt refinancing process that was recently invoked. See “Our Bankrupt Policy for Puerto Rico,” David Dayen, The American Prospect, May 8, 2017.

56 “We wish to highlight the absolute necessity of updating the water distribution and treatment system in Puerto Rico, especially under the prospect of the imposition of a control board like the one imposed on Flint, Michigan.” See Society for Medical Anthropology’s Zika Interest Group Public Statement on Zika Virus in Puerto Rico.

57 See footnote 17.

58 After leaving the GDB, Garcia became a director and senior executive vice president of Santander Bank in the United States. See resume here. See Termination Agreement between Banco Santander and Carlos Garcia at SEC.gov.

59 See Carlos Garcia testimony, “The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority,” on Feb. 2, 2016, before the Subcommittee on Indian, Insular and Alaska Native Affairs of the Committee on Natural Resources of the U.S. House of Representatives.

60 See PROMESA Control Board’s Fiscal Plan for Puerto Rico, March 13, 2017.

61 See “IMF admits: we failed to realise the damage austerity would do to Greece,” The Guardian, Larry Elliott, Phillip Inman and Helena Smith, June 5, 2013.