



COMMONWEALTH OF  
PUERTO RICO

Government Development Bank  
for Puerto Rico



## CONFERENCE CALL ABOUT COFINA LEGAL OPINIONS

Hosted by **Government Development Bank for Puerto Rico** through Telspan

Date and Time: 10/31/2013 2pm ET

Length of Call: 45mins

Transcript

*Operator:* Good morning, and welcome to the Government Development Bank for Puerto Rico conference call. My name is Kellen and I will be your conference operator today. A replay of the call will be available on the GDB website as soon as possible after the call ends. All lines have been placed on mute to prevent any background noise.

Once the presentation concludes there will be a Questions and Answers session. Questions that have been sent in advance will be answered.

If you are having technical problems with the audio, press \*0 for technical support.

On behalf of all of us at the Government Development Bank for Puerto Rico, I would like to welcome everyone to this call. The participants for today's call will be: José Pagán, Interim President of the GDB, José Coleman-Tiód, Executive Vice President and General Counsel of the GDB, Virginia Wong, Jim Montes, John Bove, Arthur McMahon, Ken Lind, all partners at Nixon Peabody, and Manuel Pietrantonio, Manuel Rodríguez Boissen, and Eduardo Arias, all partners at Pietrantonio Méndez & Álvarez.

I will now turn the call over to the Interim President of the GDB, José Pagán for the opening remarks.

*José Pagán:* Good afternoon. The Government Development Bank for Puerto Rico and the Puerto Rico Sales Tax Financing Corporation, which most of you know as COFINA, welcome you to this conference call. We truly appreciate the time everyone has taken to join.

As announced in the investor webcast held by the Commonwealth on October 16, 2013, GDB is taking affirmative actions to improve its disclosure practices and increase the amount of information available to investors. In particular, GDB will begin holding an investor webcast at least once per quarter and will update the Commonwealth Report on a quarterly basis. The Department of the Treasury and the Office of Management and Budget will also continue to provide revenue and expense updates at least once per month. The Commonwealth and GDB are committed to observing best disclosure practices and improving our relationship with our investor base. As a further step in this direction, in response to specific investor requests, GDB and COFINA made available last week the legal opinions delivered in connection with COFINA's last public transaction. These legal opinions, delivered by the Puerto Rico Secretary

of Justice, Nixon Peabody as U.S.-based Bond Counsel and Pietrantonio Mendez & Alvarez LLC as P.R.-based Underwriters' Counsel, are now available at our website: bgfpr.com.

As a further testament to our commitment to transparency, today we take the unprecedented step of holding a conference call with the outside legal advisors that authored these legal opinions. We hope that you find this call informative.

As stated during our webcast, COFINA's credit is bolstered by strong legal protections for bondholders. COFINA is the best-rated credit among Puerto Rico issuers and has historically been the most attractive and cost-effective source of financing for the Commonwealth. U.S.-based Bond Counsel, P.R.-based Underwriters' Counsel and the Puerto Rico Secretary of Justice have provided, for each COFINA transaction (and we count 13 in total), opinions concluding that the Sales and Use Tax allocated to COFINA is not subject to "claw back" by GO bondholders under the PR Constitution.

Importantly, the Secretary of Justice opinions enjoy broad bipartisan support, a rare thing in Puerto Rico: four Secretaries of Justice, serving three different administrations (of alternating political parties), have issued opinions that the SUT allocated to COFINA is not subject to "claw back".

While no new COFINA transaction has been announced, I want to emphasize that no such transaction would be completed unless opinions reaching the same legal conclusion as those being discussed today are again delivered at closing by the Secretary of Justice and each of the firms acting as Bond Counsel and Underwriters' Counsel in the particular transaction.

I now leave you with José Coleman, GDB's Executive Vice-President and General Counsel.

*José Coleman:* Thanks, José. I want to welcome you all to this conference call and provide you with additional information about the focus and purpose of the call.

As previously announced, this conference call is being held to discuss the COFINA legal opinions, dated December 13, 2011, provided by external legal counsel in connection with the issuance of the Senior Series 2011C and Senior Series 2011D Bonds. The opinions, which were provided by Nixon Peabody LLP, as Bond Counsel, and Pietrantonio Méndez & Álvarez LLC, as Underwriters' Counsel, were posted on GDB's website on October 23, 2013. We hope that everyone on the call has had an opportunity to review them.

We want to thank Nixon Peabody and PMA for making themselves available to answer questions related to their respective opinions. Nixon Peabody and PMA will each begin by providing a brief overview of the legal analysis underpinning their opinion. We will then proceed to answer questions submitted to GDB prior to this call.

As stated in GDB's press release, the purpose of this call is solely to address questions related to these legal opinions. As such, questions determined to be unrelated to the opinions will not be addressed. All participants are also advised that none of GDB, COFINA or the law firms participating in this call are providing legal advice of any nature whatsoever to the call.

participants, that the information provided and discussed during the call is for informational purposes only, that only the parties to whom the opinions are addressed may rely thereon, and that participants should consult their own legal advisors with respect to any matter discussed in the opinions or this call. Furthermore, we emphasize that the COFINA legal opinions are subject to all of the qualifications and assumptions set forth therein. We strongly encourage all call participants to read the legal opinions in their entirety.

It is important to stress that an opinion of counsel is not a prediction of what a particular court [that reached] an issue on the merits would hold, but, instead, is the opinion of such counsel as to the proper result to be reached by a court applying existing legal rules to the facts as properly found after appropriate briefing and argument. In addition, it is not a guarantee, warranty or representation, but rather reflects the informed professional judgment of such counsel as to specific questions of law.

I want to add that a recording of this call will be made available as soon as possible on GDB's website. A notice will be posted on EMMA in order to provide notice to the market that the replay has been made available.

Finally, we want to make clear that the information provided in this call is not an offer to sell or the solicitation of an offer to buy any securities. I now leave you with Virginia Wong, partner at Nixon Peabody who acted as bond counsel for COFINA Senior Series 2011 C and Senior Series 2011 D bonds.

*Virginia Wong:* Thank you, José, and thank you for the opportunity to discuss our opinion.

The opinion that was posted on the GDB website as a note concludes that if the issues addressed by it are properly presented for judicial decision, a court would find that Act 91 validly transferred the Pledge Sales tax, including the right to receive the tax, to COFINA; the Pledge Sales tax does not constitute available resources for purposes of the Puerto Rico Constitutional Debt Priority Provision, and that Act 91 validly provides that the Pledge Sales Tax is not available for use by the Secretary of the Treasury. These conclusions were based on our analysis, review and consideration of several factors, including various cases decided by other jurisdictions, including those that are specifically referenced in our opinion and those cases that analyze legislative provision that divert revenues from State treasuries and dedicate them without annual appropriations to a specific purpose.

We also reviewed COFINA's act, as amended as of the date of the 2011 opinion, in our analysis of the structure of COFINA's act in light of what other courts typically considered in deciding whether similar legislation had violated a state's constitutional appropriation provision. We focused on the facts identified by those courts as important, including the fact that the legislation was designed specifically to comply with the well-recognized Special Fund Doctrine.

The Special Fund Doctrine holds that legislation that is enacted due to an urgent need impresses the revenues with a trust for a particular beneficiary, requires the revenues to be deposited into a special fund—and provides that that special fund be dedicated exclusively to certain purposes—provides that the revenues not be received on the account of the state but rather on the account of

the entity created to accomplish the specified purpose, that the legislation set forth limitations and conditions governing the disbursement of revenues, provides for a monetary cap on the amount of revenues that can be diverted from the state treasury, and finally provides that any debt secured by revenues shall not constitute a debt of the state. That is the Special Fund Doctrine and courts have held that entities that are created following the majority of those factors, those types of transaction will be upheld.

We reviewed the various opinions issued by the Secretary of Justice of Puerto Rico to COFINA, including the opinion relating to the 2011 C and D bonds. Those opinions conclude that the Pledge Sales Tax does not constitute available resources of the Commonwealth for purposes of the Constitution nor would they be available for use by the Secretary of the Treasury of the Commonwealth.

Finally, we reviewed the conclusions of PMA as to certain matters under Puerto Rico law on which we relied including the fact that there are no controlling precedents in Puerto Rico and that the Puerto Rico Supreme Court generally defers to acts of the legislature and opinions of the Secretary of Justice. I think that summarizes the factors that we analyzed and reached in our opinion.

*José Coleman:* I would like to thank Nixon Peabody for providing an overview of the opinion. We hope that you find that informative and I now leave you with Manuel Pietrantonni, a partner with PMA, who acted as underwriters' counsel for the COFINA Senior Series 2011 Cs and Ds.

*Manuel Pietrantonni:* Good afternoon everyone and thank you, José, for this opportunity to discuss our opinion.

I'd like to reiterate that the opinion for the Series 2011C and 2011D bonds, which are the opinions being discussed, was rendered to the COFINA and the underwriters' representative.

Let me review the elements of the analysis underlying the conclusion in our opinion that the Pledge Sales Tax would not constitute and I quote "available resources including surplus" for purposes of the priority provisions of the Commonwealth general obligation bonds and notes included in section 2 of article 6 of the Constitution or for purposes of section 8 of article 6 of the Constitution. Those elements are: as to the standard of review, first, the substantial deference provided to the Legislative Assembly's judgment, especially matters involving the use of public funds and regulation of the economy. Second, the presumption of constitutionality that attaches to every statute approved by the Legislative Assembly, and third, the persuasive weight afforded to the Secretary of Justice opinions as the highest executive of the Commonwealth charged with the administration of Justice. As mentioned before in this call, several Secretaries of Justice have provided favorable opinions as to "no claw back".

As to substantive matters, first, precedents from other jurisdictions that provide support to the legality of the COFINA structure in the face of no controlling precedent in Puerto Rico. Second, nothing in the Puerto Rico constitution provides that a specific source of revenues be available,

or creates a lien on any revenues for the payment of general obligation bonds, nor is there any evidence in the records of the Puerto Rico Constitutional Convention that this was considered. Third, nothing in the Puerto Rico Constitution restricts the Commonwealth authority to sell or transfer its assets. Fourth, Constitutions of other jurisdictions of the United States which were in effect at the time the Puerto Rico Constitution was approved included clauses that limited a state's ability to earmark or dedicate revenues for a specific purpose, and those provisions were not included in the Puerto Rico Constitution. Fifth, the safeguards included in the COFINA act to limit the amount of bonds that may be issued. And sixth and finally, the structure created in the COFINA act keeps the assigned revenues from becoming part of the Commonwealth General Fund. As I said at the outset, these are the elements that underlie our analysis.

*José Coleman:* Thank you, Manuel, for your remarks. I think that we can turn now to the questions we have received. The operator can provide those.

*Operator:* Thank you. We received various questions regarding the possibility of having the Puerto Rico Supreme Court address the “claw back” issue and thereby create controlling precedent in Puerto Rico. We chose the following question to address this matter: “The final official statement for the COFINA Senior Series 2011D Bonds indicates, under ‘Risk Factors’, that the Supreme Court of Puerto Rico has never ruled whether the sales tax pledged as payment for COFINA bonds constitutes ‘available resources’ of the Commonwealth for purposes of the Constitutional Debt Priority Provisions. Please address, and this question comes from Gregory A. Clark, why the Court has never been asked to address this issue and whether there are any plans to have it do so now.”

*Manuel Pietrantonio:* The short answer for this question is that under Puerto Rico's jurisdictional requirement, parties cannot bring a test case or seek an advisory opinion from the courts. The leading case in this matter involved an instrumentality of the Commonwealth of Puerto Rico that provided assistance to the plaintiff in the creation of a case or controversy in order to provide certainty to certain federal agencies and bondholders as to the validity of a housing assistance program. In that case, the court held that it could not exercise jurisdiction with a claim because no real case or controversy existed. In light of this, COFINA has not sought a ruling of this nature because unless there was a real case or controversy, the court would not have jurisdiction to rule on this matter.

*Virginia Wong:* Manuel, it is fair to say, right, that that is not even a path that is available. Several of the questions that we received cited what other jurisdictions have done in terms of seeking declaratory judgment or having a court provide an advisory opinion with respect to certain legislative acts, but Puerto Rico law doesn't provide for that procedure, right? So, no such request can be made. Is that fair to say?

*Manuel Pietrantonio:* That's fair to say.

*Virginia Wong:* The next question?

*Operator:* Thank you! The next question we have is, “Both bond opinions cite Quirk in NY State. Can you expand your views on this statement, ‘A different case would be presented if, realistically, the city were stripped of all sources of revenue, other than the real estate tax, and its outcome would be, at this time, unpredictable (cf. *Mobile v Watson*, 116 U.S. 289, 305).’ As COFINA issues more debt and captures an increased share of general fund revenues, what level of resource shifting would cause concern?” This comes from Brian Dubin from Meehan Combs.

*John Bove:* My name is John Bove and I am partner at Nixon Peabody. I have been asked to address this question, I think in part because I was present at the creation of the controversy. I was an assistant counsel to the Governor of the state of New York at the time the governor proposed and the legislature enacted the legislation that was at issue in the Quirk case. So, I am very familiar with both the origin and its ultimate outcome.

I think it’s important to put the quote that is both in our opinion and in the question in the context of the issue the court was addressing when it made that statement. The background of the case was that legislation was being enacted by the New York State in 1975 and afterwards to address the very severe fiscal crisis of the city of New York that the state became aware of in 1975 and continued on to the ‘70s and into the early ‘80s.

As part of the legislative solutions to the city’s fiscal problems was to create a new public benefit corporation or public authority that would have the power to do a number of things to ease the city’s problems and one was to fund out cumulative deficits, to fund for a few years current year deficits that were projected to continue, and ultimately through another eight or nine years to fund long-term capital needs for the city of New York as it was locked out of the capital market at the time. In order to give that entity, the Municipal Assistance Corporation for the city of New York, a revenue stream in order to service its debt, they stripped the city of New York through legislation of its Sales and Use Taxes and Stop Transfer taxes and instead dedicated those taxes to the Municipal Assistance Corporations to service its debt.

That legislation was challenged by the clerk [sic] who was challenged as a tax payer on a number of grounds. The ground that is relevant to the quote that is in the opinions and in the question is a state constitutional ground charging that the stripping of the Sales and Use Taxes and the Stop Transfer taxes from the city deprived bondholders of the right to have those taxes set aside and applied to the payment of general obligation bonds of the city if general obligation bonds became due and were not paid. New York state constitution contains a provision that obligates that first revenues be set aside to pay unpaid general obligation debt.

The court, in going through this analysis, ultimately concluded that this was a constitutional enactment. It noted in particular that the constitution does not give a right to general obligation bondholders to insist upon any particular existing tax to be maintained or impose new ones to produce the required revenues to pay the general obligation bonds. The analysis was predominantly based on the fact that what was being stripped of the city was only a portion of the revenues that would otherwise have been available for the set aside.

The language in the quote in the question and, both, in the opinion essentially said we might have reached a different conclusion if substantially more of the revenues had been stripped from

the city. In fact, the actual quote is “If they were stripped of all sources of revenues other than the real property taxes”. We in the governor’s counsel’s office view that as an admonition going forward as to what we can do and what we can’t do in helping solve the city’s financial crisis.

The facts of that case are substantially the same as we have here in COFINA. The Commonwealth has been stripped of only a portion of one source of revenue available to it and to which the set aside provision of the constitution applied. All of the other sources remain available to general obligation bondholders under the Set Aside provision. I think we are entirely on all fours with the conclusion of the court in the court case.

*José Coleman:* Thank you, John! I think we can go to our next question.

*Operator:* Thank you. Our next question is, “What would it take to have the Supreme Court rule on the question of whether the sales tax revenue was subject to the claim of GO bonds having first claim on available revenue?” This comes from Joe Rosenblum, Alliance Bernstein.

*Manuel Pietrantonì:* Yes, as I stated in our response to the first question, there would need to be a real case or controversy, as well as certain other jurisdictional elements would have to be present in order for this to happen... in order for the court to have jurisdiction to address this type of claim.

*José Coleman:* I think it goes to the point that has been raised in a couple of questions which is, “Can you go on and have some sort of advisory opinion?” The answer is that in Puerto Rico, different from other jurisdictions, you simply cannot do that. We can go to the next question.

*Operator:* Thank you. Our next question is, “Have there been any updates to caselaw or legislative or administrative actions relevant to the cases reviewed or jurisdictions referenced in the opinions? If so, do any of these updates or actions change the opinions of Nixon Peabody, Pietrantonì Méndez & Álvarez or the Secretary of Justice? This comes from Ben Herbert, Lord, Abbett & Co. LLC.

*Manuel Pietrantonì:* The opinions alluded to address the facts and circumstances surrounding the issuance of the Series 2011C and 2011D bonds and, as stated in the opinion, the firms do not have an obligation to update the opinions. We note however that in April 2013 we issued an opinion reaching the same conclusion in connection with certain junior lien bond anticipation notes sold to Barclays Capital. And there were no updates to the relevant caselaw or legislation that would have changed the opinions.

*Virginia Wong:* Right, and I think as it was mentioned that Nixon Peabody as bond counsel on that issuance also delivered an opinion... [speaking off the microphone] similar... to the 2011 opinion. We see no reason... we saw no reason at the time that there had been no changes in caselaw around the country that would change the conclusions that we reached in our opinion.

*José Coleman:* We can go to the next question.

*Operator:* Thank you. And our next question comes from Elan Daniels from Stone Lion Capital

Partners, and his question is, “Would the same opinions be offered again today? If not, what other qualifications or analysis now would be included?”

*Virginia Wong:* As Manuel just said, the opinions addressed the facts and the circumstances and the state of the law that were in effect at the time that the 2011C and the 2011D bonds were issued.

Obviously, there’s no new COFINA transaction on the table right now, but we have been tracking the legislation, the COFINA legislation and the changes that have been made, and we don’t see any reason currently that we would change the conclusion of our opinions. The state of the law remains the same. There have been no new cases around the country that have dealt with this issue. The legislative changes increasing the percentage of sales tax revenues that are available to COFINA wouldn’t cause us to change our conclusion in any way.

So, you know, while we’re not being asked to deliver an opinion today, we don’t see any reason why our opinion would change in any significant way or material way from what we delivered in 2011 or from what we delivered in April of 2013.

*José Coleman:* And this is José Coleman from GDB, I want to add that as noted by the GDB President, while no new COFINA transaction has been announced, no such transaction would be completed without the delivery of opinions from the Puerto Rico Secretary of Justice, and each of the firms acting as bond counsel and underwriters’ counsel on such deal, that reach exactly the same conclusions as the opinions being discussed today. And we are confident that opinions reaching the same conclusion would be delivered in connection with any new issuance.

Unless somebody has anything else to add, we can go to the next question.

*Operator:* Thank you. And our next question is, “Is there any legislation being contemplated or discussed that would provide bondholders with additional security in light of the lack of any applicable caselaw/testing in the courts of Act 91, COFINA?” This comes from Melissa Haskell from MFS Investment Management.

*José Coleman:* This is José Coleman from GDB. Now, none of the Commonwealth, GDB or COFINA are currently contemplating specific legislation of this nature. We feel comfortable with the structure as is.??27:30

*Operator:* Thank you. And our next question is, “Could you please tell us how the flow of funds works specifically? How the money is allocated, how it is deposited, and how it is protected from being deposited into the general fund prior to payment of debt service?” This comes from Cynthia Brown Manulife Asset Management.

*Manuel Pietranton:* Yes, what I’m about to explain is discussed in greater detail in the Official Statement for the series 2011C and 2011D bonds. The entities authorized by the Secretary of the Treasury received the sales and use tax monthly returns and the amount of sales tax due thereunder. These amounts are then deposited into the sales tax account, which is a joint GDB and COFINA account held at Banco Popular de Puerto Rico. On a daily basis, Banco Popular

sweeps amounts and deposits in this sales tax account—other than sales and use taxes, which are allocated to the municipalities under the law—they sweep this into the dedicated sales tax fund, which is held by Banco Popular’s Trust Department in the name of COFINA. Banco Popular’s Trust Department then sends all amounts in the dedicated sales tax fund to the COFINA trustee until such amounts reach the pledge sales tax base amount. Thereafter, the amounts of the Commonwealth sales and use tax are allocated to COFINA and the Treasury Department according to their corresponding percentages, which are established in the COFINA law. Pledged sales tax revenues are not comingled with general fund revenues. I repeat, for more detail regarding this flow of funds, please review the description thereof in the official statement.

*José Coleman:* I think the fundamental point here is they are not comingled with general fund revenues, and that is an important factor in each of these opinions.

One thing I wanted to add is, you know, for the [sic], this flow of funds applies also to all revenues. It applies to all revenues received by COFINA and it includes any new revenues directed to COFINA arising from the expansion of the SUT allocated to COFINA that was basically just legislated in October. I think we can go to the next question.

*Operator:* Thank you. Our next question is, “Also is the increased allocation already being set aside? The increase from 2.5 percent to the 3.75 percent.” This comes from Cynthia Brown, again, Manulife Asset Management.

*José Coleman:* This goes a little bit with a previous question, you know, just discussed, the increased allocation is currently being set aside and will be subject to a flow of funds that Manuel described in the previous question. I think that this began occurring when the legislation was passed. I would like to clarify, though; I think that the question says the increase from 2.50 to 3.75. The recent expansion of the SUT allocated to COFINA was from 2.75 to 3.50, not 2.50 to 3.75. In fact, we should know that the recent COFINA expansion is the smallest expansion of the COFINA program in percentage terms, and the original 2007 pledge was of one full percentage point, and the 2009 expansion was 175 basis points. The latest one, it was only 75 basis points for, you know, purposes of reference. So, I think with that we can go to the next question.

*Operator:* Thank you. And the next question is, “Can you post copies of the COFINA indentures (in addition to the prospectuses) on the GDB website? And this comes from Brian Dubin, Meehan Combs.

*José Coleman:* Again, this is José Coleman from the GDB. Yes, we will post copies. In fact, as José Pagán, the president of the Bank, referred, there’s a renewed commitment to observe best disclosure practices and improve our relationship with our investor base. And to that end we will begin to post on our website copies of all indentures related to outstanding bonds, of the Commonwealth and its instrumentalities, including COFINA. Obviously, given the heightened market interest in outstanding COFINA bond issuances, we will give priority to COFINA related indentures. Those should be up shortly.

*Virginia Wong:* Yeah, I think it’s just worth mentioning that there have been a number of

amendments, and so what we need to do is do an amended and restated indenture that incorporates all those amendments into one single document. I think that will facilitate the review for investors rather than have them try to put together an indenture on a piecemeal basis.

*José Coleman:* A piecemeal basis, yeah. Okay.

*Operator:* Thank you. And our next question is, “Some in the market have speculated that a future legislature could theoretically repeal Act 91 and thus the entire COFINA structure. Our understanding is that both parties have been in power at times when COFINA legislation has successfully been passed, and, more importantly, that all of the COFINA bonds were issued with a non-impairment covenant. This covenant stipulates that if the COFINA structure is materially altered, there must be a substituted like or comparable security, which needs to be confirmed by the rating agencies and the various legal opinions. Thus, given seemingly limited alternatives for similarly strong security, are we correct to assume that risk of materially negatively altering the COFINA structure via legislative action is very low? And this comes from Jon Pruchansky, Arrowgrass Capital Partners.

*Virginia Wong:* The straightforward answer is yes. There’s a very low risk to a legislative change to the COFINA act that would be materially adverse to bondholders. Given the Commonwealth non-impairment covenant, any legislative action that takes security away from bondholders without providing a comparable substitute and rating confirmation would violate both the COFINA Resolution and the COFINA Act. Now, there’s nothing we can do that would [currently] future legislatures. Future legislatures could take action if deemed appropriate. However, given the strong statutory and resolution covenants, any such action, if it was an impairment, violative of those covenants, would give rise to the exercise of remedies by bondholders under the resolution.

*José Coleman:* Yeah, and something, you know, to add, you know, the person who asked the question is correct that both Puerto Rico’s main political parties have been in power when COFINA legislation has been successfully passed. And we see that with the Secretary of Justice’s opinions. In fact, the COFINA program was created by the administration of then Governor Aníbal Acevedo Vilá, who was Governor from 2005 to 2008. And this is done in collaboration with a then PNP “statehood controlled” legislature. In other words, the COFINA program has really been bipartisan since its inception. As many people know, this is a very rare and precious thing in Puerto Rico.

As people well know, the PNP affiliated Fortuño administration implemented the largest expansion of the COFINA program during the 2009-2012 term. The current PDP administration legislated a new, more limited expansion to the COFINA program.

*Virginia Wong:* And I think it’s probably worth also mentioning that with respect to impairment of the structure, the COFINA structure, it’s really no different than you would see for any other revenue backed issuer around the country. You know, New York State [Thruway] has the same provisions. It’s a very common structure. There’s no greater risk inherent in COFINA with respect to the non-impairment covenants that you would see anywhere else.

*José Coleman:* I think we can go to the next question.

*Operator:* Thank you. And our next question is, “In addition to the opinions of the Secretary of Justice, bond counsel and underwriters’ counsel, has the GDB provided any independent, outside legal opinions to the rating agencies regarding the validity of the assignment to COFINA of the Commonwealth’s portion of the Sales and Use Tax? If so, please describe.” And this comes from Robert A. Meyer from SMC Fixed Income Management, LP.

*José Coleman:* This is José Coleman from GDB. The answer is no. The rating agencies have only been provided with the opinions delivered in connection with the issuance of the bonds, such as the opinions being discussed today. No other opinions have been requested by or provided to the rating agencies. I don’t know...

*Virginia Wong:* That’s fair.

*José Coleman:* ...that’s... I think we can go to the next question.

*Operator:* Thank you. And our next question is, “In the last 5 years, has the Supreme Court ruled any law enacted by the Puerto Rico legislature to be unconstitutional? If so, please discuss the cases.” Again, from Robert A. Meyer, SMC Fixed Income Management, LP.

*José Coleman:* This is José Coleman from GDB. To my knowledge, and you know I haven’t done a thorough checking of this, there have only been I think two recent instances where the Puerto Rico Supreme Court declared a law unconstitutional. I think one instance involved certain 14th Amendment rights of a particular person, and the other one involved a law that attempted to restrict the Puerto Rico Supreme Court’s jurisdiction.

I think one thing to bear in mind in this, as Manuel Pietrantonio from PMA stated in his presentation and also in the opinion, there is substantial deference provided to a legislative assembly’s judgment, particularly by the Supreme Court, especially in matters involving the use of public funds and regulation of the economy. There’s obviously also the general presumption of constitutionality that attaches to every statute approved by the legislative assembly. I don’t think we’ve seen anything out of the ordinary from the Supreme Court either historically or in the past couple of years. Unless anyone else has something to add to that... Next question.

*Operator:* Thank you. Our next question is, “Do COFINA’s legal opinions cover the accuracy of the economic and financial data used as the basis for COFINA’s sales tax projections?” Again, from Robert A. Meyer, SMC Fixed Income Management, LP.

*Virginia Wong:* This is Virginia. No, and in accordance with established opinion practice, the opinions, our opinions, PMA’s opinions, do not address or pass judgment upon the accuracy of any economic or financial data that’s used as the basis for COFINA’s sales tax provision. Would you say, Manuel, that...?

*Manuel Pietrantonio:* That’s absolutely right. Typically the role of the opinion is not to speculate or pass judgment on the economic or financial data, or any other data which is underlying the

opinion.

*Virginia Wong:* And there are certificates delivered at closing that provide comfort on that information.

*José Coleman:* Thanks, Virginia. I think we can go to the next question.

*Operator:* Thank you. And our next question is, “According to page 4 of 9, the Supreme Court of Puerto Rico traditionally shown substantial deference to the Legislature’s judgment and has consistently ruled that there is a presumption of constitutionality that attaches to every statute adopted by the Legislature. The Supreme Court of Puerto Rico has reiterated that when the constitutionality of a statute is questioned, the Court will first examine whether there is a reasonable interpretation of the statute that is compatible with the Constitution. The Supreme Court of Puerto Rico has stated that deference to the Legislature should be especially high in matters involving the use of public funds and the regulation of the economy. Since there is no controlling precedent, please provide more details or the extent to which the court would weigh?” from Michael Ginestro, Bel Air Investment Advisors.

*Manuel Pietrantonio:* This is Manuel Pietrantonio. The answer is that we would expect the Puerto Rico Supreme Court to follow an analysis similar to the analysis that is described in the opinions, the elements of which I discussed in the introduction to my remarks. Those we think would be the elements that the Supreme Court would weigh in reaching its conclusion.

*José Coleman:* And as we’ve stated, those elements include the standard of review that’s a substantial deference in certain particular matters. I think we can go to the next question.

*Operator:* Thank you. Our next question is, “If bond counsel believes the pledged revenues would not be subject to claw back, why did bond counsel and underwriters’ counsel issue a “would hold” opinion versus a “should hold” opinion?” This comes from Steve Hong, HIMCO.

*Virginia Wong:* For purposes of opinion practice, the American Bar Association Legal Opinions Committee and the Tri-Bar Opinions Committee has taken a position that “should” and “would” are synonymous. So there’s really no distinction between the two and there was no distinction intended between the “would” and “should” in our opinions. It’s a distinction without difference and it’s important for participants to understand that the opinions are reasoned opinions in large part due to the fact that no precedent exists in Puerto Rico. And as such, these opinions are each firm’s opinion as to the proper result to be reached by a court applying existing legal rules and principles to the facts as properly found after appropriate briefing and argument. So, we just don’t want... there was no intentional choice between “should” and “would”, we were just following established opinion practice and there was no distinction intended.

*José Coleman:* I don’t know if, Manuel, you want to add something to that?

*Manuel Pietrantonio:* No that’s exactly... We agree with that.

*José Coleman:* We can go to the next question.

*Operator:* Thank you. And our final question, “Is there an ability to appeal any Puerto Rico Supreme Court ruling related to claw back to the US Supreme Court? And this is coming from Ben Herbert, Lord, Abbett & Co. LLC.

*Manuel Pietrantonì:* The answer is that rulings of the Puerto Rico Supreme Court may be appealed to the United States Supreme Court to the extent that a matter of Federal Law is in question. And as you know, this appeals process would work in the same manner as any other appeal to the United States Supreme Court from a decision of the highest court of any state. In that regard Puerto Rico is no different.

*José Coleman:* I think we’ve had this question a couple of times, and people don’t know, and I think it’s important to emphasize that Puerto Rico’s Supreme Court decisions are appealable to the U.S. Supreme Court.

*Operator:* Thank you. And at this time I would now turn the call back over to Mr. Coleman-Tiò for any closing remarks.

*José Coleman:* We want to thank everyone for their attention. We hope this call has been informative. Again, a replay of it will be posted to the GDB website soon, and thank you again, and have a good afternoon.

*Operator:* Thank you all for your attention. This concludes today’s conference call. All participants may now disconnect.

<END OF TRANSCRIPT>