

(House Substitute for
H. B. 1593)

(No. 19-2014)

(Approved January 24, 2014)

AN ACT

To create the “Municipal Finance Corporation Act”; authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico attached to the Government Development Bank for Puerto Rico, to be known as the “Municipal Finance Corporation” (COFIM, Spanish acronym) empowered to issue and/or use mechanisms to pay or refinance municipal debts, the principal of and interests on, are backed by the municipal sales and use tax; provide that the first revenues from the one percent (1%) municipal sales and use tax shall be collected by municipalities and deposited directly in the Municipal Finance Corporation Redemption Fund; provide that the bonds and obligations issued by the “Municipal Finance Corporation” shall be payable from and secured by pledging the greater of (i) a fixed amount of the municipal sales and use tax revenues, or (ii) the amount of the municipal sales and use tax corresponding to a zero point three percent (0.3%) fixed rate of the revenues collected during the previous fiscal year (which fixed amount shall be increased as provided in this Act); amend subsection (c) of Section 4050.06; subsection (a) of Section 4050.07; subsections (a) and (b) of Section 4050.08; subsection (a) of Section 4050.09; subsections (b), (c), and (d), repeal subsection (e), and renumber subsection (f) as (e) of Section 6080.14 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico”; in order to establish a tax advance mechanism for municipalities; and for other related purposes.

STATEMENT OF MOTIVES

Act No. 117-2006, known as the “Taxpayers Justice Act of 2006,” amended Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994.” The amendments introduced by Act No. 117-2006 included various provisions authorizing municipalities to impose a sales and use

tax (IVU, Spanish acronym). Moreover, Act No. 80-2007 incorporated additional amendments requiring municipalities to impose a uniform municipal IVU of one point five percent (1.5%) from which municipalities collect two-thirds (2/3). The Secretary of the Treasury collects the remainder of such amount to be used as follows: (i) forty percent (40%) to be deposited in a fund administered by the Government Development Bank for Puerto Rico (hereinafter, the “GDB”) and denominated “Municipal Redemption Fund,” to grant loans to the municipalities; (ii) forty percent (40%) to be deposited in the “Municipal Development Fund,” which is distributed among all the municipalities pursuant to a formula established by law; and (iii) twenty percent (20%) to be deposited in the “Municipal Improvement Fund,” which is distributed by the Legislative Assembly to carry out public works improvement projects in the Municipalities.

Since the approval of Act No. 80-2007, municipalities have had the capacity to incur obligations payable from a portion of the municipal IVU that is deposited in the Municipal Redemption Fund. Some municipalities have even contributed to the Municipal Redemption Fund an amount equal to one hundred percent (100%) of their share in the Municipal Development Fund to increase their capacity to incur obligations payable from the Municipal Redemption Fund. As of today, the total debt of the municipalities is approximately \$590,166,000, which is secured by the municipal IVU revenues deposited in the Municipal Redemption Fund, including contributions made from the Municipal Development Fund.

On June 30, 2013, the Legislative Assembly approved Act No. 40-2013, as amended, known as the “Tax Burden Redistribution and Adjustment Act,” to address the fiscal crisis and protect the credit of the Island. Act No. 40-2013, *supra*, reduces the municipal IVU rate from one point five percent (1.5%) to one percent (1%) beginning on December 1, 2013, and requires the Legislative Assembly to: (a) set aside the necessary funds in the General Budget to meet

municipal debt service obligations and payable from the Municipal Redemption Fund, and (b) establish the guidelines and amounts necessary to maintain the Municipal Redemption Fund, the Municipal Development Fund, and the Municipal Improvement Fund. Subsequently, said Act was amended to postpone such rate's reduction to February 1, 2014.

To address the difficult fiscal situation of the municipalities, this legislation makes restructuring the IVU Municipal Debt feasible, creating a source of financing through the use of a consistent and reliable source of income with a strong credit rating.

To address the difficult fiscal situation of the municipalities, this legislation makes it feasible to restructure the municipal debt backed by the IVU, creating a source of financing through the use of a consistent and reliable source of income that shall have a strong credit rating.

This legislation creates a public corporation attached to the GDB, which shall be known as the "Municipal Finance Corporation" (COFIM). This corporation shall be authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal obligations incurred that are payable from or backed by the municipal IVU. It is hereby established that the COFIM Redemption Fund shall receive, from the first revenues of the municipal IVU collected, the greater of: (i) an amount computed by applying a zero point three percent (0.3%) fixed tax rate to the total revenues collected, or (ii) a fixed amount that increases annually, known as the Annual Fixed Income. These revenues, which shall be deposited in COFIM's Redemption Fund, shall be used to pay and secure the debt issued by COFIM. This legislation allows for the distribution of resources in the Municipal Redemption Fund, the Municipal Development Fund, and the Municipal Improvement Fund. All the municipalities of Puerto Rico shall benefit from the creation of COFIM and the

subsequent distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund, and the Municipal Improvement Fund herein described, since it will increase their credit capacity.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1.- This Act shall be known as the “Municipal Finance Corporation Act.”

Section 2.- Creation of the Public Corporation.-

(a) A public corporation and instrumentality of the Commonwealth of Puerto Rico (“Commonwealth”) that constitutes a body corporate and politic independent and separate from the Commonwealth to be known as the “Municipal Finance Corporation “COFIM” (Spanish acronym) is hereby created.

(b) COFIM is hereby created for the purposes of issuing bonds and using other financing mechanisms to pay or refinance, directly or indirectly, in whole or in part, the debts of the municipalities of the Commonwealth payable or backed by the municipal sales and use tax.

(c) The repayment source of COFIM’s bonds shall be the portion of the municipal sales and use tax deposited in COFIM’s Redemption Fund, as such fund is defined below, under the provisions of Section 3(a) of this Act. The Board of Directors of COFIM shall not authorize any COFIM bond issue, unless the President of COFIM, or an official designated by him/her, certifies that the principal of and interests on COFIM’s bonds whose authorization is proposed, plus the principal of, and interest on, all outstanding COFIM bonds (except those COFIM bonds to be payable from the funds that have been set aside and deposited in an escrow account to cover full payment thereof) payable every fiscal year (beginning in the fiscal year in which the proposed COFIM bonds will be issued) is equal to or lower than the applicable Fixed Income, as defined in this Act.

(d) Notwithstanding the provisions of Section 4, COFIM may use any sum of the monies derived from the revenues stated in Sections 3 and 5, or the proceeds from the sale of bonds issued under the provisions of this Act, to defray expenses incurred in connection with the issue and sale of such bonds, including those related to insurance, letters of credit, or other credit instrument or liquidity, and to cover any operating expenses.

(e) COFIM shall be attached to the Government Development Bank for Puerto Rico (hereinafter, the “GDB”), which shall assume COFIM’s operating expenses.

(f) The Board of Directors of COFIM shall be composed of seven (7) members, three (3) of which shall be members of the Board of Directors of the GDB; three (3) mayors, two (2) of which shall belong to the political party controlling the most municipalities, and one (1) mayor elected by all other municipalities; and one (1) member, who shall represent public interest, shall be recommended by the mayors of the majority and minority political parties and ratified by the Governor. The members of the Board of Directors of the GDB and the three (3) mayors shall be members of the Board of Directors of COFIM for the term of their tenure. However, in the case of mayors, such tenure shall not exceed two (2) consecutive terms. The representative of the public interest shall continue to hold office until the Governor deems it convenient. All members of the Board of Directors of COFIM shall hold office until their successors are appointed and take office.

Any vacancy in the Board of Directors of COFIM, other than for the expiration of the term, shall be filled in the same manner as the original appointment, but for the remainder of the unexpired term. The members of the Board of Directors of COFIM shall not receive any compensation for their services. COFIM shall only reimburse any expenses incurred by them in carrying

out their duties, subject to the regulations to be promulgated by the Board of Directors of COFIM.

The powers of COFIM shall be exercised by the Board of Directors of COFIM in accordance with the provisions of this Act. Four (4) members of the Board shall constitute a quorum, provided that at least (2) two of the mayors are in attendance. A vacancy in the Board of Directors of COFIM shall not impair its right to exercise all the powers and duties of COFIM.

The President of the GDB for Puerto Rico shall be the Chair of the Board of Directors of COFIM and act as its chief executive officer. The Board of Directors of COFIM shall appoint one Secretary and any other officials it may deem pertinent, none of which shall be a member thereof. By the affirmative vote of a majority of all its members, the Board of Directors of COFIM may adopt, amend, alter, and repeal regulations that are inconsistent with this Act or any other law, to manage its affairs and businesses, appoint Board Member committees, and establish the powers of such committees, and the title, qualifications, terms, compensation, appointment, separation, and obligations of officials and employees. Provided, however, that such regulations may not be altered, amended, or repealed unless the proposed alterations, amendments, or repeals have been notified in writing to all members of the Board of Directors within at least one week before holding the meeting in which such issue shall be considered.

(g) COFIM shall have the following powers, duties, and authorities, which powers, duties, and authorities may be exercised solely to attain the purposes for which COFIM was created.

- (1) To have an official seal that may be altered as necessary.
- (2) To acquire property for its corporate purposes by means of assignment, gift, purchase, bequest, or donation; hold and exercise property rights thereon, and dispose of them.

(3) To acquire any kind of property in payment or on account of debts previously incurred or in exchange for investments previously made in the course of its business, when such acquisition is necessary to reduce or prevent a loss in connection therewith, to keep such property for the time the Board of Directors deems convenient, and to exercise property rights thereon and dispose of the same.

(4) To purchase, own, sell, exchange, or otherwise dispose of municipal bonds and notes under such terms, prices, and manner determined by COFIM;

(5) To purchase, hold, lease, mortgage, pledge, assign, or otherwise convey all its property and/or assets.

(6) To sue and be sued.

(7) Appoint, hire, and contract the services of officials, agents, employees, and professional assistants and pay the compensation for such services determined by the Board of Directors of COFIM.

(8) To acquire, own, and dispose of stocks and stock-purchase warrants, shares (either preferred or common) in partnerships and joint enterprises, covered bonds, convertible securities, and other securities issued by any corporate entity organized under the laws of the Commonwealth or authorized to do business in Puerto Rico, or by partnership or joint enterprises organized under the laws of the Commonwealth, the United States, or any other country engaged in projects that promote the economic development of Puerto Rico, and to exercise all powers and rights related thereto; as well as to secure loans and other obligations incurred by public and private entities by means of guaranty or letter of credit.

(9) Enter into and enforce any contract that may be necessary and convenient to attain the purposes of COFIM, or related to any loan made to a municipality or to the purchase or sale of municipal bonds, notes, or other investment, or to carry out its obligations.

(10) Invest its funds in direct obligations of the United States or fully guaranteed as to principal and interest by the United States, or in obligations of any agency, instrumentality, commission, authority, or other political subdivision of the United States; obligations of the Commonwealth or fully guaranteed as to principal and interest by the Commonwealth, or obligations of any agency, instrumentality, commission, authority, or other political subdivision of the Commonwealth; obligations of international banking institutions recognized by the United States and to which the United States has contributed capital; obligations of common or preferred stock issued by domestic or foreign corporations, whether public or private, rated by a credit rating agency nationally recognized in the United States in one of its three (3) highest rating categories or, if not rated by such credit rating agencies, they must be comparable in quality. COFIM may also invest its funds in bank acceptances and other obligations or certificates of deposit, endorsed or issued, as the case may be, by banks organized or authorized to do business under the laws of the Commonwealth, the United States, or the States of the United States.

(11) To borrow money and otherwise incur indebtedness, whether secured or unsecured, for any of its corporate purposes, upon such terms and conditions as the Board of COFIM may determine; dispose of its obligations by evidencing such loans; create, execute, and deliver trust instruments and other agreements related to any of such loans, bonds, notes, and mortgage obligations or other obligations; and by authority of the Commonwealth granted herein, issue its own bonds, notes, and mortgage obligations or other obligations in the form, with

the guarantee, and under such redemption terms, with or without premium, and sell the same in public or private sales at the price or prices determined for all of them by its Board of Directors.

(12) Engage in security purchase and sale transactions with repurchase or resale agreements.

(13) Exercise all those corporate powers that are not incompatible with those stated herein, which are granted to corporations under the laws of Puerto Rico, and exercise all such powers, within and outside Puerto Rico, to the same extent that a natural or juridical person would or could to it.

(h) The income, operations, and property of COFIM shall enjoy the same tax exemption as the GDB, and the bonds, notes, and other obligations of COFIM, as well as the proceeds thereof, shall enjoy the same tax exemption as the bonds, notes, and other obligations issued by the GDB.

(i) COFIM may issue bond anticipation notes, and such notes:

(1) may be issued in a maximum principal amount that shall not exceed what the Board of Directors of COFIM determines may be repaid from the proceeds of the bond issue authorized under subsection (b) of this Section and allowed under subsection (c) of this Section;

(2) shall not be subject to the limitation set forth in section (c) of this Section unless the COFIM's bond authorizing documents provide otherwise, and neither shall they be considered in the calculation of outstanding bonds required by said subsection; and

(3) may be repaid from the proceeds of the bonds issued under the provisions of this Act and any of its available funds.

(j) As of fiscal year ending on June 30, 2015, and for subsequent fiscal years, a certified public accounting firm holding a license in effect in Puerto Rico, shall audit the financial statements of COFIM. Not later than October 31 after the

close of the fiscal year, said certified public accounting firm shall submit an audit report to the Board of Directors of COFIM including, in addition to an opinion on the financial statements, an opinion about compliance with the requirements of this Act.

Section 3.- COFIM's Redemption Fund.-

“COFIM's Redemption Fund” is hereby created, into which all future funds that under the provisions of this Act are to be deposited in such Fund shall be covered. Notwithstanding the foregoing, not later than June 30, 2014, the municipalities shall have the option to withdraw all available balances accrued in the municipal funds created by virtue of Sections 4050.07 and 4050.08 of Act No. 1-2011 corresponding to the Municipal Development Fund and the Municipal Redemption Fund, respectively.

All funds to be deposited in COFIM's Redemption Fund under this Act are hereby transferred and shall belong to COFIM on and after July 1, 2014. This transfer shall be made in exchange for and in consideration of COFIM's commitment to pay or establish a payment mechanism to meet all or part of the existing obligations of the municipalities that have availed themselves of the provisions of Section 4 of the Act that creates the Municipal Administration Fund, which obligations are payable from or backed by the municipal IVU and the interest thereon. It shall also be made, for all other purposes established in Section 2(b) of this Act, with the net proceeds of COFIM's bond issues or available funds and resources, and other valuable considerations.

Every fiscal year, COFIM's Redemption Fund shall feed from the following sources, the product of which shall be directly covered into COFIM's Redemption Fund at the time they are received and shall not be covered into the general funds of municipalities or the Commonwealth treasury, nor considered as available

resources of the municipalities or the Commonwealth or available to be used by the municipalities or the Commonwealth.

(a) The first revenues of the one percent (1%) municipal sales and use tax, as provided in Section 6080.14 of Act No. 1-2011, as amended (“IVU”), until the greater of the following amounts has been deposited in COFIM’s Redemption Fund (COFIM’s Deposit):

(1) the product of: (A) the amount of the one percent (1%) Municipal Tax collected during the preceding fiscal year multiplied by (B) a fraction whose numerator shall be zero point three percent (0.3%) and whose denominator shall be the Municipal IVU rate, or

(2) the applicable Fixed Income.

For purposes of Section 3(a)(2) of this Act, the Fixed Income for fiscal year 2014-2015 shall be sixty-five million five hundred forty-one thousand two hundred eighty-one dollars (\$65,541,281) (“Original Fixed Income”). The Fixed Income for each subsequent fiscal year shall be equal to the Fixed Income for the preceding fiscal year plus one point five percent (1.5%) of the Fixed Income. COFIM’s Deposit for any fiscal year shall originate from the portion corresponding to the first revenues of the Municipal Tax.

(b) For each fiscal year, beginning on Fiscal Year 2014-2015, the amounts of the Municipal IVU in excess of COFIM’s Deposit for said fiscal year shall be transferred to the municipalities (“Municipal Transfer”) according to the proportion of the total revenues that the portion collected by each municipality represents. At its discretion, any municipality that deems so convenient may transfer any portion of the Municipal Transfer corresponding to such municipality into its general fund in order to contribute such amount to its Municipal Redemption Fund in accordance with Section 4050.08 of Act No. 1-2011. It may thus increase its credit capacity and/or cover any deficiency in the Redemption

Fund for servicing the municipal debt incurred, provided that such municipality covers at least ninety percent (90%) of its Municipal IVU into its general fund. Such transfer shall be made as provided in the regulations to be adopted by the Board of Directors of COFIM. Notwithstanding the foregoing, in the case of municipalities that, by means of agreement entered into prior to February 1, 2014, as provided in Section 4 of the Municipal Administration Fund, have permanently waived the distribution from the Municipal Development Fund corresponding to them in accordance with Section 4050.07 of Act No. 1-2011, the distribution of the Municipal Transfer corresponding to these municipalities shall have priority over all other municipalities so that they may receive an amount equal to its total Municipal IVU (their one percent (1%)) in the following manner:

(1) until their Municipal IVU (their one percent (1%)) accrued as of the date on which the Municipal Transfer begins is distributed, no portion of the Municipal Transfer shall be distributed to other municipalities, and

(2) after the Municipal IVU accrued as of the date on which the Municipal Transfer begins is distributed to the municipalities that availed themselves of the provisions of Section 4 of the Municipal Administration Fund Act, the portion of the Municipal IVU corresponding to the current month shall be distributed on a monthly basis to such municipalities before the distribution corresponding to all other municipalities in accordance with this Act is carried out.

In both cases, if there are any outstanding advances made by GDB in accordance with Section 12 of this Act before distributing the Municipal Transfer to the general fund of each municipality, COFIM shall first reimburse such outstanding advances to the GDB and then distribute the remaining amount of the Municipal Transfer to the general funds of the municipalities, as appropriate.

Section 4.- Use.-

(a) COFIM's Deposit shall be made directly to COFIM's Redemption Fund and be used exclusively to directly or indirectly, pay or refinance COFIM's obligations, either in whole or in part, in order to attain the purposes of Section 2. COFIM is hereby authorized to pledge or otherwise encumber COFIM's Deposit in whole or in part only for the payment of: (1) the principal of, interests, and redemption premiums of, if any, such bonds, and (2) other obligations incurred in connection with such bonds for the purposes set forth in this Act and the payment of obligations incurred under any kind of financial, security-based, or swap agreement entered into in relation to such bonds or other obligations incurred by COFIM. Such pledge shall be valid and binding from the time the pledge is made, without any public or notarized document. The COFIM Deposit thus pledged, including those subsequently received by COFIM, shall immediately be subject to such lien without any physical delivery thereof or further act, and the lien shall be valid and binding and prevail over third parties having claims of any kind in tort, breach of contract, or otherwise against COFIM, without regard to whether such parties have notice thereof. Neither the agreement, trust indenture, resolution, nor other security instruments by which the rights of COFIM over COFIM's Deposit or any revenues are pledged or assigned is required to be filed or recorded in order to establish and perfect a lien thereon against third parties, except in the records of COFIM.

(b) In addition to the distributions made in accordance with Section 3(b) of this Act, the amounts deposited in COFIM's Redemption Fund in excess of the amounts necessary to pay the principal of and interests on COFIM bonds per municipality, meet obligations incurred under bond issue documents, or to make any other payment in relation to any other obligation incurred by COFIM, including payments under swap agreements in connection with money taken on

loan or bonds issued by COFIM for the payment of which “COFIM’s Deposit” has been pledged, the excess per municipality shall be deposited in and distributed to the general fund of each municipality or the Municipal Redemption Fund thereof established in Section 4050.08 of Act No. 1-2011, but excluding from such distribution the municipalities that avail themselves of the option provided in Section 4 of the Municipal Administration Fund Act, which shall not be entitled to a share of such excess. Notwithstanding the foregoing, if there are outstanding advances made by the GDB to a municipality, in accordance with Section 12 of this Act, before distributing the excess to the general fund of such municipality, COFIM shall reimburse the GDB said outstanding advances first, and then, distribute the remainder to the general fund of the municipality, as appropriate.

(c) COFIM bonds and other obligations shall not constitute an obligation or debt of the Commonwealth or its instrumentalities. The Commonwealth or its instrumentalities shall neither be liable for the payment of such bonds or obligations which shall not be backed by the full faith and credit and taxing power of the Commonwealth.

Section 5.- Deposits and Disbursements.-

(a) Beginning on fiscal year 2014-2015, the first municipal IVU revenues shall be deposited daily in COFIM’s Redemption Fund up to the Original Fixed Income. During each subsequent fiscal year, the first municipal IVU revenues shall be deposited upon receipt in COFIM’s Redemption Fund or in any other special fund, including a fund under the control of the trustee as designated under the trust indenture or other security instrument under which COFIM bonds were issued or other obligations were incurred for the purposes established in subsection (b) of Section 2 of this Act, as designated by COFIM in the amounts established in Section 3.

(b) On or before August 30 of each fiscal year, the GDB, acting as fiscal agent, shall determine the “COFIM’s Deposit” applicable to the current fiscal year. An amount equal to the “COFIM’s Deposit” from the first municipal IVU revenues for such fiscal year shall be deposited in COFIM’s Redemption Fund.

(c) The Commonwealth hereby agrees and makes a commitment to any person, firm, corporation, agency, or State of the United States of America or the Commonwealth underwriting or acquiring COFIM bonds or providing sureties, sources of repayment, or liquidity for such bonds that, until said bonds and the interest thereon, regardless of their date, are paid in full and retired:

(1) it shall not limit or impair the rights and powers of Commonwealth or municipal officials to impose, maintain, charge, or collect taxes and other revenues that constitute the amounts to be deposited in COFIM’s Redemption Fund, according to the provisions of this Act; provided, that the foregoing shall not limit the power of the Commonwealth to amend the law in order to:

(A) limit or restrict the nature or amount of such taxes and other revenues, or

(B) substitute similar or comparable collateral for other taxes, fees, charges, or revenues to be deposited in COFIM’s Redemption Fund if, for the following fiscal years, the revenue forecast of the Board of Directors of COFIM, after considering such limit or restriction, or of such substitute taxes, revenues, or collateral is equal to or exceeds the debt service and other fees, and any coverage requirement included in the COFIM’s bond issue authorization documents; or

(2) it shall not limit or restrict the powers hereby conferred to or the rights of COFIM to meet its obligations to bondholders until said bonds and the interest thereon, regardless of the date, are paid in full and retired. No amendment to this Act shall impair any obligation or commitment of COFIM.

(d) If, at any time, “COFIM’s Deposit” is not sufficient to pay the principal of and interests on COFIM’s outstanding bonds, or to make any other payment with respect to other obligations incurred by COFIM, including payments under swap agreements in connection with money taken on loan or bonds issued by COFIM to pay that for which “COFIM’s Deposit” has been pledged, or in the event that COFIM’s reserve funds, if any, have been established for payment of the requirements of the debt, or if said obligations are applied to cover the deficiency in the amounts, as needed, to meet such payments, the appropriations necessary to cover such deficiencies shall be included in the Commonwealth’s budget recommended for the following fiscal year.

Section 6.- Scope.-

(a) None of the provisions of this Act shall be construed or applied so as to impair the power of the Legislative Assembly to impose and collect taxes in accordance with Section 2 of Article VI of the Constitution of the Commonwealth of Puerto Rico, or the power of the municipalities to impose and collect taxes as allowed by law.

(b) None of the provisions of this Act shall be construed or applied so as to impair the rights of holders of any bonds or notes that constitute general obligations of Commonwealth municipalities.

Section 7.- Subsection (c) of Section 4050.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4050.06.- Special Disposition of Funds.-

(a) ...

(b) ...

(c) For periods before February 1, 2014, the proceeds from the portion of the zero point five percent (0.5%) municipal IVU authorized by Section 4020.10 and Subtitle F shall be collected by the Secretary in accordance with Subtitle F

to be deposited in special accounts or funds in the Government Development Bank for Puerto Rico (hereinafter, the ‘Bank’ or ‘GDB’), which shall be used exclusively for the purposes stated below. Said sums may not be deposited in, transferred, or loaned at any time to the General Fund of the Government of the Commonwealth of Puerto Rico, without exceptions. In this same context, the Commonwealth may not deduct any amount whatsoever for any debt the municipalities may have with any department, agency, instrumentality, or public corporation, regardless of the nature thereof, except for the amount established in Section 4050.06(f). The revenues generated from the IVU shall be specifically distributed for the following purposes:

- (1) ...
- (2) ...
- (3) ...

Beginning on February 1, 2014, this subsection (c) of Section 4050.06 shall no longer be in effect, and the three municipal funds shall be nourished according to the provisions of subsection (a) of Sections 4050.07, 4050.08, and 4050.09, respectively, of this Act.

- (d) ...
- (e) ...
- (f) ...
- (g) ...”

Section 8.- Subsection (a) of Section 4050.07 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4050.07.- Municipal Development Fund - Creation.-

(a) Creation of the Fund.- A ‘Municipal Development Fund’ is hereby created under the custody of the Bank:

(1) For periods before July 1, 2014, the Municipal Development Fund shall be nourished from a special fund to be created by the Commonwealth of Puerto Rico; and

(2) For periods beginning as of July 1, 2014, the Municipal Development Fund shall be nourished in accordance with the provisions, terms, and other conditions set forth in the Municipal Administration Fund Act, and the provisions regarding the increase in the State IVU established in Sections 4020.01 and 4020.02 of this Act.

(b) ...”

Section 9.- Subsections (a) and (b) of Section 4050.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 4050.08.- Municipal Redemption Fund - Creation.-

(a) Creation of the Fund.- A ‘Municipal Redemption Fund’ is hereby created under the custody of the Bank:

(1) For periods before July 1, 2014, the Municipal Redemption Fund shall be nourished from a special fund to be created by the Commonwealth of Puerto Rico; and

(2) For periods beginning after July 1, 2014, the Municipal Redemption Fund shall be nourished in accordance with the provisions, terms, and other conditions set forth in the Municipal Administration Fund Act and the provisions regarding the increase in the State IVU established in Sections 4020.01 and 4020.02 of this Act.

(b) Purpose of the Municipal Redemption Fund.- The moneys deposited in the Municipal Redemption Fund shall be used by the Bank exclusively to grant loans in favor of the municipalities. Said loans shall be granted using as a basis the sums of money collected in each of the municipalities and deposited in the Municipal Redemption Fund pursuant to the authorization established in Section

4(b) of the Municipal Finance Corporation Act, and Section 4050.06(c)(2) of this Act. In accordance with the foregoing, the municipalities interested in obtaining said loans are hereby authorized to contribute to the Municipal Redemption Fund an amount equivalent to up to one hundred percent (100%) of the share of the municipality in the Municipal Development Fund, pursuant to Section 4050.07, in order to increase their credit capacity. Notwithstanding the foregoing, in the case of municipalities that are not interested in obtaining or making said loans, they may withdraw from the Municipal Redemption Fund the available amounts corresponding to their municipality. The municipality may use said funds to take on loans in any other financial institution under the same conditions and limitations contained in this Section, subject to the condition that the financing terms offered by private financial institutions be better than those offered by the Bank. Loans obtained in this manner from private financial institutions shall not be subject to the limitations on credit capacity contained in Act No. 64 of July 3, 1996, as amended, known as the ‘Puerto Rico Municipal Financing Act of 1996.’

(c) ...”

Section 10.- Subsection (a) of Section 4050.09 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4050.09.- Municipal Improvement Fund - Creation.-

(a) Creation of the Fund.- A ‘Municipal Improvement Fund’ is hereby created:

(1) For periods before July 1, 2014, the Municipal Improvement Fund shall be nourished from a special fund to be created by the Commonwealth of Puerto Rico; and

(2) For periods beginning after July 1, 2014, the Municipal Improvement Fund shall be nourished in accordance with the provisions, terms, and other conditions set forth in the Municipal Administration Fund Act and the provisions regarding the increase in the state IVU established in Sections 4020.01 and 4020.02 of this Act.

The moneys available in the Municipal Improvement Fund shall be distributed to the municipalities through legislation by the Legislative Assembly of Puerto Rico to be appropriated for capital works and improvement projects in the municipalities, such as:

(1) ...”

Section 11.- Subsections (b), (c), and (d) are hereby amended, subsection (e) is hereby repealed, and subsection (f) is hereby renumbered as (e) in Section 6080.14 of Act No. 1-2011, as amended, to read as follows:

“Section 6080.14.- Municipal Imposition of Sales and Use Tax.-

(a) ...

(b) Use of Tax.-

(1) The moneys originating from the sales and use tax imposed, corresponding to the one percent (1%) to be collected by municipalities shall be used in solid waste collection and recycling programs, the construction of capital works and improvements, healthcare and security, as well as for payroll and payroll-related expenses such as employer contributions or payroll taxes; and for any activity or project consistent with the sound administration of the municipality, including amortization of operating deficits and payment of debt. Furthermore, beginning on July 1, 2014, such moneys may also be used, as provided in Section 3 of the Municipal Finance Corporation Act, to nourish ‘COFIM’s Redemption Fund’ first, and then for the ‘Municipal Transfer,’ as such terms are defined in said Section and Section 4 of such Act.

(c) Tax Collection and Payment.- From February 1, 2014, to June 30, 2014, the one percent (1%) tax shall be collected as provided in the first paragraph of Section 6080.14(a) of this Act. For periods beginning after July 1, 2014, the Board of Directors of COFIM shall designate a Trustee that is acceptable to the GDB (the 'Trustee'), in order to, as agent of COFIM with respect to the Fixed Income provided in Section 3 of the Municipal Finance Corporation Act, and of the municipalities with respect to the Municipal Transfer provided in Section 3 of the Municipal Finance Corporation Act, receive the one percent (1%) tax collected directly by the municipalities, or by agreements with the Secretary or private business, if the Municipality so determines. The revenues of the tax received by the Trustee, designated by municipalities, shall be subject to:

(1) Remit the total amounts collected on account of their corresponding municipal IVU, in accordance with Section 3 of the Municipal Finance Corporation Act, to the accounts designated by municipalities. Amounts collected on account of the municipal IVU may not be used by the Executive Branch, including, but not limited to agencies, departments, instrumentalities or public corporations, or be withheld for any other purpose.

(2) Any delays in remitting the collected amounts to the bank accounts designated by municipalities in accordance with Section 3 of the Municipal Finance Corporation Act shall entail the payment of interests pursuant to Section 4050.06(c) of this Act. Such interests shall be computed, after such amounts were incorrectly collected and until the date of their payment or return, at an annual rate of ten percent (10%) on the amount not remitted on time. The imposition and payment of such interests shall likewise apply to any portion of the IVU belonging to the municipalities that has been collected and withheld in excess. The amounts thus collected shall be determined through the appropriate audits or

certifications required for their implementation, or by sharing information as established in subsection (d) of Section 4050.06 of this Act.

(3) On a quarterly basis, the Secretary and the COFIM shall report to the municipalities the amount of the revenues generated by the IVU corresponding to the six percent (6%) State Tax and the one percent (1%) Municipal Tax, per municipality and per taxpayer, as well as any information necessary to audit the revenues collected as a result of the imposition of the Municipal IVU against the sales volume reported in the Statement of Volume of Business filed with the municipalities for purposes of the municipal license.

(d) Responsibility of Banking Institutions and/or Private Businesses.-

(1) In the case of taxpayers who pay by electronic means, the banking institution or private business managing the corresponding points of sale or the deposit shall remit said amount directly to the Trustee's account.

(e) The municipalities are hereby delegated, with respect to the municipal portion of the IVU imposed in this Section and in Subtitle D of this Code, the same authority as the Secretary of the Treasury under the provisions of this Subtitle in connection with the assessment of deficiency, as well as the collection and imposition of additions to the tax, including interests, surcharges, and penalties. The Secretary shall retain the authority to construe and regulate the provisions of Subtitle D for purposes of the municipal portion of the IVU.”

Section 12.- Cash Flow Advances.-

(a) To prevent a deficit in the cash flow of the municipalities during each fiscal year until the Municipal Transfer begins to nourish the general funds of municipalities, any municipality, except for those who have availed themselves of the option provided in Section 4 of the Municipal Administration Fund Act, may request an advance to the GDB on a monthly basis, to be distributed during the first ten (10) days of each month, in an amount equal to the difference between:

(1) The revenues of the one percent (1%) municipal IVU collected by such municipality in the corresponding month of the immediately preceding year (such amount shall be increased by advances from the Municipal Development Fund and the Redemption Fund, insofar as such additional amount does not exceed the amount corresponding to such municipality based on the same month of the immediately preceding year) and

(2) The funds covered into the general fund of such municipality during the calendar month preceding the advance in question, and which originate from the municipal IVU provided in Section 6080.14 of Act No. 1-2011, as amended. The GDB is hereby required and authorized to make such advances in accordance with this Section.

(b) As for municipalities that avail themselves of the option provided in Section 4 of the Municipal Administration Fund Act, the GDB shall make an advance to be distributed during the first ten (10) days of July (corresponding to the July-December period) and January (corresponding to the January-June period) of fiscal year 2014-2015. Subsequent fiscal years shall receive the same treatment, in an amount equal to the revenues from the one percent (1%) municipal IVU collected by such municipality for the corresponding periods of the preceding year (July to December and January to June). The GDB is hereby required and authorized to make such advances in accordance with this Section.

(c) If the GDB determines that, as a result of the advances made to municipalities as provided in Sections 12(a) and (b), the aggregate amount of advances made to any municipality exceeds the maximum amount corresponding to such municipality from:

- (1) The Municipal Transfer, in accordance with this Act; and
- (2) The Municipal Administration Fund Act,

such excess shall be ratably deducted, upon previous notice, from advances available for the next fiscal year and from the amount available to such municipality during the subsequent fiscal year out of: (i) the Municipal Transfer in accordance with this Act, and (ii) the Municipal Administration Fund Act.

(d) In the event that the GDB fails to meet its obligation to disburse such advances within a term of ten (10) days, the GDB shall be required to pay a penalty equal to ten percent (10%) of the corresponding payment. If this noncompliance persists for more than one month, such penalty shall increase by ten percent (10%) every month up to a maximum of fifty percent (50%) of the corresponding payment.

(e) If a municipality is not interested in receiving advances from the GDB, it may use the funds corresponding to it from: (A) the Municipal Transfer in accordance with this Act, and (B) the Municipal Administration Fund Act. The municipality may use said funds to take money on loan in any financial institutions under the same conditions and limitations contained in this Section, insofar as the financing terms offered by private financial institutions are better than those offered by the GDB. The loans thus obtained from private financial institutions shall not be subject to the limitations on credit capacity contained in Act No. 64-1996, as amended, known as the 'Puerto Rico Municipal Financing Act of 1996.' All instruments issued under this Section 12(e) and interests accrued thereon, shall be exempt from any tax imposed by the Commonwealth.

(f) The financing costs of the advances or loans granted under this Section shall be defrayed by the Commonwealth, which shall reimburse such costs by means of an appropriation to be set aside in the expense budget corresponding to the following fiscal year. Solely for GDB accounting purposes, advances shall

be treated as loans whose source of repayment shall be the budget appropriation herein prescribed.

Section 13.- Severability Clause.-

If any section, subsection, paragraph, subparagraph, clause, subclause, or part of this Act were held to be null or unconstitutional by a competent court, such holding shall not affect, impair, or invalidate the remaining provisions and parts of this Act.

Section 14.- Effectiveness.-

This Act shall take effect immediately after its approval. Section 11 shall take effect as of February 1, 2014.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 19-2014 (House Substitute for H. B. 1593)** of the **3rd Session of the 17th Legislature** of Puerto Rico:

AN ACT to create the “Municipal Finance Corporation Act”; authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico attached to the Government Development Bank for Puerto Rico, to be known as the “Municipal Finance Corporation” (COFIM, Spanish acronym) empowered to issue and/or use mechanisms to pay or refinance municipal debts, the principal of and interests on, are backed by the municipal sales and use tax; etc.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 14th day of March, 2014.

Juan Luis Martínez Martínez
Acting Director