

**Carlos Garcia**

- Former Chairman, President & CEO of the Government Development Bank for Puerto Rico (2009-2011)
- Former Chairman of the Puerto Rico Fiscal Restructuring and Stabilization Board (2009-2011)
- Former Chairman of the Puerto Rico Public Private Partnership Authority (2009-2011)

Testimony on February 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”**

Good morning Chairman Young, Resident Commissioner Pierluisi, other distinguished members of this committee and the U.S. House of Representatives, fellow panelists, government officials, and all that have in-mind the best interests for Puerto Rico.

My name is Carlos Garcia. I was the Chairman, President and CEO of the Government Development Bank for Puerto Rico from January 2009 to March 2011. In addition, I was also appointed as Chairman of the Puerto Rico Fiscal Restructuring and Stabilization Board (“Local Control Board”), a local fiscal control board created by law on March 9, 2009, with a joint and comprehensive mandate from the executive and legislative arms of Puerto Rico, to:

- (1) Address a complex fiscal emergency created through many years of fiscal imbalances and, in my opinion, the negative tail economic effect of the decision in 1996 to terminate Puerto Rico’s favorable federal tax regime set up under Section 936 of the U.S. Internal Revenue Code which helped establish Puerto Rico as a manufacturing center for the world and further aggravated by Puerto Rico’s failure to develop an alternative economic plan during the 10-year phase-out of Section 936 or persuade Congress to assist with a substitute regime;
- (2) Ensure the continuation of essential services to the people of Puerto Rico; and
- (3) Safeguard Puerto Rico’s credit rating.

The Local Control Board acted swiftly by creating and executing a comprehensive fiscal stabilization plan. It executed this plan with transparency to all Puerto Rico stakeholders, including a continuous, open dialogue with labor and private sector leaders as well as bondholders, constant information provided to the Puerto Rico Legislature and local media,

and the creation of a funded program to mitigate the socio-economic effects of the implementation of its mandate. It was a difficult and very unpopular job, not void of controversy, but by 2011 the swift actions of the Local Control Board, the Governor of Puerto Rico and its cabinet members resulted in:

- (1) The fiscal stabilization of Puerto Rico finances, including a double digit reduction in government expenses, two straight years of surpassed government budgeted revenue estimates, the timely delivery of audited financial statements for fiscal years 2010 and 2011, and an unparalleled reduction of the fiscal deficit --- in 22 months Puerto Rico's deficit in comparison to the U.S. states went from the worst (#51) to the middle of the pack (#20)<sup>1</sup>;
- (2) Reestablishing access to the U.S. municipal securities market and obtaining the first credit rating upgrades and the highest investment grade credit ratings in almost three decades; and
- (3) The economic stabilization of Puerto Rico (as evidenced by the Puerto Rico Economic Activity Index) after coordinating the framework and deployment of federal and local stimulus funds, implementing a public private partnership program, enacting a comprehensive tax reform reducing individual and corporate income tax rates, restructuring the local banking sector in coordination with federal authorities, and tapping into new sources of tax revenue without permanently increasing the tax burden on its citizens or on Puerto Rico's local commercial sectors.

The Local Control Board was composed of a team of five cabinet-level officials with ministerial responsibility for fiscal oversight, government funding, government revenue, government expenditures, labor policy and economic development, namely the President of the Government Development Bank (chairman), 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. The Local Control Board's mandate was mostly focused on fiscal matters, although it promoted several economic initiatives and carefully calibrated fiscal measures with the input of an economic council (composed of top private sector economists). The Local Control Board's efforts also had the support of over 30 dedicated professional staff members and a large number of hired contractors with expertise on fiscal restructurings who were physically deployed throughout the principal agencies of the Government of Puerto Rico.

Under a "trust but verify" approach, the Local Control Board representatives worked side by side with all impacted government agencies. The Local Control Board also created a \$1 billion program to mitigate the adverse socio-economic consequences of reducing government employment by providing counseling programs via regional centers,

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<sup>1</sup> Based on data from the Center on Budget and Policy Priorities and the Government Development Bank for Puerto Rico.

temporary health insurance, informational fairs, and grants to promote re-training, furthering educational attainment and entrepreneurialism.

The work of the Local Control Board was comprehensive and effective as documented in the Local Control Board report to the Puerto Rico Legislature dated March 31, 2011 (the report in Spanish is attached to my testimony). The Control Board gave Puerto Rico a centralized implementation and decision-making arm to self-adjust itself out of its pre-2009 fiscal crisis. The Local Control Board's report provides a complete and consolidated account of all the actions taken, and it presented a comprehensive picture of Puerto Rico's overall indebtedness. The Local Control Board found almost \$4 billion of unrecognized and unpaid obligations, accumulated fiscal deficits, loans without sources of repayment and other legal liabilities that had been incurred prior to 2009. All of these issues had contributed to the Puerto Rico fiscal emergency.

The Local Control Board discovered that total Puerto Rico Government indebtedness in December 2008 (before the Local Control Board commenced its work) was \$57.5 billion<sup>2</sup> and not \$53.8 billion. The Local Control Board kept a tight grip on Puerto Rico's debt with a net \$2.7 billion, or 5%, increase from December 2008 to December 2010 (versus the \$33 billion or 135% debt increase from 2000 to 2008), and bonded-out currently-payable obligations to longer maturities at a lower cost via a dedicated and segregated sales tax revenue authority called Puerto Rico Sales Tax Financing Corporation (better known for its Spanish acronym, COFINA). The aggregate amount of extra-constitutional debt obligations contracted prior to 2009 and bonded out by COFINA from 2007 to 2010 was \$9.4 billion.<sup>3</sup>

The Local Control Board had a two-year mandate, which I believe was too short. It had restructuring powers that were conferred by the Puerto Rico Legislature; its work was augmented by the support of the Governor of Puerto Rico and by virtue of the dual roles of its members, who were both cabinet members of the Government of Puerto Rico as well as the members of the Local Control Board. Its principal powers were the ability to:

- (1) Design and implement a multi-year plan to achieve fiscal balance;
- (2) Implement legislated temporary tax revenue measures to deal with the fiscal emergency;
- (3) Cutback on expenditures and implement a multi-step plan to reduce the size of the government's payroll; and
- (4) Execute financial measures to provide the liquidity required to guaranty the essential services to the people of Puerto Rico and to fund the extra-

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<sup>2</sup> See pages 11-12 of the Local Control Board report to the Puerto Rico Legislature and Annex A-4. Total Puerto Rico Government, excluding municipalities.

<sup>3</sup> See Annex A-6 of the Local Control Board report to the Puerto Rico Legislature for details on the use of COFINA bond proceeds.

constitutional debt (i.e. accumulated budgetary deficits, unrecognized indebtedness and unpaid bills) and a transition period to fiscal balance.

The Local Control Board's mandate was limited to Puerto Rico's central government. It did not include the Puerto Rico public corporations. The Local Control Board did not have powers to eliminate or consolidate government agencies or to implement structural economic, labor or tax measures. All of these measures were required to be presented to the Puerto Rico Legislature. The Local Control Board and its members were successful in coordinating efforts with the Puerto Rico Legislature to enact several reforms to promote economic growth or improve the fiscal situation, such as the Puerto Rico public-partnership authority, a permits reform, a tax reform, an excise tax on foreign corporations, and an energy reform. Efforts to enact a labor reform and an overhaul of the government agencies were not successful.

After the Local Control Board disbanded in 2011, the strength of its centralized budgeting, expense control, fiscal oversight and transparency reporting programs as well as its implementation arm disappeared. What happened after the Local Control Board disappeared is painfully known to all of us as we sit here today trying to find constructive solutions for a re-enacted Puerto Rico crisis that could have and should have been averted by the continued service of a control board.

I want to share with you my recommendations based on the lessons learned and the struggles confronted by acting as chairman of the only fiscal control board created in recent Puerto Rico history, in the hope that it will provide insights to this Congress to act decisively and provide Puerto Rico with the necessary tools to bring it back from its decade long recession, and for the benefit of the over 7 million Puerto Ricans that are citizens of the United States of America and represent the second largest Hispanic population in the U.S.

But before I do so, please allow me the opportunity to state, in my opinion, the root cause of Puerto Rico's problems:

- The fiscal and economic troubles of Puerto Rico are due to the implementation of inconsistent local fiscal and economic policies through several decades and exacerbated by the 10-year phase out, beginning in 1996, of Puerto Rico's special fiscal tax regime, which was Section 936 of the U.S. Internal Revenue Code. Section 936 provided tax incentives for manufacturers to locate its operations in Puerto Rico, and was repealed without any substitute economic growth strategy or plan. It was Puerto Rico's main economic engine, fostering a manufacturing sector that represented 50% of Puerto Rico's gross domestic product and generated over \$30 billion in low-cost funding to the local banking system that trickled down to small businesses and consumers
- This loss prompted outsized government overspending and hiring in an unsuccessful and unsustainable effort to revive the economy --- mostly financed in the U.S. municipal capital markets or as part of the accumulated deficits and other debt obligations

without a source of repayment (such as the ones discovered by the Local Control Board); and aggravated by inefficient public corporations and monopolies that became too complex to manage and technologically outdated. Puerto Rico therefore lost its competitive edge and the ability to generate any meaningful new economic activity.

- The end result, almost two decades after, has been the large accumulation of recurring fiscal deficits, over \$70 billion in debt, and an economy incapable of generating jobs that has prompted the recent migration to the U.S. mainland of over 200,000 people who have felt that the “American Dream” is not feasible on the Island. By the time of the full phase-out of Section 936 in 2006, the Puerto Rico economy had already completely decoupled from the U.S. mainland economy, breaking with its historical trend as a regional economy that closely tracked the U.S. Its initial manifestation was a local government shutdown in May 2006, which clearly marked the start of Puerto Rico’s now long-lived economic downturn.
- With no special tax regime and an inefficient utilities offering, Puerto Rico quickly lost its manufacturing economic engine, and what remains today is not even a shadow of what it was, with the added threat that a significant part of the existing manufacturing production base will disappear in coming years as many of its leading products face patent protection expirations.
- Since 1996, the U.S. government quiet response has been the continuous yearly increase of federal transfer payments to individuals furthering the welfare state that creates a disincentive to labor force participation and providing little motivation for national and local private enterprises that cater to consumers funded from the welfare state to put capital at risk for new ventures that could generate economic activity and jobs.
- Puerto Rico is and must be accountable for its shortcomings, but nevertheless concrete action is required from this U.S. Congress to help Puerto Rico find a prosperous path again.

How can Puerto Rico break out of this treacherous, downward spiral and what can this U.S. Congress do to assist?

It is imperative to create a long-term fiscal and economic authority to address holistically and comprehensively all of Puerto Rico’s issues --- fiscal, economic and social, once and for all, in a credible, sensible, consistent and swift manner. The models for such an authority are the experiences learned by the City of New York in 1970s, Washington, D.C. in the 1990s and the Puerto Rico Control Board in 2009 to 2011.

At this stage, in my opinion, the probability of success is only viable with the creation of a federally mandated Puerto Rico Fiscal and Economic Authority (“Authority”), enacted by U.S. Congress but with strong local membership. In other words, Congress should provide the framework and the tools while qualified members of the at-large Puerto Rico

community will be responsible to manage the affairs of the Authority under Congressional oversight and progress reporting to the Puerto Rico Legislature.

The Authority should be composed of five members, including its chairman. The chairman should be a federally appointed, independent, full-time expert in fiscal and economic matters. The Authority should have appropriate, qualified and strong representation from the Government of Puerto Rico, Puerto Rico's organized labor, Puerto Rico's private sector and Puerto Rico's civic/not-for-profit sector. Its five members should be appointed for five-year terms after a vetting process that evaluates their qualifications and expertise to serve in this capacity. The Authority should be allocated with sufficient resources to carry out its purposes, including federal funding to ensure its independence, and provided with technical assistance from the U.S. Treasury department and the I.R.S., among other federal agencies, as well as designated liaisons with the White House and both chambers of U.S. Congress.

The Authority should be provided the powers and tools to:

- (1) Implement structural reforms of the Government of Puerto Rico and its political sub-divisions (currently, over 130 agencies and public corporations and 78 municipalities) with the intent to create a more efficient and agile structure at the service of the people of Puerto Rico, which can be fully supported by the current and recurring financial means of Puerto Rico. This will require a careful review of the essential governmental activities that should be offered by the government versus the ones that should be jointly served via public-private partnerships, privatized or terminated;
- (2) Require the prior approval by the Authority of all governmental budgets, additional indebtedness, capital expenditures, and employment levels;
- (3) Complete overhaul of Puerto Rico's accounting, budgeting, payroll, information and fiscal control systems, and its associated processes;
- (4) Manage the restructuring and re-negotiation process of all of Puerto Rico's obligations under a clear framework established in the Authority's federal enabling act, based on generally accepted public debt restructuring principles, including the following powers, among others:
  - a. The ability to call for a mandatory collective negotiation with all creditors;
  - b. The ability to impose a stay on creditors during the negotiation process while also being able to impose provisions that protect creditors' interests during the stay period;
  - c. The ability to provide liquidity to the Government of Puerto Rico via direct access to a secured line of credit from the U.S. Treasury

Department following similar precedents such as the Tennessee Valley Authority and Bonneville Power Administration, both created by Congressional legislation; and

- d. A provision that binds all creditors upon reaching an agreement with a majority of creditors (i.e. cramdown provision).

There is no “one-size fits all” solution considering that Puerto Rico has roughly 20 issuers with different sources of revenue, debt covenants, priority of payments and bondholder rights and protections. The challenges are compounded by the diversity of creditors that range from sophisticated institutional investors to “mom and pops” who trusted their lifetime savings to the credit worthiness and promises made by the Government of Puerto Rico. The proposed framework should provide a speedy, predictable and orderly process that protects assets, respects creditors’ rights but also recognizes that underlying all the formal debts there are social obligations with respect to pensions, education and health programs, among others. The Authority, as a single point of resolution, should arguably be better equipped by the composition of its governing members to balance these equities than the bankruptcy process or the courts. Nevertheless, the Authority’s effectiveness may be enhanced by providing access via the Authority and as a last resource to Chapter 9 bankruptcy protection for some of the most troubled Puerto Rico public corporations only;

- (5) Design and implement a new economic model for Puerto Rico to create jobs and generate regional economic activity throughout the Island, including recommendations for tax and labor reforms as well as a sustainable fiscal control framework.

Attached to my testimony is a white paper that outlines a one-time, temporary proposed measure to jumpstart the economic recovery of Puerto Rico by permitting U.S. corporations holding funds outside the U.S. to repatriate a limited amount of those funds under the requirement that at least 50% of the repatriated funds be invested in activities that generate economic prosperity and jobs in Puerto Rico, in sectors such as energy, manufacturing, tourism, education, health, and rum production. This proposal should have a minimal or revenue neutral impact to U.S. taxpayers while also achieving the objective of bringing these funds into the U.S.;

- (6) Evaluate the effect of Federal policies and programs on Puerto Rico, such as federal welfare programs, minimum wage, Medicaid, Medicare, Jones Act, etc., and provide recommendations for possible changes; and
- (7) Provide permanent fiscal oversight. The Authority should be a fully functional control board until Puerto Rico achieves a newfound path to prosperity as

defined goals are achieved and shown to be effective. At that point, the Authority would convert to an oversight board.

My last recommendation is for U.S. Congress to immediately confirm the current financial situation and deficit of the Government of Puerto Rico, working through the Congressional Budget Office, and require the Government of Puerto Rico to:

- (1) Issue promptly independent audited financial statements (even if issued with qualified opinion); and
- (2) Provide monthly, publicly available, detailed reports of its revenues, expenses, cash flows, debt, payroll, performance versus budget, level of governmental employment, and key labor and economic indicators.

This will provide essential information for the Authority to commence its work.

One cannot fix, what one cannot measure or monitor.

I thank you for the privilege and honor to address you today. I would gladly answer any questions related to my testimony and offer my pro-bono collaboration for advancing the work of this committee and of this U.S. Congress in delivering practical and urgent relief measures to Puerto Rico.

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#### **Attachments (Reference Materials)**

1. Puerto Rico Fiscal Restructuring and Stability Board Comprehensive Final Report to the Puerto Rico Legislature, dated March 30, 2011 (in Spanish)
2. Annexes to the Puerto Rico Fiscal Restructuring and Stability Board Comprehensive Final Report to the Puerto Rico Legislature, dated March 30, 2011 (in Spanish)
3. Puerto Rico Reconstruction Plan, dated March 5, 2009, as presented to the Puerto Rico Legislature (in English)
4. Puerto Rico Government Progress Report Presentation to the Obama Administration, dated October 23, 2010 (in English)
5. White Paper: "A Proposal to Jumpstart Economic Activity in Puerto Rico with a Minimal to Revenue Neutral Impact to U.S. Taxpayers" by Carlos Garcia, dated January 31, 2016

**“A Proposal to Jumpstart Economic Activity in Puerto Rico  
With a Minimal to Revenue Neutral Impact to U.S. Taxpayers”**

**By Carlos Garcia**

January 31, 2016

**WHITE PAPER**

**Proposal**

U.S. taxpayers would be permitted to repatriate funds regarded as permanently invested outside the United States for financial accounting purposes up to \$40 billion in the aggregate under the conditions that:

- (1) the repatriated funds would be subject to rules generally consistent with the rules of former section 965, which provided an elective, temporary 85-percent dividends-received deduction for certain dividends received by a domestic corporation from foreign controlled corporations, subject to various conditions and limitations; and
- (2) at least one half of the amount of such funds that are repatriated by any taxpayer are invested in assets used (or to be used within five years) in the active conduct of a trade or business carried on by the taxpayer (or an affiliate) in Puerto Rico or invested in activities or financial instruments that create jobs and promote economic activity in Puerto Rico, with priority given to the following:
  - a. Developing energy and infrastructure projects;
  - b. Facilitating the creation and expansion of small and medium-size businesses as well as the export of products and services;
  - c. Furthering education at all levels;
  - d. Conducting scientific and medical research;
  - e. Creating a STEM innovation district;
  - f. Creating a Latin American medical-tourism and veterinary hub;
  - g. Reinvigorating local rum production and other agricultural products; and
  - h. Promoting regional initiatives designed to make Puerto Rico a low-cost tourism alternative by among other means, re-developing the former Roosevelt Roads naval base and the Ramey air base, cleaning the Island of Vieques, etc.

**Other Conditions and Considerations**

As stated above, the repatriated funds would be subject to rules generally consistent with former Internal Revenue Code section 965, enacted in 2004 as part of the American Jobs Creation Act to provide a temporary tax holiday for repatriated corporate earnings. The rules, among other

things, would provide an elective, temporary 85-percent dividends-received deduction for certain dividends received by a domestic corporation from foreign controlled corporations, subject to various conditions and limitations.

Because the aggregate amount of funds that could be repatriated is limited, a taxpayer would file an application with the U.S. Treasury Department, Office of the Fiscal Assistant Secretary, requesting permission to repatriate a specified amount of funds. The maximum amount that could be repatriated by a taxpayer (including all members of its affiliated group) would be \$2 billion. Applications could be filed in the 120-day period following the date of enactment of the statute. If applications were filed for repatriations in excess of \$40 billion, the Office of the Fiscal Assistant Secretary would have the authority to allocate the repatriations based upon criteria it would develop, including the number of jobs to be created in Puerto Rico and the purchases of goods and services in connection with the investment in the active conduct of a trade or business in Puerto Rico. If applications of less than \$40 billion were filed, the Office of the Fiscal Assistant Secretary could extend the 120-day period for applications.

### **Revenue Estimate**

I anticipate that the proposal will have only a minimal to revenue neutral effect on federal income tax revenues, as per the analysis provided below and summarize on the attached table.

As background information, the Chief of Staff of the Joint Committee on Taxation in a letter to Senator Orrin Hatch dated June 6, 2014 estimated that if section 965 were reenacted, based on the \$1.5 trillion estimated amount of “offshore cash,” tax revenues would be reduced by \$95.8 billion for the period 2014 through 2024. The estimate was based on an analysis of the impact of the 2004 enactment of section 965.

The Joint Committee on Taxation noted four major factors at play in this estimate of revenue impact. The first was the loss in revenue associated with dividends that taxpayers would be predicted to repatriate even in the absence of enactment of the proposal. The second factor dealt with the U.S. tax effects associated with taxpayers changing their dividend repatriation amounts and/or timing in response to the proposal. There would be increases or decreases in revenues during the budget period based on whether repatriations were accelerated into the budget period. The third factor reflected the moral hazard problem if taxpayers anticipate that similar legislation may be enacted in the future that would enable them to repatriate dividends at a lower tax cost. The fourth factor was the predicted distribution of the repatriated funds to shareholders in the form of dividends or share repurchases, and the subsequent changes in individual income tax liability.

I would like to address the factors set out by the Joint Committee on Taxation in the context of this proposal. Under this proposal, the assumed repatriated amount would be \$40 billion, which is 2.7% of the \$1.5 trillion estimated “off-shore cash” in the Joint Committee study. A repatriation of \$40 billion would result in an increase in tax receipts of \$2.1 billion (\$40 billion less 85% dividend received deduction on \$40 billion times 35% tax rate) or 5.25% of \$40 billion.

Of that repatriated amount, half (\$20 billion) would have to be invested in Puerto Rico. This \$20 billion results in tax receipts of \$1.05 billion. Addressing the first and second factors in the Joint Committee study, it seems quite likely that that \$20 billion required to be invested in Puerto Rico would not otherwise have been repatriated. Thus, without this repatriation plan, those tax receipts of \$1.05 billion probably would never have been realized.

With respect to the \$20 billion of the \$40 billion that is not required to be invested in Puerto Rico, it may be reasonable to assume that 30% of the \$20 billion (\$6 billion) would have otherwise been repatriated. The maximum revenue loss with respect to such funds would be \$1.785 billion (\$6 billion times 35% tax rate less \$6 billion times the 5.25% tax paid or \$2.1 billion less \$315 million). The increase in federal revenues on the remaining \$14 billion that would not otherwise have been repatriated would be \$735 million.

In these circumstances, the net revenue estimate for the proposal would be zero -- \$1.785 billion (maximum revenue loss on funds that would have been repatriated anyhow) less the sum of \$1.05 billion and \$735 million (revenue on funds that otherwise would not have been repatriated).

With respect to the third factor – moral hazard concern, because the proposal is targeted for very specific investments, it seems unlikely that there would be any moral hazard.

This revenue estimate does not consider fourth factor – the shareholder level effects of repatriation. It seems likely, however, that there would be additional collections of individual taxes from shareholders from the repatriation of funds, thereby further reducing the tax revenue estimate of the proposal.

In fact, given the design of the proposal, the likelihood of providing benefits to otherwise already planned repatriations is modest. As a consequence, there may be minimal revenue losses and perhaps even revenue gains from implementation of the proposal.

### **Economic Impact in Puerto Rico**

Puerto Rico has suffered an economic depression now for over a decade. This proposal would be major step in reversing this decline. Puerto Rico's economy currently lacks funds for investment conducive to the generation of new economic activity and jobs. Upon successful implementation of this proposal, the investment of up to \$20 billion through repatriation would represent in a period of five years a much needed injection of approximately 20% of Puerto Rico's gross domestic product (GDP) or an average of 4% of GDP per year. A more detailed analysis as to the economic impact and number of potential new jobs to be generated from this proposal could be provided upon request.

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**ILLUSTRATIVE TABLE - REVENUE ESTIMATES / IMPACT OF PROPOSAL ON FEDERAL TAX REVENUE**

Assuming no change in law:					
	Amount Repatriated (in billions)	Dividends Received Deduction %	Total Dividends Received Deduction	Tax Rate	Revenue
Amounts Repatriated Without Regard to Proposal	\$6.00	0%	\$0.00	35%	\$2.10
<b>Total Revenue</b>					<b>\$2.10</b> <b>a</b>
Assuming proposal is passed:					
	Amount Repatriated (in billions)	Dividends Received Deduction %	Total Dividends Received Deduction	Tax Rate	Revenue
Amounts Repatriated Without Regard to Proposal	\$6.00	85%	(\$5.10)	35%	\$0.32
Investment in Puerto Rico Business	\$20.00	85%	(\$17.00)	35%	\$1.05
Other Amount Repatriated Not Invested in Puerto Rico	\$14.00	85%	(\$11.90)	35%	\$0.74
<b>Total Revenue</b>					<b>\$2.10</b> <b>b</b>
<b>Total Lost Revenue</b>					<b>\$0.00</b> <b>a-b</b>



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Carlos brings over 20 years of experience in the financial industry, both in the private and public sectors. He has occupied senior leadership positions in the areas of community, commercial and investment banking, securities brokerage, and asset management, as well as with government and regulatory bodies. He has a track record of executing turnarounds and growing businesses. He started his career in investment banking at The First Boston Corporation. He worked for 14 years at Banco Santander, managing a mid-sized bank and as a senior ranking executive and board member of Santander Bank, N.A. (top-25 U.S. bank) and Santander Holdings USA, Inc. He was the former chairman of a \$2 billion multi-fund family and a major public pension fund system. Mr. Garcia was also a former Chairman, President and CEO of the Government Development Bank for PR and of the Puerto Rico Financial Restructuring and Stabilization Board. He graduated with a dual degree from the Wharton School and the College of Arts & Science of the University of Pennsylvania. He is the chairman of Caribbean Financial Group and a member of the board of directors of Professional Holding Corp., Make-A-Wish Foundation of Massachusetts and Rhode Island and the Hyde Square Task Force.

# CARLOS M. GARCIA

*Date of Birth:* June 25, 1971

*Status:* Married

*Children:* Three

## experience

2013-present

**BAYBOSTON MANAGERS LLC**

**NEWTON CENTER, MA**

**Chief Executive Officer, Founder and Managing Partner**

- Sponsor and minority-owned manager of a specialized private equity fund focused in community banks and financial services companies.

2011-2013

**SANTANDER HOLDINGS USA, INC. (SHUSA) and**

**SANTANDER BANK, N.A. (formerly Sovereign Bank, N.A.)**

**BOSTON, MA**

**Board Member and Senior Executive Vice President, Chief of Staff to the CEO**

- Santander Group in the U.S. had over \$120 billion in assets and over 14,000 team members.
- Santander Bank is one of the top 25 U.S. retail banks and top-5 in the New England region.
- Responsible for strategic projects to develop the U.S. franchise (including the rebranding to the Santander brand in 2013).
- Member of the board of Directors of SHUSA and Santander Bank.
- Member of the Executive Committee of Santander U.S. and the Senior Management Executive Committees of SHUSA and Santander Bank.
- Principal point of contact with the Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation.
- Direct areas of responsibility included: Strategy, Mergers and Acquisitions, Communications, Marketing, Public Policy, Public Affairs, Universities Program and Special Projects for the CEO.
- Member of the Board of Directors of the Federal Home Loan Bank in Pittsburgh.

2009-2011

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO (GDB)**

**SAN JUAN, PR**

**Chairman of the Board, President and CEO**

- Named Chairman of the Board, President and CEO of GDB by the elected Governor of Puerto Rico in November 13, 2008.
- Named Public Sector Person of the Year by Caribbean Business in 2009.
- GDB, created in 1945, is the fiscal agent, financial advisor, investor relations' manager and capital markets coordinator of the Government of Puerto Rico, and lender to public and private entities in the Island. GDB had then \$14 billion in assets, \$7 billion in loans and \$2.5 billion in capital.
- Puerto Rico endured then one of the toughest economic situations in the U.S., with the recession starting two years before the U.S. and registering in fiscal year 2009 the worst fiscal deficit of any U.S. state, 43% of revenues. The combination of these circumstances was threatening the loss of Puerto Rico's borderline investment grade credit rating. In addition, the unemployment rate was at 17% with a low labor participation rate.
- In January 2009, the newly elected Governor of Puerto Rico empowered the GDB with the task to design, coordinate and implement a reconstruction plan via several key reforms to change the course of Puerto Rico.
- During these two years the following are some of the highlights of the unparalleled progress achieved in Puerto Rico and my participation in the following additional roles:
  - ***Chairman of the Fiscal Restructuring and Stabilization Board***
    - **Appointed chairman of a special control board created by the State legislature empowered to deal with the fiscal challenges at the time.**
    - Eleven bills were enacted in the first four months of the Administration in 2009 to support the implementation of a reconstruction plan, including the enactment of a Fiscal Emergency Act that created the Fiscal Restructuring and Stabilization Board (FRSB) with the mandate to: (i) achieve fiscal balance and reduce government expenses, (ii) safeguard Puerto Rico's credit rating, and (iii) ensure the continuation of essential services to the citizens of PR.

- The FRSB lowered government-wide expenses in double digits, including a comprehensive expense reduction effort and a downsizing program of government employees in over 70 agencies that provided over \$900 million in expense reduction. This task required extraordinary coordination to mitigate the impact on services to the population and to transition government employees out of the government via a comprehensive assistance program. The FRSB also monitored on-going expenses and controlled the award of government contracts.
- Through the combination of expense reduction, revenue measures and debt restructurings, the deficit of \$3.3 billion or 43% of revenues was significantly reduced in 18 months. The rating agency, Moody's, recognized this unprecedented progress and upgraded the Puerto Rico credit rating to its highest investment grade rating in over 35 years (April 2010), and S&P gave its first credit rating upgrade in 27 years (March 2011).
- ***Coordinator of Government Affairs on Economic and Fiscal Matters between the Government of Puerto Rico and the Federal Government:*** (i) implementation of a holistic and simultaneous plan to rescue the Puerto Rico banking system, successfully executing three FDIC assisted transactions that represented over 30% of the Puerto Rico banking market; and (ii) the allotment of \$6.5 billion in ARRA funds to Puerto Rico and; (iii) the establishment of an excise tax to foreign corporations.
- ***Chairman of the Board of newly created Puerto Rico Public Private Partnership Authority, Chairman of the Board of the Puerto Rico Employers Retirement System, and Member and Policy Coordinator of Tax Reform Committee:*** chaired the implementation of five major infrastructure projects through the public private partnership authority; created a program called "Development for the People" that promoted the creation of self-employment and entrepreneurship in the municipalities that have the highest unemployment rates; and worked on the committee that promoted and got enacted a tax reform that reduced the tax burden of individuals and of taxable corporations, while promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures.

2008

**BANCO SANTANDER PUERTO RICO**

**SAN JUAN, PR**

**President and COO**

2004-2008

**SANTANDER BANCORP, Senior Executive Vice President and COO**

- Responsible for the principal business units in Puerto Rico of Santander Group, including retail/commercial banking, consumer banking, wholesale banking, mortgage banking, insurance, treasury and investments, wealth management and asset management.
- Santander BanCorp is a financial holding company, and was during my tenure a publicly listed company in the New York Stock Exchange (symbol: SBP).
- Banco Santander Puerto Rico was one of the leading financial institutions in Puerto Rico with the second largest branch network and client deposit base.
- Principal duties and responsibilities were: (1) direct supervision responsibility of over 1,500 employees, including eight diverse business units; (2) executed several corporate efficiency and restructuring programs resulting in significant reductions of operating expenses; (3) managed investor relations; (4) responsible for capital management and debt and equity corporate issuances; (5) member of the Latin-American Division commercial banking regional committee of Santander; (6) Chairman of the Board of a mutual fund family composed of over 15 funds and \$3 billion in assets under management; and (7) managed the acquisition of a consumer finance business from Wells Fargo.
- Member of the Board of Directors of Santander Bancorp (NYSE: SBP) (2001-2008); Chairman of the Board of Santander Asset Management (2001-2008), Vice-Chairman of the Board of Santander Securities Corporation (2001-2008), Member of the Board of Directors of the First Puerto Rico family of mutual funds (2001-2008) and Chairman of the Board (2005-2008), Member of the Senior Management Committee of Santander Puerto Rico (2002-2008), and Member of the Board of Directors of Banco Santander Puerto Rico (2004-2008), Santander Insurance Agency (2004-2008), Santander Mortgage Corp (2004-2007) and Santander Financial Services - dba Island Finance (2006-2008).

2002-2004	<b>BANCO SANTANDER PUERTO RICO</b> <b>Executive Vice President</b> , Wholesale Banking	<b>SAN JUAN, PR</b>
1997-2005	<b>SANTANDER SECURITIES CORPORATION</b> <b>President, CEO and Vice Chairman</b> <ul style="list-style-type: none"><li>• Named President and Chief Executive Officer in August 2001.</li><li>• Implemented a business plan that transformed the firm into the second largest wealth and asset management unit in Puerto Rico with exceptional profitability.</li><li>• Managed the acquisition process of the retail brokerage and asset management business of Merrill Lynch in Puerto Rico.</li><li>• Hired in October 1997 to create the Investment Banking Group of the firm, resulting in the successful implementation of this business with a leading market position from 1998 to date. Occupied the positions of Managing Director (2000-01), Senior Vice President and Director of Investment Banking (2001-1997).</li><li>• Structured, advised and/or managed debt, equity and merger and acquisition transactions related to commercial banking, mortgage banking, municipal finance, health-care, hotel and tourism, higher education, manufacturing, insurance, pharmaceuticals and others totaling approximately \$20 billion, including acting as one of the principal bankers of the Government of Puerto Rico.</li></ul>	<b>SAN JUAN, PR</b>
1996-1997	<b>POPULAR SECURITIES, INC.</b> (a subsidiary of Popular Inc, and formerly Credit Suisse First Boston Puerto Rico) <b>Vice President</b> , Investment Banking Group <ul style="list-style-type: none"><li>• Completed a variety of investment banking transactions totaling over \$5 billion.</li></ul>	<b>SAN JUAN, PR</b>
1995-1996	<b>Associate</b> , Investment Banking Group <ul style="list-style-type: none"><li>• Acted as manager and one of the principal bankers of the Government of Puerto Rico and several of its agencies in the issuance of over \$3 billion of tax-exempt debt.</li><li>• Obtained a diverse investment banking exposure, which included the participation in the execution of transactions in the following areas: municipal, mortgage, corporate and asset finance, health-care, real estate, tourism, derivative products, privatizations and mergers and acquisitions.</li></ul>	
1993-1995	<b>CREDIT SUISSE FIRST BOSTON</b> <b>Analyst</b> , Investment Banking Group	<b>SAN JUAN, PR / NEW YORK, NY</b>
Summer 1990, 91 & 92	<b>BANCO POPULAR DE PUERTO RICO</b> (a subsidiary of Popular Inc.) <b>Summer Trainee</b> , Credit Administration, Corporate Banking & Strategic Planning	<b>SAN JUAN, PR</b>
<b>education</b> 1989-1993	<b>UNIVERSITY OF PENNSYLVANIA - Dual Degree Program</b> <b>The Wharton School</b> , Bachelor of Science in Economics (Management). <b>The College of Arts &amp; Sciences</b> , Bachelor of Arts & Sciences degree (Comparative Literature). <ul style="list-style-type: none"><li>• <i>All Ivy League Academic Honors.</i></li><li>• Men's Varsity Division I NCAA Tennis Team: <i>Captain</i>, Julius Axelrod Sportsmanship Award, Most Improved Player and Freshman of the Year.</li><li>• Honor thesis on Federico García Lorca's posthumous publication, <u>Sonetos del amor oscuro</u>.</li></ul>	<b>PHILADELPHIA, PA</b>
<b>personal</b>	Excellent communication skills in Spanish and English. Chairman of the Board of Caribbean Financial Group. Current Member of the Board of Directors of Professional Holding Corp., Make-A-Wish Foundation of Massachusetts and Rhode Island and the Hyde Square Task Force. Former Member of the Board of Directors of the Puerto Rico Chapter of Make-A-Wish Foundation for 5 years. Member of the Young Presidents Organization (YPO) since 2003. Former registered representative and securities principal of FINRA (Series 7, 24 and 53) until 2008. Former U.S. national top ranked junior tennis player and Division I NCAA Player. Completed thirteen 42k marathons, including the major marathons of Boston, Berlin, London, New York City, and Chicago with personal best times in eight marathons.	