

Section 209 Requirements for Termination of the Oversight Board

October 30, 2020



PROMESA Section 209 – Termination of the Oversight Board

An Oversight Board shall terminate upon certification by the Oversight Board that--

- (1) the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and
- (2) for at least 4 consecutive fiscal years--
 - (A) the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and
 - (B) the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.

PROMESA Section 209 – First Requirement

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How to achieve adequate access to credit markets at reasonable interest rates

Two key things must be accomplished to meet this criteria



How to Achieve Timely Financial Reporting

Required steps	Description	Current Status
Timeline and action plan	<ul style="list-style-type: none"> • Provide detailed timeline and implementation plan for issuance financial statements 	
Financial reporting division	<ul style="list-style-type: none"> • Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units 	
Multiyear master audit contract	<ul style="list-style-type: none"> • Secure multi-year contracts with auditors and other essential contractors in conformance with best practices 	
Implement monthly closing procedures	<ul style="list-style-type: none"> • Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings) • Medium-term: Implement ERP system (quarterly closing procedure) • Longer-term: ERP system fully implemented (monthly closing procedures) 	
Strict monitoring and publish delays	<ul style="list-style-type: none"> • Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays 	

PROMESA Section 209 – Second Requirement

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Transitioning to modified accrual budgeting is valuable

Since 1975, New York City has managed its budget (\$89 billion in FY21) on a modified accrual basis¹

- Cash accounting recognizes budgetary expenditures **only when bills are paid**
 - Allows governments to commit to spending but to declare budgets balanced by deferring cash outflows until checks are paid
- Modified accrual accounting method is **more conservative**
 - Requires recognition of revenues when measurable and promised payments when liabilities are incurred
 - Already used for budgeting by some municipalities, including New York City after its near-bankruptcy in 1975
- **Already recommended by the Governmental Accounting Standards Board** for municipal financial statements, including comprehensive annual financial reports
- Adoption of modified accrual for budgets **would eliminate many one-time maneuvers** and lead to genuinely balanced budgets

¹ Except for the application of Statement No. 49 of the Government Accounting Standards Board (GASB 49), which prescribes the accounting treatment of pollution remediation costs

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Requirements for the formulation of a budget in accordance with modified accrual accounting standards

Topic	Requirement
Accrual budget	<ul style="list-style-type: none"> Establishment of budget on accrual basis, not cash basis
Revenue/Expenses	<ul style="list-style-type: none"> Changes in revenues/expenditures should be monitored against the forecast during course of year making necessary adjustments
Payroll Systems	<ul style="list-style-type: none"> 5 different payroll systems must be integrated into central accounting and budget systems, improving ability to control and limit personnel spending
Accounts Payable	<ul style="list-style-type: none"> Maintain an accounts payable ledger
Purchase Orders	<ul style="list-style-type: none"> Registration of purchase orders, professional serviced contracts, prior to service being supplied
Other Funds	<ul style="list-style-type: none"> Funding sources outside of the General Fund must be budgeted/evaluated by OMB and Legislature, especially those that are comingled in TSA

Solutions to developing Budgets in accordance with modified accrual accounting standards

Required Step	Solution	Current Status
Accrual Budgeting	<ul style="list-style-type: none"> • Adopt policies and train employees to book budget and book expenses • Adjusting entries are communicated and coordinated across agencies • Accruals and interagency reconciliations automated 	
Revenue/Expenses	<ul style="list-style-type: none"> • Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes • Detailed resolution certifications and expense system registration 	
Payroll Systems	<ul style="list-style-type: none"> • Appropriations for termination of payroll accruals • Integrate systemwide payroll system into a financial reporting system 	
Accounts Payable	<ul style="list-style-type: none"> • Maintain government wide monthly accounts payable procedures • Automate process and journal entries 	
Purchase Orders	<ul style="list-style-type: none"> • Book encumbrances for entire year when contract is approved • Multi-year contract encumbered at the beginning of subsequent years 	
Other Funds	<ul style="list-style-type: none"> • Eliminate as many special revenue funds as possible; better maintained through annual General Fund appropriation procedures • Track and record all expenses and standardize chart of accounts 	

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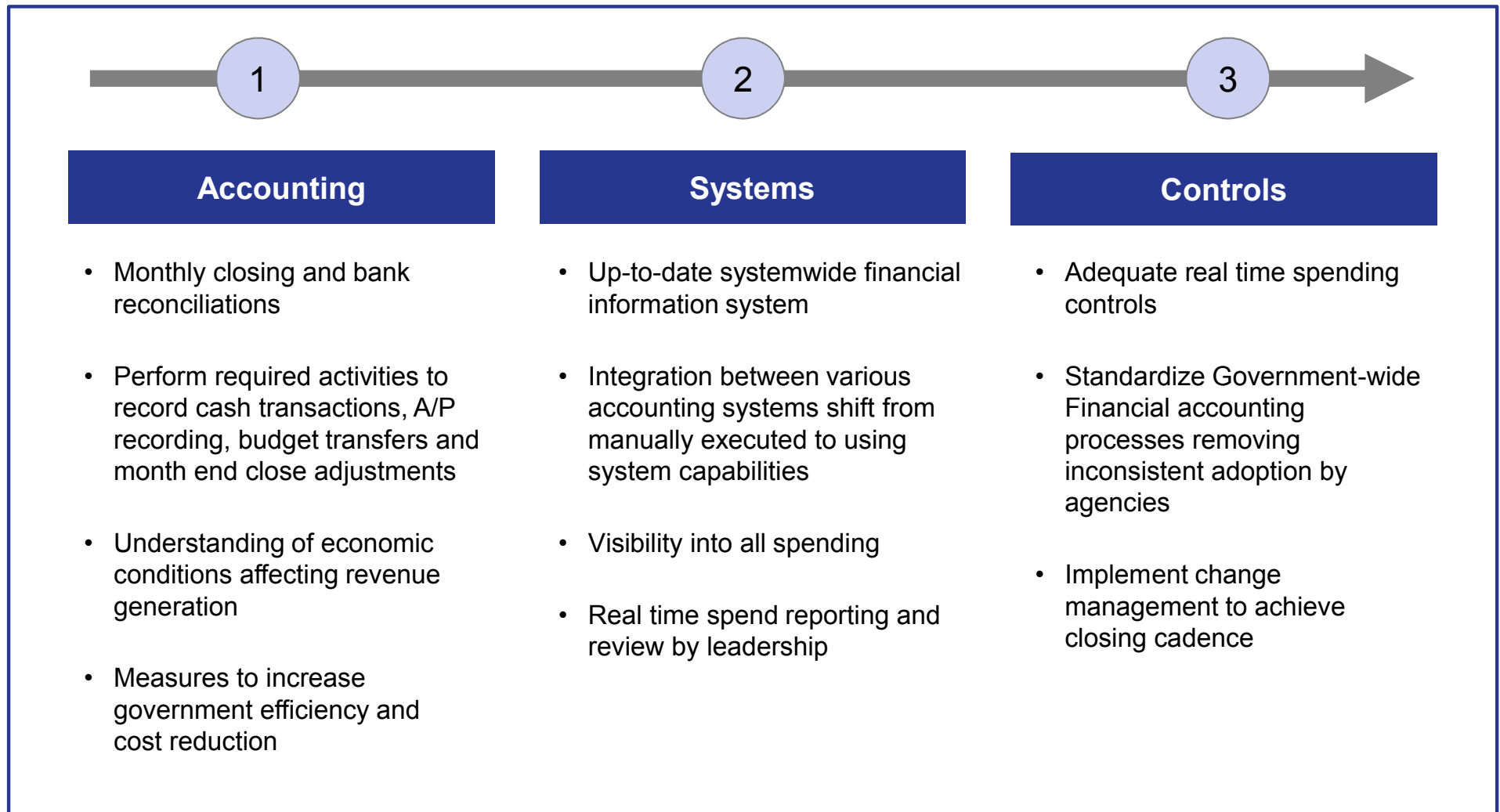
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Implementing a balanced budget in accordance with modified accrual accounting standards has three critical features



Path toward implementing a balanced budget

Topic	Solution	Current Status
Payroll spending	<ul style="list-style-type: none"> • Connect time and expense to payroll systems 	
Closing of books	<ul style="list-style-type: none"> • Reconcile bank balances and monies held outside of the TSA • Issue consistent systemwide guidance 	
Real time spending reports	<ul style="list-style-type: none"> • Perform quarterly budget to actual review by senior leadership • Issue public reporting and strategic guidance to stay within means 	
Visibility into all funds	<ul style="list-style-type: none"> • Gain visibility into special revenue funds and federal funds • Require reporting and sweep back unused general fund appropriations 	
Financial accounting systems	<ul style="list-style-type: none"> • Integrate financial systems • Ensure reporting is consistent across all agencies 	

A legislatively established, centralized Office of the CFO would improve market confidence and fiscal controls

Key responsibility	Mechanism
Fiscal policy and financial budgets	<ul style="list-style-type: none"> • Prepare and control the execution of the financial plan and budget for the government • Prepare budgets in accordance with the revenue estimates prepared by the FOMB, and be prepared to lead that process once the FOMB is dissolved • Assure all financial information presented by the Governor is consistent • Establish a basis for preparing and supporting agency budget requests
Accounting and Audit	<ul style="list-style-type: none"> • Govern all accounting policies • Implement procedures, programs, systems and personnel policies to ensure budget, accounting, and personnel control systems are synchronized for budgeting and control purposes on continuing basis • Maintain systems of accounting and internal controls designed to disclose financial resources and impacts to Commonwealth providing adequate financial information and reliable accounting results • Prepare annual financial statements including addl annual, quarterly and/or monthly financial reports • Perform internal audits of accounts and operations
Treasury, Tax & Collections	<ul style="list-style-type: none"> • Maintain custody of all public funds, investments, and cash • Administer and enforce Puerto Rico's tax law; levy and collect all taxes • Certify and approve all contracts, bills, invoices, payrolls, and other evidences of claims • Supervise all cash management programs are used to invest surplus cash • Facilitate long-term and short-term borrowing programs
IT, HR, Procurement, & Capital Assets	<ul style="list-style-type: none"> • Centralized procurement of real estate, asset acquisitions, technology acquisition, and other mission-support services across the Government • Provide financial oversight to all government agency payroll and personnel related compensation matters as well as administers/oversees all retirement systems



Contract Review Policy

Proposed amendment
October 30th , 2020

Contract Review: Section 204(b)

- Requires prior FOMB approval of certain contracts to assure that they “promote market competition” and “are not inconsistent with the approved fiscal plan.”
- This Policy also underlines the sense of Congress as provided in Section 204(b)(3) that any policy under Section 204(b)(2) should be designed “to make the government contracting process more effective” and “to increase the public’s faith in this process.”
- Currently, FOMB requires contract approval for:
 - All contracts of \$10M or more at all entities with the exception of UPR
 - All contracts of \$2M or more at UPR
 - Any series of related contracts that aggregate \$10M or more
 - On an exceptional basis, FOMB may require any contracts for review and approval regardless of their value

Need for policy amendment

- Original FOMB 7 business day review period is extremely challenging given the number of contracts received, their complexity and the in-depth analysis required by the complexity of many of the contracts.
- Contracting entities often not delivering contracts and related documentation on a timely basis, therefore a specific delivery time period is established for the submission of documentation prior to execution.
- Contracting entities often submitting contracts for review within a week or less prior to the end of the Fiscal Year/period.
- Need to incorporate more clear parameters for evaluating market competition and transparency elements by analyzing certain procurement processes.

Changes to Policy

Current Policy	Proposed Changes
Timelines	
<ul style="list-style-type: none"> 7 business days for review 	<ul style="list-style-type: none"> 12 business days for review
<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Government must submit new contracts 15 business days prior to date of execution.
<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Recurring amendments must be submitted 30 calendar days prior to execution.
<ul style="list-style-type: none"> Review timeframe pauses if documentation is incomplete 	<ul style="list-style-type: none"> Review period begins upon receipt of all required documentation.
Scope	
<ul style="list-style-type: none"> N/A (Policy makes no mention of purchase orders). 	<ul style="list-style-type: none"> Expressly states that Purchase orders with a value of \$10M or more will be reviewed before execution.
<ul style="list-style-type: none"> Market competition as evaluation element mentioned but process not described 	<ul style="list-style-type: none"> To promote market competition, the FOMB may require access to ongoing procurement processes and all pertinent documentation. FOMB shall issue comments and recommendations within 12 business days upon receipt of requested information.

Changes to Policy

Contract Review Policy

Budget Certification	
<ul style="list-style-type: none"> Budget Certification Requested 	<ul style="list-style-type: none"> Require Updated Fund Availability Certification for all accounts. Certifications must take into account encumbrances as of the date of document submission.
Contractor Certification	
<ul style="list-style-type: none"> Currently, Contractor certification required for identification of subcontractors and disclosure of any third party interests. 	<ul style="list-style-type: none"> The Contractor's Certification will now require the Chief Executive Officer to provide a breakdown of the amount payable to each subcontractor. All Information will be provided under penalty of perjury. Any false statements, misrepresentations, or omissions will result in the nullification of the contract. The Contract Review policy will now expressly require that all proposed contracts include language consistent with the Contractor Certification.

FOMB Internal Contracts



New Contract

Vendor: MS Consulting

Background: On September 30th, 2020, the Oversight Board publicly disclosed that for the past 13 years, PRDE had been paying employees and former employees for work not done, costs identified as ~76M. The Oversight Board and the Government of Puerto Rico are collaborating to ensure that only people who work get paid. Currently, the Kronos system is partially implemented at PRDE – the project lead by MS consulting will result in the full implementation of payroll discounts attached to time and attendance.

Scope: Project manager and on-the ground sponsor that will ensure milestones are met by the appropriate timeline, obtain all necessary data from PRDE on a timely basis, assess and finalize system interfaces, and prepare weekly updates for FOMB, among others.

Key Deliverables:

1. Prepare GANTT chart with all milestones and establish due dates to achieve full implementation by December 15, 2020, monitor compliance
2. Monitor full implementation of policies, procedures, and internal controls throughout PRDE based on UHY recommendations
3. Ensure interfaces are complete and make any necessary changes
4. Follow-up and review results and claims from Testing to go live stages, as well as STAFF RHUM
5. Identify possible incidents in test and live environments

Dates of engagement: November 1st to February 15th, 2020

Total Contract Amount: \$123,500

PRDE Payroll Discounts Project

Tasks	Dates		November				December				January				February				
			1-7	8-14	15-21	22-28	29-5	6-12	13-19	20-26	27-2	3-9	10-16	17-23	24-30	1 - 5	8-12	15-19	22-26
	From	To																	
Phase 1																			
Plan & Organization																			
Meet with PRDE Designated Sponsors	4-Nov	4-Nov																	
PRDE Secretary																			
HR Director																			
TAL Director																			
Kick Off Meeting (HR, TAL, Regions, Secretary)	6-Nov	6-Nov																	
Sponsors																			
TAL Employees																			
Regional Directors																			
Data Gathering	4-Nov	18-Nov																	
Identify Key Processess																			
Review Time & Attendance Policy / Remote attendance																			
TAL Interviews																			
Interview NH, Transfer, Termination activities & Transactions																			
Interview HR Labor Relations																			
Attendance Data Collection																			
Collect data on TNR																			
Full Cycle Payroll Reliability																			
Confirm Supervisor Head Count																			
Meet with Providers (Interboro, Rock Solid, etc.)																			
Interfaces																			
Functions																			
Controls																			
Data Analysis																			
Evaluate data & design changes	16-Nov	25-Nov																	
Prepare Report																			
Present analysis & recommendations	27-Nov																		



PRDE Payroll Discounts Project

Phase 2																			
New Processess Implementation	30-Nov	18-Dec																	
Claim & Others (TAL & HR)																			
Communication Plan																			
Functionalities Development																			
Training																			
Testing	1-Dec	15-Dec																	
Semi-Monthly Courtesy Communication	1-Nov	15-Dec																	
Beginning period of attendance registration for Discount	15-Dec	31-Dec																	
Supervisors attendance review and adjustments	4-Jan	8-Jan																	
Payroll Process (Go Live)	11-Jan	13-Jan																	
Direct Deposit	13-Jan																		
First Payroll discount Pay Day	15-Jan																		
Second period of attendance registration for discount	1-Jan	15-Jan																	
Claim Evaluation from last payroll	18-Jan	22-Jan																	
Supervisors attendance review and adjustments	18-Jan	22-Jan																	
Payroll Process	25-Jan	27-Jan																	
Direct Deposit	27-Jan																		
Second Payroll discount Pay Day	29-Jan																		
Third period of attendance registration for discount	16-Jan	31-Jan																	
Claim Evaluation from last payroll	1-Feb	5-Feb																	
Supervisors attendance review and adjustments	1-Feb	5-Feb																	
Payroll Process	8-Feb	10-Feb																	
Direct Deposit	10-Feb																		
Third Payroll discount Pay Day	15-Feb																		



Reapportionments Requests Oct 2020

Discussion Document



Reapportionments Requests - Oct 2020

Request PP Number	Entity	Resolution	Approved Amount	Request Description
15229	Puerto Rico Department of State	Approved	\$ 272,000	Prior year fund release and SRF increase to cover for Early Retirement Payments.
7018	Appropriations under the Custody of Treasury	Approved	\$ 30,000,000	Create account and SRF increase to recognize expenditures for centralized banking services and internal revenue stamp and voucher digital platform.
8555	Department of Natural and Environmental Resources	Approved	\$ 9,757,000	Fund release and budget increase of \$9.7M to address any emergency that might arise during the course of the year.
14541	Puerto Rico Department of Justice	Denied	\$ 137,000	SRF increase to recognize income from settlements related to medicaid fraud. Funds will be used to cover expenses of the Medicaid Fraud Control Unit. Deny request as DOJ is not authorized to spend these funds. Funds must be deposited
0003M	Department of Health	Partially Approved	\$ 108,817,000	Approve partial amount to cover the costs associated to the MCO Contracts for the provision of Physical Health and Behavioral Health Services under the Government Health Plan for the Commonwealth of Puerto Rico
1624	Department of Health	Approved	\$ 123,000	Approve full amount to extend the account in order for the Bayamon University Hospital to use the funds for its operations.
8539	Department of Health	Approved	\$ 8,000	Approve full amount in order for the program to continue administering drug tests
15254	Puerto Rico Office of Human Resources Management and Transformation	Partially Approved	\$ 43,600	Approve partial amount for the services that have been encumbered at the end of FY20. Agency only provided evidence of use of funds for 43.6k, not \$46k.
10579	Department of Correction and Rehabilitation	Approved	\$ 244,000	Approve full amount to pay for services provided by the juvenile population through the business program.
15944	Puerto Rico Infrastructure Financing Authority	Approved	\$ 148,000	Approve full amount to cover prior year debts per court agreement.
16417	Puerto Rico Police Department	Approved	\$ 1,355,000	Approve full amount to remit payments corresponding to the purchase of police
17606	Puerto Rico Infrastructure Financing Authority	Approved	\$ 375,000	Approve full amount to cover prior year debts per court agreement.
10582	Department of Correction and Rehabilitation	Approved	\$ 49,000	Approve full amount for work that was delayed and completed at the end of FY20
10583	Department of Correction and Rehabilitation	Approved	\$ 48,000	Approve full amount for the final retained payment to replace 4 elevators
16088	Puerto Rico Traffic Safety Commission	Denied	\$ -	Fund extension of \$3,124.00 to pay for computer equipment. Request was denied as equipment was received 60 days subsequent to the close of FY20.
7513	Puerto Rico Traffic Safety Commission	Denied	\$ -	Funds for salary of 2 trust positions with the right to reinstatement and increase in medical plan and other benefits. Request was denied as it is not aligned with the certified fiscal plan and \$125 healthcare insurance cap.
8590	Department of Health	Approved	\$ 1,838,000	Approve full amount to extend account until June 30, 2021. Funds to be used for purchase of equipment, office materials, professional services and the payment of leased vehicles. Funds received from insurance claims due to Hurricane Maria.

Reapportionments Requests - Oct 2020

Request PP Number	Entity	Resolution	Approved Amount	Request Description
17226	Puerto Rico Department of State	Approved	\$ 130,000	Approve full amount to cover Facilities, Utility Payments and Professional
17219	Puerto Rico Department of State	Approved	\$ 144,000	Approve full amount from Maintenance and Repairs to cover pay for the increase in insurance premiums.
8179	Family and Children Administration	Approved	\$ 2,800	Approve extension of account in which social security payments are deposited. Agency acts as a custodian of minors.
17242	Retirement Board of the Government of Puerto Rico	Approved	\$ 148,000	Approve full amount to cover Telephone and Internet Services.
23922	Administration for Socioeconomic Development of the Family	Denied	\$ -	Reapportionment was submitted late. Agency requested to use funds from FY20 to pay for prior year debt. Request was denied, agency needs to identify funds within its FY21 budget to pay for prior year invoices. Also, invoices corresponding to FY14 thru FY16 cannot be paid due to the stipulations of Title III of PROMESA.
17632	State Elections Commission	Approved	\$ 776,000	Approve full amount (20% in Federal fund matching) as required for the Help America Vote Act (HAVA) CARES Act funds.
17665	State Elections Commission	Partially Approved	\$ 2,534,000	Approve partial ammount based on evidence provided. Interagency transfer from Unallocated CAPEX Under the Custody of OMB (\$2.932m) as incremental
17695	Puerto Rico Department of Natural and Environmental Resources	Approved	\$ 639,000	Approve full amount requested for the rental of power generators for the flood control pump stations located in San Juan, Cataño, Guaynabo and Salinas until December 31, 2020.
17585	Puerto Rico Department of Agriculture	Approved	\$ 2,000,000	Approve full amount to pay down outstanding debt to milk processing plants established by court sentence 04-cv-01840-DRD.
17162	Office of Socio-Economic and Community Development	Approved	\$ 1,671,000	Approve full amount to execute improvements to urban and rural zones, housing improvements, and other construction work.
17163	Office of Socio-Economic and Community Development	Approved	\$ 2,971,000	Approve full amount to the Municipal Improvements Fund to execute improvements to urban and rural zones, housing improvements, and other
14374	State Historic Preservation Office of Puerto Rico	Approved	\$ 162,000	Approve full amount to continue the repairment phase of the "Green Roof" in Cuartel Ballaja for damages incurred after Hurricane Maria.
17831	Puerto Rico Department of State	Approved	\$ 33,000	Approve full amount for the matching requirement by FEMA for claims on damages caused by the Hurricane Maria in the department's buildings.
17287	Puerto Rico Department of State	Approved	\$ 50,000	Approve full amount to deposit funds received from 15 postsecondary schools and pay the full cost of membership fee.
17285	Fine Arts Center Corporation	Approved	\$ 246,000	Approve full amount to cover FY19 external audit and the replacement of two
8168	Family and Children Administration	Approved	\$ 99,600	Approve full amount to remit payments to minors and elderly adults in ADFAN's custody of social security checks deposits.
17023	Fiscal Agency & Financial Advisory Authority	Approved	\$ 10,900,000	Approve full amount to properly recognize the fund's July disbursements as FY20
Total			34	

Carolina 207 Request Overview



Carolina 207 debt request is similar to many 207 requests, however, Carolina is taking on new debt vs refinancing existing debt

Comparison of Typical vs Carolina 207 Request

207 Key Considerations	Typical 207 description	Carolina 207 description
Request type	Existing debt balloon payment refinancing	Issuance of new debt for the construction of a municipal medical office building and municipal parking lot
Note type	Municipal General Obligation Note	\$7,050,000 Municipal General Obligation Note
Amortization period	Amortized over a period of 15 years	Amortized over a period of 20 years
Note Term	7 year loan , with annual principal payments and a lump-sum payment due at the end of the loan term	7 year loan , with annual principal payments and a lump-sum payment of \$5,405,000 due July 1, 2027
Interest rate	Rates vary across municipalities, average rate is variable prime interest rate plus 3% payable on a semiannual basis	Fixed rate of 6.50% payable on a semiannual basis
Source of repayment	Payable from Special Additional Tax (“CAE”) deposited in the Redemption Fund, backed up by other revenues including income from the Basic Tax	Payable from Special Additional Tax (“CAE”) deposited in the Municipal Redemption Fund and as otherwise established under Act 64 (Municipal Financing Code)
Fees	Majority of 207 requests include an AAFAF financial consulting fee and legal fees	Note to include financing costs of \$50,000 (AAFAF financial advisory and fiscal agency fees of \$25,550 + legal expenses of approximately \$24,450)

- Carolina 207 **requests authorization to reapportion \$4 million from the surpluses of various loans** with different creditors for the construction of a municipal medical office building and municipal parking lot

Analysis of Carolina sources and uses confirms funds are available

- Most 207 funds involve existing loan **balloon payment refinancing** and some include an initial up-front payment towards the outstanding principal balance.
- However, the **Carolina 207 includes funds from new debt issuance, an up-front cash payment and reapportionment of existing loans that have not been fully utilized**, to finance the project

Source of Funds

Municipal General Fund Contribution	\$4,440,000
Reapportioned Surplus Loans	4,029,000
The Note payable from the income of the Special Additional Tax ("CAE")	7,050,000
Total Source of Funds	\$15,519,000

Fund Considerations

- **Municipal General Fund Contribution** – Analysis confirms the Carolina Department of Finance certification dated September 2, 2020 that Carolina had set aside in the General Fund and/or Special Municipal Funds the amount for the construction project
- **Reapportioned Surplus Loans** – Analysis confirms the Carolina Department of Finance certification dated September 2, 2020 that the surplus of funds is correct, and reserved the funds to fulfill this responsibility.

Use of Funds

Construction Cost	\$10,900,000
Reserve for Change of Order	2,405,000
Inspection and Supervision Cost	1,400,000
Design Costs	764,000
Issuance Costs	50,000
Total Use of Funds	\$15,519,000

Approval

- **July 31, 2020** - Banco Popular approved providing the Note to the Municipality of Carolina for the amount of \$7,050,000
- **September 28, 2020** - AAFAP authorized Carolina to issue the Note
- **September 29, 2020** - AAFAP affirmed its approval of the Debt Transaction and requested Oversight Board approval
- **October 30, 2020** – Tentative FOMB Board of Directors approval date

Carolina analysis supports stable financial condition & ability to manage requested \$7m debt increase

Approval Considerations		Description
Approval Process	Financial Condition	<ul style="list-style-type: none"> Review general fund income and expense statements for historical fiscal years Confirm total revenues of the Municipality have been sufficient to cover the total expenses Confirm the Municipality has maintained a positive Fund Balance
	Repayment Capacity	<ul style="list-style-type: none"> Analysis on the capacity of repayment is based on FY20 cash flow revenues and current financed debt Analysis considers current and requested financing Analysis is executed for the term of the loan (7 years)

Financial Condition

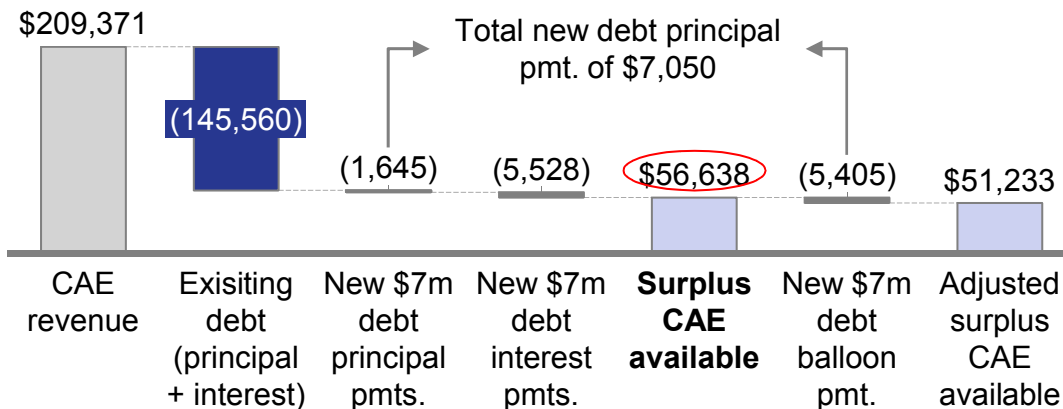
	2016-2017	2017-2018	2018-2019
Income	\$120,065,384	\$128,482,217	\$116,346,204
Expenses	(120,832,749)	(125,975,533)	(109,590,777)
Net Income / Loss	(\$767,365)	\$2,506,684	\$6,755,427
Fund Balance	\$10,945,350	\$13,117,572	\$12,568,943

Total revenues of the Municipality have been **sufficient to cover the total expenses** in the last two fiscal years

The Municipality has maintained a **positive fund balance**

Analysis of financials support additional debt

Projected 7 Year Repayment Capacity FY21-FY27 (\$ in 000's)



Carolina has demonstrated the **ability to meet the debt service through the CAE Cash Flow Revenues** over a projected 7 year period of the new debt

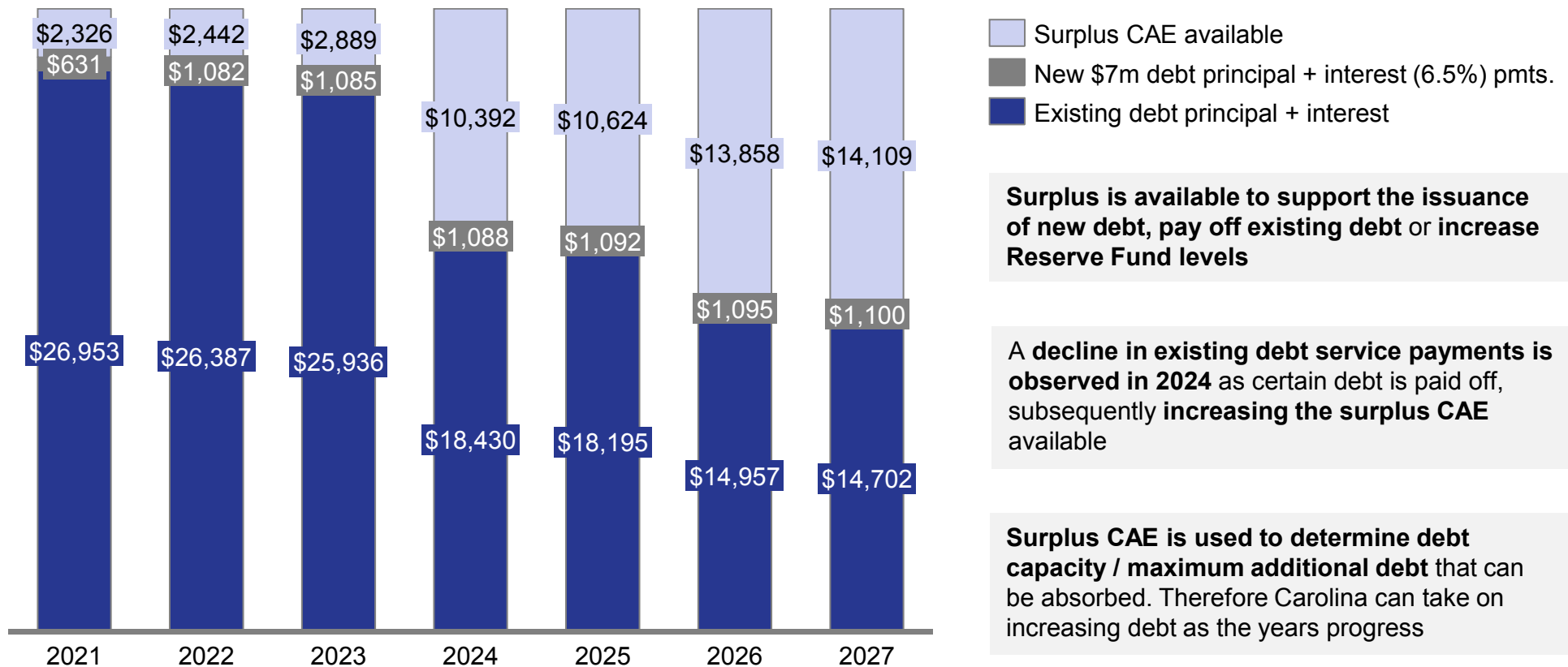
The **surplus CAE calculated is excess CAE available** after considering the newly requested debt and existing debt using CAE as the payment source

Carolina has the repayment capacity necessary to meet the current and additional debt

After approval of \$7m debt request, Carolina maintains a CAE surplus, which supports additional debt servicing if required

- The repayment capacity analysis uses a CAE revenue of \$29,910,143 (note: CRIM FP projects FY20 CAE cash flow of \$36,679,000)
- The analysis incorporates annual P&I payments, excluding future balloon payments which are assumed to be refinanced

Annual Repayment Capacity FY21-FY27 (\$ in 000's)



Carolina debt capacity increases over the projected 7 year period as existing debt is paid off

Act 154-2010 Tax Overview & Considerations

October 30, 2020



Act 154-2010 Tax Background

Structure

- **Passed in 2010 as a tax** on sales of tangible personal property manufactured in Puerto Rico or services performed to affiliate (effectively connected) businesses exceeding \$75 mm
- **Tax is paid by affiliate/parent company. Does not impose tax on local Puerto Rico affiliate**, which have tax exemption agreements that provide a low fixed tax rate on PR-source income and relief from property and excise taxes
- U.S. Treasury officials have encouraged PR to **transition away from the tax multiple times**, most recently when Secretary Mnuchin met with Governor Vázquez last September

Rate

- **4% excise tax until 2027** (originally going to phase out by 2016 but rate extended several times)
- Once fixed 4% excise tax expires, law **transitions to a modified source income rule**
- Local affiliates pay **4% (or less) Corporate Income Tax** because of individual tax agreements

Collections

- **~\$1.8 bn (~20%)** of General Fund revenues in FY20
- **~38 companies** pay the tax to their local affiliate; mostly large pharma, MedTech, and software
- Top 10 filers **pay 90% of the tax**

IRS Guidance

- **In March 2011, IRS issued guidance¹** saying tax was 'novel' and amounts paid would be creditable until 'legal and factual issues' were resolved, however legal and regulatory obstacles remain

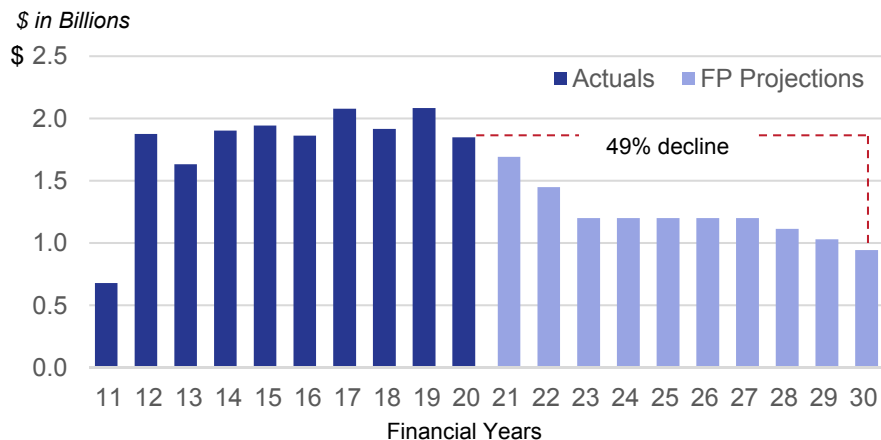
Recent Events

- **Tax Cut and Jobs Act (TCJA)**
- **U.S. Treasury Digital Services Tax** proposed regulation

¹ Notice 2011-29

Fiscal Plan forecasting of Act 154-2010

Historical and Projected Act 154-2010 Collections

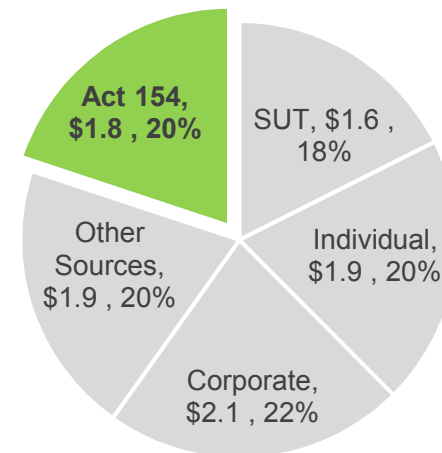


- FY20 collections were **~\$1.8 bn, or ~20%, of total GF**
- The 2020 **Fiscal Plan estimates revenue collections** from Act 154 filers fall by \$904 mm, or 49% by FY30
- **Forecast based on a number of factors**, including:
 - Discussions with contributors to the tax base
 - Potential reductions from the loss of creditability
 - TCJA's provisions around GILTI creditability
 - Shift in supply chains following the hurricanes
 - Patent expirations
 - Transition to modified source income rule

Impact of Act 154-2010 Revenue

\$ in Billions

General Fund Revenues



- Act 154 collections are **one of the largest GF revenues**
- **Filers also pay other taxes:** non-resident withholding taxes, corporate income taxes, personal income taxes (employees), sales and use taxes, and a number of other excise taxes
- Act 154 filers enable over **78,000 direct/indirect jobs¹**
- Any reform must be implemented **in a careful and thoughtful fashion**

¹ Letter from Secretary Parés to U.S. Treasury, dated September 30, 2020

Replacement of Act 154 is complex due to individual tax obligations negotiated with each of the filers and the large amount of revenue the tax raises

Complexities of Act 154

1. **Corporate tax structures are not uniform**; differs across companies in an opaque manner
 - Specific business deductions/incentives
 - Pharma vs. manufacturing vs. software
2. **Each participant is material** to the \$1.8 bn in total tax revenue collected
3. U.S. foreign tax creditability for Act 154 and some replacement taxes is **limited and uncertain**
4. **Legally binding consent decrees** grant low corporate income tax to local affiliates
5. Companies would have to **voluntarily agree to a tax increase** that violates their decrees
6. **Change should be statutory with legislature approval**, not by executive order / regulation



Core Principles for Reform

- **Include a transition period**
- **Offer stability and collaboration**
- **Replace lost revenues**
- **Promote economic development, including retaining and growing manufacturing**

Tax Cuts and Jobs Act (TCJA) and Global Intangible Low Taxed Income (GILTI)

Before TCJA

- Federal government passed tax reform legislation in 2017, amending global tax system
- U.S. companies with subsidiaries operating in Puerto Rico **enjoyed a tax advantage** over U.S. domestic operations and over subsidiaries operating in other countries due to:
 - Deferral of U.S. tax until profits repatriated (i.e. dividends paid to parent)
 - Low Puerto Rican tax due to negotiated CIT payments in exchange for creditable Act 154 4% excise tax payments
- Local affiliates file in Puerto Rico tax system
- For Act 154 filers, **U.S. affiliate companies paid 4% tax on covered sale** and claimed a foreign tax credit on U.S. income tax return



How TCJA Changed U.S. Tax on Income from Puerto Rican Subsidiaries

- TCJA international tax changes **reduced the tax advantage** for Puerto Rico operations
 - U.S. corporate tax rate cut from 35% to 21%
 - Deferral of tax on foreign source active income removed and replaced with immediate taxation at a preferentially low rate via GILTI
- Credit against foreign taxes paid **limited to 80% of GILTI income**. Unused credits can't be carried back or forward, i.e. they expire

Potential Implication to Act 154 taxpayers

- **Switch to a modified territorial tax** has global consequences
- U.S. parent **must have sufficient GILTI income in the right bucket** to claim the foreign tax credit
- **Value of Act 154 creditability constrained**, turning payments into partial cash cost

Global Intangible Low Taxed Income (GILTI) key things to know

Before GILTI

Total tax obligation by U.S. Controlled Foreign Corporations (CFC's) operating in Puerto Rico prior to GILTI:

- Often **only paid the Puerto Rico 4%** tax because of U.S. allowed indefinite deferral
- **No U.S. tax until dividends were paid** to the U.S. parent company (i.e. deferral of tax)



After GILTI

- **GILTI eliminates deferral and acts as a World Wide minimum tax** on U.S. companies which would have no residual U.S. tax on foreign income as long as the foreign tax rate is 13.25% or higher
- GILTI income tax rate is low because of deduction for normal rate of return on tangibles and only ½ of the net income is taxable
- **GILTI only allows 80% of foreign taxes to be creditable** and unused credits expire (can't be carried forward or backwards)
- GILTI tax rate continues to be lower than post-TCJA domestic tax rate of 21% but **may create less of a benefit for companies to move or leave operations abroad**
- **Under GILTI these companies now pay the same rate no matter where they operate.** Actual results will depend heavily upon the size of the deduction for normal return, among other things

This could result in the total tax burden on U.S. CFC's in Puerto Rico likely going up in absolute terms

IRS Digital Services Tax (DST) Proposed Regulation Restriction on the Use of Foreign Tax Credits

Background

- On September 29¹, **IRS issued a proposed regulation** that changes treatment of Foreign-Derived Intangible Income
- Would change how multinational firms operating in foreign tax jurisdictions, including Puerto Rico, can apply taxes paid** in these areas as a credit against their U.S. federal tax liability
- Under the proposed reg, the **taxpayer must have sufficient activities in the country** to be considered to have a **nexus²** in the country under U.S. nexus standards, not considering the location of the customer (parent company)
- Designed, in part, **to mitigate new Digital Services Taxes** that countries are imposing
- The regulations are currently **undergoing a 90-day review and public comment** period



Potential Implications

- While not clear, since Act 154 **paid by U.S. parent, not local CFC, it may run afoul of proposed U.S. nexus rules**. These rules only allow crediting tax for businesses that have a nexus² (i.e., have a business presence in the associated jurisdiction)
- Proposed regulation **creates uncertainty that may negatively impact competitive position of Puerto Rico** vis a vis mainland U.S. (particularly as U.S. tries to attract manufacturing) by possibly eliminating the creditability of Act 154 against the U.S. income tax
- Hacienda met with U.S. Treasury officials** to discuss potential Act 154 implications from DST regs
- According to Hacienda's press release, **the scope of the new regulation was "not directed at Puerto Rico"** and U.S. Treasury promised to continue collaborating to provide transitory measures that permit the orderly migration to an income tax system for these [Act 154] taxpayers³
- Could **limit competitive investment and manufacturing opportunities** in Puerto Rico, unless the regulation changes and some form of local tax reform is passed

¹ IRS Reg-101657-20 - <https://www.irs.gov/pub/irs-drop/reg-101657-20.pdf>

² Nexus is a company's business activity (or presence) in a tax jurisdiction which allows a tax authority to impose taxes on the company. Presence or business activity can be in the form of sales or income, number of employees, owned physical properties, intangible assets registered in the tax jurisdiction, among other circumstances. Having nexus is defined by the tax jurisdiction, but, in general, the US commerce clause "requires substantial presence" which is the minimum requirement.

³ <http://www.hacienda.pr.gov/sobre-hacienda/sala-de-prensa-virtual/comunicados-de-prensa/secretario-de-hacienda-sostiene-productiva-reunion-con-el-tesoro-federal-sobre-la-acreditacion-de-las-contribuciones-pagadas-en-el-extranjero>

Recommended Next Steps

1. **Accelerate** working group efforts to reform tax framework
 - Hacienda
 - DDEC
 - AAFAF
 - FOMB
2. **Partner** with representatives from companies impacted
3. **Explore** opportunities for federal government to help with transition away from Act 154-2010

Economic outlook of the Puerto Rican economy after COVID-19



Differences between the US and PR economies prior to COVID-19

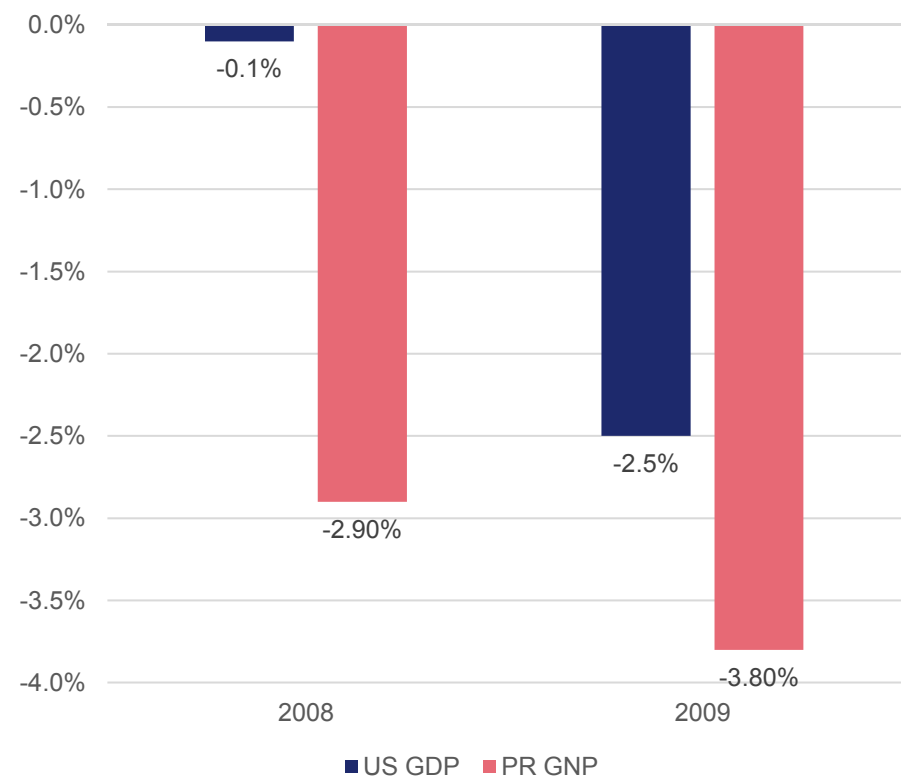
The US and Puerto Rican economies were in very different circumstances when they were impacted by the COVID-19 Pandemic

- While the US economy was impacted by COVID when it was experiencing the longest expansion in US history; the PR economy was impacted by COVID amid a secular decline in economic activity that has not relented since FY2007.
- As of FY2019, Puerto Rico's Real GNP has contracted approximately 20% since this secular decline began in FY2007.
- The PR economy was also impacted by the hurricanes (FY18) and the earthquakes (FY20), worsening this contraction in economic activity just prior to the impact of COVID-19.
 - While the Puerto Rican economy will benefit from federal stimulus related to the government response to the pandemic, this will not impact the structural factors driving the downward trajectory. As such, the expectation is that federal stimulus will offset the negative trend briefly during FY21, thereafter returning to negative growth.
- **In sum, there is little doubt the PR economy was in a drastically weaker state relative to the US when the pandemic hit.**

Evidence from previous economic downturns

For example, the Great Recession was felt much more severely in PR in 2008 & 2009

- While the US economy was already back in positive growth by 2010; **the PR economy did not see positive growth until FY2012.**
- In FY12, Real GNP grew just 0.5%, **only to immediately return to a negative growth trajectory the year after in FY2013.**

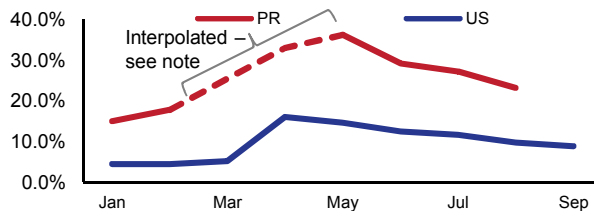


Unemployment is structurally higher in Puerto Rico relative to the US

Unemployment – August summary table

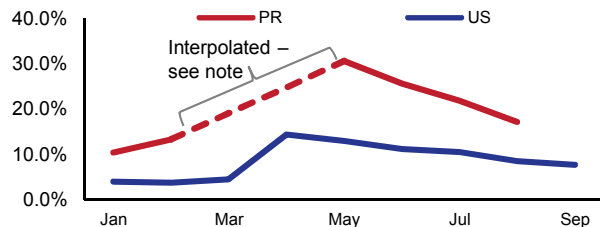
	Puerto Rico	Change from July (PP)	US	Difference from US (PP)
U3	15.2% ⁵	-1.4	9.2%	6.0
U5	23.2%	-4.1	9.7%	13.5
U6	26.6%	-4.9	14.3%	12.3

U5 unemployment*

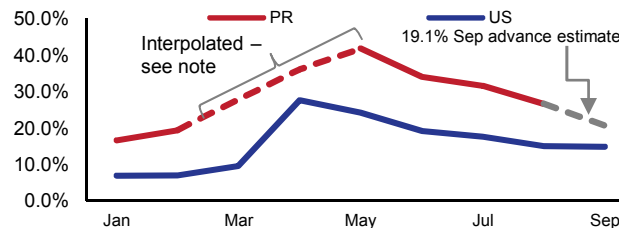


Note: March and April PR unemployment rates are not available through the PRDOL employment survey, dashed lines represent unemployment rates based on previously shared fiscal plan estimates.

U3 unemployment*



U6 unemployment*



Key takeaways

- Across different measures, **unemployment in Puerto Rico has remained structurally higher than in the US**, prior to and throughout the pandemic.
- Historically, the Puerto Rican economy has been unable to generate sufficient jobs for the working age population. This results in a steady stream of outmigration to the US along with an official unemployment rate that has been close to or above 10% even during years of growth.

Unemployment – August detailed table (based on official survey)

Estimates for August		Unemployed (A)	Employed working zero hours (B)	Discouraged + marginally attached (C)	Part time for economic reasons (D)	Total (A+B+C+D)	Labor force (E)	Unemployment rate (A+B+C+D)/(E)
Estimates derived from PR DOL August unemployment survey ³	U3	88,000	92,000			180,000	1,049,000	15.2% ⁵
	U5	88,000	92,000	82,000		262,000	1,131,000 ²	23.2%
	U6	88,000	92,000	82,000	39,286 ⁴	301,286	1,131,000 ²	26.6%

Note: pp stands for “percentage point”

¹ This is based on the m/m percent change in the unemployment rate derived from UI claims, then applied to the August U6 rate, which is derived from the PR DOL unemployment survey. The August U6 derived directly from UI claims data suggests a 25% unemployment rate.

² For U5 and U6 unemployment, the calculation includes labor force plus marginally attached to the labor force in the denominator.

³ The survey results form the basis of the US DOL unemployment estimate.

⁴ Based on national estimate of part time for economic reasons

⁵ PRDOL’s August “Employment and Unemployment in Puerto Rico” report has a 15.2% estimate after adjusting the U3 estimate to include those who are employed but not working. However, of this group, PRDOL only includes the increase in this group over a typical month of interest. Our estimate of the U3 includes the entire employed but not working group without further adjustment, it results in a U3 unemployment estimate of 17.2%, not 15.2%.

- The Puerto Rican economy’s weaker labor market implies the post-pandemic recovery will be slower than in the US.**
- This is already evident from the labor data during the past months.

The job recovery for Puerto Rico has been slower than in the US

- Table A shows the percentage change in employment (non-farm) in Puerto Rico and US by month (2019 to 2020 Y/Y change) and by sector.
- A limited sample of Puerto Rico payroll data shows **the number of employees on payroll is still 33% below pre-COVID baseline compared to 22% in the United States** (See Table C).

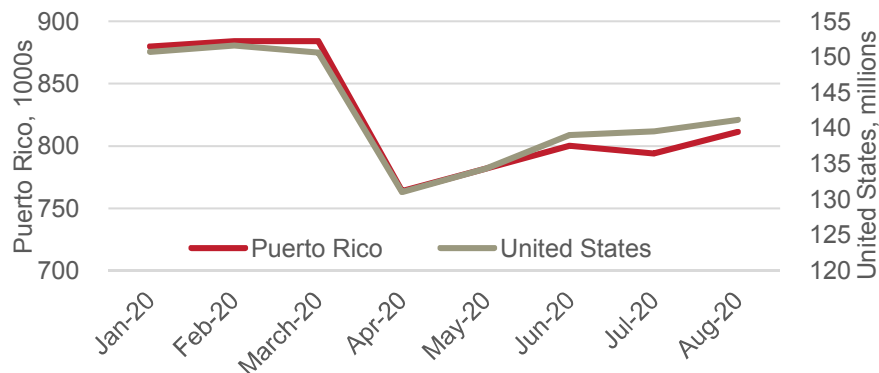
Table A. Percentage year over year change in employment (non-farm) in Puerto Rico and US by month (2019 to 2020 Y/Y change)

Industry	April		May		June		July		August	
	PR % drop (y/y)	US % drop (y/y)	PR % drop (y/y)	US % drop (y/y)	PR % drop (y/y)	US % drop (y/y)	PR % drop (y/y)	US % drop (y/y)	PR % drop (y/y)	US % drop (y/y)
Mining and logging	-40%	-15%	-20%	-17%	-33%	-19%	-20%	-19%	-20%	-19%
Leisure and hospitality	-41%	-48%	-38%	-41%	-28%	-28%	-27%	-24%	-28%	-24%
Construction	-44%	-13%	-32%	-6%	-24%	-4%	-27%	-4%	-26%	-4%
Trade, transportation, and utilities	-24%	-11%	-16%	-9%	-13%	-6%	-9%	-5%	-8%	-4%
Other services	-15%	-22%	-8%	-18%	-9%	-13%	-7%	-10%	-8%	-9%
Professional and business services	-14%	-9%	-15%	-8%	-14%	-7%	-11%	-6%	-11%	-6%
Manufacturing	-7%	-11%	-3%	-9%	-1%	-7%	-1%	-6%	0%	-6%
Education and health services	-5%	-10%	-6%	-9%	-4%	-6%	-2%	-5%	-4%	-5%
Information	-3%	-6%	-5%	-8%	-6%	-8%	-6%	-8%	-5%	-9%
Financial activities	0%	-2%	-1%	-2%	0%	-2%	-1%	-2%	0%	-2%
Government	2%	-3%	0%	-6%	-1%	-6%	-6%	-5%	1%	-3%
Total	-12.9%	-13.4%	-11.0%	-11.7%	-8.9%	-8.7%	-8.8%	-7.7%	-6.9%	-7.0%

Source: Bureau of Labor Statistics (BLS)

Note: All data are considered preliminary according to the BLS. The employment estimates are subject to survey error. Data for US are calculated by taking the sum of employment for all states as provided in the state employment and unemployment data. Data are counts of jobs by place of work. Mining and logging is combined with construction for Delaware, District of Columbia, Virgin Islands and Hawaii.

Table B. Employment (non-farm) trends, March 2020 – August 2020 (Not seasonally adjusted)



Source: Bureau of Labor Statistics (BLS)

Table C. Average drop in employment by sector, from March to September (average day of week)

Sector	US	PR
Retail	-12%	-23%
Home and repair	-13%	N/A
Beauty & personal care	-35%	-18%
Health care and fitness	-19%	-10%
Leisure and entertainment	-27%	-61%
Professional services	-22%	-62%
Transportation	-21%	N/A
Overall	-22%	-33%

Source: Homebase

Homebase is a payroll company that monitors the number of employees, hours worked, and locations open of its client organizations. They track only 750 companies on the island and their sample is weighted towards food service and accommodations.

The job recovery for Puerto Rico has been slower than in the US

- On average, the job recovery for Puerto Rico has been slower than for the mainland United States because state lock down measures have been relaxed. **In Puerto Rico, 39% of the jobs lost in April were recovered by August, compared to 52% in the United States.**
 - Leisure and hospitality is one of the hardest hit sectors in Puerto Rico, with 43% of employment lost in April (~35,000 jobs). Only 1/3rd of the lost jobs were recovered by August. During the same timeframe, the US has recovered about 64% of lost jobs.
 - Construction lost about 10,000 jobs in April and recovered about half of these by August. This compares to a recovery of 117% of the lost jobs in the mainland U.S.

Change in employment (non-farm) in Puerto Rico, March 2020 – August 2020
(in 000s, not seasonally adjusted)

Industry	Total lost jobs - April 2020	April lost jobs as a share of March	Total gained jobs - May through August 2020	Jobs recovered by August (% of job loss in April)
Mining and logging	0.3	-50%	0.1	33%
Leisure and hospitality	35.2	-43%	11.9	34%
Construction	10.4	-42%	5	48%
Trade, transportation, and utilities	41.8	-24%	26.7	64%
Other services	2.7	-15%	1.4	52%
Professional and business services	16.1	-13%	4.7	29%
Manufacturing	5.6	-7%	5.6	100%
Education and health services	5.9	-5%	-2.9	-49%
Information	0.7	-4%	-0.1	-14%
Financial activities	1.1	-2%	0	0%
Government	0.6	0%	-4.9	-817%
Total	120.4	-14%	47.5	39%

Change in employment (non-farm) in US, March 2020 – August 2020
(in 000s, not seasonally adjusted)

Industry	Total lost jobs - April 2020	April lost jobs as a share of March	Total gained jobs - May through August 2020	Jobs recovered by August (% of job loss in April)
Leisure and hospitality	7,156	-46%	4,614	64%
Other services	1,240	-21%	803	65%
Construction	871	-12%	1,019	117%
Trade, transportation, and utilities	2,996	-11%	2,017	67%
Education and health services	2,602	-11%	909	35%
Manufacturing	1,352	-11%	786	58%
Professional and business services	1,915	-9%	1,090	57%
Mining and logging	55	-8%	(30)	-55%
Information	216	-7%	(16)	-8%
Government	884	-4%	(1,221)	-138%
Financial activities	264	-3%	184	70%
Total	19,551	-13%	10,153	52%

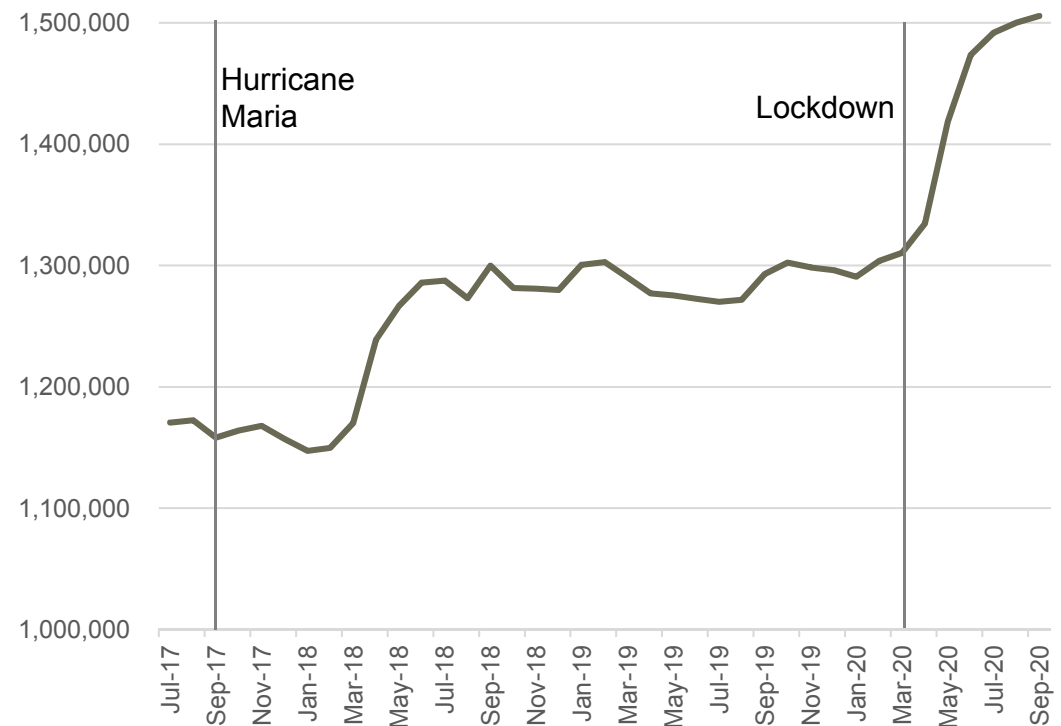
Source: Bureau of Labor Statistics (BLS)

Note: Lost jobs are calculated by subtracting the employment level in April from that in March 2020. Data are counts of jobs by place of work. All data are considered preliminary according to the BLS. The employment estimates are subject to survey error. Data for US calculated by taking the sum of employment for all states as provided in the state employment and unemployment data. Mining and logging is combined with construction for Delaware, District of Columbia, Virgin Islands and Hawaii.

Poverty is substantially higher in Puerto Rico, which will also contribute to a slower recovery

- According to the US Census Bureau, **only 8.6% of US families were under the poverty line in 2019, compared to 39.5% of families in the case of Puerto Rico.**
 - The island is also significantly poorer than the poorest US state (Mississippi), where 14.8% of families were under the poverty level.
- Puerto Rico also has a higher proportion of families living just above the poverty line (125% of poverty level).
 - In the US, 3.2% of families found themselves living only slightly above the poverty line, compared to 8.8% of families in Puerto Rico.
- The recent spike in participants in Puerto Rico's Nutritional Assistance Program suggests many of these Puerto Rican families may have already fallen below the poverty level.
 - **Percentage of total population participating in NAP rose from 43% (January 2020) to 50% (September 2020) due to the pandemic**
- This will also contribute to a much slower recovery in the case of Puerto Rico

NAP Participants





Public Board Meeting Plan of Adjustment Discussion

October 30, 2020



Proposed Plan of Adjustment: Executive Summary

Subsequent to reaching an agreement with holders of over \$10.6 billion of General Obligation bonds in February, COVID has changed the economic reality on the island and caused the Board to reevaluate this agreement

- Since then, the Board reengaged with creditors in August
- On September 30, the August 18 FOMB Proposal and the August 24 Creditor Counter were disclosed in public filings

Since September 30, the Board's advisors have developed a plan structure that is generally consistent with the August 18 FOMB Proposal, but for the addition of a contingent value instrument (CVI):

- Cash: Remains at ~\$6.0 billion given current projections of available cash
- Debt: Structured to fit within Fiscal Plan parameters of sustainability
 - Maximum annual debt service (inclusive of COFINA) limited to \$1.05 billion
 - 100% unsecured GO issuance
- CVI: Structured based on Sales Taxes to pay in the event of outperformance of the 2020 Certified Fiscal Plan

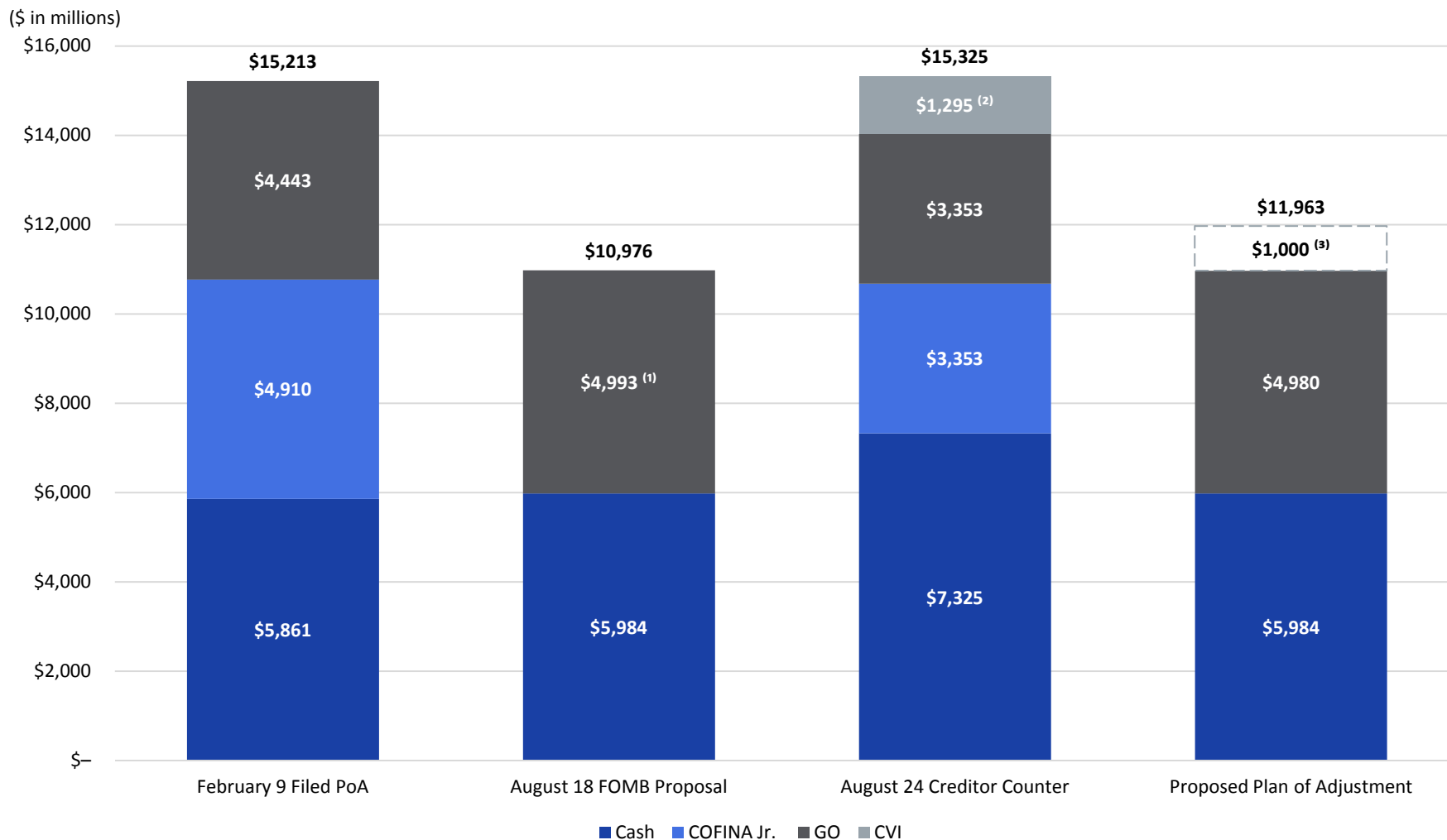
Under this approach, the Board would (i) engage with creditors in the near-term on revisions to the Plan of Adjustment and (ii) file a revised Plan of Adjustment as soon as practicably possible

- Overall consideration is less than amounts previously agreed to in the February PoA given the deepening economic crisis post-COVID:
 - Total cash and debt reduced by \$4.3 billion to \$11.0 billion
 - Debt is reduced by \$4.4 billion to \$5.0 billion (\$3.0 billion of which will be amortized by FY30)
 - CVI has been added to allay creditor concerns regarding potential economic upside scenarios
- Provides avenue for achieving agreement with the Commonwealth and development of related legislation



Proposed Plan of Adjustment: Form and Amount of Consideration Provided

The proposed Plan of Adjustment makes three significant changes: (i) increases cash consideration; (ii) eliminates COFINA Jr. structure; and (iii) lowers overall consideration consistent with a post-COVID outlook.



(1) August 18 FOMB Proposal presented range of max. GO and max. COFINA Jr. security structures. Graph illustratively only shows max. GO structure.

(2) August 24 Creditor Counter stated CVI value adjusted to a discount date of 7/1/21 and a discount rate of 7.5% (i.e. \$1,414mm), as compared to a discount date of 7/1/20 and discount rate of 20% (i.e., \$611mm), as presented by creditors in their proposal. Creditor-proposed FY21 payment of \$119mm included in upfront cash consideration. Value as described is in-the-money at issuance and does not account for potential outperformance above Fiscal Plan projections. Annual and lifetime caps TBD in Creditor Counter.

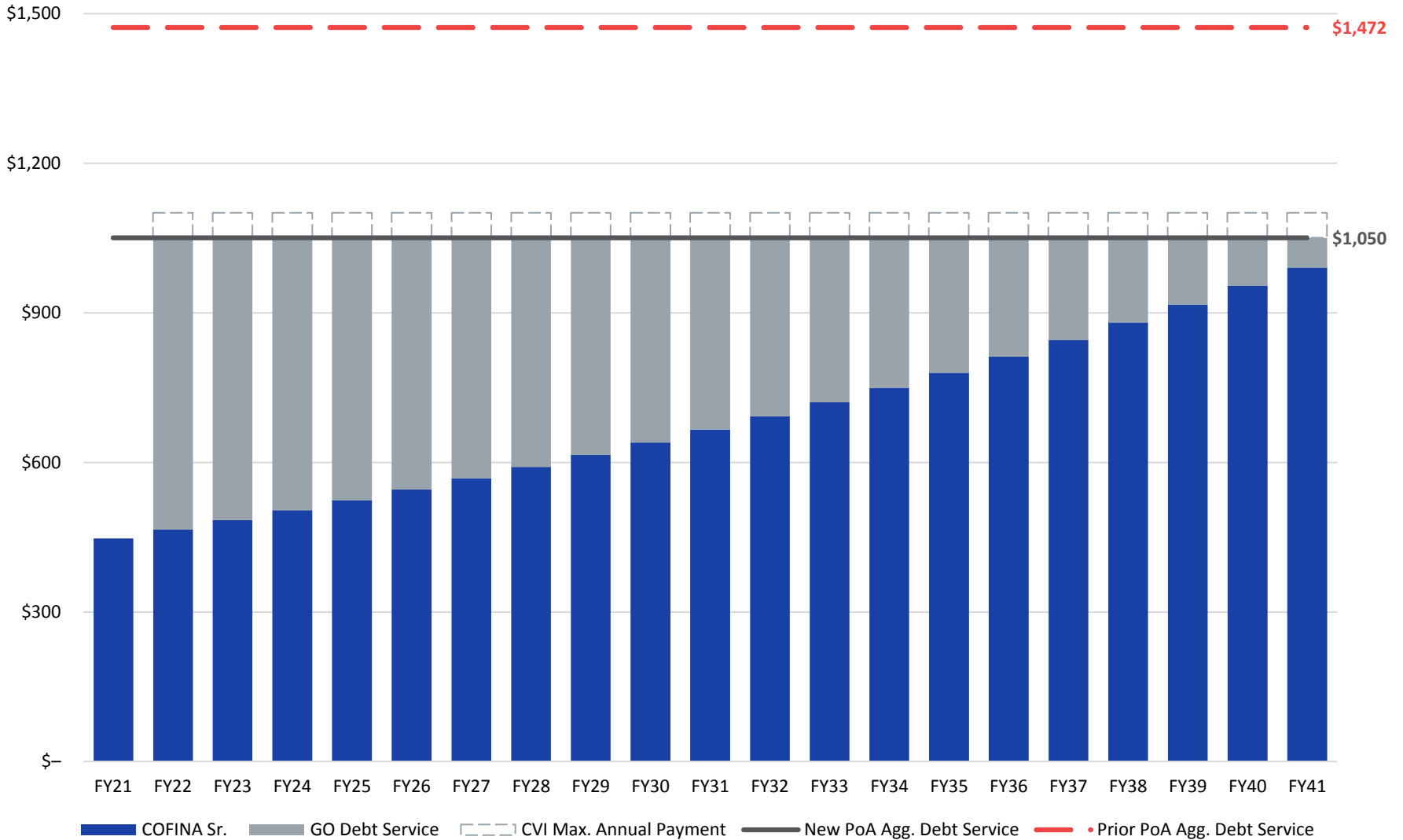
(3) Proposed Plan of Adjustment CVI structured with attachment point of 100% of 2020 Certified Fiscal Plan 5.5% SUT projections and is thus out-of-the-money at issuance.



Proposed Plan of Adjustment: Debt Service Profile

The lower amount of overall debt service burden reflects the FOMB's concern about the longer-term operating outlook given the changes COVID-19 has brought to the island.

(\$ in millions)



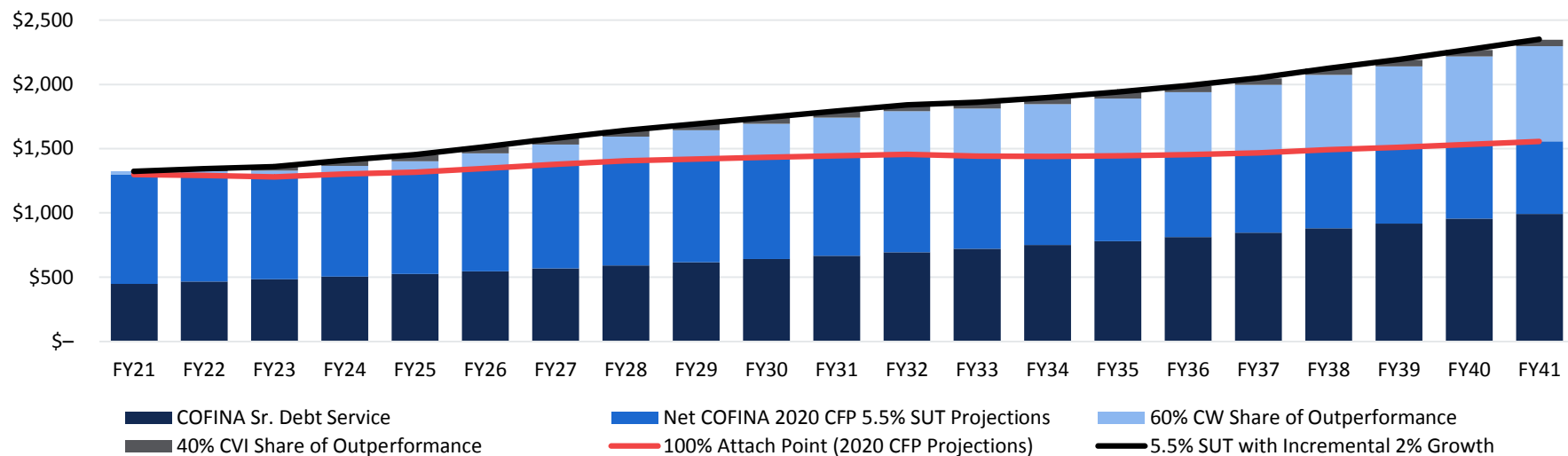
Proposed Plan of Adjustment: Board-Proposed CVI

The Board's proposed Contingent Value Instrument is subject to both annual and lifetime payment caps and will only pay out in the event that the SUT outperforms the May 2020 Certified Fiscal Plan.

Assumptions

- Contingent instrument limited to sharing of outperformance of the 5.5% SUT relative to the May 2020 Fiscal Plan projections
- Sharing of outperformance subject to both annual and lifetime caps
- Creditors to receive 40% of outperformance above Fiscal Plan projections of projected 5.5% pledged SUT collections
 - Remaining 60% of outperformance to accrue to the Commonwealth
 - Attachment point (i.e., strike price) at 100% of May 2020 Fiscal Plan projections (i.e., status quo)

	Description
Source of Repayment	■ 5.5% Pledged Sales and Use Taxes (SUT)
Structure of Instrument	<ul style="list-style-type: none"> ■ \$1,000mm face GO Issuance ■ Face value reduced by \$50mm annually, regardless of actual contingent cash payment
Sharing of Outperformance	■ 60% Commonwealth / 40% CVI
Annual Cap	<ul style="list-style-type: none"> ■ \$50mm ■ Unused amounts do not carry forward into future years
Lifetime Cap	■ \$1,000mm
Term	■ 20 years



Proposed Plan of Adjustment: Comparison of Recoveries

Consistent with a lower amount of aggregate consideration, the proposed Plan includes lower recoveries for all relevant classes.

- The proposed Plan of Adjustment contemplates \$5.0 billion of new GO debt, \$6.0 billion of cash, and \$1.0 billion of GO CVI Issuance as consideration for ~\$35 billion in Commonwealth debt and unsecured claims

(\$ in billions)

	Claim ⁽¹⁾	Recovery ⁽¹⁾ February 9 Filed PoA	Recovery ⁽¹⁾ Proposed PoA (excl. CVI)	Recovery ⁽¹⁾ Proposed PoA (incl. CVI) ⁽²⁾
All Creditors	~\$35	■ 41.3% blended recovery ⁽³⁾⁽⁴⁾	■ 31.3% blended recovery ⁽³⁾⁽⁴⁾	■ 34.1% blended recovery ⁽³⁾⁽⁴⁾
Pre-2011 GO	\$5.8	■ 74.9%	■ 58.7%	■ 64.0%
2011 GO (Series D / E / PIB)	\$0.6	■ 73.8%	■ 57.6%	■ 62.9%
2011 GO (Series C)	\$0.5	■ 70.4%	■ 54.2%	■ 59.5%
2012 GO	\$2.9	■ 69.9%	■ 53.7%	■ 59.0%
2014 GO	\$4.2	■ 65.4%	■ 49.2%	■ 54.5%
Pre-2011 PBA	\$2.7	■ 77.6%	■ 61.4%	■ 66.7%
2011 PBA	\$1.3	■ 76.8%	■ 60.6%	■ 65.9%
2012 PBA	\$0.7	■ 72.2%	■ 56.0%	■ 61.4%
ERS, Clawbacks, and Other	~\$16	■ ~3% ⁽⁴⁾	■ ~0.4% ⁽⁴⁾	■ ~0.4% ⁽⁴⁾

(1) Claim amounts are preliminary and subject to material revision. Recoveries exclude potential recoveries from non-Commonwealth entities and are shown on the basis of par + accrued interest.

(2) Assumes payment in full of CVI.

(3) Includes PSA Restriction Fee and Consummation Costs.

(4) Excludes any potential recoveries from assets currently at ERS (approximately \$1.2 billion). Amounts are subject to further diligence and material revision. Assets remain subject to ongoing litigation.



Preliminary Cash Balance Estimate as of June 30, 2021 after PoA Payments

The pro forma cash balance after payment of Plan of Adjustment obligations is estimated to be slightly below the minimum working capital level.

(\$ in millions)



Non-Commonwealth Assumed Inaccessible / Non-Title III Entities

Non-Commonwealth Assumed Inaccessible / Non-Title III Entities

(\$ in millions)

Puerto Rico Electric Power Authority (PREPA)	\$ 1,400
Puerto Rico Aqueducts and Sewers Authority (PRASA)	885
Puerto Rico Sales Tax Financing Corporation (COFINA)	645
University of Puerto Rico (UPR)	586
Puerto Rico Housing Finance Corporation	453
COSSEC	343
Puerto Rico Health Insurance Administration	337
Puerto Rico Infrastructure Financing Authority	328
State Insurance Fund Corporation	279
Puerto Rico Municipal Finance Agency	253
Puerto Rico Highways and Transportation Authority (HTA)	234
Puerto Rico Industrial Development Company	180
Teacher's Retirement System	157
Automobile Accidents Compensation Administration	144
Puerto Rico Tourism Company	140
Economic Development Bank of PR	130
The Children's Trust	119
Fiscal Agency & Financial Advisory Authority	110
Municipal Finance Corporation (COFIM)	99
Government Development Bank	65
Financial Oversight and Management Board for Puerto Rico	63
Municipal Revenue Collection Center	59
Puerto Rico Ports Authority	55
Institutional Trust of the National Guard of Puerto Rico	43
Puerto Rico Public Finance Corporation	40
Agricultural Enterprises Development Administration (ADEA)	39
Retirement System of Puerto Rico Judiciary	36
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	35
Land Authority	32
Puerto Rico Public Private Partnership Authority	25
Land Authority of Puerto Rico	21
Medical Services Administration of Puerto Rico	19
Convention Center of District Authority	17
Trade & Export Company	14
Puerto Rico Tourism Development Fund	11
Public Building Authority (PBA) (Title III POA debtor)	10
Other	42
Total Non-CW Assumed Inaccessible / Non-Title III Entities	\$ 7,448

Disclaimer: Amounts included throughout the presentation are subject to material modification based on the receipt of additional information and review by legal counsel. Any assumptions, forecasts, projections, recommendations, conclusions or opinions contained in this Report are solely those of the Oversight Board.

Commonwealth and its Agencies Restricted

Commonwealth and its Agencies Restricted

(\$ in millions)

	Court Order	Federal Funds	Federal Law	Third Party Funds	Tax- exempt Bond Proceeds	Third Party Contract	Total
TSA	\$ -	\$ 76	\$ -	\$ -	\$ -	\$ -	\$ 76
Hacienda	22	3,909	-	8	34	-	3,972
911 Emergency System Bureau	-	-	27	-	-	-	27
Child Support Administration	-	-	-	94	-	-	94
Department of Labor	-	-	467	8	-	-	475
Office of Court Administration	-	-	-	293	-	-	293
Public Housing Administration	-	425	-	-	-	50	475
Total Commonwealth and its Agencies Restricted	\$ 22	\$ 4,410	\$ 494	\$ 403	\$ 34	\$ 50	\$ 5,413

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Funds at agencies likely to be inaccessible and not reviewed

Funds at agencies likely to be inaccessible and not reviewed

(\$ in millions)

Department of the Treasury	\$	82 ⁽¹⁾
Department of Labor		332 ⁽²⁾
CW - Traditional Lottery		44
CW - Electronic Lottery		82
Medical Services Administration of Puerto Rico		41
UPR		18
Corporation for the "Caño Martín Peña" Enlace Project		10
Fine Arts Center Corporation		3
Institute of Puerto Rican Culture		13
Musical Arts Corporation		5
Puerto Rico Conservatory of Music Corporation		5
Puerto Rico Health Insurance Administration		13
Puerto Rico Housing Finance Corporation		8
Puerto Rico Infrastructure Financing Authority		2
Puerto Rico Integrated Transit Authority		14
Puerto Rico School of Plastic Arts		2
University of Puerto Rico Comprehensive Cancer Center		15
Hacienda - not reviewed		12
Dept. of Economic Dev. and Commerce - not reviewed		22
Department of Education - not reviewed		1
Department of Labor - not reviewed		9
Office of Court Administration - not reviewed		54
Public Housing Administration - not reviewed		27
Puerto Rico Energy Commission - not reviewed		7
Other not reviewed		70
Total likely to be inaccessible ⁽³⁾ and not reviewed	\$	894

⁽¹⁾ This amount represents one account at the Department of the Treasury holding Lottery funds.

⁽²⁾ As of June 30, 2020, the Department of Labor held \$332m funds in an account for unemployment benefits.

⁽³⁾ The FOMB has determined that funds held by certain entities will not be available.

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Scenario 1 – Fiscal Plan

(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Fiscal Plan Primary surplus/(deficits)	\$ 355	\$ 643	\$ 201	\$ 418	\$ 509	\$ 620	\$ 696	\$ 551	\$ 356	\$ 127	\$ (153)	\$ 4,322	\$ (8,881)	\$ (29,109)
Debt service at \$1.05b MADS cap	-	(584)	(565)	(546)	(525)	(504)	(482)	(459)	(435)	(410)	(384)	(4,895)	(7,051)	(7,051)
Debt Reserve	-	(88)	(88)	(88)	(88)	(88)	-	-	-	-	-	(441)	-	-
Adjusted Fiscal Plan Primary surplus/(deficits) - (A)	\$ 355	\$ (30)	\$ (453)	\$ (216)	\$ (104)	\$ 28	\$ 214	\$ 92	\$ (79)	\$ (283)	\$ (537)	\$ (1,013)	\$ (15,932)	\$ (36,160)
Known Adjustments (B)														
UHC PEPM increase to \$170	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(523)	(998)	(1,378)
Union Agreement Increased PayGo	-	(19)	(19)	(22)	(25)	(28)	(32)	(36)	(41)	(47)	(53)	(322)	(933)	(1,140)
Pension Threshold \$1500 vs \$1200	-	(14)	(29)	(29)	(30)	(30)	(30)	(30)	(29)	(29)	(28)	(278)	(522)	(646)
Pension Trust Contributions / Withdrawals ⁽¹⁾	(350)	(175)	(175)	(175)	(175)	(175)	(208)	-	-	-	-	(1,433)	696	1,119
	(398)	(255)	(270)	(273)	(277)	(281)	(317)	(113)	(118)	(123)	(129)	(2,555)	(1,757)	(2,046)
Adjusted Surplus/(Deficit): A+B	(\$43)	(\$285)	(\$723)	(\$489)	(\$382)	(\$253)	(\$103)	(\$22)	(\$197)	(\$406)	(\$666)	(\$3,568)	(\$17,689)	(\$38,205)
(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Cash Flow Projections														
Beginning Balance (beginning of FY)	\$ 8,774											\$ 8,774	\$ 8,774	\$ 8,774
FP Reserve (TSA Segregation)	(650)											(650)	(650)	(650)
TSA Cash Adjustments	282											282	282	282
Additional Unrestricted Cash	1,621											1,621	1,621	1,621
Adjusted Beginning Balance (beginning of FY)	\$10,027	\$ 2,338	\$ 2,077	\$ 1,374	\$ 899	\$ 526	\$ 279	\$ 178	\$ 159	\$ (37)	\$ (443)	\$ 10,027	\$ 10,027	\$ 10,027
Adjusted Surplus/(Deficit)	(43)	(285)	(723)	(489)	(382)	(253)	(103)	(22)	(197)	(406)	(666)	(3,568)	(17,689)	(38,205)
Upfront consideration	(5,984)	-	-	-	-	-	-	-	-	-	-	(5,984)	(5,984)	(5,984)
Convenience class	(100)	-	-	-	-	-	-	-	-	-	-	(100)	(100)	(100)
Interest	88	23	21	14	9	5	3	2	2	-	-	166	166	166
Labor concessions - System 2000	(1,500)	-	-	-	-	-	-	-	-	-	-	(1,500)	(1,500)	(1,500)
Labor concessions - Union Bonus	(150)	-	-	-	-	-	-	-	-	-	-	(150)	(150)	(150)
Ending Balance	\$2,338	\$2,077	\$1,374	\$899	\$526	\$279	\$178	\$159	(\$37)	(\$443)	(\$1,109)	(\$1,109)	(\$15,230)	(\$35,746)
Minimum Cash Balance Required	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Excess/(Shortfall)	(\$162)	(\$423)	(\$1,126)	(\$1,601)	(\$1,974)	(\$2,221)	(\$2,322)	(\$2,341)	(\$2,537)	(\$2,943)	(\$3,609)	(\$3,609)	(\$17,730)	(\$38,246)

(1) \$350mm in Pension Trust Contributions in FY21 is inclusive of FY20 amount of \$175mm.



Scenario 2 – CBO Macro Update

(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Fiscal Plan Primary surplus/(deficits)	\$ 355	\$ 643	\$ 201	\$ 418	\$ 509	\$ 620	\$ 696	\$ 551	\$ 356	\$ 127	\$ (153)	\$ 4,322	\$ (8,881)	\$ (29,109)
Updated CBO Assumptions	36	125	197	255	325	401	471	527	560	579	588	4,064	9,508	12,595
Debt service at \$1.05b MADS cap	-	(584)	(565)	(546)	(525)	(504)	(482)	(459)	(435)	(410)	(384)	(4,895)	(7,051)	(7,051)
Debt Reserve	-	(88)	(88)	(88)	(88)	(88)	-	-	-	-	-	(441)	-	-
CBO Update Primary surplus/(deficits) - (A)	\$ 391	\$ 95	\$ (255)	\$ 40	\$ 220	\$ 429	\$ 685	\$ 619	\$ 481	\$ 296	\$ 51	\$ 3,051	\$ (6,424)	\$ (23,565)
Known Adjustments (B)														
UHC PEPM increase to \$170	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(523)	(998)	(1,378)
Union Agreement Increased PayGo	-	(19)	(19)	(22)	(25)	(28)	(32)	(36)	(41)	(47)	(53)	(322)	(933)	(1,140)
Pension Threshold \$1500 vs \$1200	-	(14)	(29)	(29)	(30)	(30)	(30)	(30)	(29)	(29)	(28)	(278)	(522)	(646)
Pension Trust Contributions / Withdrawals ⁽¹⁾	(350)	(175)	(175)	(175)	(310)	(535)	(720)	-	-	-	-	(2,440)	869	2,132
	(398)	(255)	(270)	(273)	(412)	(641)	(829)	(113)	(118)	(123)	(129)	(3,562)	(1,583)	(1,033)
Adjusted Surplus/(Deficit): A+B	(\$7)	(\$160)	(\$526)	(\$234)	(\$192)	(\$212)	(\$144)	\$505	\$363	\$173	(\$77)	(\$511)	(\$8,008)	(\$24,598)
(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Cash Flow Projections														
Beginning Balance (beginning of FY)	\$ 8,774											\$ 8,774	\$ 8,774	\$ 8,774
FP Reserve (TSA Segregation)	(650)											(650)	(650)	(650)
TSA Cash Adjustments	282											282	282	282
Additional Unrestricted Cash	1,621											1,621	1,621	1,621
Adjusted Beginning Balance (beginning of FY)	\$10,027	\$ 2,374	\$ 2,238	\$ 1,734	\$ 1,518	\$ 1,341	\$ 1,143	\$ 1,010	\$ 1,525	\$ 1,903	\$ 2,095	\$ 10,027	\$ 10,027	\$ 10,027
Adjusted Surplus/(Deficit)	(7)	(160)	(526)	(234)	(192)	(212)	(144)	505	363	173	(77)	(511)	(8,008)	(24,598)
Upfront consideration	(5,984)	-	-	-	-	-	-	-	-	-	-	(5,984)	(5,984)	(5,984)
Convenience class	(100)	-	-	-	-	-	-	-	-	-	-	(100)	(100)	(100)
Interest	88	24	22	17	15	13	11	10	15	19	21	257	316	316
Labor concessions - System 2000	(1,500)	-	-	-	-	-	-	-	-	-	-	(1,500)	(1,500)	(1,500)
Labor concessions - Union Bonus	(150)	-	-	-	-	-	-	-	-	-	-	(150)	(150)	(150)
Ending Balance	\$2,374	\$2,238	\$1,734	\$1,518	\$1,341	\$1,143	\$1,010	\$1,525	\$1,903	\$2,095	\$2,039	\$2,039	(\$5,399)	(\$21,989)
Minimum Cash Balance Required	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Excess/(Shortfall)	(\$126)	(\$262)	(\$766)	(\$982)	(\$1,159)	(\$1,357)	(\$1,490)	(\$975)	(\$597)	(\$405)	(\$461)	(\$461)	(\$7,899)	(\$24,489)

(1) \$350mm in Pension Trust Contributions in FY21 is inclusive of FY20 amount of \$175mm.



Scenario 3 – CBO Macro Update with Potential Downsides

(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Fiscal Plan Primary surplus/(deficits)	\$ 355	\$ 643	\$ 201	\$ 418	\$ 509	\$ 620	\$ 696	\$ 551	\$ 356	\$ 127	\$ (153)	\$ 4,322	\$ (8,881)	\$(29,109)
Updated CBO Assumptions	36	125	197	255	325	401	471	527	560	579	588	4,064	9,508	12,595
Debt service at \$1.05b MADS cap	-	(584)	(565)	(546)	(525)	(504)	(482)	(459)	(435)	(410)	(384)	(4,895)	(7,051)	(7,051)
Debt Reserve	-	(88)	(88)	(88)	(88)	(88)	-	-	-	-	-	(441)	-	-
Known Adjustments (UHC/Union/\$1500 threshold/trust)	(398)	(255)	(270)	(273)	(412)	(641)	(829)	(113)	(118)	(123)	(129)	(3,562)	(1,583)	(1,033)
CBO Update w/ Known Adj. Primary surplus/(deficits) - (A)	\$ (7)	\$ (160)	\$ (526)	\$ (234)	\$ (192)	\$ (212)	\$ (144)	\$ 505	\$ 363	\$ 173	\$ (77)	\$ (511)	\$ (8,008)	\$(24,598)
Potential Downside (B)														
Rightsizing - no additional reductions after FY21	-	(231)	(282)	(296)	(310)	(324)	(339)	(345)	(350)	(355)	(360)	(3,191)	(7,114)	(10,805)
Compensation - no additional reductions after FY21	-	(37)	(74)	(78)	(82)	(86)	(90)	(92)	(94)	(95)	(96)	(824)	(1,874)	(2,862)
Utilities - no additional reductions after FY21	-	(15)	(25)	(26)	(28)	(29)	(30)	(31)	(31)	(32)	(32)	(281)	(634)	(966)
Subsidy to Muni. - no additional reductions after FY21	-	(43)	(86)	(85)	(128)	(127)	(125)	(124)	(123)	(121)	(120)	(1,081)	(2,186)	(2,916)
Subsidy to UPR - no additional reductions after FY21	-	(92)	(115)	(116)	(117)	(119)	(121)	(122)	(124)	(126)	(128)	(1,181)	(2,576)	(3,890)
Private Sector Labor/Welfare Reform rollback	-	-	-	-	-	(13)	(26)	(39)	(53)	(67)	(82)	(280)	(1,891)	(4,384)
PPPs/Energy Reform rollback	-	(8)	(25)	(50)	(75)	(101)	(128)	(156)	(184)	(214)	(243)	(1,185)	(5,186)	(10,779)
Doing Business Reform rollback	-	-	(8)	(25)	(50)	(76)	(103)	(130)	(158)	(187)	(216)	(954)	(4,692)	(10,065)
Education (post FY23) reform rollback	-	-	-	-	-	-	-	-	-	-	-	-	(33)	(467)
	-	(427)	(616)	(676)	(790)	(874)	(962)	(1,041)	(1,118)	(1,197)	(1,277)	(8,976)	(26,187)	(47,133)
Adjusted Surplus/(Deficit): A+B	(\$7)	(\$587)	(\$1,142)	(\$910)	(\$982)	(\$1,086)	(\$1,106)	(\$535)	(\$755)	(\$1,024)	(\$1,355)	(\$9,487)	(\$34,194)	(\$71,731)
(\$ in millions)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	FY21- FY31	FY21- FY41	FY21- FY49
Cash Flow Projections														
Adjusted Beginning Balance (beginning of FY)	\$10,027	\$ 2,374	\$ 1,811	\$ 691	\$ (201)	\$(1,168)	\$(2,240)	\$(3,335)	\$(3,860)	\$(4,599)	\$(5,604)	\$ 10,027	\$ 10,027	\$ 10,027
Adjusted Surplus/(Deficit)	(7)	(587)	(1,142)	(910)	(982)	(1,086)	(1,106)	(535)	(755)	(1,024)	(1,355)	(9,487)	(34,194)	(71,731)
Upfront consideration	(5,984)	-	-	-	-	-	-	-	-	-	-	(5,984)	(5,984)	(5,984)
Convenience class	(100)	-	-	-	-	-	-	-	-	-	-	(100)	(100)	(100)
Interest	88	24	22	17	15	13	11	10	15	19	21	257	316	316
Labor concessions - System 2000	(1,500)	-	-	-	-	-	-	-	-	-	-	(1,500)	(1,500)	(1,500)
Labor concessions - Union Bonus	(150)	-	-	-	-	-	-	-	-	-	-	(150)	(150)	(150)
Ending Balance	\$2,374	\$1,811	\$691	\$(201)	\$(1,168)	\$(2,240)	\$(3,335)	\$(3,860)	\$(4,599)	\$(5,604)	\$(6,938)	(\$6,938)	(\$31,586)	(\$69,122)
Minimum Cash Balance Required	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Excess/(Shortfall)	(\$126)	(\$689)	(\$1,809)	\$(2,701)	\$(3,668)	\$(4,740)	\$(5,835)	\$(6,360)	\$(7,099)	\$(8,104)	\$(9,438)	(\$9,438)	(\$34,086)	\$(71,622)

