PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT
AND
BASIC FINANCIAL STATEMENT AND
OTHER SUPPLEMENTARY INFORMATION

For the years ended June 30, 2017 and 2016

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the *Public Buildings Authority* (the Authority), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed int the table of contents. The financial statements as of and for the year ended June 30, 2016, before restatement, were audited by other auditors whose report dated April 25, 2018 expressed a qualified opinion on such statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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To the Board of Directors of the
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Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our Opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Public Buildings Authority as of June 30, 2017, and the respective changes in financial position and its cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the Notes.

Our opinion was not modified with respect of the above matters.

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Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 to 19 and the schedule of funding progress for post-employment healthcare benefits on page 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we

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To the Board of Directors of the
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obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of bond sinking funds accounts and the schedule of operating rental revenues on pages 75 and 76, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of bond sinking funds accounts ant the schedule of operating rental revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in United states of America. In our opinion the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2020, see emphasis of a matter paragraph, reissuance of June 30, 2017 financial statements, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The Purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That reports an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March18,2020
Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381406 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

RAMIREZ FLORES AND CO
Certified Public Accountants
Lic. #231
Puerto Rico

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Introduction

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. We offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority FOR THE YEARs ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- The Authority's deficit increased by $38.7 million or 4.5% during the year ended June 30, 2017. For the year ended June 30, 2016, the deficit increased by $255.8 million or 87.4%. For the year ended June 30, 2017, the Authority reported an increase in rental income of $158.0 million. For the year ended June 30, 2016 the Authority reported a decrease in rental income of $201.5 million. During the year ended June 30, 2016, the Authority reduced the rent revenue by $222.5 million that resulted from a more conservative estimate for uncollectible amounts due from the Commonwealth, in which all but current year rent receivable was reserved as uncollectible. During the year ended June 30, 2017, management accounted for the offset of the Authority's cash balances, rent due from GDB, and line of credit due GDB as a result of agreement between the two entities for $42.6 million. During the year ended June 30, 2016, the Authority charged the debt service rental by $13.4 million for repayment of GDB line of Credit. During the year ended June 30, 2017, operating expenses decreased by $4.5 million or 1.9%. During the year ended June 30, 2016, operating expenses decreased by $2.6 million or 1.2%.

- The Authority's operating income increased from a restated loss of $31.6 million for the year ended June 30, 2016 to an operating income amounting to $130.8 million for the year ended June 30, 2017, mostly due to the reduction of 2016 rent revenue of $222.5 million, for estimated uncollectible amounts as explained in the preceding paragraph.

- The Authority's non-operating expenses decreased from $243.6 million for the year ended June 30, 2016 to $169.6 million for the year ended June 30, 2017 mostly due to the recognition of the aforementioned agreement between the Authority and GDB and the 2016 custodial credit risk loss on deposits held with GDB amounting to $40.6 million.

Going Concern and Liquidity Risk

The Authority's management believes that there is substantial doubt as to its ability to continue as a going concern in accordance Governmental Accounting Standard Board (GASB) Statements No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.

The Authority operations have been directly affected by the Commonwealth liquidity limitations and constraints during the years ended June 30, 2017 and 2016. As the Commonwealth's tax base has shrunk and its revenues declined by prevailing economic conditions resulting from a prolonged economic recession which commenced in 2006. High unemployment, population decline, and high levels of debt and debt service requirements, pension obligations, and health care costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services and budget reductions allocable to governmental units, including the Authority. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints have directly impacted the Authority's liquidity resulting in noncompliance with repayment of debt obligations when they became due during the years ended June 30, 2017 and 2016.

Fiscal Plan

Additionally, pursuant to PROMESA and the requirements imposed by the Oversight Board, on October 23, 2018, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. The Authority, as enforced by law, is adhered to such Fiscal Plan.

Overview of the Basic Financial Statements

The Authority's basic financial statements consist of: Management's Discussion and Analysis ("MD&A"), Basic Financial Statements, Notes to financial Statements, Required Supplementary Information and Other Supplementary Information.

Management's Discussion and analysis

The management's discussion provides an analysis to assist the readers in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

The statement of Net Position presents financial information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases in assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

The Statement of Revenues, Expenses and Changes in Net Positions presents information showing how the Authority's net position changed during the period and are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, investing activities, and non-cash items.

The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

Required Supplementary Information

The required supplementary information provides information concerning the Authority's progress in funding of postemployment healthcare benefits to employees.

Other Supplementary Information

In addition to the basic financial statement, accompanying notes and required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Authority, the deficit at June 30, 2017, 2016 and 2015 amounted to approximately $901.8 million, restated $863.1 million, and restated $587.7 million, respectively.

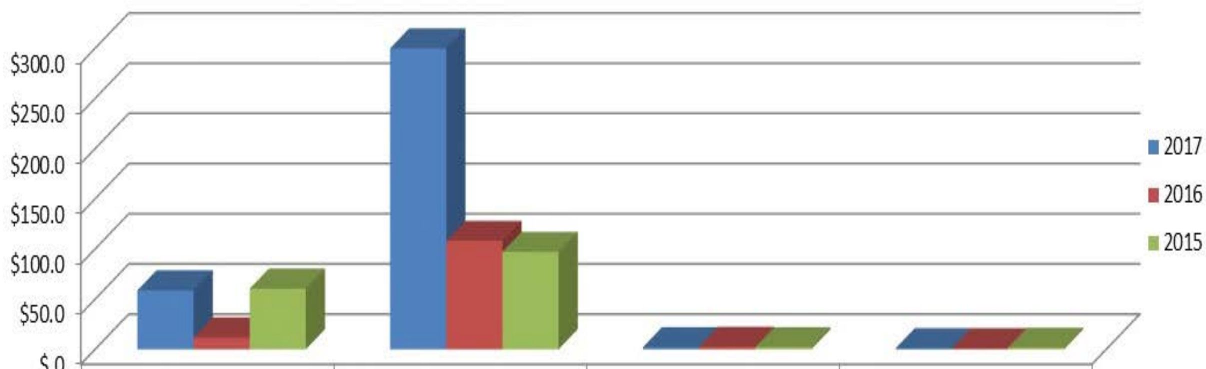
Statement Net Position

Following is condensed financial information of the Authority's statements of net position:

	June 30,		
	2017	**2016**	**2015**
Assets			
Current assets	$ 361,483,628	$ 123,085,453	$ 160,856,633
Capital assets	3,414,144,012	3,509,135,717	3,584,774,401
Other non-current assets	38,234,019	203,911,657	429,907,289
Total assets	3,813,861,659	3,836,132,828	4,175,538,323
Deferred outflows of resources	206,062,037	166,991,114	175,765,103
Total assets and deferred outflows of resources	4,019,923,695	4,003,123,942	4,351,303,426
Liabilities			
Current liabilities	382,591,805	263,029,360	274,382,923
Non-current liabilities	4,590,396,863	4,601,178,603	4,629,945,142
Total liabilities	4,972,988,669	4,864,207,963	4,904,328,065
Deferred Inflows of Resources	8,507,891	2,053,700	-
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663	4,904,328,065
Deficit			
Net investment in capital assets	(611,126,864)	(94,389,572)	31,690,664
Restricted Deficit	-	-	8,800,871
Deficit	(350,446,001)	(768,748,150)	(333,205,891)
Total deficit	$ (961,572,865)	$ (863,137,722)	$ (292,714,356)

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Current assets (in millions)



	Cash	Rent receivable, net	Other receivables, net	Other current assets
2017	$58.7	$299.8	$2.0	$1.0
2016	$11.7	$107.9	$2.5	$1.0
2015	$60.4	$97.0	$2.1	$1.4

When comparing June 30, 2017 with June 30, 2016, current assets increased by $238.4 million or 194%. Within current assets, cash at June 30, 2017 was $47.0 million or 401.5% higher than at June 30, 2016, rent receivable, net, was $191.1 million higher than previous year, thus accounting for most of the increase in current assets. This increase in cash was primarily the result of the cash flows activity from the Department of Treasury which withheld payments in fiscal year ended June 30, 2016, as reflected in the decrease in balance from June 30, 2015, and receipts from the Department of Treasury during the year ended June 30, 2017 for rent due and not paid in the year ended June 30, 2016.

When comparing June 30, 2016 with June 30, 2015 current assets decreased by approximately $37.8 million or 23.5%. This decrease was mainly related the decrease in the certificates of deposit balance and the custodial credit risk loss on deposits held with Government Development Bank (GDB) amounting to $40.6 million.

PUBLIC BUILDINGS AUTHORITY
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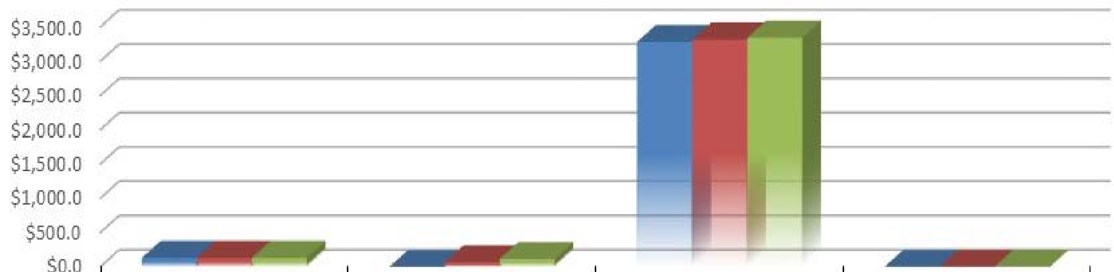
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Capital assets (in millions)



	Land	Contsttruction in progress	Buildings, net	Equipment and vehicles, net
2017	$129.6	$0.6	$3,281.0	$3.0
2016	$129.6	$62.1	$3,314.1	$3.3
2015	$129.6	$111.9	$3,340.0	$3.1

■ 2017 ■ 2016 ■ 2015

Construction in progress consists principally of costs incurred. Including capitalized interest and administrative costs, in the construction of new facilities or improvement to existing facilities. During the year ended June 30, 2012, the Authority commenced with the 21st Century School Program (the School Program), which consists of the construction or improvement of over 100 public schools.

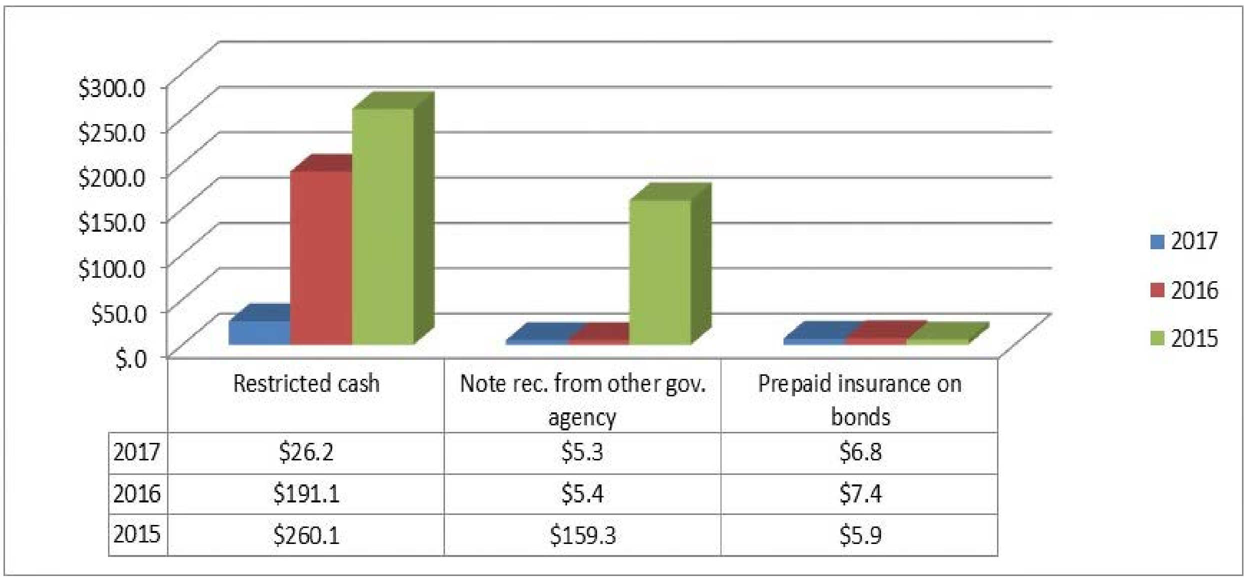
The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the Commonwealth, to serve as construction manager. Under the contract, AFI is responsible for the management of the program including, among others, contracting general contractors and/or subcontractors, inspection, supervision and acceptance of the remodeled schools and, in certain cases, provides maintenance to the schools. AFI bills the Authority the cost of the program plus an administrative fee.

At June 30, 2017, 2016 and 2015 construction in progress includes approximately $553 thousand, $62.1 million, and $11.9.9 million, respectively related to the School Program.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

When facilities under construction are completed, the cost of the facility is transferred to the account where the Authority commences to record depreciation on the facility and charges rent to the facility's tenants.

Other non-current assets (in millions)



	Restricted cash	Note rec. from other gov. agency	Prepaid insurance on bonds
2017	$26.2	$5.3	$6.8
2016	$191.1	$5.4	$7.4
2015	$260.1	$159.3	$5.9

When comparing June 30, 2017 with June 30, 2016, other non-current assets decreased by $165.9 million or 40.7%, mostly due to the use of the Bond sinking funds to make debt service payments with no contributions to the sinking fund or debt service payments resulting from a moratorium declared by the Commonwealth of Puerto Rico.

During the years ended June 30, 2016 and 2015, restricted cash and cash equivalents decreased by approximately $68.9 million and $78.2 million or 27% and 23%, respectively, principally due to a decrease in construction fund for monies used to finance the cost of facilities constructed during the year, especially the schools under the School Program and the loss on custodial credit risk amounting to $12.4 million during year 2016.

PUBLIC BUILDINGS AUTHORITY
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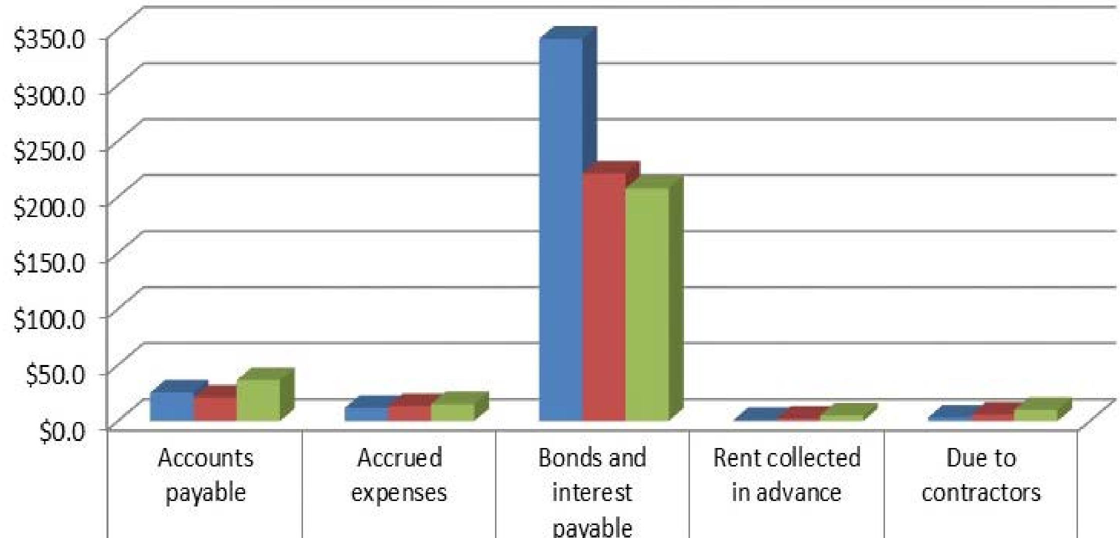
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Current liabilities (in millions)



	Accounts payable	Accrued expenses	Bonds and interest payable	Rent collected in advance	Due to contractors
2017	$25.5	$11.6	$341.3	$1.0	$3.1
2016	$21.0	$13.4	$221.0	$2.2	$5.9
2015	$36.6	$15.2	$207.6	$4.9	$10.1

When comparing June 30, 2017 with June 30, 2016, current liabilities increased by $119.1 million or 45.2%, mostly due to the Commonwealth of Puerto Rico moratoria in debt service payments during the year ended June 30, 2017, resulting in an increment in bonds and interest due.

Accounts payable at June 30, 2017 increased by $4.6 million when compared with June 30, 2016 mostly due to delays in payments to vendors to preserve cash.

Accrued expenses at June 30, 2017 decreased by $1.8 million when compared with June 30, 2016 mostly due to the following: a) a decrease in compensated absences ($3.8 million); b) other accrued expenses ($2.7 million); c) net of an increase in voluntary termination benefits ($4.7 million).

Bonds and interest payable consist of the current portion of the amounts due at June 30, 2017 and 2016. The amount due at June 30,2016 are in accordance with debt repayment schedule. The amount due at June 30,2017 are in compliance with debt repayment schedule and include subrogation rights that are limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

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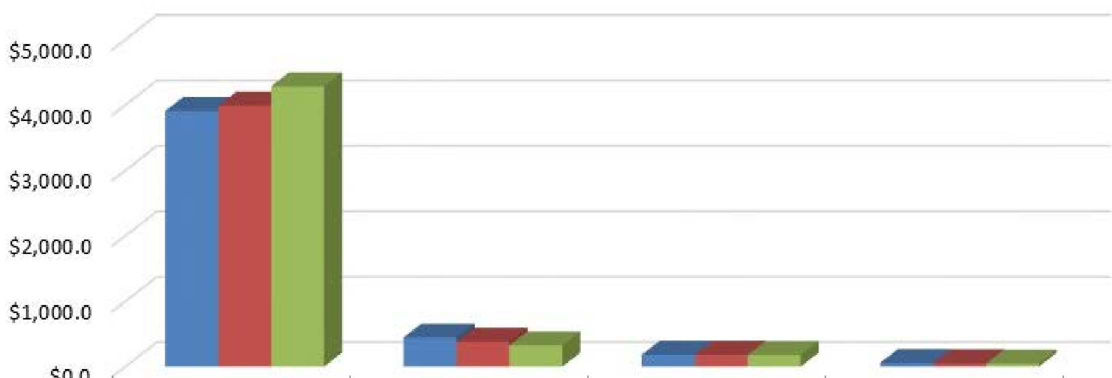
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Due to contractor represents the balance for projects under constructions. Normally, the contractors submit progress billing for projects in process and the authority pays thee invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

Non-current liabilities (in millions)



	Bonds payable	Net pension liability	Line of credit	Other
2017	$3,907.4	$444.5	$182.2	$56.3
2016	$3,987.2	$380.7	$182.2	$50.6
2015	$4,284.6	$325.0	$178.2	$45.8

The decrease in bonds payable during the years ended June 30, 2017 and 2016, consists of the payments made during each fiscal year in accordance with the related payment schedule.

The increase in net pension liability in the years ended June 30, 2017 and 2016 were $63.8 million and $55.7 million, respectively. The Authority implemented in the year ended June 30, 2017, GASB statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27, with corresponding restatements of the Statement of Net Deficit as of June 30, 2016 and the Statement of Revenues, Expenses and Changes in Deficit for the year ended June 30, 2016, including the restatement of beginning net deficit. This resulted in a net adjustment to net deficit of approximately $295.0 million as of June 30, 2015 and $314.6 million as of June 30, 2016.

The Authority has various line of credit agreements with GDB. Some of the agreements are to provide interim financing for construction of Authority's facilities while others are to finance operations including the financing of debt services requirements under the bond agreements.

Other non-current liabilities at June 30, 2017 and 2016, mainly consist of the non-current portion of post-retirement employee benefits, legal claims, voluntary termination benefits, and advances from other agencies. These amounts mainly increased in total by $6.0 million: $15 million increase in voluntary termination benefits, $13.2 million decrease in accrued legal contingencies, $.873 million increase in other post-employment benefits, $3.2 million increase in compensated absences.

Statement of Revenues, Expenses and Changes in Deficit

Following is a condensed financial information of the Authority's statement of revenues, expenses and changes in deficit:

	Years Ended June 30,		
	2017	**2016**	**2015**
REVENUES:			
Operating	$ 363,794,738	$ 205,780,405	$ 407,268,438
Non-operating	30,003,409	37,661,553	42,134,794
Total revenues	393,798,147	243,441,958	449,403,232
EXPENSES:			
Operating	251,994,173	237,480,679	220,476,925
Non-operating	240,239,117	281,348,413	241,173,609
Total expenses	492,233,290	518,829,092	461,650,534
Change in net deficit	(98,435,143)	(275,387,135)	(12,247,302)
Deficit:			
Beginning of year, as restated	(863,137,722)	(587,750,587)	(575,503,285)
End of year	$ (961,572,865)	$ (863,137,722)	$ (587,750,587)

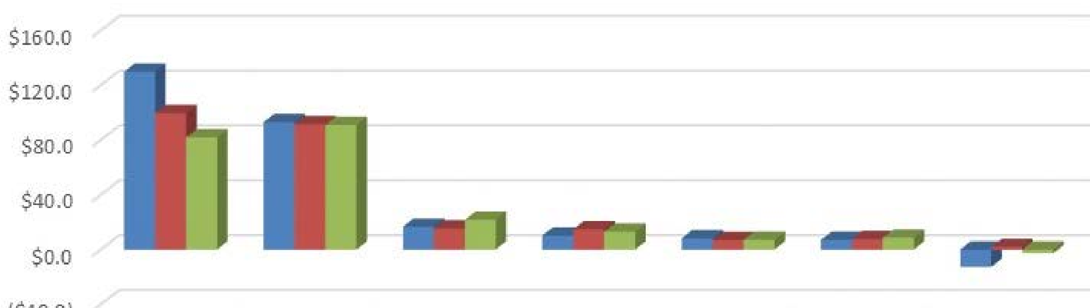
Operating revenues

Operating revenues consists principally of rent charges to agencies, public corporations and municipalities of the Commonwealth. Operating revenues increased $158.0 million from 2017 to 2016 mainly as a result of uncollectible amounts expense recognized in 2016 of $222.5 for rent receivables by agencies and public corporations of the Commonwealth.

Operating revenue decreased approximately $201.5 million from 2015 to 2016 as a result of reduction in the estimated rent made by the Commonwealth.

Expenses (in millions)

The following chart discloses the major components of operating expenses for the years ended June 30, 2017, 2016 and 2015:



	Salaries and benefits	Depreciation	Utilities	Repairs	Other	Rent and insurance	Legal claims
2017	$129.8	$92.9	$16.6	$10.2	$8.1	$7.0	($12.6)
2016	$99.5	$91.6	$15.5	$14.7	$6.8	$7.6	$1.8
2015	$81.8	$91.0	$21.8	$12.9	$7.0	$8.7	($2.7)

During the year ended June 30, 2017 operating expenses decreased by $4.5 million or 1.9% when compared with fiscal year 2016. During the year ended June 30, 2016 operating expenses decreased by $2.6 million or 1.2% when compared with fiscal year 2015. Salaries and benefits increased by approximately $30.3 million mostly due to the implementation of GASB No. 68 and preretirement state Law No. 211 of 2015. Depreciation expense increased by $1.3 million due to increase in projects transferred as completed and started to depreciate. Utility expenses increased by $1.1 million mostly due to increases in utility rates. The repairs and maintenance expenses decreased by $4.5 million mostly due to lack of resources to perform preventive maintenance and repairs. The other expenses increased by $1.3 million. Rent and insurance decrease $0.6 million. Legal reserve decreased by approximately $14.4 million in response to management's reassessment of legal contingencies.

Non-operating Revenues and/or Expenses

Nonoperating expense consists of interests paid and accrued on Authority's bonds and lines of credit agreements with GDB amounting to $240.2 and $240.8 million during the years ended June 30, 2017 and 2016, respectively.

The custodial credit risk loss amounting to $41 million was recorded during the year ended June 30, 2016.

Interest and other income increase by $19.1 million primarily due to debt service insurance proceeds used to service debt the Authority defaulted on.

During the years ended June 30, 2017 and 2016, the Authority received a subsidy from the Federal Government in the amount of approximately $27.7 and $36.1 million, respectively, for the payment of interest on series R and T bonds issued during 2012.

During the years ended June 30, 2017 and 2016, the authority received operating grants from the Commonwealth to finance operating expenses in the amounts of approximately $1.8 million and $832 thousand, respectively.

Capital Assets:

	June 30, 2017	June 30, 2016	Change
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,569,461	$ -
Construction in process	553,531	62,091,446	(61,537,915)
Total	130,122,992	191,660,907	(61,537,915)
Capital assets being depreciated			
Buildings	3,281,040,376	3,314,131,540	(33,091,164)
Equipment and vehicles	2,905,503	3,343,270	(437,767)
Total	3,283,945,879	3,317,474,810	(33,528,931)
Total Capital assets	$ 3,414,068,871	$ 3,509,135,717	$ (95,066,846)

	June 30, 2016	June 30, 2015	Change
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,550,969	$ 18,492
Construction in process	62,091,446	111,941,071	(49,849,625)
Total	191,660,907	241,492,040	(49,831,133)
Capital assets being depreciated			
Buildings	3,314,131,540	3,339,965,262	(25,833,722)
Equipment and vehicles	3,343,270	3,118,735	224,535
Total	3,317,474,810	3,343,083,997	(25,609,187)
Total Capital assets	$ 3,509,135,717	$ 3,584,576,037	$ (75,440,320)

The Authority's investment in capital assets as of June 30, 2017 and 2016 amounted to approximately $3.4 and $3.5 billion, net of accumulate depreciation, respectively. Capital assets include land, land improvements, construction in progress, building, equipment, furniture, and vehicles. Most building consists of governmental facilities that are leased to the commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statement.

During the years ended June 30, 2017 and 2016, the Authority completed approximately $61.5 million in construction projects and $49.8 million, respectively, in construction projects that were leased to the Commonwealth mainly related to the 21st Century Schools projects.

Debt Administration

Debt consist principally of bond payable, net of related unamortized bond discount or premiums, and borrowing under line of credit agreements with GDB. It does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds. Debt was issued principally to finance capital assets and to finance operating expenses and is summarized as follows:

	June 30, 2017	June 30, 2016	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	3,957,179,866	4,028,647,000	(71,467,134)
Total	3,994,494,866	4,065,962,000	(71,467,134)
Add (deduct):			
Bond discount	(23,895,255)	(25,246,416)	1,351,161
Bond premiums	28,293,540	32,598,039	(4,304,499)
Total	4,398,285	7,351,623	(2,953,338)
Bonds payable net	3,998,893,151	4,073,313,623	(74,420,472)
Lines of credit with GDB	182,160,106	182,160,106	-
Total debt	$ 4,181,053,257	$ 4,255,473,729	$ (74,420,472)

	June 30, 2016	June 30, 2015	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	4,028,647,000	4,110,647,000	(82,000,000)
Total	4,065,962,000	4,147,962,000	(82,000,000)
Add (deduct):			
Bond discount	(25,246,416)	(26,597,576)	1,351,160
Bond premiums	32,598,039	37,667,809	(5,069,770)
Deferred loss on bonds defeased	-	-	-
Total	7,351,623	11,070,233	(3,718,610)
Bonds payable net	4,073,313,623	4,159,032,233	(85,718,610)
Lines of credit with GDB	182,160,106	178,183,854	3,976,252
Total debt	$ 4,255,473,729	$ 4,337,216,087	$ (81,742,358)

June 30, 2017 and 2016

During the year ended June 30, 2017, bonds payable decreased by approximately $71.5 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. The bonds payable does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

June 30, 2016 and 2015

During the year ended June 30, 2016, bonds payable decreased by approximately $82.0 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. During fiscal year 2016, the Authority did not make payments for available line of credits; proceeds were obtained for $3.9 million. Also, scheduled interests for the year on such line of credits were not paid.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Building Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents, includes custodial credit risk of $62,025,050 in 2017 and $28,162,468 in 2016	$ 58,669,361	$ 11,698,832
Rent receivable, net of allowance for uncollectible accounts	299,844,011	107,925,407
Other receivables, net of allowance for uncollectible accounts	1,985,242	2,450,986
Other current assets	985,014	1,010,229
Total current assets	361,483,628	123,085,453
Non-current assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	4,492,977	167,231,893
Construction funds, includes custodial credit risk of $221,232,486 in 2017 and $8,322,926 in 2016	21,692,645	23,903,626
Note receivable from other governmental agency	5,281,269	5,366,086
Prepaid insurance on bonds	6,767,128	7,410,052
Capital assets:		
Land and construction in progress	130,122,993	191,660,907
Buildings, equipment and vehicles, net	3,284,021,019	3,317,474,810
Total non-current assets	3,452,378,031	3,713,047,374
Total assets	3,813,861,659	3,836,132,828
Deferred Outflows of Resources -		
Deferred loss on bond defeasance	90,231,166	98,828,558
Deferred outflows related to pension plans	115,830,871	68,162,556
Total deferred outflows of resources	206,062,037	166,991,114
Total assets and deferred outflows of resources	$ 4,019,923,695	$ 4,003,123,942

Continues

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

Continued

	2017	2016
LIABILITIES AND NET POSITION (DEFICIT)		
Current liabilities:		
Accounts payable	$ 20,081,927	$ 8,215,889
Intergovernmental	3,424,773	9,546,497
Accrued expenses	797,246	3,090,596
Rent collected in advance	1,024,065	2,204,411
Accrued legal contingencies	133,749	480,724
Compensated absences	3,999,779	7,833,309
Other post-employment benefits	400,765	390,278
Voluntary termination benefits	6,301,591	1,595,085
Current liabilities payable from restricted assets:		
Bonds payable	100,991,226	86,125,000
Interest payable	240,268,116	134,912,621
Due to contractors	3,145,518	5,902,448
Due to Puerto Rico Infrastructure Financing Authority	2,023,050	3,213,227
Total current liabilities	382,591,805	263,510,084
Non-current liabilities:		
Borrowing under line of credit	182,160,107	182,160,107
Bonds payable	3,907,412,263	3,987,188,623
Advances from other governmental agencies	553,531	460,329
Due to contractors	8,451,593	8,904,067
Accrued legal contingencies	4,643,003	17,857,514
Compensated absences	8,505,313	5,240,833
Net pension liability	444,525,548	380,714,914
Other post-employment benefits	15,890,486	15,017,444
Voluntary termination benefits	18,255,019	3,154,047
Total non-current liabilities	4,590,396,863	4,600,697,879
Total liabilities	4,972,988,669	4,864,207,963
Deferred Inflows of Resources		
Deferred inflows related to pension plan	8,507,891	2,053,700
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663
Net deficit		
Net investment in capital assets	(611,126,864)	(94,389,572)
Deficit	(350,446,001)	(768,748,150)
Total Deficit	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES EXPENSES AND CHANGES IN DEFICIT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016 As restated
Operating revenues:		
Rental revenues from governmental agencies, net of uncollectible amounts expense of $50,980,253 in 2017 and $222,461,178 in 2016	$ 363,794,738	$ 205,780,405
Operating expenses:		
Salaries and employees' benefits	129,829,984	99,504,950
Depreciation	92,869,207	91,631,886
Utilities	16,601,544	15,486,619
Repairs and maintenance	10,189,358	14,720,632
Voluntary termination benefits	33,571	160,624
Security services	2,050,000	1,748,517
Rent and insurance	7,014,281	7,567,781
Legal claims	(12,628,765)	1,761,144
Other, net of capitalized expenses of $7,453 and $14,487 in 2017 and 2016, respectively	6,034,993	4,898,527
Total operating expenses	251,994,173	237,480,679
Operating income (loss)	111,800,565	(31,700,274)
Non-operating revenue (expenses):		
Grant for the payment of bonds	27,669,504	36,135,387
Operating grants from commonwealth of Puerto Rico	1,623,015	831,643
Interest on bonds and notes	(240,239,117)	(240,758,111)
Interest and other income	353,860	347,237
Service charges and other	247,028	347,286
Custodial credit risk loss	110,002	(40,590,302)
Total non-operating revenue (expenses)	(210,235,708)	(243,686,860)
Change in deficit	(98,435,143)	(275,387,135)
Deficit		
At beginning of year as previously reported	-	(292,714,356)
Restatement adjustment - GASB Statement No. 68 adoption	-	(295,036,231)
At beginning of year, as restated	(863,137,722)	(587,750,587)
At end of year	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating activities:		
Receipts from tenants	$ 161,428,497	$ 347,559,663
Payments to employees and related benefits	(84,454,572)	(79,651,270)
Payments for goods and services	(26,047,420)	(50,216,553)
Custodial credit risk loss	-	(28,162,468)
Net cash provided by operating activities	50,926,505	189,529,372
Noncapital related financing activities:		
Operating grants from Commonwealth of Puerto Rico	-	831,643
Other non-operating receipts (disbursments)	(1,190,176)	213,766
Net cash (used in) provided by noncapital related to financing activities	(1,190,176)	1,045,409
Capital and related financing activities:		
Capital expenditures, net of interest capitalized	-	(29,793,384)
Custodial credit risk loss	-	(12,427,834)
Subsidy from federal government for the payment of bonds	27,669,504	36,135,387
Payment of bonds	(79,776,360)	(82,000,000)
Proceeds from borrowing under line of credits	-	3,976,252
Interest paid	(134,874,622)	(238,146,359)
Proceeds from bond insurers	19,087,764	-
Advances from governmental agencies	93,202	277,095
Proceeds from sale of property	-	198,364
Net change in bonds loss defeased bonds	-	8,773,989
Net cash used in capital and related financing activities	(167,800,512)	(313,006,490)
Investing activities		
Net change in amount due from Commonwealth of Puerto Rico	84,817	475,746
Collection of notes receivable	-	500,653
Interest and investment income collected	-	342,260
Net cash provided by investing activities	84,817	1,318,659
Net decrease in cash and cash equivalents	(117,979,366)	(121,113,050)
Cash and cash equivalents		
At beginning of year	202,834,351	323,947,401
At end of year	$ 84,854,985	$ 202,834,351

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Continued

	2017	2016
Reconciliation of cash and cash equivalents presented in the statement of net position:		
Cash and cash equivalents	$ 58,669,361	$ 11,698,832
Restricted cash and cash equivalents:		
Bonds sinking funds	4,492,977	167,231,893
Construction funds	21,692,645	23,903,626
Total cash and cash equivalents	$ 84,854,984	$ 202,834,351
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	$ 111,800,565	$ (12,125,471)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	92,869,207	91,631,886
Uncollectible accounts expense	50,980,253	222,461,178
Net change in operating assets and liabilities:		
Rent receivable	(240,675,970)	(77,974,960)
Other receivables, net	474,155	-
Other current assets	25,215	430,237
Prepaid insurance on bonds	642,925	642,924
Accounts payable and accrued expenses	9,572,686	(4,666,994)
Rent collected in advance	(1,180,346)	(2,706,960)
Custodial credit risk loss	-	(28,162,468)
Due to contractors	(3,209,404)	-
Accrued legal contingencies	(13,080,762)	-
Compensated absences	(569,050)	-
Other post-employment benefits	873,042	-
Voluntary termination benefits	19,807,479	-
Net pension liability	63,810,634	-
Deferred outflows related to pension plans	(47,668,315)	-
Deferred inflows related to pension plans	6,454,191	-
Net cash provided by operating activities	$ 50,926,505	$ 189,529,372
Summary of Non-Cash Transactions:	$ -	$ -

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION

The Public Building Authority (the "Authority") is a blended component unit of the commonwealth of Puerto Rico (the "Commonwealth"), created on June 19, 1958 by Act No.56, As amended, of the Legislature of Puerto Rico (the "Enabling Act"). The Authority designs, construct, administers, and provides maintenances to office building, courts, warehouses, schools, health care facilities, welfare facilities, shops and related facilities leased to the commonwealth of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the authority to cover the payment of:

i. Principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
ii. Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and,
iii. Cost of equipment replacement and extraordinary repairs

Components (ii) and (iii), described above, are subject to escalation to permit the Authority to recover the costs incurred. Amounts due from departments and governmental agencies of the commonwealth may be subject to periodic revisions and/or adjustment based on the availability of funds at the commonwealth level.

The Enabling Act provides that the full faith and credit of the commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the commonwealth. The Enabling Act also provides that the Department of treasury of the commonwealth of Puerto Rico (Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of account receivable since the responsibility of reimbursement belong to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act and executive orders issued thereunder, as described more fully in Note 25.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of Accounting –** The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard- setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

b. **Use of Estimates –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

c. **Fair Value of Financial Instruments –** The carrying amounts reported in the statements of net positions for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximates the rates currently available in the market for other debt with similar terms and remaining maturities.

d. **Cash and Cash Equivalents –** Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

e. **Allowance for Uncollectible Accounts** – The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

f. **Restricted Assets and Liabilities Payable from Restricted Assets –** Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payment of bonds payable and related interest costs and cash available in the related construction fund. When both restricted and unrestricted resources are available for specific use, it is the authority's policy to use restricted resources first, then unrestricted resources as they are needed.

g. **Capital Assets –** Capital` assets are recorded at cost. The construction cost includes indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years.

Interest cost is capitalized as part of the historical cost of acquiring certain assets while the assets are readied for their intended use. Interest earned on unspent tax-exempt borrowings restricted for acquisition of qualifying assets is offset against interest costs to determine the net amount to be capitalized.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 Years
Equipment's and automobiles	5-10 years

h. **Impairment of Capital Assets –** A capital assets is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairments include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage, among others.

No impairment allowance was identified during the years ended June 30, 2017 and 2016.

i. **Claims and Judgments –** The estimate amount of the liability for claims and judgment is recorded on the accompanying statements of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

j. **Compensated Absences** – Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

k. **Bonds premiums, Discounts, and loss on Defeasance –** Bond premiums and discount are amortized as a component of interest expense over the lives of the related issue using the straight-line method in a manner that approximates the interest method.

The deferred loss on bond defeasance is presented as deferred outflows in the accompanying statement of net position and the related amortization is presented as a component of interest expense.

l. **Deferred Outflows/Inflows of Resources –** In addition to assets and liabilities, the authority reports a separate section for deferred outflows/inflows of resources. This separate financial statement element, deferred outflows/inflows of resources, represents a consumption of net position that applies to a future period(s) and so be recognized as an outflow of resources (expense) until then.

m. **Net Position** – The difference between assets and liabilities is presented as "Net Position". Component of net position are the following:

1) Net investment in capital assets – Consists of Capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgages notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds, is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

2) Restricted for debt services – Net position restricted for debt service consists of restricted net assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

3) Restricted for other purposes – This restriction is imposed by the grantors and contributors.

4) Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

n. **Operating Revenues and Expenses** – The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with the rent of the and other

All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral as collateral for the repayment of the Authority's revenue bonds.

o. **Non-operating revenues** include activities that have the characteristic of non-exchange transactions that are defined as non-operating revenues by GASB Statement No.33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, such as state appropriations and investment income.

p. **Risk Financing-** The Authority carries commercial insurance to cover casualty, theft, claim and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the commonwealth.

q. **Reclassification of prior year presentation –** Certain reclassifications were made to the 2016 financial statements, in order to conform them to the current's presentation.

3. SIGNIFICANT DEPENDENCY ON COMMONWEALTH OF PUERTO RICO

Going Concern

As a part of its normal operating activities, and as disclosed in Notes 6, 11 and 16 to the basic financial statements, the Authority has significant balances and transactions with the Commonwealth of Puerto Rico (Commonwealth) and with the Government Development Bank for Puerto Rico (GDB). The Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from the Commonwealth, may not be collected in the near future, and the Authority's management is unable to determine when such amounts will be appropriated by the Legislature of the Commonwealth. Concurrently, these amounts due from Commonwealth are the sole source for the payment of the corresponding rent contracts charges to Commonwealth related entities and costs of certain construction projects that have been suspended or cancelled by Commonwealth, as disclosed in Note 6 and 11 to the basic financial statements.

GDB has traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units' deficits, but experienced its own liquidity constraints and was unable to continue serving in such role (refer to Note 25, Subsequent Events). Loan granted by GDB to the Commonwealth and its component unit constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years.

On May 1, 2017, the stay under Title IV of Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA. Title lll of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title lll cases pursuant to PROMESA section 301(a). The Authority management's plan is to adhere to the Commonwealth Remediation Plan.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On October 23, 2018, the Oversight Board certified its own new fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

(i) *Human Capital and Welfare Reform*

(ii) *Ease of Doing Business Reform*

(iii) *Energy and Power Regulatory Reform*

(iv) *Infrastructure and Capital Investment Reform*

(v) *Establishment of the Office of the CFO*

(vi) *Agency Efficiency Measures*

(vii) *Healthcare Reform*

(viii) *Tax Compliance and Fees Enhancement*

(ix) *Reduction in UPR and Municipality Appropriations*

(x) *Pension Reform*

(xi) *Fiscal Controls and Transparency*

The Authority has evaluated the possible effects of the uncertainties and liquidity risks being faced by the Commonwealth and GDB, on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

4. RESULTS OF OPERATIONS

As of June 30, 2017 and 2016, the Authority has an accumulated deficit of $961.6 and $863.1 million, respectively. The Authority faces a number of challenges that are closely related to the Commonwealth's economic recession. During the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in other to retain existing tenants and attract new agencies and instrumentalities.

Rent receivable includes amount due by agencies and public corporations of the Commonwealths that are overdue. In addition, the Authority has a receivable, presented as due from Commonwealth, for costs incurred in the development of projects that were subsequently suspended. During the fiscal year 2016, $90.5 million was fully reserved as uncollectible. The inability of the Authority to collect the total amount due on time could result in adverse effect on the Authority's financial position and results of operations.

As result to the above, the Authority's deficit increased by $98.4 million during the year ended June 30, 2017 as compared with the restated increase of $570.4 million during the year ended June 30, 2016.

5. UNRESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Deposited in comercial banks:		
Cash in banks	$ 57,212,238	$ 10,250,116
Cerificates of deposits	1,457,123	1,448,716
Total depoited in comercial banks	58,669,361	11,698,832
Deposited in Government Development Bank of PR:		
Certificates of deposits	-	28,162,468
Custodial credit risk loss	-	(28,162,468)
Total cash and cash equivalents	$ 58,669,361	$ 11,698,832

Custodial Credit Risk Loss on Deposit with Governmental Development Bank

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in note 3 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As a result, a custodial credit risk loss on unrestricted deposits held with GDB for $0.0 and $28.2 million of cash deposited as of June 30, 2017 and 2016, respectively.

6. RENT RECEIVABLE

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. Minimum lease rentals are approximately as follows:

Fiscal Year Ending June 30,		Amount
2018	$	423,694,740
2019		423,488,265
2020		429,372,861
2021		450,614,861
2022-2026		2,172,650,642
2027-2031		3,232,434,591
2031-2036		1,839,483,394
2037-2042		2,017,240,797

Lease rental agreements provide for rate revisions every July 1st based on, among other things, debt service requirements for the particular year.

The total amount of rent receivable includes approximately $45.0 million over one year old, $51.8 million over 2 years old and $91.4 million over 3 years old which are fully reserved under an estimated allowance for uncollectible accounts of approximately $191.7 million. The most significant amounts included in the above categories are amounts due from the Puerto Rico Department of Education, Courts Administration, Department of Correction, and the Cardiovascular Center, and the Police Department of the Commonwealth of Puerto Rico, amounting to approximately $249.0 million, $61.3 million, $31.4, $26.9, and $23.6 respectively.

Although the balance of rent receivable at June 30, 2017 and 2016 includes invoices that are overdue, and management has recorded and estimated allowance for uncollectible accounts during 2017 and 2016 as explained above, Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be pay to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth will advance to the Authority the amount not paid. This Law requires to the Secretary of Treasury Department to make an advance of any available funds committed by the full faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality, this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection. There were no advances from the Commonwealth and the Revenue Collection Center during the years ended June 30, 2017 and 2016.

During the years ended June 30, 2017 and 2016, the Authority received payments from the Departments of Treasury in excess of the amounts owned by the Commonwealth agencies and instrumentalities in the amount of $1.0 and $2.2 million respectively. This amount is included as rent collected in advance in the accompanying statements of net position.

During the year ended June 30, 2017 and 2016, the Authority reduced the rent revenue by $50.9 and $222.5 million, respectively for uncollectible amounts.

7. OTHER RECEIVABLES

Other receivables consist of billings for miscellaneous services performed by the Authority and amounted to approximately $21.8 and $22.3 million for the years ended June 30, 2017 and 2016, respectively. The amount is presented in the accompanying statement of net position net of related allowance for uncollectible accounts amounting to $19.9 million at June 30, 2017 and 2016.

8. RESTRICTED CASH AND CASH EQUIVALENT

Restricted cash and cash equivalents at June 30, 2017 and 2016 consist of the following:

	2017	2016
Interest bearing cash accounts:		
Commercial bank	$ 4,492,977	$ 2,085,647
Government Development Bank of PR		12,427,834
Mutual funds	21,692,645	189,049,872
	26,185,623	203,563,353
Less: Custodial credi risk loss	-	(12,427,834)
Total restricted cash and cash equivalents	$ 26,185,623	$ 191,135,519

Continues

Continued

These amounts are presented in the statements of net position as follows:

		2017		2016
Bond sinking funds	$	4,492,977	$	167,231,893
Cash to be deposited in bond sinking funds				834,145
Construction funds		21,692,645		32,226,552
Funds for construction of facilities for other government entities		-		3,270,763
		26,185,623		203,563,353
Less: Custodial credi risk loss		-		(12,427,834)
Total restricted cash and cash equivalents	$	26,185,623	$	191,135,519

a. **Bond sinking funds -** Bond sinking funds consist of monies deposited under Resolution No. 468 and consist of two (2) separate accounts designated as a "Bond Service Account" and a "Redemption Account". Revenues received from debt service rental with respect to facilities financed under Bond Resolution No. 468 are deposited with its respective fiscal agent for the credit as such accounts in the following order:

1) To the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six month of all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

2) To the Redemption Account, in such amount as may be required to make the amount so deposited in the current fiscal year equal to the amortization requirements, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amounts of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligation, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

In July 2017, The Authority defaults its bond service payments and the insurer began covering the deficiencies. During year ended June 30, 2017, proceeds from insurer approximately $19.0 million.

b. Cash to be deposited in bond sinking funds – These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents.

c. Construction Funds – These funds are used for the payment of all or any part of the remaining cost of the initial facilities, as defined, or for payment of all or any part of the cost to the Authority of any additional facilities or Improvements, are defined, in accordance with the Bonds resolutions. At June 30, 2017 and 2016, most of the funds deposited in the construction fund are restricted for the financing of Century 21st school program, as explained below, under School Renovation Funds.

9. DEPOSITS

The Authority is restricted by law to deposit funds only in institutions approved by the Commonwealth of Puerto Rico's Treasury Department, and such deposit are required to be kept in separate accounts in the name of the Authority.

The Authority is authorized to invest in Puerto Rico and U.S government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the investment Guidelines for the Commonwealth, the Authority may invest in obligation of the Commonwealth, obligations of the United States, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and / or interest-bearings time deposits, or other similar arrangements, as provide by the bond Resolutions.

Custodial Credit Risk- For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank's must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's deposit at June 30, 2017 and 2016 amounts to $83.3 million and $15.7 million, respectively.

10. NOTE RECEIVABLE FROM OTHER GOVERNMENTAL AGENCY

The Authority entered into a note receivable agreement with the Institute of Technology in Ponce Puerto Rico for the payment of construction cost aggregating approximately $7.7 million. This amount will be collected in varying principal installments plus interest at 2.8% through fiscal year 2021.

Future estimated principal and interest collection during future years are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 529,561	$ 51,585
2019	544,635	36,511
2020	560,137	21,009
2021	3,646,936	1,144,810
Total	$ **5,281,269**	$ **1,253,915**

11. TRANSACTIONS WITH COMMONWEALTH OF PUERTO RICO

a. **Rental Revenue and Receivable –** All rental revenues are from charges to the Commonwealth related entities and related rental receivable that are due by such entities.

b. **Contributions –** The Commonwealth, from time to time makes non-operating contributions to the Authority. Capital grants are restricted to finance investment in capital assets.

c. **Advances from Governmental Agencies for Construction of Agencies' Projects –** Represent unspent funds received from federal agencies and municipalities for the construction of projects. At June 30, 2017 and 2016 balance amounted to approximately $553,000 and $460,000, respectively.

12. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	Year ended June 30, 2017				
	Balance June 30, 2016	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 129,569,461	$	$ -	-	$ 129,569,461
Construction in progress	62,091,446	(1,718,095)	-	(59,819,820)	553,531
Total capital assets not being depreciated	191,660,907	(1,718,095)	-	(59,819,820)	130,122,992
Capital assets being depreciated:					
Buildings	4,690,627,939	(534,877)	-	59,819,820	4,749,912,882
Equipment and vehicles	13,852,178	-	-	-	13,852,178
Total capital assets being depreciated	4,704,480,117	(534,877)	-	59,819,820	4,763,765,060
Less accumulated depreciation:					
Buildings	(1,376,496,399)	(472,000)	(92,363,843)	-	(1,469,332,242)
Equipment and vehicles	(10,508,908)	527,333	(505,364)	-	(10,486,939)
Total accumulated depreciation	(1,387,005,307)	55,333	(92,869,207)	-	(1,479,819,181)
Capital assets being depreciated, net	3,317,474,810	(479,544)	(92,869,207)	59,819,820	3,283,945,879
Capital assets, net	$ 3,509,135,717	$ (2,197,639)	$ (92,869,207)	$ -	$ 3,414,068,871

	Balance June 30, 2015	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	$ 129,550,969	$ -	45,108	$ (26,616)	$ 129,569,461
Construction in progress	111,941,071	-	36,574,458	(86,424,083)	62,091,446
Total capital assets not being depreciated	241,492,040	-	36,619,566	(86,450,699)	191,660,907
Capital assets being depreciated:					
Buildings	4,624,682,349	-	86,424,083	(20,478,493)	4,690,627,939
Equipment and vehicles	14,830,134	-	9,342	(987,298)	13,852,178
Total capital assets being depreciated	4,639,512,483	-	86,433,425	(21,465,791)	4,704,480,117
Less accumulated depreciation:					
Buildings	(1,284,717,087)	-	(90,810,725)	(968,587)	(1,376,496,399)
Equipment and vehicles	(11,711,399)	-	(821,161)	2,023,652	(10,508,908)
Total accumulated depreciation	(1,296,428,486)	-	(91,631,886)	1,055,065	(1,387,005,307)
Capital assets being depreciated, net	3,343,083,997	-	(5,198,461)	(20,410,726)	3,317,474,810
Capital assets, net	$ 3,584,576,037	$ -	31,421,105	$ (106,861,425)	$ 3,509,135,717

a. **Capitalized Interest and General Construction Expenses –** The Authority capitalized to construction in progress during the fiscal years ended June 30, 2017 and 2016 interest for approximately $0.9 and $3.0 million, respectively. In addition, the Authority capitalized construction general expenses for approximately $2.9 million and $14,500 during the years ended June 30, 2017 and 2016, respectively.

b. **21st Century Schools Programs –** Construction in progress at June 30, 2017 and 2016 includes $0.06 and $39.2 million, respectively, related to 21st Century Schools Program (the School Program). The program consists of remodeling of over 100 schools throughout Puerto Rico. To finance the program, the Authority issued government facilities revenue bonds in the amounts of $878 million during the year ended June 30, 2012 of which $10.7 and $15.7 million are deposited in construction funds at June 30, 2017 and 2016, respectively.

   The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the commonwealth. To serve as construction manager. Under the contract, AFI is responsible for the management of the program including among others, contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. AFI bills the Authority the cost of the program plus an agreed administrative fee. Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leases such schools from DTOP for a minimum rent of $10 per year. When the Improvements of such schools are completed, the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under forbearance.

13. LAND AND BUILDING UNDER CONSTRUCTION FOR OTHER GOVERNMENTAL AGENCIES

The Authority did not have any activity related to land and building under construction for other governmental agencies for the year ended June 30, 2017. Activity in land and building under construction for other governmental agencies for the year ended June 30, 2017 is as follows:

	Year Ended June 30, 2017			
	Balance at beginning	Increase	Decreases	Balance at End of Year
Construction in progress	$ 460,329	$ 458,621	$ 365,419	$ 553,531

14. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at June 30, 2017 and 2016 consists of the following:

	2017	2016
Amount payable from unrestricyed assets:		
Puerto Rico Electric Power Authority	$ 2,431,025	$ 3,045,360
Puerto Rico Acueduct and Sewer Authority	370,488	392,336
Employees's Retirement System	8,267,446	3,458,352
General Services Administration	247,201	138,089
Commonwealth of Puerto Rico	2,388,511	2,388,511
Other	132,813	123,849
Total payable for unrestricted assets	$ 13,837,484	$ 9,546,497
Amount payable from restricted assets:		
Puerto Rico Infraestructure Finincing Authority	$ 2,023,050	$ 3,213,227

Of the intergovernmental payables from unrestricted assets, $11.5 million are included in accounts payable balance as of June 30, 2017.

15. BORROWING UNDER LINES OF CREDIT

The activity under the line of credit agreements during the fiscal years ended June 30, 2017 and 2016 is a follow:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2017	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	117,441,291		-	117,441,291	-
Total	$ 182,160,107	$ -	$ -	$ 182,160,107	$ -

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2016	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	113,465,039	3,976,252		117,441,291	
Total	$ 178,183,855	$ 3,976,252	$ -	$ 182,160,107	$ -

During fiscal year 2008, the Authority executed two lines of credit agreements with GDB for the interim financing of its capital improvement program in an amount not to exceed $226 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable lines as determined by GDB but not less than 6.0%. The lines are due on June 30, 2044 and will be payable from the proceeds of the future revenue refunding bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $66.4 million at June 30, 2017 and 2016.

The Authority maintained an operating line of credit with GDB in which the Authority could borrow up to $75 million, bearing interest at 150 basis point over three-month LIBOR but not less than 5% at any time (7% at June 30, 2017 and 2016). The proceeds from this line were used to finance the Authority's operational expenses for the year ended June 30, 2006. Payments of principal and interest will be from annual appropriations from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The line is due on June 30, 2018. No payments were made for principal and interest amount during the years ended June 30, 2017 and 2016. Balance outstanding under this line of credit amounted to approximately and $64.7 million at June 30, 2017 and 2016.

During fiscal year 2010, the Authority executed lines of credits agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $93.6 million, bearings interest at a variable rate of 1.50% over prime rate or at such other variable rate as determined by GDB but not less than 6% at any time (6% at June 30, 2016 and 2015). The lines are due on June 30, 2044 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $51.0 million at June 30, 2017 and 2016.

Total interest expense charged by GDB under the above lines of credit agreements amounts to approximately $11.5 million during the years ended June 30, 2017 and 2016.

16. BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consist of:

	2017	2016
Office Buildings Bond:		
Term bonds maturing through 2021 with interest rates ranging from 5.5% to 6.0%	$ 37,315,000	$ 37,315,000
Government Facilities Revenue Bonds:		
Serial bonds maturing through 2027, with interest rates ranging from 3.0% to 6.75%	1,579,048,977	1,651,092,000
Term bonds maturing through 2042, with interest rates ranging from 3.0% to 7.0%	2,354,945,000	2,354,945,000
Capital Appreciation bonds, maturing through 2031, with interest rate a 5.45%	22,610,000	22,610,000
Total government facilities revenue bonds	3,956,603,977	4,028,647,000
Subrogated principal paid by monoline insurers	10,086,227	-
Total bonds outstanding	4,004,005,204	4,065,962,000
Add (Deduct):		
Bond discount	(23,895,256)	(25,246,415)
Bond premium	28,293,541	32,598,038
Bonds payable, net	4,008,403,489	4,073,313,623
Less current portion	100,991,226	86,125,000
Bonds Payable	$ **3,907,412,263**	$ **3,987,188,623**

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payment in future years are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 100,991,226	$ 181,632,621
2019	66,235,000	205,973,886
2020	69,645,000	201,710,005
2021	74,140,000	202,923,303
2022	99,560,000	197,709,522
2023 - 2027	507,165,000	899,630,030
2028 - 2032	1,430,981,000	1,026,454,873
2033 - 2037	725,715,000	344,364,779
2038 - 2043	924,460,925	149,683,200
Total	**$ 3,998,893,151**	**$ 3,410,082,219**

The full faith and credit of the Commonwealth is pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds was further supported by the guaranty of the Commonwealth under which the Commonwealth pledged to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may have been be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,721 million.

The Authority bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Services of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2017 and 2016.

The Authority's bonds payable include certain restrictive covenants. At June 30, 2017 and 2016, the Authority was not in compliance with such covenants due to financial constrains carried by the Commonwealth of Puerto Rico.

During the year ended June 30, 2017, monoline insurers of the Authority's bonds made principal and interest payments of approximately $10.1 and $9.0 million, respectively. The monoline insurance policies include express subrogation rights that are limited to the amount actually paid for each of the missed payments of the insured bonds. Although a monoline insurance policy does not contain express subrogation rights and another states subrogation rights broadly, applicable non-bankruptcy law would limit these monoline insurers' rights to reimbursements of the actual amount paid to holders of insured bonds. In addition, for any insured bonds issued by a debtor under Title III of PROMESA, the monoline insurers' claims for repayment will be treated the same as any other insured bond claim under any confirmed Title III plan of adjustment, such that the monoline insurers' may not recover the full amount paid.

The activity of bonds payable during the fiscal years ended June 30, 2017 and 2016 are as follows:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Increase	Payments/ Decreases	Balance June 30, 2017	Current Portion
Office Building Bonds					
Terms bonds	$ 37,315,000	-	$ -	$ 37,315,000	$ 8,965,000
Government Facilities:					
Revenue bonds	-	-		-	
Serial bonds	1,651,092,000	-	(71,467,134)	1,579,624,866	81,940,000
Term bonds	2,354,945,000	-		2,354,945,000	-
Capital apreciation bonds	22,610,000	-		22,610,000	-
Subrogated principal paid by monoline insurer	-	10,086,227	-	10,086,227	10,086,226
Total	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Total bonds outstanding	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Add (deduct):					
Bond discounts	(25,246,416)	-	1,351,160	(23,895,256)	-
Bond premiums	32,598,039	-	(4,304,498)	28,293,541	-
Bonds payable, net	$ **4,073,313,623**	$ **10,086,227**	$ **(74,420,472)**	$ **4,008,979,378**	$ **100,991,226**

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increase	Payments/ Decreases	Balance June 30, 2016	Current Portion
Office Building Bonds					
Terms bonds	$ 37,315,000	$ -	$ -	$ 37,315,000	$ -
Government Facilities:					
Revenue bonds	-	-	-	-	-
Serial bonds	1,733,092,000	-	(82,000,000)	1,651,092,000	86,125,000
Term bonds	2,354,945,000	-	-	2,354,945,000	-
Capital apreciation bonds	22,610,000	-	-	22,610,000	-
Total	4,110,647,000	-	(82,000,000)	4,028,647,000	# 86,125,000
Total bonds outstanding	4,147,962,000	$ -	$ (82,000,000)	$ 4,065,962,000	$ 86,125,000
Add (deduct):					
Bond discounts	(26,597,576)	-	1,351,160	(25,246,416)	-
Bond premiums	37,667,809	-	(5,069,770)	32,598,039	-
Bonds payable, net	$ **4,159,032,233**	$ **-**	$ **(85,718,610)**	$ **4,073,313,623**	$ **86,125,000**

The bonds payable due on July 1, 2016 was $86,125,000 principal and $100,865,721 interest, for a total payment due of $186,990,721. The payment made by the Authority was $161,717,658. The Authority default of this payment was $25,273,063. Of this amount, the monoline insurers' paid $10,086,277 by October 2016. In January, 2017, the monoline insurers' paid approximately $9 million in interest.

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on its debts. Defeased debt, in-substance, and the related assets placed in trust to repay the debt are no longer reported on the face of the financial statements, in accordance with GASB Statement No. 86, Certain Debt

Extinguishment Issues. As June 30, 2017 and 2016, the outstanding balance of defeased bonds was approximately $659.9 and $660 million, respectively.

17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at June 30, 2017 and 2016 consist of:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Increase	Decreases	Balance June 30, 2017	Current Portion
Advances from other governmental agencies	$ 460,329	$ 458,621	$ (365,419)	$ 553,531	$ -
Compesated absences	13,074,142	24,195	(593,245)	12,505,092	3,999,779
Accrued Legal Contingencies	17,857,514	-	(13,080,762)	4,776,752	134,695
Other post-employment benefits	15,888,446	402,805	-	16,291,251	400,765
Voluntary Termination Benefits	4,749,132	25,780,576	(5,973,098)	24,556,611	6,301,591
Total	$ 52,029,563	$ 26,666,197	$ (20,012,524)	$ 58,683,237	$ 10,836,830

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increase	Decreases	Balance June 30, 2016	Current Portion
Advances from other governmental agencies	$ 460,329	$ -	$ -	$ 460,329	$ -
Compesated absences	11,368,578	7,833,309	(6,127,745)	13,074,142	7,833,309
Accrued Legal Contingencies	17,048,154	1,761,143	(951,783)	17,857,514	480,724
Other post-employment benefits	14,143,473	2,269,042	(524,069)	15,888,446	390,278
Voluntary Termination Benefits	6,510,778	130,560	(1,892,206)	4,749,132	1,595,085
Total	$ 49,531,312	$ 11,994,054	$ (9,495,803)	$ 52,029,563	$ 10,299,396

a. **Advances from Other Governmental Entities** – This amount represents the balance of the amount advanced by the other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration progress. Upon acceptable of completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

b. **Compensated absences** – Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as expense the vested accumulated vacation and sick leave and benefits accrue to employees. The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

c. **Accrued Legal Contingencies –** This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based on the advice and consent of the Authority's legal division and external legal advisors. Actual to be settled may be materially difference from the amount accrued.

d. **Other Post-Employment Benefits –** This amount represents the Authority's liability for its retirement health care benefits under the Healthcare Benefit Plan to Retirees as further described in Note 20.

e. **Voluntary Termination Benefits –** This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 21.

18. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractor for projects under construction. Normally, the contractor submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

19. PENSION PLAN

(a) General Information about the Pension Plan

The Authority participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a cost sharing multiple-employer retirement plan, which covers only eligible full-time employees. The ERS was created by Act No. 447 of May 15, 1951 and provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

The ERS administers different benefits structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000program) and a contributory hybrid program. Benefit provisions may vary depending on a member's date of hire.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by Legislature with Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the ERS. The Commonwealth does not guarantee benefits at retirement age.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013 and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Benefits Provided – An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30,2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

   If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social

Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

   If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

   For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

Contributions

The contribution requirement to the ERS is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

1) *Member Contributions*

   Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

2) *Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)*

   Effective July 1, 2011, employer contributions are 9.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

3) *Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)*

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 (of which $800 corresponds to the pension plan and $1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

4) *Additional Uniform Contribution (Act No. 32, as Amended)*

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014-2016 was $120 million, payable at end of each fiscal year. The additional uniform contribution determined for fiscal year 2016-2017 was $596 million, payable at the end of the fiscal year. The additional uniform contribution was eliminated in June 2017.

Additional information of the ERS is provided in its financial statements for the year ended June 30, 2017 a copy of which can be obtained from the Administrator of the Retirement Systems of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan, Puerto Rico 00949.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Authority recorded a liability of $444,525,548 for our proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and determined by an actuarial valuation as of that date. The Authority's proportionate share of the total net pension liability was based on the ratio of our actual contributions of $9,890,191 paid to ERS for the year ended June 30, 2016 relative to the actual contributions of $779,477,001 from all participating employers. At June 30, 2016, the Authority's proportionate share was 1.179% which increased 0.037% when compared to the proportional share as of June 30, 2015 of 1.142%

For the year ended June 30, 2017, the Authority recognized pension expense of $39,302,004.

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources related to ERS pension benefits:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance of deferred outflows and inflows due to:		
Difference between expected and actual experience	$ 363,435	$ 6,102,635
Changes of assumptions	67,803,860	
Net difference between projected and actual earnings on pension plan investments	-	2,405,256
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,958,082	-
Employer contributions subsequent to the measurement date	16,705,494	-
	$ 115,830,871	$ 8,507,891

$16,705,494 reported as deferred outflows of resources to pensions resulting from contribution subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as collective deferred (inflows) / outflows of resources to be recognized in pension expense:

Year Ending June 30:	
2018	$ 19,483,985
2019	19,483,985
2020	20,336,630
2021	20,555,490
2022	10,757,396
Thereafter	—
	$ 90,617,486

(c) Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability:

Measurement Date	June 30, 2016
Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Total Payroll Growth	
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy.
Cost-of-Living Increases	
Mortality Assumption	Pre-retirement Mortality: For members covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.
	Post-retirement Healthy Mortality: Rates which vary by gender are assumed for helthy retirees and benifeciaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. As a generational table, it reflects mortality improvements both before and after measurement date.
	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

(d) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The June 30, 2016 actuarial valuation for ERS reflects an increase of approximately $3.9 billion in the total pension liability because of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67 and an decrease of approximately $250 million in the total pension liability because of differences between expected and actual experience. With the enactment of Act No. 3 of 2013, termination, retirement and disability rates were added for new Act No. 3 members. Also, the compensation increase assumption was revised due to Act No. 66 of 2014.

(e) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation portfolio that was adopted by the ER'S Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and estimates of expected rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

	Traget Allocation	Long-term expected rate of return
Asset Class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	100 %	

(f) Date of Depletion and Discount Rate

The asset basis for the depletion projection is the ERS Fiduciary net position. On this basis, the ERS fiduciary net position became negative in fiscal year 2015 and accordingly no projection of date of depletion is needed. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

The discount rate used to measure the ERS total pension liability was 2.85%.

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority as of June 30, 2016, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than current rate:

		At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net pension liability	$	508,373,225	443,235,167	170,571,815

20. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This Statement replaces the requirement of Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions" (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

OPEB are part of an exchange of salaries and benefits for employee service rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial report to reflect systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB, and whether and to what extent progress is being made in funding the funding the plan.

a. **Plan Description –** The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses.

   Based on the Plan's features and functionally, and for the purpose of the actuarial valuation, it has been identified as a single – employer defined benefit healthcare plan. Participant groups covered are employees under Collective Labor Agreement with "Union Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and the Authority's management employees.

   All employees with at least 10 years of rendered services within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

   - For employees that were employed by the Authority at March 30, 1990 the retirement is at 30 years of service.

   - For employees that were employed by the Authority after Match 30, 1990 the retirement is at 10 years of service and 65 years old.

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation end in case of death after retirement.

b. **Description of The Other Postemployment Benefits Provided –** In addition to providing the pension benefits, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority's contribution is limited to $200 monthly per single retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the collective bargain agreement and will be re-evaluated when the collective bargain agreements are up for renewal. Under this level of benefits provided, the medical cost increases reside with the retiree and, therefore, results in a lower OPEB liability for the Authority.

c. **Membership –** As of June 30, 2017 and 2016, the number of active employees and retirees amounted to 1,378 and 1,449, respectively.

d. **Funding policy –** The obligation of the plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The cost of administering the plan are paid by the Authority.

e. **Annual OPEB cost and net OPEB obligation –** The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in the plan with more than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceeded thirty years.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2017 and 2016:

OPEB Obligation

The net OPEB obligation change for the years ended June 30, 2017 and 2016 is as following:

	2017	**2016**
Normal OPEB obligation at beginning of year	$ 15,888,446	$ 14,143,473
Total annual OPEB costs	1,174,607	2,269,042
Actuarial change in estimate	(618,748)	-
Actuarial benefits payments	(153,054)	(524,069)
OPEB liability	$ 16,291,251	$ 15,888,446

Components of OPEB costs during the years ended June 30, 2017 and 2016 are as follows:

	2017	**2016**
Annual required contribution (ARC) for the fiscal year	$ -	$ 3,193,225
Service Cost	895,113	-
Actuarial change in estimate	25,888	-
Interest or net OPEB obligation	520,844	413,100
ARC amortization adjustment	(267,238)	(1,860,675)
Total annual OPEB Costs	$ 1,174,607	$ 1,745,650
Actuarial discount rate	3.60%	2.60%

As of June 30, 2017 and 2016, the total aggregate amount of actuarial accrued liability for benefits was $16.2 and $20.3 million, respectively, all of which was unfunded. The covered payroll (annual payroll of actives employees covered by the plan) was approximately $53.3 and $49.9 million during the fiscal years ended June 30, 2017 and 2016, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.3% and 40.6%, respectively. The Authority's annual required contributions were $0.0 and $2.9 million during the years ended June 30, 2017 and 2016, as required by GASB Statement Nos. 75 and 45, respectively.

The projection of future benefit payment for an ongoing plan involves estimates of the value of reported amount and assumption about the probability of occurrence of events far into the future. Examples include assumption about the future employment, mortality, and the healthcare costs trend. Amount determined regarding the funded status of the plan and annual required contribution of the employer are subject to continuous revision as actual results are compare with past expectations and new estimates are made about the future.

f. **Methods and Assumptions-** Projections of benefits for financial reporting purposes are based on the plan and includes the types of benefits provided at the time of valuation and the historical pattern of benefit cost paid by the employer to date. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The amortization method of the initial unfunded actuarial of accrued liability is the level dollar for a period of 15 years. The amortization method for the gain or loss is the level dollar for a period of 15 years closed. The valuation date was July 1, 2016 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumption supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 2.6% was used. This rate is the best actuarial estimate of expected long-term experience.

The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

21. VOLUNTARY TERMINATION BENEFITS

ON July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provided benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provide to eligible employees that have completed between 20 to 29 years of credited service in the Retirement System, between 48 and 55 years to age, and will consist of biweekly benefits of a 50% of each employee' salary, as defined. In this early retirement benefits program, The Authority will make the employee and the employer contribution to retirement system and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the retirement system. Economic incentives are available to eligible employees who have a least 30 year of credited service in the retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited services in the retirement system and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement system for five years period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have at least 20 years of credited services in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $16.3 and $15.8 million in the balance sheets as June 30, 2017 and 2016, respectively, and a charge of approximately $.5 and $1.7 thousand in the statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, unpaid long-term benefit granted on this program were discounted at 3.60% depending on the employee voluntary termination benefits selected.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a. Construction – the Authority has entered into various contracts with outside contractors for the construction of building and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The Authority has an agreement with AFI related to the construction and improvement to public schools on the 21st Century Program. All construction work in progress were completed during the year ended June 30, 2017.

b. Litigation – The Authority is defendant or co-defendant in various lawsuits for alleged damage and breach of contracts in cases related to construction projects. In addition, The Authority is defendant or co-defendant in other cases related to public liability and labor related matters. Some of the legal cases related to public liability are covered by insurance.

The Authority, based on legal advice, recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or result of operations.

c. Environmental – During 2012, the Authority identified asbestos in the Central Offices building in Minillas, Santurce, Puerto Rico. Asbestos removal cost was estimated based on environmental engineers' consultant survey. As a result, during the year ended June 30, 2012, the Authority recorded a liability of $2 million for the estimated cost of the removal. During the year ended June 30, 2015, most of the asbestos removal process was completed at a total cost very similar to the total provision recorded in 2012. The Authority has contracted environmental engineers to determine if asbestos exists in other of the Authority's properties. At June 30, 2017, no other property has been identified, therefore, no additional reserve for any future potential liability has been recorded.

23. RESTATEMENT

During the year ended June 30, 2017, management restated prior year's financial statements to implement and establish the beginning balances of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The restatement includes the initial balance of net pension liability, deferred outflows of resources, and its contributions subsequent to measurement date from fiscal year 2017, and deferred inflows of resources.

The following table summarizes changes to net position at the beginning of the year as previously reported in the statement of Revenues, Expenses and Changes in Net Position.

	2015	2016	2017 Total Net Deficit
Net deficit at beginning of year as previous reported	$ (292,714,356)	$ (548,531,664)	$ (548,531,664)
Restatement adjustment -			
Understatement of Deferred outflows related to pension plan	32,058,291	36,104,265	68,162,556
Understatement of Deferred inflows related to pension plan	(2,053,700)	-	(2,053,700)
Understatement of net pension liability	(325,040,822)	(55,674,092)	(380,714,914)
Understatement of pension expense	11,075,554	19,569,827	30,645,381
Net deficit at beginning of year, as restated	$ (576,675,033)	$ (548,531,664)	$ (832,492,341)

24. REISSUANCE OF FINANCIAL STATEMENT

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. Refer to Note 16. Bonds Payable.

Further, management re-evaluated the impact as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. The impact presented in the financial statements issued June 24, 2019 reduced the line of credit due GDB and recognized non-operating income from other contributions from the Commonwealth of Puerto Rico by approximately $40.0 million. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, below.

25. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 18, 2020, which is the date the financial statements were available to be issued. The subsequent events disclosed are principally those which management believes are of sufficient public interest for disclosure.

A. Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the System.

Under these executive orders, certain Commonwealth entities have: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at the Government Development Bank for Puerto Rico (GDB) and suspended the disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

On January 2, 2017, the Governor signed into law Act No. 2 of 2017, which amended the Moratorium Act to, among other things, create the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA was also assigned the tasks of overseeing matters related to the restructuring and adjustment of the Commonwealth's financial liabilities (including the Authority), coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Under Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 will expire December 31, 2019, unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

B. Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the President of the United States signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities, including the Authority, with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust sustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

Title III of PROMESA established an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a “covered entity”; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) “desire[] to effect a plan to adjust its debts.” PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date hereof, the Oversight Board, at the request of the Governor, has commenced Title III cases for the Commonwealth and the Authority, among others.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III case. PROMESA also provides that the commencement of a Title III case “does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality.” PROMESA § 303.

A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file a plan of adjustment. See PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV of PROMESA established the Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions. Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV stay) from June 30, 2016 (the date of PROMESA’s enactment) through February 15, 2017, of all “Liability Claim” litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking relief from the Title IV Stay upon “cause shown.” PROMESA § 405(e).

C. Commencement of the Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System’s creditors, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a petition for relief under Title III of PROMESA in the Title III Court. On that same day, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Highways and Transportation Authority (PRHTA) by filing a similar petition for relief under Title II of PROMESA in the Title III Court. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Electric Power Authority (PREPA) by filing a similar petition for relief under Title III of PROMESA in the Title III Court. On September 27, 2019, the Oversight Board commenced a Title III case for the Authority by filing a similar petition for relief under Title III of PROMESA in the Title III Court. As such, the Authority is a debtor in a proceeding pursuant to Title III of PROMESA.

All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees (the Retiree Committee) in the Commonwealth’s Title III cases and appointed an Official Committee of Unsecured Creditors for all Title III debtors other than COFINA (the Creditors’ Committee).

The System’s Title III case was commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Authority’s Title III case pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Authority’s Title III case, the Title III Stay immediately went into effect to stay creditor litigation. All claims against the Authority that arose before the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

D. Key Title III Litigation

Appointments Clause Litigation

On August 7, 2017, a group of the Commonwealth's general obligation bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the Oversight Board in accordance with the Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing its petition for a writ of certiorari. The following day, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case. On June 20, 2019, the United States Supreme Court granted the Oversight Board's petition for a writ of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019.

The Fin. Oversight and Mgmt. Bd. for Puerto Rico v. Puerto Rico Public Building Auth., Case No. 18-00149-LTS (D.P.R. Dec. 21, 2018).

On December 21, 2018, the Oversight Board and the Creditors' Committee filed an adversary proceeding against the Authority seeking declaratory relief and disallowance of administrative rent claims, alleging that the Authority leases are not true leases, but rather "disguised financing transactions." Multiple parties have filed motions to intervene. On January 28, 2019, the Authority responded to the complaint. On June 27, 2019, the Oversight Board filed a motion to stay this adversary proceeding pending confirmation of the Commonwealth's Title III plan of adjustment. A hearing on the stay motion was held before the Title III Court on July

24, 2019, but determination of the motion remains pending.

On September 27, 2019, the Financial Oversight and Management Board filed Title III Petition for Covered Territory or Covered Instrumentality to include the Authority.

E. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system. With the start of fiscal year 2018, employers’ contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to the System’s governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System’s board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing both the System and JRS.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. The System’ active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 1062017. On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 292019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c);

Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. This case is currently in its early stage and the Title III Court has not yet made a final determination on the merits.

F. Installment Agreements with Employees' Retirement System of the Commonwealth of Puerto Rico

The Authority had a debt with the Employees' Retirement System due to special laws approved during 2016-2017, uniform additional contribution, and interests, amounting to $12.1 million as of December 23, 2016. On January 4, 2017 the Executive Director signed an installment agreement in order to pay the whole debt. The installment agreement gave the opportunity to the Authority to pay the overdue debts and still paying the current remittances. The Authority paid a down payment, six fix installments and a final lump sum of $8,267,446 in July 18, 2017 taking advantage of the clause that allow to make additional payments and pay off debt in advance, in order to get zero balance due before the change in the method.

On August 10, 2017 the Governor Ricardo Rosselló Nevares signed legislation that established a new defined contribution plan for active workers and new hires to be administered by a third-party provider and fund existing pension obligations on a "pay-as-you-go" basis, which means the government will pay benefits to retirees directly as they come due, rather than attempting to pre-fund future benefits via a retirement system's investment fund. Enrolling both active employees and newly hired workers in a true defined contribution retirement system. The Authority adopted the "pay-as-you-go" system and accrued the total amount of the debt in a payable account and paid the required amounts to the Puerto Rico Department of Treasury.

G. Catastrophe Events

On September 20, 2017, the island of Puerto Rico was devastated by hurricane Maria. The hurricane caused catastrophic destruction in Puerto Rico, including severe damages to the electric power system, and left the island completely without power.

The Authority received advance recovery proceeds from the insurance company of $35 million from October 2017 to August 2018. From April 2018 to May 2019, the Authority received $7.6 million from Federal Emergency Management Agency (FEMA) as reimbursements for expenses paid by the Authority related to damages caused by hurricane Maria.

Further, since December 28, 2019, the southwest portion of the island was impacted by a series of earthquakes, with the most powerful, a 6.4, on January 7, 2020. Several buildings were affected, and the Authority is evaluating the damages.

Furthermore, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and Puerto Rico. As a result, and in response to the executive orders of the President of the United States and the Governor of the Commonwealth of Puerto Rico, executive orders: Families First Coronavirus Response Act ("FFCRA"), and Implementation of the Necessary Closings of Private and Government Operations to Combat the Effects and Spread of COVID-19 in the Island of Puerto Rico, issued on March 18, 2020 and March 15, 2020, respectively, and their amendments; we have temporarily closed our operating locations, reduced operating hours, and have seen a reduction in citizen traffic, all resulting in a negative impact to Puerto Rico's government and private operations. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

H. GDB Qualifying Modification and Title VI Approval Process

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

On August 24, 2017, the Governor signed into law Act No. 109, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), which effectuated the GDB Fiscal Plan and provided a path for the implementation of a restructuring support agreement between GDB and certain of its key creditor constituencies by addressing the claims of the Commonwealth and its instrumentalities against GDB. The GDB Restructuring Act created two special purpose entities—the GDB Debt Recovery Authority and the PET—into which the GDB would divide and irrevocably transfer its assets. Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, a claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth case pending under Title III of PROMESA. The Authority's recovery on account of its interest in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

I. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

J. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, the System, and the Authority

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, the System, and PBA in their respective Title III cases—filed a joint Title III plan of adjustment for the Commonwealth, the System and PBA [ECF No. 8765] (the Joint Plan) along with a disclosure statement related thereto [ECF No. 8766] (the Disclosure Statement). In general terms, the Joint Plan proposes a restructuring of the Commonwealth's debts by, among other things:

- reducing the Commonwealth's liabilities from approximately $35 billion to approximately $12 billion;
- reducing unchallenged GO bond claims by 36%;
- allowing local bondholders to elect to receive taxable bonds with monthly interest payments in exchange for their claims;
- setting challenged GO bond and Commonwealth guaranteed claims with reductions between 55% (for 2012 GO bonds) and 65% (for 2014 GO bonds);
- reducing the System's bonds by 87%;
- reducing unchallenged Authority bonds by 28%; and
- reducing challenged Authority bonds by 42%.

In addition, the Joint Plan and Disclosure Statement contemplates an 8.5% pension cut across all of the Retirement Systems, including the System. However, if confirmed, the Joint Plan's pension cut formula would not apply to beneficiaries receiving monthly benefits of $1,200 or less. For further information on the proposed terms of the pension cut, please refer to the publically available Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

According to the Joint Plan and Disclosure Statement, the Joint Plan also contemplates establishing a pension reserve fund (the Reserve Fund) that "will be funded through the projected surplus to be used to provide funding for PayGo" and "will be held in a trust for the sole benefit of beneficiaries of PayGo." If the Joint Plan is confirmed, the Reserve Fund will be established on the Joint Plan's effective date and operate as "a reserve trust which will be utilized to secure the Commonwealth's pension obligations under Act 106," which established the PayGo system. The Reserve Fund will be managed by an independent entity whose members must meet certain independent, professionalism, experience, and qualification standards, and will be subject to all government contracting, ethics, and conflicts of interest laws and regulations. The Reserve Fund will be funded initially with a $5 million contribution from the Commonwealth, then from fiscal year 2020 through fiscal year 2027, the Commonwealth will make additional annual contributions in the amount of (i) $175 million; or

(ii) 25% of any projected annual Fiscal Plan surplus exceeding $1.75 billion, whichever is greater.

The Joint Plan proposes no changes to the Authority's governance structure or the Authority's prepetition collective bargaining agreements during or following the Authority's Title II Case, unless any such changes are approved by both the Oversight Board and FAFAA. In addition, all general unsecured claims against the Authority would be unimpaired under the Joint Plan proposal. The Joint Plan currently remains subject to ongoing negotiation, solicitation, and final approval by the Title III Court.

For further information, please refer to the publically available Joint Plan and Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

K. Other Significant Subsequent Events Regarding the Authority

The fiscal year 2018 budget includes significant reductions in agencies' expenditures, encompassing almost all line items of expenditures, such as payroll and related costs, purchased services, subsidies, public service facilities, transportation costs, equipment purchases, materials and supplies, media advertising and federal funds local matching, among others.

The Authority requested annual operational budgets of $135 million for fiscal years 2016-2017, 2017-2018, and 2018- 2019 of which only $90 million funds were approved for annual budgets

2016-2017 and 2017-2018, by the Puerto Rico Office of Management and Budget (OMB) and $114.7 million for 2018-2019 period, by the Financial Oversight and Management Board for Puerto Rico (FOMB). Management believes the assigned resources for operational expenses, including payroll, are insufficient. This situation seriously constrains the Authority's liquidity, and additionally could affect the going concern of its operations in the near future.

Most of such lease payments are subject to legislative appropriation from the Commonwealth's General Fund Budget. The Authority's lease payments and its bonds are, however, guaranteed by the good faith, credit and taxing power of the Commonwealth. The Authority bonds, therefore, constitute Commonwealth Guaranteed Obligations. The Authority is currently authorized by law to have outstanding at any time up to $4.7 billion of bonds guaranteed by the Commonwealth.

On July 1, 2016, the Authority defaulted its bond obligations. Of the approximately $186.9 million debt service ($86.1 million in principal and $100.9 million in interest) due on the Authority outstanding bonds, all was paid except principal of $25.2 million. In October 2016, applicable to the unpaid $25.2 million, the Authority paid bond principal amount of $10.4 million from proceeds received of bond insurance. From July 1, 2018, the Authority has not received IRS grant for payment of bonds.

Of the outstanding bonds debt service requirements, interest due in October 2017 of approximately $12.4 million, approximately $3.3 million remain unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bond interest debt service due in January 2018 of approximately $97.5 million, approximately $78.4 million remained unpaid. The amount of interest that was paid reflects amount received from applicable interest subsidy programs and the proceeds from insurance. Of the outstanding bonds debt service due in April 2018 of approximately $12.4 million, of approximately $3.3 million remained unpaid. The amount of interest that was paid reflects mount receive from applicable interest subsidy programs. Of the outstanding bonds debt service due in July 2018 of approximately $164.5 million, approximately $134.5 million remained unpaid. The amount of principal and interest that was paid reflects amount received from the proceeds from insurance**.** The service payment due in October 2018 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs. Of the outstanding bond interest debt service due in January 2019 of approximately $98.0 million, approximately $83.5 million remained unpaid. The amount of interest that was paid reflects amount received from the proceeds from insurance. The service payment due in April 2019 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs.

On November 29, 2018, pursuant to Article 501 of Act No. 109-2017, as amended, the Puerto Rico Fiscal Agency Advisory Authority (AAFAF, Spanish acronym) confirmed the GDB post-setoff loan balance of approximately $137.4 million.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND AUTHORITY'S CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2017

The following schedules are being presented to provide information on the Authority's proportionate share of the Net Pension Liability and the Authority's contributions related to the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities.

Schedule Public Buildings Authority's Proportionate Share of the Net Pension Liability

		Fiscal Year 2017
Authority's proportion of the net pension liability		1.17915%
Authority's proportionate share of the net pension liability	$	444,525,548
Authority's covered-employee payroll	$	49,381,740
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll		900%
Plan's fiduciary net position as a percentage of the total pension liability		(3.47)%

Schedule of Authority's Contributions

Statutorily required employer contribution	$	9,890,191
Amount of contributions recognized by the pension plan in relation to the statutorily required contributions	$	7,860,508
Contribution excess (deficiency)	$	2,029,683
Authority's covered-employee payroll	$	49,381,740
Contributions recognized by the pension plan as a percentage of covered-employee payroll		15.92%

Amounts presented above were based on measurement period ending June 30, 2016

The Schedule of Authority's Contributions is intended to present information for 10 years. Additional years will be displayed as they become available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTHCARE BENEFITS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Valuation Date June 30.	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
2012	$ -	$ 26,162,334	$ 26,162,334	- %	$ 52,933,339	49.4%
2013	$ -	$ 20,522,160	$ 20,522,160	- %	$ 51,120,417	40.2%
2014	$ -	$ 22,260,737	$ 22,260,737	- %	$ 58,039,372	38.4%
2015	$ -	$ 20,381,941	$ 20,381,941	- %	$ 52,832,651	38.6%
2016	$ -	$ 20,307,833	$ 20,307,833	- %	$ 49,973,803	40.6%
2017	$ -	$ 20,925,162	$ 20,925,162	- %	$ 52,717,361	39.7%

OTHER SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BONDS SINKING FUNDS ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Bond Service Account
Governmental Facilities Bonds	
Balance at July 1, 2016	$ 166,205,731
Receipts:	
Debt service rental	47,544,108
Investment income	4,420
Deposits from other accounts	484
Disbursements:	
Payment of bonds interest on bonds	(146,230,079)
Payment of bonds principal on bonds	(64,057,849)
Balance at June 30, 2017	3,466,815
Office Buildings Bonds	
Balance at July 1, 2016	1,026,162
Receipts:	
Transfers from other accounts	2,052,324
Disbursements:	
Payment of bonds interest on bonds	(2,052,324)
Balance at June 30, 2017	1,026,162
Total bond sinking funds	$ 4,492,977

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Office Buildings		
Debt Service Rental - bonds and notes	$	80,590,716
Operating and administrative		53,573,435
Equipment reserve rentals		4,702,303
Total office buildings		138,866,455
Public Education Buildings		
Debt service rental- bonds and notes		189,612,944
Operating and administrative		55,805,553
Equipment reserve rentals		17,499,822
Total public education buildings		262,918,319
Health Facilities		
Debt service rental - bonds andnNotes		10,581,714
Operating and administrative		1,596,082
Equipment reserve rentals		812,423
Total health facilities		12,990,218
Total operating rental revenues		414,774,992
Uncollectible amounts		50,980,253
Total operating rental revenue, net	$	363,794,739

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with the auditing standards generally accepted in the United States of the America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Public Buildings Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 18, 2020. The following emphasis of matter paragraphs were reported as follows:

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the notes.

Our opinion was not modified with respect of the above matters.

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To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Internal control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

RAMIREZ FLORES AND CO, PSC
CERTIFIED PUBLIC ACCOUNTANTS
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San Juan, PR 00918
Member of Puerto Rico Society of Certified Public Accountants

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Internal control over Financial Reporting (continued)

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

We consider the following deficiencies in internal controls to be material weaknesses:

1. Develop a year-end closing schedule

This year's closing process was delayed because some important procedures were not performed on time. The results were delays in producing closing entries, accurate trial balances, schedules, reconciliations, account analyzes, required disclosures and other financial reports needed by management and the auditors. We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

During the audit, we recommended eight adjusting journal entries. The effect of such entries was to increase net income and decrease in net position by $61,161,900 and $7,517,756, respectively. Substantially all of the entries were to make accruals and other adjustments, including the implementation of GASB No. 68 - Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and the settlement with GDB that should have been made by the accounting department. We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and professional fees.

Management's response:

Monthly closing schedule is prepared at the beginning of fiscal year. Financial accounting software modules are worked out by accounting employees who generate financial accounting reports to reconcile general ledger accounts. The closing process is supervised by accounting managers who report completion to the executive level of the Authority. The accounting department continues to be understaffed and is unable to timely address the required duties.

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To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

2. Bank reconciliations

We noted that bank balances were not reconciled on time. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared in a monthly basis to determine that all cash transactions have been recorded properly and to discover bank errors.

Management's response:

Management already sent to employees a communication with the closing dates. As a result of lack of employees, the Authority failed to execute properly.

We consider the following deficiencies in internal controls to be significant deficiencies:

3. Capital Assets

During our audit, we noted that capital assets balances were not properly roll forwarded and reconciled from the year ended June 30, 2016 to June 30, 2017. We recommend that the Corporation reconcile the rollforward record on a monthly basis. This will result in a more efficient treatment for property and equipment and also eliminate unnecessary work by the accounting personnel during and reduce audit time and professional fees.

Management's response:

Accounting management is monitoring the accounting system and communicating with accounting staff with the objective to obtain an accurate monthly closing and reporting to upper management.

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To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. This result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
March 18, 2020

Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381407 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

EXHIBIT N

ACTIONS TO BE TRANSFERRED TO THE AVOIDANCE ACTIONS TRUST

Actions to be Transferred to the Avoidance Actions Trust[1]

Vendor Name	Adversary Proceeding No.
ALEJANDRO ESTRADA MAISONET	19-00059
AMBASSADOR VETERANS SERVICES OF PR LLC	19-00048
APEX GENERAL CONTRACTORS	19-00062
BARCLAYS CAPITAL ET AL.	19-00280
BRISTOL /MYERS SQUIBB P R INC	19-00042
CARIBBEAN EDUCATIONAL SERVICES INC	19-00098
CARIBE GROLIER INC	19-00051
CCHPR HOSPITALITY, INC	19-00116
CENTRO DE DESARROLLO ACADEMICO INC.	19-00053
CITIBANK N A	19-00265
CLINICA DE TERAPIAS PEDIATRICA	19-00054
COMMUNITY CORNESTONE OF P R	19-00043
COMPUTER LEARNING CENTERS, INC.	19-00055
COMPUTER NETWORK SYSTEMS CORP	19-00150
CORE LABORATORIES N.V. D/B/A SAYBOLT	19-00381
CREATIVE EDUCATIONAL & PSYCHOLOGICAL SER	19-00152
DIDACTICOS, INC.	19-00161
EDWIN CARDONA & ASOC	19-00056
ENTERPRISE SERVICES CARIBE LLC	19-00060
EVERTEC INC	19-00044

[1] The actions to be transferred to the Avoidance Actions Trust include, but are not limited to, the actions listed on this Exhibit.

Vendor Name	Adversary Proceeding No.
EXPLORA CENTRO ACADEMICO Y TERAPEUTICO	19-00143
FACSIMILE PAPER CONNECTION CORP	19-00092
FAST ENTERPRISES LLC	19-00266
FIRST HOSPITAL PANAMERICANO	19-00093
FP+1,LLC	19-00148
GF SOLUTIONS, INC.	19-00063
GILA LLC	19-00354
GIRARD MANUFACTURING INC DBA/BANCO DE	19-00103
GM SECURITY TECHNOLOGIES	19-00273
GREAT EDUCATIONAL SERVICE, CORP.	19-00277
GUIMERFE INC	19-00182
HEWLETT PACKARD PR BV	19-00183
HOSPIRA	19-00186
I.D.E.A. INC.	19-00268
INTERNATIONAL SURVEILLANCE SERV CORP	19-00202
INTERVOICE COMMUNICATIONS OF PR INC	19-00068
JOSE SANTIAGO INC	19-00075
JUNIOR BUS LINE, INC.	19-00229
L.L.A.C., INC.	19-00122
LAW OFFICES WOLF POPPER, INC	19-00236
MACAM S.E.	19-00255
MANAGEMENT, CONSULTANT & COMPUTER SERV	19-00081
MANPOWER	19-00088

Vendor Name	Adversary Proceeding No.
MERCK SHARP & DOHME	19-00276
MICROSOFT CORPORATION	19-00290
N. HARRIS COMPUTER CORPORATION	19-00102
NATIONAL COPIER	19-00251
NETWAVE EQUIPMENT CORP	19-00253
NEXT LEVEL LEARNING, INC	19-00129
ORACLE CARIBBEAN INC	19-00112
PCPS - PROFESSIONAL CONSULTING PSYCHOEDUCATIONAL SERVICES, LLC	19-00188
PERFECT CLEANING SERVICES INC	19-00249
POSTAGE BY PHONE RESERVE ACCOUNT	19-00181
PROSPERO TIRE EXPORT INC	19-00196
PUERTO NUEVO SECURITY GUARD	19-00384
PUERTO RICO SUPPLIES GROUP INC	19-00199
PUERTO RICO TELEPHONE COMPANY	19-00127
QUEST DIAGNOSTICS	19-00440
READY & RESPONSIBLE SECURITY, INC	19-00387
REYES CONTRACTOR GROUP	19-00220
RICARDO ESTRADA MAISONET	19-00227
ROCKET LEARNING INC	19-00232
ROCKET TEACHER TRAINING	19-00235
RODRIGUEZ PARISSI VAZQUEZ & CO PCS	19-00155
ROSSO GROUP INC	19-00239
S H V P MOTOR CORP	19-00134

Vendor Name	Adversary Proceeding No.
SEGUROS COLON INC	19-00130
SESCO TECHNOLOGY SOLUTIONS LLC	19-00162
ST. JAMES SECURITY SERVICES, INC.	19-00145
TACTICAL EQUIPMENT CONSULTNTS INC	19-00222
TALLER DESARROLLO INFANTIL CHIQUIRIMUNDI	19-00049
TOTAL PETROLEUM PUERTO RICO CORP.	19-00114
TRINITY METAL ROOF AND STEEL STRUC CO	19-00187
TRUENORTH CORP	19-00160
VIIV HEALTHCARE PR Y/O GLAXO SMITHKLINE	19-00164
WF COMPUTER SERVICES	19-00200
XEROX CORPORATION	19-00218

EXHIBIT O

BEST INTERESTS TEST REPORTS

Analysis of Creditor Recoveries should the Title III Case be Dismissed for Creditors of the Commonwealth of Puerto Rico

This analysis assesses the recoveries available to creditors of the Commonwealth on the basis of available remedies under non-bankruptcy laws, including the Constitution of the Commonwealth of Puerto Rico. Pursuant to section 314(b)(6) of PROMESA, a proposed Plan of Adjustment should be "feasible and in the best interest of creditors, which shall require the court to consider whether available remedies under the non-bankruptcy laws and constitution of the territory would result in a greater recovery for the creditors than is provided by such plan." This analysis provides an estimated range of recoveries that would be available to creditors if the stay of debt enforcement is terminated, no Plan of Adjustment is confirmed, and the Title III case of the Commonwealth is dismissed.

This document consists of two sections. The first section provides an overview of the methodology followed in developing the analysis. The methodology outlines the approach taken to estimate the resources available for debt service, estimate the outstanding creditor obligations, and analyze the priority in which funds are disbursed and the order in which creditor claims are assumed to be paid. The second section presents the estimated likely range of recoveries available to creditors of the Commonwealth based on the resources identified.

This analysis was prepared by McKinsey & Company Puerto Rico Consulting, Inc. ("McKinsey & Company"). Proskauer Rose LLP and O'Neill & Borges LLC,[1] legal advisors to the Financial Oversight and Management Board for Puerto Rico ("FOMB"), provided McKinsey & Company with a set of legal assumptions used in the preparation of this analysis. The legal assumptions are included in Appendix 5 of this document. The financial advisors to the FOMB provided McKinsey & Company with financial information used in the preparation of this analysis. Such financial information included schedules detailing estimates of outstanding bond debt, perspectives on cash balances, and other financial data. McKinsey & Company also relied on data published by or directly provided by the Government of Puerto Rico and/or its advisors.

McKinsey & Company has accepted as true, accurate, and appropriate all of the legal and financial information and assumptions provided by Proskauer Rose LLP, O'Neill & Borges LLC, other FOMB advisors, and the Government of Puerto Rico and its advisors. McKinsey & Company has not independently verified any of the information or assumptions received from Proskauer Rose LLP, O'Neill & Borges LLC, other FOMB advisors, or the Government of Puerto Rico and its advisors, nor does it take any independent position with respect to this information and these assumptions.

The assumptions, projections, and estimates used in this analysis are inherently subject to business, economic, and political uncertainties, and, therefore, are subject to change. McKinsey & Company makes no representation or warranty that the actual recoveries available to or potentially realized by creditors on the basis of available remedies under any laws, including the Puerto Rico

[1] Proskauer Rose LLP and O'Neill & Borges LLC are collectively referred to as "FOMB's legal advisors" in this analysis.

Constitution, would or would not approximate the estimates and assumptions represented in the analysis, and actual results may vary materially from those shown herein. McKinsey & Company does, however, represent that the recovery range identified herein is its best estimate based on its knowledge and on the information provided to it.

I. Methodology

Following guidance provided by FOMB's legal advisors, this analysis assumes that the PROMESA Title III case of the Commonwealth is dismissed but that PROMESA Titles I and II continue to apply. Therefore, the analysis assumes the automatic stay of debt enforcement is lifted and the FOMB remains in place and will continue to certify Commonwealth Fiscal Plans and enforce implementation of budgets, subject to any debt enforcement in excess of the budget that the Puerto Rico courts would order. The analysis also assumes creditors would pursue legal action against the Commonwealth to recover the amounts they claim they are owed.

The analysis is based on the revenue and expenditure projections contained in the 2021 Certified Fiscal Plan. Following guidance provided by FOMB's legal advisors, adjustments to certain Fiscal Plan projections have been made to reflect the impact of the dismissal of the Title III case and the assumption that no Plan of Adjustment occurs. Those adjustments are the following:

- The analysis assumes the reductions in pension benefits included in the Fiscal Plan will not take effect because this measure is assumed to be dependent on the confirmation of a Plan of Adjustment. The analysis includes scenarios, however, in which the Commonwealth courts require reductions in pensions when Commonwealth General Obligation (GO) debt and Commonwealth guaranteed debt that is *pari passu* with GO debt ("*pari passu* debt") are in default.
- The analysis assumes the freeze on accruals of benefits in the Judges' and Teachers' Retirement Systems (JRS/TRS) included in the Fiscal Plan will not occur. Future contributions to Social Security for judges and teachers are also assumed to be set to zero, as those payments are assumed to be dependent on the freeze of the pension benefit accrual for which confirmation of the Plan of Adjustment is necessary.
- The analysis assumes the increase in employer healthcare contribution outlined in the Fiscal Plan from $125 to $170 per employee per month for employees who are AFSCME union members, teachers, police, firefighters, UAW union members, and other non-union employees will not be implemented, as this benefit increase depends on the execution of a Plan of Adjustment.
- The analysis assumes annual PayGo contributions to System 2000 participants, which the Fiscal Plan assumes will be removed, are instead continued. The removal is assumed to be dependent on the confirmation of a Plan of Adjustment.
- The analysis assumes any incremental pension expenses related to agreements dependent on the confirmation of a Plan of Adjustment will not occur.

- The analysis adjusts legal and non-legal Title III professional fees to reflect anticipated future litigation and dismissal of the Title III case.[2,3]
- It is assumed FOMB will continue to exist as the requirements for dissolution of the Board as defined by PROMESA would not be met if the Title III case is dismissed because the Commonwealth cannot regain market access and cannot balance a budget paying all required debt service without a debt restructuring.[4] The analysis assumes the Commonwealth will fund operations of the FOMB through the period of analysis.
- The transfer of $130 million per year through FY2028 to the Reserve for Emergency Fund outlined in the Fiscal Plan is assumed not to occur. As described in Appendix 5, money set aside for emergencies is assumed to not be legally restricted in this analysis, and, therefore, it is available for debt service.

The analysis also makes further adjustments to incorporate the risks related to the implementation and execution of certain fiscal measures and structural reforms outlined in the Fiscal Plan, as the analysis assumes that the dismissal of the Title III case could create further political and economic uncertainties that would affect the implementation of such measures. Those adjustments are described in the section titled "Estimated likely range of recoveries available to creditors."

The analysis relies on the following three components to calculate the recoveries available to creditors:

- **Resource Envelope:** The money available to satisfy Commonwealth creditor obligations, including cash on hand available for debt service, certain property tax revenues ("CRIM revenues") and conditionally allocable revenues,[5] withholding of appropriations to certain Independently Forecasted Component Units (IFCUs), the annual surplus generated by the Commonwealth excluding any items just listed above, and Employee Retirement System (ERS) assets available to the Commonwealth.
- **Outstanding debt:** The principal, interest, and maturity schedule of each group of debt obligations.
- **Priorities for distribution of funds:** The allocation of resources for debt payment consistent with the priorities of use of funds and of payments according to Puerto Rico law and the terms outlined in the bond documents.

[2] The analysis assumes legal professional fees will increase with the dismissal of the Title III proceedings as creditors will pursue legal action to enforce their claims under Puerto Rico law. Thus, legal professional fees for the FOMB and the Government of Puerto Rico are assumed to double in FY2022 relative to FY2021 and then grow with inflation through FY2026. Beginning FY2027 legal fees are assumed to be reduced in half relative to FY2026, and then grow with inflation through FY2031.

[3] It is assumed both the FOMB and the Government of Puerto Rico will continue to require some support from non-legal advisors related to ongoing litigation activities. Non-legal professional fees are assumed to drop by 50% upon dismissal of the Title III case and then grow with inflation through FY2031. With the dismissal of the Title III proceedings, legal and non-legal professional fees related to the various creditor groups are assumed to stop.

[4] According to PROMESA, the FOMB will terminate when it finds that the territorial government has access to short-term and long-term credit markets at reasonable rates of interest and achieved balanced budgets for four consecutive years.

[5] The term conditionally allocable revenues is used herein to refer to certain revenues the Commonwealth conditionally allocates to certain Commonwealth instrumentalities (previously referred to as clawback revenues).

The effective date of this analysis is assumed to be June 30, 2021 (the "Effective Date"). The percentage recovery is calculated as the present value[6] of the total amount expected to be paid to creditors over the entire period of the analysis as a proportion of the total outstanding principal and unpaid interest as of the Commonwealth Title III petition date of May 3, 2017 (the "petition date") or as of the PBA Title III petition date of September 27, 2019 (the "PBA petition date") in the case of PBA bonds. Based on discussions with the FOMB's financial advisors, this analysis assumes an annual discount rate of 5% as reasonable for the calculation of the present value of future principal and interest payments.

i. Resource Envelope

The total amount of resources available to pay Commonwealth creditor claims in each year constitutes the Commonwealth's Resource Envelope. The Resource Envelope in any year is the sum of 1) starting cash available for debt service, 2) certain property tax revenues (CRIM revenues), 3) conditionally allocable revenues, 4) other sources available from appropriations to certain IFCUs, and 5) the annual surplus generated by the Commonwealth after payment of its operating expenses.[7] In FY2022 the resource envelope will benefit from a one time transfer of ERS assets available to the Commonwealth.

1) Starting cash available for debt service ("starting cash"): As described in Appendix 5, the starting cash available for debt service as of the Effective Date of this analysis consists of unrestricted cash less an assumption of the estimated minimum cash required for normal government operations ("Minimum Cash Requirements"):

- **Unrestricted cash:** Refers to Commonwealth funds that do not have legal limitations on their use. Unrestricted cash excludes funds that have any legal restriction as they are part of custodial or trust accounts and also excludes funds whose use is restricted by a secured interest or court order. Unrestricted cash is assumed to be available for debt service.
- **Assumption of the estimated Minimum Cash Requirements**: Based on the Puerto Rico Cash Analysis published by the Oversight Board and AAFAF on December 19, 2020,[8,9] the Minimum Cash Requirements of the Commonwealth is estimated to be $1,200 million to $1,700 million. This amount refers to cash on hand that the Commonwealth would need for the government's cash management system to be sufficiently funded and ensure proper functioning of government operations. See Appendix 4 for details on the Minimum Cash Requirements estimate.

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[6] Present value as of the Effective Date of the analysis, June 30, 2021.

[7] The annual surplus generated by the Commonwealth included in this analysis is presented differently from the annual surplus generated by the Commonwealth as stated in the Fiscal Plan. In addition to the adjustments made to consider no Plan of Adjustment, this analysis accounts for the other four revenue streams described in this section as separate from the overall annual surplus generated by the Commonwealth for the purposes of debt payment.

[8] FOMB Media release: Mediation Cash Presentation (as accessed in June 2021): https://drive.google.com/file/d/1xb6fo1OEYDElnaOua09cDcgkQmEW9Tki/view?fbclid=IwAR2V6c2iLz9euKMZ0GjJSEth6SAs6KN-98REOxARzAL5U_BuCjv-XRYXIT0

[9] Puerto Rico Cash Analysis (as accessed in June 2021): https://emma.msrb.org/P11450397-P11124337-P11535399.pdf

The sum of unrestricted cash less an assumption for Minimum Cash Requirements comprises the total starting cash available for debt service as of the Effective Date of this analysis.

Based upon the Puerto Rico Cash Analysis (referenced above), the analysis considers unrestricted cash to be $10,193 million as of June 30, 2020.[10] Based upon publicly available data, Fiscal Plan projections, and guidance from FOMB's legal advisors, an estimation of cash accumulation of $811 million from July 1, 2020 to June 30, 2021 is added to calculate the unrestricted cash balance as of June 30, 2021 (the Effective Date of the analysis). After incorporating these projections, the amount of unrestricted cash as of June 30, 2021 is assumed to be $11,004 million.

After adjusting for Minimum Cash Requirements of $1,200 to $1,700, cash available for debt service as of June 30, 2021 is estimated to be between $9,304 million and $9,804 million.

Exhibit 1: Calculation of starting cash available for debt service

Estimated cash available for debt service as of June 30, 2021,
USD million

Commonwealth cash balance (6/30/20)	**15,606**
(-) Restricted cash	(5,413)
Unrestricted CW cash balance (6/30/20)	**10,193**
(+) Estimated total unrestricted cash flow between 07/01/2020 and 06/30/2021	811[1]
Unrestricted CW cash balance (6/30/21)	**11,004**
(-) Total estimated Minimum Cash Requirements FY2021	(1,200) to (1,700)[2]
Cash available for debt service (6/30/21)	**9,304 to 9,804**

1. Includes the following incremental cash: $480 million of FY2020 deferred taxes (corporate, individual, and SUT) collected in FY2021, $355 million of unrestricted surplus for FY2021 from 2020 Certified Fiscal Plan,$1,288 million of overperformance in revenues as of March 2021, $130 million added back for FY2021 funds that would otherwise go to the Reserve Emergency Fund, $88 million of surplus interest, $50 million CDBG cost match reserve that would be available for creditors, and $124 million of funds at the PR Tourism Company Reserve related to CCDA conditionally allocated revenue. This is reduced by the $750 million contribution from the Commonwealth for PREPA Reserve Account funding, $34 million of FY2019 funds budgeted for UPR Scholarships but rolled forward, and $920 million in FY2020 appropriations rolled forward to FY2021
2. Range calculated based on minimum cash requirements for normal government operations and emergency reserve funds across different states. Additional details on the calculation can be found in Appendix 4

2) Certain property tax revenues ("CRIM revenues"): The Municipal Revenues Collection Center ("CRIM," by its Spanish acronym) collects an annual 1.03% property tax on real and personal property imposed by the Commonwealth. CRIM revenues are deposited into a State Redemption Fund and are assumed to be available to service Commonwealth GO debt, following guidance of FOMB's legal advisors. The CRIM Fiscal Plan includes measures to maximize property tax collections by improving compliance.

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[10] This analysis considers the total Commonwealth cash balance as of June 30, 2020, and it removes only the amount that has been explicitly classified as legally restricted. Therefore, the categories of "Not Reviewed," "Potentially Unavailable Cash," and "Potentially Inaccessible cash" in the Puerto Rico Cash Analysis are assumed to be unrestricted.

3) Conditionally allocable revenues:[11] Certain taxes and fees are collected by the Commonwealth and then allocated to certain public corporations. Based upon guidance provided by FOMB's legal advisors as described in Appendix 5, on the basis of Article VI, Section 8 of the Puerto Rico Constitution, this analysis assumes that these conditionally allocable revenues can be used to pay Commonwealth GO bonds and *pari passu* debt when two conditions are met: 1) the Commonwealth has sufficient funds to pay its operating expenses, and 2) the rest of the Resource Envelope is not sufficient to cover GO bonds and *pari passu* debt in any given year.

The conditionally allocable revenues include specific taxes and fees collected by the Commonwealth on behalf of the Highways & Transportation Authority (HTA), the Metropolitan Bus Authority (MBA), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (CCDA).

For HTA, the revenues subject to conditional allocation are: 1) the Vehicle License Fees, 2) the Gasoline Tax, 3) the Gas Oil and Diesel Tax, 4) a portion of the Petroleum Products Tax, and 5) a portion of the Cigarette Tax. For MBA, the revenue subject to conditional allocation is the remainder of the Cigarette Tax that is not allocated to HTA. PRIFA receives the excise tax on rum and an additional excise tax on petroleum products. CCDA receives a portion of the hotel room tax paid for room occupancy. Appendix 5 describes in detail the regulation around each revenue stream subject to conditional allocation.

Certain allocable revenue statutes require the Commonwealth to reimburse the allocable revenue entities in the following year when allocable revenues are retained to pay GO bonds and *pari passu* debts, with such amount accruing in favor of the allocable revenue entity until completely reimbursed. These revenues are 1) Gasoline Tax (HTA), 2) Vehicle License Fees (HTA), and 3) Hotel Room Taxes (CCDA).

4) Withholding of appropriations to certain Independently Forecasted Component Units (IFCUs): IFCUs are legally separate entities that have been established by the Commonwealth. Following guidance provided by FOMB's legal advisors, this analysis assumes revenues generated by IFCUs are not available to pay Commonwealth obligations absent legislation or consent. The IFCUs in the Fiscal Plan are listed below.

Exhibit 2: Independently Forecasted Component Units in the Certified Fiscal Plan

No.	IFCU acronym	IFCU name
1	AAFAF	Fiscal Agency and Financial Advisory Authority
2	ADEA	Agriculture Enterprise Development Administration
3	ASEM	Medical Services Administration
4	ASES	Health Insurance Administration

[11] The Fiscal Plan refers to these revenues as "certain Commonwealth revenues that prior to PROMESA the Commonwealth appropriated to certain instrumentalities pursuant to statutes enacted by prior legislatures."

5	Cardio	Cardiovascular Center of Puerto Rico and the Caribbean
6	HFA	Housing Finance Authority
7	PBA	Puerto Rico Buildings Authority
8	Ports	Puerto Rico Ports Authority
9	CCDA	Puerto Rico Convention Center District Authority
10	PRITA	Puerto Rico Integrated Transport Authority
11	Tourism	Puerto Rico Tourism Company
12	SIFC	State Insurance Fund Corporation

However, some of the Commonwealth's funds, which would otherwise be appropriated to IFCUs, may be available for debt service. As described in Appendix 5, this analysis assumes the Commonwealth has direct control over the funds it appropriates in its budget to the IFCUs. Some or all of the appropriation to an IFCU may be available for Commonwealth debt service.

For the IFCUs that receive an appropriation that enables the IFCU to generate a surplus, the analysis assumes the Commonwealth will reduce (or eliminate) such appropriations until the entity runs a balanced budget in order to generate more funds available for payment of Commonwealth obligations. This would apply to AAFAF, ADEA, ASEM, ASES, HFA, and PRITA, as these IFCUs have historically received annual appropriations from the Commonwealth. However, as assumed in the Fiscal Plan, IFCUs that generate operating deficits in any given year are assumed to have those operating deficits funded by the Commonwealth.

For the IFCUs that do not receive an appropriation, it is assumed that the Commonwealth does not have access to funds from that IFCU. The IFCUs that belong to this category are SIFC, Cardio, PBA, CCDA, Ports, and Tourism. However, if any of these entities run a deficit in any given year, it is assumed that the Commonwealth, as part of its operating expenses, will fund the deficit because those entities provide services needed for the proper functioning of the Commonwealth.

5) Annual surplus generated by the Commonwealth independent of the resources described in items 1-4 above: The total revenues received by the Commonwealth minus its total operating and capital expenses constitute the annual Commonwealth surplus.[12] Commonwealth revenues are comprised of total Commonwealth tax revenue in the Fiscal Plan as well as revenues from Federal Funds and Special Revenue Funds, excluding IFCUs.

The total Commonwealth operating expenses are comprised of the General Fund, Special Revenue Fund, and Federal Fund expenses projected in the Fiscal Plan with respect to the Commonwealth Fiscal Plan entities, excluding the IFCUs. The Fiscal Plan outlines the following expenditure categories:

[12] The Commonwealth surplus referred to in this section excludes starting cash, conditionally allocable revenues and CRIM revenues, as well as other sources available from withholding of appropriations to certain IFCUs.

- **General Fund payroll and non-payroll operating expenditures:** Personnel and non-personnel costs required for the Commonwealth and its agencies to function; these expenses are outlined in the annual Commonwealth budget.
- **Special Revenue Funds (SRF):** Funds used for agency and Governmental expenditures outside an entity's General Fund disbursements or Federal Fund allocations; such funds include fees and charges collected by agencies, statutory funds, intra-governmental transfers, and others.
- **Federal Funding (FF):** Funds utilized for various Federal social programs and, therefore, typically passthrough funds; in some cases, Federal Funds are also used to fund certain agency operating expenses.
- **Medicaid expenditures:**[13] Commonwealth and federally funded portions of Medicaid, Children's Health Insurance Program (CHIP), Platino dual-eligible program, and other health-related expenditures.
- **Commonwealth pension expenditures:** Pay-as-you-go (PayGo) pension benefits for participants of the Teachers' Retirement System (TRS), Judges' Retirement System (JRS), and the former Employees' Retirement System (ERS). As shown in the Fiscal Plan, the pension expenditures of the IFCUs are already considered in the operating expenses of each IFCU. Pension expenditures are treated as Commonwealth operating expenses in the analysis; therefore, pension expenditures are paid in full (like any other operating expenses) before payment of any debt.
- **Appropriations:** Commonwealth contributions to municipalities, the University of Puerto Rico, the Highways and Transportation Authority (HTA), and some public corporations, including IFCUs that run a deficit in a given year.
- **Other operating and capital expenditures:**[14] Government payments for utility costs to PREPA and PRASA, certain insurance premium costs, and capital expenditures for Commonwealth capital projects and maintenance.
- **Reconstruction and restructuring related expenditures:** Commonwealth matching funds for public assistance and hazard mitigation funding from FEMA, as well as all PROMESA-related professional fees and operating costs of the FOMB.
- **Gross-ups for tax credits and receipts of the Municipal Finance Corporation of Puerto Rico (COFIM):** Tax credits to corporations and individuals, as well as the expenses of COFIM (the public corporation that collects the 1% Municipal Sales and Use Tax for certain municipalities); it is assumed that COFIM receipts and tax credits are in balance every year as the incoming revenues are matched by outgoing expenses.

Projections for these revenue and expenditure groups take into consideration the estimated impact of fiscal measures in the Fiscal Plan. Fiscal measures are a series of actions intended to optimize revenue collection, reduce Government expenditures, and streamline and transform the Government of Puerto Rico. Actions include: improving compliance in tax collection,

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[13] A portion of Medicaid expenditures are SRF.

[14] Comprised of GF and SRF expenditures.

implementing process changes and other operational reforms within agencies, optimizing the healthcare system to improve value for cost, improving the current pension system, and rationalizing subsidies to UPR and municipalities. The fiscal measures in the Certified Fiscal Plan are forecasted to result in an overall reduction in run rate expenditures excluding those related to federal funds of 10% between FY2022 and FY2026.

The projections of Commonwealth revenues and expenses also incorporate the impact of structural reforms as outlined in the Fiscal Plan. Structural reforms include actions to improve human capital and welfare, advance the ease of doing business in Puerto Rico, improve the education system, and enhance availability and affordability of energy. Structural reforms are designed to promote growth in the economy, which would ultimately increase Commonwealth revenue generation.

Based upon guidance provided by FOMB's legal advisors, this analysis reflects modifications to the Fiscal Plan projections of certain expenditures to account for the absence of Title III protections and a Plan of Adjustment. As previously discussed, the specific Fiscal Plan expense lines that are adjusted are:

- **Pension costs:** Total pension costs in the analysis do not include the reduction in pension benefits outlined in the Fiscal Plan. Also, pension costs in the analysis do not include the freeze in accrual of benefits in the retirement plans of judges and teachers (JRS/TRS). The analysis also sets to zero the contributions to Social Security payments for judges and teachers. In addition, the analysis assumes the continuation of PayGo contributions to System 2000 participants as well as the elimination of any additional pension expenses related to agreements dependent on the confirmation of a Plan of Adjustment. The analysis includes scenarios, however, in which the Commonwealth courts require reductions in certain pensions when GO bonds and *pari passu* debt is in default.
- **Healthcare contributions:** The analysis assumes the increase in employer healthcare contribution outlined in the Fiscal Plan from $125 to $170 per employee per month for employees who are AFSCME union members, teachers, police, firefighters, UAW union members, and other non-union employees will not be implemented, as this benefit increase depends on the execution of a Plan of Adjustment, which is assumed not to be confirmed.
- **Professional fees:** The analysis adjusts costs projections related to Title III legal and non-legal professional fees. Legal fees are assumed to double in FY2022 relative to FY2021 and then grow with inflation through FY2026; in FY2027 legal fees are assumed to be cut in half relative to FY2026 and then grow with inflation through FY2031. Non-legal fees are assumed to be halved upon the dismissal of the Title III case and then grow with inflation through FY2031. All payments related to legal and non-legal fees for the various creditor groups are assumed to be zero upon the dismissal of the Title III case.
- **FOMB expenditures:** The FOMB is assumed to continue to exist because the requirements for dissolution of the Board as defined by PROMESA would not be met if the Title III case is dismissed since market access will be unattainable without eliminating debt defaults. The analysis considers the Commonwealth will fund operations of the FOMB through the period of analysis.
- **Reserve for Emergency Fund:** The transfer of $130 million per year through FY2028 to the Reserve for Emergency Fund outlined in the Fiscal Plan is assumed to be zero. Based

upon guidance provided by FOMB's legal advisors, money set aside for emergencies is assumed to be not legally restricted in this analysis.

Once Commonwealth expenditures are paid with the revenues received by the Commonwealth, any remaining revenue amounts constitute the annual Commonwealth surplus, as outlined in the Fiscal Plan. The Commonwealth surplus is assumed to be available for debt payment. As described later in the section entitled "Estimated likely range of recoveries available to creditors," certain adjustments to the Resource Envelope were incorporated to account for the risk of implementation of the Fiscal Plan should the Title III case be dismissed.

In addition, in FY2022 the resource envelope will increase from a one-time transfer of ERS assets available to the Commonwealth. Based on guidance from FOMB's legal advisors, this analysis assumes that an ERS Title III Plan of Adjustment is confirmed, which treats the claims of the ERS bondholders consistent with the terms outlined in the Disclosure Statement. Unrestricted assets remaining at ERS after required payments to ERS creditors are assumed to be transferred to the Commonwealth. An amount of $643 million of ERS unrestricted remaining assets are assumed to be transferred to the Commonwealth at the end of FY2022. For additional information, please see Appendix 5.

ii. Outstanding debt

The analysis considers the following classes of claims and associated balances based on information provided to McKinsey & Company by FOMB's legal and financial advisors:

Federal claims: Two categories of obligations are assumed to be owed by the Commonwealth to the Federal Government. These obligations are assumed to be paid in full prior to any other debt payment. Following the guidance provided by FOMB's legal advisors, the Federal Government is likely to recoup any unpaid claims by withholding certain Federal Funds earmarked for the Commonwealth to offset insufficient payment. Therefore, these claims are assumed to be paid before other debt claims:

- **Federal claims and obligations:** There are several claims that the Federal Government has filed against the Commonwealth. Such claims include liabilities related to unpaid invoices as well as penalties and related fees for violations of Federal law. Following the guidance provided by FOMB's legal advisors, such Federal claims and obligations represent a total amount of $431 million as of the petition date, which will be paid upon the removal of the current stay on debt enforcement.
- **Federal claims disallowance:** It is assumed that the Commonwealth must repay Federal Funds it spends but are later determined to be impermissible under grant criteria or requirements. It is assumed that such Federal cost disallowance represents a recurring annual expense of $65 million,[15] which must be paid in full before payment is made on

[15] Estimate based on the 2016 Commonwealth of Puerto Rico Comprehensive Annual Financial Report (CAFR), which shows Commonwealth recorded a liability of $65.2 million for Federal claims disallowance.

any General Obligation or other claims. The estimate above does not include any amounts for federal claims disallowance related to FEMA recovery-related funding.

GO bonds: Commonwealth GO bonds were issued or guaranteed by the Commonwealth and backed by the good faith, credit, and taxing power of the Commonwealth within the meaning of the Puerto Rico constitution (collectively, the "GO bonds" or "GO debt"). These have been incorporated into this analysis with the maturity schedule as projected in the bond issuance documents. Pursuant to PROMESA section 303, it is assumed that GO debt principal accrues interest during the current stay on debt enforcement.

With respect to the value of these claims, the FOMB commenced litigation challenging the validity of GO bonds issued in or after 2012, as those might have been issued above Puerto Rico's constitutional debt limit. Following guidance provided by FOMB's legal advisors, this analysis assumes GO bonds issued in or after 2012 are invalid.

Excluding GO bonds issued in or after 2012, the total amount of principal and accrued and unpaid interest as of the Effective Date is $8,395 million. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the petition date is $6,505 million and $460 million, respectively.

As indicated in Appendix 5, there is additional litigation risk related to the validity of certain GO bonds. The statutory Unsecured Claimholders' Committee (the "UCC") has challenged the validity of all GO bonds issued in or after March 2011 on the basis that they violate the constitutional debt limit. The potential impact of this litigation on recoveries is described in the section entitled "Alternative outcomes based on ongoing litigation or litigation risks."

Debt pari passu with GO bonds: Following guidance provided by FOMB's legal advisors, certain claims are assumed to receive the same priority as GO bonds as they also hold a Commonwealth guarantee. As outlined in Appendix 5, this analysis assumes bonds or loans with a Commonwealth guarantee in or after 2012 would be deemed invalid and the bondholders holding such claims would have no claim against the Commonwealth.

This *pari passu* debt is comprised of the following claims:

- **Public Buildings Authority (PBA) bonds:** Excluding PBA bonds issued in or after 2012, PBA bonds are owed through FY2041, with a total amount of principal and accrued and unpaid interest of $4,323 million as of the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the PBA petition date is $3,424 million and $572 million, respectively.[16]
- **Bonds issued by the Port of Americas Authority (APLA, by its Spanish acronym)**: APLA bonds were issued in 2005 and were purchased by GDB in 2014 (which then

[16] Total recovery provided to PBA bondholders is the sum of recovery provided by PBA, as detailed in the "Analysis of Creditors Recoveries should the Title III Case be Dismissed for Creditors of Puerto Rico Public Buildings Authority (PBA)," and the recovery provided by the Commonwealth. PBA bondholders cannot collect more than payment in full of contractual debt service in any given year from the combination of PBA and the Commonwealth.

refinanced such bonds).[17] APLA bonds are owed through FY2048. Their total outstanding principal and accrued and unpaid interest is $308 million as the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the Commonwealth petition date is $226 million and $37 million, respectively.
- **General Services Administration (GSA) loan**: GSA has a loan with an outstanding principal and accrued and unpaid interest of $24 million and $2 million, respectively. The total outstanding amount of principal and accrued and unpaid interest as of the Effective Date of this analysis is $30 million. Following guidance provided by FOMB's legal advisors, this loan is considered *pari passu* with GO debt.

Following guidance provided by FOMB's legal advisors, there are certain Commonwealth guaranteed bonds *pari passu* with GO bonds that are not considered in this analysis because such claims received a Commonwealth guarantee in or after 2012. Those claims are the following:

- **Hacienda loans**: The total outstanding principal and accrued and unpaid interest balance is $240 million as of the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the Commonwealth petition date is $169 million and $29 million.
- **Bond Anticipation Notes (BANs) for the Puerto Rico Infrastructure Financing Authority (PRIFA):** The PRIFA BANs were originally issued in 2015, with a total outstanding principal and accrued and unpaid interest balance of $108 million as of the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the Commonwealth petition date is $78 million and $5 million, respectively.

Additionally, certain subordinated bonds from the Puerto Rico Aqueduct and Sewer Authority (PRASA) are guaranteed by the Commonwealth but are not considered in this analysis. As announced on August 9, 2019, PRASA restructured over $1 billion in debt that had a Commonwealth guarantee. As part of this process, this guarantee was terminated for most of the PRASA debt claims, except for $284 million of such debt, which remains guaranteed by the Commonwealth. Based upon guidance provided by FOMB's legal advisors in Appendix 5, this analysis assumes the Commonwealth would not have to pay PRASA debt claims because a PRASA default is currently unlikely to occur.

As indicated in Appendix 5, there is an additional litigation risk related to the validity of certain *pari passu* debt. The UCC has challenged claims relating to PBA bonds issued in and after March 2011. There are also arguments that certain Commonwealth guarantees issued in and after March 2011 may be invalid.

Other eligible claims (unsecured claims): As described in Appendix 5, this analysis assumes unsecured claims can only be paid after the amounts owed in a given year to GO and *pari passu* debt claimholders are paid. The other eligible claims include:

[17] The Bonds issued by the Port of Americas Authority are not included in the Government Development Bank loans. Therefore, they are mentioned as two separate debt claims.

- **Litigation claims against the Commonwealth:** Total claims estimated to be $2,769 million.
- **Claims to be settled through the Administrative Claims Process:** Total claims estimated to be $1,009 million.
- **GDB Title VI Public Entity Trust claim:** Total claim of $600 million that would be due when the current stay on payment of Commonwealth debt is lifted.
- **Puerto Rico intragovernmental claims**: Total claims estimated to be $594 million. This includes claims filed by Commonwealth municipalities and other Puerto Rico governmental entities.
- **Critical industries claims:** Total claims estimated to be $355 million. This is comprised of 330 Health Center litigation claims estimated at $293 million and Milk Producers subsidy claims estimated at $62 million.
- **Employee union claims against the Commonwealth**: Total claims estimated to be $245 million.
- **Trade payables:** Total claims estimated to be $175 million.
- **Convenience class claims:** Total claims estimated to be $142 million.
- **Gracia – Gracia insurance overpayment litigation claims:** Total claims estimated to be $28 million.
- **Tax related claims:** Total claims estimated to be $8 million.
- **Other miscellaneous claims:** Total claims estimated to be $57 million.

Following guidance provided by FOMB's legal advisors, there are two known claims that are assumed to be set to zero in the analysis. First, Puerto Rico Public Finance Corporation bonds ("PFC bonds") are assumed to not be part of the pool of claims. PFC bond documents disclosed that the Legislature is not legally bound to appropriate funds to pay the bonds, as such bonds do not constitute an obligation that can be enforced against the Commonwealth. Second, the Commonwealth also guaranteed $110 million of additional GDB bonds, but any rights of holders of such GDB bonds with respect to the Commonwealth's guarantee were extinguished upon the exchange and cancellation of the GDB bonds pursuant to the Title VI restructuring.

iii. Priorities for distribution of funds for debt service

The order in which claims are paid follows certain priorities. Following guidance provided by FOMB's legal advisors, this analysis assumes that the Commonwealth will pay Federal claims in full prior to any other debt payment because the Federal Government could offset unpaid claims using certain Federal Funds earmarked for the Commonwealth. Once Federal claims are paid, funds in the Resource Envelope are then allocated towards GO bonds and *pari passu* debt, such that each class receives the same percent recovery rate on their debt service payable in a given year.[18] Once the amount owed and due in a given year to GO bonds and *pari passu* debt are fully paid, remaining funds in the Resource Envelope can be used to pay other eligible claims.

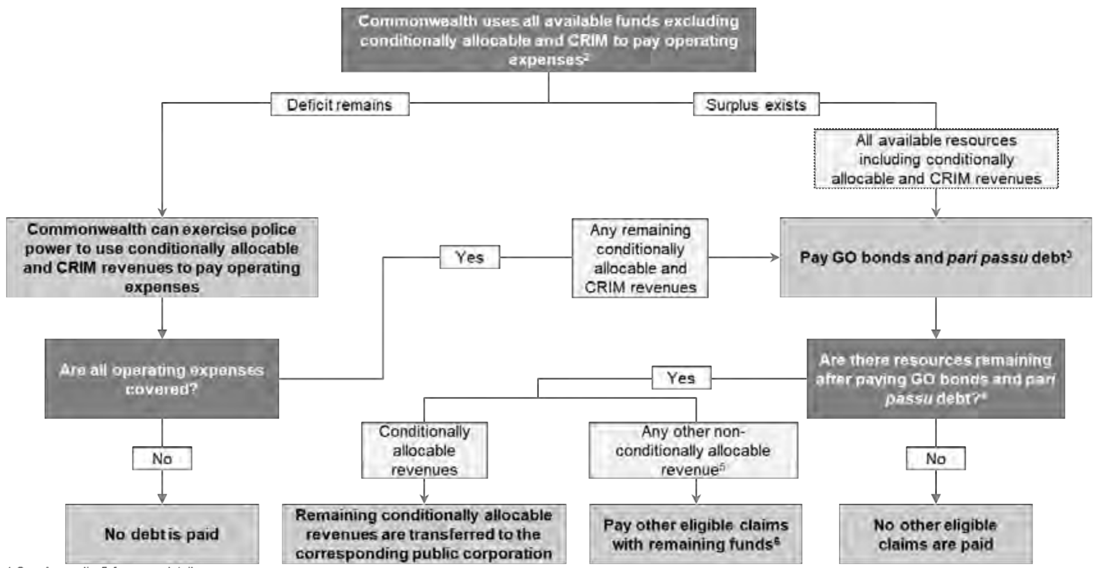
Exhibit 3 summarizes the order in which funds are disbursed and claims are paid, following legal guidance outlined in Appendix 5. For the claims considered in this analysis, debt with the same

[18] This refers to total payment as a percentage of total principal and interest for each class of debt in any given year.

priority receives the same percentage recovery of debt owed in a given year. However, no acceleration of payments is allowed, so total recovery as a percent of outstanding debt may differ between debt with the same priority but different maturity schedules.

Exhibit 3: Flow of funds in the analysis

Priority of distribution of funds considered in analysis[1]



1 See Appendix 5 for more details
2 Operating expenses include fiscal measures as outlined in the Fiscal Plan; Federal claims are included in operating expenses
3 The order of the use of funds to pay GO bonds and its *pari passu* debt is as follows: CRIM revenues, starting cash, Commonwealth surplus, Commonwealth appropriations to certain IFCUs, conditionally allocable revenues, and remaining ERS assets returned to the Commonwealth; any remaining CRIM revenues would be used to pay GO bonds only (but not *pari passu* debt)
4 GO bonds and *pari passu* debts receive the same percentage recovery for debt service owed in any given year
5 Includes Commonwealth surplus, Commonwealth appropriations potentially withheld from certain IFCUs, and starting cash
6 Other claims receive the same percentage recovery for amounts owed in a given year; any funds that remain after fully servicing other claims in a given year are saved and become the starting cash for the following year

Following guidance provided by FOMB's legal advisors, the use of conditionally allocable and CRIM revenues follow certain rules set forth below:

- If the Commonwealth faces an operating deficit after using all available resources excluding conditionally allocable and CRIM revenues in any given year, the analysis assumes the Commonwealth will exercise its police power to use conditionally allocable and CRIM revenues to cover operating expenses. If the Commonwealth deficit is fully paid with a portion of conditionally allocable and CRIM revenues, any remaining CRIM revenues would be used to pay GO bonds and conditionally allocable revenues would be used to pay GO bonds and *pari passu* debt . Conditionally allocable and CRIM revenues will be distributed such that GO bonds and *pari passu* debt receive the same percentage recovery in any given year.
- If the Commonwealth achieves fiscal balance or runs a surplus when excluding conditionally allocable and CRIM revenues in any given year, CRIM revenues would be used to pay GO bonds and conditionally allocable revenues would be used to pay GO bonds

and *pari passu* debt.[19] Conditionally allocable and CRIM revenues will be distributed such that GO bonds and *pari passu* debt receive the same percentage recovery in any given year.

- If all GO bonds and *pari passu* debt owed and due in any given year is paid, any remaining conditionally allocable revenues are appropriated to the respective public corporations (i.e., HTA, MBA, PRIFA, and CCDA). Certain allocable revenue statutes require the Commonwealth to reimburse the allocable revenue entities in the following year when allocable revenues are retained to pay GO bonds and *pari passu* debts, with such amount accruing in favor of the allocable revenue entity until completely reimbursed. These revenues are 1) Gasoline Tax (HTA), 2) Vehicle License Fees (HTA), and 3) Hotel Room Taxes (CCDA).

As described in Appendix 5, funds available are first assumed to be credited against cumulative interest owed, and then to the debt principal maturing in that year or previously, if any. Unpaid principal is assumed to accrue interest according to the original rates stipulated in each of the relevant debt documents and is then added to the following year's debt. It is assumed that no interest accrues on interest balances.

II. Estimated likely range of recoveries available to creditors

Under a scenario in which a Plan of Adjustment is not confirmed and the Title III case is dismissed, a number of risks exist that may impact the implementation of the Fiscal Plan. In assessing the estimated likely range of recoveries available to creditors, the analysis adjusts the projections of revenues and expenses outlined in the Fiscal Plan to incorporate the risks related to the implementation of certain structural reforms and fiscal measures.

The analysis sets forth an estimated likely range of recoveries, where the higher end of the range makes certain adjustments to Fiscal Plan projections to reflect implementation risks, and the lower end of the range adds incrementally more adjustments. Specifically, the higher end of the estimated likely range of recoveries assumes the impact of the structural reforms included in the Fiscal Plan will not materialize but that all fiscal measures will be implemented. The analysis assumes that in a situation where the Title III case has been dismissed, Puerto Rico will face greater political and financial instability, which will create significant challenges to enact legislation and enforce cooperation among agencies to institute structural reforms. In addition, the impact of any actions to introduce structural reforms will likely have less impact on growth given the overall climate of instability. Fiscal measures, however, are assumed to occur as outlined in the Fiscal Plan as the FOMB would continue to certify budgets consistent with the Fiscal Plan.

The lower end of the estimated likely range of recoveries assumes the impact of structural reforms will not materialize and further assumes that the healthcare reform fiscal measure will not be implemented. Specifically, while the FOMB has the authority to set spending levels, it might face challenges enforcing the healthcare expenditure levels included in the Fiscal Plan. The healthcare reform in the Fiscal Plan requires complex and coordinated actions across the various stakeholders

[19] The order of the use of funds to pay GO bonds and *pari passu* debt is as follows: CRIM revenues, starting cash, Commonwealth surplus, Commonwealth appropriations to certain IFCUs, and then conditionally allocable revenues.

in the healthcare system, which the Commonwealth may have limited incentive to undertake in the environment assumed in this analysis. Therefore, it is assumed in the lower end of the range of recoveries that the healthcare reform savings will not materialize.

In addition to adjustments to the Resource Envelope, the estimated likely range of recoveries is impacted by two key variables: a) starting cash available for debt service and b) the amount of unsecured claims. Following guidance provided by FOMB's legal advisors, the analysis assumes $5,981 million for unsecured claims.

Considering the ranges described above, in total, all assumed valid claimants[20] would receive payments in the range of $9.7 billion to $11.0 billion.[21] The implied recovery is 56% to 64% of total claims.[22,23] This range represents the estimated total recoveries for all creditors if the Title III case is dismissed and all claims were enforced under non-bankruptcy law. This case is referred as the "base case" in the following pages.

Exhibit 4: Estimated likely range of overall recovery to Commonwealth creditors

Estimated likely range of recoveries available overall to Commonwealth creditors if GO bonds and *pari passu* debt obligations issued in or after 2012 are deemed invalid[1,2]
PV of total payment in USD billion, % recovery

	Lower end of range	Higher end of range
Total Recoveries	$9.7 *56%*	$11.0 *64%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

The following chart shows the estimated likely range of recoveries for each class of claims. As mentioned in the section 'Outstanding debt,' the calculation assumes GO bonds, PBA bonds,[24] and claims with a Commonwealth guaranty issued in or after 2012 are invalid.

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20 As mentioned in the "Outstanding Debt" section above, GO bonds, PBA bonds, and claims with a Commonwealth guaranty issued in or after 2012 are invalid based on legal guidance.

21 The amount refers to the present value (as of the Effective Date) of future debt payments using an annual 5% discount rate.

22 Recovery percentage is estimated as the present value (as of the Effective Date) of total debt paid over the full period of analysis as a proportion of the total principal outstanding and unpaid interest as of the Commonwealth petition date (May 3, 2017).

23 Pensions and ERS claims are not included in the estimation of total debt recovery. This analysis assumes that pensions are fully paid every year as part of the operating expenses. Based on guidance from FOMB's legal advisors, this analysis also assumes that an ERS Title III plan of adjustment is confirmed.

24 Total recovery provided to PBA bondholders is the sum of recovery provided by PBA, as detailed in the "Analysis of Creditors Recoveries should the Title III Case be Dismissed for Creditors of the Puerto Rico Public Building Authority (PBA)," and the recovery provided by the Commonwealth. PBA bondholders cannot collect more than payment in full of contractual debt service in any given year from the combination of PBA and the Commonwealth.

Exhibit 5: Estimated likely range of recoveries available to Commonwealth creditors by debt class

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and *pari passu* debt obligations issued in or after 2012 are deemed invalid[1,2]
PV of total payment in USD billion, % recovery

	Lower end of range	Higher end of range
GO Bonds	$6.2 *89%*	$6.6 *95%*
Claims pari passu with GO bonds	$2.8 *66%*	$3.3 *76%*
Other eligible claims	$0.7 *12%*	$1.2 *20%*
Total	$9.7 *56%*	$11.0 *64%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

See Appendix 2 for additional details on recoveries based on varying levels of starting cash and litigation claims that construct the ranges described above.

Alternative outcomes based on ongoing litigation or litigation risks

The estimated likely range of recoveries available to Commonwealth creditors is subject to the outcome of ongoing litigation as summarized in Appendix 5. The impact of certain possible litigation outcomes on creditors recovery is analyzed in the scenarios below.

i. Scenario 1: Assumes GO bonds and pari passu debt obligations issued in or after March 2011 are deemed invalid

As described in Appendix 5, the main analysis assumes GO bonds, PBA bonds, and claims with a Commonwealth guarantee issued in or after 2012 are deemed invalid. However, the UCC has commenced litigation challenging the validity of GO bonds, PBA bonds, and other debts with a Commonwealth guarantee issued in or after March 2011. This scenario assumes the above obligations issued in or after March 2011 are deemed invalid.

Based on data provided by financial advisors, the total principal and accrued and unpaid interest outstanding for GO bonds excluding those issued in or after March 2011 is $7,025 million as of the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the Commonwealth petition date is $5,462 million and $381 million, respectively.

In this scenario, the outstanding principal and accrued and unpaid interest of PBA bonds is $2,869 million as of the Effective Date of this analysis. For the calculation of recoveries, the total outstanding principal and unpaid interest as of the PBA petition date is $2,243 million and $418 million, respectively. Also, PRIFA BANs and GDB loans are considered invalid in this scenario; the value of those two claims is described in the section 'Outstanding debt' of this analysis.

The results of this scenario are shown in Exhibit 6. The estimated likely range of recoveries for the GO group increases from 89% to 95% in the base scenario to 98% to 100% when the analysis considers claims issued in or after March 2011 are invalid. The estimated likely range of recoveries for *pari passu* debt changes from 66% to 76% in the base scenario to 70% to 75% in this scenario. The result is that the estimated likely range of total payments to Commonwealth creditors, in this scenario, is $9.3 billion to $10.3 billion.

Exhibit 6: Estimated likely range of recoveries to Commonwealth creditors if GO bonds and pari passu debt obligations issued in or after March 2011 are deemed invalid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and *pari passu* debt obligations issued in or after March 2011 are deemed invalid[1,2]

PV of total payment in USD billion, % recovery

	Lower end of range	Higher end of range
GO Bonds	$5.8 *98%*	$6.0 *100%*
Claims pari passu with GO bonds[1]	$2.1 *70%*	$2.2 *75%*
Other eligible claims	$1.5 *24%*	$2.0 *33%*
Total	$9.3 *63%*	$10.3 *69%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors

2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

See Appendix 3 for additional details on recoveries based on varying levels of starting cash and litigation claims that construct the ranges described above.

ii. Scenario 2: Assumes all outstanding GO and pari passu debt obligations are deemed valid

As described in Appendix 5, it is possible that the challenges to certain claims will be unsuccessful. In this scenario, all outstanding GO bonds, PBA bonds, and claims with a Commonwealth guarantee are assumed to be valid, and therefore will receive payments following the priorities for distribution of funds described in this analysis.

In this scenario, based on data provided by financial advisors, the total principal and accrued and unpaid interest outstanding is $16,638 million as of the Effective Date of this analysis. For the calculation of GO bonds recoveries, the total outstanding principal and unpaid interest as of the petition date is $12,548 million and $965 million, respectively. For PBA bonds, the outstanding principal and accrued and unpaid interest balance is $5,050 million as of the Effective Date of this analysis. For the calculation of recoveries, the total PBA bonds outstanding principal and unpaid interest as of the petition date is $4,001 million and $670 million, respectively. Also, PRIFA BANs and GDB loans are considered in this scenario; the value of those two claims is described in the section 'Outstanding debt' of this analysis. Exhibit 7 below shows the estimated likely range of recoveries.

In this scenario, the GO claims receive an estimated likely recovery of 75% to 84%. The estimated likely range of recoveries for debt *pari passu* with GOs is 54% to 63% in this scenario. The result is that the estimated likely range of total payments to Commonwealth creditors is $12.9 billion to $14.6 billion.

Exhibit 7: Estimated likely range of recoveries to Commonwealth creditors if all outstanding GO bonds and pari passu debt obligations are deemed valid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if all GO bonds and *pari passu* debt obligations are deemed valid[1,2]
PV of total payment in USD billion, % recovery

	Lower end of range	Higher end of range
GO Bonds	$10.1 *75%*	$11.3 *84%*
Claims pari passu with GO bonds	$2.8 *54%*	$3.3 *63%*
Other eligible claims	$0 *0%*	$0 *0%*
Total	$12.9 *52%*	$14.6 *59%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

See Appendix 3 for additional details on recoveries based on varying levels of starting cash and litigation claims that construct the ranges described above. A summary of creditor recoveries for the base case, Scenario 1, and Scenario 2 is shown in Exhibit 8.

Exhibit 8: Estimated likely range of recoveries to Commonwealth creditors by debt class and scenario

Estimated likely range of recoveries available to creditors by debt class and scenario[1,2]
PV of total payment in USD billion, % recovery, breakdown by scenario

	Base case: GO bonds and *pari passu* debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and *pari passu* debt issued in or after March 2011 is deemed invalid		Scenario 2: All outstanding claims are deemed valid	
	Lower end of range	Higher end of range	Lower end of range	Higher end of range	Lower end of range	Higher end of range
GO Bonds	$6.2 *89%*	$6.6 *95%*	$5.8 *98%*	$6.0 *100%*	$10.1 *75%*	$11.3 *84%*
Claims pari passu with GO bonds	$2.8 *66%*	$3.3 *76%*	$2.1 *70%*	$2.2 *75%*	$2.8 *54%*	$3.3 *63%*
Other eligible claims	$0.7 *12%*	$1.2 *20%*	$1.5 *24%*	$2.0 *33%*	$0 *0%*	$0 *0%*
Total	$9.7 *56%*	$11.0 *64%*	$9.3 *63%*	$10.3 *69%*	$12.9 *52%*	$14.6 *59%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

iii. Alternative scenarios assuming court mandated reduction to certain pension obligations to meet certain debt obligations

Based on legal assumptions described in Appendix 5, this alternative analysis assumes the Commonwealth's prioritization of pension obligations is deemed not fully permissible and it is directed to use a portion of funds intended to pay pensions to increase the resource envelope available to pay GO bonds and *pari passu* debt. The analysis assumes pensions greater than $1,500 per month (excluding medical insurance benefits) are partially reduced by 5% or 10%, with the reduction capped such that no pension is reduced below $1,500 per month. These reductions are assumed to occur unless and until GO bonds and *pari passu* debt are paid in full, at which point no further pension reductions are required.

Exhibit 9 and Exhibit 10 show the estimated likely range of recoveries for the base case, Scenario 1, and Scenario 2 assuming a 5% or 10% court mandated reduction in certain pension obligations as described above.

Exhibit 9: Estimated likely range of recoveries to Commonwealth creditors by debt class and scenario assuming a 5% court mandated reduction in certain pension obligations

Estimated likely range of recoveries available to creditors by debt class and scenario assuming a 5% court mandated reduction in certain pension obligations[1,2]
PV of total payment in USD billion, % recovery, breakdown by scenario

	Base case: GO bonds and *pari passu* debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and *pari passu* debt issued in or after March 2011 is deemed invalid		Scenario 2: All outstanding claims are deemed valid	
	Lower end of range	Higher end of range	Lower end of range	Higher end of range	Lower end of range	Higher end of range
GO Bonds	$6.3 *91%*	$6.7 *96%*	$5.8 *99%*	$6.1 *100%*	$10.3 *76%*	$11.6 *86%*
Claims pari passu with GO bonds	$2.9 *68%*	$3.3 *78%*	$2.1 *70%*	$2.2 *76%*	$2.9 *55%*	$3.4 *65%*
Other eligible claims	$0.7 *12%*	$1.2 *20%*	$1.5 *24%*	$2.0 *33%*	$0 *0%*	$0 *0%*
Total	$9.9 *58%*	$11.2 *65%*	$9.3 *63%*	$10.3 *70%*	$13.2 *54%*	$15.0 *61%*

1 Recoveries on this exhibit do not include ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

Exhibit 10: Estimated likely range of recoveries to Commonwealth creditors by debt class and scenario assuming a 10% court mandated reduction in certain pension obligations

Estimated likely range of recoveries available to creditors by debt class and scenario assuming a 10% court mandated reduction in certain pension obligations[1,2]
PV of total payment in USD billion, % recovery, breakdown by scenario

	Base case: GO bonds and *pari passu* debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and *pari passu* debt issued in or after March 2011 is deemed invalid		Scenario 2: All outstanding claims are deemed valid	
	Lower end of range	Higher end of range	Lower end of range	Higher end of range	Lower end of range	Higher end of range
GO Bonds	$6.4 *92%*	$6.8 *97%*	$5.8 *100%*	$6.1 *100%*	$10.5 *78%*	$11.8 *87%*
Claims pari passu with GO bonds	$3.0 *70%*	$3.4 *79%*	$2.1 *71%*	$2.3 *77%*	$3.0 *57%*	$3.5 *67%*
Other eligible claims	$0.7 *12%*	$1.2 *20%*	$1.5 *24%*	$2.0 *33%*	$0 *0%*	$0 *0%*
Total	$10.1 *59%*	$11.3 *66%*	$9.4 *64%*	$10.4 *70%*	$13.5 *55%*	$15.3 *62%*

1 Recoveries on this exhibit do not include ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

iv. Alternative scenarios assuming ERS Title III is dismissed

This alternative analysis assumes the ERS Title III case is dismissed. As described in Appendix 5, should the ERS Title III case be dismissed, any assets remaining at ERS after debt obligations have been paid to bondholders and unsecured creditors from legally identified security sources will be transferred to the Commonwealth per Act 106-2017. Based on the "Analysis of Creditors Recoveries should the Title III Case be Dismissed for Creditors of the Puerto Rico Employee Retirement System (ERS)," $1,023 million of ERS unrestricted remaining assets are assumed to be transferred to the Commonwealth in FY2022 compared to $643 million in the base case.

In addition, following guidance provided by FOMB's legal advisors, this analysis assumes ERS bondholders assert an unsecured claim against the Commonwealth for remaining debt service in each year their debt service is not paid by ERS.[25] The following exhibit shows the estimated likely range of recoveries for the base case, Scenario 1, and Scenario 2 assuming ERS unrestricted assets transferred to the Commonwealth in FY2022 being $1,023 million and ERS bondholders assert an unsecured claim in each year their debt service is not paid in full by ERS.

Exhibit 11: Estimated likely range of recoveries to Commonwealth creditors by scenario if the ERS Title III case is dismissed

Estimated likely range of recoveries available to creditors by debt class and scenario if the ERS Title III case is dismissed[1,2]

PV of total payment in USD billion, % recovery, breakdown by scenario

	Base case: GO bonds and *pari passu* debt issued in or after 2012 is deemed invalid		**Scenario 1: GO bonds and *pari passu* debt issued in or after March 2011 is deemed invalid**		**Scenario 2: All outstanding claims are deemed valid**	
	Lower end of range	Higher end of range	Lower end of range	Higher end of range	Lower end of range	Higher end of range
GO Bonds	$6.2 *89%*	$6.6 *95%*	$5.8 *98%*	$6.0 *100%*	$10.1 *75%*	$11.3 *84%*
Claims pari passu with GO bonds	$2.8 *66%*	$3.3 *76%*	$2.1 *70%*	$2.2 *75%*	$2.8 *54%*	$3.3 *63%*
Other eligible claims	$1.1 *12%*	$1.6 *17%*	$1.8 *20%*	$2.4 *26%*	$0 *0%*	$0 *0%*
Total	$10.1 *49%*	$11.4 *56%*	$9.6 *54%*	$10.6 *59%*	$12.9 *46%*	$14.6 *52%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

25 Total recovery provided to ERS bondholders is the sum of recovery provided by ERS, as detailed in the "Analysis of Creditors Recoveries should the Title III Case be Dismissed for Creditors of the Puerto Rico Employee Retirement System (ERS)," and the recovery provided by the Commonwealth as an unsecured claim. ERS unsecured claims against the Commonwealth account for 35% of total unsecured claims asserted against the Commonwealth in the case where the ERS Title III is dismissed in this analysis.

APPENDIX 1

The following exhibits provide additional detail on the estimated likely range of recoveries available to creditors for the different scenarios, including details on payments for interest that accrued from the petition date (May 3, 2017 except for PBA, which is September 27, 2019) through the Effective Date of the analysis (June 30, 2021).

Exhibit 12: Estimated likely range of recoveries available to all Commonwealth creditors by debt class if GO bonds and pari passu debt obligations issued in or after 2012 are deemed invalid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and *pari passu* debt obligations issued in or after 2012 are deemed invalid[1,2]
PV of total payment in USD billion, % recovery

	Lower end of range		Higher end of range	
	Total recovery	Payments to interest accrued post-petition[3]	Total recovery	Payments to interest accrued post-petition[3]
GO Bonds	$6.2 *89%*	1.4 *20%*	$6.6 *95%*	1.4 *20%*
Claims pari passu with GO bonds	$2.8 *66%*	0.3 *7%*	$3.3 *76%*	0.3 *7%*
Other eligible claims	$0.7 *12%*	0.0 *0%*	$1.2 *20%*	0.0 *0%*
Total	$9.7 *56%*	1.7 *10%*	$11.0 *64%*	1.7 *10%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis
3 Calculated as percentage of payments made to interest accrued post petition out of total outstanding debt as of the petition date

Exhibit 13: Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and pari passu debt obligations issued in or after March 2011 are deemed invalid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and *pari passu* debt obligations issued in or after March 2011 are deemed invalid[1,2]

PV of total payment in USD billion, % recovery

	Lower end of range		Higher end of range	
	Total recovery	Payments to interest accrued post-petition[3]	Total recovery	Payments to interest accrued post-petition[3]
GO Bonds	$5.8 *98%*	1.2 *20%*	$6.0 *100%*	1.2 *20%*
Claims pari passu with GO bonds	$2.1 *70%*	0.2 *6%*	$2.2 *75%*	0.2 *6%*
Other eligible claims	$1.5 *24%*	0.0 *0%*	$2.0 *33%*	0.0 *0%*
Total	$9.3 *63%*	1.3 *9%*	$10.3 *69%*	1.3 *9%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis
3 Calculated as percentage of payments made to interest accrued post petition out of total outstanding debt as of the petition date

Exhibit 14: Estimated likely range of recoveries available to creditors if all outstanding claims are deemed valid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if all GO bonds and *pari passu* debt obligations are deemed valid[1,2]

PV of total payment in USD billion, % recovery

	Lower end of range		Higher end of range	
	Total recovery	Payments to interest accrued post-petition[3]	Total recovery	Payments to interest accrued post-petition[3]
GO Bonds	$10.1 *75%*	3.1 *23%*	$11.3 *84%*	3.1 *23%*
Claims pari passu with GO bonds	$2.8 *54%*	0.4 *8%*	$3.3 *63%*	0.4 *8%*
Other eligible claims	$0 *0%*	0.0 *0%*	$0 *0%*	0.0 *0%*
Total	$12.9 *52%*	3.5 *14%*	$14.6 *59%*	3.5 *14%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis
3 Calculated as percentage of payments made to interest accrued post petition out of total outstanding debt as of the petition date

APPENDIX 2

The following exhibits provide additional detail on the estimated likely range of recoveries available to creditors. The first exhibit shows additional details on the total recoveries to creditors and the second exhibit shows recoveries by debt class.

Exhibit 15: Estimated likely range of recoveries available to all Commonwealth creditors by debt class if GO bonds and pari passu debt obligations issued in or after 2012 are deemed invalid

Estimated likely range of overall recoveries available to Commonwealth creditors if GO bonds and *pari passu* debt obligations issued in or after 2012 are deemed invalid[1,2]

PV of total payment in USD billion, *% recovery*

	Lower end of range	Higher end of range	Range of recoveries
Starting cash = $9.3B	$9.7 *56%*	$10.6 *61%*	$9.7 – 11.0 *56 – 64%*
Starting cash = $9.8B	$10.2 *59%*	$11.0 *64%*	

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

Exhibit 16: Estimated likely range of recoveries available to Commonwealth creditors by debt class and variables if GO bonds and pari passu debt obligations issued in or after 2012 are deemed invalid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and *pari passu* debt obligations issued in or after 2012 are deemed invalid[1,2]

PV of total payment in USD billion, *% recovery*

	Starting cash = $9.3B	Starting cash = $9.8B	Range of recoveries
GO Bonds	$6.2 – 6.6 *89-95%*	$6.2 – 6.6 *89-95%*	$6.2 – 6.6 *89 – 95%*
Claims pari passu with GO bonds	*$2.8 – 3.3* *66 – 76%*	*$2.8 – 3.3* *66 – 76%*	*$2.8 – 3.3* *66 – 76%*
Other eligible claims	$0.7 – 0.7 *12 – 12%*	$1.1 – 1.2 *19 – 20%*	$0.7 – 1.2 *12 – 20%*
Total	$9.7 – 10.6 *56 – 61%*	$10.2 – 11.0 *59 – 64%*	$9.7 – 11.0 *56 – 64%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors
2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

APPENDIX 3

Exhibit 17: Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and pari passu debt obligations issued in or after March 2011 are deemed invalid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if GO bonds and pari passu debt obligations issued in or after March 2011 are deemed invalid[1,2]

PV of total payment in USD billion, % recovery

	Starting cash = $9.3B	Starting cash = $9.8B	Range of recoveries
GO Bonds	$5.8 – 6.0 98 – 100%	$5.8 – 6.0 98 – 100%	$5.8 – 6.0 98 – 100%
Claims pari passu with GO bonds	*$2.1 – 2.2* *70 – 75%*	*$2.1 – 2.2* *70 – 75%*	*$2.1 – 2.2* *70 – 75%*
Other eligible claims	$1.5 – 1.5 *24 – 25%*	$2.0 – 2.0 *33 – 33%*	$1.5 – 2.0 *24 – 33%*
Total	$9.3 – 9.8 *63 – 66%*	$9.8 – 10.3 *66 – 69%*	$9.3 – 10.3 *63 – 69%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors

2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

Exhibit 18: Estimated likely range of recoveries available to Commonwealth creditors by debt class if all claims are deemed valid

Estimated likely range of recoveries available to Commonwealth creditors by debt class if all GO bonds and *pari passu* debt obligations are deemed valid[1,2]

PV of total payment in USD billion, *% recovery*

	Starting cash = $9.3B	Starting cash = $9.8B	Range of recoveries
GO Bonds	$10.1 – 11.3 *75 – 84%*	$10.1 – 11.3 *75 – 84%*	$10.1 – 11.3 *75 – 84%*
Claims pari passu with GO bonds	*$2.8 – 3.3* *54 – 63%*	*$2.8 – 3.3* *54 – 63%*	*$2.8 – 3.3* *54 – 63%*
Other eligible claims	$0 – 0 *0 – 0%*	$0 – 0 *0 – 0%*	$0 – 0 *0 – 0%*
Total	$12.9 – 14.6 *52 – 59%*	$12.9 – 14.6 *52 – 59%*	$12.9 – 14.6 *52 – 59%*

1 Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors

2 These recoveries are reflective of adjustments made to the Resource Envelope given implementation risks discussed in this analysis

APPENDIX 4

Based on the Puerto Rico Cash Analysis published by the Oversight Board and AAFAF on December 19, 2020, the Minimum Cash Requirements of the Commonwealth is estimated to be $1,200 million to $1,700 million. This amount refers to cash on hand that the Commonwealth would need for the government's cash management system to be sufficiently funded and ensure proper functioning of government operations. See table below for details of the analysis.

Exhibit 19: Minimum Cash Requirements analysis[26]

Category	Range	Description
Pew 50 State Median	$500m · $1,000m · $1,500m · $2,000m	The 50 state median for total balance reserve is **45 days** or approximately **$1,240 million** of the budgeted expenses of the General Fund.
GFOA Recommendation	$500m · $1,000m · $1,500m · $2,000m	The GFOA best practice is **60 days** of General Fund operating expenses, this is approximately **$1,650 million** of the budgeted expenses of the General Fund.
Municipality comparable	$500m · $1,000m · $1,500m · $2,000m	The City of Detroit maintained a minimum cash balance of ~$75 million or 7.5% of their General Fund expenses. Correspondingly, Puerto Rico would retain **$1,000 million.**
Community disaster loans (CDL)	$500m · $1,000m · $1,500m · $2,000m	The U.S. Treasury gave Puerto Rico access to CDLs, as needed, until March 2020 (if loans are issued) if the cash reserve falls below **$1,100 million.** This was increased from the original balance of **$800 million.**
Practitioners Approach	$500m · $1,000m · $1,500m · $2,000m	Practitioners retain between **5-10%** of budgeted general fund and special revenue expenses as reserves. This amounts to between **$667 million** and **$1,333 million**.
Government request	$500m · $1,000m · $1,500m · $2,000m	The Government is requesting **$1,781 million** for minimum cash balance. This reserve is for the TSA, which includes cash flows from general fund, federal funds, and special revenue funds.

[26] Source: Puerto Rico Cash Analysis (as accessed in June 2021): https://emma.msrb.org/P11450397-P11124337-P11535399.pdf

APPENDIX 5

Commonwealth Title III Plan[1]

Best Interests Test Analysis – Assumptions

	Question	Assumption
1.	**Existence of PROMESA/Board:** Should PROMESA Titles I and II apply be assumed to apply?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: PROMESA Titles I and II apply. The automatic stay does not apply. The Board is in place and certifies and enforces fiscal plans and budgets. Creditors are allowed to procure judgments for all matured claims. Once GO creditors (including creditors holding CW-guaranteed claims) have judgments, they can claim all "available resources" and negotiate/litigate with the Commonwealth over what amount of the available resources can be applied to operating expenses pursuant to the police power. The non-GO and non-CW guarantee creditors' only recourse is to wait for a legislative appropriation of amounts to pay their claims once GOs are paid in full. **BASIS**: The reference to "non-bankruptcy laws" in PROMESA section 314(b)(6) would include Titles I and II of PROMESA. There would be no automatic stay under non-bankruptcy law. Neither the fiscal plan nor the budget discharges claims or stays actions. Therefore, the fiscal plan and budget, as non-bankruptcy law, would apply, and the Oversight Board would continue to exist to enforce them. It is possible that their implicit limitations (*i.e.*, budgeted amounts) will not limit how much creditors can collect by enforcing their claims. Whether that is the case will be a function of the extent to which the police power prevents GO creditors from taking all available resources. Non-GO creditors rely on legislative appropriations for payment. The certified fiscal plan would limit what can be appropriated for debt service, subject to the rights of GO creditors to exercise their rights under Article VI, Sections 6 and 8 of the PR Constitution to intercept available resources. **ASSUMPTION 2 [LITIGATION RISK]**: PROMESA Titles I and II do not apply. The automatic stay does not apply. The Board does not exist, and there are no certified fiscal plans and budgets.

[1] The Commonwealth of Puerto Rico is referred to herein as "Commonwealth," "CW," or "PR."

	Question	Assumption
		BASIS: The assumption that PROMESA Titles I and II continue to apply increases the creditors' recovery due to the measures and savings the Oversight Board inserts into its certified fiscal plans. The Oversight Board's legal advisors believe it is possible that Titles I and II do not apply because Congress enacted them in tandem with Title III and it is not clear they were intended to continue in effect without Title III. On balance, however, the legal advisors recommended that this analysis be done as if PROMESA Titles I and II continue to apply**.**
2.	**Surplus**: Each year, is the cash remaining after all debts due and payable are paid, put in a lockbox for later years with deficits, or rolled over to next year's resources?	**ASSUMPTION**: To the extent there are surplus funds after payment of all matured debts in any year, the funds will be held in the Commonwealth's treasury and a court will decide the next year whether the police power justifies putting any or all of it aside for later deficit years for essential services. GO bonds and CW-guaranteed bonds do not provide for acceleration. The BIT analysis should assume the surplus is available for and used for debt service, and not saved for future deficit years or deposit into the pension system. **BASIS**: A court may not be willing to allow the Commonwealth to set aside large amounts for future deficit years if it means cutting the creditors' nearer term recovery.
3.	**Restricted/Unrestricted Cash**	**ASSUMPTION:** Only unrestricted cash is available for debt service generally, and cash restricted for certain creditors is available solely for those creditors to the extent required by Commonwealth or other applicable law. Unrestricted cash refers to Commonwealth funds that do not have legal limitations on their use (e.g., are in custodial or trust accounts, are bondholder collateral, or are subject to court orders, among others). Funds that do not have legal limitations on their use are considered unrestricted cash available for debt service. There is a difference between money set aside for a purpose, and money legally restricted, like federal funds or trust funds. Money set aside for emergencies and cost match reserve obligations is not legally restricted. Additionally, the cash estimate in the BIT analysis should assume a minimum cash required for normal government operations ("Minimum Cash Requirements"), which is the minimum level of cash that the Commonwealth would need to avoid liquidity

	Question	Assumption
		constraints that could put its operations at risk. The Minimum Cash Requirements assumption also includes a reasonable provision for short term emergencies, consistent with how budgeting is done for municipalities and U.S. states. Lastly, the cash analysis for FY21 should include an adjustment for funding that the Commonwealth will provide to PREPA. These funds are related to the LUMA contract and are assumed to be advanced before the effective date of this analysis (June 30, 2021). The preliminary estimated value of the support funds is $750 million, which are related to contractual payments funding T&D O&M Agreement operating accounts. **BASIS:** Cash in accounts subject to other restrictions is not available for debt service if the restrictions are in the nature of security interests, liens, or setoff or recoupment rights. Other cash is available, even if "earmarked" for a specific purpose, with the exception of limited emergency funds which the court allows entities to retain.
4.	**Conditionally Allocable Revenues:** Can the public corporations ordinarily entitled to receive conditionally allocable revenues ("allocable revenue entities") or their bondholders assert a valid claim against the Commonwealth for any amount of conditionally allocable revenues retained by the Commonwealth? (The "conditionally allocable revenues" refer to revenues recallable or not allocated based on Article VI, section 8 of the Puerto Rico constitution.)	**ASSUMPTION 1 [MAIN ASSUMPTION]**: An allocable revenue entity or its bondholders may assert a claim against the Commonwealth for allocable revenues the Commonwealth has retained but not used to pay GO debt or CW-guaranteed debts, but not for allocable revenues used to pay GO bonds or CW-guaranteed debts. This claim is an unsecured, non-priority (*i.e.*, subordinated to GO debt) claim against the Commonwealth for unauthorized failure to allocate revenues in addition to any claim the bondholders may have against the allocable revenue entity (*i.e.*, the issuer), but not for the portion used for payment of GO debt service or CW-guaranteed debt service. The adjudication of the claim will turn on many factors including the police power, preemption, and the facts underlying each failure to allocate revenues. The GO debt priority provisions apply on an aggregate, and not year-by-year basis. These claims will be reduced if the Commonwealth reimburses the allocable revenue entities in the subsequent years in which the Commonwealth retained allocable revenues for purposes other than to pay GO bonds or CW-guaranteed bonds. **BASIS**: Allocable revenues used to pay GO debt service under the plan of adjustment in which GO claims are not paid in full are not subject to the attack that allocable revenue funds were used for the wrong purpose because pursuant to Section

	Question	Assumption
		8 of Article VI of the PR Constitution, allocable revenues can be used for debt service on general obligations, and/or because such allocable revenues were preempted by the Board's Fiscal Plans. Section 8, however, appears subject to the CW police power. Bondholders will also likely contest the failure to allocate revenues (past and future) on the ground it was unnecessary because in their view there were sufficient available revenues to pay GO debt service. Based on that argument and/or because the police power is used to deploy allocable revenues to pay operating expenses and not GO debt service, bondholders will assert claims against CW for the amount of allocable revenues allegedly unnecessarily taken to pay GO debt service or allegedly taken pursuant to the police power to pay CW operating expenses or allocable revenue entity operating expenses. Even if no right to not allocate revenues existed, the CW police power, subject ultimately to court adjudication, could justify cessation of appropriating money to allocable revenue agencies for debt service and use of the funds for essential services at the CW or allocable revenue entities. Thus, it is assumed that as long as the Commonwealth could not afford to pay its expenses in a given year, it exercises police power to not allocate revenues and then distributes them according to need (*i.e.*, may use some to cover operating expenses for itself, instrumentalities, including allocable revenue entities, and debt service). It is assumed that allocable revenues can be used to pay GO debt and debt *pari passu* to GO bonds when the Commonwealth has sufficient funds to pay its operating expenses. In the event that allocable revenues are not required to be used in full to pay GO debt and debt *pari passu* to GO debt in a given year, any amount of remaining allocable revenues are returned to their corresponding public corporations. If the Commonwealth has insufficient funds to pay its operating expenses in any given year, it is assumed it can exercise police power to use allocable revenues to pay for those expenses, with the police power potentially giving rise to claims against the CW for the amount of allocable revenues used. Finally, certain allocable revenue statutes require the Commonwealth to reimburse the allocable revenue entities in the following year when allocable revenues are retained to pay GO bonds and CW-guaranteed debts, with such amount accruing in favor of the allocable revenue entity until completely reimbursed (with a claim

	Question	Assumption
		arising only in favor of the allocable revenue entity if and when allocable revenues are unlawfully retained). The taxes and fees which accrue are: gasoline taxes – HTA (13 LPRA 31751(a)(1)); license fees – HTA; (9 LPRA 5681) and hotel taxes – CCDA (13 LPRA 2271v). The taxes and fees which do not accrue are: increased license fees – HTA (9 LPRA 2021); cigarette taxes – HTA (13 LPRA 31751(a)(3)); and the PRIFA allocable revenues. **ASSUMPTION 2 [LITIGATION RISK]**: The failure to conditionally allocate revenues to allocable revenues entities (whether pursuant to Section 8 or the police power) was permissible, so the allocable revenue entity or its bondholders cannot assert any claim as a result of the failure to allocate revenues. **BASIS**: Unlike in Assumption 1, the Commonwealth would be allowed to use allocable revenues for operating expenses pursuant to its police power without giving rise to claims against the Commonwealth or because failure to appropriate does not give rise to an enforceable claim for the appropriation. The Oversight Board believes no enforceable claim would exist because (i) appropriations by prior legislatures are not binding on subsequent legislatures and (ii) appropriations and statutes providing for them are repealable at will and do not create entitlements to receive them. To avoid disputes over this issue, the BIT analysis assumes appropriations do create enforceable claims in Assumption 1. **ASSUMPTION 3 [LITIGATION RISK]**: Any failure to allocate revenues was impermissible, so the allocable revenue entity or its bondholders can assert a claim as a result of the failure to allocate revenues used for both operating expenses and GO bonds and CW-guaranteed debts. If Titles I and II preempt the Commonwealth's preexisting statutory appropriations to HTA and the other allocable revenue entities, there are no restrictions on the Commonwealth's use of allocable revenues, but the allocable revenue entity or its bondholders might sue the Commonwealth for impairing the bond obligations to them and assert claims against the Commonwealth for that impairment. Specifically, in each year in which the debt service on bonds of the entity that would otherwise receive allocable revenues is not paid, the FOMB

	Question	Assumption
		would assume the allocable revenue entity or such bondholders may assert an unsecured, non-priority (*i.e.*, subordinated to the GO debt) claim against the Commonwealth in addition to their claim against the allocable revenue entity (*i.e.*, the issuer). **BASIS**: Titles I and II allow for not conditionally allocating revenues by providing the Oversight Board with power over budget appropriations, but a damage claim may still be asserted as a result of that failure to allocate revenues. **ASSUMPTION 4 [LITIGATION RISK]**: The bondholders have an interest in conditionally allocable revenues as soon as the Commonwealth receives such revenues. Accordingly, they receive such revenues before they can be distributed to holders of GO bonds or CW-guaranteed debts. **BASIS**: Once the Commonwealth receives the conditionally allocable revenues, such revenues are property of bondholders of allocable revenue entities, because either the bondholders' security interest attaches upon receipt, or the Commonwealth holds the conditionally allocable revenues in trust. To date, the Title III Court has not adopted this assumption. **ASSUMPTION 5 [LITIGATION RISK]**: Bondholders from entities that receive conditionally allocable revenues (HTA, PRIFA and PRCCDA) are determined to hold an unsecured claim against the Commonwealth for the total amount of revenue not allocated, and accordingly receive distribution as members of the category of 'other eligible claims'. **BASIS**: As explained in the basis for Assumption 1, pursuant to Section 8 of Article VI of the PR Constitution, allocable revenues can be used for debt service on general obligations; however, in this assumption, each dollar withheld leads to a dollar-for-dollar unsecured claim by the bondholder of the allocable revenue entity from which it was withheld.

	Question	Assumption
5.	**Fiscal Plan Measures – Implementation Risk**: Is there a risk the fiscal plan measures will not be fully implemented?	**ASSUMPTION**: Assume a range of recoveries based on high or medium implementation risk of fiscal measures and/or structural reforms. **BASIS**: A dismissal of the Title III case and further political and economic uncertainties could affect the implementation of fiscal plan measures. Before and during Puerto Rico's turmoil leading to Governor Rosselló's resignation, the Oversight Board found its recommended measures and structural reforms were not being timely implemented. After dismissal of Title III cases, it is very possible the government would cooperate less with the Oversight Board and creditors seeking to maximize their recoveries.
6.	**Operating expenses (including pensions) priority:** Will operating expenses be paid before GO and *pari passu* debt is paid?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: Assume operating expenses outlined in the certified fiscal plan are paid before debt service. Further assume there will be no freeze of pension benefits accrual for teachers (TRS) and for judges (JRS). As a consequence, assume teachers and judges will not move into social security. Furthermore, benefits and operating expenses will not be changed that depend on a confirmation of the Plan of Adjustment (e.g., pension cuts included in the Fiscal Plan, employer healthcare contributions for employees who are AFSCME union members, and PayGo contributions to System 2000 participants). **BASIS:** The fiscal plan already projects reductions in operating expenses through a series of fiscal measures aimed at reducing government-wide expenditures to adapt the budget to a size appropriate for PR's population. The certified fiscal plan projects savings of ~\$6 billion from FY2021 to FY2025, which represents ~12% of the baseline expenses in such period. Additionally, Puerto Rico cut public pensions significantly before PROMESA was enacted. This sensitivity assumes additional cuts would be detrimental to the economy of Puerto Rico, but consistently with the current fiscal plan, pension levels would be frozen, which gives rise to unsecured judgment claims. Teachers and judges currently do not receive Social Security as this group is exempt from this benefit because of the "Section 218" agreement between the Commonwealth and the Social Security Administration, which stipulates that government employees may be exempt from Social Security if they participate in a

	Question	Assumption
		"comparable" retirement plan such as one which includes total employee and employer contributions equal to at least 7.5% of employee wages. If there were a freeze in the accrual of benefits in their pension plan, teachers and judges may be covered under Social Security. **ASSUMPTION 2 [LITIGATION RISK]**: Assume the Commonwealth's exercise of police power to pay pension obligations from available revenues is limited to paying in full pensions of up to $1,500 per month (excluding medical insurance benefits), and pensions in excess of $1,500 per month are reduced by 5% or 10% (subject to a floor of $1,500 per month) unless and until GO and CW-guaranteed debt due in such year is paid in full, at which point no further pension cuts are required for that year. Retirees will have general unsecured claims against the Commonwealth for all valid pension claims not paid to them. **BASIS**: Police power allows the payment of essential expenses first, but a court may rule the police power does not free up available revenues for pension payments in excess of the amounts paid after taking 5% or 10% discounts provided for above, on the ground payments in excess of the discounted amounts are unnecessary to protect the public health, safety, and welfare.
7.	**PFC Bonds**: Do PFC Bonds constitute allowable claims?	**ASSUMPTION**: No. **BASIS**: PFC Bonds do not have a right to payment, which is a requirement for claims under CW law and Bankruptcy Code § 101(5). The payment of such promissory notes is subject to the discretionary appropriation of funds by the Legislature. PFC Bond documents disclosed that (1) the Legislature is not legally bound to appropriate funds to pay the PFC Bonds and (2) the PFC Bonds do not constitute an obligation of the CW.
8.	**PRIFA BANs:** Have PRIFA BANs been paid off using Crudita revenues since 2016?	**ASSUMPTION**: PRIFA BANs were subject to the moratorium and have not been paid. Note that PRIFA BANs are guaranteed by the CW. Absent the automatic stay, the moratorium may be ruled a violation of PROMESA section 303 and the PRIFA BANs will be entitled to payment.

	Question	Assumption
9.	**Additional Interest:** Should debt (principal + interest) that remained unpaid during the stay accrue additional interest?	**ASSUMPTION**: Assume that in years where full payment of matured debt is not made, subsequent payments are first credited against interest, and then against principal. i. **Interest on GO debt during stay**: Pursuant to PROMESA § 303, interest continues to accrue at the contract rate during any moratorium, unless the underlying contract provides for default interest, in which case the latter should be used. There is no statutory provision for interest on interest. ii. **Interest on GO *pari passu* debt during stay**: Same criteria apply as for GOs. iii. **Interest on unsecured claims during stay**: Assume no interest accrues. iv. **Interest on federal claims during stay**: Assume interest accrues during moratorium because the federal government can ultimately collect its debt and interest through setoffs against future aid. The documents underlying each federal claim may set the interest rates. The federal judgment rate as of this filing pursuant to 28 U.S.C. § 1961(a) is 0.05% per year. v. **Interest on unpaid debt**: Assume any unpaid debt accrues interest according to the weighted average coupon rate as of 2020 provided by Citi (each debt group of GO *pari passu* has its own rate). vi. **Interest on interest during FY19–58**: No. Puerto Rico law permits the payment of interest on overdue interest under certain circumstances, such as if it was expressly agreed by the parties. However, the GO debt does not provide for interest on overdue interest.
10.	**Federal Government Claims:** What is the priority for both secured and unsecured federal claims? Are the documents comprehensive?	**ASSUMPTION**: Federal claims need to be paid in full. **BASIS**: The federal government can offset unpaid claims against federal funds otherwise to be received by the Commonwealth—the U.S. Treasury's offset program (TOP) could be engaged immediately and the total amount owed to the federal government would be withheld from future federal transfers to the CW.

	Question	Assumption
11.	**ERS Bondholders' Claims:**[2] What is the value of ERS bondholder claims against the Commonwealth?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: ERS bondholders have no claims against the CW. **BASIS**: The ERS bondholders have reached an agreement with the Oversight Board on the treatment of their claims in the ERS Title III case , the ERS Stipulation (defined below), which may be unaffected by the dismissal of the CW's Title III Case. If not, even if ERS bondholders had a security interest in future contribution rights, the bondholders were put on notice by the bond offering statement that those rights might be modified or adversely affected by the Commonwealth, which Act 106-2017 did by eliminating any employer contributions to ERS. The fact that the ERS bondholders were on notice of such potential modification could also significantly diminish their chances of asserting a successful contract impairment or takings claim. Additionally, the best interests test should assume bondholder rights and remedies are on account of their claims as they existed immediately prior to the hypothetical dismissal of the ERS case and not adjusted under the ERS plan, *i.e.*, secured only by employer contributions arising prior to the ERS petition date, but not after, as a result of the Section 552 opinion. Thus, the ERS bondholders had no contract rights or collateral that was impaired or eliminated by operation of Act 106. Alternatively, ERS bondholders have no claims against the CW because the ERS bonds were an *ultra vires* issuance, and the bondholders' are not entitled to any equitable remedies. **ASSUMPTION 2 [LITIGATION RISK]**: ERS bondholders successfully assert constitutional claims (Takings and/or Contract Clauses) against the CW. In each year their debt service is not paid, ERS bondholders may assert that amount against the Commonwealth as an unsecured claim paid after GO and *pari passu* debt. **BASIS**: ERS bondholders assert Act 106-2017, which eliminated employer contributions under the ERS enabling act, effected an impairment of contractual rights and a taking of their collateral, in violation of the Puerto Rico and U.S. Constitutions. Additionally, § 552, which eliminated the security interest in employer contributions arising after the ERS petition date independent of the effect

[2] For ERS bondholders' claims against ERS, see the assumptions for the ERS best interests test analysis.

	Question	Assumption
		of Act 106, would likely no longer apply after the dismissal of the ERS Title III case, which would leave Act 106 as the only basis for the elimination of their collateral and thus a violation of the Contract and/or Takings Clauses. **ASSUMPTION 3 [LITIGATION RISK]**: ERS bondholders have a security interest in future employer contributions, and PayGo Payments are adjudicated to be the same as or proceeds of Employers' Contributions, and thus the ERS bondholders have secured claims against the Commonwealth secured by a security interest in PayGo Payments. Their debt service including outstanding principal and interest, is paid before GO or CW-guaranteed debt. This assumption should be run as if the secured claims against the employer contributions have a 0%, 25%, 50%, 75%, and 100% chance of success. If the CW runs into deficits before ERS bonds are paid in full, assume the CW can justify the use of police power for the payment of all its expenses, including pensions, in full, and there is no money left to pay ERS bonds or other debt. **BASIS**: ERS bondholders have asserted that PayGo Payments are the same asset as employer contributions, or proceeds thereof, and thus are subject to the ERS bondholders' security interest, making them a secured creditor of the Commonwealth. They would also likely assert that this security interest, even if eliminated by § 552 upon ERS's petition date, would be reinstated upon the dismissal of ERS's title III case.
12.	**What is the treatment of ERS assets that are not used for payment of ERS bondholders and other claims?**	**ASSUMPTION 1 [MAIN ASSUMPTION]:** ERS's agreement with its creditors based on the terms included in the *Amended and Restated Stipulation* entered into on April 2, 2021 (the "ERS Stipulation") remains in effect irrespective of whether the Commonwealth Title III case is dismissed. Therefore, any assets remaining at ERS after debt obligations have been paid to bondholders in accordance with the terms of the ERS Spoliation, and to ERS's unsecured creditors, will be transferred to the Commonwealth **BASIS:** In accordance with the ERS Stipulation, any remaining assets after payment of ERS Bonds and unsecured creditors are assumed to be transferred to the Commonwealth in FY2022.

	Question	Assumption
		ASSUMPTION 2 [LITIGATION RISK]: The ERS Stipulation is no longer in effect, and the ERS Title III case is dismissed. Any assets remaining at ERS after debt obligations have been paid to ERS Bondholders and unsecured creditors will be transferred to the Commonwealth in FY2022. **BASIS**: In accordance with Act 106-2017, any remaining assets at ERS after payment of valid debt obligations and unsecured creditors will be transferred to the Commonwealth.
13.	**CRIM (Property Tax)**	**ASSUMPTION:** The 1.03% special property tax collected by CRIM is used to pay GO bondholders, but the CW could exercise police power to use such revenue to cover essential services if it is running a deficit and all other funds available have been applied to necessary operating expenses and/or GO debt service. **BASIS:** Acts 39-1976 and 83-1991 require that the 1.03% special property tax be covered into the GO Redemption Fund and used solely for the payment of GO Bonds. In a scenario in which the CW is paying GO and GO guaranteed debt, such funds deposited in the GO Redemption Fund should be used first to pay GO bonds. As in all scenarios, the amount paid to GO and CW guaranteed debt should be *pro rata,* (*i.e.,* the allocation of the 1.03% revenue to GOs should not result in a higher recovery for GOs than CW-guaranteed debt in any given year).
14.	**IFCU (Independently Forecasted Component Units):** Is their revenue "available resources"?	**ASSUMPTION 1 [MAIN ASSUMPTION]:** IFCU's are public corporations legally separate from the CW. IFCU's own revenues should be considered unavailable for CW creditors such as GO bondholders. If the Commonwealth provides an appropriation to an IFCU running a surplus, it should be assumed that the Commonwealth reduces the appropriation until the IFCU runs a balanced budget. **BASIS:** Revenues generated by instrumentalities legally separate from the CW are not available to the CW and it would require enabling legislation to transfer such revenues to the CW. However, in a scenario where the CW exercises its police powers to pay for essential services, it should be expected that the CW would not grant appropriations to instrumentalities running a surplus. Legislation proposed as part of a plan which would make surpluses available to the CW is effective only on

	Question	Assumption
		the effective date of the plan; accordingly, if no plan is confirmed, such legislation will not be enacted. **ASSUMPTION 2 [LITIGATION RISK]**: IFCU surplus can be used by the Commonwealth. **BASIS**: PROMESA section 201(b)(1)(M) provides that a fiscal plan "shall […] ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted by the constitution of the territory, an approved plan of adjustment under subchapter III, or a Qualifying Modification approved under subchapter VI." Since a Title III plan or Title VI Qualifying Modification would not be available in the best interests test scenarios, the transfer could be accomplished based on legislation enacted in accordance with the Commonwealth Constitution. In the past, the Commonwealth has employed legislation that authorized IFCUs such as SIFC, AACA, Tourism and PRIDCO to provide liquidity support to the Commonwealth in the form of loans or contributions. Act 26-2017 also authorizes the CW to pull in resources from public corporations. Whether these laws are preempted by PROMESA would likely be litigated.
15.	**Are Commonwealth tax revenues allocated to PRIDCO's Special Fund for Economic Development and the slot machine revenues of the Tourism Company available resources?**	**ASSUMPTION 1 [MAIN ASSUMPTION]**: They are not available resources (consistent with assumption 13). **ASSUMPTION 2 [LITIGATION RISK]:** As those revenue streams belong to the Commonwealth, it can exercise its police powers to capture those funds. **BASIS**: Act 73-2008 ordered the Treasury Secretary to create the Special Fund for Economic Development ("FEDE" by its Spanish acronym) managed by PRIDCO. FEDE receives 10% of: (1) taxes paid by businesses that receive a tax grant under Act 73 or prior industrial incentives statutes or (2) tax withholdings related to royalties of operations exempt under Act 73 or prior industrial incentives statutes, such as 13 L.P.R.A. § 10657(a). Such taxes allocated to FEDE should be considered resources available to the Commonwealth.

	Question	Assumption
		Pursuant to Section 8 of Article VI of the CW Constitution, the Treasury Secretary may be able to withhold the transfer of tax revenues to PRIDCO and instead use it to service GO debt. It could, subject to court approval, also be withheld by the CW pursuant to its police power. Note that suspending transfers to FEDE would affect the economic development program supported by the fund and Puerto Rico's industrial base, which could harm economic activity. For the slot machine revenues, Act 221-1948 provides that such revenues, collected by the Tourism Company, will be deposited in a special fund of the Tourism Company. After deducting operational (including payroll) and amortization costs related to the slot machines, the net annual revenues are distributed to: (1) casino operators, (2) the Commonwealth General Fund, (3) the UPR, and (4) two special funds of the Tourism Company. [3] The two funds of the Tourism Company are: (1) a special fund used to pay he Tourism Company's corporate purposes; and (2) the Puerto Rico Tourism Industry Development Fund ("Fondo para el Desarrollo de la Industria Turística de Puerto Rico") established to strengthen and develop the tourism industry. Act 221 sets a formula according to which a portion of the slot machine revenues is transferred to each of the funds. The Commonwealth could use Act 26-2017 ("Fiscal Plan Compliance Act") to draw surplus revenues from the Tourism Company or pass legislation amending Act 221 and reallocating the revenues to the Commonwealth. As noted above with respect to suspending transfers to FEDE, eliminating funds used to develop the tourism industry could harm Puerto Rico's economic activity.
16.	**Should the challenges to the GO bonds and certain Commonwealth-guaranteed debt be taken into consideration?**	**ASSUMPTION 1 [MAIN ASSUMPTION]**: Yes. In this main assumption, assume that certain of such challenges are successful starting in 2012, and the corresponding bonds (GO bonds and PBA bonds issued in 2012 and after) and CW guarantees issued in 2012 and after would be deemed invalid and the bondholders holding such

[3] 15 L.P.R.A. § 74.

	Question	Assumption
		claims would have no claim against the Commonwealth (including any claim for unjust enrichment or other similar claim). **BASIS:** In the Commonwealth Title III case, the Oversight Board, through its Special Claims Committee, and the statutory unsecured claimholders' committee (the "UCC") commenced litigation contending GO bonds issued in 2012 and 2014 violated Puerto Rico's constitutional debt limit, and that claims by purported holders of such GO bonds for principal and interest should be disallowed. The Oversight Board has also alleged that the PBA Leases are not true leases and obligations purportedly due thereunder, but rather, are simply mischaracterized general obligations of the Commonwealth. **ASSUMPTION 2 [LITIGATION RISK]**: Yes. Assume all challenges in Assumption 1 are successful, and that, in addition, the GO bonds, PBA bonds, and CW guarantees issued in March 2011 and after would also be deemed invalid and the bondholders holding such claims would have no claim against the Commonwealth (including any claim for unjust enrichment or other similar claim). **BASIS**: In addition to the challenges mentioned in the basis above, the UCC also challenged claims relating to GO bonds issued in and after March 2011 and for claims relating to PBA bonds issued in and after March 2011. There are also arguments that certain Commonwealth guarantees issued in and after March 2011 may be invalid. This assumption assumes that the UCC objections to claims relating to GO and PBA bonds issued in and after March 2011, and claims relating to Commonwealth guarantees issued in and after March 2011, are sustained.[4] **ASSUMPTION 3 [LITIGATION RISK]**: No. Assume bonds and guarantees listed in the debt stack below are valid and enforceable. **BASIS:** The challenges explained in the bases above could be unsuccessful.

[4] Please note that this assumption is for illustrative purposes only. The Oversight Board has not joined the UCC objection as to the GO Bonds issued prior to 2012 or to the objection to the PBA bonds issued in and after March 2011.

DEBT STACK[5]

1. **Operating Cost**
   a. April 23, 2021 Fiscal Plan, Exhibit 22: Major Operating Expenditure Categories Pre-Measures, key baseline expenditures drivers (pre-measures):

	FY22	FY23	FY24	FY25	FY26
Payroll (General Fund)	3,134	3,179	3,228	3,279	3,330
Operating expenditures (General Fund)	1,964	1,893	1,933	1,965	1,990
CW appropriations	1,193	1,179	1,125	1,142	1,128
Commonwealth Medicaid expenditures	1,968	2,654	2,754	2,856	2,974
Pension expenditures	2,259	2,237	2,233	2,224	2,215
IFCU & CW SRF Expenditures	2,279	2,297	2,320	2,357	2,400
Federally funded expenditures	5,706	4,935	5,000	5,072	5,150
Other[6]	446	339	300	259	210
Total CW funded operating expenditures[7]	18,949	18,712	18,894	19,154	19,397

   b. **Adjustments from Fiscal Plan**
      i. No pension freeze for JRS and TRS beneficiaries, and no 8.5% cut to pensions. Additionally, future contributions to social security for judges are also eliminated, as those payments are dependent on the freeze of the pension benefit accrual. In addition, the analysis assumes the continuation of PayGo contributions to System 2000 participants, as well as

[5] The financial information contained herein relies on information available in the most recent publicly available financial statements and, in certain cases, information received from the Oversight Board's advisors and the Commonwealth's advisors. The legal advisors take no position as to the accuracy of the financial information provided herein.

In certain parts of the debt stack, only information related to the main assumption above is incorporated.

[6] Includes Disaster Recovery Cost Match, Restructuring / Title III costs, Social Programs CW funded, Reserve for emergency fund and Budget incentives.
[7] Does not include capital expenditures, enterprise funds, disbursements to entities outside the 2021 Fiscal Plan, and other non-recurring expenditures.

the elimination of any additional pension expenses related to agreements dependent on the confirmation of a Plan of Adjustment

ii. No increase in employer healthcare contribution outlined in the Fiscal Plan from $125 to $170 per employee per month for employees who are AFSCME union members, teachers, police, firefighters, UAW union members, and other non-union employees

iii. Legal professional fees costs recur through FY2031, assuming extensive litigation needs without Title III protections or a plan of adjustment. Legal fees are assumed to double from FY2021 to FY2022 and then grow with inflation through FY2026, when professional fees are assumed to be cut in half, and then grow by inflation through FY2031. Non-legal professional fees fall by 50% once the Title III cases are dismissed and grow by inflation through FY2031. All professional fees for the creditors committee and retiree committee are assumed to be zero after the effective date of this analysis (June 30, 2021).

iv. Assume federal claims come due when the stay is lifted. These should be included as an expense/revenue reduction to the surplus available for debt service, as the federal government can reduce transfers to Puerto Rico in the amount owed. Assume recurring federal cost disallowance claim, which must also be paid in full.[8] Federal claims represent a total of $431 million, while the recurring federal cost disallowance is $65 million based on based on the 2016 CAFR.

v. Assume that in years where full debt payment is not possible payment provided is first credited against interest, and then against principal.

2. Unsecured Debt

a. $25,335,493.47 outstanding principal amount of loan and accrued and unpaid interest by the General Services Administration for police helicopters, bearing 3.02% interest and maturing on July 15, 2020. This loan is *pari passu* with GO debt.

3. Public Debt of the Commonwealth under Article VI, Section 8 of the Commonwealth Constitution[9]

a. **GO Bonds**

1. Issued prior to March 2011: $5,843,252,913
2. Issued between March and December 2011: $1,122,171,437
3. Issued in or after 2012: $6,547,443,991

b. **Hacienda loans (Loan ID Nos. 200017-215-001-003-53 and 200017-215-001-003-56) (pari passu with GO Bonds)**: **$198,259,086**

[8] Information regarding amounts of federal claims was provided by other Oversight Board advisors.

[9] Outstanding principal and unpaid interest as of the Commonwealth petition date except for PBA, which is as of the PBA petition date.

c. **CW-guaranteed bonds (pari passu with GO Bonds)**[10]
   i. **PRASA Sub Bonds ($284,755,000)**
      1. Assumption: Assume 0% liability paid by CW
      2. Basis: Given PRASA's financial condition, PRASA is unlikely to default on the remaining guaranty.

   ii. **PBA Bonds ($4,670,971,240);**[11] **PRIFA BANs ($83,589,102); and APLA (Port of the Americas Authority) Bonds ($262,653,118)**
      1. Assumption: Holders of guarantee bonds can pursue their claims against the CW immediately
      2. Basis: The CW guaranty (especially in the case of PRIFA) has features that make it more akin to a payment guaranty rather than a guaranty of collection

4. Other unsecured claims

a. Claims to be resolved using the Administrative Claims Reconciliation Procedures, or ACR: $1,008,887,588
b. Union claims to be settled through Plan of Adjustment: $244,517,705
c. Gracia-Gracia insurance overpayment litigation claim: $28,000,000
d. Intragovernmental claims (claims filed by Commonwealth municipalities, other Puerto Rico governmental entities, and the federal government): $1,024,549,014[12]
e. Tax related claims: $8,403,934
f. GDB Title VI/Public Entity Trust Claim: $600,000,000
g. Litigation claims: $2,768,700,759
h. Trade payables: $175,158,294
i. Other miscellaneous claims: $56,750,826
j. Critical industries: 330 Health Center litigation claims estimated at $293 million, and Milk Producers subsidy claims of $62 million
k. Convenience class claims: $141,945,462
l. Claims from Employee Retirement System (ERS) bondholders**:** Assume in the base case that ERS bondholders will not assert any claims against the Commonwealth

[10] The CW also guaranteed $110 million of GDB bonds, but any rights of holders of such GDB bonds with respect to the Commonwealth's guarantee were extinguished upon the exchange and cancellation of the GDB bonds pursuant to the Title VI deal (GDB Title VI OM, p. 15).

[11] Total outstanding principal and interest as of PBA Petition Date is comprised of $2,661,239,877 in bonds issued before March 2011, $1,335,422,893 in bonds issued between March and December 2011, and $674,308,470 in bonds issued after 2011.

[12] This figure includes $430,540,085 in federal claims; this amount is also noted in section 1b (Adjustments to the Fiscal Plan).

m. Allocable revenue claims: Assume in the base case that the allocable revenue entity bondholders could assert an unsecured claim for the portion of allocable revenues used for operating expenses, but not for the portion used for payment of GO debt service or CW-guaranteed debt service

Exhibit 1
Allocable Revenue Statutes

Part I: Statutes Assigning Certain Allocable Revenues to HTA, MBA, PRIFA, PRITA, and CCDA

HTA	Motor Vehicle License Fees	9 LPRA §§ 2004(l), 2021, 5681 &5682(e)	Paid by every owner of a motor vehicle subject to annual license fees at: ▪ internal revenue offices; or ▪ official inspection stations; or ▪ banks; or ▪ any place designated by the Secretary of Treasury	▪ All motor vehicle annual license fees are covered by Treasury into a Special Deposit in the name and for the benefit of HTA.	9 LPRA § 2004(l): "Subject to the provisions of sec. 2005 of this title, the Authority is hereby empowered to: […] [t]o borrow money for any of its corporate purposes and issue bonds of the Authority in evidence of such obligations and guarantee the payment of said bonds and their interests through pledge or pignoration on all their properties, income, or income, and , subject to the provisions of Sec. 8 of Art.VI of the Constitution of Puerto Rico, pledge for the payment of said bonds and their interests, the proceeds of any contributions or other funds that may be made available to the Authority for the Commonwealth." 9 LPRA § 2021: "The total proceeds of the fifteen-dollar ($15) increase in the fees to be paid for public and private automobile licenses shall be covered into a Special Deposit in behalf and for the benefit of the Highways and Transportation Authority of Puerto Rico, to be used by the Authority for its corporate purposes. Said Authority is hereby authorized to pledge or pignorate the proceeds of the collection thus received, to the payment of the principal and interest on bonds and other obligations of the Authority, or for any other legal purpose of the Authority; and said pledge or pignoration shall be subject to the provisions of § 8 of Article VI of the Constitution of Puerto Rico; Provided, however, That the proceeds of said collection shall only be used for the payment of interest and the amortization of the public debt, as provided in said § 8, until the other resources available, referred to in said section, are insufficient for such purposes, otherwise, the proceeds of said collection in the amount that is necessary shall be used solely for the payment of the principal and interest on bonds and other obligations of the Authority, and to meet whatever other stipulations are agreed upon between the Authority and the holders of said bonds or other obligations."

					9 LPRA § 5681: "Every owner of a motor vehicle subject to the payment of annual permit fees shall pay at any internal revenue collection office of any municipality, at the place designated by the Secretary of the Department of the Treasury, at official inspection stations, banks, or at the place designated by the Secretary, the rights that correspond to the vehicle for each year, as indicated in the notification that the Secretary must send to the effect. […]" […] "Unless otherwise provided in this Act, the amount of the rights collected in accordance with secs. 5681 and 5682 of this title shall be entered in their entirety in a Special Deposit in the name and for the benefit of the Highway and Transportation Authority." "The Authority is authorized to pledge or pignorate the proceeds of the collection received for the payment of the principal and the interest on bonds to other obligations or for any other lawful purpose of the Authority. Such commitment or pledge shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds of said collection will be used only for the payment of interest and amortization of the public debt, as provided in said Section 8 of Article VI of the Constitution, until the other available resources referred to in said section are insufficient for such purposes. Otherwise, the proceeds of such collection, in the amount that is necessary, will be used only for the payment of the principal and the interests of bonds and other obligations of the Authority and to comply with any stipulations agreed by it with the holders of such bonuses or other obligations." 9 LPRA § 5682(e):

					"With regard to the rights to be paid under this chapter, the following rules will be followed: […] [t]he Special Deposit shall be maintained for the benefit of the Highway Authority to which the amount of fifteen (15) dollars will be covered into for each renewal of registration of private and public service cars."
HTA	Gasoline, Gas Oil and Diesel Oil Tax	13 LPRA § 31751 9 LPRA 2004(l)	▪ 16 cent per gallon on excise tax on gasoline and 4 cent per gallon of the excise tax on gas oil and diesel oil. ▪ Collected by Treasury, which then transfers every month, or as agreed with HTA, the amounts into a Special Deposit account in favor of HTA.	▪ Gasoline, gas oil and diesel oil excise taxes are covered by Treasury into a special deposit in favor of HTA.	13 LPRA 31751: "In case the Commonwealth of Puerto Rico uses any amount of the tax collected on gasoline, of the four (4) cents of the tax on 'gas oil' or 'diesel oil' fixed in sec. 31626 of this title, or of the excise taxes on crude oil, partially manufactured products and finished products derived from petroleum and any other mixture of hydrocarbons fixed in sec. 31627 of this title for the payment of interest and amortization of the public debt as established in Section 8 of Article VI of the Constitution, the amounts used by the Commonwealth of Puerto Rico for the payment of interest and amortization of the debt shall be reimbursed to the Highway and Transportation Authority for the revenues received by the Commonwealth of Puerto Rico in the next fiscal year, or in case such reimbursement is not possible in the next fiscal year, in the subsequent fiscal years, except those collections that have been committed to satisfy any obligation. The proceeds of said collections that are to be used under the provisions of this section to reimburse to the Highway and Transportation Authority the amounts used by the Commonwealth of Puerto Rico for the payment of interest and amortization on the public debt, are not shall be deposited in the General Fund of the Commonwealth of Puerto Rico when they are collected, but shall be transferred to the Highway and Transportation Authority and, subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, shall be used to reimburse such amounts to the Highway and Transportation Authority." 9 LPRA 2004(l): "Subject to the provisions of sec. 2005 of this title, the Authority is hereby empowered to: […] To take money on

					loan for any of its corporate purposes and issue bonds of the Authority in evidence of such obligations and guarantee the payment of said bonds and their interests by means of pledge or other lien on all their properties, income, or income, and, subject to the provisions of Sec. 8 of Art.VI of the Constitution of Puerto Rico, pledging for the payment of said bonds and their interests, the proceeds of any contributions or other funds that may be made available to the Authority by the Commonwealth."
HTA	Petroleum Products Tax	13 LPRA § 31571 9 LPRA 2004(l)	▪ Secretary of Treasury shall transfer every month, the total amount of $12.25 per barrel or fractions are covered by the Treasury Secretary into Special Deposit in favor of HTA.	▪ The total amount crude oil taxes and petroleum taxes are covered by Treasury into a special deposit in favor of HTA.	13 LPRA 31571: "In case the Commonwealth of Puerto Rico uses any amount of the tax collected on gasoline, of the four (4) cents of the tax on 'gas oil' or 'diesel oil' fixed in sec. 31626 of this title, or of the excise taxes on crude oil, partially manufactured products and finished products derived from petroleum and any other mixture of hydrocarbons fixed in sec. 31627 of this title for the payment of interest and amortization of the public debt as established in Section 8 of Article VI of the Constitution, the amounts used by the Commonwealth of Puerto Rico for the payment of interest and amortization of the debt shall be reimbursed to the Highway and Transportation Authority for the revenues received by the Commonwealth of Puerto Rico in the next fiscal year, or in case such reimbursement is not possible in the next fiscal year, in the subsequent fiscal years, except those collections that have been committed to satisfy any obligation. The proceeds of said collections that are to be used under the provisions of this section to reimburse to the Highway and Transportation Authority the amounts used by the Commonwealth of Puerto Rico for the payment of interest and amortization on the public debt, are not shall be deposited in the General Fund of the Commonwealth of Puerto Rico when they are collected, but shall be transferred to the Highway and Transportation Authority and, subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, shall be used to reimburse such amounts to the Highway and Transportation Authority." 9 LPRA 2004(l):

					"Subject to the provisions of sec. 2005 of this title, the Authority is hereby empowered to: […] To take money on loan for any of its corporate purposes and issue bonds of the Authority in evidence of such obligations and guarantee the payment of said bonds and their interests by means of pledge or other lien on all their properties, income, or income, and, subject to the provisions of Sec. 8 of Art.VI of the Constitution of Puerto Rico, pledging for the payment of said bonds and their interests, the proceeds of any contributions or other funds that may be made available to the Authority by the Commonwealth."
HTA	Cigarette Tax	13 LPRA § 31751	▪ Treasury Secretary transfers $20,000,000 in cigarette revenues every fiscal year in monthly installments of up to $2,500,000. If during any month of the fiscal year the revenues from the excise tax are insufficient to make the payment, the Treasury Secretary shall cover such deficiency using any	▪ The revenues collected from the tax on cigarettes up to $20,000,000 per fiscal year shall be covered into special deposit account in favor of the HTA.	"The amount of tax collected on cigarettes fixed by § 31625 of this title up to twenty (20) million dollars per fiscal year shall be deposited into a special deposit in favor of the Highways and Transportation Authority for its corporate powers and purposes." "The Highways and Transportation Authority is hereby authorized to commit or pledge the product of the collection thus received from the cigarette excise tax fixed by § 31625, to pay the principal and interest of bonds or other obligations, or for any other legal purpose of the Authority. Such commitment or pledge shall be subject to the provisions of Section 8 of Article VI of the Constitution of the Government of Puerto Rico. The product of said collection shall be used solely for the payment of interest and amortization of the public debt, as established by said Section 8 of Article VI of the Constitution, until the other available resources referred to in said section are insufficient for such purposes. Otherwise, the product of said collection, in the amount that is needed, shall only be used for the payment of principal and interest of bonds and other obligations of the Authority and to comply with any stipulations agreed by it with the holders of said bonds or other obligations."

			excess above the $2,500,000 revenues collected on previous or subsequent months of the same fiscal year.		
MBA	Cigarette Tax	13 LPRA § 31751	▪ Treasury Secretary shall transfer $10,000,000 in cigarette revenues every fiscal year in monthly installments of up to $800,000. If during any month of the fiscal year the revenues from said excise tax do not suffice to make the monthly payment installment, the Treasury Secretary shall cover such deficiency using any	▪ The revenues collected from the tax on cigarettes up to $10,000,000 per fiscal year are covered by Treasury into special deposit account in favor of MBA.	"The amount of tax received from cigarettes fixed by § 31625 of this title up to ten (10) million dollars per fiscal year shall be deposited into a special deposit in favor of the Metropolitan Bus Authority for its corporate purposes and powers. The income from these ten (10) million dollars per fiscal year to the special deposit in favor of the Metropolitan Bus Authority is in second priority and subordinated to the income of the twenty (20) million dollars of the tax amount received from cigarettes fixed by § 31625 of this title that is deposited into the special deposit in favor of the Highways and Transportation Authority as provided in subsection (a)(3) of this section." […] "The Highways and Transportation Authority is hereby authorized to commit or pledge the product of the collection thus received from the excise tax on cigarettes fixed by section 31625 for payment of the principal and interest of its debts and obligations or for any other legal purpose of the Metropolitan Bus Authority. Such commitment or pledge shall be subject to the provisions of Section 8 of Article VI of the Constitution of the Government of Puerto Rico. The product of said collection shall be used solely for the payment of interest and amortization of the public debt, as established by said Section 8 of Article VI of the Constitution, until the other available resources referred to in said section are insufficient for such purposes. Otherwise, the product of said collection, in the amount that is needed, shall only be used for the payment of

			excess of the $800,000 revenues collected on account of excise tax on previous [or subsequent] months of the same fiscal year.		the principal and interest of debts and other obligations of the Metropolitan Bus Authority and to comply with any stipulations agreed by it with the holders of said bonds or other obligations.”
PRIFA-BANs	Petroleum Products Tax	13 LPRA § 31751a	▪ An additional excise tax on petroleum product in the amount of $3.25 per barrel is collected by Treasury. ▪ Secretary of Treasury transfer all revenue collected from the additional $3.25 tax to PRIFA.	▪ Proceeds from the petroleum products excise tax are covered by Treasury into a Special Fund for Economic Assistance for the Benefit of PRIFA for the payment of its bonded debt.	“The product from the taxes collected by virtue of section 31627a shall be covered into the Economic Assistance Special Fund of the Infrastructure Financing Authority established under Article 34 of Act No. 44 of June 21, 1988, and shall be used to (i) repay the obligations incurred by the Puerto Rico Infrastructure Financing Authority in order to refinance or repay those debts or obligations of the Highways and Transportation Authority that from time to time have been assumed or paid the Puerto Rico Infrastructure Financing Authority and (ii) the other purposes authorized under Article 34 of Act No. 44 of June 21, 1988, as amended. The Secretary shall transfer the amounts of such collections monthly or as agreed with the Puerto Rico Infrastructure Financing Authority. The Secretary is hereby authorized to establish a collection mechanism through which the proceeds that shall be deposited in the Economic Assistance Special Fund of the Infrastructure Financing Authority be paid by the taxpayer directly to the Puerto Rico Infrastructure Financing Authority, to a financial institution designated by the Secretary of the Treasury or the Infrastructure Financing Authority or the financial institution that acts as trustee in the trust agreement under which the Puerto Rico Infrastructure Financing Authority bonds are issued for which such collections are the source of repayment.” “According to article 34 of Act No. 44 of June 21, 1988, as amended, and subject to the conditions established therein, the product of the collections from the excise tax fixed in section

					31627a is pledged to guarantee the repayment of the "Refinancing Bonds", the "Collateralized Obligations" and the "Transferred Debt", as such terms are defined in said article. The Puerto Rico Infrastructure Financing Authority is hereby authorized, after covering in any Fiscal Year the repayment of the principal and interest and any other obligation related to said Refinancing Bonds, said Collateralized Obligations and said Transferred Debt payable in said Fiscal Year, to commit or pignorate the product of the collection of said excise tax to be deposited in the Economic Assistance Special Fund of the Infrastructure Financing Authority, for the payment of the principal and interest of other bonds or other obligations or to sustain the obligations and operations of the Highways and Transportation Authority. Such commitment or pignoration shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The product of said collection shall be used only for the payment of interest and the amortization of public debt, as established by said Section 8 of Article VI of the Constitution, to the extent that the other available resources mentioned in said section become insufficient for such purposes."

PRIFA	Federal Excise Taxes	3 LPRA § 1914	▪ US Internal Revenue Code § 7652(a)(3) provides that all taxes collected on articles produced in PR (e.g., rum) and shipped to the US, or consumed on the island, shall be covered into the Treasury of Puerto Rico. ▪ The first proceeds of the federal excise taxes remitted to the Department of the Treasury of Puerto Rico on each fiscal year shall be covered into a Special Fund to be maintained by or on behalf of PRIFA, designated as the Puerto	▪ From FY 2007 – FY 2057, the amount of the transfer shall be $117,000,000.	"Beginning with Fiscal Year 1988-89, notwithstanding the provisions of Section 29A of Act No. 143 of June 30, 1969, as amended, the first collections of federal taxes sent to the Department of the Treasury of Puerto Rico in each year fiscal, pursuant to § 7652(a)(3) of the Internal Revenue Code of the United States of 1986, as amended, up to a maximum amount of thirty million dollars ($30,000,000), in the case of Fiscal Year 1988-89 , up to a maximum amount of forty million dollars ($40,000,000), in the case of Fiscal Years 1989-90 to 1996-97, up to a maximum amount of sixty million dollars ($ 60,000,000), in the case of Fiscal Year 1997- 98, up to a maximum amount of seventy million dollars ($ 70,000,000), in the case of Fiscal Years 1998-1999 to 2005-06,and up to a maximum amount of ninety million dollars ($ 90,000,000), in the case of Fiscal Years 2006-07 to 2008-09, and in the subsequent years until Fiscal Year 2056-57 the participation will be up to an amount of one hundred and seventeen million dollars ($ 117,000,000), which shall be paid upon receipt by the Department of the Treasury of Puerto Rico in a Special Fund to be maintained by or on behalf of the Authority, designated as the "Infrastructure Fund of Puerto Rico" and shall be will be used by the Authority for its corporate purposes, which will include the development of the necessary and convenient infrastructure for the completion of the Mayagüez 2010 Central American and Caribbean Games." […] "The Authority is authorized to segregate a portion of said Funds into one (1) or more subaccounts and to pledge all or part of the funds in one (1) or more sub-accounts, subject to the provisions of Sec. 8 of Art. VI. of the Constitution of the Commonwealth of Puerto Rico, for the payment of the principal and interests of bonds and other obligations of the Authority, or for the payment of bonds and other obligations issued by a beneficiary entity, or for any other legal purpose of the Authority. The funds of the Special Fund may be used for the payment of interest and for the amortization of the public debt of the Commonwealth, as provided by said Sec. 8, only

			Rico Infrastructure Fund.		when the other resources available, mentioned in said Section, are not sufficient for such purposes.”
CCDA	Hotel Room Tax	13 LPRA § 2271v	Paid by the guest at the time of paying the room occupancy rate to the hotelier. Every hotelier shall be obligated to collect and remit such tax to the PR Tourism Company (“PRTC”).	▪ Each year GDB/AAFAF determines and certifies to the PRTC the amount necessary for CCDA to meet its debt service. PRTC makes monthly installments to GDB up to the annual amount certified by GDB. The hotel room tax revenues are deposited at a CCDA account held at [GDB] for the benefit of the CCDA bondholders.	“The [Tourism] Company shall distribute all funds collected from the tax imposed under § 2271o of this title, as follows: (a) Before the beginning of each fiscal year, the [GDB] shall determine and certify to the [Tourism] Company and to the [CCDA], the amount necessary for the [CCDA] to make, during such fiscal year and the first day of the following fiscal year: (1) Full and timely payment, or the amortization of the principal and interest on the obligations incurred by the [CCDA] with the [GDB] or the bonds, notes or other obligations issued, assumed or incurred by the [CCDA], pursuant to Act No. 142 of October 4, 2001, as amended, with the prior written authorization of the [Tourism] Company , to exclusively carry out the development and construction of a new convention center and its related infrastructure; (2) full and timely payment of the obligations of the [CCDA] under any bond related financing agreement, as this term is defined at the end of this subsection, entered into by the [CCDA] with the prior written authorization of the [Tourism] Company ; (3) the deposits required to replenish any reserves established to ensure the payment of the principal and the interest on such bonds, notes and other obligations issued, assumed or incurred by the [CCDA], or obligations under any bond related financing agreement, and (4) any other expenses incurred in connection with the issuance of such bonds, notes or other obligations assumed or incurred by the [CCDA], or with any other bond related financing agreement. The prior written approval of the [Tourism] Company shall specifically authorize the amortization schedule of the principal of the bonds, notes or other obligations to be issued, assumed or incurred by the [CCDA] and the final terms and conditions of any bond related financing agreement to be entered into by the [CCDA]. The sum determined and certified

					by the [GDB], as indicated above, shall be deposited in a special account to be maintained by the [GDB] in the name of the [CCDA] for the benefit of the bondholders, noteholders or the holders of other obligations of the [CCDA] or for the benefit of the other contracting parties under any bond related financing agreement. The [GDB] shall transfer the amounts deposited in such special account to the trustees of the bondholders, noteholders or the holders of other obligations of the [CCDA] or to the other contracting parties under any bond related financing agreement, in accordance with the written instructions provided to the [GDB] by the [CCDA].” […] “Each fiscal year, the [Tourism] Company must transfer to the Government Development Bank for deposit in said special account the amount established in the first paragraph of this subsection through monthly transfers, beginning in the month immediately following the month in which this law is approved and in the first month of each fiscal year thereafter, equivalent to one tenth of that amount that the Government Development Bank for Puerto Rico determines and certifies as necessary for the payments referred to in the introductory paragraph of this section[….]” […] “The Authority is authorized, prior written consent of the [Tourism] Company, to commit or otherwise encumber the proceeds of the collection of the fixed tax that must be deposited in the special account, as required by the first paragraph of this subsection, as a guarantee, for the payment of the principal and interest on the bonds, promissory notes or other obligations issued, assumed or incurred by the Authority, as described in the first paragraph of this subsection, or the payment of its obligations under any financial agreement related to the bonuses, as described in that paragraph. Such commitment or obligation shall be subject to the provisions of Sec. 8 of Article VI of the Constitution of the Commonwealth

					of Puerto Rico. The proceeds of the collection of the tax will be used only for the payment of interest and the amortization of the public debt, as provided in Sec. 8 of Art. VI of the Constitution, only to the extent that the other resources available to which reference is made in said Section are insufficient for such purposes. Otherwise, the proceeds of such collection in the amount that is necessary, will be used only for the payment of principal and interest on bonds, promissory notes or other obligations and obligations under any financial agreement related to the bonds contemplated herein, and to comply with any stipulations agreed upon with the holders of said bonds, promissory notes or other obligations or suppliers of financial agreements related to the bonds."
PRITA[13]	Cigarette Tax	13 LPRA § 31751	▪ The Secretary shall transfer monthly or as agreed with the Integrated Transportation Authority of Puerto Rico, the amounts deposited in the special deposit, deducting therefrom such amounts reimbursed as per the provisions of section 31668 of this subtitle.	▪ The product from said proceeds to be used under this section's provisions to reimburse to the Integrated Transportation Authority of Puerto Rico the amounts used by the Commonwealth of Puerto Rico for the payment of interest and the amortization of the public debt shall be covered to the Integrated Transportation Authority of Puerto Rico.	"The amount of the tax that is collected on the cigarettes set out in sec. 31625 of this title up to thirty-six (36) million dollars per fiscal year, beginning with Fiscal Year 2015-2016, will be deposited in a special deposit in favor of the Integrated Transportation Authority of Puerto Rico for its purposes and corporate powers. The income of these thirty-six (36) million dollars per fiscal year to the special deposit in favor of the Integrated Transportation Authority of Puerto Rico is in third priority and subordinated to the income of twenty (20) million dollars of the amount of the tax collected on cigarettes set out in sec. 31625 of this title that enters the special deposit in favor of the Highway and Transportation Authority, as provided in clause (3) of this subsection, and that of the ten (10) million dollars of the amount of the tax that is collected on cigarettes fixed in sec. 31625 of this title that enters the special deposit in favor of the Metropolitan Bus Authority, as provided in clause (4) of this subsection. The amount of the tax that is collected on the cigarettes set forth in sec. 31625 of this title up to thirty-six (36) million dollars per fiscal year, as of the approval of the New Contributory System of Puerto Rico, will enter a special deposit in favor of the Puerto Rico Integrated Transportation Authority for its purposes and corporate powers. The income of these thirty-six (36) million

[13] PRITA currently has no debt outstanding.

					dollars per fiscal year to the special deposit in favor of the Integrated Transportation Authority of Puerto Rico is in third priority and subordinated to the income of twenty (20) million dollars of the amount of the tax collected on cigarettes set out in sec. 31625 of this title that enters the special deposit in favor of the Highway and Transportation Authority as provided in clause (3) of this subsection and that of ten (10) million dollars of the amount of the tax that is collected on the cigarettes fixed in sec. 31625 of this title that enters the special deposit in favor of the Metropolitan Bus Authority as provided in clause (4) of this subsection." […] "The transfer of the collection's product from said excise tax to the Integrated Transportation Authority of Puerto Rico shall be subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico. The product of said collection shall be used solely for the payment of interest and the amortization of the public debt, as established in Section 8 of Article VI of the Constitution, to the extent that the other available resources mentioned in said section become insufficient for such purposes. In the event that the Commonwealth of Puerto Rico uses any amount of the excise taxes on cigarettes fixed in section 31625 for the payment of interest and the amortization of the public debt as established in Section 8 of Article VI of the Constitution, the amounts used by the Commonwealth of Puerto Rico for the payment of interest and the amortization of the public debt shall be reimbursed to the Integrated Transportation Authority of Puerto Rico from the proceeds received by the Commonwealth of Puerto Rico in the next Fiscal Year, or in case that such reimbursement is not possible in the next Fiscal Year, in subsequent fiscal years, except for those proceeds that have been committed to satisfy any obligation. The product from said proceeds to be used under this section's provisions to reimburse to the Integrated Transportation Authority of Puerto Rico the amounts used by the Commonwealth of Puerto Rico for the payment of interest and the amortization of the public

					debt, shall not be covered into the General Fund of the Commonwealth of Puerto Rico, when collected; instead, they shall be transferred to the Integrated Transportation Authority of Puerto Rico and, subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, shall be used to reimburse said amounts to the Integrated Transportation Authority of Puerto Rico."

Part II: Allocable Revenue Statutes

ENABLING ACT	STATUTORY ALLOCABLE REVENUE CITATION
HTA	
1. Puerto Rico Highway and Transportation Authority Act Entities involved: **HTA** (Puerto Rico Highway and Transportation Authority)	9 L.P.R.A. § 2004(l) ("Powers"): (l) To borrow money for any of its corporate purposes, and to issue bonds of the Authority in evidence of such indebtedness and to secure payment of bonds and interest thereon by pledge of, or other lien on, all or any of its properties, revenues or other income, and subject to the provisions of § 8 of Art. VI of the Constitution of the Commonwealth, pledge to the payment of said bonds and interest thereon, the proceeds of any tax or other funds which may be made available to the Authority by the Commonwealth. 9 L.P.R.A. § 2021 ("Special Deposit for the benefit of the Highways Authority"): The total proceeds of the fifteen-dollar ($15) increase in the fees to be paid for public and private automobile licenses shall be covered into a Special Deposit in behalf and for the benefit of the Highways and Transportation Authority of Puerto Rico, to be used by the Authority for its corporate purposes. Said Authority is hereby authorized to pledge or pignorate the proceeds of the collection thus received, to the payment of the principal and interest on bonds and other obligations of the Authority, or for any other legal purpose of the Authority; and said pledge or pignoration shall be subject to the provisions of § 8 of Article VI of the Constitution of Puerto Rico; Provided, however, That the proceeds of said collection shall only be used for the payment of interest and the amortization of the public debt, as provided in said § 8, until the other resources available, referred to in said section, are insufficient for such purposes, otherwise, the proceeds of said collection in the amount that is necessary shall be used solely for the payment of the principal and interest on bonds and other obligations of the Authority, and to meet whatever other stipulations are agreed upon between the Authority and the holders of said bonds or other obligations. The Commonwealth of Puerto Rico hereby agrees and pledges itself to any person, firm or corporation, or to any agency of the United States of America or of any state, or the Commonwealth of Puerto Rico, who subscribes, or acquires bonds of the Highways and Transportation Authority of Puerto Rico, for the payment of which the proceeds from the increase in the fees paid for public and private service automobile licenses and others, is pignorated as authorized by this section, not to reduce these license fees.

2. Subtitle 17. Internal Revenue Code of 2011 Entities Involved: **HTA** (Highways and Transportation Authority)	13 L.P.R.A. § 31751 ("Disposition of funds"): (1) The amount of the tax collected on gasoline and the tax of four cents (4¢) of gas oil or diesel oil fixed in § 31626 of this title; and the total amount per fiscal year of the excise tax collected on crude oil, partially finished and finished oil by-products, and any other mixture of hydrocarbons fixed in § 31627 of this title, shall be covered into a special deposit in favor of the Highways and Transportation Authority for their corporate purposes. (1)(F) The Highways and Transportation Authority is hereby authorized to commit or pledge the proceeds of the collection thus received on gasoline and the tax of four cents (4¢) on gas oil or diesel oil fixed in § 31626 of this tit le and the amount appropriated by virtue of this Subtitle of the excise tax on crude oil, partially finished and finished oil by-products, and any other mixture of hydrocarbons fixed in § 31627 of this title, for the payment of the principal and the interest on bonds or other obligations or for any other legal purpose of the Authority. Said commitment or pledge shall be subject to the provisions of Section 8 of Item VI of the Constitution of the Commonwealth of Puerto Rico. The proceeds of said collection shall be solely used for the payment of interest and amortization of the public debt, as provided in said Section 8 of Item VI of the Constitution, until the other resources available to which reference is made in said section are insufficient for such purposes. Otherwise, the proceeds of said collection, in the amount that may be necessary, shall be used solely for the payment of the principal and interest on bonds and other obligations of the Authority and to comply with any stipulations agreed to by the latter with the holders of said bonds or other obligations. (1)(E) In case the amount of the proceeds of the tax on gasoline, gas oil, or diesel oil established in § 31626 of this title or the amount of the excise tax on crude oil, partially finished and finished oil by-products, and any other mixture of hydrocarbons established in § 31627 of this title, appropriated or to be appropriated in the future to the Highways and Transportation Authority may at any time be insufficient to pay the principal of and the interest on the bonds or other obligations over money taken on a loan or issued by the Highways and Transportation Authority to defray the cost of traffic facilities and for the payment of which the proceeds of the tax imposed on gasoline, gas oil, or diesel oil established in § 31626 of this title or the amount of the excise tax assessed on crude oil, partially finished and finished oil by-products, and any other mixture of hydrocarbons established in § 31627 of this title, has been pledged and the reserve funds of the Highways and Transportation Authority for the payment of debt requirements are applied to cover the deficiency in the amount needed to make such payments, the amounts of said reserve fund used to cover said deficiency shall be reimbursed to the Highways and Transportation Authority from the first proceeds received on the next fiscal year or subsequent fiscal years by the Government of Puerto Rico from: (1) any other taxes in effect on any other fuel or propellant used, among other purposes, to propel road vehicles; and (2) any remaining portion of the tax on gasoline, gas oil, or diesel oil established in § 31626 of this title that are in effect. The proceeds of such other taxes and the remaining portion of the tax on gasoline and gas oil or diesel oil established in §

	31626 of this title that are to be used as provided in this section to reimburse the reserve funds for debt requirements, shall not be covered into the General Fund of the Government of Puerto Rico when collected, but shall be covered into the aforementioned special deposit for the benefit of the Highways and Transportation Authority of Puerto Rico and subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, to be used to reimburse said reserve fund for the payment of the debt requirements. (3) The amount of tax collected on cigarettes fixed by § 31625 of this title up to twenty (20) million dollars per fiscal year shall be deposited into a special deposit in favor of the Highways and Transportation Authority for its corporate powers and purposes. (3)(C) The Highways and Transportation Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in § 31625 of this title for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Government of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Authority and to meet any stipulation agreed on by the Authority to the holders of its bonds and other obligations. (4) The amount of tax received from cigarettes fixed by § 31625 of this title up to ten (10) million dollars per fiscal year shall be deposited into a special deposit in favor of the Metropolitan Bus Authority for its corporate purposes and powers. The income from these ten (10) million dollars per fiscal year to the special deposit in favor of the Metropolitan Bus Authority is in second priority and subordinated to the income of the twenty (20) million dollars of the tax amount received from cigarettes fixed by § 31625 of this title that is deposited into the special deposit in favor of the Highways and Transportation Authority as provided in subsection (a)(3) of this section. (4)(C) The Metropolitan Bus Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in § 31625 of this title for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Metropolitan Bus Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Metropolitan Bus

	Authority and to meet any stipulation agreed on by the Metropolitan Bus Authority to the holders of its bonds and other obligations.
3. Puerto Rico Vehicles and Traffic Act Entities Involved: **HTA** (Puerto Rico Highways and Transportation Authority)	"Section 23.02(c).- Fees to be Paid." A special deposit is hereby created in benefit of the Authority in which fifteen dollars ($15) shall be covered into the same for each registration renewal of private and public service automobiles. "Section 23.01.- Procedure for the Payment of Fees." Unless otherwise provided in this Act, the amount of the fees collected in accordance with Articles 23.01 and 23.02 of this Act shall be fully deposited in a Special Deposit in the name and for the benefit of [HTA]. The Authority is hereby authorized to pledge or encumber the proceeds of the taxes collected for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds of the taxes collected shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of Puerto Rico, insofar as the other available resources referred to in said Section does not suffice to attain such purposes. Otherwise, the proceeds of said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Authority and to meet any stipulation agreed upon by the Authority to the holders of its bonds and other obligations.
4. Internal Revenue Code for a New Puerto Rico Entities Involved: **HTA** (Puerto Rico Highways and Transportation Authority)	Subsection (a) of Section 3060.11 of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," is hereby amended to read as follows: The amount of the tax collected on gasoline and the tax of four cents (4¢) of gas oil or diesel oil fixed in Section 3020.06 of this subtitle; and the total amount per fiscal year of the excise tax collected on crude oil, partially finished and finished oil by-products, and any other mixture of hydrocarbons fixed in Section 3020.07 of this subtitle, shall be covered into a special deposit in favor of the Highways and Transportation Authority for their corporate purposes.

MBA (Metropolitan Bus Authority)	The Highways and Transportation Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in Section 3020.05 for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Government of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Authority and to meet any stipulation agreed on by the Authority to the holders of its bonds and other obligations. The amount of tax received from cigarettes fixed by Section 3020.05 of this subtitle up to ten (10) million dollars per fiscal year shall be deposited into a special deposit in favor of the Metropolitan Bus Authority for its corporate purposes and powers. The income from these ten (10) million dollars per fiscal year to the special deposit in favor of the Metropolitan Bus Authority is in second priority and subordinated to the income of the twenty (20) million dollars of the tax amount received from cigarettes fixed by Section 3020.05 of this subtitle that is deposited into the special deposit in favor of the Highways and Transportation Authority as provided in subsection (a)(3) of this section. The Metropolitan Bus Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in Section 3020.05 for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Metropolitan Bus Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Metropolitan Bus Authority and to meet any stipulation agreed on by the Metropolitan Bus Authority to the holders of its bonds and other obligations.
PRIFA	
1. Puerto Rico Infrastructure Financing Authority Act	3 L.P.R.A. § 1906 ("General powers"): (m) Mortgage or pledge any property for the payment of the principal of and interest on any bonds issued by the Authority, or bonds issued by a benefited entity, and pledge all or a portion of such revenues as the Authority may receive including, but not limited to, and subject to the provisions of § 8 of Article VI of the Constitution of the

Entities Involved: **PRIFA** (Puerto Rico Infrastructure Financing Authority)	Commonwealth of Puerto Rico, all or any portion of the federal excise taxes or other funds which should have been transferred by the Commonwealth to the Authority. <u>3 L.P.R.A. § 1907</u> ("<u>Bonds of the Authority</u>"): (a) The bonds issued by the Authority may be payable from all or any part of the gross or net revenues and other income derived by the Authority which, subject to the provisions of § 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico, may include the proceeds of any tax or other funds which may be made available to the Authority by the Commonwealth as provided in the trust agreement or resolution whereby the bonds are issued. The principal of, and interest on, the bonds issued by the Authority may be secured by a pledge of all or part of any of its revenues which, subject to the provisions of § 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico, may include the proceeds of any tax or other funds which may be made available to the Authority by the Commonwealth, all as provided in the trust agreement or resolution under which the bonds are issued. Such pledge shall be valid and binding from the time it is made without the need for a public or notarized instrument. The revenues so pledged, including those subsequently received by the Authority, shall immediately be subject to said lien without the need of the physical delivery thereof or any other act, and said lien shall be valid and binding and shall prevail against any third party having any kind of claim against the Authority for damages, breach of contract or other reasons, regardless of whether such third party has been so notified. Neither the trust agreement, nor the bond resolution, nor any collateral agreement by which the Authority's rights on any revenues are pledged or assigned shall have to be presented or recorded in order to perfect the lien thereon against any third party except in the records of the Authority. The resolution or resolutions authorizing the bond issue or the trust agreement securing the bonds may contain provisions which shall be part of the contract with the holders of the bonds issued under such resolution or resolutions or under such trust agreement regarding the pledge and creation of liens on the Authority's revenues and assets, the creation and maintenance of redemption and reserve funds, limitations concerning the purposes to which bond proceeds may be applied, limitations concerning the issuance of additional bonds, limitations concerning the introduction of amendments or supplements to such resolution or resolutions, or to the trust agreement, the granting of rights, powers and privileges and the imposition of obligations and responsibilities upon the trustee under any trust agreement or resolution, the rights, powers, obligations and liabilities that shall arise in the event of a default of any obligation under such resolution or resolutions or under such trust agreement, or in connection with any rights, powers or privileges conferred on the bondholders as security for the bonds in order to enhance their marketability. <u>3 L.P.R.A. § 1914</u> ("Special deposit"): Beginning with Fiscal Year 1988-89, notwithstanding the provisions of Section 29A of Act No. 143 of June 30, 1969, as amended, the first collections of federal taxes sent to the Department of the Treasury of Puerto Rico in each year

	fiscal, pursuant to § 7652(a)(3) of the Internal Revenue Code of the United States of 1986, as amended, up to a maximum amount of thirty million dollars ($30,000,000), in the case of Fiscal Year 1988-89 , up to a maximum amount of forty million dollars ($40,000,000), in the case of Fiscal Years 1989-90 to 1996-97, up to a maximum amount of sixty million dollars ($ 60,000,000), in the case of Fiscal Year 1997- 98, up to a maximum amount of seventy million dollars ($ 70,000,000), in the case of Fiscal Years 1998-1999 to 2005-06,and up to a maximum amount of ninety million dollars ($ 90,000,000), in the case of Fiscal Years 2006-07 to 2008-09, and in the subsequent years until Fiscal Year 2056-57 the participation will be up to an amount of one hundred and seventeen million dollars ($ 117,000,000), which shall be paid upon receipt by the Department of the Treasury of Puerto Rico in a Special Fund to be maintained by or on behalf of the Authority, designated as the "Infrastructure Fund of Puerto Rico" and shall be will be used by the Authority for its corporate purposes, which will include the development of the necessary and convenient infrastructure for the completion of the Mayagüez 2010 Central American and Caribbean Games. In case the collections of said federal taxes are insufficient to cover the amounts here assigned, the Secretary of the Treasury is authorized to cover such deficiency of any available funds and the Director of the Office of Management and Budget, at the request of the Authority for the Financing of the Infrastructure, shall include in the recommended budget of the corresponding fiscal year the necessary allocations for cover those deficiencies. The Authority is hereby empowered to segregate a portion of said Funds into one (1) or more sub-accounts, subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico for the payment of the principal and interest on bonds and other obligations of the Authority, or for the payment of bonds and other obligations issued by a benefited entity, or for any other legal purpose of the Authority. The moneys of the Special Fund may be used for the payment of interest and for the amortization of the public debt of the Commonwealth, as provided in said Section 8, only when the other resources available referred to in said Section are insufficient for such purposes.
PRCCDA	
1. **Puerto Rico Room Occupancy Rate Tax Act** Entities involved: **PRCCDA** (Puerto Rico Convention Center District Authority, a public corporation of the Commonwealth of Puerto	13 L.P.R.A. § 2271v ("Disposition of funds") The [Tourism] Company shall distribute all funds collected from the tax imposed under § 2271***o*** of this title, as follows: (a) Before the beginning of each fiscal year, the [GDB] shall determine and certify to the [Tourism] Company and to the [CCDA], the amount necessary for the [CCDA] to make, during such fiscal year and the first day of the following fiscal year: (1) Full and timely payment, or the amortization of the principal and interest on the obligations incurred by the [CCDA] with the [GDB] or the bonds, notes or other obligations issued, assumed or incurred by the [CCDA],

Rico created by §§ 6 401 et seq. of Title 23, known as the 'Puerto Rico Convention Center District Act') **Puerto Rico Tourism Company**, a public corporation of the Commonwealth of Puerto Rico created by §§ 671 et seq. of Title 23	pursuant to Act No. 142 of October 4, 2001, as amended, with the prior written authorization of the [Tourism] Company , to exclusively carry out the development and construction of a new convention center and its related infrastructure; (2) full and timely payment of the obligations of the [CCDA] under any bond related financing agreement, as this term is defined at the end of this subsection, entered into by the [CCDA] with the prior written authorization of the [Tourism] Company ; (3) the deposits required to replenish any reserves established to ensure the payment of the principal and the interest on such bonds, notes and other obligations issued, assumed or incurred by the [CCDA], or obligations under any bond related financing agreement, and (4) any other expenses incurred in connection with the issuance of such bonds, notes or other obligations assumed or incurred by the [CCDA], or with any other bond related financing agreement. The prior written approval of the [Tourism] Company shall specifically authorize the amortization schedule of the principal of the bonds, notes or other obligations to be issued, assumed or incurred by the [CCDA] and the final terms and conditions of any bond related financing agreement to be entered into by the [CCDA]. The sum determined and certified by the [GDB], as indicated above, shall be deposited in a special account to be maintained by the [GDB] in the name of the [CCDA] for the benefit of the bondholders, noteholders or the holders of other obligations of the [CCDA] or for the benefit of the other contracting parties under any bond related financing agreement. The [GDB] shall transfer the amounts deposited in such special account to the trustees of the bondholders, noteholders or the holders of other obligations of the [CCDA] or to the other contracting parties under any bond related financing agreement, in accordance with the written instructions provided to the [GDB] by the [CCDA]. Each fiscal year, the [Tourism] Company must transfer to the Government Development Bank for deposit in said special account the amount established in the first paragraph of this subsection through monthly transfers, beginning in the month immediately following the month in which this law is approved and in the first month of each fiscal year thereafter, equivalent to one tenth of that amount that the Government Development Bank for Puerto Rico determines and certifies as necessary for the payments referred to in the introductory paragraph of this section [….] The Authority is hereby authorized, with the prior written consent of the Company, to pledge or otherwise encumber the revenues product of the fixed tax collected which is to be deposited in a special account as required by the first paragraph of this subsection, as security for the payment of the principal and interest on the bonds, notes or other obligations issued, assumed or incurred by the Authority, as described in the first paragraph of this subsection, or for the payment of its obligations under any bond related financing agreement, as described in said paragraph. Such a pledge or obligation shall be subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico. The product of the collection of the tax shall be used solely for the payment of the

	interest and the amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico, but only to the degree to which the other available resources to which reference is made in said Section are insufficient for such purposes. Otherwise, the product of said collection, in the amount necessary, shall be used solely for the payment of the principal and interest on the bonds, notes or other obligations and the obligations under any bond related financing agreement contemplated herein, and to comply with any stipulations agreed to with the bondholders, noteholders or holders of other obligations or the providers under bond related financing agreements. In case the total product of the tax presently assigned or to be assigned in the future to the Authority, in accordance with this subsection, is used to service payments of the public debt and applied to cover the deficiencies in the amounts needed to make such payments, the amounts of this tax used to cover said deficiency shall be reimbursed to the Authority out of the first revenues received in the next fiscal year or subsequent fiscal years by the Commonwealth of Puerto Rico proceeding from any remaining portion of the tax then in effect, subject to the provisions of Section 8 of Article VI, of the Constitution of the Commonwealth of Puerto Rico.
MBA	
Internal Revenue Code for a New Puerto Rico Entities Involved: **HTA** (Puerto Rico Highways and Transportation Authority) **MBA** (Metropolitan Bus Authority)	Subsection (a) of Section 3060.11 of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," is hereby amended to read as follows: The amount of tax collected on cigarettes fixed by Section 3020.05 of this subtitle up to twenty (20) million dollars per fiscal year shall be deposited into a special deposit in favor of the Highways and Transportation Authority for its corporate powers and purposes. The Highways and Transportation Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in Section 3020.05 for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of the Government of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Authority and to meet any stipulation agreed on by the Authority to the holders of its bonds and other obligations.

	The amount of tax received from cigarettes fixed by Section 3020.05 of this subtitle up to ten (10) million dollars per fiscal year shall be deposited into a special deposit in favor of the Metropolitan Bus Authority for its corporate purposes and powers. The income from these ten (10) million dollars per fiscal year to the special deposit in favor of the Metropolitan Bus Authority is in second priority and subordinated to the income of the twenty (20) million dollars of the tax amount received from cigarettes fixed by Section 3020.05 of this subtitle that is deposited into the special deposit in favor of the Highways and Transportation Authority as provided in subsection (a)(3) of this section. The Metropolitan Bus Authority is hereby authorized to pledge or encumber the proceeds from the excise tax on cigarettes established in Section 3020.05 for the payment of the principal of and interest on any bonds or other obligation or for any other lawful purpose of the Metropolitan Bus Authority. Such pledge or encumbrance shall be subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico. The proceeds from such taxes shall be used solely for the payment of the interest on and amortization of the public debt, as provided in Section 8 of Article VI of the Constitution of Puerto Rico, insofar as the other available resources referred to in said Section do not suffice to attain such purposes. Otherwise, the proceeds from said tax, in the necessary amount, shall be used solely for the payment of principal of and interest on the bonds and other obligations of the Metropolitan Bus Authority and to meet any stipulation agreed on by the Metropolitan Bus Authority to the holders of its bonds and other obligations.
PRITA	
Internal Revenue Code for a New Puerto Rico Entities Involved: **PRITA** (Puerto Rico Integrated Transportation Authority)	13 L.P.R.A. § 31751 ("Disposition of funds") The amount of the tax that is collected on the cigarettes set out in section 31625 of this title up to thirty-six (36) million dollars per fiscal year, beginning with Fiscal Year 2015-2016, will be deposited in a special deposit in favor of the Integrated Transportation Authority of Puerto Rico for its purposes and corporate powers. The income of these thirty-six (36) million dollars per fiscal year to the special deposit in favor of the Integrated Transportation Authority of Puerto Rico is in third priority and subordinated to the income of twenty (20) million dollars of the amount of the tax collected on cigarettes set out in section 31625 of this title that enters the special deposit in favor of the Highway and Transportation Authority, as provided in clause (3) of this subsection, and that of the ten (10) million dollars of the amount of the tax that is collected on cigarettes fixed in section 31625 of this title that enters the special deposit in favor of the Metropolitan Bus Authority, as provided in clause (4) of this subsection. The amount of the tax that is collected on the cigarettes set forth in section 31625 of this title up to thirty-six (36) million dollars per fiscal year, as of the approval of the New Tax System of Puerto Rico, will enter a special deposit in favor of the Puerto Rico Integrated Transportation Authority for its purposes and corporate powers. The income of these thirty-six (36) million dollars per fiscal year to the special deposit in favor of the Integrated Transportation Authority of Puerto Rico

	is in third priority and subordinated to the income of twenty (20) million dollars of the amount of the tax collected on cigarettes set out in section 31625 of this title that enters the special deposit in favor of the Highway and Transportation Authority as provided in clause (3) of this subsection and that of ten (10) million dollars of the amount of the tax that is collected on the cigarettes fixed in section 31625 of this title that enters the special deposit in favor of the Metropolitan Bus Authority as provided in clause (4) of this subsection. The Secretary shall transfer monthly or as agreed with the Integrated Transportation Authority of Puerto Rico, the amounts deposited in the special deposit, deducting therefrom such amounts reimbursed as per the provisions of section 31668 of this subtitle. The transfer of funds raised from the excise tax imposed on cigarettes to the Integrated Transportation Authority of Puerto Rico shall be subject to the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico. The product of said collection shall be used solely for the payment of interest and the amortization of the public debt, as established in Section 8 of Article VI of the Constitution, to the extent that the other available resources mentioned in said section become insufficient for such purposes. In the event that the Commonwealth of Puerto Rico uses any amount of the excise taxes on cigarettes fixed in section 31625 for the payment of interest and the amortization of the public debt as established in Section 8 of Article VI of the Constitution, the amounts used by the Commonwealth of Puerto Rico for the payment of interest and the amortization of the public debt shall be reimbursed to the Integrated Transportation Authority of Puerto Rico from the proceeds received by the Commonwealth of Puerto Rico in the next Fiscal Year, or in case that such reimbursement is not possible in the next Fiscal Year, in subsequent fiscal years, except for those proceeds that have been committed to satisfy any obligation. The product from said proceeds to be used under this section's provisions to reimburse to the Integrated Transportation Authority of Puerto Rico the amounts used by the Commonwealth of Puerto Rico for the payment of interest and the amortization of the public debt, shall not be covered into the General Fund of the Commonwealth of Puerto Rico, when collected; instead, they shall be transferred to the Integrated Transportation Authority of Puerto Rico and, subject to the provisions of Section 8 of Article VI of the Constitution of Puerto Rico, shall be used to reimburse said amounts to the Integrated Transportation Authority of Puerto Rico.

Part III: Allocable Revenue Language in Resolutions

HTA Resolutions

I. HTA 1968 Resolution

The allocable revenue language appears in three places: once in the recitals and twice in the "form of bonds" embedded in the resolution.

- Recitals – "WHEREAS, by Act No. 75, approved June 23, 1965 as supplemented by Act No. 50, approved May 22, 1968, the proceeds of six-elevenths of the eleven cents a gallon tax imposed on gasoline by Act No. 2, approved January 20, 1956, as amended, was allocated to the Authority for use for its corporate purposes and expressly authorized the Authority to pledge the proceeds of said six cents a gallon tax received by it to the payment of the principal of and the interest on bonds or other obligations of the Authority or for any other lawful purpose of the Authority, the tax proceeds so pledged being subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed therefor but only to the extent that the other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose" (HTA 1968 Resolution, at 2).

- "Form of Bonds" – "The proceeds of the gasoline taxes so allocated to the Authority by said Act No. 75 and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose, but only to the extent that other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose." (HTA 1968 Resolution, at 17).

- "Form of Bonds" – "The proceeds of the taxes on gasoline and gas oil and diesel oil so allocated to the Authority by said Excise Act of Puerto Rico, the proceeds of the license fees so allocated to the Authority by said Vehicle and Traffic Law of Puerto Rico and any other taxes, fees or charges which the Legislature of Puerto Rico has allocated and may allocate to the Authority are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the constitution of Puerto Rico if needed for such purpose, but only to the extent that other available revenues of the Commonwealth referred to in said Sections are insufficient for such purpose." (HTA 1968 Resolution, at 24).

II. HTA 1998 Resolution

The allocable revenue language appears in five places: three times in the recitals and twice in the "form of bonds" embedded in the resolution.

- Recitals – "WHEREAS, by Subtitle B of Act No. 120, approved October 31, 1994, as amended, the proceeds of the sixteen cents a gallon tax imposed on gasoline and one half of the eight cents per gallon tax imposed on gas oil and diesel oil was allocated to the Authority for use for its corporate purposes and expressly authorized the Authority to pledge the proceeds of said sixteen cents a gallon and four cents a gallon tax received by it to the payment of the principal of and the interest on bonds or other obligations of the Authority or for any other lawful purpose of the Authority, the tax proceeds so pledged being subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed therefor but only to the extent that the other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose" (HTA 1998 Resolution, at 2).

- Recitals – "WHEREAS, by Act No. 9, approved August 12, 1982, the proceeds of the $15 increase per vehicle of annual motor vehicle license fees imposed by the Commonwealth was allocated to the Authority for use for its corporate purposes and expressly authorized the Authority to pledge the proceeds of said $15 increase in fees received by it to the payment of the principal of and the interest on bonds or other obligations of the Authority or for any other lawful purpose of the Authority, the license fees so pledged being subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed therefor but only to the extent that other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose" (HTA 1998 Resolution, at 2-3).

- Recitals – "WHEREAS, by Act No. 34, approved July 16, 1997, as amended, the first $120 million of annual proceeds of the tax paid for the use in Puerto Rico of crude oil, unfinished oils or end products derived from oil and any other hydrocarbon mixture was allocated to the Authority for use for its corporate purposes and expressly authorized the Authority to pledge the proceeds of said tax received by it to the payment of the principal of and the interest on bonds or other obligations of the Authority or for any other lawful purpose of the Authority, the tax proceeds so pledged being subject to first being applied to the payment and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed therefor but only to the extent that other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose" (HTA 1998 Resolution, at 3).

- "Form of Bonds" – "The proceeds of the taxes on crude oil and derivative products so allocated to the Authority by said Act No. 34, the proceeds of the taxes on gasoline and gas oil and diesel oil so allocated to the Authority by said Act No. 120, the proceeds of the license fees so allocated to the Authority by said Vehicle and Traffic Law of Puerto Rico and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose, but only to the extent that other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose." (HTA 1998 Resolution, at 19).

- "Form of Bonds" – "The proceeds of the taxes on crude oil and derivative products so allocated to the Authority by said Act No. 34, the proceeds of the taxes on gasoline and gas oil and diesel oil so allocated to the Authority by said Act No. 120, the proceeds of the license fees so allocated to the Authority by said Vehicle and Traffic Law of Puerto Rico and any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority are subject to first being applied to the payment of interest and amortization of the public debt in accordance with the provisions of Section 8 of Article VI of the Constitution of Puerto Rico if needed for such purpose, but only to the extent that other available revenues of the Commonwealth referred to in said Section 8 are insufficient for such purpose." (HTA 1998 Resolution, at 24).

PRIFA – Official Statement dated June 2, 2005

The reference to the Constitution's allocable revenue provision appears in three places:

- Cover Page. "Such federal excise taxes, however, are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth, if other Commonwealth revenues are not sufficient therefor."

- Summary Statement; S-2. "The Federal Excise Taxes and other revenues received from the Commonwealth and deposited in the Infrastructure Fund are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the Commonwealth, if other Commonwealth revenues are not sufficient therefor."

- Page 10. "*Provisions for Prior Payment*. "The Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues. Public debt includes bonds and notes of the Commonwealth to which the full faith, credit and taxing power of the Commonwealth are pledged and, according to opinions rendered by the Secretary of Justice of the Commonwealth, any payments that are required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public corporations. The Bonds do not constitute public debt of the Commonwealth.

  Prior to their application to pay principal of and interest on the Bonds, the Special Tax Revenues are available revenues under the Constitution. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth. Under the Enabling Act, however, such revenues are to be used for such payments only if and to extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never used Federal Excise Taxes for the payment of debt service on its public debt."

CCDA – Official Statement dated March 16, 2006

The reference to the Constitution's allocable revenue provision appears in three places:

- Cover Page. "**To the extent other Commonwealth of Puerto Rico revenues are insufficient to pay for the general obligation debts and other guaranteed debts of the Commonwealth, the hotel occupancy tax revenues are subject to being applied first to the payment of such Commonwealth debts and obligations before they may be applied to pay debt service on the Bonds.**"

- Page 2. "**If Commonwealth revenues are insufficient to pay the general obligation debt of the Commonwealth and debt guaranteed by the Commonwealth, the Occupancy Tax Act provides that pursuant to the provisions of Section 8, Article VI of the Constitution of the Commonwealth, the Hotel Occupancy Tax revenues are subject to being applied first to the payment of such Commonwealth general obligation debt or such guaranteed debt before they may be applied to pay debt service on the Bonds.**"

- Pages 21-22. "The Constitution of the Commonwealth provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues. Public debt includes bonds and notes of the Commonwealth to which the full faith, credit and taxing power of the Commonwealth are pledged, and, according to opinions rendered by the Secretary of Justice of the Commonwealth, any payments which are required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public corporations. The Bonds do not constitute public debt of the Commonwealth.

  Hotel Occupancy Tax revenues are available revenues under the Constitution. Accordingly, if needed, they may be applied first to the payment of debt service on the public debt of the Commonwealth. Under the Enabling Act, the Hotel Occupancy Tax Act and the Constitution of the Commonwealth, however, such revenues are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth are insufficient for such purpose. Investment earnings and monies in the Debt Service Reserve Fund are not considered available Commonwealth resources."

MBA – Refinancing Agreement dated March 30, 2012, and
Amendment dated September 4, 2013 changing the collateral to the cigarette tax

- Refinancing Agreement, Section 3.17 ("No Immunity"): "Provided, however, that Lender is aware that collection of the Diesel Tax Revenue may be preempted by the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico."

- Refinancing Agreement, Section 18.12 ("Operational Accounts"): "Borrower shall immediately deliver to Lender copies of any notices received from Treasury, the Government Development Bank for Puerto Rico or any other Governmental Authority indicating the Commonwealth's decision (or the imminence thereof) to enforce the Commonwealth's preemptive power over the Diesel Tax Revenues afforded to the Commonwealth under Section 8 of Article VI of the Constitution of the Commonwealth."

- Amendment, Section 7.2: "Provided, however, that Lender is aware that collection of the Cigarette Tax Revenue may be preempted by the provisions of Section 8 of Article VI of the Constitution of the Commonwealth of Puerto Rico."

- Amendment, Section 10: "Borrower shall immediately deliver to Lender copies of any notices received from Treasury, the Government Development Bank for Puerto Rico or any other Governmental Authority indicating the Commonwealth's decision (or the imminence thereof) to enforce the Commonwealth's preemptive power over the Cigarette Tax Revenues afforded to the Commonwealth under Section 8 of Article VI of the Constitution of the Commonwealth."

Commonwealth – Section 8 of Article VI of the Puerto Rico Constitution: Allocable Revenue Provision

- Section 8 of Article VI of the Constitution. "In case the available resources including surplus for any fiscal year are insufficient to meet the appropriations made for that year, interest on the public debt and amortization thereof shall first be paid, and other disbursements shall thereafter be made in accordance with the order of priorities established by law."

Analysis of Creditor Recoveries should the Title III Case be Dismissed for Creditors of the Puerto Rico Employee Retirement System (ERS)

This analysis assesses the recoveries available to creditors of ERS on the basis of available remedies under non-bankruptcy laws, including the Constitution of the Commonwealth of Puerto Rico. Pursuant to section 314(b)(6) of PROMESA, a proposed Plan of Adjustment should be "feasible and in the best interest of creditors, which shall require the court to consider whether available remedies under the non-bankruptcy laws and constitution of the territory would result in a greater recovery for the creditors than is provided by such plan." In this context, this analysis provides an estimated range of recoveries that would be available to creditors if the stay of debt enforcement is terminated, no ERS Plan of Adjustment agreement is consummated, and the ERS Title III case is dismissed.

This document consists of two sections. The first section provides an overview of the methodology followed in developing the analysis. The methodology outlines the approach taken to estimate the resources available for debt service, estimate the outstanding creditor obligations, and analyze the priority in which funds are disbursed and the order in which creditor claims are assumed to be paid. The second section presents the estimated likely range of recoveries available to creditors of ERS based on the resources identified.

This analysis was prepared by McKinsey & Company Puerto Rico Consulting, Inc. ("McKinsey & Company"). Proskauer Rose LLP,[1] legal advisor to the Financial Oversight and Management Board for Puerto Rico ("FOMB"), provided McKinsey & Company with a set of legal assumptions used in the preparation of this analysis. Those assumptions are included in Appendix 1 of this document and include estimated values for categories of ERS assets. The financial advisors to the FOMB provided McKinsey & Company with financial information used in the preparation of this analysis. Such financial information included schedules detailing estimates of outstanding bond debt and other financial data. McKinsey & Company also relied on data published by or directly provided by the Government of Puerto Rico and/or its advisors.

McKinsey & Company has accepted as true, accurate, and appropriate all of the legal and financial information and assumptions provided by Proskauer Rose LLP, other FOMB advisors, and the Government of Puerto Rico and its advisors. McKinsey & Company has not independently verified any of the information or assumptions received from Proskauer Rose LLP, other FOMB advisors, or the Government of Puerto Rico and its advisors, nor does it take any independent position with respect to this information and these assumptions.

The assumptions, projections, and estimates used in this analysis are inherently subject to business, economic, and political uncertainties, and, therefore, are subject to change. McKinsey & Company makes no representation or warranty that the actual recoveries available to or potentially realized by creditors on the basis of available remedies under any laws, including the Puerto Rico Constitution, would or would not approximate the estimates and assumptions represented in the analysis, and actual results may vary materially from those shown herein. McKinsey & Company does, however,

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[1] Proskauer Rose LLP is referred to as the "FOMB's legal advisor" in this analysis.

represent that the recovery range identified herein is its best estimate based on its knowledge and on the information provided to it.

I. Methodology

Following guidance provided by FOMB's legal advisor, this analysis assumes that PROMESA Title III cases are dismissed but that PROMESA Titles I and II continue to apply. Therefore, the analysis assumes the automatic stay of debt enforcement is removed and the FOMB remains in place and will continue to certify Commonwealth Fiscal Plans and enforce implementation of budgets, subject to any debt enforcement in excess of budget that the Puerto Rico courts order. The analysis also assumes creditors would pursue legal action against the Commonwealth and ERS to recover the amounts they claim they are owed.

The analysis relies on three components to calculate the range of potential recoveries available to creditors: 1) the Resource Envelope available to satisfy ERS creditor obligations, 2) the outstanding debt, and 3) priorities for distribution of funds for debt service.

The effective date of the analysis is June 30, 2021 (the "Effective Date"). The percentage recovery is calculated as the present value[2] of the total amount expected to be paid to creditors over the entire period of the analysis as a proportion of the total outstanding principal and unpaid interest as of the ERS Title III petition date of May 21, 2017 (the "ERS petition date"). Based on discussions with the FOMB's financial advisors, this analysis assumes an annual discount rate of 5% as reasonable for the calculation of the present value of future principal and interest payments.

1) Resource Envelope: The total amount of resources available to pay ERS creditors' claims in each year constitutes ERS's Resource Envelope. This equates to assets remaining in the Employees Retirement System ("ERS assets"). Following guidance provided by the FOMB's legal advisor, ERS bonds are considered non-recourse outside of Title III, which limits their sources of recovery to their collateral. Therefore, only the ERS assets that are collateral of ERS bonds can be used to pay ERS bondholders. ERS assets that are not collateral of ERS bonds ("unencumbered assets") are assumed to be available for unsecured claims.

There was litigation related to additional assets that could be available to pay ERS creditors. Following guidance provided by FOMB's legal advisor, this analysis only considers assets held at ERS (as presented in Appendix 1) to be part of the Resource Envelope available to ERS creditors, as the output of future potential litigations is uncertain. The litigation and possible outcomes of such uncertainties are discussed at the end of this analysis.

Following guidance provided by FOMB's legal advisor, the estimated value of ERS bondholders collateral is $142 million. According to this guidance, certain assets with a low probability of being bondholders' collateral (less than 15%) have been excluded from the collateral pool for ERS bondholders as it is expected that bondholder claims to such assets will be eliminated upon the resolution of ongoing litigation. For additional information on the assessment of bondholders' collateral, please refer to Appendix 1. McKinsey & Company has accepted these estimations related

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[2] Present value as of the Effective Date of the analysis, June 30, 2021.

to assets that are collateral of ERS bonds and provided by the FOMB's legal advisor as appropriate, but no independent legal or actuarial analysis has been performed by McKinsey & Company.

Based on guidance provided by the FOMB's financial advisors, the total market value of ERS assets as of July 2020 is estimated at $1,174 million and is assumed to remain at this value through the Effective Date of this analysis, June 30, 2021. This ERS asset value estimate excludes amounts previously paid to bondholders through a pre-petition segregated account.

2) Outstanding debt: Based on information provided by the financial advisors to the FOMB, the total debt outstanding as of the ERS petition date is $3,169 million. As indicated in Appendix 1, the outstanding debt also assumes an additional amount of $8 million in unsecured claims.

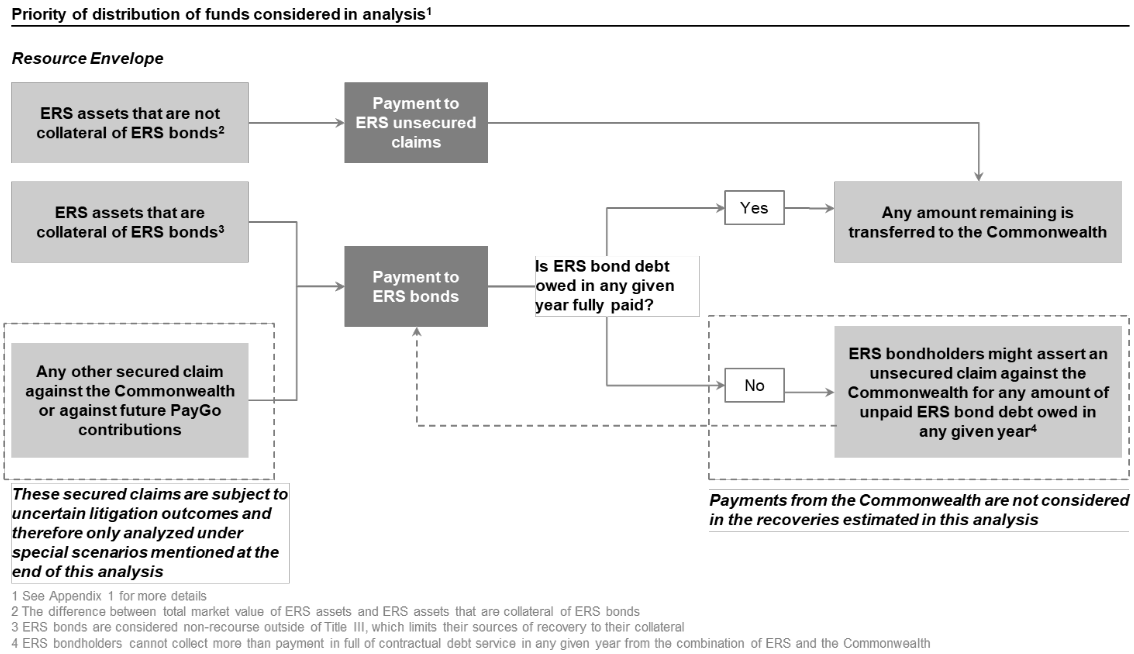
This analysis does not consider obligations to retirees, as those obligations were assumed by the Commonwealth under Act 106-2017 as mentioned in Appendix 1. To the extent not paid from the unencumbered assets of ERS, obligations to retirees will be satisfied to the extent set forth in the in the Commonwealth version of this analysis, which is also included in the Disclosure Statement.

3) Priorities for distribution of funds: Following guidance provided by FOMB's legal advisor, funds that are collateral of ERS bonds are available to pay ERS bondholders following the schedule of payments as stipulated in the ERS bond documents. Funds are first assumed to be credited against cumulative interest owed and then to the debt principal maturing in that year or previously, if any. Unpaid principal accrues interest according to the original rates stipulated in each of the relevant debt documents and is then added to the following year's debt. No interest accrues on interest balances.

Following guidance provided by FOMB's legal advisor, funds not constituting collateral of ERS bonds are assumed to be used to pay unsecured claims; any assets remaining after unsecured claims have been paid are assumed to be transferred to the Commonwealth pursuant to Act 106-2017, which addressed ERS pensions and assets. As a result, the analysis estimates that $1,023 million of remaining ERS assets will be transferred to the Commonwealth at the end of FY2022.

The following exhibit summarizes the priorities for the distribution of funds based on guidance provided by FOMB's legal advisor in Appendix 1.

Exhibit 1: Flow of funds in the analysis



The recoveries shown in the next section do not include additional payments ERS bondholders may receive from the Commonwealth if they successfully assert claims against it. As mentioned in Appendix 1, ERS bondholders may assert an unsecured claim against the Commonwealth for any amount owed but unpaid in any given year. This claim, to the extent valid, if any, would be paid as part of the pool of the Commonwealth's unsecured claims and it would follow the priorities and recoveries described in the Commonwealth version of this analysis, which is also included in the Disclosure Statement.

II. Estimated likely recoveries available to creditors

In assessing the estimated likely range of recoveries available to ERS bondholders, this analysis uses the estimated funds that are collateral of ERS bonds. Based on these criteria, the recovery available to ERS bondholders is $142 million. This amount implies a recovery percentage of 4%.[3]

Unsecured claims total $8 million. The resources available to unsecured claims are greater than the $8 million, which implies a recovery of 100%. An estimated $1,023 million in unrestricted assets remaining after paying unsecured claims cannot be used to pay ERS bonds and are assumed to be transferred to the Commonwealth. In total, the recovery available to both ERS bonds and unsecured claims is $151 million,[4] which implies an overall recovery of 5%.

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[3] The recovery percentage is estimated as the present value of total debt paid (as of the Effective Date June 30, 2021) as a proportion of the total principal outstanding and unpaid interest as of ERS petition date (May 21, 2017).

[4] The amount refers to the present value of future debt payments using an annual 5% discount rate.

Exhibit 2: Estimated likely recoveries available to ERS creditors

Estimated likely recoveries available to ERS creditors by debt class
PV of total payment in USD million, % recovery

ERS bonds	$142 *4%*
Unsecured claims	$8 *100%*
Total	$151 *5%*

Alternative outcomes based on ongoing litigation or litigation risks

The range of recoveries is subject to the outcome of ongoing litigation regarding the total size of valid claims and the pool of resources available for debt service. As the outcome is uncertain, those sensitivities are not considered in the recoveries described above.

First, there was litigation challenging the validity of ERS bonds pursuant to Puerto Rico law. If ERS bonds are ruled to be invalid, ERS bondholders would not receive any payments from assets that are currently collateral of ERS bonds. In addition, ERS bondholders might be required to return payments already made to them before the ERS petition date; those payments sum to approximately $400 million.

Second, there were legal disputes concerning whether employers' current pay-as-you-go ("PayGo") payments under Act 106-2017 should be considered the same asset as pre-Act 106-2017 employer contributions to ERS and subject to security interests of ERS bondholders. As mentioned in Appendix 1, in this case ERS bonds would be paid before Commonwealth General Obligation (GO) bonds and other Commonwealth guaranteed debt that is *pari passu* with GO bonds because ERS bondholders would have a lien against PayGo payments. Therefore, ERS bondholders would receive full recovery of their claims as the PayGo payments are greater than the ERS bond debt owed in any given year. Payments to ERS bondholders from the Commonwealth, however, might reduce the ability of the Commonwealth to cover its pension expenses. The Commonwealth would need to reduce its operating expenses in other areas to be able to pay ERS bondholders and still stay within the limits set by the annual budget.

The outcome of this litigation is uncertain; therefore, estimated recoveries based on different sensitivities are shown below. The table shows the recoveries available to ERS bondholders assuming varying amounts (e.g. 0%, 25%, 50% and 75%) of ERS claims are deemed to be secured by PayGo payments.[5] In addition to the payments from the PayGo payment stream, ERS bondholders would also receive payments from the ERS assets that are collateral of ERS bonds.

Exhibit 3: Estimated likely recoveries available to ERS creditors if some ERS bond debt is secured by PayGo payments

Estimated likely recoveries available to ERS creditors by debt class should a portion of ERS annual bond debt be classified as secured by PayGo payments

PV of total payment in USD million, % recovery

ERS bonds	0% of annual debt secured	$142 *4%*
	25% of annual debt secured	$1,341 *42%*
	50% of annual debt secured	$2,540 *80%*
	75% of annual debt secured	$3,739 *100%*
Unsecured claims[1]		$8 *100%*

1 Recoveries of unsecured claims is 100% as those claims are fully paid with unencumbered assets

[5] The calculation assumes that a portion (e.g. 0%, 25%, 50% and 75%) of the total principal and interest due in any given year (based on ERS debt schedule) is secured by PayGo payments. Recoveries are calculated as the present value of total debt paid (as of the Effective Date June 30, 2021) as a proportion of the total principal outstanding and unpaid interest as of ERS petition date (May 21, 2017).

APPENDIX 1

ERS Title III Plan

Best Interests Test Analysis – Assumptions

	Question	Assumption
1.	**Existence of PROMESA/Board:** Should PROMESA Titles I and II apply be assumed to apply?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: PROMESA Titles I and II apply. The automatic stay does not apply. The Board is in place and certifies and enforces fiscal plans and budgets. Creditors are allowed to procure judgments for all matured claims. Once GO creditors (including creditors holding CW-guaranteed claims) have judgments, they can claim all "available resources" and negotiate/litigate with the Commonwealth over what amount of the available resources can be applied to operating expenses pursuant to the police power. The non-GO and non-CW guarantee creditors' only recourse is to wait for a legislative appropriation of amounts to pay their claims once GOs are paid in full. **BASIS**: The reference to "non-bankruptcy laws" in PROMESA section 314(b)(6) would include Titles I and II of PROMESA. There would be no automatic stay under non-bankruptcy law. Neither the fiscal plan nor the budget discharges claims or stays actions. Therefore, the fiscal plan and budget, as non-bankruptcy law, would apply, and the Oversight Board would continue to exist to enforce them. It is possible that their implicit limitations (*i.e.*, budgeted amounts) will not limit how much creditors can collect by enforcing their claims. Whether that is the case will be a function of the extent to which the police power prevents GO creditors from taking all available resources. Non-GO creditors rely on legislative appropriations for payment. The certified fiscal plan would limit what can be appropriated for debt service, subject to the rights of GO creditors to exercise their rights under Article VI, Sections 6 and 8 of the PR Constitution to intercept available resources. **ASSUMPTION 2 [LITIGATION RISK]**: PROMESA Titles I and II do not apply. The automatic stay does not apply. The Board does not exist, and there are no certified fiscal plans and budgets. **BASIS**: The assumption that PROMESA Titles I and II continue to apply increases the creditors' recovery due to the measures and savings the Oversight Board inserts into its certified fiscal plans. The Oversight Board's legal advisors believe it is possible that Titles I and II do not apply because Congress enacted them in tandem with Title III and it is not clear they were intended to continue in effect without Title III. On balance, however, the legal advisors recommended that this analysis be done as if PROMESA Titles I and II continue to apply.

<table>
<tr><th></th><th>Question</th><th>Assumption</th></tr>
<tr><td>2.</td><td>ERS Bondholders' Claims Against ERS Petition Date Assets?</td><td>
ASSUMPTION 1: ERS bondholders have a security interest in certain of the remaining ERS assets (see chart below) and are paid only from those certain assets. ERS's receivables claims against the Commonwealth are treated as unsecured obligations of the Commonwealth.
The total value of ERS assets is estimated at a book value of $1,069 million as of July 2020. Analysis conducted by the Oversight Board's legal advisors and an FOMB expert in connection with the Lien-Scope summary judgment proceeding identified bondholder collateral as summarized in the chart below. These assets are as of the ERS petition date, and do not include all known ERS assets today.
It is assumed that the difference between total ERS assets and assets identified as bondholder collateral is available for distributions to holders of unsecured claims. Any assets not used to pay bondholders and unsecured claims are assumed to be transferred to the Commonwealth pursuant to Act 106-2017.
BASIS: Although the First Circuit determined the ERS bondholders hold a security interest against certain assets at ERS perfected by the filing of a financing statement, the decision does not determine to which assets the security interest attaches. The ERS bonds are nonrecourse and the bondholders lack an entitlement to assets in which they lack a security interest.
SENSITIVITY: ERS petition date assets
<table>
<tr><th>Asset Category</th><th>Petition Date book value (unless indicated otherwise) according to analysis performed by FOMB expert</th><th>Probability Book Value of Assets is Bondholders' Collateral</th></tr>
<tr><td>Employers' Contributions accounts receivable (from the CW, CRIM, and certain</td><td>$85.6M, including $31.3M from the CW, $11.7M from the municipalities paid by CRIM, and $42.6M from public corporations for</td><td>100%

Employer contributions accrued prior to the ERS petition date as a result of employee labor, and not paid to date, constitute the right to receive revenues under the bond documents and are thus subject to the security interest on prepetition assets of ERS.</td></tr>
</table>
</td></tr>
</table>

	Question	Assumption		
		instrument-alities)	which the CW is responsible[1, 2]	
		Additional uniform contributions (AUC) accounts receivable	$716.8M, including $545.7M from the CW, $36.9M from municipalities, and $134.2M from public corporations[3]	10% The AUC were made pursuant to sections of the Enabling Act other than those in which ERS bondholders had a security interest, so the ERS bondholders lack an interest in them. The First Circuit's Section 552 opinion supports this argument. Further, they are not proceeds of any other bondholders' rights in collateral.
		Employee loans and collections	$24.2M	15% Payments made on Employee Loans are not made pursuant to any of the sections of the Enabling Act in which ERS bondholders have a security interest. The Resolution likewise does not provide bondholders with a security interest in Employee Loans. To the extent Employee Loans were made with Employers' Contributions, some may be traceable, in which case proceeds thereon could be proceeds of the bondholders' collateral.
		Investments and	$7.9M	15%

[1] Accounts receivable from the Commonwealth may be subject to offset.

[2] ERS bondholders have asserted a security interest in the PayGo payments mandated under Act 106-2017. Even if this is correct, PayGo payments would be property acquired after the ERS petition date and thus free and clear of any prepetition security interest under § 552 of the Bankruptcy Code, made applicable by PROMESA § 301(a), as the Court of Appeals for the First Circuit has ruled. Outside Title III, however, § 552 does not apply. Therefore, PayGo Payments to the CW could be subject to their security interest if they are treated as the pre-Act 106 employer contributions to ERS. However, this would result in a secured claim against the Commonwealth, as discussed below.

[3] AUC receivable from the Commonwealth may be subject to offset.

<table>
<tr><th></th><th>Question</th><th colspan="3">Assumption</th></tr>
<tr><td></td><td></td><td>distribution proceeds</td><td></td><td>Investments are not subject to any of the sections of the Enabling Act in which the ERS bondholders have a security interest. The Resolution likewise does not provide bondholders with a security interest in Investments. To the extent Investments were made with Employers' Contributions, some may be traceable, in which case proceeds thereon could be proceeds of the bondholders' collateral.</td></tr>
<tr><td></td><td></td><td>Cash from Released Funds</td><td>$37.4M</td><td>10%

The bondholders authorized a release of their security interest in these funds.</td></tr>
<tr><td></td><td></td><td>Cash from AUC collections</td><td>$74.1M</td><td>10%

As explained above, AUC are not subject to the bondholders' security interest.</td></tr>
<tr><td></td><td></td><td>Cash traceable to Employers' Contributions</td><td>$56.8M</td><td>100%</td></tr>
<tr><td></td><td></td><td>COFINA bond holdings</td><td>$66.0M (per balance sheet as of May 31, 2017)</td><td>10%

The source of the money that was used to buy the COFINA bonds was transferred from PRIFA and allocated specifically to buy the COFINA bonds.</td></tr>
<tr><td>3.</td><td>ERS Bondholders' Claims Against the Commonwealth?</td><td colspan="3">ASSUMPTION 1 [MAIN ASSUMPTION]: ERS bondholders successfully assert constitutional claims (Takings and/or Contract Clauses) against the CW. In each year their debt service is not paid, ERS bondholders may assert that amount against the Commonwealth as an unsecured claim paid after GO and pari passu debt.</td></tr>
</table>

	Question	Assumption
		BASIS: ERS bondholders assert Act 106-2017, which eliminated employer contributions under the ERS enabling act, effected an impairment of contractual rights and a taking of their collateral, in violation of the Puerto Rico and U.S. Constitutions. Additionally, § 552, which eliminated the security interest in employer contributions arising after the ERS petition date independent of the effect of Act 106, would likely no longer apply after the dismissal of the ERS Title III case, which would leave Act 106 as the only basis for the elimination of their collateral and thus a violation of the Contract and/or Takings Clauses. **ASSUMPTION 2 [LITIGATION RISK]**: ERS bondholders have a security interest in future employer contributions, and PayGo Payments are adjudicated to be the same as or proceeds of Employers' Contributions, and thus the ERS bondholders have secured claims against the Commonwealth secured by a security interest in PayGo Payments. Their debt service including outstanding principal and interest, is paid before GO or CW-guaranteed debt. This assumption should be run as if the secured claims against the employer contributions have a 0%, 25%, 50%, 75%, and 100% chance of success. If the CW runs into deficits before ERS bonds are paid in full, assume the CW can justify the use of police power for the payment of all its expenses, including pensions, in full, and there is no money left to pay ERS bonds or other debt. **BASIS**: ERS bondholders have asserted that PayGo Payments are the same asset as employer contributions, or proceeds thereof, and thus are subject to the ERS bondholders' security interest, making them a secured creditor of the Commonwealth. They would also likely assert that this security interest, even if eliminated by § 552 upon ERS's petition date, would be reinstated upon the dismissal of ERS's title III case. **ASSUMPTION 3 [LITIGATION RISK]**: ERS bondholders have no claims against the CW. **BASIS**: Even if ERS bondholders had a security interest in future contribution rights, the bondholders were put on notice by the bond offering statement that those rights might be modified or adversely affected by the Commonwealth, which Act 106-2017 did by eliminating any employer contributions to ERS. The fact that the ERS bondholders were on notice of such potential modification could also significantly diminish their chances of asserting a successful contract impairment or takings claim. Additionally, the best interests test should assume bondholder rights and remedies are on account of their claims as they existed immediately prior to the hypothetical dismissal of the ERS case and not adjusted under the ERS plan, *i.e.*, secured only by employer contributions arising prior to the ERS petition date, but not after, as a result of the Section 552 opinion..

	Question	Assumption
		Thus, the ERS bondholders had no contract rights or collateral that was impaired or eliminated by operation of Act 106.
4.	**Pensioners' claims against ERS and/or the Commonwealth?**	**ASSUMPTION 1 [MAIN ASSUMPTION]**: Pensioners have a claim against ERS and the Commonwealth, jointly, for their pensions, which will be paid by the CW under Act 106-2017. **BASIS**: ERS is responsible for payments to pensioners, and pensioners have a claim for their pensions against ERS, subject to the limitation that pensioners cannot collect more than in full from the combination of ERS and the Commonwealth. However, Act 106 requires ERS to transfer its assets to the Commonwealth to fund the "pay-as-you-go" pension system. So, either the pensioners get paid from all the unencumbered assets of ERS (as the bonds are nonrecourse and have no deficiency claim payable from those assets), or these unencumbered assets are transferred to the Commonwealth to pay pensioners via PayGo. In any case, ERS assets that are collateral to pay ERS bonds are used to pay ERS bonds. **ASSUMPTION 2 [LITIGATION RISK]**: Pensioners have only a claim against the CW for cuts, if any, to their pensions. **BASIS**: Act 106 provided that the Commonwealth assumed the liability to pay pension benefits. Accordingly, ERS was relieved of any obligation to pay pensions, and retiree claims must be asserted against the Commonwealth as the transferee of the obligation to pay pensions.
5.	**Are ERS bondholders entitled to accelerate payment of their bonds?**	**ASSUMPTION**: No, ERS bonds do not allow acceleration.
6.	**Should interest on debt that remained unpaid during the stay accrue additional interest?**	**ASSUMPTION:** Assume that in years where full payment of matured debt is not made, subsequent payments are first credited against interest, and then against principal. i. **Interest on ERS debt during stay:** Pursuant to PROMESA § 303, interest continues to accrue at the contract rate during any moratorium, unless the underlying contract provides for default interest, in which case the latter should be used. There is no statutory provision for interest on interest.

	Question	Assumption
		ii. **Interest on unsecured claims during stay:** Assume no interest accrues. iii. **Interest on unpaid debt:** Assume any unpaid debt accrues interest according to the weighted average coupon rate as of 2020 (provided by Citi). iv. **Interest on interest:** No. Puerto Rico law permits the payment of interest on overdue interest under certain circumstances, such as if it was expressly agreed by the parties. However, the Resolution does not provide for interest on overdue interest.
7.	**Other Litigation Claims?**	**ASSUMPTION 1 [MAIN ASSUMPTION]**: Ultra vires claim that ERS bonds were issued without authorization has no merit. **ASSUMPTION 2 [LITIGATION RISK]**: Ultra vires claim eliminates the remaining bond claims, although bondholders keep payments made to them so far. **ASSUMPTION 3 [LITIGATION RISK]**: Ultra vires claim eliminates the remaining bond claims, and bondholders must pay back approximately $400M in payments made to them as alleged in the complaint filed by the FOMB's special claims committee.

DEBT STACK[4]

1. **Operating Cost**
   a. Range of $25 million to $67 million per year, as projected in the CW 2021 Fiscal Plan

2. **ERS Debt**
   a. Senior Pension Funding Bonds balance as of ERS petition date: $3,168,698,777

3. **Other unsecured claims**
   a. Litigation claims: $1,186,101
   b. Trade payables: $59,571
   c. Indemnification claim: $5,769,552
   d. Convenience class claims: $1,093,821
   e. Miscellaneous claims: $53,840

[4] The financial information contained herein relies on information available in most recent publicly available financial statements and, in certain cases, information received from the Oversight Board's advisors and the Commonwealth advisors. The legal advisors take no position as to the accuracy of the financial information provided herein.

Analysis of Creditor Recoveries should the Title III Case be Dismissed for Creditors of the Puerto Rico Public Buildings Authority (PBA)

This analysis assesses the recoveries available to creditors of PBA on the basis of available remedies under non-bankruptcy laws, including the Constitution of the Commonwealth of Puerto Rico. Pursuant to section 314(b)(6) of PROMESA, a proposed Plan of Adjustment should be "feasible and in the best interest of creditors, which shall require the court to consider whether available remedies under the non-bankruptcy laws and constitution of the territory would result in a greater recovery for the creditors than is provided by such plan." In this context, this analysis provides an estimated range of recoveries that would be available to creditors if the stay of debt enforcement is terminated, no Plan of Adjustment agreement is consummated, and the PBA Title III case is dismissed.

This document consists of two sections. The first section provides an overview of the methodology followed in developing the analysis. The methodology outlines the approach taken to estimate the resources available for debt service, estimate the outstanding creditor obligations, and analyze the priority in which funds are disbursed and the order in which creditor claims are assumed to be paid. The second section presents the estimated likely range of recoveries available to creditors of PBA based on the resources identified.

This analysis was prepared by McKinsey & Company Puerto Rico Consulting, Inc. ("McKinsey & Company"). Proskauer Rose LLP and O'Neill & Borges LLC,[1] legal advisors to the Financial Oversight and Management Board for Puerto Rico ("FOMB"), provided McKinsey & Company with a set of legal assumptions used in the preparation of this analysis. Those assumptions are included in Appendix 1 of this document. The financial advisors to the FOMB provided McKinsey & Company with financial information used in the preparation of this analysis. Such financial information included schedules detailing estimates of outstanding bond debt, perspectives on cash balances, and other financial data. McKinsey & Company also relied on data published by or directly provided by the Government of Puerto Rico and/or its advisors.

McKinsey & Company has accepted as true, accurate, and appropriate all of the legal and financial information and assumptions provided by Proskauer Rose LLP, O'Neill & Borges LLC, other FOMB advisors, and the Government of Puerto Rico and its advisors. McKinsey & Company has not independently verified any of the information or assumptions received from Proskauer Rose LLP, O'Neill & Borges LLC, other FOMB advisors, or the Government of Puerto Rico and its advisors, nor does it take any independent position with respect to this information and these assumptions.

The assumptions, projections, and estimates used in this analysis are inherently subject to business, economic, and political uncertainties, and, therefore, are subject to change. McKinsey & Company makes no representation or warranty that the actual recoveries available to or potentially realized by creditors on the basis of available remedies under any laws, including the Puerto Rico

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[1] Proskauer Rose LLP and O'Neill & Borges LLC are collectively referred to as " FOMB's legal advisors" in this analysis.

Constitution, would or would not approximate the estimates and assumptions represented in the analysis, and actual results may vary materially from those shown herein. McKinsey & Company does, however, represent that the recovery range identified herein is its best estimate based on its knowledge and on the information provided to it.

I. Methodology

Following guidance provided by FOMB's legal advisors, this analysis assumes that PROMESA Title III cases are dismissed but that PROMESA Titles I and II continue to apply. Therefore, the analysis assumes the automatic stay of debt enforcement is lifted and the FOMB remains in place and will continue to certify Commonwealth Fiscal Plans and enforce implementation of budgets, subject to any debt enforcement in excess of budget that the Puerto Rico courts order. The analysis assumes creditors would pursue legal action against PBA to recover the amounts they claim they are owed.

The analysis is based on the revenue and expenditure projections contained in the 2021 Commonwealth Certified Fiscal Plan. The analysis relies on three components to calculate potential recoveries available to PBA creditors: 1) the Resource Envelope available to satisfy PBA creditor obligations, 2) the outstanding debt, and 3) priorities for distribution of funds for debt service.

The effective date of the analysis is June 30, 2021(the "Effective Date"). The percentage recovery is calculated as the present value[2] of the total amount expected to be paid to creditors over the entire period of the analysis as a proportion of the total outstanding principal and unpaid interest as of the PBA Title III petition date of September 27, 2019 (the "PBA petition date"). Based on discussions with the FOMB's financial advisors, this analysis assumes an annual discount rate of 5% as reasonable for the calculation of the present value of future principal and interest payments.

1) Resource Envelope: The total amount of resources available to pay PBA creditor claims in each year constitutes PBA's Resource Envelope. The Resource Envelope in any year is the sum of starting cash available for debt service and PBA rent receipts after paying operating expenses.[3]

Based upon the "Debtors' Cash Accounts" section of the Disclosure Statement, the PBA cash balance as of December 2020 was $114 million. From the total balance, $87 million is considered unrestricted and available for debt service.[4,5] This analysis assumes the amount of unrestricted

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[2] Present value as of the Effective Date of the analysis June 30, 2021.

[3] PBA bondholders could receive additional payments from the Commonwealth because PBA bonds are guaranteed by the Commonwealth. However, this analysis is restricted to what PBA can pay its creditors. Any potential additional payments from the Commonwealth are calculated in the Commonwealth version of this analysis, which is also included in the Disclosure Statement. PBA bondholders cannot collect more than payment in full of contractual debt service in any given year from the combination of PBA and the Commonwealth.

[4] This analysis considers the total PBA cash balance as of December 31, 2020, and it removes only the amount that has been explicitly classified as legally restricted. Therefore, the categories of "unreviewed," "inconclusive," and "assumed unavailable" in the Debtor's Cash Accounts analysis of the Disclosure Statement are considered unrestricted in this analysis.

[5] Based upon the "Debtors' Cash Accounts" section of the Disclosure Statement, the total unrestricted cash balance available for debt service excludes $18 million of funds related to an interest refund from IRS that was erroneously paid to PBA. Upon resolution regarding the interest refund, this amount is expected to be transferred from PBA to the appropriate recipient entity.

cash remains unchanged at June 30, 2021, as the Fiscal Plan projects no surplus generated by PBA in FY2021.

Following guidance provided by FOMB's legal advisors, PBA rent receipts are available for PBA bondholders after paying PBA operating expenses. As indicated in Appendix 1, this analysis assumes the PBA will use any rent receipts to pay its operating expenses first to keep PBA functioning. No other assets, such as insurance or FEMA proceeds, are assumed to be available for bondholder payments.

As indicated in the Fiscal Plan, total PBA operating expenses are comprised of PBA payroll and personnel costs, payments for maintenance and utilities, and capital expenditures. The PBA operating expenses also include annual retirement contributions to the PayGo system. Projections for expenditure groups take into consideration the estimated impact of fiscal measures outlined in the Fiscal Plan. Fiscal measures are a series of actions intended to reduce PBA expenditures and streamline its operations.

2) Outstanding debt: The total debt held by PBA creditors that is considered in this analysis is the sum of the PBA bond debt plus total unsecured claims against PBA. With respect to the PBA bonds, the FOMB commenced litigation challenging the validity of PBA bonds issued in or after 2012, as those might have been issued above Puerto Rico's constitutional debt limit. Following guidance provided by FOMB's legal advisors, this analysis assumes PBA bonds issued in or after 2012 are ruled invalid.

Based on data provided by the FOMB's financial advisors and excluding bonds issued in or after 2012, PBA bond debt is comprised of the outstanding debt from the Government Facilities Revenue Bonds and Refunding Bonds, with a total outstanding principal and unpaid interest balance of $4,323 million as of the Effective Date of this analysis. The total principal and unpaid interest as of the PBA petition date is $3,424 million and $572 million, respectively. The balance of total unsecured claims against PBA is estimated to be $447 million.

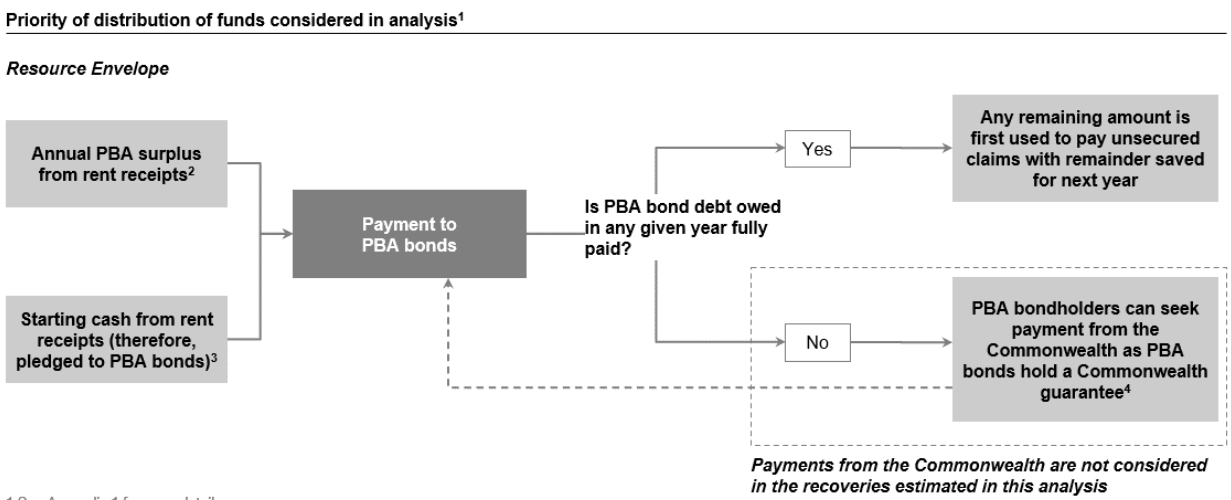
As indicated in Appendix 1, there is an additional litigation risk related to the validity of certain PBA bonds. The statutory Unsecured Claimholders' Committee (the "UCC") has challenged the validity of all PBA bonds issued in or after March 2011 on the basis they violate the constitutional debt limit. The potential impact of this litigation on recoveries is described in the section entitled "Alternative outcomes based on ongoing litigation or litigation risks."

3) Priorities for distribution of funds: PBA bondholders are paid with starting cash available for debt service and with PBA rent receipts available after paying operating expenses. Unsecured claims are paid with the amount of starting cash that is not pledged to PBA bonds, which is assumed to be $0 based on data provided by FOMB's financial advisors. Any amount of cash remaining after PBA bond debt owed in any given year is paid would be used to pay unsecured claims.

Following guidance provided by FOMB's legal advisors, funds are first assumed to be credited against cumulative interest owed, and then to the debt principal maturing in that year or previously, if any. Unpaid principal accrues interest according to the original rates stipulated in each of the relevant bond documents and is then added to the following year's debt. No interest accrues on interest balances.

Following guidance provided by FOMB's legal advisors shown in Appendix 1, the funds available for PBA bondholders are distributed as shown in the following exhibit.

Exhibit 1: Flow of funds in the analysis



1 See Appendix 1 for more details
2 The annual surplus generated by PBA is comprised of PBA rent receipts less its operating expenses, excluding FEMA and insurance related revenues. Funds different from rent payments (i.e., insurance proceeds) are not considered available to PBA bondholders
3 It refers to cash on hand from rent receipts saved from previous years. As cash was originated through rent receipts, it is available to pay PBA bondholders.
4 PBA bondholders cannot collect more than payment in full of contractual debt service in any given year from the combination of PBA and the Commonwealth

This analysis does not take into consideration any additional payments PBA bondholders could receive from the Commonwealth, as it is restricted to what PBA itself pays to its bondholders. Following guidance provided by FOMB's legal advisors, PBA bonds hold a Commonwealth guarantee and therefore would have the right to seek payments from the Commonwealth Resource Envelope if its obligations are not fully paid by PBA in any given year. Such payments would follow the priorities and recoveries described in the "Analysis of Creditor Recoveries should the Title III Case be Dismissed for Creditors of the Commonwealth of Puerto Rico" document, which is also included in the Disclosure Statement.

II. Estimated likely range of recoveries available to creditors

Following the priority for distribution of funds described above, this analysis estimates that the likely recovery available to PBA bondholders is $258 million[6] in the "base case," which implies a recovery of 6%.[7] Based on the analysis, unsecured claims do not receive any recovery. The estimated likely overall recovery (i.e., assumed valid PBA bonds and unsecured claims), therefore, is $258 million, which implies a recovery of 6% of total claims. These recoveries consider only PBA bonds issued before 2012, as this analysis assume PBA bonds issued in or after 2012 are ruled invalid.

Exhibit 2: Estimated likely recoveries available to PBA bonds if bonds issued in or after 2012 are deemed invalid

Estimated recoveries available to PBA bonds by debt class if bonds issued in or after 2012 are deemed invalid

PV of total payment in USD million, % recovery

PBA bonds	$258 *6%*
Unsecured claims	$0 *0%*
Total	$258 *6%*

Alternative outcomes based on ongoing litigation or litigation risks

The estimated likely range of recoveries available to PBA creditors is subject to the outcome of ongoing litigation regarding the total size of valid claims as summarized in Appendix 1. The impact of certain possible litigation outcomes on creditors recovery is analyzed in the scenarios below.

i. Scenario 1: Assumes PBA bonds issued in or after March 2011 are deemed invalid

The UCC has challenged the validity of all PBA bonds issued in or after March 2011 on the basis they violate the constitutional debt limit. This scenario assesses the impact on recoveries if PBA bonds issued in or after March 2011 are ruled invalid. Based on data provided by financial advisors and excluding PBA bonds issued in or after March 2011, the total principal and unpaid interest outstanding for PBA bonds is $2,869 million as of the Effective Date of this analysis. The principal

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[6] Represents the present value (as of the Effective Date of analysis) of debt paid discounted at a 5% rate.

[7] The recovery percentage is estimated as the present value of total debt paid (as of the Effective Date June 30, 2021) as a proportion of the total outstanding principal and unpaid interest as of PBA petition date (September 27, 2019).

and unpaid interest as of the PBA petition date is $2,243 million and $418 million, respectively. In Scenario 1, the total recovery remains at $258 million, but the recovery rate for PBA bonds deemed valid increases to 10%. Based on the analysis, unsecured claims do not receive any recovery. Exhibit 3 shows the estimated likely recoveries under this scenario.

ii. Scenario 2: Assumes all outstanding PBA bonds are deemed valid

If all outstanding PBA bonds are deemed valid, the size of PBA bondholder claims would increase. In this scenario, based on data provided by financial advisors, the total principal and unpaid interest outstanding for PBA bonds is $5,050 million as of the Effective Date of this analysis. The outstanding principal and unpaid interest as of the PBA petition date is $4,001 million and $670 million, respectively. In Scenario 2, the total recovery remains at $258 million, and the recovery rate for PBA bonds is 6%. Based on the analysis, unsecured claims do not receive any recovery. Exhibit 3 shows the estimated likely range of recoveries under this scenario.

Exhibit 3: Estimated likely recoveries available to PBA creditors based on scenarios related to bond validity

Estimated likely recoveries available to PBA creditors by debt class and scenario
PV of total payment in USD million, % recovery

	Base case: PBA bonds issued in or after 2012 are deemed invalid	Scenario 1: PBA bonds issued in or after March 2011 are deemed invalid	Scenario 2: All outstanding PBA bonds are deemed valid
PBA bonds	$258 *6%*	$ 258 *10%*	$ 258 *6%*
Unsecured claims	$0 *0%*	$0 *0%*	$0 *0%*
Total	$ 258 *6%*	$ 258 *8%*	$ 258 *5%*

iii. Alternative scenarios assuming PBA bonds lack perfected security

As presented in Appendix 1 as part of the legal guidance provided by FOMB's legal advisors, there is a possible perfection issue with the rent payments assignment. Under Puerto Rico law, a rent assignment must be perfected through a notarized document. FOMB's legal advisors have not found a notarized assignment agreement in the PBA bond issuance documents available to them. If PBA bonds do not hold a perfected security interest, PBA bondholders would have no priority over unsecured creditors with respect to the assigned rent payments. In this alternative analysis, the total recovery available to all PBA claims remains the same as in each of the scenarios presented in Exhibit 3, with the relative recovery for each debt class varying between the different bond validity scenarios. Exhibit 4 shows the estimated likely range of recoveries by bond validity scenario under the assumption that rent payments are not perfectly secured for PBA bonds.

Exhibit 4: Estimated likely recoveries available to PBA creditors assuming no perfected security for PBA bonds

Estimated likely recoveries available to PBA creditors by debt class and scenario assuming PBA bonds lack perfected security in rent payments
PV of total payment in USD million, % recovery

	Base case: PBA bonds issued in or after 2012 are deemed invalid	Scenario 1: PBA bonds issued in or after March 2011 are deemed invalid	Scenario 2: All outstanding PBA bonds are deemed valid
PBA bonds[1]	$227 *5%*	$ 214 *8%*	$ 227 *5%*
Unsecured claims	$31 *7%*	$43 *10%*	$31 *7%*
Total	$ 258 *5%*	$ 258 *8%*	$ 258 *5%*

1 PBA bonds do not have a perfected security in rent payments in this alternative analysis

APPENDIX 1

PBA Title III Plan

Best Interests Test Analysis – Assumptions

	Question	Assumption
1.	**Existence of PROMESA/Board:** Should PROMESA Titles I and II be assumed to apply?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: PROMESA Titles I and II apply. The automatic stay does not apply. The Board is in place and certifies and enforces fiscal plans and budgets. Creditors are allowed to procure judgments for all matured claims. Once GO creditors (including creditors holding CW-guaranteed claims) have judgments, they can claim all "available resources" and negotiate/litigate with the Commonwealth over what amount of the available resources can be applied to operating expenses pursuant to the police power. The non-GO and non-CW guarantee creditors' only recourse is to wait for a legislative appropriation of amounts to pay their claims once GOs are paid in full. **BASIS**: The reference to "non-bankruptcy laws" in PROMESA section 314(b)(6) would include Titles I and II of PROMESA. There would be no automatic stay under non-bankruptcy law. Neither the fiscal plan nor the budget discharges claims or stays actions. Therefore, the fiscal plan and budget, as non-bankruptcy law, would apply, and the Oversight Board would continue to exist to enforce them. It is possible that their implicit limitations (*i.e.*, budgeted amounts) will not limit how much creditors can collect by enforcing their claims. Whether that is the case will be a function of the extent to which the police power prevents GO creditors from taking all available resources. Non-GO creditors rely on legislative appropriations for payment. The certified fiscal plan would limit what can be appropriated for debt service, subject to the rights of GO creditors to exercise their rights under Article VI, Sections 6 and 8 of the PR Constitution to intercept available resources. **ASSUMPTION 2 [LITIGATION RISK]**: PROMESA Titles I and II do not apply. The automatic stay does not apply. The Board does not exist, and there are no certified fiscal plans and budgets. **BASIS**: The assumption that PROMESA Titles I and II continue to apply increases the creditors' recovery due to the measures and savings the Oversight Board inserts into its certified fiscal plans. The Oversight Board's legal advisors believe it is possible that Titles I and II do not apply because Congress enacted them in tandem with Title III and it

	Question	Assumption
		is not clear they were intended to continue in effect without Title III. On balance, however, the legal advisors recommended that this analysis be done as if PROMESA Titles I and II continue to apply.
2.	Can the PBA surplus projections from the fiscal plan be used for PBA's resource envelope?	**ASSUMPTION:** Yes, PBA surplus is an asset of PBA.
3.	Is there any starting cash or other assets that should be considered to pay PBA bondholders?	**ASSUMPTION:** Bondholders' only recourse is to the rent payments, and the CW guarantees. No other assets (*e.g.*, insurance proceeds) should be considered as available for bondholder payments. The Board's advisors can provide an updated figure of restricted and unrestricted starting cash at PBA's bank accounts. A portion of the starting cash at PBA's bank account might be pledged to PBA bondholders as this cash corresponds to rent receipts. The amount of starting cash not pledged to secure PBA bonds is assumed to be used to pay unsecured claims.
4.	What is the waterfall of payments for PBA bonds?	**ASSUMPTION:** After payment of necessary operating expenses from non-rent sources, if any, and then from rent for any property leased from PBA, the balance of the rent is used for debt service. Any amount of cash remaining after PBA bond debt owed in any given year is paid should be used to pay unsecured claims. When the debt is in default, the bondholders may also assert their guaranty claims against the Commonwealth; provided, however, the bondholders cannot collect more than payment in full of contractual debt service from the combination of PBA and the Commonwealth.
5.	How should future PBA rents be projected?	**ASSUMPTION**: PBA rents should track the projections in the Fiscal Plan; provided, however, the Commonwealth is unlikely to pay rent for buildings it does not need or occupy. If that is insufficient to cover the PBA bond payments that come due, we assume PBA bondholders would seek payment from the Commonwealth based on the Commonwealth guaranty of PBA bonds.

	Question	Assumption
6.	How should the recovery for PBA bondholders be calculated? Should payments from the CW and payments with PBA surplus be considered?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: Payments to PBA bondholders should first be from PBA rent revenue, including surplus revenues. PBA bondholders' recoveries on the Commonwealth guaranty do not count in the PBA return. However, in the aggregate, the PBA bondholders cannot collect more than payment in full of contractual debt service from their two sources of recovery. **ASSUMPTION 2 [LITIGATION RISK]**: There is a possible perfection issue with the rent payments assignment. Under PR law a rent assignment must be made through an authentic document with a fixed date (*i.e.*, through a notarized document). In the PBA bond issuance documents that we have available, we have not found a notarized assignment agreement. Nevertheless, under PR law, an unperfected security interest would still entitle PBA bondholders to their nonrecourse claim against the collateral. In this scenario, PBA bondholders would be entitled to rent payments based on their security agreement; however, because the assignment is not perfected, PBA bondholders would have no priority over those payments vis-à-vis other PBA unsecured creditors.
7.	Are the PBA bonds issued in 2011 invalid because they violated the Commonwealth's constitutional debt limit?	**ASSUMPTION 1 [MAIN ASSUMPTION]**: No, but PBA bonds issued in 2012 and after are deemed direct obligations of the Commonwealth, and as such, violate the debt limit. Accordingly, those bonds are invalid. **BASIS:** The Oversight Board has alleged the PBA Leases are not true leases and obligations purportedly due thereunder, but rather, are simply mischaracterized general obligations of the Commonwealth. **ASSUMPTION 2 [LITIGATION RISK]**: Yes. In addition to the PBA bonds issued in 2012 and after, PBA bonds issued in or after March 2011 also violate the debt limit, and accordingly are invalid. **BASIS**: In addition to the challenge explained above, the statutory unsecured claimholders' committee has challenged PBA bonds on that account starting in March 2011.

	Question	Assumption
		ASSUMPTION 3 [LITIGATION RISK]: No. PBA bonds issued in or after March 2011 do not violate the debt limit. **BASIS**: The challenges explained in the bases above could be unsuccessful.
8.	Are PBA bondholders entitled to accelerate payment of their bonds?	**ASSUMPTION**: No, PBA bonds do not allow acceleration.
9.	Should interest on debt that remained unpaid during the stay accrue additional interest?	**ASSUMPTION**: Assume that in years where full payment of matured debt is not made, subsequent payments are first credited against interest, and then against principal. i. **Interest on PBA debt during stay:** Pursuant to PROMESA § 303, interest continues to accrue at the contract rate during any moratorium, unless the underlying contract provides for default interest, in which case the latter should be used. There is no statutory provision for interest on interest. ii. **Interest on unsecured claims during stay:** Assume no interest accrues. iii. **Interest on unpaid debt:** Assume any unpaid debt accrues interest according to the weighted average coupon rate as of 2020 (provided by Citi). iv. **Interest on interest:** No. Puerto Rico law permits the payment of interest on overdue interest under certain circumstances, such as if it was expressly agreed by the parties. However, the PBA Bonds do not provide for interest on overdue interest.
10.	Are FEMA funds available for bondholders?	**ASSUMPTION**: No. FEMA receipts are to fund emergency-related expenses and are not available for PBA's general expenditures.

DEBT STACK[1]

1. **Operating Cost**
    a. Projected $152 million in operating expenses in 2022 per the April 2021 Certified Fiscal Plan.

2. **PBA Debt (outstanding principal and unpaid interest as of the PBA petition date)**
    a. Issued prior to March 2011: $2,661,239,877
    b. Issued between March and December 2011: $1,335,422,893
    c. Issued in or after 2012: $674,308,470

3. **Other unsecured claims**[2]
    a. Claims to be transferred into the Administrative Claims Reconciliation Procedures, or ACR: $175,600
    b. Intragovernmental claims, including claims filed by Puerto Rico government entities or the federal government: $231,866,589
    c. Trade payables: $8,337,372
    d. Litigation claims: $193,121,520
    e. Other miscellaneous claims: $2,637,013
    f. Convenience class claims: $10,710,716

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[1] The financial information contained herein relies on information available in most recent publicly available financial statements and, in certain cases, information received from the Oversight Board's advisors and the Commonwealth advisors. The legal advisors take no position as to the accuracy of the financial information provided herein.

[2] These numbers are based on information provided by the Board's financial advisors and have not been independently verified.

EXHIBIT P

CERTIFIED COFINA FISCAL PLAN, CERTIFIED COFINA BUDGET, AND LATEST AUDITED FINANCIAL STATEMENTS FOR COFINA

FISCAL PLAN

FOR COFINA

AS CERTIFIED BY THE FINANCIAL
OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO | May 27, 2021

DISCLAIMER

The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), the Puerto Rico Sales Tax Financing Corporation (COFINA), the Government of Puerto Rico, its instrumentalities and agencies (collectively, the Government), and each of their respective officers, directors, employees, agents, attorneys, advisors, members, partners or affiliates (collectively, with AAFAF, COFINA and the Government, the Parties) make no representation or warranty, express or implied, to any third party with respect to the information contained herein and all Parties expressly disclaim any such representations or warranties. The Government has had to rely upon preliminary information and unaudited financials for 2018, 2019 and 2020.

The Parties do not owe or accept any duty or responsibility to any reader or recipient of this presentation, whether in contract or tort, and shall not be liable for any loss, damage (including without limitation consequential damages or lost profits) or expense of whatsoever nature of such third party that may be caused by, or alleged to be caused by, the use of this presentation or that is otherwise consequent upon the gaining of access to this document by such third party. The Parties do not undertake any duty to update the information contained herein.

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants (CPA) or any other organization. Accordingly, the Parties do not express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this document. The economic and financial condition of the Government are affected by various legal, financial, social, public health, economic, environmental, governmental, and political factors. These factors are very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, but also by the Financial Oversight and Management Board for Puerto Rico and other third-party entities such as the United States federal government. Examples of these factors include, but are not limited to:

- The effect of the Coronavirus Disease 2019 (COVID-19) on the health and well-being of the people of Puerto Rico.
- The short-term economic effects of COVID-19 on the global economy and the economies of the United States and Puerto Rico as they relate to Puerto Rico's tax revenue and budget.
- The longer-term economic ramifications of behavioral changes caused by COVID-19 (i.e., reduced travel, increased work from home, reduced activity in large gathering places, etc.).
- The amount of federal government aid provided to U.S. states and territories (including Puerto Rico) and the efficacy and speed of disbursement of such aid.
- The need to shift resources to create a more resilient structure to prevent or mitigate future pandemics.
- Any future actions taken or not taken by the United States federal government related to Medicaid.
- The amount and timing of receipt of any distributions from the Federal Emergency Management Agency (FEMA), U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grant-Disaster Recovery (CDBG-DR) Program and private insurance companies to repair damage caused by Hurricanes Irma and Maria and recent earthquakes in Puerto Rico.
- The amount and timing of receipt of any additional amounts appropriated by the United States federal government to address the funding gap described herein.
- The timeline for completion of the work being done by the Puerto Rico Electric Power Authority (PREPA) to repair PREPA's electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth.
- The impact of the measures described herein on outmigration; and
- The timing and impact of the resolution of Puerto Rico's Title III cases and related litigation.

These factors are inherently unpredictable, complex, and largely novel. Accordingly, the assumptions and outputs based on these factors may materially change. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered an express or implied commitment to do or take, or to refrain from taking, any action by AAFAF, the Government, or public corporation within the Government, or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.

By receiving this document, the recipient shall be deemed to have acknowledged and agreed to the terms of these limitations. This document may contain capitalized terms that are not defined herein or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should refer questions to COFINA or AAFAF should clarification be required. Unless otherwise identified, all governmental departments and agencies refer to those of the Government of Puerto Rico.

List of Acronyms and Key Terms

AAFAF	Puerto Rico Fiscal Agency and Financial Advisory Authority (Spanish acronym)
BNYM	Bank of New York Mellon
COFINA	Puerto Rico Sales Tax Financing Corporation (Spanish acronym)
COVID-19	Coronavirus Disease 2019
CW	Commonwealth of Puerto Rico
DSA	Debt Sustainability Analysis
FAM	Municipal Administration Fund (Spanish Acronym)
FEMA	Federal Emergency Management Agency
FY	Fiscal-Year
MADS	Maximum Annual Debt Service
PSA	Plan Support Agreement
POA	Plan of Adjustment
PREPA	Puerto Rico Electric Power Authority
PROMESA	Puerto Rico Oversight, Management and Economic Stability Act
PSTBA	Pledged Sales Tax Base Amount
RSA	Restructuring Support Agreement
SUT	Sales and Use Tax

Table of Contents

EXECUTIVE SUMMARY

The Puerto Rico Sales Tax Financing Corporation (the "Corporation") is a public corporation and instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to Act No. 91-2006, as amended (the "Puerto Rico Sales Tax Financing Corporation Act")[1]. It is an independent and separate legal entity from the Commonwealth and any other government entity, and its business and affairs are governed by and under the direction of its Board of Directors. The Corporation is also known by an acronym of its Spanish name — "COFINA." The Corporation is in compliance with its continuing disclosure obligations under that certain Continuing Disclosure Agreement dated as of February 12, 2019 (the "New CDA"). The New CDA was entered into by the Corporation in connection with the issuance of the COFINA Bonds pursuant to the Plan of Adjustment referenced below.

In February 2019, the Corporation completed a debt restructuring pursuant to a certain Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation [Case No. 13-3283, Docket No. 5053] (the "Plan of Adjustment"), confirmed under Title III of the Puerto Rico Oversight, Management and Economic Stability Act, Public Law 114 – 187 ("PROMESA"). The Plan of Adjustment reduced COFINA's bond debt from approximately $17.6 billion to $12 billion through a bond exchange and resolved the allocation of Sales and Use Tax (SUT) revenues between the Commonwealth and COFINA.

In connection with the consummation and effectiveness of the Plan of Adjustment, the Corporation issued its Puerto Rico Sales Tax Financing Corporation Restructured Sales Tax Bonds, Series 2019 Bonds (the "COFINA Bonds") under a certain Master Trust Indenture, dated as of February 12, 2019, as supplemented and amended (the "Indenture"). On August 1, 2019, (i) COFINA exchanged $3,108,661,000 aggregate principal amount of Series 2019A-2 Bonds and $45,570,000 aggregate principal amount of Series 2019B-2 Bonds and (ii) the amendments to the First Supplemental Indenture and the Second Supplemental Indenture became effective. Exhibit 1 summarizes COFINA's economic obligations and restructured governance, including fiscal and operational independence, as summarized below:

[1] On November 15, 2018, Act No. 241-2018 was enacted to amend and restate Act No. 91-2006, as amended, to establish the legal framework for the restructuring of the Corporation's previously issued and outstanding bonds. To this end, Act No. 241-2018, among other things, (i) modified the Corporation's corporate governance structure, (ii) authorized the issuance of the COFINA Bonds (as defined herein), (iii) confirmed the Corporation's ownership of the COFINA Revenues (as defined herein), (iv) created a statutory lien to secure the COFINA Bonds, and (v) enacted the covenants to secure further the repayment of the COFINA Bonds.

EXHIBIT 1: COFINA'S ECONOMIC OBLIGATIONS AND RESTRUCTURED GOVERNANCE

Independent Corporate Governance Structure	▪ COFINA is recognized as an independent and separate legal entity from the Commonwealth and any other instrumentality of the Commonwealth. ▪ COFINA shall be operated separately, and its business and affairs shall be governed by or under the direction of its independent Board of Directors.
Ownership of COFINA Revenues	▪ Ownership interests and rights to the COFINA Revenues have been irrevocably transferred to COFINA. ▪ COFINA is the sole and exclusive owner of the COFINA Revenues. ▪ Absolute transfer of all legal and equitable right, title and interest, and not a pledge or other financing.
Establishment of Ownership Interest at Collection	▪ Persons designated as withholding agents for purposes of the imposition and collection of the Sales Tax shall be deemed to collect any portion of the Sales Taxes in which COFINA has an ownership interest on behalf of the Corporation.
Statutory Lien	▪ The COFINA Bonds are secured by a statutory first lien on all of the COFINA's right, title and interest in and to the Pledged Taxes (5.5% of Sales and Use Tax), including any moneys, income, revenues, accounts, contract rights or general intangibles derived therefrom, in favor of the Trustee for the benefit of the bondholders.
Settles Constitutional Issue on Available Resources/Revenues	▪ The COFINA Revenues do not constitute "available resources" or "available revenues" of the Commonwealth as used in Section 8 of Article VI of the Puerto Rico Constitution or as otherwise used in the Puerto Rico Constitution.

The COFINA Fiscal Plan incorporates the macroeconomic forecast utilized in the 2021 Commonwealth Certified Fiscal Plan. The use of the macroeconomic forecast of the Commonwealth Certified Fiscal Plan in the COFINA Fiscal Plan is made in order to comply with Section 201 of PROMESA and does not imply any representation by COFINA as to the assumptions included in said forecast.

Chapter 1. SALES & USE TAX DESCRIPTION

The Commonwealth's SUT was originally imposed in 2006 pursuant to Act 117-2006. The SUT in turn replaced the prior 5.0% (effective 6.6%) general excise tax on imported goods and the 3.6% general excise tax on goods manufactured in Puerto Rico.

The SUT is imposed on the sale, use, consumption, and storage of taxable items, which include tangible personal property, taxable services, admission rights and certain other types of transactions covering separable and identifiable taxable items which are sold for a single price, subject to certain exceptions and limitations. Certain items, such as fuel, crude oil and petroleum products and vehicles, however, remain subject to the excise tax previously applicable to such items, and are not subject to the Commonwealth SUT.

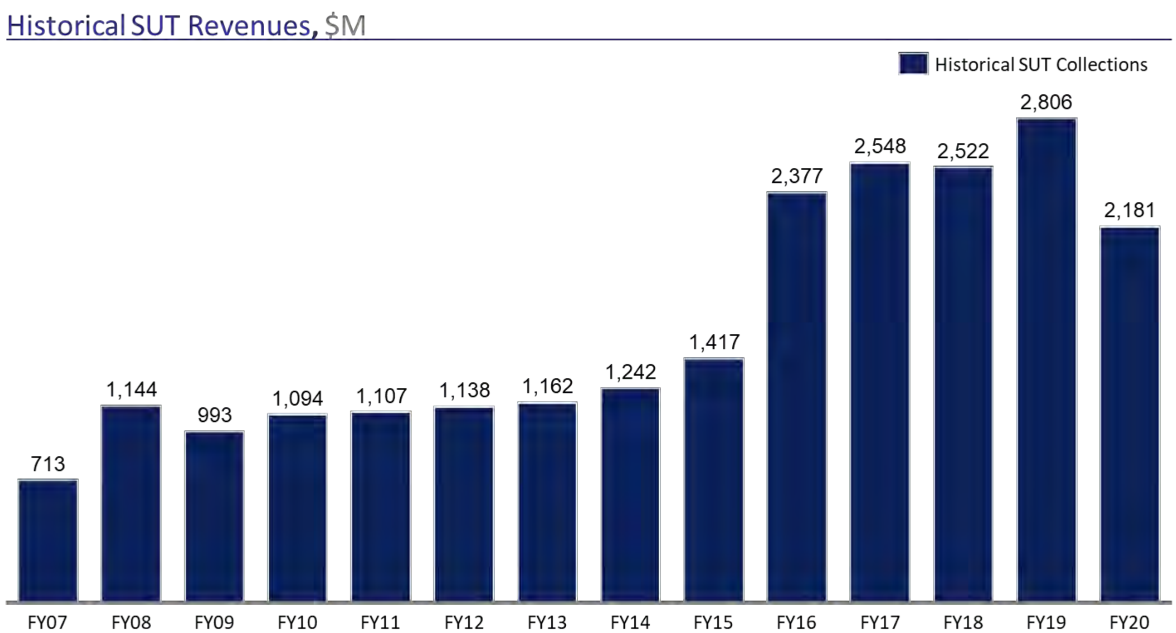
The Commonwealth SUT had an original tax rate of 5.5%. Act 117-2006 also authorized each municipal government to impose a SUT of 1.5% (the "Municipal SUT"), which generally has the same tax base, exemptions (except for unprocessed foods) and limitations as those provided for the Commonwealth SUT. Act 18-2014 lowered the portion of the Municipal SUT allocated to the municipalities to 1.0%, increased the Commonwealth SUT to 6% and allocated the 0.5% increase in the Commonwealth SUT to the Municipal Administration Fund ("FAM"), a fund created to provide funds to finance the debt, special projects, and to meet budgeted expenses of the municipalities. The Municipal SUT is not owned or pledged to COFINA.

In 2013, Act 40-2013 eliminated various exemptions to the Commonwealth SUT, which broadened its base, Act 42-2013 broadened the scope under which a merchant may be deemed engaged in the business of selling taxable items in Puerto Rico via the Internet, and Act 46-2013 required the declaration and payment of the Commonwealth SUT on imported goods at the time of their entry into Puerto Rico.

On May 29, 2015, the Commonwealth enacted Act 72-2015 that, among other things, (i) increased the total Commonwealth SUT rate to 10.5% by adding a 4.5% surtax to the existing SUT, (ii) eliminated several exemptions and (iii) imposed a new special Commonwealth SUT of 4% on services rendered between businesses and designated professional services, which were previously exempt.

Exhibit 2 shows Commonwealth SUT collections since inception of the tax to FY2020. Exhibit 3 shows the allocation of the SUT between FAM, COFINA, and the Government. Exhibit 4 shows actual collections of SUT over the past 10 years by each SUT component as reported by Treasury.

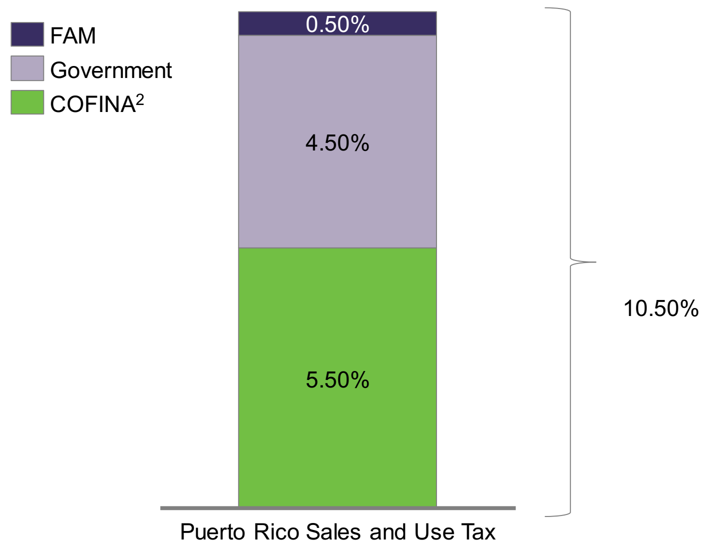
EXHIBIT 2: SALES AND USE TAX HISTORICAL COLLECTIONS[2] (10.5%)



[2] SUT historical collections source: COFINA Annual Financial Information and Operating Data Report Fiscal Year 2020 via Treasury

EXHIBIT 3: ALLOCATION OF SALES AND USE TAX

Allocation of Sales and Use Tax[1]



[1] $3.2 million of SUT revenues flow to Puerto Rico Motion Picture Arts, Sciences and Industry Development Corporation (CINE) every year.
[2] Up to an annual cap of $420 million in Fiscal Year 2019, which grows by 4.0% each year to a maximum of $993 million.

EXHIBIT 4: ACTUAL SALES AND USE TAX COLLECTIONS ($M)

Year Ended June 30,	Pledged Sales Taxes[1] (5.5%)	FAM SUT[1] (0.5%)	SUT Surcharge (4.5%)	Total Base SUT and SUT Surcharge (10.5%)	Special SUT	Additional Collections[2]	Total Sales and Use Tax
2010	1,094			1,094			1,094
2011	1,107			1,107			1,107
2012	1,138			1,138			1,138
2013	1,162			1,162			1,162
2014	1,242			1,242			1,242
2015	1,299	118		1,417			1,417
2016	1,197	109	979	2,285	92		2,377
2017	1,248	113	1,021	2,382	166		2,548
2018	1,225	111	1,003	2,339	183		2,522
2019	1,361	124	1,113	2,598	208		2,806
2020	1,048	96	816	1,960	170	49	2,180
Total	**$13,121**	**$670**	**$4,932**	**$18,724**	**$820**	**$49**	**$19,593**

[1] Beginning on fiscal year 2016, excludes collections from the Special SUT. Such collections are reported in certain Treasury reports as part of the Base SUT, but they are reported herein separately as they are not part of the Pledged Sales Taxes. Therefore, amounts shown herein may vary from those previously reported by Treasury.

[2] Additional collections include 1% Municipal SUT, Film Fund, and Penalties, Interest and Others.

Source: Department of Treasury of the Commonwealth of Puerto Rico ("Treasury")

Chapter 2. PLAN OF ADJUSTMENT AND THE NEW COFINA BONDS

2.1 Filing and confirmation of the Plan of Adjustment

Consistent with the terms outlined in the Plan Support Agreement (PSA), on October 19, 2018, COFINA filed the Plan of Adjustment with the Title III Court. On February 5, 2019, pursuant to the Confirmation Order, the Plan of Adjustment was confirmed in its entirety.

Pursuant to PROMESA, and in accordance with the Plan of Adjustment, the Settlement Order, the Findings and Conclusions and the Confirmation Order, the Title III Court made conclusive determinations that the new COFINA Bonds are legal, valid, binding and enforceable obligations of COFINA benefiting from protections, each of which is legal, valid, binding and enforceable against COFINA, the Commonwealth, and other persons and entities, as applicable, under Puerto Rico law and federal law.

Refer to the COFINA Plan of Adjustment, docket #5048, for the order and judgment confirming the third amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation. For any subsequent events or press releases, refer to the COFINA investor relations website: https://cofina.pr.gov/cofina-pr/i6094.

2.2 Effectiveness of the Plan of Adjustment and Issuance of the COFINA Bonds

On February 12, 2019, COFINA and the Oversight Board notified the Title III Court, creditors and parties of interest that the transaction contemplated in the Plan of Adjustment was consummated and that COFINA had issued approximately $12 billion of new sales tax revenue bonds (the “COFINA Bonds”). A summary of the new COFINA Bonds as of the Effective Date is set forth in Appendix A, Exhibit 1.

On March 2, 2021, the United States Court of Appeals for the First Circuit affirmed Judge Laura Taylor Swain’s order confirming the COFINA Plan of Adjustment. As decided in a similar case on February 8, 2021, the Court again concluded that efforts to revoke the COFINA Plan of Adjustment were barred under the doctrine of equitable mootness because the plan had already been implemented.

Appellants have the right to file a petition for rehearing in the First Circuit and/or a petition for certiorari in the U.S Supreme Court. On April 2, 2021, a certain group of Junior Bondholders filed a petition for a writ of certiorari seeking Supreme Court review of the U.S Court of Appeals for the First Circuit’s decision.

Chapter 3. COVID-19

Since the outbreak of Coronavirus Disease 2019 (“COVID-19”), an upper respiratory tract illness first identified in Wuhan, China, it has spread throughout the globe, including the U.S. and Puerto Rico. COVID-19 was declared a pandemic by the World Health Organization and resulted in a declaration of a national emergency by the Federal Government on March 13, 2020.

The COVID-19 pandemic brought Puerto Rico—and the rest of the world—to a standstill. The effects have been far reaching and devastating – both as a humanitarian crisis and economically. Overnight, the economy shut down except for the most critical activities as the Government took prudent steps to mitigate the risk of a catastrophic public health crisis. The Government has issued executive orders in response to COVID-19 to address, among other things, the homeless, school and private sector closures, acquisition of goods and services, use of the National Guard, prompt diagnosis of COVID-19, special leave for public employees affected by COVID-19, the creation of a task force to advise Governor Pierluisi, and the state of emergency due to the pandemic. Taken together, these measures intended to protect the physical, mental, and economic health of the people of Puerto Rico, while preserving the social fabric of the Island's diverse communities.

Unemployment skyrocketed as many businesses were forced to close. In response, both the Federal Government and Puerto Rico Government launched major relief packages to contain and mitigate the spread of the pandemic, support residents and frontline workers, and help the Island's economy rebound. COVID relief/stimulus to Puerto Rico from the different federal and local initiatives is estimated at $45 billion, including the recently approved America Rescue Plan Act. Key relief programs include stimulus checks, increased unemployment insurance, small business support (PPP and EIDL loans), state and local aid, COVID-19 testing and education funding.

Many initial projections indicated that the economic shock due to COVID-19 would be worse than that of the Great Recession. Fortunately, the combined economic impact of the federal and local fiscal stimulus measures and the gradual reopening of the national and local economies mitigated the negative shock.

The pathway to economic recovery remains highly dependent on the overall public health response, including the rate at which the population is vaccinated and the Federal Government's ability to continue to provide economic support for those whose livelihoods are at risk. But more transmissible and potentially deadlier variants of COVID-19 are continuing to develop and spread, just as the rollout of vaccines had raised hopes for a broad-based economic recovery.

These new variants pose two threats to economic recovery. First, restrictions on activity could be extended or further tightened to counteract the higher risk of infection until a sufficient percentage of the population have been vaccinated, pushing some economies back into recession. Second, one or more of the new variants may become resistant to the immunity conferred by existing vaccines and past infections, potentially triggering a new cycle of restrictions and a new round of vaccinations. Much better infrastructure is needed to mitigate the ongoing COVID-19 threat, including: (i) more widespread genomic surveillance for dangerous variants; (ii) the capacity to quickly update and administer vaccines to the entire population; and (iii) widely available rapid testing to contain outbreaks.

3.1.1 Impact of COVID-19 on the Corporation

As was previously announced, on October 19, 2021, The Bank of New York Mellon ("BNYM"), as Trustee for the COFINA Bonds, had received SUT totaling $454,472,448, which equals the amount of the COFINA Revenues for fiscal year 2021. Consistent with the Plan of Adjustment, upon BNYM's receipt of the COFINA Revenues for fiscal year 2021, the Government is entitled to receive all collections from the Pledged Sales Taxes until the end of fiscal year 2021 (June 30, 2021). As a result, the above-described temporary measures have not had any effect on the Corporation's receipt of SUT collections for fiscal year 2021. On July 1st, 2021, BNYM will begin to receive collections from the Pledged Sales Taxes until it receives all COFINA Revenues for fiscal year 2022, which amount to $472,651,346

Because of the evolving nature of the COVID-19 pandemic and the federal and local responses thereto, the Puerto Rico Sales Tax Financing Corporation cannot predict the extent or duration of the outbreak or what impact it may have, if any, on the receipt of SUT collections for fiscal year 2022. While the effects of COVID-19 may be temporary, we cannot predict the change in the behavior of businesses and people and how those changes may impact the global, national and local economies, including the collection of SUT.

Chapter 4. FINANCIAL PROJECTIONS

4.1 COFINA Revenues

COFINA Revenues are made up of the COFINA Pledged Taxes and all rights thereto, including the right to receive the COFINA Pledged Taxes pursuant to the First Dollars Funding, in an amount up to 53.65% of the Pledged Sales Tax Base Amount ("PSTBA") in any given fiscal year until the COFINA Bonds and COFINA Parity Bonds have been paid or satisfied in full in accordance with their terms. The PSTBA represents the annual dollar amount determined for each fiscal year of the Commonwealth in accordance with Section 3 of Act No. 91-2006 of the Commonwealth, as amended. COFINA Pledged Taxes represent the present and future revenues and collections generated by the portion of the Sales Tax that corresponds to a tax rate of 5.5%. COFINA revenues for the next 40 years are as follows:

EXHIBIT 5: COFINA Revenues

Fiscal Year	COFINA Revenues	Fiscal Year	COFINA Revenues
2019	$420,185,325	2039	$920,677,791
2020	436,992,738	2040	957,504,902
2021	454,472,448	2041	992,525,000
2022	472,651,346	2042	992,525,000
2023	491,557,399	2043	992,525,000
2024	511,219,696	2044	992,525,000
2025	531,668,483	2045	992,525,000
2026	552,935,223	2046	992,525,000
2027	575,052,631	2047	992,525,000
2028	598,054,737	2048	992,525,000
2029	621,976,926	2049	992,525,000
2030	646,856,003	2050	992,525,000
2031	672,730,244	2051	992,525,000
2032	699,639,453	2052	992,525,000
2033	727,625,032	2053	992,525,000
2034	756,730,033	2054	992,525,000
2035	786,999,234	2055	992,525,000
2036	818,479,203	2056	992,525,000
2037	851,218,371	2057	992,525,000
2038	885,267,106	2058	992,525,000

Between the time SUT is deposited into the COFINA account and when COFINA pays its debt service, the amount deposited within the COFINA account accrues interest which is used to fund operating expenses. During fiscal year 2020 and 2021 through March, the Corporation received $2.95M and $0.05M, respectively, in interest earnings. Interest is assumed to accrue at the latest reported DIRXX monthly yield of 0.01% in fiscal year 2021 and 2022, 0.63% (the average of the DIRXX monthly yield and the DIRXX 3-year annual average return) in fiscal year 2023, and the DIRXX 3-year average annual return of 1.25% for the rest of the forecast period[3].

In addition to these funds, there are amounts on deposit in the SUT clearing and aggregation account, which is jointly owned by COFINA and the Commonwealth, that are allocated and distributed to COFINA and the Commonwealth upon receipt of taxpayers' returns. Accrued interest on this account with respect to the portion corresponding to COFINA is allocated and distributed to COFINA. Interest on this account is assumed to accrue at a lower interest rate than at the COFINA account (approximately 1.0% lower than the DIRXX 3-year average annual return) starting in fiscal year 2024. Interest is not assumed to accrue on this account for fiscal years 2021 – 2023 given the forecasted lower interest rate environment.

In the event that there is insufficient investment interest earned on the SUT deposits to pay for all the Corporation's operating expenditures, prior year surplus will be used to cover the shortfall.

4.2 Sales & Use Tax forecast

SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory), as well as higher SUT compliance by those larger firms less impacted by the storm. The 2021 Fiscal Plan incorporates this incremental tax collection as disaster recovery continues in future years.

SUT Tax collections during fiscal year 2020 were affected by several factors. In October 2019, the SUT rate over prepared food sales was reduced from 11.5% to 7%, through the elimination of the SUT Surcharge on those items. At the end of December 2019 and the first weeks of January 2020, Puerto Rico experienced a series of earthquakes which led to an emergency declaration by the Governor and administrative determinations by Treasury that provided certain temporary exemptions over the SUT imposed on prepared foods and certain other drink and confectioned food products that were in effect until February 29, 2020. In March 2020, the outbreak and onset of the COVID-19 led to the issuance of several executive orders implementing significant social and economic restrictions and administrative determinations by Treasury that provided certain Sales and Use Tax exemptions and provided for the deferral of certain SUT payments until June 30, 2020.

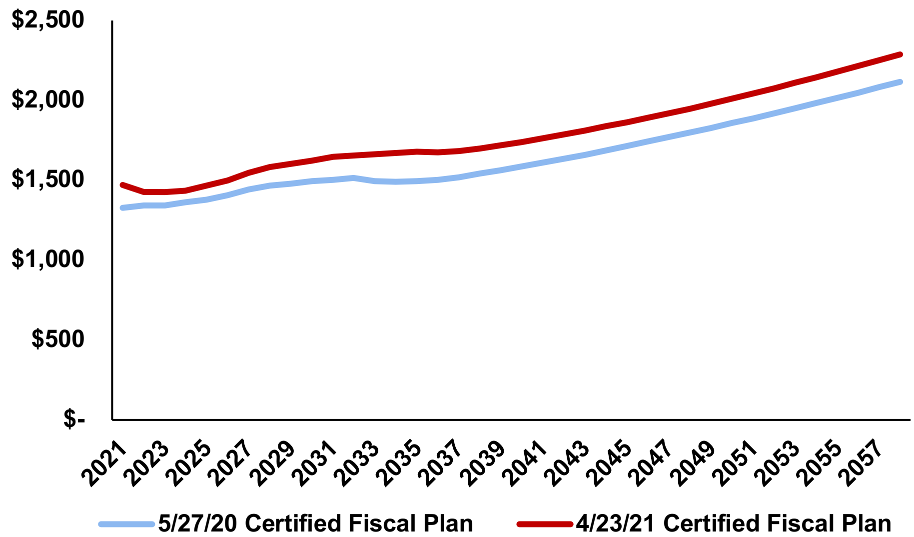
Near-term SUT collections consider performance year to date in FY2021 as well as the impacts of COVID-19 related adjustments and continued disaster recovery spend. The long-term sales and use forecast is aligned with year-over-year changes in Puerto Rico nominal GNP. On average, sales and use taxes from FY2022-FY2039 reflect 3.9% of nominal GNP, which is slightly above the 4-year historical average of 3.6%. This difference relative to historical percentages is consistent with developing trends, given that the hurricanes resulted in a supply side shift in the informal/formal economies. Smaller retailers, which tend to be less tax compliant, are more negatively impacted by the storms, and therefore are more prone to closure as a result of the of the catastrophe. This pushes consumers to the formal economy where retailers are more SUT compliant.

Additionally, the first seven months of fiscal year 2021 reflect an increase in Sales and Use Tax collections partly attributable to the gradual loosening of the restrictions on economic activity imposed to address the COVID-19 pandemic, the expiration of the various temporary exemptions and deferrals and the impact of the different federal programs put in place to mitigate the negative effects of COVID-19.

Exhibit 6 shows the SUT forecast from the May 27, 2020 Certified Fiscal Plan compared to the Government Fiscal Plan presented on March 26, 2021. Please refer to the Government Fiscal Plan presented on March 26, 2021 for a detailed discussion on the macroeconomic, demographic, and SUT forecasts.

[3] Mar 31, 2021 report: https://im.bnymellon.com/us/en/documents/compliancedocs/factsheet/monthly/0761.pdf

EXHIBIT 6: PROJECTED SUT FORECAST COMPARISON ($M)



4.3 COFINA Recurring Operating Expenses

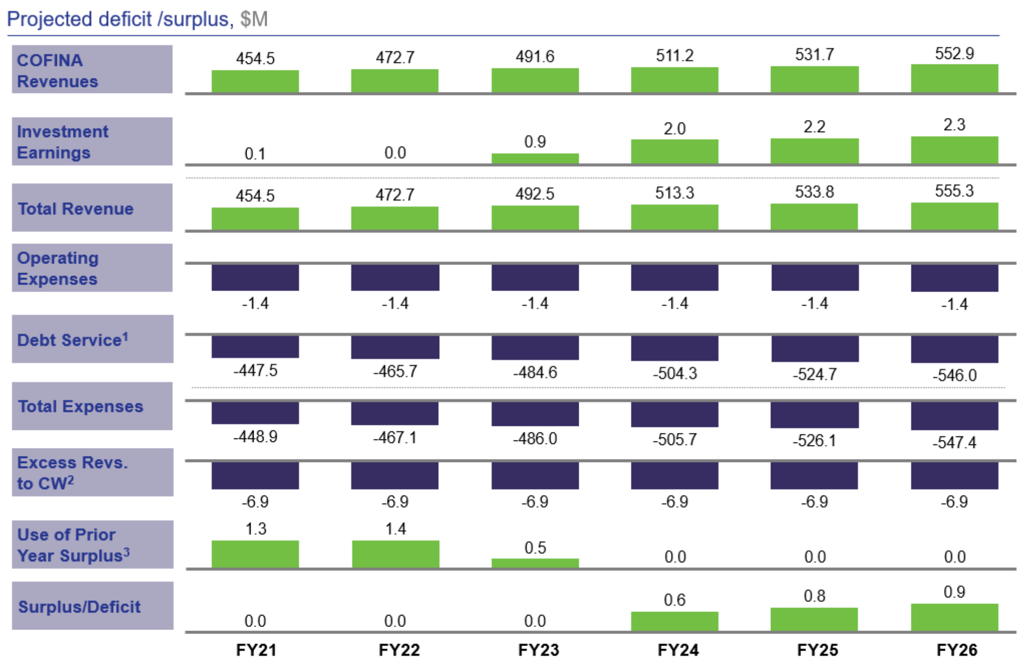
Under the direction of its independent Board of Directors, COFINA has established a new and effective operational structure that enables the corporation to carry out its statutory mandate and contractual obligations of receiving and remitting COFINA Revenues to the Bond Trustee pursuant to its Plan of Adjustment. However, as of today COFINA like other public corporations, is still leveraging AFAAF's ERP as part of the share service MOU. Operating expenses are composed of the following categories:

1. Board of Director Fees
2. Operating Expense
3. Professional Services
4. Trustee Fees
5. Financial Services Implementation
6. Other miscellaneous operating expenses

As of the Effective Date, COFINA received $15 million, available for its operating expenses. An additional $7.25 million was remaining in COFINA accounts prior to closing. The cumulative balance for FY2020 per the Fiscal Year 2020 Audited Financials was $21.72 million and the current balance as of March 31st, 2021 was $20.2 million.

In addition to the funds described above, operating expenses will be covered by investment earnings derived from interest income generated by funds deposited in the COFINA bond trustee accounts held for the benefit of COFINA at BNYM prior to distribution. Pursuant to Section 5.10 of the Master trust Indenture, on 11/30/20, at the request of the Secretary of the Treasury, $8.48M was transferred from the Trustee to the Secretary of the Treasury.

EXHIBIT 7: COFINA PROJECTED DEFICIT/SURPLUS[4]



1 Figures represent debt service post August 2019 Tax Exchange
2 Transfer of excess COFINA Revenue, which is the difference between the COFINA Revenues and Debt Service.
3 To keep surplus neutral, prior year surplus available will be used.

Chapter 5. LONG-TERM PROJECTION AND DEBT SUSTAINABILITY ANALYSIS (DSA)

The DSA provides a framework to assess COFINA's long-term debt capacity and a framework for future market access.

Sales tax bonds are evaluated on the basis of taxable base and pledge, the legal structure of the proposed financing and financial metrics of the revenue pledge.

EXHIBIT 8: CREDIT STRENGTH OF SUT

	Credit Strengths of SUT
1	Puerto Rico's economy is reasonably diverse.
2	SUT is very broad with minimal exceptions.
3	Senior bonds benefit from a closed lien.
4	First (annual/quarterly) dollar flow of funds is stronger than usual monthly equal collection for various tax backed credits.
5	Strong revenue trend and minimal revenue volatility.

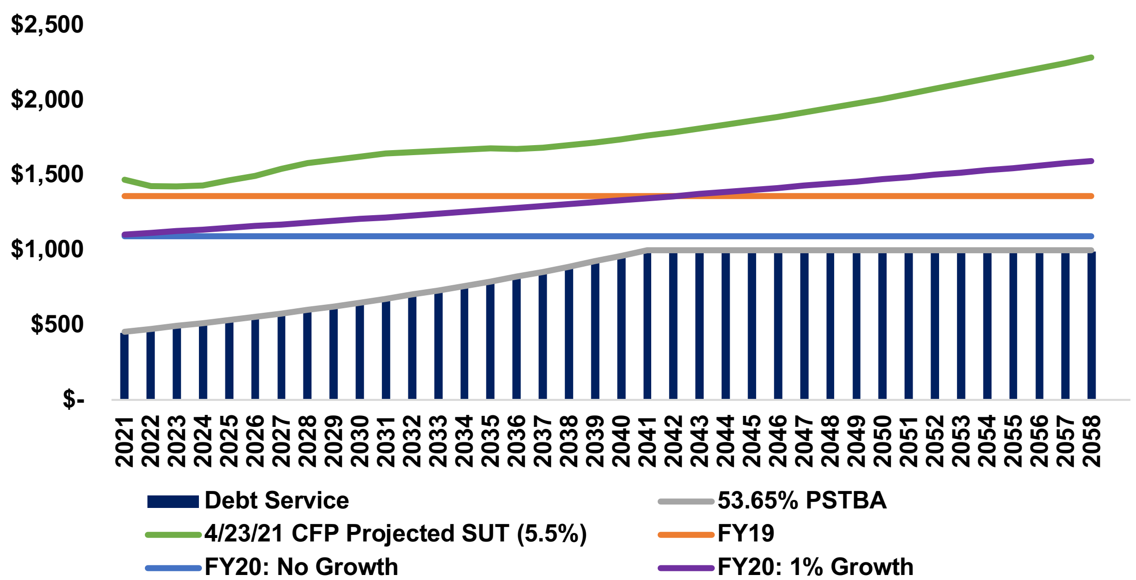
4 Pursuant to the Indenture, Amounts deposited in the Remainder Fund shall be free and clear of the Statutory Lien and shall promptly be paid to the Commonwealth of Puerto Rico.

EXHIBIT 9: CHALLENGES OF THE SUT CREDIT

Challenges of the SUT Credit	
1	Puerto Rico's per capita income and median household income are significantly below national medians.
2	Impact of long-term demographic and economic projections on discretionary expenses and personal consumption.

The Settlement Order grants COFINA an ownership interest in 53.65% of the PSTBA, which will be used to fund debt service payments on the new COFINA Bonds that were issued pursuant to the Plan of Adjustment. COFINA also receives "first dollars" collected from the Pledged SUT until it has received an amount equal to 53.65% of the PSTBA (unless certain conditions are satisfied on a quarterly basis after 2024). Exhibit 10 illustrates the debt service on the COFINA Bonds in conjunction with the 53.65% of the PSTBA that COFINA bondholders will be entitled to per the terms of the Plan of Adjustment. The chart illustrates that debt service fits within the 53.65% of the PSTBA throughout the forecast period and final maturity of the bonds. It also includes the FY2021 COFINA Fiscal Plan projected SUT compared to the FY19 and FY20 SUT figures assuming no growth and compared to FY20 SUT figures assuming 1.0% growth.

EXHIBIT 10: DEBT SERVICE COVERAGE AND SUT REVENUES ($M)



Using FY20 SUT collections as the base[5], Exhibit 11 shows debt service coverage under three scenarios: Case 1 assuming the 2021 Fiscal Plan projected Pledged SUT, Case 2 showing no growth in SUT and Case 3 showing 1% growth rate of SUT. Under a no growth scenario, COFINA's MADS coverage ranges from 2.44x in 2021 to 1.10x in 2058.

[5] Fiscal Year 2020 revenues reflect actual collections excluding B2B revenues as COFINA has no rights to the B2B revenues.

As the COFINA indenture states, COFINA may issue Subordinated Lien Bonds if it meets coverage requirement of: 1) Projected Pledged Sales Taxes equal or exceed one and one-half times (1.5x), in any succeeding Fiscal Year, the annual aggregate debt service due on the Bonds and Subordinated Lien Bonds to remain outstanding after the issuance of such Subordinated Lien Bonds (including the Subordinated Lien Bonds to be issued), 2) the preceding Fiscal Year's collections from the Pledged Sales Taxes is equal to or greater than one and one-tenth times (1.10x) coverage of the maximum annual aggregate debt service due in any succeeding Fiscal Year on all Bonds and Subordinated Lien Bonds to remain outstanding after the issuance of such Subordinated Lien Bonds (including the Subordinated Lien Bonds to be issued).

EXHIBIT 11: DEBT SERVICE COVERAGE

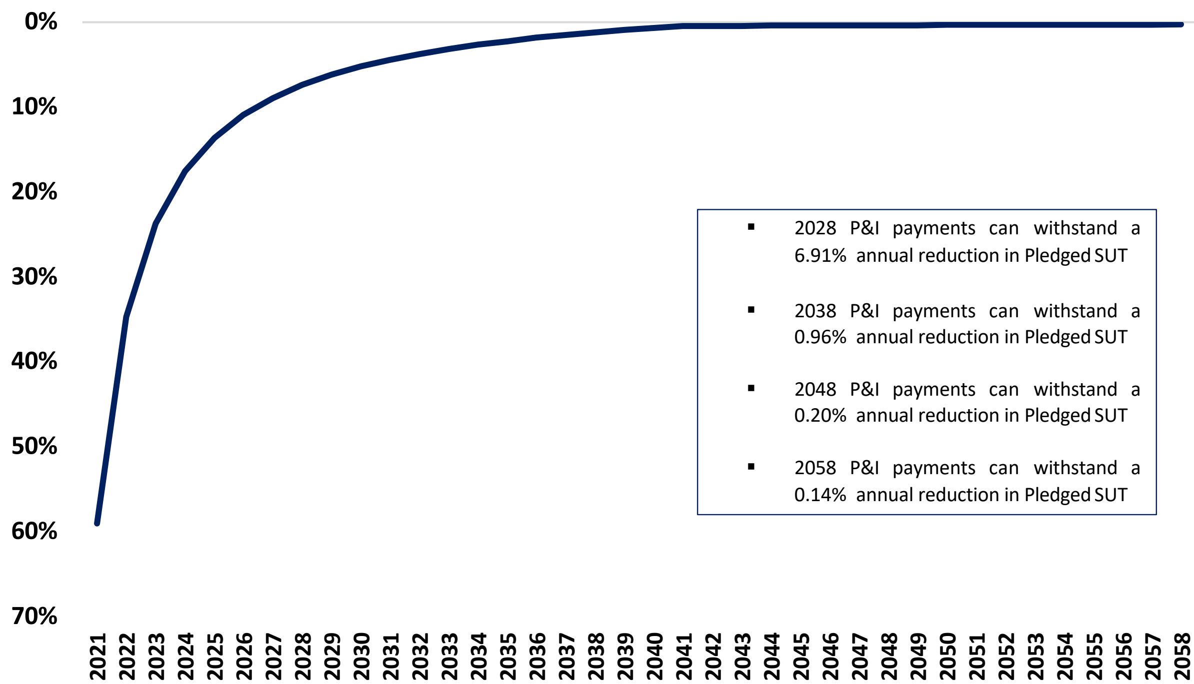
Case 1: Projected FP SUT				**Case 2: No SUT Growth**				**Case 3: Assume 1% Growth**			
FY20 Pledged SUT			**1,092.6**	**FY20 Pledged SUT**			**1,092.6**	**FY20 Pledged SUT**			**1,092.6**
Growth Rate			**FP**	**Growth Rate**			**0.000%**	**Growth Rate**			**1.000%**
($ millions)				**($ millions)**				**($ millions)**			
	FY20 Pledged SUT	**Debt Service[1]**	**Coverage**		**FY20 Pledged SUT**	**Debt Service[1]**	**Coverage**		**FY20 Pledged SUT**	**Debt Service[1]**	**Coverage**
2021	1,469.4	447.5	3.28x	2021	1,092.6	447.5	2.44x	2021	1,103.5	447.5	2.47x
2022	1,425.5	465.7	3.06x	2022	1,092.6	465.7	2.35x	2022	1,114.6	465.7	2.39x
2023	1,425.0	484.6	2.94x	2023	1,092.6	484.6	2.25x	2023	1,125.7	484.6	2.32x
2024	1,433.1	504.3	2.84x	2024	1,092.6	504.3	2.17x	2024	1,137.0	504.3	2.25x
2025	1,464.4	524.7	2.79x	2025	1,092.6	524.7	2.08x	2025	1,148.3	524.7	2.19x
2026	1,496.7	546.0	2.74x	2026	1,092.6	546.0	2.00x	2026	1,159.8	546.0	2.12x
2027	1,543.7	568.1	2.72x	2027	1,092.6	568.1	1.92x	2027	1,171.4	568.1	2.06x
2028	1,579.9	591.1	2.67x	2028	1,092.6	591.1	1.85x	2028	1,183.1	591.1	2.00x
2029	1,603.2	615.0	2.61x	2029	1,092.6	615.0	1.78x	2029	1,195.0	615.0	1.94x
2030	1,623.2	639.9	2.54x	2030	1,092.6	639.9	1.71x	2030	1,206.9	639.9	1.89x
2031	1,644.8	665.8	2.47x	2031	1,092.6	665.8	1.64x	2031	1,219.0	665.8	1.83x
2032	1,651.9	692.7	2.38x	2032	1,092.6	692.7	1.58x	2032	1,231.2	692.7	1.78x
2033	1,662.1	720.7	2.31x	2033	1,092.6	720.7	1.52x	2033	1,243.5	720.7	1.73x
2034	1,670.8	749.8	2.23x	2034	1,092.6	749.8	1.46x	2034	1,255.9	749.8	1.68x
2035	1,679.5	780.1	2.15x	2035	1,092.6	780.1	1.40x	2035	1,268.5	780.1	1.63x
2036	1,674.6	812.2	2.06x	2036	1,092.6	812.2	1.35x	2036	1,281.2	812.2	1.58x
2037	1,683.1	845.6	1.99x	2037	1,092.6	845.6	1.29x	2037	1,294.0	845.6	1.53x
2038	1,698.7	880.5	1.93x	2038	1,092.6	880.5	1.24x	2038	1,306.9	880.5	1.48x
2039	1,718.0	916.8	1.87x	2039	1,092.6	916.8	1.19x	2039	1,320.0	916.8	1.44x
2040	1,739.3	954.6	1.82x	2040	1,092.6	954.6	1.14x	2040	1,333.2	954.6	1.40x
2041	1,762.7	990.8	1.78x	2041	1,092.6	990.8	1.10x	2041	1,346.5	990.8	1.36x
2042	1,786.5	990.8	1.80x	2042	1,092.6	990.8	1.10x	2042	1,360.0	990.8	1.37x
2043	1,811.3	990.8	1.83x	2043	1,092.6	990.8	1.10x	2043	1,373.6	990.8	1.39x
2044	1,836.6	990.8	1.85x	2044	1,092.6	990.8	1.10x	2044	1,387.3	990.8	1.40x
2045	1,862.9	990.8	1.88x	2045	1,092.6	990.8	1.10x	2045	1,401.2	990.8	1.41x
2046	1,890.0	990.8	1.91x	2046	1,092.6	990.8	1.10x	2046	1,415.2	990.8	1.43x
2047	1,918.4	990.8	1.94x	2047	1,092.6	990.8	1.10x	2047	1,429.4	990.8	1.44x
2048	1,947.5	990.8	1.97x	2048	1,092.6	990.8	1.10x	2048	1,443.7	990.8	1.46x
2049	1,977.7	990.8	2.00x	2049	1,092.6	990.8	1.10x	2049	1,458.1	990.8	1.47x
2050	2,009.4	990.8	2.03x	2050	1,092.6	990.8	1.10x	2050	1,472.7	990.8	1.49x
2051	2,042.2	990.8	2.06x	2051	1,092.6	990.8	1.10x	2051	1,487.4	990.8	1.50x
2052	2,075.4	990.8	2.09x	2052	1,092.6	990.8	1.10x	2052	1,502.3	990.8	1.52x
2053	2,109.2	990.8	2.13x	2053	1,092.6	990.8	1.10x	2053	1,517.3	990.8	1.53x
2054	2,143.5	990.9	2.16x	2054	1,092.6	990.9	1.10x	2054	1,532.5	990.9	1.55x
2055	2,178.4	991.2	2.20x	2055	1,092.6	991.2	1.10x	2055	1,547.8	991.2	1.56x
2056	2,213.9	991.5	2.23x	2056	1,092.6	991.5	1.10x	2056	1,563.3	991.5	1.58x
2057	2,249.9	991.8	2.27x	2057	1,092.6	991.8	1.10x	2057	1,578.9	991.8	1.59x
2058	2,286.5	992.2	2.30x	2058	1,092.6	992.2	1.10x	2058	1,594.7	992.2	1.61x

1 Figures represent debt service post August 2019 Tax Exchange

Sensitivity Analysis

Using FY20 SUT actual collections as the base, we look at the constant annual rate of reduction in sales tax collections such that debt service is still fully covered by the 5.5% SUT pledge. Based on the debt service schedule provided, sales tax would need to decrease by more than 0.14% a year for SUT collections to be insufficient to cover debt service obligations. A sensitivity analysis is provided in Exhibit 12.

EXHIBIT 12: THE COFINA DEBT SENSITIVITY ANALYSIS



APPENDIX A: SUMMARY OF COFINA BONDS

EXHIBIT 1: Summary of the COFINA Bonds as of the Effective Date

Series	Tax Status	CUSIP	Maturity Value	Initial Value	Interest Rate	Coupon/Accretion Rate	Maturity	Initial Price
2019A-1	TE	74529JPU3	370,347,000.00	370,347,000.00	4.500%	4.500%	7/1/2034	100.000
2019A-1	TE	74529JPV1	187,553,000.00	187,553,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-1	TE	74529JPW9	1,375,772,000.00	1,375,772,000.00	4.750%	4.750%	7/1/2053	100.000
2019A-1	TE	74529JPX7	3,479,051,000.00	3,479,051,000.00	5.000%	5.000%	7/1/2058	100.000
2019A-2	TX	74529JQY4	865,919,000.00	865,919,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-2	TX	74529JPY5	1,905,085,000.00	1,905,085,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-2	TX	74529JPZ2	57,021,000.00	57,021,000.00	4.750%	4.750%	7/1/2053	100.000
2019A-2	TX	74529JQA6	763,784,000.00	763,784,000.00	5.000%	5.000%	7/1/2058	100.000
2019A-1	TE	74529JQB4	211,244,000.00	164,709,059.24	0.000%	4.250%	7/1/2024	77.971
2019A-1	TE	74529JQC2	357,783,000.00	243,231,616.89	0.000%	4.375%	7/1/2027	67.983
2019A-1	TE	74529JQD0	348,709,000.00	217,406,113.14	0.000%	4.375%	7/1/2029	62.346
2019A-1	TE	74529JQE8	449,395,000.00	252,923,999.95	0.000%	4.500%	7/1/2031	56.281
2019A-1	TE	74529JQF5	505,783,000.00	260,417,551.04	0.000%	4.500%	7/1/2033	51.488
2019A-1	TE	74529JQG3	4,813,682,000.00	1,094,968,244.54	0.000%	5.375%	7/1/2046	22.747
2019A-1	TE	74529JQH1	3,921,460,000.00	631,551,133.00	0.000%	5.625%	7/1/2051	16.105
2019B-1	TE	74529JQJ7	4,743,000.00	4,743,000.00	4.500%	4.500%	7/1/2034	100.000
2019B-1	TE	74529JQK4	2,402,000.00	2,402,000.00	4.550%	4.550%	7/1/2040	100.000
2019B-1	TE	74529JQL2	17,619,000.00	17,619,000.00	4.750%	4.750%	7/1/2053	100.000
2019B-1	TE	74529JQM0	44,554,000.00	44,554,000.00	5.000%	5.000%	7/1/2058	100.000
2019B-2	TX	74529JQN8	35,156,000.00	35,156,000.00	4.550%	4.550%	7/1/2040	100.000
2019B-2	TX	74529JQP3	723,000.00	723,000.00	4.750%	4.750%	7/1/2053	100.000
2019B-2	TX	74529JQQ1	9,691,000.00	9,691,000.00	5.000%	5.000%	7/1/2058	100.000
2019B-1	TE	74529JQR9	2,706,000.00	2,109,895.26	0.000%	4.250%	7/1/2024	77.971
2019B-1	TE	74529JQS7	4,582,000.00	3,114,981.06	0.000%	4.375%	7/1/2027	67.983
2019B-1	TE	74529JQT5	4,466,000.00	2,784,372.36	0.000%	4.375%	7/1/2029	62.346
2019B-1	TE	74529JQU2	5,755,000.00	3,238,971.55	0.000%	4.500%	7/1/2031	56.281
2019B-1	TE	74529JQV0	6,477,000.00	3,334,877.76	0.000%	4.500%	7/1/2033	51.488
2019B-1	TE	74529JQW8	61,648,000.00	14,023,070.56	0.000%	5.375%	7/1/2046	22.747
2019B-1	TE	74529JQX6	50,220,000.00	8,087,931.00	0.000%	5.625%	7/1/2051	16.105
2019A			**19,612,588,000**	**11,869,739,718**				
2019B			**250,742,000**	**151,582,100**				
Total			**19,863,330,000**	**12,021,321,817**				

EXHIBIT 2: Summary of the COFINA Bonds as of August 1,2019 (Post-Tax Exchange)

Series	Tax Status	CUSIP	Maturity Value	Initial Value	Interest Rate	Coupon/Accretion Rate	Maturity	Initial Price
2019A-1	TE	74529JPU3	370,347,000.00	370,347,000.00	4.500%	4.500%	7/1/2034	100.000
2019A-1	TE	74529JPV1	187,553,000.00	187,553,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-1	TE	74529JPW9	1,375,772,000.00	1,375,772,000.00	4.750%	4.750%	7/1/2053	100.000
2019A-1	TE	74529JPX7	3,479,051,000.00	3,479,051,000.00	5.000%	5.000%	7/1/2058	100.000
2019A-2	TX	74529JQY4	409,357,000.00	409,357,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-2	TX	74529JPY5	53,291,000.00	53,291,000.00	4.550%	4.550%	7/1/2040	100.000
2019A-2	TX	74529JPZ2	827,000.00	827,000.00	4.750%	4.750%	7/1/2053	100.000
2019A-2	TX	74529JQA6	19,673,000.00	19,673,000.00	5.000%	5.000%	7/1/2058	100.000
2019A-2	TE	74529JRJ6	456,562,000.00	456,562,000.00	4.329%	4.329%	7/1/2040	100.000
2019A-2	TE	74529JRH0	1,851,794,000.00	1,851,794,000.00	4.329%	4.329%	7/1/2040	100.000
2019A-2	TE	74529JRK3	56,194,000.00	56,194,000.00	4.536%	4.536%	7/1/2053	100.000
2019A-2	TE	74529JRL1	744,111,000.00	744,111,000.00	4.784%	4.784%	7/1/2058	100.000
2019A-1	TE	74529JQB4	211,244,000.00	164,709,059.24	0.000%	4.250%	7/1/2024	77.971
2019A-1	TE	74529JQC2	357,783,000.00	243,231,616.89	0.000%	4.375%	7/1/2027	67.983
2019A-1	TE	74529JQD0	348,709,000.00	217,406,113.14	0.000%	4.375%	7/1/2029	62.346
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2019A-1	TE	74529JQG3	4,813,682,000.00	1,094,968,244.54	0.000%	5.375%	7/1/2046	22.747
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2019B-1	TE	74529JQJ7	4,743,000.00	4,743,000.00	4.500%	4.500%	7/1/2034	100.000
2019B-1	TE	74529JQK4	2,402,000.00	2,402,000.00	4.550%	4.550%	7/1/2040	100.000
2019B-1	TE	74529JQL2	17,619,000.00	17,619,000.00	4.750%	4.750%	7/1/2053	100.000
2019B-1	TE	74529JQM0	44,554,000.00	44,554,000.00	5.000%	5.000%	7/1/2058	100.000
2019B-2	TE	74529JRM9	35,156,000.00	35,156,000.00	4.329%	4.329%	7/1/2040	100.000
2019B-2	TE	74529JRN7	723,000.00	723,000.00	4.536%	4.536%	7/1/2053	100.000
2019B-2	TE	74529JRP2	9,691,000.00	9,691,000.00	4.784%	4.784%	7/1/2058	100.000
2019B-1	TE	74529JQR9	2,706,000.00	2,109,895.26	0.000%	4.250%	7/1/2024	77.971
2019B-1	TE	74529JQS7	4,582,000.00	3,114,981.06	0.000%	4.375%	7/1/2027	67.983
2019B-1	TE	74529JQT5	4,466,000.00	2,784,372.36	0.000%	4.375%	7/1/2029	62.346
2019B-1	TE	74529JQU2	5,755,000.00	3,238,971.55	0.000%	4.500%	7/1/2031	56.281
2019B-1	TE	74529JQV0	6,477,000.00	3,334,877.76	0.000%	4.500%	7/1/2033	51.488
2019B-1	TE	74529JQW8	61,648,000.00	14,023,070.56	0.000%	5.375%	7/1/2046	22.747
2019B-1	TE	74529JQX6	50,220,000.00	8,087,931.00	0.000%	5.625%	7/1/2051	16.105
2019A			**19,612,588,000**	**11,869,739,718**		-	-	
2019B			**250,742,000**	**151,582,100**		-	-	
Total			**19,863,330,000**	**12,021,321,817**		-	-	

THE GOVERNMENT OF PUERTO RICO

30 June 2020

Puerto Rico Sales Tax Corporation Budget

The amount of $1,400,000 are budgeted for the expenditures of Puerto Rico Sale Tax Corporation ("COFINA" by its Spanish acronym") herein for the fiscal year ending 30 June 2021.

[INTENTIONALLY LEFT BLANK]

Section 1.- The following amounts are authorized for the expenditures of COFINA set forth herein for the fiscal year ending 30 June 2021 ("FY2021"):

[INTENTIONALLY LEFT BLANK]

1	**1. Puerto Rico Sales Tax Financing Corporation (COFINA)**				
2	A.		Payroll		184,000
3		i	Salaries	132,000	
4		ii	Salaries for trust employees	-	
5		iii	Overtime	-	
6		iv	Christmas bonus	-	
7		v	Healthcare	18,000	
8		vi	Other benefits	34,000	
9		vii	Early retirement benefits & voluntary transition program	-	
10		viii	Other payroll	-	
11	B.		Payments to PayGo		-
12	C.		Facilities and utility payments		15,000
13		i	Payments to PREPA	-	
14		ii	Payments to PRASA	-	
15		iii	Payments to PBA	15,000	
16		iv	Other facility costs	-	
17	D.		Purchased services		224,000
18		i	Shared services provided by AAFAF	24,000	
19		ii	Directors and officers insurance policy	200,000	
20	E.		Transportation		25,000
21	F.		Professional Services		652,000
22		i	Legal professional services	200,000	
23		ii	Finance and accounting professional services	217,000	
24		iii	Trustee fees - BNYM	30,000	
25		iv	Financial services implementation	150,000	
26		v	Website expense	30,000	
27		vi	Other professional services	25,000	
28	G.		Other operating expenses		300,000
29		i	Board of director director fees	225,000	
30		ii	Other Ooperating expenses	75,000	
31	H.		Capital expenditures		-
32	I.		Payments of current & prior period obligations		-
33	J.		Materials and supplies		-
34	K.		Equipment purchases		-
35	L.		Media and advertisements		-
36	M.		Donations, subsidies and other distributions (including court sentences)		-
37	N.		Social well-being for Puerto Rico		-
38	O.		Appropriations to non-governmental agencies		-
39	**Total Puerto Rico Sales Tax Financing Corporation (COFINA)**				**1,400,000**

Section 2.- Any expenditure cannot exceed the lower of: (1) the amount authorized in this budget for the corresponding government entity and concept of expenditure or (2) the corresponding resources available to COFINA in FY2021.

Section 3.- All authorized budget amounts, for any prior fiscal year that are not authorized or certified in this joint resolution, are eliminated and no carry over of such funds may be used, except for the following which the Oversight Board redeploys as current appropriations, subject to Oversight Board adjustment at any time: (1) appropriations authorized in the fiscal year to carry out capital expenditures that have been encumbered, accounted for and kept on the books, but not exceeding two fiscal years on the books; (2) appropriations in the certified budget for equipment with procurement cycles that extend beyond the end of the fiscal year, which are encumbered on or before June 30, 2020 and (3) the portion of the appropriations authorized for the fiscal year that have been encumbered on or before June 30 of such fiscal year which shall be kept in the books for 60 days after the termination of that fiscal year and after those 60 days no amount shall be drawn against such portion for any reason. This restriction on the use of unused authorized prior fiscal year amounts shall not apply to orders by the United States district court with jurisdiction over all matters under Title III of PROMESA.

Section 4.- The appropriations approved in this budget may only be reprogrammed with the prior approval of the Oversight Board. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming. Reprogramming, also known as reapportionments, may be made into spend concepts and/or objects not explicitly listed in the FY2021 certified budget resolution as long as such requests are submitted to and approved by the Oversight Board.

Section 5.- Pursuant to Section 203 of PROMESA, COFINA must submit to the Oversight Board, no later than 15 days after the last day of each quarter of FY2021, a budget to actual report, along with an explanation of relevant variances as provided in the certified Fiscal Plan. The Oversight Board may determine to provide COFINA a template to be used for such reporting, in which case any quarterly budget to actual reports submitted by COFINA must be submitted consistent with such reporting template.

Section 6.- In conjunction with the reports required by Section 5, a certification to the Oversight Board must be included stating that no authorized budget amount of any previous fiscal year (except for those covered by the exceptions mentioned herein) has been used to cover any expenditure unless authorized by the approval of the Oversight Board.

Section 7.- The Executive Director of COFINA shall be responsible for not spending or encumbering during FY2021 any amount that exceeds the authorized budget amounts. This prohibition applies to every budget amount authorized herein, including amounts for payroll and related costs. The Executive Director of COFINA shall also certify to the Oversight Board by September 30, 2020 that no amount was spent or encumbered that exceeded the authorized budget amount in the certified budget for fiscal year 2020.

Section 8.- The Oversight Board reserves the right to, in its sole discretion, issue a notice to the Governor, pursuant to PROMESA Section 202(a), setting forth a schedule for revising COFINA's budget.

Section 9.- The COFINA budget shall be adopted in English and Spanish. If in the interpretation or application of the budget a conflict arises between the English and Spanish texts, the English text shall govern.

Section 10.- The COFINA budget for FY2021 shall take effect on July 1, 2020.

GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: **Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym)**

Other Obligated Person's Name (if any): ____

Nine-digit CUSIP number(s): **Restructured Sales Tax Bonds, Series 2019A-1: 74529JPU3, 74529JPV1, 74529JPW9, 74529JPX7, 74529JQB4, 74529JQC2, 74529JQD0, 74529JQE8, 74529JQF5, 74529JQG3, 74529JQH1; Series 2019A-2: 74529JQY4, 74529JRJ6, 74529JPY5, 74529JRH0, 74529JPZ2, 74529JRK3, 74529JQA6, 74529JRL1, 7452JRQ0; Series 2019B-1: 74529JQJ7, 74529JQK4, 74529JQL2, 74529JQM0, 74529JQR9, 74529JQS7, 74529JQT5, 74529JQU2, 74529JQV0, 74529JQW8, 74529JQX6; Series 2019B-2: 74529JRM9, 74529JRN7, 74529JRP2.**

TYPE OF INFORMATION PROVIDED:

A. ☒ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: 2019-20

B. ☐ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: ____

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Manuel González del Toro

Manuel González del Toro
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for COFINA

Dated: September 23, 2020

PO Box 42001 • San Juan, PR 00940-2001 • Telephone (787) 722-2525

FAFAA

PUERTO RICO SALES TAX FINANCING CORPORATION

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

Fiscal Year 2020

PUERTO RICO SALES TAX FINANCING CORPORATION

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

Fiscal Year 2020

I. Introduction

On September 23, 2020, the Puerto Rico Sales Tax Financing Corporation (the "Corporation") issued its audited financial statements for the fiscal year ending on June 30, 2020 (the "2020 Financial Statements"). The 2020 Financial Statements are available at www.cofina.pr.gov and at the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA"). The Corporation is issuing this Puerto Rico Sales Tax Financing Corporation Annual Financial Information and Operating Data Report for Fiscal Year 2020 in compliance with its continuing disclosure obligations under that certain Continuing Disclosure Agreement dated as of February 12, 2019.

II. Corporation

A. *General*

The Corporation is a public corporation and instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to Act No. 91-2006, as amended (the "Puerto Rico Sales Tax Financing Corporation Act").[1] It is an independent and separate legal entity from the Commonwealth and any other government entity, and its business and affairs are governed by and under the direction of its Board of Directors. The Corporation is also known by an acronym of its Spanish name — "COFINA."

In February 2019, the Corporation completed a debt restructuring pursuant to a certain *Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 13-3283, Docket No. 5053] (the "Plan of Adjustment"), confirmed under Title III of the Puerto Rico Oversight, Management and Economic Stability Act, Public Law 114 – 187 ("PROMESA"). In connection with the consummation and effectiveness of the Plan of Adjustment, the Corporation issued its Puerto Rico Sales Tax Financing Corporation Restructured Sales Tax Bonds, Series 2019 Bonds (the "COFINA Bonds") under a certain Master Trust Indenture, dated as of February 12, 2019, as supplemented and amended (the "Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings provided in the Indenture.

[1] On November 15, 2018, Act No. 241-2018 was enacted to amend and restate Act No. 91-2006, as amended, to establish the legal framework for the restructuring of the Corporation's previously issued and outstanding bonds. To this end, Act No. 241-2018, among other things, (i) modified the Corporation's corporate governance structure, (ii) authorized the issuance of the COFINA Bonds (as defined herein), (iii) confirmed the Corporation's ownership of the COFINA Revenues (as defined herein), (iv) created a statutory lien to secure the COFINA Bonds, and (v) enacted the covenants to secure further the repayment of the COFINA Bonds.

B. Operating Budget and Reserve

The Corporation's operating budgets for fiscal years 2020 and 2021 are included in Exhibit A hereto. The balance in the Corporation's Operating Reserve Fund as of June 30, 2020 and August 31, 2020 was $14,902,991 and $14,602,530, respectively.[2]

III. COFINA Bonds

A. Collateral and Source of Repayment

Pursuant to the provisions of Act No. 1-2011, as amended, also known as the Internal Revenue Code for a New Puerto Rico (the "PR Code"), the Government of Puerto Rico (the "Government") imposes (a) a sales and use tax at a base rate of 6.0% (the "Government SUT"), which is in turn comprised of (i) a rate of 5.5% (the portion corresponding to the Pledged Sales Taxes, as defined below) and (ii) a rate of 0.5% (the "FAM SUT"); (b) a sales and use tax surcharge at a rate of 4.5% (the "SUT Surcharge"); and (c) a special tax at a rate of 4.0% applicable to designated professional services, certain business-to-business services and imported services (the "Special SUT"). The Government SUT, the SUT Surcharge and the Special SUT are collectively referred to herein as the "Sales and Use Tax." The PR Code provides that every merchant engaged in a business that sells taxable items must collect the Sales and Use Tax as a withholding agent, unless such merchant is otherwise exempted. The PR Code also provides for the imposition of a sales and use tax by the municipalities at a rate of 1.0%.

The COFINA Bonds are special limited obligations of the Corporation and are payable solely from, and secured by a statutory first lien on, the Trust Estate, which consists primarily of all right, title and interest of the Corporation in and to the COFINA Revenues. The "COFINA Revenues," in turn, consist of the Corporation's right to receive the first funds (subject to quarterly distribution in accordance with the Puerto Rico Sales Tax Financing Corporation Act and the Indenture) of the Pledged Sales Taxes (as defined below) collected in any fiscal year, up to a certain specified amount set forth in the Puerto Rico Sales Tax Financing Corporation Act for each fiscal year, as further discussed below.

The "Pledged Sales Taxes" comprise (a) the present and future revenues and collections generated by that portion of the Sales and Use Tax that corresponds, initially, to a tax rate of five and one-half percent (5.5%), subject to the right of the Commonwealth to reduce the rate of the Pledged Sales Taxes in accordance with the Indenture and the right of the Commonwealth to provide Substituted Collateral in accordance with the Substitution Requirements, and (b) the Substituted Collateral, if any, provided by the Commonwealth in accordance with the Substitution Requirements.

B. Interest Funding Requirement and Principal Funding Requirement

The table below shows the Interest Funding Requirement and the Principal Funding Requirement for the COFINA Bonds for fiscal years 2020 and 2021.

[2] Excludes balances in the Corporation's other operating accounts.

Fiscal Year	Interest Funding Requirement[1]	Principal Funding Requirement[2]
2020	$430,633,450.13	$0.00
2021	430,056,018.78	17,479,550.10

(1) Interest due and payable on all outstanding COFINA Bonds in each fiscal year and on the next succeeding July 1, excluding interest actually paid on the first day of such fiscal year and including any interest unpaid in prior fiscal years (and, for the avoidance of doubt, interest on any overdue interest) calculated based on a 360-day year consisting of twelve 30-day months.
(2) Principal due on all outstanding COFINA Bonds in each fiscal year and on the next succeeding July 1, excluding principal actually paid on the first day of such fiscal year and including any principal unpaid in prior fiscal years.

IV. Sales and Use Taxes

A. Annual Collections of Sales and Use Taxes

The following table shows on a cash basis the components of the Sales and Use Tax from fiscal year 2010 through fiscal year 2020.

ANNUAL SALES AND USE TAX COLLECTIONS
(in millions of dollars)

	A	B	C	D=A+B+C	E	F	G=D+E+F
Year Ended June 30,	Pledged Sales Taxes[1] (5.5%)	FAM SUT[1] (0.5%)	SUT Surcharge (4.5%)	Total Base SUT and SUT Surcharge (10.5%)	Special SUT	Additional Collections[2]	Total Sales and Use Tax
2010	$1,094	-	-	$1,094	-	-	$1,094
2011	1,107	-	-	1,107	-	-	1,107
2012	1,138	-	-	1,138	-	-	1,138
2013	1,162	-	-	1,162	-	-	1,162
2014	1,242	-	-	1,242	-	-	1,242
2015	1,299	$118	-	1,417	-	-	1,417
2016	1,197	109	$979	2,285	$92	-	2,377
2017	1,248	113	1,021	2,382	166	-	2,548
2018	1,225	111	1,003	2,339	183	-	2,522
2019	1,361	124	1,113	2,597	208	-	2,806
2020	1,048	96	816	1,960	170	49	$2,180
Total	**$13,121**	**$670**	**$4,932**	**$18,724**	**$820**	**$49**	**$19,593**

(1) Beginning on fiscal year 2016, excludes collections from the Special SUT. Such collections are reported in certain Treasury reports as part of the Base SUT, but they are reported herein separately as they are not part of the Pledged Sales Taxes. Therefore, amounts shown herein may vary from those previously reported by Treasury.
(2) Additional collections include 1% Municipal SUT, Film Fund, and Penalties, Interest and Others.

Source: Department of Treasury of the Commonwealth of Puerto Rico ("Treasury")

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The graph below shows the Sales and Use Tax collections from fiscal year 2009 to fiscal year 2020.

ANNUAL SALES AND USE TAX COLLECTIONS[(1)]

(in millions of dollars)

[(1)] Increased Sales and Use Tax collections beginning in fiscal year 2016 are due primarily to the imposition of the SUT Surcharge and the Special SUT, which are not part of the Pledged Sales Taxes.

Source: Treasury.

[Remainder of page intentionally left blank]

B. Monthly Collections of Sales and Use Taxes

The following tables show the historical monthly Sales and Use Tax collections on a cash basis from fiscal year 2018 through August 2020. Estimated collections for fiscal year 2021 are preliminary and subject to change.

MONTHLY SALES AND USE TAX COLLECTIONS
(in thousands of dollars)

Month[(1)]	FISCAL YEAR 2018	FISCAL YEAR 2019	FISCAL YEAR 2020[(2)]	FISCAL YEAR 2021[(2)]
July	$ 213,656	$ 238,961	$183,940	$283,058
August	239,514	238,711	207,449	246,641 [(3)]
September	167,307	222,012	199,955	-
October	113,150	229,221	211,859	-
November	161,120	238,729	199,371	-
December	231,336	225,829	244,204	-
January	226,479	261,197	242,445	-
February	214,365	235,072	183,186	-
March	222,222	212,875	156,929	-
April	236,834	227,622	103,217	-
May	245,287	241,562	114,036	-
June	250,945	233,711	133,483	-
Total	**$2,522,215**	**$2,805,502**	**$2,180,074**	**$529,699**

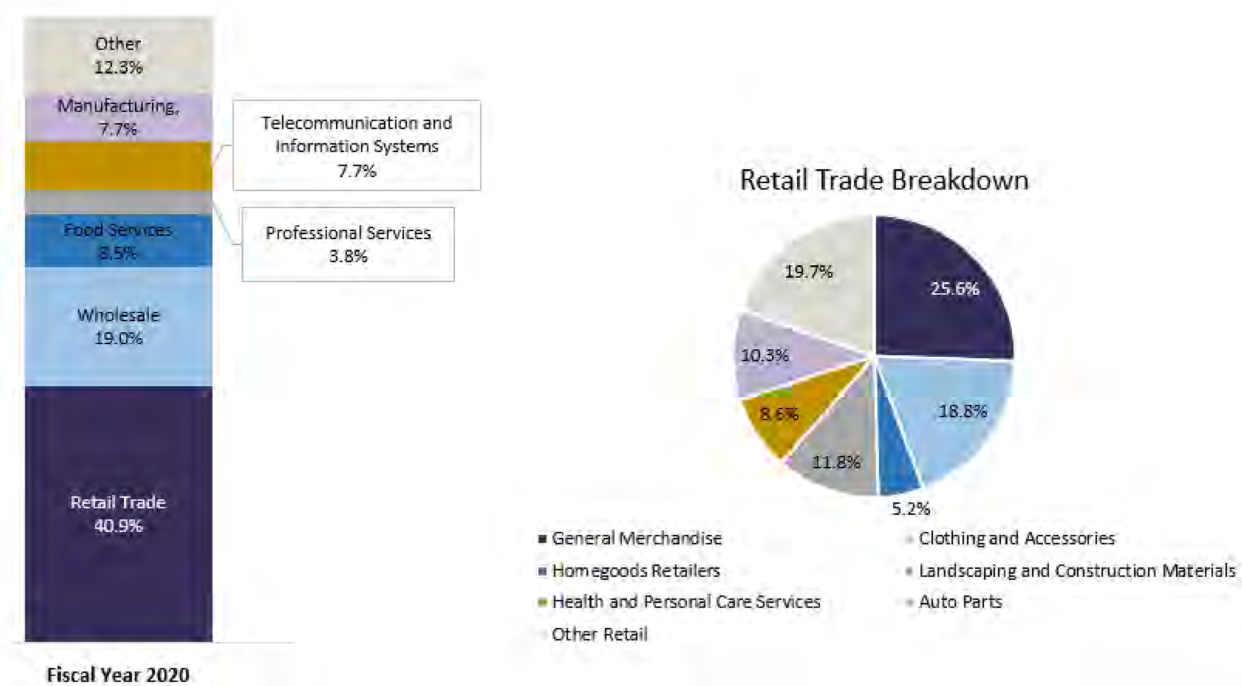
(1) Reflects collections received each month, most of which correspond to sales made or services rendered during the prior month.
(2) As discussed in the Corporation's press release of October 29, 2019, which is available on EMMA, beginning in fiscal year 2020, Treasury implemented certain changes to the reporting of Sales and Use Tax collections and allocations, including with respect to Sales and Use Tax collections for which the corresponding tax return had not been filed. Sales and Use Tax collections that remained unallocated because the corresponding tax return had not been filed are reflected herein as collections for the month in which the tax return was filed and the allocation was made.
(3) As of August 31, 2020, there were approximately $35.4 million in preliminary unallocated Sales and Use Tax collections.

Source: Treasury.

Sales and Use Tax collections during fiscal year 2020 were affected by several factors. Starting in October 2019, the Sales and Use Tax rate over prepared food sales was reduced from 11.5% to 7%, through the elimination of the SUT Surcharge on those items. During the last weeks of December 2019 and the first weeks of January 2020, Puerto Rico experienced a series of earthquakes which, besides adversely affecting consumption in the most affected areas, led to an emergency declaration by the Governor and administrative determinations by Treasury that provided certain temporary exemptions over the Sales and Use Tax imposed on prepared foods and certain other drink and confectioned food products. The last of these temporary exemptions was in effect until February 29, 2020. In March 2020, the outbreak of a new strain of coronavirus named SARS-CoV-2 and the disease caused thereby ("COVID-19") led to the issuance of several executive orders implementing significant social and economic restrictions and administrative determinations by Treasury that provided certain Sales and Use Tax exemptions and provided for the deferral of certain Sales and Use Tax payments until June 30, 2020. The first two months of fiscal year 2021 reflect an increase in Sales and Use Tax collections partly attributable to the gradual loosening of the restrictions on economic activity imposed to address the COVID-19 pandemic, as well as the expiration of the various temporary exemptions and deferrals related to the Sales and Use Tax described above.

C. Collections by Source

The chart below illustrates the composition of the Sales and Use Tax collections attributable to sales made during fiscal year 2020 based on actual receipts by Treasury from July 1, 2019 to June 30, 2020. Of the fiscal year 2020 collections, approximately 40.9% were from retail trade activity (including 25.6% from general merchandise, 5.2% from home goods retailers, 11.8% from landscaping and construction materials, 18.8% from clothing and accessories and 10.3% were from auto parts).



Source: Treasury.

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D. Pledged Sales Taxes

The following table shows the historical monthly Pledged Sales Tax collections on a cash basis from fiscal year 2018 through August 2021. Estimated collections for fiscal year 2021 are preliminary and subject to change.

HISTORICAL AND ESTIMATED PLEDGED SALES TAX COLLECTIONS[(1)]
(in thousands of dollars)

Month[(2)]	FISCAL YEAR 2018	FISCAL YEAR 2019	FISCAL YEAR 2020[(3)]	FISCAL YEAR 2021
July	$ 105,427	$116,425	$82,310	$ 134,534
August	118,234	116,250	98,857	133,725 [(4)]
September	82,768	107,209	95,191	-
October	53,921	110,501	101,157	-
November	77,844	116,183	99,109	-
December	111,202	109,803	107,730	-
January	110,824	124,977	125,421	-
February	103,119	114,188	88,911	-
March	105,603	103,592	75,373	-
April	114,599	110,076	55,220	-
May	118,935	118,127	55,028	-
June	122,803	113,226	64,076	-
Total	**$1,225,280**	**$1,360,559**	**$1,048,382**	**$268,259**

(1) Excludes collections from the Special SUT. Such collections are reported in certain Treasury reports as part of the Base SUT, but they are not included herein as they are not part of the Pledged Sales Taxes. Therefore, amounts shown herein may vary from those previously reported by Treasury.
(2) Reflects collections received each month, most of which correspond to sales made or services rendered during the prior month.
(3) As discussed in the Corporation's press release of October 29, 2019, which is available on EMMA, beginning in fiscal year 2020, Treasury implemented certain changes to the reporting of Sales and Use Tax collections and allocations, including with respect to Sales and Use Tax collections for which the corresponding tax return had not been filed. Pledged Sales Tax collections that remained unallocated because the corresponding tax return had not been filed are reflected herein as collections for the month in which the tax return was filed and the allocation was made.
(4) As of August 31, 2020, there were approximately $35.4 million in preliminary unallocated Sales and Use Tax collections. Since the allocation has not been made, it is not yet known what portion of such amount corresponds to Pledged Sales Taxes.

Source: Treasury.

Pledged Sales Tax collections during fiscal year 2020 were affected by several factors, as described in subsection B above.

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E. COFINA Revenues

The following table shows the amount of the COFINA Revenues each year from fiscal year 2019 until fiscal year 2058, assuming the collection of Pledged Sales Taxes meet or exceed these amounts.

Fiscal Year	**COFINA Revenues**	**Fiscal Year**	**COFINA Revenues**
2019	$420,185,325	2039	$920,677,791
2020	436,992,738	2040	957,504,902
2021	454,472,448	2041	992,525,000
2022	472,651,346	2042	992,525,000
2023	491,557,399	2043	992,525,000
2024	511,219,696	2044	992,525,000
2025	531,668,483	2045	992,525,000
2026	552,935,223	2046	992,525,000
2027	575,052,631	2047	992,525,000
2028	598,054,737	2048	992,525,000
2029	621,976,926	2049	992,525,000
2030	646,856,003	2050	992,525,000
2031	672,730,244	2051	992,525,000
2032	699,639,453	2052	992,525,000
2033	727,625,032	2053	992,525,000
2034	756,730,033	2054	992,525,000
2035	786,999,234	2055	992,525,000
2036	818,479,203	2056	992,525,000
2037	851,218,371	2057	992,525,000
2038	885,267,106	2058	992,525,000

For each fiscal year following 2058 and until all principal of, interest on, and any other amounts due on the COFINA Bonds have been paid or defeased in full in accordance with the Indenture, the COFINA Revenues shall be $992,525,000.

The amount of COFINA Receipts for fiscal year 2020 was $439,941,061. As of August 31, 2020, the amount of COFINA Receipts for the first two months of fiscal year 2021 was $266,088,247.[3]

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[3] COFINA Receipts, representing the Pledged Sales Taxes received by the Corporation or the Trustee, and interest thereon, for the first two months of fiscal year 2021 are approximately $2.2 million lower than Pledged Sales Tax collections for the same period reported above because of timing differences between the collection of the Sales and Use Tax and the corresponding allocation and distribution to the Corporation.

V. Certain Commonwealth Economic Indicators

A. Gross National Product

The following table shows the Commonwealth's gross national product for the five fiscal years ended June 30, 2019.

Commonwealth of Puerto Rico
Gross National Product
Fiscal Years Ended June 30, 2015, Through June 30, 2019

	2015	2016	2017	2018	2019[(1)]
Gross national product — $ millions [(2)]	$69,602.0	$69,985.2	$69,049.5	$67,824.7	$70,780.5
Real gross national product — $ millions (1954 prices)	$6,292.2	$6,191.5	$5,991.9	$5,737.3	$5,825.0
Annual percentage increase (decrease) in real gross national product (1954 prices)	(0.8) %	(1.6) %	(3.2) %	(4.3) %	1.5 %
U.S. annual percentage increase in real gross national product [(3)]	2.9 %	1.6 %	2.4 %	2.9 %	2.3 %

(1) Preliminary.
(2) In current dollars.
(5) IMF World Economic Outlook Database, April 2020.

Sources: Puerto Rico Planning Board; IMF World Economic Outlook Database

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B. *Historical Personal Income*

The following table shows the aggregate personal income in the Commonwealth for the five fiscal years ended June 30, 2019.

Commonwealth of Puerto Rico
Personal Income
(in millions of dollars)

	Fiscal Years Ended June 30,				
	2015	**2016**	**2017**	**2018**	**2019[(1)]**
Employees' compensation					
Business, household and nonprofit institutions	20,410.0	20,114.7	20,028.6	20,131.4	20,497.6
Government	7,264.0	7,236.1	7,175.2	6,343.1	6,053.4
Other	1,199.9	1,221.1	1,279.8	1,412.8	1,050.4
Total Employees' compensation	$28,873.9	$28,571.9	$28,483.6	$27,887.3	$27,601.4
Less: Contributions for social insurance					
Employees	2,172.4	2,170.2	2,189.8	2,094.9	2,031.2
Employers	3,076.1	3,241.9	3,389.7	2,724.2	2,697.4
Total Contributions for social insurance	$5,248.5	$5,412.1	$5,579.5	$4,819.1	$4,728.6
Proprietors' income					
Income of unincorporated enterprises	3,120.5	3,139.7	3,479.6	3,525.8	3,752.9
Dividends of domestic corporations	223.5	232.0	239.7	261.6	263.3
Miscellaneous income and dividends received from abroad	6.9	7.4	9.3	10.3	7.4
Rental income of persons	9,346.8	9,480.7	9,386.1	9,600.1	9,847.6
Personal interest income	3,189.5	3,223.2	3,408.0	3,105.9	2,874.2
Total Proprietors' income	$15,887.2	$16,083.0	$16,522.7	$16,503.7	$16,745.4
Transfer Payments					
Commonwealth government and municipalities	5,798.0	5,905.1	5,783.9	6,194.9	5,579.7
Federal government	16,399.0	16,464.2	17,759.1	24,546.9	22,841.3
U.S. state governments	33.5	33.9	30.4	30.0	22.3
Business	1,570.0	1,493.7	1,387.7	1,436.9	1,158.7
Other nonresidents	443.3	461.1	475.4	576.0	509.9
Total transfer payments	$24,243.7	$24,358.0	$25,436.4	$32,784.8	$30,112.0
Total Personal Income	$63,756.3	$63,600.7	$64,863.0	$72,356.8	$69,730.2

(1) Preliminary figures.

Source: Planning Board

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C. Historical Personal Consumption

The following table shows personal consumption expenditures in the Commonwealth by product for the five fiscal years ended June 30, 2019.

Commonwealth of Puerto Rico
Personal Consumption Expenditures by Product
(in millions of dollars)

	Fiscal Years Ended June 30				
	2015	**2016**	**2017**	**2018**	**2019[(1)]**
Food	$9,401.0	$8,811.2	$ 9,067.8	$8,994.3	$ 9,134.3
Alcoholic beverages and tobacco products	1,877.0	1,753.1	1,806.0	1,876.3	1,911.2
Clothing and accessories	3,203.0	2,856.8	2,376.7	2,463.2	2,588.7
Personal care	1,627.9	1,498.7	1,513.4	1,084.1	939.8
Housing	10,663.3	11,098.7	11,566.1	12,021.3	12,486.8
Household operations	7,666.9	7,746.0	7,730.5	7,776.7	8,483.3
Medical care and funeral expenses	12,482.1	13,256.4	14,108.2	15,534.9	16,862.6
Business services	2,556.2	2,496.6	2,403.2	2,368.9	2,691.1
Transportation	6,595.9	6,159.6	6,408.5	6,994.6	7,436.4
Recreation	5,268.6	5,381.8	5,483.7	5,276.8	5,875.5
Education	1,996.5	1,943.9	1,944.1	1,906.7	1,946.5
Miscellaneous purchases	2,127.1	1,950.2	1,913.6	1,853.9	1,912.0
Total consumption expenditures in Puerto Rico by residents and nonresidents	$65,465.5	$64,952.9	$66,321.8	$68,151.7	$72,268.4
Less: Expenditures in Puerto Rico by nonresidents	(3,825.0)	(3,973.5)	(3,868.0)	(3,302.9)	(3,611.7)
Total Personal Consumption Expenditures	$61,640.5	$60,979.4	$62,453.8	$64,848.8	$68,656.6

(1) Preliminary figures.

Source: Planning Board

D. <u>Recent Events</u>

COVID-19

The outbreak of COVID-19, an upper respiratory tract illness first identified in Wuhan, China, has spread to numerous countries across the globe, including the U.S. and Puerto Rico. COVID-19 has been characterized as a pandemic by the World Health Organization and resulted in a declaration of a national emergency by the Federal Government on March 13, 2020.

As a result of the COVID-19 pandemic, the Federal Government and the Government of Puerto Rico have implemented numerous measures to address the pandemic. For example, on March 15, 2020, the Governor issued Executive Order 2020-20 to implement the closure of governmental and private sector operations in order to combat the effects of COVID-19 in Puerto Rico. Although the Governor has modified this order several times, the government and private sector continue to be affected by partial closures, limitations on group activities, limited operating hours and limitations on the number of consumers that may patronize an establishment.

As a result of the COVID-19 emergency, the Secretary of Treasury has also issued several related administrative determinations. Most of these determinations provided or currently provide

SUT exemptions on certain items, including items necessary to prevent the spread of COVID-19 and certain foods.

As the Corporation had previously announced, on November 21, 2019, the Indenture trustee had received sales and use taxes totaling $436,992,738, which equals the amount of the COFINA Revenues for fiscal year 2020. Consistent with the Plan of Adjustment, upon BNYM's receipt of the COFINA Revenues for fiscal year 2020, the Government is entitled to receive all collections from the Pledged Sales Taxes until the end of fiscal year 2020 (June 30, 2020). As a result, the above-described temporary measures did not have any effect on the Corporation's receipt of Sales and Use Tax collections for fiscal year 2020.

Because of the evolving nature of the COVID-19 pandemic and the federal and local responses thereto, the Corporation cannot predict the extent or duration of the outbreak or what impact it may have, if any, on the Corporation's receipt of Sales and Use Tax collections for fiscal year 2021. While the effects of COVID-19 may be temporary, they may alter the behavior of businesses and people in a manner that may have negative impacts on global, national and local economies, including the collection of sales and use taxes by the Commonwealth.

EXHIBIT A

PUERTO RICO SALES TAX FINANCING CORPORATION
FISCAL YEAR 2020 OPERATING BUDGET

A.	Payroll		$249,750
i	Salaries	$185,000	
ii	Overtime	-	
iii	Christmas bonus	-	
iv	Healthcare	$18,000	
v	Other benefits	$46,750	
vi	Early retirement benefits & Voluntary Transition Program	-	
vii	Other payroll	-	
B.	Payments to PayGo		-
C.	Facilities		$12,638
D.	Purchased Services		$350,000
i	Directors and officers insurance policy	$350,000	
E.	Transportation		$100,000
F.	Professional Services		$716,000
i	Legal expenses	$350,000	
ii	Finance/accounting	$266,000	
iii	Information Technology (IT)	$50,000	
iv	Other professional service fees	$50,000	
G.	Other Operating Expenses		$975,000
i	Board of Directors	$150,000	
ii	Miscellaneous expenses	$300,000	
iii	Banking services	$25,000	
iv	Credit rating agencies	$500,000	
H.	Capital expenditures	-	
I.	Materials and supplies	-	
J.	Equipment purchases	-	
K.	Media and advertisements	-	
L.	Federal fund matching	-	
M.	Donations and Subsidies	-	
N.	Social Wellbeing for Puerto Rico	-	
O.	Appropriations to non-governmental entities	-	
P.	Undistributed appropriations	-	
	Total		$2,403,388

PUERTO RICO SALES TAX FINANCING CORPORATION
FISCAL YEAR 2021 OPERATING BUDGET

A.	Payroll		$184,000
i	Salaries	$132,000	
ii	Salaries for trust employees	-	
iii	Overtime	-	
iv	Christmas bonus	-	
iv	Healthcare	$18,000	
v	Other benefits	$34,000	
vi	Early retirement benefits & voluntary transition program	-	
vii	Other payroll	-	
B.	Payments to PayGo		-
C.	Facilities and Utility Payments	-	$15,000
i	Payments to PREPA	-	
ii	Payments to PRASA	-	
iii	Payments to PBA	$15,000	
iv	Other facility costs	-	
D.	Purchased Services		$224,000
i	Shared services provided by AAFAF	$24,000	
ii	Directors and officers insurance policy	$200,000	
E.	Transportation		$25,000
F.	Professional Services		$652,000
i	Legal professional services	$200,000	
ii	Finance and accounting professional services	$217,000	
iii	Trustee fees - BNYM	$30,000	
iv	Financial services implementation	$150,000	
v	Website expense	$30,000	
vi	Other professional services	$25,000	
G.	Other operating expenses		$300,000
	Board of director fees	$225,000	
	Other Operating expenses	$75,000	
H.	Capital expenditures		-
I.	Payments of current & prior period obligations		-
J.	Materials and supplies		-
K.	Equipment purchases		-

L.	Media and advertisements	-
M.	Donations, subsidies and other distributions (including court sentences)	-
N.	Social well-being for Puerto Rico	-
O.	Appropriations to non-governmental agencies	-
	Total	$1,400,000