

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 value⁶ 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.

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.

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,

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.

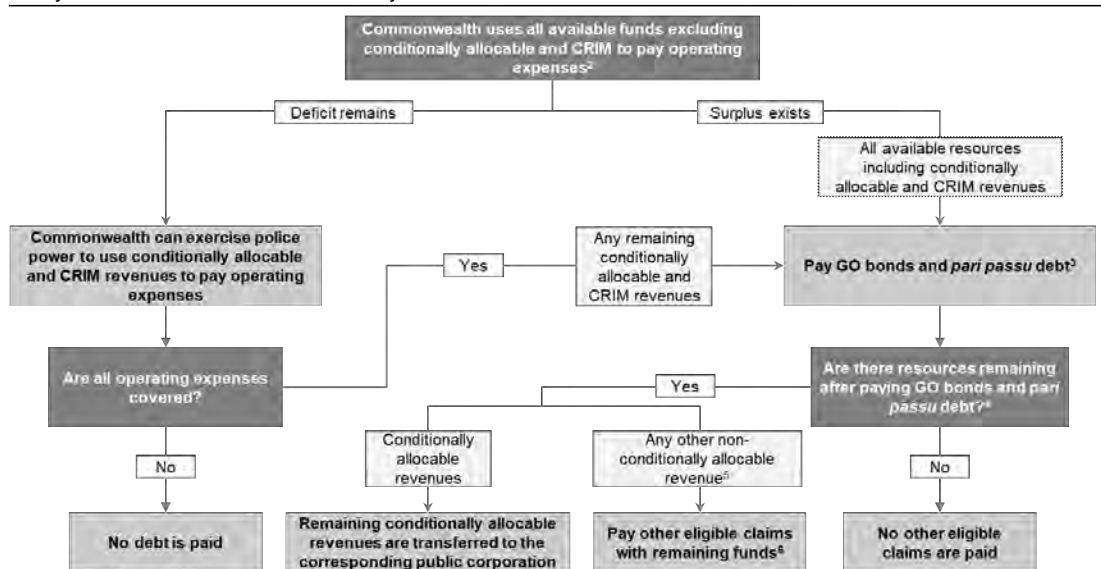
Exhibit 3 summarizes the order in which funds are disbursed and claims are paid, following legal guidance outlined in Appendix 5. For the claims considered in this analysis, debt with the same

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 analysis¹



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 claimants²⁰ 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.

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 <i>pari passu</i> 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 bonds¹	\$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 <i>pari passu</i> debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and <i>pari passu</i> 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 <i>pari passu</i> 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 <i>pari passu</i> debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and <i>pari passu</i> 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 <i>pari passu</i> 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 <i>pari passu</i> debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and <i>pari passu</i> 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 <i>pari passu</i> 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 <i>pari passu</i> debt issued in or after 2012 is deemed invalid		Scenario 1: GO bonds and <i>pari passu</i> 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 <i>pari passu</i> 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 I

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%

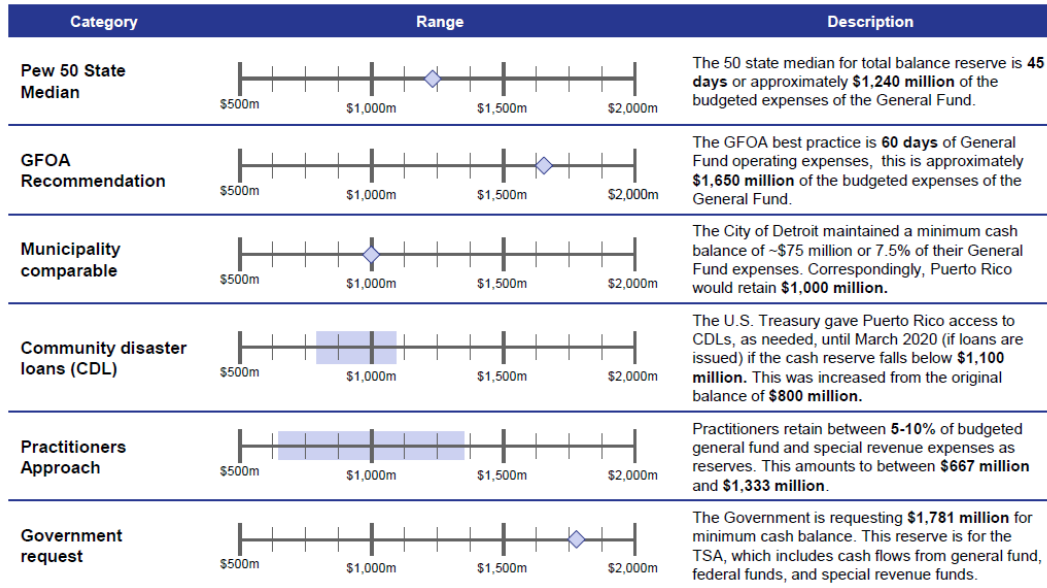
¹ Recoveries on this exhibit do not include pension recoveries, which are assumed to be paid in full as part of Fiscal Plan adjustments, and ERS recoveries, which are assumed to be paid according to agreement with ERS creditors

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 analysis²⁶



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

APPENDIX 5

Commonwealth Title III Plan¹

Best Interests Test Analysis – Assumptions

	Question	Assumption
1.	Existence of PROMESA/Board: Should PROMESA Titles I and II apply be assumed to apply?	<p>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.</p> <p>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>i.e.</i>, 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.</p> <p>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.</p>

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?	<p>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.</p> <p>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.</p>
3.	Restricted/Unrestricted Cash	<p>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.</p> <p>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.</p> <p>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</p>

	Question	Assumption
		<p>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.</p> <p>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.</p> <p>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.</p>
4.	<p>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.)</p>	<p>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>i.e.</i>, 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>i.e.</i>, 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.</p> <p>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</p>

	Question	Assumption
		<p>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.</p> <p>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>i.e.</i>, 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 <i>pari passu</i> 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 <i>pari passu</i> 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.</p> <p>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</p>

	Question	Assumption
		<p>arising only in favor of the allocable revenue entity if and when allocable revenues are unlawfully retained).</p> <p>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).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

	Question	Assumption
		<p>would assume the allocable revenue entity or such bondholders may assert an unsecured, non-priority (<i>i.e.</i>, subordinated to the GO debt) claim against the Commonwealth in addition to their claim against the allocable revenue entity (<i>i.e.</i>, the issuer).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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'.</p> <p>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.</p>

	Question	Assumption
5.	Fiscal Plan Measures – Implementation Risk: Is there a risk the fiscal plan measures will not be fully implemented?	<p>ASSUMPTION: Assume a range of recoveries based on high or medium implementation risk of fiscal measures and/or structural reforms.</p> <p>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.</p>
6.	Operating expenses (including pensions) priority: Will operating expenses be paid before GO and <i>pari passu</i> debt is paid?	<p>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.</p> <p>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).</p> <p>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.</p> <p>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</p>

	Question	Assumption
		<p>“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.</p> <p>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.</p> <p>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.</p>
7.	PFC Bonds: Do PFC Bonds constitute allowable claims?	<p>ASSUMPTION: No.</p> <p>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.</p>
8.	PRIFA BANs: Have PRIFA BANs been paid off using Crudita revenues since 2016?	<p>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.</p>

	Question	Assumption
9.	Additional Interest: Should debt (principal + interest) that remained unpaid during the stay accrue additional interest?	<p>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.</p> <ul style="list-style-type: none"> 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 <i>pari passu</i> 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 <i>pari passu</i> 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?	<p>ASSUMPTION: Federal claims need to be paid in full.</p> <p>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.</p>

	Question	Assumption
11.	ERS Bondholders' Claims: ² What is the value of ERS bondholder claims against the Commonwealth?	<p>ASSUMPTION 1 [MAIN ASSUMPTION]: ERS bondholders have no claims against the CW.</p> <p>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>i.e.</i>, 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 <i>ultra vires</i> issuance, and the bondholders' are not entitled to any equitable remedies.</p> <p>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 <i>pari passu</i> debt.</p> <p>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</p>

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

	Question	Assumption
		<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
12.	What is the treatment of ERS assets that are not used for payment of ERS bondholders and other claims?	<p>ASSUMPTION 1 [MAIN ASSUMPTION]: ERS's agreement with its creditors based on the terms included in the <i>Amended and Restated Stipulation</i> 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</p> <p>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.</p>

	Question	Assumption
		<p>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.</p> <p>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.</p>
13.	CRIM (Property Tax)	<p>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.</p> <p>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 <i>pro rata</i>, (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).</p>
14.	IFCU (Independently Forecasted Component Units): Is their revenue “available resources”?	<p>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.</p> <p>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</p>

	Question	Assumption
		<p>the effective date of the plan; accordingly, if no plan is confirmed, such legislation will not be enacted.</p> <p>ASSUMPTION 2 [LITIGATION RISK]: IFCU surplus can be used by the Commonwealth.</p> <p>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.</p>
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?	<p>ASSUMPTION 1 [MAIN ASSUMPTION]: They are not available resources (consistent with assumption 13).</p> <p>ASSUMPTION 2 [LITIGATION RISK]: As those revenue streams belong to the Commonwealth, it can exercise its police powers to capture those funds.</p> <p>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.</p>

	Question	Assumption
		<p>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.</p> <p>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.</p> <p>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</p> <p>The two funds of the Tourism Company are: (1) a special fund used to pay the 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.</p> <p>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.</p>
16.	Should the challenges to the GO bonds and certain Commonwealth-guaranteed debt be taken into consideration?	<p>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</p>

³ 15 L.P.R.A. § 74.

	Question	Assumption
		<p>claims would have no claim against the Commonwealth (including any claim for unjust enrichment or other similar claim).</p> <p>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.</p> <p>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).</p> <p>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</p> <p>ASSUMPTION 3 [LITIGATION RISK]: No. Assume bonds and guarantees listed in the debt stack below are valid and enforceable.</p> <p>BASIS: The challenges explained in the bases above could be unsuccessful.</p>

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 STACK⁵

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 expenditures⁷	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 Constitution⁹

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): \$1,024,549,014¹²
- 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)	<p>Paid by every owner of a motor vehicle subject to annual license fees at:</p> <ul style="list-style-type: none"> ▪ internal revenue offices; or ▪ official inspection stations; or ▪ banks; or ▪ any place designated by the Secretary of Treasury 	<ul style="list-style-type: none"> ▪ All motor vehicle annual license fees are covered by Treasury into a Special Deposit in the name and for the benefit of HTA. 	<p>9 LPRA § 2004(l):</p> <p>“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.”</p> <p>9 LPRA § 2021:</p> <p>“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.”</p>
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					<p>9 LPRA § 5681:</p> <p>“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. [...]”</p> <p>[...]</p> <p>“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.”</p> <p>“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.”</p> <p>9 LPRA § 5682(e):</p>
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					<p>“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.”</p>
HTA	Gasoline, Gas Oil and Diesel Oil Tax	<p>13 LPRA § 31751</p> <p>9 LPRA 2004(l)</p>	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ Gasoline, gas oil and diesel oil excise taxes are covered by Treasury into a special deposit in favor of HTA. 	<p>13 LPRA 31751:</p> <p>“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.”</p> <p>9 LPRA 2004(l):</p> <p>“Subject to the provisions of sec. 2005 of this title, the Authority is hereby empowered to: [...] To take money on</p>

					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)	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The total amount crude oil taxes and petroleum taxes are covered by Treasury into a special deposit in favor of HTA. 	<p>13 LPRA 31571:</p> <p>“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.”</p> <p>9 LPRA 2004(l):</p>

					<p>“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.”</p>
HTA	Cigarette Tax	13 LPRA § 31751	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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. 	<p>“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.”</p> <p>“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.”</p>

			excess above the \$2,500,000 revenues collected on previous or subsequent months of the same fiscal year.		
MBA	Cigarette Tax	13 LPRA § 31751	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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. 	<p>“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.”</p> <p>[...]</p> <p>“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</p>

			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	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ 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. 	<p>“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.”</p> <p>“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</p>

					<p>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.”</p>
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PRIFA	Federal Excise Taxes	3 LPRA § 1914	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ From FY 2007 – FY 2057, the amount of the transfer shall be \$117,000,000. 	<p>“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.”</p> <p>[...]</p> <p>“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</p>
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			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”).	<ul style="list-style-type: none"> 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. 	<p>“The [Tourism] Company shall distribute all funds collected from the tax imposed under § 2271o of this title, as follows:</p> <p>(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:</p> <p>(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;</p> <p>(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 ;</p> <p>(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</p> <p>(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.</p> <p>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</p>

					<p>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].”</p> <p>[...]</p> <p>“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[....]”</p> <p>[...]</p> <p>“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</p>
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					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	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ 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. 	<p>“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</p>

¹³ PRITA currently has no debt outstanding.

					<p>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.”</p> <p>[...]</p> <p>“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</p>
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					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.”
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Part II: Allocable Revenue Statutes

<u>ENABLING ACT</u>	<u>STATUTORY ALLOCABLE REVENUE CITATION</u>
HTA	
<p>1. Puerto Rico Highway and Transportation Authority Act</p> <p>Entities involved:</p> <p>HTA (Puerto Rico Highway and Transportation Authority)</p>	<p><u>9 L.P.R.A. § 2004(l)</u> (“Powers”):</p> <p>(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.</p> <p><u>9 L.P.R.A. § 2021</u> (“Special Deposit for the benefit of the Highways Authority”):</p> <p>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.</p> <p>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.</p>

<p>2. Subtitle 17. Internal Revenue Code of 2011</p> <p>Entities Involved:</p> <p>HTA (Highways and Transportation Authority)</p>	<p><u>13 L.P.R.A. § 31751</u> (“Disposition of funds”):</p> <p>(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.</p> <p>(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 title 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.</p> <p>(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 §</p>
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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)	<p><u>“Section 23.02(c).- Fees to be Paid.”</u></p> <p>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.</p> <p><u>“Section 23.01.- Procedure for the Payment of Fees.”</u></p> <p>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].</p> <p>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.</p>
4. Internal Revenue Code for a New Puerto Rico Entities Involved: HTA (Puerto Rico Highways and Transportation Authority)	<p>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:</p> <p>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.</p>

MBA (Metropolitan Bus Authority)	<p>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.</p> <p>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.</p> <p>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.</p>
PRIFA	
1. Puerto Rico Infrastructure Financing Authority Act	<p><u>3 L.P.R.A. § 1906</u> (“General powers”):</p> <p>(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</p>

<p>Entities Involved:</p> <p>PRIFA (Puerto Rico Infrastructure Financing Authority)</p>	<p>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.</p> <p><u>3 L.P.R.A. § 1907</u> (“<u>Bonds of the Authority</u>”):</p> <p>(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.</p> <p><u>3 L.P.R.A. § 1914</u> (“<u>Special deposit</u>”):</p> <p>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</p>
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	<p>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.</p> <p>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.</p>
PRCCDA	
<p>1. Puerto Rico Room Occupancy Rate Tax Act</p> <p>Entities involved:</p> <p>PRCCDA (Puerto Rico Convention Center District Authority, a public corporation of the Commonwealth of Puerto</p>	<p>13 L.P.R.A. § 2271v (“Disposition of funds”)</p> <p>The [Tourism] Company shall distribute all funds collected from the tax imposed under § 2271o of this title, as follows:</p> <p>(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:</p> <p>(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],</p>

<p>Rico created by §§ 6 401 et seq. of Title 23, known as the ‘Puerto Rico Convention Center District Act’)</p> <p>Puerto Rico Tourism Company, a public corporation of the Commonwealth of Puerto Rico created by §§ 671 et seq. of Title 23</p>	<p>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;</p> <p>(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 ;</p> <p>(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</p> <p>(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.</p> <p>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].</p> <p>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 [...]</p> <p>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</p>
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	<p>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.</p> <p>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.</p>
MBA	
<p>Internal Revenue Code for a New Puerto Rico</p> <p>Entities Involved:</p> <p>HTA (Puerto Rico Highways and Transportation Authority)</p> <p>MBA (Metropolitan Bus Authority)</p>	<p>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:</p> <p>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.</p> <p>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.</p>

	<p>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.</p> <p>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.</p>
PRITA	
<p>Internal Revenue Code for a New Puerto Rico</p> <p>Entities Involved:</p> <p>PRITA (Puerto Rico Integrated Transportation Authority)</p>	<p>13 L.P.R.A. § 31751 ("Disposition of funds")</p> <p>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</p>

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,

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 value² 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

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.

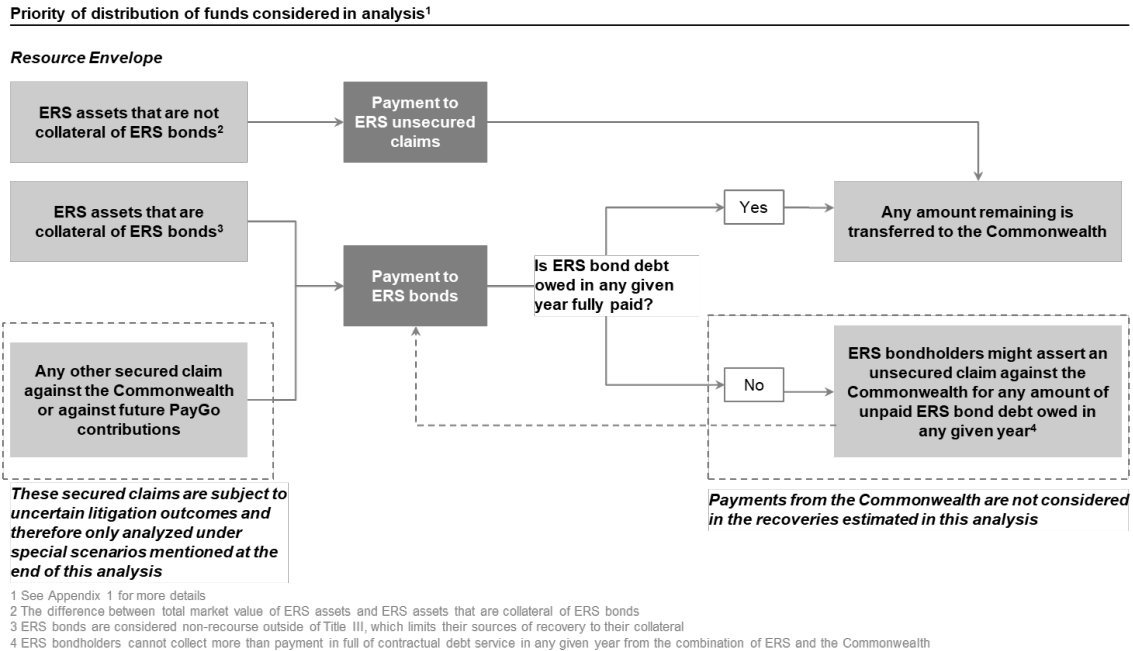
This analysis does not consider obligations to retirees, as those obligations were assumed by the Commonwealth under Act 106-2017 as mentioned in Appendix 1. To the extent not paid from the unencumbered assets of ERS, obligations to retirees will be satisfied to the extent set forth in the in the Commonwealth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

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?	<p>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.</p> <p>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>i.e.</i>, 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.</p> <p>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.</p> <p>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.</p>

	Question	Assumption						
2.	ERS Bondholders' Claims Against ERS Petition Date Assets?	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>SENSITIVITY: ERS petition date assets</p> <table border="1" data-bbox="594 930 1902 1398"> <thead> <tr> <th data-bbox="594 930 785 1162">Asset Category</th><th data-bbox="785 930 1068 1162">Petition Date book value (unless indicated otherwise) according to analysis performed by FOMB expert</th><th data-bbox="1068 930 1902 1162">Probability Book Value of Assets is Bondholders' Collateral</th></tr> </thead> <tbody> <tr> <td data-bbox="594 1162 785 1398">Employers' Contributions accounts receivable (from the CW, CRIM, and certain</td><td data-bbox="785 1162 1068 1398">\$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 data-bbox="1068 1162 1902 1398">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> </tbody> </table>	Asset Category	Petition Date book value (unless indicated otherwise) according to analysis performed by FOMB expert	Probability Book Value of Assets is Bondholders' Collateral	Employers' Contributions accounts receivable (from the CW, CRIM, and certain	\$85.6M, including \$31.3M from the CW, \$11.7M from the municipalities paid by CRIM, and \$42.6M from public corporations for	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.
Asset Category	Petition Date book value (unless indicated otherwise) according to analysis performed by FOMB expert	Probability Book Value of Assets is Bondholders' Collateral						
Employers' Contributions accounts receivable (from the CW, CRIM, and certain	\$85.6M, including \$31.3M from the CW, \$11.7M from the municipalities paid by CRIM, and \$42.6M from public corporations for	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.						

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.

Question		Assumption		
		distribution proceeds		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.
		Cash from Released Funds	\$37.4M	10% The bondholders authorized a release of their security interest in these funds.
		Cash from AUC collections	\$74.1M	10% As explained above, AUC are not subject to the bondholders' security interest.
		Cash traceable to Employers' Contributions	\$56.8M	100%
		COFINA bond holdings	\$66.0M (per balance sheet as of May 31, 2017)	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.
3.	ERS Bondholders' Claims Against the Commonwealth?	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 <i>pari passu</i> debt.		

	Question	Assumption
		<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>ASSUMPTION 3 [LITIGATION RISK]: ERS bondholders have no claims against the CW.</p> <p>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>i.e.</i>, secured only by employer contributions arising prior to the ERS petition date, but not after, as a result of the Section 552 opinion..</p>

	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?	<p>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.</p> <p>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.</p> <p>ASSUMPTION 2 [LITIGATION RISK]: Pensioners have only a claim against the CW for cuts, if any, to their pensions.</p> <p>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.</p>
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?	<p>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.</p> <p>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.</p>

	Question	Assumption
		<p>ii. Interest on unsecured claims during stay: Assume no interest accrues.</p> <p>iii. Interest on unpaid debt: Assume any unpaid debt accrues interest according to the weighted average coupon rate as of 2020 (provided by Citi).</p> <p>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.</p>
7.	Other Litigation Claims?	<p>ASSUMPTION 1 [MAIN ASSUMPTION]: Ultra vires claim that ERS bonds were issued without authorization has no merit.</p> <p>ASSUMPTION 2 [LITIGATION RISK]: Ultra vires claim eliminates the remaining bond claims, although bondholders keep payments made to them so far.</p> <p>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.</p>

DEBT STACK⁴

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

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 value² 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

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,

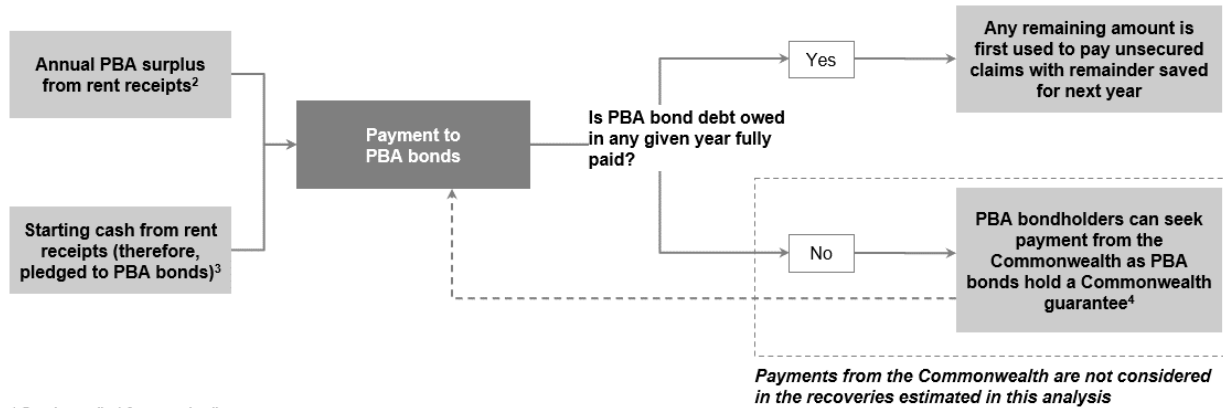
if any. Unpaid principal accrues interest according to the original rates stipulated in each of the relevant bond documents and is then added to the following year's debt. No interest accrues on interest balances.

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

Priority of distribution of funds considered in analysis¹

Resource Envelope



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 million⁶ 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

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 bonds¹	\$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?	<p>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.</p> <p>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>i.e.</i>, 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.</p> <p>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.</p> <p>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</p>

	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?	<p>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.</p> <p>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.</p>
4.	What is the waterfall of payments for PBA bonds?	<p>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.</p> <p>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.</p>
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?	<p>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.</p> <p>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>i.e.</i>, 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.</p>
7.	Are the PBA bonds issued in 2011 invalid because they violated the Commonwealth's constitutional debt limit?	<p>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.</p> <p>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.</p> <p>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.</p> <p>BASIS: In addition to the challenge explained above, the statutory unsecured claimholders' committee has challenged PBA bonds on that account starting in March 2011.</p>

	Question	Assumption
		<p>ASSUMPTION 3 [LITIGATION RISK]: No. PBA bonds issued in or after March 2011 do not violate the debt limit.</p> <p>BASIS: The challenges explained in the bases above could be unsuccessful.</p>
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?	<p>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.</p> <ul style="list-style-type: none"> 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 STACK¹

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 claims²

- 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

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

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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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

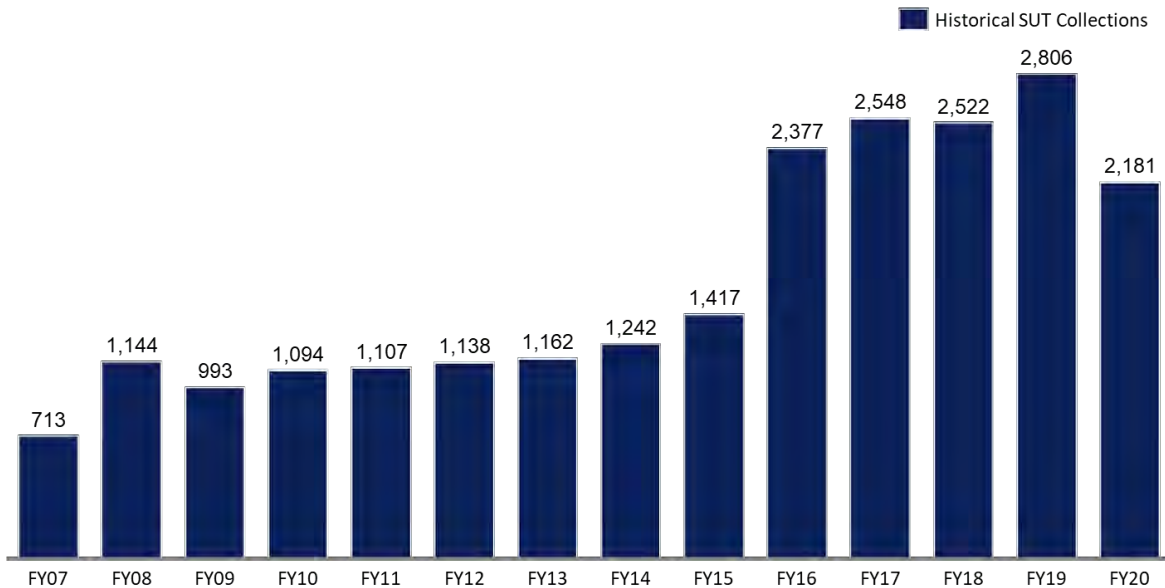
declaration and payment of the Commonwealth SUT on imported goods at the time of their entry into Puerto Rico.

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 COLLECTIONS² (10.5%)

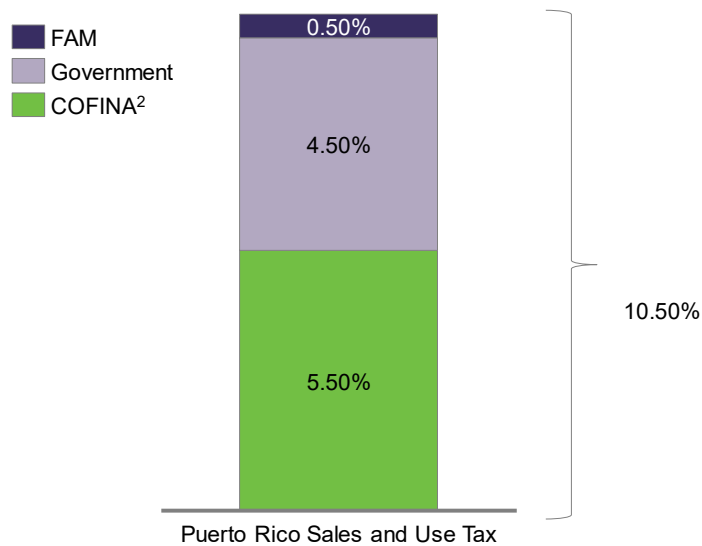
Historical SUT Revenues, \$M



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 Tax¹



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 period³.

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.

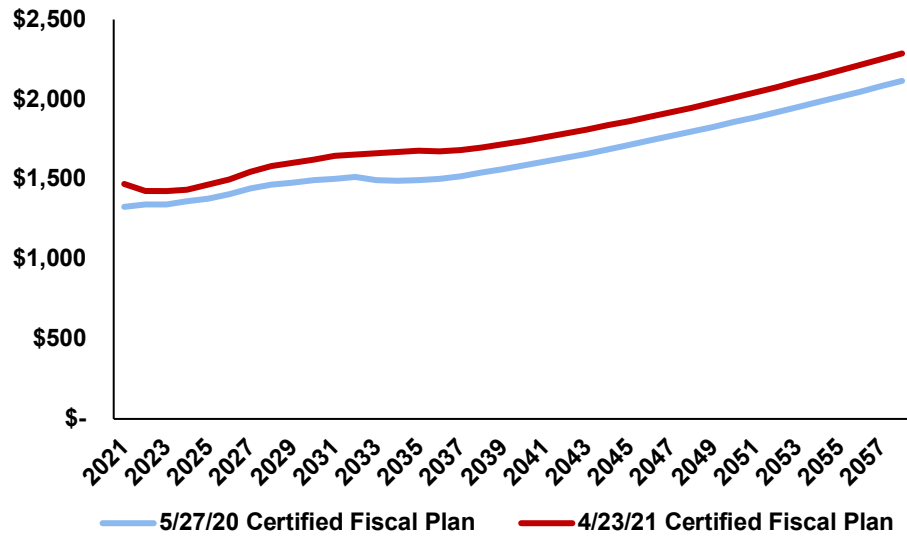
Near-term SUT collections consider performance year to date in FY2021 as well as the impacts of COVID-19 related adjustments and continued disaster recovery spend. The long-term sales and use forecast is aligned with year-over-year changes in Puerto Rico nominal GNP. On average, sales and use taxes from 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 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/SURPLUS⁴



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.

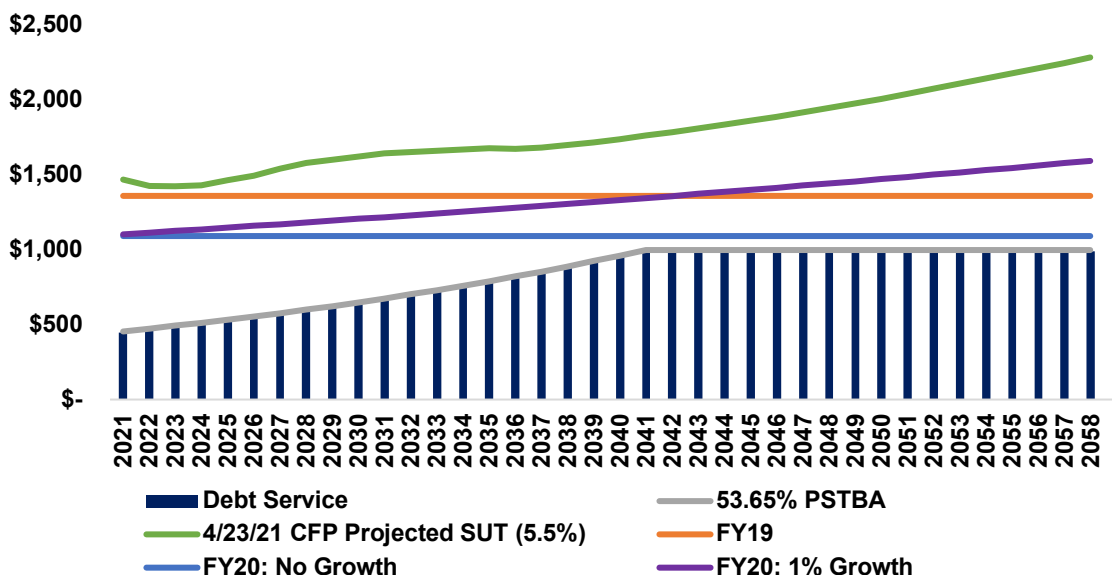
⁴ Pursuant to the Indenture, Amounts deposited in the Remainder Fund shall be free and clear of the Statutory Lien and shall promptly be paid to the Commonwealth of Puerto Rico.

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 base⁵, 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

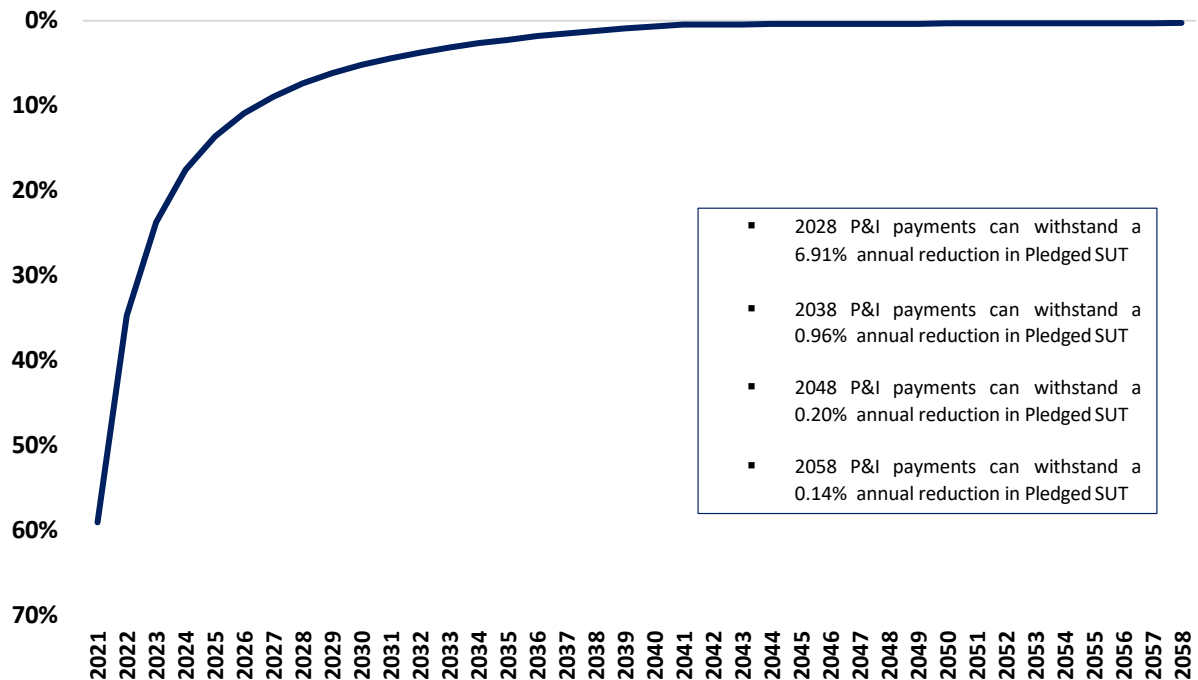
Case 1: Projected FP SUT				Case 2: No SUT Growth				Case 3: Assume 1% Growth			
FY20 Pledged SUT		1,092.6		FY20 Pledged SUT		1,092.6		FY20 Pledged SUT		1,092.6	
Growth Rate		FP		Growth Rate		0.000%		Growth Rate		1.000%	
(\$ millions)				(\$ millions)				(\$ millions)			
	FY20 Pledged SUT	Debt Service 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
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	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 2021

Puerto Rico Sales Tax Corporation Budget

The amount of \$1,400,000 is budgeted for the expenditures of Puerto Rico Sale Tax Corporation (“COFINA” by its Spanish acronym”) herein for the fiscal year ending 30 June 2022.

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Section 1.- The following amounts are authorized for the expenditures of COFINA set forth herein for the fiscal year ending 30 June 2022 (“FY2022”):

[INTENTIONALLY LEFT BLANK]

1	1. Puerto Rico Sales Tax Financing Corporation (COFINA)		
2	A. Payroll		166,000
3	i Salaries	132,000	
4	ii Salaries for trust employees	-	
5	iii Overtime	-	
6	iv Christmas bonus	-	
7	v Healthcare	-	
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		18,000
13	i Payments to PREPA	-	
14	ii Payments to PRASA	-	
15	iii Payments to PBA	18,000	
16	iv Other facility costs	-	
17	D. Purchased services		362,400
18	i Shared services provided by AAFAF	72,000	
19	ii Directors and officers insurance policy	290,400	
20	E. Transportation		20,000
21	F. Professional Services		556,500
22	i Legal professional services	100,000	
23	ii Finance and accounting professional services	216,500	
24	iii Trustee fees - BNYM	30,000	
25	iv Financial services implementation	170,000	
26	v Website expense	30,000	
27	vi Other professional services	10,000	
28	G. Other operating expenses		277,100
29	i Board of director director fees	225,000	
30	ii Other Ooperating expenses	52,100	
31	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 FY2022.

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, 2021 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.- COFINA is authorized to use prior year surpluses to the extent investment earnings are not sufficient to fund the FY2022 operating budget appropriations.

Section 5.- 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 FY2022 certified budget resolution as long as such requests are submitted to and approved by the Oversight Board.

Section 6.- 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 FY2022, 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 7.- In conjunction with the reports required by Section 6, 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 8.- The Executive Director of COFINA shall be responsible for not spending or encumbering during FY2022 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, 2021 that no amount was spent or encumbered that exceeded the authorized budget amount in the certified budget for fiscal year 2021.

Section 9.- 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 10.- 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 11.- The COFINA budget for FY2022 shall take effect on July 1, 2021.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information

June 30, 2020

(With Independent Auditors' Report Thereon)

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

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KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Directors
Puerto Rico Sales Tax Financing Corporation:

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the Puerto Rico Sales Tax Financing Corporation (the Corporation), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund, of the Puerto Rico Sales Tax Financing Corporation, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9 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 statements 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 inquiries 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 statements, and other knowledge we obtained during our audit 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.

KPMG LLP

San Juan, Puerto Rico
September 23, 2020

Stamp No. E419678 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

As management of the Puerto Rico Sales Tax Financing Corporation (the Corporation or COFINA), we offer readers of the Corporation's financial statements this narrative overview and analysis of its financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the Corporation's basic financial statements, including the notes thereto, which follow this section.

Financial Highlights

- The Corporation's net deficit in the statement of net position (deficit) increased to \$4,961 million at June 30, 2020 from \$4,367.9 million at June 30, 2019, an increase of approximately \$593 million or 13.6%. The increase in net deficit is because the Corporation recorded interest on its bonds payable of approximately \$585.2 million, of which \$154.5 million represent the accretion of interest on capital appreciation bonds during year ended June 30, 2020. Also, during the year ended June 30, 2020, the Corporation accrued the amount of \$8.5 million representing the remaining sales and use tax (SUT) collections deposited free and clear of the statutory lien and that will be paid to the Commonwealth of Puerto Rico in accordance with Section 5.10 of the Master Trust Indenture.
- COFINA Revenues increased to \$437 million in fiscal year 2020 from \$420 million in fiscal year 2019, an increase of approximately \$16.8 million or 4%. This increase was due to a statutory rate increase of 4% provided by Act No.91, as amended. For further information, refer to Note 7 to the basic financial statements. The term "COFINA Revenues" refers to the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year, which is a statutorily determined amount that increases by four percent each fiscal year. See Note 10 to the basic financial statements.
- On August 1, 2019 certain taxable COFINA Bonds were exchanged for tax-exempt COFINA Bonds (i.e., interest on such bonds is excluded from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Tax Code)), through an invitation to exchange discussed in the Note 10 to the basic financial statements. At that date, 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. The term "COFINA Bonds" refers to the Corporation's Restructured Sales Tax Bonds, issued on February 12, 2019.
- On February 5, 2019, the Title III Court confirmed COFINA's Third Amended Plan of Adjustment (Plan). The Plan became effective in accordance with its terms of February 12, 2019, and COFINA emerged from Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). For additional information, refer to Note 4 to the basic financial statements.

Overview of the Financial Statements

These basic financial statements include management's discussion and analysis section, the independent auditor's report, and the basic financial statements of the Corporation. The basic financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

These basic financial statements and notes thereto should be read in conjunction with certain public documents concerning the Corporation. These basic financial statements provide a description for the readers' convenience and are qualified in their entirety by reference to the provisions of Act 241-2018 (discussed in Note 1 to the basic financial statements), and the COFINA Plan of Adjustment, the Findings and Conclusions, and the Confirmation Order (each as defined and discussed in Note 4 to the basic financial statements and below under the heading "COFINA's Emergence from Title III of PROMESA" in this section). The COFINA Plan of Adjustment, the

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Findings and Conclusions, and the Confirmation Order are available without charge at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>. To the extent there is any discrepancy between the description contained herein and the terms set forth in each of these documents (the Operative Documents), the terms set forth in the Operative Documents control.

Required Financial Statements

- The statement of net position (deficit) provides information about the nature and amounts of resources (assets) and the Corporation's obligations (liabilities).
- Current year revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Corporation's operations over the past year.
- Governmental funds' financial statements present the financial position and results of operations of the Corporation's two governmental fund types using a current financial resources measurement focus. The statement of revenues, expenditures, and changes in fund balance can be used to determine, for example, whether and how the Corporation met its debt service requirements for the year.

Financial Analysis

In evaluating the Corporation's finances, in addition to the Corporation's assets and liabilities, various non-financial factors, such as changes in economic conditions, and new or changed legislation should be considered. Due to the nature of the Corporation's activities, the Corporation's financial strength and ability to repay its obligations is solely dependent on the portion of the SUT collected and used to fund the debt service fund. The confirmation of the COFINA Plan of Adjustment ended the Corporation's restructuring under Title III of PROMESA and included sweeping changes to its financial situation. It should be noted that certain issues and disputes related to the Corporation's Title III process remain ongoing (as discussed in Note 15 to the basic financial statements).

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Government-Wide Financial Analysis

The following is a condensed summary of the assets, liabilities and net position (deficit) for the Corporation at June 30, 2020 and 2019 (in thousands) presented from an accounting perspective:

	June 30		Change	
	2020	2019	Amount	Percent
Assets:				
Future sales and use tax receivable	\$ 7,301,400	\$ 7,738,396	\$ (436,996)	(5.6)%
Other assets	<u>259,222</u>	<u>224,417</u>	<u>34,805</u>	15.5%
Total assets	<u>7,560,622</u>	<u>7,962,813</u>	<u>(402,191)</u>	(5.1)%
Liabilities:				
Accounts payable and other	220,687	173,736	46,951	27.0%
Due to Commonwealth of Puerto Rico	8,483	-	8,483	100.0%
Liabilities payable from restricted assets	<u>12,291,953</u>	<u>12,157,012</u>	<u>134,941</u>	1.1%
Total liabilities	<u>12,521,123</u>	<u>12,330,748</u>	<u>190,375</u>	1.5%
Net deficit – unrestricted	<u>\$ (4,960,501)</u>	<u>\$ (4,367,935)</u>	<u>\$ (592,566)</u>	13.6%

Future SUT collections are recognized as revenue in the fund financial statements upon the Corporation's receipt of such collections but in the government-wide financial statements, these payments reduce the future sales and use tax receivable. The Corporation's receipt of COFINA Revenues for fiscal year 2020 of approximately \$437 million reduced the balance of the future SUT receivable as of June 30, 2020. Also, at June 30, 2020, the Corporation had \$12,292 million of bonds payable issued and outstanding, an increase of approximately \$134.9 million (or 1.10%) from \$12,157 million at June 30, 2019. The net increase of \$134.9 million was the result of the accretion of interest on capital appreciation bonds of \$154.5 million reduced by scheduled principal debt service payments of \$19.6 million for fiscal year 2020.

The accounts payable increased because the Corporation incurred certain expenses related to the establishment of an independent operational structure that allows it to be fully independent from other governmental entities. Such expenses included the establishment of its board of directors, director and management compensation, directors' and officers' liability insurance, website subscription, among other expenses.

Finally, pursuant to Section 5.10 of the Master Trust Indenture, dated as of February 12, 2019 (the Master Trust Indenture), by and between the Corporation and The Bank of New York Mellon (BNYM), as trustee (the Trustee), remaining amounts deposited free and clear of the statutory lien in the Remainder Fund will be paid to the Commonwealth of Puerto Rico. As of June 30, 2020, the Corporation established an accrual due to the Commonwealth of \$8,483,004 in accordance with this provision of the Master Trust Indenture.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

Condensed revenues, expenses, and change in net position (deficit) for the year ended June 30, 2020 and 2019, are presented below (in thousands):

	June 30		Change	
	2020	2019	Amount	Percent
Expenses:				
Payments to the Commonwealth of Puerto Rico	\$ (8,483)	\$ (49,455)	\$ 40,972	(82.8)%
Interest on long-term debt	(585,181)	(1,161,892)	576,711	(49.6)%
Other	(1,945)	(6,274)	4,329	(69.0)%
Total expenditures	<u>(595,609)</u>	<u>(1,217,621)</u>	<u>622,012</u>	<u>(51.1)%</u>
Program revenues:				
Investment earnings	3,040	21,233	(18,193)	(85.7)%
Other	3	775	(772)	(99.6)%
Total revenues	<u>3,043</u>	<u>22,008</u>	<u>(18,965)</u>	<u>(86.2)%</u>
Extraordinary item:				
Gain on PROMESA Title III transaction	—	6,260,592	(6,260,592)	100.0%
Total extraordinary item	<u>—</u>	<u>6,260,592</u>	<u>(6,260,592)</u>	<u>100.0%</u>
Change in net deficit	<u>\$ (592,566)</u>	<u>\$ 5,064,979</u>	<u>\$ (5,657,545)</u>	<u>(111.7)%</u>

The confirmed COFINA Plan of Adjustment signified the end of the Corporation's restructuring under the PROMESA Title III process and included sweeping changes to its financial situation. The completion of the Corporation's restructuring under the PROMESA Title III process, the settlement of the Commonwealth-COFINA Dispute, other settlements and the discharge of claims under the COFINA Plan of Adjustment resulted in an aggregated extraordinary gain of approximately \$6.3 billion for fiscal year 2019.

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment, which provided for the allocation of certain disputed funds interplead by BNYM from June 2017 to February 12, 2019. The amount of \$49.4 million, which was paid from the interpleaded funds, was presented as payments to the Commonwealth of Puerto Rico in the 2019 statement of revenues, expenditures and changes in fund balance and statement of activities in the general fund.

Total interest expense on long-term debt for the fiscal year ended June 30, 2020 was approximately \$585.2 million, a decrease of \$576.7 million (or 49.6%) when compared to 2019. Upon confirmation of the COFINA Plan of Adjustment by the Title III Court, the pre-petition liabilities subject to the plan were discharged and the Corporation was bound to the new and lower debt repayment terms set forth in the COFINA Plan of Adjustment.

During the year ended June 30, 2019, the Corporation recorded approximately \$4.2 million to cover any unfavorable outcome related to an administrative claim dispute with the Internal Revenue Service which seeks the return of post-petition direct subsidy payments with respect of certain pre-petition bonds (discussed in Note 11 to the basic financial statements). During the year ended June 30, 2020, management accrued interest of \$538,737 that the IRS asserted would be owed if its claim is successful, increasing the contingent liability to \$4,740,693.

Interest income on investments decreased in fiscal year 2020 when compared to the previous fiscal year due to the accumulation in 2019 of funds transferred by the Corporation to the Trustee for debt service which were

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

invested until the Title III Court determined the timing and manner in which interpleaded funds were distributed on February 12, 2019.

Governmental Fund Financial Analysis

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Corporation uses to keep track of specific sources of funding and spending for a particular purpose. Governmental fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The Corporation maintains two governmental funds which are considered major funds: the general fund and the debt service fund. Information is presented separately in the governmental funds balance sheets and in the governmental funds statements of revenues, expenditures, and changes in fund balances. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. This information may be useful in evaluating the Corporation's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Corporation's governmental activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation's governmental funds reported a total fund balance as of June 30, 2020 and 2019, of \$249.8 million and \$223.6 million, respectively. At the Plan of Adjustment's effective date, the Corporation's general fund received \$15 million, available for its operating expenses, plus additional funds remaining prior to the closing date that was held at the Corporation. The current balance as of June 30, 2020 was approximately \$21.7 million, of which \$15 million is currently on deposit in an operational account at a Puerto Rico banking institution (the Operations Account), and the remainder is on deposit in the Corporation's general account. In addition to these funds, operating expenses will be covered by investment earnings derived from interest income generated by funds deposited in the Corporation's bond trustee accounts held for the benefit of the Corporation prior to distribution. These amounts will be transferred to the Corporation's Operations Account, subject to the annual operating account cap amount of \$15 million. Pursuant to the Master Trust Indenture, remaining amounts deposited in the Remainder Fund free and clear of the statutory lien will be paid to the Commonwealth of Puerto Rico. A subsequent payment of approximately \$8.5 million to the Commonwealth was accrued as of June 30, 2020. The debt service fund is funded with the receipts of sales and use tax and interest thereon. For the years ended June 30, 2020 and 2019, the receipts of sales and use tax amounted to approximately \$437.0 million and \$420.2 million, respectively.

Debt Administration

As of June 30, 2020, the Corporation's outstanding bonds balance was approximately \$12,292 million compared to \$12,157 million as of June 30, 2019. The net increase of \$134.9 million was the result of the accretion in the discount on capital appreciation bonds of \$154.5 million reduced by scheduled principal debt service payments of \$19.6 million for fiscal year 2020.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

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The New COFINA Bonds (as used herein, the term "New COFINA Bonds" will have the same meaning as the term "COFINA Bonds" in the COFINA Plan of Adjustment) include: (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019.

In June 2019, COFINA invited holders of the Series 2019A-2 Bonds and the Series 2019B-2 Bonds (the Invited Bonds) to exchange those bonds for bonds of the Corporation the interest on which is excluded from gross income for federal tax purposes under Section 103 of the Tax Code with a yield that is no more than twenty-five (25) basis points lower than the Invited Bond so exchanged (the Converted Bonds) and to consent to certain amendments of the First Supplemental Indenture and the Second Supplemental 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.

The newly issued bonds are payable on various dates through fiscal year 2058. The New COFINA Bonds do not have a debt service reserve fund nor rights of acceleration.

COFINA's Credit Ratings

During previous years, COFINA was subject to certain credit downgrades by the major credit rating agencies and currently, the outstanding bonds of the Corporation are not rated. With respect to the Plan of Adjustment's ratings covenant on the New COFINA Bonds, the Corporation has determined that it is not in the best interests of the Corporation to obtain a rating on the bonds at this time. In making this determination, the Corporation considered, among other things, the current instability in the macroeconomic environment, the pending restructuring of the Commonwealth's public debt under Title III of PROMESA and ongoing litigation.

COFINA's Emergence from Title III of PROMESA

The Corporation completed a judicially supervised restructuring proceeding under Title III of PROMESA. On February 5, 2019, the Title III Court issued the Confirmation Order, which confirmed the Corporation's Title III Plan of Adjustment (the COFINA Plan of Adjustment, as defined in Note 4 to the basic financial statements) and thereby quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Confirmation Order is full, final, complete, conclusive, and binding regarding the Corporation's ownership of the COFINA Revenues and shall not be subject to collateral attack or other challenge in any court or other forum, except as permitted under applicable law. The Confirmation Order is the subject of various appeals before the United States Court of Appeals for the First Circuit that the Corporation believes are non-meritorious. Management's position is that ownership of the COFINA Revenues is a purely legal question, and nothing in the accounting and reporting policies is intended to modify, displace, amend or alter any finding of fact or conclusion of law as to any issue determined in any of the Operative Documents (as defined previously).

On February 12, 2019, the Corporation emerged from its case under Title III of PROMESA. On that date, the Corporation consummated the COFINA Plan of Adjustment. Consummation of the COFINA Plan of Adjustment, together with the enactment of Act No. 241 of 2018 (Act 241-2018), provided for the restructuring of COFINA's bonds, quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them, and established a board of directors with financial and operating independence from the Commonwealth and corporate governance consistent with such independence.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

June 30, 2020

In February 2019, COFINA's existing senior and subordinated bondholders received new senior lien bonds with a face value of approximately \$12 billion on account of their approximately \$18 billion in claims, which are secured by a statutory lien on the COFINA Revenues. The Corporation has made its scheduled payments on its newly issued fixed-rate sales tax revenue bonds since February 12, 2019.

For more information on PROMESA and the Corporation's Title III proceedings, please refer to Notes 3 and 4 of the basic financial statements. The COFINA Plan of Adjustment can be found at: www.cofina.pr.gov.

Currently Known Facts and Events

Coronavirus Pandemic

The outbreak of a new strain of coronavirus named SARS-CoV-2 and the disease caused thereby ("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 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 SUT collections for fiscal year 2020.

Request for Information

This financial report is designed to provide those interested with a general overview of the Corporation's finances and to enhance the Corporation's accountability for the funds it receives. Questions about this report or requests for additional information should be addressed to Puerto Rico Sales Tax Financing Corporation, PO Box 42001, San Juan, Puerto Rico, 00940-2001. Additional information can also be found at: www.cofina.pr.gov.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Governmental Funds Balance Sheets and Statement of Net Position (Deficit)

June 30, 2020

	Governmental Funds Balance Sheets				Statement of
	General Fund	Debt Service Fund	Total	Adjustments	Net Position (Deficit)
Assets:					
Deposits placed with commercial bank	\$ 21,720,030	\$ -	\$ 21,720,030	\$ -	\$ 21,720,030
Cash held by trustee	-	1,009,364	1,009,364	-	1,009,364
Future sales and use tax receivable	-	7,301,399,666	7,301,399,666	-	7,301,399,666
Prepaid expenses and other assets	149,230	-	149,230	-	149,230
Investments	-	236,343,882	236,343,882	-	236,343,882
Total assets	<u>21,869,260</u>	<u>7,538,752,912</u>	<u>7,560,622,172</u>	<u>-</u>	<u>7,560,622,172</u>
Liabilities:					
Accounts payable and accrued liabilities	918,517	-	918,517	4,740,693	5,659,210
Accrued interest payable	-	-	-	215,028,009	215,028,009
Due to Commonwealth of Puerto Rico	8,483,004	-	8,483,004	-	8,483,004
Unearned revenue - sales and use tax	-	7,301,399,666	7,301,399,666	(7,301,399,666)	-
Bonds payable					
Due within one year	-	-	-	17,479,550	17,479,550
Due in more than one year	-	-	-	12,274,473,793	12,274,473,793
Total liabilities	<u>9,401,521</u>	<u>7,301,399,666</u>	<u>7,310,801,187</u>	<u>5,210,322,379</u>	<u>12,521,123,566</u>
Fund balance/net position (deficit):					
Fund balance:					
Restricted	-	237,353,246	237,353,246	(237,353,246)	-
Unassigned	12,467,739	-	12,467,739	(12,467,739)	-
Total fund balance	<u>12,467,739</u>	<u>237,353,246</u>	<u>249,820,985</u>	<u>(249,820,985)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 21,869,260</u>	<u>\$ 7,538,752,912</u>	<u>\$ 7,560,622,172</u>		
Net deficit:					
Unrestricted				(4,960,501,394)	(4,960,501,394)
Net deficit				<u>\$ (4,960,501,394)</u>	<u>\$ (4,960,501,394)</u>

See accompanying notes to basic financial statements.

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of Governmental Funds Balance Sheets to the
Statement of Net Position (Deficit)

June 30, 2020

Total fund balances - governmental funds:	\$	249,820,985
Amounts reported for governmental activities in the statement of net deficit are different because:		
Accrued interest payable is not due and payable in the current period, and, therefore, is not reported in the fund financial statements		(215,028,009)
Contingent liabilities are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(4,740,693)
Bonds and notes payable are not due and payable in the current period, and, therefore, are not reported in the fund financial statements		(12,291,953,343)
Future sales and use tax receivable does not constitute current financial resources, and, therefore, is unearned in the fund financial statements		<u>7,301,399,666</u>
Net deficit of governmental activities	\$	<u><u>(4,960,501,394)</u></u>

See accompanying notes to basic financial statements.

PUERTO RICO SALES TAX FINANCING CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

**Governmental Funds Statements of Revenues,
Expenditures, and Changes in Fund Balance and Statement of Activities**

June 30, 2020

	Statements of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances			Adjustments	Statement of Activities
	General Fund	Debt Service Fund	Total		
Expenditures/expenses:					
General government:					
Payments to the Commonwealth of Puerto Rico	\$ 8,483,004	\$ -	\$ 8,483,004	\$ -	\$ 8,483,004
Other	1,406,202	-	1,406,202	538,737	1,944,939
Debt service:					
Principal	-	19,606,660	19,606,660	(19,606,660)	-
Interest	-	384,330,290	384,330,290	200,850,746	585,181,036
Total expenditures/expenses	<u>9,889,206</u>	<u>403,936,950</u>	<u>413,826,156</u>	<u>181,782,823</u>	<u>595,608,979</u>
Program revenues:					
Collections of sales and use tax	-	436,996,352	436,996,352	(436,996,352)	-
Investment earnings	94,250	2,944,709	3,038,959	-	3,038,959
Other income	3,471	-	3,471	-	3,471
Total revenues	<u>97,721</u>	<u>439,941,061</u>	<u>440,038,782</u>	<u>(436,996,352)</u>	<u>3,042,430</u>
Net program revenue (expenses)	<u>(9,791,485)</u>	<u>36,004,111</u>	<u>26,212,626</u>	<u>(618,779,175)</u>	<u>(592,566,549)</u>
Other financing sources (uses):					
Transfers (out) in	833,500	(833,500)	-	-	-
Total other financing sources (uses)	<u>833,500</u>	<u>(833,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Deficiency) excess of revenues and other financing sources over expenditures and other financing uses	(8,957,985)	35,170,611	26,212,626	(26,212,626)	-
Change in net deficit	-	-	-	(592,566,549)	(592,566,549)
Fund balance/net deficit:					
At beginning of year	21,425,724	202,182,635	223,608,359	(4,591,543,204)	(4,367,934,845)
At end of year	<u>\$ 12,467,739</u>	<u>\$ 237,353,246</u>	<u>\$ 249,820,985</u>	<u>\$ (5,210,322,379)</u>	<u>\$ (4,960,501,394)</u>

See accompanying notes to basic financial statements.

PUERTO RICO SALES TAX FINANCING CORPORATION

(A Component Unit of the Commonwealth of Puerto Rico)

Reconciliation of Governmental Funds Statements of Revenues, Expenditures, and Changes in
Fund Balance and Statement of Activities

June 30, 2020

Net changes in fund balances - total governmental funds:	\$	26,212,626
Amounts reported for governmental activities in the statement of activities are different because:		
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(538,737)
Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (deficit)		19,606,660
Net change in interest payable reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds		(46,303,170)
Accretion on capital appreciation bonds does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds		(154,547,576)
Collections of sales and use tax provide current financial resources to governmental funds; however, represent repayments of the future sales and use tax receivable in the statement of activities		<u>(436,996,352)</u>
Change in net deficit of governmental activities	\$	<u><u>(592,566,549)</u></u>

PUERTO RICO SALES TAX FINANCING CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2020

(1) Reporting Entity

The Puerto Rico Sales Tax Financing Corporation (the Corporation or COFINA) is a public corporation and instrumentality of the Commonwealth of Puerto Rico (Commonwealth), constituting a corporate and political entity independent and separate from the Commonwealth. The Corporation was created by the Legislative Assembly under Act No. 91 of May 13, 2006; as amended by Act No. 291, approved on December 26, 2006; Act No. 56, approved on July 6, 2007; Act No. 1, approved on January 14, 2009; Act No. 7, approved on March 9, 2009; Act No. 18, approved on May 22, 2009; Act No. 133, approved July 12, 2012; Act No. 116, approved October 10, 2013; Act No. 101, approved July 1, 2015; Act No. 84, approved July 22, 2016; and Act No. 241, approved November 15, 2018. Act No. 241 of 2018, which amended and restated Act No. 91 of 2006, established the legal framework for the restructuring of COFINA's issued and outstanding bonds by, among other things, authorizing the issuance of New COFINA Bonds necessary to complete the transactions contemplated under the COFINA Plan of Adjustment (collectively, Act No. 91).

The Corporation is an independent and separate legal entity from the Government of Puerto Rico and any other government entity of the Commonwealth. The Corporation is operated independently, and its business and affairs are governed by or under the direction of its board of directors. The Corporation was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding as of June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Legislative Assembly expanded the purposes of the Corporation to assist in funding operational expenses and other uses of the Commonwealth from 2009 through 2012 to the extent included in the annual budget of the Commonwealth in addition to the 2006 Appropriation Debt.

For more information on the sales and use tax (SUT) and COFINA's ownership rights over certain portions of the SUT, see Note 7 to the basic financial statements.

(2) Summary of Significant Accounting Policies

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make 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 changes in net position (deficit) during the reporting period. Actual results could differ from those estimates.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Corporation follows Governmental Accounting Standards Board (GASB) under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

Following is a description of the Corporation's most significant accounting policies:

(a) Basis of Presentation

The financial activities of the Corporation consist only of governmental activities. For its reporting purposes, the Corporation has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

PUERTO RICO SALES TAX FINANCING CORPORATION
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Government-Wide Financial Statements – The statement of net position (deficit) and the statement of activities report information on all activities of the Corporation. The effect of interfund balances has been removed from the statement of net position (deficit). Governmental activities are financed through revenue of the SUT deposited in the COFINA Revenues Fund, which is the segregated fund owned by the Corporation into which the COFINA Revenues are deposited and held by the Trustee (COFINA Revenues Fund), and other financing sources.

The statement of net position (deficit) presents the Corporation's assets and liabilities, with the difference reported as net position (deficit). Net position (deficit) is reported in two categories:

- Restricted Net Position – Results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – Consist of net position that does not meet the definition in the preceding category. Unrestricted net position often is designated in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues consist of investment earnings. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Funds Financial Statements – The accounts of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Corporation are major funds.

Fund Accounting – The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Corporation that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- General Fund – The general fund of the Corporation is used to account for all financial resources, except those required to be accounted for in another fund.
- Debt Service Fund – The debt service fund is used to account for the SUT deposited in the COFINA Revenues Fund for the payment of interest and principal on long-term obligations.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Corporation did not have any non-spendable resources as of June 30, 2020.

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June 30, 2020

- Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource provider or by constitutional provisions or enabling legislation.
- Committed – amounts that can be spent only for specific purposes determined by a formal action of the Corporation's highest level of decision-making authority. The Corporation's highest decision-making level of authority rests with the board of directors. The Corporation did not have any committed resources as of June 30, 2020.
- Assigned – amounts the Corporation intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Corporation's Executive Director).
- Unassigned – amounts that are available for any purpose.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-Wide Financial Statements – Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Funds Financial Statements – The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 30 days of the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred as under accrual accounting, except that interest on general long-term obligations is generally recognized when paid, and debt service principal expenditures and claims and judgments are recorded only when payment is due. Revenue arising from pledged sales and use tax is recognized on an annual basis, upon collection or when the Commonwealth is obligated to make the payments.

(c) Budgetary Accounting

The Corporation is not required to submit a budget for approval by the Legislative Assembly; consequently, no formal budgetary accounting procedures are followed.

(d) Investments

Investments are reported at fair value, except for money market instruments with a remaining maturity at the time of purchase of one year or less and investment positions in 2a7 (Securities and Exchange Commission Rule 2a7 of the Investment Company Act of 1940) like external investment pools, which are carried at amortized cost pursuant GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

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There are no limitations nor restrictions on withdrawals related to the external investment pools held by the Corporation. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. GASB Statement No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels.

Level 1 - inputs whose values are based are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly.

Level 3 - inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

(e) *Future Sales and Use Tax Receivable*

Collections of SUT are recognized as revenue in the fund financial statements upon collection. In the government-wide financial statements, these payments reduce the future sales and use tax receivable. Refer to Note 7 to the basic financial statements for further information regarding the future sales and use tax receivable.

(f) *Bond Issue Costs and Premium/Discount on Bonds*

Premium (discounts) on bonds are amortized in a systematic manner over the life of the debt in the government-wide financial statements. Premium (discounts) are recognized in the period when the related long-term debt is issued in the governmental funds' financial statements, and therefore are not accounted for in subsequent periods. Bond issue costs are expensed as incurred in both government-wide and governmental fund financial statements.

(g) *Interfund Transactions*

Transfers represent flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the fund making transfers and as other financing sources in the funds receiving transfers.

(h) *Refundings*

Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded on the statement of net position (deficit) as either a deferred inflow or deferred outflow of resources. See Note 16 for discussion of Advance Refunding and Deceased Debt.

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(i) New Accounting Pronouncements Issued but Not Yet Effective

- *GASB Statement No. 84, Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

However, GASB Statement No. 95 Postponement of the effective dates of Certain Authoritative Guidance, postponed by one year the implementation of GASB Statement No. 84, Fiduciary Activities. See additional information below.

- *GASB Statement No. 87, Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- *GASB Statement No. 91, Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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- *GASB Statement No. 92, Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.
- *GASB Statement No. 93 Replacement of Interbank Offered Rates (IBOR).* The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

This statement achieves its objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

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- Providing an exception to the lease modifications guidance in Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- *GASB Statement No. 95 Postponement of the effective dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders considering the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- *Statement No. 83, Certain Asset Retirement Obligations*
- *Statement No. 84, Fiduciary Activities*
- *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
- *Statement No. 90, Majority Equity Interests*
- *Statement No. 91, Conduit Debt Obligations*
- *Statement No. 92, Omnibus 2020*
- *Statement No. 93, Replacement of Interbank Offered Rates*
- *Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- *Implementation Guide No. 2018-1, Implementation Guidance Update—2018*
- *Implementation Guide No. 2019-1, Implementation Guidance Update—2019*
- *Implementation Guide No. 2019-2, Fiduciary Activities.*

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The effective dates of the following pronouncements are postponed by 18 months:

- *Statement No. 87, Leases*
- *Implementation Guide No. 2019-3, Leases*

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

Management is evaluating the impact that these Statements will have on the Corporation's basic financial statements.

(3) Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the then-President of the United States signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). In general terms, PROMESA seeks to provide the Commonwealth, its instrumentalities, and public corporations with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board (as defined above), 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; and (iii) two alternative methods to adjust unsustainable 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 Title 11 of the United States Code (U.S. Bankruptcy Code). Each of these elements are divided among PROMESA's seven titles, as briefly discussed below.

Title I – Establishment of Oversight Board and Administrative Matters

Upon PROMESA's enactment, the Oversight Board was established for Puerto Rico. As stated in PROMESA, "the purpose of the Oversight Board is to provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets." On August 31, 2016, the then-President of the United States announced the appointment of the Oversight Board members. Each Oversight Board member is required to have "knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government." The Oversight Board was "created as an entity within the territorial government for which it was established" and is expressly not an entity of the federal government, but it was also established to act independently from the Commonwealth government, such that neither the Governor nor the Legislature may (i) exercise any control, supervision, oversight, or review over the Oversight Board or its activities; or (ii) enact, implement, or enforce any statute, resolution, policy, or rule that would impair or defeat the purposes of PROMESA, as determined by the Oversight Board.

Title II – Fiscal Plan and Budget Certification Process and Compliance

Title II sets forth the requirements for proposing and certifying fiscal plans and budgets for the Commonwealth and its instrumentalities. "Each fiscal plan serves as the cornerstone for structural reforms the Oversight Board

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deems necessary to ensure the territory, or instrumentality, will be on a path towards fiscal responsibility and access to capital markets.” According to the legislative history, a fiscal plan should “provide for a sustainable level of debt, improve governance, provide for capital expenditures that promise economic growth, and respect the relative priorities that different classes of bondholders have vis-à-vis one another under Puerto Rico law.”

Only after the Oversight Board has certified a fiscal plan may the Governor submit a fiscal year Commonwealth budget and fiscal year budgets for certain Commonwealth instrumentalities (as approved by the Oversight Board) to the Legislature. In furtherance of the foregoing duties, PROMESA contains a provision that grants the Oversight Board powers to monitor compliance with certified fiscal plans and budgets and undertake certain actions, including spending reductions and the submission of recommended actions to the Governor that promote budgetary compliance. On June 18, 2020, the Oversight Board certified the 2020 Corporation’s fiscal plan.

Title III – In-Court Restructuring Process

Title III of PROMESA establishes 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 U.S. Bankruptcy Code. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA.

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. 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). 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 and modify a plan of adjustment prior to confirmation.

On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Corporation by filing a petition for relief under Title III of PROMESA in the Title III Court. On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation’s title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation’s sole and exclusive ownership of them. For additional information on the COFINA Plan of Adjustment, refer to Notes 4 and 15.

Title IV – Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions

Title IV of PROMESA contains several miscellaneous provisions, including a temporary stay of litigation related to “Liability Claims,” relief from certain wage and hour laws, the establishment of a Congressional Task Force on Economic Growth in Puerto Rico (the Task Force), the requirement that the Comptroller General of the United States submit two reports to Congress regarding the public debt levels of the U.S. territories, and expansion of the federal government’s small business HUB Zone program in Puerto Rico.

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. A “Liability Claim” is defined as any right to payment or equitable

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remedy for breach of performance related to “a bond, loan, letter of credit, other borrowing title, obligation of insurance, or other financial indebtedness for borrowed money, including rights, entitlements, or obligations whether such rights entitlements, or obligations arise from contract, statute, or any other source of law related [thereto]” for which the Commonwealth or one of its instrumentalities was the issuer, obligor, or guarantor and such liabilities were incurred prior to June 30, 2016. 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 United States 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.

Title IV of PROMESA also required several federal government reports. First, PROMESA established the Task Force within the legislative branch of the U.S. federal government. The Task Force submitted its report to Congress on December 20, 2016.

Second, PROMESA required the U.S. Comptroller General, through the Government Accountability Office (GAO), to submit a report to the House and Senate by December 30, 2017 regarding: (i) the conditions that led to Puerto Rico’s current level of debt; (ii) how government actions improved or impaired its financial condition; and (iii) recommendations on new fiscal actions or policies that the Commonwealth could adopt. The GAO published this report on May 9, 2018.

Third, PROMESA required the U.S. Comptroller General, through the GAO, to submit to Congress by June 30, 2017 a report on public debt of the U.S. territories. In addition to its initial report, the GAO must submit to Congress updated reports on the public debt at least once every two years. The GAO published its initial report on October 2, 2017 and its first updated report on June 28, 2019.

Title V – Infrastructure Revitalization

Title V of PROMESA established the position of the Revitalization Coordinator under the Oversight Board and provides a framework for infrastructure revitalization through an expedited permitting process for “critical projects” as identified by the Revitalization Coordinator.

Title VI – Consensual, Out-of-Court Debt Modification Process

Title VI of PROMESA established an out-of-court process for modifying Puerto Rico’s debts. Under PROMESA section 601(d), the Oversight Board is authorized to establish “pools” of bonds issued by each Puerto Rico government-related issuer based upon relative priorities. After establishing the pools, the government issuer or any bondholder or bondholder group may propose a modification to one or more series of the government issuer’s bonds. If a voluntary agreement exists, the Oversight Board must issue a certification and execute a number of additional processes in order to qualify the modification.

As of the date hereof, the Government Development Bank for Puerto Rico (GDB) has completed a restructuring under Title VI of PROMESA. As discussed in Note 6 below, pursuant to the terms of the GDB’s Title VI Qualifying Modification, any deposit claims of the Corporation at GDB were extinguished in exchange for interests in the Public Entity Trust (PET). As such, the recovery to the Corporation on account of its deposit claim will depend upon the recovery ultimately received by the PET on account of the PET Assets.

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Title VII – Sense of Congress

Title VII of PROMESA sets forth the sense of Congress that “any durable solution for Puerto Rico’s fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between possessions of the United States and the rest of the United States.”

(4) COFINA Title III Case and Confirmation of the COFINA Plan of Adjustment

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 Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, followed with a similar filing for the Corporation in the Title III Court.

Questions regarding the Commonwealth and COFINA’s respective ownership interests in the SUT revenue pledged as collateral for the then-existing COFINA bonds were at the center of the Title III cases since their commencement in May 2017. Resolution of this Commonwealth-COFINA Dispute was essential in order for Puerto Rico’s debt restructuring to move forward.

On January 9, 2019, the Oversight Board filed its *Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 4652] (the COFINA Plan of Adjustment). The COFINA Plan of Adjustment proposed, among other things, to release the Commonwealth from all liability from claims and causes of action held by any creditor of COFINA (solely in its capacity as a creditor of COFINA) arising from or relating to the relationship of the Commonwealth and COFINA.

On January 16 and 17, 2019, the Title III Court held a hearing to confirm the COFINA Plan of Adjustment and to approve *Motion Pursuant to Bankruptcy Rule 9019 for Order Approving Settlement Between Commonwealth of Puerto Rico and Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 4067] (the Settlement Motion), which proposed a settlement of the Commonwealth-COFINA Dispute pursuant to a settlement agreement (the Settlement Agreement), attached to the Settlement Motion as Exhibit A Proposed Order, Schedule I. The Settlement Agreement was consistent with the Agreement in Principle (as defined above). On February 4, 2019, the Title III Court entered an order granting the Settlement Motion and approving the Settlement Agreement.

On February 5, 2019, the Title III Court entered (i) the *Amended Memorandum of Findings of Fact and Conclusions of Law in Connection with Confirmation of the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 13-3283, Docket No. 5053] (the Findings and Conclusions) and (ii) the *Amended Order and Judgment Confirming the Third Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation* [Case No. 17-3283, Docket No. 5055] (the Confirmation Order). Pursuant to the Findings and Conclusions and the Confirmation Order, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019 (the Effective Date), the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation’s title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation’s sole and exclusive ownership of them.

Pursuant to the Settlement Motion approved in the Commonwealth’s Title III case by the Settlement Order and through the COFINA Plan of Adjustment confirmed in the Title III Case, the Title III Court found the split of the Pledged Sales Tax Base Amount into a 53.65% portion (i.e., the COFINA Revenues), which the Corporation receives, and a 46.35% portion, which the Commonwealth receives, to be consistent with the

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Agreement in Principle. Moreover, pursuant to articles 1.4 and 2.1(c) of the COFINA Plan of Adjustment, several litigation actions and claims and causes of action asserted therein have been dismissed with prejudice on the Effective Date of the COFINA Plan of Adjustment (February 12, 2019) pursuant to the Settlement Order and the Confirmation Order.

The Confirmation Order and Findings and Conclusions confirmed the COFINA Plan of Adjustment, which authorized the issuance of approximately \$12 billion in principal amount of the New COFINA Bonds, cancelled the Corporation's then-outstanding bonds, and discharged the related liability. The Confirmation Order and Findings and Conclusions also provided the following enumerated protections for the New COFINA Bonds. Specifically, the Confirmation Order provisions include: (i) the New COFINA Bonds "constitute valid, binding, legal and enforceable obligations of" COFINA; (ii) the COFINA Revenues are property of the new issuer "free and clear of all liens, claims, encumbrances, and any other interests of creditors of the old issuer, the new issuer, the Commonwealth, or any instrumentality of the Commonwealth, other than the liens granted" hereunder; (iii) the COFINA Revenues shall not be "available resources" or "available revenues" of the Commonwealth; and (iv) retention of Title III Court jurisdiction to ensure protection and enforcement of legal framework and security pledges.

Consummation of the COFINA Plan of Adjustment together with the enactment of Act No. 241-2018 quieted the Corporation's title to the COFINA Revenues, definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

The COFINA Plan of Adjustment and Act No. 241-2018 provide for the reduction of the principal amount of the Corporation's bonds and clarify the Corporation's ownership of the COFINA Revenues. They further provide for the Corporation's financial and operating independence from the Commonwealth by establishing independent standing for the Corporation's operations.

Certain parties whose objections were overruled in confirming the COFINA Plan of Adjustment filed Notices of Appeal in the Title III Court. Accordingly, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity of the amendments made by Act No. 241-2018 and the validity or enforceability of the Master Trust Indenture and the New COFINA Bonds.

The completion of the Corporation's restructuring under the PROMESA Title III process, the settlement of the Commonwealth-COFINA Dispute, other settlements and the discharge of claims under the COFINA Plan of Adjustment resulted in an aggregated extraordinary gain of approximately \$6.3 billion during fiscal year 2019.

For more information regarding ongoing legal challenges to the Confirmation Order, see Note 15 to the basic financial statements.

(5) Deposits and Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure of a depository financial institution, the Corporation will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amounts deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Corporation's name.

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Deposits maintained as of June 30, 2020 by the Corporation represent the balance of interest and non-interest bearing accounts in commercial banks and cash held by the Trustee under the Master Trust Indenture. The table presented below discloses the level of custodial credit risk assumed by the Corporation at June 30, 2020. As of June 30, 2020, \$759,364 of the depository bank balance of \$22,729,394 was uninsured as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits placed with bank	\$ 21,720,030	\$ 21,720,030	—
Cash held by trustee	1,009,364	1,009,364	759,364
Total	<u>\$ 22,729,394</u>	<u>\$ 22,729,394</u>	<u>\$ 759,364</u>

(6) Deposits Claim Receivable from Public Entity Trust (PET)

On August 10, 2018, GDB commenced an action to restructure certain of its indebtedness pursuant to a Qualifying Modification (the Qualifying Modification) under Title VI of PROMESA. The United States District Court for the District of Puerto Rico approved GDB's proposed restructuring on November 6, 2018 and the Qualifying Modification went effective on November 29, 2018.

Pursuant to Act No. 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including COFINA, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (the Closing Date), *i.e.*, November 29, 2018, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including COFINA (each a Non-Municipal Government Entity) and GDB was 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, which included COFINA, received their pro rata share of interests in the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately \$580 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

The Corporation held deposits at GDB of approximately \$26.1 million. A custodial credit loss on these deposits was recorded in previous years resulting in a reserve of the entire balance at June 30, 2019. As of June 30, 2020, the deposits balance and the custodial credit loss were reclassified to deposits claim receivable from PET and into an allowance for doubtful accounts, respectively, with a net carrying amount of zero. As a result of the Qualifying Modification, the Corporation's recovery on account of this deposit claim will depend upon the recovery ultimately received by the Public Entity Trust on account of the PET Assets.

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(7) Future Sales and Use Tax Receivable

The Commonwealth imposes a sales and use tax (SUT) on a broad range of goods and services. As of June 30, 2020, the total SUT imposed was 11.5% and was allocated as follows: 5.5% for the benefit of the Commonwealth (the 5.5% Sales Tax), 0.5% for the benefit of the Municipal Administration Fund, 4.5% as a sales and use tax surcharge for the benefit of the Commonwealth and 1.0% for the municipalities of the Commonwealth.

Over the course of fiscal year 2020, the future sales and use tax receivable was reduced by the fiscal year 2020 collections of the COFINA Revenues. As collections for fiscal year 2020 amounted to approximately \$437 million, the Corporation's future sales and use tax receivable is approximately \$7.301 billion. The COFINA Revenues that the Corporation receives every fiscal year will reduce the future sales and use tax receivable until it equals \$0. Based on the schedule of the COFINA Revenues presented in Note 10 to the basic financial statements, the Corporation should reach in fiscal year 2033 the outstanding future sale and use tax receivable balance of \$7,301 billion as of June 30, 2020. After that, the COFINA Revenues that the Corporation receives each fiscal year will be recorded as revenue.

Act No.91, as amended, provides for the establishment of the COFINA Revenues Fund, which is held in the name of the Trustee for the benefit of the holders of the New COFINA Bonds and may not be owned or controlled in any way by the Commonwealth or any government entity other than the Corporation. The COFINA Revenues Fund is maintained in one or more mainland U.S. banks.

Any and all ownership interests and rights to the COFINA Revenues were or have been transferred to the Corporation. The transfer described is an absolute transfer of all legal and equitable right, title and interest, and not a pledge or other financing. By the Confirmation Order, the Title III Court determined that the Corporation has title to the COFINA Revenues and definitively resolved as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Corporation is and will be sole and exclusive owner of the COFINA Revenues until such time as the New COFINA Bonds, together with any interest thereon, and all amounts and obligations under all ancillary agreements, have been completely paid in cash in full or have otherwise been discharged in accordance with their terms.

Persons designated as withholding agents for purposes of the imposition and collection of the sales tax pursuant to Act No. 1-2011, as amended, also known as the *Internal Revenue Code for a New Puerto Rico*, shall be deemed to collect any portion of the sales taxes in which the Corporation has an ownership interest on behalf of the Corporation. Any such withholding agent will continue to be subject to any and all obligations and responsibilities imposed by the Internal Revenue Code for a New Puerto Rico on withholding agents in relation to the imposition and collection of sales taxes. The COFINA Revenues do not constitute "available resources" or "available revenues" of the Government of Puerto Rico as used in Section 8 of Article VI of the Puerto Rico Constitution or as otherwise used in the Puerto Rico Constitution.

As of June 30, 2020, in each fiscal year, the first collections of the 5.5% SUT are deposited in the COFINA Revenues Fund and applied to fund the COFINA Revenues. The COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year and all legal and equitable rights, title and interest thereto. The Fixed Income Amount for the fiscal year ended June 30, 2020, was \$814,525,141 and, pursuant to the provisions of Act 91, it increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. Regardless of the level of 5.5% SUT collections, Act 91 requires that in each fiscal year all collections of the 5.5% SUT be deposited

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in the COFINA Revenues Fund until an amount equal to the COFINA Revenues is deposited before any collections of the 5.5% SUT are deposited in the Commonwealth's General Fund.

Collections of SUT are recognized as revenue in the fund financial statements upon collection. In the government-wide financial statements, these payments reduce the future sales and use tax receivable.

(8) Investments

At June 30, 2020, as provided by Act No. 241-2018, the Corporation may invest the funds on deposit with the Trustee as provided for in the Ancillary Agreements, which include the Master Trust Indenture. Any other funds are held by the Corporation in bank accounts and may not be otherwise invested.

Investments held by the Trustee are made in Eligible Investments in accordance with the provisions of Section 6.02 of the Master Trust Indenture, which include interest-bearing general obligations of the United States of America; United States treasury bills and other non-interest bearing general obligations of the United States of America and certain short-term discount United States government obligations that, in each case, mature no later than the next Monthly Disbursement Date in the case of investments held in the Revenue Fund and not later than the date required to pay principal and interest when due on the New COFINA Bonds in the case of moneys held in the Debt Service Fund.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2020, the Corporation's board of directors is responsible for implementing and monitoring the interest rate risk policies and strategies. At June 30, 2020, the practice of the board of directors was to meet on a regular basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the corresponding laws and the board of directors' objectives.

The following table summarizes the type and maturities of investments held by the Corporation at June 30, 2020:

<u>Investment type</u>	<u>Due within one year</u>	<u>Credit Risk Rating</u>
Debt securities:		
U.S. Treasury State and Local Government Series (SLGs)	\$ 12,832,869	AAA
External Investment Pools:		
Dreyfus Government Cash Management	223,511,013	AAAm
Total investments	<u>\$ 236,343,882</u>	

At June 30, 2020, investments in external investments pools consisted of \$223,511,013 invested in Dreyfus Government Cash Management (Dreyfus) with BNYM, which is an external investment pool registered with the Securities and Exchange Commission.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation's investment policies provide that investment transactions shall be entered into

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only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's or Fitch, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Corporation's board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery versus payment procedures.

Investments in U.S. Treasury SLGs carry the explicit guarantee of the U.S. government. As of June 30, 2020, the credit rating of Dreyfus was "AAAm" by Standard & Poor's as shown in the table above. The "AAAm" is the Standard & Poor's highest rating defined as extremely strong capacity to maintain principal stability and limit exposure to principal losses due to credit market and liquidity risks. The investment in Dreyfus were held by BNYM, as trustee, in the name of the Corporation.

Concentration of Credit Risk – The Corporation places no limits on the amount it may invest in any one issuer. As of June 30, 2020, 5% of the Corporation's investments are in debt securities, 95% are in external investment pools. The following table shows the investments by fair value level held by the Corporation at June 30, 2020:

Investments by fair value level	Fair Value Measurement Levels			Total
	Level 1	Level 2	Level 3	
Debt securities:				
U.S. Treasury State and Local Government Series (SLGs)	\$ —	12,832,869	—	12,832,869
Total investments by fair value level	\$ —	12,832,869	—	12,832,869
Investments not measured at fair value:				
External Investment Pools:				
Dreyfus Government Cash Management				223,511,013
Total investments				\$ 236,343,882

The debt securities classified in Level 2 of the fair value hierarchy are valued using inputs other than quoted prices under Level 1 that are observable for the assets, either directly or indirectly on the measurement date.

(9) Relationship with FAFAA and the Commonwealth of Puerto Rico

FAFAA

The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016 (the Moratorium Act), as amended, created FAFAA as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth and its instrumentalities. Act No. 2 of 2017 subsequently repealed and replaced the provisions of the Moratorium Act regarding FAFAA. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, 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 PROMESA. During the year ended June 30, 2020, FAFAA provided certain management and administrative services to the Corporation under a memorandum of understanding. FAFAA charged the Corporation \$108,000 as management and administrative services during the year ended June 30, 2020.

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Pursuant to Section 5.10 of the Master Trust Indenture, remaining amounts deposited free and clear of the statutory lien in the Remainder Fund will be paid to the Commonwealth. As of June 30, 2020, the Corporation established an accrual of \$8,483,004 in accordance with this provision of the Master Trust Indenture. This amount is presented as Due to Commonwealth of Puerto Rico in the fund financial statements as it was due and payable as of June 30, 2020.

(10) Bonds Payable

As of June 30, 2020, bonds payable of the Corporation consists of the following (in thousands)¹²:

Description	Face/Effective interest rate	Amount
New COFINA Bonds, Series 2019A-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	\$ 5,412,723
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	3,132,417
New COFINA Bonds, Series 2019A-2, Series 2019A-2A:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–5.00%	3,591,809
New COFINA Bonds, Series 2019B-1:		
Current Interest Bonds due from July 1, 2033 to July 1, 2058	4.50%–5.00%	69,318
Capital Appreciation Bonds due from July 1, 2019 to July 1, 2051	4.250%–5.625%	40,116
New COFINA Bonds, Series 2019B-2:		
Current Interest Bonds due from July 1, 2035 to July 1, 2058	4.329%–4.784%	45,570
Bonds payable - net		<u>\$ 12,291,953</u>

All current interest bonds have fixed interest rates.

¹² For purposes of this Statement, the term “New COFINA Bonds” has the same meaning as “Restructured Sales Tax Bonds” as used in the COFINA bond documents.

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Bonds payable activity for the year ended June 30, 2020 is as follows (in thousands):

Description	Balance at June 30, 2019	Additions	Reductions	Balance at June 30, 2020	Due within one year
Bonds payable	\$ 9,119,420	—	—	9,119,420	—
Capital appreciation bonds – principal	9,638,251	—	(19,607)	9,618,644	17,480
Discount on capital appreciation bonds	(6,600,659)	154,548	—	(6,446,111)	—
Bonds payable – net	<u>\$ 12,157,012</u>	<u>154,548</u>	<u>(19,607)</u>	<u>12,291,953</u>	<u>17,480</u>

In February 2019, the consummation of the COFINA Plan of Adjustment together with the enactment of Act 241-2018 provided for the restructuring of COFINA's then-existing bonds. COFINA's existing senior and subordinated bondholders received New COFINA Bonds worth approximately \$12 billion on account of their approximately \$18 billion in claims discharged by the Plan.

The New COFINA Bonds are secured by a statutory lien on the COFINA Pledged Taxes subject to the Commonwealth's right to substitute "New Collateral" (as defined) in accordance with the terms of the COFINA Plan of Adjustment. The "New Collateral" is all or a portion of a tax of general applicability throughout Puerto Rico that is enacted in full substitution of the COFINA Pledged Taxes or otherwise constitutes like or comparable security for the COFINA Plan of Adjustment.

The New COFINA Bonds include (i) current interest bonds (CIB) entitled to cash interest and (ii) capital appreciation bonds (CAB), for which interest is added to principal and paid at maturity. Notwithstanding the timing of the effective date of the COFINA Plan of Adjustment, interest on the New COFINA Bonds commenced to accrue or accrete, as the case may be, as of August 1, 2018. Interest payments and interest accretion terms for current interest bonds and capital appreciation bonds, respectively, are as follows:

- (a) The current interest bonds or CIBs will bear interest from August 1, 2018 until paid (whether at maturity, prior to redemption or after maturity following payment default by the Corporation), payable on the effective date and semiannually thereafter on each payment date at the corresponding interest rates. Interest on current interest bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will accrue on overdue interest and principal at the corresponding interest rate and will compound on each interest payment date. All overdue interest and principal (and any interest accruing thereon) will remain due and payable until paid.
- (b) Interest on capital appreciation bonds or CABs will accrue and accrete from August 1, 2018 until paid (whether at maturity, prior to redemption or after maturity following payment default by the Corporation). Interest on capital appreciation bonds will not be paid on a current basis, but will be added to the principal thereof in the form of accretion on the effective date and semiannually thereafter on each valuation date, and will be treated as if accruing on the basis of a 360-day year consisting of twelve 30-day months between valuation dates, until paid (whether at maturity, prior to redemption or after maturity following payment default by the Corporation).

The New COFINA Bonds will be subject to redemption at the option of the Corporation, in whole or in part, in any order of maturity, at par plus accrued interest thereon or accreted value as applicable, upon thirty (30) days prior to written notice as follows:

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Current Interest Bonds (CIBs)

Maturity	<i>Optional Redemption</i>
2034	Redeemable at Par commencing July 1, 2025
2040	Redeemable at Par commencing July 1, 2028
2053	Redeemable at Par commencing July 1, 2028
2058	Redeemable at Par commencing July 1, 2028

Capital Appreciation Bonds (CABs)

Maturity	<i>Optional Redemption</i>
2024 & 2027	Not subject to redemption prior to maturity
2029	Redeemable at 103% of Accreted Value ("AV") commencing July 1, 2028
2031	Redeemable at 105% of AV commencing July 1, 2028 and at 103% of AV commencing on July 1, 2029
2033	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2031 and 103% of AV commencing July 1, 2032
2046 & 2051	Redeemable at 107.5% of AV commencing July 1, 2028, at 105% of AV commencing July 1, 2038, at 103% of AV commencing July 1, 2038 and at 100% of AV commencing July 1, 2043

The New COFINA Bonds are also subject to mandatory redemption prior to their respective maturity dates from sinking fund installments. All such mandatory redemptions of CIBs will be at a redemption price equal to par and mandatory redemptions of CABs will be at a redemption price equal to 100% of the then current accreted value.

The New COFINA Bonds do not have a debt service reserve fund nor rights of acceleration.

On June 10, 2019, COFINA launched an invitation to exchange and consent to amendments, towards bondholders owning aggregate principal amount of approximately \$3.6 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 of its New COFINA Bonds (collectively, the Invited Bonds) originally issued on February 12, 2019 as part of the COFINA Plan of Adjustment. COFINA provided the opportunity to exchange all or a portion of the Invited Bonds to bondholders for an equal aggregate principal amount of Converted Bonds that will have the same terms as the Invited Bonds, except for: (1) interest rate on Converted Bonds is 25 basis points lower than the Invited Bonds exchanged and (2) interest on Converted Bonds is excluded from gross income for federal tax purposes under Section 103 of the Tax Code.

On August 1, 2019 (settlement date), COFINA exchanged aggregate principal amount of approximately \$3.1 billion of Series 2019 A-2 and \$45.6 million of Series 2019 B-2 and accrued interest of approximately \$12.1 million and \$177 thousand, respectively, with bondholders who accepted the exchange. Also, bondholders who accepted the invitation consented to certain amendments to certain documents described in the invitation.

As a result of the exchange described above, the Series 2019A-2 consisted of (i) \$3,108,661,000 aggregate principal amount series 2019A-2 converted bonds and (ii) \$483,148,000 aggregate principal amount of Series 2019A-2 unconverted bonds.

In November 2019, COFINA received communication from FAFAA notifying that the Puerto Rico Infrastructure Financing Authority (PRIFA), a public corporation and instrumentality of the Commonwealth, intended to sell a portion of the \$139,355,000 aggregate principal amount of the Series 2019 A-2 maturing on July 1, 2040, it held (the PRIFA Series 2019A-2 Bonds) and requested to qualify interest on a portion of such bonds (\$81,670,000) to be excluded from gross income for federal income tax purposes under Section 103 of the Tax Code.

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COFINA, after consultation with bond counsel, clarified and amended certain provisions of the First Supplemental Indenture to reflect the new tax status of the portion of PRIFA Series 2019A-2 Bonds that qualified to be sold such that the interest thereon is excluded from gross income for federal income tax purposes under Section 103 of the Tax Code. All terms and conditions of the PRIFA Series 2019A-2 Bonds, including interest rate and maturity, remained equal to the Invited Bonds except that they were dated July 1, 2019.

As of June 30, 2020, debt service requirements for bonds outstanding were as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 17,479,550	\$ 430,056,019	\$ 447,535,569
2022	35,660,811	430,056,019	465,716,830
2023	54,565,877	430,056,019	484,621,896
2024	74,225,000	430,056,019	504,281,019
2025	94,674,754	430,056,019	524,730,773
2026-2030	809,911,029	2,150,280,094	2,960,191,123
2031-2035	1,478,021,662	2,131,017,394	3,609,039,056
2036-2040	2,629,230,000	1,780,505,323	4,409,735,323
2041-2045	3,543,672,026	1,410,164,489	4,953,836,515
2046-2050	3,543,673,607	1,410,164,489	4,953,838,096
2051-2055	3,754,080,000	1,200,356,261	4,954,436,261
2056-2058	2,702,870,000	272,599,412	2,975,469,412
	18,738,064,316	\$ 12,505,367,557	\$ 31,243,431,873
Less: Unaccreted interest	(6,446,110,973)		
	\$ 12,291,953,343		

The scheduled principal payment of approximately \$17.5 million for year ending June 30, 2021, is payable on July 1, 2021 (fiscal year 2022) from the COFINA Revenue Fund deposited during fiscal year 2021. Therefore, the principal balance of \$17.5 million cannot be added to the approximately, \$465.7 million in total debt service payments due during fiscal year ending June 30, 2022 when compared to the COFINA Revenues (below) for such ending year.

The first collections of the 5.5% SUT ultimately are deposited in the COFINA Revenues Fund and applied to fund the Fixed Income Amount. The Fixed Income Amount for the fiscal year ended June 30, 2020, was \$814,525,141 (\$847,106,147 for fiscal year 2021). Under Act No. 91, as amended, as of June 30, 2020, the Fixed Income Amount increases each fiscal year at a statutory rate of 4.0% up to \$1.85 billion. COFINA Revenues are the first funds up to an amount equal to fifty-three and sixty-five one hundredths percent (53.65%) of the Fixed Income Amount for each fiscal year is as follows:

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Year ending June 30		Amount
2021	\$	454,472,448
2022		472,651,346
2023		491,557,399
2024		511,219,696
2025		531,668,483
2026-2030		2,994,875,520
2031-2035		3,643,723,996
2036-2040		4,433,147,373
2041-2045		4,962,625,000
2046-2050		4,962,625,000
2051-2055		4,962,625,000
2056-2058		2,977,575,000
	\$	<u>31,398,766,261</u>

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(11) Contingent Liability - *Internal Revenue Service Administrative Claim Dispute*

Under former sections of the Tax Code, COFINA was permitted to issue Build America Bonds (BABs) during 2009 and 2010. Under applicable Tax Code sections, with respect to each interest payment date, holders of BABs are entitled to a tax credit equal to 35 percent of the interest payable by the issuer of the BABs (i.e., COFINA) with respect to the interest payment date. In lieu of bondholders receiving a tax credit, however, the Tax Code permitted issuers of BABs such as COFINA to instead elect to receive with respect to each interest payment date a direct subsidy payment from the Internal Revenue Service (the IRS) equal to 35 percent of the interest payable to the holder under that BAB for that date. Under applicable rules issued by the IRS, issuers of direct payment BABs are required to submit to the IRS requests for payment of the direct subsidy.

Similarly, the Tax Code permitted COFINA to issue recovery zone economic development bonds (RZEDBs) during 2009 and 2010. RZEDBs were similar to BABs except that the IRS's direct subsidy payments were established at 45 percent of the interest payable, rather than 35 percent. RZEDBs, like BABs, provided the issuer with the ability to elect to receive direct subsidies from the IRS.

On June 30, 2010, COFINA issued both BABs and RZEDBs and elected to treat those bonds as direct payment bonds. For each interest payment date on the BABs, through and including February 1, 2019, COFINA submitted the request for the direct payment, and the IRS made all requested payments except for the February 1, 2019 payment. For each interest payment date on the RZEDBs, COFINA submitted the request for the direct payment, but the IRS ceased making payments to COFINA beginning with the May 1, 2018 payment. The direct payments that COFINA requested, but which the IRS did not pay, total \$2.6 million (the Unpaid Subsidies).

After the commencement of COFINA's Title III Case on May 5, 2017, the Title III Court ordered BNYM, as trustee, to hold the pledged sales taxes used to pay interest on the bonds and not pay them to the COFINA bondholders, including holders of the COFINA BABs and RZEDBs. As a result, throughout the pendency of COFINA's Title III Case, all required interest payments, including with respect to the BABs and RZEDBs, were deposited by the Corporation into the appropriate BNYM accounts. BNYM, however, was ordered not to distribute those interest payments to the COFINA bondholders, although the order decreed the Corporation not to be in payment default.

By letter dated February 14, 2019, the IRS notified the Corporation that it was examining Form 8038-CP for the August 1, 2017 interest payment date of its Sales Tax Revenue Bonds, First Subordinate Series 2010D (Issuer Subsidy Build America Bonds) (the Series 2010D). By letter dated March 18, 2019, the IRS notified the Corporation that it was examining Form 8038-CP for the August 1, 2017 interest payment date of its Sales Tax Revenue Bonds, First Subordinate Series 2010E (Issuer Subsidy Recovery Zone Economic Development Bonds) (the Series 2010E). Subsequently, the IRS expanded the examinations to include all interest payment dates occurring after the Petition Date. The Corporation responded and intends to respond to all correspondence from the IRS and intends to cooperate with the IRS in connection with the examinations.

The Corporation is not aware of any potential violation of the Form 8038-CP related to the Series 2010D and 2010E or federal taxes and/or events that may negatively impact the holders' tax status of such bonds or any other bonds. As of the date hereof, neither the IRS nor any other entity has asserted that the Corporation has committed any such violation. The Corporation has been advised by counsel that the IRS examination for which notices were recently received will have no negative impact on the tax-exempt status of the Restructured Sales Tax Bonds issued as tax-exempt bonds by the Corporation.

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On April 10, 2019, the IRS filed an administrative expense claim against the Corporation seeking the return of \$2,520,731 in post-petition direct subsidy payments made to COFINA in connection with the Series 2010D Bonds and \$1,677,625 in post-petition direct subsidy payments related to the Series 2010E Bonds, totaling \$4,198,357. Specifically, the claim seeks the return of direct subsidy payments made to COFINA for August 2017, November 2017, February 2018, May 2018, August 2018, and November 2018 (collectively, the Paid Subsidies). In June 2019, the IRS administrative expense claim was amended to total \$4,201,956.

On June 12, 2019, FAFAA, on its own behalf and on behalf of the Corporation, filed an objection to the IRS's request for an administrative expense claim, arguing that the IRS is not entitled to a refund of the payments as COFINA had fully complied with its obligations under the applicable bond documents and tax laws, and thus the claims should be disallowed and expunged in their entirety.

On July 30, 2019, FAFAA, on its own behalf and on behalf of the Corporation, responded directly to the IRS' letter of February 12, 2019 of COFINA stating that the \$4,201,956 was properly paid and that the IRS had improperly failed to pay COFINA direct subsidy payments with respect to post-petition interest in the amount of \$2,663,705 with respect to the Series 2010D Bonds and the Series 2010E Bonds and requested that the IRS pay these amounts to the Corporation (collectively the Direct Subsidy Underpayments).

The current dispute between the Corporation and the IRS concerns the IRS's claim for return of the Paid Subsidies through both the filing of an administrative expense claim and an IRS audit, and a potential demand by COFINA that the IRS pay the Unpaid Subsidies.

On October 25, 2019, the IRS responded to COFINA's objection. On December 24, 2019, the Corporation filed its reply to the IRS's response. Negotiations between the Corporation and the IRS regarding settlement of the IRS claim are ongoing. A hearing before the Title III Court is scheduled for October 28, 2020.

On March 24, 2020, the IRS sent to the Corporation with respect to each of the Series 2010D Bonds and the Series 2010E Bonds, Form 886-A, Explanation of Items, and Form 4549-T, Adjustments to Credits Under Section 6431 (collectively, the 30 Days Letters). The 30-Day Letters contain the IRS's conclusions that the post-petition direct subsidy payments described above (i.e., the \$4,201,956) is required to be returned to the IRS. In addition, the IRS determined that it was not required to pay COFINA the Direct Subsidy Underpayments. Under the applicable IRS procedures, the Corporation had the ability to appeal these determinations to the IRS Office of Appeals not later than August 14, 2020, which it did on that date. FAFAA, on behalf of itself and the Corporation, intends to appeal these IRS determinations. During last year, the Corporation established an accrual of \$4.2 million for the potential loss related to this matter. During the year ended June 30, 2020, management accrued interest of \$538,737 for the interest that would be owed to the IRS if its claim is successful, increasing the contingent liability to \$4,740,693. This amount is presented as accounts payables and accrued liabilities in the accompanying statement of net position (deficit). The Corporation intends to vigorously defend itself.

(12) Uncertainties and Other Contingencies

Recent Temporary Changes to the Sales and Use Tax

Seismic Activity

During the last weeks of December 2019 and the first weeks of January 2020, Puerto Rico experienced a sequence of seismic events, the most significant of which was a 6.4 magnitude earthquake in the early

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morning hours of January 7, 2020. As a result, the Governor declared a state of emergency and, on January 9, 2020, the Secretary of the Puerto Rico Department of Treasury (the Secretary of Treasury) issued Administrative Determination 20-01 providing an exemption to natural persons on the payment of sales and use taxes imposed on prepared foods and certain other drink and confectioned food products. This exemption was in effect until January 31, 2020.

On January 31, 2020, the Secretary of Treasury issued Administrative Determination 20-02 extending the sales and use tax exemption on prepared foods. This exemption, however, was limited to certain municipalities in the south of Puerto Rico that were principally affected by the seismic activity. This exemption was in effect until February 29, 2020.

COVID-19

The outbreak of a new strain of coronavirus named SARS-CoV-2 and the disease caused thereby (“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.

Impact on the Corporation

On November 21, 2019, BNYM, as trustee for the COFINA Bonds, had received sales and use taxes totaling \$436,996,352, which equals the amount of the COFINA Revenues for fiscal year 2020. Consistent with the COFINA 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 COFINA Pledged Taxes until the end of fiscal year 2020 (June 30, 2020). As a result, the above-described temporary measures have not had any effect on the Corporation’s receipt of sales and use tax collections for fiscal year 2020. On July 1, 2020, BNYM began to receive collections from the COFINA Pledged Taxes until it receives all COFINA Revenues for fiscal year 2021, which amount to \$454,472,448.

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

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impacts on global, national and local economies, including the collection of sales and use taxes by the Commonwealth.

(13) The Operating Reserve Fund Cap

At the Plan of Adjustment's effective date, the Corporation's general fund received \$15 million, available for its operating expenses, plus additional funds remaining prior to the closing date that were held at the Corporation. In addition to these funds, operating expenses will be covered by investment earnings derived from interest income generated by funds deposited in the Corporation's bond trustee accounts held for the benefit of the Corporation prior to distribution. In each fiscal year, an authorized officer of the Corporation will certify in writing to the Trustee the necessary amounts to deposit in the operating reserve fund established pursuant to the Trust Agreement, which amounts may not exceed the operating reserve fund cap of \$15 million established in the Trust Agreement. During the year ended June 30, 2020, the amount of \$833,500 was transferred to the general fund from the debt service fund to comply with this requirement. The aggregate current balance as of June 30, 2020 of deposits placed with commercial banks was approximately \$21.7 million, of which \$15 million are currently on deposit in an operational account at a Puerto Rico banking institution (the Operations Account), and the remainder is on deposit in the Corporation's general account.

(14) Inter-fund Transfers

The following table includes the inter-fund transfers for the year ended June 30, 2020. This inter-fund transfers were made to comply with the requirements of the Master Trust Indenture, refer to Note 13 to the basic financial statements for further information.

Transfer out	Transfer in	Transfer for	Amount
Debt Service Fund	General Fund	Deposit to COFINA Operating Reserve Fund	\$ 833,500

(15) Litigation Related to or Resolved by the COFINA Title III Case

a. Oversight Board Commencement of Title III Cases, Mediation in the Title III Case, and Key Contested Matters in the Title III Case

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 Title III Court. On May 5, 2017, the Oversight Board, at the request of the Governor, followed with a similar filing for the Corporation in the Title III Court.

Bank of New York Mellon v. COFINA, et al., Adv. Proc. No. 17-00133 (D.P.R.)

On May 16, 2017, plaintiff BNYM, in its capacity as trustee for the sales tax revenue bonds issued by COFINA, commenced an adversary proceeding against COFINA and certain creditors in COFINA's Title III case (the Interpleader Action) for interpleader to preserve the funds generated from the Pledged Sales Tax held by BNYM in trust pending resolution by the Title III Court of all disputes with respect

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to ownership of the funds (the Disputed Funds). On May 30, 2017, the Title III Court issued an order [Adv. Proc. No. 17-133, Docket No. 110] (the Interpleader Order) in which it ordered BNYM, commencing with the \$16.3 million bond payment due on June 1, 2017, to interplead and hold all disputed funds in the accounts into which they had been deposited, on behalf of the party or parties ultimately determined by the Court to be entitled to such funds. The Title III Court's order allowed creditors to litigate competing claims to the funds held by BNYM. Through the Interpleader Action, parties and parties in interest asserted claims to the Disputed Funds based on, among other things, the existence or non-existence of an uncured default arising from certain actions of the Commonwealth and COFINA, including the passage of a fiscal plan compliance law enabling the Governor to use Pledged Sales Taxes to cover deficiencies in the Commonwealth's cash flow under certain circumstances.

From June 2017 to September 2017, several parties and parties in interest, including BNYM and certain creditors, served document requests and deposition subpoenas on various Puerto Rico Government entities, affiliates, and officials, including COFINA, GDB, the Commonwealth, FAFAA, and the Oversight Board. The subpoenaed entities and individuals produced documents, but FAFAA and the Oversight Board (on behalf of itself and COFINA) each agreed to a set of stipulated facts in lieu of depositions. On November 6, 2017, several parties in interest, including BNYM and certain creditors, filed motions for summary judgment. Briefing on the summary judgment motions was completed on January 5, 2018. On September 27, 2018, in light of the agreements and compromises under the Amended PSA (discussed above), the Title III Court, *sua sponte*, entered an order terminating the pending summary judgment motions without prejudice to restoration of the motions on or after October 1, 2018. [Adv. Proc. No. 17-00133, ECF. No. 518]. On November 27, 2018, BNYM moved to reinstate its motion for partial summary judgment, in which BNYM requested declaratory relief relating to the existence or non-existence of a default or an event of default under the Corporation's bond resolution (the Motion to Reinstate).

On February 5, 2019, the Title III Court confirmed the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. The Disputed Funds have been distributed in accordance with the terms and provisions of the COFINA Plan of Adjustment. On February 19, 2019, the parties that have appeared in the Interpleader Action filed the Stipulation and Agreed Order of Dismissal of Interpleader Action (the Stipulation of Dismissal) [Adv. Proc. No. 17-00133, ECF No. 549], in which they stipulated and agreed that the Motion to Reinstate is withdrawn by BNYM and that the Interpleader Action and all claims and causes of action asserted or that could have been asserted in the Interpleader Action be dismissed, with prejudice, effective as of February 12, 2019; provided, however, that the dismissal of certain claims, counterclaims or causes of action for gross negligence, willful misconduct, or intentional fraud asserted or that could have been asserted by BNYM against Ambac, or by Ambac against BNYM, is without prejudice; and provided, further, that the dismissals without prejudice shall have no effect under Rule 41(a)(1) of the Federal Rules of Civil Procedure in the Ambac Action (as defined in the COFINA Plan of Adjustment). On February 20, 2019, the Title III Court issued an order in accordance with the Stipulation of Dismissal.

As discussed in Note 4 to the basic financial statements, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity

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of the amendments made by Act No. 241-2018 and the validity or enforceability of the COFINA Plan of Adjustment, including the dismissal of this adversary proceeding.

Cooperativa de Ahorro y Crédito Abraham Rosa v. Commonwealth of Puerto Rico, Case No. 18-00028-LTS (D.P.R.).

On March 22, 2018, several credit unions chartered under Puerto Rico law, known as the cooperativas (the Cooperativas), filed an adversary complaint against the Commonwealth, the Oversight Board, and other Commonwealth's instrumentalities (including COFINA), seeking a declaratory judgment that their Puerto Rico debt holdings are not dischargeable and seeking monetary damages for alleged fraud in issuing and encouraging local credit unions to purchase Puerto Rico debt service instruments. On August 6, 2018, the Oversight Board, for itself and as representative of COFINA, the Commonwealth and certain other instrumentalities, moved to dismiss the complaint. Also, on August 6, 2018, GDB filed a separate motion to dismiss. In addition, several parties filed joinders to the motions to dismiss or were granted leave from the Title III Court to file joinders.

On February 5, 2019, the Title III Court issued its Confirmation Order, confirming the COFINA Plan of Adjustment. On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective, thereby quieting the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them. Pursuant to paragraph 30 of the Confirmation Order, "the plaintiffs in that certain adversary proceeding before the Title III Court, captioned *Cooperativa de Ahorro y Credito Abraham Rosa, et al. v. Commonwealth of Puerto Rico, et al.*, Adv. Proc. No. 18-00028, shall be entitled to continue pursuit of such litigation against all parties other than COFINA and Reorganized COFINA, subject to all available rights and defenses with respect to claims and causes of action asserted therein."

The Cooperativas filed a Notice of Appeal in the Title III Court and amended their previously filed adversary complaint in response to the confirmation of the COFINA Plan of Adjustment and after their motion to reconsider the confirmation of the COFINA Plan of Adjustment was denied by the Title III Court. The appeal is docketed with the First Circuit under case number 19-1391 (the Cooperativas Appeal). On June 28, 2019, FAFAA and the Oversight Board filed a motion to dismiss the Cooperativas Appeal as equitably moot on a similar basis as argued in the motion to dismiss the Initial Appeals (as defined below). On October 4, 2019, the First Circuit denied the motion to dismiss the Cooperativas Appeal without prejudice to reconsideration by the First Circuit panel that will decide the appeal on the merits. On December 4, 2019, the Cooperativas filed its opening brief, which was refiled on December 23, 2019, in compliance with a First Circuit order to file a conforming brief. The Oversight Board and FAFAA filed an opening brief on February 21, 2020. The Cooperativas filed its reply brief on April 30, 2020. On July 31, 2020, the First Circuit heard oral argument on the Cooperativas Appeal and the other COFINA Appeals (as defined below).

On July 22, 2019, defendants filed motions to dismiss the amended complaint. On December 6, 2019, plaintiffs filed their Motion for Leave to File Second Amended Complaint, which the defendants objected to on February 4, 2020. The plaintiffs filed their reply to the defendants' objection on February 21, 2020. The Title III Court considered the motion for leave to amend on submission, and on April 14, 2020 entered an order granting the plaintiffs' motion. On April 16, 2020, the plaintiffs filed their Second Amended Complaint. On April 20, 2020, the defendants filed motions to dismiss. On April 24, 2020, AAFAF filed a joinder to the Oversight Board's motion to dismiss. On May 21, 2020, the Oversight

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Board filed a supplemental memorandum of law in support of the motion to dismiss, to which AAFAF joined the same day. On August 11, 2020 and 12, 2020 the plaintiffs filed oppositions to the motions to dismiss. The defendants' replies in support of the motions to dismiss are due on October 20, 2020.

Manuel Natal-Albelo, et al. v. The Fin. Oversight and Mgmt. Bd. for Puerto Rico, Case No. 19-00003-LTS (D.P.R. Jan. 14, 2019) and the appeals of the COFINA Plan of Adjustment (*Pinto Lugo, et al v. Commonwealth of Puerto Rico, et al*, Case No. 19-1181 (1st Cir. 2019); *Elliott, et al v. Commonwealth of Puerto Rico, et al*, Case No. 19-1182 (1st Cir. 2019); *Coop. de Ahorro y Cred. de Rin, et al v. COFINA, et al*, Case No. 19-1391 (1st Cir. 2019); *Hein v. FOMB, et al*, Case No. 19-1960 (1st Cir. 2019))

On December 6, 2018, Manuel Natal Albelo, at-large independent representative of the House of Representatives of Puerto Rico, Rene Pinto-Lugo, and others, including VAMOS and various unions (collectively, the Pinto-Lugo Plaintiffs), filed a complaint in the Commonwealth of Puerto Rico Court of First Instance, San Juan Superior Court (the Superior Court) (Civil No. SJ2018cv01569), against the Commonwealth and Carlos Mendez Nunez, in his official capacity as President of the House of Representatives of Puerto Rico (the Civil Action).

On December 17, 2018, the complaint was served on the Puerto Rico Department of Justice. The complaint contains two causes of action. The first cause of action alleges that the legislative process leading to the passage of Puerto Rico House Bill 1837 and the enactment of Act 241-2018, which created the legal structure necessary to execute the Corporation's restructuring, was flawed and violated Puerto Rico House regulations as well as Natal's constitutional and civil rights under the Puerto Rico and United States Constitutions because he was not allowed to participate in debate prior to the bill's approval. The first cause of action seeks a declaration that Act 241 is unconstitutional. The second cause of action alleges that Act No. 91 (the COFINA legislation, as amended) and Act No. 241-2018 (which is an amendment to the COFINA legislation, and which was signed into law by the Governor on November 15, 2018), violate the debt-limit and balanced-budget provisions of the Commonwealth Constitution.

On January 14, 2019, the Oversight Board, on behalf of the Commonwealth and the Corporation, filed a notice of removal of the Civil Action to the Title III Court, where the Civil Action was docketed as Adversary Proceeding No. 19-00003-LTS (D.P.R.), captioned *Manuel Natal-Albelo, et al. v. Financial Oversight and Management Board for Puerto Rico, et al.* (the Adversary Proceeding). On January 15, 2019, the Title III Court referred the Adversary Proceeding to Magistrate Judge Judith Dein for general pre-trial management.

On February 5, 2019, the Title III Court issued its Confirmation Order, confirming the COFINA Plan of Adjustment, and its Findings and Conclusions. In Paragraph 3 of the Findings and Conclusions, the Title III Court took judicial notice of Act 241 (defined as the New Bond Legislation; see Exhibit A of the Findings and Conclusions) and found that the Act "has been duly enacted." See also Paragraph 120 of the Findings and Conclusions (concluding that "[t]he Commonwealth's Legislative Assembly passed, and its Governor signed, the New Bond Legislation" and that "pursuant to Puerto Rico case law, legislation of the Commonwealth is presumed to be valid if enacted by the Legislative Assembly of Puerto Rico and signed into law by the Governor."); n.14 of the Findings and Conclusions (overruling the objections by Manuel Natal-Albelo and his co-objectors to the constitutionality of the New Bond Legislation under the United States and Commonwealth's Constitutions). On February 12, 2019, the COFINA Plan of Adjustment became effective and was substantially consummated, thereby quieting

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the Corporation's title to the COFINA Revenues, and definitively resolving as a legal matter all questions of title to those revenues and the Corporation's sole and exclusive ownership of them.

On March 21, 2019, the Pinto-Lugo Plaintiffs filed motions to remand the Adversary Proceeding to the Superior Court, asserting that (i) the Title III Court lacks subject matter jurisdiction over the complaint because it pertains solely to violations of the Commonwealth's Constitution and Puerto Rico statutory law—not federal law—and such violations do not involve rights created by Title III of PROMESA, and (ii) the Title III Court lacks subject matter jurisdiction over the complaint because the Oversight Board itself is unconstitutional. As a result, the Pinto-Lugo Plaintiffs claim that the complaint can only be adjudicated by a local Puerto Rico court. On March 24, 2019, the Oversight Board moved to strike the Pinto-Lugo Plaintiffs' remand motions. On April 18, 2019, Magistrate Judge Dein allowed the Oversight Board's motion to strike and permitted the Pinto-Lugo Plaintiffs to file one consolidated motion to remand, which they filed on May 10, 2019. The Oversight Board filed an opposition brief on May 31, 2019. Also, on May 31, 2019, AAFAF filed a motion to intervene in the Adversary Proceeding and an opposition to the pending remand motion. On July 31, 2019, Magistrate Judge Dein denied the Pinto-Lugo Plaintiffs' motion to remand. On August 13, 2019, Magistrate Judge Dein took note of the agreement among the parties and ordered that the stay of the Adversary Proceeding is continued in effect until the final resolution of the COFINA Appeals (as described below).

On February 18, 2019, the Pinto-Lugo Plaintiffs filed a Notice of Appeal in the Title III Court [Case No. 17-03283, ECF No. 5155]. On February 22, 2019, the appeal was docketed with the United States Court of Appeals for the First Circuit (the First Circuit) under case number 19-1181. An additional appeal of the confirmation of the COFINA Plan of Adjustment, brought by certain COFINA's junior bondholders, including Mark Elliott, Peter Hein, Lawrence Dvoves, was docketed with the First Circuit under case number 19-1182 (together with case number 19-1181, the Initial Appeals, and the appellants in 19-1181 and 19-1182, the Initial Appellants).

On April 12, 2019, FAFAA and the Oversight Board filed a motion to dismiss the Initial Appeals as equitably moot, arguing that because the appellants failed to seek a stay of the COFINA Plan of Adjustment pending appeal and the COFINA Plan of Adjustment was substantially consummated on February 12, 2019, it would be unfair to innocent third parties to unwind the hundreds of transactions completed to adjust approximately \$17.64 billion of COFINA's debt. On August 7, 2019, the First Circuit denied the motion to dismiss the Initial Appeals without prejudice to reconsideration by the panel that will decide the appeal on the merits. The Initial Appellants filed their opening briefs on November 7, 2019. Peter Hein, one of the Initial Appellants, also filed an individual appeal, docketed with the First Circuit under case number 19-1960 (the Hein Appeal). Mr. Hein filed his opening brief on December 16, 2019. The Oversight Board and FAFAA filed an opening brief on February 14, 2020. The Initial Appellants filed their reply briefs on April 30 and May 1, 2020. Mr. Hein also filed a reply brief in the Hein Appeal on April 30, 2020. On July 31, 2020, the First Circuit heard oral argument on the Cooperativas Appeal and the other COFINA Appeals.

Accordingly, there are ongoing legal challenges to the Confirmation Order that, if resolved adversely to COFINA, could, among other things, affect the validity of the amendments made by Act No. 241-2018 and the validity or enforceability of the Indenture and the New COFINA Bonds.

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b. Appointments Clause Litigation

On August 7, 2017, a group of GO 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. On June 1, 2020, the United States Supreme Court issued an opinion reversing the First Circuit.

c. The Oversight Board Investigation

On August 2, 2017, the Oversight Board announced its intention, pursuant to its authority under PROMESA, to conduct an investigation to review the fiscal crisis and its contributors, and examine Puerto Rico’s debt and its issuance, including disclosure and selling practices. To that end, the Oversight Board named a special investigation committee (the Special Investigation Committee) and conducted a competitive process to identify and select an independent firm to conduct the investigation. On September 13, 2017 the Oversight Board announced that the Special Investigation Committee retained an independent investigator to carry out a review of the Commonwealth’s debt and its connection to the current financial crisis. The Special Investigation Committee considers this investigation an integral part of the Oversight Board’s mission to restore fiscal balance and economic opportunity and to promote the Commonwealth’s reentry to the capital markets. The independent investigator’s work concluded, and the Oversight Board published the independent investigator’s final report on August 20, 2018 (the Debt Investigation Report). The Debt Investigation Report provides an analysis of the historical and more recent macroeconomic and political factors contributing directly and indirectly to the Commonwealth’s fiscal and economic crisis, the Commonwealth’s municipal bond issuance process, and legislative efforts to restructure the debt, as well as the Oversight’s Board investigative findings, policy recommendations, and identification of potential claims and matters for regulatory attention.

The Debt Investigation Report presented findings and recommendations on the following areas:

- GDB
- Puerto Rico Public Utilities (PREPA and PRASA)
- The Corporation or COFINA
- Employee’s Retirement System of the Commonwealth (ERS)
- Puerto Rico’s Budgeting, External Reporting, and Accounting Functions
- Calculation of the Constitutional Debt Limit
- Credit Rating Agencies (CRAs)
- Selling Practices for Puerto Rico-Related Bonds
- Puerto Rico’s Government Ethics Framework
- Issuers’ Use of Interest Rate Swaps
- Puerto Rico’s Lack of a Clear Mechanism for Validating Puerto Rico-Related Bonds Before They Issue

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- Possession Tax Credit

Finally, the independent investigator presented an overview of potential causes of action. The Debt Investigation Report in its entirety can be found on the Oversight Board's website.

On August 28, 2018, the Oversight Board appointed its special claims committee (the Special Claims Committee) and delegated to the Special Claims Committee any and all authority of the Oversight Board to review the findings in the Debt Investigation Report and to take any appropriate steps, including, but not limited to, recommending and/or initiating the negotiation and/or prosecution of claims based on the findings in the Debt Investigation Report on behalf of the Title III debtors for the benefit of all creditors and parties in interest in the Title III cases. The Special Claims Committee is entitled, in its full discretion, to determine the scope of any further action, including, but not limited to, additional investigation, as well as claims to be pursued, and to retain such advisors, consultants, attorneys or other advisors as it in its sole discretion sees fit. On October 25, 2018, the Oversight Board requested proposals for counsel to assist the Special Claims Committee regarding consideration of potential claims described in the Debt Investigation Report. On November 28, 2018, the Special Claims Committee signed the contract with the firm that will provide those services. The Special Claims Committee did not pursue any claims related to COFINA bond issuances.

(16) Advance Refunding and Deceased Debt

On November 23, 2011, the Corporation issued \$397.7 million Series 2011A-1 bonds. Part of the proceeds from the Series 2011A-1 bonds was used to advance part of the outstanding Series 2009A bonds aggregating \$52,780,000 and bearing interest ranging from 4.00% to 6.125%. The Corporation used approximately \$65,867,000 from the net proceeds of the issued Series 2011A-1 bonds and other funds to purchase U.S. government securities, which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt services payments of the refunded Series 2009A bonds. On November 23, 2011, the Corporation also issued its Series 2011 B bonds amounting to approximately \$45.6 million to advance part of the outstanding Series 2009 B bonds aggregating \$38,490,000 and bearing interest at 6.05%. The Corporation used the net proceeds of the issued Series 2011B bonds and other funds to purchase U.S. government securities, which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt services payments of the refunded Series 2009 B bonds. Accordingly, the Series 2009A and the Series 2009B refunded bonds were defeased and the liabilities were removed from the statement of net position. During the year ended June 30, 2020, the outstanding balance of the advance refunded bonds was paid in full.

(17) Subsequent Events

Subsequent events were evaluated through September 23, 2020, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the June 30, 2020 basic financial statements.