2023

Annual Report

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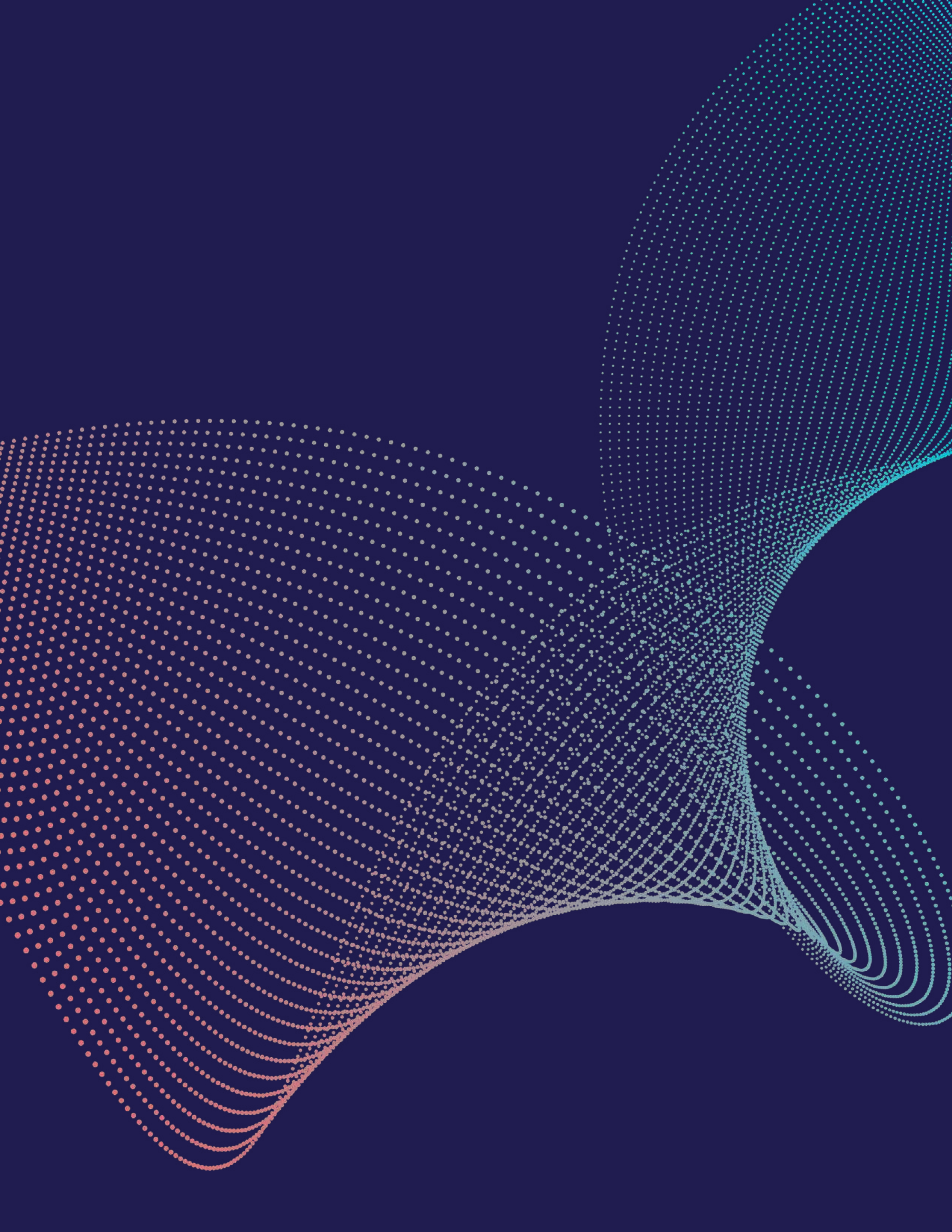

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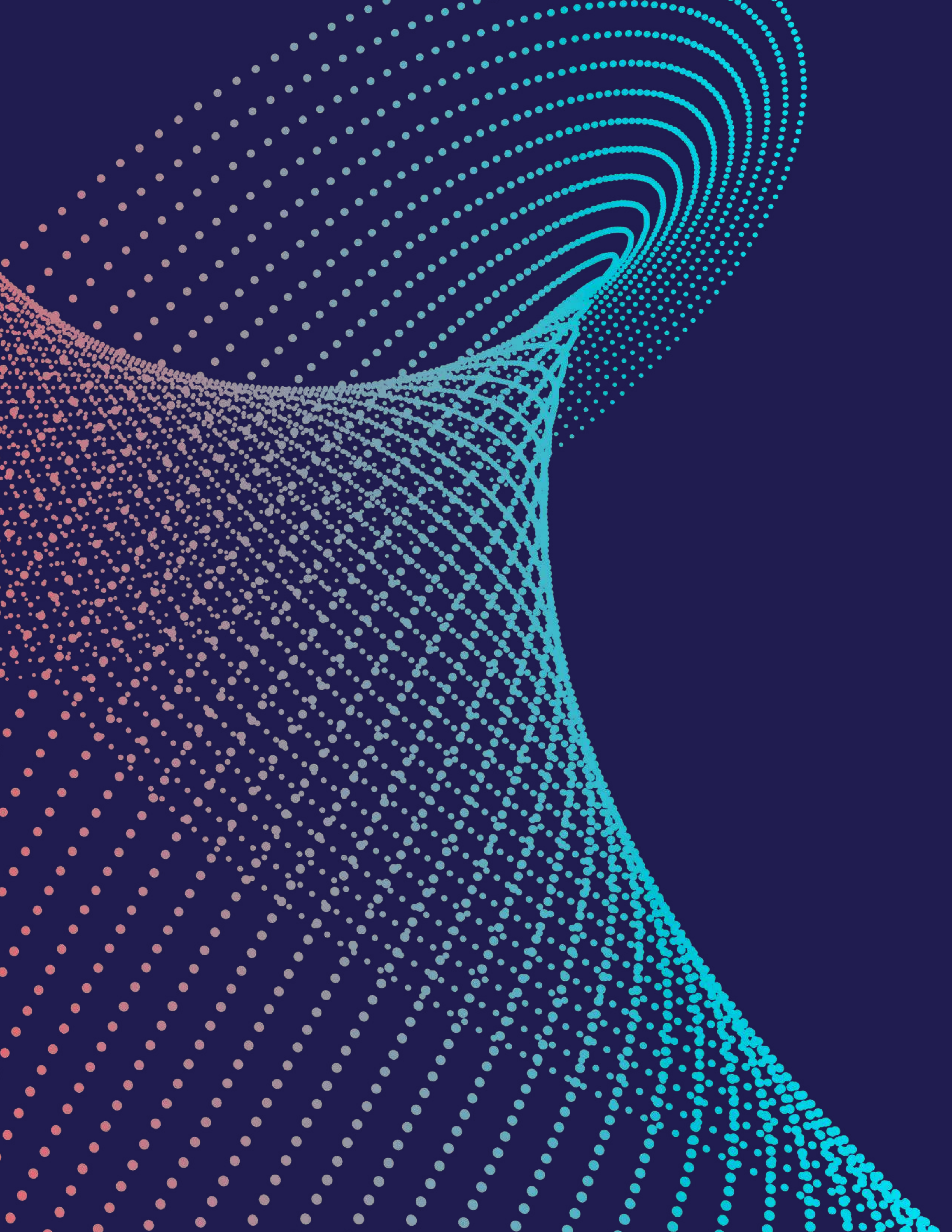

Introduction

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Executive Director

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Fiscal Year 2023 Report

7th Annual Report

July 31, 2023

San Juan, PR

Annual Report submitted pursuant to Section 208 of the Puerto Rico Oversight, Management, and Economic Stability Act

Letter from the Chair
David A. Skeel Jr.

Fiscal year 2023 was in many ways one of great success – a turning point for Puerto Rico as we, the Oversight Board, together with the Government, shifted our focus from Puerto Rico's debt to Puerto Rico's economic future.

We also welcomed our new executive director, Robert F. Mujica Jr. When the members of the Oversight Board hired Robert Mujica, we were confident we found the right person to lead this new phase of the Oversight Board's work and complete our mandate under PROMESA, so the Oversight Board can terminate.

Robert Mujica joined the Oversight Board after a long and extraordinarily distinguished career in New York State Government. He has the skills, the experience, and the passion to continue the Oversight Board's work. In the six months between his hiring in January and the end of the fiscal year 2023, Robert Mujica has taken a decisive lead in defining the Oversight Board's path forward, through renewed cooperation with the Puerto Rico Government and a keen focus on our priority to cement the success of our debt restructuring and fiscal stability efforts by ensuring long-term fiscal responsibility and sustainable economic growth.

Our mandate is clear: Help Puerto Rico achieve fiscal responsibility and regain access to capital markets. Then we must leave. We have made substantial progress. But we have some ways to go to ensure that Puerto Rico can maintain its course of fiscal stability. Fiscal responsibility and market access are not two lines on a term sheet that we can simply tick off and be done.

Institutionalizing a disciplined budget process that does not deviate from the path of stability, effective procurement, and fiscal management all still must be fully implemented to prevent Puerto Rico from falling back into deficit and crisis. The debt of the Puerto Rico Electric Power Authority (PREPA) is not yet restructured.

I never thought I would be a member of the Oversight Board for seven years when President Barack Obama appointed me. I have no interest in prolonging the lifespan of this board. But I am also determined to help finish the job we were given. I want Puerto Rico to succeed, and that includes making sure solid processes are in place to prevent Puerto Rico from falling back into instability.

In the new fiscal year our focus will shift more decisively from fiscal stability to economic growth as another step towards fulfilling PROMESA's mandate. Economic development is the key to Puerto Rico's future, just as it is the key to regaining the confidence of investors. Without it, there won't be opportunity for the people of Puerto Rico. Without it, there will be no fiscal stability. Without it, the painful adjustments that Puerto Rico has endured will have been in vain. The Oversight Board will be working hand in hand with the elected Government, the business community, civic groups, and other stakeholders to put in place a plan that will help secure Puerto Rico's economic success.

One last piece of Puerto Rico's legacy debt still needs to be restructured. PREPA's huge debt needs to be reduced to sustainable levels. The massive pension liabilities that PREPA and the PREPA Employee Retirement System (ERS) neglected to fund for so many years also needs to be restructured so current retirees are protected while PREPA's future pensioners will be able to invest their retirement savings responsibly in defined contribution plans, like so many Americans do.

A year ago, at the beginning of fiscal year 2023, I had hoped we would soon be able to conclude negotiations with creditors and present a consensual Plan of Adjustment that was fair to creditors and the people of Puerto Rico. But PREPA's debt proved a tougher issue than any other restructuring we have resolved under PROMESA.

PREPA was the first instrumentality that had a potential debt deal in place in 2017. The Oversight Board was not involved in the negotiations between PREPA and its bondholders and their preliminary agreement was not a Plan of Adjustment under Title III of PROMESA. A Plan of Adjustment is much more comprehensive than a deal with bondholders. It restructures liabilities owed to all creditors, including retirees.

The Oversight Board reviewed the 2017 agreement and concluded that the terms, including recoveries to certain bondholders, were not in Puerto Rico's best interests. I do not think that a debt charge of almost 6 cents per kilowatt hour in fiscal year 2023, which is what that agreement would have cost PREPA's customers, was a good deal. The agreement simply did not support the energy transformation so critical for Puerto Rico's future. Nobody wins – not Puerto Rico and not the bondholders – if electricity remains unreliable and PREPA remains financially unstable.

In 2019, the Oversight Board, together with the Fiscal Agency and Financial Advisory Authority (AAFAF) and PREPA reached an RSA with certain bondholders that awarded Puerto Rico's households and businesses significant protections, including preventing electricity bills from rising should electricity demand decline in coming years.

However, the implementation of the RSA through a Plan of Adjustment for PREPA required legislation. The Puerto Rico Legislature did not adopt the required legislation, and the Puerto Rico Governor terminated the RSA in 2022 with the support of the Oversight Board.

Since then, we have been analyzing and negotiating carefully to find a path for PREPA to emerge from bankruptcy. The path must allow PREPA to operate and invest in a way that makes electricity more reliable and cleaner, and strike the right balance between bondholder's claims and the economic impact on the people and businesses of Puerto Rico. Most importantly, the path must include safeguards that will prevent PREPA from ever becoming insolvent again in the future.

A lot is at stake for Puerto Rico, and a lot has changed since we started the bankruptcy process under Title III of PROMESA in 2017. Hurricane Maria, earthquakes, the pandemic, the global move to save electricity through more energy efficient appliances, and the accelerating push towards renewable energy have created an ever-changing environment. The challenge is to arrive at the terms for a restructuring that will work not only today and tomorrow, but for decades to come. To predict a changing world of energy usage and energy generation years ahead is a really difficult thing to do.

Despite these challenges, the bondholders have not relented, insisting on full or nearly full payment of the contractual debt. After months of mediations with bondholders in the past fiscal year, we reached an impasse, and in September 2022, the Oversight Board resumed the litigation with creditors that we had put on hold and had hoped to put to rest with a fair, sensible, and sustainable agreement. We had analyzed so carefully what we could expect the residents and businesses of Puerto Rico to pay for electricity, and we knew there was an immense risk in going forward with a deal we were not absolutely sure was sustainable for PREPA in the long run.

The litigation focused on two issues, the amount of collateral the bondholders are entitled to and the size of their claim. On the first issue, the Board contended that the bondholders' claims are limited to the money PREPA deposits in accounts established pursuant to the trust agreement governing the issuance of the bonds. In March, the U.S. District Court for the District of Puerto Rico, which has jurisdiction over PROMESA, upheld the Oversight Board's position that the bondholders' collateral security is limited to those funds. On the second issue, the judge ruled in June that bondholder's remaining claim was for $2.4 billion.

Our proposed solution for this massive problem of PREPA's debt remains a Plan of Adjustment. We filed a proposed plan with the U.S. District Court in December 2022, but filing a plan does not mean the members and staff of the Oversight Board could take their eyes of the ball. We could not refuse to look at new data as it became available. We also had to update the PREPA Fiscal Plan, as we do regularly, to reflect the latest estimates on cost and energy consumption. The Fiscal Plan, and the Plan of Adjustment, are based on reality, not wishful thinking.

The Oversight Board certified a new Fiscal Plan in June 2023 with updated projections developed by PREPA, Luma Energy LLC, and Genera PR that impacted the Fiscal Plan's debt sustainability analysis for Plan of Adjustment. Most significantly, the new projections presented to the Oversight Board reflect significantly higher costs related to the energy efficiency programs, such as future discounts and rebates to encourage customers to switch to more energy efficient appliances and light bulbs, and higher pension cost. Those discounts are common in many U.S. states and introducing them to Puerto Rico was mandated by the Puerto Rico Energy Bureau (PREB).

The Oversight Board is now in the process of amending the Plan of Adjustment. Given the updated projections, a further reduction in PREPA's debt from the currently filed plan is necessary so PREPA can provide essential electricity to the people and businesses of Puerto

Rico at sustainable rates. As I am writing this, we are continuing to negotiate – hopefully leading to a final deal or deals with bondholders reflecting the new reality.

Some critics accused the Oversight Board of moving the goal posts. In fact, we continued to update our projections as new information came in. At every stage, we have relied dispassionately on data to predict PREPA's future costs. At the same time, we have been accused of overburdening the people of Puerto Rico with a proposed increase in electricity rates that everyone knew would be unavoidable given the need to pay at least a portion of PREPA's legacy debt and to stabilize its underfunded pension system. We will continue to work hard to find a fair middle ground and propose a Plan of Adjustment that will stand the test of time – and the test of law. In the end, we must propose a Plan that the U.S. District Court can confirm under the parameters set by law.

We hope we will close this last chapter of the debt restructuring soon and in a way that is in the best interest of all involved. We want to end Puerto Rico's bankruptcy for good, so that PREPA can move on and the transformation of Puerto Rico's energy system can be completed, and the people of Puerto Rico can reap the true benefits of PROMESA as Congress intended.

Letter from the Executive Director
Robert F. Mujica Jr.

Puerto Rico's economy continued to recover in fiscal year 2023, and its fiscal situation continued to stabilize following the Oversight Board's successful reduction in debt payments. Focusing on fiscal discipline, through responsible budgeting, kept spending in line with revenues to prevent the Government from falling back into deficit.

Stabilization, however, is not enough to move Puerto Rico forward, and it is not enough to fulfill the Oversight Board's mandate under PROMESA. To achieve fiscal responsibility, the elected Government and covered instrumentalities must continue to implement the structural reforms set forth in the Fiscal Plans for Puerto Rico. In addition, the Governor, the Legislature and the covered instrumentalities must operate within existing budgets and submit future budgets for certification by the Oversight Board that are compliant with the respective Fiscal Plans.

Puerto Rico's future depends on true reform and lasting change to create a solid foundation of sustainable economic growth. Achieving these permanent and sustainable reforms is my focus as Executive Director.

The Fiscal Plan defines critical reforms and initiatives to improve the ease of doing business, upgrade infrastructure, and prepare the workforce to compete for the jobs of the future. This Annual Report provides an overview of the Fiscal Plan priorities for each of the covered entities.

The Fiscal Plan also defines the necessary improvements to systems and procedures that provide the foundation for strong fiscal management. Appropriate spending discipline is still needed to preserve and institutionalize recent success. Strong fiscal management and long-term financial stability are both needed to prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in the Island's bankruptcy.

The budget process is an example of both necessary reform and the beginning of change. Many months of deliberation between the elected Government and the Oversight Board go into the preparation of budgets. For fiscal year 2023, the Legislature failed to submit a budget to the Oversight Board. In addition, the Government continued its practice of adding incremental expenses throughout the year without identifying resources to fund those costs. Only because of the Oversight Board's review and scoring, and subsequent work with the

Government to identify funding, were the costs of these laws offset within the fiscal year 2023 certified budget.

For fiscal year 2024 that began on July 1, 2023, the Governor and the Legislature worked with the Oversight Board to establish a budget for the Commonwealth that is compliant with the Fiscal Plan. Both branches of the Government approved and submitted the budget to the Oversight Board for certification – a significant step towards achieving fiscal responsibility.

The Oversight Board will continue to work hand in hand with the Government to ensure future budgets are on time, compliant with the Fiscal Plan, and provide a path to satisfying PROMESA's requirements for the Oversight Board's termination. The Oversight Board will also continue to work toward the same goal with Puerto Rico's instrumentalities. Unfortunately, the Puerto Rico Aqueduct and Sewer Authority (PRASA) informed the Oversight Board in June 2023 that it would not submit a revised proposed budget for fiscal year 2024. As a result, the Oversight Board had to develop and certify as compliant its own version of a budget for PRASA.

The Government and covered instrumentalities also made substantial progress on implementing certain key structural reforms. For example, the elements of the energy transformation required by the Fiscal Plans for the Commonwealth and Puerto Rico Electric Power Authority (PREPA), and Puerto Rico's Act 17-2019 are being implemented. Private operators are incentivized to improve Puerto Rico's grid and power generation over time. In addition, the Puerto Rico Energy Bureau, the independent regulator, approved the budgets for the energy system ahead of the Oversight Board's certification, further strengthening regulatory independence. This progress doesn't mean the transformation is complete. Energy is still not reliable, but the transformation is providing a foundation for a system that can and will improve. The Annual Report provides greater detail about this transformation and its success.

Other critical reforms have yet to be executed. We must find long-term solutions for the challenges the University of Puerto Rico (UPR) faces. The Oversight Board, and the leadership of the University of Puerto Rico (UPR) and the UPR Governing Board have set up a working group with experts from a broad range of disciplines, such as higher education, economic development, and the private sector to develop strategic initiatives focused on academic excellence, economic development, and fiscal sustainability.

Puerto Rico needs to reform its dramatically underperforming public school system . Puerto Rico's children deserve a public school system that prepares them for a world of opportunity and a demanding job market. The Oversight Board will work with the Puerto Rico Department of Education and the U.S. Department of Education to reform public school education.

Puerto Rico also needs comprehensive tax reform. The Oversight Board will work with the Government to define and implement holistic tax reform. We will also engage with a broad group of stakeholders to identify solutions that meet Puerto Rico's long-term needs.

Solutions to these challenges requires deliberation and action. These challenges cannot be resolved without the input of the elected Government, government agencies, and other stakeholders. In the coming fiscal year, the Oversight Board will continue to foster dialogue with all stakeholders.

Before starting as Executive Director, the seven board members and I talked about the future of Puerto Rico and the priorities after bankruptcy. The outcome – and the mandate to me – was to focus on the following issues: long-term financial management; the energy sector; education; tax reform; and economic development. Puerto Rico needs to turn recovery into sustainable growth. We need an economy that provides opportunity for the people who live here and incentives for investors. Lastly, we need to complete the final major piece of Puerto Rico's debt restructuring: the Plan of Adjustment for PREPA.

The new Fiscal Plan for the Commonwealth, which the Oversight Board certified in April, reflects these priorities. Ever since the Government and the Oversight Board created the first Fiscal Plan in 2017, it has been a statement of priorities. Establishing priorities requires making choices –sometimes difficult choices – to ensure that government expenses fit within expected financial resources.

This year's Fiscal Plan is different. Many of the difficult choices are behind us. With Puerto Rico's bankruptcy almost completed, this Fiscal Plan is focused on the choices and investments that will help restore growth and prosperity to the people of Puerto Rico after the long period of crisis and decline.

The Fiscal Plan prioritizes support for a high performing public sector by investing in the people, efficiency, effectiveness, and capacity of the Government to deliver more efficient and higher quality services. Puerto Rico still needs to implement many of the structural reforms.

Puerto Rico has received an unprecedented infusion of federal funds in the form of disaster relief funding and COVID-19 stimulus funds. This unprecedented influx of one-time federal funds has strengthened the economy in recent years.

This Annual Report provides, for the first time, an overview of those funds and its use. PROMESA imposes certain limitations on the Oversight Board's authority with respect to federal funds allocated to Puerto Rico. The Oversight Board does, however, monitor the flow of federal funds because the Fiscal Plan relies on the strategic disbursement of those federal funds.

Federal funds present an unprecedented opportunity if deployed efficiently and aligned with initiatives that will improve long-term growth. Nevertheless, like many economists and the businesspeople I have spoken to in recent months, the Oversight Board is concerned that those funds mask underlying persistent weakness in Puerto Rico's long-term economic growth. Indeed, our analysis does not point to sustainable economic growth without these funds.

The road ahead is clear: Fulfilling the mandates of PROMESA to help Puerto Rico achieve fiscal responsibility, balanced budgets, and access to capital markets will require continued efforts to implement necessary reforms. The goal is a prosperous Puerto Rico. Economic growth is essential to support the government's revenues, investments, pensions, and debt service.

Every investment, every reform, every initiative, and every law must be viewed through that lens.

When I took this job in January 2023, I saw the opportunity ahead very clearly. The opportunity to take this moment – the end of bankruptcy, fiscal stability, and economic stimulus – as the beginning of another era of growth, as the beginning of real change, the beginning of a period of success. Now is the time for the Oversight Board to take this opportunity to work with the Government and play as decisive a role after the bankruptcy as during the bankruptcy.

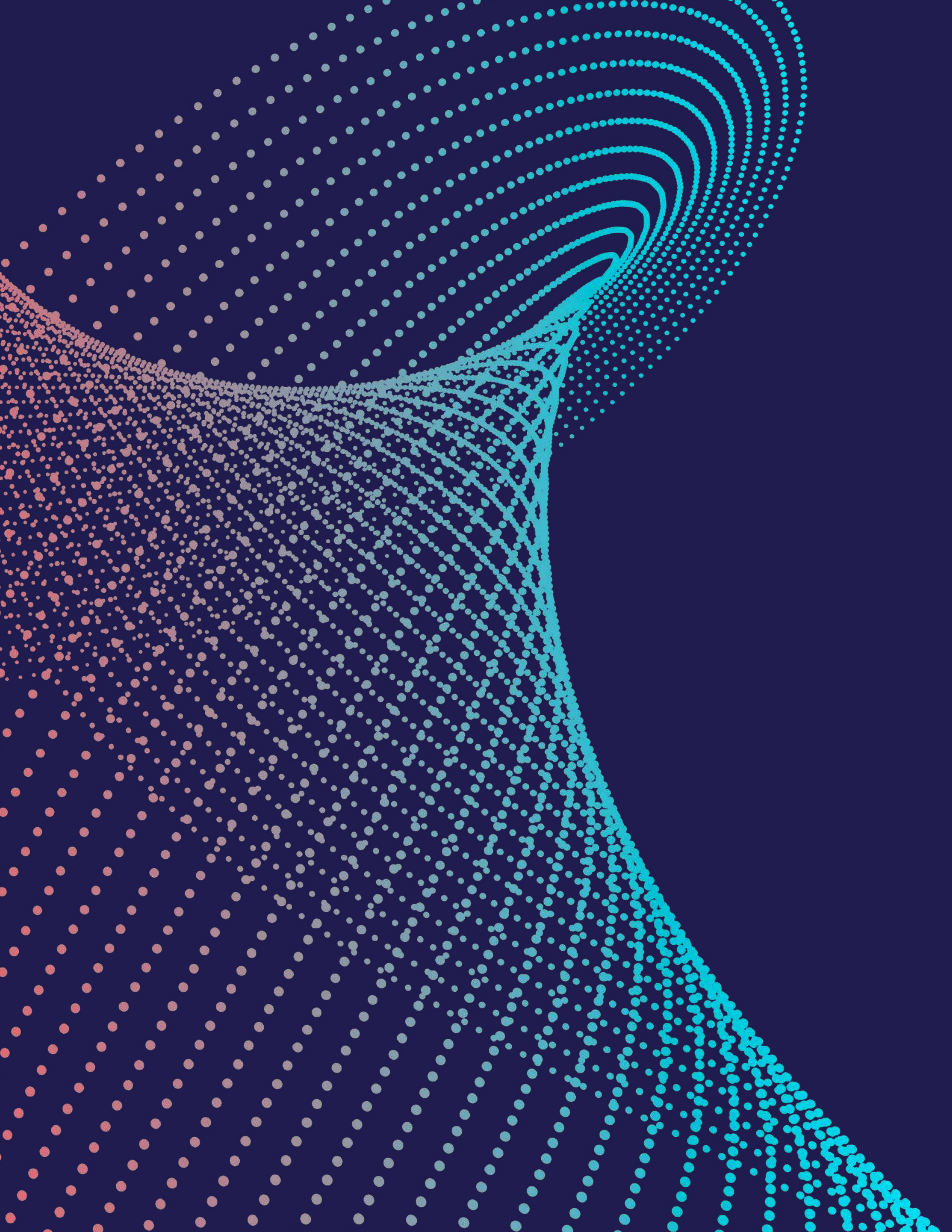
This is personal for me. My mother and father left Puerto Rico as children with their respective families at a time in Puerto Rico's history known as the great migration – where many families left the island to find opportunity elsewhere.

It was a time when the island's population saw a decline of over 20%, a time when many families on the island thought their only hope was to leave Puerto Rico to find good work and good education for their children elsewhere.

That was over 50 years ago. I return to Puerto Rico as a product of that era and it is now our responsibility to help create an environment where there is opportunity and investment right here, in Puerto Rico, where people want to stay in communities and raise a family.

When this Oversight Board terminates, our work will have left a mark on Puerto Rico, our reforms will have changed Puerto Rico, and the mandate Congress gave us to help Puerto Rico achieve fiscal responsibility and regain access to capital markets will have been fulfilled.

I look forward to continuing to partner with elected leaders to create a Puerto Rico that regains the confidence of its people, and regains the confidence of those Puerto Ricans who left, so they can return to a Puerto Rico of opportunity.



PROMESA & the Oversight Board


Antonio Medina
John Nixon
Andrew G. Biggs


Robert Mujica

Before PROMESA was enacted in 2016, Puerto Rico faced an unsustainable burden of more than $70 billion in debt and other liabilities, and more than $55 billion in unfunded pension liabilities, exacerbated by a decade of economic decline and significant outmigration. There was no viable path to stabilize Puerto Rico's finances or a coordinated strategy to deal with the debt. Puerto Rico had lost access to the debt markets to fund deficits.

Puerto Rico's debt crisis hampered its economy and affected the lives of every resident and the success of every business. Nonetheless, government spending remained bloated, government services were inefficient, liquidity shortfalls impaired strategic decision making, and no multi-year, coordinated strategy existed to restore growth and opportunity to the people of Puerto Rico.

In 2016, Congress through PROMESA provided a way forward for Puerto Rico.

Since then, the Oversight Board has been working extensively with the elected Government of Puerto Rico to restructure the debt, stabilize finances, and help create the necessary foundation for economic growth and restoring opportunity to the people of Puerto Rico.

The progress the Oversight Board has made since PROMESA was enacted includes the completion of multiple debt restructurings, reducing the burden on the people of Puerto Rico; breaking the cycle of public deficit spending; and creating multi-year Fiscal Plans to implement necessary reforms that, if fully implemented by the government, would improve infrastructure, the energy system, education, the business climate, and the delivery of government services.

Debt Restructuring

The January 2022 confirmation of the Plan of Adjustment for the central government's debt by the U.S. District Court for the District of Puerto Rico was a historic achievement for Puerto Rico. The court subsequently confirmed the restructurings for the Puerto Rico Highways and Transportation Authority (PRHTA) and the Puerto Rico Public Finance Corporation (PRPFC).

The previous and contemporaneous debt restructurings at the Government Development Bank (GDB), the Puerto Rico Aqueduct and Sewer Authority (PRASA), the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Convention Center District Authority (PRCCDA), and the Puerto Rico Sale Tax Financing Corporation (COFINA) all laid the groundwork for the central government restructuring. Each of these restructurings contributed to the reduction of debt owed by the government – to be paid by the people of Puerto Rico – and helped set a foundation for the restoration of market access.

The debt restructurings completed so far reduced Puerto Rico's debt by more than 50% and will save over $75 billion in debt service payments, taking an enormous burden off future generations.

Critically, the Commonwealth Plan of Adjustment includes a strict debt management policy to limit both the amount and purpose of future debt issuances. Future annual debt service payments are also structured as level and predictable amounts, enabling the government to plan and pay for them.

Pensions

Decades of financial mismanagement, underfunding, and borrowing from people's pensions had left the retirement systems for the government employees, teachers, and judges with virtually no assets. Had the Commonwealth not started paying for pensions out of the general operating budget, retired government employees would have stopped receiving pension checks. The budgetary discipline PROMESA mandates, and the Oversight Board enforced, enabled the Commonwealth to afford the continued payment of retirement benefits from current tax revenues. Preserving and protecting the ability to make pension payments in the future is a core element of the Commonwealth Plan of Adjustment. The Oversight Board insisted on the creation of a well-funded Pension Reserve Trust projected to be funded with more than $10 billion in contributions over the next decade, so even after the Oversight Board is gone, money will have been safeguarded for governmental retirees' pensions.

Achieving Fiscal Responsibility Through Balanced Budgets

One of the major successes of the Oversight Board has been the progress in stabilizing the budgets of the Commonwealth and the instrumentalities, with the goal of restoring fiscal responsibility. The budgets the Oversight Board certified broke the cycle of deficit spending that harmed Puerto Rico's fiscal position and ultimately led to its insolvency.

The annual budgeting process has been overhauled under the Oversight Board's supervision. The government must now make thoughtful and deliberate choices on spending priorities and budget for items that were previously unbudgeted, including an emergency reserve fund. Since 2019, the Government has been required to set aside $130 million annually into an emergency reserve until $1.3 billion is accumulated. When Hurricane Maria hit, Puerto Rico had no such reserve.

The Oversight Board also succeeded in improving fiscal transparency and budgetary controls. After Congress created the Oversight Board, it required years of investigations for the Oversight Board to identify and determine who controlled the Government's hundreds of bank accounts. Today, the public has significantly more access to reporting on liquidity, budgets, and spending than before PROMESA was enacted.

On June 30, 2023, the Oversight Board certified a fiscal year 2024 consolidated budget for the Commonwealth of Puerto Rico that includes a compliant general fund budget adopted and submitted by the Puerto Rico Legislature and signed by Governor Pedro R. Pierluisi. It was only the second jointly developed compliant budget under PROMESA since 2021.

In the spring of 2021, the Government submitted a compliant budget for fiscal year 2022 but failed to submit any budget for fiscal year 2023, and did not submit compliant budgets for three of the five recent amended budgets that reflected, among other important items, the effective Plans of Adjustment for the Commonwealth and the Highway and Transportation Authority. As a result, the Oversight Board developed its own compliant budgets for certification as required under PROMESA.

A government budget submitted by the Governor and approved by the Legislature that is compliant with the Fiscal Plan for Puerto Rico is a significant step towards achieving the fiscal responsibility and stability that Puerto Rico needs and deserves.

Nevertheless, this progress is undermined by the Legislature continuing its trend of passing laws during the fiscal year that reduce revenues or increase expenditures without identifying ways to pay for those incremental costs.

By the time the Oversight Board terminates, the government must be able to pass and maintain a balanced budget with a long term, multi-year financial plan that is in balance. Otherwise, Puerto Rico will again face deficits and the kind of painful adjustments so difficult to implement by any elected government.

Achieving Fiscal Responsibility Through Fiscal Plans & Reforms

The development and implementation of Fiscal Plans for the Commonwealth and the various governmental instrumentalities are a core requirement of PROMESA. These Fiscal Plans provide roadmaps for institutional change, economic development, improved government services, long-term fiscal stability and responsibility, access to capital markets, and – ultimately – a better quality of life for all residents of Puerto Rico.

Fiscal Plans alone are not enough, however. The Government must still do its part in implementing the key structural reforms identified by the Fiscal Plans in critical areas like human capital and welfare, education, ease of doing business, and energy and infrastructure to achieve meaningful structural reform. These reforms are essential to create jobs, foster investment, and make Puerto Rico competitive in the world market.

To date, the government has been broadly lagging in the implementation of the reforms required by the Fiscal Plans and has not yet demonstrated the vigor necessary to speed up Puerto Rico's transformation to make it easier for the economy to grow.

To be sure, progress has been made in some areas, particularly in energy transformation – which is necessary to provide Puerto Rico residents and businesses with more reliable, more affordable, and cleaner electricity. Puerto Rico now has a truly independent and well-funded energy regulator. The monopoly of the Puerto Rico Electric Power Authority (PREPA) – which did not work for the people of Puerto Rico – has been broken up. There is a path for renewable energy. The Oversight Board is making progress in restructuring the debt that PREPA cannot repay in full.

Other areas require continued attention. Puerto Rico's property tax system is the lifeblood of municipal governments, providing the funding for critical services to the island's residents. Over the past five years, the Oversight Board has worked closely with the Municipal Revenue Collection Center (CRIM) to enhance the property tax system and property tax compliance.

The Oversight Board worked closely with the government and non-governmental organizations to refine and greatly expand the Earned Income Tax Credit (EITC). The EITC is a refundable tax credit for low- to moderate-income working individuals and couples. It is a very powerful tool to bring people into the formal workforce. Expanding the EITC has been a Fiscal Plan priority for many years. Working together with the government, several nongovernmental organizations applied for the credit. The EITC is successfully bringing more people into Puerto Rico's formal workforce: In 2021, more than 120,000 filers who did not file tax returns in 2019 or

2020, applied for the EITC. Given the magnitude of this population of new filers, it is likely many of these people were previously working in theinformal economy.

Finally, the Oversight Board has engaged with the Executive and Legislative branches on reforming regulations to make them consistent with the various fiscal plans and to provide initial scoring on dozens of proposed pieces of legislation.

These insights, drawn from the Oversight Board's expertise, and often drafted in collaboration with the government agencies or committees in the Legislature, will ensure compliance with the fiscal plans while achieving the government's public policy objectives.

In 2020, for example, the Oversight Board approved a set of rules designed to substantially improve the Government's practices in purchasing goods and services and should prevent the irregularities and inefficiencies that plagued Puerto Rico's procurement system for too long. This Uniform Regulation for Purchases and Bids of Goods, Works, and Nonprofessional Services of the General Services Administration was proposed by Puerto Rico's General Services Administration (GSA) and revised by the Oversight Board to align with best practices and comply with the certified Fiscal Plan and the fiscal responsibility mandated under PROMESA. The approved regulation establishes a baseline for a single, robust, and sound procurement procedure. Nonethless, establishing full compliance with the requirements and ensuring permanent reforms in procurement is an ongoing challenge.

The Oversight Board identified weaknesses in the system of salary payment at the Department of Education (PRDE) and worked with PRDE to institute an automated time and attendance system tied to payroll to put an end to the practices of paying people who had died, retired, moved, or otherwise left the Department. The previous lack of controls enabled over $80 million in payments to individuals no longer employed from 2007 to 2020. The Oversight Board is working with other agencies to implement the same automated systems to ensure resources are going to those public servants actually working.

Investments

To improve the long-term economic output and productivity of Puerto Rico, the Oversight Board made deliberate, strategic investments, particularly with regard to Civil Service Reform.

The Civil Service Reform combines enhancement in compensation with employee evaluations, organizational design, and the recruitment of new government personnel to equip the Government of Puerto Rico with a more comprehensive understanding of the government workforce's skills and needs.

The reform project reviews and adjusts compensation structures and ensures the Commonwealth has data- driven compensation models that lead to competitive, fair and justified salaries; it will build a robust employee evaluation system to support the development of existing and evolving skills and to develop clear paths to career advancement; it aims to improve the government's organizational structure to ensure that people with the right skills are at the right place within the organization; and it refreshes and standardizes recruiting processes to be merit-based to enable recruitment of talent with the right skills for each role.

Outlook

The Oversight Board's mission and vision is clear: Turn fiscal stability and recovery into long-term economic growth. Strengthening Puerto Rico's education system is foundational for prosperity. Completing Puerto Rico's energy transformation is essential because we cannot create sustainable economic growth without reliable electricity. And, together with the Government, we must continue our work to achieve long-term fiscal responsibility, because fiscal responsibility will ensure that Puerto Rico will not slip back into crisis.

In April 2023, the members of the Oversight Board certified a new Fiscal Plan for Puerto Rico, a transformation plan to restore growth and prosperity. This Fiscal Plan has new elements, some of which are neither projections nor requirements to start a dialogue to find permanent solutions to persistent, severe financial management challenges in key areas.

For example, Puerto Rico needs to reform its dramatically underperforming public school system, ind long-term solutions for the challenges the University of Puerto Rico (UPR) faces, and implement a comprehensive, holistic reform of its tax system. These challenges cannot be resolved by simply providing more funding but require reforms developed in cooperation with informed by Puerto Rico's stakeholders.

That is why the Oversight Board, UPR, and the UPR Governing Board have together created a working group with to develop a set of strategic initiatives focused on academic excellence, economic development and financial sustainability. The working group participants represent expertise in a broad range of areas, such as higher education, economic development, and the private sector. The Oversight Board expects the working group to develop a strategic plan to revitalize UPR in its mission and its role at the center of Puerto Rico's economic growth. At the same time, the Puerto Rico Government's contribution to UPR's overall fiscal year 2024 budget includes an additional $100 million strictly tied to the completion of milestones that foster academic excellence, economic development, and financial responsibility.

Securing long term solutions to Puerto Rico's challenges require deliberation and action. Those deliberations cannot simply be within the Oversight Board or between the Oversight Board and the Government. The input of other stakeholders is critical. And any solution must be constrained by the current and future spending capacity of the Government.

The Oversight Board will continue to work with the Governor and the Legislature to develop budgets that are compliant with the Fiscal Plan to help Puerto Rico achieve fiscal responsibility. The Oversight Board hopes the government will soon be able to pass and maintain balanced budgets on its own so Puerto Rico will never again face deficits and bankruptcy even when the Oversight Board will have fulfilled its statutory mandate and terminate.

Termination of the Oversight Board

Congress included a specific section in PROMESA directing how and when the Oversight Board terminates. The three provisions in PROMESA Section 209 require the government to instill strong financial management and fiscal responsibility as preconditions for the termination of the Oversight Board.

Having achieved considerable progress, including the successful restructuring of most of Puerto Rico's debt, the Oversight Board is starting to more closely evaluate the parameters and metrics required to certify its dissolution and to restore financial controls to the elected government of Puerto Rico. Ultimately, while the Oversight Board must certify the Section 209 requirements when they are satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet the termination requirements.

The first of three conditions for termination that must be achieved, and certified by the Oversight Board, is that the territorial government must have "adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government." PROMESA defines the territorial government as the central government and all other covered governmental instrumentalities.

As a practical matter, regaining market access requires the Commonwealth and its covered instrumentalities demonstrate they have achieved and sustained specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards. For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the territorial government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from the end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) "best practices" guidelines. The territorial government's ability to demonstrate it can perform standard municipal securities law requirements, such as filing Continuing Disclosure Agreements (CDA) with dealers and obtain standard market legal and audit opinions, is also important.

The territorial government will, moreover, need to demonstrate how outstanding debt, both restructured or new, is actively trading in the municipal market at reasonable levels relative to market indices and produce evidence that investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The credit rating agencies will likely look beyond the Section 209 provisions in assessing Puerto Rico's creditworthiness.

The second condition of Section 209 requires the territorial government "has developed its Budget in accordance with modified accrual accounting standards" for at least four consecutive fiscal years. This provision applies to the territorial government, which consists of the Commonwealth and all other governmental instrumentalities which are covered entities.

Documentation is key to complying with the modified accrual budgeting requirement. The Commonwealth and all other covered instrumentalities will need to adopt, with the approval of the Oversight Board, a comprehensive modified accrual accounting policy to provide revenue and expense recognition criteria compliant with modified accrual accounting. The Commonwealth and each of its covered instrumentalities will need to certify to the Oversight Board that their budgets were developed in accordance with the adopted accounting rules and standards to meet the requirements of Section 209.

While PROMESA requires the territorial government produce and maintain balanced budgets on a modified accrual basis, the financial discipline required for such an outcome is not yet robust or consistent. On June 30, 2023, the Oversight Board certified a fiscal year 2024 consolidated budget for the Commonwealth of Puerto Rico that includes a compliant general fund budget adopted and submitted by the Puerto Rico Legislature and signed by the governor. It was only the second jointly developed compliant budget under PROMESA and the first since 2021. A government budget submitted by the Governor and approved by the Legislature that is compliant with the Fiscal Plan for Puerto Rico is a significant step towards achieving the fiscal responsibility and stability that Puerto Rico needs and deserves.

More often though, the government has not been able to adopt and submit a compliant budget to the Oversight Board for certification. Although the Government submitted a compliant budget for fiscal year 2022, it failed to submit any budget for fiscal year 2023, and did not submit compliant budgets for three of the five recent amended budgets that reflected, among other important items, the effective Plans of Adjustment for the Commonwealth and the Highway and Transportation Authority. As a result, the Oversight Board developed its own compliant budgets for certification as required under PROMESA.

Moreover, during fiscal years 2022 and 2023, the Government repeatedly tried to add incremental expenses throughout the year without proactively identifying resources to fund those costs. It was only because of the Oversight Board's review and scoring, and subsequent work with the Government to identify funding, that the costs of most of these laws were offset within the certified budgets. Despite the Oversight Board's efforts, at least one enacted law was the subject of litigation between the Oversight Board and the Government during the past year.

The Government's reliance on off-budget resources, particularly federal funds, to cover ongoing operating expenses also remains a significant risk to achieving balanced budgets. The Government has repeatedly used one-time federal funding to pay for recurring operating expenses, including salary enhancements for public sector employees. It is a basic budget principle that recurring expenses must be covered by recurring revenue to prevent Puerto Rico from falling back into fiscal crisis.

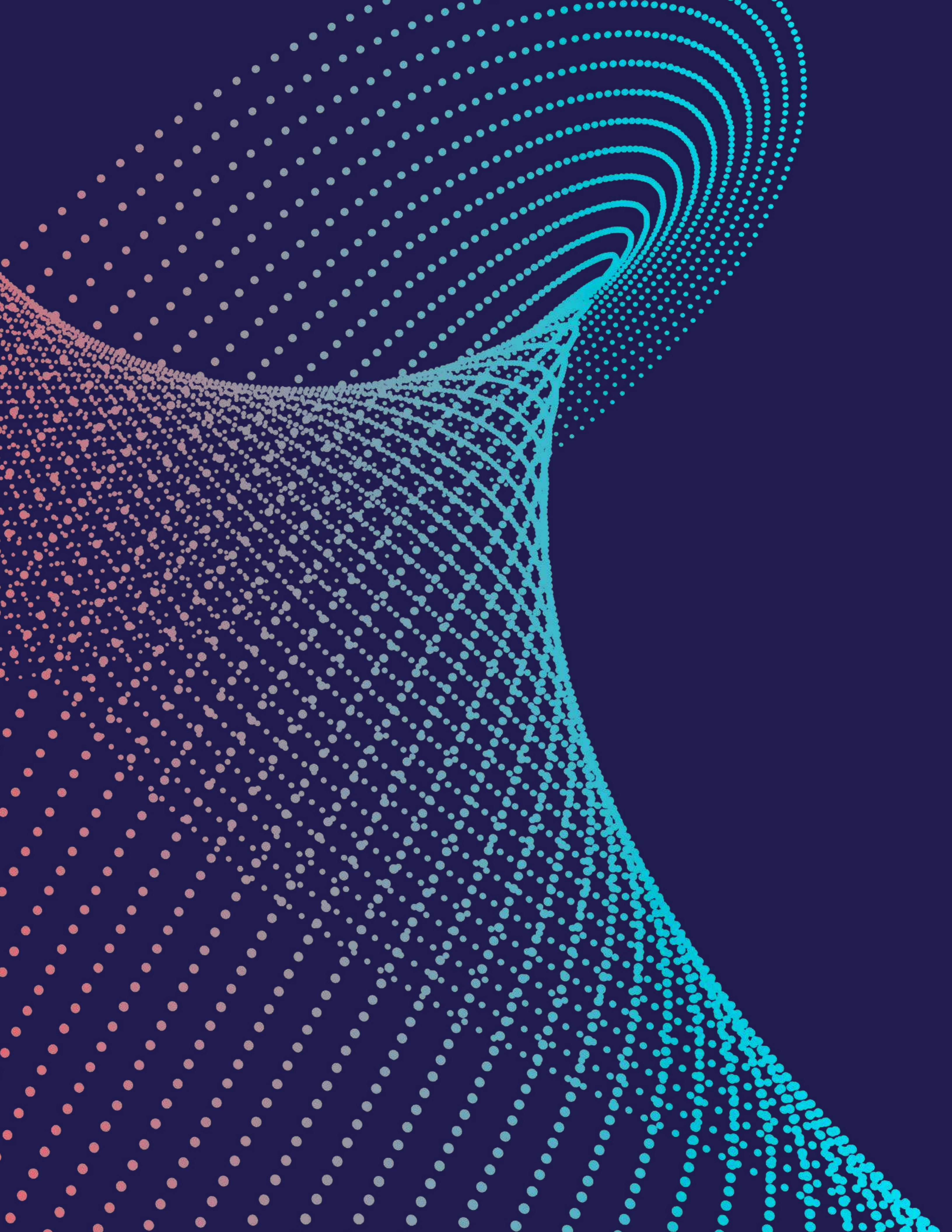
By the time the Oversight Board terminates, the government must be able to pass and maintain a balanced budget with a long term, multi-year financial plan that is in balance. Otherwise, Puerto Rico will again face deficits and the kind of painful adjustments so difficult to implement by any elected government.

PREPA, which is a covered entity under PROMESA and a governmental instrumentality, has not yet completed its debt restructuring. PREPA's budget must include restructured debt payments for it to qualify as having developed its budget in accordance with the required modified accrual accounting standards.

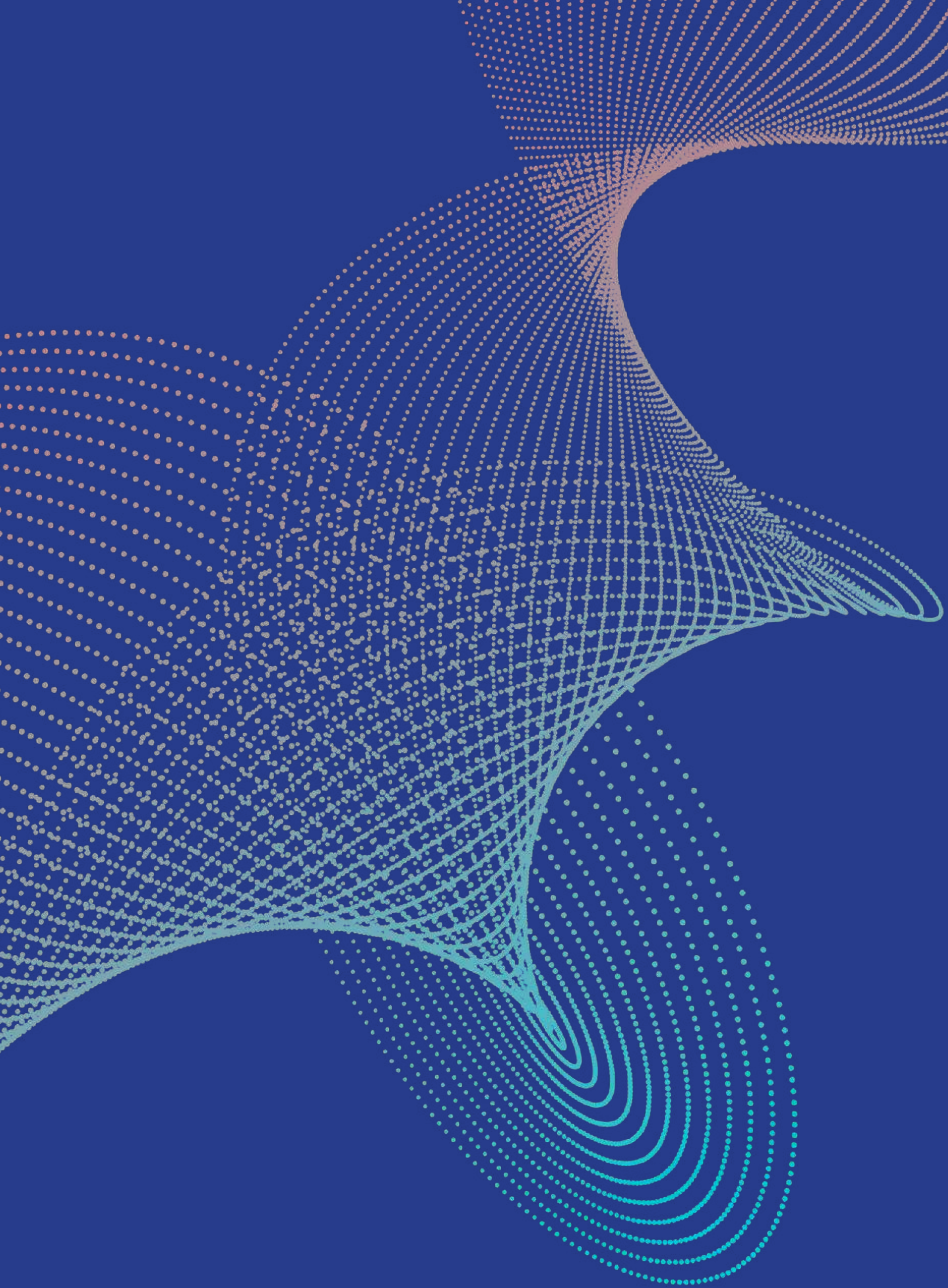
The third condition of Section 209 requires confirmation that, for at least four consecutive years, "expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards." The Oversight Board plans to use a quantitative standard to evaluate whether the government satisfied this condition by looking back at actual revenues and actual spending over the prior fiscal year. The standard methodology to conduct such an evaluation is to review the government's audited financial statements. As a result, the Commonwealth and all other covered instrumentalities will need to certify to the

Oversight Board that their audited financial statements were produced on a timely basis and audited schedules prepared on a full accrual basis are converted into a modified accrual basis to meet this condition of Section 209.

The Oversight Board is committed to working with the Government to achieve the purposes of PROMESA and to satisfy expeditiously the statutory requirements for the termination of the Oversight Board. Meeting the requirements under Section 209 will, however, take time. After emerging from bankruptcy, it took the City of Detroit nearly four more years to issue bonds backed only by its promise to repay, and even longer before its credit rating increased to one notch below investment grade. Continued vigilance and self-discipline by the elected Government is essential to avoid a relapse into financial distress. New York City still imposes strict financial and budgetary discipline on its budget processes almost 50 years after the enactment of the Financial Emergency Act in 1975, to avoid its own control board springing back into active status.



Oversight Board Projects & Initiatives



Civil Service Reform

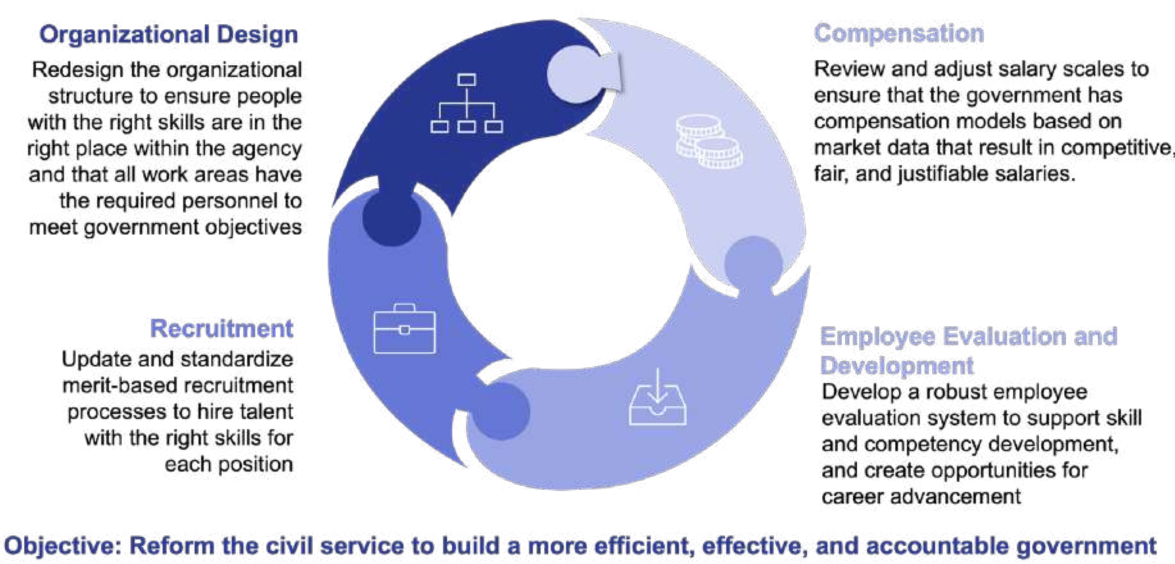
A capable and motivated civil service is essential for the government's ability to provide services to the residents of Puerto Rico. A high-performing government requires employees who are well-trained and proficiently skilled, fairly compensated, and effectively managed.

The administration of Governor Pedro R. Pierluisi and the Financial Oversight and Management Board for Puerto Rico have made deliberate, strategic investments in a comprehensive Civil Service Reform (CSR) to improve governance and operational capacity across agencies to strengthen and improve the way government works for the people. CSR combines enhancement in compensation with employee evaluations, organizational design, and the recruitment of new government personnel.

The consistent and productive engagement with the Executive Branch has led to, among other things, the implementation of the CSR Pilot Program at the Puerto Rico Department of Treasury (Hacienda) and the Office of Management and Budget (OGP) during fiscal year 2022. The successful collaboration of the CSR allowed the government and FOMB to work together on the expansion of the reform to encompass the rest of the Commonwealth agencies in fiscal year 2023.

Further, during this past fiscal year, the Oversight Board and its staff worked with the Office of the Administration and Transformation of Human Resources (OATRH) on developing a new classification and compensation plan for central government agencies. FOMB and OATRH staff co-led the implementation of the new salary structure, and also co-hosted training and communication meetings with HR departments.

Given the success of the pilots, the government requested that the Oversight Board and its staff expand the reform to the Department of Education and OATRH (the government's personnel agency). For the past several months, FOMB staff teams and government leaders have been working together on expanding the reform to more agencies. CSR is grounded in evidence-based research, strategic alignment with key stakeholders, and careful consideration of the local context. The ultimate objective of the reform is to build a more efficient, effective, and accountable government through the creation of an improved work experience and an enhanced employee value proposition for public sector employees.



The CSR started in July 2021 with a pilot program in the accounting-, finance-, and information technology (IT)- areas in the Department of Treasury (Hacienda) and the Office of Management and Budget (OGP) to enable government leadership to see reforms in action and allow for policy changes and new programs to be adapted and modified as required prior to a government-wide implementation.

Hacienda underwent a restructuring and strengthening of its Financial Statements Office, the establishment of a Customer Service Center to consolidate administrative activities, and the creation of an Operational Center of Excellence (CoE).

At OGP, a new Center for Government Excellence was established to drive government transformation, and specialized work divisions were formed within the Budget Directorate to improve budget management effectiveness. Following the development of these new organizational structures, 112 positions in accounting, data science, project management, public policy analysis, technology, and other areas were recommended. A total budget of $7.2 million was allocated to Hacienda and OGP for these new hires.

Another crucial aspect of the pilot program was to ensure that all participating employees received a competitive salary. Job classifications and salaries were thoroughly assessed and compared to local labor market rates. A total of $2.6 million was allocated to Hacienda and OGP to guarantee competitive salaries for pilot participants.

Further, the government launched an integrated, updated, and modernized job posting registry. A new uniform application was also developed and integrated into the online platform. The new Job Registry, available at www.empleos.pr.gov, was launched on July 18, 2022. More than 1,600 applications were received just for Hacienda and OGP positions as a direct result of the CSR Pilot.

The fourth component of the reform involved creating and implementing an employee evaluation system that follows industry leading practices. Pilot employees underwent a cycle of self-assessment, supervisor evaluation, meaningful conversations to identify skill gaps and areas of opportunity, and received individualized professional development plans. Curated learning paths with relevant courses on an e-learning platform were designed for each competency to address identified skill gaps.

Expanding CSR in Fiscal Year 2023

In February 2023, the Government implemented a new Uniform Classification and Remuneration Plan (URP). The Fiscal Plan allocated $99.6 million annually for the implementation of the new URP. The Government of Puerto Rico has for the first time in over 30 years one uniform system for assigning jobs and pay in the central government.

The Office of the Administration and Transformation of Human Resources (OATRH), working closely with the Oversight Board, co-designed a new modern vision for compensating employees while ensuring fiscal responsibility.

More than half of URP's 20,000+ employees received a salary adjustment. A select list of "hot jobs", including nurses, social workers, emergency medical technicians, and juvenile services officials, received a different compensation treatment.

OATRH and the Oversight Board jointly aligned the approximately 1,500 job classifications to the new modern salary structure. Following the implementation of the new salary structure, the Oversight Board and OATRH have been working closely to evaluate the requests for revisions to the assignment of job classifications in the new salary structure to ensure government employees have base salaries that are fair and competitive according to their experience, education, skills, and responsibilities.

A change management plan was developed and implemented, crafting communications, materials, webinars, and in-person workshops to meet the needs of all stakeholders.

Transforming the administrative and fiscal functions of Puerto Rico Department of Education (PRDE) through CSR

In November 2022, the Government and the Oversight Board expanded CSR to the administrative and fiscal functions of the PRDE. The objectives of CSR in PRDE are to achieve an aligned and sustainable human capital strategy to meet future financial reporting challenges, revamp organizational structures and identify human capital needs in accounting, finance, and other critical functions, benchmark compensation to ensure competitive salaries, and develop tools for recruitment and professional development.

Capacity Building Efforts in OATRH for CSR Diffusion and Expansion

The Oversight Board has been supporting OATRH with its internal reorganization, which aims to assign additional budgetary, human and technical resources to maximize efficiency with its processes. OATRH must increase its personnel and technological means in areas such as benchmarking analysis, recruitment and management of employees, and to deliver continuing education for public servants, as part of the reorganization. With this restructuring, as happened with OGP and the Pilot, OATRH will have the added capacity to fulfill the parameters set forth by the CSR.

Priorities for Fiscal Year 2024

Despite the progress that has been achieved thus far in implementing the CSR, much work remains to be done to complete the government's compensation system and ensure the expansion and sustainability of the reform across the central government.

In collaboration with the Oversight Board, the government will continue to plan and implement important elements of CSR in the current fiscal year, including:

- Rolling out the organizational design roadmap agreed to by the Oversight Board and government to ensure that all agencies have updated, fit-for-future structures
- Developing and implementing a new, tech-driven recruitment system
- Developing and implementing a new employee evaluation system for government employees to ensure high- performing workers are promoted and incentivized.
- Designing and approving the necessary changes to the government's HR regulations to ensure alignment with the CSR and competitively recruit top talent.
- Collaborating in designing the HR Module of the government's Enterprise Resource Planning ("ERP") platform.
- Continuing progress in the capacity building efforts for the CSR to ensure the government is adequately equipped to expand the reform across agencies.
- Developing compensation policies and regulations in line with the new pay structure and philosophy of the CSR.

If these key deliverables and milestones are met, an additional $45 million will be allocated for a second phase of salary adjustments. In addition to Pilot and Uniform Remuneration Plan (URP) Implementation costs, $33 million was allocated to recruit approximately 500 additional positions across the government to address limited technical and leadership skills critical to propel and implement needed reforms to maintain fiscal controls, drive strategic objectives, and promote accountability, efficiency, and effectiveness in the government. Achieving lasting change in these core areas will ultimately lead to a strengthened and modernized civil service that is better equipped to serve the people of Puerto Rico.

Economic Development

Energy Transformation

The transformation of Puerto Rico's energy system, as required by the Fiscal Plan for the Puerto Rico Electric Power Authority (PREPA) and Act 17-2019, is of the utmost importance. Puerto Rico needs and deserves more reliable, more affordable, and cleaner energy. Without a modern and affordable energy system Puerto Rico's nascent economic recovery would inevitably stall.

PREPA's History

PREPAserved as Puerto Rico's sole electricity provider and distributor since its creation in 1941. It is the largest publicly owned power utility in the United States by number of customers served. Until 2014, PREPA operated without independent regulatory oversight.

For decades, the utility had faced significant financial, operational, and reliability challenges. PREPA has systematically ignored the maintenance of its asset base and focused on reacting to problems rather than proactively preventing them. Macroeconomic trends, including declining population and a long economic recession, reduced electricity demand and, with it, PREPA's revenues. Hurricanes Irma and Maria caused significant damage to an antiquated and fragile power system. Reliability and safety metrics were well below mainland U.S. industry standards. Volatility in fossil fuel prices also drove energy prices up.

In the decade leading up to the hurricanes and PREPA's bankruptcy, PREPA was running a budget deficit. Instead of addressing this structural imbalance by seeking operational efficiencies to reduce its cost base, PREPA financed its operating deficit by issuing new debt. By fiscal year 2014, PREPA's financial condition had deteriorated to the point where it had to enter into forbearance agreements with creditors.

On July 2, 2017, the Oversight Board filed a petition on PREPA's behalf for relief under Title III of PROMESA. PREPA held approximately $9 billion in financial debt obligations, the equivalent of $6,000 per customer. Further, $3.6 billion of PREPA's $4.3 billion pension liability was unfunded.

Transformation

In August 2018 the Oversight Board certified a PREPA Fiscal Plan developed in close cooperation with the Puerto Rico Government and PREPA that defines a comprehensive transformation of the Puerto Rico power sector.

The transformation is being implemented together with the government and bipartisan legislative support, PREPA, and the Puerto Rico Public Private Partnership Authority (P3A). The transformation has five main elements:

- Turning the Puerto Rico Energy Bureau into a strong, independent, and well-funded regulator
- Transferring management of the grid to an experienced private operator
- Transferring management of the legacy power plants to an experienced private operator

- Ensuring the deployment of federal recovery aid after Hurricane Maria and other natural disasters
- Restructuring PREPA's unpayable debt and pension liabilities

The energy transformation has made substantial progress.

Puerto Rico now has a truly independent and well-funded energy regulator. The PREPA monopoly that did not work for the people of Puerto Rico has been broken up by separating management of the grid from energy generation There is a path for renewable energy. Further, the Oversight Board is making progress in restructuring the debt that PREPA cannot repay in full.

Transmission and Distribution - LUMA

In June 2020, PREPA, P3A, and the Government reached an agreement with LUMA Energy to manage and operate PREPA's transmission and distribution system (T&D), the largest public-private partnership in U.S. history.

The LUMA Energy Operation and Maintenance Agreement (OMA) is the result of a more than four-year effort by the P3A and the Government of Puerto Rico to select a private operator for the T&D System, implement the transaction, and professionalize and depoliticize the operation of PREPA's T&D System through a competitive bidding process. The Oversight Board reviewed the contract pursuant to PROMESA to ensure it complied with the Fiscal Plan and Puerto Rico energy policy.

LUMA assumed interim operational control of PREPA's grid under a Supplemental Agreement until the 15-year OMA commences.

The transition to LUMA has been uneven and more challenging than expected. LUMA took over a severely deficient and underperforming system. Lack of robust record-keeping by PREPA hindered LUMA's ability to gather reliable information regarding the true state of the system's operation. The poor condition of critical equipment left by PREPA and a legacy of deprioritizing proper maintenance and repair practices extended initial restoration work times.

These challenges undoubtedly made the already difficult task of taking over one of North America's most complex utilities even harder. Nevertheless, the Oversight Board continues to believe that an independently operated energy system, free from political interference, provides the best opportunity for Puerto Ricans to transform the failed legacy of PREPA into a modern and reliable energy system.

LUMA's first year of service was also marred by multiple generation-related large-scale outages. Performance metrics submitted by LUMA to the Puerto Rico Energy Bureau (PREB), PREPA's independent energy regulator, suggest that, while outage duration reflected modest increases when compared to 2020 PREPA performance, LUMA did achieve notable improvements across multiple other areas, including lower outage frequency, lower call and service center wait times, higher call/answer ratios, much higher rooftop solar and battery storage installations, higher vehicle availability, and lower workplace safety incidents.

In August 2022, PREB concluded that from June 2021 to May 2022, LUMA met or exceeded 84% of the applicable performance targets.

The OMA is designed to incentivize LUMA to perform. Previously, PREPA had no incentives for positive performance. Under the OMA, LUMA will be paid a management fee and an incentive fee structured to provide tangible improvements to PREPA's customers according to metrics approved by PREB.

The OMA establishes three major Performance Categories: Customer Satisfaction; Technical, Safety and Regulatory; and Financial Performance. For each Contract Year, the level of performance in each Performance Category shall be measured based on actual results achieved for the Contract Year. As such, the rating of LUMA's compliance and the payment of the applicable Incentive Fee are solely based on LUMA's ability to timely achieve or exceed established performance metrics.

The current supplemental agreement compensates LUMA with a fixed fee. The incentive payments under PREB established metrics will become an element of LUMA's compensation when the OMA becomes effective once PREPA exits bankruptcy. That does not mean, however, that LUMA is operating without oversight. PREB has the authority as a regulator to hold LUMA accountable for its performance. Recent data points to continued improvements.

Power Generation – Genera

Puerto Rico's energy sector transformation further includes transitioning management of PREPA's existing power plants to a private operator.

Following a multi-year competitive bidding process to attract and identify qualified candidates to manage PREPA's electric generation operations, P3A and PREPA selected Genera PR LLC to operate and maintain legacy power plants, and assumes responsibility for environmental compliance, safety, and decommissioning old plants. The Oversight Board reviewed the proposed Thermal Generation Facilities Operation and Maintenance Agreement with Genera in accordance with PROMESA.

The agreement is another milestone of the power sector transformation. The Genera OMA should boost generation efficiency, productivity, and environmental compliance, reliability of services, the quality of the supply of electricity, and adherence to environmental and sustainability standards as well as achieving fuel and operational cost savings.

Like the LUMA OMA, the Genera OMA includes incentives and performance metrics that are tied to compensation under the agreement. The Genera OMA incentives and penalties are based on operational performance improvements, including operation and management budget savings, fuel savings, decommissioning budget savings, availability of plants, safety performance, and environmental performance.

The incentive compensation mechanisms are structured as sharing formulas between the operator and the electric ratepayers of Puerto Rico, with caps to incentive compensation available to the operator in a contract year. The incentive compensation is only payable from achieved savings, ensuring that Genera OMA is aligned with Puerto Rican ratepayers' interests to incentivize optimal performance.

The Oversight Board also recognizes the Genera OMA's enhanced provisions on transparency, procurement procedures, and communication, as well as the emphasis on developing strong ties with local service providers. The contract includes a cap on the mobilization fee, and incentives and penalties to both reward improved performance and penalize failure to achieve certain metrics. Like LUMA, Genera PR will be subject to PREB oversight.

This transformation plan is based on accountability. The people of Puerto Rico retain ownership of the grid and power plants and are empowered to hold private operators accountable. Both LUMA, the private operator of the transmission and distribution system, and Genera, which manages PREPA's legacy power plants, must meet objective performance metrics defined by PREB, the independent energy regulator.

Puerto Rico's energy transformation is not complete. Electricity is not yet reliable. PREPA is behind in moving to renewable energy. However, the Fiscal Plan provides a blueprint for a system that can and will improve over time. The old PREPA would never move, never improve, never change. For LUMA and Genera, a lot is at stake: profit, reputation, business success. LUMA and Genera cannot survive without success.

Renewable Energy

Renewable energy is an integral part of Puerto Rico's energy transformation and an integral part of the PREPA Fiscal Plan. The Oversight Board will do its part to support renewable energy by ensuring solid contracts based on a transparent and competitive bidding process that results in reasonable prices and efficient project completion.

PREB's Integrated Resource Plan (IRP), based on Puerto Rico Act 17-2019, required PREPA to develop and execute a plan to procure renewable generation and battery storage in a series of six tranches. On February 2, 2022, PREB approved 18 utility scale solar Power Purchase and Operating Agreements (PPOAs).

The FOMB approved these on March 25, 2022. PREPA has delayed closing on any of these agreements given several alleged complications, including developers' claims that stale bid prices from 2021 were unfeasible and citing delays in finalizing interconnection studies required to determine final costs. Given that, amendments to several PPOAs were submitted for PREB approval.

On June 30, 2023, PREB issued a Resolution and Order through which it approved six amended PPOAs and five Energy Storage Services Agreement (ESSAs) amounting to 515 MWs of solar capacity and 350 MWs of storage capacity. These approvals are incremental to five other amended PPOAs approved on May 25, 2023, representing ~315 MW of solar capacity for a total of approximately 830 MWs of solar capacity resulting from Tranche 1. The Oversight Board awaits receipt of all PPOAs to perform its review under its Contract Review Policy.

Tranche 2, which seeks 1,000 MW in renewable generation, appears delayed. As of March 2023, the PREB- Independent Coordinator has not issued or circulated proposals for evaluation.

On February 1, 2023, PREB announced the release of the third solicitation for renewable energy and energy storage resources.

The goal of Tranche 3 is to procure 500 MW of renewable resource generating capacity and 250 MW of energy storage capacity. On June 21, 2023, Acción Group, PREB's independent coordinator, posted a revised draft of the RFP for comments.

Debt Restructuring

The last remaining element in Puerto Rico's energy transformation is the restructuring of PREPA's more than $13 billion in debt, other claims, and pension liabilities under Title III of PROMESA.

In May 2019, the Oversight Board, the Fiscal Agency and Financial Advisory Authority (AAFAF), and PREPA had reached a Restructuring Support Agreement (RSA) with the Ad Hoc Group of PREPA bondholders and bond insurer Assured Guaranty Corp. The implementation of the RSA through a Plan of Adjustment for PREPA would have required legislation. By March 2022, the Puerto Rico Legislature had not adopted the required legislation and stated it would require changes to the RSA. The Legislature rejected some of the key terms of the RSA as unacceptable. Subsequently, Governor Pedro R. Pierluisi terminated the RSA with the support of the Oversight Board.

On December 16, 2022, the Oversight Board filed a proposed Plan of Adjustment to restructure PREPA's debt and pension liabilities. The Plan, filed with the U.S. District Court for the District of Puerto Rico and amended in March 2023, proposed to cut PREPA's unsustainable debt substantially.On June 23, 2023, based on new information provided by PREPA, the Oversight Board certified a new Fiscal Plan for PREPA that reflects updated projections for higher costs and lower energy consumption. The new Fiscal Plan reflects higher fuel costs than previously projected, expenses related to the energy efficiency programs mandated by PREB, including future discounts and rebates to encourage customers to switch to more energy efficient appliances and light bulbs, and higher pension costs. These projections impacted the Fiscal Plan's debt sustainability analysis and required the Oversight Board to amend the Plan of Adjustment, to reduce the issuance of consideration to creditors to approximately $2.5 billion.

The Fiscal Plan required input of, among others, LUMA, the entity tasked with providing the data and projections regarding most costs and projected load. LUMA in turn relies on guidance from PREB as to certain required expenditures. LUMA's data for the PREPA Fiscal Plan, which the Oversight Board received in its entirety in June 2023, presents the most accurate picture of the system's costs and expenses available to date. This data has a significant impact on PREPA's debt sustainability because higher costs result in higher electricity rates, reducing the headroom for new debt.

Given the updated projections, the further reduction in debt from the previously filed Plan of Adjustment became necessary so PREPA can provide essential electricity to the people and businesses of Puerto Rico at sustainable rates that will not create undue hardship and will not prevent economic growth. As of this writing, the Oversight Board is preparing the Third Amended Plan of Adjustment for PREPA.

The Oversight Board is keenly aware that the residents and businesses of Puerto Rico will have to shoulder the payments of this greatly reduced debt through their electricity bill. Because rates are set to cover costs, the cost of debt service must be included in electricity rates in Puerto Rico, as they are in states and territories across the entire United States. Nevertheless, the PREPA legacy charge is painful for Puerto Rico. That is why the Oversight Board continues to be mindful of the effect even greatly reduced debt payments would have on Puerto Rico's residents, households, and businesses.

The Plan proposes to treat PREPA's retirees the same as the Commonwealth's retirees were treated under the Commonwealth's Title III Plan of Adjustment. Retirees would be paid in full for all benefits earned through the effective date of the Plan. After that date, no further benefits would be earned under the defined benefit plan by existing or new participants. Current employees would be able to enroll in the government's defined contribution plan. Bankruptcy held back the transformation of Puerto Rico's energy system. . PREPA needs to move on, and Puerto Rico needs reliable electricity. The Oversight Board will propose a Plan of Adjustment that will achieve those goals.

Tax Reform

Puerto Rico's current tax system has historically suffered from structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. Effective revenue systems are based on taxes that generate sufficient revenue to fund needed public expenditures, are simple to administer, are transparent, are perceived as fair and equitable, and encourage economic growth.

The Oversight Board has long advocated for a truly comprehensive tax reform that can contribute to Puerto Rico's competitiveness as a critical part of its economic development. After the debt restructuring process, it is time to evaluate opportunities for broad-based, holistic tax reform. The Oversight Board is committed to working with the Government on defining and implementing a tax reform that meets those broad goals and looks forward to engaging with a broad group of stakeholders to identify creative solutions that meet Puerto Rico's long-term needs.

A comprehensive review of Puerto Rico's revenue structure must be completed as part of a tax reform process because Puerto Rico's income tax structure for both individuals and corporations is complex and opaque. Unlike the federal tax code, Puerto Rico's tax brackets are fixed and do not adjust for inflation. The tax code also includes numerous targeted deductions, exemptions, credits, and special rates that benefit narrow groups of taxpayers while potentially distorting the allocation of resources and reducing revenue available to fund needed public expenditures.

These incentives are often privately issued and are not always disclosed publicly. At the same time businesses faced with paying statutory corporate income taxes face a relatively high tax burden, as Puerto Rico has not followed the global trend of reducing statutory corporate income tax rates over the last 20 years. Similarly, Puerto Rico's 11.5% Sales and Use Tax (SUT) is higher than the rate imposed by other U.S. jurisdictions, though there are multiple reductions and exemptions to the rate.

In addition to reviewing Puerto Rico's revenue structure, a detailed review of tax expenditures must also be considered because Puerto Rico issues more than 400+ tax incentives with total foregone revenue projected to exceed $23 billion in 2023. Any tax reform considered by the government should establish rates, credits, deductions, and other alterations to tax structures firmly in the tax code. It should also limit the use of negotiated rates or incentives. Tax incentives, moreover, should be evaluated based strictly on a return-on-investment criteria and those that that do not provide a significant positive return to the Puerto Rico government should be eliminated or reduced.

As the government decides how to evaluate potential tax reforms, a few key objectives and principles should be kept in mind. This includes:

Reforms to Puerto Rico's tax system should:

- Reduce complexity
- Enhance equity
- Increase transparency
- Reduce administrative costs
- Reduce compliance costs
- Maintain, if not enhance, revenue sufficient to fund the efficient operations of government including essential services

Effective tax systems that have a broad base and low rates generally conform to these precepts. That is why there are four key principles that should be considered as part of any reform:

1. The tax system must be affordable and provide funding for essential services
2. The government must consider adapting the current tax system to focus on broadening the base and lowering rates
3. The tax system should be simple to administer and there should be a perception of fairness
4. Rates, credits, deductions, and other alterations should be firmly established in the tax code
5. The government should avoid or limit tax expenditures and base those offered on return-on- investment

At the same time, any potential reform must be fiscally responsible, meaning it cannot lose revenues in the process. Therefore, any tax reform or tax law initiative that the Government undertakes or pursues must be revenue neutral.

When assessing comprehensive tax reform opportunities, there are several design features that can be explored in future discussions with the government. Reforms, for example, could be phased in over time, and could be designed such that progressive phases are only triggered if the performance of the reform is in line with expectations. This would provide local businesses with the certainty and stability they require to make long- term investments.

Similarly, exemptions and tax incentives could be explored broadly to determine whether reductions could help to offset reductions in tax rates or the one-time recalibration of tax brackets. The Government could also evaluate ways in which digitization of economic activity impacts the nexus and identification of economic activity and impacts tax administration (valuation, audit, collection).

There are numerous other design choices that could be explored to stimulate economic growth and make Puerto Rico more competitive. All of this can and should be done in the context of Puerto Rico's overall spending priorities. By evaluating the Government's spending needs now that there is more clarity on the resources required to cover the remaining debt and pension obligations, the ability to reshape and reform the tax system to contribute to making the Island more competitive will become clearer.

Ease of Doing Business

Puerto Rico cannot grow long term if its economy cannot attract, keep and grow investments that create the jobs needed to stem outmigration and provide opportunity to residents. Reducing obstacles to starting and sustaining a business through improvements to the processes to obtain permits and to register property is therefore an important element of economic development.

While the Oversight Board understands that ease of doing business reforms will take several years to be completed, there is an increased need for the government to define robust implementation plans, with specific steps and timelines to achieve the targets defined in the Fiscal Plan for Puerto Rico.

Puerto Rico's Department of Economic Development (DDEC) recently released its economic development framework, PRopósito, which largely aligns with the goals and identified priorities in the Fiscal Plan and intends to identify priority sectors based on Puerto Rico's established competitive advantages. The Oversight Board will continue to work with DDEC to take the necessary steps to operationalize this plan to improve business friendliness on the Island, especially efforts to improve the entrepreneurial environment for small businesses.

Permit Reform

Puerto Rico is in a critical time of economic development with a focus on new business and construction development, as well as continuous reconstruction efforts associated with past hurricanes and natural disasters. In fiscal year 2023, the Oversight Board conducted multiple research initiatives to build upon previous efforts and gain a comprehensive understanding of the permitting governance structure, stakeholder relationships, policies, processes, and technological aspects related to permitting in Puerto Rico. These initiatives included extensive stakeholder interviews, analysis of survey results, and a thorough examination of permitting practices in other jurisdictions.

The analysis specifically focused on the three most crucial permit/complaint process procedures: the Single Permit (PU), the Consolidated Construction Permit (PCOC), and the Complaint Filing Request (SRQ). This research generated significant momentum and progress in permitting reform and identified important recommendations to enhance permitting management processes. These recommendations include a more user-friendly application process, establish a process for expedited review for minor construction projects, establish a Disaster Recovery Permit Process, and develop legislative amendments required to enable needed permit reforms.

Property Registry

The 2023 Fiscal Plan requires the Government to implement property registration reforms to ensure that all residents and businesses in Puerto Rico can quickly and reliably document property rights— which is crucial for day-to-day business operations, functioning of property markets and promoting system resiliency to natural disasters. The Puerto Rico Department of Justice (DOJ) already reduced average registration timeframes to fewer than 90 days, from 190 days in 2020. New registrations (excluding backlog cases) average 15 days to process.

The Oversight Board and DOJ have also been working together to accelerate backlog reduction, reducing the existing document backlog from 419,000 documents in 2019 to about 219,000 as of mid-2023. DOJ has since committed to a comprehensive action plan approved by the Attorney General to further accelerate the reduction of the backlog to comply with the Fiscal Plan target of eliminating the backlog by June 2025.

During FY2024, the Oversight Board will focus on evaluating and reviewing implementation progress, discussing hurdles/risks, and providing strategic recommendations to support DOJ to stay on track with monthly goals.

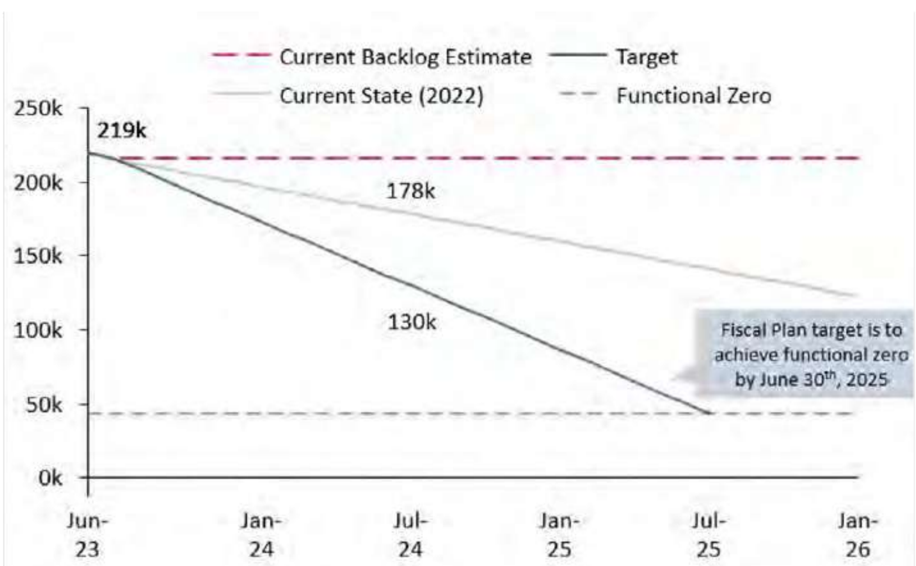


Figure 1. Property Registry backlog reduction scenarios

Occupational Licensing

At least 129 professions are licensed by autonomous boards and supervised by the Puerto Rico Department of Health (DOH), the Puerto Rico Department of State (DOS), the Puerto Rico Tourism Company, the Office of the Commissioner of Insurance, or the Office of the Commissioner of Financial Institutions.

License applications are processed by the applicable licensing boards and issued by the applicable agency. Overall processing times vary substantially and can range anywhere from 30 days to 3 years. To promote participation in the formal labor force and reduce obstacles for skilled labor to relocate and remain on Island, the Oversight Board will continue to work with the Government to streamline, eliminate, and/or harmonize occupational licensing requirements with those on the U.S. mainland.

During FY2023, the Oversight Board supported this reform by engaging with the Department of State, University of Puerto Rico, and other stakeholders to assess the current state and spur progress. In fiscal year 2024, the Oversight Board will be focused on re-engaging government stakeholders to align on Fiscal Plan expectations, establish a baseline of performance and corresponding milestones for implementation of fiscal plan reforms for occupational licensing, and support the government to outline a comprehensive implementation plan to achieve reform.

Federal Funds

Federal Funding is Essential to Drive Economic Growth

Since 2017, Puerto Rico has suffered through devastating hurricanes, earthquakes, and the COVID-19 pandemic. In light of these emergencies, Puerto Rico was allocated an unprecedented amount of federal funding over the past few years. Between disaster aid and pandemic funding, Puerto Rico's government, residents, and businesses collectively received more than $120 billion in one-time federal funds, representing approximately 150% of the Commonwealth's Gross National Product. For context, if New York State received a comparable amount, New York would have received nearly $3 trillion in federal funds.

Section 204(d) of PROMESA imposes certain limitations on the Oversight Board's authority with respect to federal funds allocated to Puerto Rico. These limitations pertain primarily to the implementation of federally authorized or delegated programs, compliance with court-issued decrees or administrative orders or settlements related to federal programs, and implementation of local laws that execute federal requirements and standards.

The Oversight Board does, however, monitor the flow of federal funds because the respective Fiscal Plans for Puerto Rico and the covered instrumentalities rely on the Federal Government's ability to strategically obligate and disburse billions of dollars of disaster relief and pandemic related federal funding each year. The certified Fiscal Plans provide greater detail on the intended use of this funding but the funding includes, among other things, more than $15 billion in disaster funding obligated to restore the electric system, $4 billion obligated to

Puerto Rico's water system, and more than $800 million obligated to the University of Puerto Rico. It also includes $4.6 billion in Elementary and Secondary School Emergency Relief (ESSER) funding, $2.8 billion in FEMA disaster aid obligations, and $277 million in State Fiscal Recovery Funds for Puerto Rico's Department of Education. This disaster relief and pandemic funding also complements billions of dollars in other federal funds provided annually to Puerto Rico in support of Puerto Rico's Medicaid program, nutrition assistance needs, the Earned Income Tax Credit (EITC), the Child Tax Credit, Social Security transfers, and hundreds of other federal grant and loan programs.

Rarely in its history has Puerto Rico received so much support from the federal government. Puerto Rico needs and deserves this support as a matter of fairness and equity. However, this support comes with expectations – expectations of responsibility, progress, excellence, and performance. These funds must be spent efficiently, effectively, and equitably.

Challenges in the deployment of federal funds

Both federal disaster aid and pandemic funding are helping Puerto Rico experience robust economic growth while also supporting Puerto Rico's economy and workforce. Puerto Rico needs and deserves those funds, but this important Federal Government support also raised some concern in Puerto Rico that the surge of one-time federal funds is hiding weaknesses in Puerto Rico's underlying economic fundamentals. The Oversight Board shares those concerns. Absent the deployment of federal funds, Puerto Rico's economy has not grown in real terms over the past six years.

The Fiscal Plan assumes the effective and efficient distribution of federal funds, which greatly increases available resources. However, if these one-time federal funds are not disbursed appropriately and promptly, Puerto Rico's growth will likely slow, inhibiting the Island's ability to support current spending levels, achieve fiscal responsibility and long-term transformation, and generate economic renewal.

In aggregate, the amount of federal funding Puerto Rico must disburse, and the number of projects that must be completed, is one of the largest and most complicated federal recovery programs in history. The Oversight Board is concerned because disbursement of such large sums of federal dollars in the manner, magnitude, and timeline required by the certified Fiscal Plans has proved challenging.

Nearly six years after Hurricane Maria, only 24 percent of FEMA's Public Assistance funding obligations ($7.6 billion out of $32 billion) was disbursed as of June 30, 2023. The percentage is even lower when considering only permanent work projects. A similar trend of slower-than-anticipated spending appears true for other disaster aid programs as well, such as the Hazard Mitigation program and the Community Development Block Grant-Disaster Recovery (CDBG-DR) program. In total, the Puerto Rico Government anticipates the disaster recovery process may take another 10 years, or more, to complete.

Many delays in the disbursement of disaster aid funding are outside of Puerto Rico's direct control. This includes delays caused by myriad unique federal rules and regulations that must be followed, such as complex procurement processes, environmental and historic preservation guidelines, and detailed grant requirements. In addition, for Hurricane María related efforts, the Stafford Disaster Relief and Emergency Assistance Act's Section 428 process has slowed the obligation and the disbursement of funds, making an already complicated federal public assistance process even more complex.

Over the past several years, various reforms have been implemented to accelerate the disbursement of federal funds, including the establishment of FEMA's Accelerated Awards Strategy (FAASt), the creation of a revolving fund, and the issuance of executive orders to streamline the local bureaucracy. Federal and local officials acknowledge, however, more action would be beneficial.

That is why Puerto Rico's Central Office for Recovery, Reconstruction, and Resiliency (COR3) recently implemented additional affirmative changes to further accelerate the reimbursement or advancement of disaster funds. These changes have led to approximately $513 million of disbursements in the first quarter of 2023, exceeding the total payments made in 2020 and 2021. COR3 also recently stated it anticipates disbursing $2 billion in 2023 and, while an exact goal has not yet been set, may disburse another $2 billion, or more, in 2024.

These changes are encouraging. However, the Federal Government will need to monitor how recent actions impact inflationary pressures in certain segments of the economy. Local shortages, including an inadequately sized construction workforce, a limited number of specialists such as architects and engineers, inventory constraints, and supply chain delays are already causing increases in project costs.

Portions of Puerto Rico's $46 billion in pandemic funding also remain unspent. The Oversight Board is monitoring the federal government's efforts to disburse pandemic related funding since these funds affect economic growth and other local investment priorities.

Among the funds being monitored is Puerto Rico's $2.5 billion in Coronavirus State Fiscal Recovery Funds. Nearly 45 percent – or $1.1 billion – has not been expended as of June 30, 2023. This funding has limited restrictions on its use, providing the Puerto Rico Government with a significant opportunity to make strategic investments to improve growth and opportunity in Puerto Rico.

However, using non-recurring funds for recurring expenditures can be troubling if the Puerto Rico Government has not identified a recurring source of payment. Identifying these recurring revenues to fund initiatives currently supported through non-recurring federal funds is necessary to avoid undue risks to the Fiscal Plan and long-term budget stability. The Oversight Board will prepare a plan to mitigate this risk and address this practice during the current year.

The Oversight Board is also monitoring the $4.6 billion in Elementary and Secondary School Emergency Relief (ESSER) funding allocated to Puerto Rico's Department of Education. This funding equates to approximately $18,000 per student, two to five times more than per student funding for other large U.S. districts. If deployed strategically, this funding creates an unprecedented opportunity to invest in the students and the future of Puerto Rico. It also supplements the Puerto Rico Department of Education's (PRDE) $2.8 billion in FEMA disaster aid funding and $277 million in State Fiscal Recovery Funds allocated to repair structural damage to educational institutions.

To date, a variety of challenges have made it difficult to efficiently deploy the ESSER funding. As a result, when the first tranche of ESSER funding expired in September 2022, $23 million was left unspent. Despite the Commonwealth creating a spending plan for its $1.3 billion ESSER II allocation, data from the U.S. Department of Education indicates as of May 2023 PRDE disbursed 54 percent of ESSER II funds, or $694 million. Over the coming year, PRDE will also need to obligate the remainder of its ESSER III funding. As of May 2023, PRDE has disbursed only 20.6 percent – or $611 million – of its $3.0 billion in ESSER III funds.

The Oversight Board will continue monitoring PRDE's ability to spend its ESSER funds before the associated deadlines. More importantly than meeting the requirements to spend the funds, however, is using these funds appropriately to best impact the quality of learning and student outcomes. Funding alone cannot achieve these goals, however. The funds must be spent wisely. Unless every dollar of this extraordinary influx of federal funds is targeted to impact student learning, the Commonwealth will be losing a great opportunity to improve the education of the Puerto Rican children for a generation.

Use of Federal Funds for General Fund purposes

Maximizing Puerto Rico's recovery requires an integrated strategy for the deployment of federal funds. Presently, each federal funding effort has its own strategy, funding, and distribution priorities. While federal funds are allocated across functions, coordination across all federal programs and agencies to support economic growth is limited.

The lack of an integrated and comprehensive strategy across all federal funding sources has caused the Puerto Rico Government to use certain components of federal funds in ways that compromise financial discipline. Of particular concern, the Puerto Rico Government has repeatedly used federal funds to create long-term funding obligations for budgetary items that should otherwise be funded from General Fund resources. For example, nearly $300 million in salary increases for teachers, security guards, firefighters, and correctional officers, and more than $10 million for the Legislature annually, are currently funded with one-time federal funds that do not have a recurring source of local funding to continue paying those obligations once the federal funds expire.

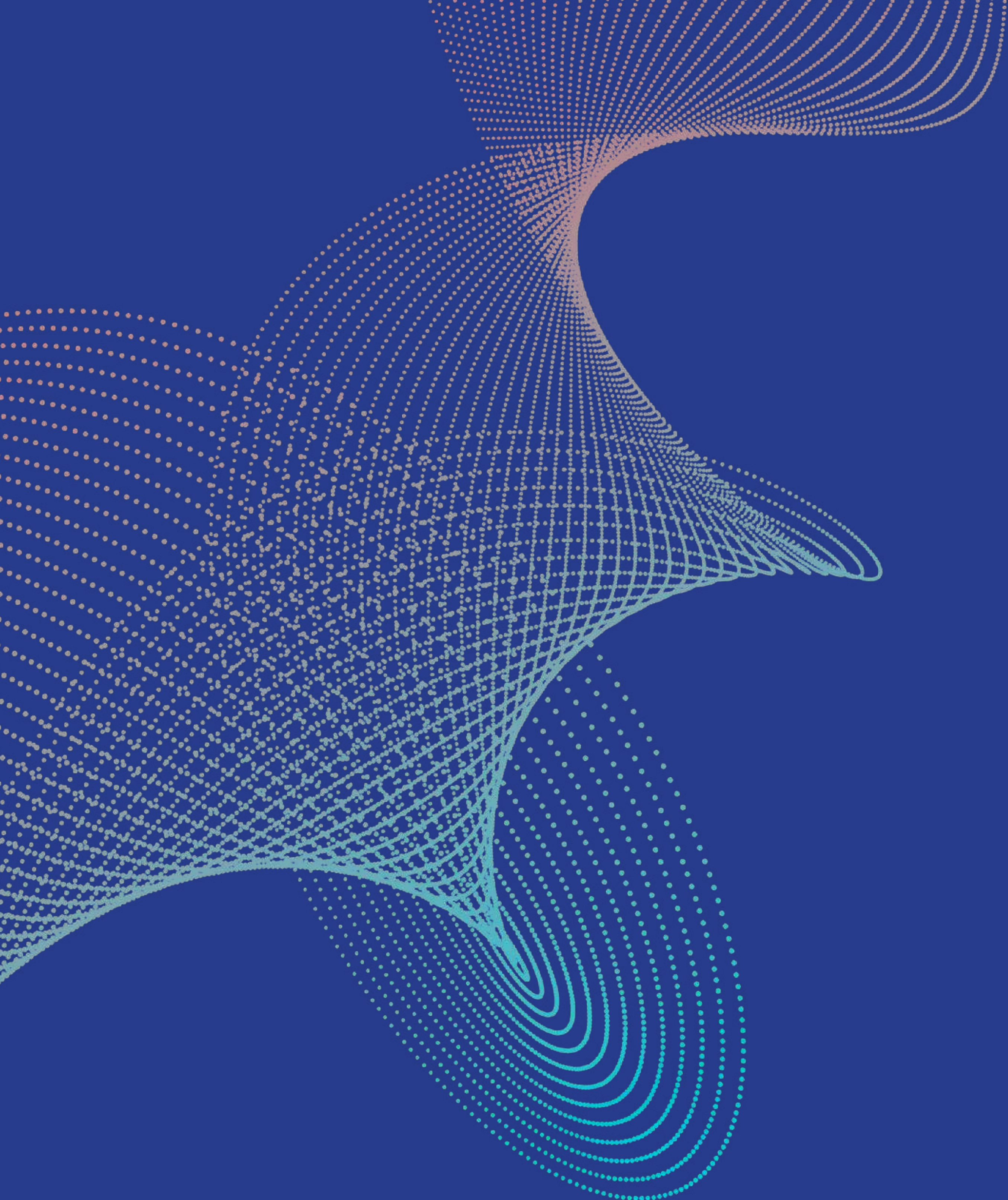
Similarly, not all entities responsible for funding disaster aid are integrating one-time funds to prioritize the deployment of this aid when compared to how they fund their ordinary course capital needs. Over the past year, the Oversight Board was repeatedly asked to approve incremental capital funds at various agencies and public corporations when the capital projects requested do not clearly align with federal funding priorities. Additionally, in the past year, the Puerto Rico Government used federal funds to expand tax expenditures for which it had initially tried to use local funds, but the Board objected because of the negative return on investment.

When taken as a whole, the Puerto Rico Government's actions over the past year demonstrate how federal funds can also create fiscal pressures that may put the Commonwealth's long-term fiscal recovery at risk.

The path forward

The successful disbursement of federal funds directly impacts Puerto Rico's overall economic development plan and will change the Island's prospects. As a result, while the Oversight Board will not impede the Commonwealth's ability to implement certain federal programs, the Oversight Board intends to work with the government to enhance its understanding and insight into various federal funding obligations and address concerns raised by stakeholders including the Federal government.

Part of that effort will focus on ways the government can improve disclosure and accelerate the disbursement of federal funds. If needed, the Oversight Board intends to take actions to require better methods of compliance. The Oversight Board also plans to advise the government on ways to use federal funding in a more comprehensive and strategic manner. The successful deployment of these funds will result in a more resilient infrastructure and a more robust economy for many decades to come.



Fiscal Responsibility

Time & Attendance

The Oversight Board and the Government of Puerto Rico are working together to improve the process of recording and compensating government employees for their time worked. Together, the Oversight Board and the Government have saved tens of millions of dollars for Puerto Rico taxpayers.

The Oversight Board learned in 2020 that the Puerto Rico Department of Education (PRDE) had failed for over a decade to remove former employees from the payroll and properly account for vacation and sick leave on a timely basis. PRDE made at least $80 million in payments over 13 years to employees who had resigned, retired, deceased, or otherwise were not working.

PRDE fully integrated and automated T&A infrastructure in February 2021. The Oversight Board and the Government have since implemented automated Time and Attendance (T&A) systems connected to payroll in many Government departments to ensure only employees who work are paid. The T&A system's implementation project includes 86 Commonwealth departments and agencies and covers over 100,000 employees, ensuring public funds are properly used, strengthening responsible fiscal management, and instilling a culture of public-sector excellence.

The T&A project's three main objectives are:

- **Integrating T&A with payroll**

Most government agencies have electronic systems for employee attendance registration, but the systems are not integrated into payroll systems.

- **Payroll controls and loss prevention**

Ensures adequate controls in payroll so that only active employees who are working get paid, preventing incorrect payroll payments being disbursed to employees.

- **Compliance**

Reduces time not registered (TNR) by requiring all employees to register their attendance electronically to achieve 90% or more of attendance registered through biometric clocks and/or timestamp (when remote). The Fiscal Plan further requires development and implementation of an updated Attendance Policy, and an Employee Manual of Attendance Procedures.

Fiscal Year 2023

In fiscal year 2023, the T&A project has been successfully implemented in various instrumentalities of the Commonwealth of Puerto Rico, improving accountability and enhancing fiscal responsibility within the impacted agencies. Now, 59% of total Government employees are using an integrated T&A system, including the Department of Education (February 2021), Department of Health (November 2022), Department of Justice (October 2022), Medical Services Administration of Puerto Rico (December 2022), the Secretariat of the Department of Family and its Administration (May 2023), the Department of Transportation and Public Works (June 2023) and the Mental Health & Drug Addiction Services Administration (June 2023).

Employees have access to register, justify and monitor their attendance electronically (mobile, tablets, laptops, computers, biometric clocks). Also, they have access to updated and automated leave balances. Government instrumentalities validate personnel assigned to offices or areas, measure compliance with assigned work schedules, and identify critical vacancies to prevent fraud.

The T&A project is also saving the Government money each pay period, as employees who do not record their time and attendance per T&A policy receive a payroll or leave discount in a timely manner. Estimated savings so far are approximately $106 million.

Fiscal Year 2024 Outlook

The T&A project is ongoing at other Government instrumentalities, with full completion of the initiative expected in fiscal year 2024. The following instrumentalities of the Commonwealth of Puerto Rico are scheduled to implement T&A reform during the first months of fiscal year 2024:

- Puerto Rico Department of Labor and Human Resources
- Department of Public Safety and its umbrella agencies that include Puerto Rico Police Bureau, Firefighters, 9-1-1 system, Medical Emergencies, Emergency Management & Disaster, and Special Investigations Bureau
- Department of Natural and Environmental Resources
- Public Building Authority
- State Elections Commission

The Oversight Board will start the T&A project implementation for 26 additional governmental instrumentalities and will monitor the implementation for another 35 Governmental instrumentalities. The estimated completion date for the T&A project is May 2024. By the end of fiscal year 2024, all 88 instrumentalities of the Commonwealth are expected to have a fully integrated T&A system.

Procurement Transformation

Achieving fiscal responsibility and a government that works for the people and businesses is a critical element of Puerto Rico's future prosperity. The Government of Puerto Rico and the Financial Oversight and Management Board are working together to deliver on those promises and transform public services. Procurement of Government purchases continues to be a focus of the Oversight Board's work with the Government to improve fiscal responsibility across agencies and instrumentalities, most recently on the comprehensive and ongoing transformation of the Government's procurement process.

In 2020, the Oversight Board had already approved a set of rules that should substantially improve the Government of Puerto Rico's practices in purchasing goods and services and should prevent the irregularities and inefficiencies that have plagued Puerto Rico's procurement system for too long.

The Uniform Regulation for Purchases and Bids of Goods, Works, and Nonprofessional Services of the General Services Administration, which was required by Act 73-2019 and centralized all purchases by government entities. Puerto Rico's General Services Administration (GSA) originally proposed that regulation and the Oversight Board suggested revisions to align with best practices and comply with the Certified Fiscal Plan.

The approved regulation establishes a single, robust, and sound procedure for all procurement, including exceptional purchases in emergencies or other situations during which the Government must act quickly. The regulation will promote market competition, transparency and accountability, and impose necessary controls in the acquisition of goods and services.

Procurement transformation is an additional important initiative of the Oversight Board and the Government. The Procurement Transformation initiative began in May 2022, when the Oversight Board and the Department of Public Safety (DPS) worked together to identify opportunities to improve the procurement process within DPS. DPS oversees Police, Firefighters, Medical Emergency, Emergency and Disaster Management, Special Investigations, and 9-1-1 bureaus.

The Oversight Board and the Government identified three significant areas of opportunity and set out to:

- Accelerate the procurement process by 20-75 days (25-80% of total time)
- Optimize the use of financial resources by $4-8M (3-6% savings of total annual spend)
- Improve the user experience, while strengthening the internal capabilities of the internal DPS team.

Fiscal Year 2023

In fiscal year 2023, the Oversight Board and the Government worked together to implement these opportunities to transform the DPS procurement process and introduced a replicable methodology to foster sustainable change within DPS and beyond.

The joint effort between the Oversight Board and DPS has been anchored in three pillars:

- Process acceleration: To accelerate DPS procurement processes, a multi-pronged, end-to-end approach ranging from planning to payment has been adopted and has yielded impressive results, including process simplification, waste reduction and digitization yielding ~60% in process time reduction from an initial weighted average of ~81 days to ~32 days.
- Financial value capture: Some high potential opportunities have been identified to allow DPS to optimize the way it allocates procurement spend. Initiatives to capture these opportunities have been designed and are in the process of being implemented. These initiatives, including optimizing vehicle use and centralizing purchasing, could have an impact of up to $8M.
- Capability building and change management: Through a combination of on-the-job shadowing, formal training and 1-on-1 coaching, transformation capability has

been developed within DPS. Assuming leadership commitment and a will to invest the necessary resources, the potential to sustain and expand the effort to other DPS areas exists.

Five key elements must be implemented to ensure that the DPS procurement transformation is sustained:

- DPS leadership commitment: Some leadership bandwidth will have to be devoted to monitoring transformation progress and rapidly removing roadblocks that may arise. Also, messaging about the importance of the transformation will have to be regular and targeted to foster organization-wide conviction and adoption.
- Human resource dedication: A fully dedicated transformation office team, along with motivated personnel with sufficient capacity to lead initiatives to completion.
- Sustained transformation office cadence: It is important to maintain rigorous transformation office and steering committee meeting cadence to ensure that all transformation players remain committed and that full transparency into progress is maintained.
- Continuous improvement mindset: The continued occurrence of co-creation sessions will be key to uncover new transformation opportunities and craft new initiatives that secure a wide and inclusive buy-in within the organization.
- Interagency collaboration: This effort has confirmed that, when done well, interagency collaboration can be extremely powerful. This level of collaboration, maintained via open communication channels and inclusive problem-solving, will be critical to sustain, replicate and augment transformation impact.

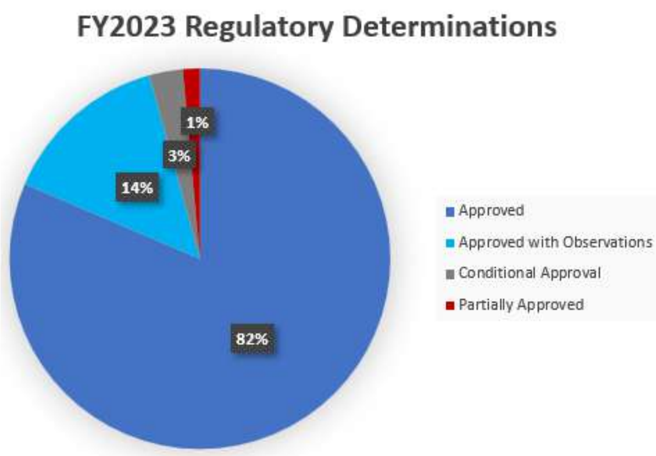
The ongoing DPS procurement transformation has generated high levels of interest in other Government agencies, including General Services Administration (GSA), the Puerto Rico Department of Health, the Puerto Rico Innovation and Technology Services, and the Fiscal Agency and Financial Advisory Authority. With several billions of dollars in addressable procurement spend across the rest of the government, the opportunity for impact is sizeable.

The Oversight Board remains committed to the long-term success of the effort and as such remains available to continue working with DPS to champion the effort, create awareness around success, and to facilitate interagency collaboration, including the onboarding of any new leader at DPS (as necessary)

Contract Review

By promoting market competition, the Oversight Board's Contract Review & Procurement Office is aiding the Government in becoming more transparent and accountable to the people of Puerto Rico.

The Oversight Board established its Contract Review Policy in 2017 The policy requires approval of contracts with a value of $10 million or more to ensure they promote market competition and are consistent with applicable Fiscal Plans.



The Policy applies to any contract or series of related contracts, inclusive of any amendments, modifications or extensions, with an aggregate expected value of $10 million or more, that is proposed to be entered into by the Commonwealth (which includes the Executive, Legislative, and Judicial branches of government) or any instrumentality covered under PROMESA. In addition, the Oversight Board may select to review contracts below the $10 million threshold for these purposes, on a random basis or at its own discretion.

Specifically, in the case of the Puerto Rico Electric Power Authority (PREPA) and the University of Puerto Rico the contract review threshold has been reduced. The Oversight Board may also require the Commonwealth or any covered instrumentality to give it access to ongoing procurement processes for the execution of new contracts.

Fiscal Year 2023

During fiscal year 2023, the Contract Review Office reviewed 461 contracts with a combined value of approximately $16.6 billion. Among these, 444 contracts were approved with observations, and 17 were approved with conditions. Notably, 95 contracts involving federal disaster aid funding were reviewed and approved.

- **Genera PR, LLC Operation & Maintenance Agreement**

Following a multi-year competitive bidding process to attract and identify qualified candidates to manage the electric generation operations of the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Public Private Partnerships Authority (P3A) and PREPA selected Genera PR LLC to operate and maintain legacy power plants. The Oversight Board reviewed the proposed Thermal Generation Facilities Operation and Maintenance Agreement with Genera in accordance with PROMESA.

The Oversight Board determined that the agreement aligned with the objectives of PREPA's Fiscal Plan, which focuses on improving generation efficiency, reliability, and environmental compliance while achieving cost savings. The agreement with Genera is a key element of Puerto Rico's energy transformation defined in the Fiscal Plan, ensuring a reliable and cleaner source of power while Puerto Rico moves towards the renewable energy goals defined by Puerto Rico's Act 17-2019.

The Genera OMA establishes the terms of the operation and maintenance of PREPA's legacy generation assets by a new private operator. Genera PR, LLC will provide various services, including management, maintenance, repair, fuel procurement, and capital improvements. The legacy generation assets have historically experienced high forced outage rates due to their age, resulting in increased operational costs and customer electricity rates.

- **San Juan Cruise Port LLC Concession Agreement**

On August 16, 2022, the Oversight Board approved the Concession Agreement between the Puerto Rico Ports Authority (PRPA) and San Juan Cruise Port LLC (SJCP), which contemplates the repair, design, build, financing, operation, and maintenance of the San Juan Bay Cruise Terminals for 30 years. To promote market competition and economic development, the Oversight Board required PRPA to include a provision in the Concession Agreement clarifying that SJCP, its parent company, or majority shareholders, will never hold a majority ownership in affiliated non-exclusive ancillary service providers, with the remaining ownership being held by local Puerto Rico shareholders or members.[1] Pursuant to the Concession Agreement, SJCP shall commit to provide an upfront investment of $75 million, with additional projected capital investments valued at $197 million upon the occurrence of certain trigger events. Moreover, SJCP shall receive an annual authority revenue share amounting to a minimum of 5% of the gross cruise port revenue earned by SJCP. The Concession Agreement aligned the PRPA with the requirements of the applicable Fiscal Plan, reduced the PRPA's operating expenses and debt while simultaneously increasing its access to additional funding sources, and provided the necessary capital investment and proper maintenance of the cruise port facilities for at least 30 years.

- **Laser Products Inc. Laser Agreements**

The Oversight Board approved three agreements between the Puerto Rico Aqueduct and Sewer Authority (PRASA) and Laser Products Inc. on September 6, 2022, February 24, 2023, and June 6, 2023.

During the course of the Oversight Board's review of the first of the Laser Product Agreements, the Oversight Board became aware that Laser Products, Inc. has been PRASA's sole supplier of chlorine since an original bid process was conducted in February 2010 – more than thirteen years ago. Consequently, in approving the first Laser Products Agreement on September 6, 2022, the Oversight Board urged PRASA to conduct a competitive procurement process for the services object of the agreement.

PRASA recently informed the Oversight Board that it has initiated a formal bidding process for the supply of liquefied chlorine gas on July 13, 2023.

- **Settlement agreement between PRASA and PREPA**

On March 7, 2023, the Oversight Board approved the PRASA–PREPA Settlement Agreement, which resolved PRASA's debt to PREPA for raw water purchases and electricity services. The PRASA-PREPA Agreement reduced PRASA's debt from $69 million to $42 million, unencumbering $27 million of PRASA's capital. Moreover, it also established a payment plan to ensure that PREPA is paid in an efficient and timely manner.

- **Settlement agreement between the Puerto Rico Office of Management and Budget, the Puerto Rico Department of Treasury, and PREPA**

The Commonwealth Settlement Agreement was approved with observations by the Oversight Board on June 23, 2023, and resolved the debts of 43 government entities to PREPA for electrical services up to May 31, 2021. Specifically, the CW Settlement Agreement reduced the total obligations for these entities from $73 million to $50.6 million, which amounts to a reduction of over 30%. Given the long-standing disputes surrounding the amount of these obligations, as well as the significant recordkeeping challenges, the CW Settlement Agreement resolves these disputes, provides necessary capital to PREPA, and eliminates interagency

[1] The PRPA resubmitted on August 12, 2022 to comply with the conditions set forth in the Oversight Board's approval letter dated July 9, 2022.

disputes. Several entities benefitted from the CW Settlement Agreement, including: the Puerto Rico Department of Education, the Puerto Rico Public Housing Administration, and the Public Buildings Authority.

- **Power purchase and operating agreements (PPOA) between Guayama Solar Energy LLC and PREPA, and Ciro Two Salinas LLC and PREPA**

On May 24, 2023, the Oversight Board approved PPOA amendments to address a significant increase in construction costs, delays, supply chain issues, and inflation. The PPOA Amendments allow for an increase in generation capacity without altering the rates established in the original contracts, approved by the Oversight Board on March 25, 2022.

Guayama Solar Energy's capacity will be increased from 33MW to 43MW, and Ciro Two Salinas' capacity from 25MW to 50MW. The total cost estimates for Guayama and Ciro Two Salinas will be increased by $202,689,447 and $62,003,886, respectively.

The Levelized Cost of Energy for the PPOAs remains unchanged at $85.4/MWh. The PPOA Amendments did not impact the budget in Fiscal Year 2023 since the commercial operation dates are expected to commence 24 months after the respective closing dates. Costs associated with the PPOA Amendments will be passed on directly to customers through electricity rates as pass-through expenses.

- **Loan agreements between the Puerto Rico Department of Housing (PRDOH) and Royale Blue Hospitality LLC, and PRDOH and Tiber Health Public Benefit Corporation.**

The Oversight Board approved two Loan Agreements under the Investment Portfolio for Growth Program, which provide low-interest loans for large-scale development projects aiming to mitigate the economic impacts of Hurricanes Irma and Maria.

The first Loan Agreement between the Puerto Rico Department of Housing (PRDOH) and Royale Blue Hospitality, LLC, was approved by the Oversight Board on December 20, 2022, and grants the developer

$50 million at an annual interest rate of 2% for 12 years for the redevelopment of the El Conquistador Resort in Fajardo, Puerto Rico.

The second loan agreement, approved by the Oversight Board on March 31, 2023, between PRDOH and Tiber Health, Public Benefit Corporation, provided $16 million at the same annual interest rate for 7 years, targeting the transformation of Ponce Health Sciences University into a national health, science, education, and innovation hub with a new state-of-the-art academic tower.

Both loans support projects that have transformative and cascading economic impacts, create or retain low to moderate wage jobs, and, in some cases, offer gap funding for economic revitalization initiatives.

In Fiscal Year 2024, the Contract Review Office has several objectives to further improve the Commonwealth's procurement policies and implement best practices in government contracting. Such objectives include:

- Developing and implementing a new regulatory framework for a robust, competitive procurement process to be employed when there is a necessity for the Government to lease private real estate properties
- Establishing intra-agency contract managers to oversee the implementation of government contracts to ensure services are rendered and satisfactorily performed or purchased goods are delivered prior to the payment of invoices, as well as ensuring continuity of contract objectives
- Implementing a uniform contracting policy across government entities with robust contract monitoring guidelines
- Establishing a clear definition of what constitutes a professional service and promoting and strengthening competitive procurement processes for such services in accordance with best practices
- Scrutinizing optimal utilization of federal funds, with a particular focus on discerning whether emergency allocations are being inadvertently or inappropriately allocated for recurring expenses within government entities.

Legislative Review – Scoring

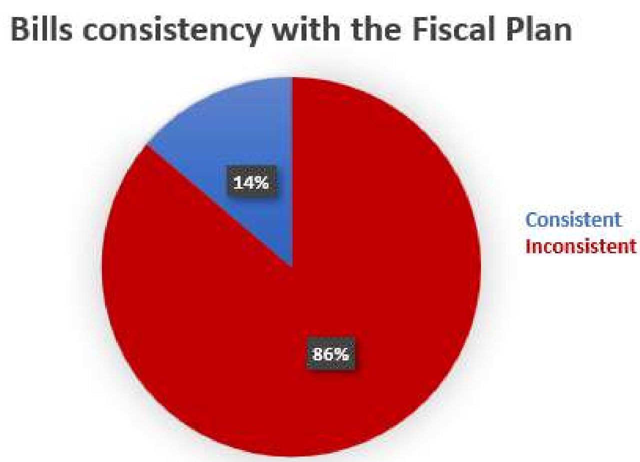
The legislative review process of the Financial Oversight and Management Board for Puerto Rico is an important component of its mission to help Puerto Rico achieve and sustain fiscal responsibility.

PROMESA requires the Governor to submit each enacted law to the Oversight Board with a formal estimate of the impact, if any, that the law will have on expenditures and revenues, as well as a certification finding that the law is or is not significantly inconsistent with the applicable certified fiscal plan. PROMESA also PROMESA allows the Legislature to seek a non-binding preliminary review from the Oversight Board regarding pending legislation to determine whether legislative bills are consistent with the applicable certified fiscal plan. In addition, Section 204(a) of PROMESA requires the Governor of Puerto Rico to submit each new law to the Oversight Board. The Governor's submission must include a formal estimate of the impact the new law will have on expenditures and revenues as well as a certification finding that the law is or is not significantly inconsistent with the applicable certified fiscal plan. The Government must also submit rules, regulations and orders to the Oversight Board for review and approval prior to their issuance to ensure proposed rules, regulations, or orders are consistent with the applicable Certified Fiscal Plan.

Senator Juan Zaragoza Gómez and his staff at the Senate Finance, Federal Affairs and Oversight Board Committee continue to work closely with the Oversight Board on the process to score legislation, joined this year by Senator Joanne Rodríguez Veve, Representatives Lydia Méndez, Gretchen Hau and Eladio "Layito" Cardona. The Oversight Board staff is engaging with legislators and staff from multiple delegations to fine tune and develop viable legislation in a collaborative manner.

Fiscal Year 2023

In fiscal year 2023, the Oversight Board reviewed or is currently reviewing more than 62 legislative bills. Collectively, the impact of these bills exceeds $497 million, without offsetting savings or providing new revenues.



Approximately 86% of bills reviewed were inconsistent with the certified Fiscal Plan for Puerto Rico.

The Oversight Board conducted 71 reviews of rules, regulations, or orders: 35 regulations; 15 administrative orders; six circular letters; and 16 classified as "other", which includes informative bulletins, administrative determinations, executive orders, special memoranda and resolutions.

Of these measures, 57 were approved, 10 were approved with observations, one was approved with conditions, one was approved with observations and conditions, one was approved subject to revisions, and one was approved in part and rejected in part.

Notwithstanding the Oversight Board's collaborative efforts, the Government continues to fail to comply with its obligations under PROMESA Section 204(a) to submit each law together with a compliant formal estimate of its impact on expenditures and revenues, and a compliant certification regarding consistency (or non-consistency) with the applicable Certified Fiscal Plan. The Oversight Board continues its commitment to ensuring accountability and to create the necessary foundation for economic growth and to restore opportunity to the people of Puerto Rico.

The capacity to score legislation before its passage is essential for fiscal discipline and responsibility. The Oversight Board is currently working together with the Legislature to operationalize such an office, but for fiscal year 2023, the Oversight Board continued to be the only institution that consistently scored legislation.

However, Puerto Rico took a significant step in fiscal year 2023 towards resolving this issue, when the Legislature passed and the Governor enacted Act 1 – 2023, creating the Budget Office of the Legislative Assembly (OPAL) – an important initiative that is part of the Fiscal Plan for Puerto Rico. This non-partisan office within the Legislative Assembly is tasked with producing fiscal analyses and scoring legislative measures, similar to the function of the Congressional Budget Office in Washington, DC.

OPAL is on its way to fully commence its operations. While it is still in the process of establishing its internal and external processes, as well as completing the hiring of its professional and administrative personnel, it has nevertheless responded to its statutory mandate and consolidated its efforts to score several legislative bills during the most recent legislative session which ended on June 30, 2023. As of June 30, 2023, OPAL scored approximately 17 bills and published 12 scoring reports, guiding Puerto Rico's legislators and political decisionmakers to better understand the fiscal impact of potential laws.

The Oversight Board continues to work together with members of the Legislature and hopes this can continue in the future for the benefit of the people of Puerto Rico. The Oversight Board has been meeting with and encouraging the House and Senate leadership to ensure that OPAL is a success and provides the legislators and the public with informative, objective, and comprehensive analyses of pending legislation and other matters before the Legislature. The Oversight Board has made suggestions for the rules to be promulgated to provide adequate protection to OPAL to serve the Legislature in a nonpartisan and independent capacity and will continue to assist with training and other support as this critical function is implemented.

Section 204(a) Review of Legislative Acts

Recent examples of laws reviewed under Section 204(a) include:

- Act 41-2022, enacted on June 20, 2022, reestablished many burdensome labor restrictions and created new labor restrictions in contravention of the terms of the Commonwealth's certified Fiscal Plan. On September 1, 2022, the Oversight Board filed an adversary proceeding in the U.S. District Court for the District of Puerto Rico, seeking to nullify and enjoin Act 41. On March 3, 2023, District Judge Laura Taylor Swain ruled Act 41 and any actions taken to implement Act 41 are null and void . and, following oral argument on June 7, 2023, the United States Court of Appeals for the First Circuit has the appeal under advisement. See Section VIII. Litigation for further detail.
- Act 104-2022: Amends Act 11-1933, also known as the "Gaming Machine Act," to reduce the license fee for road-gaming machines from $1,500 to $250, eliminate the tax imposed on gambling winnings above $500, alter the current distribution of revenues derived from road-gaming machines in a manner depriving the General Fund of revenues, and modify the requirements for the centralized computer connectivity system for road-gaming machines in the Commonwealth.

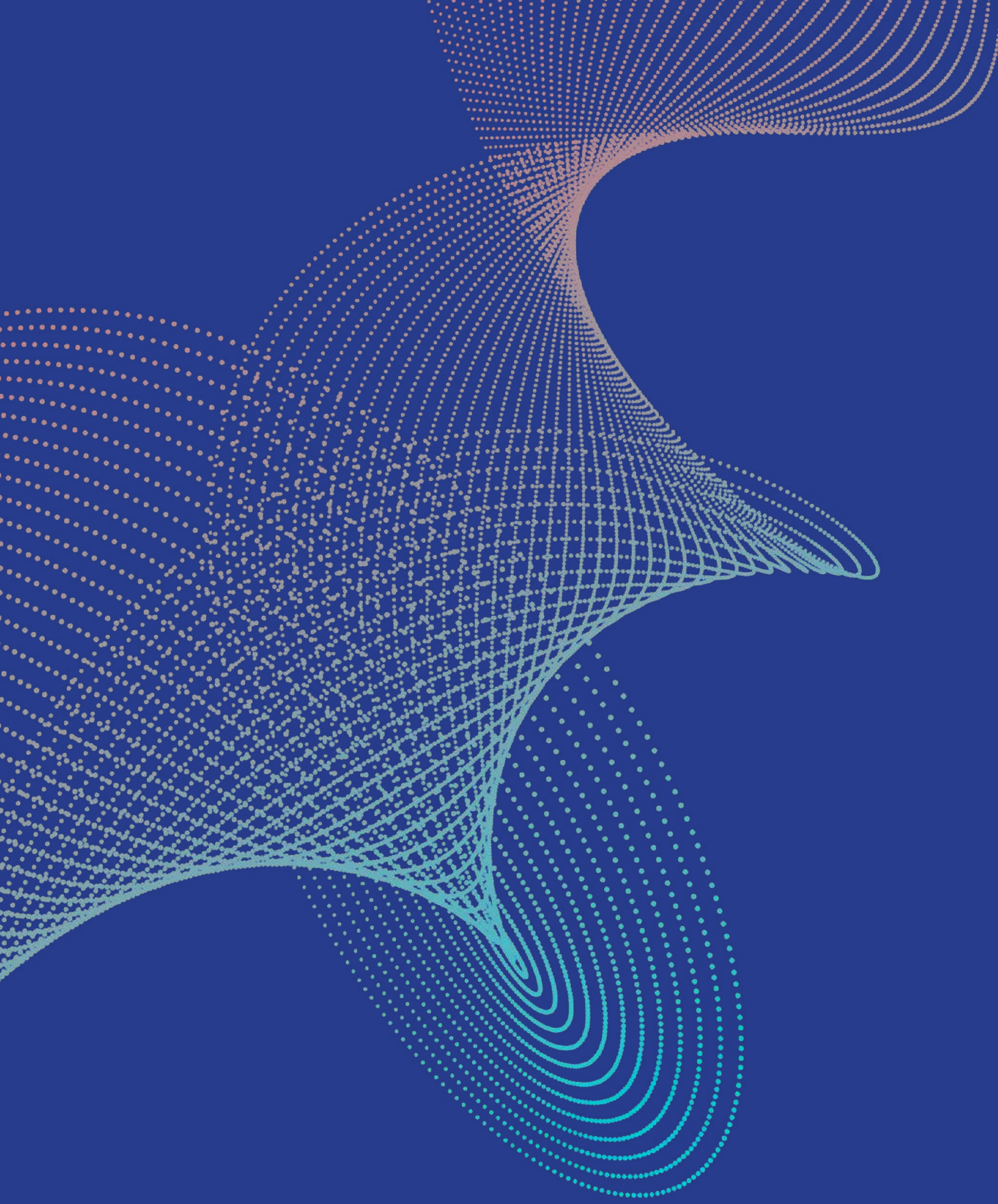
The Oversight Board received the Governor's Section 204(a) submission for Act 104 on February 3, 2023 and the submission . Act 104 is inconsistent with the Commonwealth Fiscal Plan because, among other things, it would reduce Commonwealth revenues without providing offsetting savings or alternative revenues. AAFAF informed the Oversight Board that the law is not currently in effect and cannot go into effect in the absence of implementing regulations which are subject to prior Oversight Board review and approval.

- Act 119-2022: Establishes a new mechanism of accrual rates of vacation leave to public employees, by increasing the rate at which public employees accrue vacation leave from 1.25 to 2 days per month, such that public sector employees will now accrue 24 vacation days a year, nine more than the 15 days they enjoyed prior to the enactment of Act 119.

The Oversight Board received the Governor's Section 204(a) submission of Act 119 on January 9, 2023, and on June 16, 2023, the Oversight Board sent a letter in response raising its concerns. The Government informed the Oversight Board that Act 119 has not been implemented because implementing regulations have not been submitted to the Oversight Board for approval as required by the Oversight Board's Rules, Regulations and Orders Review Policy.

- Act 5-2023, enacted on January 9, 2023, increases the current cap on certain film industry tax incentives from $38 million to $100 million per year by amending the "Puerto Rico Incentives Code" or Act 60 - 2019.

The Oversight Board received the Governor's Section 204(a) submission for Act 5 on February 24, 2023. On December 28, 2022, the Oversight Board had informed the Governor that the bill that eventually became Act 5 violates the certified Commonwealth Fiscal Plan and informed the Governor that PROMESA § 108(a)(2) barred him from signing the measure. He nevertheless signed the bill into law on January 9, 2023.



Title V

Title V of PROMESA accelerates investments in Puerto Rico's infrastructure. It created the position of Revitalization Coordinator (RC) to review infrastructure projects for consideration as "critical projects." If the Oversight Board agrees with the RC that a project is a critical project, the project is entitled to expedited permitting.

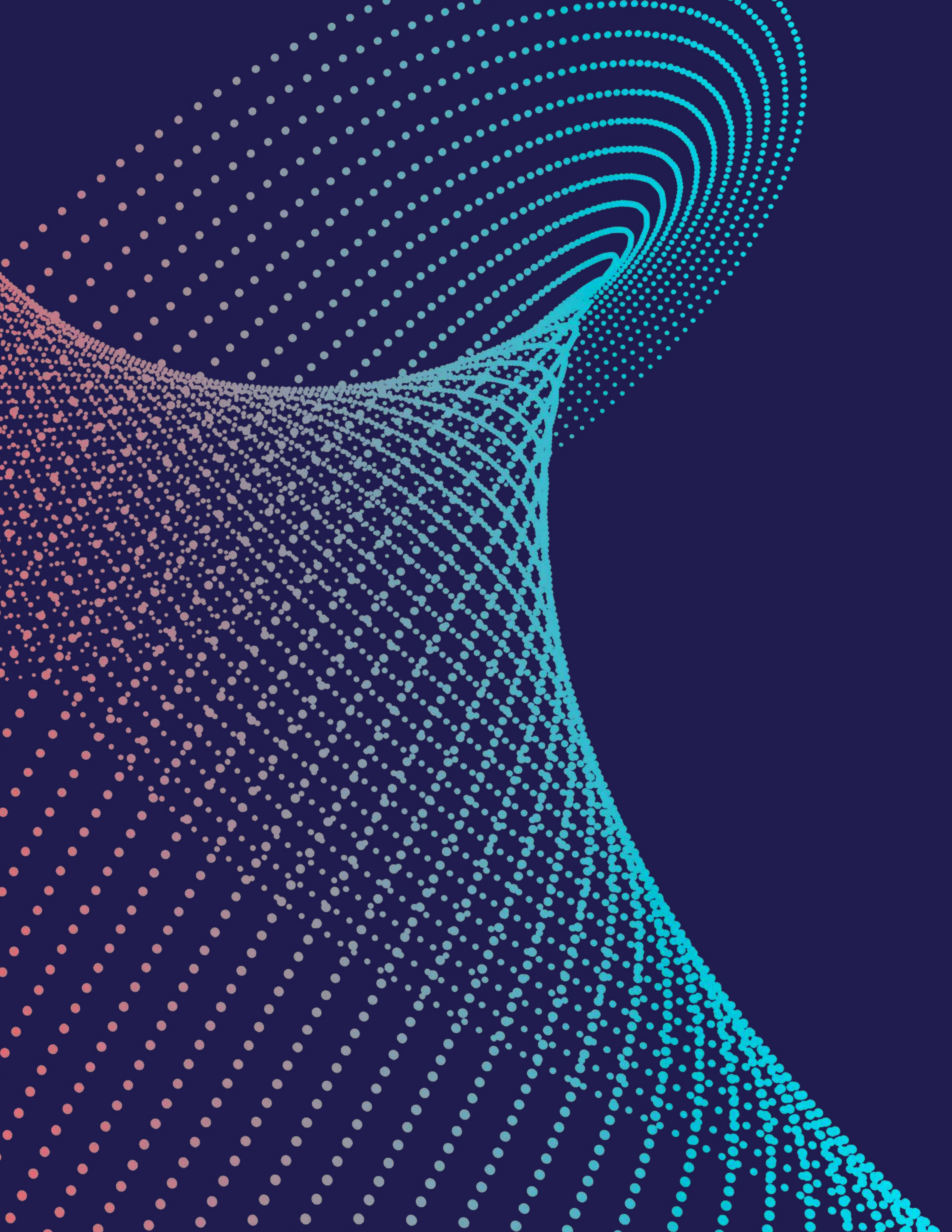
In 2017, the Government had adopted accelerated permitting procedures independent of Title V. Hurricane María later that fall, however, made Puerto Rico's infrastructure needs all the more urgent. The storm damaged not only Puerto Rico's electric infrastructure, but also its roads, aqueduct and sewers, housing, and other infrastructure assets.

In 2018, the Oversight Board adopted a Title V Policy that helped specify the procedural requirements the RC must follow when considering potential critical projects. The Title V Policy also clarifies requirements for projects that involve doing business with any government agency or public corporation, especially energy-related projects that require a Power Purchase Operating Agreement (PPOA). Pursuant to the Policy, all projects that require obtaining a contract or Request for Proposal (RFP) award from any government agency or public corporation must obtain such contract or RFP award prior to submitting the project to the RC pursuant to Title V. In the case of energy-related projects, projects that require a PPOA from PREPA must first have a PPOA that has beens validly assumed under Title III of PROMESA in order to satisfy the contract award requirement.

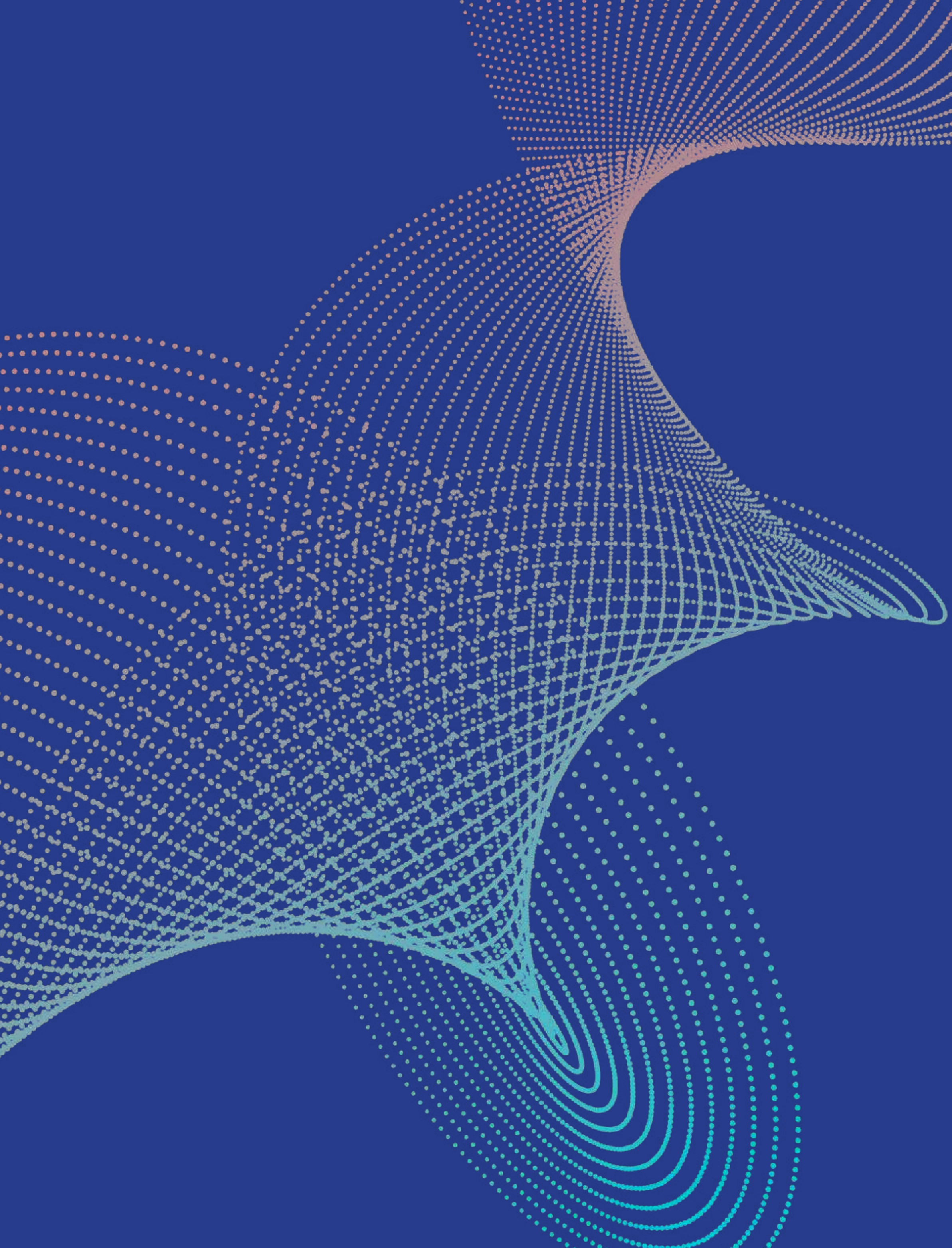
By the beginning of fiscal year 2019, the RC evaluated 55 projects for critical project designation that carried a value of approximately $9 billion dollars. Upon adoption of the Oversight Board Title V Policy as of August 6, 2018, active projects had to be withdrawn from participation or placed on hold (at the project sponsor's discretion) if they did not satisfy the new requirements instituted through the Title V Policy. Approximately 80% of the pending projects were energy-related requiring a valid PPOA assumed under Title III, and all-but-one of the other projects required a government RFP. The final remaining project constituted a qualifying project (Viewpoint at Roosevelt) as it was related to real estate. However, that project was rejected as it did not meet initial Title V requirements.

During this last year, we have experienced increased interest in the Title V process and have received several projects for consideration as critical projects. Projects submitted for critical project designation have been primarily energy-related projects. We expect that the demand for Title V projects will grow in fiscal year 2024 as PPOAs and new renewable generation projects are put in place. We are hopeful that, as Puerto Rico's business environment continues to improve, there will be more private sector investment and more project sponsors seeking to take advantage of Title V.

To ensure the Oversight Board is prepared to manage the increased interest in the Title V process, the Oversight Board is currently finalizing the hiring of a new RC. The RC will serve as an intermediary, first line evaluator, and process driver of the Critical Project process. Among other duties, the RC will be tasked with preparing a Critical Project Report for each submitted project in consultation with the Governor and the relevant Puerto Rico agencies, which shall include their recommendation as to whether the project should be considered a Critical Project."



Covered Entities



Commonwealth of Puerto Rico

When the Oversight Board certified the Government of Puerto Rico's first Fiscal Plan in March 2017, Puerto Rico was in crisis. Chronic financial mismanagement and economic decline were subsequently compounded by natural disasters including Hurricanes Irma and María in the fall of 2017, earthquakes in 2020, and the global COVID-19 pandemic in 2020 and 2021.

Today, Puerto Rico is in recovery.

PROMESA established the basics for this recovery. Under PROMESA, the Oversight Board restructured the government's debt service payments to an affordable $1.15 billion a year and established fiscal discipline. Massive budget deficits have given way to government budgets aligned with annual revenues sufficient to ensure the funding of essential services and important investments. These investments support critical government priorities and the reform of Puerto Rico civil service so government can deliver services to residents more effectively. The Fiscal Plans for Puerto Rico provided a roadmap to recovery and growth.

Fiscal Year 2023

Fiscal year 2023 was the beginning of a new chapter in Puerto Rico's recovery. The Oversight Board developed a budget that included the now affordable and predictable debt service pursuant to the Plan of Adjustment for the Commonwealth. The end of the bankruptcy process under Title III of PROMESA allowed the Oversight Board to shift the full focus of the Fiscal Plan and budget from stabilization through right-sizing government spending towards economic growth through strategic investments, including in Puerto Rico's infrastructure, business climate, and civil service.

This opportunity for economic development and prosperity continues to require renewed commitment by the Government of Puerto Rico to practice prudent fiscal management to maximize the effective use of available resources.

The Government, however, continued to add incremental expenses throughout the year without proactively identifying resources to fund those costs. It was only as a result of the Oversight Board's review and scoring—and subsequent work with the Government to identify funding—that the costs of these laws were offset within the certified budget. The actions of the Government also put it at risk of being unable to demonstrate the requirement that expenditures did not exceed revenues during the fiscal year on a modified accrual basis. The Oversight Board continued to work with the Government to identify funding that would preserve some of those laws while avoiding an adverse effect on the Commonwealth Fiscal Plan.

Despite the litigation over Act 41-2022, fiscal year 2023 was a year of significant progress on the path to sustained fiscal responsibility and efficient government operations.

The Oversight Board continued to work with the Government to implement integrated and automated time and attendance systems (T&A) across agencies of the Commonwealth. Implementation and correct use of these systems ensures that only active employees, who are working, get paid; thus preventing incorrect payroll payments from being disbursed to employees (see additional information in Section III.3.1).

This past year there was also significant progress in the development of the Office of the Chief Financial Officer (OCFO). The OCFO is intended to comprise a properly structured and empowered body that pursues financial reporting, resource management, and planning objectives. The Government's past efforts to create a high performing OCFO had been slow and disjointed. Recently, however, most of the reporting requirements established by PROMESA and the Certified Fiscal Plan were delegated by the Fiscal Agency & Financial Advisory Authority (AAFAF) to the OCFO. The Oversight Board identified this transition as an opportunity to increase collaboration and, with great success, assisted the OCFO in establishing processes and developing connections within the government structure to facilitate their reporting duties. Many meetings were held with the OCFO, Treasury, and the Office of Management and Budget (OMB) to ensure alignment in processes, treatment of special transactions, and reporting of financial data. Recurrent, ongoing meetings have been coordinated to discuss and resolve, in a timely manner, observations by the Oversight Board's Reporting Staff or Agencies. The Oversight Board and the Government have also been working together to change the way the Government manages its workforce, including its classification and compensation practices and philosophy, by co-designing and implementing a comprehensive and integrated Civil Service Reform (CSR). The reform is designed with the following four interdependent strategic components: (1) organizational design; (2) compensation; (3) recruitment; and (4) evaluation and development of employees. The compensation component of the reform, through the central Government's new URP, was implemented on February 28, 2023, with a retroactive effective date of January 1, 2023 (for additional information see Section III.1).

Operational capacity was also improved by salary adjustments, beyond CSR, across several agencies. In addition, funding was provided to recruit additional firefighters, police officers, social workers, environmental rangers, and other public service providers. The Oversight Board pursued operational agility and maximization of agencies' resources. The Department of Public Safety (DPS) made progress towards consolidating back-office roles through the creation of a shared services structure, implementation of the T&A system, and digitalization of forms to reduce manual processes. In collaboration with the Oversight Board, the DPS also carried out a sustainable transformation of their procurement process. The revamped procurement process is simpler, reduces waste, and dramatically shortens response times, while increasing transparency. Related investments in capability building and change management generated engagement from key stakeholders and allowed for the discovery of new areas to improve efficiency (for more information see Section III.3.2).

The Department of Corrections & Rehabilitation (DCR) engaged in transformative processes as well. The Agency implemented digital tools to track, manage, and report data within different Agency programs. Furthermore, as part of the Agency's facilities consolidation plan, DCR successfully relocated and transferred inmates and staff from four facilities. This initial phase of the consolidation plan is expected to generate approximately $2 million in savings, annually.

The Oversight Board also supported operational improvements at the Puerto Rico Ports Authority (PRPA) while fostering economic development through a public-private partnership. The Oversight Board approved and has supported the execution of an agreement between PRPA and San Juan Cruise Port LLC. The agreement involves, among other things, the repair, design, build, financing, operation, and maintenance of the San Juan Bay cruise terminals and the quay wall and walkways between several piers in exchange for a 30-year concession.

Sustainable economic growth in Puerto Rico requires a talented workforce prepared to take advantage of the opportunities that a post-bankruptcy Puerto Rico offers. For this purpose, $50 million for the 21st Century Technical Business Education Fund were allocated to the Department of Economic Development and Commerce (DDEC) during FY2023. DDEC carried-out an assessment to identify strategic priorities and designed a skills development plan tailored to the priorities and necessities identified. DDEC has also made substantial progress in collaborating with private and government entities to better prepare K-12 students for 21st century jobs by increasing technical, career-focused, programs and upskilling teachers, among other on-going initiatives. DDEC's vision is for Puerto Rico to become a top 10 state/territory for 21st Century talent by generating about 50,000 additional skilled workers over the next 10 years.

Health care is also an integral part of Puerto Rico's continued development. Ensuring access to high quality, affordable health care for Puerto Rico continues to be a top priority for the Oversight Board and the Government since access to health care on the Island is significantly lower when compared to national averages.

In fiscal year 2023, the Oversight Board continued to allocate funding to address critical, near-term infrastructure needs at public hospitals (e.g., renovation of facilities in major disrepair, installation of air conditioning and purification systems, specialized medical equipment, purchases of power generators) and to complete major capital expansions. These investments are meant to ensure that the health system has the capacity and equipment needed to meet the long-term health care needs of Puerto Rico.

In addition to assigning funding to bolster healthcare infrastructure and services, the Oversight Board, in collaboration with the Department of Health (DOH) and AAFAF, set the groundwork for conducting a health care workforce analysis to understand the current health care workforce environment in Puerto Rico. The goal is to particularly understand the health care workforce supply and demand imbalance of today and tomorrow, as well as understand the drivers of the supply and demand. The results gathered will be used to identify and help address the most acute health care workforce shortages in the Commonwealth.

Furthermore, the University of Puerto Rico Comprehensive Cancer Center (Cancer Center) successfully implemented the second phase of their Electronic Health Records (EHR), which involved integrating the financial modules. The Mental Health and Anti-Drug Addiction Services Administration (ASSMCA) achieved significant progress towards its Centers for Medicare and Medicaid Services (CMS) accreditation. ASSMCA received its initial unannounced audit visit during January 2023 and is expecting a follow-up visit during FY24 to ensure that all findings have been addressed. Obtaining accreditation is a key milestone for ASSMCA as the agency has not been accredited since 2009. CMS accreditation will enable the Agency to receive additional revenues.

Fiscal Year 2024 Outlook

The 2023 Transformation Plan for Puerto Rico was a natural progression of our FY2023 focus, highlighting priority areas to accelerate economic growth and restore market access for Puerto Rico and setting the framework for the development of the Commonwealth's FY2024 Certified Budget. As the Commonwealth leaves bankruptcy further behind, continued improvement of the financial management institutions continues to be of paramount importance to ensure Puerto Rico has a strong and stable foundation that supports future growth. Moreover, the U.S. Government has provided unprecedented recovery and stimulus funds for Puerto Rico. This support comes with expectations – expectations of responsibility, progress, excellence, and performance. The Fiscal Plan, therefore, continues to prioritize support for a high performing public sector by investing in the people, efficiency, effectiveness, and capacity of the Government to deliver more efficient and higher quality services. It describes a path to investing in economic growth and prosperity, entrenching a legacy of strong fiscal management, and instilling a culture of public- sector excellence.

The Fiscal Plan also continues to fund critical pension needs, including billions to pay current pension costs, the third contribution to the newly established pension reserve trust, and enhanced defined contribution payments to the police. In addition, it provides for additional funding, beyond base levels, to municipalities, the UPR, and other critical needs, subject to a common understanding, among a wide range of stakeholders, of the facts and challenges, and ideally, agreement on a vision and sustainable plan to be implemented.

In fiscal year 2024, the Oversight Board continues to prioritize funding for education, public safety, infrastructure, and healthcare. Among other things, the Oversight Board will continue to assist PRDE with the development of a student-based budgeting approach that will increase visibility and transparency in the use of funds. In addition, capitalizing on learnings at DPS and on a recently conducted assessment of PRDE's procurement process, procurement transformation efforts will continue. A fiscal year 2025 procurement annual plan will be developed, and ready to be deployed, before school year 2024-2025. This should further enable PRDE to maximize the use of available federal funds.

At DPS, efforts to truly integrate back-office roles in a standardized and effective manner must continue. DPS also needs to continue efforts to hire additional civilian staff so that it may transfer more than 1,000 sworn officers to non-administrative roles; to reduce overtime spending; and recruit Fire Bureau and Emergency Medical Services Bureau front-office roles.

DCR is expected to prioritize its back office efficiencies and facility consolidation & optimization budget incentive milestones to further improve operations. As in other agencies, DCR procurement processes are time consuming, manually intensive, and cumbersome. The intent is to review and modify the process to increase agility and enable DCR to better use available resources. The Agency also intends to engage a strategic advisor to assist with the consolidation and optimization of one facility that will serve as a model unit for the rest of the system.

The Oversight Board will continue to support infrastructure maintenance and development, mainly through CapEx investments allocated to specific agencies and focused on technology, transportation, and equipment. Among other things, this funding will support PRITA's implementation of an information technology system to fully integrate rail, land, and maritime transportation to provide an efficient and interconnected transportation system for the residents of Puerto Rico and development of the Ceiba ferries terminal; the Department of Transportation and Public Works' road maintenance projects; the Puerto Rico Technology and Innovation Services' equipment for agency data centers; and the Cardiovascular Center's purchase of a robotic-assisted surgery machine that will significantly reduce median length of stay, complications, and mortality compared with nonrobotic surgery.

One of the top priorities for the Oversight Board moving forward is to work with the Government to promote fiscal responsibility. However, given that the nature of future legislation is unknown and remains a major uncertainty, this uncertainty of funding is reflected in Puerto Rico's out-year financial projections. Given the lack of clarity on Puerto Rico's federal Medicaid funding, as well as the significant portion of the population reliant on Medicaid for health care, it is important that the Commonwealth always be prepared to fund these services if federal legislators reduce the Commonwealth's appropriations of federal Medicaid funds in future years.

For the Puerto Rico Health Insurance Administration (ASES) to sustain the program expenditures, the goal is to implement a payment system where providers are reimbursed based on their ability to improve quality of care in a cost-effective manner or lower costs while maintaining standards of care, rather than being compensated based on the volume of care they provide. These are opportunities to reduce wasteful healthcare spending and increase efficiency while simultaneously improving health outcomes.

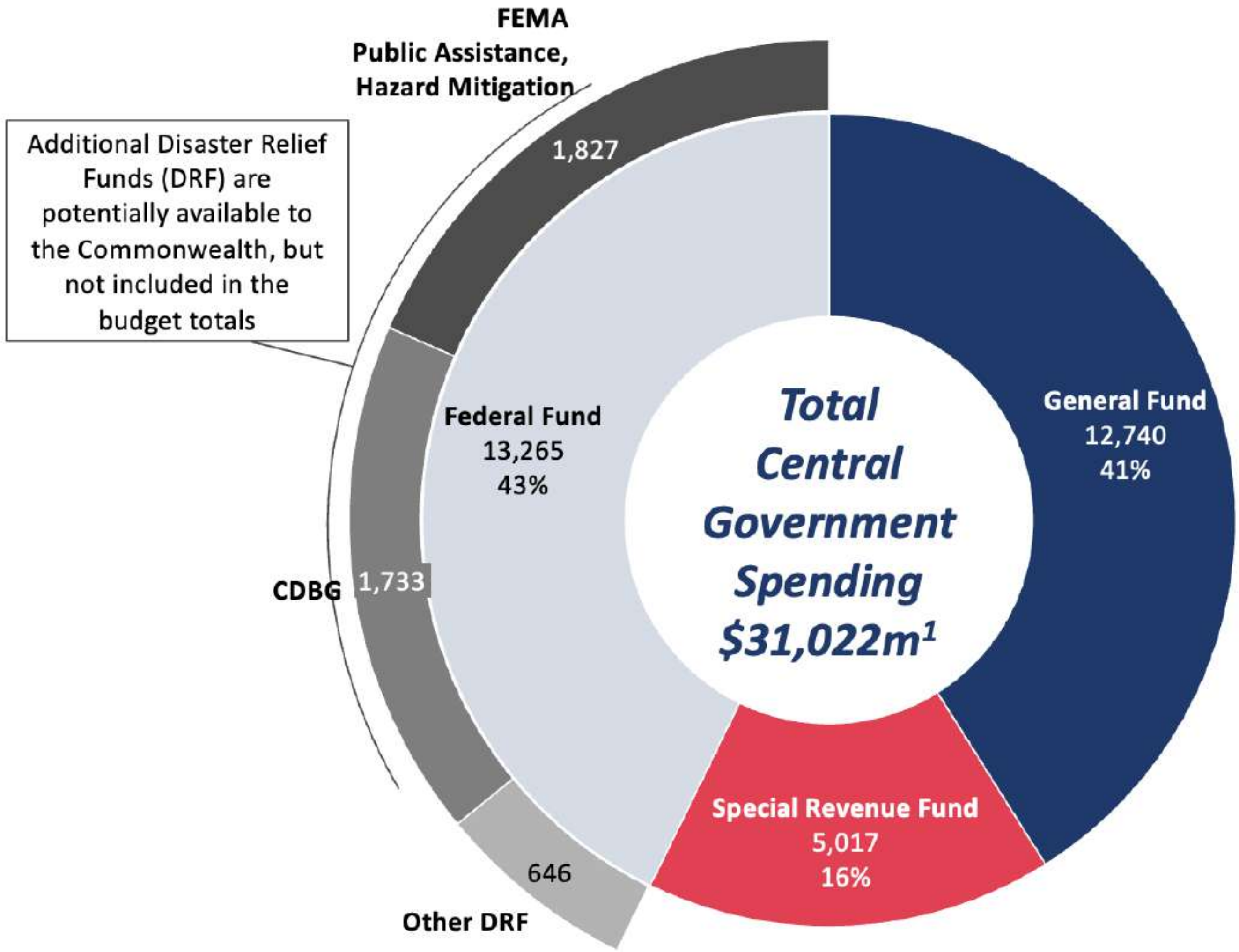
Fiscal Year 2024 Budget

The strong economic recovery following the COVID-19 pandemic, driven by an unprecedented level of federal funding flowing into the economy, provided the Commonwealth with strong increases in personal and corporate income tax, and sales taxes. The Fiscal Plan projects that the lingering effects of federal stimulus money will carry over through fiscal year 2024, while returning to the pre-stimulus projected long-term trend by fiscal year 2025. Revenue administration improvement also contributed in part to the growth in General Fund revenue.

For the fiscal year 2024 budget, the Oversight Board engaged in an active and accommodative process particularly with the Legislature, extending budget deadlines several times, but ensuring that submissions from the Government were thoroughly reviewed to comply with the priorities laid out in the Fiscal Plan for Puerto Rico. These priorities include strong financial management, public sector excellence, and economic growth, which are meant to propel the Government's ability to provide essential services to its constituents in a timely and efficient manner. The Oversight Board engaged in a comprehensive process that included due diligence at the agency level and on spending categories, provided additional transparency, and improved budgetary controls and reporting.

On June 30, 2023, the Oversight Board certified the fiscal year 2024 budget for the Commonwealth. Governor Pedro R. Pierluisi had signed the $12.7 billion general fund budget adopted and submitted by the Puerto Rico Legislature. The FY2024 budget is only the second compliant budget the Government has submitted for certification. The Government had submitted a compliant budget for fiscal year 2022 but failed to submit a budget for fiscal year 2023 and did not submit compliant budgets for three of the five recent amended budgets that reflected, among other important items, the effective Plans of Adjustment for the Commonwealth and the Highway and Transportation Authority.

The Central Government budget, which totals $31 billion, is comprised of the $12.7 billion General Funds, the $5 billion Special Revenue Fund, and $13.3 billion in funding from the Federal Government.

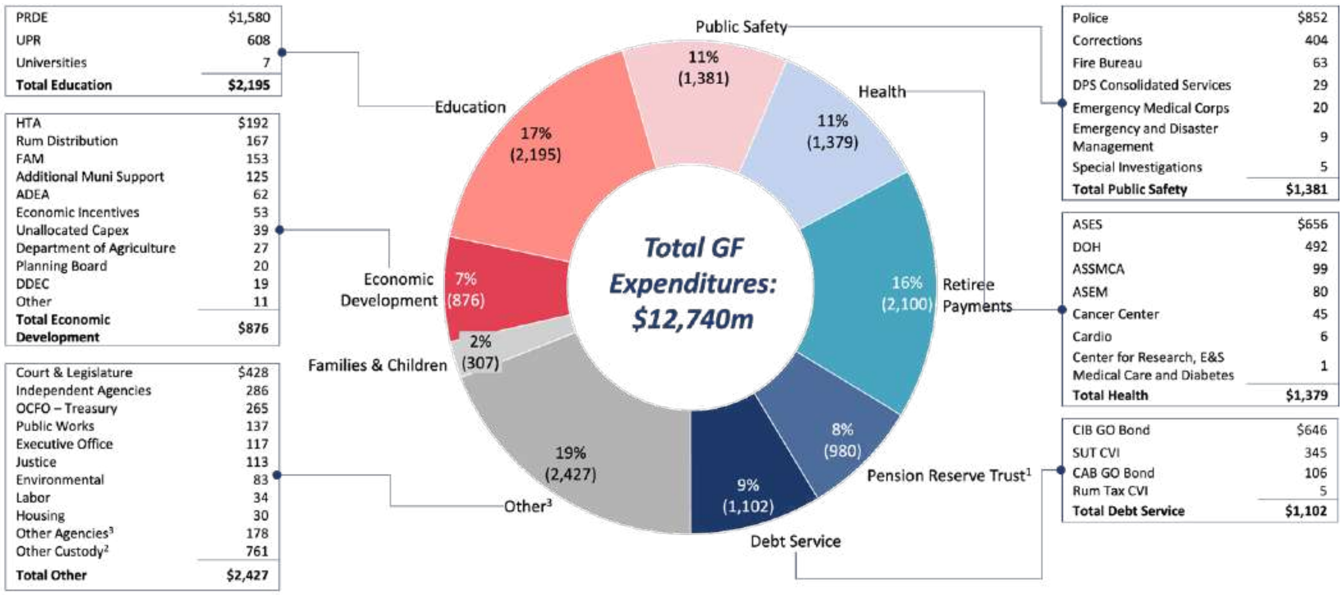


Note: Due to rounding, numbers presented may not add up precisely to the totals provided
1. Excludes Instrumentalities with independent fiscal plans
2. Refers to combined budgets for all agencies, net of PayGo. Groupings are for illustrative purposes only based on 2023 CW Fiscal Plan
Source: FY24 Certified Budget

The budget continues to prioritize funding for critical services, retiree-related payments including pay-as-you-go (PayGo) and Pension Reserve Trust contributions to benefit more than 300,000 current and future government retirees, and debt service as required by the Commonwealth's Plan of Adjustment. The General Fund budget also provides investments in infrastructure, Government capacity, and public employees. Select investments include:

- $529 million in capital expenditures, including $218 million towards health agencies that directly impact residents.
- $308 million to fund initiatives developed in collaboration with the Government to support municipalities, UPR, technology investments, and social programs.
- $300 million for Civil Service Reform and salary increases.

Major Components of the General Fund and Special Revenue Fund Budget

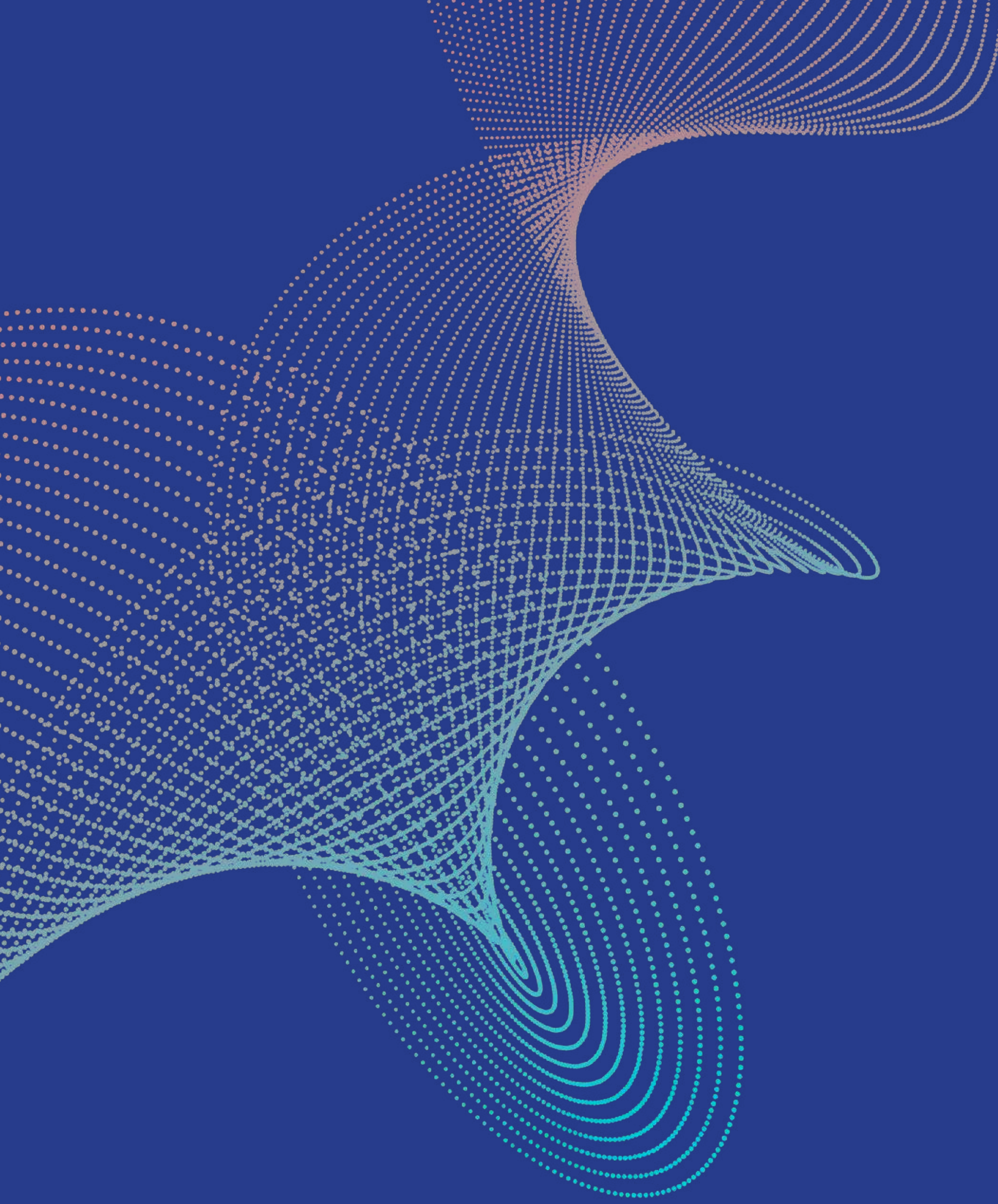


1. Pension Reserve Trust allocation includes $74m for additional police retirement contributions
2. Other Custody includes Title III ($126m), Current Liabilities Reserve ($113m), Incremental CSR ($95m), ERP ($61m), Christmas Bonus ($41m), Courts Salary Increases ($38m), Cigarette Transfers ($34m), Parametric Insurance ($34m), PREPA Mobility ($31m), UHC ($28m), and others ($163m)
3. Other Agencies includes FOMB ($59m), Office of the Comptroller ($41m), Institute of PR Culture ($15m), Department of State ($13m), Gov. Ethics Board ($10m), Musical Arts Corp. ($5m), Office of the Women's Advocate ($5m), Fine Arts Center Corp. ($4m), Other Agencies ($21m)

The budget includes over $1 billion in funding to support Puerto Rico's economic growth and competitiveness, and continues to adopt innovative practices, such as nearly $300 million in funds tied to specific milestones, which will be released once the government meets certain requirements.

The budget further targeted investments in areas aligned with the Fiscal Plan pillars to support economic growth, strong financial management, and public sector excellence. Many of these investments were developed alongside the Government. For example, economic growth investments include construction at the ferry terminals, funding to the municipalities, and support for education programs.

Almost $500 million is made available to enhance public services. This includes allocations for medical supplies, social programs to minors, maintenance and repairs at health facilities, funding to UPR, and additional support for the ongoing Civil Service Reform program.



Puerto Rico Electric Power Authority (PREPA)

Puerto Rico's economic recovery depends on the comprehensive transformation of its energy sector to deliver the safe, reliable, and affordable service that Puerto Rico's residents and businesses deserve. The Fiscal Plan for the Puerto Rico Electric Power Authority (PREPA) establishes a blueprint for this transformation.

The transformation sets Puerto Rico on a trajectory to achieve a safe, reliable, affordable, resilient, modern electric grid. The transformation will result in PREPA's legacy power plants being managed more efficiently and create a path for the renewable energy targets defined by the Puerto Rico Government to be accomplished. These initiatives leverage regulated, private-sector expertise independent from political interference to improve the quality of life for Puerto Rico's residents and to support long-term economic growth.

PREPA's inefficient management of power generation and transmission has been broken up. Puerto Rico retains ownership of its generation and transmission systems as a publicly-owned power utility but with management transferred to private operators – LUMA for the transmission grid and Genera PR for generation assets. The power system is overseen by an independent regulator (PREB). The Oversight Board is working diligently to restructure PREPA's unaffordable debt and pension liabilities. The building blocks are in place for an energy system that can and will be safe, reliable, and affordable.

The Fiscal Plan also helped create a path to implement Puerto Rico's elected leaders' expressed desire to move aggressively to renewable energy, by creating RFP processes for the development of renewable generation projects.

Fiscal Year 2023

Fiscal year 2023 marks a monumental milestone and one of the final steps on the path towards the completion of the operational and financial reorganization of PREPA, completing the unbundling of PREPA's transmission and distribution (T&D) and legacy thermal generation operations.

Electricity in Puerto Rico is not yet reliable, but the proposed transformation of PREPA process is underway and will help to create a system that can and will improve over time. The focus of the transformation process must now turn to completing the legal and financial aspects necessary to turn PREPA into an efficient entity that prioritizes service reliability and efficiency.

In January 2023, following a multi-year competitive bidding process to attract and identify qualified candidates to manage PREPA's electric generation operations, the Puerto Rico Public Private Partnerships Authority (P3A) and PREPA selected Genera PR LLC to operate and maintain PREPA's legacy power plants. The Oversight Board reviewed the proposed Thermal Generation Facilities Operation and Maintenance Agreement with Genera in accordance with PROMESA.

On July 1, 2023, Genera assumed control of PREPA's power plants, while PREPA's remaining legacy responsibilities are now concentrated in the PREPA holding company (HoldCo) and the operation of the hydroelectric and irrigation system (HydroCo). These remaining legacy entities should have a small operational footprint relative to the T&D and generation systems.

The budget that the Oversight Board certified for PREPA's fiscal year 2024 is another milestone in the energy transformation. It is the first budget certified by the Oversight Board, in its sole discretion, that reflects the prior determination of PREPA's independent regulator, the Puerto Rico Energy Bureau (PREB) on the energy system budgets following the unbundling of PREPA into its separate components with private operators in place.

LUMA, the private operator of Puerto Rico's energy grid, continued to show progress in rebuilding PREPA's grid in a resilient manner, prioritizing worker safety, improving customer satisfaction, and advancing a sustainable energy transformation in Puerto Rico by activating solar installations and collaborating with vital initiatives such as the DOE's PR100.

Despite this progress, Puerto Rico also suffered setbacks in fiscal year 2023. Hurricane Fiona in September 2022 damaged power plants and aggravated the Loss of Load Expectation (LOLE) for PREPA customers. However, PREPA and LUMA managed to stabilize generation unit performance faster than in other recent natural disasters. LUMA spearheaded the creation of a generation stabilization plan that was later submitted to PREB, and also worked with FEMA and the U.S. Department of Energy (DOE) to obtain temporary emergency generation to mitigate the need for future load shedding, which may also allow Genera to pursue a more aggressive maintenance schedule during the first half of fiscal year 2024.

Another setback relates to the transition to renewable energy. PREPA delayed closing on any of 18 utility scale solar Power Purchase and Operating Agreements (PPOA) that PREPA had approved in February 2022. PREPA blamed complications, including developers' claims that stale bid prices from 2021 were unfeasible and citing delays in finalizing interconnection studies. Recently, PREPA submitted amended PPOAs, having renegotiated certain terms to address the feasibility of these projects. On June 30, 2023, PREB issued a Resolution and Order through which it approved six amended PPOAs and five (5) Energy Storage Services Agreement (ESSAs) amounting to 515 MWs of solar capacity and 350 MWs of storage capacity. PREB had already approved five other amended PPOAs on May 25, 2023, for close to 315 MW of solar capacity. The Oversight Board awaits receipt of all PPOAs to perform its review under its Contract Review Policy.

The execution of a second tranche of PPOAs, which seeks 1,000 MW in renewable generation, appears to have been delayed but is in its final stretch. T tranche is to procure 500 MW of renewable resource generating capacity and 250 MW of energy storage capacity, PREB's independent coordinator Acción Group posted a revised draft of the Request for Proposals in June 2023.

Highlights of the Energy Transformation Progress in fiscal year 2023

- The successful transition of legacy power generation to Genera.
- Outstanding receivables settlement between PREPA and several Commonwealth agencies and public corporations to help finance pension payments and increase PREPA's liquidity.
- Approval of federally funded projects to clear upwards of 1,000 miles of critical transmission lines and poles to improve grid resiliency. LUMA anticipates deploying

over $120 million of federal funds in FY2024, followed by $850 million over the next three years for vegetation management.

- Installation of 26,766 new rooftop solar clients with a capacity of about 168MW, reaching a cumulative 524 MW of DG capacity on island.
- Submission of 314 initial scopes of work to FEMA representing over $7.1 billion in federally funded infrastructure work.

The Oversight Board worked with PREPA, LUMA, the P3A, the Government, and other stakeholders throughout fiscal year 2023 to advance fiscal responsibility with a series of quarterly reports that included budget-to-actuals, projected weekly cash flows, accounts receivable, accounts payable, Fiscal Plan measures implementation reports, and weekly system operations reports, and other actions to ensure continuous progress towards energy transformation.

Fiscal Year 2024 Outlook

In fiscal year 2024, PREPA's focus must now turn to the remaining fiscal measures contained in its Fiscal Plan, which include completing the rightsizing of PREPA's legacy entities' high impact investments that will result in increased service reliability. Additionally, the Fiscal Plan contemplates an exit from the Title III restructuring process this fiscal year and reflects a rapid onboarding of renewable capacity consistent with Act 17-2019.

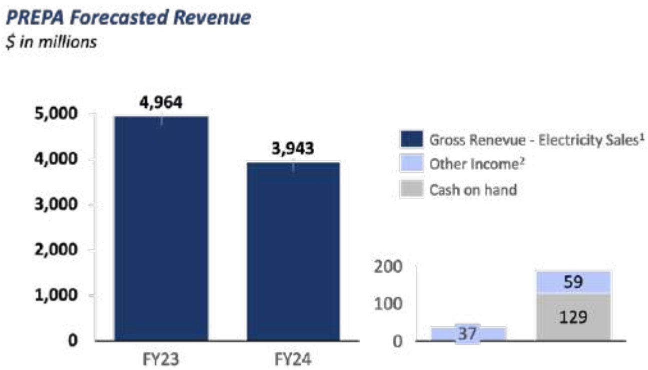
Further, PREPA's limited resources and efforts should prioritize the following objectives: finalizing Tranche 1 of the renewable energy transition and executing approved PPOAs, efficiently managing the remaining legacy entities, and securing any federal funds destined to shore up hydroelectric units.

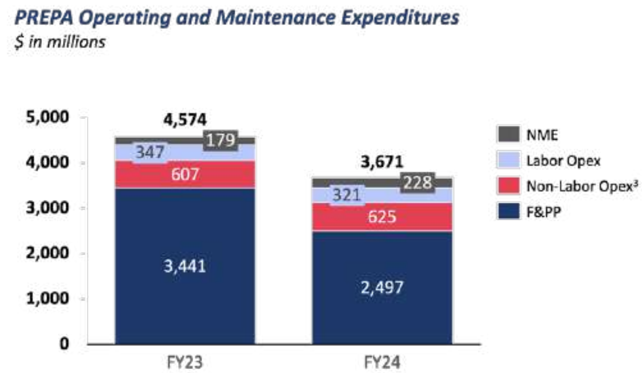
LUMA and Genera must focus on deploying the federal funds available to them for the capital works needed to harden the electric grid and meet performance metrics. These initiatives, along with oversight of a strong, independent regulator in PREB form the backbone of the transformation of Puerto Rico's power sector. PREB's role and independence are crucial to ensuring that service becomes reliable, renewable targets are met, and sufficient resources are available to operate the system adequately.

In the long term, updating and implementing Puerto Rico's Integrated Resource Plan, deployment of federal funds for much needed capital works, and LUMA's and Genera's improvement programs will be essential to building a modern, safe, reliable, and resilient electricity sector for Puerto Rico.

Fiscal Year 2024 Budget

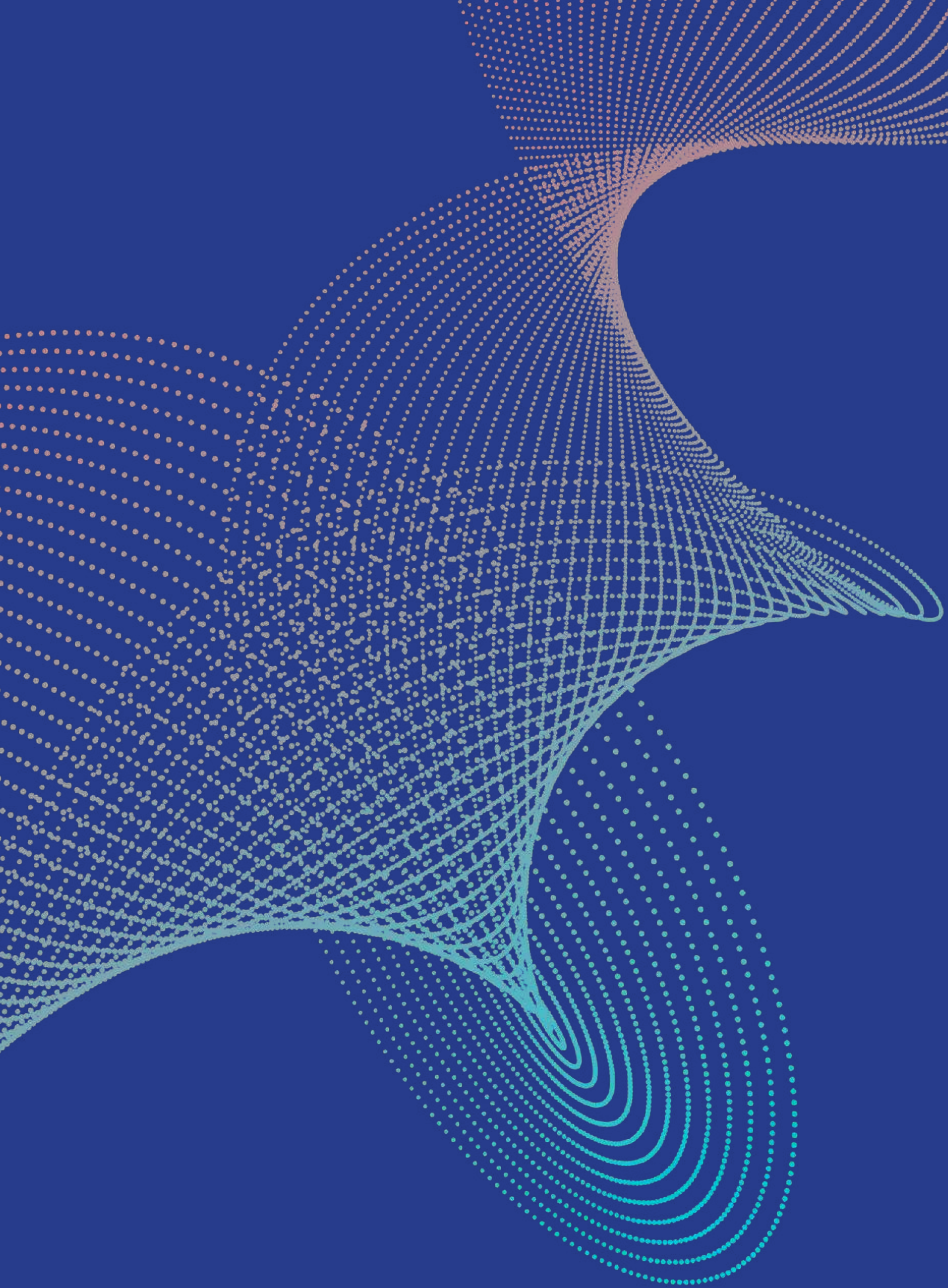
Fiscal year 2024 marks the first year for which PREB issued a system wide budget for PREPA and the private operators. The budget was approved by PREB and reflected in the Oversight Board's Certified Budget.





For fiscal year 2024, PREPA's budget projects total revenues of $3.9 billion, approximately $1 billion lower than in fiscal year 2023. Most of the decrease is primarily attributed to lower fuel costs following a stabilization of energy markets, however other contributing factors include a lower load forecast, driven by declining population, reduced economic activity, and behavioral changes, including rooftop solar adoption. Budgeted base revenues for fiscal year 2023 were supplemented by a PREB-approved cash on hand to be used as a one-time enabling investment aimed at stabilizing the electric system while leveraging the FEMA emergency generation that is temporarily available on island and in preparation for an anticipated highly active hurricane season. The delta shown in FY24 expenses and revenues above are largely attributable to non-system pass-through costs, such as subsidies.

Recognizing the constrained fiscal and operating environment, PREPA's budget prioritizes critical operational and maintenance activities across both the transmission and distribution and generation systems. The budget provides investments in the energy system with an emphasis on shoring up generation and includes a much-needed rightsized PREPA legacy operation. It is also reflective of the challenges PREPA, LUMA, and Genera must work to overcome.



Puerto Rico Aqueduct and Sewer Authority (PRASA)

The people of Puerto Rico depend on clean and reliable water and wastewater services and a stable water company that can deliver those services now and in the future.

The Puerto Rico Aqueduct and Sewer Authority (PRASA) has been hampered by old, expensive, and inefficient infrastructure. About 60% of Puerto Rico's water is lost because of repeated water main breaks, faulty meters, and other deficiencies that prevent the water from reaching homes. When water is delivered, it is often not billed due to theft or meter error.

The PRASA Fiscal Plan provides a roadmap to improve and secure Puerto Rico's water supply and to improve PRASA.

PRASA has improved its financial condition through modest, gradual water rate adjustments implemented since fiscal year 2018. PRASA has also benefitted from debt modification transactions with the Federal Government, bondholders, and other creditors, and State Revolving Fund loans and grants as well as FEMA and other federal funding.

PRASA has over $6.4 billion in new funds and debt service relief in addition to the $550 million in new revenues from the cumulative effect of modest rate adjustments. This new financial stability provides PRASA with a unique, generational opportunity to invest in its aging infrastructure at a much lower cost than usual without the need to access capital markets and potentially reduce the prospect of systemic operating deficits on the long term. The image below depicts the investments to PRASA's Capital Improvements Program and the events endured since its suspension in FY2016, underscoring the need for increased investments to it.

Fiscal Year 2023

In fiscal year 2023, PRASA was able to protect its financial position despite the effects of Hurricane Fiona, which required an increase to emergency expenditures and a reduction in revenues as a result of service interruptions. Accordingly, PRASA's most notable achievements during FY2023 include:

Starting July 2022, PRASA adopted a new, simplified rate structure that will ensure sufficient revenue generating capacity in upcoming years. The new rate structure provides for a minimum of 2% and up to a maximum of 5% rate adjustment, subject to actual needs with cumulative rate increase capped at 30%. Specifically, the new structure enables an automatic 2% adjustment each year across all customer segments from fiscal year 2023 to fiscal year 2028, and potentially beyond.

In March 2023, PRASA agreed to a memorandum of understanding with the Puerto Rico Electric Power Authority to settle $42.5 million in legacy debts stemming from electricity and water purchases as far back as fiscal year 2015.

PRASA increased the base compensation of most of its employees. Critical employees were provided with a one-time premium pay incentive with funding provided by the Federal Government's American Rescue Plan. PRASA also started analyzing the current employee classification system with the goal of improving recruiting and retention practices and aligning future compensation with the goals of the Civil Service Reform the Oversight Board and the Government are implementing.

- In December 2022 the Authority installed master meters throughout its water system to measure about 90% of the total water production. The master meters are a critical component and notable first step to accurately define water losses and better identify reduction opportunities.

Fiscal Year 2024 Outlook

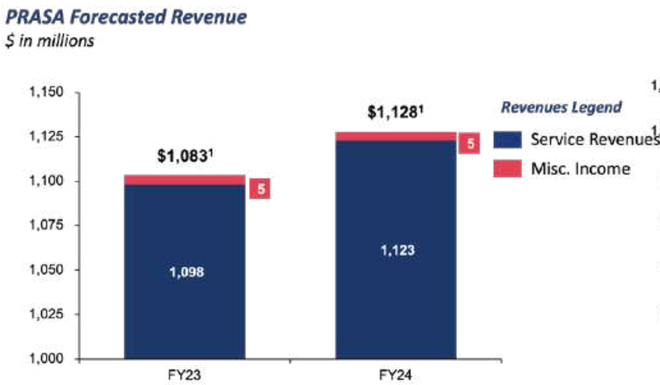
PRASA must prioritize improving the performance of its water and wastewater systems and implement a robust action plan to mitigate water loss. PRASA's main priorities for fiscal year 2024 include:

- Meter Replacement: PRASA's mechanical meters have a margin error of nearly 15%. Through the two-phased meter replacement initiative, PRASA expects to replace the existing 1.2 million mechanical meters with Advanced Metering Infrastructure (smart meters). The replacements will enable PRASA to generate incremental revenues as a result of the improved metering accuracy - $144 million by FY2028. The new technology will also allow PRASA to better size its commercial water losses resulting from theft and inaccurate metering activity all while improving customer experience and satisfaction.
- Water Loss Reduction: Most water losses (non-revenue water) in PRASA's system stem from physical water losses. However, now that PRASA is able to measure 90% of its water production, it can better assess these types of losses. As such, PRASA's water recovery office has made it a priority for the upcoming year to invest in new technologies and recruit more brigades/personnel to better conduct leak detection activities and monitor pressure nuances that generate water losses. Through these efforts PRASA can better assess and reduce the total amount of water produced which in turn can translate to lower water treatment costs (i.e., electricity and chemicals).

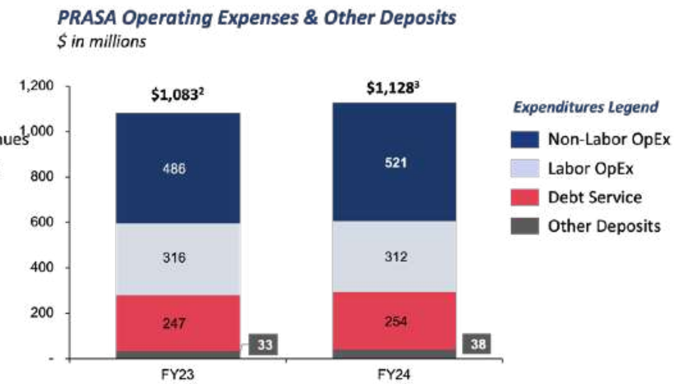
Fiscal Year 2024 Budget

Fiscal year 2024 revenues total $1.1 billion, including rate adjustments but excluding any incremental revenues resulting from the meter replacement initiative. These incremental revenues are critical to lifting revenue without increasing the economic burden on ratepayers.

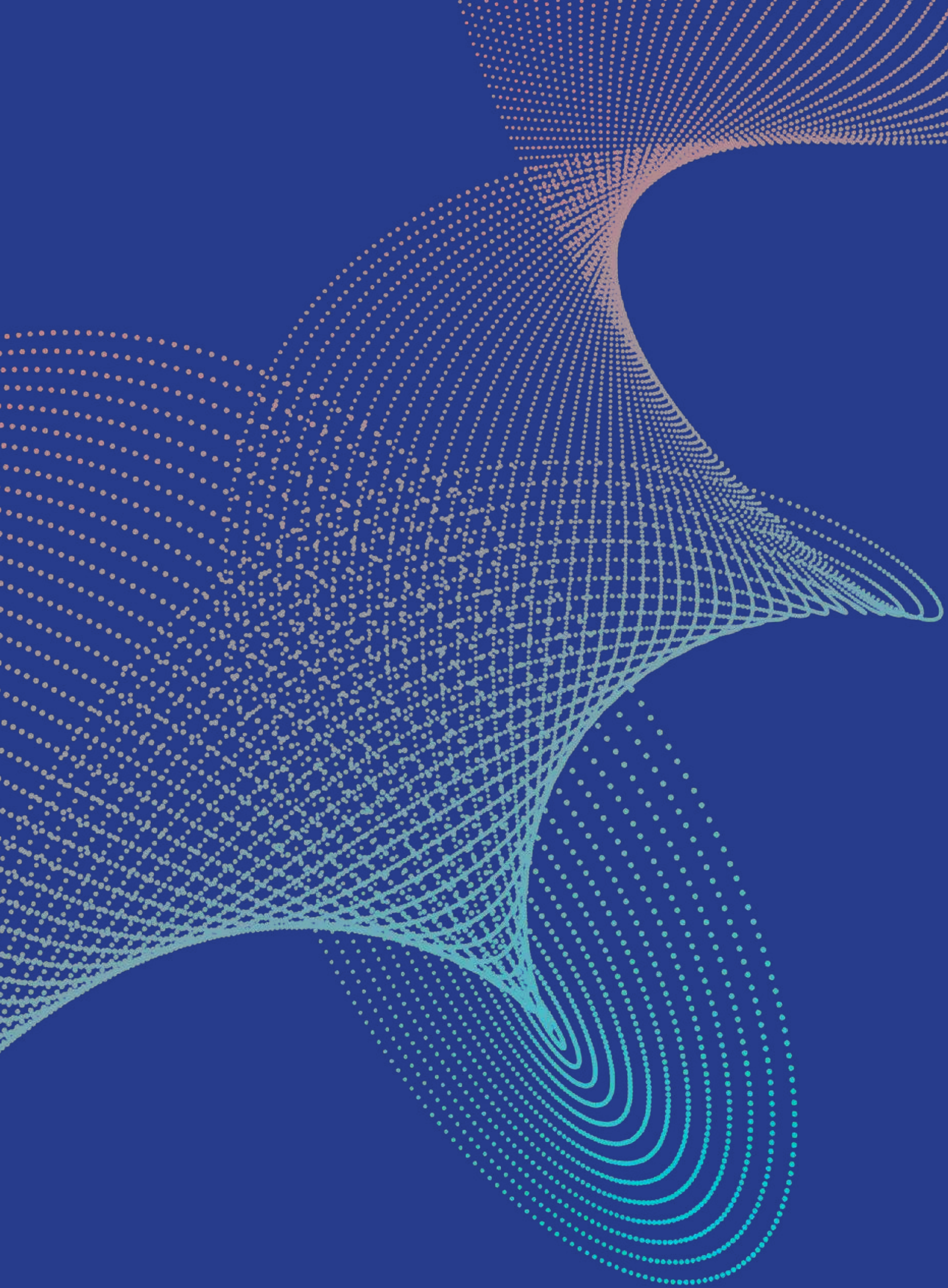
Operational expenditures will increase by nearly $35 million, mainly because of higher allocations for water and wastewater treatments costs as well as inflation in other minor line items. The budget includes a $20 million increase in projected electricity expenditures and a nearly $4 million increase in the cost of chemicals. The budget also reflects $13 million in adjustments to base compensation that were already implemented during fiscal year 2023 as well as $400,000 to adjust salaries in line with the new minimum wage effective July 1, 2023. In addition, the budget includes a $3.5 million reserve for discretionary salary increases that are conditioned on achieving certain milestones.



PRASA Forecasted Revenue
$ in millions
1,150
1,125
1,100
1,075
1,050
1,025
1,000
$1,083¹
$1,128¹
5
5
1,098
1,123
FY23
FY24
Revenues Legend
Service Revenues
Misc. Income



PRASA Operating Expenses & Other Deposits
$ in millions
1,200
1,000
800
600
400
200
-
$1,083²
$1,128³
486
521
316
312
247
254
33
38
FY23
FY24
Expenditures Legend
Non-Labor OpEx
Labor OpEx
Debt Service
Other Deposits



Puerto Rico Highway and Transportation Authority (HTA)

Puerto Rico's road system does not meet the needs of residents and businesses, and lags national standards for quality, safety, and reliability. The people of Puerto Rico must have well-maintained roads to get to work, take their children to school, and to enjoy reasonable living standards from the cities to remote mountain areas.

The Fiscal Plan for the Highway and Transportation Authority (HTA) provides a roadmap for improving the road and transportation infrastructure that will meet Puerto Rico's needs. HTA must (i) establish a Toll Management Office that is exclusively responsible for toll-roads, (ii) separate responsibility for construction and maintenance between toll-roads and non-toll-roads, and (iii) transfer the Tren Urbano to the Puerto Rico Integrated Transit Authority. These reforms will create operational stability and improve the transportation sector overall.

The Plan of Adjustment reduced HTA's debt by about $6.4 billion (more than 80%), to $1.2 billion. The Plan of Adjustment was confirmed in October 2022 and became effective on December 6, 2022. It created a solid financial foundation to ensure Puerto Rico's roads and public transportation are maintained and improved. HTA will now be able to implement the transportation sector reforms established in the Fiscal Plan

Fiscal Year 2023

In fiscal year 2023, HTA implemented the first two toll fare increases since 2005, marking a significant achievement for HTA – considering that these were the first increases in 17 years. HTA has now established recurring toll increases equivalent to the Puerto Rico Consumer Price Index plus 1.5%. The initial increase took effect in August 2022 and the second increase came in January 2023. Going forward, an increase will occur every January 1.

Nevertheless, HTA's increases (and planned increases) will, in aggregate, increase tolls only ~10% between 2022 and 2024. The Fiscal Plan on the other hand included substantially more with toll rate raises of 8.3% during fiscal years 2022 through 2024 to catch up with inflation due to the lack of increases in the past. HTA must continue to pursue further increases to align with continuously rising costs and inflation, to meet its obligations, and to make the necessary improvements in Puerto Rico's roads infrastructure.

New fines for traffic violations have been suspended since April 2022 due to a cyber-attack that disrupted the toll collection system. Despite that, as of May 2023, toll fine collections have yielded

$36.5 million in revenues, 6% more than projected in the Fiscal Plan. HTA is working to restore system operations, aiming to resume the issuance process by September 2023 and maintain the positive trajectory in fine collections.

HTA also made progress in the implementation of the Transportation Sector Reform (TSR) in fiscal year 2023. HTA created the HTA Toll Roads Management Office as the initial step toward achieving the internal segregation between its toll and non-toll road operations, as required by the Plan of Adjustment and Fiscal Plan. Consistent with the Fiscal Plan, the Puerto Rico Integrated Transit Authority (PRITA) will manage Puerto Rico's public transit resources, now having a workforce transferred from HTA and having moved forward to obtain the Federal Transit Agency (FTA) grantee status

HTA and the Puerto Rico Private-Public Partnership Authority (P3A) initiated the process for the concession of the remaining four HTA tolled roads, a significant milestone for Puerto Rico to accelerate improvements in road quality, safety, and efficiency.

HTA also made significant strides in obtaining competitive discretionary funds. HTA has established an internal grant team dedicated to identifying funding opportunities and coordinating grant applications. Through this team, HTA has achieved success in being awarded two significant discretionary grants for two projects. These accomplishments reflect HTA's commitment to securing additional funds and executing projects that will improve the capacity and efficiency of Puerto Rico's transportation system.

HTA is striving to obligate all funding received from the Federal government. As of May 2023,

$250 million out of $269 million in non-emergency FHWA regular funds were allocated. While obligations are on track, effective disbursement of funds presented challenges, including the limited number of available contractors across Puerto Rico, material shortages, and inflated costs, which require lengthy negotiations and the identification of additional funding sources, ultimately resulting in reduced disbursements. Moreover, a bottleneck in the submission of reimbursement requests resulted in lower-than-expected revenues. As of May 2023, $108 million (40%) of the

$269 million in funds had been reimbursed.

The Non-Federal and Transit programs experienced a reduction in size compared to the initial forecasts for fiscal year 23, mainly due to the same reasons. As of May 2023, approximately $41 million, or 52% of the projected $79 million non-Federal funding had been obligated.

Fiscal Year 2024 Outlook

HTA will continue to prioritize maintaining a healthy financial position while increasing its focus on leveraging funds to improve the transportation ecosystem for Puerto Ricans. Doing so will require continued collaboration between the Government and the Oversight Board to overcome challenges in the implementation measures described in the Fiscal Plan. In addition, achieving these improvements will require increased coordination across governmental agencies to accelerate the development and execution of necessary transportation reforms.

HTA must focus on implementing toll fare increases and collecting fines to ensure compliance with the Fiscal Plan. Toll fines will serve as the primary remaining revenue source for HTA to fulfill certain financial obligations once toll-roads are privately managed. During fiscal year 2023, the implementation of several other fiscal measures, such as open road tolling, dynamic toll lanes, and toll optimization were delayed. The successful implementation of these measures is projected to generate approximately $87.2 million in cumulative revenue from fiscal years 2024 to 2027. These revenues are essential to generating the financial benefits projected in the Fiscal Plan.

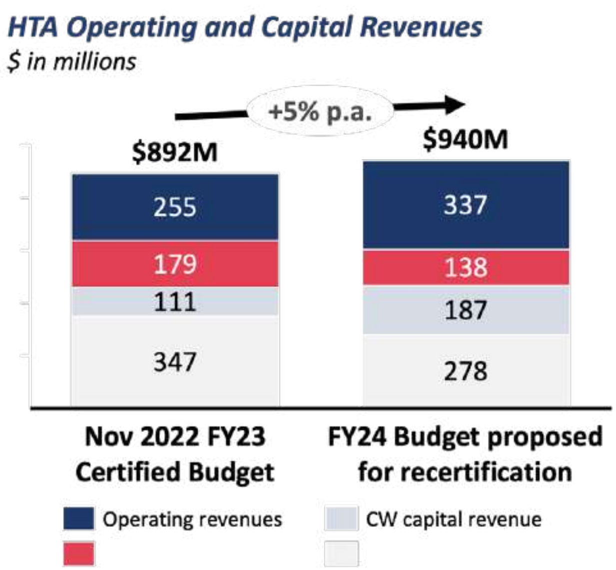
One of the key challenges that HTA will need to address in fiscal year 2024 is the effective deployment of capital funds. While substantial funds were obligated in fiscal year 2023, the disbursement of these capital resources fell short of expectations, leading to the accumulation of rollover funds. It is crucial to prioritize capital projects in fiscal year 2024 to achieve the infrastructure milestones in the Fiscal Plan.

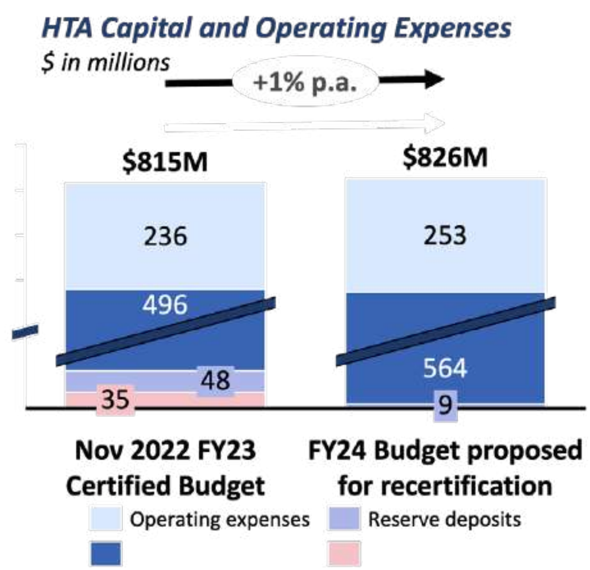
Fiscal Year 2024 Budget

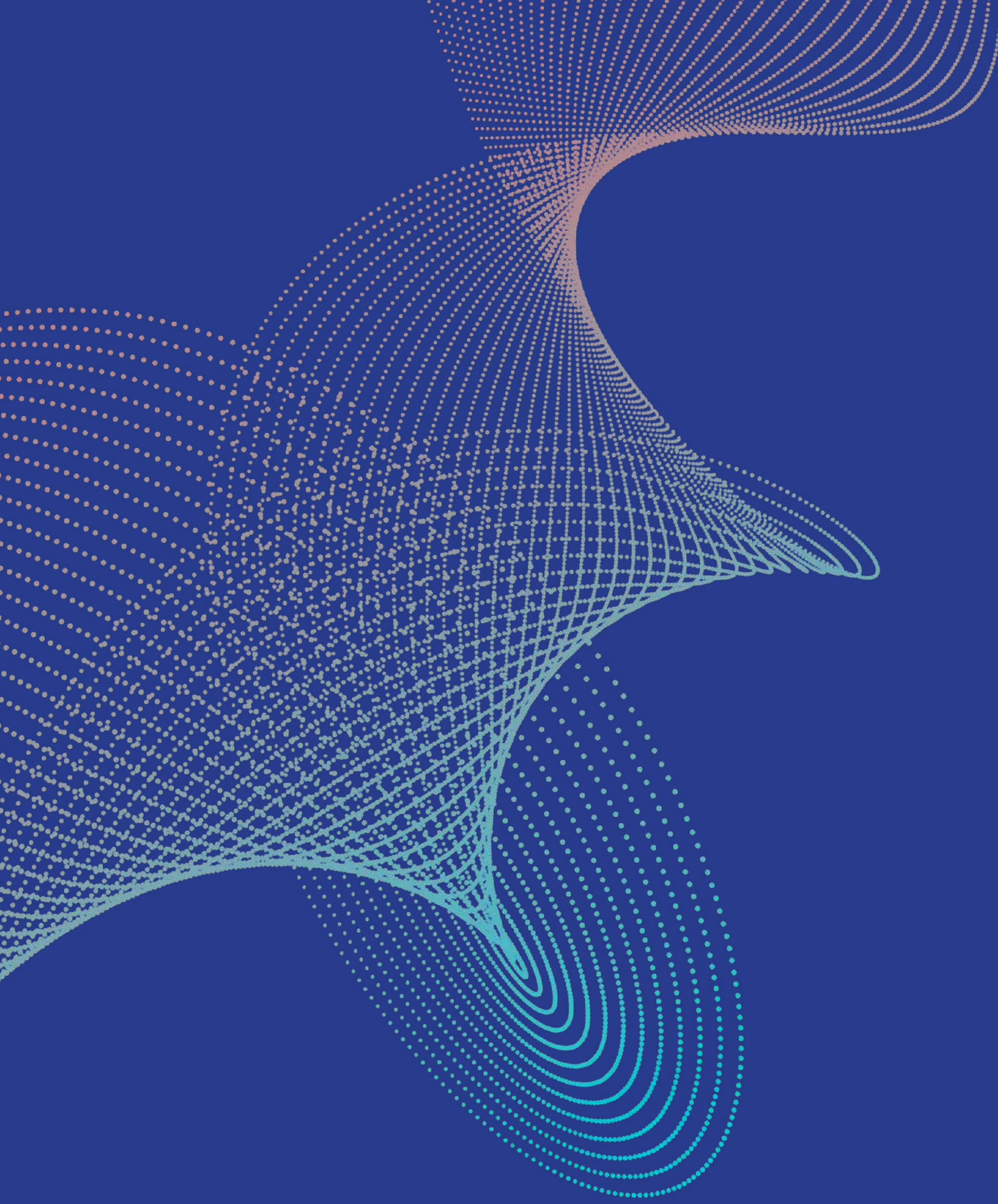
Fiscal year 2024 revenues are projected to total $940 million, up 5% from fiscal year 2023 due to higher toll fares, toll fines and transit funds, Commonwealth appropriations, and funds from the U.S. Highway Administration (FHWA) and Federal Transit Administration (FTA). Capital expenditures are projected to grow to

$558 million in the fiscal year 2024 budget, a 12% increase from fiscal year 2023.

Fiscal year 2024 is HTA's first full fiscal year budget following the confirmation of the HTA Plan of Adjustment in October 2022. The FY2024 budget includes debt service payments of $48 million funded through toll revenues, as required in the Plan of Adjustment.







Municipal Revenues Collection Center (CRIM)


PROPERTY MANAGEMENT
THE PROPERTY
Street Address:
City:
TENANCY
APPLICANT DETAILS
Full Name:
Driver's License No.
E-Mail:
Other Occupants? Yes No
If Yes, Describe:
Pets? Yes No
OFF
GT
%
+/-
MU
M+
AC
M–
MRC
7
1
0


Yes ☐ No
Ever Been Convicted of a Crime? ☐ Yes
If Yes, Describe:

Financially stable and sustainable municipalities are crucial for providing the services residents need and deserve.

The current structure of municipal finances is both unstable and not sustainable, given the many challenges Puerto Rico faces. The solution for achieving financially stable municipalities is to create sustainable tax revenue and to consolidate services across municipalities. Consolidating services will reduce costs by creating economies of scale in various areas of services provided directly to citizens. Meanwhile, improving property tax collections is a vital step towards creating sustainable tax revenue, which in turn will strengthen local municipal economies and facilitate future economic development.

The Municipal Revenue Collection Center (CRIM) plays a vital role in supporting Puerto Rico's 78 municipalities in their economic and social development by ensuring an efficient process for collecting and distributing real and personal property taxes. The CRIM Fiscal Plan outlines a series of measures, actionable initiatives, and measurable milestones to enhance property tax collections through operational improvements, enhanced and integrated IT systems, and improved tax compliance to ensure all property owners pay their fair share of taxes.

CRIM has made progress in these areas and many improvements are underway. Continued progress on these initiatives is of paramount importance to ensure that Puerto Rico's municipal structure has a strong and stable financial foundation that will support future growth.

For example, CRIM conducted a comprehensive review of current property tax exemptions and exonerations and will be preparing a formalized report of observations and conclusions. This report is critical to reform efforts given that Puerto Rico offers considerably more tax breaks than other U.S. jurisdictions. Nearly 60% of real property, as measured by value, is either exempted or exonerated from taxes, substantially reducing municipalities' tax bases.

CRIM established the new Default Management Office (DMO) to continue the self-collection of past-due property taxes. The DMO will ensure that CRIM achieves an efficient process for the collection of past-due property taxes, while also addressing current tax invoices which are at risk of becoming past due. This process will ultimately improve tax collection rates and increase tax revenues for the municipalities.

In 2022, CRIM reached a settlement on behalf of 73 municipalities with the Government Development Bank Debt Recovery Authority over a $167 million loan from 2001 and a $105 million loan from 2002. As part of the settlement, CRIM agreed to pay certain notes payable in the amount of $32 million on behalf of 14 municipalities while also obtaining a debt forgiveness in the amount of

$37 million, or 33% of outstanding amounts. The settlement provided much needed cash flow relief by fully settling the outstanding balances of 59 municipalities, with another 14 implementing a payment plan.

Fiscal Year 2023

CRIM has been working on several initiatives related to property tax reform, including proposals on inventory tax reform, and an assessment of exemptions and exonerations that create inequity in the tax base.

In fiscal year 2023, CRIM commissioned a study to consider updating the valuation methodology for real property. In Puerto Rico, real property valuations for tax assessments are based on the property's replacement cost as if it were constructed in 1957, which was the last time a valuation assessment was performed on real property on the island.

Throughout fiscal year 2023, CRIM participated in active discussions with the Governor, the Legislature, and commercial stakeholders regarding potential inventory tax reforms. These discussions are anticipated to continue throughout fiscal year 2024.

In June and July 2023, CRIM began sending notices to the 240,000 Puerto Rico properties that are not properly registered. More than 2,000 notices have been sent. This milestone is the first step towards CRIM's goal of invoicing all unregistered properties. This initiative is projected to generate an incremental $90 million in annual run-rate revenues for municipalities.

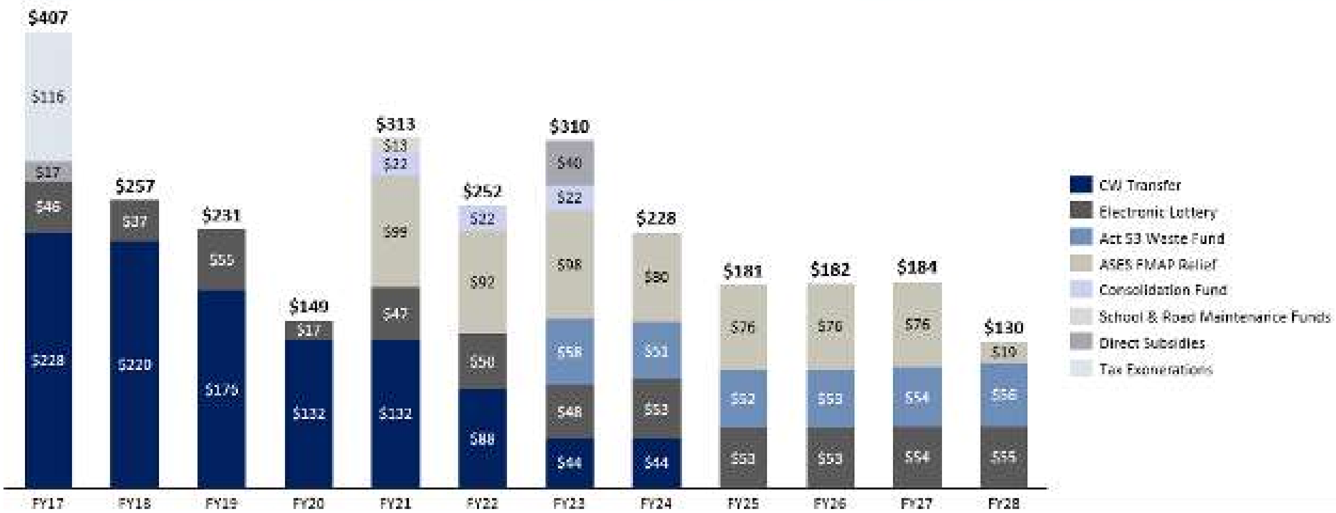
CRIM has been conducting a multi-year operational transformation to enhance its technology systems. In 2023, CRIM made more progress in replacing an outdated billing system with a new ERP system and web-based customer portal. CRIM agreed to make changes after a meeting with the College of Certified Public Accountants to address concerns and improve usability.

During fiscal year 2023, the Oversight Board approved a one-time economic support of $40 million from the Commonwealth to the 78 municipalities to offset the impacts of inflation and other macroeconomic factors contributing to rising costs.

In fiscal year 2023, the municipalities received relief from health insurance contributions totaling approximately $98 million. Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through various pieces of legislation. Act 72-1993 requires municipalities to pay annual contributions to the Health Insurance Administration for their municipal workers, with the statutory amount totaling $163.7 million across all municipalities.

Municipalities are responsible for budgeting and paying their annual PayGo fee, as invoiced by ERS. Per CRIM and the Commonwealth certified Fiscal Plan, each municipality must pay newly accruing PayGo obligations as they come due. During fiscal year 2023, all municipalities fully paid their PayGo obligations as they came due.

Historical and projected external funding sources available to municipalities ($ in millions)



Fiscal Year 2024 Outlook

In fiscal year 2024, CRIM's focus includes:

- Optimizing staffing through adequate allocations for salaries and fringe benefits,
- Integrating technology systems to improve data gathering,
- Rolling out the Default Management Office,
- Accelerating the implementation of other 2023 Fiscal Plan measures.

To improve fiscal sustainability CRIM will continue to focus on inventory tax reform, permitting reform, improvement in tax filing processes, and reprofiling of municipal debt, in addition to initiatives proposed from mayors on broader financial reforms.

The Oversight Board, the Commonwealth, and the municipalities are agreed on specific financial and operational milestones, along with the corresponding conditional funding amounts required for disbursement.

CRIM will also continue the technology transformation to integrate technology across financial and accounting systems.

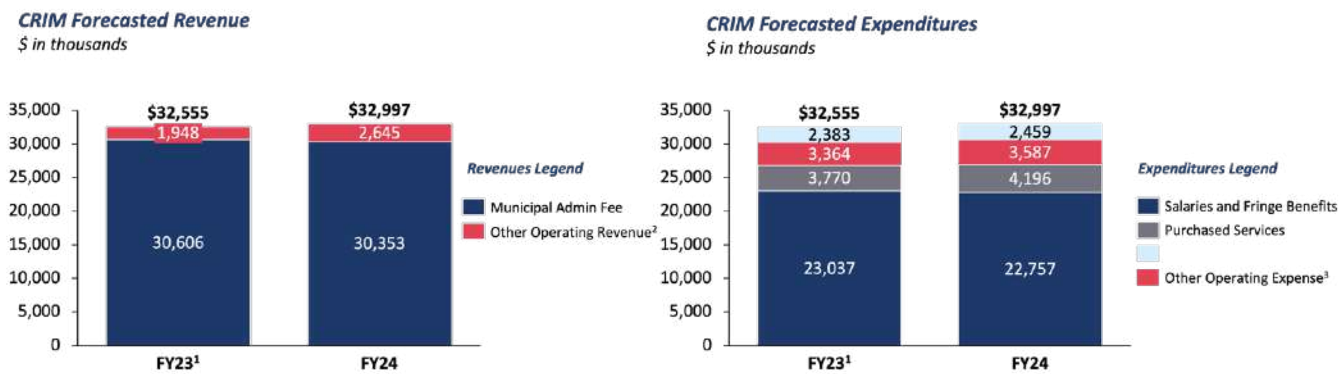
Fiscal Year 2024 Budget

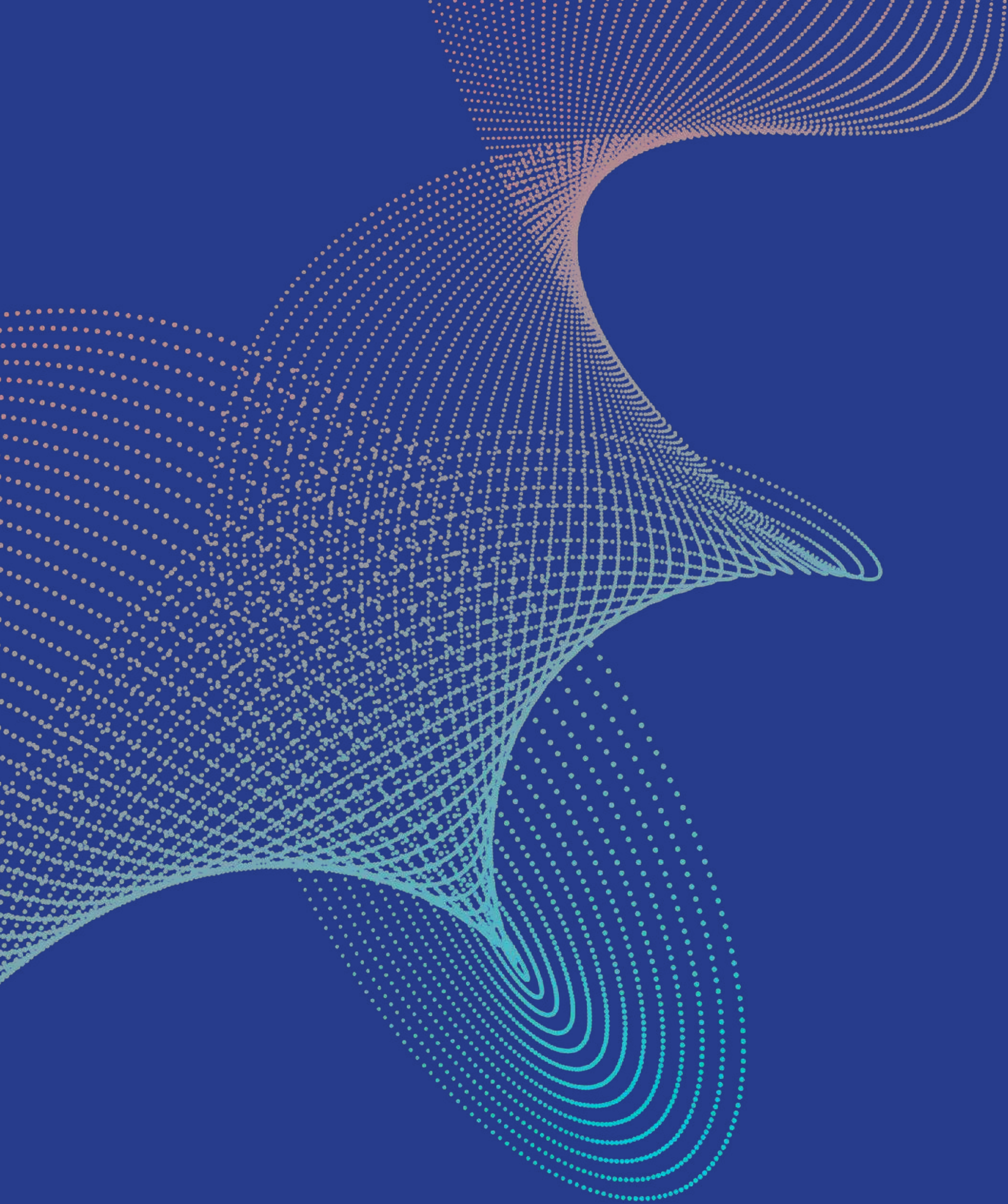
The Oversight Board certified the fiscal year 2024 budget submitted by CRIM. It was the first time that CRIM had submitted a balanced budget compliant with the applicable fiscal plan (in this instance, the 2023 CRIM Fiscal Plan) for the Oversight Board's certification.

CRIM's $33 million budget consists of the 5% Administrative Fee it charges for administering property tax collections, and a continued increase in revenues from charges to banks, sales of maps, rental income, and interest income.

The certified budget for CRIM includes critical investments to (i) optimize staffing through adequate allocations for salaries and fringe benefits, integrate (ii) technology systems to improve data

Gathering, (iii) roll out the Default Management Office and (iv) accelerate the implementation of other Fiscal Plan measures.





University of Puerto Rico (UPR)

The University of Puerto Rico (UPR) is Puerto Rico's primary university system with 11 campuses across the island. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. It plays a crucial role in higher education, research, and academic development in Puerto Rico, serving students from diverse backgrounds, and contributing to the island's cultural, intellectual, and economic growth.

UPR has been facing serious academic, financial, and operational challenges in recent years, including falling enrollments, a pension system at serious risk of insolvency, duplicative back office systems across campuses, an aging infrastructure, a bloated cost base and an overreliance on government funding. When PROMESA was enacted, almost 80% of UPR's budget came from the Government, versus less than 30% on average for U.S. public universities.

UPR has suffered significant setbacks in its academic reputation and standing due to losses of accreditations, particularly in the medical science area. These accreditation bodies repeatedly highlighted a lack of financial planning, failing to identify and prioritize needs to effectively appropriate available resources, and having a well-defined decision-making process that could potentially impact the system's performance.

However, UPR has shown areas of progress and success, such as diversifying its sources of revenue, in part by adjusting tuition costs, and increasing other sources of revenue. UPR increased funding for need-based scholarships. UPR has also continued to advance its investment in the field of engineering, particularly at the Mayagüez campus. The university has successfully provided students with sought-after technical skills training in STEM (Science, Technology, Engineering, and Mathematics) fields, as well as the opportunity to engage in research and academic exchanges with industry leaders and peers from other countries. These initiatives position the university as a leader in STEM education, both on and off the island of Puerto Rico.

The goal for UPR is achieving fiscal responsibility, which will lead to financial sustainability, and increased academic strength and leadership. One step to achieving fiscal responsibility is by ensuring that funds are budgeted and available to increase support to faculty and student services. The Oversight Board is dedicated to reengaging with stakeholders on how to rebuild the UPR considering changing trends in demographics and enrollment, with the mission of increasing career opportunity and fueling social mobility. The UPR Fiscal Plan reflects those goals and outlines a path to achieve fiscal responsibility.

Fiscal Year 2023

- **Administrative Transformation:** UPR's existing operating model has created unnecessary complexity and increased costs as well as high levels of duplication in administrative and academic leadership with redundant management structures and overstaffed support functions due to separate offices for administrative functions on each campus. This has led to poor coordination among campuses, making it challenging for students and staff to navigate the distinct campus bureaucracies. Similarly, UPR has long struggled with maintaining adequate central control of and transparency into campus finances, which has also been a continuous finding in the UPR's Audited Financial Statements.

During fiscal year 2023, UPR was expected to conclude the implementation of the Shared- Services Pilot Program between the campuses of Aguadilla, Arecibo, and Utuado. The completion of the program is tied to the release of $20 million of the $40 million incremental milestone-based funding. UPR implemented Phase I of the Shared-Services program in May 2023 and is currently implementing the remaining phases. The Oversight Board encourages the UPR to continue its efforts to complete the program and has extended the milestone-based funding from June 30, 2023, to December 31, 2023.

- **UPR Scholarship Funds:** The UPR Fiscal Plan included a measure to increase tuition to bring UPR closer to other public U.S. universities in terms of own-source revenues and ensuring that those who can afford university pay for attending. At the same time, the Commonwealth created a needs-based UPR scholarship fund with the intent of ensuring that tuition-related measures do not impact the ability of students with demonstrated financial need to afford a UPR education.

  During fiscal year 2022, the Government approved Act No.4 of January 18, 2022, creating an endowment fund for UPR to finance the scholarship program, which allows for the annual disbursement of $10 million in scholarships. These Commonwealth appropriations amounted to approximately $214 million for the year ended June 30, 2023. As of May 31, 2023, UPR reported distribution of only $7.5 million of the $10 million required disbursement in scholarship funds[2].

- **Pension Reform:** To avoid future insolvency and ensure continued payment of pensions, the UPR must choose between making the full amount of new required contributions to maintain the current pension system and reducing the required contributions by implementing pension reform measures. The implementation of a pension reform is tied to the release of $20 million of the $40 million incremental milestone-based funding allocated to the UPR for the fiscal year 2023 Certified Budget, which required the UPR to meet certain conditions, such as closing the Defined Benefit plan and the implementation of a new Defined Contribution plan.

  UPR made some progress towards completing these milestones, including taking the necessary steps towards closing the Defined Benefit retirement plan to new participants and submitting for approval the Defined Contribution plan to the corresponding government agencies, to be implemented by the end of the first quarter of fiscal year 2024. However, UPR experienced setbacks in completing the implementation and as such, the Oversight Board has determined to extend the $20 million of the $40 million milestone- based funding from June 30, 2023, to December 31, 2023.

- **Real Estate and Asset Mapping:** The Oversight Board has offered resources to conduct a comprehensive review of UPR’s real estate holdings and processes to bolster the university’s strategic mission. This initiative will allow the UPR to have a uniform database for better reporting, visibility, and target optimization of its real estate throughout all campuses. Part of the project entails developing data cleansing rules and methodologies with the goal of integrating the data into an interactive dashboard-visualization tool.

  As the close of fiscal year 2023, the initiative is underway. The Oversight Board and

[2] From UPR Budget to Actual monthly reporting, as of May 31, 2023.

the UPR are collaborating closely to complete the first phase, while continuing efforts to identify opportunities for improving operational effectiveness, enhancing revenue, and developing monitoring and evaluation processes, among others.

- **Providing Services and Training to the Central Government**: UPR made progress in earning revenue by delivering training and technical services to the Puerto Rico Department of Education (PRDE) and other central government agencies through seminars, tutoring and internship programs, among others. These services are provided through Memoranda of Understanding (MOU), which have benefitted UPR student experiences by allowing them to participate and gain valuable work experiences.

  In fiscal year 2023, UPR provided over $10 million worth of services to the PRDE and is working towards fully providing the remaining $10 million to other central government agencies.

Fiscal Year 2024 Outlook

There has been little consensus in Puerto Rico on a longer-term economic model that will allow UPR to embrace its role at the center of Puerto Rico's economic growth agenda. The Oversight Board, in collaboration with the UPR and UPR Governing Board leadership, kicked-off an inclusive working group to converge on a set of strategic initiatives focused on academic excellence, economic development and financial sustainability. The working group participants represent expertise in a broad range of areas, such as higher education, economic development, and private sector. Through these working sessions, the Oversight Board expects to develop a strategic plan that will revitalize the UPR in its mission and serve the people of Puerto Rico to its full capacity. Through open and transparent consultation, the Oversight Board will strive for a common understanding of the facts and challenges, and ideally, agreement on a vision and plan that can be implemented to anchor the UPR in its vital role to achieving economic prosperity throughout Puerto Rico.

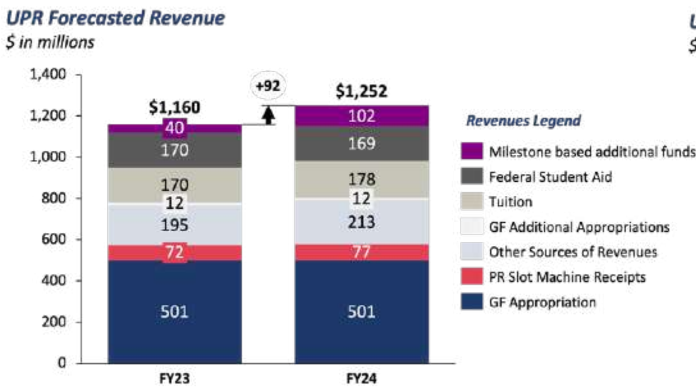
Fiscal Year 2024 Budget

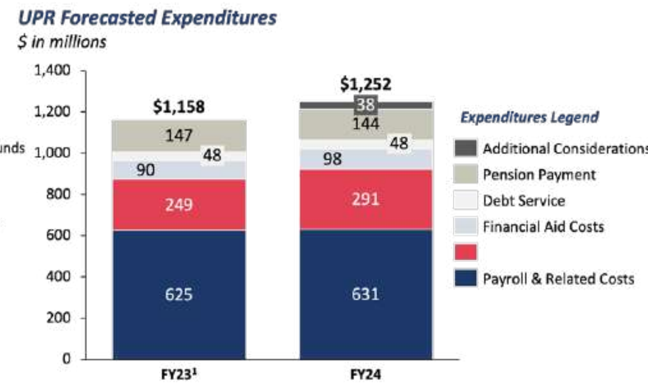
The fiscal year 2024 budget includes $1.25 billion in revenues, including almost $630 million in appropriations from the Puerto Rico Government.

The appropriation to UPR in the Commonwealth budget remains at $500 million to comply with Act 53-2021. In addition, the Fiscal Plan allocated over $100 million in additional funding available upon the completion of milestones that foster academic excellence, economic development, and financial responsibility.

The budget continues to promote revenue enhancement and diversification, including $20 million to provide training and technical services to the central government and approximately $12 million to cover accreditation and operational expenses for the medical residency programs. . The budget is also premised on UPR continuing to implement revenue measures defined in the UPR Fiscal Plan, such as tuition-related adjustments.

Additionally, the budget includes expected annual disbursements of $10 million from the Commonwealth Scholarship Fund to provide financial aid to students with demonstrated financial needs. The budget also assumes incremental funding of up to $102 million appropriated under the Commonwealth FY2024 Certified Budget. Both of these funding sources are subject to UPR's alignment and commitment to collaborate and agree on clear and concise objectives and goals that are tied to supporting academic excellence, economic development and achieving fiscal responsibility.

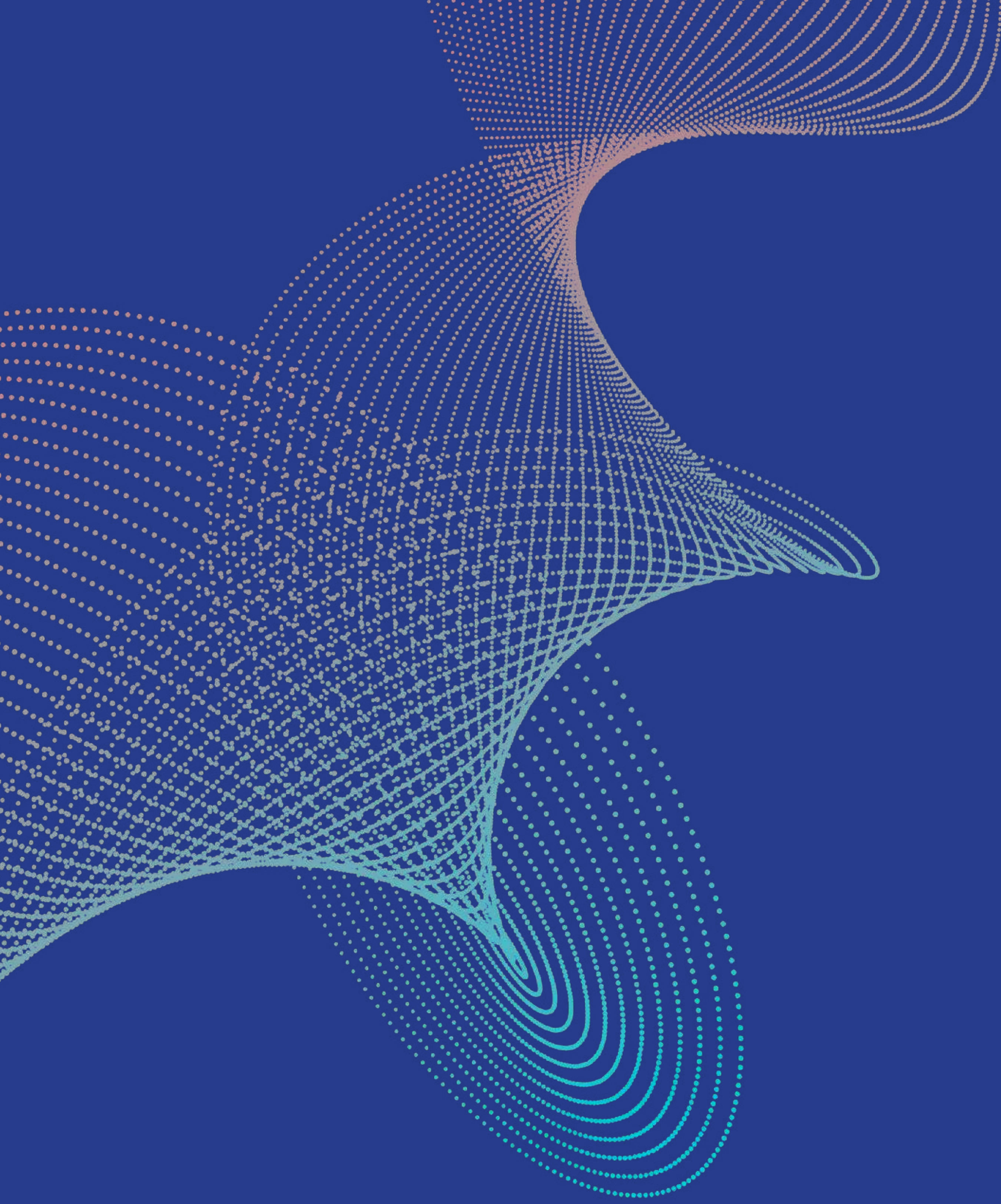




1. Certain line-items have been reclassified for comparability with FY24 budget; however, overall expenditures remain as certified.

Moreover, the budget continues to provide for investments in academic excellence, with an increase of 3% in academic faculty payroll to cover essential academic positions for accreditations. At the same time, the budget anticipates non-academic faculty efficiencies to be achieved through shared-services, back-office consolidation, and medical insurance normalization.

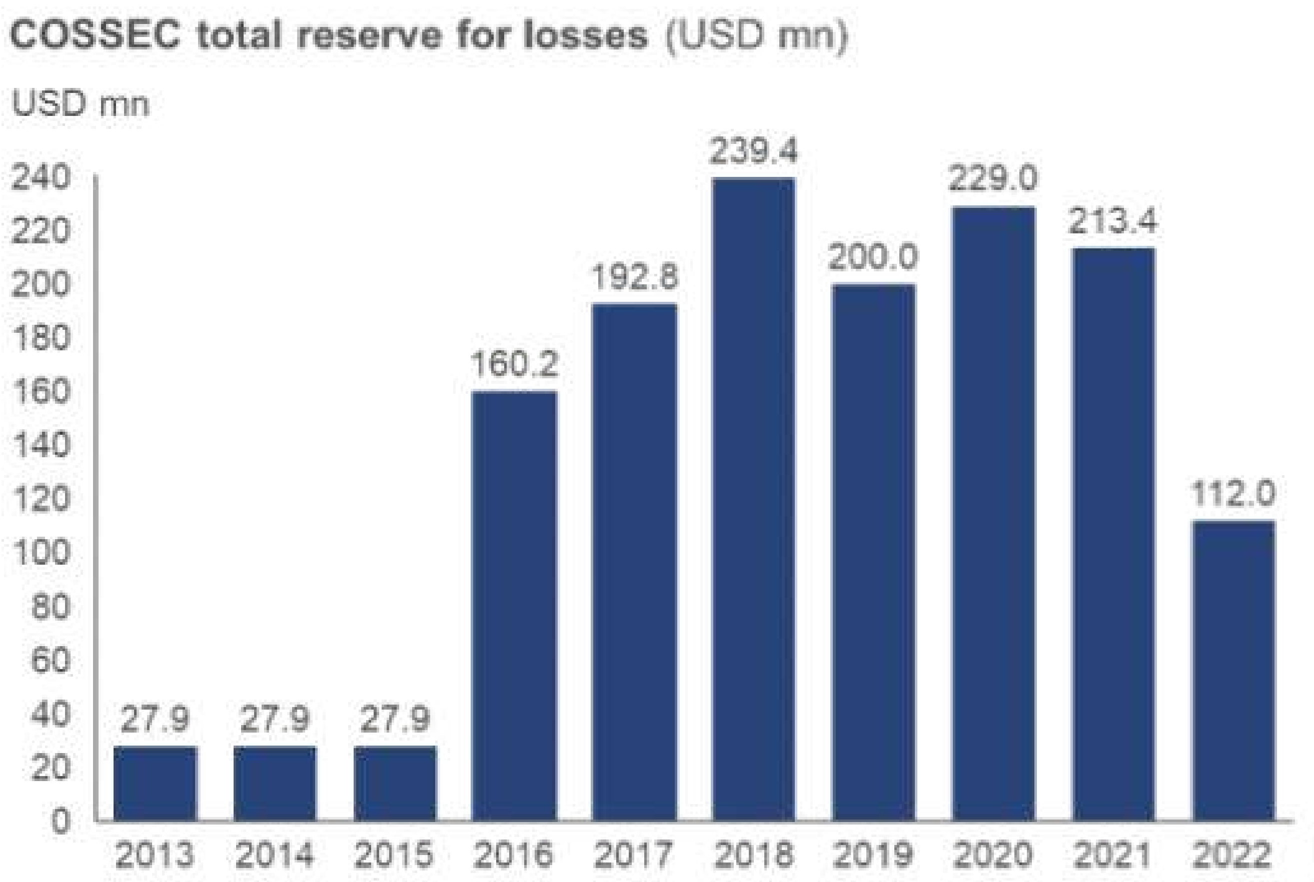
In addition, the budget allocates $43 million to address equipment and maintenance deficiencies as well as a total of $43.3 million to cover capital expenditure needs from the general fund and federal funds, and inflation adjustments for utilities and transportation, among other things. Furthermore, the budget reflects a pension contribution of $123.9 million for the implementation of a full-freeze pension reform. Failing to implement the full-freeze pension reform represents an ongoing future liability to the University, which will limit the available resources to fulfill the university's mission in the future.



Public Corporation for the Supervision and Insurance of Puerto Rico Cooperatives (COSSEC)

The cooperative banking system is an important part of the financial infrastructure of Puerto Rico. Co-ops provide access to financial services to more than 1 million cooperative members, most of whom are low-to-middle-income.

In fiscal year 2023, COSSEC made progress in implementing certain elements of the Fiscal Plan. The progress includes improving its supervisory interventions of insolvent cooperatives, supported by the COSSEC actuary's recommendation to reduce their total reserve for losses, which includes the reserve for insolvent and solvent cooperatives. COSSEC also actively supported the approval of Act 44-2022, the voluntary merger of distressed cooperatives with more stable ones. While focusing on the resolution of insolvent cooperatives, COSSEC decrease the systemic risk of the cross-deposits among cooperatives' deposits at BCPR. Finally, COSSEC completed the feasibility study where COSSEC actuary recommends implementing a local version of the NCUA equity ratio known as "designated ratio" to support COSSEC resources based on the ratio of COSSEC net worth relative to total insured shares and deposits. This is a step in the right direction to build long-term COSSEC capital.



Fiscal Years

Although progress has been made, there is still work to be done towards building a safe and resilient cooperative system aligned with regulatory best practices, including COSSEC's choice of requiring a capitalization plan from undercapitalized cooperatives instead of directly moving forward with adequate measures to address their unrecoverable accumulated losses.

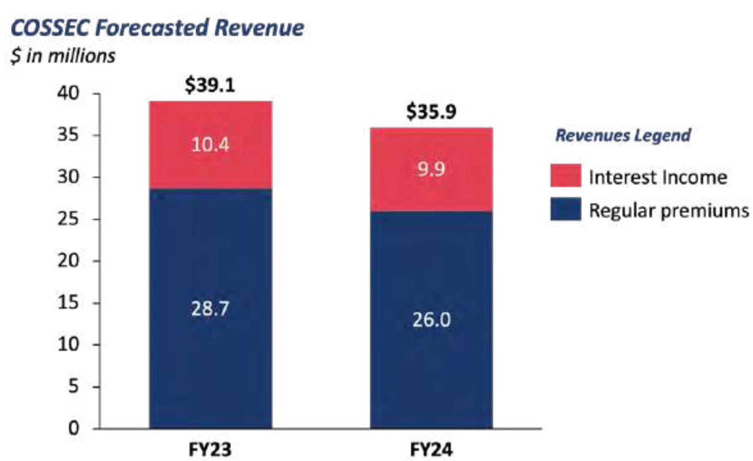
A clear vision for the future of the cooperative system is required with an understanding of how to modernize the system and ensure it does not fall behind other financial services in Puerto Rico and in the U.S. mainland. With sustained dedication to implementing the COSSEC Fiscal Plan and the determination to protect COSSEC's Insurance Fund, provide services to depositors, and build a safe and resilient cooperative system aligned with global regulatory best practices, COSSEC's future will be bright.

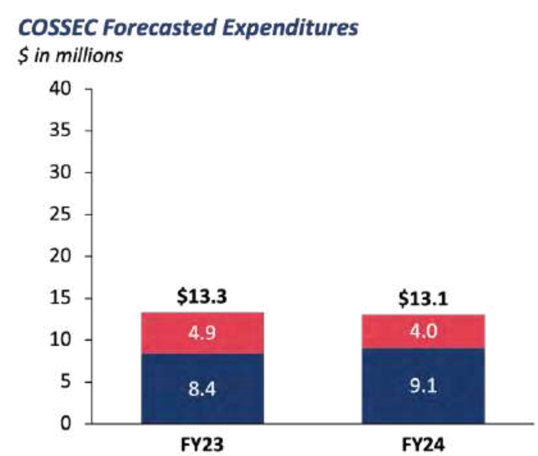
Fiscal Year 2024 Budget

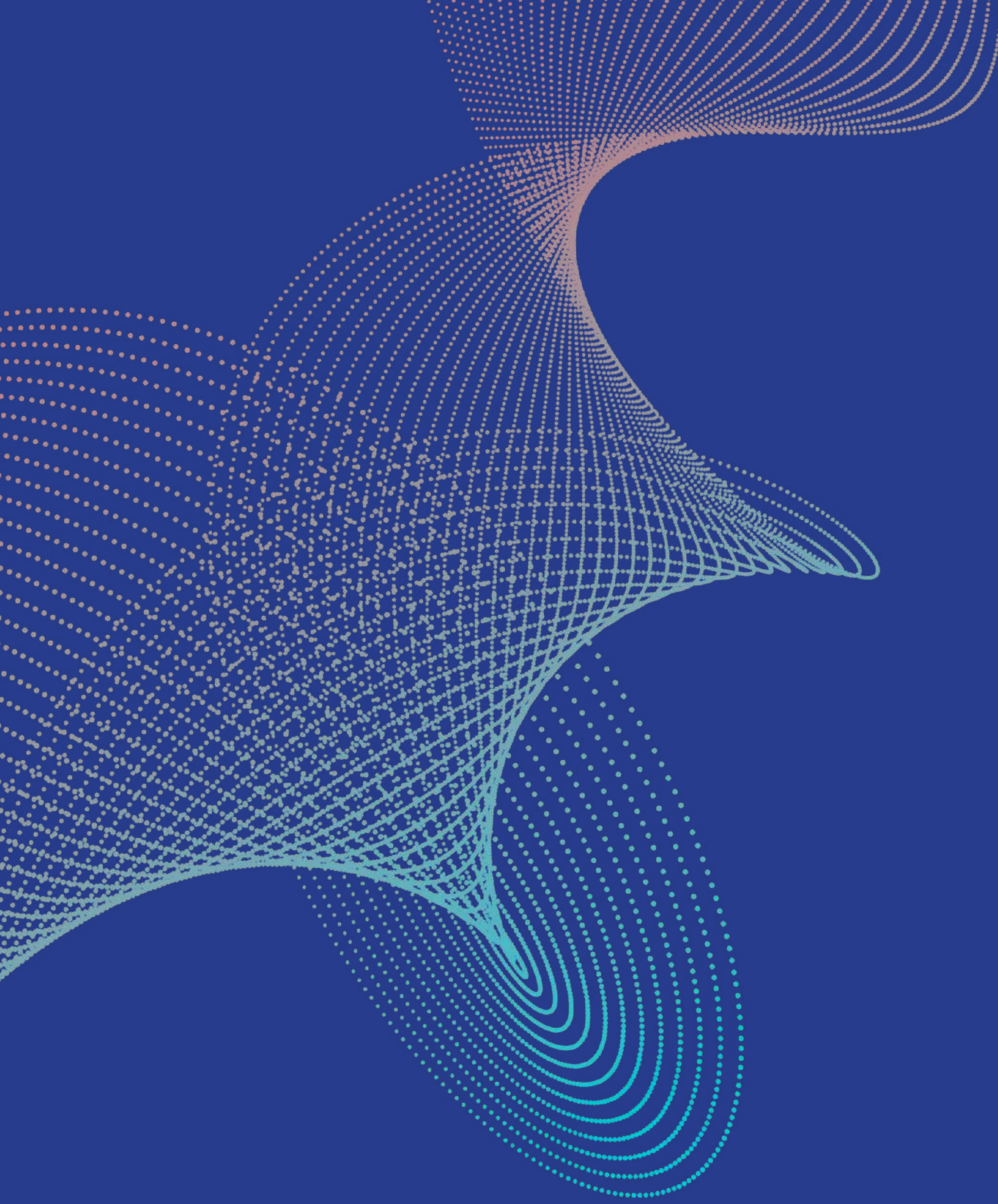
COSSEC's budget for fiscal year 2024 supports the implementation of the measures and reforms by providing the necessary funding essential to their achievement while implementing adequate cost-management practices to support the milestones of the Fiscal Plan and avoid additional costs that could hamper the capitalization of the COSSEC Insurance Fund.

COSSEC's $35.9 million budget is comprised of $26.0 million in regular premiums received from the financial cooperatives and $9.9 million in interest income earned in the COSSEC Insurance Fund.

The total FY2024 expenditures of $13.1 million includes $9.1 million in payroll and $4.0 million in operational expenditures. Payroll includes an appropriation for the salary increases from the implementation of the revised Classification and Remuneration Plan that aligns with the methods, principles, and approaches employed in the development of the central government's new Uniform Classification and Remuneration Plan developed through the Civil Service Reform (CSR).







Puerto Rico Industrial Development Company (PRIDCO)

The Puerto Rico Industrial Development Company (PRIDCO), a public corporation under the Puerto Rico Department of Economic Development and Commerce (DDEC), was created to foster economic development in Puerto Rico by attracting investment and job creation in a variety of industries. Today, PRIDCO is the one of the largest operators of industrial and commercial-use buildings and lots in Puerto Rico, managing 1,495 units and 713 lots located across the island.

Fiscal Year 2023

Fiscal Year 2023 was a highly productive year for PRIDCO in progressing certain strategic initiatives that better improved PRIDCO's operations and enhanced revenue generation. Notably, key achievements in Fiscal Year 2023 included:

- Selection of a Third-Party Manager;
- Operational and financial outperformance of rental revenues;
- Completion of the Divestment Study to identify non-rentable properties;
- Improved Inter-Government real estate representation; and
- Significant surplus improvement compared to the surplus projected in the 2022 PRIDCO Fiscal Plan driven by mutually agreed upon adjustments to the fiscal plan, reducing multiple cost items

In Fiscal Year 2023, PRIDCO initiated a request for proposals (RFP) process to engage a Third-Party Manager, as defined in the milestones included in the PRIDCO Fiscal Plan. This RFP process generated a number of interested proponents, and PRIDCO has recently announced the selection of the proponent for the Third-Party Manager role. Contractual agreement negotiations are currently ongoing. The hiring of a Third-Party Manager will augment the current operational structure of PRIDCO and introduce private sector experience and expertise, relationships, and innovation. Additionally, it will enable PRIDCO's portfolio to become more efficiently managed and better positioned to serve the needs of current tenants and the community.

In addition to improvements expected for the hiring of a Third-Party Manager, in Fiscal Year 2023, PRIDCO has demonstrated significant improvements in its efforts to attract new tenant/businesses including inter-governmental initiatives, which will be further enhanced by the hiring of a Third-Party Manager.

PRIDCO outperformed Fiscal Year 2023 revenue projected in the 2022 PRIDCO Fiscal Plan. This success was due to increased occupancy and collection rates across its portfolio. PRIDCO's improvement in collection efforts was accelerated by the transition of tenant rental payments from physical checks to ACH payment methods.

As of March 2023, approximately 52% of PRIDCO tenants pay rent to PRIDCO with a physical check. Compared to last year's ~75%, this represents a significant improvement in collection methodology. In Fiscal Year 2024, PRIDCO will continue efforts to reduce payments paid with a physical check.

In September 2022, PRIDCO released the Divestment Study, which was developed to provide PRIDCO with a plan to divest non-rentable properties that require either significant investment to restore them to rentable condition or ongoing expense to protect the property or the public. The Study identified 80 buildings and 36 lots that are unrentable and should therefore be divested from the PRIDCO portfolio. The Divestment Study resulted in CapEx savings of $50M in the 2023 PRIDCO Fiscal Plan.

Additionally, PRIDCO and the Oversight Board have been working collaboratively throughout Fiscal Year 2023 to develop a capital prioritization investment plan with supporting economic rationale and priority of spending, which is close to completion. The completion of this study will allow PRIDCO to better prioritize CapEx funds to properties with greatest rental potential.

Key priorities for Fiscal Year 2024 will include:

- Hiring a Third-Party manager;
- Deployment of FEMA funding and prioritization of CapEx;
- Renewing expired leases and update of rental rate card;
- Development of a business opportunities platform. Fiscal Year 2024 Outlook

Fiscal Year 2024 will be heavily impacted by the hiring of a Third-Party Manager, which is anticipated to greatly optimize deployment of PRIDCO's fiscal tools and allow PRIDCO to focus on internal initiatives.

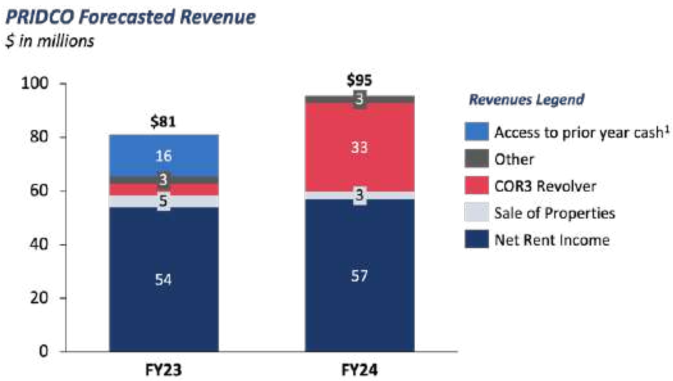
PRIDCO will also deploy over $36 million of FEMA funds to its portfolio in Fiscal Year 2024. PRIDCO has historically struggled to deploy FEMA funding in prior fiscal years. However, with the assistance of a Third-Party Manager PRIDCO will be better equipped to deploy FEMA dollars going forward. In addition, efforts to restructure PRIDCO's outstanding debts remain ongoing. Although certain holders of PRIDCO bonds filed litigation against PRIDCO in early 2023, the parties are discussing potential resolution of that litigation.

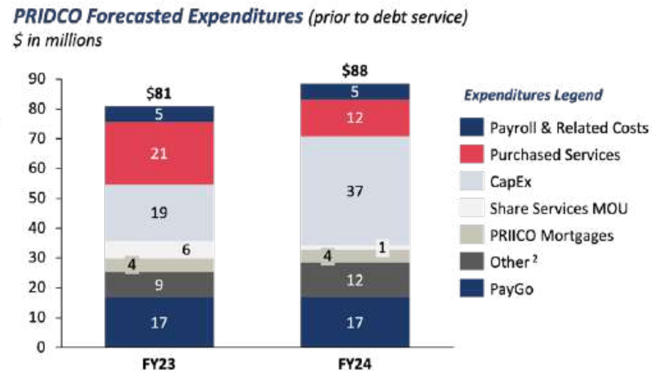
Fiscal Year 2024 Budget

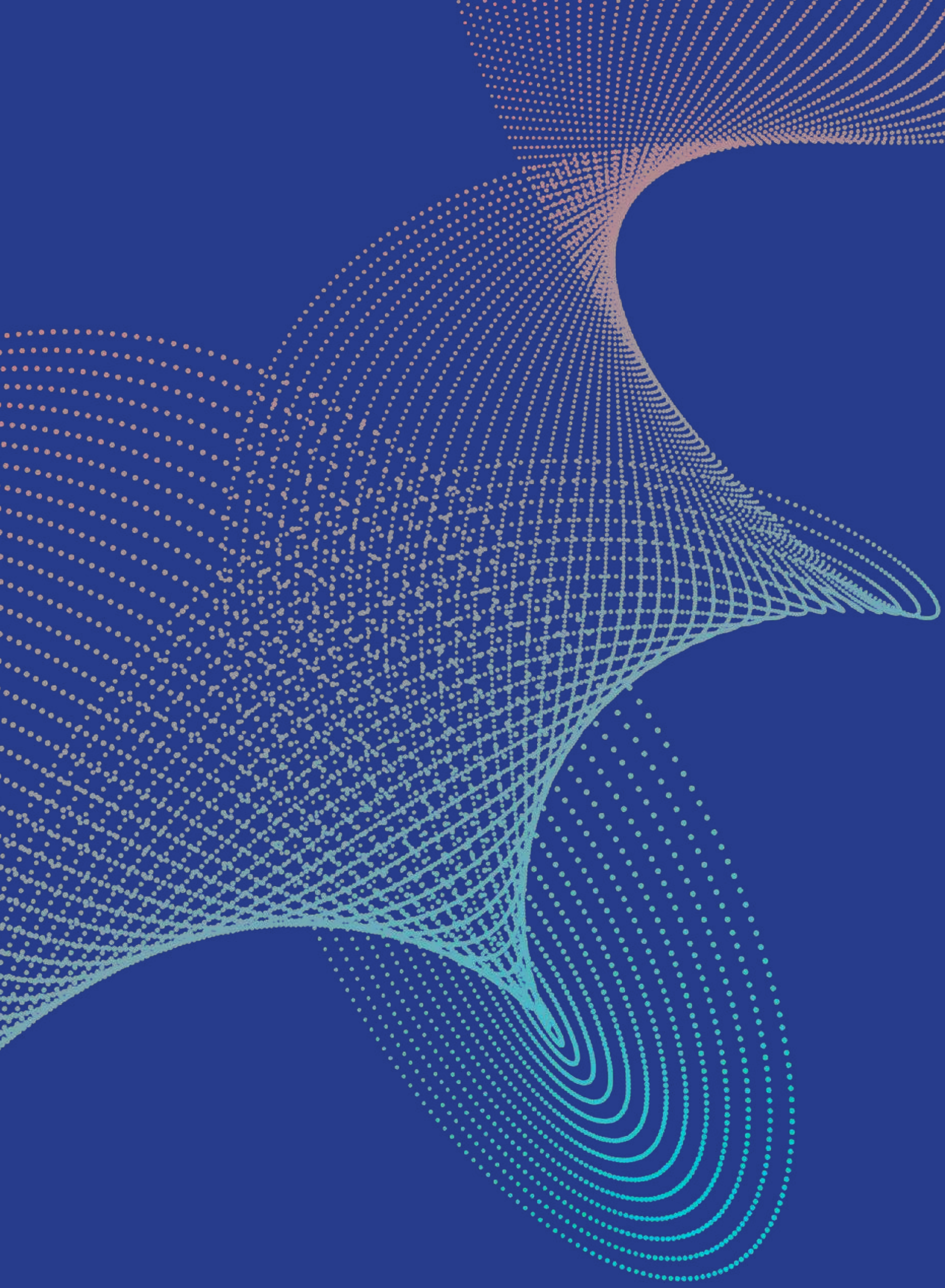
The fiscal year 2024 budget for PRIDCO reflects key priorities aligned with the PRIDCO Fiscal Plan. The budget provides for the hiring of a third-party manager to institutionalize PRIDCO's management and leasing processes, while will improve its operational and financial performance. The budget allocates appropriate CapEx and maintenance spending to bring properties up to commercial standards, while also deploying a significant amount of FEMA-related funding to repair damages from various natural disasters. Further, the budget provides for renewing expired leases to facilitate achieving the FY24 expired lease milestone.

The FY2024 budget also extends the following budget items that were unused in fiscal year 2023:

- $2.9 million from an unused Third-Party Manager budget to support CapEx, including for a $2.5 million FEMA project; and
- $17.1 million to fund a one-time tenant expansion project and other out-of-pocket CapEx needs.


PRIDCO Forecasted Revenue
$ in millions
$81
$95
16
3
5
54
3
33
3
57
FY23
FY24
Revenues Legend
Access to prior year cash¹
Other
COR3 Revolver
Sale of Properties
Net Rent Income


PRIDCO Forecasted Expenditures (prior to debt service)
$ in millions
$81
$88
5
21
19
6
4
9
17
5
12
37
1
4
12
17
FY23
FY24
Expenditures Legend
Payroll & Related Costs
Purchased Services
CapEx
Share Services MOU
PRIICO Mortgages
Other²
PayGo



Puerto Rico Sales Tax Financing Corporation (COFINA)

The Puerto Rico Sales Tax Financing Corporation (COFINA) is a public corporation and instrumentality of the Commonwealth of Puerto Rico that manages the debt service for the sales and use tax (SUT) bonds issued by the Commonwealth.

The sales and use tax collections are split between the Commonwealth General Fund and COFINA until COFINA is allocated an amount equal to the required annual debt service amount. In fiscal year 2023, the COFINA allocation was fully collected by October 2022, four months after the start of the fiscal year. For fiscal year 2024, a similar collection period is expected.

COFINA earns interest income on the sales and use tax deposits it receives, which interest income is used to fund the COFINA operations without appropriations from the Commonwealth General Fund. The investment income on sales and use tax deposits reached a historical high of about $8.8 million during fiscal year 2023 due to the high-interest rate environment. The high-interest rate environment resulted in an about $7.3 million operating surplus for fiscal year 2023, based off of an operating budget of $1.5 million.

The surplus in investment income for fiscal year 2023 and projected in fiscal year 2024 will be used to fund potential shortfalls in future years. However, there are currently no operating shortfalls projected in the COFINA long-term operating budget. COFINA is well-capitalized and has sufficient cash on hand.

COFINA completed a debt restructuring with a Plan of Adjustment confirmed by the U.S District Court for the District of Puerto Rico in February 2019. The plan reduced COFINA's bond debt from approximately $17.6 billion to $12 billion through a bond exchange and resolved the allocation of SUT revenues between the Commonwealth and COFINA. The plan reduced total debt service by 32%, saving approximately $17.5 billion that will now be available to the government. Since confirmation of the plan, COFINA has operated in accordance with its mandate and has been compliant with its reporting obligations.

Fiscal Year 2024 budget

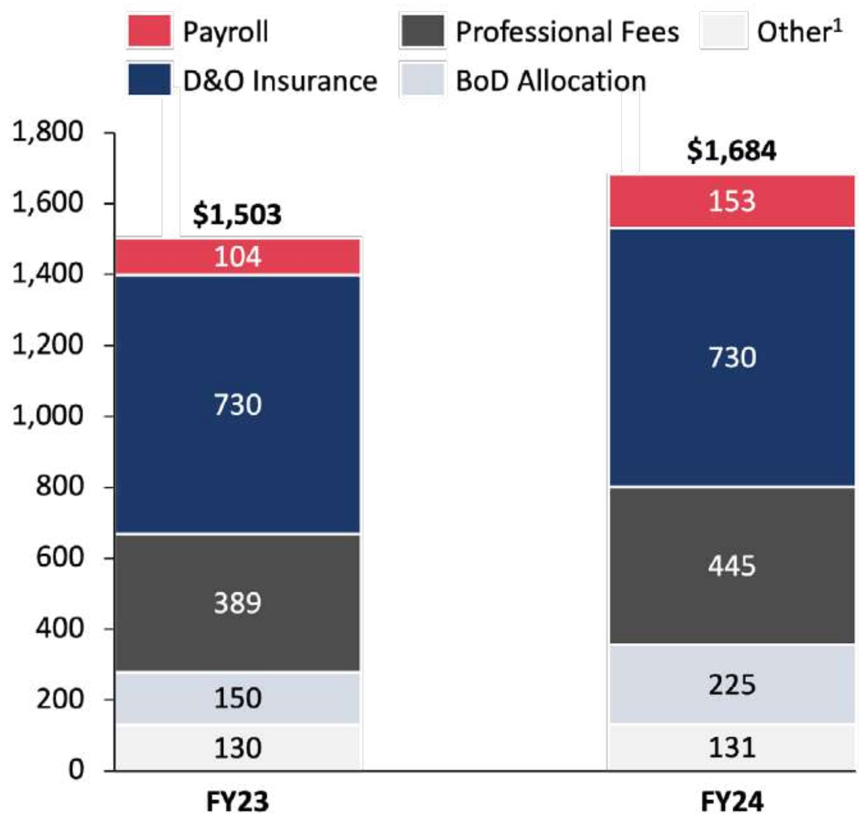
The Oversight Board certified the 2024 fiscal year budget for COFINA on June 30, 2023. The $1.7 million operating budget supports limited staff, certain professional services and other non- personnel expenses required for COFINA's operations. Also, COFINA will continue with the memorandum of understanding it maintains with AAFAF which provides low-cost administrative support.

Expenses are projected to be funded by the investment earnings derived from interest income generated by funds deposited in accounts held by the Bank of New York Mellon for the benefit of COFINA prior to distribution.

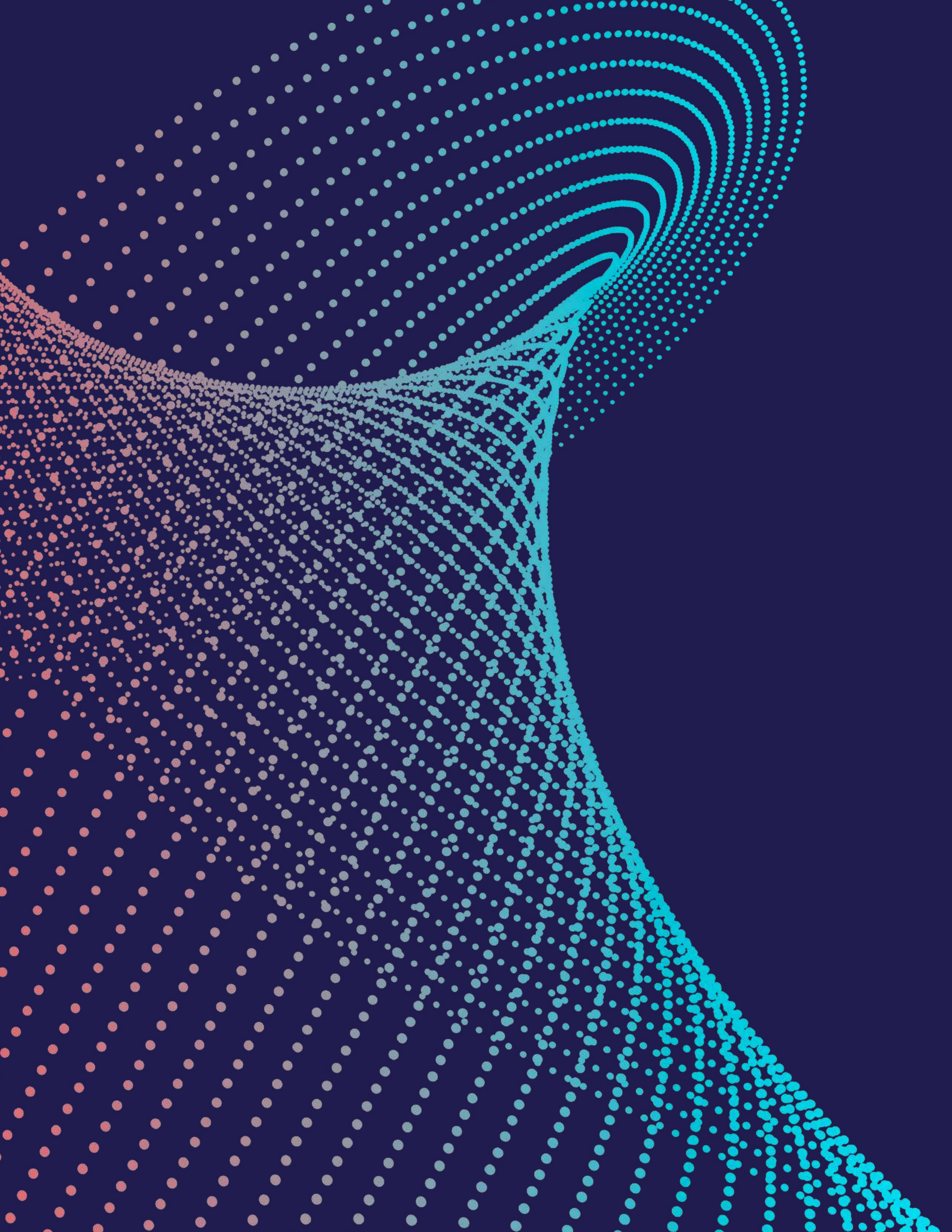
A surplus is projected again in fiscal year 2024; these surpluses could be used to fund potential operating shortfalls in future years. However, there are currently no operating shortfalls projected in the COFINA long-term operating budget. COFINA is well capitalized and has sufficient cash on hand.

On July 1, 2023, the Bank of New York Mellon began to receive collections for fiscal year 2024 from the Pledged Sales Taxes until it receives all COFINA Revenues, which are projected to be $511,219,696.

***COFINA Budget Comparison** (excludes debt service)*
$ in thousands



	FY23	FY24
Investment Income	8,767	5,051
Operating Expenses	(1,503)	(1,684)
Surplus	**7,265**	**3,368**



Debt Restructuring

PROMESA gives Puerto Rico and its instrumentalities an opportunity to reduce its debt to levels it can afford. In each of the restructurings completed to date, the Oversight Board and supporting stakeholders have reached agreements representing the best possible outcome given the difficult circumstances that Puerto Rico has had to manage for the past several years. The need for bankruptcy relief has held Puerto Rico back. The completed debt restructurings are critical steps towards ending Puerto Rico's fiscal crisis and providing stability, opportunity, and growth.

For nearly seven years, the Oversight Board has been working in good faith with all parties involved to end Puerto Rico's bankruptcy process and reduce its unaffordable debt to sustainable levels. By the end of fiscal year 2023, almost 90% of Puerto Rico's debt had been restructured. Part of the bargain, however, is that Puerto Rico must achieve fiscal responsibility and access to capital markets.

Completed Restructurings

Highway and Transportation Authority

On October 12, 2022, the U.S. District Court for the District of Puerto Rico confirmed the Plan of Adjustment for the Puerto Rico Highway and Transportation Authority (HTA), which was submitted by the Oversight Board on May 2, 2022, and modified on September 6, 2022.

The plan reduced HTA's $6.4 billion in claims by more than 80% and saved Puerto Rico more than $3 billion in debt service payments. The Plan became effective on December 6, 2022 and enabled HTA to make the necessary investments to improve and maintain Puerto Rico's roads and other transportation infrastructure.

The Plan further settled about $2.2 billion of outstanding loans held by the DRA, which received no consideration under the HTA plan but received a CVI issued pursuant to the Commonwealth Plan of Adjustment. The CVI is based on potential outperformance of Puerto Rico's 5.5% Sales and Use Tax collections relative to projections in the Certified Fiscal Plan for the Commonwealth of Puerto Rico.

In addition, the Plan reduced $265 million in unsecured claims to $25 million to be paid in cash. The plan includes a $314 million loan by the Government of Puerto Rico to HTA to facilitate the cash payments required by the plan, repayable over 30 years at 2.50% interest.

The Plan created a solid financial foundation to ensure Puerto Rico's roads and public transportation are maintained and improved. HTA will now be able to implement the transportation sector reforms set forth in the Fiscal Plan.

The Plan also requires HTA to implement the comprehensive reorganization defined in the HTA Fiscal Plan. HTA must separate construction and maintenance responsibility of toll- from non-toll roads and transfer Tren Urbano to the Puerto Rico Integrated Transit Authority (PRITA). Regular toll fare increases are necessary to ensure HTA's ability to cover its expenses and to provide adequate and continued maintenance.

Commonwealth

On January 18, 2022, the U.S. District Court for the District of Puerto Rico confirmed the Plan of Adjustment for the Commonwealth of Puerto Rico, restructuring approximately $33 billion in debt and other obligations, and about $55 billion in pension liabilities.

The Commonwealth, Employment Retirement System, and Public Buildings Authority

The Commonwealth's own obligations were the largest part of Puerto Rico's debt under Title III of PROMESA and were restructured in the largest public sector bankruptcy in the history of the United States. Restructuring the Commonwealth debt was a significant accomplishment and a major step towards Puerto Rico's recovery from its fiscal crisis, bringing Puerto Rico closer to regaining access to capital markets, as mandated under PROMESA. The Commonwealth plan of adjustment was a joint plan that restructured debt of the Commonwealth, Employment Retirement System, and Public Buildings Authority.

The Plan became effective on March 15, 2022, when the Puerto Rico Government completed the exchange of more than $33 billion of existing bonds and other claims for $7.4 billion of new bonds. The Plan of Adjustment further included a $10 billion cash component paid on the effective date to financial creditors and to a multitude of Puerto Rico residents and other unsecured creditor groups.

The Plan reduced the Commonwealth's outstanding debt by 80% and provides considerable security to future pension recipients by establishing a Pension Reserve Trust and allocating to that trust the largest part of any Commonwealth budget surplus in excess of projections in the Commonwealth's fiscal plans.

The annual debt service of the Commonwealth declined from a maximum of $3.9 billion before the debt restructuring to a stable and affordable $1.15 billion after the effective date, saving the Puerto Rico Government more than $50 billion in debt service payments over the life of the restructured debt.

The Pension Reserve Trust is projected to be funded with more than $10 billion in contributions over the next 10 years to protect and preserve the Commonwealth's ability to pay retirement benefits to its current and future government retirees. The Pension Reserve Trust is designed to prevent Puerto Rico from repeating the mistakes of the past, when the Government ran out of funds to keep the promises it made to public employees.

The cash and debt consideration in the Plan provided a 27% average reduction for general obligation bondholders and a 21% average reduction for Public Building Authority (PBA) bondholders. These reductions were on top of the elimination of interest that accrued from the commencement of the Commonwealth's Title III case in 2017 through March 15, 2022. The cash consideration for holders of bonds issued by the Employees Retirement System (ERS) provided an approximate 85% reduction. Notably, the ERS bonds had traded at a premium to pay when the bondholders believed the ERS bonds were oversecured. Had they been oversecured, ERS would have had to pay them all principal and interest through the date of payments. The Oversight Board, however, prevailed in litigation demonstrating the ERS bonds were virtually unsecured, and thereby saved Puerto Rico and its people over $3 billion.

This Plan of Adjustment also included a settlement with the holders of debt issued in 2011, 2012 and 2014, which the Oversight Board's Special Claims Committee had challenged in court.

The Plan included a contingent value instrument (CVI) that gives general obligation, PBA, and clawback bondholders incremental distributions if Puerto Rico's economy grows more than projected in the Commonwealth's fiscal plans, creating outperformance of Puerto Rico's 5.5% Sales and Use Tax collections and, in the case of the Rum Tax CVI, additional outperformance on rum tax collections.

Incorporating the CVI into the Plan of Adjustment is one reason why the Oversight Board was ultimately able to reduce the debt by such a significant percentage. A major source of disagreement in the restructuring process was whether the Fiscal Plan projections were too conservative. The CVI provides creditors with the possibility of additional recovery if future results exceed projections.

Further, the Plan of Adjustment includes two sets of capital appreciation bonds (CAB), which are bonds that pay no coupon interest. One set of payments to CABs are made from a fund the Commonwealth's fiscal plans set aside to pre-fund disaster recovery relief projects that will be reimbursed. Bondholders are paid once the Commonwealth no longer needs the disaster relief funds. The other CAB gets paid from amounts previously expected to be deposited in a debt service reserve fund that was removed from the final Plan of Adjustment.

The Plan of Adjustment provides a recovery of approximately 20% for the non-bond unsecured creditors' claims. They receive a lower recovery than bondholders because the bondholders had a claim to priority under their general obligation bonds, which priority claim was settled. The Plan of Adjustment also created a mechanism for creditors below a certain claim threshold to receive a full recovery. Individual claims lower than $20,000, or if multiple claims were filed by the same claimant, below $40,000 in the aggregate, receive payment in full as part of the "convenience class." Claimants holding claims above these thresholds also had the option to "opt in" to the convenience class and receive a recovery up to the thresholds.

After considerable negotiation, the Oversight Board agreed the Plan of Adjustment would pay government pensions in full. However, the Plan of Adjustment freezes the insolvent defined benefit plans of the Teachers Retirement System and the Judiciary Retirement System, going forward shifts teachers and judges into defined contribution plans, and enables them to enroll in Social Security for the first time. (The freeze provides a consistent retirement treatment for all active employees of the Commonwealth. Pension accruals for ERS participants were already frozen in 2013.)

The Plan of Adjustment includes nearly $10 million in $1,000 bonuses for government employees represented by the Public Servants United of Puerto Rico/AFSCME Council 95. Further, the Plan of Adjustment transfers more than $1.2 billion to restore employee contributions to Sistema 2000 that were used by previous governments and provides thousands of civil service employees up to $100 million in lieu of their prior defined contribution accounts.

The confirmation of the Commonwealth debt restructuring concluded years of negotiations and mediation with various creditor groups and the Puerto Rico Government. The process was careful and deliberate, and was deeply affected by natural disasters in Puerto Rico and the global COVID- 19 pandemic.

The Plan was achieved only after significant litigation. Litigation was necessary and unsurprising because there were insufficient resources to pay creditors in full while also providing the Commonwealth and its residents a sustainable and worthwhile future. When creditors are asked to take material losses, litigation is normally required as it was here.

Eventually, the Oversight Board reached agreements with a diverse group of stakeholders – the Puerto Rico Government, its retirees, a group of public employees, and certain bondholders – to help Puerto Rico manage its debt in a sustainable fashion and to balance its budget. The Oversight Board and the stakeholders agreed it was time to heal, to build, and to grow this economy. Bankruptcy has taken a huge toll on the people of Puerto Rico, and the Plan of Adjustment allows Puerto Rico to turn the corner.

Puerto Rico Sales Tax Financing Corporation

The Puerto Rico Sales Tax Financing Corporation (COFINA) is a public corporation and instrumentality of the Commonwealth of Puerto Rico that manages the debt service for the sales and use tax (SUT) bonds issued by the Commonwealth.

In February 2019, the Oversight Board completed the COFINA debt restructuring with the entry of the Title III confirmation order and the issuance of restructured new COFINA bonds. The COFINA restructuring resolved $18 billion in legacy bond debt. Under the COFINA Plan of Adjustment, the par amount of legacy COFINA bonds was reduced by $6 billion and total debt service was reduced by 32%, saving approximately $17.5 billion that will now be available to the Commonwealth for delivering services to the people of Puerto Rico. All appeals of the COFINA confirmation order have been dismissed due to equitable mootness.

Almost 50% of COFINA revenues that previously belonged to creditors now goes to the Commonwealth's General Fund budget. The maximum annual debt service was reduced from

$1.85 billion on the legacy COFINA bonds to $992.5 million on the new COFINA bonds. Even with these sharp reductions in debt payments compared to the legacy COFINA debt obligations, the COFINA plan had the support of all classes of COFINA creditors.

The new COFINA bonds are 100% fixed-rate debt and fully amortize over 40 years, which is the same term as the legacy COFINA bonds. The new COFINA bonds have no floating rate risk, nor do they require a future refinancing, thereby giving the government future budgetary certainty. In return, the new COFINA bonds have credit protections from ownership of a portion of the Commonwealth's Sales and Use Tax. The Oversight Board believed that creating a strong, but smaller and sustainable new COFINA sales tax credit would help restore Puerto Rico's access to the capital markets at reasonable interest rates.

Trading in the new COFINA bonds since their issuance suggests the Oversight Board's restructuring of the COFINA bond credits achieved this goal. Dozens of the traditional municipal market investors whose investment will be crucial to Puerto Rico's future capital markets access have in fact re-entered the market for these new COFINA bonds.

Government Development Bank

The Government Development Bank (GDB) debt restructuring was completed in November 2018 pursuant to PROMESA Title VI which can only occur when every class of creditor claims accepts the restructuring. The GDB had more than $4 billion in legacy bond debt and approximately $8 billion in total liabilities. These claims were resolved with the issuance of $2.6 billion in new bonds under PROMESA's Title VI procedure. Those bonds are mainly secured by the cash flow from loans GDB previously made to Puerto Rico municipalities and from other GDB assets.

The restructuring ensured that the new bonds are payable solely from legacy GDB assets, without recourse to any present or future Commonwealth assets. The restructuring also cushions the financial effect of the GDB restructuring on the many Puerto Rico municipalities who were creditors of GDB. Many municipalities had deposits at the GDB that were trapped in the agency's financial collapse.

As part of the restructuring, the municipalities were allowed to reduce their liabilities on their GDB loans by the full amount of their lost deposits. To reiterate, the new GDB bonds are only entitled to cash flow that the legacy GDB assets generate with no additional remedies.

There will be no "Event of Default" on the new GDB debt as long as future cash flows are applied to pay down the new bonds, even if that cash flow is insufficient to pay in full the new bonds' regularly scheduled principal and interest. GDB's legacy creditors agreed to a 45% reduction in face amount of their claim at par. Given the trading value of the new debt, the effective "haircut" to GDB creditors exceeded 60%.

PRASA Debt Refinancing

In August 2019, the Oversight Board approved a consensual reprofiling of over $1 billion of existing State Revolving Funds with the EPA and Rural Development bonds with the USDA to PRASA.

This reprofiling saved PRASA nearly $400 million in the first 10 years, eliminated approximately

$1 billion in guaranty claims against the Commonwealth, and restarted new federal funding from the EPA and USDA through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico. Moreover, this consensual reprofiling granted PRASA these significant benefits without putting PRASA through either Title III or Title VI.

In November 2020, the Oversight Board approved a refinancing of a portion of PRASA's outstanding indebtedness via a limited public offering that was priced and sold in December 2020. The refinancing generated gross savings of nearly $350 million or approximately $13 million per year. On a present value basis, savings were approximately $210 million.

Along with the same approval, the Oversight Board approved a resolution by PRASA and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) with the Debt Recovery Authority (DRA), the successor-in-interest following the Government Development Bank's debt restructuring in 2018, to settle an outstanding loan for a $20.5 million payment. This settlement represents a reduction of $57.5 million or 74% of the outstanding obligation inclusive of accrued interest.

In the summer of 2021, the Oversight Board approved a refinancing of a portion of PRASA's outstanding indebtedness via a limited public offering that was priced and sold in August 2021. The refinancing generated gross savings of approximately $570 million or approximately $21.9 million per year. On a present value basis, savings were approximately $360 million.

Puerto Rico Infrastructure Financing Authority & Puerto Rico Convention Center District Authority

In January 2022, the U.S. District Court approved the Oversight Board's proposals for qualifying modifications of $1.9 billion of Puerto Rico Infrastructure Financing Authority (PRIFA) bonds and

$384 million of Puerto Rico Convention Center District Authority (CCDA) bonds pursuant to Title VI of PROMESA.

The PRIFA modification reflects an estimated 90% reduction of claims and saves the people of Puerto Rico over $3 billion in principal and interest payments. The CCDA modification reflects an estimated 70% reduction of claims and saves over $500 million in principal and interest payments. If not for the Oversight Board's litigation that refuted the PRIFA bondholders' claims to substantial collateral security for their bonds, Commonwealth laws would have required the Commonwealth to transfer money to PRIFA and CCDA to pay all their debt in full with interest.

Bondholders of CCDA and PRIFA also asserted they held certain clawback claims against the Commonwealth for monies historically conditionally appropriated to CCDA and PRIFA. The CCDA and PRIFA credits had contemplated the Commonwealth would appropriate sufficient funds to CCDA and PRIFA to pay the debt CCDA and PRIFA owed the bondholders. The bondholders contended they had claims against the Commonwealth for that money and were secured by such monies. The Oversight Board prevailed in litigation showing no Commonwealth assets secured the CCDA and PRIFA bonds. Whether the bondholders had unsecured claims against the Commonwealth was not litigated to fruition because it was settled. The debt modifications reflect the agreement CCDA and PRIFA bondholders reached with the Oversight Board to settle their clawback claims in the Commonwealth Plan of Adjustment, which the court confirmed on January 18, 2022, and to finalize terms of a restructuring of the PRIFA and CCDA bond indebtedness.

Ongoing Debt Restructuring

Puerto Rico Electric Power Authority

The Oversight Board is continuing its work to complete Puerto Rico's bankruptcy process for the Puerto Rico Electric Power Authority (PREPA) on its more than $10 billion in liabilities. At the end of the 2023 fiscal year, the Oversight Board continued to work with the Mediation team appointed for PREPA and certain creditors yet to reach an agreement to develop more consensus on a restructuring which must be proposed by the Oversight Board by the deadline of July 28, 2023.

In May 2019, the Oversight Board, the Fiscal Agency and Financial Advisory Authority (AAFAF), and PREPA had reached a Restructuring Support Agreement (2019 RSA) with the Ad Hoc Group of PREPA bondholders and bond insurers Assured Guaranty Corp. and Assured Municipal Guaranty Corp. Within months, Syncora Guaranty Corp. and National Public Finance Guarantee Corp. joined the 2019 RSA The implementation of the 2019 RSA would have required legislation. By March 2022, the Puerto Rico Legislature had not enacted the required legislation and stated it would require changes to the 2019 RSA. The Legislature rejected some of the key terms of the 2019 RSA as unacceptable. Subsequently, Governor Pedro R. Pierluisi terminated the 2019 RSA with the support of the Oversight Board.

In compliance with a court-ordered deadline, and following a period of mediation with key PREPA stakeholders, in December 2022, the Oversight Board filed a proposed Plan of Adjustment to restructure PREPA's debt and pension liabilities. The Plan, filed with the U.S. District Court for the District of Puerto Rico and amended in March 2023, proposed to cut PREPA's unsustainable debt by about 50%, to approximately $5.68 billion.

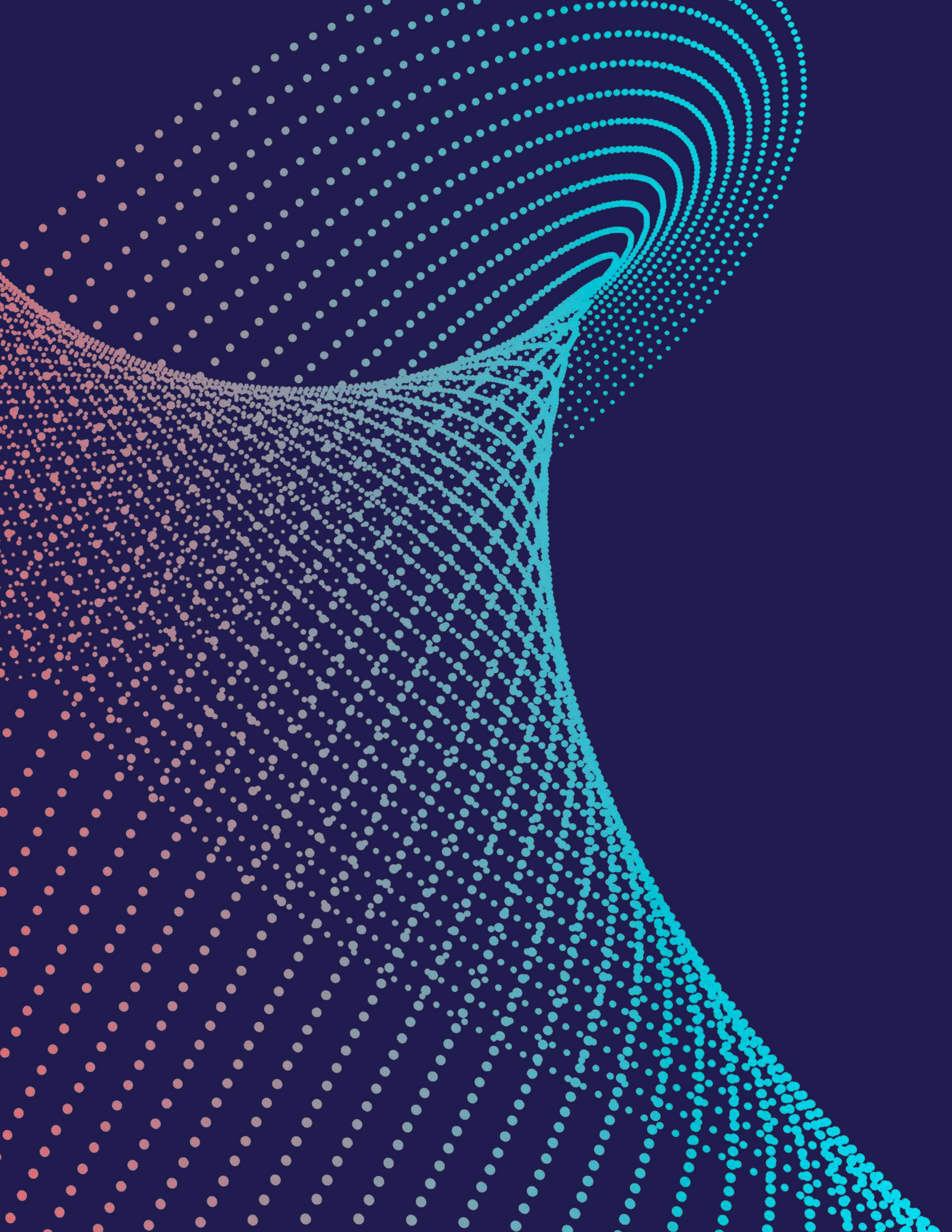
On June 23, 2023, the Oversight Board certified a new Fiscal Plan for PREPA that reflects updated projections for PREPA, including significantly higher costs and lower electricity consumption.

Specifically, the new Fiscal Plan reflects additional expenses related to the energy efficiency programs mandated by PREB, and higher pension cost. Although PREPA's pension plan is gravely underfunded, retirees will be paid in full for all benefits earned through the effective date of the Plan.

These projections impacted the Fiscal Plan's debt sustainability analysis and required the Oversight Board to amend the Plan of Adjustment including by reducing the amount of consideration PREPA is able to pay to creditors to approximately $2.5 billion. As of this writing, the Oversight Board is preparing the Third Amended Plan of Adjustment for PREPA. .

Puerto Rico Infrastructure Development Company

Efforts to restructure PRIDCO's outstanding bond obligations remain ongoing. Certain holders of PRIDCO bonds filed litigation against PRIDCO, AAFAF, and the Oversight Board in January 2023. The parties are engaged in discussions regarding resolution of that action, and the defendants have not yet responded to the complaint.



Defending PROMESA

PROMESA expressly provides for the Oversight Board to seek judicial enforcement of its authority to carry out its responsibilities under PROMESA and to be represented in all actions brought by or against it. As a result, the Oversight Board has participated in litigation to defend Puerto Rico, its people and government, PROMESA, and its own actions.

Cases include prosecuting Puerto Rico's critical debt restructuring process, enforcing PROMESA's mandate for Puerto Rico to achieve fiscal responsibility and access to capital markets, and blocking actions that impair or defeat the purposes of PROMESA. The Oversight Board's successful litigation outcomes have demonstrated its careful discipline and thoughtful judgment. This record is detailed in prior annual reports. This chapter of the Annual Report summarizes certain key litigation in which the Oversight Board was involved during Fiscal Year 2023.

The Confirmation of the Plan of Adjustment of the Commonwealth

On November 3, 2021, the Oversight Board filed the Modified Eighth Amended Plan of Adjustment for the Commonwealth of Puerto Rico, ERS, and the Puerto Rico Public Buildings Authority (PBA). Although the Oversight Board garnered substantial creditor support for the Plan, forty-nine individuals and entities filed objections.

On January 18, 2022, the U.S District Court for the District of Puerto Rico overruled those objections and entered an order approving the Commonwealth's Plan of Adjustment (POA). The POA reduces Commonwealth bond and other debt totaling approximately $120 billion by 80% and saves Puerto Rico more than $50 billion in future aggregate debt service payments. In confirming the POA, the Court considered contentions that PROMESA violates the Bankruptcy Clause of the U.S. Constitution because the Plan is not uniform with Chapter 9, which requires, as a precondition to filing a petition for restructuring, a showing of insolvency, and that the retroactive application of PROMESA to pre-enactment debts violates substantive due process and the Ex Post Facto Clause of the United States Constitution.

In its Confirmation Order, the court overruled those objections. The Court concluded PROMESA does not violate the uniformity requirement of the Bankruptcy Clause because that requirement is not a generally applicable limitation restricting the exercise of legislative power where, as here, Congress unambiguously invoked its Article IV territorial authority in enacting PROMESA. The Court further held the objector failed to demonstrate substantive due process analysis is appropriate to analyze PROMESA, that the Ex Post Facto Clause is applicable to PROMESA, or that PROMESA violates these constitutional principles.

The POA was also attacked on the ground it violates the Contracts Clause of the U.S. Constitution. The Court also rejected those arguments, concluding Congress has the power to impair contractual obligations through its power to establish uniform laws on the subject of bankruptcies throughout the United States, and a federal court's confirmation of a reorganization plan under federal law is not a legislative action of a state or territory violating the Contracts Clause.

A further objection to the POA was that it provides different treatments for mainland investors than for Puerto Rico-resident investors, and therefore violates the Due Process, Equal Protection, and Privileges and Immunities Clauses of the U.S. Constitution. The Court overruled these objections concluding the POA's taxable bond election provision does not fall within the purview of the Privileges and Immunities Clause, and the objector had neither identified any fundamental right as being impaired nor identified any discrimination based upon any constitutionally protected class or status.

In addition, numerous claimants who hold claims purportedly arising out of the Takings Clause of the Fifth Amendment objected to the POA on the grounds that its treatment of their claims violates the Takings Clause. These claimants alleged that their claims cannot be discharged by the POA because they arise from the Fifth Amendment to the U.S. Constitution. The Court determined claimants holding Takings Clause claims were constitutionally entitled to just compensation and should be paid in full.

Further, certain claimants, including unions, objected to the feasibility of various provisions of the Plan. The Court overruled these objections as well.

Between January 28, 2022 and February 17, 2022, several appeals of the Confirmation Order were filed in the U. S. Court of Appeals for the First Circuit, four filed by creditors challenging the confirmation of the POA, and one filed by the Oversight Board challenging the U.S. District Court's determination that Takings Clause claims arising from the Fifth Amendment to the U.S. Constitution are nondischargeable. The First Circuit denied all parties' motions for a stay of the Commonwealth POA pending appeal, which allowed the Commonwealth POA to become effective despite the appeals. On March 15, 2022, the conditions precedent to the Effective Date of the Commonwealth POA were satisfied or waived by the Oversight Board, and the POA became effective.

The First Circuit issued its first opinion affirming the U.S. District Court's order confirming the POA on April 26, 2022, adjudicating an appeal filed by several organizations representing public school teachers and educators who participate in the Teachers Retirement System.

First, the Teachers' Associations challenged the Plan's provision and the U.S. District Court's finding that portions of several Commonwealth statutes providing for the continued payment of pension benefits under the pre-March 15, 2022 regime were rendered ineffective, either as rejected executory contracts or as preempted by PROMESA. Second, the Teachers' Associations argued the Plan lacked the requisite enabling legislation to change the Commonwealth's retirement laws. Third, the Teachers' Association contended the Plan is not confirmable because Act 53-2021, a Commonwealth law, prevents the issuance of the new debt securities through the Plan.

The First Circuit rejected these three arguments, concluding the POA validly rejected the Commonwealth's contractual agreements with the teachers and preempted inconsistent Commonwealth statutes, that no enabling legislation was required to effectuate the Plan's changes to the Commonwealth's retirement laws, and that Act 53-2021 did not preclude the Plan's modifications to the Commonwealth's retirement laws, and for those reasons, declined to vacate confirmation of the POA.

The First Circuit issued another opinion affirming the Commonwealth Confirmation Order on July 18, 2022. This opinion concerned the Oversight Board's cross-appeal regarding takings claims. Specifically, the Oversight Board argued that claims for just compensation that arise prior to the commencement of the cases under Title III of PROMESA should be treated as dischargeable general unsecured claims. The First Circuit agreed with the District Court that the Fifth Amendment precludes the impairment or discharge of prepetition claims for just compensation, and on that basis, affirmed the Commonwealth Confirmation Order.

In a third opinion issued October 31, 2022, the First Circuit rejected another appeal filed by certain retired Commonwealth employees. The Commonwealth employees challenged various orders from the District Court, including the Commonwealth Confirmation Order, and argued they were entitled to certain retirement benefits. Ultimately, the First Circuit concluded it lacked jurisdiction to consider the employees' arguments and on that basis dismissed their appeal.

On November 29, 2022, the First Circuit issued a fourth opinion, this time disposing of an appeal filed by six Cooperativas (or credit unions). Prior to the confirmation hearing on the POA, the Cooperativas filed an adversary proceeding (described in further detail below) against the Commonwealth and several of its agencies and instrumentalities, alleging the Commonwealth compelled it to invest in bonds issued by the Commonwealth and certain of its instrumentalities which resulted when the bonds went into default in a taking without just compensation in violation of the Fifth Amendment. The Cooperativas also contended that their claims arising from that proceeding were nondischargeable. The Court dismissed the adversary proceeding, and the Cooperativas appealed. The Cooperativas then challenged the Commonwealth Confirmation Order because it discharged the claims that they asserted in their adversary proceeding. The First Circuit rejected the Cooperativas' appeal from their adversary proceeding and dismissed the Cooperativas' appeal of the Commonwealth Confirmation Order as moot.

One appeal of the Commonwealth Confirmation Order, which was filed by Suiza Dairy Corporation, remains pending. Several years before the Commonwealth's Title III case was filed, Suiza, together with another large Puerto Rico-based dairy producer, filed suit against the Commonwealth, alleging that its scheme for regulating the price of milk constituted a regulatory taking in violation of the Fifth Amendment. The parties ultimately settled this lawsuit prior to the Commonwealth's Title III case, with the Commonwealth agreeing to make regular payments to Suiza. Suiza alleged its claim against the Commonwealth—which arose from its settlement agreement—was nondischargeable because the settlement arose from a litigation asserting the Takings Clause. This appeal was fully briefed and argued and remains pending before the First Circuit.

The Confirmation of the Plan of Adjustment of HTA

On August 13, 2022, the Oversight Board filed the Fifth Amended Plan of Adjustment of the Puerto Rico Highways and Transportation Authority under Title III of PROMESA. Three entities filed objections, two of which were consensually resolved.

One objector alleged its claim, which arose out of litigation concerning a discontinued HTA compensation program, was nondischargeable pursuant to PROMESA §§ 7, 204(d), and 304(h). The U.S. District Court rejected that argument, concluding the claims did not fall within any of the exceptions to discharge identified in PROMESA.

On October 12, 2022, the court confirmed the HTA Plan. The objector appealed, and after briefing, the First Circuit affirmed the U.S. District Court's decision without oral argument on

July 12, 2023. The First Circuit found that even if it were to assume the underlying claims were not exempt from discharge under PROMESA, the claims were not based on any federal obligations, and nothing cited would mandate an obligation to pay them additional compensation. The objector filed a petition for panel rehearing on July 24, 2023, which remains pending before the First Circuit.

CPI

The Centro de Periodismo Investigativo (CPI) filed two complaints against the Oversight Board in the U.S. District Court for the District of Puerto Rico. Both complaints demanded that the Oversight Board turn over thousands of documents, including its most sensitive communications with the federal and territorial governments. The Oversight Board moved to dismiss CPI's first complaint on numerous grounds, including that the federal court lacked jurisdiction to enforce Puerto Rico law against an entity of the Puerto Rico government because of sovereign immunity concerns.

On May 4, 2018, the Court denied the Oversight Board's motion to dismiss, concluding, among other things, that PROMESA abrogated the Oversight Board's sovereign immunity. Although the Oversight Board disagreed with the Court's decision and reserved its rights, it did not take an immediate appeal of the order denying its motion to dismiss.

Instead, in a disclosure process overseen by a United States magistrate judge, the Oversight Board produced more than 15,000 documents responsive to certain of CPI's requests for documents from the Board's inception through April 30, 2018. The Oversight Board also sought a protective order with respect to several thousand documents protected from disclosure under Puerto Rico law. The magistrate judge issued a report and recommendation ("R&R") granting the protective order as to certain categories of documents withheld by the Oversight Board, but ordering the Oversight Board to produce a privilege log with respect to other categories. On August 14, 2019, the Oversight Board objected to the R&R.

On September 30, 2019, CPI filed its second complaint against the Oversight Board. The second complaint contained the same broad requests for all communications between the Oversight Board and either the Commonwealth or the federal government from April 30, 2018 through the present. The Oversight Board moved to dismiss CPI's second complaint on numerous grounds, including the sovereign immunity issues raised in its first motion to dismiss.[1]

On March 23, 2021, Judge García-Gregory overruled the Oversight Board's objections to the magistrate's R&R and adopted the R&R in its entirety. The next day, he denied the Oversight Board's motion to dismiss CPI's second complaint.

The Oversight Board sought appellate review of Judge García-Gregory's orders before the First Circuit, arguing as a matter of sovereign immunity, the district court lacks jurisdiction, among other things. After briefing and argument, in a 2-1 decision, the First Circuit affirmed Judge García-Gregory's ruling with respect to sovereign immunity.

The Oversight Board filed its certiorari petition on July 20, 2022. The Supreme Court granted the petition on October 3, 2022. Following briefing and argument, in an 8-1 decision, the

Supreme Court reversed the First Circuit's decision, holding that PROMESA does not categorically abrogate any sovereign immunity enjoyed by the Oversight Board. The Supreme Court remanded the case to the First Circuit, and the First Circuit directed the District Court to dismiss CPI's complaints with prejudice, which the District Court did on July 12, 2023.

Estimation of PREPA Bond Trustee Claim

In the PREPA Title III case, the bondholders asserted they held a recourse claim of approximately $8.6 billion, secured by all future revenues. As PREPA's Title III representative, the Oversight Board contended the bonds were unsecured except by monies deposited into a sinking fund, and had no recourse claim against PREPA generally.

On March 22, 2023, the U.S. District Court ruled on summary judgment in favor of the Oversight Board in respect of the collateral security. It also overruled the bondholders' contentions that they were secured by the covenants and remedies in their credit agreement. In respect of the recourse claim issue, the Court ruled the bondholders did not have a recourse claim for $8.4 billion, but had a recourse claim equal to the amounts it could prove it could procure for the sinking fund with equitable remedies outside bankruptcy.

Following a three-day trial in June 2023, the Court estimated the value of the PREPA bondholders' claim—which the bondholders contended was worth $8.6 billion—at $2.388 billion. Thus, the Oversight Board's litigation reduced PREPA's debt by over $6 billion.

Act 41-2022

On June 20, 2022, the Governor signed into law Act 41-2022. Act 41 repealed portions of Act 4-2017 which had partially reformed Puerto Rico's labor law and was known as the Labor Transformation and Flexibility Act (LTFA). Act 41 reestablished many of the labor restrictions that existed prior to the LTFA's passage, and introduced new labor law restrictions. Pursuant to PROMESA § 108(a), the Oversight Board determined Act 41 impaired or defeated the purposes of PROMESA because, among other things, it directly violated provisions of the Fiscal Plan prohibiting a repeal of the LTFA and "enacting new legislation that negatively impacts labor market flexibility."

On September 1, 2022, after extensive engagement with the Government regarding the fiscal costs of Act 41 and concerns with respect to Governor Pedro R. Pierluisi's PROMESA § 204(a) submission regarding the law's costs and consistency with the Fiscal Plan, the Oversight Board filed a complaint against Governor Pierluisi, seeking an order pursuant to sections 104(k), 204 and 108(a)(2) of PROMESA nullifying Act 41 and enjoining its implementation. On September 29, 2022, the Oversight Board moved for summary judgment.

On March 3, 2023, the U.S. District Court granted summary judgment in the Oversight Board's favor on the Oversight Board's claim under PROMESA § 204(a). In reaching that determination, the Court ruled that the Governor failed to comply with PROMESA § 204(a). Accordingly, the Court declared Act 41 null and enjoined permanently its implementation or enforcement. The Governor and AAFAF appealed the Court's order to the First Circuit. That appeal has been fully briefed and argued and remains pending.

Act 80-2020, Act 81-2020, & Act 82-2020

When the Oversight Board was appointed, one of its first tasks was to deal with Puerto Rico's $55 billion pension liability to present and future retirees, because the pension obligation was virtually completely unfunded. The Oversight Board solved the pension crisis by providing pension payments out of each year's revenues, and amending pension entitlements in the Commonwealth's Title III plan of adjustment by capping earned pension levels and facilitating social security and direct contribution plans for active employees. The Puerto Rico Government, however, attempted to undo the Oversight Board's necessary pension reforms. On December 20, 2021, the Oversight Board filed a complaint with the U.S. District Court against the Governor of Puerto Rico, AAFAF, the Employees Retirement System (ERS) Administrator, the Executive Director of the Government of Puerto Rico Retirement Board, and the Office of Management and Budget (OMB) Director seeking to nullify and enjoin implementation and enforcement of three acts pertaining to retirement benefits for certain public employees, Act 80-2020, Act 81-2020, Act 82-2020, and Joint Resolution (JR) 33-2021, which required the Commonwealth to implement, at least partially, Act 80-2020. After deferring implementation for 15 months, the Government decided to proceed with implementing these laws during the confirmation hearing on the Commonwealth's plan of adjustment.

Act 80, known as the Incentivized Retirement Program and Justice for Our Public Servants Act, was enacted in August 2020 and would have allowed eligible employees of the Government of Puerto Rico to voluntarily opt for incentivized retirement before the regular retirement age. To pay for the new benefits, the Government proposed that it would freeze all positions vacated by retirees with the possible exception of "vacant positions that are determined to provide essential services for the operation of the agency."

The Oversight Board determined, however, that the Government substantially overstated Act 80's savings. The Oversight Board estimated Act 80 could potentially cost as much as $4.2 billion unless the Government made significant and permanent reductions in headcount and compensation for its workforce above and beyond those required by the Commonwealth's Certified Fiscal Plan.

Act 81 sought to amend existing pension regimes for police officers, firefighters, correctional officers and emergency technicians to allow such employees to retire early with 45% to 55% of their final salaries as of their retirement date as pension benefits, as well as a $100 per month medical plan contribution from their employer.

Act 82-2020 sought to enable participants of the Teachers Retirement System ("TRS") to apply unused sick leave towards their retirement eligibility and pension benefit level. Although the Government certified that Act 82 would have no cost to the Government, the Oversight Board determined the enhanced pension benefits, as well as the likely and unplanned acceleration in the timing of teacher retirements, would generate costs and staffing gaps not contemplated by the Fiscal Plan.

After the Oversight Board filed the complaint, the parties entered into a stipulation invalidating Acts 80, 81, and 82, and JR 33, but agreeing to endeavor to reach an agreement with respect to implementation of possible alternatives to those laws that would be consistent with the Fiscal Plan and the then-proposed Plan of Adjustment. On December 28, 2021, the Court approved and entered the parties' Stipulation as an Order (the "December 28, 2021 Order") resolving the adversary proceeding.

With respect to Act 80, the December 28, 2021 Order establishes a process for exploring whether Act 80 can be salvaged, by agreement, to achieve real cost savings above and beyond the savings already required by the certified Fiscal Plan, or otherwise satisfy other metrics as agreed by the parties.

Since entry of the December 28, 2021 Order, the Government has provided preliminary analysis demonstrating that the implementation of Act 80 would increase costs in the vast majority of agencies, public corporations, and municipalities, but that some employers may be able to achieve savings. The Oversight Board subsequently reviewed the Government's analysis and identified conditions under which selective application of Act 80 could be implemented.

The Government has since provided the Oversight Board with additional information necessary to evaluate partial implementation of Act 80, and the Government and the Oversight Board have spent hundreds of hours engaging in productive discussions to reach agreements on a number of key items and to identify an agreed-upon path forward toward partial implementation of Act 80 consistent with the Court's orders. The Oversight Board and the Government have been preparing a new stipulation which will update the Court on their progress and establish their agreement on certain additional items necessary for the partial implementation of Act 80.

With respect to Act 81, the December 28, 2021 Order also required the Oversight Board and the Government to endeavor to reach an agreement on a means to provide enhanced retirement benefits to police officers consistent with the Commonwealth's fiscal plan and plan of adjustment. The Oversight Board advised the Government that if the Government wished to proceed with implementation of the Act, it must present a substantive program that would not impose net costs incremental to the Fiscal Plan and would be implemented in a fiscally responsible manner that ensures adequate essential services.

The Oversight Board and the Government engaged in discussions, including hosting a meeting on January 26, 2022, with the Puerto Rico Police Union, where the interested entities discussed a proposal regarding a path to enhanced benefits for police officers. The Oversight Board and the Government agreed on a proposal for the enhanced benefits and included the terms of that agreement in the 2022 Commonwealth Fiscal Plan, certified by the Oversight Board on January 27, 2022. On February 15, 2022, the Oversight Board and the Government notified the Court of the agreement, and proceeded to implement the agreement. Beginning in June 2022, the Government issued the necessary resolutions and memoranda to initiate implementation.

On May 2, 2023, nine retired police officers filed an emergency motion to intervene and to request an order to reopen the adversary proceeding, or in the alternative, for production of the parties' settlement stipulation related to Act 81. In their motion, the officers alleged that the requirements of the stipulation had not been met because the parties had not "executed" an agreement regarding enhanced benefits for police officers, and that they were not receiving the enhanced retirement benefits they believe they were entitled to pursuant to Act 81. The

Oversight Board opposed the motion on July 11, 2023, noting that the officers had demonstrated no cause to reopen the case.

With respect to Act 82, the December 28, 2021 Order that provided the parties shall endeavor to reach an agreement on possible alternatives, consistent with the Commonwealth's certified fiscal plan and plan of adjustment, to provide an enhanced compensation package for teachers with the goal of improving public education. Following discussions between the Oversight Board and the Government, an agreement has been reached.

APPU v. UPR

On April 16, 2019, the Asociacion Puertorriquena de Profesores Universitarios (APPU) filed a complaint against the University of Puerto Rico (UPR) seeking a declaratory judgment and injunctive relief to prevent the Oversight Board from including modifications to the Retirement System of the UPR in the UPR Fiscal Plan, claiming that the UPR Retirement System is not a covered entity subject to PROMESA.

After APPU filed an amended complaint and the Oversight Board and UPR filed a motion to dismiss for lack of jurisdiction, the District Court issued a memorandum order and judgment dismissing the adversary proceeding on July 27, 2021. The Court concluded APPU lacked standing because there had not yet been any reduction in pension benefits or modifications to UPR's Retirement System, and that it lacked jurisdiction pursuant to PROMESA § 106(e) to consider APPU's challenge to the Board's certification of a fiscal plan. After the Court denied APPU's motion for reconsideration of the District Court's order, APPU appealed to the First Circuit on September 13, 2021.

After the parties briefed the issue on appeal, oral argument was held on November 7, 2022. The First Circuit subsequently issued an order affirming the lower court's dismissal of APPU's complaint for lack of subject-matter jurisdiction, concluding that all of APPU's claims were premised upon challenges to the Oversight Board's certification determinations, and federal courts lack jurisdiction to consider such challenges to fiscal plans certified by the Oversight Board.

Hernández-Montañez v. Oversight Board

On July 25, 2018, the Honorable Rafael Hernández-Montañez, a member and then-minority leader of the Puerto Rico House of Representatives, together with other members of the Puerto Rico Legislature and several Puerto Rico mayors, initiated an adversary proceeding against the Oversight Board alleging, among other things, that PROMESA's delegation of executive and legislative authority to the Oversight Board violates the doctrine of separation of powers.

According to Plaintiffs, PROMESA violates the doctrine of separation of powers because it authorizes the Oversight Board to exercise both executive and legislative power. Following briefing on the Oversight Board's motion to dismiss—in which the United States filed a memorandum in support of dismissal—the Court granted the motion on May 7, 2021 holding that Plaintiffs failed to allege a particularized injury sufficient to find Article III standing.

The Court concluded that as individual legislators, Plaintiffs could not have suffered a constitutional injury as a result of the grant of power to the Oversight Board. Additionally, the District Court held that Congress's plenary power pursuant to the Territories Clause of the U.S. Constitution empowers it to create the Oversight Board and delegate its legislative authority to a territorial entity within the local Commonwealth government.

Plaintiffs appealed, and argued that even if Mr. Hernandez-Montanez lacked standing when the complaint was filed, he had subsequently acquired standing because he had assumed the position of Speaker of the House. On January 27, 2023, the First Circuit affirmed the District Court's dismissal of the legislators' separation of powers claim for lack of standing, rejecting Mr. Hernandez-Montanez's argument on the grounds that he never alleged in the complaint that the separation of powers claim was brought by the Speaker on behalf of the House of Representatives.

Furthermore, the First Circuit rejected Hernandez-Montañez's request on appeal for vacatur of Judge Swain's ruling, to allow him to amend his complaint to reflect his having become Speaker, because Hernandez-Montañez never requested leave to amend the complaint in the District Court and so cannot complain on appeal of being denied a chance to amend.

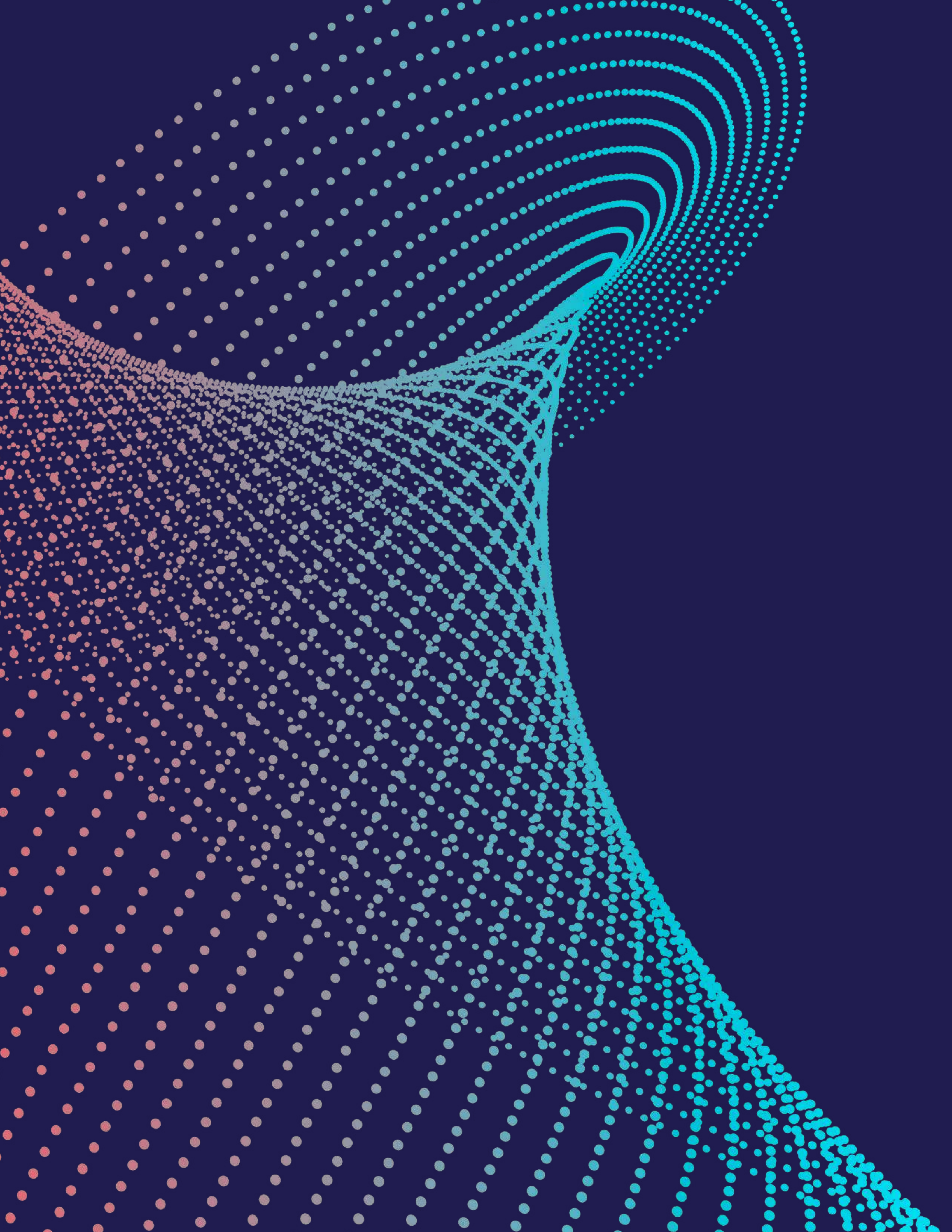
Cooperativas v. Oversight Board

On March 22, 2018, six credit unions initiated an adversary proceeding against a number of Commonwealth agencies and entities – including the Oversight Board – alleging the Defendants induced them to purchase government bonds through misrepresentation and withheld information about the relative risk of those investments. The Cooperativas asserted claims stemming from breach of contract, breach of federal securities laws, fraud, negligence, and breach of fiduciary duties, and also requested equitable relief to ensure claims arising from their bond purchases were not dischargeable in the Commonwealth Title III case.

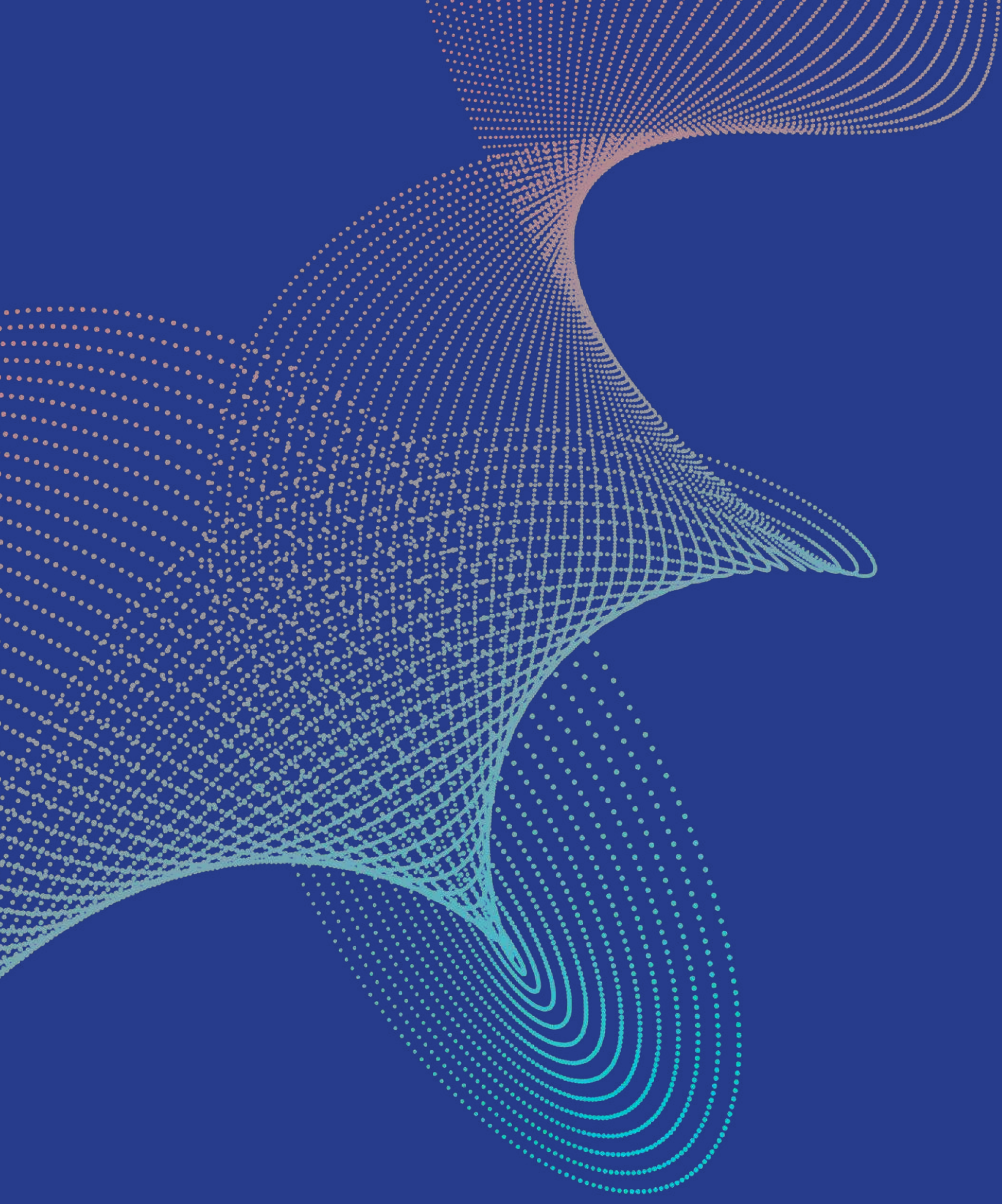
Defendants moved to dismiss, which the Court granted on December 27, 2021. The Court held, among other things, that Plaintiffs did not demonstrate facts sufficient to satisfy a heightened pleading standard for fraud and that claims against entities not alleged to be part of the purported fraud must also be dismissed. Notably, the Cooperativas purchased their bonds before the Oversight Board was created. The Court also denied dismissed the Cooperativas' request for an order holding their claims nondischargeable because they had not pled a valid exception to discharge.

Plaintiffs appealed, and on November 22, 2022, the First Circuit affirmed the U.S. District Court's dismissal of the Cooperativas' complaint. The First Circuit concluded the Cooperativas failed to plead sufficiently their fraud claims or their Takings Clause claims and held that the Cooperativas' other negligence and fraud claims under Puerto Rico law were time-barred.

[1] On August 26, 2020, CPI's second complaint was consolidated with its first.



Public and Government Affairs



Relationship with the Puerto Rico Government

The Oversight Board continues to engage regularly with leaders and representatives of the three branches of the Puerto Rico Government and Puerto Rico's municipalities. The Oversight Board's outreach ranges from budget work-sessions to informational meetings to exchange information and analysis, discuss legislative proposals, and resolve potential issues.

Executive Branch and Agencies

The members of the Oversight Board and the Executive Director meet regularly with the Governor and other members of the Executive Branch, including through standing work meetings and ad- hoc meetings.

The Oversight Board's staff also engages in formal training and workshops with the government on a broad range of issues, including procurement best practices. The Oversight Board's collaboration with the government leadership this year led to achievements such as the successful ongoing implementation of the Civil Service Reform and the certification of a second compliant General Fund Budget for fiscal year 24, developed jointly with the Governor and the Legislative Assembly.

The Oversight Board's staff engaged regularly with all 138 executive agencies to discuss in advance Fiscal Plans and budgets, reform initiatives and milestones, and specific projects like the implementation of a government-wide functioning time and attendance system, enhanced procurement practices, and the implementation of the Civil Service Reform Pilot Program at Hacienda and OGP during fiscal year 2023.

Continued efforts and collaborations will allow the government and the Oversight Board to expand the Civil Service Reform to other government agencies. For example, the Oversight Board worked with the Human Resources Administration and Transformation Office (OATRH) on developing a new classification and compensation plan for central government agencies. As a part of these efforts, the Oversight Board and OATRH staffs jointly led the implementation of the new salary structure and hosted training and communication meetings with government human resources departments.

Legislative Branch

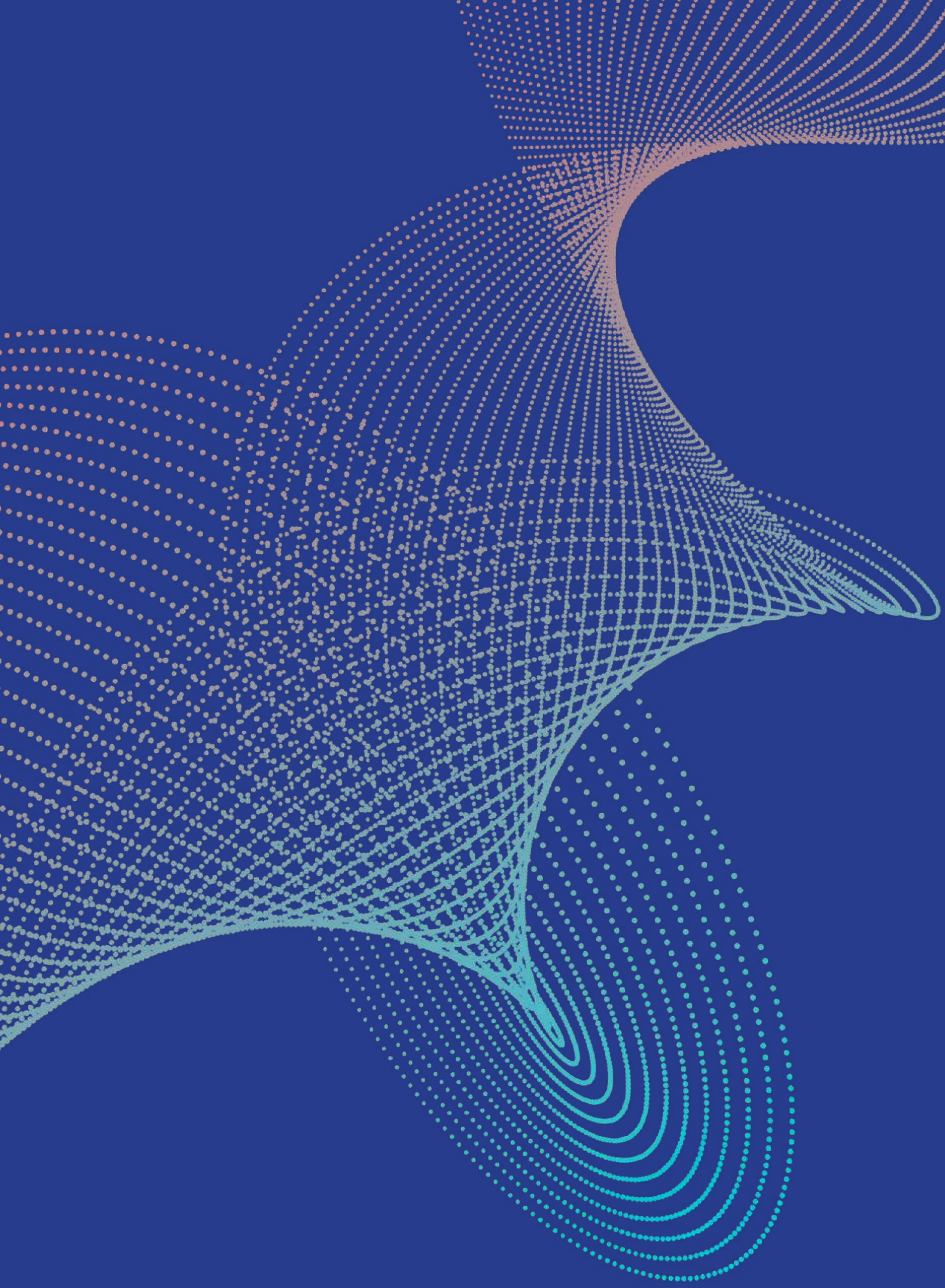
The Oversight Board's engagement with legislative leadership became substantially more active and productive with the Nineteenth Puerto Rican Legislative Assembly serving the 2021 to 2024 term. In fiscal year 2023, the Oversight Board continued outreach and collaborative efforts by regularly meeting with majority leaders and branching out to leaders from every party with political representation.

The resulting bridges of trust in 2023 allowed for the first time since calendar year 2021 a continuous exchange of information and directly led to a joint budget for fiscal year 2024 that is compliant with the Fiscal Plan for Puerto Rico. Governor Pedro R. Pierluisi signed a general fund budget that the Legislature had adopted and submitted to the Oversight Board, and the Oversight Board has certified as compliant. In fiscal year 2023, that process did not produce a joint budget. As a result, the Oversight Board had to certify its own version of the Commonwealth budget, which was deemed approved by the Governor and the Legislature.

Another recent example is the operationalization of the Legislative Assembly Budget Office (OPAL) to assess the cost of potential legislation before enactment, a critical initiative defined in the Fiscal Plan. The capacity to score legislation before its passage is essential for fiscal discipline and responsibility. The Oversight Board will continue to work with the Legislative Assembly to ensure that OPAL fulfills its mandate to effectively determine the potential impact of future legislation on Puerto Rico's finances and economy.

Judicial Branch

During fiscal year 2023, the Oversight Board worked closely with the Judicial Branch to assist in its development of classification and remuneration plans to further professionalize the judicial workforce and adjust compensation accordingly. To ensure that such an initiative is viable, the fiscal year 2024 Commonwealth budget includes an allocation, as provided for within the Fiscal Plan.



Public Affairs and Outreach

PROMESA gives the Oversight Board two mandates: to provide a method for Puerto Rico to achieve fiscal responsibility and access to capital markets. The Oversight Board is working with the people and Government of Puerto Rico to fulfill these critical mandates for Puerto Rico's future, to create the foundation for economic growth, and to restore opportunity to the people of Puerto Rico.

Providing transparency and informing and engaging with the public in general and various stakeholders, including nongovernmental organizations, the business community, interest groups, and the media, are critical elements of the Oversight Board's work to achieve its goals and serve the people of Puerto Rico.

To foster transparency and engagement, the Oversight Board is utilizing various channels to share information with stakeholders, the media, and the public about its work, mission, and mandate, including media releases, letters, and statements; engagement with news organizations and social media; media conferences and interviews with media representatives; public speaking engagements by board members and the executive directors; meetings with stakeholder groups; and the Oversight Board's comprehensive website.

The website is a critical tool to provide transparency and includes public documents, data, and informational content regarding the debt restructuring process, Fiscal Plans and budgets, implementation of structural reforms, and review processes for contracts, regulations and legislative pieces. The website also provides financial disclosures of Board members and conflict- of-interest policies and procedures.

The Oversight Board Director of Communications and Deputy Director of Communications interact daily with stakeholders, including the print and online media, television and radio, and participate in media interviews. The Board members and the Executive Director hold regular media conferences and engaged in several one-on-one interviews with the print and online media, and television and radio.

Print, Broadcast, and Online Media

Fiscal Year 2023 Media and Public Engagement

- July 3, 2022 – El Nuevo Día Interview with Education Reform Director
- July 6, 2022 – Microjuris Interview with Research and Policy Director
- August 17, 2022 – Primera Hora interview with Chairman David Skeel and Infrastructure Director
- August 18, 2022 – El Nuevo Día interview with Research and Policy Director and OMB Executive Director
- August 19, 2022 – NotiUno Radio interview with Deputy Communications Director
- August 29, 2022 - NotiUno Radio interview with Research and Policy Director
- September 2, 2022 – NotiUno Radio interview with Deputy Communications Director

- September 26, 2022 – Telemundo TV interview with Board member Antonio Medina
- September 27, 2022 – CNN TV interview with Infrastructure Director
- October 11, 2022 – NotiUno Radio interview with Deputy Communications Director
- October 13, 2022 - Interview with El Nuevo Día with Research and Policy Director
- October 29, 2022 – El Nuevo Día interview with Municipal Affairs and Legislative Review Director
- November 1, 2022 - El Nuevo Día Interview with Research and Policy Director and OATRH Executive Director
- November 10, 2022 - El Nuevo Día interview with Research and Policy Director
- November 16, 2022- El Nuevo Día Interview with Chairman David Skeel and Executive Director Robert F. Mujica Jr.
- November 16, 2022- AP interview with Chairman David Skeel and Executive Director Robert F. Mujica Jr.
- November 21, 2022 - Microjuris interview with Research and Policy Director
- November 29, 2022 - Lo Sé Todo TV interview with Deputy Communications Director
- November 29, 2022 - WKAQ radio interview with Deputy Communications Director
- December 9, 2022 –El Vocero Interview with Commonwealth and Budget Director
- December 12, 2022 - Lo Se Todo TV interview with Deputy Communications Director
- December 12, 2022 -NotiUno Radio interview with Deputy Communications Director
- December 20, 2022 - NotiUno Radio interview with Chairman David Skeel
- December 30, 2022 - El Nuevo Día “roundtable” interview with Research and Policy Director, OMB Executive Directors, and OATRH Executive Director.
- January 13, 2023- CBC Toronto Interview with Infrastructure Director
- January 20, 2023 – CPI Interview with Chairman David Skeel
- January 22, 2023 - El Vocero interview Research and Policy Director and OATRH Executive Director.
- February 8, 2023 - El Nuevo Día interview with Chairman David Skeel and Board member Antonio Medina
- February 8, 2023 –Noticel interview with Chairman David Skeel and Board member Antonio Medina
- March 26, 2023 – El Nuevo Día interview with Research and Policy Director and OATRH Executive Director
- March 27, 2023 – CUNY TV interview with Executive Director Robert F. Mujica Jr.
- April 20, 2023 – El Nuevo Día Interview with Board Member Justin Peterson
- May 10, 2023 - El Nuevo Día interview with Chairman David Skeel

- June 1, 2023 –El Nuevo Día Interview with German Ojeda Municipalities and Legislative Review Director.
- June 15, 2023 - El Nuevo Día Interview with German Ojeda Municipalities and Legislative Review Director

The Oversight Board held several media conferences throughout FY2023, including:

- July 1, 2022
- October 14, 2022
- January 20, 2023
- April 5, 2023
- April 21, 2023
- June 30, 2023

Social Media

In fiscal year 2023, the Oversight Board's communications team significantly expanded its social media presence as an important way to enhance public engagement through the digital world through posted content but also creating eye-catching visuals, videos, pictures, artworks, and narratives to inform about the Oversight Board's work and mandate. Expanding the Oversight Board's social media presence is key to reach broader audiences and provide transparency.

Throughout this joint effort by the communications team, the Oversight Board has received almost one million views on Twitter, reached over 64,000 users of Meta Platforms (Facebook, Instagram, and Threads), and grew LinkedIn page visits by more than 1,000%.

Some of the Oversight Board's top social media posts include topics relating to fiscal plans, PREPA, and even the Oversight Board Executive Director's visit to the municipality of Villalba.

- https://twitter.com/FOMBPR/status/1630985049846808592?s=20
- https://twitter.com/FOMBPR/status/1672607895857295360
- https://twitter.com/FOMBPR/posts/pfbid0avVf4G5q2rx27DbYYu2VB6kCQuhaguBqFG77Aqyr89rqTPfqYmrazseivCZCprUPl

Private Sector Outreach

The Oversight Board's relationship with private and non-profit sectors is largely based on direct communication with relevant stakeholders to inform, address concerns, and listen to suggestions and other input.

Board members and the Executive Director participated in many speaking engagements at conferences and forums held by private and public sector groups such as Made in Puerto Rico, MIDA, the Puerto Rico Chamber of Commerce, and the Puerto Rico Homebuilders

Association. The Oversight Board's Executive Director, board members and staff also met with nonprofit organizations, including SER de Puerto Rico, Fundación Sila Maria Calderón, and Comprehensive Cancer Center.

The Oversight Board's new Executive Director and Board members participated in the following events as speakers in fiscal year 2023:

- Bloomberg Panel: Puerto Rico Bankruptcy Panel (David A. Skeel & Natalie Jaresko);
- Reorg Webinar: Puerto Rico's Restructuring Endgame and Beyond (David A. Skeel);
- Puerto Rico Manufacturers Association Forum: The future of Puerto Rico's tax system (Antonio Medina);
- Plenary Session: Puerto Rico Minority Supplier Event (Antonio Medina);
- Puerto Rico Innovation Expo powered by the Puerto Rico Chamber of Commerce (Robert Mujica);
- Puerto Rico Now 2023 Summit: A Conversation between AAFAF Executive Director and FOMB Executive Director (Robert Mujica); and
- GUIA Educa: Emerging Technological Challenge – The Auto Industry After the Pandemic (Robert Mujica).

EL NUEVO día

JUEVES

Juntos por la amistad y el amor al teatro

'1 en Puerto Rico en lectoría y circulación.

...erto Rico
...cero

WWW.ELVOCERO.COM

GRATIS

ESCENARIO

Regresa a los Premios Tu Música Urbano >P13

La verdad no tiene precio

JUNTA DE CONTROL FISCAL PIDE CAMBIOS A LA AEE

El ente dio hasta este viernes para que se corrija el plan fiscal propuesto, con menos personal y aumentos en la aportación al nuevo sistema de pensiones. >P3

...nholm:
...ere ser
...isla solar"

PROCESO DE QUIEBRA DE LA AEE

La Junta Fiscal da un ultimátum a los bonistas

Ofrece pagar la mitad de sus acreencias mediante un preacuerdo o, de lo contrario, se exponen a no recuperar nada si el organismo consigue invalidar la deuda de la corporación pública NEGOCIOS

El periódico '1 en Puerto Rico en lectoría y circulación.

el Vocero de Puerto Rico

WWW.ELVOCERO.COM

La verdad no tiene precio

Exclusivo

La Junta de Control Fiscal espera que al 2024 el sistema automatizado de tiempo y asistencia se haya implementado en el gobierno para evitar que empleados inactivos o fallecidos sigan cobrando salarios como ocurría en el Departamento de Educación. >P6

MAYOR VISIBILIDAD AL PAGO DE NÓMINA PÚBLICA

CRECEN LAS VENTAS DE BEBIDAS ALCOHÓLICAS >P20

FLASH

Miss Mundo Puerto Rico

La nueva soberana, Elena Rivera, comparte sus aspiraciones y su propósito ambiental

PÁGINAS 20-21

SÁBADO

ASEGURAN FUERON "FLEXIBLES" CON LA LEGISLATURA

Optimista la Junta de Supervisión Fiscal con el nuevo presupuesto

Los fondos asignados para el año fiscal que recién comienza no dejarían en precario a los municipios, ponen énfasis en proyectos claves de agencias y permiten reanudar obra permanente, trascendió ayer PUERTO RICO HOY PÁGINAS 4-5

DEPORTES

EL NUEVO día
LUNES
29 DE AGOSTO DE 2022
SAN JUAN, PUERTO RICO
elnuevodia.com

de cara a su restauración
PÁGINA 8

REINGENIERÍA DEL MODELO ACTUAL

Gobierno y Junta encaminan reforma del servicio público

A punto de finalizar proyecto piloto en OGP y Hacienda que sirve de modelo para impulsar cambios en toda la estructura y la empleomanía gubernamental

PUERTO RICO HOY PÁGINAS 4-5

NEGOCIOS

DEPORTES

La Selección Nacio
hoy otro paso haci
al Mundial

GRATIS

Reflexiona sobre la vida, la muerte y la fragilidad

en
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la isla

WORLD CUP
Qatar2022

EL NUEVO día
VIERNES
18 DE NOVIEMBRE DE 2022
SAN JUAN, PUERTO RICO
elnuevodia.com

FLASH & CULTURA
Gustavo Hernández
El joven añasqueño encenderá con su cuatro la Navidad en Florida
PÁGINA 20

LOTERÍA TRADICIONAL	1 10189	2 22093	3 48280	4 07578	5 37522	6 27377	EN LAS PÁGINAS 42-43

DE NUEVA YORK A PUERTO RICO

Con raíces boricuas el nuevo director de la Junta Fiscal

Robert F. Mujica Jr., director de Presupuesto del estado de Nueva York, tendrá a su cargo -desde el 1 de enero- encarrilar la segunda etapa de responsabilidad fiscal en Puerto Rico según Promesa NEGOCIOS PÁGINAS 26-27

FLASH & CULTURA
La actriz Marian Pabón protagonizará la obra teatral "Paseando a Miss Daisy" PÁGINA 23

POR MUDANZA
4 TIENDAS EN 1!
20%

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el Vocero de Puerto Rico
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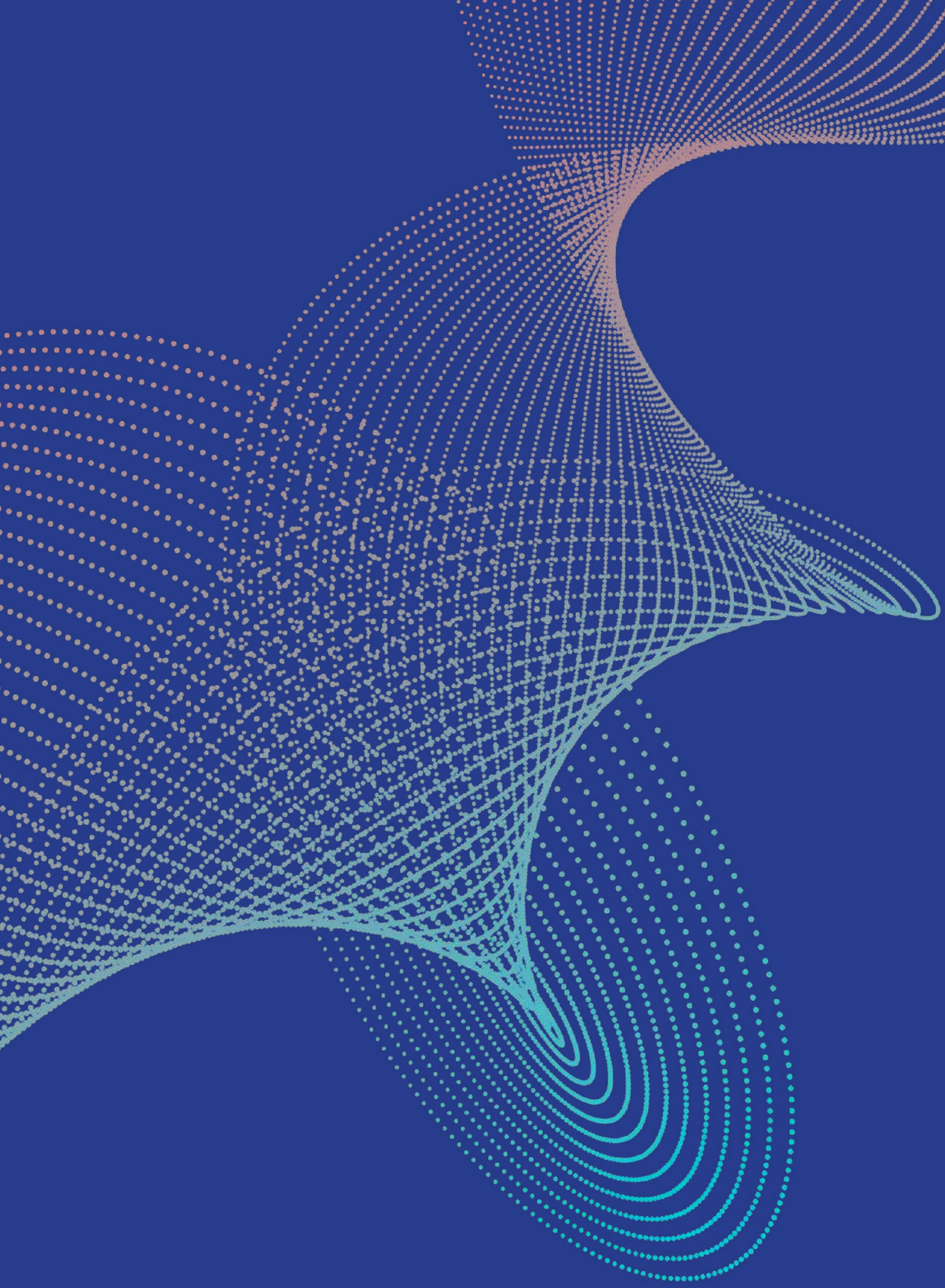
GRATIS
"Hoy Andy pa' rato"

NUEVA ESCALA SALARIAL PARA 22,000 EMPLEADOS PÚBLICOS

El cambio en la paga se recibirá a partir de febrero, con 25 categorías que comienzan con el mínimo de $10,800 hasta el tope de $279,000 y será retroactivo al mes de enero. >P6



Engagement with the Federal Government

The Oversight Board continues to be in regular communication with Congressional offices, Members of Congress, and Executive Branch Agencies in fiscal year 2023. The Oversight Board and the Federal Government have discussed, among other things, progress on key reform initiatives, priorities as to federal interests, and ways to better collaborate to improve Puerto Rico's fiscal responsibility.

In the years to come, continued engagement by the Federal Government will ensure that Puerto Rico receives adequate levels of federal funding, that obligations and disbursements of disaster recovery funding are distributed efficiently, and that Puerto Rico benefits from technical assistance for a variety of structural reform processes.

Puerto Rico's relationship with the Federal Government will also continue to grow as the Commonwealth implements, with the Oversight Board's support, important reforms related to labor force participation, the structure of the K-12 education system, workforce development, increased efficiency and competitiveness across commercial sectors, as well as the development of new infrastructure improvements, including low cost, clean and reliable electricity.

In conformance with Section 208(a)(3) of PROMESA, the Oversight Board has several recommendations to the President and Congress on changes to Federal laws and other actions of the Federal Government that would assist Puerto Rico in complying with its certified Fiscal Plans. The topics below describe ways the Federal Government could engage and provide even more meaningful support for Puerto Rico's's long-term economic stability. Without this engagement and necessary Federal funding, Puerto Rico's economic future could be at risk.

Economic Development

The Oversight Board has been focused on helping the Government develop the means for a growing and sustainable economy. That is why the new Fiscal Plan for Puerto Rico in fiscal year 2023 is a transformation plan. It provides focused requirements to restore growth and prosperity to Puerto Rico. The Fiscal Plan also includes measures in four key strategic structural reform areas – energy, infrastructure, workforce development, and ease of doing business – that are intended to drive long-term economic growth and development in Puerto Rico. These reforms are designed to provide opportunity for Puerto Rico residents, advance workforce development, leverage resources to develop a resilient infrastructure, create a diversified economy by attracting new business and facilitating innovation and competition, and build capacity to improve economic growth and create prosperity.

The Federal Government has also made unprecedented amounts of Federal funding available to Puerto Rico. If harnessed properly, the Federal funding Puerto Rico has already received, and will continue to receive, can support those efforts and contribute to the Island's resilience, recovery, infrastructure, and economic growth prospects. The funding will be used to improve Puerto Rico's transportation, water, energy, and broadband systems, in addition to addressing a variety of climate needs.

Manufacturing is one area where Puerto Rico can thrive. Puerto Rico's rich history serving manufacturing industries, particularly pharmaceuticals and medical devices, makes the Island well positioned to attract additional manufacturing operations. Many pharmaceutical, biological, and medical device manufacturing plants call Puerto Rico home. The Federal Government has already taken certain steps to catalyze investments in manufacturing by designating the majority of the Island as an Opportunity Zone and the southern part of the Island as an Economic Development District.

With the Federal Government's continued assistance, the Oversight Board believes Puerto Rico can capture new domestic manufacturing operations as the Federal Government looks to grow this important industrial base nationally. The physical infrastructure, human capital, and regulatory processes for manufacturing operations in Puerto Rico are well established. The infrastructure of specialty contractors, component manufacturers, suppliers, fabricators, laboratories, and consultants needed to support the industry also already exist.

In previous Annual Reports, The Oversight Board has identified initiatives that could benefit Puerto Rico's economic development efforts in the long run. The Oversight Board continues to believe that the Federal Government and the Government of Puerto Rico should collaborate to implement these initiatives, including:

- Establish a manufacturing institute in Puerto Rico to equip the Island with necessary partnerships and resources to continue its journey towards becoming a world-renowned pharmaceutical manufacturing center, and potentially, a global biotech innovation hub.
- Offer domestic-style treatment for manufacturing investments in Puerto Rico relative to foreign jurisdictions, particularly for tax purposes.
- Consider Jones Act implications on the energy security for the Island and a market for US-sourced liquified natural gas (LNG). Consider a temporary Jones Act waiver for shipment of LNG within the US, to allow for a broader set of vessels to serve the Puerto Rico market until American Jones Act-qualified carriers are built. Some US jurisdictions, including Puerto Rico, are currently forced to buy LNG from foreign suppliers to meet their respective energy needs.
- Build on the Bureau of Economic Analysis (BEA) estimate of GDP for Puerto Rico to provide more robust and frequent datasets on Puerto Rico's economy. The new estimate enables the development of a long-term, strategic understanding of the structure of the Puerto Rico economy, and is comparable to BEA's national, state, territorial, regional, and local-area estimates, as well as international estimates.
- Support the US Census Bureau's efforts to reincorporate Puerto Rico as a jurisdiction under the scope of the Census of Governments (COGS), which provides authoritative benchmark figures of public finance and employment. The collection of this data is essential to monitor, among other things, Puerto Rico's finances and use of Federal funds.
- In 2022, the Census Bureau concluded the agency intends to continue requiring the current Electronic Export Information (EEI) filing requirement for Puerto Rico because there is currently no alternative data source that yields the same high-quality data for the Island. The Census Bureau and Bureau of Economic Analysis did, however, indicate they are open to considering proposed alternative data sources which will be evaluated, tested, and verified to determine whether the data meets the statistical objectives of the current EEI. The Federal Government should

facilitate the introduction of an alternate dataset that provides the data quality required to enable the Census Bureau to reconsider the need for the EEI and continue to move toward the elimination of the EEI filing requirement for goods shipped between the mainland and Puerto Rico.

Global Tax Matters

In response to the Organization for Economic Cooperation and Development's (OECD) Inclusive Tax Framework— an international tax framework through which over 140 jurisdictions participate in the development of global tax reforms— several foreign countries are starting to enact legislation that imposes a 15 percent minimum tax on the modified book earnings of large multinational companies in each jurisdiction in which they operate.

As the rest of the world moves to increase minimum corporate tax rates to 15 percent, the global tax burden of U.S.-based multinational companies operating in Puerto Rico may increase significantly due to the imposition of a penalty taxation by foreign jurisdictions on corporate affiliates based in Puerto Rico. Such an outcome would have the potential to diminish the competitiveness of more than 300 U.S. multinational enterprises operating in Puerto Rico. In the 2018 tax year, those companies earned $113 billion in total revenue, employed more than 74,000 workers in Puerto Rico, and paid more than $2.5 billion in local income and other taxes.

Puerto Rico's economic competitiveness would also erode because the proposed changes in global taxation would increase the taxation of offshore income, both in absolute terms and as a percentage of Puerto Rico's domestic corporate tax rate. Additionally, there would be an indirect effect on the supply chain in Puerto Rico, which may have sizable impacts on employment in several key local industries, from administrative and support services to professional, scientific, and technical services. The impact could be magnified because many of the jobs in the affected industries tend to be higher-wage positions in Puerto Rico, leading to a loss of labor income that would exceed the loss of employment.

Therefore, the Oversight Board strongly supports all efforts to work with Congress on the development of a support mechanism that would provide Puerto Rico with the ability to protect the American jobs in Puerto Rico and adequately offset the negative consequences the proposed changes in global taxation would have on the Island.

Medicaid and Medicare

The Oversight Board continues to advocate for a long-term statutory Medicaid program solution to mitigate the drastic reduction in Federal funding for healthcare in Puerto Rico that will occur when the temporary extension expires on September 30, 2027. Previous legislative actions to avoid the "Medicaid fiscal cliff" have not provided a long term or sustainable solution for Puerto Rico's healthcare crisis. A long-term, sustainable solution is important to provide equitable treatment to the people of Puerto Rico, ensure the stability of the Island's healthcare system, avoid further outmigration, and enable fiscal planning. Currently, over 40% of the residents of Puerto Rico live under the Federal poverty line and more than 45% of Puerto Ricans receive their health coverage through the Commonwealth's "Plan Vital", a higher proportion than the 50 states and D.C.

To this extent, the Oversight Board continues to support: fair and equitable treatment for the residents of Puerto Rico in all Medicaid programs for both the dollar amount and the Federal Medical Assistance Percentage (FMAP) reimbursement percentage available. Puerto Rico has the 26th largest Medicare beneficiary population in the US. Residents of Puerto Rico pay the same level of Medicare taxes as mainland residents, while receiving substantially lower payments to healthcare providers. This negatively impacts the Island's ability to attract and retain healthcare providers.

The Federal Government should provide a long-term, permanent solution for Federal Medicaid funding to Puerto Rico. Only by providing adequate Federal funding annually and a FMAP more proportional to the Island's low-income population will the residents of Puerto Rico have access to the level of care, services, and healthcare infrastructure they need and deserve.

Furthermore, Puerto Rico also continues to be treated differently with regard to treatment under Medicare. As a result, the Oversight Board supports amendments to Federal law to ensure that Medicare beneficiaries in Puerto Rico are automatically enrolled in Medicare Part B with the option to opt out of coverage, the same treatment as every other state and territory.

Labor Participation and Benefits

The Oversight Board supports the following initiatives to encourage labor force participation while providing for adequate benefits,:

- Congress should address Puerto Rico's nutrition disparities by authorizing a transition for the Island into the Supplemental Nutrition Assistance Program (SNAP) over a reasonable transition period to ensure equitable treatment in Federal food nutrition assistance.
- Collaborate with the Government of Puerto Rico to institute a work / volunteer requirement for able-bodied participants aged 18-59 without dependent children in their household to receive the Nutritional Assistance Program (NAP). This work requirement was included in the Fiscal Plan. In general, working-age SNAP beneficiaries on the mainland must register for work, cannot turn down a job if offered, and may be required by the state to attend education or work training classes.
- The Earned Income Tax Credit (EITC) is one of the most effective tools to increase formal sector labor force participation and to reduce poverty. The American Rescue Plan enabled the expansion of Puerto Rico's EITC program by providing for an annual grant of up to three times local spending, capped at $600 million (indexed to U.S. inflation). The actual total cost of the EITC in its first two years, however, greatly exceeded initial projections. Given the total cost of the program, the Commonwealth is now spending nearly $500 million of local funds on the EITC program, significantly more than the $200 million originally budgeted for the EITC. Given the rapid increase in locally funded costs above the level originally forecast, the Federal Government should consider removing or raising the fixed dollar cap on Federal contributions to retain the original Congressional intent to provide for three times local spending.

- Begin using the Department of Health and Human Services (HSS) Poverty Guidelines to set the income limits that determine who is eligible for the U.S. Department of Housing and Urban Development's housing assistance in Puerto Rico, as it does in most mainland states. If this change were to be applied, more people could enter the formal labor market without the risk of losing housing assistance in the process. According to the U.S. Census Bureau, over 314,000 families in Puerto Rico live in poverty, approximately 54% of which include children. If income limits were to be appropriately adjusted, potentially thousands of low-income families could start to benefit from housing assistance. It would improve access to affordable housing, economic mobility, labor participation, and ultimately economic development in Puerto Rico.
- Encourage the Department of Labor to continue focusing on its partnership with the Commonwealth to expand the use of Registered Apprenticeship in critical sectors of the Puerto Rican economy, including construction, advanced manufacturing, transportation, hospitality, and health care. The expansion of these apprenticeship programs should link education with marketable skills and employment to ensure the workforce is prepared for the jobs of the future.
- Encourage the Department of Homeland Security to carve out a lower investment floor for EB-5 visas relative to states to tailor visa programs to Puerto Rico's needs.

Federal Disaster Aid and Other Federal Funding

In aggregate, the amount of Federal funding Puerto Rico must disburse, and the number of projects that must be completed, is one of the largest and most complicated Federal recovery programs in history. The Oversight Board is concerned because disbursement of such large sums of Federal dollars in the manner, magnitude, and timeline required by the certified Fiscal Plans has proved challenging. To assist the Island in adequately utilizing Federal funds, the Oversight Board supports the following measures:

- Explore ways to assist subrecipients in navigating the complex Federal rules and regulations that must be followed, including complex procurement processes, environmental and historic preservation guidelines, and detailed grant requirements.
- Evaluate permissibility for adjusting Stafford Disaster Relief and Emergency Assistance Act's Section 428 fixed cost estimates to reflect actual inflation and other unanticipated costs such that the full burden of these incremental costs is not entirely borne by the local government.
- Facilitate and support additional strategic conversations across Federal programs and agencies designed to assist Puerto Rico with its Federal disaster recovery efforts.
- Support efforts for the transition to energy alternatives in connection with current Federal programs and activities.

Small Business

Small businesses are vital to Puerto Rico's economic future. Accordingly, the Small Business Administration should continue its efforts to:

- Promote access to capital by scheduling additional "Path to Prosperity" lender training events in Puerto Rico that build on the March 2023 event with a focus on increasing participation in Small Business Administration (SBA) loan programs by Puerto Rican financial institutions, Community Development Corporations, Community Development Financial Institutions, and Minority Depository Institutions.
- Support small businesses in Puerto Rico through frequent entrepreneurial development training, counseling, and access to export assistance programs, and work to ensure that Federal agencies increase Puerto Rico-based procurement efforts, particularly for Small Disadvantaged Businesses.

The Federal government should provide greater flexibility for Small Business Administration Programs to help Puerto Rico's small business owners. This includes enacting many of the recommendations originally included in the Congressional Task Force Report, such as:

- Enact legislation to increase the guaranty rate and require a separate subsidy calculation for 7(a) loans made in Puerto Rico.
- Consider reducing the small business contribution and increasing the Certified Development Companies (CDC) contribution.
- Consider increasing the aggregate limit for the Microloan program in the case of intermediaries located in Puerto Rico.
- Authorize an intermediary in the Microloan program to use more than 25 percent of its SBA-provided technical assistance grants on pre-loan assistance if the intermediary provides at least 25 percent of its loans to small firms in Puerto Rico.
- Establish a contracting preference for small businesses in Puerto Rico with respect to Federal contracts performed in Puerto Rico.
- Require the SBA to make an annual Federal and State Technology (FAST) partnership grant to a Puerto Rico grantee and to waive the local matching requirement.

Support for Pending Legislation

The Oversight Board engages with Members of Congress on a regular basis. This outreach, and subsequent collaborations, ensures that Puerto Rico is consistently present, or consulted, when determinations regarding the Island's best interests arise during the Federal law-making process. In this context, the Oversight Board supports, in substance, the following non-exhaustive list of pending Federal legislation:

- H.R. 949 – Insular Area Medicaid Parity Act, to eliminate Medicaid funding limitations for U.S. territories beginning in FY2023.
- H.R. 3390 – Report on Grant Consolidation Authority for Puerto Rico Act, to require a study relating to the consolidation of certain grant programs currently available to

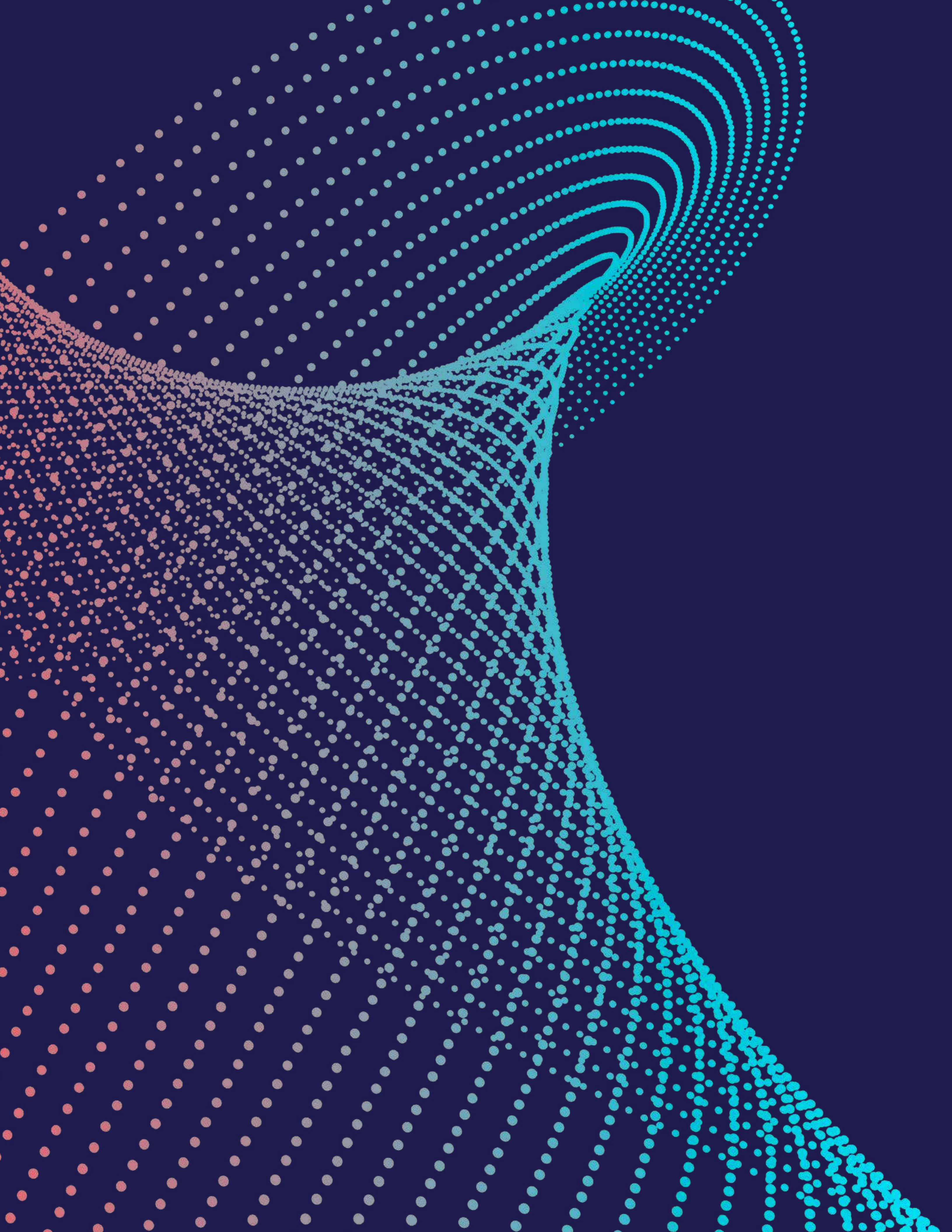
insular areas and the suitability of such consolidation for Puerto Rico, and for other purposes.

- H.R. 1027 – Resiliency Enhancement Act of 2023, which extends the provision of disaster assistance for critical services to solid waste management, stormwater management, public housing, transportation infrastructure, and medical care.
- H.R. 1031 – Insular Areas College Access Act, which establishes a grant program to cover the difference between in-state and out-of-state tuition and fees for students who are residents of an outlying area (i.e., American Samoa, the Northern Mariana Islands, Guam, or the Virgin Islands) and who attend a public institution of higher education located in a state, the District of Columbia, or Puerto Rico. A student on whose behalf a grant is made must maintain full-time employment within the outlying area for at least two years. Further, a student who completes less than the required two years of employment must repay the grant, or the grant must be treated as a loan that is subject to repayment.
- H.R. 600 – To waive certain provisions in the case of an emergency declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.
- H.R. 447, S. 33 – Medical Manufacturing, Economic Development, and Sustainability (MMEDS) Act of 2023.
- H.R. 378 – To designate and certify all of Puerto Rico as a qualified opportunity zone.
- H.R. 375 – Puerto Rico Air Cargo Industry Empowerment Act.
- H.R. 1029 – Territories Health Equity Act of 2023.
- H.R. 256 – Supplemental Security Income Equality Act.
- H.R. 377 – Puerto Rico Insurance Excise Tax Exemption Act of 2023.
- H.R. 462 – Real Estate Exchange Fairness Act of 2023.
- H.R. 376 – Puerto Rico Film, Television, and Theatre Production Act of 2023.
- H.R. 379, S. 1386 – Vieques Recovery and Redevelopment Act 2021.
- H.R. 1027 – Resiliency Enhancement Act of 2023.
- H.R. 258 – Puerto Rico Data Collection Equality Act.
- H.R. 253, S. 949 – Puerto Rico Nutrition Assistance Fairness Act of 2023.
- H.R. 1400 – Puerto Rico Data Collection Equality Act.
- H.R. 257 – Earned Income Tax Credit Equity for Puerto Rico Act of 2023.
- H.R. 919 – To amend title 49 of the United States Code to grant Puerto Rico eligibility to issue commercial driver's licenses, and for other purposes.
- H.R. 601 – To modify certain requirements to encourage the recovery of Puerto Rico and the United States Virgin Islands.
- H.R. 4026 – To amend the Internal Revenue Code of 1986 to allow certain credits and deductions to be taken as a refundable tax credit by Puerto Rico businesses or

residents, and to extend such credits and deductions to possessions of the United States.

- H.R. 254 – TRICARE Equality Act.
- H.R. 3146, S. 1477 – To amend the Internal Revenue Code of 1986 to modify the cover over of certain distilled spirits taxes.
- H.R. 1494, S. 764 – Hurricane Tax Relief Act.
- H.R 1034 – Territorial Tax Equity and Economic Growth Act of 2023.
- H.R. 259 – Post-Disaster Assistance Online Accountability Act.

The Oversight Board looks forward to continuing its work with the Federal Government on these and other areas for the benefit of Puerto Rico.



Ethics

Prepared by Andrea-Bonime-Blanc - Independent Ethics Advisor to the Oversight Board

Over the past fiscal year, the Oversight Board has continued the implementation of a variety of ethics, financial reporting, conflicts of interest (COI) and transparency initiatives developed and operationalized under the requirements of applicable law and Oversight Board Bylaws with the assistance of the Board's Independent Ethics Advisor (IEA). The IEA is an independent third- party role created through PROMESA and the Oversight Board Bylaws adopted in late 2016. Since early 2017, the Oversight Board and senior management have worked closely with the IEA to oversee and manage a wide variety of ethics matters, COI, executive-level periodic financial reporting and related transparency matters.

Fiscal year 2022 also saw the resignation, as of April 1, 2022, of the Oversight Board's first Executive Director since early 2017, Natalie A. Jaresko, and the beginning of the search for a new Executive Director. The new Executive Director, Robert Mujica, took office in January 2023, and worked closely with the Oversight Board, executive colleagues and the IEA with respect to his onboarding which, from an ethics standpoint, included a review and immersion into the Oversight Board's code of conduct, ethics, policies, COI analysis and practices as well as financial disclosure reporting regime.

The table below shows the members of the Oversight Board as of the beginning of this past fiscal year (since July 1, 2022), all of whom continue to be members of the Oversight Board as of the end of FY2023, reflecting no changes in the composition of the Oversight Board during the past fiscal year.

The principal components of the Oversight Board's Ethics Program include:

1. FINANCIAL DISCLOSURE MANAGEMENT 2022-2023

THE 2022 ANNUAL FINANCIAL AND QUARTERLY 2022-2023 PERIODIC TRANSACTION DISCLOSURE REPORTS were prepared or are still under preparation by members of the Oversight Board, and the two designated executive staff. As of June 30, 2023, a number of these Annual 2022 and Quarterly Periodic Transaction Reports were still pending or under IEA review prior to finalization, signature and posting on the Oversight Board website to be accomplished later in the summer of 2023.

2. THE OVERSIGHT BOARD COI MANAGEMENT

ALLEGATIONS, REPORTS AND MEDIA REPORTS RAISING COI questions, issues and concerns are managed as they arise. Whether an issue involves an individual, an Oversight Board member, executive or staff member or third parties doing business with the Oversight Board, upon learning of such matters, the General Counsel, Deputy General Counsel and IEA discuss and coordinate next steps.

CONFLICT OF INTEREST MANAGEMENT measures, questionnaires and policies have been implemented in conjunction with the office of the General Counsel, Deputy General Counsel, Human Resources and/or the Contracts Review Team to step up COI management both internally and externally – for Oversight Board employees and staff as well as third party contractors. In the case of Human Resources, COI policies are implemented at pre-onboarding, onboarding, and employment lifecycle of Oversight Board staff. In the case of the Contracts Review Team, detailed COI practices and policies have been developed to ensure that third parties disclose any COI they may have with respect to Government of Puerto Rico contracts prior to their review or analysis of such contracts for the Oversight Board.

3. CODE OF CONDUCT, TRAINING & COMMUNICATIONS

CODE OF CONDUCT TRAINING. This past fiscal year the Oversight Board IEA conducted virtual ethics training sessions for the entire Oversight Board staff.

CODE OF CONDUCT REVISIONS. There were no revisions made to the Oversight Board Code of Conduct this past year.

OVERSIGHT BOARD AND EXECUTIVE ETHICS ISSUES ENGAGEMENT. The IEA conducts annual formal Oversight Board and Executive Staff update and education sessions to provide the most important updates on Oversight Board ethics and transparency practices and programs.

OVERSIGHT BOARD ETHICS MEDIA & OTHER COMMUNICATIONS. These are also made from time to time to the press or to third parties that have made inquiries or posted ethics or transparency related statements on media or social media.

4. HUMAN RESOURCES DEPARTMENT ASSISTANCE

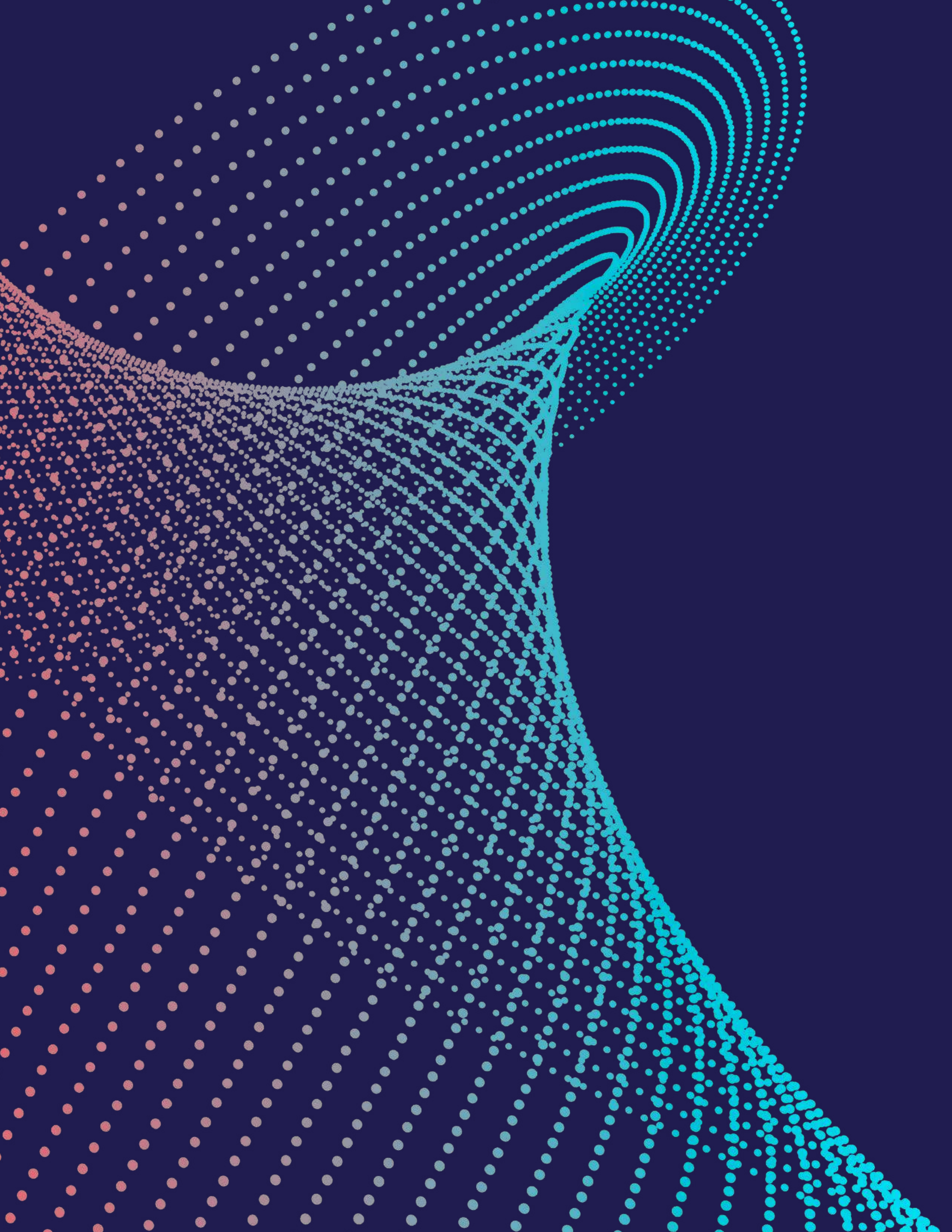
Assistance to Human Resources, on ethics, COI and transparency related employee onboarding, management, policies, issues, and investigations that take place on an ongoing basis. Coordination of Employee Manual issues that relate to the Code of Conduct.

5. OVERSIGHT BOARD ETHICS & TRANSPARENCY INQUIRIES & INVESTIGATIONS

Any concerns or inquiries from the Oversight Board, staff, third parties, media, etc., are reviewed when warranted. A further inquiry is conducted by the General Counsel and IEA and, when required, the Oversight Board Human Resources Department and outside counsel are engaged to conduct an investigation.

6. OVERSIGHT BOARD THIRD PARTY CONTRACTOR ETHICS & TRANSPARENCY MANAGEMENT

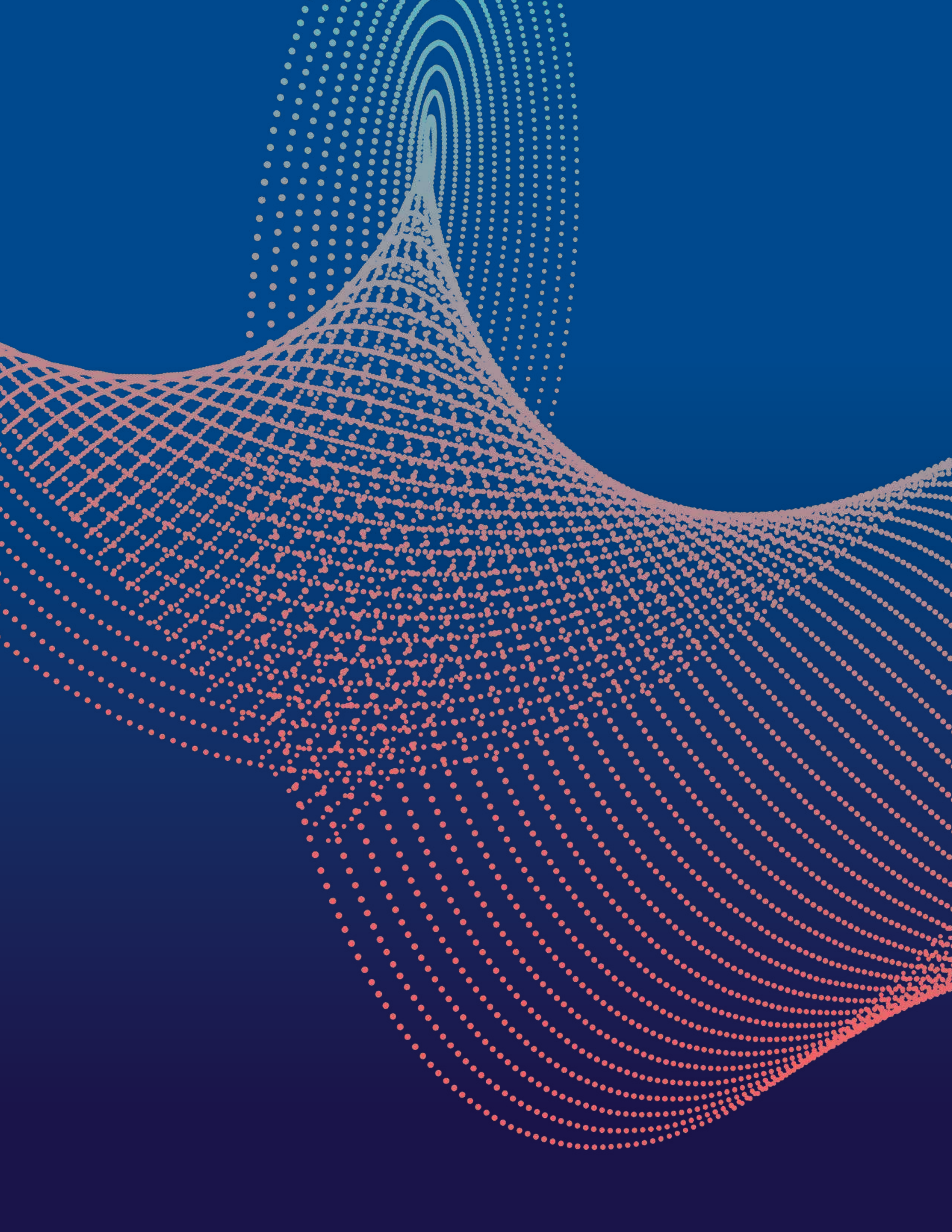
The Oversight Board third-party contractor management program, including the proactive management of conflicts of interest pursuant to the Oversight Board's own policies and practices as well as recently adopted laws that require greater focus on third party contractor potential or actual conflicts of interest under PRRADA, continues to be a major focus of the Oversight Board, its internal teams and the IEA.



Oversight Board Budget

Oversight Board FY2023 Budget

OPERATING ACTIVITIES		
REVENUES:		
Government Contribution	$	59,527,000
Total operating revenues	$	59,527,000
EXPENDITURES		
Payroll and other related costs	**$**	**12,017,900**
Salary and Benefits		10,990,000
Payroll Taxes		1,027,900
Legal services		**5,829,400**
Legal Services		5,829,400
Professional services		**33,279,900**
Investment Banking		3,600,000
Consulting Services		29,679,900
Purchased Administrative and Outreach Services		**4,221,100**
Insurance Expenditures		391,100
Security Services		804,000
Information Systems Services		119,600
Accounting, Tax Advisory and Audit		275,800
Communications Support		1,535,000
Human Resources, Training and Recruitment Services		635,000
Other Administrative Services		460,600
Transportation, travel costs and reimbursable expenses		**2,963,100**
Board Travel Expenditures		140,000
Employee Travel Expenditures		70,000
Contractor Reimbursesable Expenditures		2,658,100
Vehicle Rental or Lease		75,000
Fuel and Maintenance		20,000
Rent and other office costs		**695,600**
Building Rent		475,000
Utility - Telephone & Internet Services		72,200
Office Recurrent Costs		90,000
Office Materials and Supplies		52,000
Postage & Delivery Costs		6,400
Equipment purchases		**90,000**
Office Furniture and Equipment		45,000
Leasehold Improvement		10,000
Computer Equipment		35,000
Other		-
Other expenditures		**430,000**
Meeting Expenditures		405,000
Miscellaneous Expenditures		25,000
Total operating expenditures	$	59,527,000
NON-OPERATING ACTIVITIES		
REVENUES:		
Funds allocation from previous years		18,311,050
Total non-operating revenues	$	18,311,050
EXPENDITURES		
Legal services		**3,330,600**
Government Initiatives		**14,980,450**
Total non-operating expenditures	$	18,311,050
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**$**	-



Financial Oversight & Management Board for Puerto Rico

www.oversightboard.pr.gov